Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

February 2024

Summary

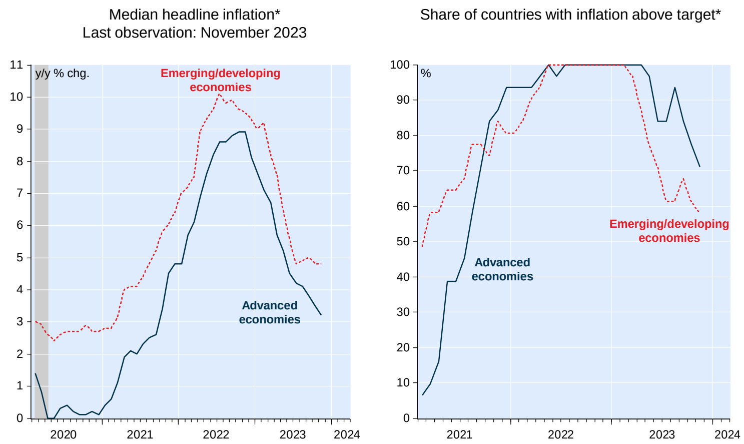
By Matthieu Arseneau, Jocelyn Paquet and Daren King

- Recent months have seen a marked deceleration in global price rises, to the extent that a growing number of countries can now boast of having brought inflation back to their central bank's target (at least temporarily). There's no doubt that central bankers have taken a positive view of the latest developments on the inflation front, but they are unlikely to declare victory at this stage, especially given the current geopolitical context. Recent progress on the price front has been highly dependent on disinflation/deflation in the goods sector, which is now threatened by tensions in the Middle East. These uncertainties could encourage central banks to remain on the sidelines for a little longer than they might otherwise have been. This would certainly have a negative impact on growth, especially if we consider that monetary policy tends to affect the economy with a significant lag, and that the recent fall in inflation has led to an increase in real policy rates. We believe that global growth could slow in 2024, weighed down by contractions in several advanced economies. Faced with a greater-than-expected fall in demand, central banks should then react vigorously by cutting policy rates sharply in the second half of the year. This should enable a gradual recovery in 2025.
- The year 2023 will undoubtedly be regarded as a good vintage for the U.S. economy, which managed to grow by 2.5% despite one of the most aggressive monetary tightenings in recent memory. This good performance was mainly due to three specific sectors: business investment in non-residential structures, government expenditures and household spending. Still, a number of leading indicators continue to point to a period of contraction in the second half of the year. And while some may take comfort from the fact that the Fed now seems open to the possibility of a significant rate cut in 2024 - a scenario that would obviously ease the pressure on economic agents - we are far more concerned about the evolution of real rates between now and the time when these cuts materialize. The recent sharp fall in inflation means that real interest rates are already at their highest level since 2007. After a good Q1, we expect growth in the U.S. to slow sharply towards the middle of the year. This deceleration should allow the Fed to proceed with rate cuts, but we believe they will come too late to prevent a few quarters of contraction. This forecast translates into a 1.9% expansion in 2024 and 0.3% contraction in 2025.
- Faced with uncomfortably high inflation, mainly due to the shelter component fuelled by staggering population growth, the Bank of Canada is maintaining a restrictive monetary policy that is hampering investment and slowing down residential construction in particular, thereby exacerbating the inflation problem. The result of this paradox is a situation of stagflation, which could intensify, i.e. an ailing economy combined with excessively high inflation. A sharp, temporary reduction in population growth could help break this deadlock. In the meantime, we expect the environment to remain difficult in 2024, as the economy has yet to feel the full effects of past rate hikes and interest rates remain high. Restrictive monetary policy means that successive waves of mortgage borrowers are having to renegotiate their credit at higher interest rates, further dampening consumption. We expect the Canadian economy to contract by mid-year, leading to stagnant growth in 2024. The Bank of Canada is expected to start lowering rates at the end of Q2 to give some breathing space to the faltering economy.

World: A new threat to the supply chain?

Recent months have seen a marked deceleration in global price rises, to the extent that a growing number of countries can now boast of having brought inflation back to their central bank's target (at least temporarily).

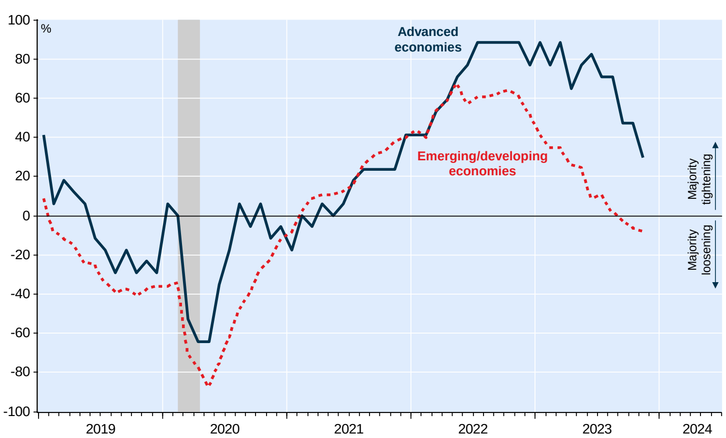
World: Price pressure have eased considerably



*Sample includes 35 advanced economies and 100 emerging/developing economies
NBF Economics and Strategy (data via the World Bank)

As progress on this front has been most rapid in emerging markets, this is where central banks have felt most confident to change their tone and move into easing mode. And judging by market expectations, their counterparts in the advanced economies will soon follow suit.

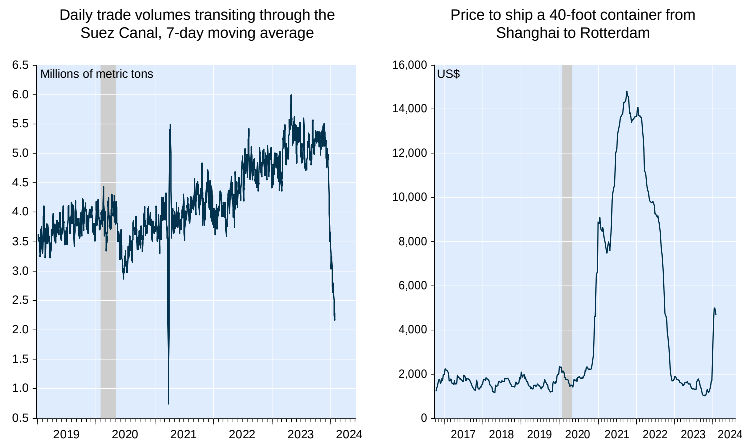
World: Lower inflation allowing central banks to stop hiking
Net share of central banks tightening/loosening monetary policy*



*Tightening/loosening is the percentage of central banks raising policy interest rates minus the percentage lowering policy rates in the last three months. Sample includes 17 advanced economies and 58 emerging/developing economies
NBF Economics and Strategy (data via the World Bank)

There's no doubt that central bankers have taken a positive view of the latest developments on the inflation front, but they are unlikely to declare victory at this stage, especially given the current geopolitical context. Recent progress on the price front has been highly dependent on disinflation/deflation in the goods sector, which is now threatened by tensions in the Middle East. Rocket fire from Houthi rebels and the U.S. Navy's retaliation are forcing many merchant ships in transit between Asia and Europe to avoid the Suez Canal and take a longer, more expensive route around the African continent. This has already led to a quadrupling of shipping prices between Shanghai and Rotterdam.

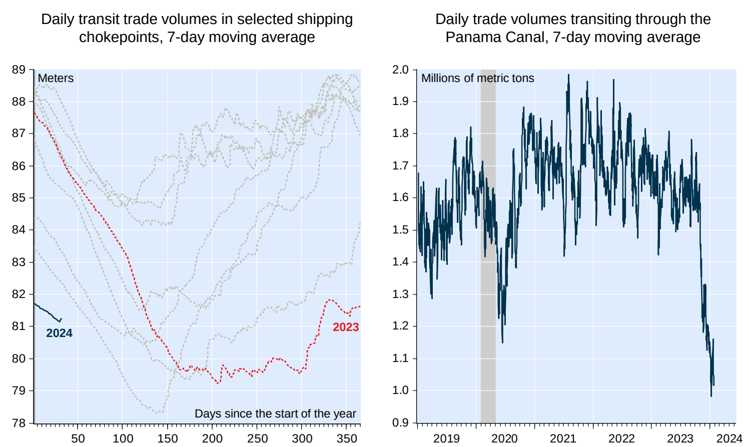
World: Global conflicts forcing re-routing of global trade… at a cost



NBF Economics and Strategy (data via IMF PortWatch and Bloomberg)

In the short term, this should not have too many consequences, as sea freight contracts are generally fixed for long periods. However, should this situation persist, it could exert upward pressure on goods prices (through higher transport and insurance costs) and complicate the return of global inflation to target. This is particularly true in a context where the capacity of other important trade routes has also been curtailed in recent times. Excessively low water levels have indeed forced the Panama Canal authorities to reduce the number and size of ships using this waterway.

