Canadian Oil Discount Disappears in Double-time

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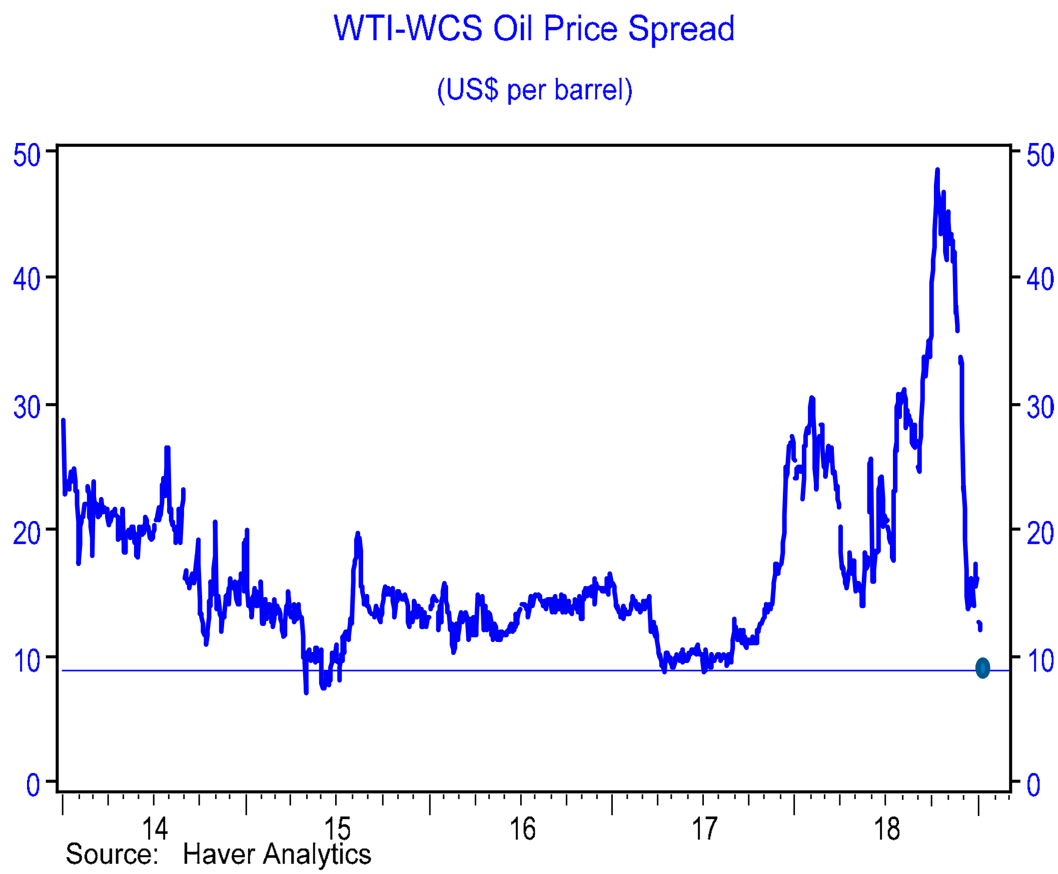
Less than three months ago, the grotesquely large spread between benchmark U.S. oil prices and Western Canada Select was at record levels of almost $50/bbl and was widely seen as the single biggest threat to the Canadian economic outlook. Presto, change-o, and suddenly the spread is probing its *tightest* level in years (the gap was just $9 on Tuesday).

The swift turn is due to a few factors, but the announced mandated production cuts in Alberta is right at the top of the heap.

While this swift reversal is no doubt welcome news to most, the other side of the coin is that WTI prices have come down a lot in the meantime. Even with a recent recovery, they are still down $15 from last year's average. So, the level of WCS prices at just over $40 is actually quite close to the average for most of 2017/18. On balance, oil prices overall are now likely seen as only a small drag on the growth outlook for 2019. But, that's a better place than just a month ago.



Mortgage Rate Relief?

