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Week in review

CANADA: Retail sales edged down 0.1% in November, a smaller decline than the one expected by analysts (-0.5%). Partially offsetting this positive surprise, the prior month's result was revised downward, from +1.4% to +1.3%. Consumer outlays decreased in 6 of the 11 subsectors in November, led by materials/garden equipment (-3.8%), food/beverages (-1.6%) and general merchandise (-0.8%). These declines were compensated in part by increases for gasoline stations (+2.2%), motor vehicles/parts (+1.4%), and health/personal care products (+0.5%). Excluding autos, retail sales pulled back a consensus-matching 0.6%.

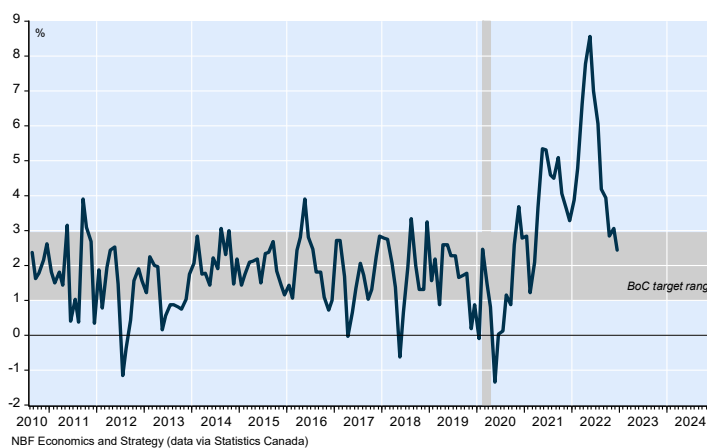
The December retail sales report was weaker than it appeared. While the headline figure came in above consensus expectations, outlays still decreased in a majority of sectors. Excluding autos and gasoline stations, sales registered their biggest decline in 11 months (-1.1%). The headline print also benefited from higher prices as sale volumes went down 0.4% in the month. And while Statistics Canada's preliminary estimate for December showed a 0.5% increase in nominal sales, this is unlikely to salvage what is gearing up to be a disappointing quarter for household spending. Real retail sales are indeed tracking a 0.5% annualized decline in Q4, something which is likely to translate into a negative contribution to growth from goods consumption.

After edging up 0.1% the prior month, the **Consumer Price Index** slid 0.6% m/m in December, more than the consensus forecast for a 0.5% drop (not seasonally adjusted). In seasonally adjusted terms, headline prices dipped 0.1% on declines for transportation (-0.9%), household operations (-0.1%), and recreation/reading (-0.1%). Meanwhile, prices were up for clothing/footwear (+0.8%), health/personal care items (+0.6%), and shelter (+0.4%), this last segment driven by a surge in mortgage interest costs (+2.7%). Price gains in the food category (+0.4%, the smallest in 6 months) continued to moderate but remained high on a historical basis. Year over year, headline CPI slipped five ticks to a 10-month low of 6.3%. Core measures were as follow: 5.3% for CPI Trim (down one tick from prior month) and 5.0% for CPI Median (also down one tick). As a result, the average of the two measures decreased from 5.3% to 5.2%.

The last inflation report of 2022 provided more evidence of easing price pressures. The sharp drop in gasoline prices (-13.1%) weighed

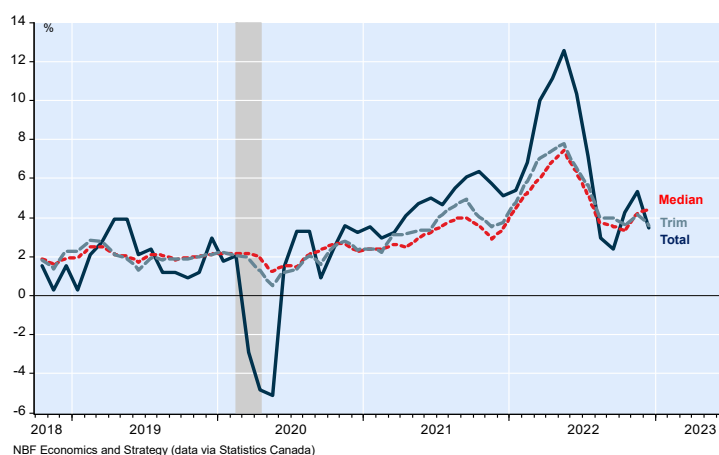
on the headline result, but other elements were also a factor, including the moderation in the food component. Core prices, meanwhile, rose a seasonally adjusted 0.28%. This was the smallest gain in more than a year and would have been smaller if not for the ongoing surge in mortgage interest costs due primarily to monetary policy tightening. Without this category, core prices rose just 0.2% and were tracking 2.4% annualized in the past three months.

Canada: Core inflation excluding MIC back within the BoC's target range
3-month annualized change in inflation excluding food, energy and mortgage interest costs



CPI-Trim increased 3.6% annualized over the same period, while CPI-Median advanced 4.3%. Though still high, these figures are a far cry from the 7% gains recorded earlier this year.

Canada: Inflation is slowing down
3-month annualized change in inflation

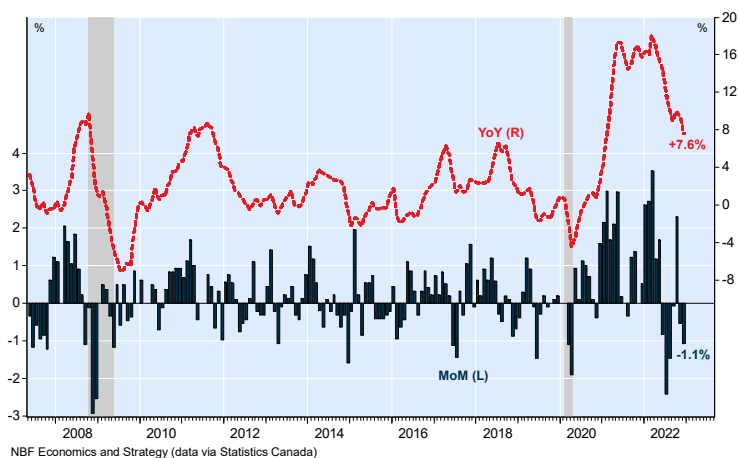


Prices for products manufactured in Canada, as measured by the **Industrial Product Price Index (IPPI)**, fell 1.1% in December. The decrease was attributable to a steep drop in the price of energy/petroleum products (-9.8%). Excluding this category, the IPPI actually rose 0.2%. On a 12-month basis, the IPPI was up 7.6%, decelerating from 9.4% the prior month and down significantly from the peak of 18.1% attained in March. Among the major categories, energy/petroleum products (+31.8%), beverages

(+21.0%), pulp/paper products (+19.2%), textile/leather products (+17.8%), and fruit/vegetables/feed (+15.2%) recorded the steepest annual increases, while lumber/other wood products (-18.7%) and primary ferrous metal products (-16.2%) saw the biggest declines.

Canada: Upstream inflation continues to slow down

Industrial Product Price Index. Last observation: December 2022



The **Raw Materials Price Index** slid 3.1% m/m in December, marking the fifth monthly drop in six months for this indicator. The decline was led by crude energy products (-9.3%) and animals/animal products (-1.6%). On a 12-month basis, the headline RMPI was up 7.5%, compared with 7.9% the prior month.

Manufacturing sales stayed more or less flat on a monthly basis in November at C\$72.3 billion. Shipments in the durable goods category rose 1.8% on gains for motor vehicles (+12.7%, the first gain in four months) and fabricated metal products (+2.7%). Meanwhile production in the non-durable goods segment shrank 1.7% on lower shipments of chemical products (-4.4%) and petroleum/coal products (-2.4%). Total inventory levels decreased 0.5% to C\$101.1 billion. As a result, the inventory-to-sales ratio dipped from 1.69 to 1.68, which remained high by historical standards. With the price effect removed, total factory sales grew 0.1%.

After advancing 1.9% in October, nominal **wholesale sales** progressed another 0.5% in November to a new all-time high of C\$83.8 billion. Sales were up in just two of the seven subsectors surveyed, led by motor vehicles/parts (+10.1%, the largest monthly gain since 2020M07). Inventories fell 0.5% m/m, the first drop in 10 months. As a result, the inventory-to-sales ratio inched down from 1.51 to 1.50. In volume terms, wholesale sales were up 0.1%.

