# WEEKLY COMMENTARY



## Hate To Be "That Guy"

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

This week, the price of WTI crude briefly fell below $90 for the first time since February. In the US, a steady decline in oil prices has been accompanied by an increase in refinery activity, seemingly in response to President Biden's June call to boost production. Combined with weaker-than-expected demand from drivers this summer, this is leading to a sharp drop in gasoline prices. South of the border, prices at the pump have now fallen for nine straight weeks, and according to AAA, gas prices are just 9% above pre-Ukraine war levels.

For inflation, the timing couldn't have been better. Lower gasoline prices were the main reason Canada's headline inflation slowed in July. Even if gasoline prices had increased 3% instead of declining 9.2%, they still would have fallen from June's 55% year-over-year reading. This is the base-year effect we've been expecting since last year. It's been repeatedly delayed by the many price shocks we've seen this year. The sequential decline in gasoline prices is now compounding the base-year effect nicely, with year-over-year price growth retreating to 35% in July.

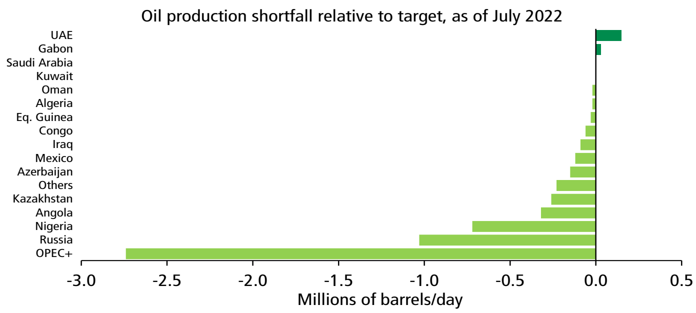
That's the good news. The bad news is that the biggest disinflationary force right now could peter out pretty quickly. Oil prices have plunged partly due to recession fears, but a bigger factor is probably the resilience of Russian supply. It has fallen less than expected this year as Russia has largely mitigated Western sanctions with higher exports to India and China. The two countries account for more than 40% of Russian oil exports, nearly double their share a year ago. But the latest data suggests their appetite for Russian oil may be waning.

Then there's the European Union's import embargo on Russian crude and refined oil products. It's set to kick in this December, putting pressure on demand for oil from alternative sources.

It's shaping up to be a complicated fall on this front, especially as the scramble for natural gas in Europe could lead power companies to switch back to oil. To forestall another price spike, US Treasury Secretary Janet Yellen has been pushing for a price cap to keep Russian oil flowing. But it's a politically fraught proposition that would be difficult to enforce.

Elsewhere on the supply front, OPEC+ has continued to increase production targets only modestly, and many oil producing countries with little spare capacity are struggling to meet even those (graph). Meanwhile North American producers remain laser focused on generating dividends rather than investing in additional production capacity that will be worthless after the green transition.

**GRAPH**
**Most OPEC+ countries are failing to meet their output targets**




OPEC+: Organization of the Petroleum Exporting Countries and its partners
Sources: International Energy Agency and Desjardins, Economic Studies

The recent pullback in oil prices has also been driven by hopes of a new nuclear deal between Iran and the West. If such an accord were to be signed, Iran could potentially boost oil output fairly quickly. It did so after the original deal was struck in 2015 during the Obama administration.

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But since former President Trump withdrew the US from the agreement, Iran has enriched 18 times as much uranium as was allowed under the accord. Tehran seeks to protect these gains and ensure that sanctions relief is not subject to the whims of changing US administrations. And though the EU reported constructive discussions this week, a deal would need Congressional approval. That could be a tough sell given Iran's demands. Even if it did happen, it would probably take months for the additional supply to hit the market.

A final note on refining and its role in falling gasoline prices. Increased output has pushed refinery utilization north of 90%. Given the circumstances, another round of widening refining margins is within the realm of possibility. This means renewed upside pressure on gasoline prices remains a real risk, especially as consumers continue to travel and spend for now.

So while we hate to be "that guy," we've gotta give it to you straight: the pain at the pump probably isn't going away anytime soon. That said, we're not forecasting $200 oil like some "other guys" did earlier this year. Safe travels!

# What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics,
Tiago Figueiredo, Associate – Macro Strategy, and Francis Généreux, Principal Economist

## UNITED STATES

**TUESDAY August 23 - 10:00**

| July | ann. rate |
|---|---|
| Consensus | 575,000 |
| Desjardins | 515,000 |
| **June** | **590,000** |

**New home sales (July) –** After jumping 6.3% in May, new home sales fell 8.1% in June. Sales have plunged 29.7% since late 2021, and another drop is expected for July. At the same time, inventory increased dramatically, reaching its highest level since April 2008 in June. Building permits for single-family homes were down 4.3% last month, for a total decrease of 22.9% since February. Mortgage applications for home purchases have continued to slow, and builder confidence has tumbled over the summer. We expect single-family home sales to fall from 590,000 to 515,000 units.

