

WEEKLY COMMENTARY

Please note that there will be no release of the *Weekly Commentary* from December 25, 2023, to January 5, 2024, inclusive.

All Canadians Want for Christmas Is Some Rate Relief

By Randall Bartlett, Senior Director of Canadian Economics

It has been a tough year for Canadian households. The double whammy of high interest rates and inflation left them increasingly squeezed, all but guaranteeing their paycheques didn't go as far as they'd like. Mortgage payments rose sharply, as did rents, providing little shelter from rising shelter costs. And food prices kept moving up while the price at the pump stayed elevated. Consumer proposals have now moved past their pre-COVID peak. This has soured consumer sentiment and kept the fear of an imminent recession alive, despite one of the strongest labour markets on record. (See our recent [2023 Year in Review](#) for a recap of economic developments in the past year.)

The pain homeowners are feeling is particularly acute. The latest data shows that Canadians are putting more of their disposable income toward servicing debt than at any time on record, almost entirely driven by rapidly rising mortgage payments (graph 1). And much of that increased cost is just interest. Homeowners with flexible-payment variable-rate mortgages have been hit especially hard, while Canadians renewing their 5-year fixed-rate mortgages have been only slightly less scathed. However, many borrowers with fixed-payment but variable-rate mortgages have so far been spared the worst of the rate hikes. That isn't likely to last. As we recently estimated, these homeowners will be hit with substantially higher mortgage debt service costs at renewal, reflecting both higher interest rates and more elevated levels of outstanding principal. This payment bump will weigh on any economic recovery stemming from eventual rate cuts. But for now, the fact that many of these borrowers haven't had to face this new reality has helped to keep mortgage arrears near all-time lows.

Higher debt service costs have unquestionably weighed on consumer spending, as Canadians squirrel away a respectable share of still-solid disposable income gains. Real household consumption has been flat since the first quarter of 2023, thanks to weakness in purchases of both goods and services.

GRAPH 1
Canadians Are Spending the Most Ever on Servicing Mortgages



Sources: Statistics Canada and Desjardins Economic Studies

Real retail sales are little changed from the start of the year (graph 2 on page 2). And if Statistics Canada's flash estimate is correct, the weakness looks set to continue in the run-up to the holiday season. But it's not just a reflection of volatile goods like autos and gas. Inflation-adjusted core retail sales—total retail sales excluding sales at motor vehicle and parts dealers and gas stations—have also been broadly flat since the start of 2023. At the same time, spending at restaurants has stalled through the year, falling steadily after accounting for the price gains since January. This trend has similarly played out in the monthly GDP data, with real output in food services dropping since Christmas 2022. Accommodation has similarly slumped, as has arts, entertainment and recreation. However, even these lacklustre numbers don't reflect the true weakness among Canadian consumers. On a per capita basis, consumer spending fell sharply even as overall consumption struggled to tread water.

Prospects for discretionary spending are not looking good going into the 2023 holiday season. The same is true for the first half of 2024. Household consumption is expected to contract in both Q1 and Q2 of next year along with a slowing in the labour

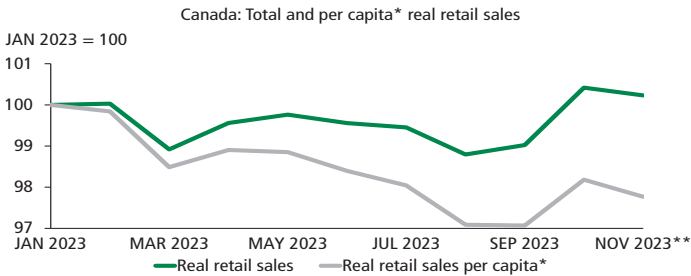
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Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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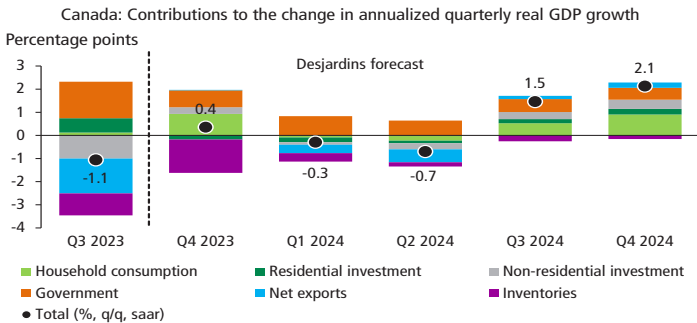
GRAPH 2
Real Retail Sales Per Capita Have Been Trending Lower throughout 2023



