Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

July/August 2024

Summary

By Matthieu Arseneau, Jocelyn Paquet and Daren King

- Growth slowed considerably in China in the second quarter of the year, with real GDP rising by just 0.7% in non-annualized terms. Despite the stimulus measures announced by the government, property prices continued to fall, a situation which weighed heavily on consumer morale judging by the weak increase in retail sales recorded in June. Meanwhile the last few weeks have seen an increase in political uncertainty in the eurozone following the French parliamentary elections. Although these did not translate into a victory for the Rassemblement National, they did result in a hung parliament, a situation typically associated with political gridlock. And while growing uncertainty will only make the European Central Bank more inclined to ease monetary policy in the future, this is unlikely to lead to stellar economic growth in the near future, as real interest rates are likely to remain high for some time to come. Instead, we expect Eurozone growth to remain below potential in the short to medium term. Combined with relatively weak growth in China and the expected slowdown in economic activity in the U.S., this translates in our scenario into rather lacklustre global growth in 2024 (3.0%) and 2025 (2.8%).
- Speaking to the media following the FOMC's latest monetary policy decision, Federal Reserve Chairman Jerome Powell indicated that, as inflation moved closer to target, the Fed would gradually pay more attention to the labour market in determining the appropriate level of interest rates. Although no further details were given on how the central bank planned to weight the two parts of its mandate in future, it was nonetheless reassuring to hear that recent inflation trends now offered the Fed greater flexibility to react to any weakness in the labour market. Flexibility is certainly a good thing, but it must be used when necessary. Which begs the question: has the labour market cooled sufficiently to justify rate cuts? We think it has, and probably more than the Fed seems ready to admit. While our scenario includes a few rate cuts between now and the end of the year, we don't think these will be sufficient to prevent a significant slowdown. We see growth coming to a standstill at the turn of 2025, before accelerating again in the second half of next year under the impetus of further Fed easing. This would translate into real GDP growth of 2.1% in 2024 and just 1.0% in 2025.
- The Bank of Canada began cutting its policy rate in June, and is due to make a further decision at the end of July. In our view, its recent communications illustrate a clear desire to reduce the degree of restriction in monetary policy. This is good news, as it is high time for the Bank of Canada to turn its attention away from inflation and wage data, which are slow to react to the economic environment. The latter is deteriorating rapidly, as evidenced by the unemployment rate, which has continued its upward trend as hiring is failing to keep pace with population growth. As for the Business Outlook Survey published in July, it confirms our view that most sectors are currently overstaffed, which is not reassuring for the future. The proportion of companies reporting labour shortages has fallen to 15%, a level usually observed only during recessions. In 2022, the job changing rate had reached a record level, contributing to the surge in wages, but this era is clearly over, as it is now at a level comparable to past recessions. There is reason to believe that job opportunities are currently limited, but also that workers concerned about the outlook consider it safer to stay with their current employer. While interest rates remain extremely restrictive, we forecast a further 175 basis points of interest rate cuts over the next four quarters, while economic growth is expected to settle at 0.7% in 2024, with a slight acceleration to 1.2% in 2025. This would translate into an unemployment rate close to 7.0% at the end of this year.

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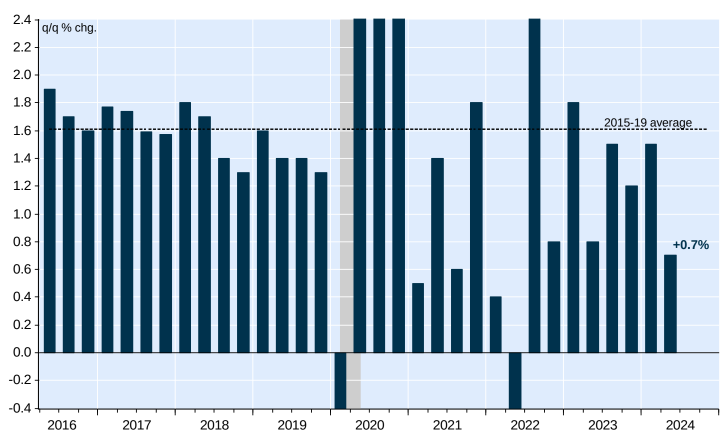
World: Growing risks for the Chinese economy

To say that the Chinese economy has had its ups and downs in recent years would be an understatement. After being brought down by the initial outbreak of COVID-19, GDP quickly rebounded, stimulated by the reorientation of global demand towards goods (many of which are produced in China) that coincided with the gradual reopening of advanced economies. The boom was then briefly interrupted by the abandonment of strict sanitary controls, which led to a major wave of infections in the world's second-largest economy. Pandemic gloom subsequently gave way to “revenge spending” by households, and growth duly accelerated at the end of 2022, before slowing again in 2023, held back by setbacks in the real estate market.

The second-quarter GDP report thus continued the theme of recent years, revealing disappointing growth after a higher-than-expected first-quarter figure. The economy grew by just 0.7% in non-annualized terms in the three months to June, well below the pre-pandemic norm.

China: Growth slowed more than expected in Q2…

Real GDP

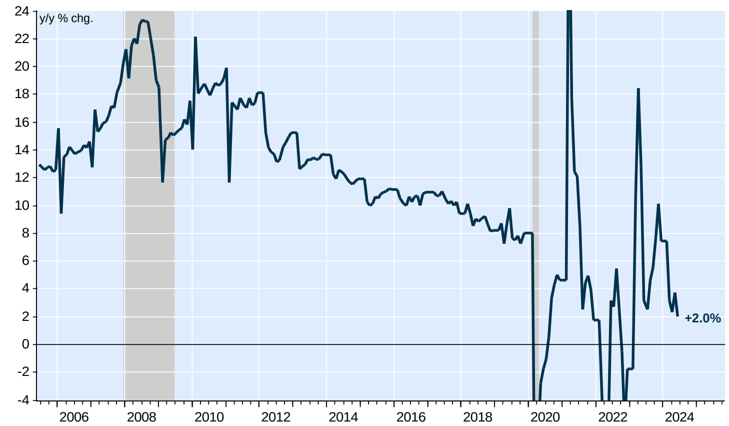


NBF Economics and Strategy (data via Bloomberg)

Consumer demand was particularly disappointing, with retail sales growing at the slowest pace on record outside the pandemic period.

… reflecting weak consumer demand

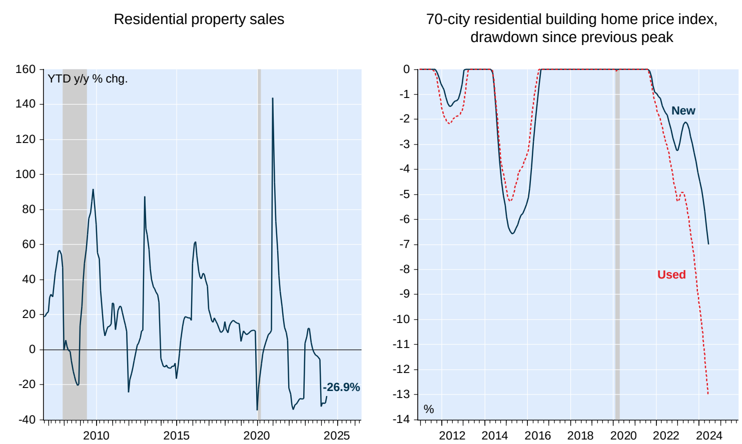
Retail sales



NBF Economics and Strategy (data via Bloomberg)

Consumer sluggishness was undoubtedly linked to difficulties in the property market, in which some 70% of Chinese household wealth is invested. The most recent data indeed showed a 27% fall in residential property sales over the last twelve months and a corollary decline in prices, both on the new-build and resale markets. Since their peak, prices have fallen by 7% in the former segment, while they have dropped by no less than 13% in the latter. These figures are all the more worrying as they come on the heels of the announcement of several measures to support the residential sector.