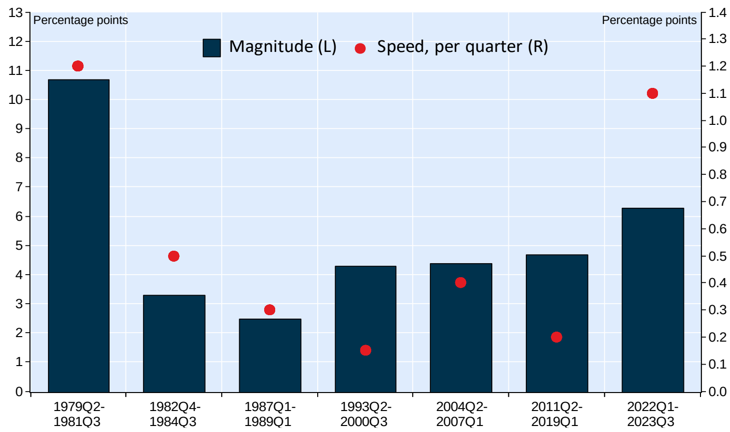
World: Abnormal climate conditions also impacting global trade



NBF Economics and Strategy (data via IMF PortWatch and Bloomberg)

Without completely disrupting the supply chain, these factors could cause central banks to fear a new surge in inflation in the goods sector and, by the same token, keep them on the sidelines a little longer than they might otherwise have been. This would certainly have a negative impact on growth, especially if we consider that monetary policy tends to affect the economy with a significant time lag, and that the recent fall in inflation has led to an increase in *real* policy rates, two phenomena which could contribute to sending the U.S. and the eurozone into a recession in the medium term.

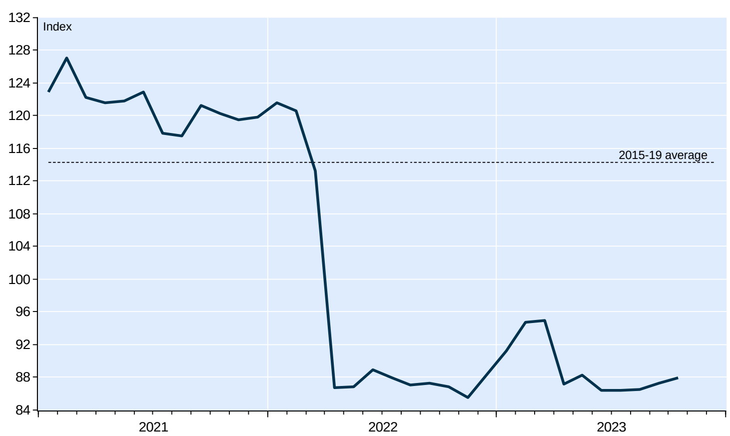
U.S.: Real rates have increased a lot… and quickly
Speed/magnitude of real rate increase in recent Federal Reserve tightening cycles



NBF Economics and Strategy (data via the World Bank)

And contrary to what we were used to before the pandemic, China is unlikely to come to the rescue of global growth. The world's second-largest economy is still grappling with a real estate crisis whose effects are now spreading to other sectors of the economy. To be sure, falling property prices have had a negative impact on consumer confidence, prompting households to save more.

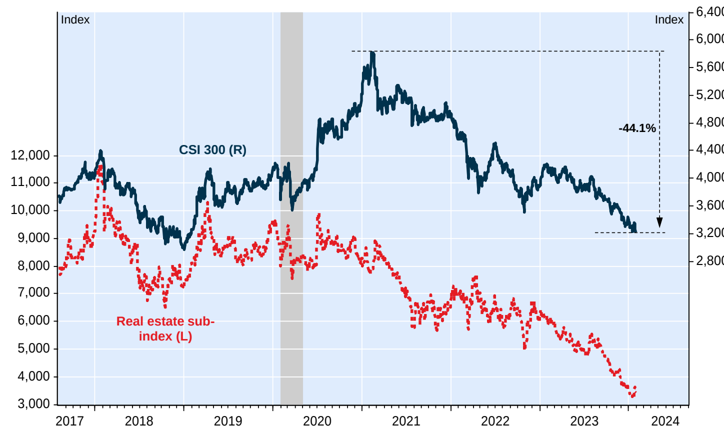
China: Consumer confidence closely tied to the housing market
Consumer Confidence Index



NBF Economics and Strategy (source: National Bureau of Statistics of China via the World Bank)

Foreign investors also seem to have lost confidence, leading to them to pull capital from the country. The Chinese stock market has been the main victim.

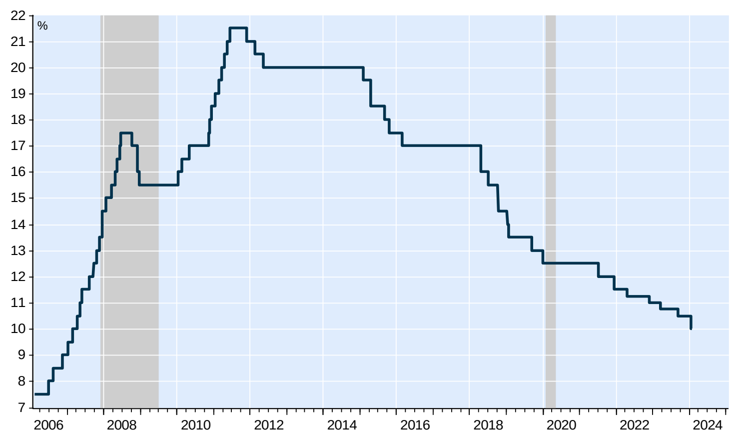
China: Investors seem to have lost confidence
CSI 300 stock index



NBF Economics and Strategy (data via Bloomberg)

Efforts by the authorities to stabilize the situation - such as reducing banks' reserve ratios - may help at the margin, but they are unlikely to prevent a deceleration in GDP growth in 2024, especially as the weakening of China's trading partners will limit its exports.

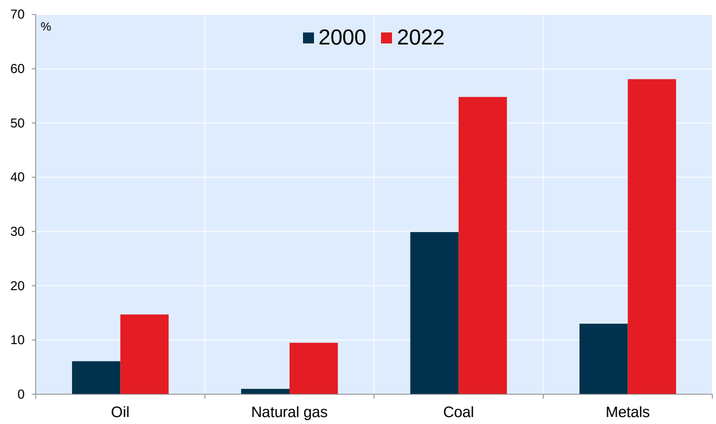
China: Authorities struggling to revive the economy
Required deposit reserve ratio for major banks



NBF Economics and Strategy (data via Bloomberg)

This slowdown is also likely to weigh on demand for certain asset classes, notably commodities, for which China accounts for a disproportionate share of demand.

World: Commodities' fate closely tied to that of the Chinese economy
China's share of global commodities consumption



NBF Economics and Strategy (data via the World Bank)

In line with our forecasts for China, we believe that global growth could slow in 2024, weighed down by contractions in several advanced economies. Faced with a greater-than-expected fall in demand, central banks should then react vigorously by cutting policy rates sharply in the second half of the year. This should enable a gradual recovery in 2025.