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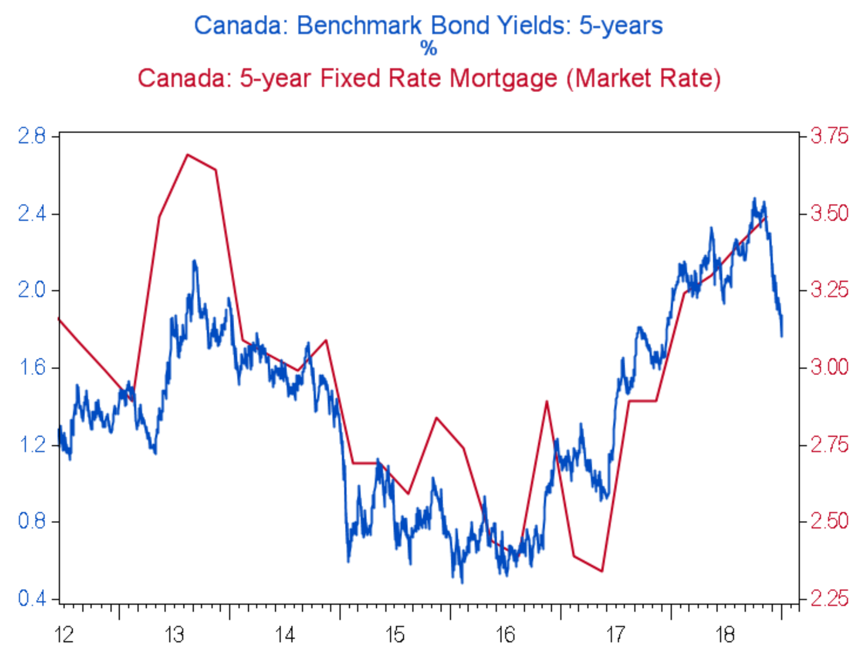
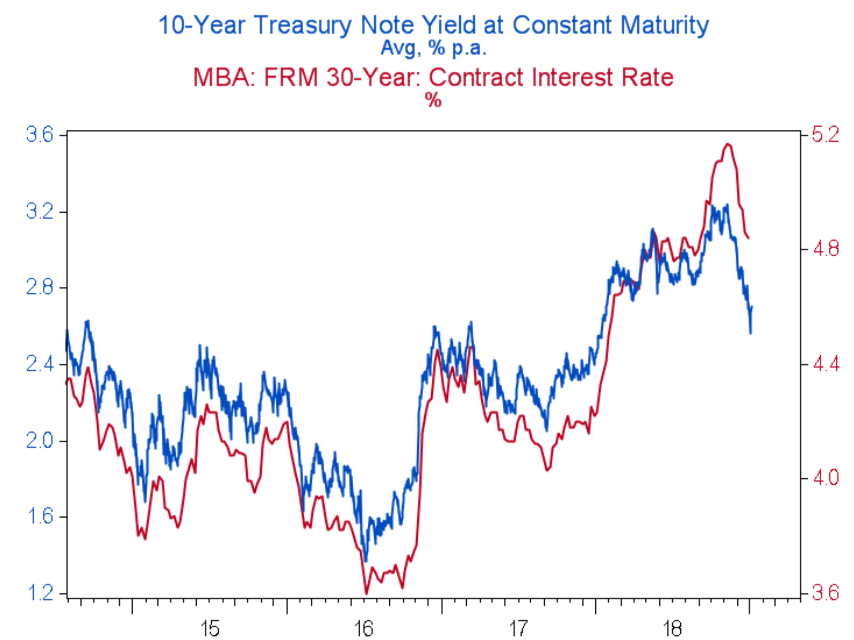
The good news in the financial market mess is that some mortgage rate relief could be coming. Variable rate mortgages will likely creep up less this year, if at all, as both the Fed and BoC take a step back from their tightening pace. Meantime, the chunky decline in longer-term bond yields on both sides of the border could translate into modestly lower fixed-rate mortgages, if history is any guide. This would at least stall the steady increase seen since early-2016 in both Canada and the U.S., which has contributed to each market softening since that time (of course, there have been other specific factors like foreign-buyer taxes, OSFI rules and tax changes in Washington at play, too).





