



WEEKLY COMMENTARY

That's a wrap?

By Royce Mendes, Managing Director and Head of Macro Strategy

There's no doubt that the Bank of Canada's aggressive rate-hiking cycle is closer to the end than it is to the beginning. It has to be. The economy simply can't take much more of this. But whether next week's rate hike will be the last of the cycle remains a source of vigorous debate. It all depends on the outlook for inflation.

At the moment, headline inflation remains miles above the Bank of Canada's 2% target and the economy is still overheating. But that's not enough to conclude that the Bank of Canada needs to raise rates significantly more.

Just this past week, third quarter GDP data revealed that the housing market was once again a significant source of weakness. Economic activity from real estate transactions plummeted during the period. Consumer spending on durable goods, including automobiles and furniture, also continued to pull back in Q3. Those two sectors of the economy are the most exposed to higher interest rates since purchasers tend to employ leverage when buying. For Canadians who own businesses or work in these sectors, this is awful news. But for the Bank of Canada, this is a win. It means that its past rate hikes are working exactly as intended.

Central bankers can't fix supply chain disruptions, nor can they lower global energy prices. What they can do is cool the domestic economy, primarily through the housing market and household spending. On that front, monetary policymakers can pat themselves on the back. Final domestic demand, a gauge of economic activity within Canada's borders, showed a contraction for the first time since the lockdowns of 2021. Given the lags in monetary policy, expect further slowing of the Canadian economy next year as a result of rate hikes conducted in 2022. That will help bring supply and demand into more balance.

The question, of course, is whether the Bank of Canada has done enough to bring about the type of balance that would return inflation back to target. The truth is that inflation still has many global components, which means that there are elements that are out of the control of Canadian policymakers. But looking at domestic price pressures, the tide does appear to have turned.

According to a host of metrics, wage growth isn't an independent source of excess inflation in Canada. That's in stark contrast to the US, where growth in employee compensation does appear to be feeding consumer price growth. That's hardly good news for Canadian workers who have seen the purchasing power of their income slashed by high inflation, but it's another win for a central bank trying to snuff out inflationary pressures.

Measures of what we call "super core inflation," which try to identify the most recent trend in underlying price pressures, also appear to be falling. According to our calculations, the three-month annualized rates of the Bank of Canada's trim and median inflation indicators now stand at 3.4% and 3.3%, respectively. That's well off the highs of around 7.5% from earlier this year and well below similar measures in the US. The deceleration in price pressures is a win for everyone in Canada. It means that even more draconian measures might be avoided. That's exactly why the Bank of Canada has been moving so aggressively up until now. Central bankers always said that they were unleashing rapid-fire hikes so that they could pause hiking earlier than would have been the case if they had moved slower.

If the Bank of Canada is truly committed to balancing the risks of under- and over-tightening, central bankers would be wise to raise rates only 25 bps next week and move to a more data-dependent stance. We expect the data will deteriorate enough that policymakers won't hike rates anymore after that. Just don't expect them to yell, "That's a wrap!" on December 7. Their risk management approach will leave the door open to further rate

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increases in 2023 to guard against the possibility that the data doesn't continue to cooperate. But that's just central bankers hedging their bets.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, and Francis Généreux, Principal Economist

MONDAY December 5 - 10:00

November

Consensus	53.5
Desjardins	53.6

October **54.4**

FRIDAY December 9 - 10:00

December

Consensus	56.9
Desjardins	57.0

November **56.8**

MONDAY December 5 - 8:30

October

Consensus	m/m
Desjardins	n/a

September **-17.5%**

TUESDAY December 6 - 8:30

October

Consensus	\$B
Desjardins	0.89

September **1.14**

WEDNESDAY December 7 - 10:00

December

Consensus	4.13%
Desjardins	4.00%

October 26 **3.75%**

UNITED STATES

ISM Services index (November) – The ISM Manufacturing index was hovering around 50 for several months and finally dipped below it in November. Meanwhile the ISM Services index came in at 54.4 in October and remains some way from its break-even point—at least for now. We could see it drop to 53.6 in November on the back of weak regional index prints over the last month and declining confidence readings.

