RIVERSIDE ANALYTICS INC

DATE: January 25, 2024

Canadian Inflation Updates

RIVERSIDE ANALYTICS INC
Wayne Yeo
Wayne.yeo@riversideanalyticsinc.com
www.riversideanalyticsinc.com

Economic Outlook

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Good investing is <u>not</u> an "event" like finding the next growth opportunity or catching the next market turn. Rather, good investing is a disciplined process that converts research and training into a well-tested methodology, and then makes a habit of following that approach day after day.

John P. Hussman, Ph.D
President, Hussman Strategic Advisors

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December – given the Feds reluctance for further significant interest rate declines, yield likely stays in a trading range for the next few months.

ECONOMIC DATA

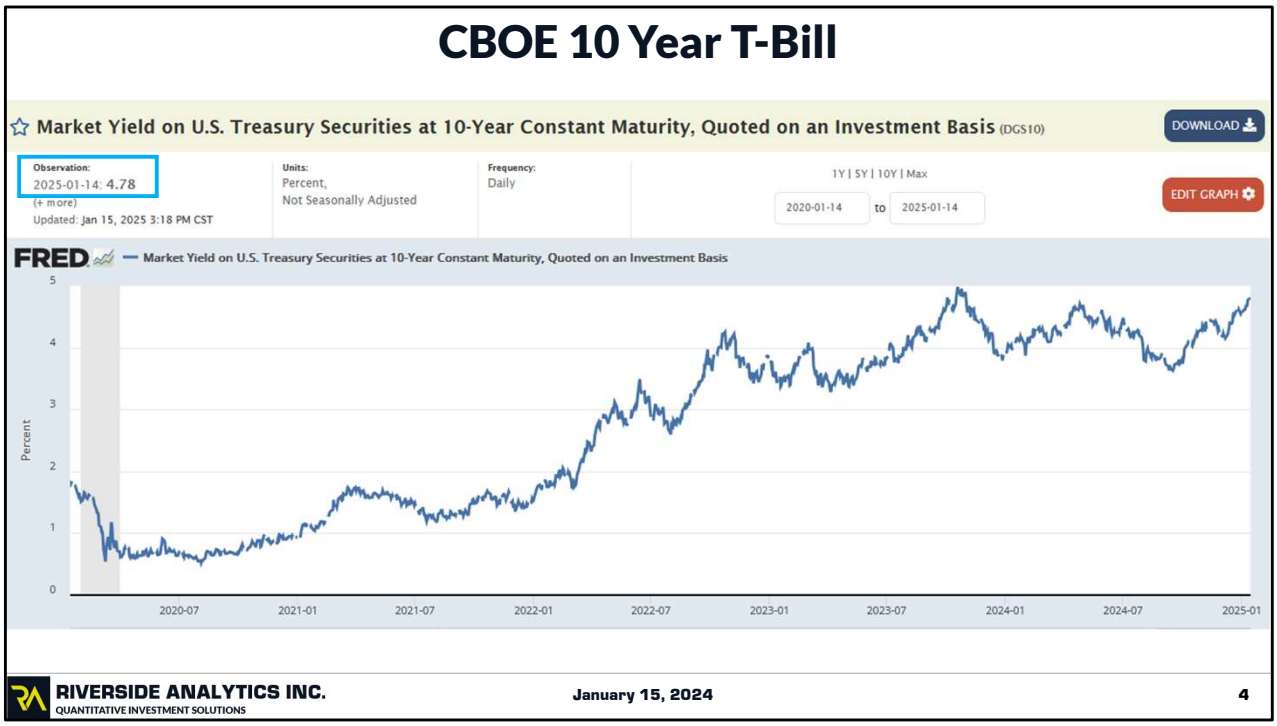
Indicator review

US Drives the bus, when it comes to the Canadian economy.

Please check the notes on each slide.

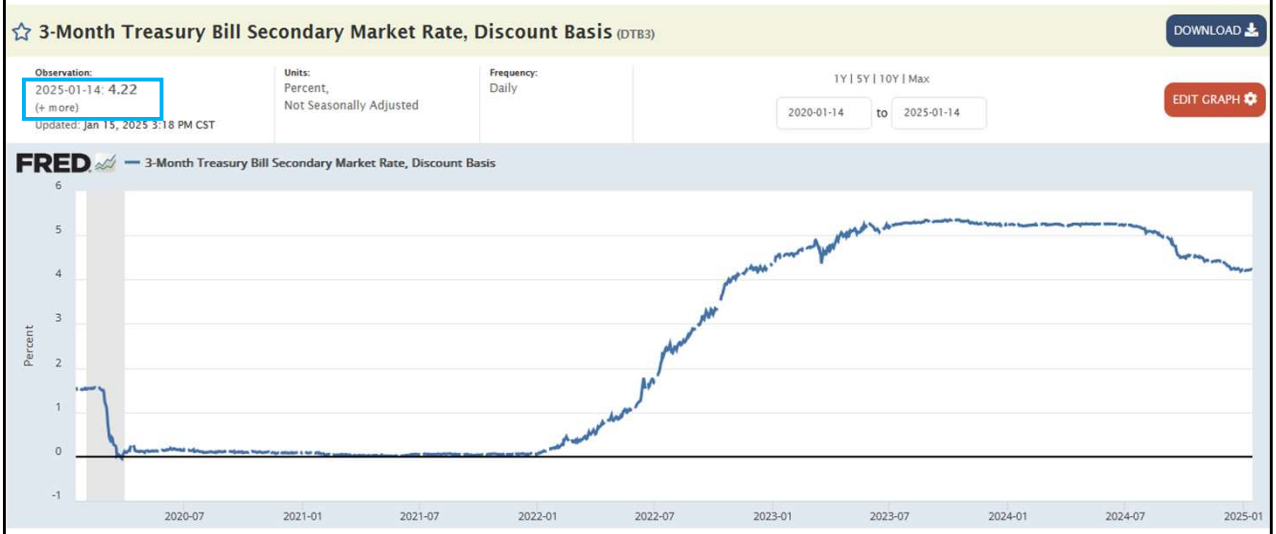
Short summary, risk of recession in the near term remains low.
Trump tariffs are the wildcard.
January 20th was Inauguration Day.
Soft Landing Still remains likely.

CBOE 10 Year T-Bill



January – Last month was 4.32. This month, it is looking to test the October 2023 highs, after surpassing the April 2024 highs. The move up is just shy of ½ a percent at 46 basis points !

3 Month T-Bill Rate



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January 15, 2024

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January – last month was 4.23. This month 4.22… That does not count as a change !

10 Year – 3 – Month Interest Rate Spread



January Last month was 0.06. The increase in the spread is entirely due to the 10 year yields.

Based on previous Riverside analysis, a recession does not occur until AFTER the inversion as righted itself. So far, there is nothing to indicate a recession will happen anytime soon.

10 Year – 2 – Year Interest Rate Spread



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January – Last month was 0.15. Both primary yield curves are decisively above zero. US Debt costs previously scheduled to come down, are likely to stay high until late summer for the Americans. About 8-9 percent of US mortgages are variable rate. Keep an eye on US mortgage defaults this year !

This was my comment last month, and still holds.
If history holds, a recession shows up mid to late second quarter 2025 to mid 3rd quarter. Early rate interest reductions could have helped cushion any slowdown. Now with the tariff noises, the Fed has backed off on interest rate reductions, fearing they may have to raise rates to stave off a new round of inflation. I am not at all convinced that will help if tariff costs push retail costs up. Adding additional debt costs, is not going to help bring inflation back down. Government induced inflation stays in the numbers for 12 months, while the statisticians wait for Y/Y numbers to sort themselves out. Increased interest rates will simply make any economic slowdown worse.

BoC Interest Rates
December 15th



Weekly Wednesday, rates in percentage	CANSIM	2024-11-13	2024-11-20	2024-11-27	2024-12-04	2024-12-11
Prime rate[1]	V80691311	5.95	5.95	5.95	5.95	5.95
Conventional mortgage						
1-year	V80691333	7.24	7.24	7.24	7.24	7.24
3-year	V80691334	6.54	6.54	6.54	6.54	6.54
5-year	V80691335	6.49	6.49	6.49	6.49	6.49

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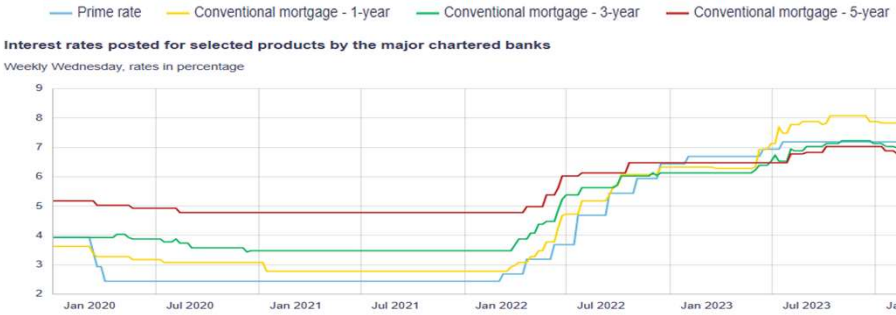
December – official rates STILL have not budged, but most of the banks are willing to work with you to get a better deal. - Note – prime dropped 50 points, but the banks actually RAISED spreads this month !

CIBC has 5 year fixed – 4.89, up from 4.64, Royal – 4.98, up from 4.74, TD - 5.09 up from 4.74, and BMO - 4.94 up from 4.84
BNS continues to make customers work for a discount with a posted rate at 5.9 DOWN from 6.49 %, but still well above all the others.

BoC Interest Rates
January 15th



Weekly Wednesday, rates in percentage	CANSIM	2024-12-18	2024-12-25	2025-01-01	2025-01-08	2025-01-15
Prime rate[1]	V80691311	5.45	5.45	5.45	5.45	5.45
Conventional mortgage						
1-year	V80691333	7.24	7.24	7.24	7.24	7.24
3-year	V80691334	6.54	6.54	6.54	6.54	6.54
5-year	V80691335	6.49	6.49	6.49	6.49	6.49

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January – official rates dropped 50 points, most of the banks are willing to work with you to get a better deal.

CIBC has 5 year fixed – 4.89, no change, Royal – 4.89, down 10 points, TD - 5.24 up from 5.09, and BMO - 4.94 No change
BNS continues to make customers work for a discount with a posted rate at 6.49 UP from 5.9 %, remaining well above all the others.

Soft landing is more likely

US economy – I see nothing to suggest it is in any trouble. The initial political risks will likely be revealed by the next report.

Both the 3 month and 2 year Yield spreads are decisively positive. The economy itself is pretty happy.

Low productivity, and poor housing affordability remains an issue. The lowering of Canadian Interest rates is improving its housing market, but as you will see later, it remains a buyers market, for those with the means.

Housing market is challenging on both sides of the border. US resales remain very poor. This does not seem to harming the larger economy.

Banks are well capitalized to weather repricing of mortgages. BoC reductions have achieved neutrality. 2025 likely sees 3, maybe 4 more 25 point drops. 75 points would put retail 5 year mortgages close to 4%.

Banks have been heavily building reserves for several years.

Total CPI is stabilizing near 2% target. Housing and food remain high. Muted producer price pressure will be noted later in the presentation. Housing, food, property tax inflation are a negative influences on 2025 consumer budgets.

Expected interest rate reductions will be helpful in Canada, US - not so much !

Downside is the CAD has hit a soft spot, and will induce some future inflation on imported goods.

I am expecting tariffs will likely be targeted, as Trump must save face an apply some. Universal unlikely to be applied. Canada will respond in kind.

January 25th update – nothing in the Canadian CPI data changes my opinion.
January - BoC is close to where it wants to be. Future US Rate reductions are on hold.

The potential high Canadian default rate issue is largely under control. The cost is the lower CAD, and potentially higher inflation that might otherwise have been.

