

WEEKLY COMMENTARY

'Twas the Meeting before Christmas

By Randall Bartlett, Senior Director of Canadian Economics

Based on the poem "Twas the Night before Christmas"

'Twas the meeting before Christmas, when all through the land,
All Canadians were worried, save for one man.
The policy rate was raised above neutral with care,
In hopes disinflation soon would be there.

Homeowners were restless, sleepless in their beds,
While visions of mortgage renewals danced in their heads.
And Tiff in his office, aloft at the Bank,
Stood confident that Canada's economy won't tank.

When up from Bay Street there arose such a clatter,
Tiff sprang from his desk to see what was the matter.
Away to his Bloomberg he flew like a flash,
For fear that fixed income would come down in a crash.

But in that November was a miracle, you know,
As inflation bested consensus and came in below.
When, what to Tiff's wondering eyes should appear,
But an inverting yield curve, to everyone's cheer.

With a little press statement, so lively and short,
Governing Council said it had good news to report.
More rapid than eagles the questions they came,
And Tiff whistled, and shouted, and called journos by name.

"Now, Erik! now, Greg! now, Nojoud and Dale!
To, Steve! then Kevin! then, Peter and Bill!
To get back to target, we said we'd go to the wall!
And if I told you one, well, I told you all!"

Like a child up early on Christmas morn,
Tiff was almost jubilant, no longer forlorn.
For rate cuts would soon be coming, it's true,
With relief for Canadians, and governments too.

And bond vigilantes, no longer aloof,
Would crawl back to their holes; he'd give them a hoof.
It was just a matter of time until rates turned around,
But when would that happen? Speculation abounds.

Would it be January, March or April, they shouted,
"Sorry, can't tell you," Tiff wouldn't be outed.
And when the presser was done, Tiff turned around,
Leaving unanswered many questions profound.

Not yet mission accomplished, but it was in sight,
Inflation was falling; he was winning the fight!
But with prices still high and Canadians mad,
He couldn't reveal to the world he was glad.

A stern disposition he had to present,
At least until inflation was near 2 percent.
But with Christmas soon coming and then New Year's,
He hoped this Christmas season would see fewer tears.

He wasn't The Grinch; he'd show them why,
He'd give the gift of rate cuts, not make people cry.
Of course, QT in the background continued to tighten,
But that was too technical for most folks to frighten.

With joy in his heart, Tiff went back to his work,
Knowing fewer Canucks would soon think him a jerk.
The last one to go home, he turned off the lights,
Looking forward to having fewer sleepless nights.

He chose to walk home, in the cold Ottawa snow,
Past many a well-known landmark, you know.
But he yelled in the dark for all who would hear,
HAPPY CHRISTMAS TO ALL, RATE CUTS ARE COMING NEXT YEAR!

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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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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

TUESDAY December 19 - 8:30

November	ann. rate
Consensus	1,360,000
Desjardins	1,360,000
October	1,372,000

WEDNESDAY December 20 - 10:00

November	ann. rate
Consensus	3,780,000
Desjardins	3,760,000
October	3,790,000

WEDNESDAY December 20 - 10:00

December	Index
Consensus	104.0
Desjardins	108.0
November	102.0

THURSDAY December 21 - 10:00

November	m/m
Consensus	-0.4%
Desjardins	-0.5%
October	-0.8%

FRIDAY December 22 - 8:30

November	m/m
Consensus	0.2%
Desjardins	0.4%
October	0.2%

FRIDAY December 22 - 8:30

November	m/m
Consensus	2.2%
Desjardins	6.0%
October	-5.4%

Housing starts (November) – For the first time since 2021, housing starts posted two consecutive monthly gains in September and October. However, they tumbled so far in August that they're still below their spring highs. They likely fell again in November, based on the 1,700 jobs lost in residential building construction and a dip in new home sales in recent months. Yet building permits remained elevated, suggesting that the slowdown wasn't too severe. Instead, we expect a fairly modest 0.9% drop to 1,360,000 units.

Existing home sales (November) – Home resales fell for the fifth month in a row in October. They likely slid further in November, as suggested by the 1.5% decline in pending home sales. Preliminary regional data is telling the same story. We therefore expect existing home sales to have dipped to 3,760,000 units.

Conference Board consumer confidence index (December) – After three straight months of declines, the Conference Board index added 2.9 points in November. We expect an even bigger uptick in December. The ongoing stock rally, lower gasoline prices and shrinking mortgage rates should all boost consumer sentiment. In addition, a preliminary reading of the University of Michigan consumer sentiment index showed a steep rise in December. The Conference Board consumer confidence index is expected to tick back up to 108.0.