World Economic Outlook

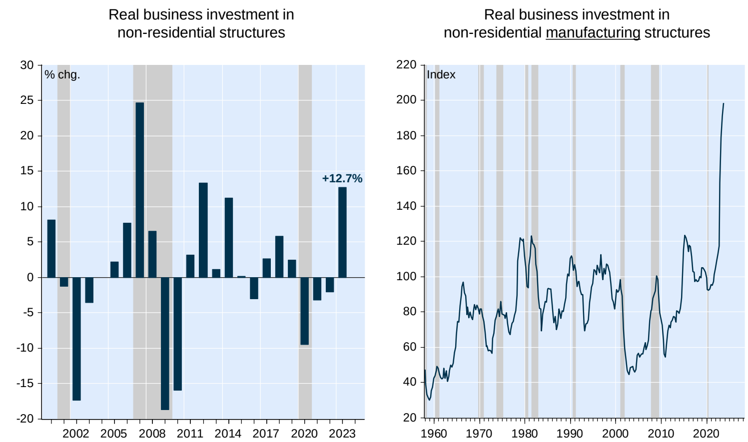
	2023	2024	2025
Advanced Economies	**1.6**	**0.9**	**0.2**
United States	2.5	1.9	-0.3
Eurozone	0.5	-0.4	-0.1
Japan	2.0	0.4	0.7
UK	0.3	-0.2	-0.1
Canada	1.1	0.0	1.3
Australia	1.9	1.2	1.7
Korea	1.4	1.6	1.9
Emerging Economies	**4.1**	**3.8**	**3.8**
China	5.2	4.5	4.4
India	6.3	6.0	5.8
Mexico	3.3	2.0	1.4
Brazil	3.0	1.4	1.7
Russia	3.6	1.4	0.7
World	**3.1**	**2.6**	**2.3**

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

United States: 2023 was a good year for the U.S. economy

The year 2023 will undoubtedly be regarded as a good vintage for the U.S. economy, which managed to grow by 2.5% despite one of the most aggressive monetary tightenings in recent memory. This good performance was mainly due to three specific sectors. The first was business investment in non-residential structures, which benefited from a highly favorable legislative framework and grew by 12.7% over the year as a whole, the strongest growth recorded since 2012. Recall that the Infrastructure Investment and Jobs Act (IIJA), Inflation Reduction Act (IRA) and CHIPS Act each provided direct funding and tax incentives for construction in the manufacturing sector. The result has been an explosion in spending in this segment, which could continue for a few quarters yet.

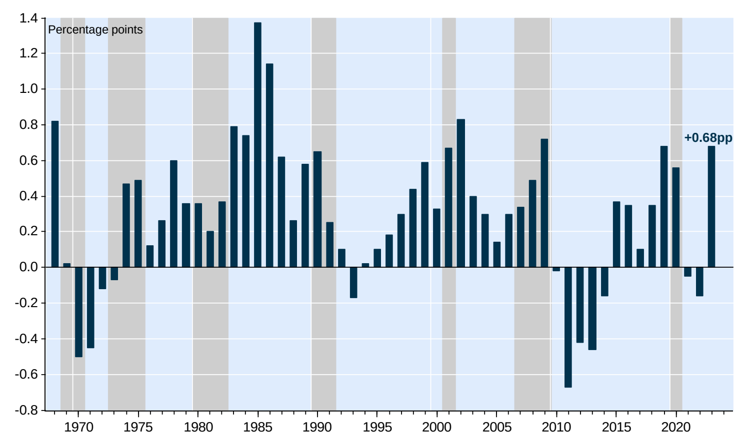
U.S. : Structure investment benefits from positive policy environment



NBF Economics and Strategy (data via Bloomberg and Refinitiv)

The second engine of expansion was government expenditures, which grew by no less than 4.0% in real terms over 2023 as a whole. Although accounting for just 17% of the economy as a whole, it was still responsible for over a quarter of GDP growth during the year, contributing 0.68 percentage points, the most in almost 15 years.

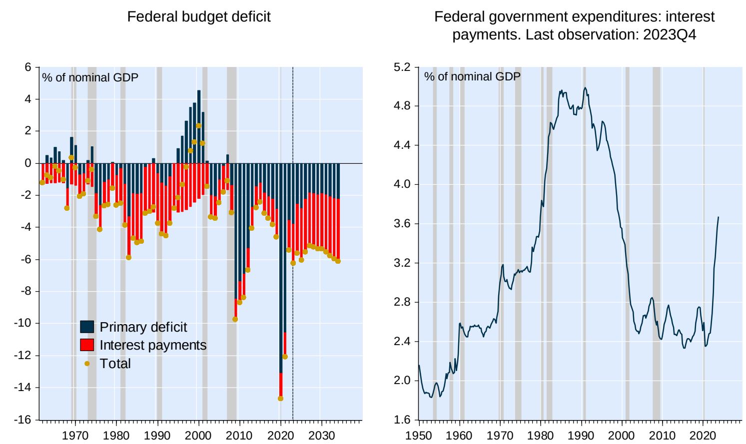
U.S. : Government spending added to growth…
Contributions to real GDP growth from government spending



NBF Economics and Strategy (data via Fred St Louis)

However, instead of continuing to converge towards its pre-pandemic level, as most economists expected, the deficit began to grow again in fiscal 2023, reaching 6.1% of GDP, an extremely high level on a historical basis. While beneficial for short-term growth, this course of action runs counter to standard economic theory, which discourages the implementation of fiscal stimulus measures when the economy is already operating above potential, as such measures tend to have a very low multiplier effect and put upward pressure on prices at a time when inflation is already above the central bank's target. Washington's largesse also leaves the country in an extremely delicate fiscal situation, with the cost of servicing the debt having already risen sharply since the trough reached in the third quarter of 2020. Make no mistake, the current situation is unsustainable in the long term, but that doesn't mean it will be corrected any time soon. After three months in fiscal 2024, deficits are already up on their levels a year ago and, in an election year, we doubt that budgetary rigor will prevail.

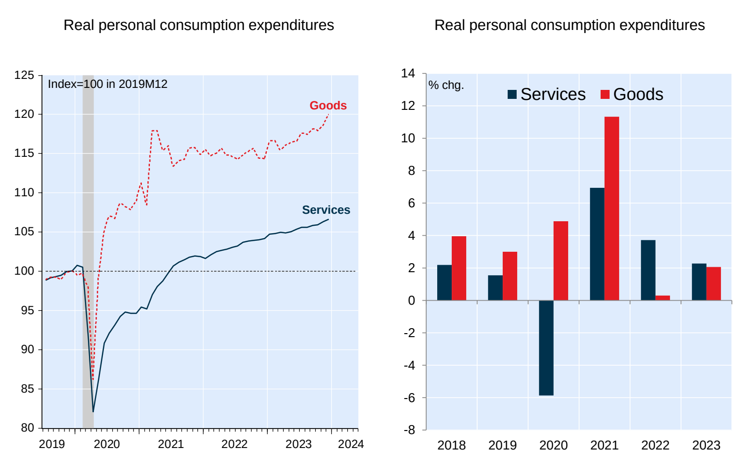
… as Washington failed to rein in deficits



NBF Economics and Strategy (data via Bloomberg and Fred St Louis)

Without taking anything away from investment in non-residential structures and government expenditures, it is household spending that has been the locomotive of growth in 2023. Many analysts had expected that the increase in spending in the services sector in 2024 would be at least partly offset by a temporization on the goods side. This theory was based on the idea that consumer habits would continue to normalize after the upheavals caused by the pandemic. In reality, however, no reallocation of spending took place; real spending increased in both the goods (+2.1%) and services (+2.3%) sectors.

U.S. : Goods consumption more resilient than expected in 2023…

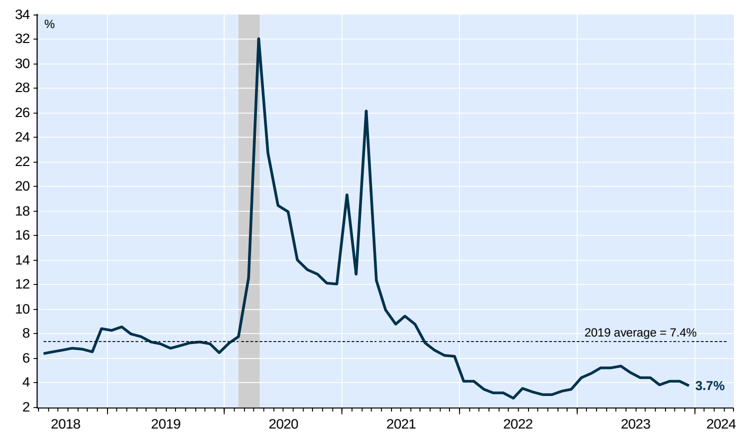


NBF Economics and Strategy (data via Bloomberg)

Although significant, the increase in real disposable income that took place in 2023 cannot fully explain this performance. It seems that, in order to increase spending at the rate they did, consumers also had to maintain their savings rate well below pre-pandemic levels.

… as savings rate remained far below pre-COVID levels…

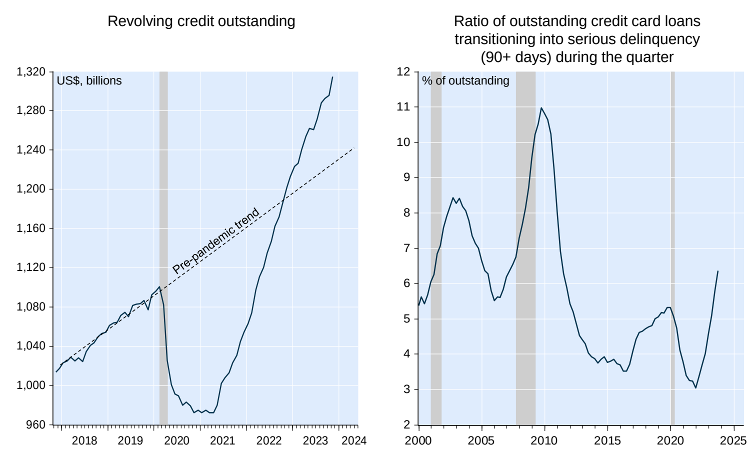
Savings as a percentage of disposable income (savings rate)



NBF Economics and Strategy (data via Bloomberg)

True, at the start of the year, the low savings rate merely reflected households' willingness to draw on the reserves they had built up during the pandemic to support their spending. But as the year progressed, the persistently low proportion of disposable income set aside each month began to raise questions, as it began to be associated with increased recourse to revolving credit. This phenomenon could come back to haunt households in 2024, judging by the already high default rates on credit card loans.

