

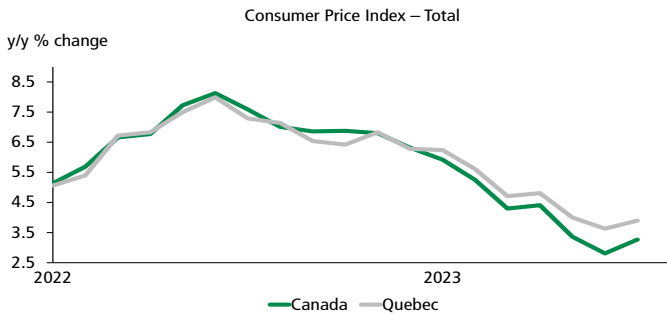
WEEKLY COMMENTARY

Why Is Inflation Stickier in Quebec?

By H el ene B egin, Principal Economist

Although inflation in Canada has fallen back down to around 3% since June, it appears to have stalled at a higher level in Quebec. In July, the year-over-year change in the Consumer Price Index (CPI) came in at 3.9% for the province compared to 3.3% for the country as a whole. Even though the provincial and national figures sometimes diverge slightly for a few months, the gap has widened since the start of 2023 (graph 1). In fact, inflation grew faster in Quebec than in any other province. What could have caused this difference? And will it remain the status quo over the short term?

GRAPH 1
Since the Start of 2023, Inflation Has Fallen at a Slower Pace in Quebec, Widening the Gap with Canada as a Whole



Sources: Statistics Canada and Desjardins Economic Studies

Global Factors: Impact on the Price of Goods

In Quebec and across Canada, year-over-year growth in the price of goods peaked at around 10% in mid-2022. As explained in a recent [Economic Viewpoint](#), global factors played a major role in pushing up goods prices at that time. But they've since subsided, which has helped cool inflation in the goods-producing industries.

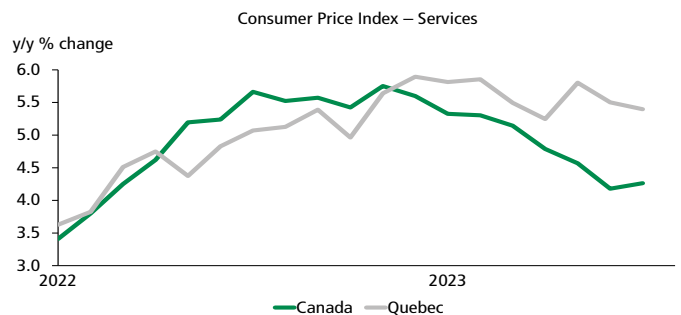
Pressures on both energy prices and supply chains have eased all over the world, including across Canada. Since the spring, energy price inflation has rapidly lost momentum and even dipped into negative territory. In July, it fell 15% year-over-year in Quebec and in Canada as a whole, lowering production and transportation costs in other sectors.

The recovery of global supply chains also helped curb price gains for many goods. Most businesses across the country rebuilt their inventories, which had fallen exceptionally low during the pandemic. Consequently, supply for most products improved as consumer demand started to taper off. In July, goods inflation totalled 2.5% in Quebec and 2.3% across Canada, compared to 6.5% when the year began.

Services Inflation Has Remained High

Services inflation in Quebec remained well above the national average (graph 2). Inflation in Quebec's services sector came in at 5.4% in July, which was almost as high as in January

GRAPH 2
Services Inflation Remained Very High in Quebec



Sources: Statistics Canada and Desjardins Economic Studies

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(5.8%). Clearly, the province hasn't made much progress in this area since the start of 2023. Meanwhile, services inflation for the country as a whole fell from 6.3% to 4.3% over the same period. Since labour costs represent around a third of the price of services, substantial wage gains in Quebec probably drove inflation in several service categories. Moreover, since pandemic-era shutdowns were longer and more frequent in Quebec, they took a heavy toll on many kinds of businesses. Companies therefore had to demand higher prices from customers to stay profitable, especially in the food services sector.

