



WEEKLY COMMENTARY

Please note that there will be no release of the *Weekly Commentary* from June 20 to August 5, 2022 inclusive.

Housing Is Where Canada’s Heart Is

By Randall Bartlett, Senior Director of Canadian Economics

Housing has dominated economic discourse in Canada for years. Whether on the trading floors of Bay Street or with the neighbour down the street, rising home prices and the broader flurry of housing market activity are front of mind for Canadians. And now that central banks around the world are aggressively tightening monetary policy to rein in decades-high inflation (including the Fed just this week), the national fixation on housing continues unabated.

However, what has changed recently is the tone around housing in Canada. There is an inescapable feeling that we’ve crested the peak and are now looking down the other side. Data released this week from the Canadian Real Estate Association support this view. Sales activity has now fallen for three consecutive months, and the national average home price has dropped more than 10% from its February 2022 peak. And if our recent [Economic Viewpoint](#) proves correct, existing home sales and prices will have to correct further to bring the housing market back to balance. At the national level, we anticipate that home prices will decline around 15% from their February 2022 high by the end of 2023. This will have knock-on effects on everything from housing starts to spending on consumer durables like household appliances. All these considerations weigh on our outlook for the Canadian economy that will be published in our upcoming *Economic & Financial Outlook* on Monday.

But it’s not all bad news. For instance, we expect the national average home price to remain more than 20% above its pre-COVID level at the end of next year despite gradually falling from its pandemic peak. Housing market outcomes are also likely to vary considerably across Canadian provinces and communities. Those that saw the biggest price gain will likely also experience the greatest price correction, but we don’t expect home prices to fall below their pre-COVID level in any province. Indeed, the fundamentals underpinning the Canadian housing market remain

solid. They include a strong labour market, healthy household balance sheets, high levels of immigration and enough remote and hybrid work to allow more Canadians to live in smaller cities and towns. In fact, we expect more Canadians than ever before to purchase homes and stay in places with greater housing affordability. Taken all together, these fundamentals should help the Canadian housing market move closer to balance after a prolonged period of excess.

It’s also encouraging that policymakers are focusing more on affordability. In a recent note, Desjardins Chief Economist Jimmy Jean [said](#), “Many policy initiatives have been put forward, but the question remains: will they move the needle and by how much?” So far, efforts to increase housing supply haven’t materially improved affordability in Canada. But they’re a start. The first step in solving a problem is recognizing you have one, and politicians have done that much. Now let’s see if they can deliver on their promises and help improve housing affordability and accessibility for all Canadians.

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Week in Review

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Francis Génèreux, Senior Economist, and Hendrix Vachon, Senior Economist

- ▶ **The Fed is picking up the pace of monetary tightening.** After raising rates by 25 basis points in March and 50 points in May, it announced a 75-point hike on Wednesday. It's the biggest increase since November 1994. The Fed's new dot plot shows an increase of another 175 basis points this year.
- ▶ **Stock markets were down sharply again this week.** Recession fears are mounting as central banks show more willingness to take aggressive action to fight inflation. Bond yields were still up at the start of the week amid expectations for bigger rate hikes. But in another sign of growing investor concern, yields in many countries fell later in the week, especially for longer maturities.
- ▶ **Canada's national balance sheet and financial flow accounts pointed to a slower pace of wealth accumulation in the first quarter of 2022,** albeit complemented by a sharp increase in household income. National net worth, the sum of national wealth and Canada's net foreign asset position, rose 2.6% q/q in Q1 to \$17.6 trillion. Household credit market debt as a proportion of household disposable income fell to 182.5% in Q1 from a record 185.0% the previous quarter.
- ▶ **Canadian manufacturing sales rose 1.7% m/m in April,** mainly on higher sales of petroleum and coal products (+3.7%), motor vehicles (+8.2%) and primary metals (+4.1%), as well as increased production of aerospace products and parts (+11.2%). Sales of wood products saw the biggest decline (-6.0%).
- ▶ **Canadian existing homes sales fell 8.6% in May on a seasonally-adjusted basis,** contracting in three quarters of local markets. This followed a 11.2% plunge in April, which was the sharpest month-over-month decline since the start of the pandemic. At the same time, the average sale price of an existing home fell for the third straight month, down 3.8% in May but still up 3.4% over May 2021. The number of new listings rose 4.5% on the month, pushing the sales-to-new listings ratio back to 57.5%, its lowest level since April 2019. We seem to be settling nicely into a balanced market.
- ▶ **Monthly housing starts for all areas in Canada came in at over 287,257 units in May** (seasonally-adjusted, annualized), up 8% from April. Urban starts increased 8% in May to 264,162 units, driven by a 13% jump in multi-unit starts that more than offset the 4% decline in detached starts.
- ▶ **Wholesale sales fell 0.5% m/m in April, the second decrease in the past three months.** Sales were down in five of seven subsectors accounting for more than three-quarters of total wholesale activity in Canada. The largest declines were posted in the miscellaneous goods and building materials and supplies subsectors.
- ▶ As expected, **the recent run of higher retail sales in the US came to an end in May.** It was the first monthly decline this year. Retail sales fell 0.3% in May after gains of 0.7% in April and 1.2% in March. Excluding motor vehicles and gasoline, sales were up 0.1% after surging 0.8% in April and 0.9% in March.
- ▶ **Housing starts plummeted 14.4% in May** to an annualized 1,549,000 units. This is the biggest monthly drop since April 2020 and the lowest number of new units since April 2021.
- ▶ **US industrial production rose just 0.2% in May** after growing 1.4% in April. Manufacturing declined 0.1%.