Leading indicator (November) – In October, the leading indicator recorded its biggest decrease since April. It tumbled 0.8% on the back of falling stock markets, a weakening ISM index and wavering consumer confidence. The last two factors were likely still a drag in November, even though the stock market rebound should have partially offset these declines. Overall, we expect the leading indicator to have slipped by 0.5% in November. That would make for nineteen straight months of losses, which doesn't bode well for the US economy.

Consumer spending (November) – Real consumption continues to hold up well in the US. Month-on-month, it hasn't fallen since March, and its 3.6% annualized quarterly growth fuelled the strongest gain in real GDP since 2021. Stronger-than-expected results in several retail categories suggest real consumer spending rose again in November. We're projecting a 0.3% advance. In current dollars, that should translate to a 0.4% gain. Household income is also expected to have increased sharply thanks to an uptick in both average hourly wages and hours worked in November. The year-over-year change in the Personal Consumption Expenditures deflator likely shrank slightly from 3.0% to 2.9%.

Durable goods orders (November) – Wild swings in aviation orders have had a tremendous impact on month-on-month changes in durable goods orders over the past few months. After October's sharp decline, we expect a substantial rebound in November. Boeing data suggests that civil aviation orders doubled last month. This upsurge also coincided with the end of the autoworkers' strike, which probably boosted automotive orders. As a result, we expect transportation to post a gain of almost 20%, while durable goods orders in other sectors were probably flat again in November. All sectors combined, durable goods orders should have jumped 6.0%.

TUESDAY December 19 - 8:30

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

THURSDAY December 21 - 8:30

October	m/m
Consensus	0.8%
Desjardins	0.8%
September	0.6%

FRIDAY December 22 - 8:30

October	m/m
Consensus	0.2%
Desjardins	0.1%
September	0.1%

TUESDAY December 19

December	m/m
Consensus	-0.10%
Desjardins	-0.10%
October 30	-0.10%

WEDNESDAY December 20 - 2:00

November	y/y
Consensus	4.3%
October	4.6%

CANADA

Consumer price index (November) – Inflation likely took another step lower in November. Falling energy prices and the removal of the carbon tax from some household heating bills helped ease price pressures. That said, prices excluding food and energy tend to be seasonally weak in November. As a result, broad-based weakness in prices is expected to have pushed total consumer prices 0.2% lower, which would see the 12-month rate of inflation decelerate to 2.8% from 3.1%. That would match the lowest level since March 2021. Much of what’s still driving above-target inflation stems from high shelter price growth. We’ve argued that the Bank of Canada should look at inflation excluding shelter to determine when to lower the policy rate. The annual rate of inflation excluding food in stores, energy and shelter has been at 2.0% since September, with our forecast looking for a decline below that key threshold in November.

Retail sales (October) – We expect retail sales in October to have increased by 0.8%, in line with Statistics Canada’s flash estimate. Seasonally adjusted goods prices as measured by the Consumer Price Index fell by 1.1% in October, meaning the projected strength in retail sales will entirely be a volumes story. As for the November flash estimate, expect a solidly positive print, as auto sales look to have staged a comeback in the month.

Real GDP by industry (October) – Canadian real GDP is projected to have advanced by 0.1% in October, below the 0.2% pace tallied by Statistics Canada in its flash estimate. The move higher in the month is likely to be entirely the result of strength in services-producing sectors, thanks to robust retail sales offsetting a lacklustre performance in wholesale trade. Goods-producing sectors may not be so lucky, with broad-based weakness overwhelming the outperformance in construction activity in October. Looking ahead to November, we suspect the flash estimate from Statistics Canada will show a broadly flat result as the strike in Quebec offsets strength elsewhere in the economy.


OVERSEAS


Japan: Bank of Japan meeting (December) – The Bank of Japan has been expected to start hiking interest rates for several months now. Inflation remains high, which makes sub-zero rates seem untenable. The Bank’s ultra-loose monetary policy, which has fuelled inflation by driving up the cost of imports, also hit the yen hard. Some of the BoJ’s messaging in recent weeks has signalled a policy change is coming, but will it happen at the December meeting or in early 2024? It’s hard to say. The consensus is that the Bank will continue to hold rates steady. We’ll get a better sense when the November consumer price index is released Wednesday evening.

United Kingdom: Consumer price index (November) – Like its neighbours in continental Europe, the UK has seen a steep drop in inflation. The year-on-year change in its consumer price index fell from a high of 11.1% in October 2022 to 4.6% in October of this year. It slipped 2.1 percentage points in October 2023 alone. But core inflation is proving harder to tame, coming in at 5.7% in October. It’ll be interesting to see whether headline inflation continued to trend lower in November and better progress was made on core inflation.

