

# The Wrap Up



## (What's the Story) Canadian Glory

Picking up from where we left off last week, like we did for America, we will now look at what's brewing in Canada. As a reminder, we already see the convergence in equity returns; the TSX is at 3.7% this year while the S&P 500 has risen 18.5%. Let's see if the economic picture is as different.

Inflation is still the hot button topic, both sides of the border. While we examined the progress in the US, it is worth noting that Canada has also progressed in its efforts to contain the cost of living. Just this week, October inflation came in at 0.1%, bringing the current rate at 3.1%. Core inflation also rose 0.1% for the month with the annual pace now at 3.6% with the three month trend easing to 2.7%. Declining energy prices helped the most this month, posting a drop of 4.6%. Food prices are still elevated at 5.6% year over year (although the three month trend is at a more reasonable 2.6%). This is more of an anecdotal observation, but seeing green beans cost \$7.99 this week (as opposed to the usual \$3.50) was a reminder that the reality around food pricing is not as clear cut as the figures present.

That is not to say that we doubt the numbers; the fact that we use a similar formula to compute pricing over large periods of time is still a good indicator of the evolution of pricing. That being said, the weight of food in Canada's CPI calculation is at the same level since 2017 (roughly 16%). The fact that food inflation has been above 4% since the end of 2021, above 8% for more than half of 2022 and that is only now below 6% for the first time in 18 months, suggests that food expenditures have grown as a proportion of one's household expenditures. Furthermore, when you consider cumulative inflation (that is the rise in prices over the last 2 years), we would either need to experience a brief spell of deflation or a period of price stagnation if we want food prices to be as affordable as they were before the pandemic. While components that previously impacted food prices, such as fluctuating energy prices and trade disruptions, are more subdued and have improved, the increased wages in the food industry (which are unlikely to drop without a moderate recession) suggests that only with the passage of time will food become more affordable in Canada (notwithstanding miraculous productivity gains in the sector).

## Let's connect

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On the topic of multiyear stories, shelter and mortgage prices are worth paying close attention to as well; shelter prices have increased 8.9% over the last three months (higher than the 12 month trend at 6.1%) while mortgage interest payments rose 2.5% for the month of October (that's up 36.3% over three months and 30.5% over 12 months). The good news is that not all mortgage payment instantaneously reset all at once; the reality is that they will do so over the next few years. This will place pressure on the Bank of Canada moving forward; they need to be mindful of the risks associated with elevated mortgage debt and increasing debt servicing payments while also wanting to avoid reinflating the real estate market. What's more desirable? Mortgage payments that few can afford or real estate prices that few can afford? It's in these moments that I'm glad not to be working at the central bank. In an effort to address housing shortages, the federal government announced several measures to support new home building: a \$4 billion accelerator fund (to help cut red tape and build 100,000 new homes across Canada), removing GST from new rental housing and increasing the Canada Mortgage Bond issuance limit by an additional \$20 billion.

These measures, although very much needed, have some realities of their own to deal with. For starters, the federal government will need to collaborate with provincial and municipal governments in order to get more homes built. Canada's largest cities are already crowded; any new building will require new infrastructure to service these developments as well as new land. When you consider the tightness in our labor market, construction workers will be spread thin between home building and infrastructure projects for years to come. As for land availability, many cities are in the process of crystalizing green spaces and committing to creating larger parks. Will they pull back on some of the environmental initiatives to quell the affordability crisis? Perhaps the greatest challenge the federal government will face moving forth is the increasing debt servicing costs associated with our multiyear deficit spending and the higher interest rates. Ottawa revealed its multiyear budget estimate where deficits are expected to continue for the foreseeable future and debt servicing is now exceeding 10% of revenues. Think about that! For every dollar the government collects, 10 cents goes to servicing our debt and this will likely be the case for rest of the decade and beyond until we have a serious conversation on the subject. Just like consumers have to consider tradeoffs in their day to day lives, our government will also have to consider and make similar tradeoffs. We can't always get what we want as Mick Jagger once said.

We have painted a bleaker picture of Canada when compared to the United States. The stock market's performance suggests that we are not the only ones that have some reservations about the current reality. Not wanting to end our recap on a bitter note, we do want to expand our opinion on Canada; the country needs a revamp of its competitiveness and productivity, it needs to focus on attracting the right investment, integrating its new arrivals and keeping the cost of living at a reasonable level. The country has a lot going for it; the population is growing rapidly, we have a highly educated work force, Canada has a wealth of natural resources, cheap energy and has strategic partnerships with the most important economies in the world. We are a relatively cohesive society, although our exposure to American media has somewhat fragmented our political discourse and we are surrounded by oceans (other than our border with the US) which avoids some of the challenges that America faces at its southern border or what Europe contends with along the Mediterranean. We have a stable banking industry, which is vital to our long term growth. We are not in denial about climate change which will allow for our energy industry to evolve as opposed to facing long term collapse (there is still a lot of work to be done there). I would also argue that we still have the best hockey team in the world but that is more about national pride than it is economics.

### **Healthy distraction**

Yesterday was American Thanksgiving, or as we football fans like to call it Christmas in November (the NFL plays

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three games on Thanksgiving day). For those of us unacquainted with the holiday, we wanted to share some interesting tidbits of information:

**Thanksgiving is the most popular day of the year (with a popularity rating of 79%)**

**53% of the people eat leftovers 2 to 3 days after the party**

**Top three things Americans are most thankful for: Family (84%), health (69%) and friends (63%)**

**54 million Americans travel to their hometowns or vacations spots, with about 30% planning to spend more than \$500 on travel.**

**In 2022, 1 out of 4 Americans canceled Thanksgiving due to increased prices**

**Every year, more than 40 million turkeys are consumed during the holiday**

**The average number of calories consumed is estimated at 4500**

**The most popular pie is pumpkin (23%) with pecan (14%) and apple (12%) rounding out the top 3**

We may not be American, but we figure we would take the opportunity to list what we are thankful for. Without a doubt, we are grateful for our family, our friends, our health and our lifestyles, and also grateful for the support and safety that our country provides. On the fun side of things, we are grateful for:

David: Pizza. You can eat it for breakfast, lunch, dinner or as a snack. You can eat it straight from the fridge or warm it in the oven. And people refer to kale as a super food?!

Leon: Arabic baklava, Italian Cannolis, Portuguese Natas and French three chocolate mousse cake (with the croquant biscuit at the bottom)...all located 5 minutes away from my house. Talk about temptation!

Myles: I'm grateful for cappuccinos! Milk and coffee put aside their differences and work together to form a harmonious mixture that brings comfort, warmth and brings on feelings that no matter what happens in life, everything will turn out alright. Coffee jitters? Nothing to worry about! Jitters let you know everything is working as intended and all is right with the world.

Lastly, we are grateful for our clients; your trust motivates and inspires us. Thank you!

Have a great weekend!



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