* Refers to population ages 15 and over from the Labour Force Survey
 ** Based on Statistics Canada's flash estimate for November 2023 nominal retail sales deflated by the seasonally adjusted Consumer Price Index for goods
 Sources: Statistics Canada and Desjardins Economic Studies

market (graph 3). When combined with ongoing weakness in the housing market and business investment, domestic demand should also track lower early next year. A slowing pace of growth in the US won't help either. As a result, Canada is likely to experience a short and shallow but broad-based recession in H1 2024. (See our recent [Economic and Financial Outlook](#) for more information on our forecast.)

GRAPH 3
A Short and Shallow Recession Is Expected in Early 2024



Sources: Statistics Canada and Desjardins Economic Studies

We believe the economic downturn along with a sustained cooling in inflation will prompt the Bank of Canada to begin cutting interest rates by mid-2024. The recent Federal Reserve meeting only reinforced the view that policy rates are coming down next year. Markets are expecting a similar outcome for other major central banks. This global decline in rates should mean borrowing costs fall across the board. So, if all Canadians want for Christmas is some rate relief, they should get their wish in the new year.

Happy Holidays!

What to Watch For

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

TUESDAY December 26 - 9:00

October	y/y
Consensus	n/a
Desjardins	4.4%
September	3.9%

WEDNESDAY January 3 - 10:00

December	
Consensus	47.4
Desjardins	45.5
November	46.7

FRIDAY January 5 - 8:30

December	
Consensus	158,000
Desjardins	140,000
November	199,000

FRIDAY January 5 - 10:00

December	
Consensus	52.6
Desjardins	52.6
November	52.7

THURSDAY January 11 - 8:30

December	m/m
Consensus	n/a
Desjardins	0.2%
November	0.1%

FRIDAY January 5 - 8:30

December	
Consensus	n/a
Desjardins	10,000
November	24,900

UNITED STATES

S&P/Case-Shiller index of existing home prices (October) – Existing home prices closed out the third quarter on another positive note, with a 0.7% advance in September. That was the smallest monthly gain since March, however, and the slowdown likely continued in October. We expect prices to have edged up just 0.1% on the month as the impact of high mortgage rates was probably more significant. But year-over-year, the price index probably continued to climb, from 3.9% to 4.4%.

ISM Manufacturing index (December) – The ISM Manufacturing index held steady at 46.7 in November after falling in October from its recent high of 49.0 recorded in September. Based on the few regional manufacturing indexes published so far for December, we believe the ISM Manufacturing index contracted in the last month of the year, possibly dipping to 45.0. But that forecast could change when the other regional indexes are released between now and January 3.

Job creation according to the establishment survey (December) – The US job market continues to hold up fairly well. November’s 199,000 gain was another sign of US economic strength, though the figure was padded by the return of 30,000 striking autoworkers. We nevertheless expect hiring to have cooled slightly to 140,000 in December. Unemployment likely inched up to 3.8%, although that could change with the annual revision of the household survey. The year-over-year change in average hourly earnings probably held steady at 4.0%, while the month-over-month change should come in below November’s 0.4% increase.

ISM Services index (December) – After contracting for two straight months in September and October, the ISM Services index rebounded by 0.9 points in November to 52.7. We expect virtually no change in the index in December. The few regional indexes published so far for December suggest a decline, but an uptick in consumer confidence offers some hope. Once again, we’ll adjust our forecast based on additional regional information slated for release between now and January 5.

Consumer price index (December) – After holding steady in October, the consumer price index (CPI) edged up a mere 0.1% in November. This two-month lull was partly driven by the drop in gasoline prices, which have continued to fall this month. But since that’s relatively normal for this time of year, seasonal adjustments will largely offset the expected negative impact of energy prices. Furthermore, we believe food prices rose by 0.2% as they did in November. Core CPI, which strips out food and gasoline, probably advanced by 0.2% as well, slightly less than November’s 0.3% increase. Goods prices likely kept trending lower, as retailers appeared to offer deeper holiday discounts this year. As for services, the November uptick in shelter costs may have been fleeting. On the whole, we expect the all items index to record a 0.2% monthly gain for December, bumping the annual figure up from 3.1% to 3.2%. But core inflation likely fell back from 4.0% to 3.8%.

