Monthly Economic Monitor
Economics and Strategy

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

December 2023/January 2024

Summary

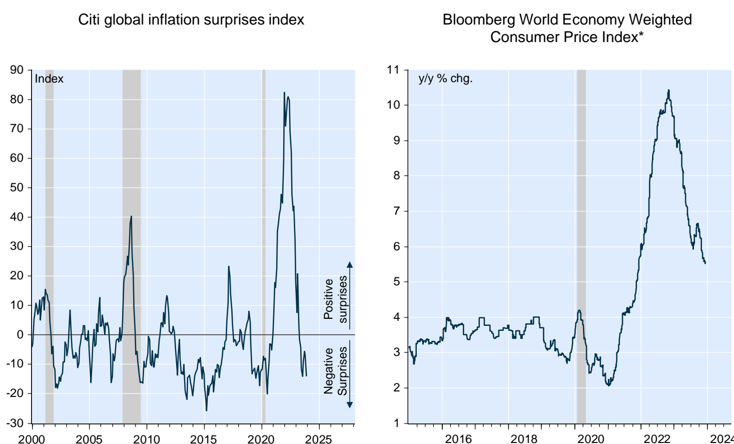
By Matthieu Arseneau, Jocelyn Paquet and Daren King

- The marked slowdown in inflation is certainly one of the trends that has attracted the most attention worldwide in recent weeks. It's true that part of this decline reflects a significant drop in oil prices (of the order of 40% since March), which economists tend to exclude from their calculations to get an idea of the underlying pressure on prices. But as this price decline has occurred despite the significant reduction in OPEC+ production quotas, we believe it should be taken into account, as it reflects the other main factor that has led to lower price growth of late: the temporization of global growth. Although the slowdown is being felt most acutely in the eurozone, other regions of the world are also experiencing difficulties, notably China. In this context, we see no reason to alter our below-consensus global growth scenario. After expanding by 3.1% this year, world GDP should grow by just 2.3% next year and 2.6% in 2025.
- Several reliable indicators of economic activity suggest that growth in the U.S. is not as robust as GDP data would suggest? These include gross domestic income (GDI), the composite PMI index published by S&P Global, and total hours worked as computed in the Bureau of Labor Statistics' establishment survey. The Conference Board's index of leading economic indicators, meanwhile, points to an economic contraction in 2024, a scenario in line with our own forecasts. Of course, the Fed's violent monetary tightening in recent months is likely to be the main factor behind the slowdown in growth. Its effects are already being felt in several sectors of the economy. After a fairly solid end to 2023, we therefore expect a marked slowdown in activity in early 2024. This deceleration should enable the Fed to proceed with rate cuts, but we believe these will come too late to prevent a few quarters of negative growth next year.
- For the third time in a row, the Bank of Canada decided to keep the policy rate unchanged in December but stated that the committee "is still concerned about risks to the outlook for inflation and remains prepared to raise the policy rate further if needed". Why was the bank reluctant to signal that rate hikes are now a thing of the past, when inflation data is cooperating, and signs of a weakening economy are multiplying? Could it be that it didn't want investors to get carried away by anticipating more rate cuts, leading to an easing of financial conditions in the long end of the yield curve that could stimulate growth? We do not share these fears. Although the 5-year interest rate has fallen, it remains high, particularly in real terms. Overall, we expect the environment to remain difficult in 2024, as the economy has yet to feel the full effects of past rate hikes. We expect the Canadian economy to contract in the first half of the year, resulting in a decline of 0.2% for the year. Progress on the inflation front should enable the Bank of Canada to cut rates by 175 basis points in 2024 to give some breathing space to a faltering economy.

World: Inflation falls… so does demand

The marked slowdown in inflation is certainly one of the trends that has attracted the most attention worldwide in recent weeks. And with good reason. Not only have the latest data on price rises fallen short of consensus expectations, but the global CPI, as calculated by Bloomberg, has fallen sharply, from 10.4% a year ago to around 5.5% at the latest reading.

World: Inflation has eased materially



*Based on the most recent CPI YoY readings for countries accounting for 98% of the global economy and their corresponding weight in Global GDP on a PPP basis.
NBF Economics and Strategy (data via the Bloomberg)

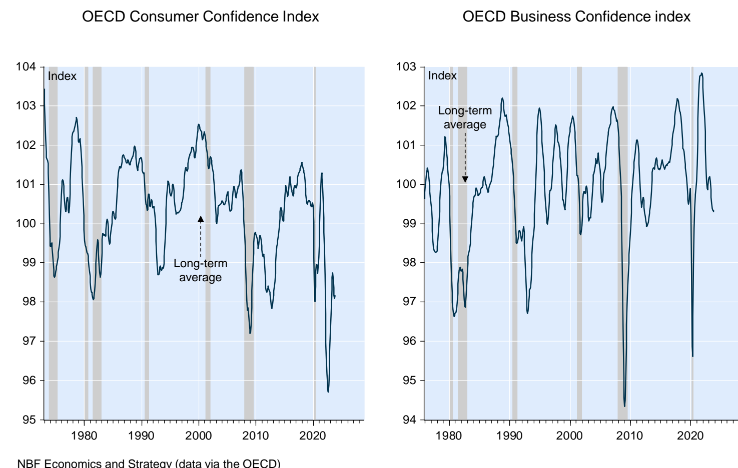
It's true that part of this drop reflects a significant fall in oil prices (of the order of 40% since March), which economists tend to exclude from their calculations to get an idea of the underlying pressure on prices. But as this drop in oil prices has occurred despite the significant reduction in OPEC+ production quotas, we think it should be taken into account, as it reflects the other main factor that has led to lower price growth of late: the temporization of global growth.

World: Oil prices trending down despite OPEC cuts
Price of a barrel of brent oil

NBF Economics and Strategy (data via Bloomberg)

Of course, a slowdown in demand is exactly what central banks have been trying to provoke by raising interest rates, but as it takes a long time for the impact of monetary policy to be reflected in the economy, some are now wondering whether policymakers have overdone it. What is certain is that, in the advanced economies, monetary tightening has severely undermined confidence, first among consumers and, more recently, among businesses.

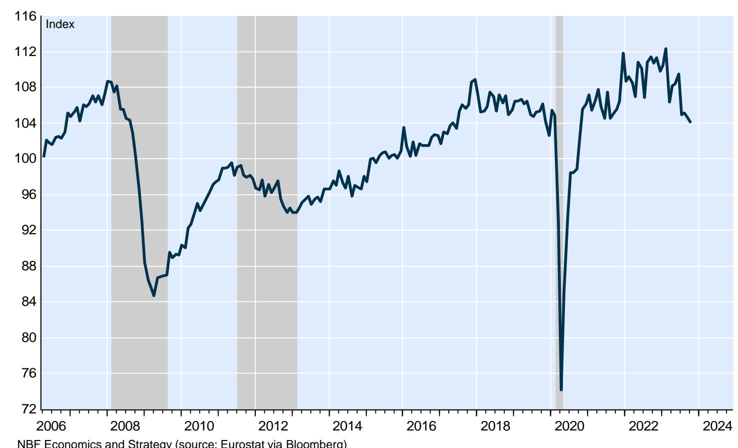
OECD: Rate hikes weighing on confidence



NBF Economics and Strategy (data via the OECD)

How this loss of confidence translates into economic difficulties varies from region to region, but it seems to have done the most damage in the eurozone. This is partly because this region's economy is more dependent on the manufacturing sector, which has been suffering for some time from a significant drop in global demand for goods.

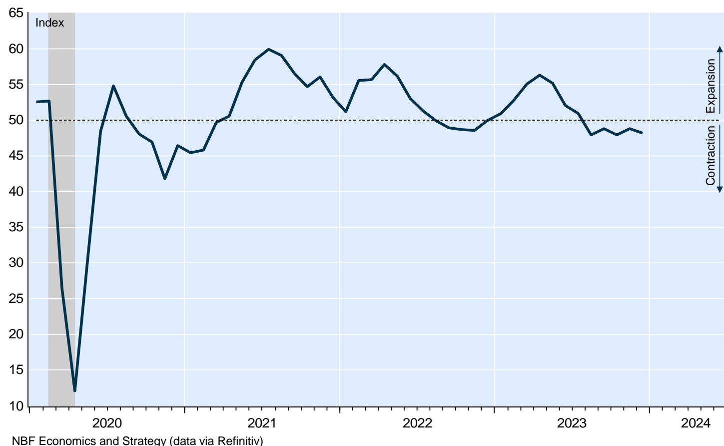
Eurozone: Weakness in the goods sector…
Manufacturing production



NBF Economics and Strategy (source: Eurostat via Bloomberg)

But the problems of the single currency zone don't stop there. With the tourist season now over, it's the services sector that seems to be losing out, as evidenced by the non-manufacturing PMI index published by S&P Global. The latter has remained below the 50-point mark separating expansion from contraction for the past five months, weighed down by a sharp fall in new business.

