Economics

THE WEEK AHEAD

December 8 - 12, 2025

Revisionist history and Canadian economic slack

by **Avery Shenfeld** avery.shenfeld@cibc.com

For the second year in succession, Statistics Canada has engaged in a bit of revisionist history in telling us what's happened to the country's economic output. In each case, there were significant upward revisions to the prior estimates for GDP growth in recent years. Now we're getting questions from clients on whether, in light of that news, Canada has less economic slack than we thought, or even none at all, and if we are therefore more at risk of inflation heading higher than cooling off. Those questions are likely to be amplified by today's labour force survey, which showed a surprising plunge in the unemployment rate.

When the Fed thinks about US economic slack, and its inflationary or disinflationary implications, its first point of reference is typically to the labour market. As a case in point, it's been trimming interest rates despite solid Q2 and Q3 GDP numbers, citing the gradual upward creep in unemployment as the justification for a policy ease, and as a moderating force for what is currently an above-target inflation rate.

But perhaps due to political sensitivities, at least for outside audiences, the Bank of Canada has long been reluctant to blame inflation upturns on having too many people employed. As an alternative, it emphasizes a GDP-based measure of slack: the so-called "output gap", defined as the difference between actual GDP and an estimate of the economy's non-inflationary ceiling, or "potential" GDP.

The scale of the latest revisions to the GDP series shows the hazards in using that as a real-time measure of slack, and why from our vantage point, we see merits in relying more heavily on employment and unemployment rates as the first guidepost for slack in the economy. Although the unemployment rate has dropped sharply, at 6.5%, it's still about a half point higher than what would be consistent with stable inflation.

Moreover, the Bank of Canada keeps a closer eye on employment as a share of the working age population. By that measure we may still have room for a further 1% climb in the share of Canadians holding down a job. So slack might be narrowing, but still should provide a cushion against upward inflation pressures.

Other labour market indicators lend credence to the notion that we aren't facing an inflationary overheating. The latest data on unit labour costs showed just the sort of deceleration in worker compensation that one would expect to see in an underperforming economy.

But if you insist on using the GDP-based output gap, one has to remember that data revisions can change both the measure of "actual" GDP, and the theoretical non-inflationary "potential". In this case, the three-year upward revision in the GDP report should see essentially the same upward adjustment to both actual and potential GDP, leaving the gap between the two as wide as we had earlier thought, and only beginning to narrow in Q3.

The GDP revisions generated an equal upward adjustment to the trend growth in labour productivity, or output per hour. The estimate for potential output had earlier been held in check by repeated reports that output per hour was weakening. The new data say that, instead, it was basically stable in recent years. That implies that for any given level of employment, and at full employment in particular, we will enjoy a higher level of output than we thought without generating inflation. Indeed, better productivity also implies that the labour costs per unit of output were rising more slowly. We also had a modest upwards adjustment to the estimate of business capital spending, so the economy has a bit more productive capacity than earlier estimated.

So we have a higher current level of GDP, but also more room to have additional, non-inflationary output if we could put more Canadians to work. If we can take the past two months of data from labour force survey at face value, that process has now started. But the jobless rate is still higher and the employment rate is still lower than it needs to be to keep inflation at bay. While the Bank of Canada is poised to pause on rates next week, it needn't give any thoughts about a move to higher interest rates until we've made a lot more progress in filling those gaps in our labour market.

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, December 8	-	-	-	-	-	-	-
Tuesday, December 9	-	-	-	-	-	-	-
Wednesday, December 10	9:45 AM	BANK OF CANADA RATE ANNOUNCE.	(Dec 10)	(H)	2.25%	2.25%	2.25%
Thursday, December 11	-	AUCTION: 2-YR CANADAS $6B	-	-	-	-	-
Thursday, December 11	8:30 AM	MERCHANDISE TRADE BALANCE	(Sep)	(H)	-$4.5B	-$5.3B	-$6.3B
Friday, December 12	8:30 AM	WHOLESALE SALES EX-PETROLEUM M/M	(Oct)	(M)	-	-0.1%	0.6%
Friday, December 12	8:30 AM	BUILDING PERMITS M/M	(Oct)	(M)	-	-	4.5%
Friday, December 12	8:30 AM	CAPACITY UTILIZATION	(3Q)	(L)	-	-	79.3%