What to Watch For

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

TUESDAY June 21 - 10:00

May	ann. rate
Consensus	5,400,000
Desjardins	5,350,000
April	5,610,000

FRIDAY June 24 - 10:00

May	ann. rate
Consensus	590,000
Desjardins	590,000
April	591,000

WEDNESDAY June 22 - 8:30

May	m/m
Consensus	1.0%
Desjardins	1.2%
April	0.6%

TUESDAY June 21 - 8:30

April	m/m
Consensus	0.8%
Desjardins	0.7%
March	0.0%

WEDNESDAY June 22 - 2:00

May	m/m
Consensus	0.7%
April	2.5%

UNITED STATES

Existing home sales (May) – Sales of existing homes have been falling since peaking in January, down 17.6% to an annualized 5,610,000 units. Based on pending home sales, we expect a further decline in May. Rising mortgage rates are clearly hobbling the US housing market. Mortgage applications for home purchases have slipped to their lowest level since the first wave of the pandemic in April 2020. Some regional data is showing the resale market contracting in May as well. We think sales of existing homes will drop to 5,350,000 units.

New home sales (May) – Sales of new single-family homes plummeted 16.6% in April, the biggest monthly decline since August 2013. The 591,000 units sold is the lowest number since April 2020. The scale of this sudden contraction means we're unlikely to see sales fall again in May. Despite dropping 5.5% in May, the number of building permits issued suggests that sales of new homes won't slide further. However, rising interest rates continue to impact the sector and mortgage applications are down. Builder confidence has been shaken too. We think new home sales will hold steady in May, but given the possibility of large revisions to this highly volatile indicator, they could contract again.

CANADA

Consumer Price Index (May) – Despite the central bank's efforts thus far, Canadian inflation just keeps on going up. Headline prices likely rose a whopping 1.2% in May alone, due in large part to skyrocketing food and energy prices. But consumer prices probably raced ahead even outside of those volatile components. Adding it all up using Statistics Canada's new category weights, which are based on last year's spending patterns, we expect headline inflation to clock in at 7.5% in May. That would be the hottest reading in almost 40 years, and inflation will likely be getting worse with energy prices continuing to soar in June. The situation isn't unique to Canada, though, and it has prompted central banks around the world to kick their inflation-fighting efforts into an even higher gear.

Retail trade (April) – Canadian retail sales are expected to rise 0.7% m/m in April, broadly in line with Statistics Canada's flash estimate. Unlike in prior releases, volumes appear poised to drive the month's gains, with retail employment, motor vehicles sales, and imports of consumer goods all posting healthy numbers. The positive retail print in April will likely be in spite of weak wholesale trade in the month. On the prices side, seasonally-adjusted goods CPI barely eked out a positive advance in April. Removing motor vehicles from headline retail sales would take the advance closer to 1% for the month, as seasonally-adjusted new motor vehicle prices took a step back even as consumers continued to drive cars off the lot.

OVERSEAS

United Kingdom: Consumer price index (May) – UK inflation hit 9.1% in April, the highest of any of the world's major economies. Rising energy prices, underlying pressures, and—according to some analysts—the effects of Brexit are driving up prices. The Bank of England already expects inflation to top 10% before it recedes.

WEDNESDAY June 22 - 10:00

June	
Consensus	-20.5
May	-21.1

THURSDAY June 23 - 4:00


June	
Consensus	54.0
May	54.8


Eurozone: Consumer confidence (June – preliminary) – European consumer sentiment has plummeted since the war broke out in Ukraine. The biggest drop occurred in March, followed by a smaller dip in April and a slight recovery in May. We'll have to see which way things go in June. But with falling stock markets, further increases in energy prices and the ongoing conflict in Ukraine, a sharp improvement in the confidence indicator is unlikely.

Eurozone: PMI indexes (June – preliminary) – There are two sides to the eurozone economy at the moment. Households are very worried about their real income being eroded by inflation, but businesses seem to be holding up relatively well. The PMI indexes are surprisingly stable, suggesting that the economy is weathering the challenges it's facing. We'll see if this continues in June.