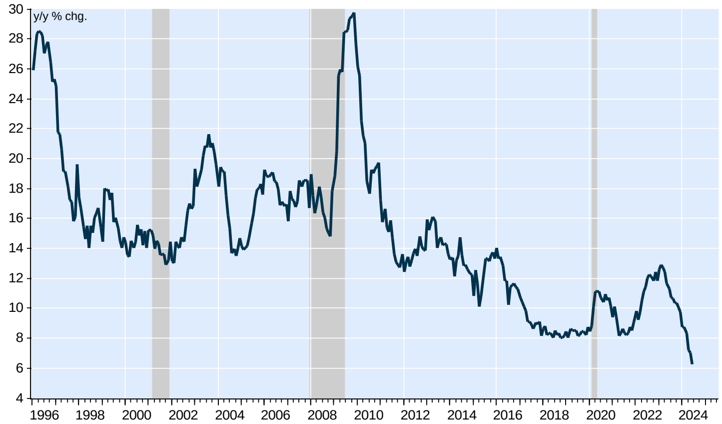
China: Rescue package seems to have failed to revive the housing market



NBF Economics and Strategy (data via Bloomberg)

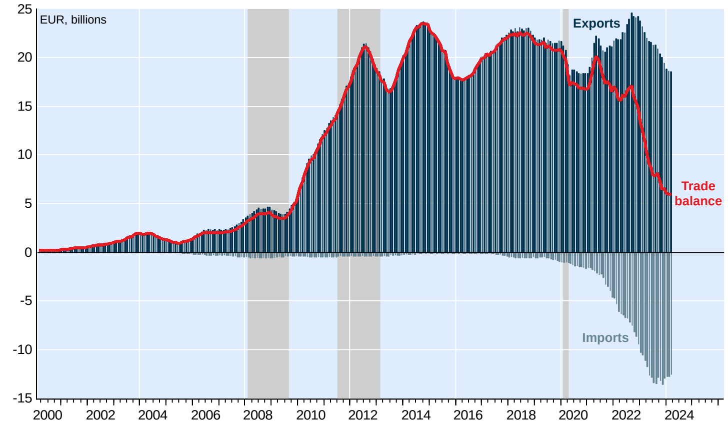
The authorities' stimulus efforts in other sectors of the economy also appear to have had limited impact, judging by the miserly increase in money supply.

China: Money supply growing at slowest pace ever
M2 money supply



NBF Economics and Strategy (data via Bloomberg)

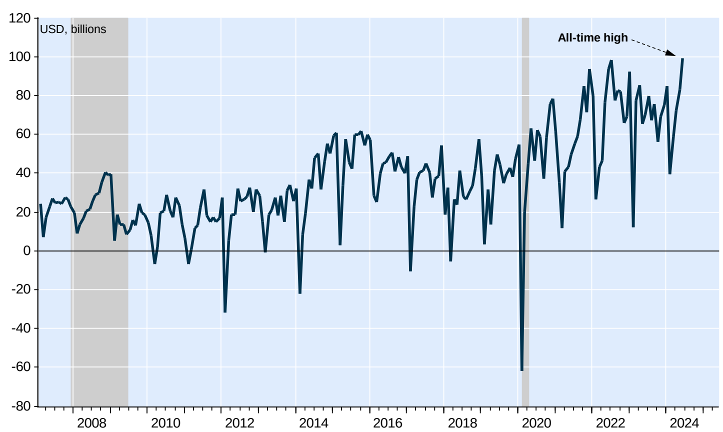
EU27: Chinese-made cars are flooding the European market
Trade with China: motor cars and other vehicles, 12-month moving sum



NBF Economics and Strategy (data via Eurostat)

However, some initiatives did produce results. The central government's attempt to stimulate production in sectors it considers sensitive (electric vehicles, batteries, semi-conductors, etc.) by granting subsidized loans, for example, resulted in a healthy increase in industrial output (+5.3% y/y) and exports (+8.6% y/y) in June. However, this strategy is fraught with risk, as it depends on continued strong external demand, which in the current economic climate cannot be taken for granted. Even more worrying is the prospect that export-led stimulus measures could provoke retaliation from countries where protectionist policies are gaining in popularity. Washington has already announced 100% tariffs on Chinese electric vehicles, and is unlikely to take kindly to the fact that China's trade balance hit a new all-time high in June.

China: Export-led stimulus risks retaliations
Trade balance

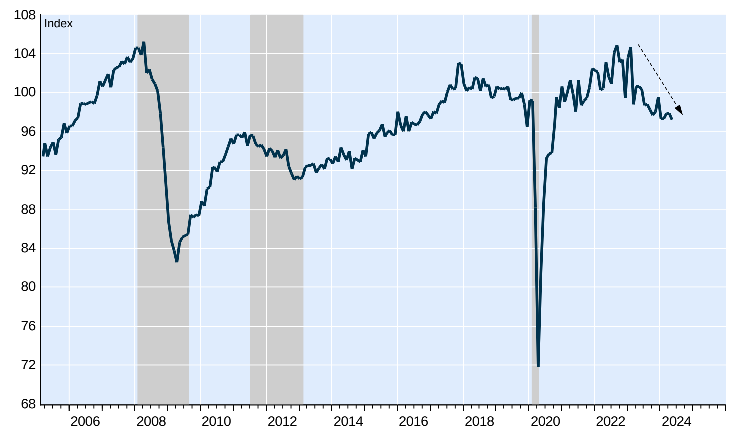


NBF Economics and Strategy (data via Bloomberg)

Nor is the escalation is not limited to the United States. The flood of Chinese electric car imports has also prompted a reaction from the European Union, which has imposed provisional tariffs of around 40% on this type of vehicle in order to protect local manufacturers. Similar measures are to be expected in the future.

The intensification of trade tensions between China and the Eurozone is perhaps unsurprising at a time when industrial production in the latter region is struggling to find its feet.

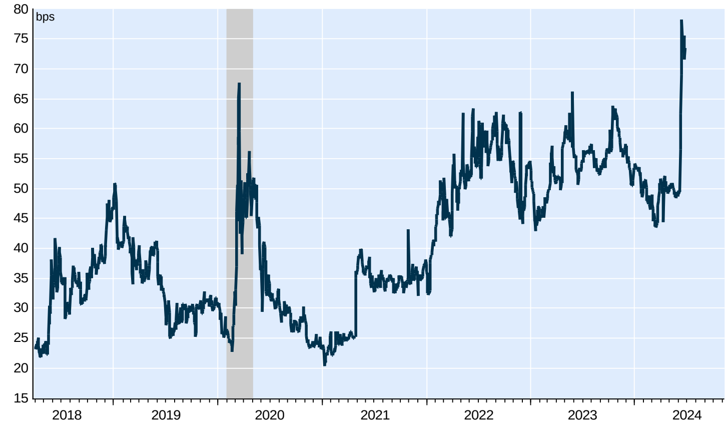
Eurozone: Industrial sector in a funk
Industrial production



NBF Economics and Strategy (data via Bloomberg)

But however profitable it may be for politicians to blame economic difficulties on unfair foreign competition (real or perceived), the fact is that a resurgence of political uncertainty is likely to weigh even more heavily on economic activity in the eurozone. We can attribute this in large part to the parliamentary elections in France, which, while not leading to a victory for the Rassemblement National, did result in a hung parliament, which has historically been associated with political gridlock (**see report**). The strong performance of the Nouveau Front Populaire also caught the markets' attention, as this grouping's political program included measures such as a sharp increase in the minimum wage, a reduction in the retirement age and the reintroduction of the wealth tax. Seeing how these policies, if implemented, would risk increasing France's already very high deficit, it's perhaps not surprising to see bond spreads widening.