… and household drew heavily on their credit cards



NBF Economics and Strategy (data via Bloomberg)

The growth logic that prevailed throughout 2023 was respected in the final quarter of the year, as growth continued to be driven by same three segments. And if the overall result was stronger than expected during the quarter (+3.3% annualized), this was largely due to international trade and inventories which, instead of contributing negatively to growth as anticipated by the leading indicators, actually boosted it by 0.5 percentage points.

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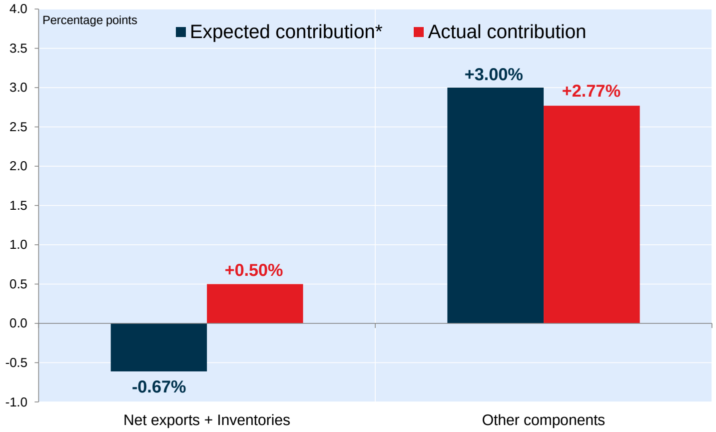
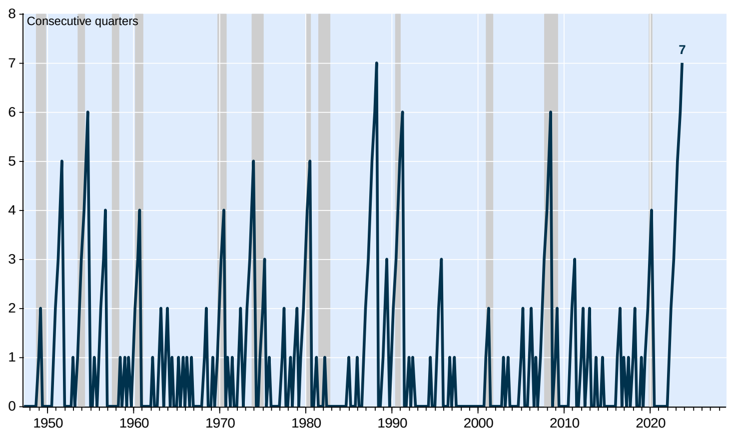
U.S.: Upside growth surprise due to trade and inventories
Contribution to Q4 GDP growth



*Contribution as posted in the final estimate of the GDPNow model run by the Atlanta Fed
NBF Economics and Strategy (data via Bloomberg and the Atlanta Fed)

As these two sectors can experience sudden reversals, it is difficult to believe that they will contribute to growth again in early 2024. This is particularly true of net exports, which contributed to growth for a seventh consecutive quarter in Q4, the joint-longest sequence ever recorded in data going back to 1947.

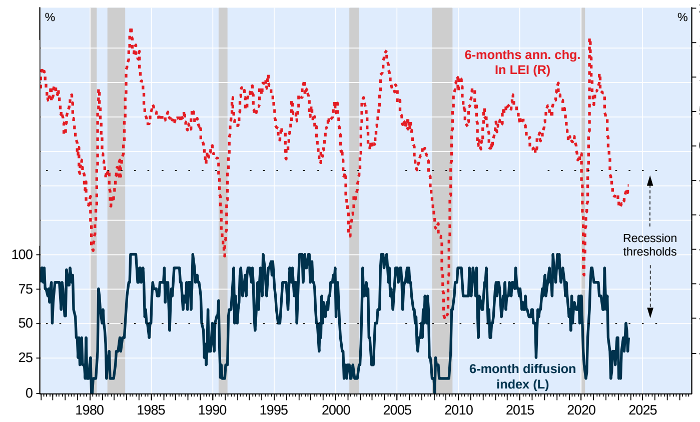
U.S. : Net exports set to revert to the mean in 2024
Number of consecutive quarter in which net exports contributed positively to GDP growth



NBF Economics and Strategy (data via Bloomberg)

But what about the economy as a whole? A number of leading indicators continue to point to a period of contraction in the second half of the year. This is particularly true of the Conference Board's Index of Leading Economic Indicators (LEI). A historical analysis reveals that a 3.5% annualized decline in this index over six months, combined with a diffusion index of less than 50%, is generally indicative of an impending recession. Unfortunately, both these conditions were present in December. And given that, using these two thresholds together, the LEI has not produced a single false recession signal in the last 65 years, we find it hard to believe that this time it will be any different, and that the economy will experience a soft landing.

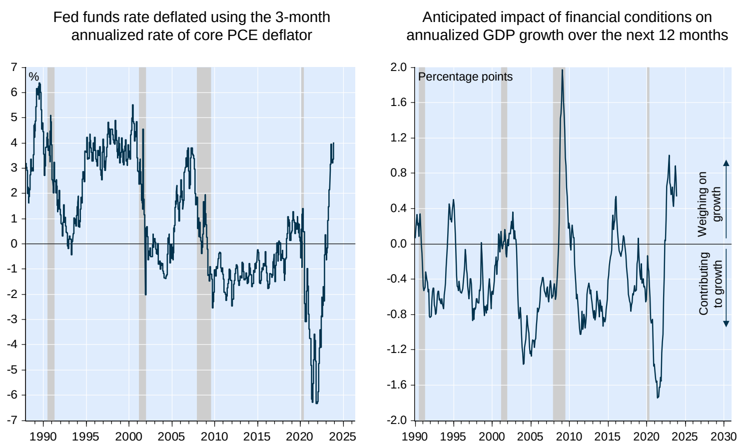
U.S.: Leading indicators signal downturn ahead
Leading Economic Indicator and diffusion index. Last observation: December 2023



NBF Economics and Strategy (data via Bloomberg)

Of course, the Fed's violent monetary tightening in recent months is likely to be the main factor behind the slowdown in growth flagged by the IEA. And while some may take comfort from the fact that the Fed now seems open to the possibility of a significant rate cut in 2024 - a scenario that would obviously ease the pressure on economic agents - we are far more concerned about the evolution of *real* rates between now and the time when these cuts materialize. The recent sharp fall in inflation means that real interest rates are already at their highest level since 2007. And they are likely to rise further over the coming months if economists' forecasts of a further easing in price pressures prove correct.

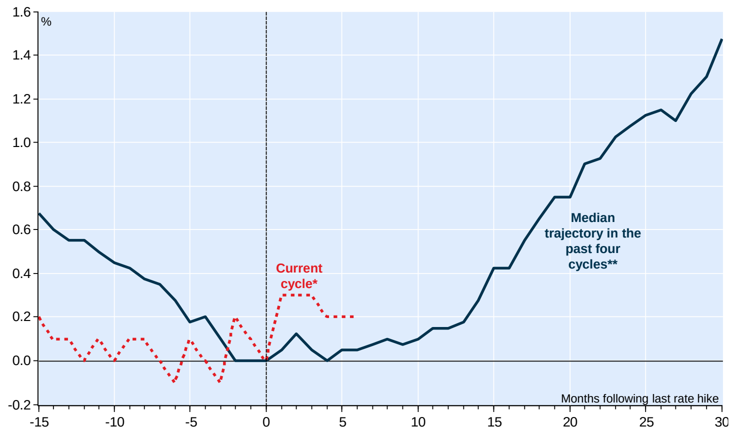
U.S.: Lower inflation also means tighter monetary policy in real terms



NBF Economics and Strategy (data via Bloomberg and the Federal Reserve)

Our forecasts obviously run counter to the consensus view that the Fed will achieve a soft landing of the economy. Without wishing to denigrate this scenario - there is indeed a non-negligible probability that the central bank will achieve such a feat - we have certain reservations about the arguments generally put forward to defend it. One of these is the resilience of the labor market in the face of aggressive monetary tightening by the Fed. But such resilience has been seen before. In fact, a look at the last four cycles of monetary tightening (three of which ended in recession) shows that the unemployment rate generally begins to rise significantly only a few months after the last rate hike, not before. Assuming that the hike announced by the Fed in July is the last of the current cycle, the unemployment rate's behaviour seems to us to be fairly in line with historical precedents. It is therefore impossible at this stage to draw any conclusions as to the relative resilience of the labour market in the current cycle.

