# WEEKLY COMMENTARY

## Quebec Has Shown Real Grit

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

Back when Quebec's economy was struggling, we argued it was well positioned to bounce right back once interest rates started coming down. This proved to be the case, with Quebec's economy showing real strength this year. Employment was sluggish just a few months ago. But as of November, it's up 1.1% year over year, with most of that gain coming since July. While Quebec's unemployment rate did rise to 5.9% last month, on the year it's up 1.2 percentage points—just like the national rate. And the provincial increase has been driven not so much by layoffs, but by the relatively few jobs available for the number of people looking for work. In the first half of the year, GDP grew an annualized 3.2% in Quebec vs. 2.0% in Ontario and 1.6% in Canada as a whole. The real estate market is booming, with sales up 44% year over year in October. This has pushed prices higher, with the MLS Home Price Index for Quebec advancing 6.1% over the past 12 months—its biggest jump since the Bank of Canada raised interest rates post-pandemic. Meanwhile the savings rate is still in the double digits in Quebec, one of the main reasons we were confident the province would emerge from last year's slump.

But make no mistake, structural challenges remain. Labour productivity is down 6% from its 2020 peak. Since 2020, business investment in machinery and equipment has averaged just 2.8% of GDP in Quebec compared to 3.2% in Ontario and 3.3% nationally. These weaknesses are exacerbated by Quebec's aging population. By 2031, more than 25% of the province's population will be over the age of 65. This will put pressure on public finances, making it difficult to keep healthcare spending from growing more than 2.6% on average over the next 3 years. That said, Quebec may not be the only one underestimating the impact of aging on its healthcare spending.

2025 is shaping up to be a pivotal year. Exports to the US accounted for 74% of Quebec's total exports in 2023 (about $87 billion worth of goods). A return to protectionism under Donald Trump would threaten those exports. Here at home, temporary immigration is set to fall dramatically. If Quebec is going to meet the federal government's 5% temporary resident target, it will have to issue about a third fewer temporary resident permits. With government spending also under a microscope and the province needing to eliminate its $10.8 billion deficit by 2030, Quebec's economy is facing a number of challenges.

Despite these uncertainties, Quebec has a lot going for it. The household debt-to-disposable income ratio is 150% in Quebec vs. 185% nationally. The province has one of the largest lithium deposits in the world. What's more, it gets virtually all of its electricity from renewable sources (primarily hydroelectric) and pays much less than the North American average for it. This week's announced Churchill Falls agreement in principle will allow it to buy more hydroelectric power from Newfoundland and Labrador, securing about a third of the additional power output Hydro-Québec aims to offer over the next decade. Quebec also has a skilled workforce, with 71% of 25- to 64-year-olds having a post-secondary degree, the highest proportion in Canada. And the province is home to more than 20 public and university research centres. In short, Quebec has much of what it takes to grow wealth.

Quebec's economic performance this year is a testament to its ability to bounce back quickly from shocks. This resilience will be crucial going forward given the major challenges on the horizon. The Bank of Canada announced a second 50-point rate cut this week. This will certainly help, but lower interest rates alone won't be enough. Major investment projects like Hydro-Québec's

**CONTENTS**



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are promising. Unlike major hydroelectric projects of the past, however, they'll run headlong into labour shortages. The Quebec government is keen to close the wealth gap with Ontario. But to do that, businesses will need to innovate, quickly adopt artificial intelligence and other productivity-enhancing technologies, and invest in more workforce training. Policymakers in Quebec and other provinces will need to keep their focus on longer-term drivers—and learn to look through Donald Trump's midnight manifestos.

# What to Watch For

## UNITED STATES

**TUESDAY December 17 - 8:30**

| November | m/m |
|---|---|
| Consensus | 0.5% |
| Desjardins | 0.4% |
| **October** | **0.4%** |

**Retail sales (November) –** After a sharp 0.8% monthly gain in September, retail sales rose just 0.4% in October. While slower, this pace was still fairly robust considering that hurricanes put a damper on economic activity. We expect the November print to mirror that of the previous month. According to data published earlier this month, new car sales ticked higher once again in November, while gas station sales likely recorded a slight gain. Another steep rise is expected in the food services sector. Beyond that, anecdotal information points to strong Black Friday spending, but other surveys indicate more mixed results. And since Cyber Monday landed in December this year instead of in November, nonstore retailer sales may be disappointing. All in all, we expect a 0.4% increase in total sales and a 0.3% gain in sales excluding motor vehicles and gasoline.