UoM Sentiment Index

United States Michigan Consumer Sentiment

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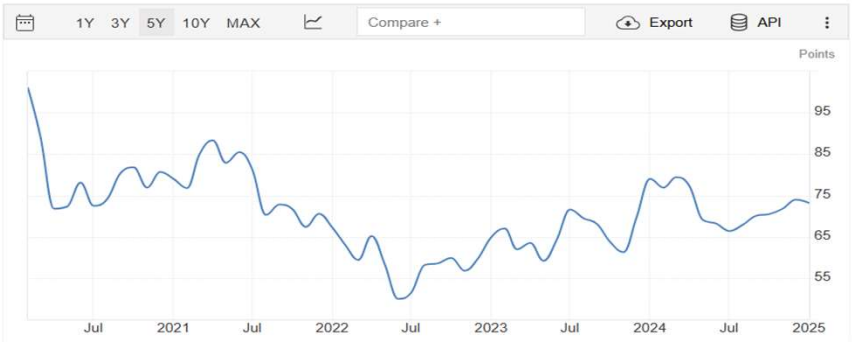
The University of Michigan consumer sentiment for the US fell to 73.2 in January 2025 from 74 in December which was the highest in eight months, and below forecasts of 73.8, preliminary estimates showed. The expectations subindex dropped to 70.2 from 73.3 while the current conditions gauge increased to 73.2 from 74. January's divergence in views of the present and the future reflects easing concerns over the current cost of living this month, but surging worries over the future path of inflation. Meanwhile, year-ahead inflation expectations soared to 3.3%, the highest in eight months, from 2.8% in December and long-run inflation expectations also rose to 3.3% from 3%. This is only the third time in the last four years that long-run expectations have exhibited such a large one-month change. source: University of Michigan



January – No meaningful change from December, however enough consumers have a heightened awareness of future inflation acceleration due to tariffs to move those numbers, as described in the text on the chart.
https://data.sca.isr.umich.edu/charts.php

This particular chart is from the Trading Economics Website.
https://tradingeconomics.com/united-states/consumer-confidence

BoC Inflation Expectations – Jan 25th Update

Chart 9: Inflation expectations have largely returned to where they were before the COVID-19 pandemic

Inflation expectations for each horizon: What do you expect the rate of inflation (deflation) to be?
Perceptions about current inflation: What do you think the rate of inflation (deflation) was over the last 12 months?
(Interpolated median)

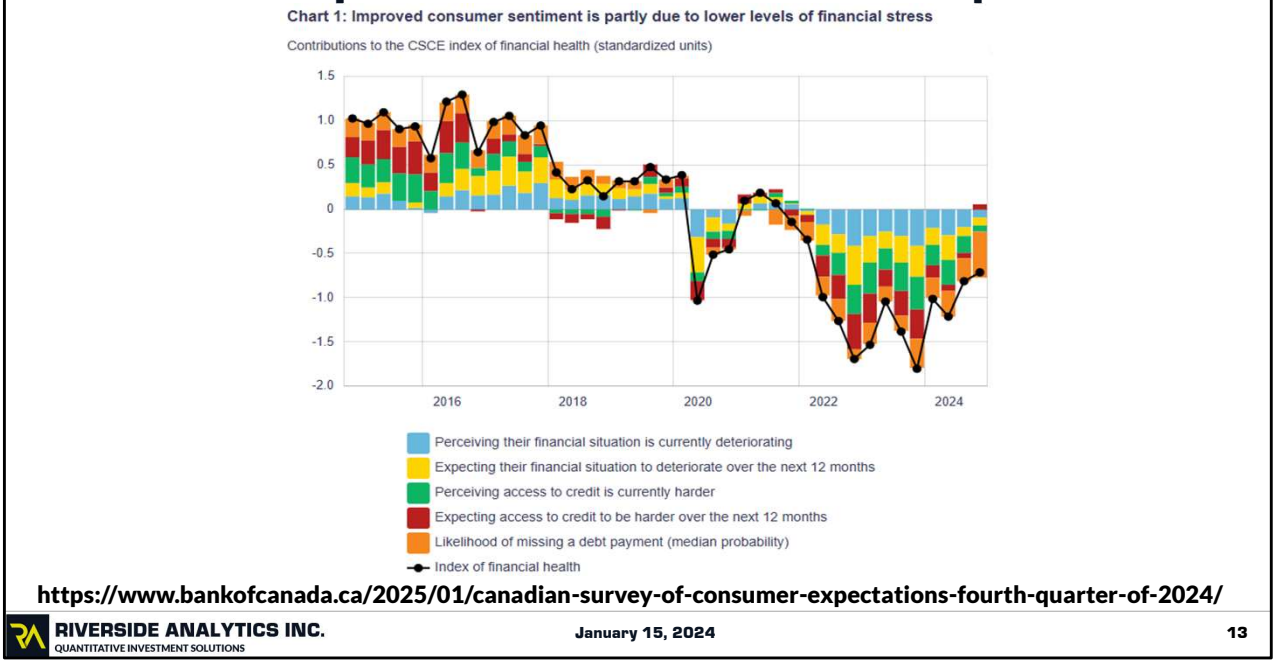


https://www.bankofcanada.ca/2025/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2024/

January 25th - The new quarterly report has been published.

There is lots in this report if you really want to dig in !
https://www.bankofcanada.ca/2025/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2024/

BoC Expectations – cont. Jan 25th Update



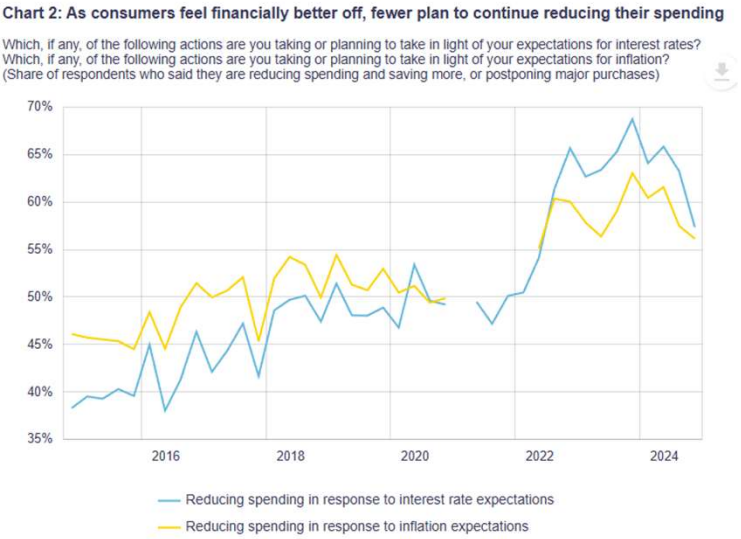
https://www.bankofcanada.ca/2025/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2024/

January 25th Update – New slide – There is a mixed message in this chart when you dig into the details !

The overall feeling of improved financial health is clear. Do take note of the 4th qtr 2024 bar of the chart. **The likelihood of missing a debt payment section has increased in size. This is where the renters vs home owners diverge. In general, survey participants expect financial situation current deterioration, and next 12 month deterioration to improve, but more of them expect to miss a debt payment than the previous quarter. I am not convinced I understand that result !!! It's like they have been hanging on by a thread, finances are getting better, but I have nothing left to fall back on, if something goes south. I am still burning cash faster than I can make it, and reserves are gone.**

There is lots in this report if you really want to dig in !
https://www.bankofcanada.ca/2025/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2024/

BoC Expectations – cont. Jan 25th Update



https://www.bankofcanada.ca/2025/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2024/

January 25th Update – Consumers, as a group are feeling better about spending. However this is a dichotomy between home owners and renters. Renters are not feeling as confident, because rents are rising, verses variable rate mortgage costs are coming down.

The macro level is improving in general. The elephant in the room is debt servicing costs, which have come down, and food costs, are going up at a near normal rate.

There is lots in this report if you really want to dig in !
https://www.bankofcanada.ca/2025/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2024/

BoC Expectations – cont. Jan 25th Update

Chart 5: Home-buying intentions have increased

What do you think is the percent chance that over the next 12 months you will move to a different primary residence?
What do you think is the percent chance that over the next 12 months you will put your primary residence on the market for sale?
Are you planning to buy or thinking of buying a house or condominium now?
Renters: Are you planning to buy a house or condominium during the next 12 months?
(Share of respondents)

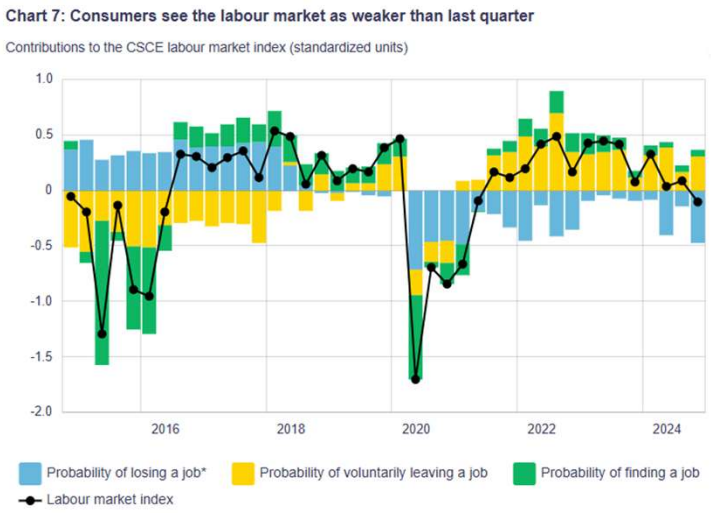


https://www.bankofcanada.ca/2025/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2024/

January 25th update – There is a notable improvement year over year on intensions to buy. Followup conversations with survey participants indicate interest cost is much less of any issue, but they are very concerned about political instability in the US and tensions elsewhere on the globe. About 60% of them are concerned about a recession later in the year.

After the excessive price increases from covid through 2023, 2024 have been pretty tepid. However, prices remain sticky. Not a lot of deals to be found. Later you see a little spark in the real estate data, as home buying interest begins to return.

BoC Expectations – cont. Jan 25th Update

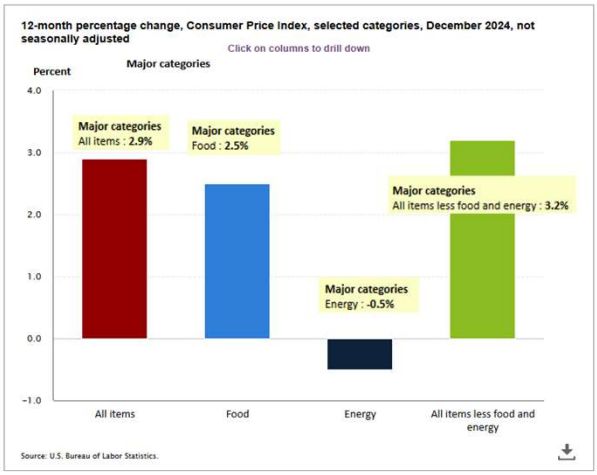


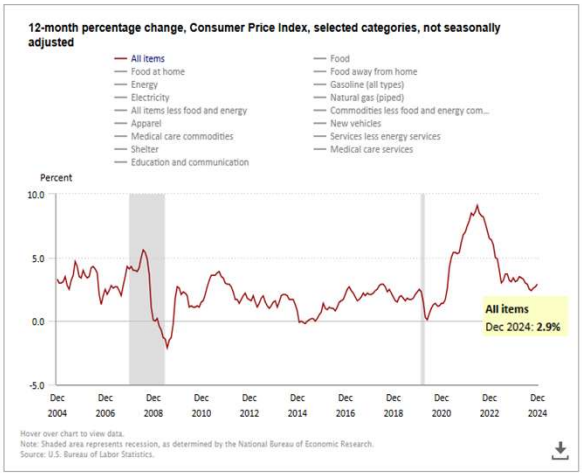
https://www.bankofcanada.ca/2025/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2024/

January 25th Update – The chart structure changed from annual to quarterly. The message does not change, but it gives a clearer view of the trend. As noted elsewhere in this report, Canadian unemployment has been soft, and total number of employed persons as a percentage has been dropping for some time. This increases labour competition, and keeps a lid on wage increases in some sectors.

There is lots in this report if you really want to dig in !
https://www.bankofcanada.ca/2025/01/canadian-survey-of-consumer-expectations-fourth-quarter-of-2024/

US Inflation Rate





All items : 2.9, was 2.7%
All items less food and energy – 3.2, was 3.3 %
Food : 2.5 was 2.4, and 2.2 in November -
Energy : -0.5 was -3.2 and - 4.9 in November
https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

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January – Inflation climbed a bit since the last report. Overall inflation remains muted.

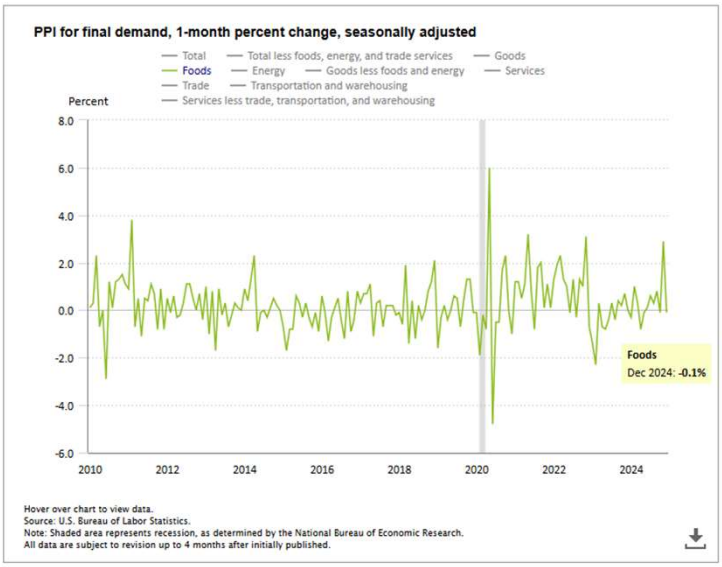
If you go to the website, there is table that is MUCH easier to see the details.