University of Michigan consumer sentiment index (December — preliminary) – After rising 9.9 points over the course of four consecutive months, the University of Michigan index fell 3.1 points in November. We expect the index to be flat in December. Concerns over the strength of the US economy are still palpable. However, stock market gains since mid-November along with lower gasoline prices over the same period and a modest dip in mortgage rates should provide some support.

CANADA

Building permits (October 2022) – The value of building permits in October is expected to have recovered some of the ground it lost in the prior month, thanks to an anticipated rebound in the number of permits issued as well as a modest increase in seasonally-adjusted home sales.

International trade (October 2022) – The merchandise trade balance is expected to have risen further in October to \$1.6 billion. This is largely thanks to an anticipated increase in nominal exports on the back of both higher projected volumes and prices. A rebound in oil prices deserves the lion's share of the credit, along with stronger US imports overall. Nominal goods imports are also expected to have moved higher in October, likely providing a modest offset to stronger exports. This is primarily a price story, as a notable depreciation in the Canadian dollar in the month should have pushed import prices higher.

Bank of Canada (December) – All of our analyses point to a slowing Canadian economy and cooling domestic inflationary pressures. As a result, we see the Bank of Canada only raising rates another 25 bps. Governor Macklem repeatedly says that he's trying to balance the risks of under- and over-tightening. With signs of progress on inflation in hand, it seems like an opportune time to move in smaller increments and become more data dependent. As the central bank heads into next year, it will be open to raising rates further but will drop its firm commitment to do so. The beginning of the so-called 'pivot' began with the Bank of Canada surprising markets with a smaller-than-anticipated hike in October and will continue with just a 25 bp move on Wednesday before a likely pause for most of 2023.

FRIDAY December 9 - 8:30
Q3 2022

Consensus n/a

Desjardins 83.8%

Q2 2022
83.8%
MONDAY December 5 - 5:00
October
m/m

Consensus -1.7%

September
0.4%


Capacity utilization (Q3 2022) – Capacity utilization is expected to have remained unchanged in the third quarter of 2022. But don't be fooled by the calm of the headline print. Under the surface lurks more volatility. Notably, capacity utilization in construction is likely to have moved markedly lower in Q3, accompanied by more modest declines in manufacturing and forestry and logging. In contrast, mining and oil and gas extraction is anticipated to have popped up in the quarter, followed by electric power generation, transmission and distribution.


OVERSEAS

Eurozone: Retail sales (October) – Eurozone retail sales were up 0.4% in September, their first monthly gain since May. Although consumer confidence has improved slightly over the last two months, it remains very low. With the rising cost of living squeezing household income, it's difficult to imagine September's gain being anything more than fleeting. October's data on French consumer spending (-2.8%) and German retail sales (-2.8%) also suggest a substantial monthly contraction.

Economic Indicators

Week of December 5 to 9, 2022

Day	Hour	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 5						
	10:00	ISM services index	Nov.	53.5	53.6	54.4
	10:00	Factory orders (m/m)	Oct.	0.7%	0.7%	0.3%
TUESDAY 6						
	8:30	Trade balance – Goods and services (US\$B)	Oct.	-79.1	-80.5	-73.3
WEDNESDAY 7						
	8:30	Nonfarm productivity – final (ann. rate)	Q3	0.4%	0.9%	0.3%
	8:30	Unit labor costs – final (ann. rate)	Q3	3.3%	3.0%	3.5%
	15:00	Consumer credit (US\$B)	Oct.	28.250	28.500	24.976
THURSDAY 8						
	8:30	Initial unemployment claims	Nov. 28-Dec. 2	230,000	230,000	225,000
FRIDAY 9						
	8:30	Producer price index				
		Total (m/m)	Nov.	0.2%	0.1%	0.2%
		Excluding food and energy (m/m)	Nov.	0.2%	0.1%	0.0%
	10:00	Michigan's consumer sentiment index – preliminary	Dec.	56.9	57.0	56.8
	10:00	Wholesale inventories – final (m/m)	Oct.	0.8%	0.8%	0.8%
CANADA						
MONDAY 5						
	8:30	Building permits (m/m)	Oct.	n/a	7.9%	-17.5%
TUESDAY 6						
	8:30	International trade (\$B)	Oct.	0.89	1.60	1.14
WEDNESDAY 7						
	10:00	Bank of Canada meeting	Dec.	4.13%	4.00%	3.75%
THURSDAY 8						
	12:30	Speech of a Bank of Canada Deputy Governor, S. Kozicki				
	---	Government of Quebec's 2022 Economic and Fiscal Update				
FRIDAY 9						
	8:30	Industrial capacity utilization rate	Q3	n/a	83.8%	83.8%