**TUESDAY December 17 - 9:15**

| November | m/m |
|---|---|
| Consensus | 0.3% |
| Desjardins | 0.4% |
| **October** | **-0.3%** |

**Industrial production (November) –** Industrial production was held back by the same problems in October as in the month prior: hurricanes and the Boeing strike. The 0.3% overall decline can be attributed to the combined effect of these two factors, though weakness in the automotive sector didn't help either. Now that the strike is over, the aerospace sector likely made a partial recovery. The fallout from hurricanes has almost certainly dissipated, too. The automotive sector's output probably increased as the industry recorded the sharpest month-over-month rise in hours worked since April 2023. However, expectations are that mining production remained weak, and energy may have even dipped. Overall, we anticipate a 0.7% improvement in manufacturing and 0.4% in industrial production.

**WEDNESDAY December 18 - 8:30**

| November | ann. rate |
|---|---|
| Consensus | 1,345,000 |
| Desjardins | 1,375,000 |
| **October** | **1,311,000** |

**Housing starts (November) –** New builds declined once again in October because of disruptive weather events, with Hurricane Milton being particularly problematic. This marked the first time that housing starts receded for two consecutive months since November and December 2022. However, we think the November numbers will show an upturn. A rebound is expected, particularly in the southern US. Employment in residential construction picked up slightly in November. But unsold inventory of new houses remained quite high, which may have put a damper on new developments and the rebound in housing starts.

**WEDNESDAY December 18 - 14:00**

| December | |
|---|---|
| Consensus | 4.50% |
| Desjardins | 4.50% |
| **November 7** | **4.75%** |

**Federal Reserve meeting (December) –** After making a 50-point interest rate cut in September, the Fed opted to slow its pace of easing and announced a 25-point rate reduction on November 7. But at its December 18 meeting, the issue for debate won't be the size of the next rate cut, but whether a cut is even warranted at this point. Decision-makers will consider the November labour market print, the post-election surge in the stock market and confidence indexes, as well as sticky inflation and the continued rise in wages over the past few months. Ultimately, we expect Jerome Powell and company to trim rates by another 25 points. We'll be interested to see what Fed officials are now forecasting for the economy and future rate changes.

**THURSDAY December 19 - 10:00**

| November | m/m |
|---|---|
| Consensus | -0.1% |
| Desjardins | 0.1% |
| **October** | **-0.4%** |

**Leading indicator (November) –** After posting 31 monthly declines in the past 32 months, the leading indicator may have made a rare move and perked up in November, as it did in February 2024. We expect positive contributions from hours worked, unemployment claims and especially the stock market, which had a good month in November. Plus, the usual detractors probably had less of a negative impact, particularly the ISM index, consumer confidence and interest rate spreads. Overall, we're forecasting an increase of 0.1%.

| THURSDAY December 19 - 10:00 | |
|---|---|
| **November** | **ann. rate** |
| Consensus | 4,009,000 |
| Desjardins | 4,100,000 |
| **October** | **3,960,000** |

**Existing home sales (November) –** In October, existing home sales posted the biggest monthly gain since February despite the fact that hurricanes adversely affected other US real estate market indicators over the same period. Sales likely rose again in November. Pending home sales continued to trend higher, and regional sales data published to date are positive. Mortgage applications for home purchases also rose, particularly at the end of the month.

| FRIDAY December 20 - 8:30 | |
|---|---|
| **November** | **m/m** |
| Consensus | 0.5% |
| Desjardins | 0.4% |
| **October** | **0.4%** |

**Consumer spending (November) –** Real consumption slowed slightly in October, mainly because of disruptions caused by hurricanes. The pace of growth likely picked up a little in November. We expect that improved automobile sales and reasonably strong retail and food services sales pushed real consumer spending up 0.3%. Of course, we'll have a better idea of November's consumer spending on Tuesday, when the retail sales data are released for that month. Total and core PCE deflators are expected to rise 0.2%. The year-over-year changes likely increased, rising from 2.3% to 2.6% for the total deflator, and from 2.8% to 2.9% for the core deflator.