Economic Indicators

Week of December 18 to 22, 2023

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 18	10:00	NAHB housing market index	Dec.	37	n/a	34
TUESDAY 19	8:30	Housing starts (ann. rate)	Nov.	1,360,000	1,360,000	1,372,000
	8:30	Building permits (ann. rate)	Nov.	1,460,000	1,450,000	1,498,000
	12:30	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
WEDNESDAY 20	8:30	Current account (US\$B)	Q3	-196.0	-205.0	-212.1
	10:00	Existing home sales (ann. rate)	Nov.	3,780,000	3,760,000	3,790,000
	10:00	Consumer confidence	Dec.	104.0	108.0	102.0
THURSDAY 21	8:30	Initial unemployment claims	Dec. 11–15	213,000	212,000	202,000
	8:30	Real GDP – third estimate (ann. rate)	Q3	5.2%	5.2%	5.2%
	8:30	Philadelphia Fed index	Dec.	-3.0	-10.0	-5.9
	10:00	Leading indicator (m/m)	Nov.	-0.4%	-0.5%	-0.8%
FRIDAY 22	8:30	Personal income (m/m)	Nov.	0.4%	0.5%	0.2%
	8:30	Personal consumption expenditures (m/m)	Nov.	0.2%	0.4%	0.2%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Nov.	0.0%	0.1%	0.0%
		Excluding food and energy (m/m)	Nov.	0.2%	0.2%	0.2%
		Total (y/y)	Nov.	2.8%	2.9%	3.0%
		Excluding food and energy (y/y)	Nov.	3.4%	3.4%	3.5%
	8:30	Durable goods orders (m/m)	Nov.	2.2%	6.0%	-5.4%
	10:00	New home sales (ann. rate)	Nov.	689,000	680,000	679,000
	10:00	University of Michigan consumer sentiment index – final	Dec.	69.4	69.4	69.4
CANADA						
MONDAY 18	---	---				
TUESDAY 19	8:30	Consumer price index				
		Total (m/m)	Nov.	-0.2%	-0.2%	0.1%
		Total (y/y)	Nov.	2.8%	2.8%	3.1%
	8:30	Industrial product price index (m/m)	Nov.	n/a	-0.7%	-1.0%
	8:30	Raw materials price index (m/m)	Nov.	n/a	-3.5%	-2.5%
WEDNESDAY 20	13:30	Release of the Bank of Canada Summary of Deliberations				
THURSDAY 21	8:30	Retail sales				
		Total (m/m)	Oct.	0.8%	0.8%	0.6%
		Excluding automobiles (m/m)	Oct.	0.5%	0.5%	0.2%
FRIDAY 22	8:30	Real GDP by industry (m/m)	Oct.	0.2%	0.1%	0.1%

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 December 18 to 22, 2023

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 18								
Germany	4:00	ifo Business Climate Index	Dec.	87.3		87.3		
Germany	4:00	ifo Current Assessment Index	Dec.	89.5		89.4		
Germany	4:00	ifo Expectations Index	Dec.	86.0		85.2		
TUESDAY 19								
Japan	---	Bank of Japan meeting	Dec.	-0.10%		-0.10%		
Eurozone	5:00	Consumer price index – final	Nov.	-0.5%	2.4%	-0.5%	2.4%	
Japan	18:50	Trade balance (¥B)	Nov.	-734.9		-462.0		
WEDNESDAY 20								
Germany	2:00	Producer price index	Nov.	-0.4%	-7.5%	-0.1%	-11.0%	
Germany	2:00	Consumer confidence	Nov.	-27.0		-27.8		
United Kingdom	2:00	Consumer price index	Nov.	0.1%	4.3%	0.0%	4.6%	
Eurozone	4:00	Current account (€B)	Oct.	n/a		31.2		
Italy	4:30	Current account (€M)	Oct.	n/a		2,189		
Eurozone	5:00	Construction	Oct.	n/a	n/a	0.4%	-0.3%	
Eurozone	10:00	Consumer confidence – preliminary	Dec.	-16.3		-16.9		
THURSDAY 21								
France	2:45	Business confidence	Dec.	97		97		
France	2:45	Production outlook	Dec.	n/a		-11		
Japan	18:30	Consumer price index	Nov.		2.7%		3.3%	
FRIDAY 22								
United Kingdom	2:00	Retail sales	Nov.	0.4%	-1.3%	-0.3%	-2.7%	
United Kingdom	2:00	Real GDP – final	Q3	0.0%	0.6%	0.0%	0.6%	
United Kingdom	2:00	Current account (£B)	Q3	-13.1		-25.3		
France	2:45	Consumer confidence	Dec.	88		87		
Italy	4:00	Consumer confidence	Dec.	104.0		103.6		
Italy	4:00	Economic confidence	Dec.	n/a		103.4		

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).