

## Economics

## THE WEEK AHEAD

November 6 - 10, 2023

## A Canadian recession? What's in the eye of the beholder?

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

Like beauty, recessions are in the eyes of the beholder. When others are losing their jobs, it might just be a “correction”. When you lose your job and land in unemployment, it’s definitely a recession.

Economists have a more sophisticated definition of what constitutes a recession, and it’s not as you often read in the popular press, two consecutive negative quarters for GDP. But for Canada these days, it may end up coming down to a matter of semantics.

So far, we haven’t crossed the Rubicon according to the most widely cited definition, which comes from the National Bureau of Economic Research. It requires “a significant decline in economic activity that is spread across the economy and lasts more than a few months.” The insignificant dip in Canada’s Q2 GDP doesn’t fit that bill, and we wouldn’t be officially in recession if Q3 GDP looks similar, particularly given that both quarters were disrupted by forest fires.

In addition to GDP, which is reported with a lag, the NBER looks at a few key variables, putting the most weight on real personal income (excluding transfers) and employment. These two measures are not in recession territory for Canada based on data we have in hand. Real household income in Canada was still growing in Q2, while employment continued to advance through to October. Other indicators considered by the NBER, including real retail sales and industrial production have been dipping, but there have been some impacts from strikes and fires in the IP numbers.

So, in aggregate, Canada hasn’t decisively tipped into an outright recession. But let’s go back to what’s in the eye of the beholder: are more people landing in unemployment? As a percentage of the workforce, absolutely. Moreover, the 0.7%-point rise in the jobless rate from the lowest three month average seen in the past year of 5.0% to October’s 5.7% rate, is perilously close to a key historical tipping point. Since 1979, any move of 0.8% in the three-month moving average jobless rate

that occurs within a 12 month period has always been part of an outright recession.

Whether we end up “officially” dusting off the “R word” could end up coming down to a matter of semantics, due to two other variables: population growth and productivity. Stronger population growth has meant that we’re seeing a rise in the unemployment rate, but not the outright drop in employment that has accompanied every Canadian recession in recent decades. As we saw in today’s October data, we can get increases in the unemployment rate in a month with net job creation, if the latter falls short of the number of new entrants to the workforce. Similarly, population growth could keep total real GDP heading marginally higher, even as the unemployment rate climbs.

That would also be true if Canada sees any sort of rebound from the woeful productivity levels seen in the past year, not all of which has been fully explicable by soft business investment or supply chain issues. A rebound from disruptions due to strikes and fires would be part of that story. The Bank of Canada would welcome firmer growth if it was sourced in greater output per hour, since we could still have both a rise in the unemployment rate to cool wages, and more goods and services available to chill prices.

Our forecast has Canada’s unemployment rate peaking at 6.3%, a climb that in past decades would have met the definition of a recession, but in this case, our GDP forecast would likely have economists saying we didn’t have one. Except, of course, those economists who end up being unemployed.

## Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, November 6	10:00 AM	IVEY PMI	(Oct)	(L)	-	-	53.1
Monday, November 6	10:30 AM	Release: Market Participants Survey	-	-	-	-	-
Tuesday, November 7	-	AUCTION: 3-M BILLS \$11.6B, 6-M BILLS \$4.2B, 1-YR BILLS \$4.2B	-	-	-	-	-
Tuesday, November 7	8:30 AM	MERCHANDISE TRADE BALANCE	(Sep)	(H)	\$1.5B	\$1.0B	\$0.7B
Wednesday, November 8	-	AUCTION: 5-YR CANADAS \$4B	-	-	-	-	-
Wednesday, November 8	8:30 AM	BUILDING PERMITS M/M	(Sep)	(M)	-	1.1%	3.4%
Wednesday, November 8	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Thursday, November 9	12:00 PM	Speaker: Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Friday, November 10	10:30 AM	Release: Senior Loan Officer Survey	-	-	-	-	-

## Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, November 6	-	-	-	-	-	-	-
Tuesday, November 7	-	AUCTION: 3-YR TREASURIES \$48B	-	-	-	-	-
Tuesday, November 7	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Sep)	(H)	-\$61.0B	-\$60.5B	-\$58.3B
Tuesday, November 7	3:00 PM	CONSUMER CREDIT	(Sep)	(L)	-	\$10.0B	-\$15.6B
Tuesday, November 7	9:50 AM	Speaker: Jeffrey Schmid (Kansas City)	-	-	-	-	-
Tuesday, November 7	1:25 PM & 1:30 PM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Wednesday, November 8	-	AUCTION: 10-YR TREASURIES \$40B	-	-	-	-	-
Wednesday, November 8	7:00 AM	MBA-APPLICATIONS	(Nov 3)	(L)	-	-	-2.1%
Wednesday, November 8	10:00 AM	WHOLESALE INVENTORIES M/M	(Sep)	(L)	-	0.0%	0.0%
Thursday, November 9	-	AUCTION: 30-YR TREASURIES \$24B	-	-	-	-	-
Thursday, November 9	8:30 AM	INITIAL CLAIMS	(Nov 4)	(M)	-	-	217K
Thursday, November 9	8:30 AM	CONTINUING CLAIMS	(Oct 28)	(L)	-	-	1818K
Thursday, November 9	9:30 AM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter) & Thomas I. Barkin (Richmond) (Non-Voter)	-	-	-	-	-
Thursday, November 9	12:00 PM	Speaker: Kathy O'Neill Paese (Interim President, St. Louis)	-	-	-	-	-
Thursday, November 9	2:00 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Friday, November 10	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Nov P)	(H)	-	63.5	63.8
Friday, November 10	2:00 PM	TREASURY BUDGET	(Oct)	(L)	-	-	-\$171.0B
Friday, November 10	7:30 AM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Friday, November 10	9:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-

## Week Ahead's market call

by Avery Shenfeld

In the **US**, it's a very light week ahead on the data calendar, with none of the releases among those that typically generate a market response. We have a few FOMC speakers on tap, however, and it will be interesting to see if we get more colour on the Fed's change of heart since September. Back then, the central bankers' "dot" forecast projected another hike before year end, but Powell's remarks suggest that he and others on the committee no longer are so sure about that. It's not easy to fully reconcile that shift, given that until today's jobs report, economic indicators have tended to surprise on the high side, and the steep run-up in long rates now has seen a significant reversal. It may be that the Fed just wants to give the economy a bit more time to show how its coping with rates where they are, and if there's a lot of emphasis on "patience", we'll have to rethink our forecast for a December hike, particularly if the next CPI report is benign.

In **Canada**, the trade data due in the coming week have somewhat more importance given the larger role of exports as a growth driver. The improvement in the goods balance could be more related to prices than volumes however, and therefore less relevant for Q3 growth. We'll have a look at the notes on the BOC's "deliberations" from the meeting where they opted to stand pat, but feel that we have a good sense of what they were thinking after hearing directly from the Governor in the wake of that decision.

## Week Ahead's key Canadian number: Merchandise trade balance—September

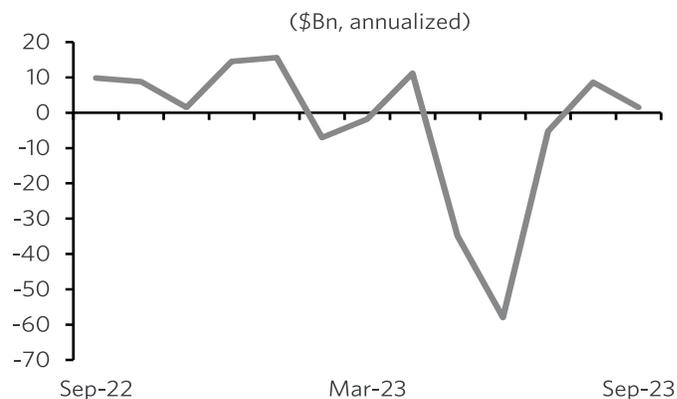
(Tuesday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Trade balance (Sep)	\$1.5B	\$1.0B	\$0.7B

Two-way trade rebounded in August as the port strikes ended, and another strong increase in energy exports in September could have pushed the trade balance further into surplus territory. However, that will of course reflect the surge in oil prices, with volumes likely looking lackluster, especially given the tepid advanced readings for both wholesale trade and manufacturing for the month. Indeed, imports will be under pressure from weak domestic demand, and exports outside of energy will be exposed to the global deceleration in growth. Overall, Canada's goods trade surplus was likely \$1.5bn in September.

Chart: Canadian merchandise trade balance



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications** — With the rebound in trade from the port strikes and wildfires in the rear view mirror, exports are expected to moderate ahead, in line with softer foreign demand, working to compound the slowdown that's already underway in the economy from weak domestic demand.

**There are no major US data releases next week.**

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