Lots of additional detail is located here – Each of the index items in the right hand cart above, has its own data.
The way you avoid muddying up the chart, is click once on the item you want to remove in the index.
https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

Producer Price Index – Food

1-month percent change, seasonally adjusted

3.1 to -0.1

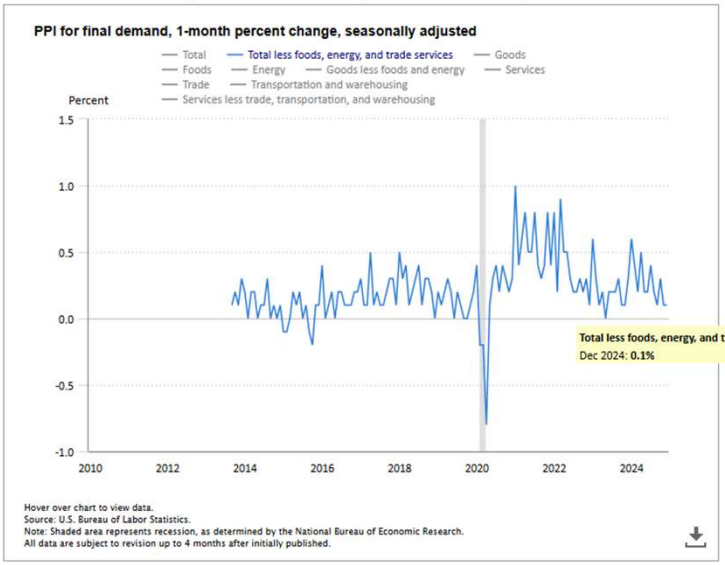


January – The November blip corrected itself in December
Details are here >> https://www.bls.gov/charts/producer-price-index/final-demand-1-month-percent-change.htm#

Producer Price Index – Total

1-month percent change, seasonally adjusted

0.1 to 0.1

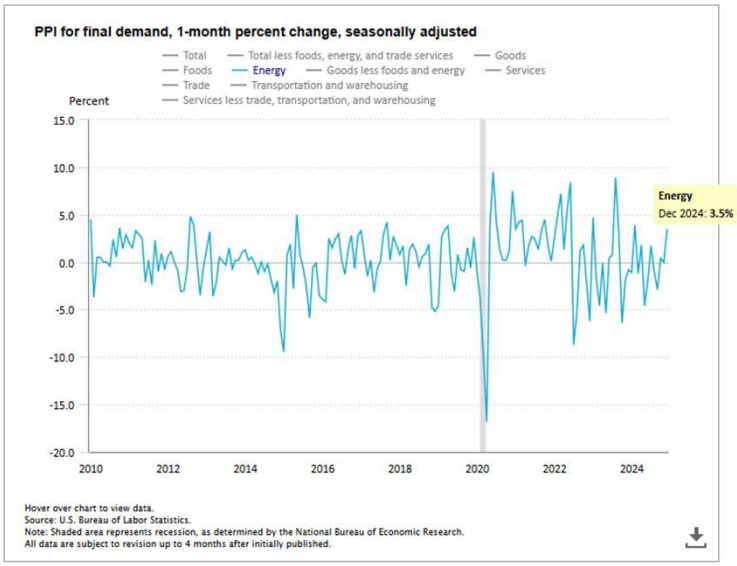


January – No change from last month In general, supportive of muted inflation going forward.
https://www.bls.gov/charts/producer-price-index/final-demand-1-month-percent-change.htm#

Producer Price Index – Energy

1-month percent change, seasonally adjusted

+ 0.2 to +3.5



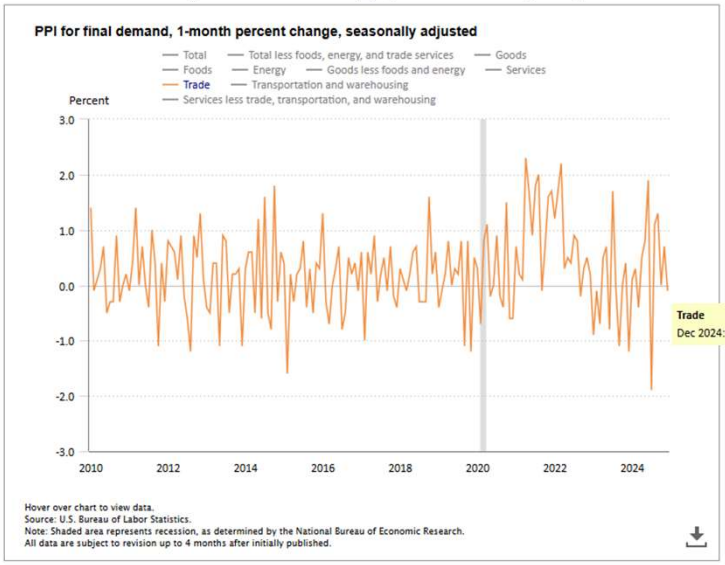
January - Last month was 0.2% - and climbed 3.5% I tend to buy my gasoline from Costco, as that is the cheapest in the area.

https://www.bls.gov/charts/producer-price-index/final-demand-1-month-percent-change.htm#

Producer Price Index – Trade

1-month percent change, seasonally adjusted

+0.8 to -0.1



January – Staying in the channel. The February 2025 chart reported in March could be interesting !
https://www.bls.gov/charts/producer-price-index/final-demand-1-month-percent-change.htm#

Federal Reserve Wage Growth Tracker



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January – Last month 4.3. So wage growth rate remain above posted inflation. That will continue to help consumers rebuild budgets.
https://fred.stlouisfed.org/series/FRBATLWGT3MMAUMHWGO

Leading Indicators

Housing Starts
Manufactures New Orders
Commodity Prices
Average Hours Worked

US Housing Starts



New home buying market is better than existing home buying, as builders are offering deals !

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January – October was the last data point - coming in at 1,311k. November is down 1.7% at 1,289.

Housing starts are steady while existing home sales remain near 14 year lows, inferring builders are using incentives to move product at the expense of existing home sales.

US Existing Home Sales

United States Existing Home Sales

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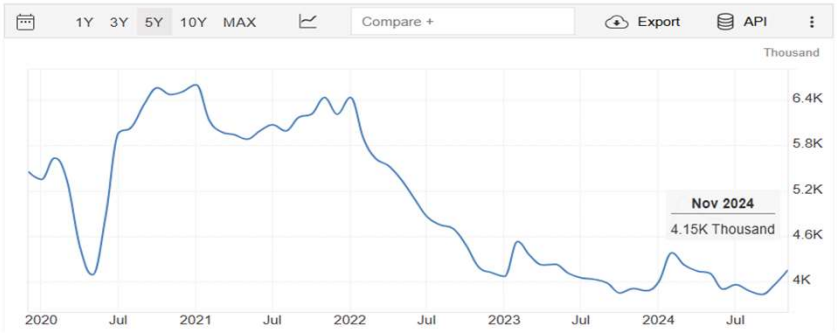
Existing home sales in the US rose by 4.8% from the previous month to a seasonally adjusted annualized rate of 4.15 million in November 2024, the highest in eight months, compared to 3.96 million in October and better than market expectations of 4.07 million. "Home sales momentum is building. More buyers have entered the market as the economy continues to add jobs, housing inventory grows compared to a year ago, and consumers get used to a new normal of mortgage rates between 6% and 7%", according to NAR Chief Economist Lawrence Yun. Sales advanced in the Northeast (8.5%), the Midwest (5.3%) and the South (5.6%) but remained steady in the West. Meanwhile, total housing inventory was 1.33 million units, down 2.9% from October. The median existing-home price for all housing types was $406,100, up 4.7% from one year ago ($387,800). All four US regions posted price increases. source: National Association of Realtors



January – A nice bump in the November data. October came in at 3.96 million, up from 3.84 million in September. It has some work to do to get above 2023 and 2024 spring peaks.

From Trading Economics, who sourced it from National Association of Realtors

US Manufacturing New Orders



November – remains rangebound!

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January - Skipped the October publishing and went to November. There is nothing to suggest Manufacturing is doing anything but ticking along just fine. Rangebound it is !

ISM Manufacturing New Orders Index

United States ISM Manufacturing New Orders

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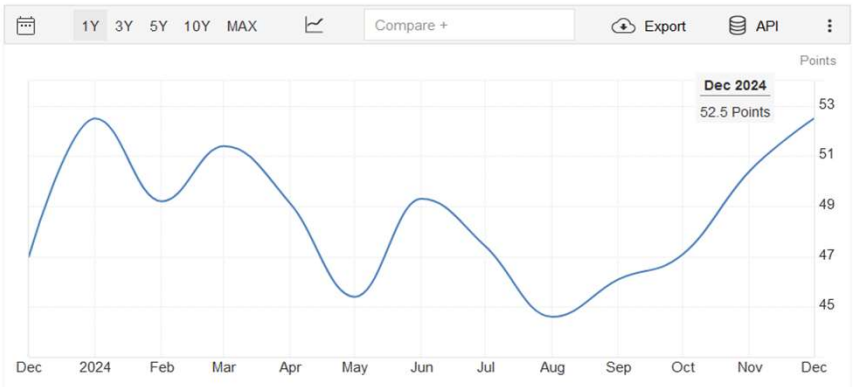
ISM Manufacturing New Orders in the United States increased to 52.50 points in December from 50.40 points in November of 2024. ISM Manufacturing New Orders in the United States averaged 55.46 points from 1950 until 2024, reaching an all time high of 82.60 points in June of 1950 and a record low of 24.20 points in June of 1980. source: Institute for Supply Management



January - The index climbed from 50.4 last month to 52.50

Source : Trading Economics

Commodity Pressure on Inflation – Weekly Candles



Continues to be supportive of reduced inflation.

January – Printed a slightly lower low, then popped back into the channel. The 20, and 50 MA remain on the trend down, indicating muted future inflation from carbon based energy, Gold, Silver, Aluminum, Zinc, Copper Grade A, Corn, Wheat, Soybeans, and Sugar.

Commodity Pressure on Inflation – Weekly Candles



Agriculture inflation on the other hand, is suggesting manufactured food price increases likely to remain elevated.

January – the underlying index includes corn, soybeans, wheat, Kansas City wheat, sugar, cocoa, coffee, cotton, live cattle, feeder cattle, and lean hogs. The one good thing is that Y/Y comparisons are likely to be more favourable than 2024, thus the RATE of change should be lower for 2025.

Keep an eye on your grocery store in Q1 for the annual price changes, and /or shrinking package. Weight changes tend to infer higher price changes than you would expect at the cash register.

Commodity Pressure on Inflation – Weekly Candles



Where are primary protein prices going ?

January – Consumers need protein in their diets, and make up about 1/3 of the calories they consume. This covers both Cattle and Pork. I could not find an ETF that tracks chicken.

Average Weekly Hours Worked



October was originally 34.3, but was revised down to 34.2 for this chart.

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January – no change. It will be interesting to see the mid February / March numbers, as that is when corporations tend to lay people off if they are going to do it. The lower lows tend to be in this period.

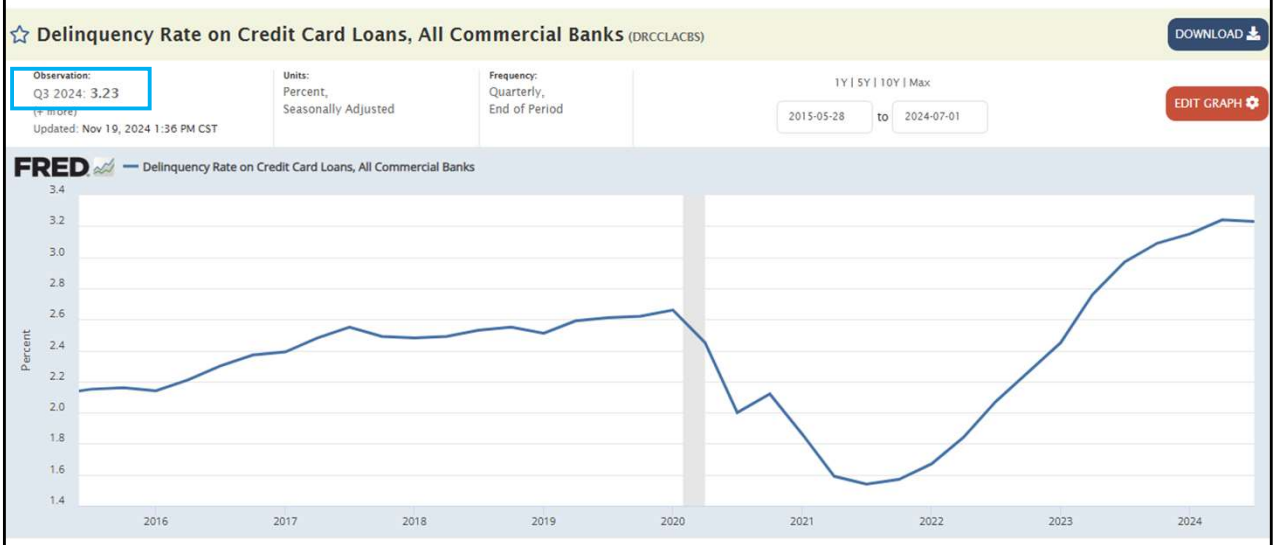
US Unemployment Rate



December 4.1 to 4.2 – Steady as she goes

January – down a 1/10th to 4.1… continuing statistical noise routine.

Credit Card Default Rates – January No updates.



December – Q3 down 0.02 - Nice to see steady

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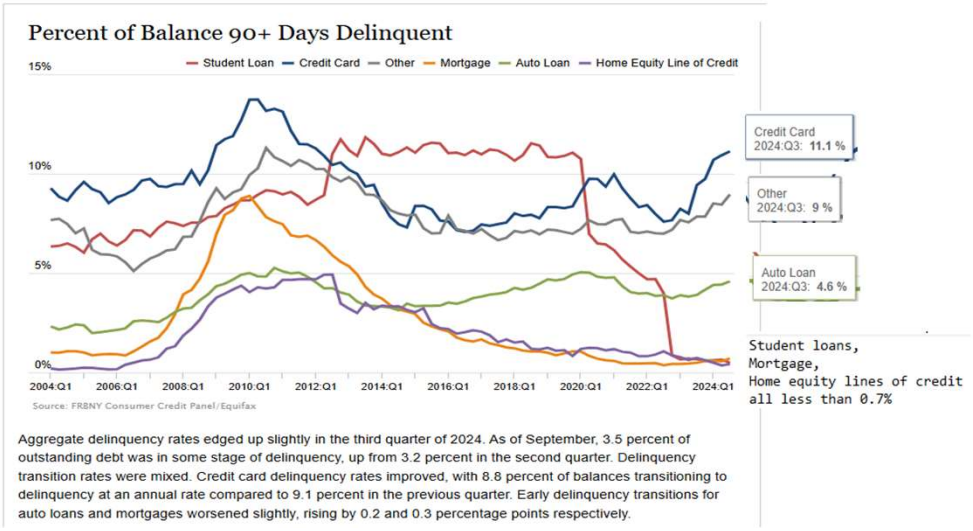
December – Q2 is 3.25

Delinquent loans are those past due thirty days or more and still accruing interest as well as those in nonaccrual status. They are measured as a percentage of end-of-period loans.