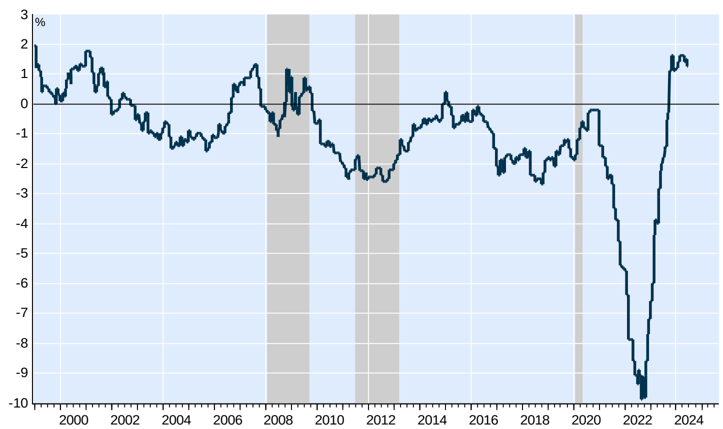
Eurozone: French elections send a chill through the bond market
Spread between the German and French 10-year government bond yields



NBF Economics and Strategy (data via Refinitiv)

And while growing uncertainty will only make the European Central Bank more inclined to ease monetary policy in the future, this is unlikely to lead to stellar economic growth any time soon, as real interest rates are likely to remain high for some time to come. Instead, we expect Eurozone growth to remain below potential in the short to medium term.

Eurozone: Monetary policy to remain restrictive for a while despite rate cuts
ECB deposit facility rate minus headline HCIP inflation



NBF Economics and Strategy (data via Bloomberg)

Combined with relatively weak growth in China and the expected slowdown in economic activity in the U.S. (see next section), this disappointing performance by the Eurozone translates in our scenario into rather lacklustre global growth in 2024 (3.0%) and 2025 (2.8%).

World Economic Outlook

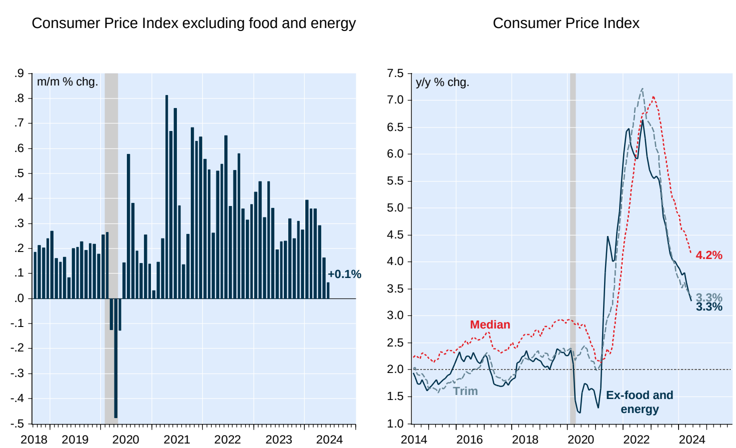
	2023	2024	2025
Advanced Economies	1.7	1.4	1.1
United States	2.5	2.1	1.0
Eurozone	0.5	0.7	0.7
Japan	1.8	0.2	0.8
UK	0.1	0.7	0.8
Canada	1.2	0.7	1.2
Australia	2.0	1.4	1.8
Korea	1.4	2.6	2.0
Emerging Economies	4.2	4.1	4.1
China	5.2	4.7	4.5
India	6.3	7.3	6.5
Mexico	3.2	1.9	1.3
Brazil	2.9	2.1	2.0
Russia	3.6	2.8	1.5
World	3.1	3.0	2.8

NBF Economics and Strategy (data via NBF and Conensus Economics)

United States: Should the Fed be concerned about the slowdown in the labour market?

Speaking to the media following the FOMC's latest monetary policy decision, Federal Reserve Chairman Jerome Powell indicated that, as inflation moved closer to target, the Fed would gradually pay more attention to the labour market in determining the appropriate level of policy rates. Although no further details were given on how the central bank planned to weight the two parts of its mandate in future, it was nonetheless reassuring to hear that recent inflation trends now offered the Fed greater flexibility to react to any weakness in the labour market. It's true that price pressures have eased considerably in recent months, with core CPI even recording its lowest monthly rise in three and a half years in June (+0.06%). This followed another good result the previous month (+0.16%).

U.S.: Weakening core inflation offers the Fed more flexibility

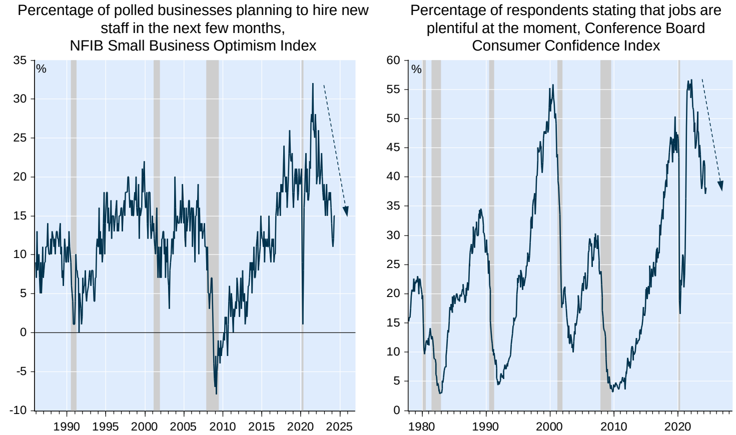


NBF Economics and Strategy (data via the Cleveland Fed and Bloomberg)

Flexibility is a good thing, as long as you use it when you need it. Which begs the question: has the labour market cooled sufficiently to justify rate cuts? Answering this question is not as easy as it might seem, in a context where economic data is sending out somewhat contradictory messages. In the case of “soft” indicators, the message is clear: demand for labour has slowed considerably. Whether it's small businesses surveyed by NFIB or consumers polled by the Conference

Board, all seem to agree that the labour market is not only less vigorous than it was a few months ago, but also weaker than it was before the pandemic.

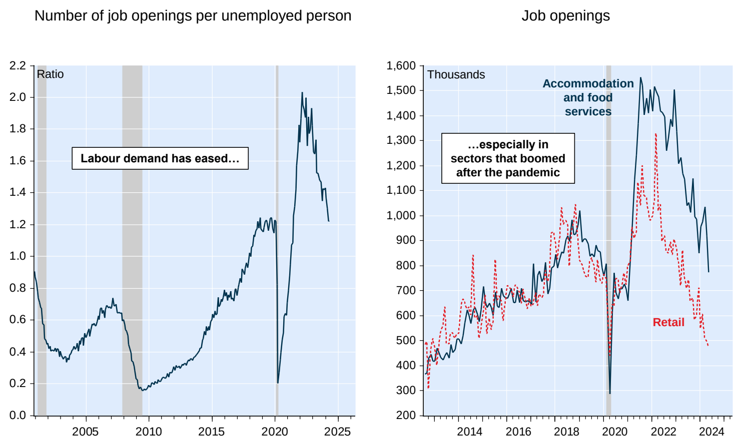
U.S.: “Soft” indicators point at weakening labour demand



NBF Economics and Strategy (data via Refinitiv)

The same is true of the JOLTS report, which shows a significant decline in the number of job vacancies in recent months, particularly in sectors that had been booming in the post-pandemic period.

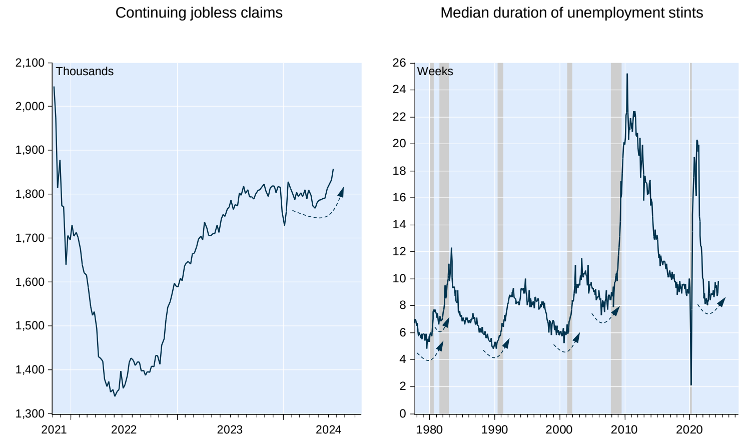
U.S.: JOLTS report also hints at a slowdown



NBF Economics and Strategy (data via Refinitiv)

As might be expected, the drop in demand for labour means that laid-off workers are finding it increasingly difficult to find new jobs. This, at least, is what the increase in continuing jobless claims and the longer median duration of unemployment spells suggest.

