

WEEKLY COMMENTARY

How Worries about Mortgage Renewals Could Steal Christmas

By Royce Mendes, Managing Director and Head of Macro Strategy

The holiday season is in full swing again, but it's beginning to look like Canadian consumers might be more hesitant to spend this year. Households have continued to park money in their bank accounts in 2023, despite the economy being fully reopened. Over the past year, Canadians have placed \$175 billion in term deposits at chartered banks, an increase of roughly 40%. Data released this week showed that households saved 5.1% of their disposable income in the third quarter, much more than the average of just 2.4% between 2015 and 2019.

Canadians are spending less to save more. Excluding car sales, which are catching up after lengthy supply disruptions, retail sales are only 1.2% higher than they were a year ago, a significantly slower pace than the pre-COVID average annual growth rate of 3.5%. Yesterday's GDP data showed similarly feeble total consumer spending growth in the third quarter. Real consumption per capita has fallen 1% over the past year.

The recent weakness in consumption data is particularly surprising given that the population 15 years and older has increased 2.9% in the past 12 months. In contrast, the US economy, which has experienced slower population gains, has seen much stronger consumer spending growth.

Retailers in Canada are adjusting. Hiring in the industry has been non-existent in recent months, while job vacancies in the sector have plummeted back to pre-COVID levels.

It's true that, as of the second quarter, Canadians were only spending the same percentage of their incomes servicing their debt as they were in 2019. But it's not hard to believe that Canadians with looming mortgage renewals are getting their financial houses in order before the coming storm.

Rate resets look likely to be a significant drain on household finances in the coming years. Should markets be right about

the path for interest rates, the worst-off borrowers could see upwards of 70% increases in their monthly mortgage payments.

There are, of course, ways to soften the blow. Many will look to extend the amortizations of their mortgages, while others will be tempted to make lump-sum payments. These options, however, come with their own costs.

Making significant adjustments to the amortization schedule of a mortgage can materially alter the long-term financial trajectory of a household. Extending the length of time a borrower takes to pay off debt could add hundreds of thousands of dollars in additional interest payments and would leave the borrower at the mercy of the ups and downs in interest rates for even longer.

Lump-sum payments therefore represent a prudent way to de-risk a household's balance sheet. But the numbers are huge. A homeowner who made a 20% downpayment and borrowed the rest to purchase an average-priced house in Toronto during the pandemic would need to come up with between \$80K and \$200K to keep their monthly mortgage payment the same when it comes up for renewal.

The daunting prospect of higher monthly mortgage payments, longer amortizations, large lump-sum payments or some combination of them is clearly weighing on the minds of many Canadians. It's still early, but there are already rumblings that households might scale back their plans for the holidays. Instead of the Grinch, it could be mortgage renewals that steal Christmas this year.

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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 5 - 10:00

November

Consensus	52.5
Desjardins	53.0

October **51.8**

THURSDAY December 7 - 15:00

October **US\$B**

Consensus	8.750
Desjardins	7.000

September **9.057**

FRIDAY December 8 - 8:30

November

Consensus	190,000
Desjardins	140,000

October **150,000**

FRIDAY December 8 - 10:00

December

Consensus	61.6
Desjardins	64.0

November **61.3**

WEDNESDAY December 6 - 8:30

October **\$B**

Consensus	n/a
Desjardins	2.70

September **2.04**

UNITED STATES

ISM Services index (November) – In October, the ISM Services index suffered its biggest monthly decline since March. Over the last two months it has dropped 2.7 points, moving closer to 50. However, this short series of negative prints probably ended in November. Most regional indexes and the Conference Board Consumer Confidence Index have improved over the past month. As such, we’re expecting the ISM Services index to have climbed from 51.8 to 53.0 in November.

Consumer credit (October) – After plummeting an annualized US\$15.8 billion in August due to the resumption of student loan repayments, consumer credit returned to a more normal pace of growth in September. The US\$9.1 billion rise was rather modest, reflecting the impact of interest rate hikes. Weekly information on banking credit is pointing to an even smaller increase for October.

