Focus

Feature Article

Housing Outlook: A Long Way Home

Our Thoughts

- Happy New Yield
- The Fed and Tariffs
- Is the Fed Successfully Waging War on Inflation?
- Bracing for Inflation and Financial Turbulence
- Cloudy Ways
- U.K.'s Reeves Needs to Rethink Her Budget
- Crude Oil Outlook: More Volatility in Store for 2025

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Happy New Yield

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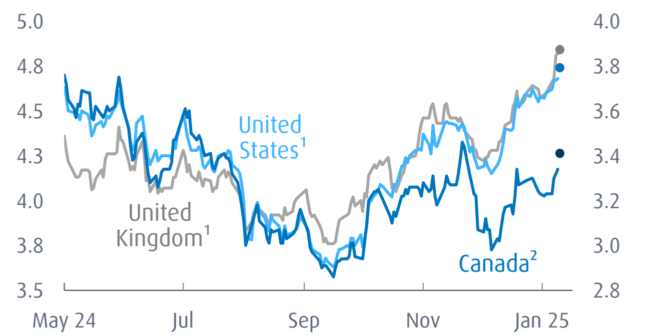
Political events may have grabbed the spotlight to start 2025, but global financial markets are warily spying the sustained back-up in long-term bond yields. A surprisingly **sturdy U.S. economy**, **lingering inflation pressures**, a **back-up in oil prices**, and the prospect of **more heavy government borrowing** globally are combining to **drive long-term rates higher**. The 10-year Treasury yield pushed above 4.75% on Friday morning and 30-years were probing the 5% threshold, both up about 100 bps from the nearby lows reached just in September, and only just below the 17-year highs reached in October 2023. The steady rise in rates is spilling into other bond markets, most notably the U.K., but also France, Australia and even Japan.

Chart 1
Rising Yields: Gilt by Association

(% : as of January 10, 2025, 11:00 am)
10-year Government Bond Yields



Sources: BMO Economics, Haver Analytics, BoC, U.S. Treasury, LSEG [1] *(lhs);* [2] *(rhs)*

The rise in yields was given another spark by a much stronger-than-expected **U.S. employment report** for December. Payrolls handily topped expectations at +256,000, matching the second-largest gain in 2024 and clipping the jobless rate a tick to 4.1%. But even prior to that jolt, the steady upward grind in yields was unmistakable, egged on by **a string of solid U.S. reports**. Since the year began, we have seen both ISM surveys top expectations, auto sales hit their best level in years at above 17 million, job openings rise above 8 million, and jobless claims drop to barely 200k (historically, a very low reading). Meantime, the Atlanta Fed was tracking Q4 GDP growth of 2.7%, even prior to the jobs data.

Even before this avalanche of firm economic data, **Fed officials were already turning much more cautious** on the prospect of additional rate cuts. Minutes from the December FOMC meeting suggested that the 25 bp cut was only begrudgingly agreed upon, and most speakers this week heavily hinted at a pause. After the jobs data, there's not much debate on the late January meeting—no move—but markets are still gamely pricing in chances of a bit more than one additional trim this year. Governor Waller had earlier suggested that rates could still come down more, provided inflation behaves. He also helpfully revealed that many Fed officials struggled with their contribution to the latest dot plot; not surprising, given the immense policy uncertainty coming down the pike. But that reinforces the point that the 50 bps of rate cuts for 2025 in that survey should be treated with the utmost caution.

Risk assets are not enjoying the ascent in yields, not one bit. **Stocks** are struggling to find direction in the New Year/New Yield, but the S&P 500 is on track to sag for the fourth time in the past five weeks. To be sure, the damage is still relatively light—the index is now down about 4% from its early December peak—but the stutter arrives at a time of year which is typically very friendly for stocks. Meantime, the **U.S. dollar** continues to roll higher against almost all comers, up more than 5% in the past two months alone. Even **cryptocurrencies**, which had been the clearest post-election winners, have pulled back sharply from their highs in a rising yield environment.

Canada's bond market has also come under pressure to start 2025, after diverging massively from Treasuries over the past year. Ten-year GoCs jumped 20 bps this week alone to above 3.4% (albeit still a mammoth 130 bps south of U.S. yields). Canada's December jobs report managed to even top the strong U.S. result, with 91,000 net new jobs, a 0.5% rise in hours worked and also a 1 tick drop in the jobless rate to 6.7%. Indeed, job growth was a solid 2.0% y/y, versus 1.4% for U.S. payrolls, even as Canadian GDP struggled to stay above 1%. The jobs bounce was not an isolated event—auto sales ended 2024 strong, home sales have revived, and net exports firmed in Q4.

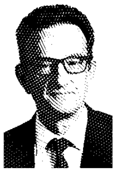
Despite growing signs that **the domestic economy is picking up**, it's **the external backdrop that may yet keep the Bank of Canada in easing mode**. The threat of U.S. tariffs looms like a heavy dark cloud over the recent somewhat sunnier economic reports. Incoming President Trump again warned at a press conference this week that Canada and Mexico face *"serious"* tariffs, apparently wholly unsatisfied with pledges and actions to tighten border security. With the tariff threat hovering, Canadian officials are busily crafting a potential retaliatory response, which while a necessary evil, could heighten the economic pain for Canada. Partly as a result of the uncertainty, markets are still pricing in a slightly better-than-even chance of a BoC rate trim this month.

Meantime, Canada is sailing into the trade maelstrom nearly rudderless, with **the Prime Minister resigning Monday** and proroguing Parliament until March 24, and with an election widely expected to soon follow (likely in early May). The **Canadian dollar** is not taking all this news lying down—more like falling down, as it has now sagged by more than 4% since the U.S. election to 69.3 cents (or $1.444/US$). The currency did not weaken further on net this week, although it quickly gave back Monday's brief reprieve, and was not at all helped by the show of strength in the domestic jobs data. Notably, even the Canadian equity market, which had surprisingly brushed off the initial tariff threats, has shown a flutter of concern more recently. With rising global bond yields now piling on, the TSX has backed off roughly 4% from the record highs it reached just five weeks ago.

Item from the Wall Street Journal: *The Securities Association of China late last month warned brokerages and fund managers to ensure that their economists and analysts "play a positive role" in interpreting government policies and boosting investor confidence. Offenders, according to the association, can be fired. At a meeting this weekend, Cai Qi, Xi's chief of staff, urged propaganda chiefs across the country to "strengthen economic publicity and expectation management"—a call to snuff out negative commentary about the economy. The China Securities Regulatory Commission said the securities association's directive* ***mainly targets "chief economists who make unprofessional and irresponsible remarks."***

Oh my. This edict was apparently prompted by the temerity of one Gao Shanwen, Chief Economist at SDIC Securities (a state-owned firm), to raise doubts over China's economic management and to suggest that actual GDP growth could be about half of the official 5% estimates. While economists may be restrained in their opinions, financial markets are less encumbered—unlike the rest of the world, **China's bond yields are plunging**, with the five-year yield dropping 100 bps in the past year to around 1.4% (close to Japan's yield!), and the **yuan has depreciated** more than 3% to 7.33/US$ in the past two months. Going back to the directive, and its cease and desist on *"unprofessional and irresponsible remarks"*; one can only wonder what we would ever write about on Canada if it applied here.

The Fed and Tariffs



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The **Minutes from the December 17-18 FOMC meeting** (released this week) noted that: *"All participants judged that uncertainty about the scope, timing, and economic effects of potential changes in policies affecting foreign trade and immigration was elevated."* Although *"a number of participants indicated that they incorporated placeholder assumptions to one degree or another into their projections"*, most policymakers did not. The Fed staff also made *"preliminary placeholder assumptions about potential policy changes"* in their baseline forecast. Along with incorporating recent data and compared to the previous baseline for 2025, this resulted in ***"slightly slower"*** **real GDP growth and no improvement in inflation** *"as the effects of the staff's placeholder trade policy assumptions held inflation up"*. The assumptions and forecast details weren't published, but it's likely that U.S. tariff increases, and foreign retaliation, were the dominant policy shocks. For FOMC participants, the concern is how these affect economic growth and inflation, and thus the appropriate path for monetary policy.

U.S. tariff increases contribute to one-time increases in prices faced by U.S. consumers and businesses. The degree to which they ultimately jump will be determined by the availability of domestic and other (non-tariffed) foreign substitute goods, how readily supply chains can adapt, and how strong demand is to begin with. Any increase in the broad price level lifts the published inflation rate and erodes the purchasing power of households and firms, thus reducing real consumer spending and business investment. Productivity also suffers as production shifts to less efficient firms and there's less incentive to innovate owing to less global competition. U.S. exports would also be reduced owing to retaliatory tariffs. Given this weakened economic backdrop, the Fed's policy dilemma is how to respond to the initial increase in inflation.

