WEEKLY COMMENTARY

No Imminent Canadian Recession, but Can the Bank of Canada Stick the Soft Landing?

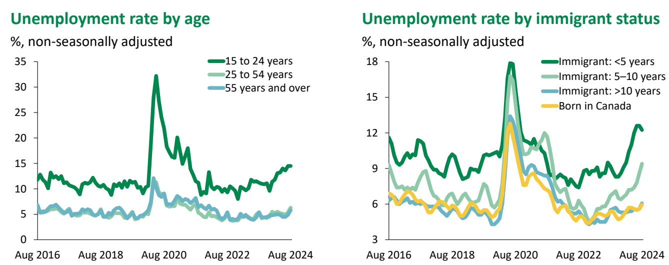
By Randall Bartlett, Senior Director of Canadian Economics

As central banks around the world began aggressively raising interest rates in early 2022, like many economists we expected recessions in the US, Canada, Europe and beyond. In many countries, this call proved correct. However, in others, real GDP growth managed to stay in positive territory. In the US, for example, substantial pandemic-era savings and a preponderance of 30-year mortgages managed to mitigate the drag from elevated inflation and interest rates.

In Canada, surging population growth has masked underlying weakness in the economy. Growth has managed to stay above water despite labour productivity and real GDP per capita declining regularly over the past two years. And while we can't know with certainty, this suggests that a recession may not have been so easily avoided if population growth had been in line with historical norms. That's in large part because high levels of household debt make Canada's economy more sensitive to changes in interest rates than the economies of many other countries.

Despite the federal government making regular announcements about slowing the pace of population growth, this has yet to be borne out in the data. Growth in the number of young workers has hit a particularly torrid pace, advancing by a record-breaking nearly 8% year-over-year in August. But these new entrants into the Canadian labour force, mostly non-permanent residents (NPRs), have been struggling to find work recently. This has pushed up the unemployment rates of both youth and newcomers—two groups whose members significantly overlap (graph 1). Indeed, in the latest year for which data are available, about one third of new immigrants and over 50% of NPRs (which include international students and temporary foreign workers) were under the age of 25.

Graph 1
Youth and New Immigrants Are Having Trouble Finding Work



Statistics Canada and Desjardins Economic Studies

As the youth and newcomer unemployment rates have risen substantially, this has caused the overall unemployment rate to rise as well. At 6.6% in August, it is much higher than the record low of under 5.0% reached in December 2022.

This jump in the unemployment rate has led some to wonder if a recession may be coming, if Canada's economy isn't in one already. But it's important to understand what a recession is

CONTENTS

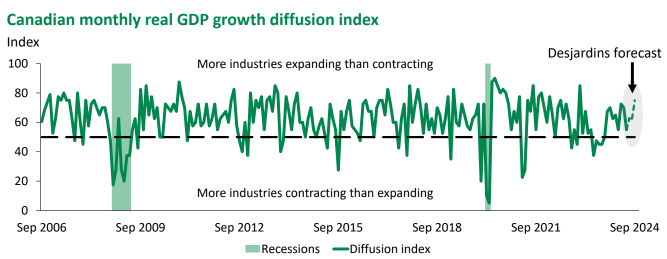
Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Senior Director of Canadian Economics
Benoit P. Durocher, Director and Principal Economist • Royce Mendes, Managing Director and Head of Macro Strategy
Hélène Bégin, Principal Economist • Marc Desormeaux, Principal Economist • Marc-Antoine Dumont, Senior Economist
Tiago Figueiredo, Macro Strategist • Francis Généreux, Principal Economist • Florence Jean-Jacobs, Principal Economist
Kari Norman, Economist • Hendrix Vachon, Principal Economist • LJ Valencia, Economic Analyst
Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

and what it isn't before making such a bold call. Specifically, recessions are characterized by their depth (negative real GDP growth), duration (at least two consecutive quarters) and diffusion (there must be broad weakness throughout the economy).

