

WEEKLY COMMENTARY

Sometimes Starting Points Matter

By Royce Mendes, Managing Director and Head of Macro Strategy

Markets are expecting both the Bank of Canada and the Federal Reserve to cut rates by about the same magnitude this year, even though the economic situations in each country are materially different. Canada heads into the year with an elevated unemployment rate and slack across the economy, although that's not much different than most other advanced economies. In contrast, America's economy has been in a league of its own over the past year, showing remarkable resilience in the face of high interest rates.

The reason the market is pricing in a similar number of rate cuts in each jurisdiction stems from the differing starting points for each central bank. The Bank of Canada has cut interest rates by 175 basis points, taking the domestic policy rate down to 3.25%. Meanwhile, the Fed has lowered its policy rate just 100 basis points from its peak, with the target for fed funds now 4.375%. Despite the lower starting point and more aggressive cutting cycle in Canada, the question market participants should be asking themselves is whether the difference in starting points is enough to account for the divergent paths of the two economies.

We don't believe that gap adequately reflects the reality facing the two nations. Domestic challenges in the form of sharply slower population growth and the increasing impact of mortgage renewals this year will provide a meaningful drag on the Canadian economy. The US outlook is much brighter, bolstered by the tech boom, lower household debt ratios and longer-term mortgages.

While there is a lot of uncertainty surrounding the prospects of a trade war, it's fairly obvious that any disruption would impact the medium-sized open economy of Canada more negatively than it would the larger and more insular US.

While we disagree that the starting points for rates have much bearing on the path forward, we do believe that the starting points for each economy will matter for how central banks respond to any trade disruptions. The Bank of Canada, dealing with an already weakened domestic economy, will need to focus on supporting growth instead of worrying about the risk that a one-time price increase from exchange rate depreciation and retaliatory tariffs somehow becomes a more sustainable source of inflation. In the US, Fed policymakers have more flexibility to wait and see how tariffs play out, a luxury most other central banks don't have.

As a result, while the Fed can likely hold its policy rate steady until mid-year, the Bank of Canada will need to cut rates next week and at least once more in the first half of 2025. This will keep the Canadian dollar weak against its US counterpart. The risk to this forecast is that tariffs come earlier or in greater magnitude than we now expect. Make no mistake, if that's the case, the Bank of Canada will be cutting rates more not less, which could push the loonie to levels not seen in almost a quarter century.

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What to Watch For

MONDAY January 27 - 10:00

December	ann. rate
Consensus	670,000
Desjardins	680,000
November	664,000

TUESDAY January 28 - 8:30

December	m/m
Consensus	0.8%
Desjardins	-0.4%
November	-1.2%

TUESDAY January 28 - 9:00

November	y/y
Consensus	n/a
Desjardins	4.20%
October	4.22%

TUESDAY January 28 - 10:00

January	
Consensus	105.6
Desjardins	104.5
December	104.7

WEDNESDAY January 29 - 14:00

January	
Consensus	4.50%
Desjardins	4.50%
December 18	4.50%

UNITED STATES

New home sales (December) – After plummeting 14.8% in October—mainly due to the hurricanes that ripped through the United States—new single-family home sales jumped 5.9% in November. As expected, most of the recovery occurred in the southern states. Sales probably advanced again in December, albeit much less than in the previous month. Recent trends in the number of building permits granted, builder confidence and online searches for new homes all suggest a modest increase. We expect new single-family home sales to have grown to 680,000 units on an annualized basis in December.

Durable goods orders (December) – Durable goods orders fell in November, weighed down by lower transportation orders and weakness in other sectors. We think the transportation sector was likely behind a further drop in new orders in December. Data from Boeing shows a rebound, but once the numbers are seasonally adjusted, we still expect a month-over-month decline. The automotive sector was also probably flat. Based on relatively strong industrial production and the rise in the new orders component of the ISM Manufacturing index, orders excluding transportation likely improved compared to November's print. We may also see evidence of orders being frontloaded given apprehension about potential future tariffs. We expect that non-transportation orders advanced 0.3% in December. All sectors combined, durable goods orders probably slipped 0.4%.