Housing starts fell 14.4K in December to a nine-month low of 248.6K (seasonally adjusted and annualized). Urban starts dropped 12.9K to 227.7K on declines in both the single-family segment (-5.5K to a post-pandemic low of 44.9K) and the multi-family segment (-7.4K to 182.9K). At the provincial level, gains in Ontario (+5.9K to 108.5K) and British Columbia (+10.0K to 58.6K) were more than offset by declines in Alberta (-4.9K to 26.8K) and Quebec (-16.4K to 33.4K). Outside of the pandemic lockdown, this was the lowest number of starts recorded in Quebec since August 2018. In 2022 as a whole, starts decreased 4.1% Canada wide to

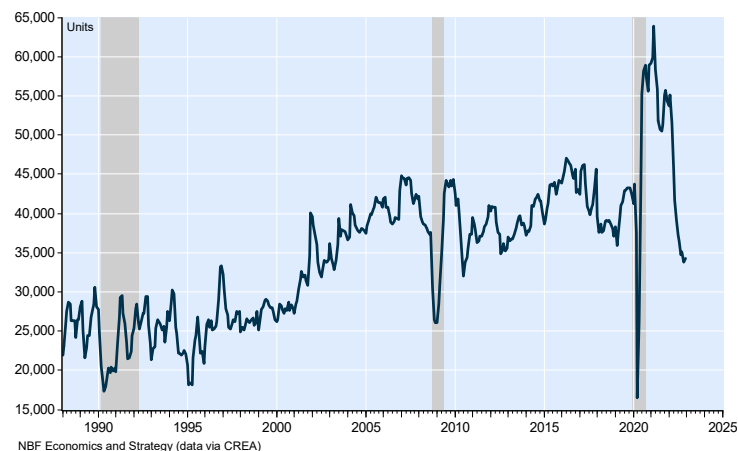
263.2K, which was still the second-highest level ever recorded in the country. The decline was driven by Quebec (-16.2%) and, to a lesser extent, Ontario (-4.4%).

With interest rates likely to stay elevated for some time, we expect housing demand to remain muted in the first half of 2023, which should lead to a further tapering of residential construction. However, with building permits showing residual strength and housing supply still tight, starts should stabilize at levels that remain relatively strong on a historical basis (about 210K-220K).

Seasonally adjusted **home sales** crept up 1.3% in November, marking just the second monthly increase in the past 10 months. The number of transactions increased in Ontario (+4.7%) and British Columbia (+2.9%) but decreased in Quebec (-3.3%). On a 12-month basis, home sales were down 39.1% country wide, the steepest decline since 2009M01 outside of the lockdown period.

Canada: Home sales stabilized at a low level in December

Existing-home sales, seasonally adjusted data



There were 498,269 resale transactions concluded in the country in 2022, a decrease of 25.2% from the record high registered in 2021.

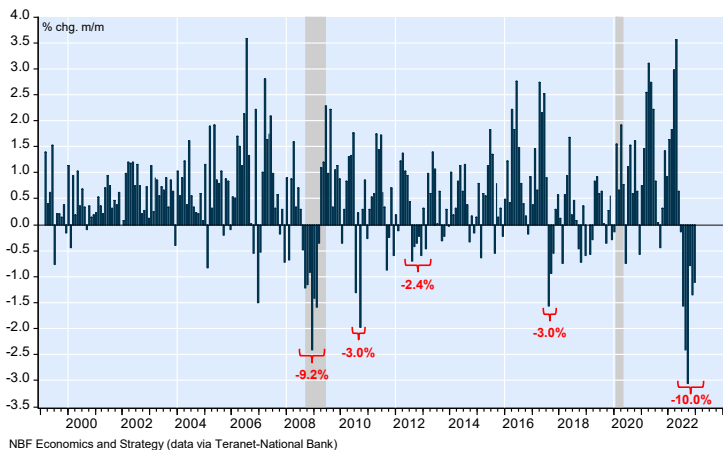
New home listings sank 6.4% m/m in December, a fifth decline in six months, which shows both buyers and sellers remained on the sidelines in the current market environment. Still, thanks to the low level of sales, the inventory-to-sales ratio rose from 4.1 to 4.2. Market conditions remained "favourable to sellers" in most provinces except British Columbia, Manitoba and Ontario where, according to our calculations, they had become "favourable to buyers".

The **Teranet-National Bank Composite National House Price Index™** dropped for a sixth month in a row in December, sliding 0.3% m/m. Six of the 11 markets in the composite index were down in the month, led by Winnipeg (-1.8%), Calgary (-1.1%), and Ottawa-Gatineau (-1.1%). With the December decline, prices at the national level were down 10.0% since May, the largest cumulative decrease since the inception of the index in the late 1990s. Year on year, prices were flat, marking the first time they did not increase over 12 months since the financial crisis of 2008-09. Year-on-year price increases in Calgary (12.4%), Edmonton (6.3%), Halifax (4.7%), and Montreal (2.5%) were entirely offset by

decreases in Ottawa-Gatineau (-1.0%), Vancouver (-1.5%), Toronto (-1.9%), Winnipeg (-2.0%), and Hamilton (-2.9%).

Canada: Historic loss of value in residential market

Monthly change in Teranet-National Bank HPI

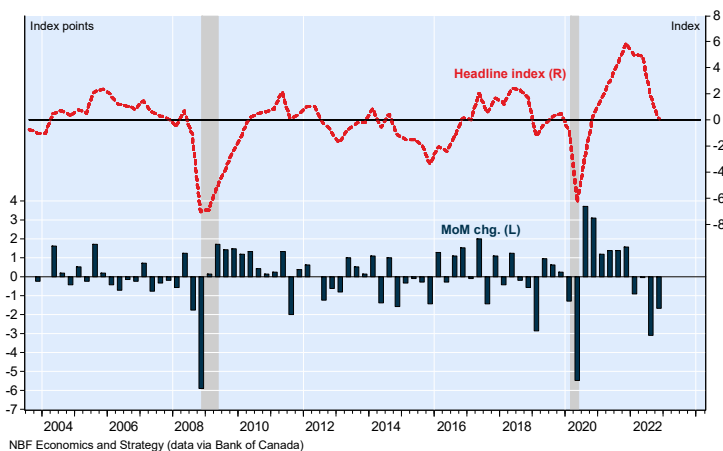


With the Bank of Canada likely raising its key interest rate again in December and mortgage rates remaining high, we believe that property prices will continue to be impacted in the coming months. All in all, we still expect the total correction to be limited to about 15% nationally by the end of 2023, provided that policy rate hikes are coming to an end and that rate cuts occur in the second half of 2023.

Ahead of next week's monetary policy decision, the **Bank of Canada** published its latest quarterly **Business Outlook Survey** (BOS). Conducted from November 14 to December 2, the survey showed operating conditions deteriorating in Q4, with the headline indicator (a composite measure of responses to several BOS questions) sinking below its 10-year average.

Canada: Business sentiment declined again in Q4

Business Outlook Survey Indicator

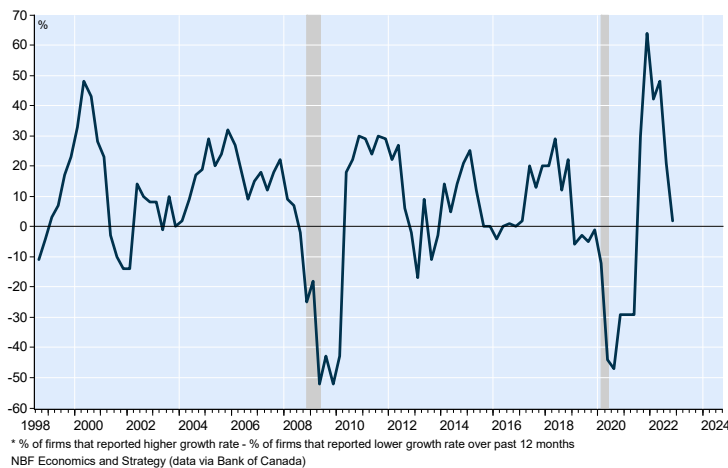


Here are the key takeaways from the survey:

- **Sales outlook:** The share of firms that reported higher sales growth in the past 12 months was almost equal to the share that reported lower growth. In Q3, the former largely exceeded the latter. Sales growth was expected to drop further in the 12 months ahead, as many businesses feared rising interest rates would curb demand. Firms in housing-related sectors were particularly pessimistic, while those operating in commodities-related sectors continued to expect robust sales.