CANADA

Labour Force Survey (December) – Canadian employment likely rose by 10K in December. That said, hiring probably continued to lag the rise in the labour force. The unemployment rate likely rose by one tick to 5.9%, the highest level since early 2022. With the economy slowing, seasonal holiday hiring is likely to have been less than in prior years, which could put further upward pressure on the unemployment rate. Job vacancies continue to fall as the labour force grows, which is easing labour market tightness and should eventually translate into lower wage growth.

OVERSEAS
SATURDAY December 30 - 20:30

December	
Consensus	n/a
November	50.4

China: Composite PMI (December) – After rising for a few months, China’s composite PMI started to fall again, slipping from 52.0 in September to just 50.4 in November. Once again, the index was led lower by manufacturing, but the non-manufacturing side was soft as well. This suggests that conditions in China remain challenging and an economic recovery isn’t guaranteed, despite government efforts. The December print will give us a better read on the state of the Chinese economy at the close of 2023.

FRIDAY January 5 - 5:00

December	y/y
Consensus	2.9%
November	2.4%

Eurozone: Consumer price index (December – preliminary) – Inflation is down sharply in the eurozone, plummeting from more than 10% a year ago to just 2.4% in November. The decline has been led by energy prices, which have plunged 11.5%, but core inflation is also down. The year-over-year change in the consumer price index excluding energy, food, alcohol and tobacco products fell from 4.2% in October to 3.6% in November. Preliminary December data will tell us whether headline and core inflation will keep slowing toward the European Central Bank’s target.

DURING THE WEEK

December	y/y
Consensus	n/a
November	-0.5%

China: Consumer price index (December) – China seems to be getting mired in a period of very low inflation, or even deflation. Over the past six months, the year-over-year change in consumer prices dipped below zero three times, and came in at zero twice. That means the only month with a year-over-year increase was August, at 0.1%. Most of the price declines were for food, especially meat. But even after stripping out food and energy, China’s core inflation totalled just 0.6% in November, well below the rate in other major economies. It’ll be interesting to see whether that trend continued in December.


FRIDAY January 12 - 2:00

November	m/m
Consensus	n/a
October	-0.3%

United Kingdom: Monthly GDP (November) – UK real GDP slid 0.3% in October, delivering negative carryover for fourth-quarter real GDP. The November reading will tell us whether this downtrend lasted and whether we should expect real GDP to have contracted in the UK for a second straight quarter.


Economic Indicators

Week of December 25 to 29, 2023

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 25	---	Markets closed (Christmas Day)				
TUESDAY 26	9:00	S&P/Case-Shiller home price index (y/y)	Oct.	n/a	4.40%	3.92%
WEDNESDAY 27	---	---				
THURSDAY 28	8:30	Initial unemployment claims	Dec. 18–22	n/a	210,000	205,000
	8:30	Goods trade balance – preliminary (US\$B)	Nov.	-89.5	-92.2	-89.8
	8:30	Retail inventories (m/m)	Nov.	0.2%	n/a	0.0%
	8:30	Wholesale inventories – preliminary (m/m)	Nov.	-0.1%	n/a	-0.4%
	10:00	Pending home sales (m/m)	Nov.	n/a	n/a	-1.5%
FRIDAY 29	9:45	Chicago PMI	Dec.	55.0	48.0	55.8

CANADA

MONDAY 25	---	Markets closed (Christmas Day)				
TUESDAY 26	---	Markets closed (Boxing Day)				
WEDNESDAY 27	---	---				
THURSDAY 28	---	---				
FRIDAY 29	---	---				

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 December 25 to 29, 2023


Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
DURING THE WEEK								
Germany	---	Retail sales	Nov.	0.5%	n/a	1.2%	0.1%	
MONDAY 25								
Japan	0:00	Leading indicator – final	Oct.	n/a		108.7		
Japan	0:00	Coincident index – final	Oct.	n/a		115.9		
Japan	18:30	Unemployment rate	Nov.	2.6%		2.5%		
TUESDAY 26								
---	---	---						
WEDNESDAY 27								
Japan	0:00	Housing starts	Nov.		-3.9%		-6.3%	
Japan	18:50	Industrial production – preliminary	Nov.	-1.4%	-1.4%	1.3%	1.1%	
Japan	18:50	Retail sales	Nov.	0.5%	5.8%	-1.7%	4.1%	
THURSDAY 28								
---	---	---						
FRIDAY 29								
United Kingdom	---	Nationwide house prices	Dec.	n/a	n/a	0.2%	-2.0%	
SATURDAY 30								
China	20:30	Composite PMI	Dec.	n/a		50.4		
China	20:30	Manufacturing PMI	Dec.	50.0		49.4		
China	20:30	Non-manufacturing PMI	Dec.	50.5		50.2		

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).