## CANADA

| MONDAY December 16 - 8:15 | |
|---|---|
| **November** | **ann. rate** |
| Consensus | 245,100 |
| Desjardins | 235,000 |
| **October** | **240,800** |

**Housing starts (November) –** We're anticipating that housing starts pulled back slightly to 235k in November from about 241k in October. Construction continues to face multiple headwinds, including skilled labour shortages, an aging workforce, elevated (albeit falling) interest rates and high prices for materials. The condo market has seen numerous cancelled projects this year, and we expect housing starts will remain soft through the end of this year and into 2025.

| MONDAY December 16 - 9:00 | |
|---|---|
| **November** | **m/m** |
| Consensus | n/a |
| Desjardins | 1.0% |
| **October** | **7.7%** |

**Existing home sales (November) –** Early figures from local real estate boards showed steep year-over-year increases, but our view is that the bulk of this surge happened in October. Indeed, according to the Toronto Regional Real Estate Board, seasonally adjusted home sales advanced by a modest 1.9% in Toronto in November after spiking 14% the prior month. In addition, November 2023 saw the lowest sales print last year, inflating year-over-year growth for last month. Potential homebuyers were likely waiting for the Bank of Canada's December 11 policy rate announcement and for new mortgage rules to take effect on December 15. As such, we expect November home sales rose only about 1% from the prior month.

| TUESDAY December 17 - 8:30 | |
|---|---|
| **November** | **m/m** |
| Consensus | 0.1% |
| Desjardins | -0.1% |
| **October** | **0.4%** |

**Consumer price index (November) –** Look for headline Canadian consumer price growth to have decelerated on an annual basis to 1.8% in November from 1.9% in October. That deceleration was likely driven by energy prices, which remain under pressure. Excluding food and energy, traditional core inflation is expected to have slowed two ticks to 2.1%, marking the lowest pace of annual growth since inflation started to rise markedly in 2021. Central bankers have taken solace in the fact that the distribution of price growth across goods and services is normalizing, but they would probably like to see more progress on their core measures of inflation. Alas, they'll have to wait at least another month as we don't think the Bank of Canada's preferred indicators moved much in November.

| FRIDAY December 20 - 8:30 | |
|---|---|
| **October** | **m/m** |
| Consensus | 0.7% |
| Desjardins | 0.6% |
| **September** | **0.4%** |

**Retail sales (October) –** Retail sales probably increased by 0.6% m/m in October, one tick below Statistics Canada's flash estimate of 0.7%. We expect that nominal gasoline sales declined, possibly driven by lower volumes, as seasonally adjusted prices were slightly up month over month. We anticipate that sales at motor vehicle and parts dealerships increased, with seasonally adjusted prices inching up and volumes likely advancing. Core sales—which exclude autos and gasoline—probably rose in October. For November's flash estimate, we expect retail sales to be roughly flat. Softer auto sales probably offset the rebound in gasoline purchases, while core sales could be tempered by consumers postponing what would have been late-November spending until mid-December's GST break.

## OVERSEAS

**SUNDAY December 15 - 21:00**
**November**

**China: Industrial production and retail sales (November) –** After hitting a low in August, year-over-year changes in industrial production and retail sales ramped back up, reaching 5.3% and 4.9% respectively in October. The first signs for November have also been quite promising, with a slight increase in the manufacturing PMI. We therefore expect real GDP growth to have improved in the fourth quarter. China's government had set a growth target of 5% for 2024 as a whole, but given the current economic headwinds, we instead expect gains of 4.8% for the year.

**MONDAY December 16 - 4:00**

| | |
|---|---|
| **December** | |
| Consensus | 48.2 |
| **November** | **48.3** |

**Eurozone: PMI (December – preliminary) –** The Eurozone Composite PMI continued its bumpy ride, moving from 49.6 in September to 50.0 in October before dropping back to 48.3 in November. Both the manufacturing and services indexes pulled back last month, a reminder that the eurozone's progress is still tenuous. Rising electricity prices due to renewed concerns about Europe's energy supply could further depress industrial activity in December. If the PMI drops further or makes only weak gains, the European Central Bank could very well announce additional rate cuts.

**WEDNESDAY December 18**

| | |
|---|---|
| **December** | |
| Consensus | 0.25% |
| Desjardins | 0.25% |
| **October 30** | **0.25%** |

**Japan: Bank of Japan meeting (December) –** The Bank of Japan (BoJ) continues to signal that further rate hikes are forthcoming. So far, it announced one increase in March and another in August. Inflation remains high in Japan. Even though the year-over-year change in the all items index has fallen recently, the inflationary trend seems firmly entrenched. The three-month annualized change in prices excluding food and energy was over 4% in October. November's numbers will be published next Thursday after the BoJ decision. From an economic standpoint, the data seems to be pointing toward a slight improvement, which could tip the scales toward another rate hike in December. That being said, the BoJ has been quite skilled at hiding its next moves. Investors are instead calling for an increase in early 2025.