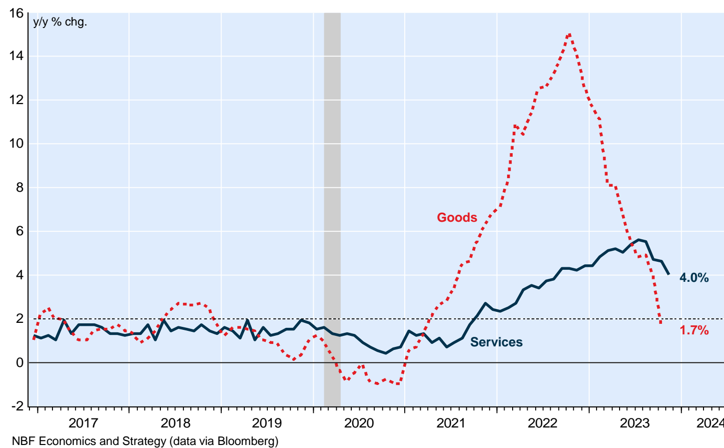
… seems to be spreading into services
HCOB Flash Services PMI. Last observation: December 2023



NBF Economics and Strategy (data via Refinitiv)

And with the European Central Bank still refusing to openly discuss the possibility of rate cuts in 2024, things are likely to get worse before they get better. At the press conference following the ECB's latest monetary policy decision, President Christine Lagarde did indeed see fit to calm the market's ardor, which anticipates a first easing in March. While acknowledging that the inflation context had improved, she declared that there was still "work to be done" and that it was not yet time for the central bank to lower its guard. It's hard to argue with her when services inflation is still double the central bank's target.

Eurozone: Services inflation keeping the ECB honest
Harmonized Index of Consumer Prices

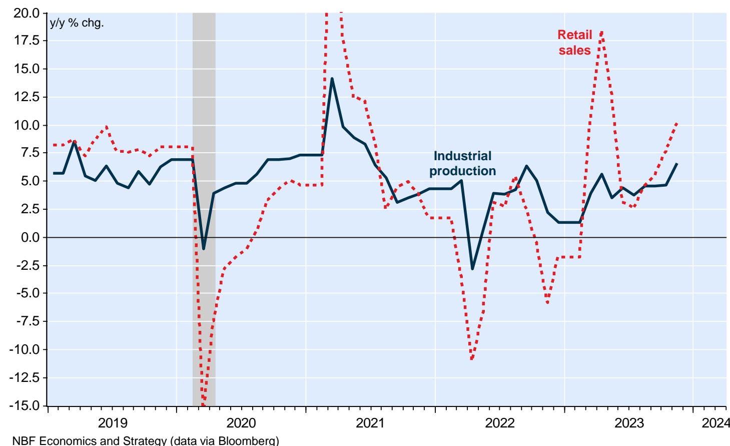


NBF Economics and Strategy (data via Bloomberg)

But given that the full effects of monetary tightening are yet to be felt, and that the economy has already weakened significantly, we expect the eurozone to slip into recession in the final quarter of 2023 or early in 2024.

Although slightly more favorable, the outlook for emerging economies is not very bright either. In this case, it's not the central banks that are to blame, but the sluggish Chinese economy. In a sign that an improvement may be on the horizon, industrial production and retail sales exceeded consensus expectations in November.

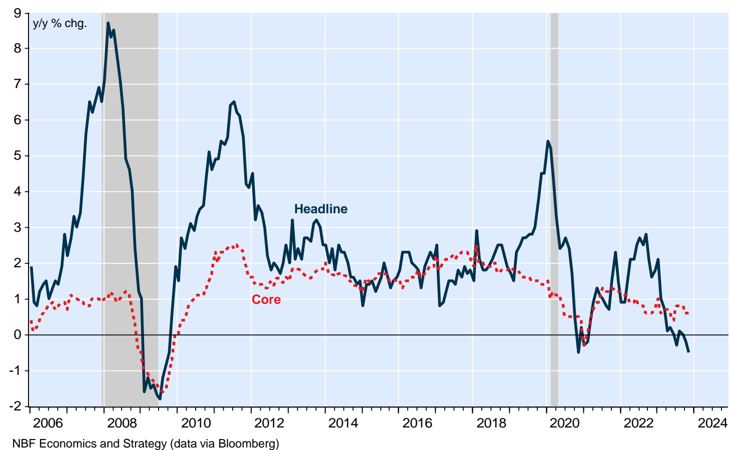
China: Official data show signs of a recovery…
Industrial production and retail sales



NBF Economics and Strategy (data via Bloomberg)

However, we would be wary of attributing much value to 12-month data referencing November 2022, as it was during this month that COVID cases had begun to rise rapidly, hampering economic activity. Moreover, other data show no signs of a strong rebound. This is particularly true of the consumer price index, which remains in deflationary territory, a likely reflection of persistently depressed demand.

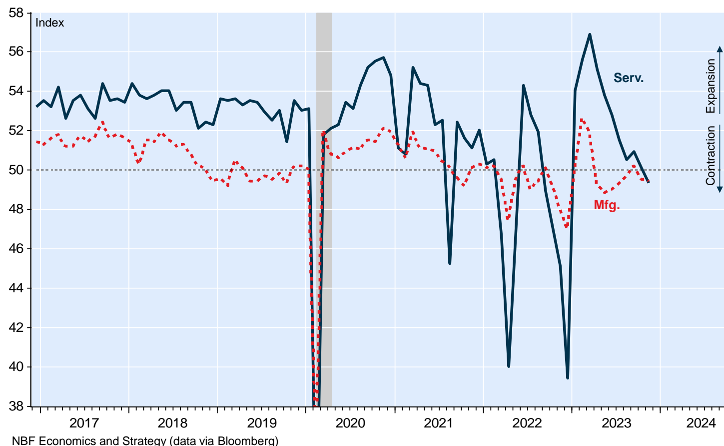
… but deflation still hints at soft demand
Consumer Price Index



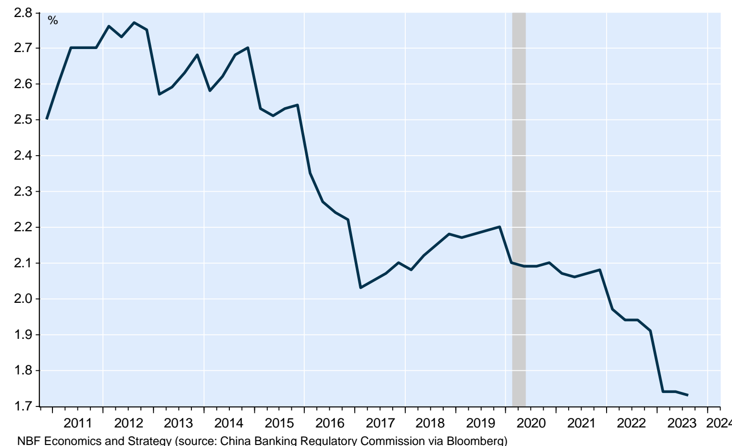
NBF Economics and Strategy (data via Bloomberg)

The same is true of the PMI index published by the National bureau of Statistics, which showed a contraction in activity in November in both the manufacturing and service sectors.