Economic Indicators

Week of January 1 to 5, 2024

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 1	---	Markets closed (New Year's Day)				
TUESDAY 2	8:30	Construction spending (m/m)	Nov.	0.5%	0.9%	0.6%
WEDNESDAY 3	10:00	ISM Manufacturing index	Dec.	47.4	45.0	46.7
	14:00	Release of the Federal Reserve's meeting minutes				
	---	Total vehicle sales (ann. rate)	Dec.	15,500,000	15,450,000	15,320,000
THURSDAY 4	8:30	Initial unemployment claims	Dec. 25–29	n/a	n/a	n/a
FRIDAY 5	8:30	Change in nonfarm payrolls	Dec.	158,000	140,000	199,000
	8:30	Unemployment rate	Dec.	3.8%	3.8%	3.7%
	8:30	Average weekly hours	Dec.	34.4	34.4	34.4
	8:30	Average hourly earnings (m/m)	Dec.	0.3%	0.1%	0.4%
	10:00	ISM Services index	Dec.	52.6	52.6	52.7
	10:00	Factory orders (m/m)	Nov.	1.4%	n/a	-3.6%
CANADA						
MONDAY 1	---	Markets closed (New Year's Day)				
TUESDAY 2	---	---				
WEDNESDAY 3	---	---				
THURSDAY 4	---	---				
FRIDAY 5	8:30	Net change in employment	Dec.	n/a	10,000	24,900
	8:30	Unemployment rate	Dec.	n/a	5.9%	5.8%

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Economic Indicators

Week of January 1 to 5, 2024


Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 1								

TUESDAY 2								
Italy	3:45	Manufacturing PMI	Dec.	n/a		44.4		
France	3:50	Manufacturing PMI – final	Dec.	n/a		42.0		
Germany	3:55	Manufacturing PMI – final	Dec.	43.1		43.1		
Eurozone	4:00	Manufacturing PMI – final	Dec.	44.2		44.2		
Eurozone	4:00	M3 money supply	Nov.	-0.2%				-1.0%
United Kingdom	4:30	Manufacturing PMI – final	Dec.	46.4		46.4		
WEDNESDAY 3								
Japan	19:30	Manufacturing PMI – final	Dec.	n/a		47.7		
THURSDAY 4								
France	2:45	Consumer price index – preliminary	Dec.	n/a	3.7%	-0.2%	3.5%	
Italy	3:45	Composite PMI	Dec.	n/a		48.1		
Italy	3:45	Services PMI	Dec.	n/a		49.5		
France	3:50	Composite PMI – final	Dec.	n/a		43.7		
France	3:50	Services PMI – final	Dec.	n/a		44.3		
Germany	3:55	Composite PMI – final	Dec.	46.7		46.7		
Germany	3:55	Services PMI – final	Dec.	48.4		48.4		
Eurozone	4:00	Composite PMI – final	Dec.	47.0		47.0		
Eurozone	4:00	Services PMI – final	Dec.	48.1		48.1		
United Kingdom	4:30	Composite PMI – final	Dec.	51.7		51.7		
United Kingdom	4:30	Services PMI – final	Dec.	52.7		52.7		
Germany	8:00	Consumer price index – preliminary	Dec.	0.2%	3.8%	-0.4%	3.2%	
Japan	19:30	Composite PMI – final	Dec.	n/a		50.4		
Japan	19:30	Services PMI – final	Dec.	n/a		52.0		
FRIDAY 5								
Japan	0:00	Consumer confidence	Dec.	n/a		36.1		
United Kingdom	4:30	Construction PMI	Dec.	n/a		45.5		
Eurozone	5:00	Consumer price index – preliminary	Dec.	0.2%	2.9%	-0.6%	2.4%	
Eurozone	5:00	Producer price index	Nov.	n/a	n/a	0.2%	-9.4%	
Italy	5:00	Consumer price index – preliminary	Dec.	n/a	n/a	-0.4%	0.8%	

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).