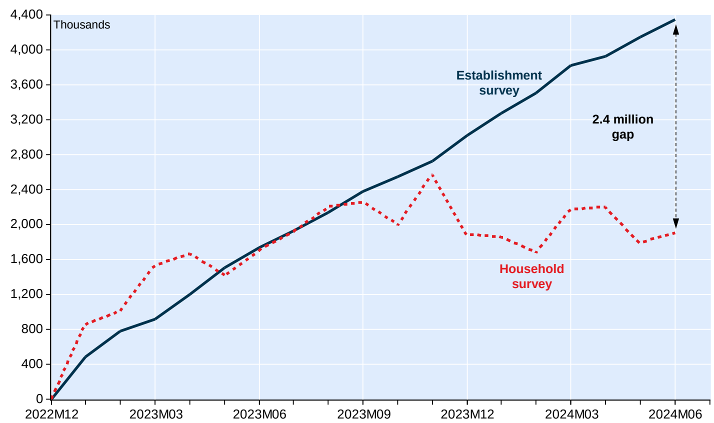
U.S.: It’s getting harder for laid off workers to find a new job



NBF Economics and Strategy (data via Refinitiv and Bloomberg)

However, this turn of events does not seem to be worrying the Fed too much. Perhaps the central bank finds comfort in the fact that non-farm payrolls continue to grow at a steady pace. We hope this is not the case, as there is good reason to believe that job growth as reported in the establishment survey has been overstated of late. This assumption is based in part on the fact that other reports – notably the household survey – have shown much less robust job gains in recent months.

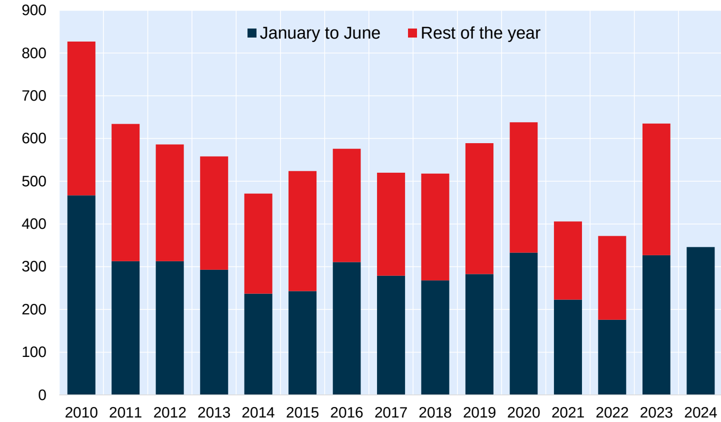
U.S.: Is the establishment survey painting an overly optimistic picture?
Employment gains since 2022M12



NBF Economics and Strategy (data via Refinitiv)

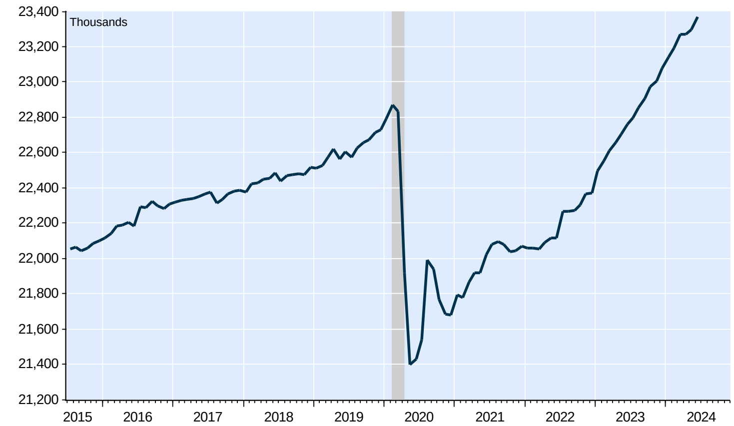
The discrepancy stems from the backward-looking nature of the birth/death model used in the establishment survey to estimate net business creation. Historically, this model has failed to reflect increases in business bankruptcies linked to interest rate rises in a timely manner, and has therefore tended to overestimate job creation at the end of the business cycle. Such an overestimation could be taking place now, as high interest rates weigh increasingly heavily on businesses.

U.S.: Rising bankruptcies not fully reflected in the establishment survey
Business bankruptcy filings



NBF Economics and Strategy (data via S&P Global)

U.S.: Hiring spree in the public sector not necessarily a sign of strength
Employment in the public sector

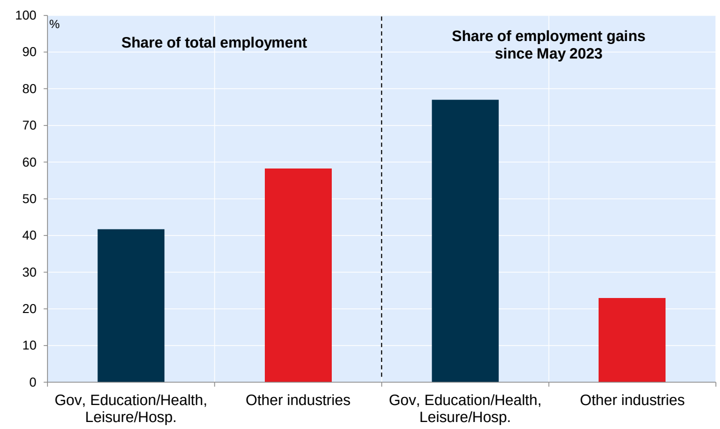


NBF Economics and Strategy (data via Bloomberg)

Even disregarding these methodological peculiarities, it would be hard to deny that the establishment survey is showing signs of weakness. Among these, we'd note the fact that job creation has been concentrated in just a small number of sectors in recent months. While accounting for some 42% of total employment, the leisure/hospitality, education/health, and public administration sectors have accounted for 77% of job gains since May last year.

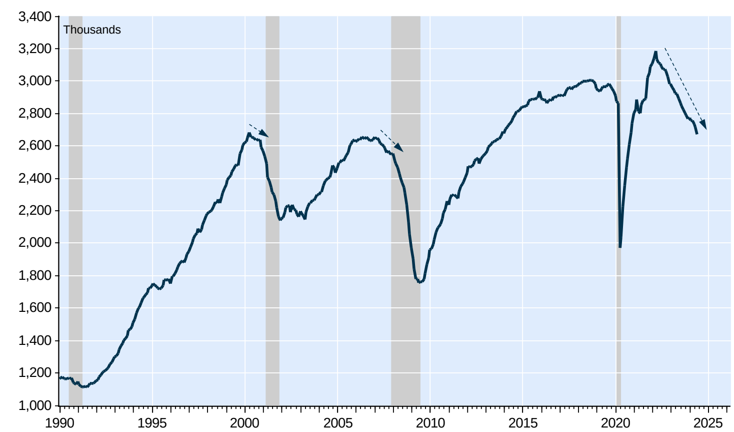
The use of temporary labour is another indicator from the establishment survey which suggests that the labour market may not be as strong as it seems. Historically, employers have tended to stop using temporary labour before resorting to more costly lay-offs of permanent employees, which explains why temporary employment generally starts to fall a few months before a recession. This is exactly what is happening now.

U.S.: Job creation dependant on just a few sectors
Share of employment/employment gains owed to government, education/health and leisure/hospitality



NBF Economics and Strategy (data via Bloomberg)

U.S.: Temporary help services jobs continue to trend down
Employment in temporary help services

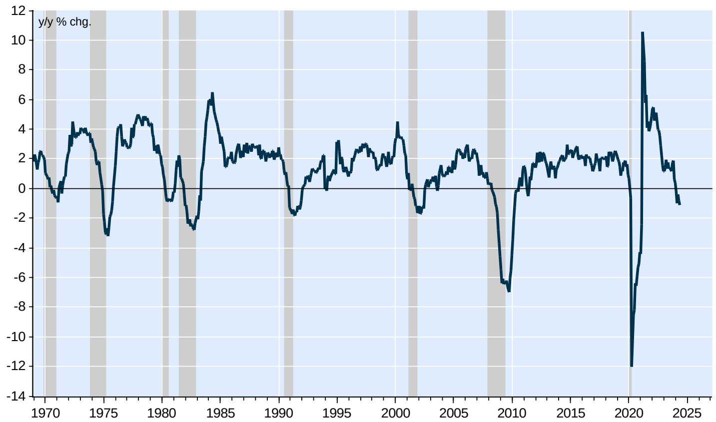


NBF Economics and Strategy (data via Bloomberg)

The increase in the latter category has been particularly impressive, but should not be taken as a sign of economic strength given the rather acyclic nature of government employment.