China: Is the economy really bouncing back?
National Bureau of Statistics PMI. Last observation: November 2023



China: Bail outs do not come free
Net interest margin for Chinese banks

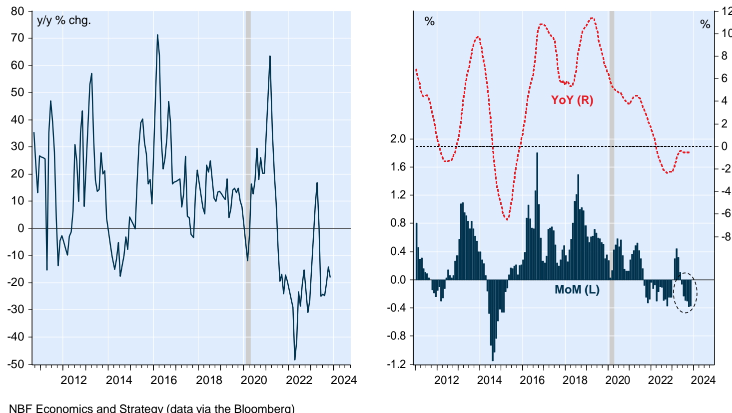


You don't have to look far to find what's wrong with the Chinese economy: it's real estate. Despite a series of measures announced by the government to stabilize the market, residential sales are still well below their levels a year ago, and new home prices continue to fall.

China: Real estate sector remains a major concern

Sales of residential properties (square metres)

New-home prices



Meanwhile, developers' balance sheets continue to deteriorate. In an attempt to halt the vicious cycle of defaults, the central government is now asking banks to grant loans to those developers deemed most likely to survive the crisis. The idea is that these could eventually absorb their struggling competitors. This strategy may work in the short term, but it also risks shifting the problem elsewhere. Remember that, in recent years, China has relied heavily on banks to support certain sectors of the economy deemed neuralgic, but in which profits are slim/negative. The result has been a steady decline in the margins of financial institutions. Bailing out a sector as huge as real estate would only exacerbate the banks' profitability problem, which could ultimately reduce the credit available for other, more profitable sectors and harm long-term growth.

We're not the only one worrying either. Last month, Moody's assigned a negative outlook to China's credit rating, citing the heightened risks associated with structurally and sustainably weaker economic growth in the medium term and problems in the real estate sector.

With the eurozone on the brink of a recession and China still struggling to revive its economy on a more sustainable basis, we have decided to maintain our below-consensus global growth forecast for 2024. After growing by 3.1% this year, the global economy is set to expand by just 2.3% next year and 2.6% in 2025.

World Economic Outlook

	2023	2024	2025
Advanced Economies	**1.6**	**0.4**	**0.7**
United States	2.5	0.9	0.2
Eurozone	0.5	-0.5	0.4
Japan	1.9	0.4	0.7
UK	0.5	-0.4	0.7
Canada	1.1	-0.2	1.4
Australia	1.9	1.1	1.8
Korea	1.3	1.4	1.9
Emerging Economies	**4.1**	**3.7**	**3.9**
China	5.2	4.5	4.5
India	6.5	6.0	6.0
Mexico	3.4	1.2	1.7
Brazil	3.0	1.4	1.9
Russia	3.0	1.5	1.0
World	**3.1**	**2.3**	**2.6**

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

United States: A challenging year ahead?

This month, we begin our assessment of the U.S. economy by citing a source often overlooked by economists: the Federal Reserve's Beige Book. While we agree that this publication is not the most exciting to read, it nevertheless offers a good overview of the economic situation prevailing in the various regions of the

United States. The national summary on the first page of each edition is also a good tool for tracking the economy over time, as the history of the survey goes back to 1970. And by historical standards, the comments contained in the most recent edition of this publication struck us as rather negative. The first lines of the report read:

> "On balance, economic activity slowed since the previous report, with four districts reporting modest growth, two indicating conditions were flat to slightly down, and six noting slight declines in activity."[1]

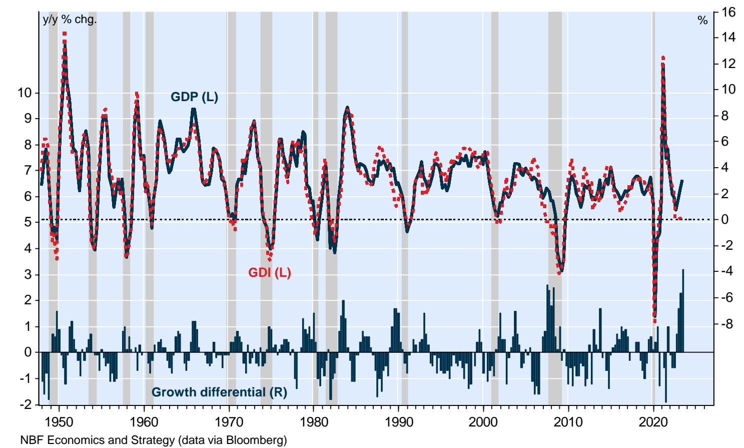
To the uninitiated, these comments may seem trivial. Is it not normal for some districts to report modest growth, while others report a slight contraction? The answer to this question is that growth as poorly diffused geographically as that reported in November by the Beige Book is in fact extremely rare outside periods of recession. To find a characterization of the economy similar to the one quoted above, we have to go back to the editions published during the darkest months of the pandemic or, before that, during the great recession of 2007-2009. In the latter case, it wasn't until March 2008 - four months after the start of what would turn out to be one of the worst recessions of the century - that the Beige Book painted as bleak a picture as it did in November 2023:

> "Reports from the twelve Federal Districts suggest that economic growth has slowed since the beginning of the year. Two-thirds of the Districts cited softening or weakening in the pace of business activity, while the others referred to subdued, slow, or modest growth."[2]

Of course, the similarities between today's language and that of 2008 don't mean that the U.S. economy is already in recession, let alone that it's about to go through the same kind of ordeal as it did then; other indicators relating to the labor market and consumer spending remain too robust for that to be the case. But could it be that growth isn't as robust as the GDP data suggest?

To answer this question, we need to look at other reliable measures of activity, and we have to admit that several of them seem consistent with an economy that is growing more slowly than the 5.2% annualized pace announced in the third-quarter GDP report. Starting with gross domestic income, or GDI. Our more erudite readers may recall that there are two main ways of assessing the size of an economy: by adding up the expenditure of all economic agents (GDP) or by aggregating all their income (GDI). In theory, these two methods should converge over the long term, but the fact that they are based on different data sources means that they often diverge slightly from one quarter to the next. Such divergence was in fact observed in Q3, when GDI grew at a much slower annualized rate than GDP (1.5% vs. 5.2%). This discrepancy would not merit our attention were it not for the fact that it followed three other quarters of superior GDP performance. Indeed, far from converging, these two measures of economic activity seem to have diverged more and more over the past year, to such an extent that GDP is now showing year-on-year growth of 3.0%, while GDI is showing a slight contraction. Never in their 75-year history have these series sent out such contradictory messages.

U.S.: Two measures, two different stories
Gross domestic product vs. gross national income



NBF Economics and Strategy (data via Bloomberg)

So which measure should we trust? Both, according to a recent study by the Federal Reserve Bank of St. Louis:

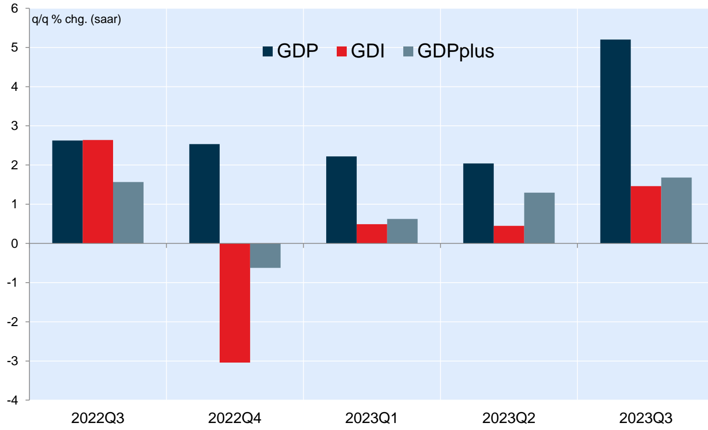
> "For now, GDP remains the prominent measure of output cited by both the media and policymakers. In the end, however, it may be prudent to use both series (or perhaps a measurement combining both) to measure output."[3]

This conclusion is based on the idea that both GDP and GDI are subject to statistical error, but that studying these measures together can help minimize these errors and paint a more accurate picture of economic activity.

Not stopping at simple recommendations, the Fed has developed a measure whose precise purpose is to combine the results of GDP and GDI. This measure, known as GDPplus, relies on a complex statistical filter[4] to smooth out variations in the two series and thus obtain a less volatile, joint indicator. And what does this indicator say today? Firstly, it confirms that the U.S. economy is not in recession, which is no surprise. But it also indicates that growth has been much less vigorous recently than GDP would suggest. Indeed, GDPplus grew at an annualized rate of just 1.2% on average over the first three quarters of the year.