Canada: Sales growth has slowed

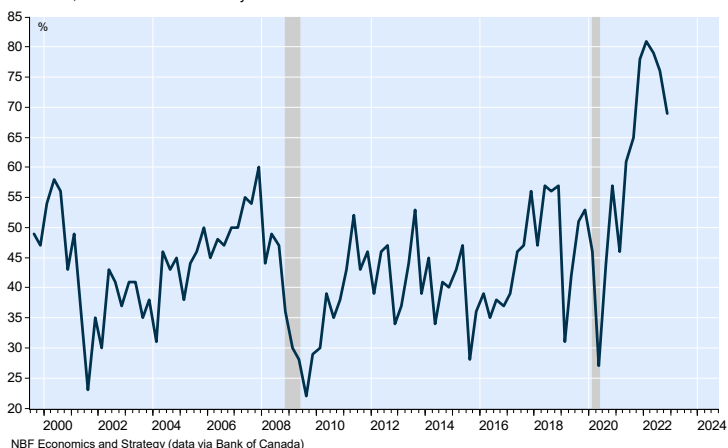
Balance of opinion on past sales volumes*, Business Outlook Survey



- **Capacity constraints and investment intentions:** Capacity constraints remained an issue, but pressures in this regard appeared to have peaked. The percentage of firms that indicated that they would have some/significant difficulty meeting an unexpected increase in demand eased for the third consecutive quarter. Combined with tighter financing conditions and a weaker sales outlook, this translated into a further moderation of investment intentions.

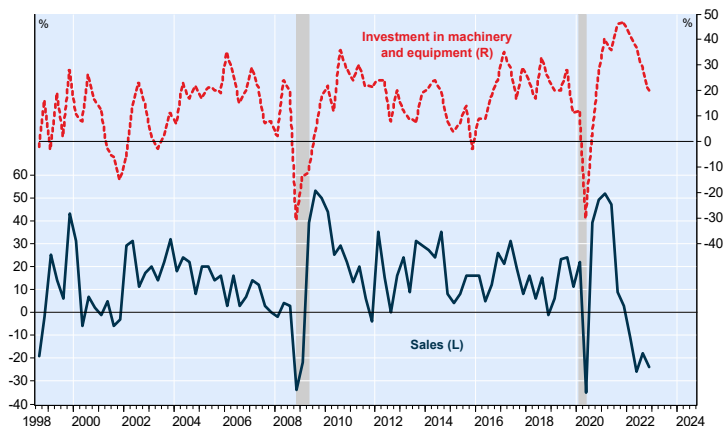
Canada: Capacity constraints remain an issue, but pressure is easing

Percentage of polled firms that stated they would have some/significant difficulty meeting unexpected increase in demand, Business Outlook Survey



Weaker sales outlook among factors weighing on investment intentions

Balance of opinion on future sales volume* and investment**, Business Outlook Survey

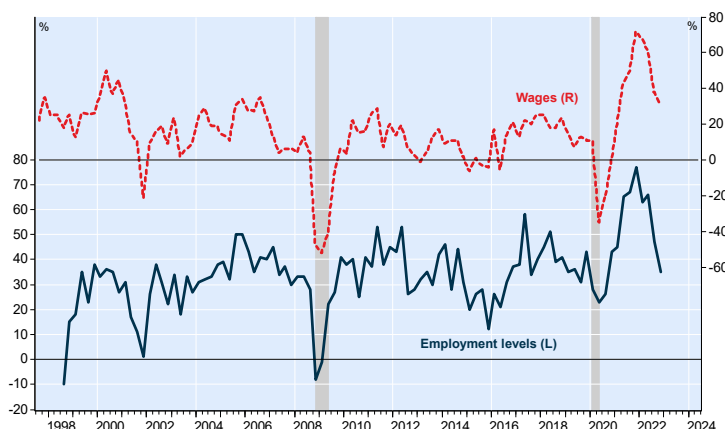


* % of firms expecting rate of increase to accelerate - % of firms expecting rate of increase to decelerate over next 12 months
 ** % of firms expecting spending to increase - % of firms expecting spending to decrease over next 12 months
 NBF Economics and Strategy (data via Bank of Canada)

- Employment intentions and wages:** Hiring intentions declined in the quarter and even moved below their pre-pandemic level. Still, almost half of polled businesses planned to expand payrolls to meet anticipated sales growth or to fill vacant positions. Finding suitable candidates to fill these positions seemed to be becoming easier. A growing number of firms characterized labour shortages as less intense than they were the year before, signalling an easing of labour market tensions. In keeping with this, average expected wage gains receded.

Canada: Labour market tightness eased further in Q4

Balance of opinion on future employment levels* and wages**, Business Outlook Survey

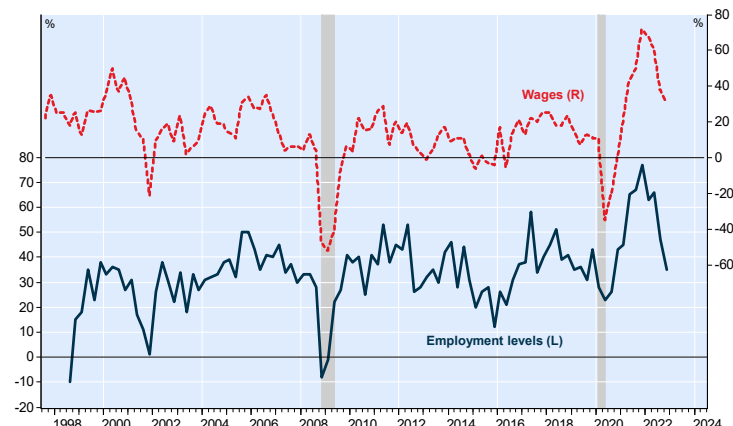


* % of firms expecting an increase - % of firms expecting a decrease over next 12 months
 ** % of firms expecting rate of increase to accelerate - % of firms expecting rate of increase to decelerate over next 12 months
 NBF Economics and Strategy (data via Bank of Canada)

- Prices:** A greater proportion of firms (from 77% to an all-time high of 84%) expected inflation to exceed 3% over the next two years. That said, most businesses continued to believe price pressures would ease over the longer run. Five-year ahead expectations remained well anchored within the central bank's target band. Providing further reassurance, polled firms expected input/output price growth to decelerate considerably over the next 12 months. Some also expected to "gradually return to price-setting practices they used before the pandemic".

Canada: Labour market tightness eased further in Q4

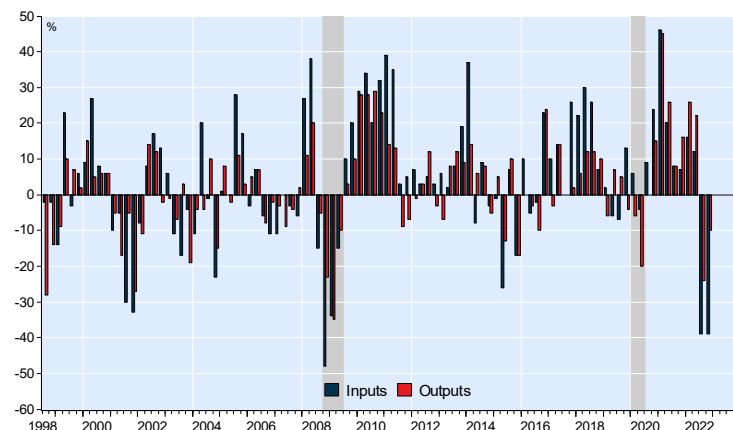
Balance of opinion on future employment levels* and wages**, Business Outlook Survey



* % of firms expecting an increase - % of firms expecting a decrease over next 12 months
 ** % of firms expecting rate of increase to accelerate - % of firms expecting rate of increase to decelerate over next 12 months
 NBF Economics and Strategy (data via Bank of Canada)

...but moderation could be on the way

Balance of opinion on input/output prices*, Business Outlook Survey



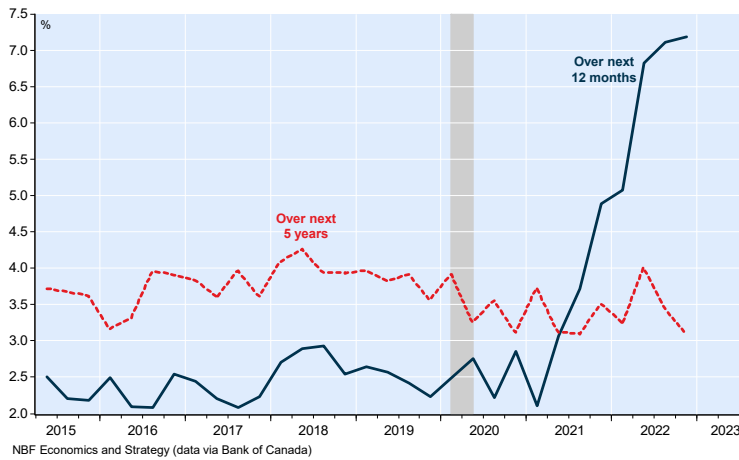
* % of firms expecting rate of increase to accelerate - % of firms expecting rate of increase to decelerate over next 12 months
 NBF Economics and Strategy (data via Bank of Canada)

- Economic outlook:** Most polled businesses expected the economy to tip into recession within the next 12 months, but a majority of these thought the downturn would be mild. Still, some were already tightening budgets and/or putting plans to expand on hold. If a recession were to come about, respondents thought it would most likely be caused by higher interest rates and/or a reduction in consumer purchasing power (caused in large part by higher prices).