First, the Canadian economy is not in recession currently. Not even close. It expanded at a 2.1% pace in Q2 2024, beating the expectations of economists, including those at the Bank of Canada. That said, as we wrote following the release, there was a lot more weakness in Q2 real GDP than the headline number would suggest. Most of the growth came from government consumption and investment, while interest-rate-sensitive sectors of the economy contracted, like durables consumption and residential investment. And real GDP also managed to decline once again on a per capita basis.

Second, despite a flat print for June and Statistics Canada's flash estimate for little change in July, we're still tracking Q3 2024 real GDP growth at an annualized rate in the range of 1.0% to 1.5%. That's hardly anything to write home about, but it's a far cry from a recession. Growth is expected to be relatively broad-based as well (graph 2). However, as it's about half the 2.8% pace of growth the Bank of Canada projected in its July 2024 Monetary Policy Report (MPR), there may be more slack in the economy than the Bank previously expected. When combined with the weakening in the labour market and the gradually slowing pace of inflation, additional slack in the economy has raised the possibility of an accelerated pace of rate cuts.

Graph 2
Economic Growth Has Been Broad-Based in Canada Recently



Statistics Canada and Desjardins Economic Studies

Finally, while we remain of the view that the Bank of Canada will cut rates by 25 basis points at each of its remaining meetings in 2024 and at six more meetings in 2025, much will depend on how growth progresses. For the final quarter of 2024, the outlook for growth still looks generally positive. That's thanks to an expected rebound in auto production, the gradual but sustained pickup in energy sector output due to the Trans Mountain Expansion (TMX) pipeline, and a possible boost in exports to the US given the uncertainty of the presidential election. However, after 2024, a wall of mortgage renewals, a possible sharp slowing in population growth and maybe even a tougher trade environment could pose major headwinds to Canada's economic growth. Thankfully, the Bank has plenty of room to cut rates further and faster. But the question remains: Does it have enough runway to stick the soft landing? We think so, but only time will tell.

What to Watch For

UNITED STATES

MONDAY September 9 - 15:00

July	US$B
Consensus	12.000
Desjardins	12.500
June	**8.934**

Consumer credit (July) – Consumer credit growth lost some momentum in June following a strong acceleration in May. However, non-revolving credit picked up even though motor vehicle sales fell that month. Based on weekly bank credit data, we think consumer credit likely rose again in July. The decrease in the savings rate and a rebound in auto sales in July are telling the same story.

WEDNESDAY September 11 - 8:30

August	m/m
Consensus	0.2%
Desjardins	0.1%
July	**0.2%**

Consumer price index (August) – US headline inflation finally dipped below 3% in July. This marks real progress considering that it was more than 9% just two years ago. More work is still needed before inflation returns sustainably to the 2% target, but it's clearly trending in the right direction. In fact, inflation likely came down another notch in August, supported by a mere 0.1% month-over-month change in the consumer price index. Energy prices probably didn't change much over the month, as gasoline prices were down. We expect that prices for goods excluding food and energy declined further, while service prices probably rose just 0.2%. This would mean that the core consumer price index increased only 0.1% during the month. We see headline inflation falling to 2.5%, its lowest level since the first quarter of 2021. The decline in core inflation should be less impressive, easing from 3.2% to 3.1%.

FRIDAY September 13 - 10:00

September	
Consensus	68.0
Desjardins	68.0
August	**67.9**

University of Michigan consumer sentiment index (September – preliminary) – After falling to an eight-month low in July, the University of Michigan's consumer sentiment index improved slightly in August. Confidence increased most among Democrats following the change at the top of their ticket for the November presidential election. However, macroeconomic indicators are looking more mixed for September. On the one hand, gas prices continue to come down, which could help the index build on its August momentum. Mortgage rates are also ticking lower. On the other hand, the stock market took a tumble in early September, which may have sparked concerns for some households. Employment data is also less rosy than it was a few months ago. All things considered, we expect the University of Michigan index to remain more or less unchanged.