[1] https://www.federalreserve.gov/monetarypolicy/beigebook202311.htm
[2] https://www.federalreserve.gov/fomc/beigebook/2008/20080305/default.htm
[3] https://www.stlouisfed.org/on-the-economy/2016/march/better-measurement-output-gdp-gdi
[4] Kalman filter

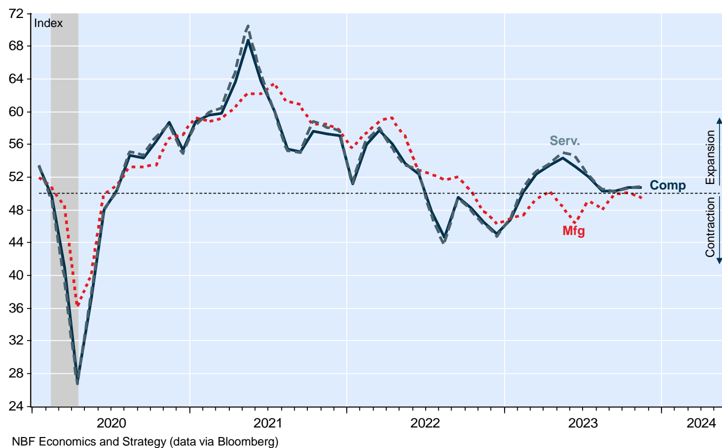
U.S.: Economic growth likely weaker than GDP implies, still decent
Gross Domestic Product, vs. Gross Domestic Income vs. GDPplus



NBF Economics and Strategy (data via Bloomberg)

This rate of growth seems much more in line with other proven indicators of economic activity, such as the composite PMI index published by S&P Global...

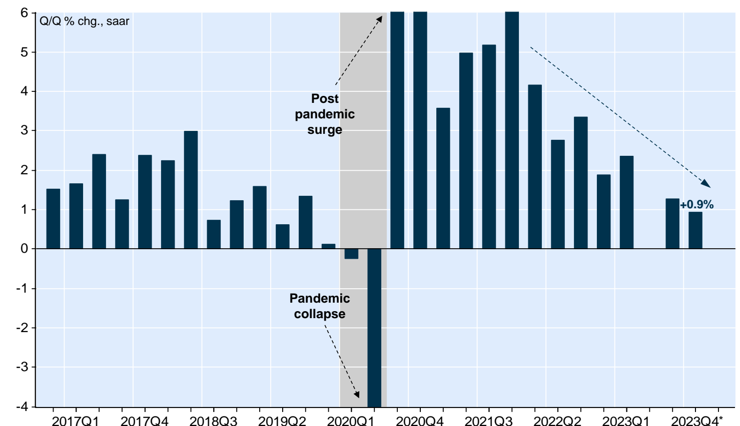
U.S.: PMI index consistent with only modest growth...
S&P Global Composite PMI



NBF Economics and Strategy (data via Bloomberg)

... or total hours worked as published in the Bureau of Labor Statistics' establishment survey.

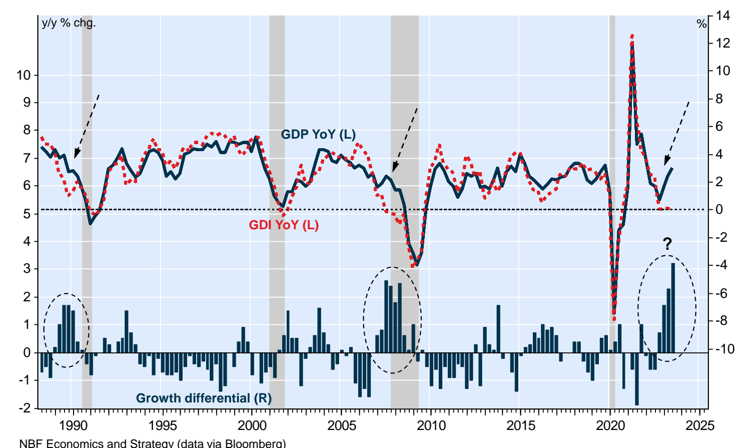
... as are total hours worked
Aggregate hours worked



*With one months of data still to come
NBF Economics and Strategy (data via Bloomberg)

While it's useful to have a measure like GDPplus to get a better idea of the current state of the economy, what's of particular interest to us as economic forecasters is how the economy will evolve in the months ahead. And there's every reason to believe that, at this stage of the cycle, we should be looking to the GDI for a better idea of what lies ahead. Because when it comes to signalling a late-cycle economic slowdown, it seems that GDI trumps GDP. At least, that's the conclusion reached by Jeremy Nailwaik, a Fed economist who demonstrated in a paper the superiority of GDI in signalling the onset of a recession[5]. A quick look at the data seems to corroborate his conclusions, as GDI slowed much faster than GDP in the run-up to the 1990-1991 and 2007-2009 recessions.

U.S.: Is GDI a better leading indicator of economic turning points?
Gross domestic product vs. gross national income



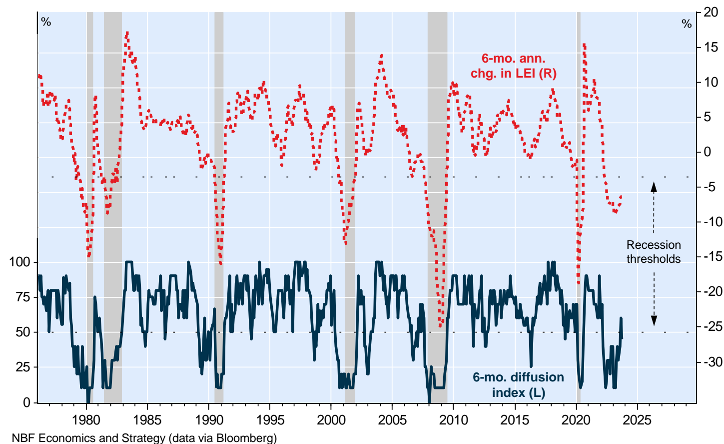
NBF Economics and Strategy (data via Bloomberg)

But our well-below-consensus growth forecast for 2024 is not based solely on blind faith in the predictive power of GDI; other indicators suggest that the U.S. economy is heading for a period of contraction. These include the Conference Board's Index of Leading Economic Indicators (LEI). Historical analysis reveals that an annualized decline of 3.5% in this index over six months,

[5] Nalewaik, Jeremy J., "Estimating Probabilities of Recession in Real Time Using GDP and GDI", https://www.federalreserve.gov/pubs/feds/2007/200707/index.html

combined with a diffusion index of less than 50%, generally heralds a coming recession. Unfortunately, both these conditions were present in October. 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.

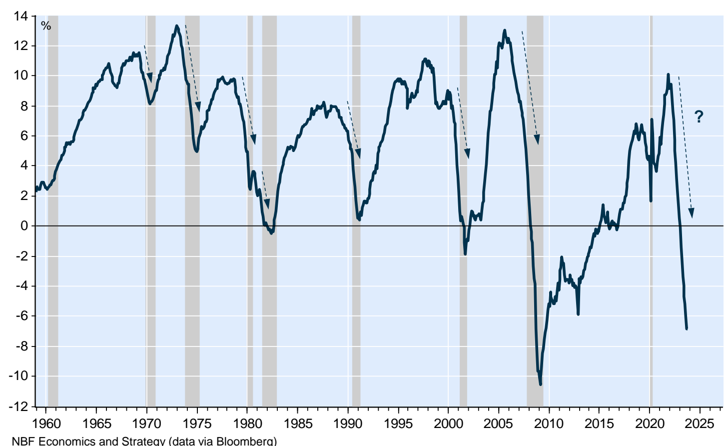
U.S.: Leading indicators signal downturn ahead
Leading Economic Indicator and diffusion index. Last observation: October 2022



NBF Economics and Strategy (data via Bloomberg)

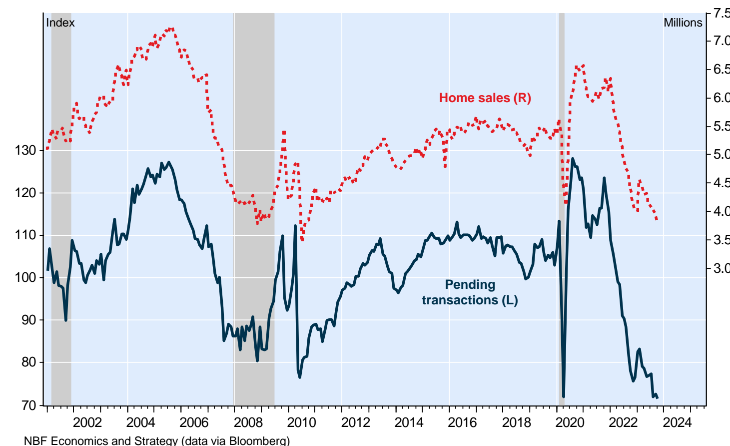
It's also interesting to note how quickly the LEI has recently weakened in relation to the Index of Coincident Economic Indicators (CEI) also published by the Conference Board. Conceptually, this suggests that future growth will be much less vigorous than current growth, and historically this has been the case, with recessions almost invariably following periods in which the LEI deteriorated relative to the CEI.