In the press conference, Powell (and a reporter) referred to a staff report from September 2018 that made the case that **the Fed should *"see through"* the inflation impact and focus instead on the negative growth consequences**. The report said that *"the desirability of this strategy depends on firmly anchored inflation expectations and the passthrough of cost shocks into inflation being relatively short lived"*. If these conditions didn't hold, e.g. *"the tariff hike leads workers to raise their wage demands or firms to raise their markups"*, then the alternative strategy would be to raise policy rates and risk a recession to restore price stability.

In 2018, it's unclear to what extent policymakers heeded the staff's advice. Amid the tit-for-tat tariff wars and updrift in PCE inflation, the Fed was raising policy rates. They hit their cyclical peak in December (2.25%-to-2.50%). A potential issue for the Fed this time is that we've come off an episode in which inflation surged to four-decade highs, and inflation expectations, wage demands and firms' pricing behaviours could be more sensitive to tariff hikes. This would be at a time when disinflation appears to have stalled, and the economy and labour market are still relatively strong. Some Fed officials are confident the inflation process will stay in check. In a speech this week, Governor Waller said: *"If, as I expect, tariffs do not have a significant or persistent effect on inflation, they are unlikely to affect my view of appropriate monetary policy."* We suspect other policymakers aren't as confident, and we look for **even more Fed caution as it contemplates further rate cuts**.

Is the Fed Successfully Waging War on Inflation?

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Federal Reserve Board staff recently compiled a wage metric that should **provide a more accurate read on wage inflation than any single measure**. The new series combines information across eleven industries from the employment cost index, Atlanta Fed Wage Tracker, average hourly earnings, and a constructed series based on ADP data. The methodology derives the 'common component' that best captures underlying wage growth in each industry and then aggregates across the various series. This removes the 'noise' that often plagues individual wage measures due to measurement error, special factors, or job shifts between industries with different pay scales.

The new wage series is an important development because it **will help the Fed better monitor a key source of inflation pressure—wage growth stemming from tightness in labour markets**. Stable, low wage growth tells the Fed that labour market conditions are balanced with the unemployment rate close to its long-run neutral level (a concept that can only be inferred, not measured). This would mean the Fed is on track to achieve the dual mandate of maximum employment and price stability. Instead, if wage growth is high and rising due to worker shortages, then the mandate is at risk.

The good news for the Fed (and investors) is that **this new measure suggests wage growth has returned to pre-pandemic levels**, falling to 2.8% y/y in 2024Q3 from a cycle-high 5.8% in 2022. That's actually a little below the 2019 average, with wage growth slowing sharply in some industries, such as leisure and hospitality, though remaining higher in education and health care. The new measure may seem at odds with the trend in other metrics, such as the ECI and the Wage Tracker, which, though falling, are still about one percentage point above 2019 levels. However, it accords with reports from the Fed's Beige Book that wages are rising only moderately, and is consistent with signs of loosening in the labour market, such as a declining quits rate and a rising duration of joblessness, notwithstanding the downtick in December's jobless rate. This could explain why Powell believes the labour market is no longer a source of upward price pressure and that further loosening would be undesired.

Milder wage growth is one reason the Fed expects inflation to make further gradual progress toward the target and is planning to ease policy further. It now has a credible single measure of wage inflation, which **could come in handy if tariff walls go up**. As Michael notes in his *Thought*, the Fed would normally see through a tariff-led spike in prices and ease policy to cushion the economy. But its hands could be tied if workers receive higher wages as compensation for less spending power, adding stickiness to inflation. The new wage measure should help reduce the chance of a policy error in an especially uncertain time for policymakers.

Bracing for Inflation and Financial Turbulence

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Happy New Year to all! We are now just days away from Trump's Inauguration, but the economic and financial fireworks have already begun. Trump's latest press conference was chock-full of threats against Canada, Panama, Greenland, and Denmark. He finished up with a notice that *"all hell will break out in the Middle East if the hostages aren't released"* before he takes office. While U.S. and global financial markets still largely see this rhetoric as posturing for negotiations, **uncertainty and anxiety are starting to creep in**.

For now, **the U.S. labour market continues to perform well above expectations** with net new job creation accelerating to 256k in December and the jobless rate dropping back down to 4.1%. Average hourly earnings growth did cool to 3.9%, but the Fed will likely want to see more moderation on this front before it eases again. Moreover, **December's inflation data are not expected to provide any real assurances to the Fed or financial markets that we are truly on a sustainable moderating inflation path, especially if tariffs start flying in less than two weeks**. CPI prices are expected to increase another 0.3% in December, bringing the year-on-year rate back up to 2.9% from a low of 2.4% in September. Core CPI inflation is expected to remain at a robust 3.3%. Large increases in the December ISM Prices Paid Indexes for both services and manufacturers point to an even larger acceleration in core producer price inflation to 3.8% from 3.4% in November. **The services prices paid index hit its highest level in nearly two years last month.** In three of the past four years, we have seen an acceleration of consumer inflation in the first quarter. With new tariffs looming, this does not bode well for inflation trends.

The financial markets abhor uncertainty, but President-elect Trump appears to thrive on it. A U.S. trade policy uncertainty index was 13.5 times above its long-run average in December, its highest level since the first Trump Administration and the third-highest since the index was created in 1985. The U.S. equity market failed to launch a year-end Santa Claus rally with the S&P 500 slipping 2.7% in December even as it managed to hold on to a robust 24% gain for the year. However, one can't help but feel that the risks are tilted toward a tougher start to 2025. As if on cue, the 10-year Treasury note hit its highest level since 2023, increasing more than 100 basis points since September's low. We have warned about this possibility for a while now, speculating that **the Trump election honeymoon may be short-lived for financial markets**.

The **Minutes from the December FOMC** meeting revealed that potential changes in tariff and immigration policies from the incoming Administration are already shifting the calculations of several Fed officials. Some FOMC members saw merit in keeping rates unchanged and most saw policy as now significantly less restrictive. Almost all saw increased upside risks to inflation. Fed funds futures are now fully pricing in only two quarter-point rate cuts over the next two years. That's light years from market expectations back on September 19 when eight quarter-point rate cuts by March of 2026 were fully priced in. 2025 has just started, and I'm already dizzy from all the policy uncertainty and change in investors' interest rate expectations. Now, where did I put that Tylenol?

Cloudy Ways

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Canadian political fireworks reached new heights this week as **Prime Minister Trudeau** announced his resignation, **Parliament was prorogued** and a short-notice **leadership race** to head the incumbent Liberal party got underway. All of this marks a quick reshuffling of the deck ahead of what will, presumably, be a Canadian election at the next possible chance. Some details and implications:

Table 1
Federal election
Canada — 2025 (as of January 5, 2025)

Political Party	Votes (%) 2021[1]	Votes (%) Poll Average	Seats 2021	Seats Current
Liberal	33	20 ±3	160	153
Conservative	34	45 ±4	119	120
New Democrat	18	19 ±3	25	25
Bloc Québécois	8	9 ±1	32	33
Green	2	4 ±2	2	2
Other	6	n.a.	0	5
Independent			0	4
Vacant			0	1
		Total Seats	**338**	**338**

Sorted by 2021 votes after Liberals; 170 seats needed for majority;
[1] percentages may not add up to 100 due to rounding
Sources: BMO Economics, 338canada.com

Parliament is currently prorogued until March 24, leaving **new policy in limbo**. While the Prime Minister and cabinet will carry on their duties, the timing of a non-functioning government is not ideal, especially with President-elect Trump to be inaugurated on January 20th and likely getting right to work on policy that could have serious implications for Canada. Meantime, a raft of **measures yet to pass** since the 2024 budget (e.g., the capital gains inclusion rate increase and the $250 cheques) are now effectively **dead in the water**. This will, technically, **scale back the amount of fiscal stimulus** that hits the economy in the first quarter of 2025. As an example, nearly $5 billion in cash handouts would have weighed in at 0.2% of GDP—a chunky amount even if much of it would have been saved.

