WEEKLY COMMENTARY

Welcome to Canada, Where You Ignore Policy Lags at Your Own Risk

By Jimmy Jean, Vice-President, Chief Economist and Strategist

Earlier this month at an IMF conference celebrating the contribution of Ken Rogoff to international economics, the scholar argued that one would need to go back to the 1970s to find a time period as "extraordinarily difficult" as the current one. It is "extraordinarily difficult" to argue otherwise.

Just this year in Canada, forecasters like us have navigated through a litany of shocks, from the federal employee strike and the Vancouver port strike to ice storms and wildfires. As we yearn for a more tranquil end to the year, Quebec's *Front commun* representing a total of 420,000 workers in the health care, social service and educational sectors initiated a strike early this week. It was later joined by teachers and nurses, swelling the ranks to nearly 600,000.

Absent an agreement, the *Front commun* threatens an unlimited general strike. Such a large group—9% of Quebec's workforce—engaging in an extended strike would result in a significant dent to hours worked and GDP. That would stem not only from the direct impact of striking workers, but also the indirect impact, as many parents—particularly mothers, as we saw during the pandemic—may be compelled to take time off work to look after their children. The magnitude of the stakes argues for a swift resolution. But if one fails to materialize, the strike will add to the long list of disruptions in 2023 that have made the economic context extraordinarily difficult to make sense of.

More hopeful news came from BoC governor Tiff Macklem this week. We hadn't heard such a clear signal that the hiking cycle might be over in quite some time. This declaration came on the heels of the encouraging October inflation report (which may not have been so encouraging for those looking for a place to rent). And it came despite a fall economic statement that showed larger projected deficits, reflecting the recent drumbeat of initiatives on industrial subsidies and homebuilding.

However, the key question was always the extent to which the government spending profile was different from what the Bank had assumed less than a month ago in its Monetary Policy Report. We can infer that there wasn't enough of a discrepancy in the eyes of Tiff Macklem for him to hold back on offering a more dovish signal. And it probably doesn't hurt that the 17% jump in borrowing for this fiscal year alone coincides with the BoC's accelerated balance sheet reduction to put a floor under bond yields and keep financial conditions tight.

What a difference six weeks make! In early October, markets were pricing in a first rate cut no sooner than 2025, a stance we argued severely misjudged the BoC's likely rate trajectory. The stickiness of inflation and the underappreciation of long and variable policy lags led some to jump on the higher-for-longer bandwagon in Canada. Now that excess demand has vanished, growth is stagnant (see our preview of the Q3 GDP release on p. 4), the job market is loosening and inflation continues its descent, the short-sightedness of that perspective becomes even more apparent.

As we've stressed, the Bank of Canada undertook one of the most severe monetary policy tightening cycles from a starting point of record-high household debt and some of the most leveraged consumers in the advanced world (graph on page 2). So far, we have seen a clear impact on consumer spending and housing activity.

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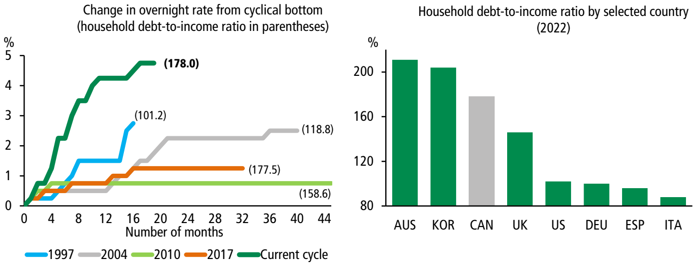
CANADA

The BoC's Tightening Cycle Was More Aggressive than Prior Ones and with a Higher Starting Point for Household Indebtedness



Sources: Bank of Canada, Organisation for Economic Co-operation and Development and Desjardins Economic Studies

But heading into 2024, we should be alert for potential knock-on effects on wealth. We are seeing Canadian home listings creep up while the GTA is slipping deeper into buyer's territory, with Vancouver not far behind. This underscores the risk of a new leg of price declines. Consumer spending is already retrenching, especially on a per capita basis. But just think about the prospects if we also have to contend with a negative wealth effect in housing, which makes up about half of Canadian middle-class household wealth. Our conditions for rate cuts would be met in no time. And a soft landing would become just about as improbable as the return of the Quebec Nordiques.

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

UNITED STATES

MONDAY November 27 - 10:00

October	ann. rate
Consensus	723,000
Desjardins	740,000
September	**759,000**

New home sales (October) – New home sales remain volatile, rising 7.9% in July, then dropping 8.2% in August and spiking 12.3% in September. This erratic trend probably continued with a decline in October. Building permits for single-family homes remain fairly high but are pointing to slightly lower sales. However, based on builder confidence, we could see a more substantial slowdown. For now, we expect existing home sales to have fallen to 740,000 units.