Economic Indicators

Week of June 20 to 24, 2022

Date	Time	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 20						
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TUESDAY 21						
	10:00	Existing home sales (ann. rate)	May	5,400,000	5,350,000	5,610,000
	12:00	Speech of the Federal Reserve Bank of Cleveland President, L. Mester				
	15:30	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				
WEDNESDAY 22						
	10:00	Testimony of the Federal Reserve Chair, J. Powell, before a Senate Committee				
	12:50	Speech of the Federal Reserve Bank of Chicago President, C. Evans				
	13:30	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				
	13:30	Speech of the Federal Reserve Bank of Philadelphia President, P. Harker				
THURSDAY 23						
	8:30	Initial unemployment claims	June 13-17	227,000	222,000	229,000
	8:30	Current account (US\$B)	Q1	-275.0	-264.0	-217.9
	10:00	Testimony of the Federal Reserve Chair, J. Powell, before a House committee				
FRIDAY 24						
	10:00	Michigan's consumer sentiment index – final	June	50.2	50.2	50.2
	10:00	New home sales (ann. rate)	May	590,000	590,000	591,000
	16:00	Speech of the Federal Reserve Bank of San Francisco President, M. Daly				
CANADA						
MONDAY 20						
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TUESDAY 21						
	8:30	Retail sales				
		Total (m/m)	April	0.8%	0.7%	0.0%
		Excluding automobiles (m/m)	April	0.5%	1.0%	2.4%
WEDNESDAY 22						
	8:30	Consumer price index				
		Total (m/m)	May	1.0%	1.2%	0.6%
		Total (y/y)	May	7.3%	7.5%	6.8%
THURSDAY 23						
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FRIDAY 24						
	---	Holiday in Quebec (National Day)				

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 June 20 to 24, 2022

Country	Time	Indicator	Period	Consensus		Previous data		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 20								
Germany	2:00	Producer price index	May	1.5%	33.8%	2.8%	33.5%	
Euro zone	5:00	Construction	April	n/a	n/a	0.0%	3.3%	
TUESDAY 21								
Euro zone	4:00	Current account (€B)	April	n/a		-1.6		
Italy	4:30	Current account (€M)	April	n/a		-1,025		
WEDNESDAY 22								
United Kingdom	2:00	Consumer price index	May	0.7%	9.1%	2.5%	9.0%	
United Kingdom	2:00	Producer price index	May	1.5%	14.7%	2.3%	14.0%	
Euro zone	10:00	Consumer confidence – preliminary	June	-20.5		-21.1		
Japan	20:30	PMI composite index – preliminary	June	n/a		52.3		
Japan	20:30	PMI manufacturing index – preliminary	June	n/a		53.3		
Japan	20:30	PMI services index – preliminary	June	n/a		52.6		
THURSDAY 23								
Japan	1:30	Consumer price index	May		2.5%		2.5%	
France	2:45	Business confidence	June	105		106		
France	2:45	Production outlook	June	-11		-9		
France	3:15	PMI composite index – preliminary	June	56.4		57.0		
France	3:15	PMI manufacturing index – preliminary	June	54.0		54.6		
France	3:15	PMI services index – preliminary	June	57.6		58.3		
Germany	3:30	PMI composite index – preliminary	June	53.0		53.7		
Germany	3:30	PMI manufacturing index – preliminary	June	54.0		54.8		
Germany	3:30	PMI services index – preliminary	June	54.5		55.0		
Euro zone	4:00	PMI composite index – preliminary	June	54.0		54.8		
Euro zone	4:00	PMI manufacturing index – preliminary	June	53.8		54.6		
Euro zone	4:00	PMI services index – preliminary	June	55.5		56.1		
Norway	4:00	Bank of Norway meeting	June	0.75%		0.75%		
United Kingdom	4:30	PMI composite index – preliminary	June	52.7		53.1		
United Kingdom	4:30	PMI manufacturing index – preliminary	June	53.7		54.6		
United Kingdom	4:30	PMI services index – preliminary	June	53.0		53.4		
Mexico	14:00	Bank of Mexico meeting	June	7.00%		7.00%		
United Kingdom	19:01	Consumer confidence	June	-40		-40		
FRIDAY 24								
United Kingdom	2:00	Retail sales	May	-0.7%	-4.5%	1.4%	-4.9%	
France	2:45	Wages – final	Q1	n/a		1.1%		
Germany	4:00	Ifo survey – Business climate	June	92.7		93.0		
Germany	4:00	Ifo survey – Current situation	June	99.0		99.5		
Germany	4:00	Ifo survey – Expectations	June	87.4		86.9		
Italy	4:00	Consumer confidence	June	103		102.7		
Italy	4:00	Economic confidence	June	n/a		110.9		

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic figures 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).