In the meantime, the new Liberal leader will reportedly be chosen by March 9. We won't speculate here, but former Finance Minister/Deputy Prime Minister Chrystia Freeland and former Bank of Canada Governor Mark Carney are two names headlining the early list. Suffice it to say that the Throne Speech upon the reopening of Parliament will, barring a major shift in sentiment by another party, trigger a **confidence vote and election**—the best guess on timing would be May. The new Liberal leader will have an absolute mountain to climb in order to make the party competitive again in this upcoming election. As it stands now, the Conservative Party under Pierre Poilievre has been polling with roughly 45% support (projected at 236 seats), a massive lead versus around 20% for each of the Liberals (35 seats) and NDP (25 seats)—the BQ is actually projected as the official opposition right now with 45 seats.

Where does that leave fiscal policy? Many investors have already been discounting a shift in government, and these events don't change that—if anything, they just firm up the timing. It's notable that the **Canadian dollar** hardly budged this week despite the political drama. Two things are pretty clear for the currency: a change in government is/should be almost fully assumed by now; and, any impact of that change will pale in comparison to the impact of potential tariffs imposed by the United States. For fiscal policy, the Conservative Party hasn't released a detailed platform yet, but the broad strokes of their 2023 policy declaration is geared toward lower taxes (including the carbon tax); more spending restraint; immigration levels tied to our ability to build housing and likely consistent with recent changes; a more favourable stance on Canadian energy and distribution; and increased competition in areas such as airlines, banking and telecom. Until then, more drama and fireworks…

U.K.'s Reeves Needs to Rethink Her Budget

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For some time, I figured that since the U.K. has a trade deficit with the U.S., its economy would be sheltered from all the U.S. tariff threats. We will see what happens there, but the market focussed its attention on **U.K. fiscal matters** and, well, it was a rough week.

Its trade balance has not been brought into the conversation—yet. But **borrowing costs** this week surged (10-year Gilts at the highest since 2008) and the **GBP** hit a one-year low of $1.22, bringing back memories of **former PM Liz Truss** and Chancellor Kwasi Kwarteng. In September 2022, the duo's free-spending/inflationary budget caused the currency to plunge to a record-low $1.035 and 30-year yields to soar over 250 bps in two months to 5%, forcing the BoE to step in and buy bonds "*on whatever scale is necessary*". Truss stepped down soon after. She was brought back into the conversation this week by PM Starmer, who said she "*crashed the economy*", prompting Truss to send him a "*cease and desist*" letter.

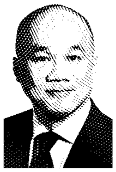
It is ironic: the current turmoil in U.K. markets is mainly due to **ongoing concern over Chancellor Reeves' budget**. Yes, it was tabled on October 30 and the protests were immediate. But there is still **fallout** from the business community. This week, the CEO of one of Britain's biggest retailers, **Next**, warned that sales and profits would be "*anemic*" this year as the economy cannot absorb these "*not insignificant tax rises*". He put the blame squarely on the budget: specifically, the higher payments to national insurance that employers are required to make, and at a lower earnings threshold. It wasn't the tax hikes themselves; rather, "*the speed of which it is being done*".

To offset these higher expenses, **prices will need to rise**. The latest **BCC** report showed that 55% of the 5,000 businesses surveyed plan to raise prices in the next three months, a marked increase from Q3's 39%. "*Firms of all shapes and sizes are telling us the national insurance hike is particularly damaging.*" **Hiring plans are also being scaled back.** The latest **REC/KPMG** survey, which the BoE watches (especially now given the lack of trust in the ONS data), found that job placements were at their lowest in nearly 1½ years, and vacancies fell by the most in over four years.

What will calm markets? Chancellor Reeves' #2 told the House of Commons that British bond markets "*continue to function in an orderly way*" and "*there is no need for any emergency intervention*". Really? I don't think there is anything "*orderly*" about this week's actions. Treasury claimed that it has an "*iron grip*" on its finances, but the Chancellor may need to prove it by revising her budget. Meanwhile, our **Laurence Mutkin**, Head of EMEA Rates Strategy, mused that BoE policymaker Sarah Breeden and Governor Bailey could move to the cut camp, prompting a 5-to-4 vote to ease in February. Further out, the market is pricing just 4.20% for end-2025, implying a terminal rate of 4%-to-4.25%.

The U.K. also has **another problem**. President-elect Trump's key advisor, **Elon Musk**, has been laser-focussed on all things Europe lately. Besides giving the AfD's leader a very public forum to share her vision for Germany, he is also now looking at ways to push PM Starmer out, and be replaced by the Reform Party. (He had a falling out with Nigel Farage, once his BFF. He wrote on a social media post that Farage "*doesn't have what it takes*" to lead the right-wing party. Ouch.) Political interference from an outsider is typically not welcome, but that is especially so now.

Crude Oil Outlook: More Volatility in Store for 2025



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Benchmark crude prices have received an unexpected boost to start the year. Speculation that President-elect Donald Trump will expand oil sanctions on Iran coupled with the latest news that President Biden ramped up sanctions on Russia, particularly its tankers, has buoyed prices. Nonetheless, the energy forecasting community does not have an overly optimistic view on the direction of prices, with a recent Reuters poll showing the average West Texas Intermediate (WTI) projection at US$70.86/bbl in 2025 (vs. $76.10 in 2024). BMO Economics' forecast is a little more optimistic at $75 mainly because we believe that OPEC+ is unlikely to suddenly unwind its current production cut strategy. That said, we are of the view that the risks to prices lie more on the downside than upside given current global oil demand/supply trends.

The big risk facing crude oil prices is the prospect of supply outpacing demand given **the stated desire of OPEC+ to bring barrels back to the market**. Recall the cartel's current plan is to start unwinding the 2.2 mb/d in additional voluntary cuts starting April 1, 2025. Having already delayed this plan from October 1, 2024, we think the cartel will continue kicking this can down the road. Nevertheless, non-OPEC+ supply, led by the U.S., Brazil, Canada, and Guyana, is still expected to grow by 1.5 mb/d in 2025, according to the latest IEA estimates. Moreover, even if the U.S. sanctions Iranian oil, we estimate this would only reduce that country's production by 1.5 mb/d, similar to what occurred during Trump's previous maximum-pressure strategy to denuclearize the country. This is an amount that OPEC+ could handily offset given the cartel is currently holding back 5.8 mb/d, or 5.3% of total global production capacity.

On the flip side, the **outlook for global oil demand remains relatively subdued**. The IEA is projecting global oil demand to grow by 1.1 mb/d to 103.9 mb/d in 2025, up from an estimated increase of 840 kb/d in 2024. We remain concerned that this projection may not be met if Chinese consumption continues to rapidly slow, which took the oil market by surprise last year. It's estimated to have only grown by 150 kb/d in 2024, down from 1.4 mb/d in 2023 and an average of 600 kb/d in the prior decade. Put another way, China was typically accounting for half the annual increase in global oil demand until last year. Assessing future China demand is not easy given how fast things change in that country, whether it revolves around the robust adoption of electric vehicles, the rapid expansion of the high-speed rail network or greater reliance on LNG-fuelled trucks.

One cannot rule out the possibility that either global oil demand or supply could suddenly veer off on a much different path. **Potential key developments** that could limit supply and provide a big boost to crude oil prices include: (1) an escalation in the Middle East conflict that disrupts regional crude production, (2) a sharp drop in Russian oil output/exports due to war-related disruptions, or (3) a reversal in OPEC+ strategy to cut production instead. As for demand surprising on the upside, it all depends on the Chinese economy. Perhaps last year's unexpected slowdown proves to be an aberration or the authorities are able to reignite economic growth and demand for oil via a more concerted stimulus push.

Key Takeaway: Crude oil prices are set for another rollercoaster ride in 2025. Moreover, the swings could be larger than prior years given Donald Trump's unpredictable policies.