CANADA

FRIDAY September 13 - 8:30

Q2 2024	
Consensus	n/a
Desjardins	79.6%
Q1 2024	**78.5%**

Capacity utilization (Q2 2024) – Capacity utilization in Canada is expected to have increased in Q2 2024 to 79.6% following four consecutive quarterly declines. This reflects gains in most sectors, including forestry and logging; mining and oil and gas extraction; utilities; construction; and manufacturing.

OVERSEAS

SUNDAY September 8 - 21:30

August	y/y
Consensus	0.7%
July	**0.5%**

China: Consumer price index (August) – Inflation has picked up in China, rising from 0.2% in June to 0.5% in July. The increase was largely attributable to meat prices, which returned to positive territory in June and July after falling for 13 consecutive months. Pork prices surged 20.4% as the excess supply seen in recent quarters seems to have eased. Even though inflation has perked up, the producer price index is still on a downtrend, with a 0.8% year-over-year decline recorded in July. This suggests that domestic demand remains depressed in China.

WEDNESDAY September 11 - 2:00	
July	**m/m**
Consensus	0.2%
June	**0.0%**

United Kingdom: Monthly GDP (May) – UK monthly GDP hasn't fallen since late 2023. However, its trajectory shows a series of fits and starts, with periods of stagnation (like in April and June) and periods of stronger growth (like the 0.4% gains in March and May). Even so, the British economy has managed to post relatively strong quarterly results, with real GDP growth coming in at a non-annualized rate of 0.7% in the first quarter and 0.6% in the second quarter. We're already seeing encouraging signs for July and the third quarter. The 0.4% jump in retail sales is particularly promising, but other positive factors include rising confidence levels, relatively good showings from the purchasing managers indexes and England's run to the final of the European Football Championships.

THURSDAY September 12 - 8:15	
September	
Consensus	3.65%
Desjardins	3.65%
July 18	**4.25%**

Eurozone: European Central Bank meeting (September) – After making initial cuts to its key interest rates in June, the European Central Bank (ECB) hit the pause button in July. This cautious approach is attributable to the eurozone's weaker progress on inflation. Services inflation is still high, and strong wage growth isn't helping. But the latest data on wage growth were more encouraging and should have European central bankers feeling relieved. We expect the ECB to cut again at its September meeting, when its new monetary policy framework will also take effect. As announced in a March press release, the ECB plans to narrow the spread between the deposit rate and the rate on main refinancing operations (refi rate) to 15 basis points from 50 basis points currently. This means the deposit rate should come down 25 basis points, while the refi rate should fall 60 basis points. It's important to bear in mind that the money market equilibrium rate has tended to be more closely tied to the deposit rate given the significant surplus liquidity maintained by the ECB. Therefore, the best measure of the monetary easing announced in September will be the 25-point reduction in the deposit rate, not the 60-point technical adjustment to the refi rate.

FRIDAY September 13 - 22:00
August

China: Industrial production and retail sales (August) – After posting a 6.7% year-over-year increase in April, Chinese industrial production growth moderated to 5.1% in July. This reflects the fact that, during the same period, the manufacturing PMI slipped below the 50-point mark, which signals a contraction in economic activity. Unless the index improved in August, industrial production should remain fairly flat year-over-year. Meanwhile, retail sales growth continued to be anemic amid languishing consumer confidence. Once again, China's property market slump is to blame. And with the country's many stimulus measures failing to prove effective, we don't expect to see much change.