**WEDNESDAY August 24 - 8:30**

| July | m/m |
|---|---|
| Consensus | 0.7% |
| Desjardins | -0.6% |
| **June** | **2.0%** |

**New durable goods orders (July) –** Growth in new durable goods orders beat expectations in June thanks to a surge in orders for military aircraft and parts. Orders excluding transportation were up more modestly, posting a monthly increase of 0.3%. After June's spectacular 80.6% spike, we can expect military aircraft orders to cool in July. We anticipate sluggish growth in civilian aircraft orders, but a slightly stronger gain (+3.5%) in automotive orders. Overall, however, transportation will likely drag down total new orders 0.6%. And in line with the recent drop in the ISM manufacturing index, we expect orders excluding transportation to dip 0.2%.

**FRIDAY August 26 - 8:30**

| July | m/m |
|---|---|
| Consensus | 0.5% |
| Desjardins | 0.3% |
| **June** | **1.1%** |

**Consumer spending (July) –** After falling 0.3% in May, real consumer spending edged up 0.1% month-over-month in June. This translated to annualized real consumer spending growth of just 1.0% in the second quarter, the slowest pace since the pandemic began. This figure conceals sharp declines in both durable and non-durable goods spending. The third quarter seems to be starting on a better note, with a rise in retail sales excluding motor vehicles and gasoline. The 2.6% increase in new vehicle sales is also a good sign. But we expect food service spending to be flat and real spending on energy to drop, limiting overall service spending growth. Look for an increase of 0.2% in real consumption and 0.3% in nominal consumption in July.

## OVERSEAS

**TUESDAY August 23 - 4:00**

| August | |
|---|---|
| Consensus | 48.9 |
| **July** | **49.9** |

**Eurozone: PMI indexes (August – Preliminary) –** In July, the eurozone's Composite PMI index dipped below 50 for the first time since February 2021. It currently stands at 49.9. The situation isn't too dire yet, but the index is trending down. If the PMI index falls again, it could suggest that the situation in Europe is deteriorating even further.

**TUESDAY August 23 - 10:00**

| August | |
|---|---|
| Consensus | -28.0 |
| **July** | **-27.0** |

**Eurozone: Consumer confidence (August – Preliminary) –** European consumer confidence continues to fall. The war in Ukraine and the cost-of-living crisis it has triggered continue to erode consumer confidence. The consumer confidence index has plummeted from -9.6 at the start of the year to -27.0 in July, the lowest level since the index was created in 1985. Another decrease would suggest that eurozone household spending may fall sharply in the coming quarters.

# Economic Indicators

## Week of August 22 to 26, 2022

| Date | Time | Indicator | Period | Consensus | ⬡ | Previous data |
|---|---|---|---|---|---|---|
| **UNITED STATES** | | | | | | |
| MONDAY 22 | --- | --- | | | | |
| TUESDAY 23 | 10:00 | New home sales (ann. rate) | July | 575,000 | 515,000 | 590,000 |
| | 19:00 | Speech of the Federal Reserve Bank of Minneapolis President, N. Kashkari | | | | |
| WEDNESDAY 24 | 8:30 | Durable goods orders (m/m) | July | 0.7% | -0.6% | 2.0% |
| | 10:00 | Pending home sales (m/m) | July | -2.0% | n/a | -8.6% |
| THURSDAY 25 | 8:30 | Initial unemployment claims | Aug. 15-19 | 255,000 | 253,000 | 250,000 |
| | 8:30 | Real GDP (ann. rate) | Q2s | -0.8% | -0.9% | -0.9% |
| FRIDAY 26 | 8:30 | Personal income (m/m) | July | 0.6% | 0.6% | 0.6% |
| | 8:30 | Personal consumption expenditures (m/m) | July | 0.5% | 0.3% | 1.1% |
| | 8:30 | Personal consumption expenditures deflator | | | | |
| | | Total (m/m) | July | 0.1% | 0.0% | 1.0% |
| | | Excluding food and energy (m/m) | July | 0.3% | 0.2% | 0.6% |
| | | Total (y/y) | July | 6.4% | 6.4% | 6.8% |
| | | Excluding food and energy (y/y) | July | 4.7% | 4.7% | 4.8% |
| | 8:30 | Goods trade balance – preliminary (US$B) | July | -98.5 | -102.5 | -98.6 |
| | 8:30 | Retail inventories (m/m) | July | n/a | n/a | 2.0% |
| | 8:30 | Wholesale inventories – preliminary (m/m) | July | 1.4% | n/a | 1.8% |
| | 10:00 | Michigan's consumer sentiment index – final | Aug. | 55.5 | 55.1 | 55.1 |
| | 10:00 | Speech of the Federal Reserve Chair, J. Powell | | | | |