Credit Card Default Rates – NY Fed – January No New Data.



Aggregate delinquency rates edged up slightly in the third quarter of 2024. As of September, 3.5 percent of outstanding debt was in some stage of delinquency, up from 3.2 percent in the second quarter. Delinquency transition rates were mixed. Credit card delinquency rates improved, with 8.8 percent of balances transitioning to delinquency at an annual rate compared to 9.1 percent in the previous quarter. Early delinquency transitions for auto loans and mortgages worsened slightly, rising by 0.2 and 0.3 percentage points respectively.

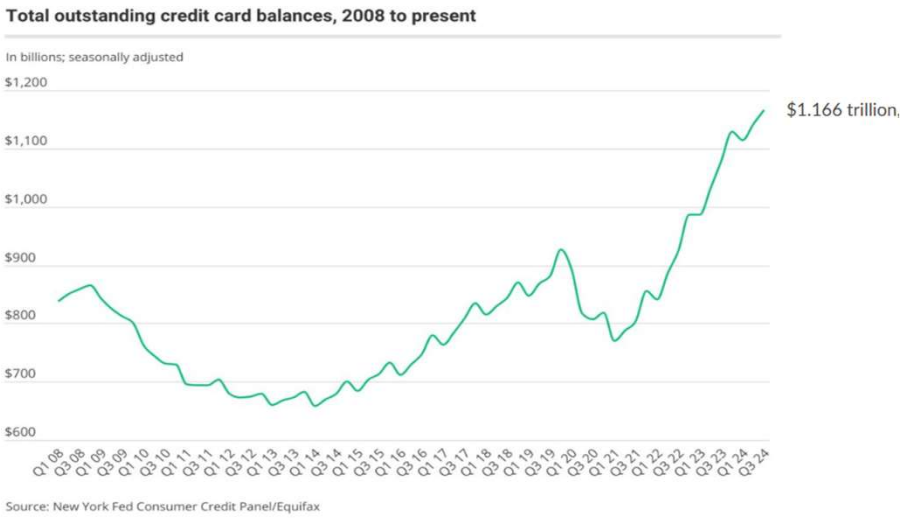
Quarterly Report

January - Slide remains hidden – no new data. – **It is a quarterly report !**
November – Federal Reserve Bank of New York.
https://www.newyorkfed.org/microeconomics/hhdc.html

Another way to look at the credit card delinquency rate. About 47% of cardholders carry a month to month balance. If 11 percent of those are in trouble, this infers about 23 percent of those carrying a balance, are in serious trouble.

What is the difference between delinquency and charge-off?
Charge-offs are the value of loans and leases removed from the books and charged against loss reserves. Charge-off rates are annualized, net of recoveries. Delinquent loans and leases are those past due thirty days or more and still accruing interest as well as those in nonaccrual status

Credit Card Outstanding Balances – No new data.



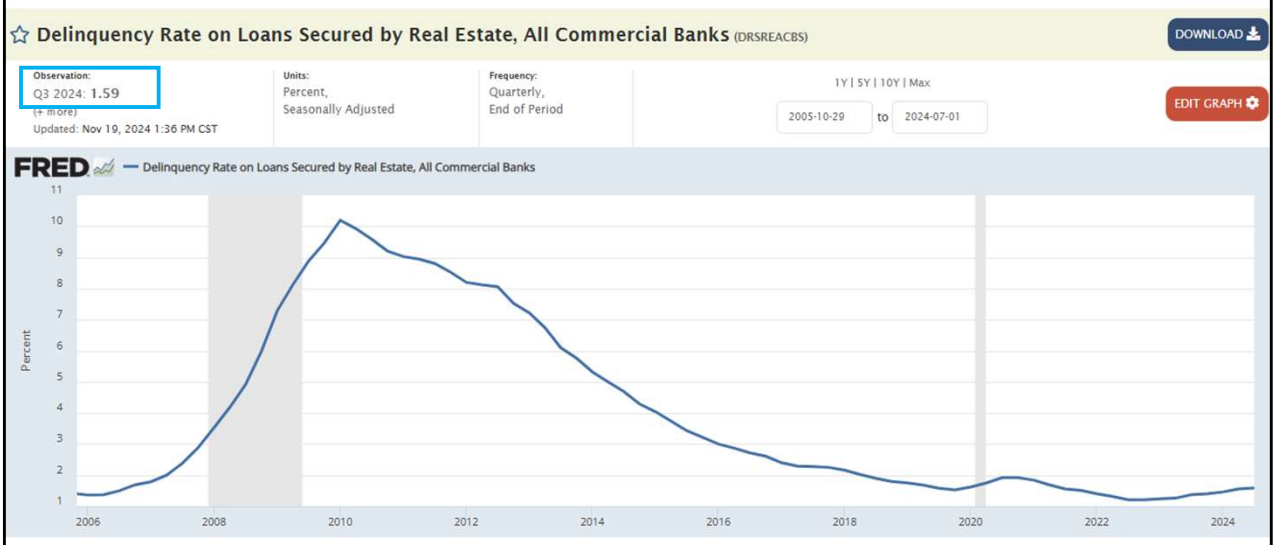
47% of card holders carry a balance month to month !

January – Still no new data – **It is a quarterly report !**
November – credit card debt tends to climb Q2 through Q4, then declines in Q1 of any given year.
47 percent of US credit card holders carry a balance month to month. These 47 percent carry an average of $7,236. With an average interest rate of 22.95%, they are spending about $138 in interest…. Every month, or about $1,661 per year !

You can bet, Canada is not much different !

https://www.lendingtree.com/credit-cards/study/credit-card-debt-statistics/
Additional detail here > https://www.bankrate.com/credit-cards/news/credit-card-debt-survey/#many-carry-debt-for-more-than-a-year – **there is no new data here either !**

Default Rates Loans Secured by Real Estate
January – No Update on Q3 data



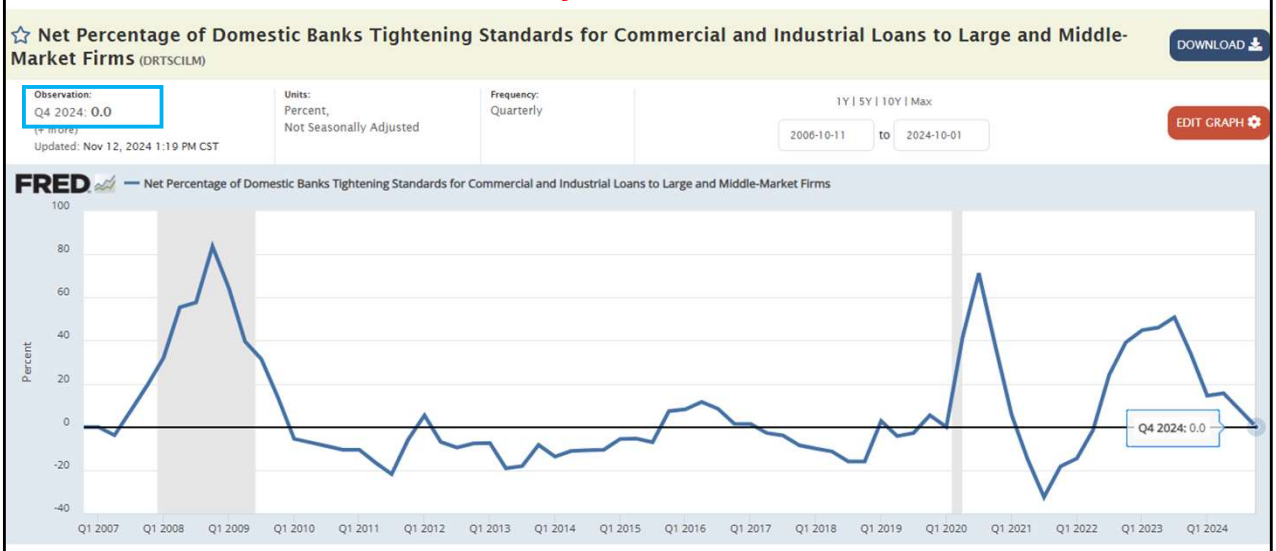
Q1 sat at 1.45, Q2 is up marginally at 1.57, Q3 barely moved at 1.59

January – Q1 sat at 1.45, Q2 is up marginally at 1.57, Q3 barely moved at 1.59

NY Fed is indicating no concern in this category.

Only about 10 percent of US Real Estate mortgages are variable rates.

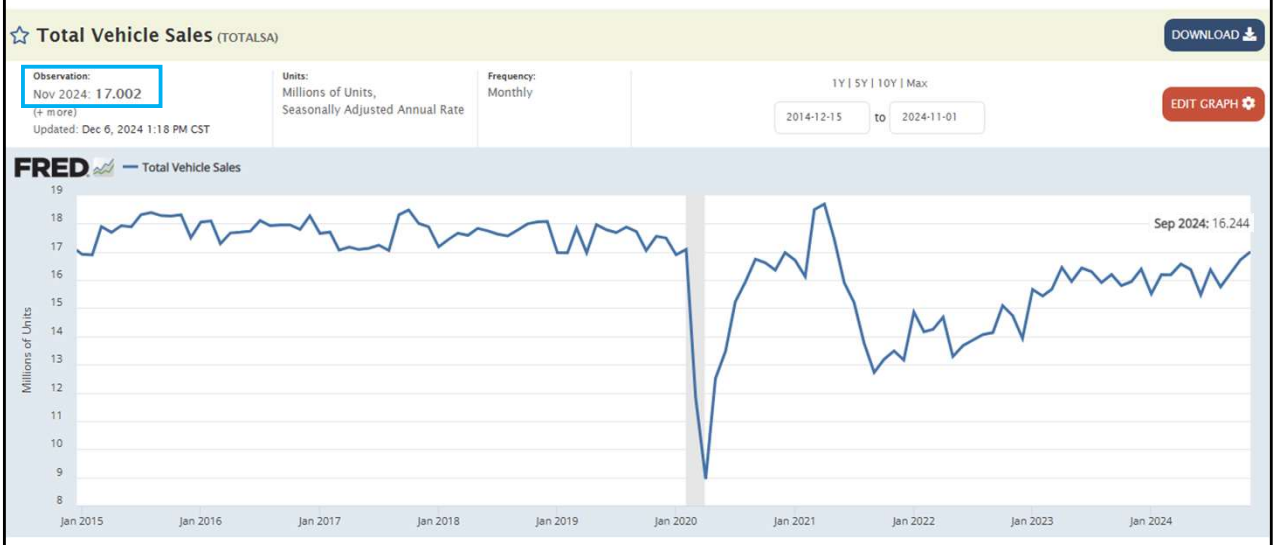
Net Percentage of Domestic Banks Tightening Standards
January – No New Data



October No Change – Q2 was 15.6, now Q3 is 7.9. Banks are accommodating.

January – No changes this month. **This is a quarterly report !**

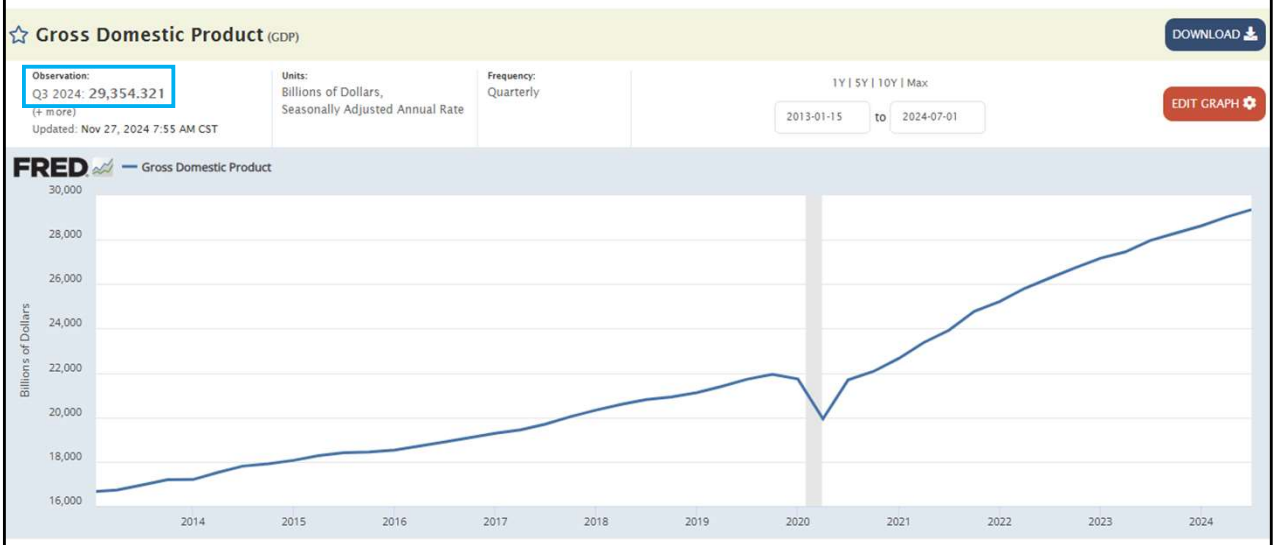
Total Vehicle Sales – No New Data



December – Sales broke the range !