Job creation according to the establishment survey (November) – After September’s blowout print that saw 297,000 jobs added, the labour market returned to more normal levels in October, gaining 150,000 jobs. Job creation likely slowed further in November, although not as sharply. Average unemployment claims rose during the month, particularly during the week of the survey. Meanwhile the end of the labour dispute in the automotive industry is expected to have brought back around 30,000 workers. However, confidence indexes are blurring the labour market picture somewhat. According to the Conference Board survey, more consumers are simultaneously saying that jobs are plentiful and harder to find! We expect November’s print to add 140,000 jobs and the unemployment rate to stay put at 3.9%. The year-over-year change in average hourly wages could drop below 4% for the first time since spring 2021.

University of Michigan consumer sentiment index (December – preliminary) – Consumer sentiment as measured by the University of Michigan index fell for the fourth month in a row in November to its lowest level since May. However, we expect it to have increased again in December. The fact that November’s index rose between the preliminary and final prints is a good sign, while the uptick in the latest Conference Board index print is also positive. US households likely reacted positively to recent stock market gains, the sharp decline in gasoline prices and lower mortgage rates. We expect to see the University of Michigan index climb to 64.0.

CANADA

International merchandise trade (October) – Canada’s trade surplus is expected to have increased in October. US auto production fell 15.7% in the month due to strikes and is anticipated to have significantly disrupted the flow of goods. Although some drawdown in inventories may have mitigated the impact on the Canadian auto sector, advance US trade data for automobiles and parts showed a decline, which probably weighed on Canadian trade. That said, our forecast data suggests that exports fared better than imports, mainly due to the depreciation of the Canadian dollar.

WEDNESDAY December 6 - 10:00

December

Consensus 5.00%

Desjardins 5.00%

October 25

5.00%

FRIDAY December 8 - 20:30

November

Consensus -0.2%

October

y/y

-0.2%


Bank of Canada meeting (December) – Canadian central bankers have every reason to hold rates unchanged next week. The economy is slowing, labour market tightness is easing and inflation is cooling. The question is to what extent will they acknowledge these positive developments. Policymakers want to guard against false dawns. As a result, we expect them to retain language indicating that officials are still ready to raise rates if necessary. For our part, we don't see them making good on that threat. We expect the Bank of Canada is done raising rates for this cycle and will turn to rate cuts in the second quarter of 2024.


OVERSEAS

China: Consumer price index (November) – Chinese inflation fell into negative territory for the second time in 2023, with prices falling 0.2% year-over-year in October, mainly due to the 17.9% plunge in meat prices. Although this deflation is a worrying reflection on China's economy, the year-over-year change in consumer prices excluding food and energy is still positive, despite slowing from 0.8% in September to 0.6% in October. November's Composite PMI declined slightly, suggesting that price growth was weak during the month.

Economic Indicators

Week of December 4 to 8, 2023

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 4	10:00	Factory orders (m/m)	Oct.	-2.6%	-2.0%	2.8%
TUESDAY 5	10:00	ISM Services index	Nov.	52.5	53.0	51.8
WEDNESDAY 6	8:30	Trade balance – goods and services (US\$B)	Oct.	-63.4	-64.4	-61.5
	8:30	Nonfarm productivity – final (ann. rate)	Q3	4.8%	5.0%	4.7%
	8:30	Unit labor costs – final (ann. rate)	Q3	-0.9%	-1.1%	-0.8%
THURSDAY 7	8:30	Initial unemployment claims	Nov. 27–Dec. 1	225,000	222,000	218,000
	15:00	Consumer credit (US\$B)	Oct.	8.750	7.000	9.057
FRIDAY 8	8:30	Change in nonfarm payrolls	Nov.	190,000	140,000	150,000
	8:30	Unemployment rate	Nov.	3.9%	3.9%	3.9%
	8:30	Average weekly hours	Nov.	34.3	34.4	34.3
	8:30	Average hourly earnings (m/m)	Nov.	0.3%	0.2%	0.2%
	10:00	University of Michigan consumer sentiment index – preliminary	Dec.	61.6	64.0	61.3
CANADA						
MONDAY 4	---	---				
TUESDAY 5	---	---				
WEDNESDAY 6	8:30	International trade (\$B)	Oct.	n/a	2.70	2.04
	8:30	Labour productivity (q/q)	Q3	n/a	-0.6%	-0.6%
	10:00	Bank of Canada meeting	Dec.	5.00%	5.00%	5.00%
THURSDAY 7	8:30	Building permits (m/m)	Oct.	n/a	1.2%	-6.5%
	12:15	Speech by Bank of Canada Deputy Governor T. Gravelle				
FRIDAY 8	8:30	Industrial capacity utilization rate	Q3	n/a	80.9%	81.4%