U.S.: Future growth seen as much less vigorous than current growth
Leading Economic Indicator – Coincident Economic Indicator (Conference Board)


NBF Economics and Strategy (data via Bloomberg)

Of course, it is the Fed's violent monetary tightening in recent months that is likely to be the main factor behind the slowdown in growth reported by the LEI. Its effects are already being felt in several sectors of the economy. The real estate market, for example, seems completely paralyzed by rising borrowing costs, with resales slipping to their lowest level in 13 years in October and pending transactions falling to record lows.

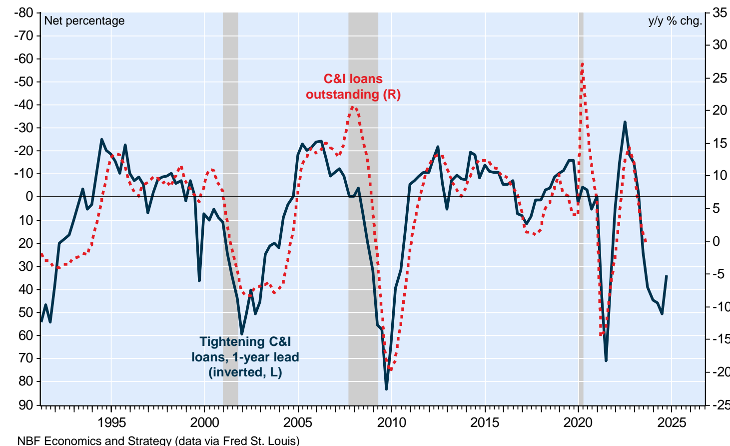
U.S.: Resale market paralyzed by higher borrowing costs
Existing-home sales vs. pending home sales



NBF Economics and Strategy (data via Bloomberg)

Business investment is also feeling the effects of rising interest rates, as evidenced by a third decline in machinery and equipment spending in four quarters in Q3. This is hardly surprising, given that lending conditions have tightened considerably, restricting credit availability in the commercial and industrial sectors.

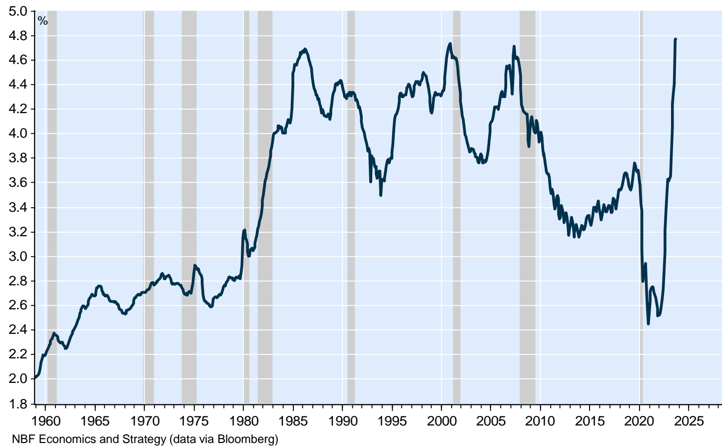
U.S.: Tighter credit conditions weighing on bank lending to businesses
Commercial and industrial loans outstanding (all commercial banks) vs. net percentage of domestic banks tightening standards for commercial and industrial loans according to the SLOOS



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

Even consumers, hitherto partially protected from the effects of rate hikes by the popularity of fixed-rate mortgage products in the U.S., are beginning to show signs of weakness, caught up by the soaring costs of servicing non-mortgage debt.

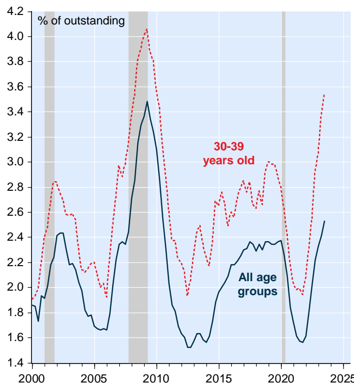
U.S.: Rising interest rates taking a bite out of income
Non-mortgage interest payments as a share of wage/salary income



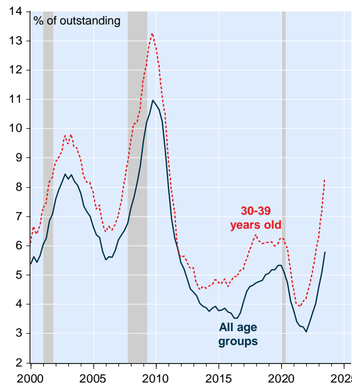
Many people are struggling to pay off their car loans and credit cards.

U.S.: Consumers finding it increasingly difficult to service their debt

Percentage of auto loans transitioning into serious delinquency (90+ days)



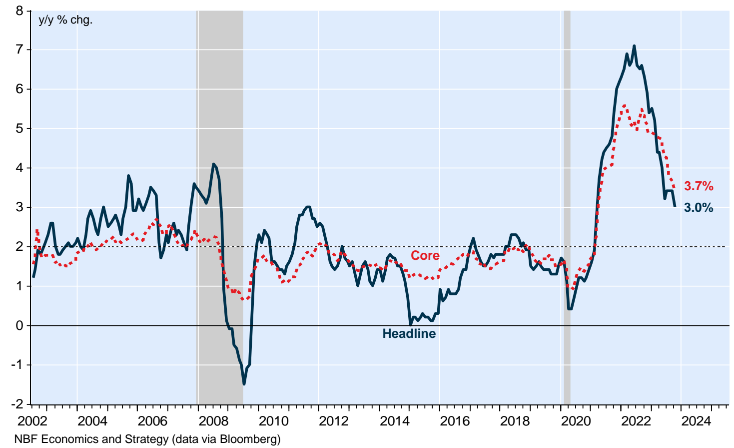
Percentage of credit card loans transitioning into serious delinquency (90+ days)



NBF Economics and Strategy (data via Bloomberg)

And while some may take solace from the fact that the Fed now seems much more open to the possibility of rate cuts in 2024 - a scenario that would obviously ease the pressure on economic agents - we're much more concerned about the evolution of real key rates between now and when these cuts materialize. The sharp fall in inflation seen recently means that they are already at their highest level since 2007. And they are likely to rise further in the coming months if economists' forecasts of a further easing in price pressures prove correct.

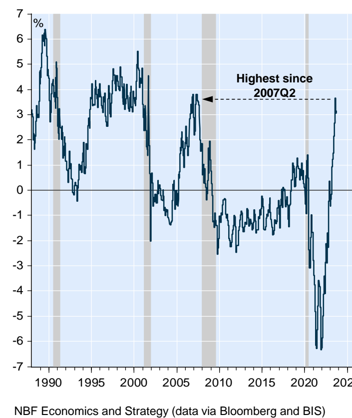
U.S.: Lower inflation has raised hopes to see rate cuts next year…
Personal consumption expenditures deflator (PCE)



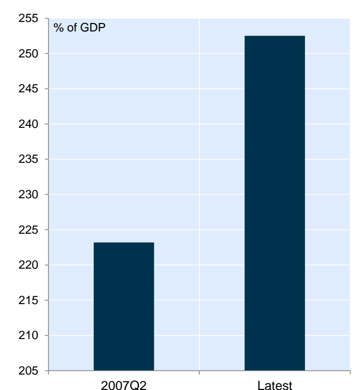
These high real rates are likely to cause a few headaches for economic agents who had taken advantage of low borrowing costs to increase their debt levels. Governments and corporations seem particularly at risk in this context.