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Indications of stronger growth and a move toward price stability are ***good news*** *for the economy.*

	Good News	Bad News
Canada ▪ PM Trudeau announces resignation, prorogues Parliament until March 24 ▪ December job gains blow past expectations ▪ C$ stays weak	**Employment** +90,900 (Dec.) **Jobless Rate** -0.1 ppts to 6.7% (Dec.) **Average Hourly Wages** slowed to +3.8% y/y (Dec.) **Auto Sales** +7.4% y/y (Dec.) **Merchandise Trade Deficit** narrowed to $323 mln (Nov.) **Ivey PMI** +2.4 pts to 54.7 (Dec.)	**Building Permits** -5.9% (Nov.) **S&P Global Services PMI** -3.0 pts to 48.2 (Dec.)
United States ▪ Strong December jobs report showcases economic strength ▪ FOMC Minutes suggest cautious approach to rate cuts amid a slew of uncertainty ▪ Bond yields jump, stocks sag ▪ Trump doubles down on Canada threats	**Nonfarm Payrolls** +256,000 (Dec.) **Jobless Rate** -0.1 ppts to 4.1% (Dec.) **Average Hourly Earnings** eased to +0.3% (Dec.) **Job Openings** rise to 8.10 mln (Nov.) **Initial Claims** -10k to 201k (Jan. 4 week) **ISM Services PMI** +2.0 pts to 54.1 (Dec.)—but prices paid sub-index surges **Auto Sales** jump to 17.2 mln a.r. (Dec.) **Global Supply Chain Pressure Index** -0.22 (Dec.)	**U of M Consumer Sentiment** -0.8 pts to 73.2 (Jan.)—and long-term inflation expectations jump to highest in over 16 years **Goods & Services Trade Deficit** widens to $78.2 bln (Nov.) **Factory Orders** -0.4% (Nov.) **Consumer Credit** -$7.5 bln (Nov.)—first drop since Mar. '24
China ▪ Inflation figures highlight ongoing demand softness	**Caixin Services PMI** +0.7 pts to 52.2 (Dec.) **Foreign Reserves** $3.2 trln (Dec.)	**Consumer Prices** slowed to 0.1% y/y; **Producer Prices** -2.3% y/y (Dec.)
Japan ▪ BoJ sees wage hikes broadening		**Household Spending** -0.4% y/y (Nov.) **Real Cash Earnings** -0.3% y/y (Nov.) **Consumer Confidence** -0.2 pts to 36.2 (Dec.)
Europe ▪ Gilt yields soar to 17-yr highs... pound weakens to lowest in over a year	**Euro Area—Jobless Rate** steady at 6.3% (Nov.) **Germany—Industrial Production** +1.5% (Nov.) **Germany—Trade Surplus** widened to €19.7 bln (Nov.) **France—Consumer Spending** +0.3% (Nov.) **France—Industrial Production** +0.2% (Nov.) **France—Trade Deficit** narrowed to €7.1 bln (Nov.) **Italy—Jobless Rate** -0.1 ppts to 5.7% (Nov.)	**Euro Area—Consumer Prices** +0.4% m/m, +2.4% y/y (Dec. P)—and **core** stuck at 2.7% y/y **Euro Area—ECB 3-year CPI Expectations** +2.4% y/y (Nov.) **Euro Area—Economic Confidence** -1.9 pts to 93.7 (Dec.) **Euro Area—Retail Sales** +0.1% (Nov.)—below expected **Germany—Retail Sales** -0.6% (Nov.) **Germany—Factory Orders** -5.4% (Nov.) **France—Jobless Rate** ticked up to 7.7% (Nov.) **France—Consumer Confidence** -1 pt to 89 (Dec.) **Italy—Retail Sales** -0.4% (Nov.) **U.K.—DMP 1-year Inflation Expectations** rose to +3.0% y/y (Dec.)
Other ▪ Oil prices rise amid supply concerns ▪ Australian dollar hits 2020 lows on stronger greenback	**Australia—Retail Sales** +0.8% (Nov.) **Australia—Trade Surplus** widened to A$7.1 bln (Nov.)	**Australia—Consumer Prices** picked up to +2.3% y/y (Nov.)—but trimmed mean slowed to +3.2% **Australia—Household Spending** +0.4% (Nov.) —below expected

Housing Outlook: A Long Way Home

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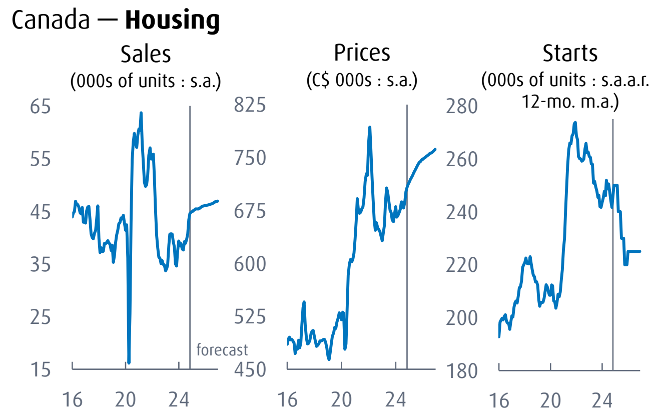
The Canadian housing market should post modest sales and price gains this year, but don't expect another exuberant takeoff. Changing secular forces also suggest it's still a long way back to the 2022 highs.

The Canadian housing market should firm modestly this year, but it's still a long way back to the 2022 highs. Activity and prices have recently improved alongside Bank of Canada rate cuts, and that moderate upward momentum should continue through 2025—but we don't expect another exuberant takeoff. Nationally, we see sales volumes rising 12% for the calendar year versus depressed prior-year levels (*Chart 1*). The benchmark home price looks to rise a modest 4%, as still-challenging affordability and investment calculus will keep the rebound in check. Housing starts are poised to soften somewhat alongside weaker presale market conditions and a downturn in population growth, although the level remains robust.

Regionally, we could see the significant outperformance of Alberta and Atlantic Canada step back, while more beaten-down markets in Southern Ontario and B.C. recover. That said, we expect meaningful performance discrepancy within the major cities, especially Toronto, depending on property type. Single-detached housing remains scarcely supplied and well bid by young families; yet the condo market is dealing with a flood of completions, much of which are investor-owned and will be flipped onto the resale market. Look for condo prices to struggle in 2025 even if the single-detached market improves further.

Here are some key market themes and forecasts as we move into the 2025 selling season:

Chart 1
Housing Market Outlook

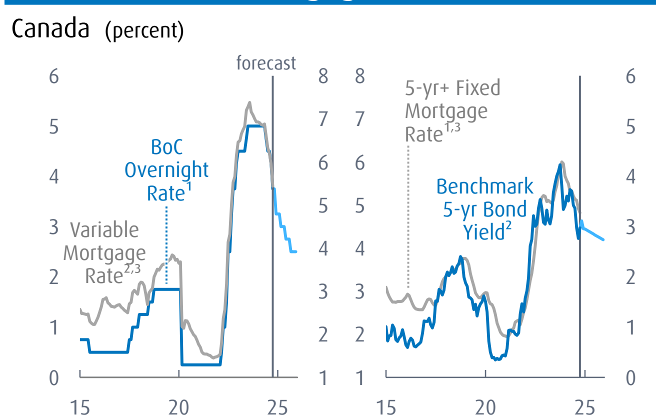


Sources: BMO Economics, Haver Analytics, CREA, CMHC

Mortgage Rates: Is What You See What You'll Get?

There is scope for some further Bank of Canada easing in 2025, but most of the rate-cut cycle is complete. We officially see 75 bps of rate cuts this year spread out through September. Importantly, the market has long priced this easing cycle into 3- and 5-year fixed mortgage rates, which have been sitting in the low-to-mid-4% range. The market is currently pricing in roughly 50 bps of Bank of Canada easing in 2025, which suggests that these fixed rates could be bottoming out. There is room for variable rates—currently around 4.7%—to test the 4% level (*Chart 2*), which would be an important psychological and valuation barrier, but the Bank will have to continue easing. Suffice it to say that, barring a major disruption on the macroeconomic front (e.g., a real risk of significant tariffs), **mortgage rates of around 4% should be the norm for some time**.

Chart 2
New Normal for Mortgage Rates?



Sources: BMO Economics, Haver Analytics *1 (lhs); 2 (rhs); 3 uninsured mortgages*

Meantime, **new mortgage rules** that took effect on December 15, 2024 should incrementally ease conditions into the spring season. Most notable are an increase in the price cap for insured mortgages, from $1 million to $1.5 million, which effectively reduces downpayment requirements in that price range; and an extension of 30-year amortizations to all first-time buyers (as well as buyers of new homes). Given that most low-end single-family homes and larger (e.g., 2+ bedroom) condos in the bigger cities have pushed into this price range, we should see some impact.

Valuations Still a Challenge

More Bank of Canada easing and easier mortgage rules sound great. But, these changes are helping to push valuations back into manageable territory rather than making them outright attractive. Let's look at it from the perspective of a new buyer and then an investor:

For a new homebuyer, affordability is still restrictive, but mortgage rates below 4% should allow more households to stretch into the market (*Chart 3*). In fact, if we plug 3.9% mortgage rates and a 30-year amortization into our affordability calculator, we get back into the realm of what was sustained pre-pandemic, assuming prices remain at current levels. In other words, if the interest rate outlook is correct, and incomes continue to grow at a solid clip in excess of inflation, there's still only room for prices to rise modestly without again running into affordability constraints.

