

DAILY POINTS

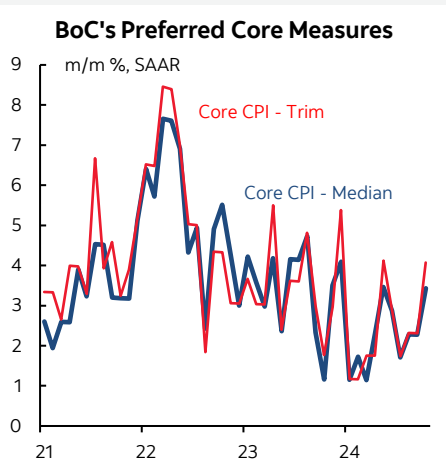
December 17, 2024 @ 8:00 EST

Contributors

Derek Holt

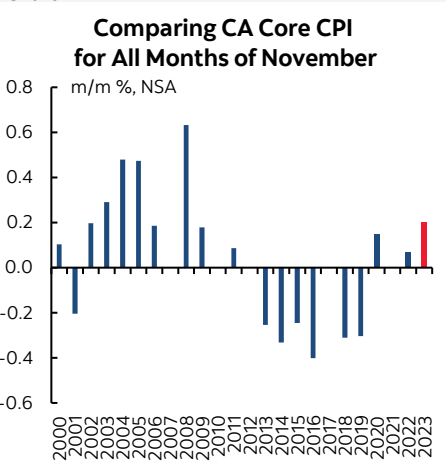
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada

On Deck for Tuesday, December 17

Country	Date	Time	Indicator	BNS	Consensus	Latest
CA	12-17	08:30	Core CPI - Median (y/y)	--	2.4	2.5
CA	12-17	08:30	Core CPI - Trim (y/y)	--	2.6	2.6
CA	12-17	08:30	CPI, All items (m/m)	-0.3	0.1	0.4
CA	12-17	08:30	CPI, All items (y/y)	1.6	2.0	2.0
CA	12-17	08:30	CPI, All items (index)	--	161.9	161.8
CA	12-17	08:30	International Securities Transactions (C\$ bn)	--	--	29.3
US	12-17	08:30	Retail Sales (m/m)	0.6	0.6	0.4
US	12-17	08:30	Retail Sales ex. Autos (m/m)	0.4	0.4	0.1
CA	12-17	08:30	Core CPI - Common (y/y)	--	--	2.2
CA	12-17	08:30	CPI SA, All items (m/m)	--	--	0.3
US	12-17	09:15	Capacity Utilization (%)	77.2	77.3	77.1
US	12-17	09:15	Industrial Production (m/m)	0.1	0.3	-0.3
US	12-17	10:00	Business Inventories (m/m)	--	0.1	0.1
US	12-17	10:00	NAHB Housing Market Index	--	47.0	46.0

KEY POINTS:

- **Markets return their focus to the fundamentals**
- **Canadian CPI will be a mere placeholder, but could soften**
- **US retail sales to offer first glimpse at the holiday shopping season**
- **Three reasons to ignore Canada's Fall Economic Statement**
- **Canada's starting fiscal position is still far stronger than elsewhere...**
- **...but tens of billions of more bond issuance would emerge from tariff wars**
- **Gilts overreacted to UK jobs and wages**
- **German business confidence weakened**

Sovereign bonds are mostly cheaper across major markets with gilts leading the way following a questionable interpretation of the latest batch of job market figures. The USD is stronger along with the yen and sterling (post jobs). Stocks are mixed with NA futures a little lower along with London while the rest of Europe is mixed. On tap will be Canadian CPI, more Canadian political developments to consider, and US retail sales.

CANADA'S CPI UPDATE IS A MERE PLACEHOLDER

Canada will again be in focus when CPI figures land this morning for the month of November (8:30amET). Nothing hangs on it as there will be another update before the BoC's decision and because tariff wars are the greater risk to pricing the BoC.

Nevertheless, for now, the key will be the trimmed mean and weighted median m/m SAAR figures that may ebb if the oscillating pattern of surges and pullbacks continues (chart 1). Recall that the prior month's readings were quite strong. I expect some of the components that drove that strength to soften. Headline CPI forecasts are all over the map on this one, ranging from -0.3% m/m NSA to +0.5% m/m NSA with a median estimate of +0.1%. I went low because November is a seasonally soft month in modern times (chart 2), gas shouldn't be a material effect, and several of the hot components were likely temporary. Annual property tax adjustments in October were unusually hot at added 0.15% to the m/m rise in total CPI in October. Seasonal price spikes in clothing and footwear as new lines were rolled out incorporating lagging cost and price changes were another. Ditto for new model year passenger vehicle prices.