Far from being isolated bad news, these data are reinforced by the bleak statistics emanating from the household survey. We have already mentioned the much more timid job creation reported in this poll, but we could also point to the decline in full-time employment...

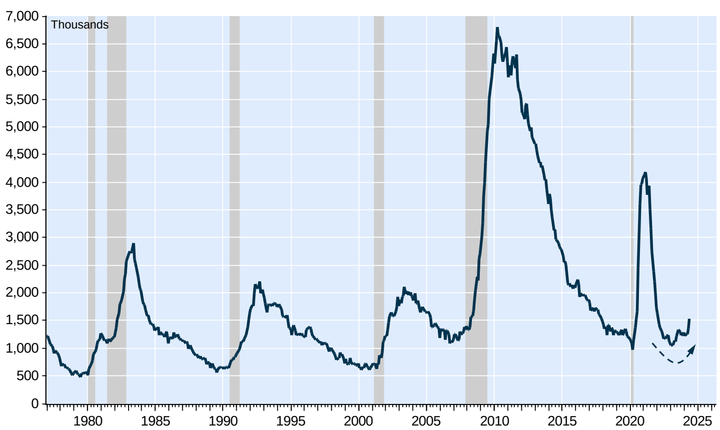
U.S.: Full-time employment in contraction
Full-time employment



NBF Economics and Strategy (data via Bloomberg)

...or the increase in the number of people unemployed for 27 weeks or more, both of which have a good track record as coincidental markers of recessions.

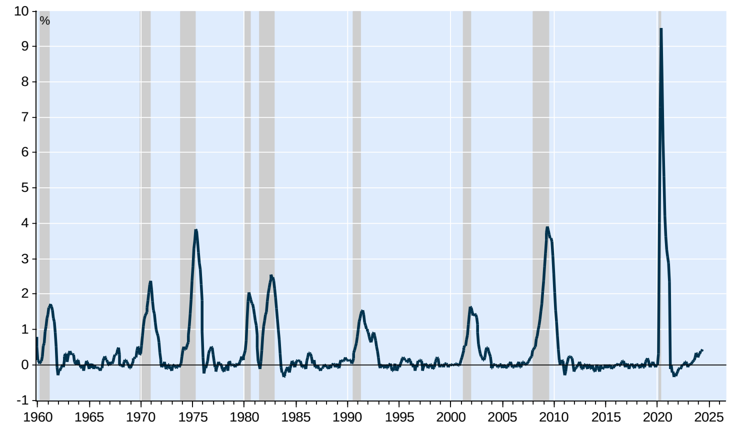
U.S.: Some coincident indicators are flashing red
Number of people unemployed for 27 weeks or more, Household Survey



NBF Economics and Strategy (data via Bloomberg)

But above all, what is most worrying about the household survey is the steady rise in the unemployment rate, which reached 4.1% in June, its highest level for 31 months. And while some would argue that this rate remains low by historical standards, this would be forgetting that an increase of 0.5 percentage points in the three-month moving average of the unemployment rate relative to the previous twelve-month low (Sahm's rule) has always resulted in a recession, *regardless of the starting level of the unemployment rate*. We haven't quite reached that level yet – the 3-month moving average of the unemployment rate is up 0.43% on its 12-month low – but we're getting dangerously close.

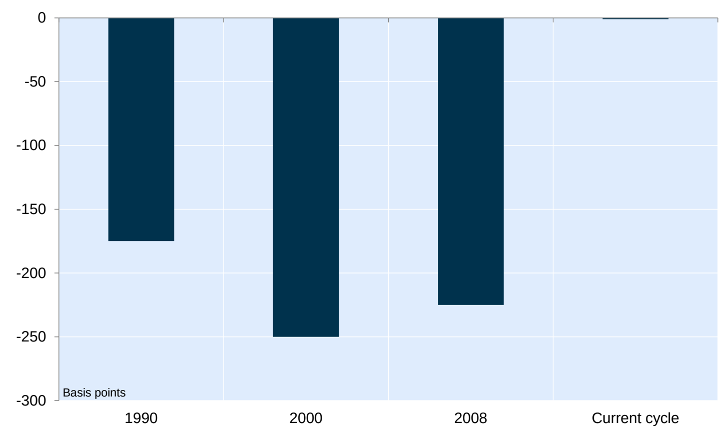
U.S.: Sahm rule very nearly triggered in June
Three-month moving average of the unemployment rate relative to the minimum of the three-month averages from the previous 12 months.



NBF Economics and Strategy (data via Bloomberg)

This doesn't mean that it's already too late to avoid a recession, but simply that it's high time for the Fed to start easing monetary policy if it wants to prevent the current slowdown from turning into something more serious. For, from a labour market perspective, the first rate cuts of the current cycle will probably come much later than in previous episodes. Remember that in 1990, 2000 and 2008, the Fed eased monetary policy by an average of over 200 basis points in response to an increase in the unemployment rate of 0.7% from its trough, like the one we've just experienced... and the economy still slipped into recession each time.

U.S.: Is the Fed playing with fire?
Rate cuts delivered by the Fed in response to a 0.7% rise in unemployment rate from the trough



NBF Economics and Strategy (data via Refinitiv)

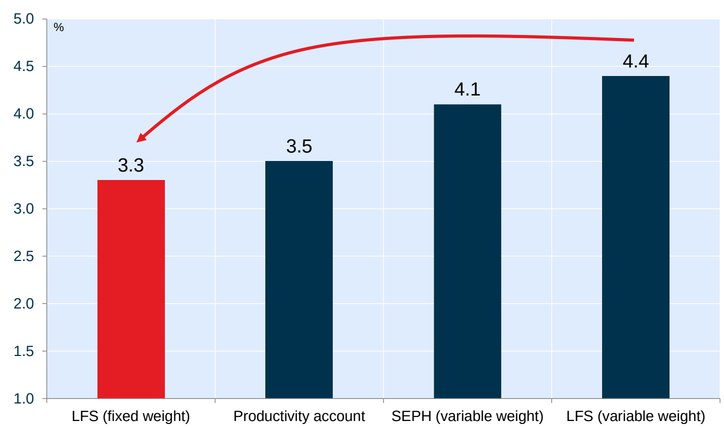
So it's one minute to midnight for the Fed, which now needs to ease monetary policy quickly. Our baseline scenario is that it will indeed lower benchmark rates in the coming months, but that this will not be enough to avoid some economic pain. In our view, economic growth should come to a standstill at the turn of 2025, before accelerating again in the second half of next year under the impetus of further monetary policy easing. This would translate into real GDP growth of 2.1% in 2024 and just 1.0% in 2025.

Canada: Time for BoC to defocus on inflation

The Bank of Canada began cutting its policy rate in June, and is due to make a further decision at the end of July. Our interest rate strategists (**link**) expect that it will do the same at its next meeting. What would be the point of having lowered the policy rate by just 25 basis points if we didn't think it was necessary to lower them more substantially in the near future? But more importantly in our view, Governor Tiff Macklem reminded us in a **speech** in June that wages, still too vigorous, reflect the employment situation with a certain time lag. But he didn't stop there. He also highlighted a new measure of wages, which is currently evolving at a more moderate pace than the other measures usually tracked by the central bank. This new indicator, which uses data from the Labour Force Survey but sets weights according to several characteristics, has evolved at an annualized pace of just 3.3% over the last six months, compared with 4.4% for the usual measure drawn from the same survey. In our opinion, the Governor's statement illustrates a clear desire to reduce the degree of restriction in monetary policy. This is good news.