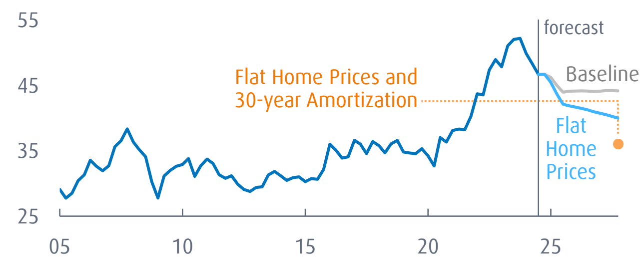
For investors, the arithmetic surrounding cap rates, borrowing costs and risk-free returns is still not compelling, although not the complete turnoff it has been over the past year. Expectations of outsized price growth have also vanished.

Chart 3

Will Affordability Return?

Canada (percent)

Mortgage Payment as % of Household Income[1]



[1] assumes benchmark home prices; 10% down payment; 25-year amortization; personal disposable income per labour force member; and market share weighted mortgage rate; forecast is based on BMO Economics assumptions

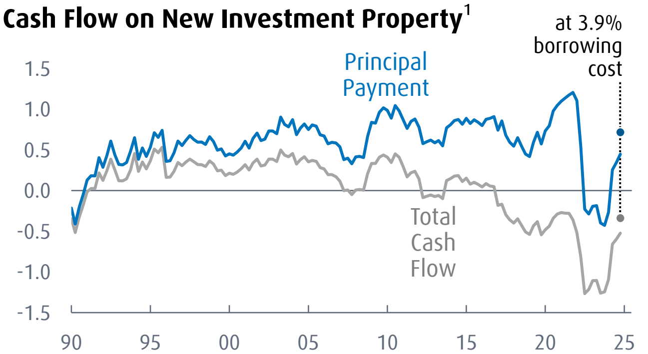
Sources: BMO Economics, Haver Analytics

Chart 4

Will Investors Return?

Toronto (inflation-adjusted $000s/month)

Cash Flow on New Investment Property[1]



[1] based on benchmark apartment price, 20% down payment and 25-year amortization *Sources: BMO Economics, Haver Analytics, CBRE, CREA*

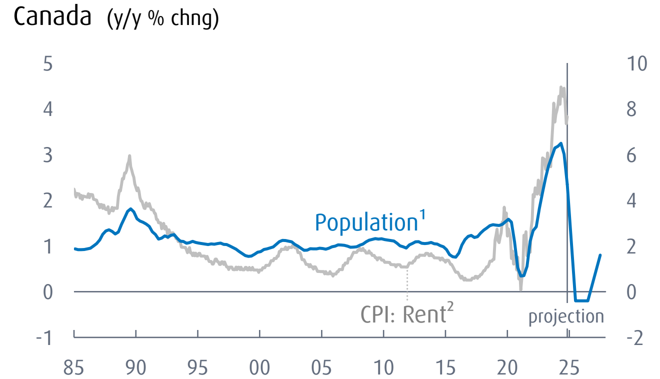
From a cash flow perspective, sub-4% borrowing costs could crack open the door. Using a Toronto investment condo as an example (results will vary by location and segment), new investors would have been deeply cash flow negative through late-2022 and 2023, even failing to pay down any principal for a short period (*Chart 4*). While valuations are hardly attractive yet—the spread between 4.5% cap rates and risk-free GoC yields is still tight—lower mortgage rates and the decline in home prices have set conditions back into the realm of what used to be reasonable. Even so, we suspect investors will remain shy given limited near-term capital gains potential, lack of liquidity, economic uncertainty, tougher tax treatment (versus dividends), difficult landlord-tenant conditions and a much weaker rent backdrop. Valuations would need to push to the attractive side of the spectrum to account for these factors and bring investors back into the market more significantly.

Rent Relief Arrives

Ottawa's 2024 **Immigration Levels Plan** will curb net inflows in the coming years. Annual permanent resident targets will be cut to 395k in 2025, and slow further to 365k by 2027. That's down from an expected 485k this year, and a meaningful shift down from previously-planned levels of 500k per year.

Meantime, new **temporary resident caps** will seek to cut that group's share of the population to 5% from 7.3%, resulting in net outflows of roughly 445k per year over the next two years. Hitting these targets might be a challenge, but it implies that overall Canadian population growth will run just below zero in 2025 and 2026. That would be a dramatic shift from above 3% in 2024.

Chart 5
Peak Rent



Sources: BMO Economics, Haver Analytics, Immigration, Refugees and Citizenship Canada (2025-2027 Immigration Levels Plan) *[1] (lhs); [2] (rhs)*

When considering the amount of supply on the market today, and the **pipeline of new investor-owned and purpose-built completions** still coming, it doesn't take a wild imagination to see a world where vacancy rates rise and rents fall. Growth in average asking rent across Canada has already turned negative according to Rentals.ca, with a near double-digit decline in 1-bedroom Toronto apartments.

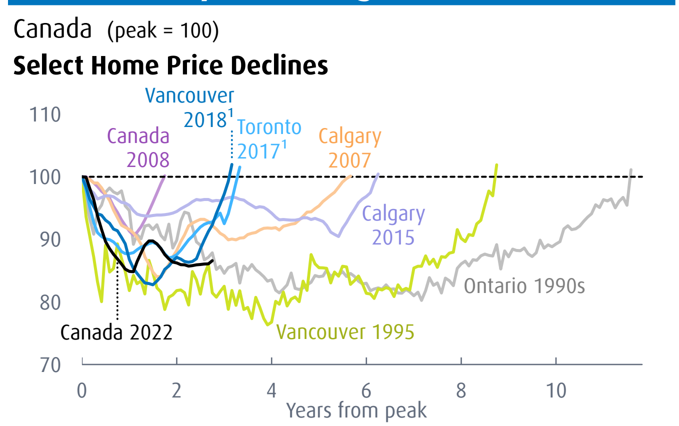
Because of lags in the way market rents filter into the CPI (rent control and slow basket turnover), this won't be reflected immediately in the Canadian inflation numbers. But, conditions in the real world are softening fast, and will continue to do so through 2025.

A Long Way Home

While resale prices have found a floor across most markets, it's still a long way back to the 2022 highs—as we've often said, think years not months. Indeed, even our base-case view, which incorporates a stable economy, steady wage growth and neutral interest rates, home prices don't push through 2022 levels until about 2029. These are national prices, and regional performance will vary.

Seven years from peak back to peak is not all that uncommon (*Chart 6*). Such a duration would be in -line with some of the more drawn out price corrections seen in the past, but not as long as the deep and prolonged 1990s bear market.This **prolonged period of consolidation**, or stagnation, stems from the fact that we saw a number of bullish forces all peak around the same time coming out of the pandemic. The millennial cohort has been the biggest driver of housing demand, but the peak of that group is now about 34 years old, so housing demand driven by this demographic wave is cresting. Meantime, the explosion in international immigration came precisely alongside peak domestic demographic pressure, but that too is rolling over as we speak. Finally, both demographic forces just so happened to hit maximum strength as interest rates were cut

Chart 6
A Brief History of Housing Corrections



Sources: BMO Economics, Haver Analytics, CREA *[1] detached homes* to historic lows and real borrowing costs were deeply negative. Suffice it to say that this was an extraordinarily bullish trio that won't be repeated.

Back to that 1990s benchmark for a moment. We don't expect those conditions to fully repeat, which included a deep and prolonged recession, fiscal and currency crises, and a mid-decade spike in real interest rates. But, that piece of history certainly rhymes: Housing valuations entered the 1990s at similarly stretched valuations; investors and 'lack of supply' drove the narrative; the peak of the Baby Boom turned 34 years old in 1993, just like their kids today; and robust international immigration flows were cut in half from 1989 to the mid-1990s. That's a rhyme, alright.

Key Takeaways

- Sales activity and prices should rise modestly in 2025.
- Mortgage rates could dip below 4%, but we're near the cycle lows barring an economic shock.
- Affordability will remain a challenge, and investors will be picky even as cash flow dynamics are 'less bad'.
- Rents will decline across many major markets as a wave of supply meets a stall in immigration.
- Secular forces suggest that it's a long road back to the 2022 highs for national home prices.