The Debt Fret

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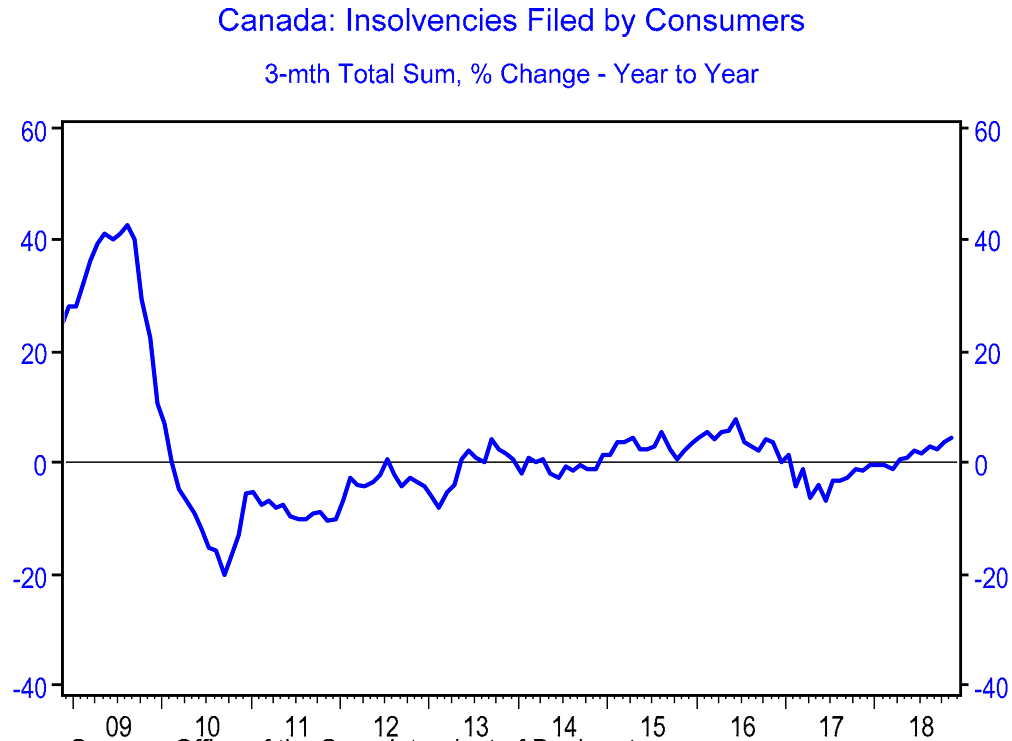
While mortgage rate relief is expected, Canadian households are still feeling the pinch from climbing borrowing costs at a time when debt ratios remain near record highs.

The number of consumer insolvencies filed in November climbed 5.2% from a year ago. That follows October's 8.9% jump, the most since August 2016.

While bankruptcy data can be volatile, taking the annual percentage change of the 3-month rolling tally shows a moderate upward shift (see chart). This, along with recent declines in residential investment and car sales, suggests that households—the biggest segment of the economy—are under some pressure.

The number of consumers claiming insolvencies could continue to trend higher, but the good news is the upswing is nowhere near the double-digit gains seen during the depths of the financial crisis.



Source: Office of the Superintendent of Bankruptcy

From Bump to Slump?