… but in the meantime, it is translating into higher real policy rates

Fed funds rate deflated using the 3-month annualized rate of core PCE deflator



Credit to the non-financial sector



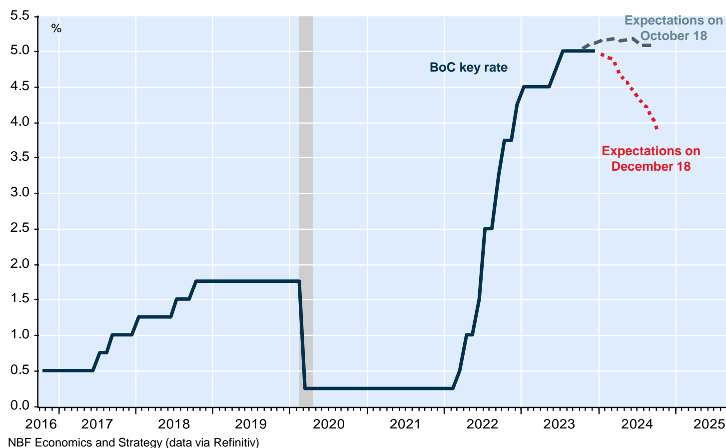
So after a fairly solid end to 2023, we expect growth in the U.S. to slow markedly in early 2024. This deceleration should enable the Fed to make rate cuts, but we believe these will come too late to prevent a few quarters of negative growth next year. The economy could still manage to grow by 0.9% over the year as a whole due to a positive base effect.

Canada: The next year is strewn with pitfalls

For a third time in a row, the Bank of Canada has decided to leave the policy rate unchanged in December. As with the previous two decisions, the Bank reiterated that the Committee " is still concerned about risks to the outlook for inflation and remains prepared to raise the policy rate further if needed". The central bank's determination continues to surprise us against a backdrop of recently cooperating inflation data and increasing

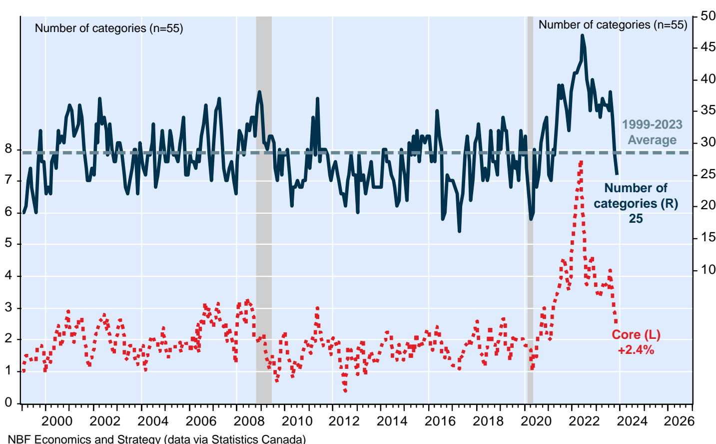
signs of economic weakness. Moreover, this turn of events has convinced investors that the next move in rates will not be up, but rather down, in the coming months.

Canada: When is the first rate cut?
Policy rate and market expectations according to the interest-rate swap market



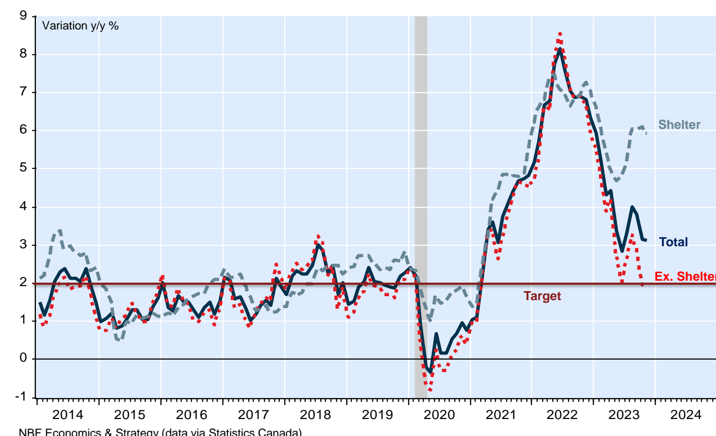
In November, annual inflation remained unchanged at 3.1%, surprising economists on the upside due to specific components such as travel tours and shelter. The Bank of Canada's preferred measures of core inflation (CPI-Trim and CPI-Median) also surprised on the upside, both rising by 0.29% month-on-month. While this rate is still too high in the eyes of the central bank, it's important to remember that progress on inflation will not necessarily be linear. That's why we think it's best to look at the trend over the last three months to assess the current situation. On this basis, CPI-Trim and CPI-Median show an average annualized rate of 2.4%, the lowest since February 2021 and comfortably within the central bank's target range (1-3%). This development came on the back of a generalized improvement, as only 25 core CPI categories recorded growth above 2.0% (out of 55 components in total), down from the recent peak of 47 and below the historical average.

Canada: Widespread moderation in prices
Average of the 3-m ann. chg. in CPI-trim and CPI-median and categories (n=55) that have increased 2% or more



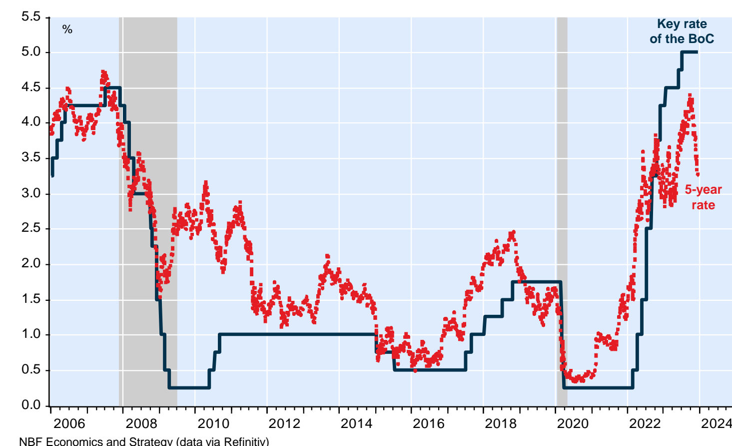
While annual inflation for the whole consumer basket now stands at 3.1%, a closer analysis of the data reveals an even better reality. Indeed, the situation would be even more favorable were it not for the increase in the shelter component, which is rising at a rate of 6.0% year-on-year. While the central bank is responsible for the increase in mortgage interest costs for homeowners, the rise in rental prices is attributable to the staggering increase in population. Excluding the shelter component, inflation is only 1.9%, indicating that the tightening of monetary policy has already had an impact on a significant part of the household consumption basket.

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



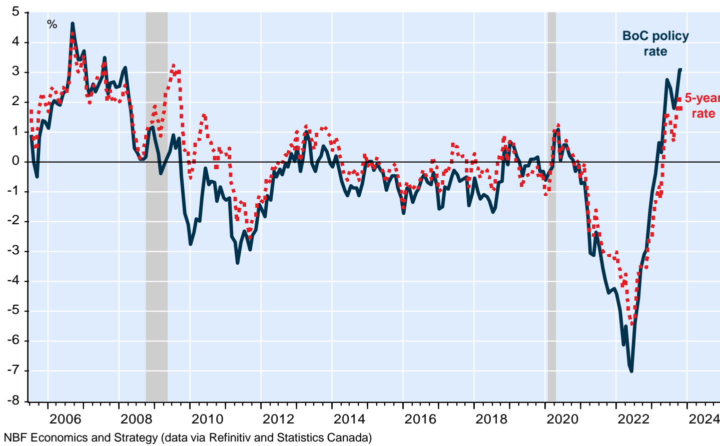
So why did the bank hesitate to make it known that rate hikes are now a thing of the past? Could it be that it didn't want investors to get carried away by anticipating further rate cuts, leading to an easing of financial conditions in the long end of the yield curve? Already, five-year government bond yields have fallen sharply in anticipation, leading some to fear a boost to growth and renewed inflationary pressures.