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, December 8	-	AUCTION: 3-YR TREASURIES $58B	-	-	-	-	-
Tuesday, December 9	-	AUCTION: 10-YR TREASURIES $39B	-	-	-	-	-
Tuesday, December 9	10:00 AM	JOLTS Job Openings	(Oct)	-	7300K	-	7227K
Wednesday, December 10	7:00 AM	MBA-APPLICATIONS	(Dec 5)	(L)	-	-	-1.4%
Wednesday, December 10	8:30 AM	EMPLOYMENT COST INDEX	(3Q)	(M)	-	0.9%	0.9%
Wednesday, December 10	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Dec 10)	(H)	3.75%	3.75%	4.00%
Wednesday, December 10	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Dec 10)	(H)	3.50%	3.50%	3.75%
Wednesday, December 10	2:00 PM	TREASURY BUDGET	(Nov)	(L)	-	-	-$284.4B
Thursday, December 11	-	AUCTION: 30-YR TREASURIES $22B	-	-	-	-	-
Thursday, December 11	8:30 AM	INITIAL CLAIMS	(Dec 6)	(M)	-	-	191K
Thursday, December 11	8:30 AM	CONTINUING CLAIMS	(Nov 29)	(L)	-	-	1939K
Thursday, December 11	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Sep)	(H)	-$66.6B	-$66.6B	-$59.6B
Thursday, December 11	10:00 AM	WHOLESALE INVENTORIES M/M	(Sep)	(L)	-	-	-
Friday, December 12	8:00 AM	Speaker: Anna Paulson (Philadelphia) (Non-Voter)	-	-	-	-	-
Friday, December 12	8:30 AM	Speaker: Beth Hammack (Cleveland) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, with only some secondary data on tap, it will be all eyes on the Fed in the week ahead, and we lean towards a quarter point rate cut as the outcome. But the committee is clearly divided, so Powell may opt for a compromise statement that provides comfort to the hawks by underscoring that the central bankers are still keeping a close eye on inflation in judging the room to ease further in 2026. There might be several FOMC voters who would prefer to wait for the more complete data picture they will have in January. But a less dovish statement might see only one or two formal dissents in favour of a pause, and Miran might weigh in with a dissenting view that rates should be coming down faster.

In **Canada**, it's also the central bank's turn to weigh in, but having already eased more aggressively than the Fed, the Bank of Canada will be comfortable standing pat, leaving the overnight rate at 2.25%. Its statement will give a nod to economic uncertainties and some weak spots within the Q3 GDP figures, but might also cite signs that the labour market is improving. Expect it to repeat its message that rates are now at an appropriate level, reinforcing expectations that barring an economic surprise, they could be on hold for an extended period. September's trade balance will show an improvement, but not the kind that you want to see, driven by weaker imports rather than a pick-up in exports.

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

(Thursday, 8:30 am)

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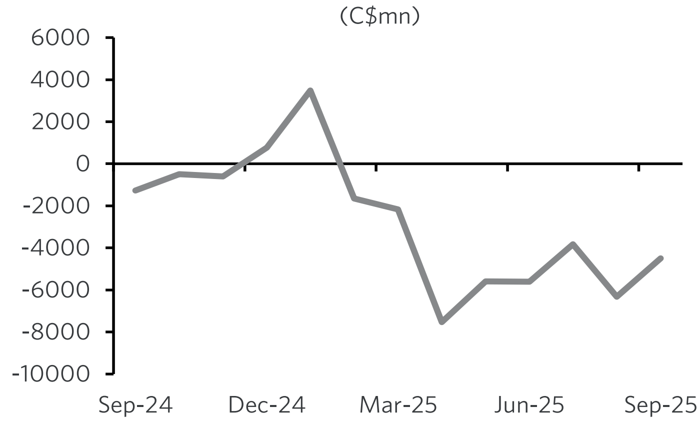
Variable	CIBC	Mkt	Prior
Trade balance	-$4.5B	-$5.3B	-$6.3B

Chart: Canadian trade balance



Source: Statistics Canada, Haver Analytics, CIBC

Canada's trade balance took a step in the wrong direction during August, with some sectoral tariffs ratcheting up and with gold imports also contributing to a wider deficit. September's delayed report is expected to show a modest improvement, albeit largely due to lower imports. A decline in oil prices and US-bound volumes likely dampened any recovery seen on the export side. We forecast a deficit of $4.5bn, from $6.3bn in the prior month.

Forecast implications — September's trade data had to be estimated for use in the Q3 current account and GDP data, and as a result this week's figures will provide an indication as to whether the upside surprise to third quarter growth will be revised. Assuming no historic revisions, our forecast for September's deficit would imply a downward revision to Q3 GDP of approximately 0.5% on an annualized rate.

There are no major US data releases next week.

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