Canada: Macklem highlights new wage measure

Annualized six-month change in various wage measures

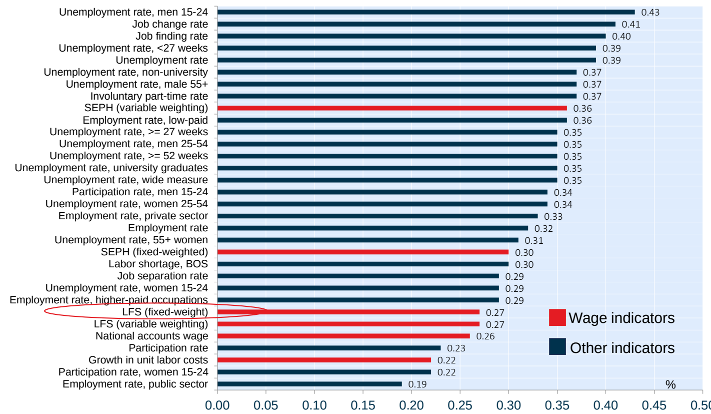


NBF Economics and Strategy (data via Statistics Canada)

We don't disagree with the Governor's argument that a fixed-weight index has the merit of not considering the movement of workers towards better-paid, more productive jobs. Despite the wage increases they may entail, these movements should theoretically not generate inflation in the economy. So much for theory, but what about empirical evidence? We were surprised to note that, according to an analytical note by central bank staff published last April (**link**) the impact of this fixed-weight wage measure on core inflation ranks 26th out of 32 labour market indicators identified by the BoC as significant. We also note that its impact on inflation is quite similar to that the variable-weight measure (ranked 27th), and that other wage measures would have a greater impact on core inflation than this one.

Canada: New measure has limited impact on inflation?

Impact of a one-standard-deviation increase in variable measures on CPI-Trim

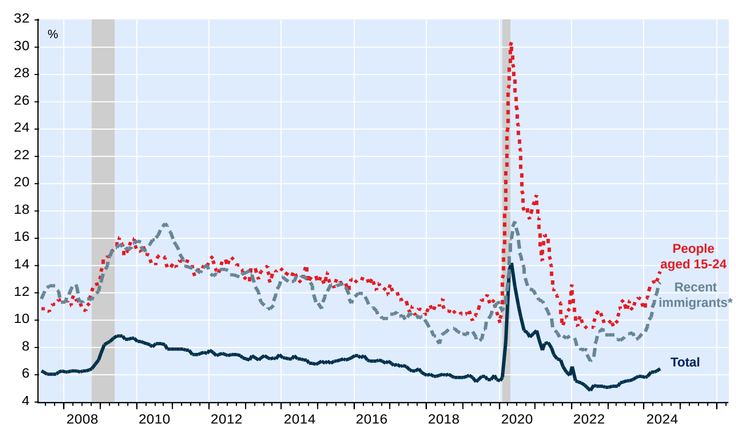


Source: Bank of Canada

According to the same study, the well-known unemployment rate is one of the labour market variables with the greatest impact on core inflation, with that of men aged 15 to 24 topping the list. In June, the country's unemployment rate rose by two tenths to 6.4%, continuing its upward trend as job creation failed to keep pace with demographic growth. Since its all-time low in July 2022, the unemployment rate has risen by 1.6%, the biggest increase ever seen outside a recession. For men aged 15-24, the rise was 5 percentage points, again the highest ever seen outside a recession. Unemployment among 15-24 year-olds is now the highest it has been for ten years, excluding the pandemic.

Canada: Sharp rise in unemployment in immigrants and young people

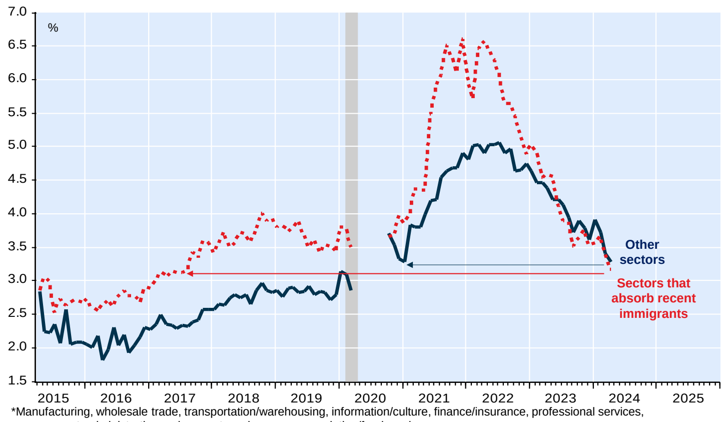
Unemployment rate



*Landed 5 years or less ago, 3-month moving average, seasonally adjusted by NBF
NBF Economics and Strategy (data via Statistics Canada)

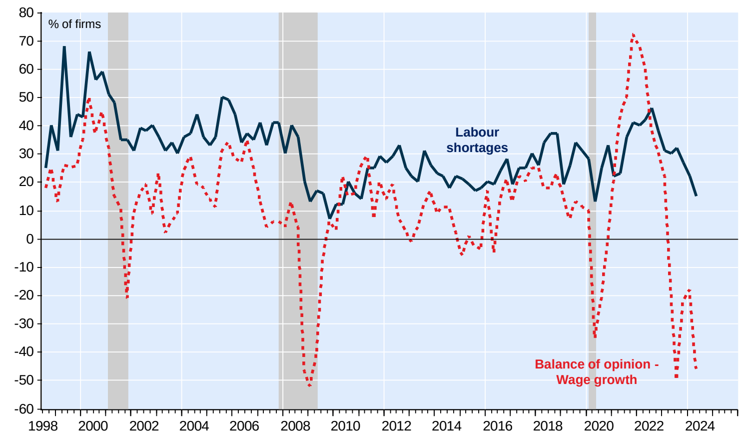
But another category of the population attempting to enter the job market for the first time also seems to be struggling in this gloomy market: recent immigrants. For them, the increase in the unemployment rate since the 2022 trough (+5.8 percentage points) is already equivalent to that recorded during the 2008-2009 global financial crisis. The situation of this population is unlikely to improve, as the job vacancy rate in sectors that tend to absorb more new immigrants has fallen from 6.6% in 2022 to just 3.2% last April, the lowest level since 2017. In other sectors, vacancies remain above pre-pandemic levels. According to Statistics Canada's population clock, population growth remained outsized in the second quarter. Such strength, if it continues, gives us cause for concern about the economic conditions awaiting newcomers in the months ahead.

Canada: Challenging labour market for newcomers
Job vacancy rate for sectors that tend to have more new immigrants and other sectors



*Manufacturing, wholesale trade, transportation/warehousing, information/culture, finance/insurance, professional services, management, administrative and support services, accommodation/food services
NBF Economics and Strategy (data via Statistics Canada)

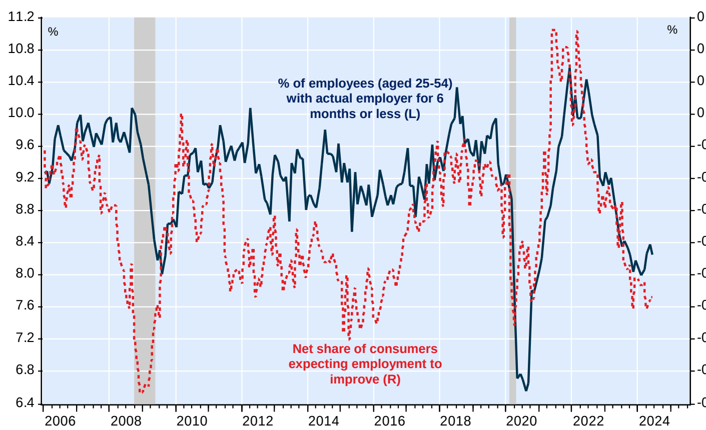
Canada: Labour shortages, a story of the past
% of firms indicating labour shortages and net % anticipating higher wage growth



NBF Economics and Strategy (data via Statistics Canada)

And what about the job changing rate, the second most important variable influencing inflation according to the Bank of Canada study? When the job market is overheated, workers tend to change employers, maximizing their bargaining power. In 2022, the job changing rate of prime-age workers had reached a record level, contributing to the surge in wages, but those days are clearly over. There is reason to believe that opportunities are currently limited, but also that workers concerned about the outlook consider it safer to stay with their current employer.

