

WEEKLY COMMENTARY

Cyberattacks: The Burgeoning Threat to Canada's Economy

By Marc Desormeaux, Principal Economist

It feels like cyberattacks are happening everywhere. Recent [incidents in British Columbia](#) have generated media coverage and come on the heels of a high-profile [data breach at the Toronto Public Library system](#) last year and an [attack on four Quebec educational institutions](#) earlier this month. What's more, last year's [Financial System Review](#) and this week's Office of the Superintendent of Financial Institutions (OSFI) [2024–25 Risk Outlook](#) highlighted a growing risk from cybersecurity events. OSFI also recently reported a [near-tripling of incidents](#) in 2023 versus the prior year. What could cyberattacks mean for Canada's economy, and what can governments and businesses do to safeguard against them?

The possible economic impacts of cyberattacks are myriad. At the most basic level, they can cause stoppages in company operations and economic activity for some time depending on the type and duration of the incident. The risks from this are acute for financial institutions given the role they play in supplying credit to the broader economy. Attacks may erode confidence in the financial system and lead to further adverse consequences.

So far, cyber incidents have not had systemic impacts, but that risk is rising alongside the frequency of attacks and the damages they're causing. The International Monetary Fund (IMF) estimated in April that [the number of worldwide cyberattacks has doubled since before the COVID-19 pandemic](#). About 20% of global damages incurred in the past two decades occurred just in the years since 2020. Going forward, heightened geopolitical tensions, global financial system interconnectedness and deepening links to the real economy make for an increasingly risky outlook. So do expectations for further rapid adoption of new technologies, including artificial intelligence (AI). Moreover,

last month the World Economic Forum (WEF) identified a significant [global cybersecurity skills shortage](#).

Canada is no stranger to these trends, as emphasized by both the Bank of Canada and OSFI. The Canadian Centre for Cyber Security maintains a [page](#) on the growing risks presented by generative AI adoption. The [outsized role played by small and medium-sized enterprises \(SMEs\) in Canada's economy](#) also raises questions going forward. The recent IMF report found that SMEs tend to incur the most significant losses from cyber incidents, while the WEF highlighted the risk of these firms being left behind as implementation of new technologies accelerates.

So what can be done? No group of private firms, especially those dominated by smaller players, can head off system-wide risks, so robust public sector regulation and supervisory capacity are necessary. This could include strong data collection, incentives for firms to adopt prudent cybersecurity risk management practices and penalties for bad actors. Flexibility is also essential given the speed at which technologies and threats will evolve. And education and skills training could help reduce labour shortages over time. But companies must also take action, from mapping out their cyber security supply chains and potential areas of vulnerability, to creating contingency plans for system-wide disruptions.

Ultimately, investment in deterrence is less expensive than responding to attacks after the fact. The IMF calculates direct global losses from cyber incidents since 2020 at just \$28 billion (in real terms). But when accounting for indirect factors like reputational damage and foregone future business, estimates of damages range from 1% to 10% of global GDP!

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
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Cyberattacks represent a real and growing risk for Canada and the wider world. They're also becoming more serious at a time when our highly indebted economy and housing market are still adjusting to the effects of sharply higher interest rates. To prevent negative outcomes, governments and the private sector must prepare now and work together.

What to Watch For

TUESDAY May 28 - 9:00

March	y/y
Consensus	7.30%
Desjardins	7.30%
February	7.29%

TUESDAY May 28 - 10:00

May	Index
Consensus	96.0
Desjardins	101.0
April	97.0

FRIDAY May 31 - 8:30

April	m/m
Consensus	0.3%
Desjardins	0.4%
March	0.8%

THURSDAY May 30 - 8:30

Q1 2024	\$B
Consensus	-5.7
Desjardins	-5.4
Q4 2023	-1.6

FRIDAY May 31 - 8:30

Q1 2024	ann. rate
Consensus	2.0%
Desjardins	2.2%
Q4 2023	1.0%

FRIDAY May 31 - 8:30

March	m/m
Consensus	0.0%
Desjardins	0.0%
February	0.2%

UNITED STATES

S&P/Case-Shiller home price index (March) – Existing home prices posted a surprise monthly gain of 0.6% in February, the strongest increase since October. We don't expect home prices to have risen as much in March. They likely gained 0.3% on the month, which is still higher than the monthly growths recorded between November and January. This would keep the year-over-year change in the S&P/Case-Shiller index at 7.3%.