January – No new data

US Gross Domestic Product – No New data



A very slight revision upwards on Q3 data from last month

RIVERSIDE ANALYTICS INC.
QUANTITATIVE INVESTMENT SOLUTIONS

January 15, 2024

39

January – No new data. Q2 was 28,629 – A slight revision upwards from the last report of 29,349.924 - US economy is generally quite healthy, except existing home resales !

S&P 500 YEARLY RETURNS

AVERAGE YEAR vs YEAR #1 OF THE US PRESIDENTIAL CYCLE

US Presidential Election Cycle - S&P 500 Performance Analysis

	Jan%	Feb%	Mar%	Apr%	May%	Jun%	Jul%	Aug%	Sep%	Oct%	Nov%	Dec%	Yr. Profit%
Average Year 1	0.76	-1.66	0.61	2.45	1.90	0.56	2.28	-0.04	-1.52	-0.59	0.68	0.54	6.63
Average Year 2	0.47	0.01	0.11	0.26	-0.76	-1.32	1.01	-0.45	-1.48	2.16	2.03	1.19	3.11
Average Year 3	3.40	1.58	0.57	2.55	-0.17	2.07	1.24	-0.02	-1.08	0.84	-0.50	2.24	13.51
Average Year 4	0.05	-0.25	0.36	-0.12	-1.23	1.69	2.19	2.90	-0.50	-0.34	1.14	1.51	6.56
Democrats Avg Year 1	0.56	-1.64	1.14	3.79	2.72	1.06	2.71	1.04	-0.92	-0.70	1.25	0.71	12.89
Democrats Avg Year 2	0.46	-0.08	-1.38	1.29	-1.57	-0.25	1.80	-1.52	-0.46	1.85	1.61	2.72	3.29
Democrats Avg Year 3	2.25	0.52	0.28	2.46	0.23	1.08	2.53	-0.71	0.99	2.07	-0.18	2.60	14.68
Democrats Avg Year 4	0.32	-0.55	2.48	0.00	-0.23	2.72	0.78	1.08	0.64	1.64	0.64	0.27	9.77
Republicans Avg Year 1	1.00	-1.68	-0.03	0.86	0.95	-0.02	1.76	-1.33	-2.23	-0.45	0.00	0.33	-0.76
Republicans Avg Year 2	0.47	0.12	1.88	-0.96	0.19	-2.59	0.07	0.81	-2.67	2.50	2.48	-0.47	2.89
Republicans Avg Year 3	4.66	2.72	0.89	2.65	-0.61	3.16	-0.16	0.73	-3.34	-0.51	-0.85	1.84	12.23
Republicans Avg Year 4	-0.25	0.07	-1.96	-0.26	-2.33	0.57	3.73	4.88	-1.65	-2.32	1.63	2.75	3.35

January – tends to be decent, followed by a poor February

CME FedWatch Tool

TARGET RATE PROBABILITIES AS OF December 15, 2024

FED FUND FUTURES											
ZQZ4	ZQF5	ZQG5	ZQH5	ZQJ5	ZQK5	ZQM5	ZQN5	ZQQ5	ZQU5	ZQV5	ZQX5	ZQZ5
95.5175	95.6600	95.7050	95.7550	95.8450	95.8900	95.9400	96.0000	96.0400	96.0650	96.1000	96.1350	96.1550

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES							
MEETING DATE	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475
12/18/2024			0.0%	0.0%	0.0%	0.0%	96.0%	4.0%
1/29/2025	0.0%	0.0%	0.0%	0.0%	0.0%	18.5%	78.3%	3.2%
3/19/2025	0.0%	0.0%	0.0%	0.0%	10.3%	52.0%	36.3%	1.4%
5/7/2025	0.0%	0.0%	0.0%	2.3%	19.7%	48.5%	28.5%	1.1%
6/18/2025	0.0%	0.0%	0.9%	9.1%	30.9%	40.6%	17.8%	0.7%
7/30/2025	0.0%	0.1%	2.3%	12.7%	32.5%	36.9%	14.9%	0.6%
9/17/2025	0.0%	0.6%	4.7%	17.3%	33.5%	31.8%	11.6%	0.4%
10/29/2025	0.1%	1.2%	6.6%	19.7%	33.3%	28.8%	9.9%	0.4%
12/10/2025	0.3%	1.9%	8.1%	21.3%	32.7%	26.6%	8.8%	0.3%

December – the next Federal Reserve interest rate announcement is December 18th, where it is expected to announce a 25 point cut. After that, 2025 is more or less on hold until very late spring. The Fed wants to know what the White House is up to before committing to more cuts.

CME FedWatch Tool

TARGET RATE PROBABILITIES – Aggregated AS OF December 15, 2024

FED FUND FUTURES												
ZQZ4	ZQF5	ZQG5	ZQH5	ZQJ5	ZQK5	ZQM5	ZQN5	ZQQ5	ZQU5	ZQV5	ZQX5	ZQZ5
95.5175	95.6600	95.7050	95.7550	95.8450	95.8900	95.9400	96.0000	96.0400	96.0650	96.1000	96.1350	96.1550

	CME FEDWATCH TOOL - AGGREGATED MEETING PROBABILITIES			
MEETING DATE	375-400	400-425	425-450	450-475
12/18/2024	0.00 %	0.00 %	96.03 %	3.97 %
1/29/2025	0.00 %	15.27 %	84.73 %	0.00 %
3/19/2025	0.00 %	71.27 %	28.73 %	0.00 %
5/7/2025	0.00 %	93.63 %	6.37 %	0.00 %
6/18/2025	32.74 %	67.26 %	0.00 %	0.00 %
7/30/2025	49.27 %	50.73 %	0.00 %	0.00 %
9/17/2025	72.30 %	27.70 %	0.00 %	0.00 %
10/29/2025	87.27 %	12.73 %	0.00 %	0.00 %
12/10/2025	99.08 %	0.92 %	0.00 %	0.00 %

The Fedwatch tool's "Aggregated" view compares the rates implied by CME's Fed Funds futures with the current target rate range as set by the Federal Reserve. As such, it provides a view into the cumulative number of hikes or cuts that the market is pricing by a certain point in the future. This is provided in addition to the traditional "Conditional" view of probabilities, familiar to long-term users of the FedWatch tool.

December – 25 point drop this month is almost a sure thing, then we wait until May. After that, chances are it will be mid fall before we see any more cuts. IF tariffs get thrown under the bus, we could see some cuts earlier.

CME FedWatch Tool – Probabilities

TARGET RATE PROBABILITIES AS OF January 15, 2024

FED FUND FUTURES												
ZQF5	ZQG5	ZQH5	ZQJ5	ZQK5	ZQM5	ZQN5	ZQQ5	ZQU5	ZQV5	ZQX5	ZQZ5	ZQF6
95.6713	95.6775	95.7025	95.7475	95.7975	95.8525	95.9150	95.9550	95.9825	96.0175	96.0500	96.0750	96.0900

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES					
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450
1/29/2025	0.0%	0.0%	0.0%	0.0%	2.7%	97.3%
3/19/2025	0.0%	0.0%	0.0%	0.7%	29.2%	70.1%
5/7/2025	0.0%	0.0%	0.2%	8.1%	39.7%	52.1%
6/18/2025	0.0%	0.1%	3.4%	20.9%	44.7%	30.8%
7/30/2025	0.0%	0.6%	6.3%	24.9%	42.4%	25.7%
9/17/2025	0.2%	2.0%	10.8%	29.1%	38.4%	19.5%
10/29/2025	0.4%	3.2%	13.3%	30.4%	35.8%	16.8%
12/10/2025	0.8%	4.7%	15.8%	31.2%	33.0%	14.3%

January – ahh, how about no interest rate drops this year in the US ! We are already in the January 97.3% range !

CME FedWatch Tool – Aggregated

TARGET RATE PROBABILITIES AS OF January 15, 2024

FED FUND FUTURES												
ZQF5	ZQG5	ZQH5	ZQJ5	ZQK5	ZQM5	ZQN5	ZQQ5	ZQU5	ZQV5	ZQX5	ZQZ5	ZQF6
95.6713	95.6775	95.7025	95.7475	95.7975	95.8525	95.9150	95.9550	95.9825	96.0175	96.0500	96.0750	96.0900

	CME FEDWATCH TOOL - AGGREGATED MEETING PROBABILITIES		
MEETING DATE	375-400	400-425	425-450
1/29/2025	0.00 %	2.67 %	97.33 %
3/19/2025	0.00 %	30.67 %	69.33 %
5/7/2025	0.00 %	56.36 %	43.64 %
6/18/2025	0.00 %	97.14 %	2.86 %
7/30/2025	13.67 %	86.33 %	0.00 %
9/17/2025	37.78 %	62.22 %	0.00 %
10/29/2025	51.67 %	48.33 %	0.00 %
12/10/2025	66.43 %	33.57 %	0.00 %

The Fedwatch tool's "Aggregated" view compares the rates implied by CME's Fed Funds futures with the current target rate range as set by the Federal Reserve. As such, it provides a view into the cumulative number of hikes or cuts that the market is pricing by a certain point in the future. This is provided in addition to the traditional "Conditional" view of probabilities, familiar to long-term users of the FedWatch tool.

January – A June / July 25 point drop looks like a reasonable bet. After that, maybe… heavy on the maybe, another 25 point drop in December.

Canadian Charts

St Louis Fed has quite a number of charts of Canadian data !

Residential Property Prices

Unemployment rate

Consumer Price Index

Inverted Yield Curve

Gross Domestic Product

Cdn existing home sales

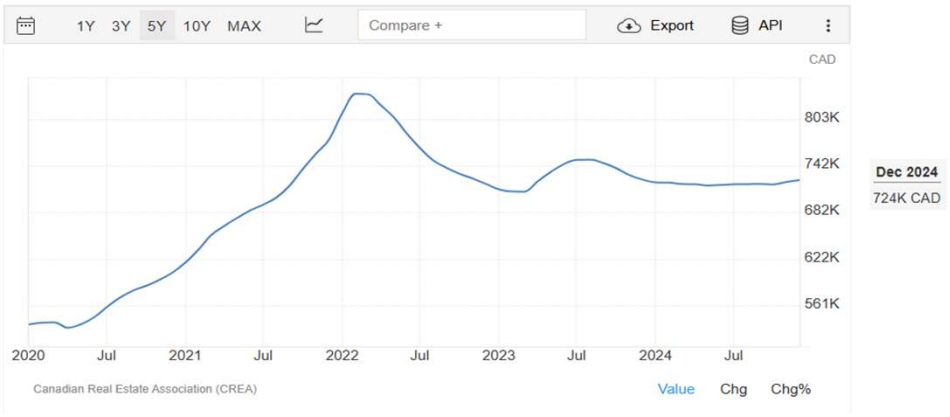
New Vehicle Sales

ST Louis Fed tracks a number of Canadian Metrics.

https://fred.stlouisfed.org/categories/32268

Average House Prices for Canada

Average House Prices in Canada increased to 723600 CAD in December from 721200 CAD in November of 2024. Average House Prices in Canada averaged 464603.75 CAD from 2005 until 2024, reaching an all time high of 835000.00 CAD in February of 2022 and a record low of 239800.00 CAD in January of 2005. source: Canadian Real Estate Association (CREA)

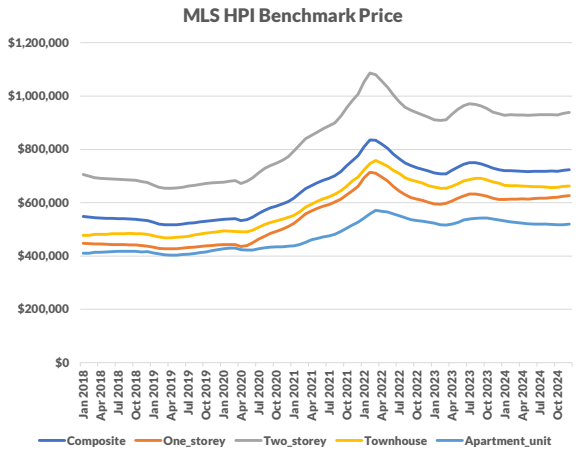


January – Trading Economics – December data - average Prices remain very close to flat, up 2,400 since November

January – prices were flat all last year, and this months number is not much different, up by 2,400 dollars.