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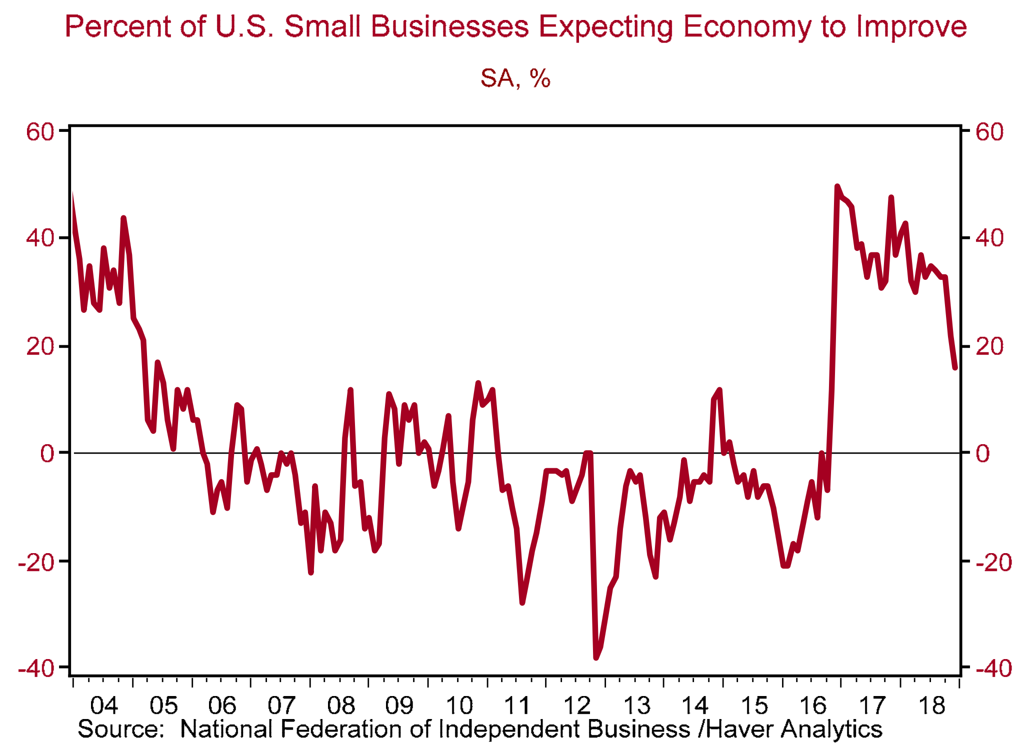
The U.S. Small Business Optimism Index fell for a fourth straight month in December to its lowest level (104.4) in more than a year, though it remains well above long-run norms (98.2). Fewer businesses expect the economy to improve, in fact the fewest since the November 2016 election. Tariffs, financial market turbulence, waning policy stimulus, ongoing labour shortages and weaker global demand are some notable headwinds. Consequently, the fewest businesses in over two years are planning to increase investment in the next six months.

But not all is doom and gloom. Hiring plans remain near record highs, consumer spending is solid, and overall business sentiment remains elevated.

Upshot: The "Trump Bump" has faded but not to the point of becoming an outright slump. And, there's still time to turn this ship around, at least with respect to the trade war.



Saving Plastic

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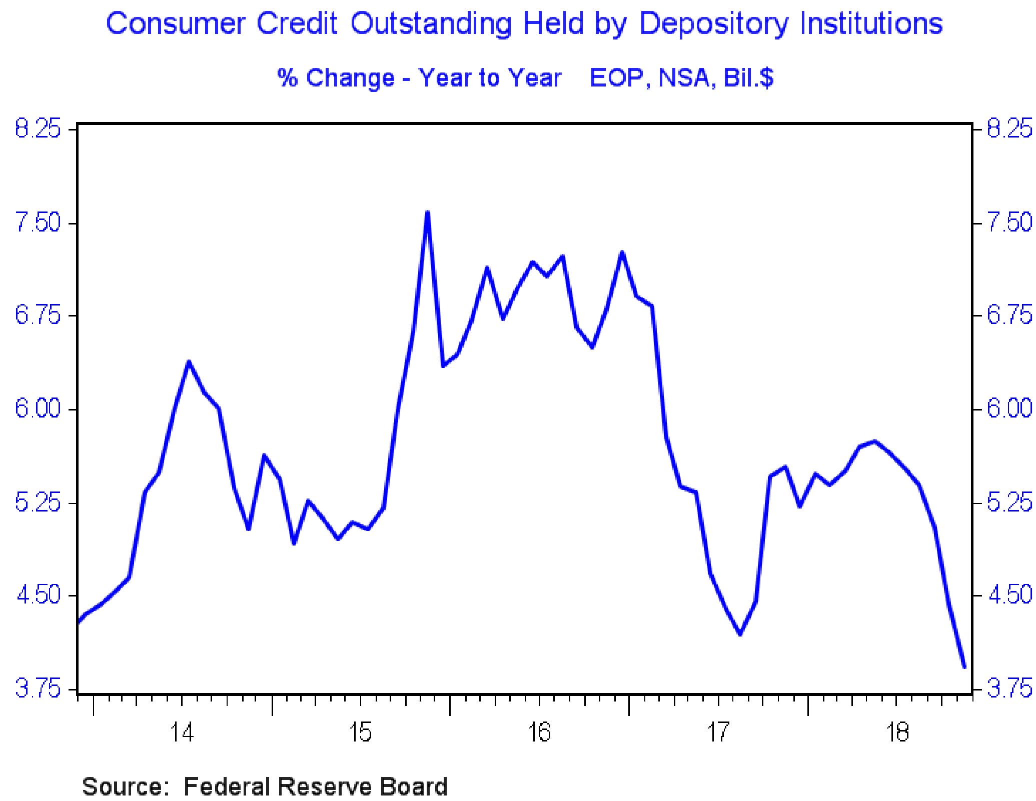
While reports of strong holiday sales provided a dollop of optimism amid the lumps of coal being served up in the December data, Tuesday's credit figures might bring some pause.