Conference Board Consumer Confidence Index (May) – Consumer sentiment as measured by the Conference Board fell in April to its lowest level since July 2022. It has dropped 13.9 points in the three months since February, partly due to higher gasoline prices and expectations of higher-for-longer interest rates. However, May's print is likely to show an improvement. Prices at the pump have been declining for a few weeks now, and the stock market recently had several good sessions. Mortgage rates are also down slightly. These factors are all positive for consumer sentiment, even though the University of Michigan and TIPP indexes moved lower in May. We expect the Conference Board index to edge up by a few points and surpass 100 once more.

Consumer spending (April) – Real consumer spending had two solid months of growth in February and March, rising 0.5% each time. In March, growth in consumer spending was fairly evenly split between durable and non-durable goods and services. However, April's gain is expected to be weaker due primarily to sluggish retail sales last month. We think real consumer spending rose 0.1%. Nominal consumption probably increased 0.4%, while the Personal Consumption Expenditures Deflator likely gained 0.3%. We believe the year-over-year change in the deflator remained at 2.7%, unchanged from March, with the core deflator, which strips out food and energy, edging down from 2.8% to 2.7%.

CANADA

Current account balance (Q1) – Canada's current account deficit is expected to have moved deeper into the red in Q1, in large part due to the significant deterioration in the merchandise trade balance. Indeed, Canadian net goods exports were negative in the first quarter of 2024 for just the second time in two years. Meanwhile, the services trade balance inched further into negative territory as well.

Real GDP by expenditure (Q1) – Real GDP by expenditure is expected to have advanced by 2.2% (q/q, saar) in Q1, just below the Bank of Canada's latest forecast of 2.8%. Government spending is anticipated to have played a leading role, largely because of the return to work following a strike in Quebec the prior quarter. Household consumption also likely made a notable contribution to growth, as auto sales continued at a solid pace to start the year. Contrast this with investment, where modest advances in residential investment and spending on machinery and equipment were probably offset by a contraction in non-residential structures investment. At the same time, net exports should have weighed on headline growth, as exports contracted while imports advanced, supporting a modestly positive contribution to growth from inventories.

Real GDP by industry (March) – Real GDP by industry is expected to have been essentially unchanged in March, in line with Statistics Canada's flash estimate. Output in goods-producing sectors should be largely responsible for the weakness, notably the resource sector. Other goods-producing sectors were more of a mixed bag. The same is true of services-producing sectors, albeit with wholesale trade and hospitality likely weighing on headline growth. Looking ahead to April, output is projected to bounce back from the weakness in March, led by a rebound in resource activity.

THURSDAY May 30 - 19:30

April	m/m
Consensus	0.7%
March	-1.2%

THURSDAY May 30 - 21:30

May	
Consensus	n/a
April	51.7

FRIDAY May 31 - 5:00

May	a/a
Consensus	2.5%
April	2.4%

OVERSEAS

Japan: Retail sales (April) – Japan’s retail sales have been extremely volatile since last summer. For example, February’s 1.7% jump was followed by a 1.2% drop in March. Japanese households are clearly having a tough time. Real consumer spending declined again in the first quarter of 2024 and detracted from the non-annualized change in Japanese real GDP, which came out at -0.5%. It was the fourth consecutive quarter that real consumer spending fell. The consensus is for better retail sales growth in April, which would bode well for the second quarter.

China: Composite PMI (May) – China’s composite PMI fell from 52.7 in March to 51.7 in April. The decline was mainly concentrated in the non-manufacturing sector (-1.8), and especially in services (-2.1). That said, the manufacturing index (-0.4) also dropped. These lower PMIs are consistent with the expected slowdown in economic growth in China. The property market and consumer spending are still sluggish. However, the government seems to be changing tactics with its latest stimulus measures by prioritizing spending over industrial policies. While it’s too early to see the results, May’s data will provide more information on China’s second-quarter economic climate.

Eurozone: Consumer price index (May, preliminary) – The eurozone has made huge progress in its fight against inflation. The year-over-year change in the all items index has plummeted from a peak of 10.6% in the fall of 2022 to just 2.4% in April. Inflation is approaching the European Central Bank’s 2% target and, at 2.6%, even core inflation is falling in line. A further slowdown in price growth in May would likely convince ECB officials to start cutting rates on June 6.