Published at the same time as the BOS, the **Survey of Consumer Expectations** showed near-term inflation expectations continued to rise in Q4. Longer-term expectations, on the other hand, eased and were below pre-pandemic levels.

Consumer long-term inflation expectations appear well anchored

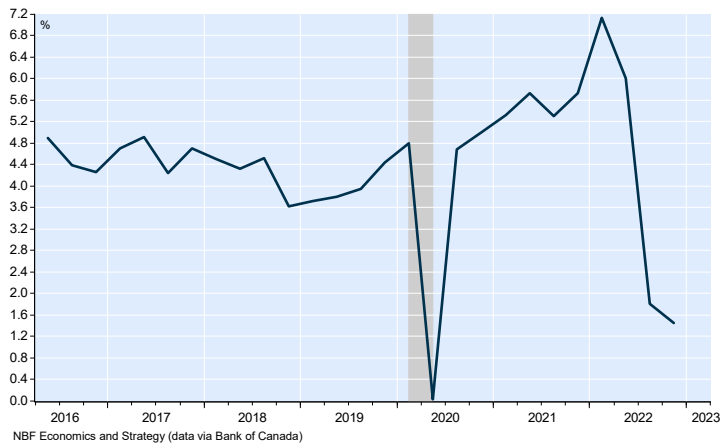
Inflation expectations, Survey of Consumer Expectations



As for the economy as a whole, most Canadians expected it would tip into recession within 12 months. In the meantime, some consumers planned to postpone some purchases at a time where credit had become harder to access and real wages were falling. Consumers also appeared concerned about rising interest rates, and they believed that this would contribute to moderate home price growth over the next 12 months.

Canada: Consumers expect rising interest rates to take toll on housing

Expected change in home prices over next 12 months, Survey of Consumer Expectations

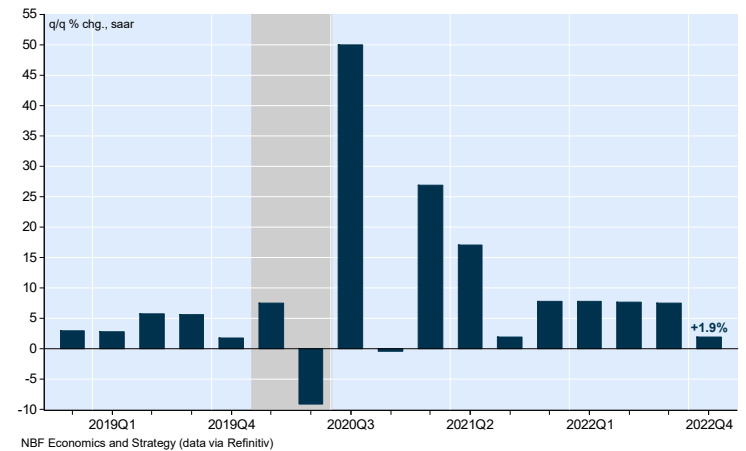


UNITED STATES: Retail sales were down 1.1% in December. Economists were expecting them to decline 0.9%. Adding to the disappointment, November's sales growth was revised down from -0.6% to -1.0%. Sales of motor vehicles/parts contributed negatively to the headline print, contracting 1.2%. Without autos, retail outlays retreated 1.1% as small gains for building materials (+0.3%) and sporting goods (+0.1%) were more than offset by steep declines for gasoline stations (-4.6%), furniture (-2.5%), non-store retailers (-1.1%), miscellaneous items (-1.1%), and restaurants/bars (-0.9%). Sales were down in 10 of the 13 categories surveyed. Core sales (i.e., sales excluding food services, auto dealers, building materials, and gasoline stations), which are used to calculate GDP, retraced 0.7%.

Retail sales came in below consensus expectations in December, dropping at the fastest pace in a year. Part of the decline was due to the automotive sector, which suffered from lower prices and reduced demand in a higher rate environment. Gasoline stations receipts also fell, but this was expected in the light of plunging pump prices. However, even excluding these two categories, outlays still contracted 0.7%, with a clear majority of surveyed categories moving down. Lower spending in restaurants and bars was another cause for concern, as it points to a weak showing for services consumption in the month. It is worth noting, though, that December's results were probably affected by poor weather conditions. During the holiday season, the United States was hit by several adverse weather events, including historic snowstorms and severe cold snaps. These likely weighed on household spending during the crucial Christmas period, as evidenced by a 6.6% drop in outlays at department stores. Be that as it may, December's disappointing result will translate into a weaker contribution from goods consumption to Q4 GDP growth than previously expected, as core sales advanced just 1.9% annualized in the final three months of 2022, which is far less than what we had been used to in recent quarters. This slowdown was due in part to the long-awaited rebalancing of consumption towards services. In our view, it was also symptomatic of the growing financial pain being felt by households as they suffer the combined effect of a drop in purchasing power and higher interest rates.

United States: Growth in goods consumption slowed down in Q4

Core nominal retail sales (excluding food services, auto dealers, building materials, and gasoline stations)



For 2022 as a whole, total retail sales rose 9.2%, the second-best annual increase since this data began to be compiled in 1997.

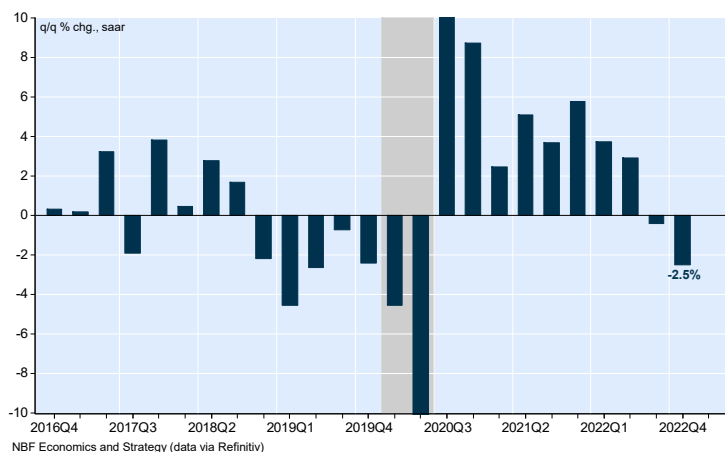
Industrial production shrank 0.7% in December, which was way more than the 0.1% decline expected by consensus. What's more, the prior month's result underwent a significant downward revision from -0.2% to -0.6%. After retreating 1.1% in November, manufacturing output slumped 1.3% in the final month of 2022, marking the sharpest two-month contraction since 2009M04 (outside of the pandemic lockdown). Output declines were recorded in December for both durable goods (-1.1%) and non-durable goods (-1.5%). Regarding durables, most major industries posted declines of at least 1%, with machinery (-3.4%) and wood

products (-2.1%) registering particularly severe losses. Auto output fell 1.0%. Regarding non-durables, all major segments showed declines, led by printing (-3.4%) and petroleum/coal products (-3.1%). Utilities output jumped 3.8% as colder-than-usual temperatures stimulated electricity demand. Finally, production in the mining sector pulled back 0.9%.

On a quarterly basis, industrial production fell an annualized 1.7% in Q4 after gaining 1.8% in Q3. This marked the first decline for this indicator since the pandemic lockdown. Manufacturing output fared even worse, retracing 2.5%.