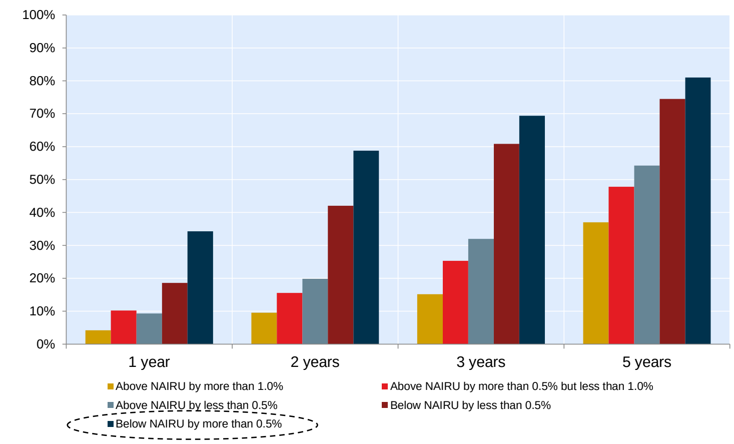
U.S.: Too early to judge the resilience of the labour market
Change in unemployment rate following the last rate hike of a cycle



*Assuming the last rate hike took place on 26 July 2023.
**Cycles which ended in 1989M05, 1995M02 (soft landing), 2000M5 and 2006M06, excludes the tightening cycle that ended with the pandemic.
NBF Economics and Strategy (data via Refinitiv)

As for those who believe that a low unemployment rate could somehow prevent the economy from sinking into recession, let us remember that this theory runs counter to historical data. Historical data shows that the lower the unemployment rate falls below its long-term equilibrium level (NAIRU), the greater the likelihood of recession. Let's be clear here: it's not the strength of the labor market that causes to recession, but all too often the Fed's reaction to that strength. Indeed, the lower the unemployment rate, the more the central bank tends to raise its key rates, a process whose ultimate aim is to slow growth. This explains why, historically, recessions have been much more frequent in the months following periods of low unemployment. By way of illustration, the U.S. unemployment rate is currently more than 0.5% below the NAIRU rate, a situation that historically implies a 70% risk of recession over three years. Three years is a long time, but remember that the unemployment rate has been in this range for almost two years now.

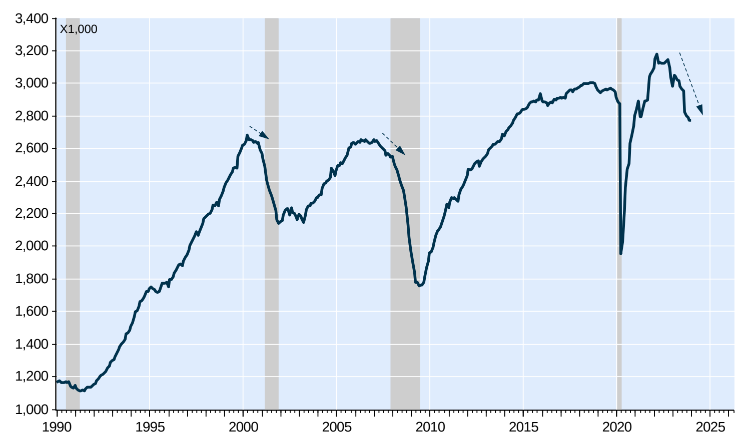
U.S.: Low unemployment rate = higher probabilities of recession
Historical weighted recession probabilities based on the level of the unemployment rate vs. NAIRU



NBF Economics and Strategy (data via Refinitiv)

Since a low unemployment rate is absolutely no guarantee of a resilient job market in the medium term, we have to rely on a number of tried-and-tested leading indicators to give us an idea of how the demand for workers will evolve in the near future. And several of them suggest that the unemployment rate will behave in exactly the same way as it did following previous monetary tightening cycles, i.e. that it will rise rapidly over the next 12 months. Of these indicators, we find the use of temporary labour particularly revealing. Historically, employers have tended to stop using temporary labour before resorting to more costly layoffs of permanent employees, which explains why temporary employment generally starts to fall a few months before a recession. This is what is happening now.

U.S.: Some advanced labour indicators are flashing red
Employment in temporary help services



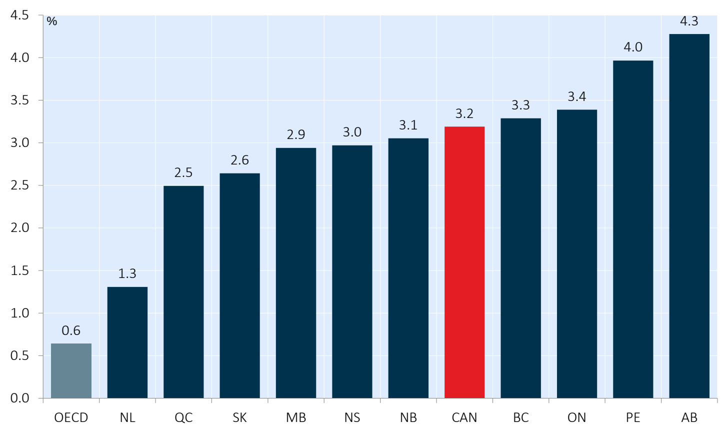
NBF Economics and Strategy (data via Bloomberg)

After a good Q1, we expect growth in the U.S. to slow sharply towards the middle of the year. This deceleration should allow the Fed to proceed with rate cuts, but we believe they will come too late to prevent a few quarters of contraction. This forecast translates into a 1.9% expansion in 2024 and 0.3% contraction in 2025.

Canada: Unbridled population growth

Canada's demographic situation was the biggest surprise of 2023. Over the past year, the population grew by 1.25 million, following an increase of 825K the previous year. The biggest increase was in the number of non-permanent residents, i.e. temporary workers and foreign students and, to a lesser extent, asylum seekers. To put these figures into perspective, Canada's population growth rate in 2023 was 3.2%, five times the OECD average.

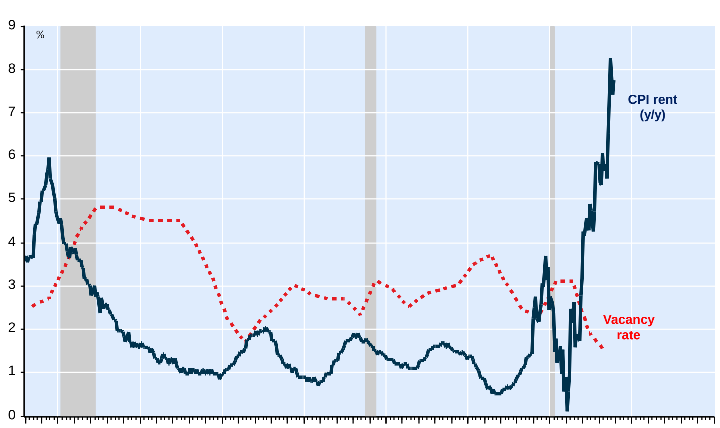
Canada: All provinces grow at least twice as fast as OECD
Population change (2023Q4 vs 2022Q4)



NBF Economics and Strategy (data via Statistics Canada, OECD)

Canada has had by far the most dynamic immigration policy of the G7 countries for several years, an advantage we have repeatedly emphasized (link), as it increases potential economic growth and ensures more sustainable public finances in a context of demographic transition. This policy has also helped stimulate the housing market. It's true that housing scarcity is not a new phenomenon. Over the past ten years, housing affordability has deteriorated considerably with soaring prices, and more recently with the sharp rise in interest rates. Affordability issues in the rental segment have become particularly acute in the last two years, as evidenced by the decline in the vacancy rate, which fell by half between the end of 2021 and the end of 2023, according to data just released by CMHC. The result is a record-low vacancy rate.