US RETAIL SALES KICK OFF THE HOLIDAY SHOPPING SEASON

As for US retail sales during November (8:30amET), the headline should post solid growth but key will be core sales ex-gas and autos as an indicator of the start of the holiday

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shopping season. Vehicle sales were up by about 3% m/m SA and gasoline prices were a little higher. Both headline and core are expected to rise by roughly ½% m/m SA. Also watch the control group measure that is used for translating retail sales into Friday’s total consumer spending figures. That measure is tracking slower, but still decent growth in Q4 (chart 3).

The US also updates industrial production for November that is expected to post a mild gain (9:15amET).

THREE REASONS TO IGNORE CANADA’S FALL ECONOMIC STATEMENT

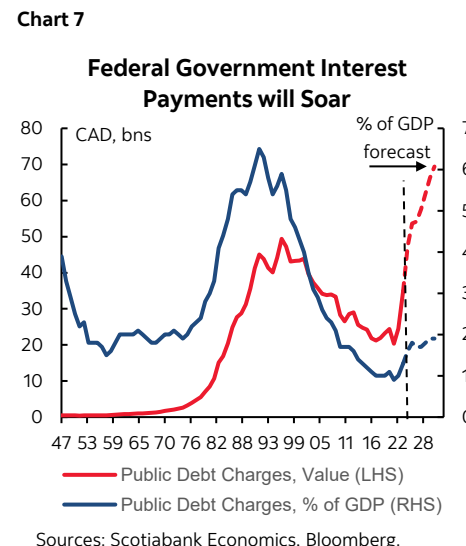
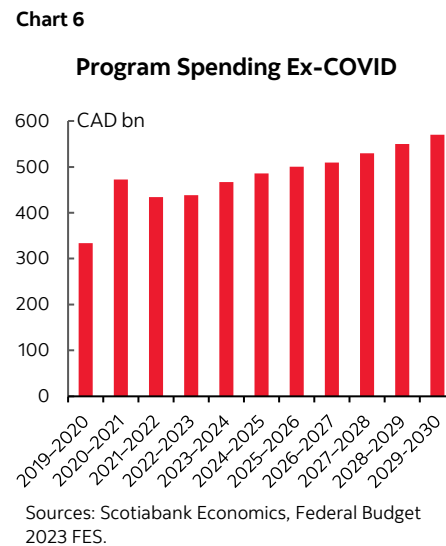
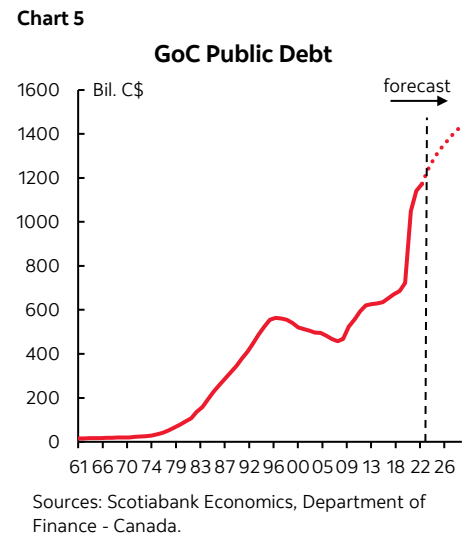
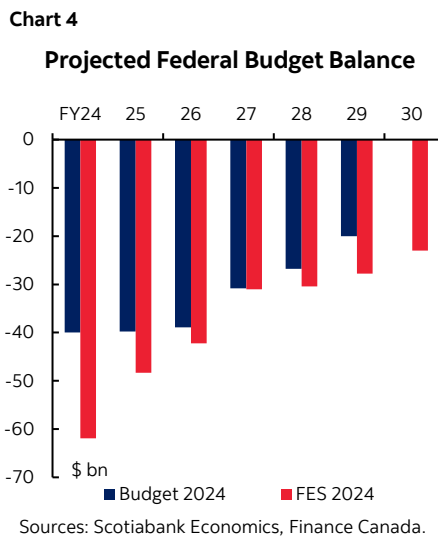
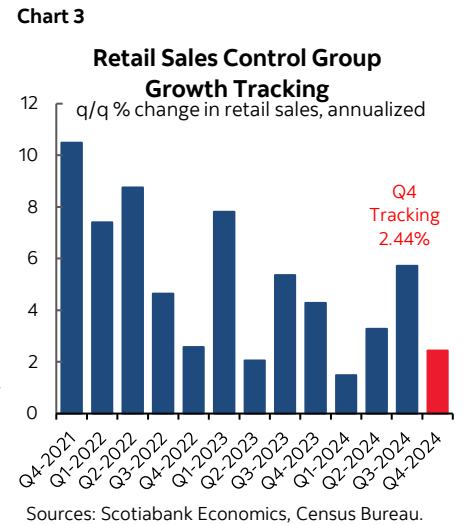
Expect more political fireworks out of Canada today. The Conservatives won a federal by-election in B.C. last evening, extending the string of by-election losses by the Liberals to three seats since the summer. PM Trudeau reportedly told the national caucus meeting that he is not resigning now but will reflect on developments as a rising number of voices are calling for his resignation including the supporting NDP leader albeit in typically cagey fashion. Don’t expect any aftermath from the Fall Economic Statement as it’s irrelevant.