United States: Factory output shrank for second quarter in a row in Q4

Manufacturing production

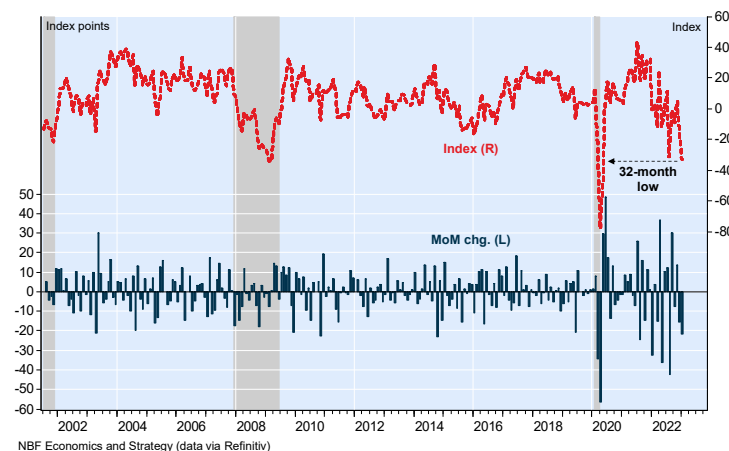


Capacity utilization in the industrial sector slid six ticks to 78.8%, its lowest level in a year. In the manufacturing sector, it went from 78.5% to a 15-month low of 77.5%.

The **Empire State Manufacturing Index** of general business conditions plunged 21.7 points in January to -32.9, its lowest level since March 2009 outside the first months of the pandemic. It was also significantly below consensus expectations calling for a -8.7 print. Moreover, it was indicative of a sharp deterioration in operating conditions at factories in New York State and surrounding areas in a context of slowing demand and bloated inventories. After progressing in December, the shipment sub-index declined abruptly from 5.3 to -22.4. The new orders tracker sank as well, moving from -3.6 to -31.1, its fourth lowest print in data going back to 2000. As demand evaporated, unfilled orders contracted the most since the early days of the pandemic (from -11.2 to -14.3). The number of employees tracker slid as well (from 14.0 to 2.8) but held just above the 0 mark separating expansion from contraction, a development inconsistent with a steep contraction in the average workweek (from -4.5 to -10.4). Supply chain pressures continued to ease with the delivery times tracker (from 1.9 to 0.9) remaining near 0 for the sixth month running. Input prices (from 50.5 to 33.0) and output prices (from 25.2 to 18.8) continued to advance, albeit at the weakest pace in two years. One of the few bright spots in the report was the improvement in business expectations for the next six months (from 6.3 to 8.0).

U.S.: New York Fed gauge signals steep contraction in goods sector

Empire State Manufacturing Survey. Last observation: January 2023



The **Philly Fed Manufacturing Business Outlook Index** painted a slightly more optimistic picture of the situation prevailing in the manufacturing sector as it rose from -13.7 in December to a still-depressed -8.9 in January. New orders (from -22.3 to -10.9) continued to contract, albeit at a slower pace than in the prior month, while shipments (from -0.9 to 11.1) and employment (from -0.9 to 10.9) swung back into expansion territory. Supplier delivery times (from -7.2 to -5.6) shortened for the sixth time in seven months and input price inflation (from 36.3 to 24.5) was the weakest since August 2020. The index tracking future business activity improved from -0.9 to a nine-month high of 4.9.

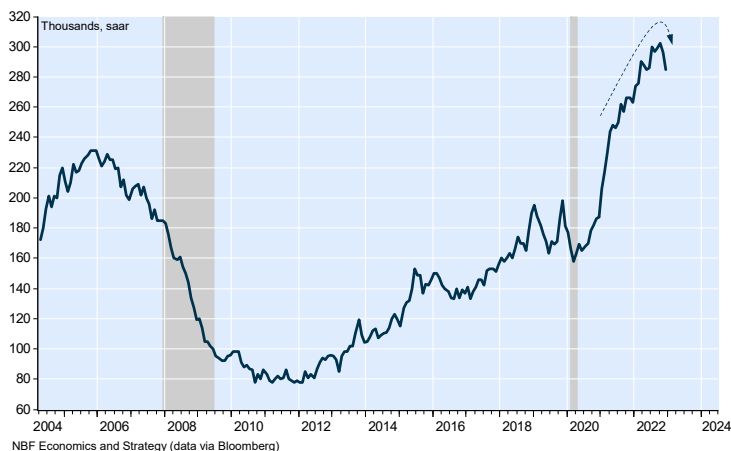
After three consecutive increases from August to November, the **Producer Price Index** for final demand sank 0.5% in December, a bigger decline than the 0.1% pullback expected by consensus. Goods prices dropped 1.6%, led by declines in both the energy segment (-7.9%) and the food segment (-1.2%). Prices in the services category, meanwhile, crept up 0.1%, the weakest increase in eight months. The core PPI, which excludes food and energy, increased 0.1%, in line with analysts' expectations. Year over year, the headline PPI slid from 7.3% to 6.2%, its lowest level since March 2021. Excluding food and energy, it slipped from 6.1% to a 19-month low of 5.6%.

Housing starts retreated from 1,401K in November (initially estimated at 1,427K) to 1,382K in December, which was still above the median economist forecast of 1,358K units. The decline was entirely due to a 19.0% drop in the multi-family segment to a 15-month low of 473K. Ground breaking in the single-family category increased 11.3% to 909K.

Building permits fell from 1,351K to a post-pandemic low of 1,330K on a 6.5% decline in the single-family segment (to 730K, the least since July 2016 outside of the lockdown period). Permits delivered for construction of multi-unit dwellings, meanwhile, progressed 5.3% to 600K. Although it remained close to the 50-year high reached back in October (302K), the number of authorized residential projects for which construction had not yet begun fell for the second month in a row, slipping from 296K to 285K. This suggests capacity pressures are easing in the real estate sector, allowing builders to tackle bloated work backlogs.

U.S.: Easing capacity pressures allowing builders to address backlogs

New privately owned housing units authorized but not yet started



In 2022 as a whole, housing starts retraced 3.1% to 1,555K. This marked the first decline for this indicator since 2009.

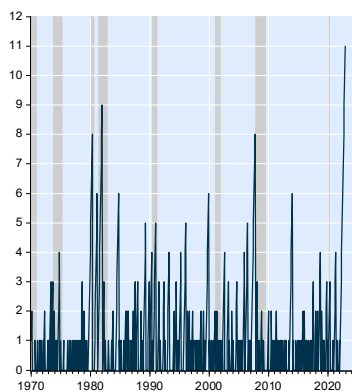
Homebuilder sentiment, meanwhile, seems to be stabilizing at a low level. In January, the **National Association of Home Builders Market Index** rose 4 points to 35. NAHB data also signaled a slight improvement in prospective buyer traffic, with the associated gauge climbing from 20 to 23.

After 10 consecutive declines from January to November, **existing-home sales** slipped another 1.5% in December to 4,020K (seasonally adjusted and annualized), bringing the total drawback since the beginning 2022 to 38.1%. This was also the lowest level of sales observed in 12 years. Contract closings sagged for both single-family dwellings (-1.1%) and condos (-4.5%).

U.S.: Resale market in a deep freeze

Existing-home sales

Number of consecutive monthly declines in home resales



NBF Economics and Strategy (data via Datastream)

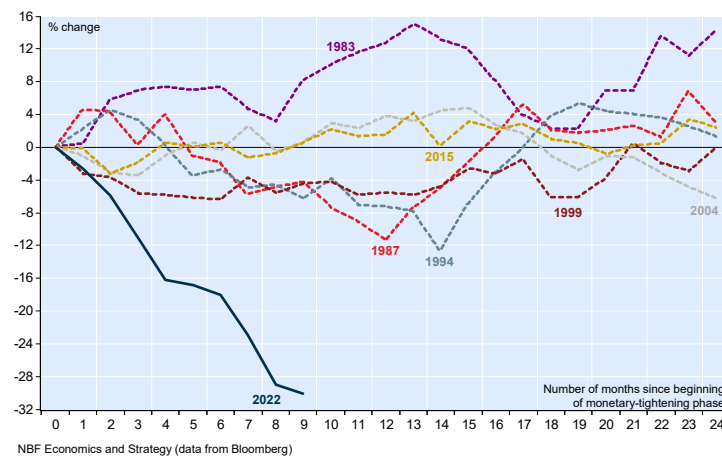
Despite lower sales, the inventory-to sales ratio still went down from 3.3 to 2.8 (<5 indicates a tight market for the National Association of Realtors) as supply tumbled. To be sure, the inventory of properties for sale totaled just 970K (not seasonally adjusted), the second lowest level ever recorded in a month of December. Still, properties that sold in the last month of 2022 had stayed on the market for 26 days on average, up from 24 in November and just 19 at the end of 2021.