## CANADA

| | | |
|---|---|---|
| MONDAY 22 | --- | --- |
| TUESDAY 23 | --- | --- |
| WEDNESDAY 24 | --- | --- |
| THURSDAY 25 | --- | --- |
| FRIDAY 26 | --- | --- |

NOTE: Desjardins, Economic Studies are involved every week 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 monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are Eastern Standard Time (GMT - 4 hours). ⬡ Forecast of Desjardins, Economic Studies of the Desjardins Group.

# Economic Indicators

## Week of August 22 to 26, 2022

| Country | Time | Indicator | Period | Consensus m/m (q/q) | Consensus y/y | Previous data m/m (q/q) | Previous data y/y |
|---|---|---|---|---|---|---|---|
| **OVERSEAS** | | | | | | | |
| **MONDAY 22** | | | | | | | |
| Japan | 20:30 | PMI composite index – preliminary | Aug. | n/a | | 50.2 | |
| Japan | 20:30 | PMI manufacturing index – preliminary | Aug. | n/a | | 52.1 | |
| Japan | 20:30 | PMI services index – preliminary | Aug. | n/a | | 50.3 | |
| **TUESDAY 23** | | | | | | | |
| France | 3:15 | PMI composite index – preliminary | Aug. | 51.0 | | 51.7 | |
| France | 3:15 | PMI manufacturing index – preliminary | Aug. | 49.0 | | 49.5 | |
| France | 3:15 | PMI services index – preliminary | Aug. | 53.0 | | 53.2 | |
| Germany | 3:30 | PMI composite index – preliminary | Aug. | 47.3 | | 48.1 | |
| Germany | 3:30 | PMI manufacturing index – preliminary | Aug. | 48.0 | | 49.3 | |
| Germany | 3:30 | PMI services index – preliminary | Aug. | 49.0 | | 49.7 | |
| Euro zone | 4:00 | PMI composite index – preliminary | Aug. | 48.9 | | 49.9 | |
| Euro zone | 4:00 | PMI manufacturing index – preliminary | Aug. | 49.0 | | 49.8 | |
| Euro zone | 4:00 | PMI services index – preliminary | Aug. | 50.5 | | 51.2 | |
| United Kingdom | 4:30 | PMI composite index – preliminary | Aug. | 51.0 | | 52.1 | |
| United Kingdom | 4:30 | PMI manufacturing index – preliminary | Aug. | 51.0 | | 52.1 | |
| United Kingdom | 4:30 | PMI services index – preliminary | Aug. | 51.9 | | 52.6 | |
| Euro zone | 10:00 | Consumer confidence – preliminary | Aug. | -28.0 | | -27.0 | |
| **WEDNESDAY 24** | | | | | | | |
| South Korea | --- | Bank of Korea meeting | Aug. | 2.50% | | 2.25% | |
| **THURSDAY 25** | | | | | | | |
| Germany | 2:00 | Real GDP – final | Q2 | 0.0% | 1.4% | 0.0% | 1.4% |
| France | 2:45 | Consumer confidence | Aug. | 79 | | 80 | |
| France | 2:45 | Business confidence | Aug. | 101 | | 103 | |
| France | 2:45 | Production outlook | Aug. | -8 | | -5 | |
| Germany | 4:00 | Ifo survey – Business climate | Aug. | 86.8 | | 88.6 | |
| Germany | 4:00 | Ifo survey – Current situation | Aug. | 96.0 | | 97.7 | |
| Germany | 4:00 | Ifo survey – Expectations | Aug. | 79.0 | | 80.3 | |
| Japan | 19:30 | Consumer price index – Tokyo | Aug. | | 2.7% | | 2.5% |
| **FRIDAY 26** | | | | | | | |
| Germany | 2:00 | Consumer confidence | Sept. | -32.0 | | -30.6 | |
| Euro zone | 4:00 | Money supply M3 | July | | 5.5% | | 5.7% |
| Italy | 4:00 | Consumer confidence | Aug. | 92.5 | | 94.8 | |
| Italy | 4:00 | Economic confidence | Aug. | n/a | | 110.8 | |

NOTE: In contrast to the situation in Canada and the United States, disclosure of overseas economic fi gures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are Eastern Standard Time (GMT - 4 hours).