Economic Indicators

Week of May 24 to 31, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 27	---	Markets closed (Memorial Day)				
TUESDAY 28	0:55	Speech by Federal Reserve Bank of Cleveland President L. Mester				
	9:00	S&P/Case-Shiller home price index (y/y)	March	7.30%	7.30%	7.29%
	9:55	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
	10:00	Consumer confidence	May	96.0	101.0	97.0
	13:05	Speech by Federal Reserve Governor L. Cook				
WEDNESDAY 29	14:00	Release of the Beige Book				
	19:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
THURSDAY 30	8:30	Initial unemployment claims	May 20–24	218,000	219,000	215,000
	8:30	Real GDP (ann. rate)	Q1s	1.3%	1.6%	1.6%
	8:30	Goods trade balance – preliminary (US\$B)	April	-91.3	-90.6	-91.8
	8:30	Retail inventories (m/m)	April	n/a	n/a	0.3%
	8:30	Wholesale inventories – preliminary (m/m)	April	-0.1%	n/a	-0.4%
	10:00	Pending home sales (m/m)	April	-0.6%	n/a	3.4%
	12:05	Speech by Federal Reserve Bank of New York President J. Williams				
	17:00	Speech by Federal Reserve Bank of Dallas President L. Logan				
FRIDAY 31	8:30	Personal income (m/m)	April	0.3%	0.2%	0.5%
	8:30	Personal consumption expenditures (m/m)	April	0.3%	0.4%	0.8%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	April	0.3%	0.3%	0.3%
		Excluding food and energy (m/m)	April	0.3%	0.2%	0.3%
		Total (y/y)	April	2.7%	2.7%	2.7%
		Excluding food and energy (y/y)	April	2.8%	2.7%	2.8%
	9:45	Chicago PMI	May	40.9	41.0	37.9
CANADA						
MONDAY 27	---	---				
TUESDAY 28	8:30	Industrial product price index (m/m)	April	n/a	1.3%	0.8%
	8:30	Raw materials price index (m/m)	April	n/a	3.0%	4.7%
WEDNESDAY 29	---	---				
THURSDAY 30	8:30	Current account balance (\$B)	Q1	-5.69	-5.40	-1.62
FRIDAY 31	8:30	Real GDP by industry (m/m)	March	0.0%	0.0%	0.2%
	8:30	Real GDP (ann. rate)	Q1	2.0%	2.2%	1.0%

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 May 24 to 31, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 27								
Japan	1:00	Leading index – final	March	n/a		111.4		
Japan	1:00	Coincident index – final	March	n/a		113.9		
Germany	4:00	ifo Business Climate Index	May	90.5		89.4		
Germany	4:00	ifo Current Assessment Index	May	89.8		88.9		
Germany	4:00	ifo Expectations Index	May	90.8		89.9		
TUESDAY 28								

WEDNESDAY 29								
Japan	1:00	Consumer confidence	May	39.5		38.3		
Germany	2:00	Consumer confidence	June	-22.2		-24.2		
France	2:45	Consumer confidence	May	91		90		
Eurozone	4:00	M3 money supply	April		1.3%		0.9%	
Italy	4:00	Consumer confidence	May	95.7		95.2		
Italy	4:00	Economic confidence	May	n/a		95.8		
Germany	8:00	Consumer price index – preliminary	May	0.2%	2.4%	0.5%	2.2%	
THURSDAY 30								
Italy	4:00	Unemployment rate	April	7.3%		7.2%		
Eurozone	5:00	Consumer confidence – final	May	n/a		-14.3		
Eurozone	5:00	Industrial confidence	May	-9.6		-10.5		
Eurozone	5:00	Services confidence	May	6.5		6.0		
Eurozone	5:00	Economic confidence	May	96.2		95.6		
Eurozone	5:00	Unemployment rate	May	6.5%		6.5%		
Japan	19:30	Tokyo Consumer Price Index	May		2.2%		1.8%	
Japan	19:30	Unemployment rate	April	2.6%		2.6%		
Japan	19:50	Industrial production – preliminary	April	1.5%	-1.1%	4.4%	-6.2%	
Japan	19:50	Retail sales	April	0.7%	1.8%	-1.2%	1.2%	
China	21:30	Composite PMI	May	n/a		51.7		
China	21:30	Manufacturing PMI	May	50.4		50.4		
China	21:30	Non-manufacturing PMI	May	51.5		51.2		
FRIDAY 31								
Japan	1:00	Housing starts	April		-0.2%		-12.8%	
United Kingdom	2:00	Nationwide house prices	May	0.1%	0.8%	-0.4%	0.6%	
Germany	2:00	Retail sales	April	-0.1%	n/a	2.3%	-2.2%	
France	2:45	Personal consumption expenditures	April	0.2%	1.4%	0.4%	0.5%	
France	2:45	Consumer price index – preliminary	May	0.2%	2.4%	0.5%	2.2%	
France	2:45	Real GDP – final	Q1	0.2%	1.1%	0.2%	1.1%	
Italy	4:00	Real GDP – final	Q1	0.3%	0.6%	0.3%	0.6%	
Eurozone	5:00	Consumer price index – preliminary	May	0.2%	2.5%	0.6%	2.4%	
Italy	5:00	Consumer price index – preliminary	May	0.2%	0.7%	0.1%	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 Daylight Time (GMT - 4 hours).