

AM Charts for October 30, 2020

A publication of BMO Capital Markets Economic Research • Douglas Porter, CFA, Chief Economist, BMO Financial Group

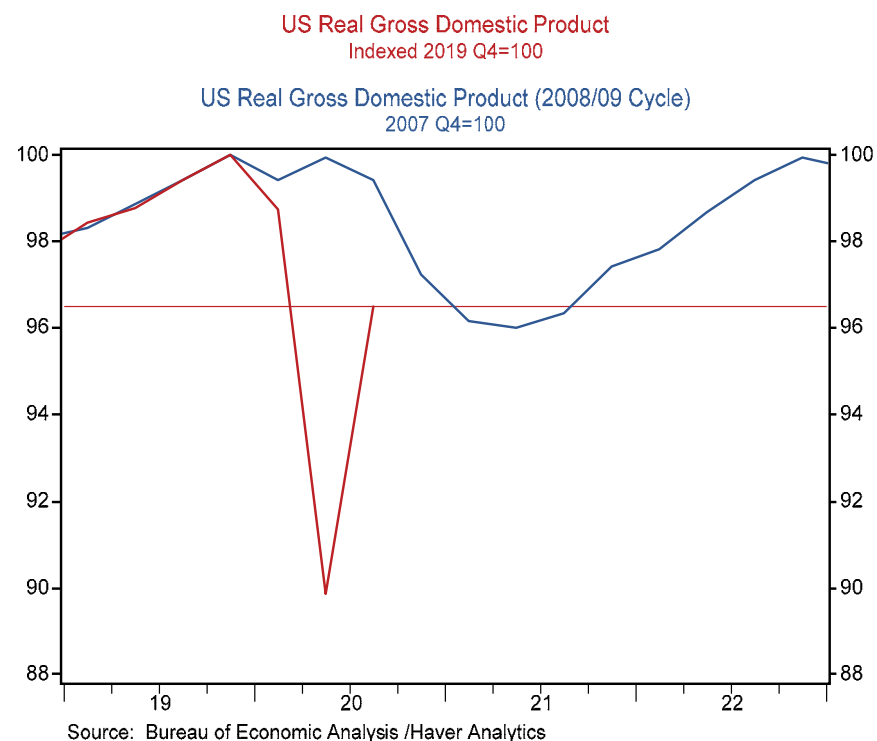
A Very Different Cycle

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U.S. GDP rebounded at a 33.1% annual rate in Q3, above consensus and the fastest post-war pace by a factor of two. (The last time the U.S. economy posted a double-digit quarterly growth rate was 1978Q2.) Of course, this did not fully recoup the deep damage from the prior two quarters. But, the level of GDP is now down a manageable 3.5% from the pre-pandemic level.

In context, U.S. GDP dropped 4% from peak to trough in the prior cycle (2008/09), and that trough was reached six quarters after the peak. This cycle saw the trough in less than two quarters. Essentially, this cycle looks much more V-like than the prior episode (which was more like a U), at least so far. The next part gets tougher.

Big picture: U.S. GDP is likely to contract by 3.7% in 2020. That will be the lightest hit in the G7. (Japan, Germany and Canada are next in line with drops of 5%-to-6%.)



