

Canada Watch

What you missed while on holiday

Key takeaways

- We compiled the main releases since December 20 so you can catch up on Canada's latest.
- Both retail sales and monthly GDP reflected a weak economy. Bank of Canada (BoC) minutes maintained a hawkish tone.
- We update our Net Change in Employment forecast for December to +18k from +7k previously.

BoC summary of deliberations kept a hawkish tone

The message was the same as in the December 6 monetary policy statement: interest rates are probably high enough, but the governing council is still looking for further and sustained declines in underlying price pressures (i.e., core inflation and wage growth). Remember [inflation is stuck above 3.0%](#) with core stuck at 3.5%. The council also said that risks to inflation remain elevated. This is in line with our view that more hikes are unlikely, but cuts are still some months away. We expect the first cut in June, with risks skewed for an earlier cut.

Retail sales still relatively weak

Retail sales were below expectations in October at 0.7% mom (E. 0.8%). The largest decrease in retail sales was observed at gasoline stations and fuel vendors (-3.1%). Nonetheless, motor vehicle and parts dealers increased 1.1%. Core retail sales increased 1.2% led by sales at merchandise retailers (+2.0%). This print shows the economy remains relatively weak, which goes in line with our view of the BoC cutting as soon as core inflation shows a clear downward trend (and wage growth subsides).

GDP below expectations in October

Monthly GDP in October was below expectations at 0.0% mom sa (E. 0.2%, BofA 0.2%). Services were up 0.1%, while goods were unchanged. September was revised to the downside to 0.0% mom from 0.1% originally. The annual GDP print for October was 0.9% yoy (E. 1.0%, BofA 1.2%). The flash GDP for November is 0.1% mom sa, according to Stats Canada. The October print as well as the flash release for November show the Canadian economy remains weak, in line with our view that growth for 2023 was 1.1% and with our forecasts for GDP growth in 2024 of 0.9% (see our [Year Ahead report](#)).

We update our employment forecast for December 2023

The labor report for December 2023 will be released on January 5. We update our forecast and now expect the Net Change in Employment at 18k (up from 7k before), following an increase of 24.9k in November. Our estimate for the unemployment rate remains at 5.9%, which would be an increase from 5.8% in November. If the report is as we expect, the BoC would see the rise in unemployment as further indication of cooling demand, thus supporting our view the BoC is done hiking.

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