Canada: Sharp decline in 5-year bond yields
Policy rate and 5-year federal bond rate



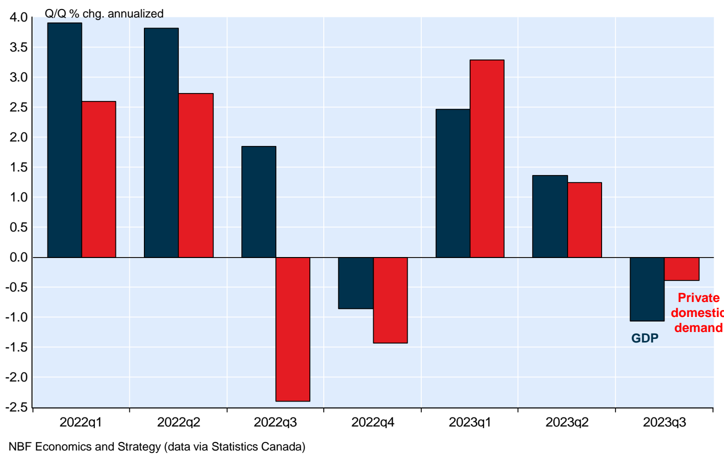
We beg to differ. The 5-year interest rate may have fallen, but it remains high, in the range observed from mid-2022 to mid-2023. What's more, the picture changes if we factor in progress on the inflation front and consider 5-year rates in real terms to determine the potential impact on the economy. In doing so, we note that they remain higher than over the same period, and well above the average of the last ten years.

Canada: In real terms, interest rates remain very restrictive
Policy rate and 5-year federal bond rate in real terms (adjusted for inflation excluding shelter)



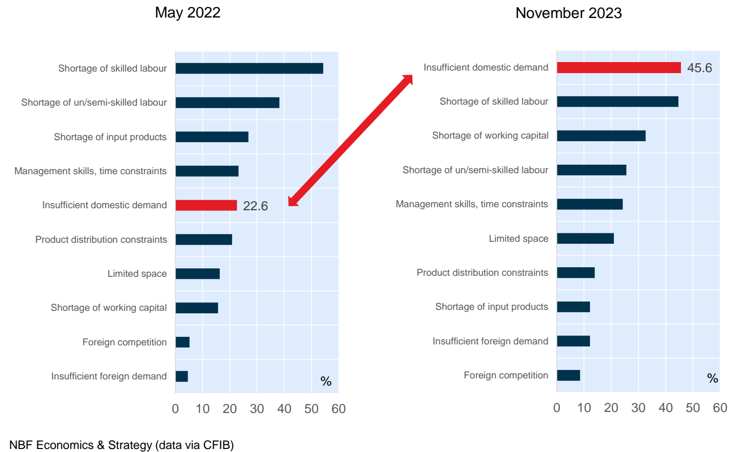
In such a context, signs of an economic slowdown have been multiplying. Indeed, third-quarter GDP data came in below economists' consensus expectations, showing outright contraction, notably due to a drop in private domestic demand. Consumption stagnated for the second quarter in a row, a stinging setback in the current demographic context characterized by record population increases. GDP per capita recorded an annualized contraction of 4.4% during the quarter, unprecedented outside a recession.

Canada: Private domestic demand contracted in Q3
Gross domestic product and private final domestic demand



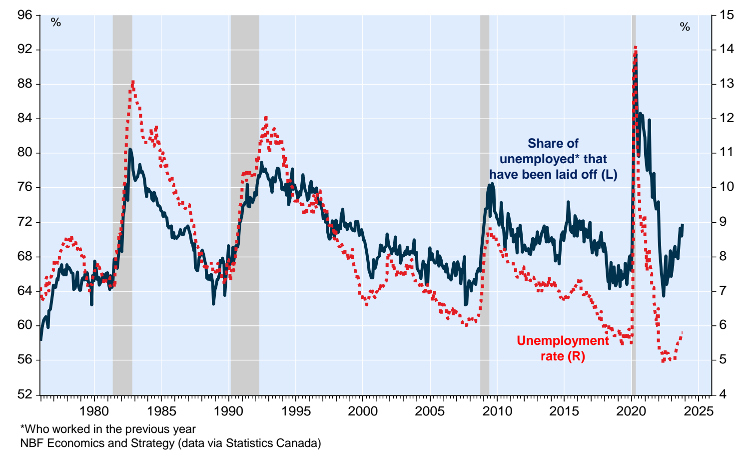
Monthly momentum with GDP growth in September and October (preliminary data) means that Canada can avoid a second consecutive contraction in the fourth quarter. But what comes next may be less enviable. According to data just released by CFIB, SME confidence continues to deteriorate to recessionary levels, with domestic demand now the main concern of business owners (rather than labour shortages).

Canada: Concerns have changed drastically in 18 months
Factors hampering ability to increase sales or production, according to SME

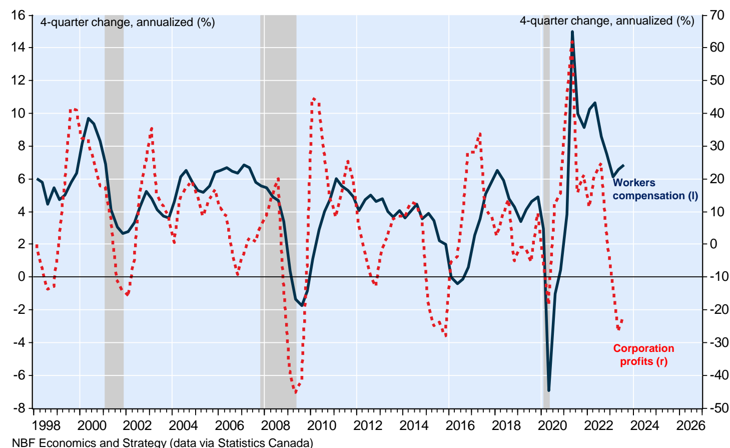


This observation is corroborated by the labor market, where hiring is not keeping pace with demographic growth. As a result, the unemployment rate climbed to 5.8% in November, a sharp increase of 8 tenths in just 7 months. There has only been one rise of this magnitude outside a Canadian recession since the early 1980s, when the tech bubble burst in 2001. We also note that a growing proportion of unemployed people who had worked in the past year found themselves out of work as a result of an employer's decision, rather than a voluntary departure.

Canada: Rising share of unemployed people have been laid off
% of unemployed* that have been laid off from previous job (SA by NBF) and unemployment rate



We think it unlikely that this trend will be reversed in the short term. We note that over a one-year period, profits are down 22.4%, while workers' compensation is up 6.8%. Given these divergent trends, companies are facing difficult decisions that could result in a reduced appetite for hiring and, in some cases, job losses.



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 restrictive, particularly in real terms. We expect the Canadian economy to contract in the first half of the year, resulting in a decline of 0.2% for the year. Progress on the inflation front should enable the Bank of Canada to cut rates by 175 basis points in 2024 to give some breathing space to a 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	0.9	0.2	2.8	(0.7)	1.5
Consumption	8.4	2.5	2.3	0.9	(0.2)	2.7	(0.7)	1.1
Residential construction	10.7	(9.0)	(10.8)	1.2	1.0	(0.4)	0.5	2.1
Business investment	5.9	5.2	4.4	0.6	(0.5)	4.2	(1.2)	0.9
Government expenditures	(0.3)	(0.9)	3.9	3.0	2.2	4.2	2.5	1.6
Exports	6.3	7.0	2.7	0.5	(0.4)	1.8	(1.4)	1.1
Imports	14.5	8.6	(1.4)	1.5	0.1	0.8	0.1	0.9
Change in inventories (bil. $)	12.5	128.1	45.2	7.5	10.0	55.0	(20.0)	25.0
Domestic demand	6.6	1.7	2.2	1.2	0.2	3.0	(0.2)	1.2
Real disposable income	3.2	(6.0)	4.2	0.9	0.4	4.0	0.1	1.3
Payroll employment	2.9	4.3	2.3	(0.2)	(0.6)	1.8	-1.8	1.0
Unemployment rate	5.4	3.7	3.6	4.5	5.3	3.8	5.1	5.3
Inflation	4.7	8.0	4.1	2.8	2.3	3.2	2.5	2.1
Before-tax profits	22.6	9.8	(0.2)	(3.4)	4.7	-1.7	-5.0	9.9
Current account (bil. $)	(939.8)	(971.6)	(844.6)	(817.5)	(846.3)	...	...	...