TUESDAY November 28 - 9:00

September	y/y
Consensus	4.20%
Desjardins	3.90%
August	**2.16%**

S&P/Case-Shiller index of existing home prices (September) – Existing home prices were up more sharply in August, increasing 1% month-over-month after gaining 0.8% in July. However, we think that price growth likely slowed in September as higher mortgage rates started to bite harder. We're forecasting a monthly advance of 0.5% and further weakening to come. The year-over-year change in the index likely rose from 2.2% in August to 3.9% in September.

TUESDAY November 28 - 10:00

November	
Consensus	101.0
Desjardins	107.0
October	**102.6**

Conference Board consumer confidence index (November) – Consumer sentiment as measured by the Conference Board fell in October to its lowest level since May and, before that, since November 2022. However, it likely increased again this November. Although the University of Michigan consumer sentiment index fell this month, the upward revision between the preliminary and final prints is a good sign. Additionally, the Conference Board index generally leads the Michigan index. Consumer confidence could be boosted by lower gasoline prices, the stock market rebound and lower mortgage rates. Furthermore, there's no immediate risk of another government shutdown. As a result, we expect the Conference Board index to have risen from 102.6 to 107.0.

THURSDAY November 30 - 8:30

October	m/m
Consensus	0.2%
Desjardins	0.2%
September	**0.7%**

Consumer spending (October) – Real consumer spending had a solid month in September, rising 0.4%. October's print will probably be weaker. Based on new vehicle sales data, the number of vehicles purchased fell. Meanwhile, October's retail sales point to fairly weak growth in real consumer spending on other durable goods, nondurable goods and food services. We're also anticipating a decline in energy consumption. Overall, we expect real and nominal consumer spending to have risen 0.1% and 0.2%, respectively. The year-over-year change in the Personal Consumption Expenditures deflator likely fell again, probably from 3.4% to 3.0%.

FRIDAY December 1 - 10:00

November	
Consensus	47.7
Desjardins	47.5
October	**46.7**

ISM Manufacturing index (November) – After rising in July, August and September, the ISM Manufacturing index fell 2.3 points in October, its biggest monthly decline since June 2022. However, based on the regional manufacturing indexes published so far this month—which have generally improved—we expect the index to increase from 46.7 to 47.5 and make up some of this lost ground.

CANADA

WEDNESDAY November 29 - 8:30	
Q3 2023	**$B**
Consensus	n/a
Desjardins	-5.90
Q2 2023	**-6.63**

Current account balance (Q3 2023) – Canada's trade surplus in goods improved meaningfully in Q3 2023, although it was largely offset by a still-substantial trade deficit in services. Meanwhile, net international transactions in portfolio securities suggest that net investment income may have headed materially deeper into negative territory in the quarter. This probably counteracted much of the gain made in trade, leading to only a modest improvement in Canada's current account deficit relative to the prior quarter.

THURSDAY November 30 - 8:30	
Q3 2023	**ann. rate**
Consensus	n/a
Desjardins	0.4%
Q2 2023	**-0.2%**

Real GDP by expenditure (Q3 2023) – Real GDP by expenditure is expected to have eked out a modest gain in Q3 2023, posting annualized growth of just 0.4% in the quarter. That's half the pace projected by the Bank of Canada in its October 2023 Monetary Policy Report. Looking under the hood, household consumption is anticipated to have posted an improved but still modest advance in the third quarter, largely due to a likely reversal of the drag from consumer services in the prior period. In contrast, real consumption of durables probably contracted for the second consecutive quarter on a slump in auto sales and housing-related purchases. Indeed, residential investment likely edged lower for the sixth consecutive quarter as the resurrection of Bank of Canada rate hikes in June and July weighed heavily on the Canadian housing market. Investment in non-residential structures is also expected to have moved lower in the quarter, thanks to the increase in interest rates and lower seasonally adjusted rig counts due to wildfires and atypical maintenance. Offsetting this weakness should be government consumption and investment, which looks to have posted a healthy print in the quarter. Meanwhile, net exports likely contributed to real GDP growth in Q3, as exports advanced and imports were broadly flat. Topping it all off, inventory accumulation is projected to be a drag on growth for the fifth consecutive quarter, as vendors looked to whittle down their still-elevated pandemic stockpiles against a backdrop of weakening consumption. Of note, our analysis suggests that data revisions to date indicate a possible reversal in the minor contraction in real GDP in Q2, thereby avoiding a recession in Canada. That said, data revisions going back three years and a reindexing of real GDP add substantial uncertainty to both the history and forecast.