Canada: Workers more reluctant to change employers
% of employees (aged 25-54) with actual employer for 6 months or less and consumer labour market opinion

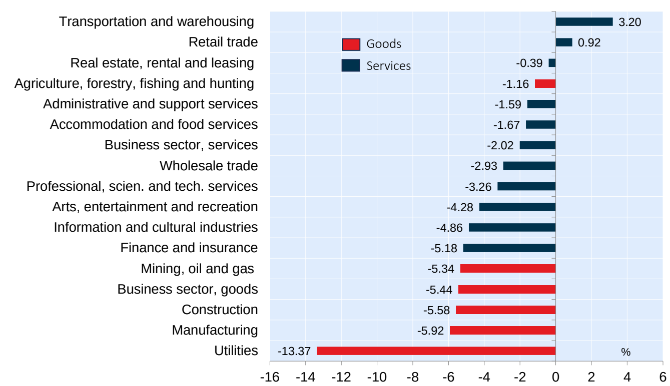


NBF Economics and Strategy (data via Statistics Canada)

Unfortunately, these fears are well-founded, if the Bank of Canada's Business Outlook Survey published in July is anything to go by. The proportion of companies reporting labour shortages has fallen to 15%, a level only reached during a recession. What's more, the number of companies forecasting lower wage increases than last year far outnumbers those forecasting the opposite, which is good news for inflation, but not for consumption.

This business pulse corroborates our assessment over the past few months that companies are overstaffed, leading us to fear a further rise in the unemployment rate in the second half of the year. Indeed, the sharp drop in output per worker since the start of interest rate hikes in 2022 could reflect such a phenomenon. We note that the vast majority of sectors are in this situation, which does not bode well for hiring in the months ahead.

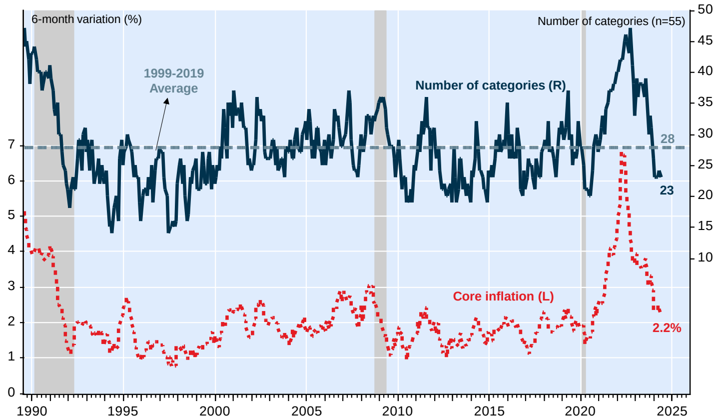
Canada: A majority of sectors have too many employees?
Production per employee (% change from Q3 2022 to Q1 2024)



NBF Economics and Strategy (data via Statistics Canada table 36-10-0207-01)

For all these reasons, we are not paying much attention to the acceleration in core inflation in May and June compared with the previous four months. We maintain that Canada's widespread inflation problem has been resolved. Over the past six months, core inflation has only reached 2.2%, barely above the central bank's target, while a very small number of components are rising at rates above target (only 23 out of 55). Over a 12-month period, if we remove the mortgage interest component, whose rise is largely attributable to the BoC itself, annual inflation is just 1.9%, compared with 2.7% for the basket as a whole.

Canada: Widespread inflation problem solved
Average of the 6-m chg. in CPI-trim and CPI-median and categories (n=55) that have increased 2% or more



NBF Economics and Strategy (data via Statistics Canada)

This is why we believe that the Bank of Canada should turn away from inflation and wage data, which are lagging indicators, and act on the changing economic context of recent months. With interest rates extremely restrictive, the economy and labour market have cooled considerably and are likely to deteriorate further in the months ahead. We expect interest rates to fall by a further 175 basis points over the next four quarters, while economic growth is expected to settle at 0.7% in 2024, with a slight acceleration to 1.2% in 2025. This would translate into an unemployment rate close to 7.0% at the end of this year.

United States - Economic Forecast

Economic Forecast

(Annual % change)*	2021	2022	2023	2024	2025	Q4/Q4 2023	Q4/Q4 2024	Q4/Q4 2025
Gross domestic product (2012 $)	5.8	1.9	2.5	2.1	1.0	3.1	1.1	1.4
Consumption	8.4	2.5	2.2	2.0	1.1	2.7	1.3	1.3
Residential construction	10.7	(9.0)	(10.6)	5.1	0.9	0.4	4.3	1.2
Business investment	5.9	5.2	4.5	3.0	0.2	4.6	1.8	0.6
Government expenditures	(0.3)	(0.9)	4.1	3.1	2.0	4.6	2.1	2.0
Exports	6.3	7.0	2.6	0.7	(0.4)	1.8	(0.5)	0.5
Imports	14.5	8.6	(1.7)	3.0	0.5	(0.1)	3.1	0.5
Change in inventories (bil. $)	12.5	128.1	43.7	37.2	18.8	54.9	20.0	30.0
Domestic demand	6.6	1.7	2.3	2.4	1.1	3.2	1.6	1.3
Real disposable income	3.2	(6.0)	4.1	1.3	1.4	3.8	1.3	1.8
Payroll employment	2.9	4.3	2.3	1.4	(0.8)	1.9	0.7	-0.3
Unemployment rate	5.4	3.6	3.6	4.1	4.7	3.7	4.5	4.7
Inflation	4.7	8.0	4.1	2.9	2.3	3.2	2.3	2.3
Before-tax profits	22.6	9.8	1.5	1.7	1.0	5.1	-3.8	4.1
Current account (bil. $)	(970.3)	(1,012.1)	(905.4)	(958.9)	(920.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 7/16/24	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2023	2024	2025
Fed Fund Target Rate	5.50	5.50	5.50	5.25	5.00	5.50	5.00	3.50
3 month Treasury bills	5.20	5.23	5.30	5.00	4.60	5.20	4.60	3.35
Treasury yield curve								
2-Year	4.43	4.59	4.75	4.50	4.30	4.23	4.30	3.45
5-Year	4.09	4.21	4.50	4.15	4.00	3.84	4.00	3.55
10-Year	4.17	4.20	4.45	4.20	4.10	3.88	4.10	3.80
30-Year	4.38	4.34	4.65	4.40	4.30	4.03	4.30	4.05
Exchange rates								
U.S.$/Euro	1.09	1.08	1.07	1.06	1.04	1.10	1.04	1.09
YEN/U.S.$	159	151	161	157	153	141	153	142

*** end of period*

Quarterly pattern

	Q3 2023 actual	Q4 2023 actual	Q1 2024 actual	Q2 2024 forecast	Q3 2024 forecast	Q4 2024 forecast	Q1 2025 forecast	Q2 2025 forecast
Real GDP growth (q/q % chg. saar)	4.9	3.4	1.4	1.5	0.9	0.4	0.3	1.4
CPI (y/y % chg.)	3.6	3.2	3.2	3.2	2.7	2.3	2.1	2.2
CPI ex. food and energy (y/y % chg.)	4.4	4.0	3.8	3.4	3.3	3.0	2.6	2.3
Unemployment rate (%)	3.7	3.7	3.8	4.0	4.2	4.5	4.7	4.8