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 4 to 8, 2023

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)	Nov.	48.65		56.53		
MONDAY 4								
Germany	2:00	Trade balance (€B)	Oct.	17.0		16.7		
Japan	18:30	Tokyo Consumer Price Index	Nov.		3.0%		3.2%	
Japan	19:30	Composite PMI – final	Nov.	n/a		50.0		
Japan	19:30	Services PMI – final	Nov.	n/a		51.7		
Australia	22:30	Reserve Bank of Australia meeting	Dec.	4.35%		4.35%		
TUESDAY 5								
France	2:45	Industrial production	Oct.	0.1%	2.7%	-0.5%	-0.1%	
Italy	3:45	Composite PMI	Nov.	n/a		47.0		
Italy	3:45	Services PMI	Nov.	48.3		47.7		
France	3:50	Composite PMI – final	Nov.	44.5		44.5		
France	3:50	Services PMI – final	Nov.	45.3		45.3		
Germany	3:55	Composite PMI – final	Nov.	47.1		47.1		
Germany	3:55	Services PMI – final	Nov.	48.7		48.7		
Eurozone	4:00	Composite PMI – final	Nov.	47.1		47.1		
Eurozone	4:00	Services PMI – final	Nov.	48.2		48.2		
United Kingdom	4:30	Composite PMI – final	Nov.	50.1		50.1		
United Kingdom	4:30	Services PMI – final	Nov.	50.5		50.5		
Eurozone	5:00	Producer price index	Oct.	0.2%	-9.5%	0.5%	-12.4%	
WEDNESDAY 6								
Germany	2:00	Factory orders	Oct.	0.1%	-3.8%	0.2%	-4.3%	
Eurozone	5:00	Retail sales	Oct.	0.2%	-1.2%	-0.3%	-2.9%	
THURSDAY 7								
Germany	2:00	Industrial production	Oct.	0.0%	-3.2%	-1.4%	-3.7%	
France	2:45	Trade balance (€M)	Oct.	n/a		-8,917		
France	2:45	Current account (€B)	Oct.	n/a		2.5		
Italy	4:00	Industrial production	Oct.	-0.5%	n/a	0.0%	-2.0%	
Eurozone	5:00	Net change in employment – final	Q3	n/a	n/a	0.3%	1.4%	
Eurozone	5:00	Real GDP – final	Q3	-0.1%	0.1%	-0.1%	0.1%	
Italy	5:00	Retail sales	Oct.	n/a	n/a	-0.3%	1.3%	
Japan	18:50	Current account (¥B)	Oct.	1,858.2		2,010.9		
Japan	18:50	Real GDP – final	Q3	-0.5%		-0.5%		
India	23:30	Reserve Bank of India meeting	Dec.	6.50%		6.50%		
FRIDAY 8								
Germany	2:00	Consumer price index – final	Nov.	-0.4%	3.2%	-0.4%	3.2%	
France	2:45	Wages – final	Q3	n/a		0.5%		
China	20:30	Consumer price index	Nov.		-0.2%		-0.2%	
China	20:30	Producer price index	Nov.		-3.0%		-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).