THURSDAY November 30 - 8:30	
September	**m/m**
Consensus	n/a
Desjardins	0.0%
August	**0.0%**

Real GDP by industry (September) – Monthly real GDP is expected to have been broadly flat in September. This isn't far from August's print and is in line with Statistics Canada's flash estimate, although we think the risk to the forecast is likely tilted to the upside. Goods-producing sectors probably saw output contract for the sixth consecutive month in September, with losses anticipated in agriculture, forestry, fishing and hunting; construction; and manufacturing. In contrast, utilities and mining, quarrying, and oil and gas extraction may have experienced gains in the month. Meanwhile, the services-producing sector is projected to have advanced again in September, reflecting mixed performances in the underlying industries. Unfortunately, the Survey of Employment, Payroll and Hours (SEPH) is being released on the same day as GDP. As this is a key input into our real GDP forecast, particularly when it comes to services, the uncertainty around the outlook is larger than it might normally be. Looking ahead, we are tracking a flat to weak 0.1% increase in real GDP by industry in October.

FRIDAY December 1 - 8:30	
November	
Consensus	n/a
Desjardins	10,000
October	**17,500**

Labour Force Survey (November) – Canadian employment likely rose by 10k in November. Although headline job growth remains positive, the labour market continues to ease at the margin as hiring lags the rise in the labour force. As a result, the unemployment rate probably increased another tick to 5.8%, the highest level since early 2022. With the economy cooling, seasonal holiday hiring is expected to be slower than in prior years, which should put further upward pressure on the unemployment rate. Data from Indeed suggests that job vacancies have continued to fall over the past few months, further reinforcing our view that the labour market is normalizing. All of this should see wage growth moderate over time, although base effects could push the year-over-year pace or wage increases higher in November.

OVERSEAS

WEDNESDAY November 29 - 20:30

November	
Consensus	n/a
October	**50.7**

China: Composite PMI (November) – After rebounding in August and September, China's Composite PMI fell 1.3 points in October to 50.7. The decline was broad-based and impacted the manufacturing and non-manufacturing sectors. Although third-quarter real GDP growth and September's retail sales both exceeded expectations, China continues to grapple with several economic headwinds, particularly its sluggish property market and high local government debt. November's data will give us more insight into the trajectory of the Chinese economy in the fourth quarter.

THURSDAY November 30 - 5:00

November	**m/m**
Consensus	-0.2%
October	**0.1%**

Eurozone: Consumer Price Index (November – preliminary) – Eurozone inflation is clearly falling. After peaking at 10.6% in October 2022, 12 months later the year-over-year change in the all items index was just 2.9%. However, core inflation is coming to heel more slowly, dropping from 5.0% one year ago to 4.2% this October. November's preliminary data will show us whether inflation continues to slow and whether there has been more progress on core inflation.

Economic Indicators

Week of November 27 to December 1, 2023

Day	Time	Indicator	Period	Consensus		Previous reading

UNITED STATES

MONDAY 27	10:00	New home sales (ann. rate)	Oct.	723,000	740,000	759,000
TUESDAY 28	9:00	S&P/Case-Shiller home price index (y/y)	Sept.	4.20%	3.90%	2.16%
	10:00	Consumer confidence	Nov.	101.0	107.0	102.6
	10:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	10:00	Speech by Federal Reserve Governor C. Waller				
WEDNESDAY 29	8:30	Real GDP	Q3s	5.0%	4.9%	4.9%
	8:30	Goods trade balance – preliminary (US$B)	Oct.	-86.5	-84.2	-86.8
	8:30	Retail inventories (m/m)	Oct.	n/a	n/a	0.9%
	8:30	Wholesale inventories – preliminary (m/m)	Oct.	n/a	n/a	0.2%
	13:45	Speech by Federal Reserve Bank of Cleveland President L. Mester				
	14:00	Release of the Beige Book				
THURSDAY 30	8:30	Initial unemployment claims	Nov. 20–24	218,000	215,000	209,000
	8:30	Personal income (m/m)	Oct.	0.2%	0.3%	0.3%
	8:30	Personal consumption expenditures (m/m)	Oct.	0.2%	0.2%	0.7%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Oct.	0.1%	0.1%	0.4%
		Excluding food and energy (m/m)	Oct.	0.2%	0.2%	0.3%
		Total (y/y)	Oct.	3.1%	3.0%	3.4%
		Excluding food and energy (y/y)	Oct.	3.5%	3.5%	3.7%
	9:45	Chicago PMI	Nov.	46.0	45.0	44.0
	10:00	Pending home sales (m/m)	Oct.	-0.9%	n/a	1.1%
FRIDAY 1	---	Total vehicle sales (ann. rate)	Nov.	15,500,000	15,650,000	15,500,000
	10:00	Construction spending (m/m)	Oct.	0.4%	0.5%	0.4%
	10:00	ISM Manufacturing index	Nov.	47.7	47.5	46.7
	10:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	11:00	Speech by Federal Reserve Chair J. Powell				
	14:00	Speech by Federal Reserve Chair J. Powell				