Economic Indicators

Week of January 8 to 12, 2024

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 8	15:00	Consumer credit (US\$B)	Nov.	n/a	7.500	5.134
TUESDAY 9	8:30	Trade balance – goods and services (US\$B)	Nov.	-63.3	n/a	-64.3
WEDNESDAY 10	10:00	Wholesale inventories – final (m/m)	Nov.	n/a	n/a	n/a
THURSDAY 11	8:30	Initial unemployment claims	Jan. 1–5	n/a	n/a	n/a
	8:30	Consumer price index				
		Total (m/m)	Dec.	n/a	0.2%	0.1%
		Excluding food and energy (m/m)	Dec.	n/a	0.3%	0.3%
		Total (y/y)	Dec.	n/a	3.2%	3.1%
		Excluding food and energy (y/y)	Dec.	n/a	3.8%	4.0%
	14:00	Federal budget (US\$B)	Dec.	n/a	n/a	-314.0
FRIDAY 12	8:30	Producer price index				
		Total (m/m)	Dec.	n/a	0.1%	0.0%
		Excluding food and energy (m/m)	Dec.	n/a	0.1%	0.0%

CANADA

MONDAY 8	---	---				
TUESDAY 9	8:30	International trade (\$B)	Nov.	n/a	1.20	2.97
	8:30	Building permits (m/m)	Nov.	n/a	-1.4%	2.3%
WEDNESDAY 10	---	---				
THURSDAY 11	---	---				
FRIDAY 12	---	---				

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Economic Indicators

Week of January 8 to 12, 2024

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US\$B)	Dec.	n/a		68.39	
China	---	Consumer price index	Dec.		n/a		-0.5%
China	---	Producer price index	Dec.		n/a		-3.0%
MONDAY 8							
Germany	2:00	Trade balance (€B)	Nov.	n/a		17.8	
Germany	2:00	Factory orders	Nov.	n/a	n/a	-3.7%	-7.3%
Eurozone	5:00	Consumer confidence – final	Dec.	n/a		-15.1	
Eurozone	5:00	Industrial confidence	Dec.	n/a		-9.5	
Eurozone	5:00	Services confidence	Dec.	n/a		4.9	
Eurozone	5:00	Economic confidence	Dec.	n/a		93.8	
Eurozone	5:00	Retail sales	Nov.	n/a	n/a	0.1%	-1.2%
Japan	18:30	Tokyo Consumer Price Index	Dec.		n/a		2.6%
TUESDAY 9							
Germany	2:00	Industrial production	Nov.	n/a	n/a	-0.4%	-3.5%
France	2:45	Trade balance (€M)	Nov.	n/a		-8,597	
France	2:45	Current account (€B)	Nov.	n/a		-2.9	
Italy	4:00	Unemployment rate	Nov.	n/a		7.8%	
Eurozone	5:00	Unemployment rate	Nov.	n/a		6.5%	
WEDNESDAY 10							
France	2:45	Industrial production	Nov.	n/a	n/a	-0.3%	1.8%
Italy	4:00	Retail sales	Nov.	n/a	n/a	0.4%	0.3%
THURSDAY 11							
Germany	---	Current account (€B)	Nov.	n/a		21.4	
South Korea	---	Bank of Korea meeting	Jan.	n/a		3.50%	
Japan	0:00	Leading indicator – preliminary	Nov.	n/a		n/a	
Japan	0:00	Coincident index – preliminary	Nov.	n/a		n/a	
Japan	18:50	Current account (¥B)	Nov.	n/a		2,621.7	
FRIDAY 12							
United Kingdom	2:00	Trade balance (£M)	Nov.	n/a		-4,480	
United Kingdom	2:00	Construction	Nov.	n/a	n/a	-0.5%	1.1%
United Kingdom	2:00	Index of services	Nov.	n/a		-0.2%	
United Kingdom	2:00	Monthly GDP	Nov.	n/a		-0.3%	
United Kingdom	2:00	Industrial production	Nov.	n/a	n/a	-0.8%	0.4%
France	2:45	Personal consumption expenditures	Nov.	n/a	n/a	-0.9%	-1.3%
France	2:45	Consumer price index – final	Dec.	n/a	n/a	n/a	n/a
Italy	4:00	Industrial production	Nov.	n/a	n/a	-0.2%	-1.1%

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