Snapshot of Current Market Conditions
as of November 2024

	Vancouver	Victoria	Okanagan	Edmonton	Calgary	Regina	Winnipeg	Windsor	Ottawa	Niagara	London	KW
Sales (y/y %)	33.7	44.2	14.9	24.2	5.0	17.2	27.8	23.1	36.7	-15.6	33.7	22.0
Sales/listings (%)	51.5	68.0	41.6	78.3	71.0	79.5	72.1	44.2	60.0	41.9	50.7	50.5
MLS HPI (y/y %)	-0.8	0.5	-0.6	7.7	4.4	3.8	8.6	3.0	1.3	0.3	5.4	0.6
Detached ($ 000s)[1]	2,032	1,172	782	468	692	338	392	646	739	670	680	855
Detached (y/y %)	1.0	0.8	-0.5	9.3	6.9	3.9	9.3	3.0	1.8	1.1	6.4	2.2
Apartment ($ 000s)[1]	765	551	418	197	345	217	223	407	412	436	374	444
Apartment (y/y %)	-1.3	-4.1	-5.1	10.8	7.8	1.7	0.1	2.7	-3.6	-5.0	-0.6	-2.4

	Kawarthas	Ham./Burl.	Guelph	Toronto	Barrie	Montreal	Quebec City	Moncton	Fredericton	Halifax	PEI	Nfld & Lab
Sales (y/y %)	67.1	25.8	56.0	39.8	61.5	45.5	45.5	3.8	22.1	9.8	17.6	12.4
Sales/listings (%)	43.6	55.4	65.4	43.3	43.7	74.0	93.1	65.4	92.1	78.0	61.0	61.1
MLS HPI (y/y %)	8.3	1.8	1.1	-1.0	1.5	6.4	13.5	6.9	18.0	3.3	1.7	6.8
Detached ($ 000s)[1]	690	922	912	1,324	865	652	437	370	345	556	373	307
Detached (y/y %)	8.3	3.7	2.4	0.0	2.0	6.5	12.5	7.1	17.9	3.7	1.7	6.6
Apartment ($ 000s)[1]	n/a	519	509	660	520	414	266	282	314	457	n/a	261
Apartment (y/y %)	n/a	-5.1	-4.3	-5.1	-0.2	5.0	15.9	4.6	19.4	-0.8	n/a	11.8

[1] MLS benchmark price   n/a: CREA data not available   Ottawa and Niagara sales and listings are for October

Economic Forecast Summary for January 10, 2025

	2024				2025				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024	2025
CANADA											
Real GDP (q/q % chng : a.r.)	2.0	2.2	1.0	1.7	2.8	2.1	1.7	1.9	1.5	1.3	2.0
Consumer Price Index (y/y % chng)	2.8	2.7	2.0	1.8	1.6	1.8	1.9	2.1	3.9	2.4	1.8
Unemployment Rate (percent)	5.9	6.3	6.5	6.7	6.9 ↓	7.0 ↑	6.9 ↑	6.8	5.4	6.3	6.9
Housing Starts (000s : a.r.)	245	250	238	252	250	240	230	220	242	246	235
Current Account Balance ($blns : a.r.)	-5.9	-18.8	-12.9	-12.3 ↑	-18.4 ↑	-21.7 ↑	-21.7 ↑	-22.1 ↑	-18.4	-12.5 ↑	-21.0 ↑
Interest Rates	(average for the quarter : %)										
Overnight Rate	5.00	4.92	4.42	3.58	3.17	2.92	2.67	2.50	4.77	4.48	2.81
3-month Treasury Bill	4.94	4.81	4.27	3.46	3.05 ↓	2.80 ↓	2.65	2.45	4.74	4.37	2.75
10-year Bond	3.43	3.58	3.14	3.21	3.25 ↑	3.15 ↑	3.00	2.90 ↓	3.36	3.34	3.10 ↑
Canada-U.S. Interest Rate Spreads	(average for the quarter : bps)										
90-day	-52	-66	-95	-112	-125 ↓	-124 ↓	-117 ↓	-114 ↓	-53	-81	-120 ↓
10-year	-73	-87	-80	-108	-135 ↓	-129 ↓	-122 ↓	-114 ↓	-60	-87	-125 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	1.6	3.0	3.1	2.1	2.2	2.2	2.2	2.1	2.9	2.8	2.3
Consumer Price Index (y/y % chng)	3.2	3.2	2.6	2.7	2.5	2.4	2.6	2.4	4.1	2.9	2.5
Unemployment Rate (percent)	3.8	4.0	4.2	4.2	4.2	4.3	4.3	4.3	3.6	4.0	4.3
Housing Starts (mlns : a.r.)	1.41	1.34	1.33	1.32	1.40	1.42	1.43	1.44	1.42	1.35	1.42
Current Account Balance ($trlns : a.r.)	-0.96	-1.10	-1.24	-1.19	-1.20	-1.21	-1.22	-1.22	-0.91	-1.13	-1.21
Interest Rates	(average for the quarter : %)										
Fed Funds Target Rate	5.38	5.38	5.21	4.63	4.29	4.04	3.79	3.63	5.10	5.15	3.94
3-month Treasury Bill	5.45	5.47	5.22	4.58	4.30 ↑	4.05 ↑	3.80 ↑	3.60 ↑	5.28	5.18	3.95 ↑
10-year Note	4.16	4.44	3.95	4.28	4.60 ↑	4.40 ↑	4.25 ↑	4.05	3.96	4.21	4.35 ↑
EXCHANGE RATES	(average for the quarter)										
US¢/C$	74.2	73.1	73.3	71.5	70.0	70.4	71.0	71.7	74.1	73.0	70.8
C$/US$	1.35	1.37	1.36	1.40	1.43	1.42	1.41	1.39	1.35	1.37	1.41
¥/US$	149	156	149	152	158 ↑	155 ↑	151	150	140	151	154 ↑
US$/Euro	1.09	1.08	1.10	1.07	1.02	1.02	1.04	1.05	1.08	1.08	1.03
US$/£	1.27	1.26	1.30	1.28	1.20 ↓	1.20 ↓	1.22 ↓	1.24 ↓	1.24	1.28	1.22 ↓

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

Canada

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Existing Home Sales

Wednesday, 9:00 am (expected)

	Existing Home Sales	Average Prices
Dec. (e)	**+13.5% y/y**	**+2.0% y/y**
Nov.	+26.0% y/y	+7.4% y/y

MLS Home Price Index	
Dec. (e)	**unch y/y**
Nov.	-1.2% y/y

A chilly December cooled parts of Canada's **housing market**, but the effect wasn't felt uniformly across the country. Sales in Greater Toronto were down from the previous year, while Vancouver and Montreal posted strong gains. Nationally, we expect yearly growth in home sales to slow to 13.5% from roughly 30% in the previous two months. We look for average prices to rise 2% y/y and for the quality-adjusted MLS HPI to be little changed from the previous year. While lower policy rates have brought some demand off the sidelines, affordability remains a concern—highlighted by the regional disparities. Previously-announced changes to mortgage rules, which came into effect in mid-December, may support demand in the coming months. — S.K.

United States

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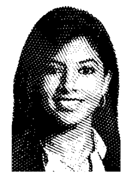

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Consumer Prices

Wednesday, 8:30 am

Dec. (e)	**+0.3%**	**+2.9% y/y**
Consensus	*+0.3%*	*+2.9% y/y*
Nov.	+0.3%	+2.7% y/y
Ex. Food & Energy		
Dec. (e)	**+0.2%**	**+3.3% y/y**
Consensus	*+0.2%*	*+3.3% y/y*
Nov.	+0.3%	+3.3% y/y

The final **CPI** report of 2024 could be the most important. After four straight 0.3% increases in core prices, investors and policymakers will be looking for some cooling. Moderating rents will help, and we look for a 0.2% advance in the **core** that keeps the yearly rate steady at 3.3%. The prior month's spike in auto prices likely won't repeat given ample inventories, though demand remains strong amid some front-running ahead of possible tariffs. However, there is some upside risk if businesses continue to front-load price hikes at the start of the year. Firmer gasoline costs will likely lift **headline prices** 0.3% in the month and the annual rate a couple of notches to 2.9%. Powell and Co. will eye core services prices (ex-energy and rents), which have been motoring along at a 4%-plus clip. Given mild deflation in the goods sector, and assuming food and energy costs trend around 2% y/y, services inflation would need to moderate to about 2.7% for the Fed to sustainably achieve its target. The wide chasm between the desired and current rate of services inflation partly explains the Fed's recent shift to a more cautious easing approach and why the FOMC will likely stand pat this month. — S.G.