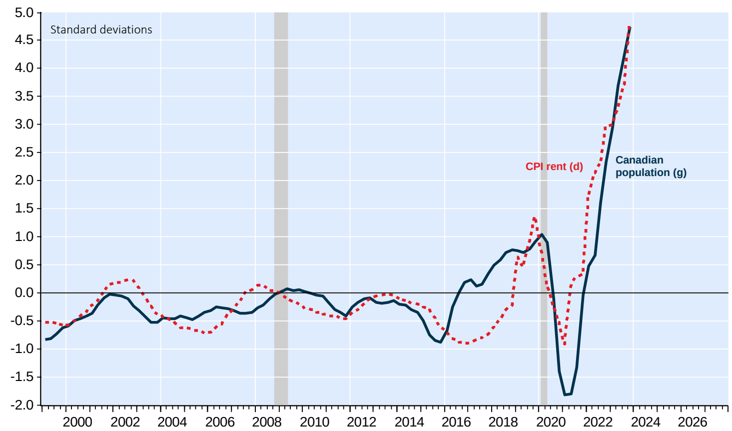
Canada: Rental vacancy rate plummets to record low
CPI for rent and vacancy rate for residential rental units



NBF Economics and Strategy (data via Statcan and CMHC)

Some observers say that focusing on immigration to explain the current housing shortage is a mistake. Instead, they attribute the current problems to supply-side issues such as zoning rules, lack of urban density and rigidities in the construction sector, which integrate too few newcomers. We agree that these problems have been obvious for some time. But the increase in population of 5 standard deviations in the last year stands out to us as being primarily responsible for an increase in rental prices of 5 standard deviations.

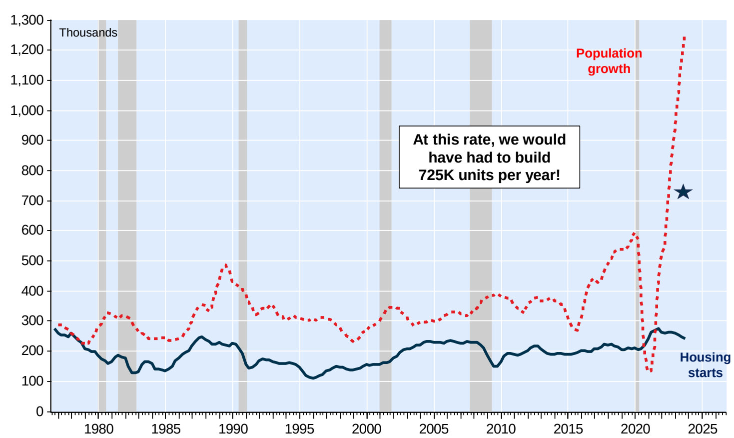
Canada: Population and rents at extremes
Annual growth in total population and rent component of CPI (%), standardized scale



NBF Economics and Strategy (data via Statistics Canada)

To absorb such an increase in population, following the historical norm of one housing unit for every 1.7 additional individuals in the population, 725K housing units would have had to be built in 2023, after 480 units the previous year. However, housing starts were only 241K and 263K units, and the residential construction sector has never exceeded 274K units on an annual basis. For those counting on an increase in supply to meet the demand generated by such population increases, you should know that the construction sector was operating at 84% of capacity in the third quarter, according to Statistics Canada, which means that the potential for a substantial increase in activity in the medium term is simply nil.

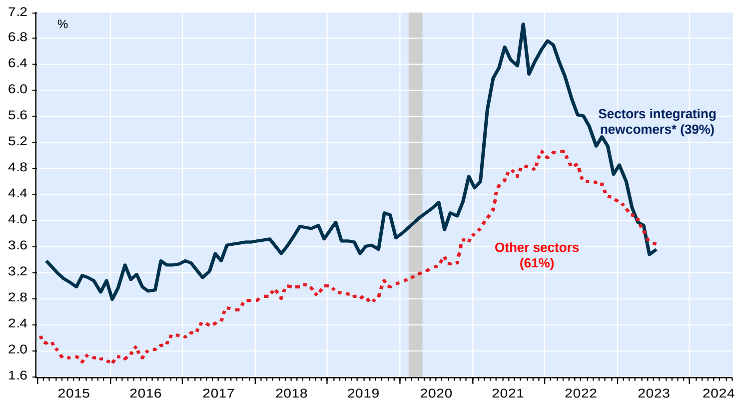
Canada: Builders not keeping pace
Change in population vs. residential housing starts (year-over-year, quarterly data)



NBF Economics and Strategy (data via Statistics Canada)

In defense of the current high level of immigration, some observers argue that it was necessary because of the labor shortages we've been experiencing. Indeed, it is the extremely tight labor market in 2021 and 2022 that has prompted many companies to recruit from abroad, bringing in temporary workers in unprecedented proportions. In a speech delivered last December, Deputy Governor Toni Gravelle illustrated the fact that the labor market has eased in those sectors where the share of new arrivals has increased the most. What's often overlooked, however, is the fact that new workers represent a demand not only for housing, but also for goods and services, stimulating demand for labor in the rest of the economy. This raises the question of whether the labor market in the other sectors, which account for 61% of jobs, would not have eased further without this influx of workers. Job vacancy rates are still above pre-pandemic levels in these sectors, despite the tightening of monetary policy. We believe that immigration is not an antidote to labour shortages at the macroeconomic level.

Canada: An historical perspective on job vacancy rate
Vacancy rate

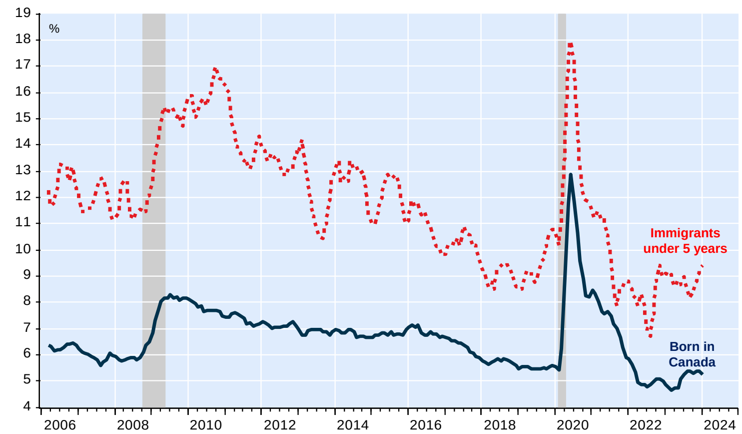


* Accommodation and food services; business, building and other support services; retail; finance and insurance; professional, scientific and technical services; information, culture and recreation

NBF Economics and Strategy (data via Statistics Canada)

Finally, some argue that without immigration, the severity of the economic downturn in 2023 and beyond would be greater. On first glance, the argument holds water: immigration stimulates economic growth, and why would we want to deprive ourselves of a favorable economic climate? Immigration certainly contributes to economic growth, but above all to an increase in potential GDP. And the extent of a slowdown or recession must be assessed by comparing economic growth figures with potential economic growth. From December 2022 to December 2023, the Canadian economy grew by 1.7% according to the latest data from Statistics Canada, a respectable rate by historical standards. In a normal demographic context, such an increase, in line with potential economic growth, should not have led to any change in the unemployment rate. However, the unemployment rate has risen by 8 tenths over this period, suggesting that potential GDP is between 3.5% and 4.0%, resulting in significant economic underperformance. It therefore seems misguided to maintain immigration at excessive levels in the name of absolute economic growth, especially when we know that newcomers are affected more than native-born Canadians in times of economic hardship.

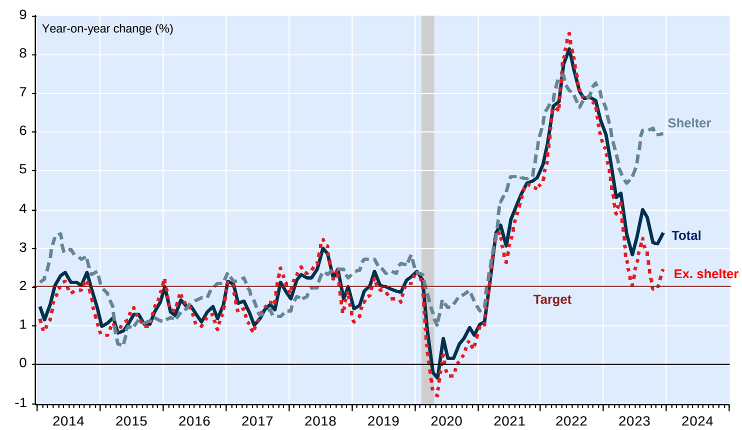
Canada: Immigrants hardest hit by economic downturns
Unemployment rate



NBF Economics and Strategy (data via Statistics Canada)

Rather, the question is whether the inflation generated by strong population growth is forcing the central bank to keep rates too restrictive, at the risk of causing too great an economic shock. Take, for example, the shelter component of the CPI, which is rising at a rate of almost 6.0% due to mortgage interest costs, for which the central bank is responsible, and to the rise in rental prices attributable to the dizzying increase in population. Without this component, Canadian inflation has been close to its target range in recent months (2.4% in December).