S&P/Case-Shiller home price index (November) – Monthly growth in resale prices edged up in October, rising from 0.2% to 0.3%. However, these gains are still slower than what we saw last spring. Of the 20 cities in the index, only two posted price declines in October, including Tampa (-0.3%), which was hit by Hurricane Milton. We expect the index to have gained another 0.3% in November, keeping the year-over-year change flat at 4.2%.

Conference Board Consumer Confidence Index (January) – Consumer confidence surged in November on the heels of Donald Trump's election victory. This enthusiasm has since faded, with December's print wiping out November's gains. The other confidence indexes (University of Michigan, TIPP) held up better in December but edged down in January. Other factors that influence consumer sentiment are also providing mixed signals. The stock market has risen since the beginning of the year, but gasoline prices and mortgage rates have increased. The California wildfires could also dampen confidence. President Trump's first official actions could be viewed positively by the US population. Tariffs are likely to drive up inflation expectations, so the fact that the new administration hasn't acted yet should help confidence. These factors will pull the Conference Board index in both directions, but we think this month's print will ultimately be flat.

Federal Reserve meeting (January) – The Fed cut interest rates by a total of 100 basis points over the final months of 2024, but officials are unlikely to be as eager about easing monetary policy in 2025. The US economy is strong and, despite January's relatively encouraging print, inflation remains sticky. So after providing an initial wave of relief, the Fed can now be more patient with further monetary easing. Doubts over public policy—be it trade, fiscal or immigration—is driving broader uncertainty, and those policies could end up pushing inflation higher. In December, the Fed's forecast suggested 50 basis points of cuts in 2025. Everything is pointing to a pause at this month's meeting.

THURSDAY January 30 - 8:30

Q4 2024	ann. rate
Consensus	2.6%
Desjardins	2.9%
Q3 2024	3.1%

WEDNESDAY January 29 - 9:45

January	
Consensus	3.00%
Desjardins	3.00%
December 11	3.25%

FRIDAY January 31 - 8:30

November	m/m
Consensus	-0.1%
Desjardins	0.0%
October	0.3%

SUNDAY January 26 - 20:30

January	
Consensus	n/a
December	52.2

THURSDAY January 30 - 5:00

Q4 2024	q/q
Consensus	0.1%
Q3 2024	0.4%

Real GDP (Q4 – advance estimate) – We expect that 2024 closed out with further solid real GDP growth. Look for an annualized gain of close to 3.0%. Real consumer spending—which is projected to reach 3.3%, down slightly from 3.7% last summer—will likely be the biggest contributor. We also anticipate decent relative growth in investment (particularly in intellectual property), residential investment and government spending. Net exports may have taken a bite out of real GDP growth, as imports probably grew more quickly than exports. We’re forecasting real GDP growth of 2.8% in 2024 after a similar 2.9% gain in 2023.

CANADA

Bank of Canada meeting (January) – Canadian central bankers will likely lower interest rates another 25 basis points next week in an attempt to jumpstart the struggling domestic economy. While the fourth quarter did show some signs of life, the pickup in activity might reflect a pulling forward of inventory accumulation in the US ahead of potential tariffs. As a result, any resurgence in exports or hiring should be viewed as a likely fleeting phenomenon. With the mortgage renewal wall set to hit and population growth stalling, a risk management approach to monetary policy would justify further easing. The Bank of Canada has scope to lower rates given that inflation and inflation expectations have generally returned to their pre-COVID trends. While it’s possible that central bankers hold rates steady in March, depending on the tariff hit, we see rate cuts continuing throughout the year, with a terminal policy rate of 2.00% in early 2026.