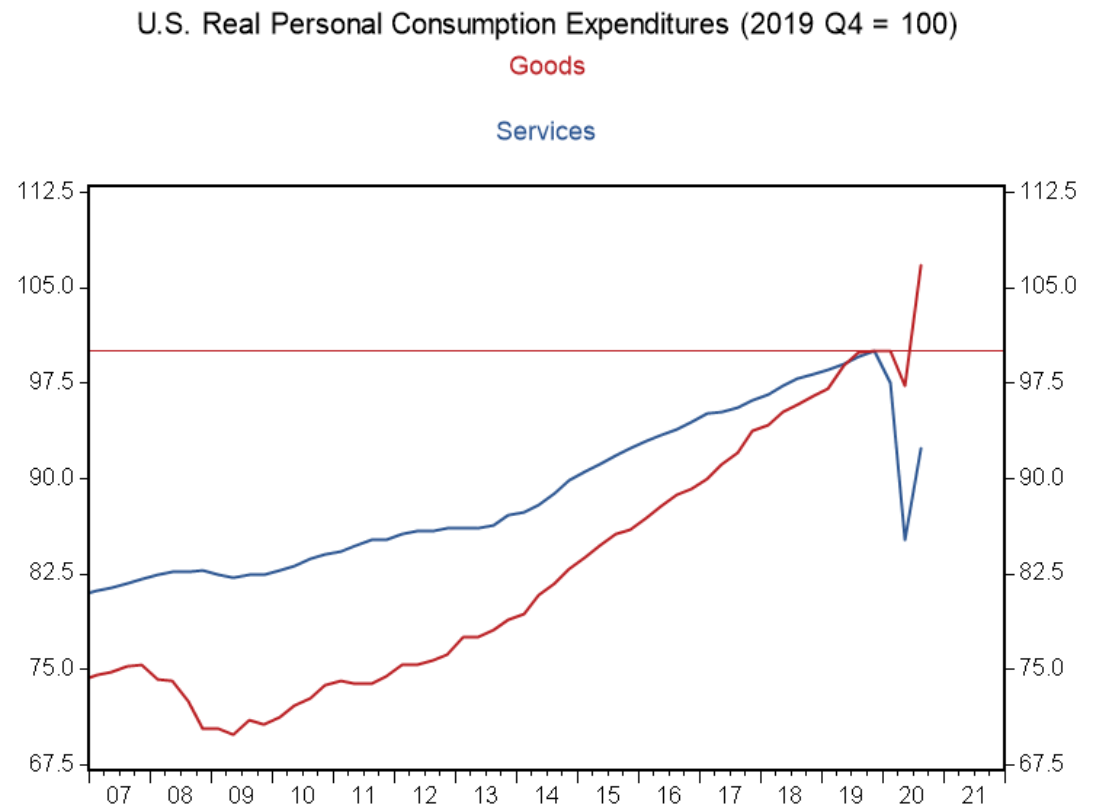
Serving Up One Big Difference This Cycle

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There are many odd things about the recent economic crisis, like a surge in personal income and savings and booming tech demand, but a real standout is the split between household spending on goods and services. The former has quickly surpassed pre-downturn levels, but took more than four years to do so after the Great Recession. By contrast, services spending, which actually kept its head above water in the GR, is still down more than 7% even after a big Q3 rebound.

Look for this split in consumer behaviour to possibly widen if virus concerns keep people away from bars, indoor dining and some personal services businesses.



Source: Bureau of Economic Analysis/Haver Analytics

Another V for Canada

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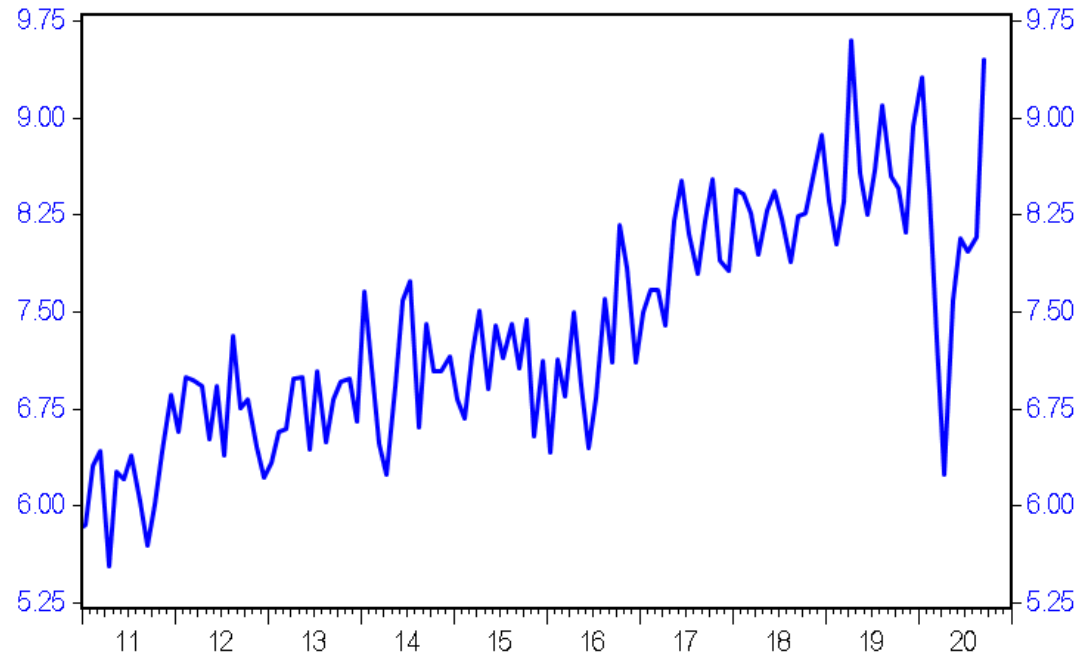


Canadian building permits surged 17% in September, leaving them at the second highest level on record. We all know the housing market is on fire, and that held true for residential permits, as they rose to a record high. However, the across-the-board strength in non-residential permits was very encouraging with all three sub-sectors seeing gains of at least 30%.