Economic Indicators

Week of September 9 to 13, 2024

UNITED STATES

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 9	10:00	Wholesale inventories – final (m/m)	July	0.3%	0.3%	0.3%
	15:00	Consumer credit (US$B)	July	12.000	12.500	8.934
TUESDAY 10	10:00	Speech by Federal Reserve Vice Chair M. Barr				
WEDNESDAY 11	8:30	Consumer price index				
		Total (m/m)	Aug.	0.2%	0.1%	0.2%
		Excluding food and energy (m/m)	Aug.	0.2%	0.1%	0.2%
		Total (y/y)	Aug.	2.6%	2.5%	2.9%
		Excluding food and energy (y/y)	Aug.	3.2%	3.1%	3.2%
THURSDAY 12	8:30	Initial unemployment claims	Sep. 2–6	230,000	229,000	227,000
	8:30	Producer price index				
		Total (m/m)	Aug.	0.2%	0.1%	0.1%
		Excluding food and energy (m/m)	Aug.	0.2%	0.1%	0.0%
	14:00	Federal budget (US$B)	Aug.	n/a	n/a	-243.7
FRIDAY 13	8:30	Export prices (m/m)	Aug.	-0.2%	-0.4%	0.7%
	8:30	Import prices (m/m)	Aug.	-0.3%	-0.2%	0.1%
	10:00	University of Michigan consumer sentiment index – prel.	Sep.	68.0	68.0	67.9

CANADA

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 9	---	---				
TUESDAY 10	8:10	Speech by Bank of Canada Governor T. Macklem				
WEDNESDAY 11	---	---				
THURSDAY 12	8:30	National balance sheet	Q2			
	8:30	Building permits (m/m)	July	n/a	6.4%	-13.9%
FRIDAY 13	8:30	Industrial capacity utilization rate	Q2	n/a	79.6%	78.5%
	8:30	Wholesale sales (m/m)	July	n/a	-1.1%	-0.6%

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 Daylight Time (GMT - 4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of September 9 to 13, 2024

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US$B)	Aug.	82.00		84.65	
SUNDAY 8							
Japan	19:50	Current account (¥B)	July	2,116.8		1,776.3	
Japan	19:50	Real GDP – final	Q2	0.8%		0.8%	
China	21:30	Consumer price index	Aug.		0.7%		0.5%
China	21:30	Producer price index	Aug.		-1.5%		-0.8%
MONDAY 9							
---	---	---					
TUESDAY 10							
United Kingdom	2:00	ILO unemployment rate	July	4.1%		4.2%	
Germany	2:00	Consumer price index – final	Aug.	-0.1%	1.9%	-0.1%	1.9%
Italy	4:00	Industrial production	July	-0.2%	-1.8%	0.5%	-2.6%
WEDNESDAY 11							
United Kingdom	2:00	Trade balance (£M)	July	-4,700		-5,324	
United Kingdom	2:00	Construction	July	0.2%	-0.8%	0.5%	-1.7%
United Kingdom	2:00	Index of services	July	0.2%		-0.1%	
United Kingdom	2:00	Monthly GDP	July	0.2%		0.0%	
United Kingdom	2:00	Industrial production	July	0.3%	-0.1%	0.8%	-1.4%
Japan	19:50	Producer price index	Aug.	0.0%	2.8%	0.3%	3.0%
THURSDAY 12							
Germany	---	Current account (€B)	July	n/a		23.2	
Eurozone	8:15	European Central Bank meeting	Sep.	3.65%		4.25%	
FRIDAY 13							
Japan	0:30	Industrial production – final	July	n/a	n/a	2.8%	2.7%
France	2:45	Consumer price index – final	Aug.	0.6%	1.9%	0.6%	1.9%
France	2:45	Wages – final	Q2	n/a		0.6%	
Eurozone	5:00	Industrial production	July	-0.4%	-2.7%	-0.1%	-3.9%
Russia	6:30	Bank of Russia meeting	Sep.	18.00%		18.00%	
China	22:00	Industrial production	Aug.		4.6%		5.1%
China	22:00	Retail sales	Aug.		2.5%		2.7%

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 Daylight Time (GMT - 4 hours).