Real GDP by industry (November) – We anticipate monthly real GDP by industry stayed flat in November (0.0% m/m), one tick above Statistics Canada’s flash estimate of -0.1%. [Strength in home sales and housing starts](#) likely drove up growth in real estate transactions and construction. Energy and resource extraction also provided some tailwinds. The [November Labour Force Survey](#) showed solid job gains as well. In contrast, weak numbers in agriculture and wholesale trade likely put downward pressure on headline growth. In addition, the Canada Post strike probably put a drag on transportation services in November. Looking ahead to the December real GDP release, we expect Statistics Canada’s flash estimate will show that growth accelerated to 0.2% m/m. Under the hood, we expect that resource extraction and accommodation services provided some tailwind to growth in December.

OVERSEAS

China: Composite PMI (January) – China’s composite PMI continued to gain ground, rising from 50.8 in November to 52.2 in December. However, the sub-indexes paint a more nuanced picture. The new orders and production and operation expectations manufacturing indexes decreased by 0.3 and 1.4 points, respectively. Donald Trump’s return to the White House with the possibility of a new trade war is probably behind this decline. January’s data will provide more information on China’s economic direction in early 2025. This is one of the few indicators that will be published during late January and early February’s Lunar New Year celebrations.

Eurozone: Real GDP (Q4 – preliminary) – The eurozone economy accelerated slightly in the third quarter, with non-annualized real GDP growth of 0.4%, the highest since the third quarter of 2022. Growth is expected to slow but remain positive in the last quarter of the year. Data on economic activity, including retail sales, industrial production and trade, was mixed, but the composite PMI fell below 50. Real GDP growth prints for the major eurozone countries will be released earlier the same day.

THURSDAY January 30 - 8:15

January

Consensus 2.75%


Desjardins 2.75%


December 12 3.00%

Eurozone: European Central Bank meeting (January) – The European Central Bank (ECB) Governing Council has made it clear that next week’s meeting will likely result in a 25-basis-point rate cut, a move already anticipated by the market. Additionally, we expect continued guidance signaling further easing measures. This week, President Lagarde and Vice-President de Guindos emphasized that the policy direction is “very clear.” However, opinions on the terminal rate vary. Lagarde has suggested a range of 2% to 2.5%, while Banque de France Governor Villeroy de Galhau, Bank of Portugal Governor Centeno and Bank of Greece Governor Stournaras have indicated a neutral rate around 2%. We expect a 25-basis-point cut next week, followed by 25-basis-point cuts at each of the subsequent three meetings. This will bring rates to 2%, at which point we expect the ECB to pause.

Economic Indicators

Week of January 27 to 31, 2025

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 27	10:00	New home sales (ann. rate)	Dec.	670,000	680,000	664,000
TUESDAY 28	8:30	Durable goods orders (m/m)	Dec.	0.8%	-0.4%	-1.2%
	9:00	S&P/Case-Shiller home price index (y/y)	Nov.	n/a	4.20%	4.22%
	10:00	Consumer confidence	Jan.	105.6	104.5	104.7
WEDNESDAY 29	8:30	Goods trade balance – preliminary (US\$B)	Dec.	-105.5	-105.0	-102.9
	8:30	Retail inventories (m/m)	Dec.	n/a	n/a	0.3%
	8:30	Wholesale inventories – preliminary (m/m)	Dec.	n/a	n/a	-0.2%
	14:00	Federal Reserve meeting	Jan.	4.50%	4.50%	4.50%
	14:30	Speech by Federal Reserve Chair J. Powell				
THURSDAY 30	8:30	Initial unemployment claims	Jan. 20–24	n/a	219,000	223,000
	8:30	Real GDP (ann. rate)	Q4f	2.6%	2.9%	3.1%
	10:00	Pending home sales (m/m)	Dec.	-1.0%	n/a	2.2%
FRIDAY 31	8:30	Employment cost index (q/q)	Q4	1.0%	0.9%	0.8%
	8:30	Personal income (m/m)	Dec.	0.4%	0.4%	0.3%
	8:30	Personal consumption expenditures (m/m)	Dec.	0.5%	0.6%	0.4%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Dec.	0.3%	0.3%	0.1%
		Excluding food and energy (m/m)	Dec.	0.2%	0.2%	0.1%
		Total (y/y)	Dec.	2.5%	2.6%	2.4%
		Excluding food and energy (y/y)	Dec.	2.8%	2.8%	2.8%
	8:30	Speech by Federal Reserve Governor M. Bowman				
	9:15	Chicago PMI	Jan.	39.7	42.0	36.9
CANADA						
MONDAY 27	---	---				
TUESDAY 28	---	---				
WEDNESDAY 29	9:45	Bank of Canada meeting	Jan.	3.00%	3.00%	3.25%
	9:45	Release of the Bank of Canada's Monetary Policy Report				
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 30	---	---				
FRIDAY 31	8:30	Real GDP by industry (m/m)	Nov.	-0.1%	0.0%	0.3%

