Gearing down for the holidays, but with some key data ahead

In a week that featured a pre-holiday flurry of (broadly weak) Canadian economic data and plenty of political drama south of the border, the federal government’s Economic and Fiscal Update was in our view the most surprising development. While the new Liberal minority government delivered on a promised tax break (taking effect January 2020), it revealed a larger-than-expected budget deficit that leaves less room for additional stimulus than previously thought.

We’re now entering a quieter period around the holidays, but there are nonetheless some important Canadian data releases to keep an eye on in the coming weeks. The first is next week’s October GDP report, which we think will provide further evidence that Canada’s economy geared down in the second half of 2019. We are pencilling in a 0.1% monthly drop following already-subdued 0.1% gains in each of the last three months. Further softening in the manufacturing sector, and pullbacks in the wholesale and retail components are expected to have weighed on growth in October. A slow start to Q4 would lend some downside risk to both our own quarterly GDP forecast (1.4%) and the Bank of Canada’s (1.3%). Falling short of the already low bar set by the BoC would represent an unwelcome end to a year in which Canada’s economy has displayed a good degree of resilience against external headwinds.

As important as October’s GDP reading is, there’s even more riding on December’s jobs numbers following a November labour force report that was the worst in recent memory. Recall that the Canadian economy shed 71,000 jobs in the month and the unemployment rate rose 0.4 percentage points (the largest increase in a decade). While it’s easy to discount a sizeable, one-month drop in the job count following a period of solid gains (employment growth still averaging a robust 26,000 per month in 2019), a jump in the usually more stable unemployment rate was an inauspicious surprise. For December we expect a modest increase in employment and a tick lower in the unemployment rate. That would calm nerves about the state of Canada’s labour market heading into 2020. Further deterioration, though, would generate concerns that the economy’s shift to sub-trend growth is throwing Canada’s strong labour market into reverse.

Looking further into January, the BoC’s next Business Outlook survey will be another important input into Governing Council’s early-2020 deliberations. Any increase in business confidence amid a less uncertain trade backdrop (greater likelihood of USMCA ratification and a “phase 1” trade deal between the US and China) would support the BoC’s view that slower growth in H2/19 will prove transitory. The balance of these indicators—GDP, employment and business sentiment—will be key to whether the BoC maintains a relatively neutral tone (as in December) or sounds more dovish (as in October) come January.