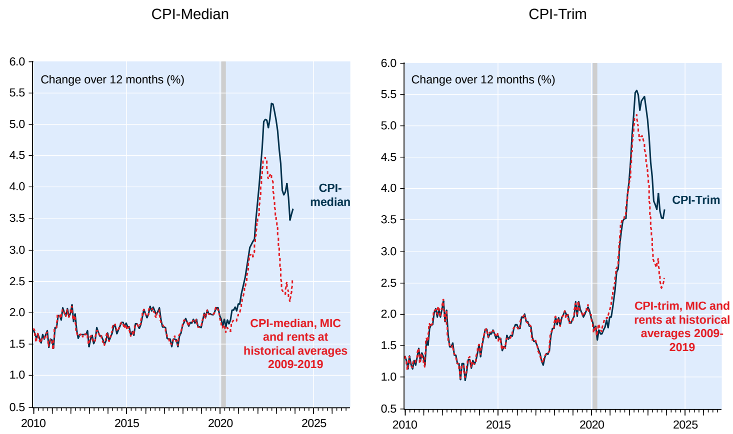
Canada: Without shelter, inflation is close to target
CPI inflation: Total, shelter and ex-shelter



NBF Economics and Strategy (data via Statistics Canada)

And what about the core inflation measures favoured by the Bank of Canada? At first glance, one might think that, given the extreme increases in these two components, they wouldn't influence either the CPI-median or the CPI-Trim, which exclude the most volatile components each month. Yet, given their imposing weight, these components act like magnets for the fundamental measures of inflation. By way of illustration, if mortgage interest costs and rents were to evolve at their pre-pandemic ten-year averages, the CPI-median and CPI-trim would indicate rates much closer to target, at 2.5% and 2.6% instead of the 3.6% and 3.7% they currently indicate.

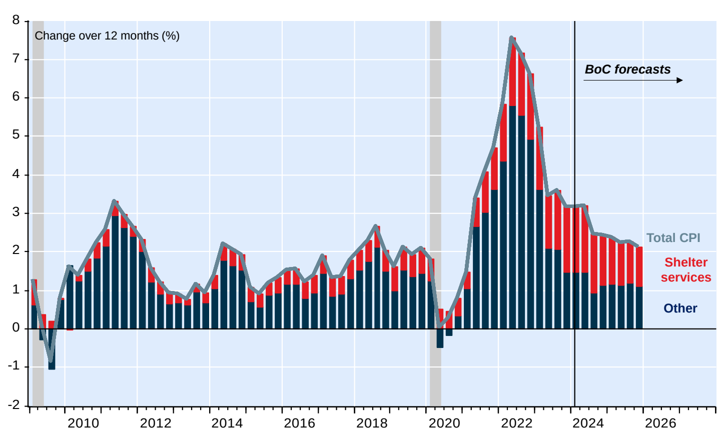
Canada: Shelter also contaminates core inflation measures



NBF Economics and Strategy (data via Statistics Canada)

The demographic situation puts the central bank in an uncomfortable position, if not a trap. In its latest Monetary Policy Report, it states that "shelter services price inflation is expected to decline modestly and act as a material headwind against the return of inflation to the 2% target". It predicts that no less than 53% of inflation in 2024 and 2025 will be attributable to shelter-related services, i.e. double the usual proportion (2009-2019), against a backdrop where it expects again this year an outsized population increase (2.0%).

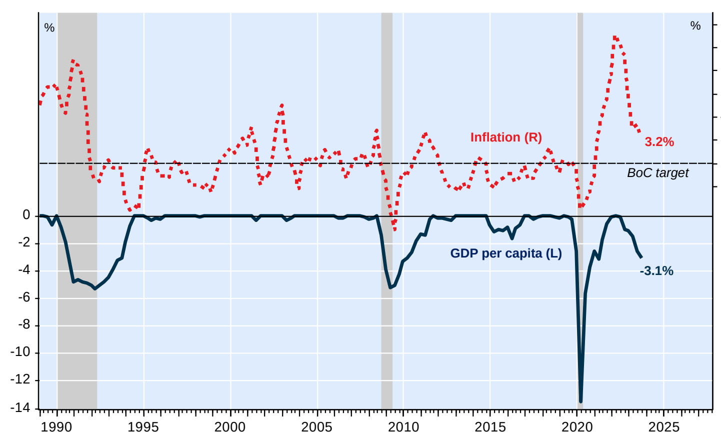
Canada: BoC expects persistent shelter inflation
Contribution to CPI inflation, Bank of Canada forecasts from 2024Q1 onwards



NBF Economics and Strategy (data via Statistics Canada, Bank of Canada)

However, it does not go so far as to denounce the paradox of the current situation. Faced with uncomfortable inflation, mainly due to the housing situation, it is maintaining a restrictive monetary policy which is harming investment, notably by slowing housing construction, thus exacerbating the inflation problem. The result of this paradox is a situation of stagflation, which could intensify, i.e. an ailing economy combined with excessively high inflation. The central bank indicates in its latest Monetary Policy Report that the Canadian economy is already in a situation of excess supply (an output gap of between -0.25% and 0.75%), yet it does not envisage inflation returning to target before the end of 2025. A sharp, temporary reduction in population growth, as we have suggested (link), would help break this deadlock.

Canada: Inflation remains high despite faltering economy
Annual inflation and change since peak in GDP per capita (Q4 estimated with preliminary data)



NBF Economics and Strategy (data via Statistics Canada)

Overall, we expect the environment to remain difficult in 2024, as the economy has yet to feel the full effects of past rate hikes and interest rates remain high. Restrictive monetary policy means that successive waves of mortgage borrowers are having to renegotiate their credit at higher interest rates, further dampening consumption. We expect the Canadian economy to contract by mid-year, leading to stagnant growth for 2024. The Bank of Canada is expected to start cutting rates at the end of Q2 to give some breathing space to the faltering economy.

United States
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	1.9	(0.3)	3.1	0.3	0.5
Consumption	8.4	2.5	2.2	1.9	(0.5)	2.6	0.8	(0.1)
Residential construction	10.7	(9.0)	(10.7)	1.7	(0.2)	(0.0)	0.3	1.1
Business investment	5.9	5.2	4.4	1.1	(1.0)	4.1	(0.4)	(0.0)
Government expenditures	(0.3)	(0.9)	4.0	2.9	2.0	4.3	2.2	1.7
Exports	6.3	7.0	2.7	1.8	(0.9)	2.1	(0.2)	0.5
Imports	14.5	8.6	(1.7)	1.4	(0.4)	(0.2)	0.9	0.2
Change in inventories (bil. $)	12.5	128.1	50.6	35.0	5.0	82.7	0.0	35.0
Domestic demand	6.6	1.7	2.2	1.9	(0.1)	3.0	0.8	0.3
Real disposable income	3.2	(6.0)	4.2	1.7	1.0	4.2	1.3	1.2
Payroll employment	2.9	4.3	2.3	0.9	(1.2)	1.9	-0.2	-0.6
Unemployment rate	5.4	3.6	3.6	4.1	5.2	3.7	4.8	5.2
Inflation	4.7	8.0	4.1	3.1	2.4	3.2	2.8	2.2
Before-tax profits	22.6	9.8	0.2	(0.7)	1.1	-0.3	-2.8	4.9
Current account (bil. $)	(939.8)	(971.6)	(844.1)	(876.3)	(906.3)	...	...	...

** or as noted*

Financial Forecast**

	Current 2/09/24	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2023	2024	2025
Fed Fund Target Rate	5.50	5.50	5.50	5.00	4.50	5.50	4.50	3.25
3 month Treasury bills	5.24	5.40	5.30	4.75	4.20	5.20	4.20	3.15
Treasury yield curve								
2-Year	4.48	4.60	4.45	4.15	3.80	4.23	3.80	3.25
5-Year	4.14	4.25	4.15	3.90	3.60	3.84	3.60	3.40
10-Year	4.17	4.30	4.20	4.05	3.85	3.88	3.85	3.75
30-Year	4.37	4.45	4.35	4.25	4.05	4.03	4.05	4.00
Exchange rates								
U.S.$/Euro	1.08	1.05	1.03	1.02	1.01	1.10	1.01	1.07
YEN/U.S.$	149	148	143	140	138	141	138	129

*** end of period*

Quarterly pattern

	Q1 2023 actual	Q2 2023 actual	Q3 2023 forecast	Q4 2023 forecast	Q1 2024 forecast	Q2 2024 forecast	Q3 2024 forecast	Q4 2024 forecast
Real GDP growth (q/q % chg. saar)	2.2	2.1	4.9	3.3	2.3	0.8	(0.3)	(1.5)
CPI (y/y % chg.)	5.8	4.0	3.6	3.2	3.2	3.4	3.1	2.8
CPI ex. food and energy (y/y % chg.)	5.5	5.2	4.4	4.0	3.7	3.4	3.3	2.9
Unemployment rate (%)	3.5	3.6	3.7	3.7	3.7	3.9	4.2	4.8