CANADA

MONDAY 27	---	---				
TUESDAY 28	---	---				
WEDNESDAY 29	8:30	Current account balance ($B)	Q3	n/a	-5.90	-6.63
THURSDAY 30	8:30	Real GDP by industry (m/m)	Sept.	n/a	0.0%	0.0%
	8:30	Real GDP (ann. rate)	Q3	n/a	0.4%	-0.2%
FRIDAY 1	8:30	Net change in employment	Nov.	n/a	10,000	17,500
	8:30	Unemployment rate	Nov.	n/a	5.8%	5.7%

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 November 27 to December 1, 2023

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 27							
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TUESDAY 28							
Germany	2:00	Consumer confidence	Dec.	-28.3		-28.1	
France	2:45	Consumer confidence	Nov.	84		84	
Eurozone	4:00	M3 money supply	Oct.	-0.9%		-1.2%	
Japan	18:50	Industrial production – preliminary	Oct.	0.7%	0.4%	0.5%	-4.4%
Japan	18:50	Retail sales	Oct.	0.4%	5.9%	0.4%	6.3%
New Zealand	20:00	Reserve Bank of New Zealand meeting	Nov.	5.50%		5.50%	
WEDNESDAY 29							
South Korea	---	Bank of Korea meeting	Nov.	3.50%		3.50%	
Italy	4:00	Consumer confidence	Nov.	102.3		101.6	
Italy	4:00	Economic confidence	Nov.	n/a		103.9	
Eurozone	5:00	Consumer confidence – final	Nov.	n/a		-16.9	
Eurozone	5:00	Industrial confidence	Nov.	-9.0		-9.3	
Eurozone	5:00	Services confidence	Nov.	4.5		4.5	
Eurozone	5:00	Economic confidence	Nov.	93.5		93.3	
Germany	8:00	Consumer price index – preliminary	Nov.	-0.1%	3.5%	0.0%	3.8%
China	20:30	Composite PMI	Nov.	n/a		50.7	
China	20:30	Manufacturing PMI	Nov.	49.6		49.5	
China	20:30	Non-manufacturing PMI	Nov.	51.1		50.6	
THURSDAY 30							
Japan	0:00	Consumer confidence	Nov.	35.6		35.7	
Japan	0:00	Housing starts	Oct.		-7.0%		-6.8%
Germany	2:00	Retail sales	Oct.	0.4%	-2.5%	-0.6%	-4.4%
France	2:45	Personal consumption expenditures	Oct.	-0.2%	-0.2%	0.2%	-3.0%
France	2:45	Consumer price index – preliminary	Nov.	0.1%	3.7%	0.1%	4.0%
France	2:45	Real GDP – final	Q3	0.1%	0.7%	0.1%	0.7%
Italy	4:00	Unemployment rate	Oct.	n/a		7.4%	
Eurozone	5:00	Consumer price index – preliminary	Nov.	-0.2%	2.7%	0.1%	2.9%
Eurozone	5:00	Unemployment rate	Oct.	6.5%		6.5%	
Italy	5:00	Consumer price index – preliminary	Nov.	-0.2%	1.0%	-0.2%	1.7%
Japan	18:30	Unemployment rate	Oct.	2.6%		2.6%	
Japan	19:30	Manufacturing PMI – final	Nov.	n/a		48.1	
FRIDAY 1							
Italy	3:45	Manufacturing PMI	Nov.	45.2		44.9	
France	3:50	Manufacturing PMI – final	Nov.	42.6		42.6	
Germany	3:55	Manufacturing PMI – final	Nov.	42.3		42.3	
Eurozone	4:00	Manufacturing PMI – final	Nov.	43.8		43.8	
Italy	4:00	Real GDP – final	Q3	0.0%	0.0%	0.0%	0.0%
United Kingdom	4:30	Manufacturing PMI – final	Nov.	46.7		46.7	

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).