Insufficient supply and low interest rates during the pandemic helped push prices up at breakneck speed. However, with demand sinking and with mortgage rates having risen sharply, we expect price increases to moderate quickly. Although it was only one month's data, December's stats seem to be in line with this forecast, with the median price paid for a previously owned home retracing from \$372,600 to a 10-month low of \$366,900. This was up 2.3% y/y, the weakest progression since 2020M05 and much less than what had been recorded at the height of the pandemic boom (+25.2% in May 2021).

The housing market may face more woes down the road given higher borrowing costs and the associated drop in mortgage applications. We expect sales to remain below their pre-pandemic level for some time and home prices to moderate further going forward.

U.S.: Housing freeze hints at rapid transmission of monetary tightening

Monthly change in home resales in the two years following the beginning of Fed tightening phases



NBF Economics and Strategy (data from Bloomberg)

For all of last year, 5,026K homes were sold, the least since 2014 and down 17.8% from 2021. This was the biggest annual decline since 2008.

Initial jobless claims fell from 205K to a four-month low of 190K in the week to January 14. Continued claims, for their part, edged up from 1,630K to 1,647K.

WORLD: The **Chinese economy** stagnated in Q4 as zero-COVID policies continued to curtail activity. Indeed, real GDP remained flat on a quarterly basis after expanding 3.9% annualized in Q3. Year on year, it grew only 2.9%, but this was still significantly above the median economist forecast of 1.6%. Full-year GDP growth came in at 3.0%. Other than in 2020, when GDP expanded just 2.2% as a result of the pandemic, this was the weakest growth figure registered since 1976. After a difficult start caused by a huge wave of COVID-19 infections following the abandonment of health restrictions, the Chinese economy should rebound strongly in 2023, supported by elevated household savings. The housing sector, meanwhile, should benefit from recently unveiled support programs aimed at indebted property developers. However, risks remain, including those associated with lower foreign demand amid a global economic slowdown.

In **Japan**, the national headline **consumer price index (CPI)** rose 4.0% y/y in December, two ticks more than in November and in



line with consensus expectations. It was also the highest figure recorded in 30 years. The price of fresh food progressed 4.9% while energy prices jumped 15.2%. Excluding those two categories, the CPI advanced 3.0%, two ticks more than in the prior month. CPI excluding fresh food, the core measure preferred by the Bank of Japan, went from 3.7% to 4.0%, twice the central bank's target of 2% and the fastest rate since 1981.

Without surprise, the **Bank of Japan** maintained its overnight interest rate at -0.1% at the end of its monetary policy meeting. However, what analysts really wanted to know was whether it would abandon yield curve control. In December, the BoJ had unexpectedly increased the upper limit of its target band for 10-year government bonds from 0.25% to 0.5%, leading analysts to believe that the central bank would announce an end to its YCC policy at this week's meeting. These expectations turned out to be unfounded, as the BoJ stated that it would continue large-scale purchases to defend 10-year yields at +0.5%. It also enhanced its loan provision to commercial banks in a bid to encourage them to buy more debt and thus help stabilize the yield curve.

What we'll be watching

IN THE U.S., the Bureau of Economic Analysis will publish its advance estimate of **Q4 GDP** on Thursday. Growth likely lost some momentum in the quarter, hampered by sinking residential investment and a sharp decline in real exports. Household spending, on the other hand, should have remained quite strong, lifting the headline growth figure. Positive contributions are also expected from non-residential investment, government spending and inventories. Our call is for a 2.0% annualized expansion. The latest report on **personal income** should show a decent increase in December (+0.3%) thanks to a strong gain in the wage/salary segment. Personal spending, meanwhile, could have contracted 0.1% if previously released data on retail sales is any guide. Still in December, the annual **core PCE deflator** may have moved down from 4.7% to a 14-month low of 4.4%. The week will also feature the release of **durable goods orders** for December. Headline bookings could have benefited from a surge in civilian plane orders and advanced 3.0%. Ex-transportation orders, on the other hand, could have retraced 0.3%. We'll also get an update on the housing market with the release of December's **new home sales**. The latter could have suffered from elevated borrowing costs and moved down to 600K. Some clues on the state of the manufacturing sector in January will be available with the release of **S&P Global's PMI**.

	Previous	NBF forecasts
Thurs: GDP (Q4 q/q chg. saar, first est.)	3.2%	2.0%
Durable goods orders (December, m/m chg.)	-2.1%	3.0%
New home sales (December, saar)	640K	600K
Fri: PCE deflator (December, y/y chg.)	5.5%	5.0%
Core PCE deflator (December, y/y chg.)	4.7%	4.4%

IN CANADA, the **Bank of Canada** will make its first monetary policy decision of the new year and, as had been the case before recent meetings, uncertainty surrounding the decision is elevated. The debate is between a "no change" decision and a 25-basis point rate increase, with interest rate markets leaning towards a hike (roughly 75% implied probability). While labour markets remain very tight, inflation has come in cooler than expected in recent months and the housing market is still struggling. As such, we'd argue that the prudent approach is to remain on the sidelines at this juncture, but we concede that this decision could easily go either way. We'll also be focused on the guidance the Bank provides going forward. Policymakers will likely provide their usual data dependence caveat, but we expect the statement to be biased towards holding rates steady from here. The rate statement will be delivered alongside a new Monetary Policy Report with updated economic/inflation projections and will be followed by a Tiff Macklem press conference. We'll also keep an eye on the publication of January's **CFIB Business Barometer** and November's **Survey of Employment, Payrolls and Hours (SEPH)**.

	Previous	NBF forecasts
Wed: Bank of Canada overnight rate	4.25%	4.25%

ELSEWHERE IN THE WORLD, the **Bank of Japan** will hold its first monetary policy meeting since the relaxation of its yield curve control in December. Still in Japan, several December indicators will be released including the **national CPI** and the **trade balance**. In the Eurozone, we'll keep an eye on the publication of January's **ZEW Financial Market Survey**.



Economic Calendar – Canada & U.S.

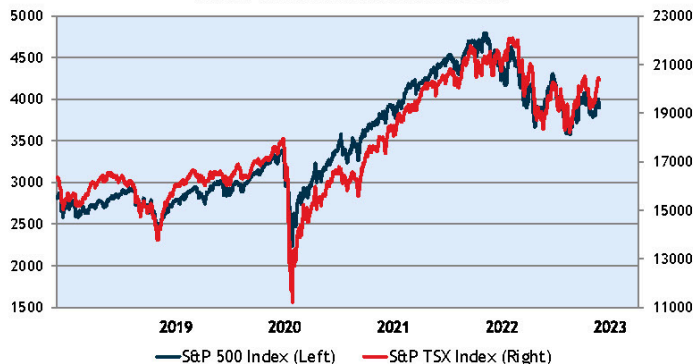
Economic releases & events								Earnings announcements			
	Time	Country	Release	Period	Previous	Consensus Estimate	NBF Estimate	Company	Time	Qtr	Cons. EPS
Monday Jan 23								Synchrony Financial	06:00	Q4 22	1.11
								Baker Hughes Co	07:00	Q4 22	0.40
								Zions Bancorp NA	Aft-mkt	Q4 22	1.64
								Brown & Brown Inc	Aft-mkt	Q4 22	0.46
Tuesday Jan 24								Metro Inc/CN	Bef-mkt	Q1 23	0.97
								Canadian National Railway Co	Aft-mkt	Q4 22	2.09
								Johnson & Johnson	06:45	Q4 22	2.23
								Verizon Communications Inc	07:00	Q4 22	1.19
								Invesco Ltd	07:00	Q4 22	0.36
								Union Pacific Corp	07:45	Q4 22	2.80
								Intuitive Surgical Inc	Aft-mkt	Q4 22	1.27
								F5 Inc	Aft-mkt	Q1 23	2.33
								Texas Instruments Inc	Aft-mkt	Q4 22	1.97
								Microsoft Corp	Aft-mkt	Q2 23	2.30
Wednesday Jan 25	7:00	US	MBA Mortgage Applications	Jan-20	27.90%	--		ATS Corp	0:00	Q3 23	0.52
	10:00	CA	Bank of Canada Rate Decision	Jan-25	4.25%	4.50%	4.25%	Novagold Resources Inc	Aft-mkt	Q4 22	-0.03
								Celestica Inc	Aft-mkt	Q4 22	0.54
								Automatic Data Processing Inc	Bef-mkt	Q2 23	1.93
								Nasdaq Inc	07:00	Q4 22	0.65
								Tesla Inc	Aft-mkt	Q4 22	1.13
								AT&T Inc	Bef-mkt	Q4 22	0.56
								Textron Inc	Bef-mkt	Q4 22	1.07
								General Dynamics Corp	Bef-mkt	Q4 22	3.54
								Freeport-McMoRan Inc	Bef-mkt	Q4 22	0.43
Thursday Jan 26	8:30	US	Chicago Fed Nat Activity Index	Dec	-6.00%	--		Dow Inc	Bef-mkt	Q4 22	0.58
	8:30	US	GDP Annualized QoQ	4Q A	3.20%	2.60%	2.00%	Southwest Airlines Co	Bef-mkt	Q4 22	0.09
	8:30	US	Personal Consumption	4Q A	2.30%	2.70%		Comcast Corp	Bef-mkt	Q4 22	0.77
	8:30	US	Initial Jobless Claims	Jan-21	190k	205k		Valero Energy Corp	Bef-mkt	Q4 22	7.40
	8:30	US	Durable Goods Orders	Dec P	-2.10%	2.50%		Northrop Grumman Corp	Bef-mkt	Q4 22	6.57
	8:30	US	Durables Ex Transportation	Dec P	0.10%	-0.20%		Sherwin-Williams Co/The	Bef-mkt	Q4 22	1.86
	10:00	US	New Home Sales	Dec	640k	613k		Mastercard Inc	Bef-mkt	Q4 22	2.58
	10:00	US	New Home Sales MoM	Dec	5.80%	-4.20%		Rockwell Automation Inc	Bef-mkt	Q1 23	1.87
								Archer-Daniels-Midland Co	Bef-mkt	Q4 22	1.66
								American Airlines Group Inc	Bef-mkt	Q4 22	1.15
Friday Jan 27	8:30	US	Personal Income	Dec	0.40%	0.20%		Church & Dwight Co Inc	0:00	Q4 22	0.60
	8:30	US	Personal Spending	Dec	0.10%	-0.10%		Roper Technologies Inc	Bef-mkt	Q4 22	3.77
	8:30	US	PCE Deflator YoY	Dec	5.50%	5.00%	5.00%	HCA Healthcare Inc	Bef-mkt	Q4 22	4.78
	10:00	US	Pending Home Sales MoM	Dec	-4.00%	-1.00%		Chevron Corp	Bef-mkt	Q4 22	4.32
	10:00	US	U. of Mich. Sentiment	Jan F	64.6	64.6		American Express Co	07:00	Q4 22	2.21
								Charter Communications Inc	07:00	Q4 22	8.70
								Colgate-Palmolive Co	07:00	Q4 22	0.77