**THURSDAY December 19 - 7:00**

| | |
|---|---|
| **December** | |
| Consensus | 4.75% |
| Desjardins | 4.75% |
| **November 7** | **4.75%** |

**United Kingdom: Bank of England meeting (December) –** The Bank of England (BoE) announced a 25-basis-point cut in early November but maintained its cautious stance on further monetary policy easing. It doesn't seem ready to announce multiple rate cuts in a row. While progress has been made on inflation, the battle doesn't appear to be over yet. November's inflation data will be released on Wednesday. Total inflation rose in October, with service price growth climbing to 5%. Unless November's inflation comes in below expectations, we don't believe the BoE will change its rate on December 19.

# Economic Indicators

## Week of December 16 to 20, 2024

| Day | Time | Indicator | Period | Consensus | Desjardins forecast | Previous reading |
|---|---|---|---|---|---|---|
| **UNITED STATES** | | | | | | |
| MONDAY 16 | 8:30 | Empire State Manufacturing Index | Dec. | 9.8 | 8.0 | 31.2 |
| TUESDAY 17 | 8:30 | Retail sales | | | | |
| | | Total (m/m) | Nov. | 0.5% | 0.4% | 0.4% |
| | | Excluding automobiles (m/m) | Nov. | 0.4% | 0.3% | 0.1% |
| | 9:15 | Industrial production (m/m) | Nov. | 0.3% | 0.4% | -0.3% |
| | 9:15 | Production capacity utilization rate | Nov. | 77.3% | 77.3% | 77.1% |
| | 10:00 | Business inventories (m/m) | Oct. | 0.2% | 0.1% | 0.1% |
| WEDNESDAY 18 | 8:30 | Current account (US$B) | Q3 | -287.1 | -284.0 | -266.8 |
| | 8:30 | Housing starts (ann. rate) | Nov. | 1,345,000 | 1,375,000 | 1,311,000 |
| | 8:30 | Building permits (ann. rate) | Nov. | 1,430,000 | 1,410,000 | 1,419,000 |
| | 14:00 | Federal Reserve meeting | Dec. | 4.50% | 4.50% | 4.75% |
| | 14:30 | Speech by Federal Reserve Chair J. Powell | | | | |
| THURSDAY 19 | 8:30 | Initial unemployment claims | Dec. 9–13 | n/a | 228,000 | 242,000 |
| | 8:30 | Philadelphia Fed index | Dec. | 3.3 | 8.0 | -5.5 |
| | 8:30 | Real GDP (ann. rate) | Q3t | 2.8% | 2.8% | 2.8% |
| | 10:00 | Leading indicator (m/m) | Nov. | -0.1% | 0.1% | -0.4% |
| | 10:00 | Existing home sales (ann. rate) | Nov. | 4,009,000 | 4,100,000 | 3,960,000 |
| FRIDAY 20 | 8:30 | Personal income (m/m) | Nov. | 0.4% | 0.6% | 0.6% |
| | 8:30 | Personal consumption expenditures (m/m) | Nov. | 0.5% | 0.4% | 0.4% |
| | 8:30 | Personal consumption expenditures deflator | | | | |
| | | Total (m/m) | Nov. | 0.2% | 0.3% | 0.2% |
| | | Excluding food and energy (m/m) | Nov. | 0.2% | 0.2% | 0.3% |
| | | Total (y/y) | Nov. | 2.5% | 2.6% | 2.3% |
| | | Excluding food and energy (y/y) | Nov. | 2.9% | 2.9% | 2.8% |
| | 10:00 | University of Michigan consumer sentiment index – final | Dec. | 74.1 | 74.0 | 74.0 |
| **CANADA** | | | | | | |
| MONDAY 16 | 8:15 | Housing starts (ann. rate) | Nov. | 245,100 | 235,000 | 240,800 |
| | 9:00 | Existing home sales (m/m) | Nov. | n/a | 1.0% | 7.7% |
| | 15:30 | Speech by Bank of Canada Governor T. Macklem | | | | |
| TUESDAY 17 | 8:30 | Consumer price index | | | | |
| | | Total (m/m) | Nov. | 0.1% | -0.1% | 0.4% |
| | | Total (y/y) | Nov. | 2.0% | 1.8% | 2.0% |
| WEDNESDAY 18 | --- | --- | | | | |
| THURSDAY 19 | --- | --- | | | | |
| FRIDAY 20 | 8:30 | Retail sales | | | | |
| | | Total (m/m) | Oct. | 0.7% | 0.6% | 0.4% |
| | | Excluding automobiles (m/m) | Oct. | 0.5% | 0.4% | 0.9% |

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 Standard Time (GMT -5 hours). Desjardins Economic Studies forecast.