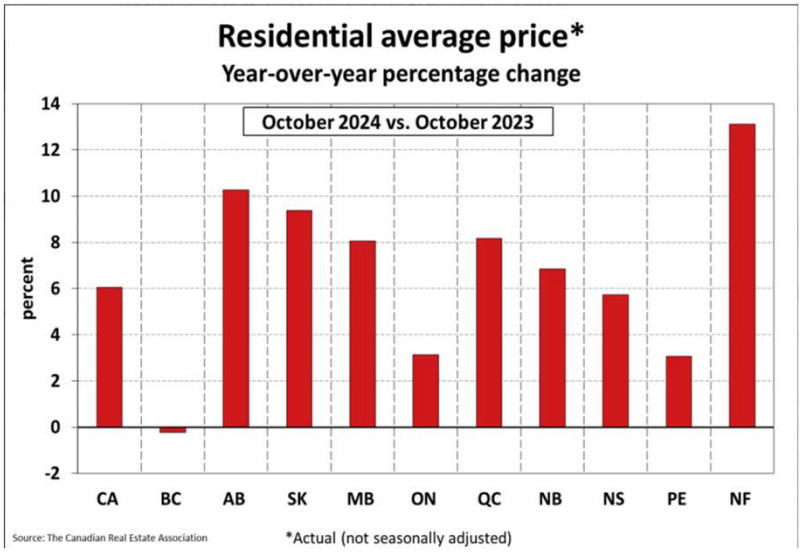
Source : Trading Economics

Average House Prices for Canada – cont.
December



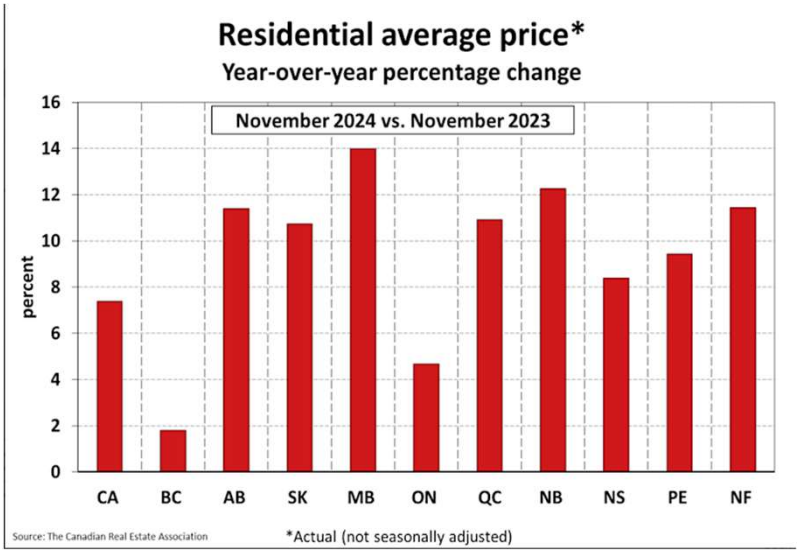
January – Short version, last years do nothing trend is still in tact.
Full report is here > https://creastats.crea.ca/en-CA/

Average House Prices for Canada – cont.
By Province - October



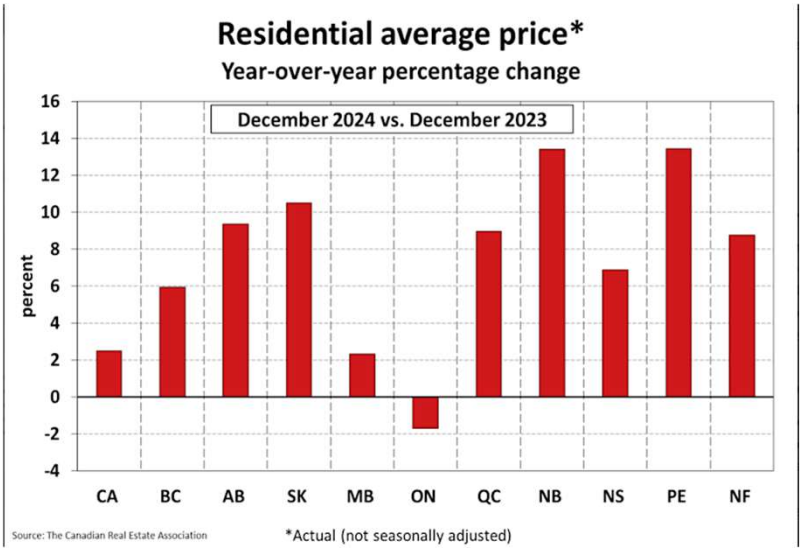
November – Newfoundland put up some hefty numbers in August also. Ontario and BC continue to lag.
Full report is here > https://creastats.crea.ca/en-CA/

Average House Prices for Canada – cont.
By Province - November



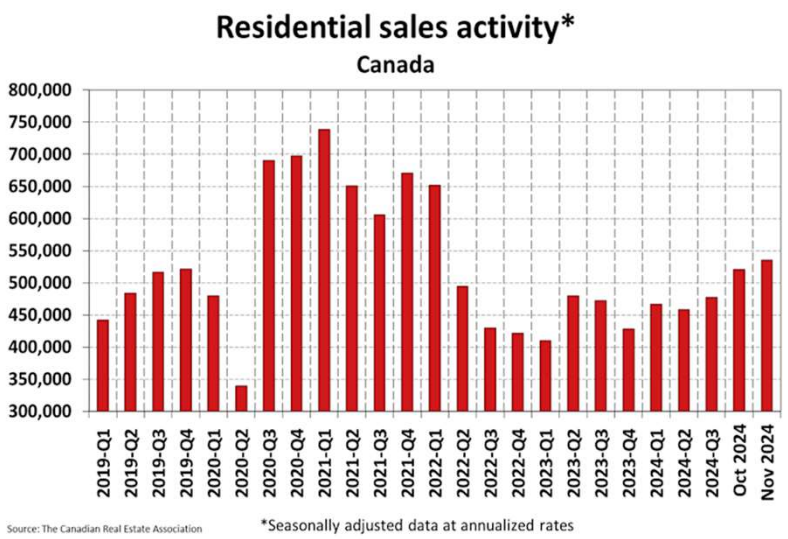
December – Housing activity increasing, and prices are following suit ! This is contrary to the message on slide 44. Suffice to stay, affordability is not improving!

Average House Prices for Canada – cont.
By Province – December



January – Lots of healthy Y/Y price increases that are contrary to the big picture. Only thing I can think of is that Ontario is weighing down the rest of the country at the aggregate level.

Home Sales Activity for Canada



January – This is quarterly report – no new data this month.
Declining interest rates is increasing interest in buying.
This is from The Canadian Real Estate Association.

Housing Starts - % Change – Canada –

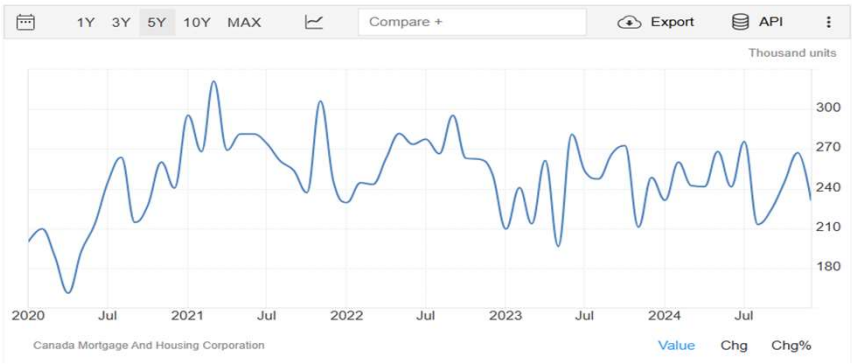
Housing starts in Canada plunged by 13.35% month-over-month to 231,500 units in December 2024, the lowest level in three months and below market expectations of 245,000 units, according to the Canada Mortgage and Housing Corporation. The seasonally adjusted annual rate (SAAR) of total urban housing starts decreased by 13.65% to 214,000 units, driven by a 14.7% drop in multi-unit urban starts to 168,515 units and a 9.54% decrease in single-detached urban starts to 45,485 units. The SAAR estimate for rural starts stood at 17,468 units. Year-to-date housing starts from January to December 2024 are up 15% in Montréal compared to 2023, reflecting a recovery from historically low levels last year. In contrast, Vancouver and Toronto remain below 2023's historically high levels, with declines of 15% and 20% year-to-date, respectively. source: Canada Mortgage And Housing Corporation



January – Vancouver and Toronto affordability is hitting. Investors have too much supply, and buyers are cautious.

Housing Starts – 5 Year – Canada
6 Month Seasonally Adjusted Annual Rate

Housing starts in Canada plunged by 13.35% month-over-month to 231,500 units in December 2024, the lowest level in three months and below market expectations of 245,000 units, according to the Canada Mortgage and Housing Corporation. The seasonally adjusted annual rate (SAAR) of total urban housing starts decreased by 13.65% to 214,000 units, driven by a 14.7% drop in multi-unit urban starts to 168,515 units and a 9.54% decrease in single-detached urban starts to 45,485 units. The SAAR estimate for rural starts stood at 17,468 units. Year-to-date housing starts from January to December 2024 are up 15% in Montréal compared to 2023, reflecting a recovery from historically low levels last year. In contrast, Vancouver and Toronto remain below 2023's historically high levels, with declines of 15% and 20% year-to-date, respectively. source: Canada Mortgage And Housing Corporation



January - Trading Economics – Big picture - Same range since early 2023

Condominium Activity for Toronto

January 15th – few want to talk about the condo market !

Inventory levels are high.

Cost of acquiring pre-construction units is higher than the resale market.

Condo sales are very weak, so units are being reallocated to rentals. It is better to get rent, than nothing !

Good thing for renters is supply is better than it has been in years.

https://remaxcondosplus.com/Blog/2025/01/13/2025-Toronto-Condo-Market-Forecast

January – No new data, but I did find an ReMax blog that was interesting.

If you are lucky, this will be the next report produced
https://trreb.ca/wp-content/files/market-stats/condo-reports/condo_report_Q4-2024.pdf

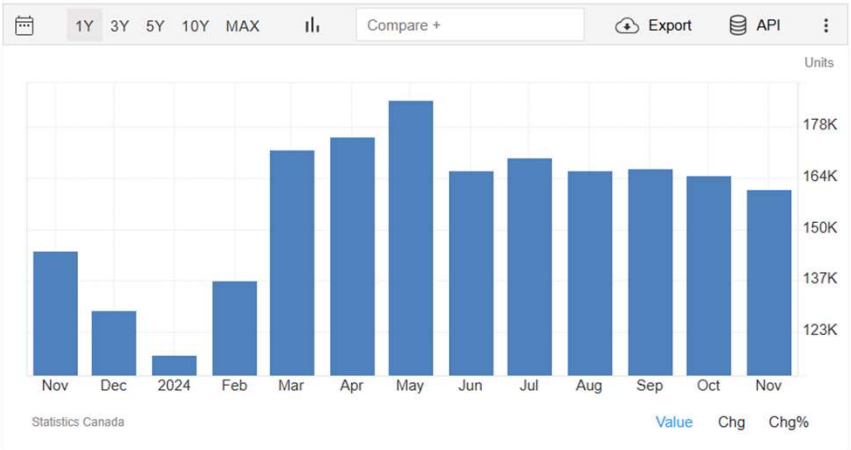
https://trreb.ca/wp-content/files/market-stats/condo-reports/condo_report_Q3-2024.pdf
https://trreb.ca/wp-content/files/market-stats/condo-reports/condo_report_Q2-2024.pdf

This is a quarterly report.

This one has some nice charts in it. It covers major cities across Canada.
>> https://wolfstreet.com/2024/09/16/the-most-splendid-housing-bubbles-in-canada-august-update-home-prices-3-9-yoy-16-from-peak-with-biggest-drops-in-toronto-hamilton-burlington-victoria-ottawa-montreal-vancouver-barely-dip/

New Vehicle Sales Activity for Canada

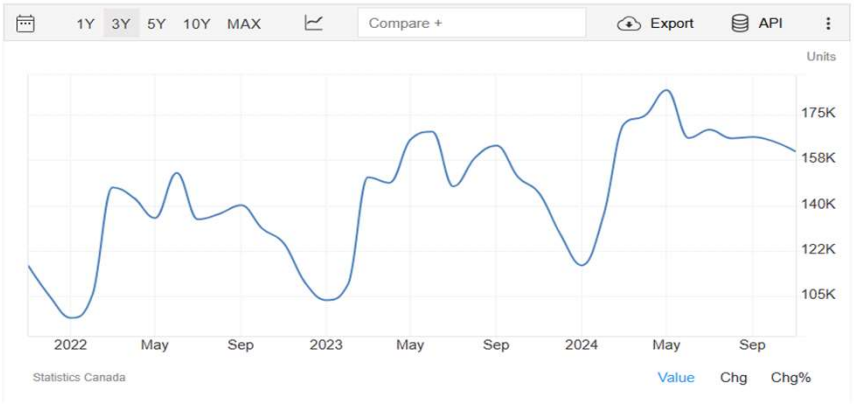
Car Registrations in Canada decreased to 160942 Units in November 2024, the lowest since February, from 164757 Units in October of 2024. Car Registrations in Canada averaged 103839.63 Units from 1950 until 2024, reaching an all time high of 220858.00 Units in May of 2018 and a record low of 19807.00 Units in December of 1951. source: Statistics Canada



January - Trading Economics – November sales put in the lowest for the year, but is that unusual ? The next slide reveals that answer.

New Vehicle Sales Activity for Canada – 3 Year Chart

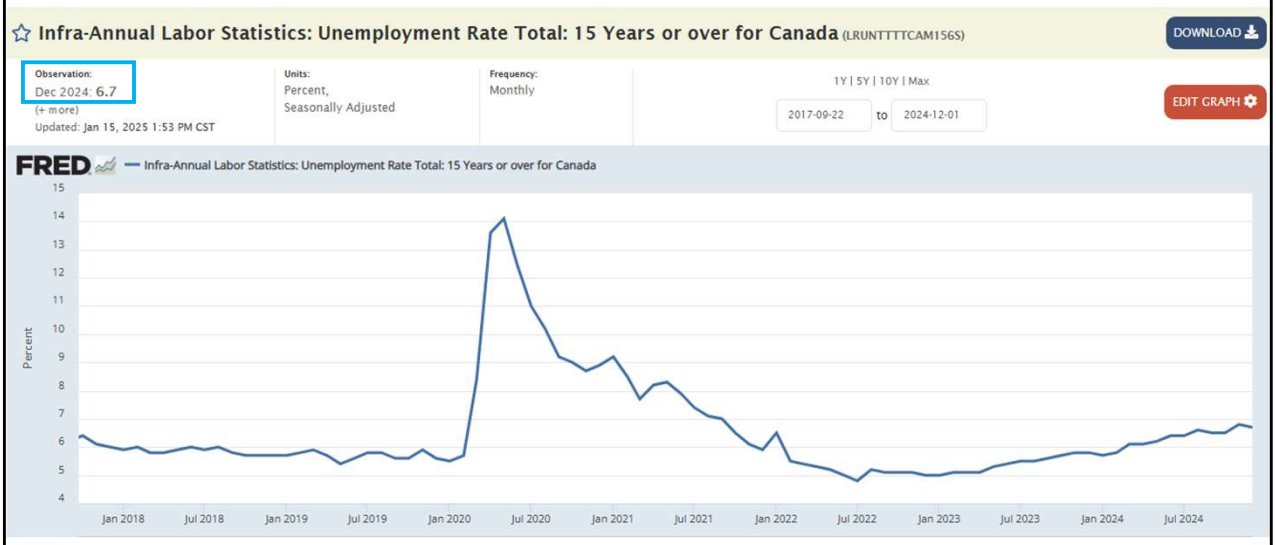
Car Registrations in Canada decreased to 160942 Units in November 2024, the lowest since February, from 164757 Units in October of 2024. Car Registrations in Canada averaged 103839.63 Units from 1950 until 2024, reaching an all time high of 220858.00 Units in May of 2018 and a record low of 19807.00 Units in December of 1951. source: Statistics Canada



It is normal that sales decline near calendar year end !
Higher highs, and higher lows is a good thing !