Beige Book

Wednesday, 2:00 pm

Prior comments from the Federal Reserve's regional business contacts paint a somewhat weaker picture of the economy and inflation than suggested by the data. The December **Beige Book** reported that *"economic activity rose slightly in most Districts"* and employment was *"flat or up only slightly"*, while wage growth *"softened to a modest pace"* and prices *"rose only at a modest pace"* with contacts reporting *"greater difficulty passing costs on to customers"*. This hints at some slowing and supports our call for real GDP growth moderating to a 2.1% annualized rate in Q4 from 3.1% in Q3. We'll see if the tepid tone carried into the new year. Business contacts also warned that *"tariffs pose a significant upside risk to inflation"*, with potential 25% duties on Canada and Mexico a flashpoint. Heightened uncertainty about trade policy gives the Fed one more reason to hit the delay button on rate cuts, though, in the event, the economic hit would likely warrant easier policy. — S.G.

Retail Sales
Thursday, 8:30 am

		Ex. Autos
Dec. (e)	**+0.5%**	**+0.4%**
Consensus	*+0.5%*	*+0.5%*
Nov.	+0.7%	+0.2%

Ex. Autos/Gas	
Dec. (e)	**+0.4%**
Consensus	*+0.4%*
Nov.	+0.2%

We are expecting another strong increase in **retail sales** for December. Auto sales and rebuilding from the hurricane-ravaged Southeast are expected to be important contributors to the retail sales gains last month. Unit vehicle sales rose to the highest level since May 2021, according to Ward's Automotive Group. A sturdy labour market, healthy real earnings growth, and big stock market returns in 2024 are keeping consumer spending on a firm trajectory. Headline retail sales are projected to advance 0.5% following a 0.7% gain in November. Sales ex-autos look to rise 0.4%, a notable improvement from a 0.2% increase in November. Gasoline prices are expected to provide less support than they did in November, pointing to a 0.4% gain in sales excluding gasoline and autos. Real consumer spending in Q4 is on track to increase a robust 3.0% at a seasonally adjusted annual rate. — S.A.

Housing Starts
Friday, 8:30 am

Dec. (e)	**1.32 mln a.r. (+2.4%)**
Consensus	*1.31 mln a.r. (+2.0%)*
Nov.	1.29 mln a.r. (-1.8%)

Building Permits	
Dec. (e)	**1.46 mln a.r. (-2.2%)**
Consensus	*1.46 mln a.r. (-2.2%)*
Nov.	1.49 mln a.r. (+5.2%)

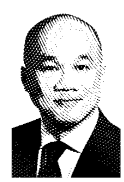
Housing starts are expected to rebound 2.4% to 1.32 mln a.r. in December, halting a three-month losing streak. Construction of single-family units looks to forge higher, while volatile multis are expected to show a pulse after wilting to an eight-month low. Meantime, **building permits**, a good proxy for future home construction, are likely to falter 2.2% to 1.46 mln annualized. Homebuilders are still grappling with a multitude of headwinds, including the backup of borrowing costs, while prices for materials remain elevated. For all of 2024, starts and permits have been lacklustre, with little momentum expected this year. — P.T.

Industrial Production
Friday, 9:15 am

	Industrial Production	Capacity Utilization
Dec. (e)	**+0.3%**	**77.0%**
Consensus	*+0.3%*	*77.0%*
Nov.	-0.1%	76.8%

Industrial production looks to edge higher for the first time in four months, up 0.3% in December. Manufacturing output likely showed some revival as the production of consumer goods and business equipment picked up. Still, looking at the longer-term trend, the index has been unable to gain any momentum for the last two years. High interest rates and a strong dollar are creating major headwinds for the factory sector. **Capacity utilization** likely rose 0.2 ppts to 77.0%. Despite the slight uptick, it has been steadily drifting further below the neutral 80-mark for the past couple years. Overall, while industrial production hasn't meaningfully contracted, it's unlikely to make significant headway until rates come down substantially. — P.T.

China



Art Woo
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Real GDP
Friday

Q4 (f)	**+1.5%**	**+4.9% y/y**
Q4 (e)	*+1.6%*	*+5.0% y/y*
Q3	+0.9%	+4.6% y/y

China's **Q4 GDP** release may prove anticlimactic given the authorities have already indicated that the economy grew *"around 5.0%"* in 2024. Our estimate of 4.9% y/y is slightly below Bloomberg's latest polling of 5.0% y/y (median and mean estimate). More interesting will be the accompanying monthly statistics, particularly retail sales, merchandise trade and fixed asset investment for December, which should provide more valuable insight into the current state of the economy. We expect them to show that the economy is highly bifurcated with exports performing well, while domestic demand remains very sluggish. Notably, we look for retail sales to have grown just 3.5% y/y in December (vs. 3.0% in November) and fixed asset investment to come in at 3.3% y/y for the whole of 2024 (vs. 3.3% YTD in November). Merchandise imports, which will be published ahead of the national accounts, likely continued to struggle, contracting an estimated 2.0% y/y in December (vs. -3.9% in November). On the flip side, we believe merchandise exports have continued to pick up ahead of potential Trump tariffs, rising 8% y/y in December (vs. 6.7% in November). — A.W.

Financial Markets Update for January 10, 2025

		Jan 10 [1]	Jan 3	Week Ago	4 Weeks Ago	Dec 31, 2024
					(basis point change)	
Canadian	Call Money	3.25	3.25	0	0	0
Money Market	Prime Rate	5.45	5.45	0	0	0
U.S. Money	Fed Funds (effective)	4.50	4.50	0	-25	0
Market	Prime Rate	7.50	7.50	0	-25	0
3-Month Rates	Canada	3.11	3.13	-2	-4	-5
	United States	4.31	4.29	2	-1	0
	Japan	0.24	0.22	3	8	3
	Australia	4.35	4.39	-4	-11	-4
2-Year Bonds	Canada	3.07	2.93	14	5	14
	United States	4.37	4.28	9	12	12
10-Year Bonds	Canada	3.42	3.23	20	25	20
	United States	4.74	4.60	14	35	17
	Japan	1.19	1.09	11	16	11
	Germany	2.59	2.42	17	33	23
	United Kingdom	4.84	4.59	25	43	27
	Australia	4.55	4.38	16	26	18
Risk Indicators	VIX	19.9	16.1	3.7 pts	6.1 pts	2.5 pts
	Inv. Grade CDS Spread [2]	50	49	1	2	0
	High Yield CDS Spread [2]	314	306	8	18	3
					(percent change)	
Currencies	US¢/C$	69.27	69.22	0.1	-1.4	-0.4
	C$/US$	1.444	1.445	—	—	—
	¥/US$	157.74	157.26	0.3	2.7	0.3
	US$/€	1.0234	1.0308	-0.7	-2.5	-1.2
	US$/£	1.220	1.242	-1.8	-3.3	-2.5
	US¢/A$	61.44	62.16	-1.2	-3.4	-0.7
Commodities	CRB Futures Index	297.39	296.77	0.2	1.2	0.2
	Oil (generic contract)	75.96	73.96	2.7	6.6	5.9
	Natural Gas (generic contract)	3.95	3.35	17.7	20.4	8.7
	Gold (spot price)	2,690.23	2,640.22	1.9	1.6	2.5
Equities	S&P/TSX Composite	24,748	25,074	-1.3	-2.1	0.1
	S&P 500	5,820	5,942	-2.1	-3.8	-1.1
	Nasdaq	19,081	19,622	-2.8	-4.2	-1.2
	Dow Jones Industrial	41,942	42,732	-1.8	-4.3	-1.4
	Nikkei	39,190	39,895	-1.8	-0.7	-1.8
	Frankfurt DAX	20,214	19,906	1.5	-0.9	1.5
	London FT100	8,252	8,224	0.3	-0.6	1.0
	France CAC40	7,422	7,282	1.9	0.2	0.6
	S&P ASX 200	8,294	8,250	0.5	0.0	1.7