# Economic Indicators

## Week of December 16 to 20, 2024

| Country | Time | Indicator | Period | Consensus m/m (q/q) | Consensus y/y | Previous reading m/m (q/q) | Previous reading y/y |
|---|---|---|---|---|---|---|---|
| **OVERSEAS** | | | | | | | |
| **SUNDAY 15** | | | | | | | |
| China | 21:00 | Industrial production | Nov. | | 5.4% | | 5.3% |
| China | 21:00 | Retail sales | Nov. | | 5.0% | | 4.8% |
| **MONDAY 16** | | | | | | | |
| France | 3:15 | Composite PMI – preliminary | Dec. | 46.0 | | 45.9 | |
| France | 3:15 | Manufacturing PMI – preliminary | Dec. | 43.0 | | 43.1 | |
| France | 3:15 | Services PMI – preliminary | Dec. | 46.9 | | 46.9 | |
| Germany | 3:30 | Composite PMI – preliminary | Dec. | 47.5 | | 47.2 | |
| Germany | 3:30 | Manufacturing PMI – preliminary | Dec. | 43.1 | | 43.0 | |
| Germany | 3:30 | Services PMI – preliminary | Dec. | 49.3 | | 49.3 | |
| Eurozone | 4:00 | Composite PMI – preliminary | Dec. | 48.2 | | 48.3 | |
| Eurozone | 4:00 | Manufacturing PMI – preliminary | Dec. | 45.3 | | 45.2 | |
| Eurozone | 4:00 | Services PMI – preliminary | Dec. | 49.5 | | 49.5 | |
| United Kingdom | 4:30 | Composite PMI – preliminary | Dec. | 50.6 | | 50.5 | |
| United Kingdom | 4:30 | Manufacturing PMI – preliminary | Dec. | 48.5 | | 48.0 | |
| United Kingdom | 4:30 | Services PMI – preliminary | Dec. | 51.0 | | 50.8 | |
| **TUESDAY 17** | | | | | | | |
| Germany | 4:00 | ifo Business Climate Index | Dec. | 85.5 | | 85.7 | |
| Germany | 4:00 | ifo Current Assessment Index | Dec. | 84.0 | | 84.3 | |
| Germany | 4:00 | ifo Expectations Index | Dec. | 87.5 | | 87.2 | |
| Italy | 4:00 | Trade balance (€M) | Oct. | n/a | | 2,580 | |
| Eurozone | 5:00 | Trade balance (€B) | Oct. | 10.0 | | 13.6 | |
| Japan | 18:50 | Trade balance (¥B) | Nov. | -440.0 | | -357.7 | |
| **WEDNESDAY 18** | | | | | | | |
| Japan | --- | Bank of Japan meeting | Dec. | 0.25% | | 0.25% | |
| United Kingdom | 2:00 | Consumer price index | Nov. | 0.1% | 2.6% | 0.6% | 2.3% |
| United Kingdom | 2:00 | Producer price index | Nov. | 0.2% | -0.6% | 0.0% | -0.8% |
| Eurozone | 5:00 | Consumer price index – final | Nov. | -0.3% | 2.3% | -0.3% | 2.0% |
| **THURSDAY 19** | | | | | | | |
| Germany | 2:00 | Consumer confidence | Jan. | -22.8 | | -23.3 | |
| France | 2:45 | Business confidence | Dec. | 96 | | 96 | |
| France | 2:45 | Production outlook | Dec. | -14 | | -14 | |
| Sweden | 3:30 | Bank of Sweden meeting | Dec. | 2.50% | | 2.75% | |
| Eurozone | 4:00 | Current account (€B) | Oct. | n/a | | 37.0 | |
| Norway | 4:00 | Bank of Norway meeting | Dec. | 4.50% | | 4.50% | |
| United Kingdom | 7:00 | Bank of England meeting | Dec. | 4.75% | | 4.75% | |
| Mexico | 14:00 | Bank of Mexico meeting | Dec. | 10.00% | | 10.25% | |
| Japan | 18:30 | Consumer price index | Nov. | | 2.9% | | 2.3% |
| **FRIDAY 20** | | | | | | | |
| United Kingdom | 2:00 | Retail sales | Nov. | 0.5% | 1.0% | -0.7% | 2.4% |
| Germany | 2:00 | Producer price index | Nov. | 0.3% | -0.3% | 0.2% | -1.1% |
| Russia | 5:30 | Bank of Russia meeting | Dec. | 23.00% | | 21.00% | |
| Eurozone | 10:00 | Consumer confidence – preliminary | Dec. | -14.0 | | -13.7 | |

**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 Standard Time (GMT -5 hours).