Source: Bloomberg



Data Update

North American Stock Indices



CBOE SPX Volatility (VIX)



Stock Indices

Level	Total return performances (in C\$ / in local currency)							10-year Hi / Low	
	1 week	1 month	3 months	YTD	1 year	5 years (ann.)	Hi (Date)	Low (Date)	
Canada									
S&P/TSX Composite	20341.4	0.7%	6.2%	9.8%	5.1%	-1.1%	7.7%	22087.2 (29 Mar 2022)	11228.5 (23 Mar 2020)
U.S.									
S&P 500 Composite	3898.9	-1.5% / -2.1%	0.8% / 2.3%	3.8% / 6.0%	1.2% / 1.6%	-5.7% / -12.6%	10.4% / 8.7%	4796.6 (3 Jan 2022)	1486.0 (21 Jan 2013)
Dow Jones Industrials	33044.6	-2.7% / -3.3%	-0.5% / 1.0%	7.0% / 9.2%	-0.7% / -0.2%	3.9% / -3.7%	8.9% / 7.2%	36799.7 (4 Jan 2022)	13649.7 (21 Jan 2013)
Nasdaq Composite	10852.3	-0.7% / -1.4%	1.5% / 3.0%	-0.3% / 1.9%	3.3% / 3.7%	-17.7% / -23.7%	10.9% / 9.1%	16057.4 (19 Nov 2021)	3116.3 (25 Feb 2013)
World									
Euro Stoxx 50	4094.3	-0.3% / -0.8%	8.1% / 7.5%	27.7% / 18.4%	8.8% / 8.0%	1.6% / -0.9%	4.6% / 5.6%	4401.5 (16 Nov 2021)	2385.8 (18 Mar 2020)
FTSE 100	7747.3	1.7% / -0.6%	5.8% / 5.4%	20.9% / 12.5%	6.4% / 4.0%	3.6% / 5.9%	3.3% / 4.0%	7877.5 (22 May 2018)	4993.9 (23 Mar 2020)
TOPIX	1915.6	2.1% / 0.4%	4.2% / -0.9%	15.0% / 0.8%	3.6% / 1.3%	-1.7% / 2.5%	1.3% / 2.7%	2118.9 (14 Sep 2021)	887.8 (23 Jan 2013)
CSI 300	4156.0	3.8% / 3.4%	8.4% / 6.9%	15.2% / 10.3%	9.7% / 7.4%	-10.1% / -11.1%	2.0% / 1.5%	5807.7 (10 Feb 2021)	2087.0 (20 Mar 2014)
MSCI World	627.5	-0.4% / -1.0%	2.9% / 4.4%	9.2% / 11.5%	3.3% / 3.7%	-4.9% / -11.8%	7.2% / 5.5%	758.9 (16 Nov 2021)	346.2 (24 Jun 2013)
MSCI Emerg. Markets	1027.9	1.6% / 1.0%	6.0% / 7.6%	16.8% / 19.3%	7.1% / 7.5%	-7.6% / -14.3%	0.8% / -0.8%	1444.9 (17 Feb 2021)	688.5 (21 Jan 2016)
MSCI EAFE	2070.0	1.0% / 0.4%	5.8% / 7.3%	20.2% / 22.8%	6.1% / 6.5%	0.2% / -7.0%	4.0% / 2.3%	2404.8 (6 Sep 2021)	1354.3 (23 Mar 2020)

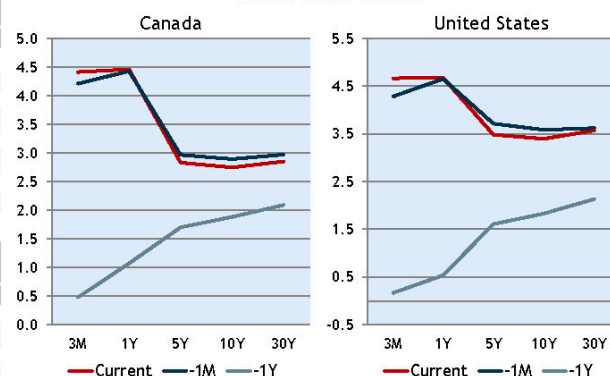
Canadian Bond Indices

FTSE Indices	Total return performances				
	1 week	1 month	YTD	1 year	5 years (ann.)
Overall Universe	0.9%	1.4%	4.0%	-5.0%	1.2%
Long Term Universe	1.1%	2.4%	7.1%	-10.4%	0.6%
Mid Term Universe	1.2%	1.4%	4.3%	-3.6%	1.7%
Short Term Universe	0.6%	0.7%	1.7%	-1.5%	1.4%
Federal Universe	0.9%	1.1%	3.4%	-3.7%	0.9%
Provincial Universe	0.9%	1.7%	5.0%	-6.6%	1.1%
Municipal Universe	0.9%	1.6%	4.5%	-5.9%	1.4%
Corporate Universe	1.0%	1.4%	3.4%	-4.2%	1.9%

Bond Yield Curve

	3 mths	1 year	5 years	10 years	30 years
Canada	4.41%	4.46%	2.83%	2.75%	2.85%
1 week chg (bps)	+4	-16	-20	-15	-9
1 month chg (bps)	+20	+3	-13	-15	-12
1 year chg (bps)	+393	+339	+113	+87	+76
U.S.	4.67%	4.68%	3.49%	3.40%	3.57%
1 week chg (bps)	+6	-1	-6	-5	-1
1 month chg (bps)	+38	+2	-23	-18	-6
1 year chg (bps)	+449	+414	+187	+157	+143