Note: Desjardins, Economic Studies are involved every week in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are Eastern Standard Time (GMT - 5 hours).  Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of December 5 to 9, 2022

Country	Hour	Indicator	Period	Consensus		Previous data		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
DURING THE WEEK								
China	---	Trade balance (US\$B)	Nov.	79.05		85.15		
SUNDAY 4								
Japan	19:30	PMI composite index – final	Nov.	n/a		48.9		
Japan	19:30	PMI services index – final	Nov.	n/a		50.0		
MONDAY 5								
Italy	3:45	PMI composite index	Nov.	46.5		45.8		
Italy	3:45	PMI services index	Nov.	47.5		46.4		
France	3:50	PMI composite index – final	Nov.	48.7		48.8		
France	3:50	PMI services index – final	Nov.	49.4		49.4		
Germany	3:55	PMI composite index – final	Nov.	46.4		46.4		
Germany	3:55	PMI services index – final	Nov.	46.4		46.4		
Euro zone	4:00	PMI composite index – final	Nov.	47.8		47.8		
Euro zone	4:00	PMI services index – final	Nov.	48.6		48.6		
United Kingdom	4:30	PMI composite index – final	Nov.	48.3		48.3		
United Kingdom	4:30	PMI services index – final	Nov.	48.8		48.8		
Euro zone	5:00	Retail sales	Oct.	-1.7%	-2.6%	0.4%		-0.6%
Australia	22:30	Reserve Bank of Australia meeting	Dec.	3.10%		2.85%		
TUESDAY 6								
Germany	2:00	Factory orders	Oct.	0.1%	-4.7%	-4.0%		-10.8%
United Kingdom	4:30	PMI construction index	Nov.	52.0		53.2		
India	23:30	Reserve Bank of India meeting	Dec.	6.25%		5.90%		
WEDNESDAY 7								
Japan	0:00	Leading indicator – preliminary	Oct.	98.3		97.5		
Japan	0:00	Coincident indicator – preliminary	Oct.	100.5		101.4		
Germany	2:00	Industrial production	Oct.	-0.6%	-0.7%	0.6%		2.6%
France	2:45	Trade balance (€M)	Oct.	-15,971		-17,487		
France	2:45	Current account (€B)	Oct.	n/a		-7.3		
Italy	4:00	Retail sales	Oct.	-0.5%	n/a	0.5%		4.1%
Euro zone	5:00	Net change in employment – final	Q3	n/a	n/a	0.2%		1.7%
Euro zone	5:00	Real GDP – final	Q3	0.2%	2.1%	0.2%		2.1%
Brazil	16:30	Bank of Brazil meeting	Dec.	13.75%		13.75%		
Japan	18:50	Current account (¥B)	Oct.	352.7		670.7		
Japan	18:50	Real GDP – final	Q3	-0.3%		-0.3%		
THURSDAY 8								
China	20:30	Consumer price index	Nov.		1.6%			2.1%
China	20:30	Producer price index	Nov.		-1.5%			-1.3%
FRIDAY 9								
France	2:45	Wages – final	Q3	n/a		0.9%		

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic figures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are Eastern Standard Time (GMT - 5 hours).