** or as noted*

Financial Forecast**

	Current 12/19/23	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2023	2024	2025
Fed Fund Target Rate	5.50	5.50	5.25	4.75	4.00	5.50	4.00	3.25
3 month Treasury bills	5.23	5.25	4.90	4.40	3.60	5.39	3.60	3.15
Treasury yield curve								
2-Year	4.41	4.55	4.30	3.85	3.25	4.43	3.25	3.25
5-Year	3.94	4.10	3.95	3.70	3.20	3.92	3.20	3.35
10-Year	3.93	4.20	4.10	3.85	3.55	3.93	3.55	3.70
30-Year	4.03	4.25	4.15	3.90	3.70	4.04	3.70	3.95
Exchange rates								
U.S.$/Euro	1.10	1.02	1.03	1.06	1.08	1.06	1.08	1.11
YEN/U.S.$	144	140	138	137	135	145	135	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	5.2	1.9	0.8	(0.6)	(1.4)	(1.7)
CPI (y/y % chg.)	5.8	4.1	3.6	3.2	3.0	3.1	2.8	2.5
CPI ex. food and energy (y/y % chg.)	5.6	5.2	4.4	4.0	3.5	3.0	3.0	2.6
Unemployment rate (%)	3.5	3.6	3.7	3.8	3.9	4.2	4.7	5.1

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	(0.2)	1.4	0.8	0.2	1.7
Consumption	5.2	5.1	2.1	(0.0)	1.4	1.6	0.1	1.6
Residential construction	14.6	(12.1)	(10.1)	(1.5)	1.9	(3.3)	(1.4)	2.8
Business investment	8.7	4.0	1.1	(1.7)	1.4	1.1	(0.4)	1.5
Government expenditures	4.6	3.3	2.1	2.6	1.9	2.7	2.3	1.7
Exports	2.7	3.2	4.6	0.6	2.6	3.1	1.6	2.8
Imports	8.1	7.6	0.8	1.4	2.4	1.2	2.5	2.5
Change in inventories (millions $)	4,425	55,290	25,978	17,250	12,750	15,500	15,000	13,000
Domestic demand	6.1	2.8	1.0	0.4	1.6	1.5	0.5	1.8
Real disposable income	0.5	(0.1)	1.0	0.4	1.2	(0.0)	0.7	1.3
Employment	5.0	4.0	2.4	0.4	1.0	2.4	(0.0)	1.3
Unemployment rate	7.5	5.3	5.4	6.7	6.9	5.8	7.0	6.9
Inflation	3.4	6.8	3.9	2.5	2.1	3.3	2.0	2.2
Before-tax profits	33.2	14.7	(20.2)	(5.7)	3.2	(18.0)	(2.3)	4.4
Current account (bil. $)	0.4	(10.3)	(24.3)	(37.0)	(24.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 12/19/23	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2023	2024	2025
Overnight rate	5.00	5.00	4.50	4.00	3.25	5.00	3.25	2.75
Prime rate	7.00	7.00	6.50	6.00	5.25	7.00	5.25	4.75
3 month T-Bills	5.04	4.70	4.25	3.70	2.90	5.03	2.90	2.70
Treasury yield curve								
2-Year	4.00	4.00	3.60	3.05	2.50	3.91	2.50	2.80
5-Year	3.28	3.40	3.15	2.85	2.60	3.22	2.60	2.85
10-Year	3.14	3.35	3.20	2.95	2.65	3.13	2.65	3.05
30-Year	2.95	3.20	3.10	2.90	2.70	2.95	2.70	3.10
CAD per USD	1.33	1.42	1.45	1.40	1.38	1.38	1.38	1.32
Oil price (WTI), U.S.$	73	70	65	70	75	75	75	80

*** 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)	0.4	(1.1)	(1.3)	1.5	1.6
CPI (y/y % chg.)	5.2	3.5	3.7	3.3	3.5	2.7	2.0	2.0
CPI ex. food and energy (y/y % chg.)	4.8	4.0	3.4	3.5	3.5	2.8	2.3	1.8
Unemployment rate (%)	5.0	5.2	5.5	5.8	6.3	6.8	6.9	7.0

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	0.7	-0.5	0.3	-10.2	18.5	6.8	0.2	0.0	3.1
Prince Edward Island	-3.0	8.4	2.9	1.8	0.2	1.1	0.3	14.9	9.3	3.1	2.4	3.3
Nova Scotia	-4.5	5.9	2.9	1.3	0.1	0.9	-1.4	10.0	7.1	2.5	2.0	2.6
New Brunswick	-3.6	5.3	1.1	0.8	-0.1	0.5	-1.8	10.9	7.4	1.9	1.0	2.5
Quebec	-4.7	6.7	2.5	0.4	-0.2	0.8	-1.8	11.6	8.4	3.2	1.9	3.0
Ontario	-4.5	5.4	3.9	1.2	-0.4	1.5	-2.1	9.8	9.2	3.8	1.4	3.1
Manitoba	-4.1	1.3	3.3	1.3	0.1	1.4	-2.2	9.2	8.6	3.1	1.9	2.9
Saskatchewan	-4.3	-0.7	6.0	1.6	0.3	1.6	-8.0	13.9	29.2	2.6	-1.6	2.6
Alberta	-7.8	4.6	5.0	1.8	0.4	1.9	-14.4	24.9	22.0	-1.0	0.8	5.4
British Columbia	-3.1	7.1	3.8	0.9	-0.2	1.8	-0.5	15.8	11.0	0.9	1.0	3.4
Canada	-5.3	5.3	3.8	1.1	-0.2	1.4	-4.6	13.4	11.8	2.4	1.2	3.4
	Employment (% growth)						**Unemployment rate** (%)					
Newfoundland & Labrador	-6.4	3.6	4.3	1.7	-0.3	0.3	14.5	13.1	11.2	9.9	10.6	11.1
Prince Edward Island	-3.5	4.1	5.3	5.6	1.2	2.0	10.7	9.9	7.5	7.3	8.6	8.7
Nova Scotia	-4.6	5.6	3.6	2.6	0.8	0.9	9.9	8.6	6.6	6.4	7.3	7.9
New Brunswick	-3.0	3.2	2.7	3.3	0.2	1.0	10.3	9.1	7.2	6.6	7.6	8.3
Quebec	-5.4	4.4	3.1	2.3	0.2	0.7	8.9	6.1	4.3	4.5	5.7	5.9
Ontario	-5.4	5.2	4.6	2.5	0.1	1.1	9.8	8.1	5.6	5.6	7.2	7.4
Manitoba	-4.3	3.7	3.2	2.5	0.2	1.2	8.2	6.4	4.5	4.9	5.7	6.1
Saskatchewan	-5.0	2.6	3.5	1.7	0.6	1.3	8.3	6.5	4.7	4.8	5.8	6.2
Alberta	-7.0	5.5	5.2	3.5	1.1	1.4	11.4	8.5	5.8	5.9	7.1	7.6
British Columbia	-6.2	6.2	3.1	1.6	0.3	0.9	9.1	6.5	4.6	5.1	6.3	6.6
Canada	-5.6	5.0	4.0	2.4	0.4	1.0	9.7	7.5	5.3	5.4	6.7	6.9
	Housing starts (000)						**Consumer Price Index (% growth)**					
Newfoundland & Labrador	0.8	1.2	1.7	1.1	1.0	1.3	0.2	3.7	6.4	3.3	2.5	2.0
Prince Edward Island	1.1	1.2	1.0	1.0	0.9	1.2	0.0	5.1	8.9	3.0	2.2	2.1
Nova Scotia	4.9	6.0	5.6	6.5	6.0	6.2	0.3	4.1	7.5	4.0	2.0	2.1
New Brunswick	3.6	3.9	4.7	4.4	3.9	4.2	0.2	3.8	7.3	3.5	2.6	2.0
Quebec	53.8	69.9	58.6	43.0	42.0	52.5	0.8	3.8	6.7	4.5	2.7	2.0
Ontario	81.2	100.5	96.2	94.6	91.0	96.7	0.6	3.5	6.8	3.8	2.5	2.1
Manitoba	7.3	8.0	8.1	7.0	6.8	8.0	0.5	3.2	7.9	3.8	2.7	2.0
Saskatchewan	3.1	4.2	4.2	4.4	4.2	4.5	0.6	2.6	6.6	3.9	2.8	2.1
Alberta	24.2	31.9	36.4	35.3	32.2	36.4	1.1	3.2	6.5	3.2	2.6	2.0
British Columbia	38.0	47.6	46.7	52.0	47.5	50.7	0.8	2.8	6.9	4.1	2.6	2.0
Canada	218.0	274.4	263.3	249.3	235.5	261.7	0.7	3.4	6.8	3.9	2.5	2.1

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

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