January - Trading Economics – November sales put in the lowest for the year, but is that unusual ? Not at all !
Higher highs, and higher lows is a good thing !

Unemployment Rate for Canada

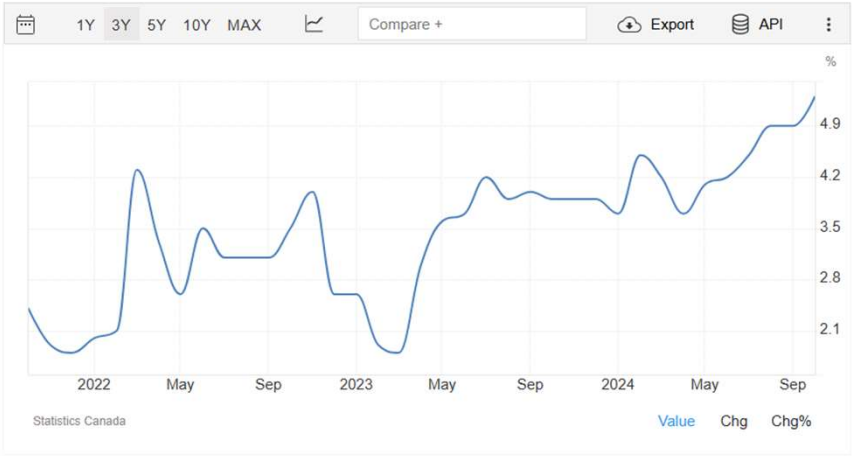


October was 6.5, this month 6.7

January - October was the last print at 6.5. Last I checked, the weight of the soft unemployment numbers was born out by new Canadians.
Source is St. Louis Fed

Canada Average Weekly Earnings YOY – 3 Year Chart

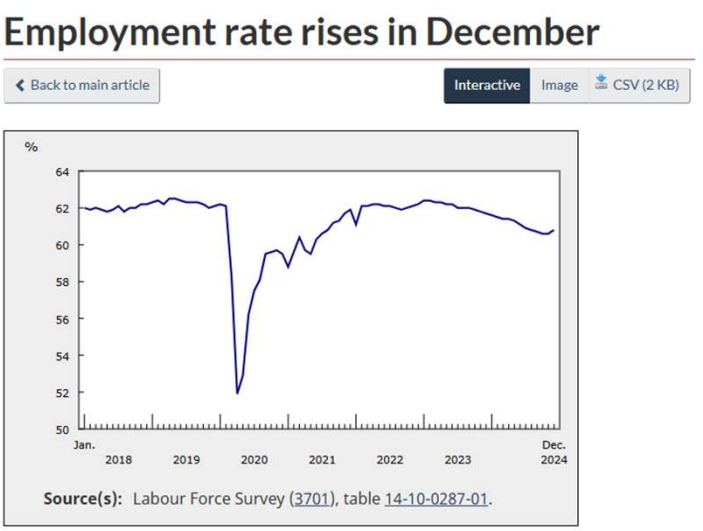
Average weekly earnings of non-farm payroll employees in Canada rose by 5.3% year-on-year to $1,284.43 in October 2024, the fastest pace since March 2021, following a downwardly revised 4.9% increase in September. Gains were reported in all sectors, with notable increases in finance and insurance (+12.4% to $1,792), wholesale trade (+8.7% to $1,570), and professional, scientific and technical services (+7.5% to $1,863). source: Statistics Canada



January - This is good for helping Canadians rebuild budgets.
Source is Trading Economics

There are LOTs of charts in this category on the Trading Economics website.
https://tradingeconomics.com/canada/wage-growth

Employment Persons for Canada



This looks at the number of employed persons in Canada on a percentage basis – up 1/5th

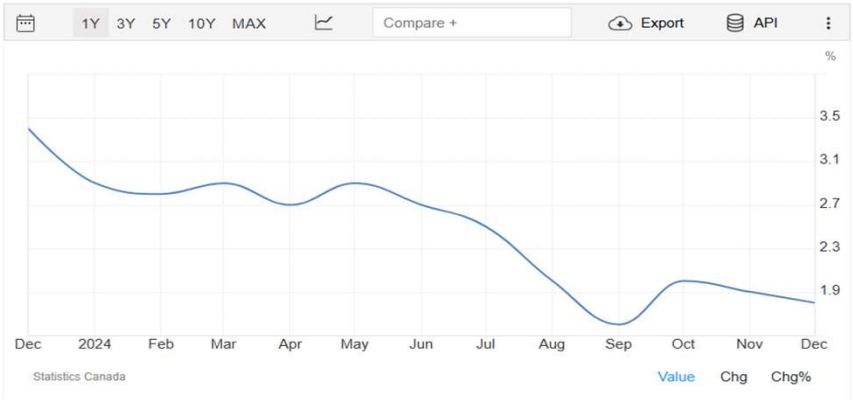
January – Some of this will be due to the boomers retiring before 65. Some will be due to immigrants not finding work. Some is in the 14 to 24 age group not finding work as easily as a year ago.
This is also known as the Participation Rate.

Details by age group are here >>
https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410028702
The participation rates vary by age group. I would really like to see the 55 and over group broken into two pieces. 55 – 65, and 66 and over.

Finding this chart is a bit of a challenge. **Google StatsCan "Labour Force Survey" should be first hit.**

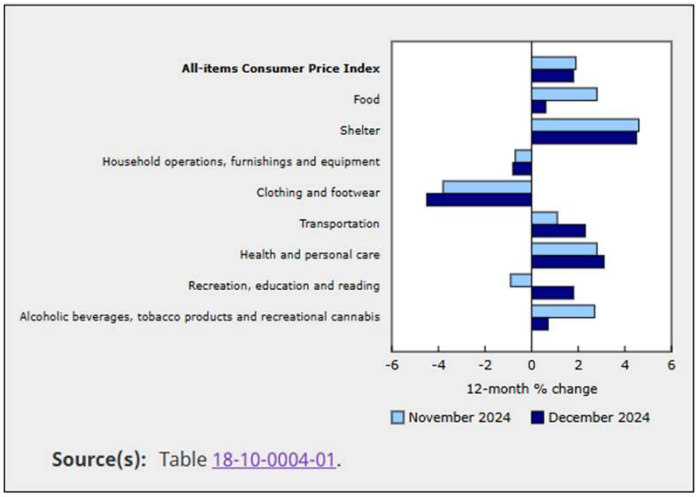
Consumer Price Index: Monthly Canada – Jan 25th Update

The annual inflation rate in Canada eased to 1.8% in December of 2024 from 1.9% in the previous month, slightly below market expectations that it would remain at 1.9%, to mark the softest rate of price growth since September. With the result, inflation remained within or below the Bank of Canada's midpoint target 2% for the fifth consecutive month, adding to current expectations of further rate cuts this year. Inflation slowed sharply for food (0.6% vs 2.8% in November), lowered by an annual decline in food purchased from restaurants (-1.6%) due to goods and services tax and harmonized sales tax breaks. Inflation also slowed for shelter (4.5% vs 4.6%) amid softer price growth for rent (7.2% vs 7.7%) and mortgage interest costs (11.7%, the lowest since October 2022). On the other hand, transportation costs accelerated (2.3% vs 1.1%) as base effects drove gasoline inflation to soar (3.5% vs -0.5%). From the previous month, Canadian consumer prices fell by 0.4%. source: Statistics Canada



January 25th Update – The text box in the chart explains this well. In general, inflation is within targets, with shelter costs remaining the biggest cost rate increase driver for citizens.

Consumer Price Index: Monthly Canada – Jan 25th Update

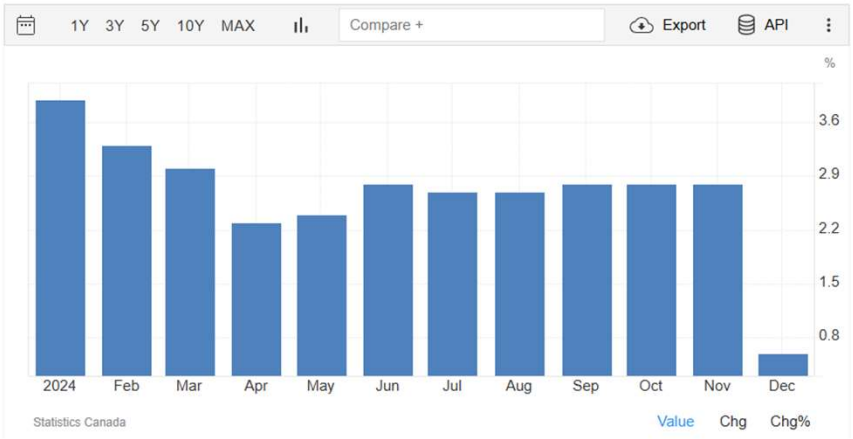


January 25th update – (StatsCan) – **Please note – The GST/HST sales tax holiday, which partially covered December hides some of the underlying inflation. January data will also be affected. This makes it much more difficult to see the actual trend until the tax holiday ends, and time allows the true trend to shine through.**

About 10 percent of all items in the CPI Basket are affected by the tax holiday.

Consumer Price Index: Food – Jan 25th Update

Cost of food in Canada increased 0.60 percent in December of 2024 over the same month in the previous year. Food Inflation in Canada averaged 3.91 percent from 1951 until 2024, reaching an all time high of 20.18 percent in July of 1978 and a record low of -7.14 percent in December of 1952. source: Statistics Canada

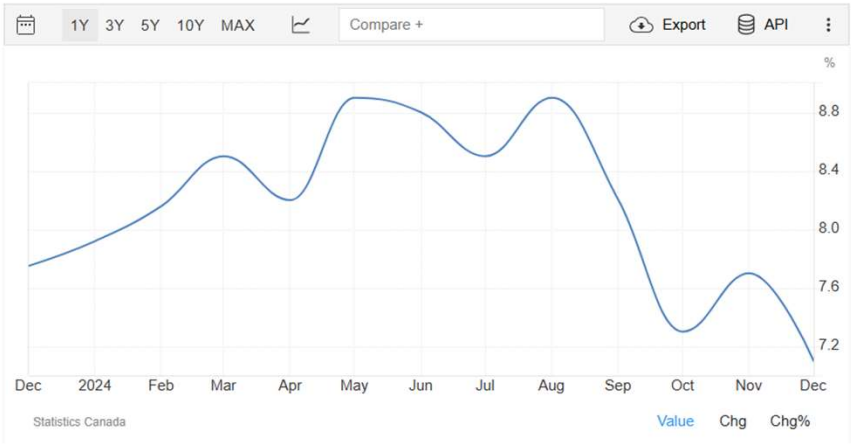


January 25th update – Those of you with long memories will see this chart "looks" a lot different than last month. That is because Dec 2023 data dropped off, which had a nearly 5% inflation print. This allows the other months to now fill the chart without that data point sticking out ! Nothing changed, just the range of values on the Y axis!

https://tradingeconomics.com/canada/food-inflation

Consumer Price Index: Rent – Jan 25th Update

Rent Inflation in Canada decreased to 7.10 percent in December from 7.70 percent in November of 2024. Rent Inflation in Canada averaged 2.77 percent from 1951 until 2024, reaching an all time high of 10.27 percent in September of 1982 and a record low of 0.00 percent in September of 1961. source: Statistics Canada



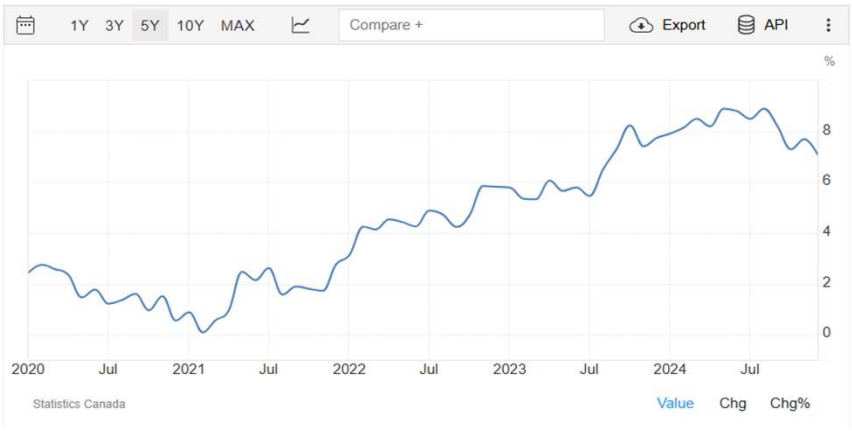
7 .1 percent rent increases are very hard on renters !