November's 3.9% y/y increase in U.S. consumer credit marked the slowest pace of credit expansion in over four years, with revolving credit (i.e. credit cards) being the key laggard.

A sharp deceleration in revolving credit growth from the 7%+ gallop seen through the first half of the year is a sure sign that the sugar rush from Tax Cuts and Jobs Act is wearing off.



The 'K Word' Makes the Rounds in Germany: Konjunkturrückgang

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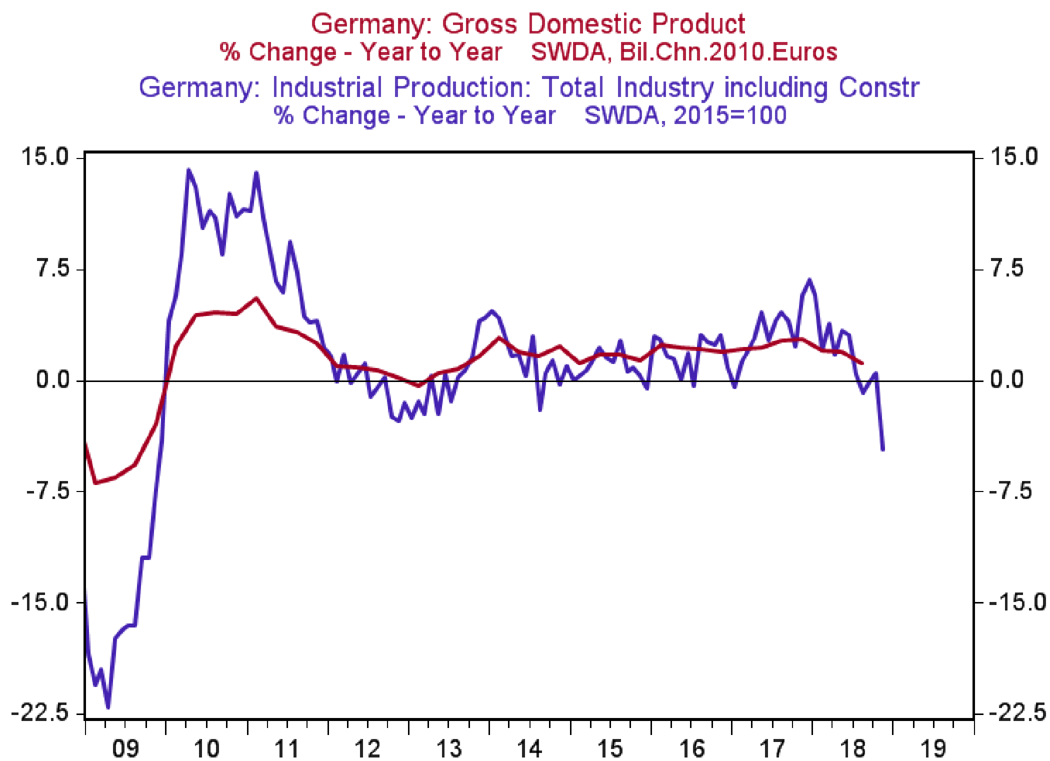
Translation: Recession. Let's turn the clock back one year. There were fears that Germany was overheating thanks to strong global trade and Euro Area growth. One company complained that there were "*bottlenecks everywhere.*"

Fast forward to the present. It is looking very likely that German Q4 GDP fell for the 2nd quarter in a row (i.e. a technical recession, or Technisch Konjunkturrückgang). Although retail sales rebounded in the last couple of months, thanks to a strong job market, industrial production has slumped for three consecutive months, while foreign factory orders took hit in November. And, the Ifo survey is at a 2-year low. **We will likely see a rebound in Q1**, as some of these temporary factors end (automakers wrap up emissions tests, the Rhine river level is finally rising again).

However, the rebound may lack oomph, as exporters feel the pain of slower Chinese demand.



Source: Deutsche Bundesbank/Haver Analytics

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