Bond Yield Curve



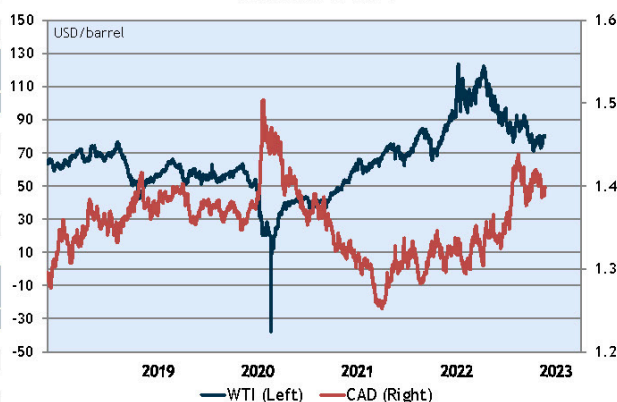
Currencies

	latest	1 week ago	1 month ago	January 1st	1 year ago
USDCAD	1.349	1.340	1.369	1.355	1.252
US cents per cad	0.741	0.746	0.730	0.738	0.799
EURCAD	1.455	1.448	1.448	1.446	1.420
EURUSD	1.079	1.081	1.058	1.067	1.135
USDJPY	128.5	129.8	137.0	131.9	114.3
GBPUSD	1.236	1.216	1.213	1.203	1.363
USDCNY	6.775	6.755	6.975	6.952	6.352

Commodities

	latest	1 week ago	1 month ago	January 1st	1 year ago
Oil - WTI (\$/barrel)	80.33	78.39	75.19	80.26	86.96
Oil - Brent (\$/barrel)	86.52	84.93	83.84	83.33	91.91
Gold (\$/oz)	1920.24	1890.77	1785.97	1815.64	1840.16
CRB Metals (index)	0.0	0.0	0.0	0.0	0.0

CADUSD / WTI



Data Update

Jobs				
	Unemployment rate		Employment change	
	Latest	12 months ago	Latest	12-month avg
Canada	5.0%	6.0%	104.0K	32.8K
Ontario	5.3%	6.1%	42.1K	8.7K
Quebec	4.0%	4.7%	2.6K	6.6K
British Columbia	4.2%	5.4%	16.6K	5.2K
Alberta	5.8%	7.5%	24.5K	7.4K
United States	3.5%	3.9%	223.0K	375.3K
Eurozone	6.5%	7.1%	---	---
Japan	2.5%	2.8%	-230.0K	23.3K

Inflation				
	Y/Y		Y/Y	
	Latest	3-mth ann.	6 months ago	1 year ago
Canada				
Headline CPI	6.3%	3.4%	8.1%	4.8%
Average core	5.6%	---	5.6%	3.6%
United States				
Headline PCE	5.5%	3.3%	6.5%	5.9%
Core PCE	4.7%	3.6%	4.9%	4.8%
Eurozone				
Headline CPI	9.2%	---	8.6%	5.0%
Core CPI	5.2%	---	3.7%	2.6%
Japan				
Headline CPI	4.0%	4.3%	2.3%	0.8%
Core CPI	4.1%	5.2%	2.2%	0.4%

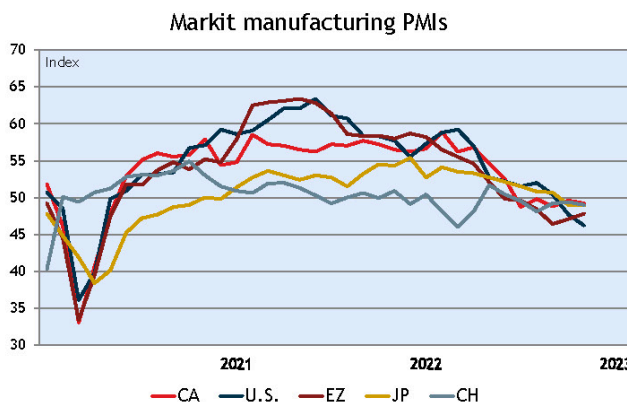
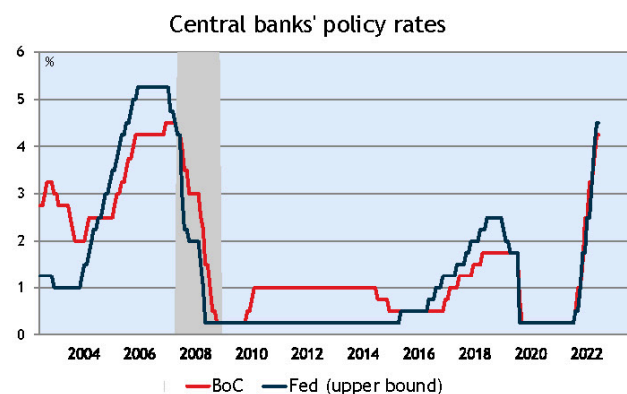
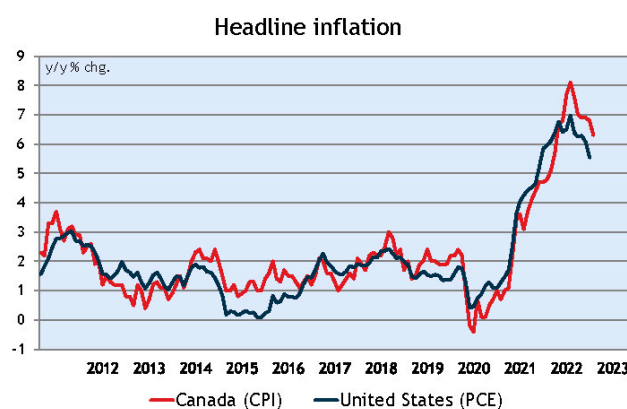
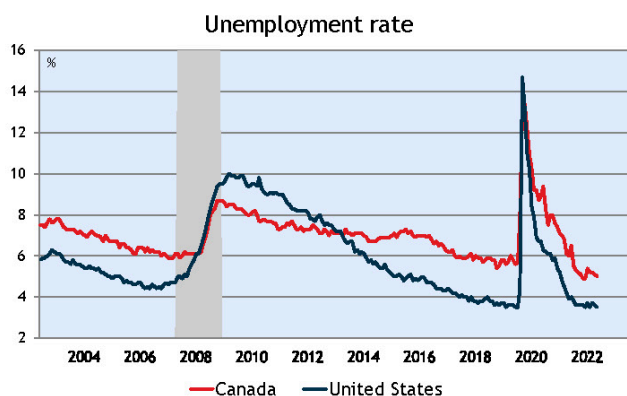
Housing Market					
	Median home price	Mort. payment share of income / 12 months ago		Housing starts 3-month avg. / 10yr avg	
		67.3% / 46.3%	2.3%	258.6K / 216.6K	
Canada	\$801,423	67.3% / 46.3%	2.3%	258.6K / 216.6K	
Toronto	\$1,254,833	93.1% / 63.5%	0.6%	49.2K / 38.0K	
Vancouver	\$1,377,514	102.1% / 71.5%	0.9%	30.7K / 23.9K	
Montreal	\$545,788	49.2% / 33.4%	5.1%	17.7K / 23.0K	
Calgary	\$501,009	37.2% / 25.1%	14.3%	17.7K / 12.8K	
United States	---	---	9.2%	1403.0K / 1251.5K	

Manufacturing Sector				
	Markit manufacturing PMI		Industrial production	
	Latest	6-month trend	3 mth ann chg	12-month chg
Canada	49.2	▼	-4.1%	1.9%
United States	46.2	▼	-5.2%	1.6%
Eurozone	47.8	▼	-0.4%	1.9%
Japan	48.9	▼	-17.5%	-0.9%
China	49.0	▼	---	---

Central Banks				
	Policy rate	12 months ago	Trend	Next announce
Bank of Canada	4.25%	0.25%	▲	1/25/23
Fed Reserve (upper bound)	4.50%	0.25%	▲	2/01/23

GDP Growth				
	Q/Q ann		Y/Y	
	Latest	Q/Q ann Previous	Latest	6 months ago
Canada	2.9% (Q3)	3.2% (Q2)	3.9%	4.7%
United States	3.2% (Q3)	-0.6% (Q2)	1.9%	1.8%
Eurozone	1.2% (Q3)	3.4% (Q2)	2.3%	4.3%
Japan	-0.8% (Q3)	4.5% (Q2)	1.7%	1.4%

Contributions to real GDP growth - Canada				
	Q3 2022	Q2 2022	Q1 2022	Q4 2021
GDP	2.9	3.2	2.8	6.9
Consumption	-0.5	4.8	1.2	0.7
Business Investment	0.4	1.5	0.7	1.0
Nonprofit Sector	0.0	0.1	0.0	0.1
Residential Investment	-1.4	-3.4	0.8	1.0
Government	0.9	-0.5	0.2	0.7
Final Domestic Demand	-0.6	2.4	2.9	3.6
Exports	2.9	2.6	-2.5	4.8
Imports	0.5	-8.7	-0.1	-6.0
Trade	3.4	-6.1	-2.6	-1.2
Inventories	0.2	6.6	2.6	4.1
Statistical discrepancy	-0.1	0.3	-0.1	0.1





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General

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