In the end, Canada’s Fall Economic Statement ([here](#)) was an irrelevant 279 page (!) tome and for several reasons. One is that an election year beckons and with the government on the ropes and so initiatives that are offered are likely to only rise from here especially given how poorly this government is polling and will soon be polling after yesterday’s shenanigans. We could face an election at any moment, whether before or after a Budget and given polling probably delivered by a very different government.

Second, tariffs could add tens of billions to the deficit per year. This depends on if there are tariffs, how broadly they may be applied, for how long, and retaliation. See my weekly for more, as well as prior writings on this.

Third is that the numbers don’t include two major items that omit billions and billions from the deficits. One is the Trudeau bucks that were promised for delivery by April but that are held up in terms of the passage of legislation by the NDP that wants an even bigger amount. Second is that the GST/HST suspension on certain items is likely to be extended beyond February in my opinion, lest the government wish to see prices spike again and three months closer to an election if it hasn’t been called by then.

That’s all somewhat of a shame in that for the first time—perhaps too late—this government showed some sensitivity toward modestly addressing productivity-friendly goals like extending equipment write-off provisions. Unfortunately it took this government nearly a decade to pivot and only under intense pressure and tumbling polls. They also raised spending on the border, and yet, the bigger need here is for the US to manage its own internal borders more competently. How galling that Trump blames Canada for alleged—grossly exaggerated—border security issues while the US mismanages its own side of the border.



Beyond all that, the numbers are mere placeholders. The FY23–24 deficit that ended last March 31st came in at -\$61.9 billion, vastly in excess of the -\$40.1 billion fiscal anchor, but mostly excusable by the large indigenous settlements (about \$16B) and COVID adjustments (about \$6B). The other two fiscal anchors hold if you believe the numbers (more on that in a moment) including the deficit-to-GDP ratio of <1% by 2026, and the gross debt-to-GDP ratio stays under the 42.4% target by topping out at 41.9% in FY24–25 and then gradually falling to 38.6% by 2029–30.

But the economic assumptions found on page 183 of the full document are wildly unrealistic if we really are entering into trade wars with the US. The kind of real GDP shock numbers we get from running a terms of trade shock like a 25% tariff is multiples of that, around \$20–30B added to the deficit per year if sustained, if broad, and without (low end) or with (high end) retaliation. On top of this automatic stabilizer effect would be additional stimulus measures applied to an economy that would find itself deep in recession. No, Mr. Trump, that’s not a sign Canada is ripping off the US; it’s a sign of what happens when a trading nation encounters horribly unwise economic policy conducted by its biggest trading partner.

Now say what you wish about Freeland’s policies over the years, and spending on short-term shiny, flashy things definitely ballooned under her watch albeit likely at the strong direction of the PM who also fired the previous finance minister who disagreed with him. In my opinion, she is a huge loss to this government. Her loss solves nothing by way of its root problem – the one single biggest root problem in the party’s saleability to the electorate. Her loyalty, work ethic, spirit and capable hands will not be there when needed into an election year.