Note: Each week, Desjardins Economic Studies takes part 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 month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Standard Time (GMT -5 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of January 27 to 31, 2025

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
SUNDAY 26								
China	20:30	Composite PMI	Jan.	n/a		52.2		
China	20:30	Manufacturing PMI	Jan.	50.1		50.1		
China	20:30	Non-manufacturing PMI	Jan.	52.2		52.2		
MONDAY 27								
Germany	4:00	ifo Business Climate Index	Jan.	84.8		84.7		
Germany	4:00	ifo Current Assessment Index	Jan.	85.4		85.1		
Germany	4:00	ifo Expectations Index	Jan.	85.0		84.4		
TUESDAY 28								
France	2:45	Consumer confidence	Jan.	90		89		
WEDNESDAY 29								
Japan	0:00	Consumer confidence	Jan.	36.5		36.2		
Sweden	3:30	Bank of Sweden meeting	Jan.	2.25%		2.50%		
Eurozone	4:00	M3 money supply	Dec.		3.8%		3.8%	
Italy	4:00	Consumer confidence	Jan.	96.6		96.3		
Italy	4:00	Economic confidence	Jan.	n/a		95.3		
Brazil	16:30	Central Bank of Brazil meeting	Jan.	13.25%		12.25%		
THURSDAY 30								
France	1:30	Personal consumption expenditures	Dec.	0.2%	0.2%	0.3%	0.3%	
France	1:30	Real GDP – preliminary	Q4	0.0%	0.8%	0.4%	1.2%	
Germany	2:00	Real GDP – preliminary	Q4	-0.1%	0.0%	0.1%	-0.3%	
Italy	4:00	Real GDP – preliminary	Q4	0.1%	0.6%	0.0%	0.4%	
Eurozone	5:00	Consumer confidence – final	Jan.	n/a		-14.2		
Eurozone	5:00	Industrial confidence	Jan.	-13.7		-14.1		
Eurozone	5:00	Services confidence	Jan.	6.0		5.9		
Eurozone	5:00	Economic confidence	Jan.	94.2		93.7		
Eurozone	5:00	Real GDP – preliminary	Q4	0.1%	1.0%	0.4%	0.9%	
Eurozone	5:00	Unemployment rate	Dec.	6.3%		6.3%		
Italy	5:00	Unemployment rate	Dec.	5.7%		5.7%		
Eurozone	8:15	European Central Bank meeting	Jan.	2.75%		3.00%		
Japan	18:30	Tokyo Consumer Price Index	Jan.		3.0%		3.1%	
Japan	18:30	Unemployment rate	Dec.	2.5%		2.5%		
Japan	18:50	Industrial production – preliminary	Dec.	-0.1%	-3.0%	-2.2%	-2.7%	
Japan	18:50	Retail sales	Dec.	-0.1%	3.5%	1.9%	2.8%	
FRIDAY 31								
Japan	0:00	Housing starts	Dec.		-3.9%		-1.8%	
United Kingdom	2:00	Nationwide house prices	Jan.	0.3%	4.3%	0.7%	4.7%	
Germany	2:00	Retail sales	Dec.	0.0%	2.6%	-0.1%	2.9%	
France	2:45	Consumer price index – preliminary	Jan.	0.0%	1.5%	0.2%	1.3%	
Germany	8:00	Consumer price index – preliminary	Jan.	0.1%	2.6%	0.5%	2.6%	

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Standard Time (GMT -5 hours).