National Bank Financial

Canada - Economic Forecast

Economic Forecast

(Annual % change)*	2021	2022	2023	2024	2025	Q4/Q4 2023	Q4/Q4 2024	Q4/Q4 2025
Gross domestic product (2012 $)	5.3	3.8	1.2	0.7	1.2	1.0	0.8	1.9
Consumption	5.2	5.1	1.7	1.7	1.1	1.7	1.3	1.6
Residential construction	14.6	(12.1)	(10.3)	1.1	2.4	(3.1)	0.8	3.6
Business investment	8.7	4.0	(0.8)	(3.6)	0.3	(3.9)	(0.2)	1.4
Government expenditures	4.6	3.3	2.1	1.7	1.9	1.7	2.3	1.8
Exports	2.7	3.2	5.4	0.4	1.4	4.5	(0.1)	2.5
Imports	8.1	7.6	0.9	0.8	1.7	2.1	0.4	2.5
Change in inventories (millions $)	4,425	55,290	38,900	27,952	27,327	39,514	25,952	28,452
Domestic demand	6.1	2.8	0.5	1.3	1.4	0.8	1.4	1.8
Real disposable income	0.5	(0.1)	1.9	2.8	1.3	2.2	1.7	1.5
Employment	5.0	4.0	2.4	1.7	0.9	2.3	1.3	1.0
Unemployment rate	7.5	5.3	5.4	6.4	6.8	5.8	6.9	6.7
Inflation	3.4	6.8	3.9	2.5	2.2	3.2	2.2	2.0
Before-tax profits	33.2	14.7	(17.4)	(3.5)	2.4	(9.1)	(7.5)	5.3
Current account (bil. $)	0.4	(10.3)	(21.0)	(24.0)	(19.6)	....	....	....

** or as noted*

Financial Forecast**

	Current 7/16/24	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2023	2024	2025
Overnight rate	4.75	5.00	5.00	4.50	4.00	5.00	4.00	3.00
Prime rate	6.75	7.00	7.00	6.50	6.00	7.00	6.00	5.00
3 month T-Bills	4.54	5.01	4.80	4.25	3.75	5.05	3.75	2.95
Treasury yield curve								
2-Year	3.78	4.19	4.10	3.70	3.40	3.89	3.40	2.95
5-Year	3.32	3.54	3.60	3.30	3.15	3.17	3.15	3.00
10-Year	3.35	3.47	3.60	3.35	3.20	3.11	3.20	3.05
30-Year	3.34	3.36	3.50	3.30	3.20	3.03	3.20	3.15
CAD per USD	1.37	1.35	1.37	1.40	1.42	1.32	1.42	1.36
Oil price (WTI), U.S.$	81	83	82	77	75	72	75	80

*** end of period*

Quarterly pattern

	Q3 2023 actual	Q4 2023 actual	Q1 2024 actual	Q2 2024 forecast	Q3 2024 forecast	Q4 2024 forecast	Q1 2025 forecast	Q2 2025 forecast
Real GDP growth (q/q % chg. saar)	(0.3)	0.1	1.7	1.4	(0.3)	0.3	1.7	1.9
CPI (y/y % chg.)	3.7	3.2	2.8	2.7	2.2	2.2	2.6	2.1
CPI ex. food and energy (y/y % chg.)	3.4	3.4	2.9	2.8	2.5	2.4	2.6	2.1
Unemployment rate (%)	5.5	5.8	5.9	6.2	6.5	6.9	6.9	6.9

National Bank Financial

Provincial Economic Forecast

	2020	2021	2022	2023f	2024f	2025f	2020	2021	2022	2023f	2024f	2025f
		Real GDP (% growth)						**Nominal GDP** (% growth)				
Newfoundland & Labrador	-4.8	1.0	-1.7	-2.5	1.5	2.3	-10.2	18.5	6.8	-3.1	3.4	3.6
Prince Edward Island	-3.0	8.4	2.9	2.2	3.0	3.0	0.3	14.9	9.3	4.8	5.5	5.4
Nova Scotia	-4.5	5.9	2.9	1.3	0.6	1.0	-1.4	10.0	7.1	3.4	2.6	2.9
New Brunswick	-3.6	5.3	1.1	1.3	0.5	0.8	-1.8	10.9	7.4	3.5	2.7	2.8
Quebec	-4.7	6.7	2.5	0.2	0.5	1.0	-1.8	11.6	8.4	3.7	3.2	3.2
Ontario	-4.5	5.4	3.9	1.4	0.9	1.1	-2.1	9.8	9.2	4.3	3.3	2.9
Manitoba	-4.1	1.3	3.3	1.3	0.5	1.2	-2.2	9.2	8.6	3.7	2.6	3.1
Saskatchewan	-4.3	-0.7	6.0	1.6	0.6	1.4	-8.0	13.9	29.2	1.7	1.7	3.0
Alberta	-7.8	4.6	5.0	1.5	1.0	1.7	-14.4	24.9	22.0	-0.8	4.4	3.4
British Columbia	-3.1	7.1	3.8	1.6	0.5	1.1	-0.5	15.8	11.0	2.2	2.8	2.9
Canada	-5.3	5.3	3.8	1.2	0.7	1.2	-4.6	13.4	11.8	2.8	3.2	3.0
		Employment (% growth)						**Unemployment rate** (%)				
Newfoundland & Labrador	-6.4	3.6	4.3	1.7	3.0	0.7	14.5	13.1	11.2	9.9	10.0	10.0
Prince Edward Island	-3.5	4.2	5.3	5.7	3.4	1.7	10.7	9.9	7.5	7.4	8.0	8.2
Nova Scotia	-4.6	5.6	3.6	2.7	3.3	1.0	9.9	8.6	6.6	6.4	6.7	7.1
New Brunswick	-3.0	3.2	2.7	3.4	2.8	0.9	10.3	9.1	7.2	6.6	7.9	8.1
Quebec	-5.4	4.4	3.1	2.3	0.5	0.7	8.9	6.1	4.3	4.4	5.5	6.2
Ontario	-5.4	5.2	4.6	2.4	1.4	0.9	9.8	8.1	5.6	5.7	6.9	7.4
Manitoba	-4.3	3.7	3.2	2.5	2.5	1.1	8.2	6.4	4.5	4.8	5.2	4.9
Saskatchewan	-5.0	2.6	3.5	1.8	1.8	1.1	8.3	6.5	4.7	4.8	4.7	5.2
Alberta	-7.0	5.5	5.2	3.6	2.7	1.3	11.4	8.5	5.8	5.9	7.0	7.6
British Columbia	-6.2	6.2	3.1	1.6	2.3	0.9	9.1	6.5	4.6	5.2	5.4	5.6
Canada	-5.6	5.0	4.0	2.4	1.7	0.9	9.7	7.5	5.3	5.4	6.4	6.8
		Housing starts (000)						**Consumer Price Index (% growth)**				
Newfoundland & Labrador	0.8	1.1	1.5	1.0	1.6	1.4	0.2	3.7	6.4	3.3	2.2	2.1
Prince Edward Island	1.1	1.2	1.0	0.9	1.2	1.3	0.0	5.1	8.9	2.9	2.0	2.2
Nova Scotia	4.9	6.0	5.6	7.2	9.0	7.4	0.3	4.1	7.5	4.0	2.4	2.1
New Brunswick	3.6	3.9	4.7	4.9	5.2	4.8	0.2	3.8	7.3	3.5	2.0	2.1
Quebec	53.8	69.4	58.2	39.5	47.5	51.5	0.8	3.8	6.7	4.5	2.6	2.2
Ontario	81.2	100.4	96.1	90.0	81.0	94.5	0.6	3.5	6.8	3.8	2.4	2.2
Manitoba	7.3	8.0	8.1	7.1	6.5	8.2	0.5	3.2	7.9	3.6	1.6	2.4
Saskatchewan	3.1	4.3	4.2	4.6	4.4	5.0	0.6	2.6	6.6	3.9	1.6	2.2
Alberta	24.2	31.9	36.4	35.9	42.0	43.5	1.1	3.2	6.5	3.3	2.4	2.0
British Columbia	38.0	47.6	46.7	50.6	47.5	53.5	0.8	2.8	6.9	4.0	2.4	2.1
Canada	218.0	273.8	262.5	241.7	245.9	271.1	0.7	3.4	6.8	3.9	2.5	2.2

e: estimate f: forecast

Historical data from Statistics Canada and CMHC, National Bank of Canada's forecast.

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