Yet stand back and consider the information known to date. While problems are rising including soaring program spending and rising interest outlays shown in the collection of charts 4–7, Uncle Sam, eat your heart out, because you only wish you had Canada’s AAA rating and Canadian fiscal deficits that at a one-handed share of GDP are a fraction of the 7% range in the US that is very likely to rise further from here. Rating agencies will be watching Canadian fiscal and political developments with more intensified interest now. The issue isn’t the sustainability of Canada’s deficits; the issue is preparedness for what may lurk ahead and in the context of political turmoil.

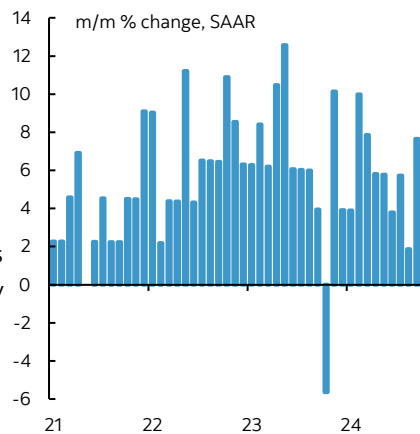
WERE UK MARKETS RIGHT TO TRIM CUT BETS ON JOBS DATA?

UK job market releases prompted high yields and a bull flattener move across the gilts curve. The 2s yields is up 8bps and 10s are up 6bps so far. Sterling is mildly outperforming other majors post-data. I’m less convinced that the overall data was that strong.

- Wage growth is what caught the market’s eye with emphasis upon a mild pick-up in the 3mo MA of the y/y rate to 5.2% (4.6% consensus, 4.4% prior revised up a tick). Wage growth was 5.65% m/m SAAR in October, down from 7.65% the prior month and running at a 3mo MA of 5.1% (chart 8).
- UK job vacancies continue to gradually ebb, hitting 818,000 in November (chart 9). That extends the steady downward trend since the peak in March 2022. That’s getting closer to pre-pandemic levels and remains above the long-run average of 695k.
- UK total employment was up by 21k in October after only 1k jobs created the prior month (chart 10). This is a marked slow down from the

Chart 8

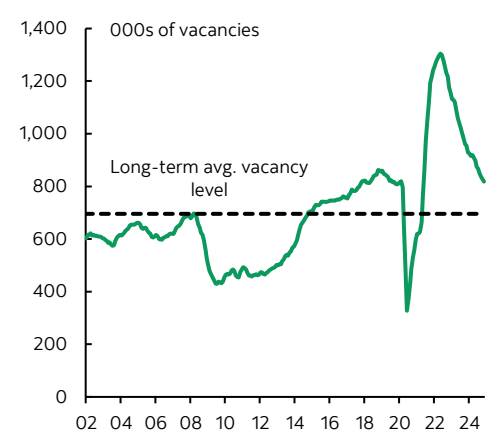
UK Wage Growth



Sources: Scotiabank Economics, UK ONS.

Chart 9

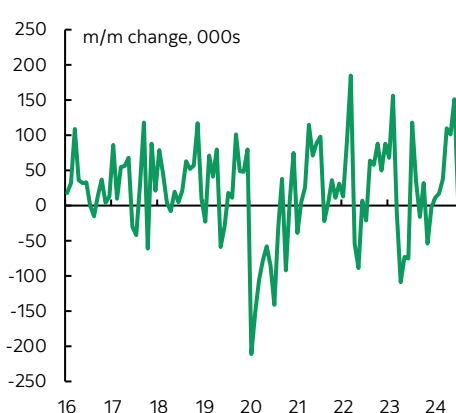
UK Job Vacancies



Sources: Scotiabank Economics, UK ONS

Chart 10

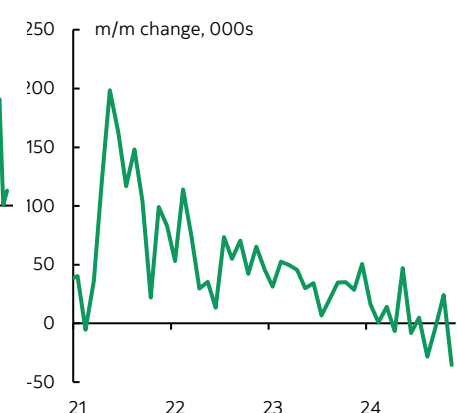
UK Total Employment



Sources: Scotiabank Economics, UK ONS.