January 25th Update – 7.1% rent inflation is still pretty stiff !

https://tradingeconomics.com/canada/rent-inflation

Consumer Price Index: Rent – Jan 25th Update
Long Term View

Rent Inflation in Canada decreased to 7.10 percent in December from 7.70 percent in November of 2024. Rent Inflation in Canada averaged 2.77 percent from 1951 until 2024, reaching an all time high of 10.27 percent in September of 1982 and a record low of 0.00 percent in September of 1961. source: Statistics Canada

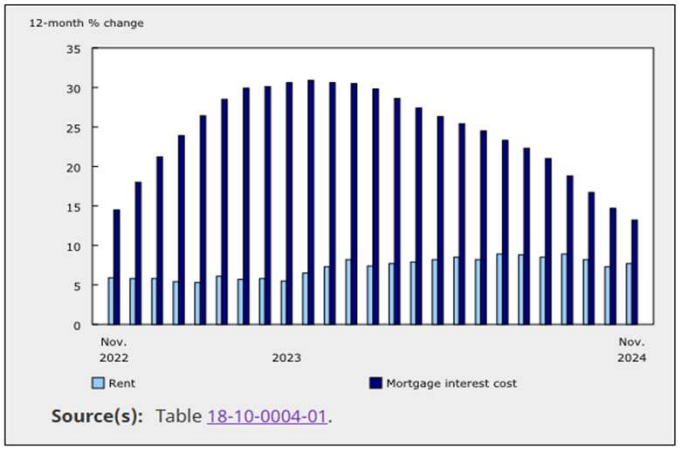


Renters have seen excessive increases for 2 years

January 25th Update – The improvement is nice to see, but there is a long way to go to relieve financial pressure on renters.

https://tradingeconomics.com/canada/rent-inflation

Consumer Price Index: Mortgage Interest – Dec 17th Release
Long Term View



No New Data Until January 21

This explains the crux of why BoC wants interest rates down !

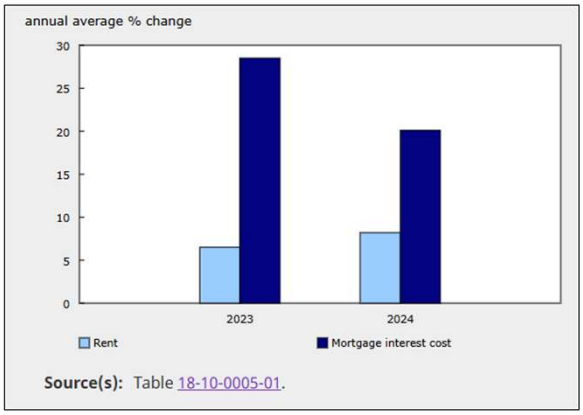
January 25th Update – I left this chart in to show the trend. I tried various methods of getting the monthly data, and did not succeed. The table behind this data is massive and does not fit inside excel ! There is lots of data in it, besides the mortgage interest. December – No new data until Tuesday January 21st.

Mortgage interest inflation is coming down. A 50 point drop in December will be helpful going into next year. All those with variable rate loans are pleased. Those with 5 year mortgage renewals in 2025 will feel much less pain.

That said, only about 26% of the population can afford a single family home. (Toronto Star, Ipos). I would hazard that number is high, especially in GTA and Lower BC.

https://www150.statcan.gc.ca/n1/daily-quotidien/250121/cg-b005-eng.htm

Consumer Price Index: Mortgage Interest – Jan 25th Update



Source(s): Table 18-10-0005-01.

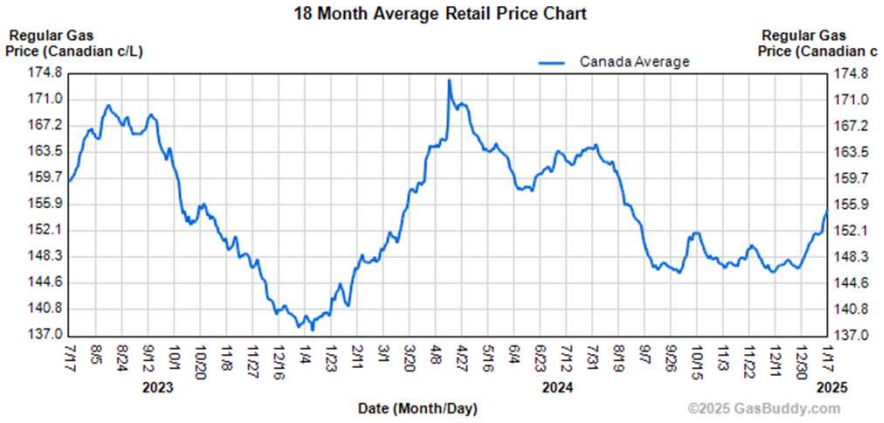
I have no idea whey they changed from monthly to annual

I do not like this view, as it does a poor job of showing trend.

January 25th update –

https://www150.statcan.gc.ca/n1/daily-quotidien/250121/cg-b005-eng.htm

Gasoline Prices – Canada Average



January – the steady since early September, has broke out if its channel.
https://www.gasbuddy.com/can/on

Gas tools > Gas Price Charts, Choose Canada Average, and Canadian c/L

Interest Rates: Yields: 10-Year: Canada – Weekly Candles



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January – December was 3.17. January 16th close was 3.41

Canada has indicated they will retaliate against the US if they impose tariffs. Effectively this is a tax on Canadian consumption, and raises inflation in a time when the CAD is already weak.

Adding additional debt costs, is not going to help bring inflation back down. Government induced inflation stays in the numbers for 12 months, while the statisticians wait for Y/Y numbers to sort themselves out. Increased interest rates will simply make any economic slowdown worse.

Canada 10 Years / Canada 3 Months Government Bond spread

The Canada 10 Years / Canada 3 Months Government Bond Spread reached a maximum value of 201.8 bp (27 March 2022) and a minimum value of -205.6 bp (20 December 2023).

Available Data Source: from 17 April 2015 to 17 January 2025



Spread has climbed 27 points since last month.

January - The spread has decisively crossed zero since the last report !

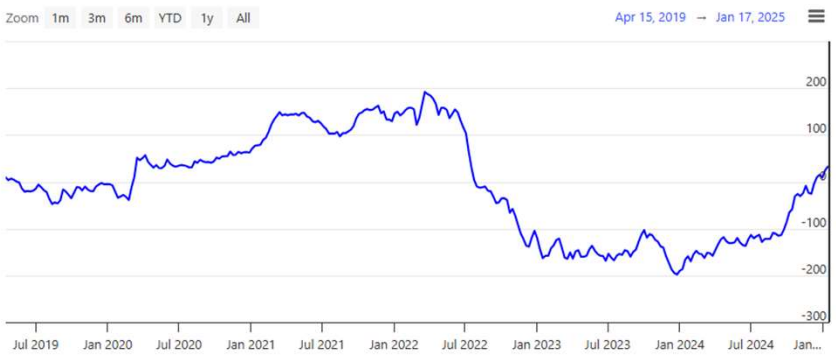
It tested zero twice, since November!

https://www.worldgovernmentbonds.com/spread/canada-10-years-vs-canada-3-months/

Canada 10 Years / Canada 3 Months Government Bond spread
Longer Term View

The Canada 10 Years / Canada 3 Months Government Bond Spread reached a maximum value of 201.8 bp (27 March 2022) and a minimum value of -205.6 bp (20 December 2023).

Available Data Source: from 17 April 2015 to 17 January 2025

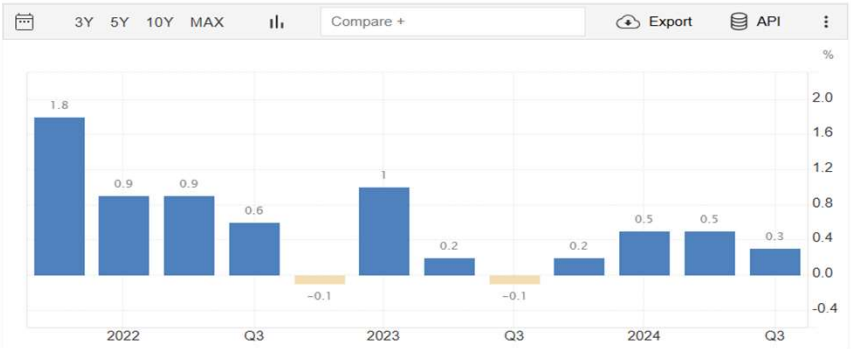


January – the longer view.

https://www.worldgovernmentbonds.com/spread/canada-10-years-vs-canada-3-months/

Real Gross Domestic Product for Canada – Jan - No New Data

The Canadian GDP expanded by 0.3% from the earlier quarter in the three months to September of 2024, slowing from 0.5% expansions in the first two quarters of the year, in line with market expectations. Economic growth was carried by household consumption (0.9%) amid increases for new trucks, vans, and sport utility vehicles, and higher demand for financial services. Growth was also robust for government expenditure (1.1%) amid higher spending at all levels of government. These were offset by slowing non-farm inventory accumulations, largely seen in motor trades, and lower business capital investment due to less spending on machinery and equipment. Lastly, net domestic demand contributed negatively to the GDP as exports of goods and services contracted 0.3%, compared to a slower 0.1% drop in imports. In annualized terms, the Canadian economy expanded by 1% in the period. source: Statistics Canada

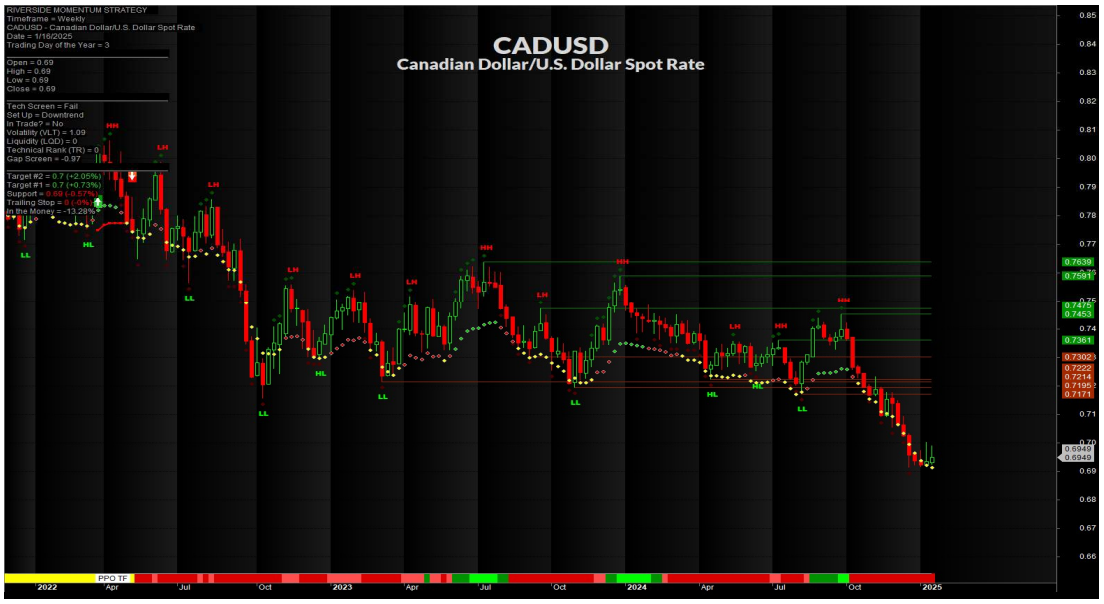


Quarterly report not updated yet.

January – This is a quarterly update, and this is not the month, at least not as of the time of this update !

Tale of two forces remains… government spending is up, consumer spending has slowed, but still a positive contributor to GDP.

CAD / USD Spot Rate – Weekly Candles



January – Protecting the mortgage market comes with a price. The new inflation numbers are not out until January 21, so it will be interesting to see if any early upticks are present due to the declining CAD.

Recession Risk Summary

- Soft landing remains the likely scenario. There is nothing in this report that is particularly concerning.
- US POLITICAL Risk is being closely watched. Significant tariffs changes the outlook to the negative.
- Inflation continues to ease – dropping below the 2 % target. Shelter costs remain high. Canadians with variable rate mortgages are seeing some relief.
- CDN Interest rates have are likely very close to their bottom for the year. A 25 point cut Jan 29th is likely. TD thinks BoC could cut another 100 points by year end. Mortgage defaults likely drive the cuts.
- Unemployment is steady.
- Food price increases moderating. Y/Y price changes Q1 2025 will be interesting. Expect moderate change.
- Gasoline prices have increased above their recent trading range.
- Stock Market is doing ok, but as noted in weekly reports, breadth has weakened.
- US stock market health usually negative in 1st year of a Republican Presidency.
- Both US and Canada 3 month and 2 year yield spreads have flipped to positive.
- Recessions tend to occur 5 to 7 months after the yield inversion fixes itself – New target – Summer to fall of 2025
- Canada new vehicle registrations remain steady
- A few clouds around consumer debt, credit card default rates appear to be steadying.
- Canadian mortgage renewals will be helped with interest rate reductions. Canada is proactive.
- CAD continues to weaken going into Q1 2025.
- US is has dropped interest rates, but 2025 likely only sees one drop
- Expect some bumps, more mixed signals !


THAT'S IT FOR TODAY!
The End
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John P. Hussman, Ph.D
President, Hussman Strategic Advisors