[1] = as of 11:35 am *[2] = One day delay*

	Monday January 13	Tuesday January 14	Wednesday January 15	Thursday January 16	Friday January 17
China	**Aggregate Yuan Financing (YTD)** [D] **Dec. (e) 31.6 trln** Nov. 29.4 trln **New Yuan Loans (YTD)** [D] **Dec. (e) 17.8 trln** Nov. 17.1 trln **Trade Surplus** [D] **Dec. (e) $100.0 bln** Nov. $97.4 bln				**Real GDP** **Q4 (f) +1.5% +4.9% y/y** *Q4 (e) +1.6% +5.0% y/y* Q3 +0.9% +4.6% y/y **Industrial Production** **Dec. (e) +5.4% y/y** Nov. +5.4% y/y **Retail Sales** **Dec. (e) +3.5% y/y** Nov. +3.0% y/y **Fixed Asset Investment (YTD)** **Dec. (e) +3.3% y/y** Nov. +3.3% y/y
Japan	**Markets closed**	**Bank Lending Ex. Trusts** **Dec.** Nov. +3.3% y/y	**Machine Tool Orders** **Dec. P** Nov. +3.0% y/y		
Europe		**ITALY** **Industrial Production** **Nov. (e) +0.2% -2.4% y/y** Oct. unch -3.6% y/y	**EURO AREA** **Industrial Production** **Nov. (e) +0.5% -1.9% y/y** Oct. unch -1.2% y/y **FRANCE** **Consumer Price Index** **Dec. F (e) +0.2% +1.8% y/y** Nov. -0.1% +1.7% y/y **UNITED KINGDOM** **Consumer Price Index** **Dec. (e) +0.4% +2.7% y/y** Nov. +0.1% +2.6% y/y **Core CPI Services** **Dec. (e) +3.4% y/y +4.9% y/y** Nov. +3.5% y/y +5.0% y/y	**EURO AREA** **Trade Surplus** **Nov.** Oct. €6.1 bln **ECB Minutes from Dec. 12 meeting** **GERMANY** **Consumer Price Index** **Dec. F (e) +0.7% +2.8% y/y** Nov. -0.7% +2.4% y/y **ITALY** **Consumer Price Index** **Dec. F (e) +0.1% +1.4% y/y** Nov. unch +1.5% y/y **UNITED KINGDOM** **Monthly Real GDP 3m/3m** **Nov. (e) +0.2% unch** Oct. -0.1% +0.1% **Index of Services 3m/3m** **Nov. (e) +0.1% +0.1%** Oct. unch +0.1% **Industrial Production** **Nov. (e) +0.1% -1.0% y/y** Oct. -0.6% -0.7% y/y **Trade Deficit** **Nov. (e) £18.0 bln** Oct. £19.0 bln	**EURO AREA** **Consumer Price Index** **Dec. F (e) +0.4% +2.4% y/y** Nov. -0.3% +2.2% y/y **Core CPI Services** **Dec. F (e) +2.7% y/y +4.0% y/y** Nov. +2.7% y/y +3.9% y/y **UNITED KINGDOM** **Retail Sales (ex. Fuel)** **Dec. (e) +0.3% +3.5% y/y** Nov. +0.3% +0.1% y/y
Other		**AUSTRALIA** **Westpac Consumer Confidence** **Jan.** Dec. -2.0%		**AUSTRALIA** **Employment Jobless Rate** **Dec. (e) +15,000 4.0%** Nov. +35,600 3.9%	

[D] = date approximate; (e) = Bloomberg consensus; (f) = BMO forecast **Upcoming Policy Meetings** | Bank of England: Feb. 6, Mar. 20, May 8 | European Central Bank: Jan. 30, Mar. 6, Apr. 17

Canada

Monday January 13

Tuesday January 14

10:30 am	3-, 6- & 12-month bill auction $23.0 bln (new cash -$4.8 bln)
11:15 am	Cash management bond buybacks $0.5 bln
Noon	1-month bill auction $2.5 bln

Wednesday January 15

8:30 am	Mfg. Sales	Mfg. New Orders
Nov. (e)	**+0.5%**	**+1.0%**
Consensus	*+0.5%*	*n.a.*
Oct.	+2.1%	-0.9%

8:30 am	Wholesale Trade
Nov. (e)	**-0.5%**
Oct.	+1.0%

8:30 am	New Motor Vehicle Sales
Nov. (e)	**+9.0% y/y**
Oct.	+7.6% y/y

9:00 am	Existing Home Sales[D]	Average Prices
Dec. (e)	**+13.5% y/y**	**+2.0% y/y**
Nov.	+26.0% y/y	+7.4% y/y

9:00 am	MLS Home Price Index[D]
Dec. (e)	**unch y/y**
Nov.	-1.2% y/y

Noon	5-year bond auction $6.0 bln

Thursday January 16

8:15 am	Housing Starts
Dec. (e)	**250,000 mln a.r. (-4.7%)**
Nov.	262,443 mln a.r. (+8.4%)

12:30 pm BoC Dep. Gov. Gravelle speaks in Toronto

30-year bond auction announcement

Friday January 17

8:30 am	Int'l Securities Transactions Inflows	Outflows
Nov.		
Oct.	$21.5 bln	$2.6 bln

8:30 am	Household Credit	Mortgage Credit
Nov.		
Oct.	+3.7% y/y	+3.6% y/y

United States

Monday January 13

2:00 pm	Budget Balance
Dec. '24	
Dec. '23	-$129.4 bln

11:30 am	13- & 26-week bill auctions $156 bln

Tuesday January 14

6:00 am	NFIB Small Business Economic Trends Survey
Dec. (e)	**100.0**
Consensus	*100.5*
Nov.	101.7

8:30 am	PPI Final Demand	
Dec. (e)	**+0.4%**	**+3.7% y/y**
Consensus	*+0.3%*	*+3.6% y/y*
Nov.	+0.4%	+3.0% y/y

8:30 am	PPI Final Demand ex. F&E	
Dec. (e)	**+0.3%**	**+3.8% y/y**
Consensus	*+0.2%*	*+3.7% y/y*
Nov.	+0.2%	+3.4% y/y

Fed Speakers: Kansas City's Schmid (10:00 am); New York's Williams (3:05 pm)

11:00 am	4-, 8- & 17-week bill auction announcements
11:30 am	42-day cash management bill auction $85 bln

Wednesday January 15

7:00 am	MBA 30-year FRM
Jan. 10	
Jan. 3	6.99%

8:30 am	Consumer Prices	
Dec. (e)	**+0.3%**	**+2.9% y/y**
Consensus	*+0.3%*	*+2.9% y/y*
Nov.	+0.3%	+2.7% y/y

8:30 am	CPI ex. Food & Energy	
Dec. (e)	**+0.2%**	**+3.3% y/y**
Consensus	*+0.2%*	*+3.3% y/y*
Nov.	+0.3%	+3.3% y/y

2:00 pm Beige Book

Fed Speakers: Richmond's Barkin (9:20 am); Minneapolis' Kashkari (10:00 am); New York's Williams (11:00 am); Chicago's Goolsbee (noon)

11:30 am	17-week bill auction

Thursday January 16

8:30 am	Initial Claims
Jan. 11 (e)	**212k (+11k)**
Jan. 4	201k (-10k)

8:30 am	Continuing Claims
Jan. 4	
Dec. 28	1,867k (+33k)

8:30 am	Retail Sales	Ex. Autos
Dec. (e)	**+0.5%**	**+0.4%**
Consensus	*+0.5%*	*+0.5%*
Nov.	+0.7%	+0.2%

8:30 am	Retail Sales ex. Autos/Gas
Dec. (e)	**+0.4%**
Consensus	*+0.4%*
Nov.	+0.2%

8:30 am	Import Prices	
Dec. (e)	**+0.2%**	**+2.2% y/y**
Nov.	+0.1%	+1.3% y/y

10:00 am	NAHB Housing Market Index
Jan. (e)	**45**
Dec.	46

10:00 am	Business Inventories
Nov. F (e)	**+0.1%**
Consensus	*+0.1%*
Nov. P	+0.1%
Oct.	unch

11:00 am	13-, 26- & 52-week bill, 20[R]-year bond, 10-year TIPS auction announcements
11:30 am	4- & 8-week bill auctions

Friday January 17

8:30 am	Housing Starts
Dec. (e)	**1.32 mln a.r. (+2.4%)**
Consensus	*1.31 mln a.r. (+2.0%)*
Nov.	1.29 mln a.r. (-1.8%)

8:30 am	Building Permits
Dec. (e)	**1.46 mln a.r. (-2.2%)**
Consensus	*1.46 mln a.r. (-2.2%)*
Nov.	1.49 mln a.r. (+5.2%)

9:15 am	Industrial Production	Capacity Utilization
Dec. (e)	**+0.3%**	**77.0%**
Consensus	*+0.3%*	*77.0%*
Nov.	-0.1%	76.8%

4:00 pm	Net TIC Flows Total	Long Term
Nov.		
Oct.	$203.6 bln	$152.3 bln

[C] = consensus; [D] = date approximate; [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Jan. 29, Mar. 12, Apr. 16 | FOMC: Jan. 28-29, Mar. 18-19, May 6-7

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