Chart 11

UK Payroll Employment



Sources: Scotiabank Economics, UK ONS.

temporary acceleration toward monthly gains of 100–150k over the June–August period and clearly signals that the job market has slowed more recently.

- UK payrolls fell by a whopping 35,364 in November over October for the biggest drop since the early pandemic days of 2020 (chart 11).

GERMANY BUSINESS CONFIDENCE WEAKENS

German confidence figures were weaker in December. The IFO business confidence gauge slipped about a point and entirely due to lower expectations that fell back to the lowest reading since January. ZEW investor expectations, however, increased to the highest reading since August.

Fixed Income	Government Yield Curves (%):												Central Banks		
	2-YEAR			5-YEAR			10-YEAR			30-YEAR			Current Rate		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk			
U.S.	4.28	4.25	4.15	4.29	4.26	4.10	4.43	4.40	4.23	4.63	4.60	4.42	Canada - BoC	3.25	
CANADA	3.02	3.03	2.89	2.97	2.97	2.83	3.19	3.19	3.03	3.28	3.28	3.15	US - Fed	4.75	
GERMANY	2.06	2.05	1.96	2.07	2.07	1.96	2.25	2.25	2.12	2.48	2.48	2.35	England - BoE	4.75	
JAPAN	0.60	0.59	0.59	0.74	0.72	0.74	1.08	1.07	1.07	2.30	2.29	2.27			
U.K.	4.44	4.36	4.28	4.36	4.28	4.16	4.52	4.44	4.32	5.05	4.99	4.88			
Spreads vs. U.S. (bps):															
CANADA	-126	-123	-126	-132	-129	-127	-125	-121	-120	-135	-132	-127	Euro zone - ECB	3.15	
GERMANY	-222	-220	-218	-222	-219	-214	-219	-215	-211	-215	-212	-207	Japan - BoJ	-0.10	
JAPAN	-368	-367	-356	-356	-353	-336	-335	-333	-316	-233	-231	-215			
U.K.	16	11	13	7	2	6	9	4	10	42	39	46	Mexico - Banxico	10.25	
Equities	Level						% change:								
	Last	Change			1 Day	1-wk	1-mo	1-yr							
S&P/TSX	25147	-127.1			-0.5	-1.9	1.0	22.5	Australia - RBA						4.35
Dow 30	43717	-110.6			-0.3	-1.5	0.6	17.2	New Zealand - RBNZ						4.25
S&P 500	6074	23.0			0.4	0.4	3.5	28.7							
Nasdaq	20174	247.2			1.2	2.2	8.0	36.2							
DAX	20303	-11.1			-0.1	-0.1	5.7	21.2							
FTSE	8193	-68.8			-0.8	-1.1	1.6	8.1							
Nikkei	39365	-92.8			-0.2	-0.0	3.0	20.2	Canada - BoC						Jan 29, 2025
Hang Seng	19700	-95.0			-0.5	-3.0	0.6	18.5	US - Fed						Dec 18, 2024
CAC	7371	13.6			0.2	-0.3	1.4	-3.0	England - BoE						Dec 19, 2024
Commodities	Level						% change:								
WTI Crude	69.97	-0.74			-1.0	2.0	4.4	-2.0	Euro zone - ECB						Jan 30, 2025
Natural Gas	3.21	-0.00			-0.1	1.5	13.8	28.9	Japan - BoJ						Dec 19, 2024
Gold	2644.13	-8.59			-0.3	-1.9	18.6	30.9							
Silver	30.66	-0.08			-0.3	-3.1	-0.0	26.7							
CRB Index	293.22	-0.74			-0.3	1.4	4.8	10.6							
Currencies	Level						% change:								
USDCAD	1.4294	0.0052			0.4	0.8	2.0	6.7	Mexico - Banxico						Dec 19, 2024
EURUSD	1.0498	-0.0014			-0.1	-0.3	-0.9	-3.9	Australia - RBA						Feb 17, 2025
USDJPY	153.87	-0.2800			-0.2	1.3	-0.5	7.8	New Zealand - RBNZ						Feb 18, 2025
AUDUSD	0.6345	-0.0026			-0.4	-0.5	-2.5	-5.4							
GBPUSD	1.2702	0.0019			0.1	-0.5	0.2	0.4							
USDCHF	0.8967	0.0023			0.3	1.6	1.5	3.4							

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