We'll see if that pace is maintained in the coming months, especially with the increase in virus cases and the fact that this might just be pent-up demand. But for now this is another V-shaped rebound and it bodes well for September GDP.

Canada: Residential and Nonresidential Building Permits

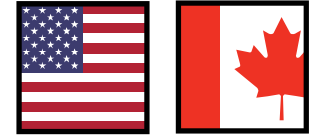
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Source: Statistics Canada

Are Jobs Weaker in the U.S. or Canada? Yes.

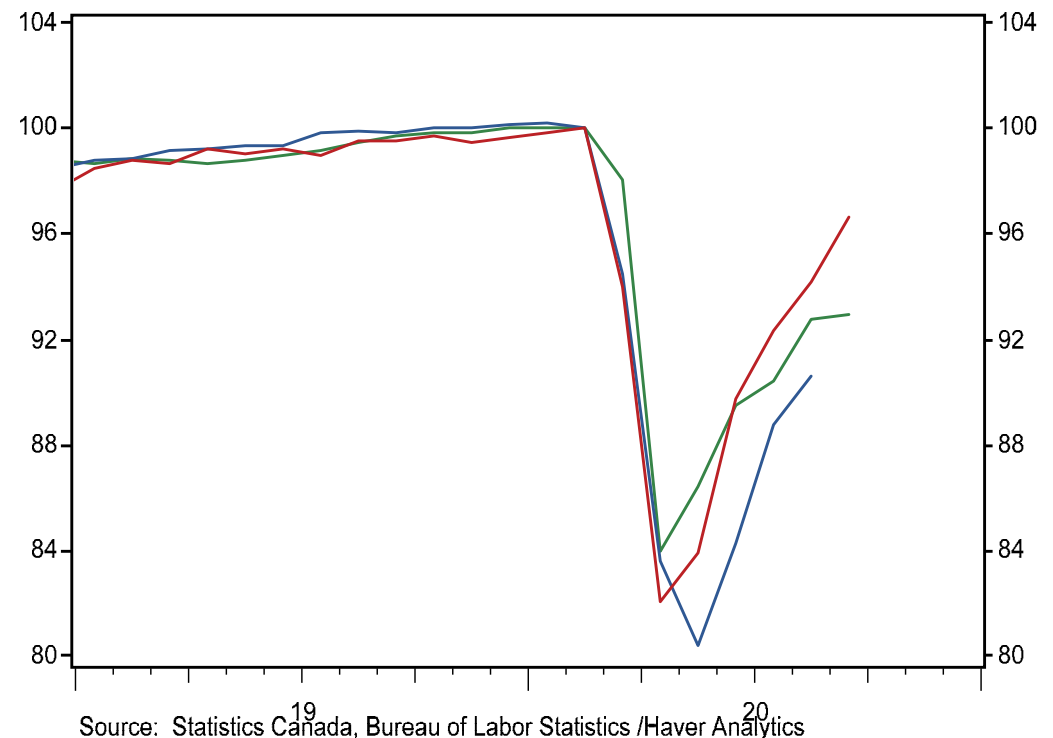
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Just to provide a taste of how tricky it is to get a proper bead on the economy right now, take a look at the two employment reports produced by StatsCan. The widely followed, and much more glamorous, Labour Force Survey is released first, usually close to the twin U.S. jobs report. It suggests that jobs have fared back fast, with employment down “just” 3.3% from the February peak. (We have taken out the self-employed to make it more comparable to the other survey.) However, the payroll survey, which only just reported for August, shows a much weaker profile.

In contrast, the two U.S. jobs surveys are largely in line with each other; both down about 7% from the February high. (Only the household survey is on the chart, to spare you the spaghetti look of four lines.) The huge spread in the two Canadian surveys means we can't definitively say which job market is faring better. Guessing Canada.

Canadian LFS Public & Private Employment (Feb 2020 = 100)
Canadian SEPH Payroll Employment
U.S. Employment (Household Survey)



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