National Bank Financial

Canada
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	1.1	0.0	1.3	0.9	0.1	1.9
Consumption	5.2	5.1	2.1	0.4	1.0	1.8	(0.0)	1.6
Residential construction	14.6	(12.1)	(10.1)	(0.3)	1.6	(3.4)	(0.5)	2.8
Business investment	8.7	4.0	1.0	(2.4)	0.4	0.6	(1.8)	1.5
Government expenditures	4.6	3.3	2.0	1.8	1.8	2.0	1.9	1.7
Exports	2.7	3.2	4.8	0.1	1.9	3.9	(0.2)	2.8
Imports	8.1	7.6	0.8	(0.2)	1.6	1.4	0.0	2.5
Change in inventories (millions $)	4,425	55,290	26,103	13,000	12,875	16,000	11,500	13,500
Domestic demand	6.1	2.8	1.0	0.5	1.2	1.4	0.3	1.8
Real disposable income	0.5	(0.1)	1.1	1.0	1.3	0.6	0.7	1.5
Employment	5.0	4.0	2.4	0.9	1.0	2.4	0.4	1.4
Unemployment rate	7.5	5.3	5.4	6.7	7.0	5.8	7.1	6.9
Inflation	3.4	6.8	3.9	2.6	2.2	3.2	2.2	2.2
Before-tax profits	33.2	14.7	(19.8)	(5.9)	4.9	(16.5)	(3.8)	6.8
Current account (bil. $)	0.4	(10.3)	(24.3)	(37.0)	(24.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 2/09/24	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2023	2024	2025
Overnight rate	5.00	5.00	4.75	4.25	3.75	5.00	3.75	2.75
Prime rate	7.00	7.00	6.75	6.25	5.75	7.00	5.75	4.75
3 month T-Bills	5.01	5.00	4.60	4.05	3.45	5.05	3.45	2.70
Treasury yield curve								
2-Year	4.21	4.20	4.00	3.65	3.25	3.89	3.25	2.80
5-Year	3.66	3.65	3.50	3.25	2.95	3.17	2.95	2.90
10-Year	3.55	3.55	3.45	3.25	3.00	3.11	3.00	3.05
30-Year	3.42	3.40	3.30	3.20	3.05	3.03	3.05	3.10
CAD per USD	1.35	1.38	1.41	1.43	1.45	1.32	1.45	1.38
Oil price (WTI), U.S.$	77	72	69	67	65	72	65	79

*** end of period*

Quarterly pattern

	Q1 2023 actual	Q2 2023 actual	Q3 2023 forecast	Q4 2023 forecast	Q1 2024 forecast	Q2 2024 forecast	Q3 2024 forecast	Q4 2024 forecast
Real GDP growth (q/q % chg. saar)	2.5	1.4	(1.1)	0.7	0.8	(1.0)	(1.1)	1.7
CPI (y/y % chg.)	5.2	3.5	3.7	3.2	3.3	2.7	2.0	2.2
CPI ex. food and energy (y/y % chg.)	4.8	4.0	3.4	3.4	3.4	2.8	2.3	2.1
Unemployment rate (%)	5.0	5.2	5.5	5.8	5.9	6.5	7.1	7.1

National Bank Financial

Provincial economic forecast

	Real GDP (% growth) 2020	2021	2022	2023f	2024f	2025f	Nominal GDP (% growth) 2020	2021	2022	2023f	2024f	2025f
Newfoundland & Labrador	-4.8	1.0	-1.7	0.7	-0.3	0.1	-10.2	18.5	6.8	0.1	0.3	2.9
Prince Edward Island	-3.0	8.4	2.9	1.8	0.4	1.0	0.3	14.9	9.3	3.1	2.5	3.2
Nova Scotia	-4.5	5.9	2.9	1.3	0.3	0.8	-1.4	10.0	7.1	2.5	2.1	2.8
New Brunswick	-3.6	5.3	1.1	0.8	0.1	0.6	-1.8	10.9	7.4	1.9	2.0	2.6
Quebec	-4.7	6.7	2.5	0.4	-0.1	1.0	-1.8	11.6	8.4	3.2	1.9	3.2
Ontario	-4.5	5.4	3.9	1.2	-0.2	1.4	-2.1	9.8	9.2	3.8	1.7	3.1
Manitoba	-4.1	1.3	3.3	1.3	0.3	1.3	-2.2	9.2	8.6	3.0	1.9	2.8
Saskatchewan	-4.3	-0.7	6.0	1.6	0.5	1.5	-8.0	13.9	29.2	2.5	0.9	2.5
Alberta	-7.8	4.6	5.0	1.8	0.6	1.8	-14.4	24.9	22.0	-0.9	1.1	5.3
British Columbia	-3.1	7.1	3.8	0.9	0.0	1.2	-0.5	15.8	11.0	0.8	1.2	2.8
Canada	-5.3	5.3	3.8	1.1	0.0	1.3	-4.6	13.4	11.8	2.3	1.5	3.4

	Employment (% growth) 2020	2021	2022	2023f	2024f	2025f	Unemployment rate (%) 2020	2021	2022	2023f	2024f	2025f
Newfoundland & Labrador	-6.4	3.6	4.3	1.7	0.8	0.3	14.5	13.1	11.2	9.9	10.6	10.8
Prince Edward Island	-3.5	4.2	5.3	5.7	3.0	1.5	10.7	9.9	7.5	7.4	9.2	9.3
Nova Scotia	-4.6	5.6	3.6	2.7	2.4	0.9	9.9	8.6	6.6	6.4	7.3	7.9
New Brunswick	-3.0	3.2	2.7	3.4	1.5	1.0	10.3	9.1	7.2	6.6	7.2	7.5
Quebec	-5.4	4.4	3.1	2.3	0.4	0.7	8.9	6.1	4.3	4.4	5.6	5.9
Ontario	-5.4	5.2	4.6	2.4	0.5	1.1	9.8	8.1	5.6	5.7	7.3	7.6
Manitoba	-4.3	3.7	3.2	2.5	2.3	1.2	8.2	6.4	4.5	4.8	5.1	5.3
Saskatchewan	-5.0	2.6	3.5	1.8	1.4	1.3	8.3	6.5	4.7	4.8	5.3	5.5
Alberta	-7.0	5.5	5.2	3.6	2.0	1.4	11.4	8.5	5.8	5.9	7.4	7.5
British Columbia	-6.2	6.2	3.1	1.6	1.3	0.9	9.1	6.5	4.6	5.2	6.1	6.4
Canada	-5.6	5.0	4.0	2.4	0.9	1.0	9.7	7.5	5.3	5.4	6.7	7.0

	Housing starts (000) 2020	2021	2022	2023f	2024f	2025f	Consumer Price Index (% growth) 2020	2021	2022	2023f	2024f	2025f
Newfoundland & Labrador	0.8	1.1	1.5	1.0	1.0	1.2	0.2	3.7	6.4	3.3	2.7	2.1
Prince Edward Island	1.1	1.2	1.0	0.9	0.9	1.2	0.0	5.1	8.9	2.9	2.3	2.2
Nova Scotia	4.9	6.0	5.6	7.2	7.0	6.8	0.3	4.1	7.5	4.0	2.0	2.2
New Brunswick	3.6	3.9	4.7	4.9	4.5	4.3	0.2	3.8	7.3	3.5	2.9	2.2
Quebec	53.8	69.4	58.2	39.7	42.0	52.5	0.8	3.8	6.7	4.5	2.8	2.2
Ontario	81.2	100.4	96.1	90.0	87.0	96.7	0.6	3.5	6.8	3.8	2.6	2.2
Manitoba	7.3	8.0	8.1	7.1	6.8	8.0	0.5	3.2	7.9	3.6	3.1	2.2
Saskatchewan	3.1	4.3	4.2	4.6	4.5	4.8	0.6	2.6	6.6	3.9	3.2	2.2
Alberta	24.2	31.9	36.4	35.9	34.5	38.4	1.1	3.2	6.5	3.3	2.8	2.2
British Columbia	38.0	47.6	46.7	50.6	50.5	52.5	0.8	2.8	6.9	4.0	2.8	2.2
Canada	218.0	273.8	262.5	241.8	238.7	266.4	0.7	3.4	6.8	3.9	2.6	2.2

e: estimate f: forecast

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

Economics and Strategy

Montreal Office
514 879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@bnc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@bnc.ca

Kyle Dahms
Economist
kyle.dahms@bnc.ca

Daren King, CFA
Economist
daren.king@bnc.ca

Jocelyn Paquet
Economist
jocelyn.paquet@bnc.ca

Alexandra Ducharme
Economist
alexandra.ducharme@bnc.ca

Angelo Katsoras
Geopolitical analyst
angelo.katsoras@bnc.ca

Toronto Office
416 869-8598

Warren Lovely
Senior Strategist, Interest Rates and Public Sector
warren.lovely@bnc.ca

Taylor Schleich
Strategist, Interest Rates
taylor.schleich@bnc.ca