As for demand, spending on services ramped up significantly in Quebec during 2022. More generous financial support from the Quebec government compared to other provinces and a 4.1% jump in average weekly earnings pushed personal income after tax and inflation up 1.6% in 2022 versus a 0.4% drop across Canada. Consequently, service spending grew at a faster clip, adding to price pressures in the province. Goods-producing industries didn't get the same boost, since spending on goods cooled after exploding during the pandemic.

However, the factors supporting service spending don't have as much of an impact on prices in certain categories, especially shelter, which is the component that's most heavily weighted when calculating CPI. Shelter represents nearly 30% of Canadian household expenditures. For July, shelter inflation accelerated faster in Quebec (5.7%) than in Canada as a whole (5.1%). That month, a sharp jump (around 30%) in mortgage interest costs and an increase in rents (around 5.5%) have affected homeowners and tenants both within the province and across the country. However, shelter CPI in Quebec rose more rapidly due to differences in the costs associated with owning a home, such as home insurance, maintenance and repairs.

Food prices also continued to grow more quickly in Quebec. Although in January food price growth was around 10% in Quebec and across Canada, in July it fell to 9.4% and 7.8%, respectively. The difference was due to both food components: the prices of food purchased from stores and from restaurants. As a share of CPI, food accounted for 16.1% of Canadian household expenditures and helped keep inflation higher in Quebec.

In addition, the introduction of the national child care system reduced the cost of child care services by around 20% year-over-year for the country as a whole. But the program hasn't had much of an impact in Quebec, which has had its own network of subsidized daycares for more than 20 years. This factor has eased upward pressure on the cost of living for families across Canada.

Non-essential Expenses

Spending on recreation takes up around 10% of Canada's total CPI basket. This includes three types of non-essential expenses that once again posted impressive year-over-year gains in Quebec in July: the purchase and operation of recreational

vehicles (+4.3%); home entertainment equipment, parts and services (+6.1%) and other cultural and recreational services (+4.8%) For several months, these categories have shown stronger price gains there than in Canada as a whole.

Consumers have more of a financial cushion in Quebec than in some other provinces, which may have further boosted consumer discretionary demand and therefore prices. Despite the recent deterioration in household finances, debt ratios in Quebec are well below the Canadian average; while savings rates remain higher. According to [Statistics Canada](#), savings are concentrated among households in the highest income brackets. These families usually dedicate a larger share of their budget to non-essentials. Despite the high-inflation, high-interest-rate environment, spending on recreation remained reasonably robust in Quebec, while wages in this industry advanced further than across all sectors, exacerbating price pressures.

Conclusion: Will This Remain the Status Quo over the Short Term?

The factors that have kept inflation higher in Quebec over the last few months should gradually fade. First, it appears the labour market has started to soften and wage growth has recently fallen below the Canadian average. Second, savings rates have plummeted since last year, after government support measures sent them skyrocketing. Furthermore, after-tax income and inflation are expected to falter in 2023, ending the uptrend of recent years. Some spending, especially on non-essentials, is bound to shrink in an environment where high interest rates are taking a bigger bite out of family budgets. Finally, Quebec's economy entered a fairly broad-based downturn earlier than is anticipated for Canada as a whole, which should soon ease price pressures. We therefore expect inflation in the province to catch up to the national average before long.

What to Watch For

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

TUESDAY August 29 - 9:00

June	y/y
Consensus	n/a
Desjardins	-1.70%
May	-1.70%

TUESDAY August 29 - 10:00

August	
Consensus	116.3
Desjardins	110.0
July	117.0

THURSDAY August 31 - 8:30

July	m/m
Consensus	0.7%
Desjardins	0.6%
June	0.5%

FRIDAY September 1 - 8:30

August	
Consensus	170,000
Desjardins	155,000
July	187,000

FRIDAY September 1 - 10:00

August	
Consensus	47.0
Desjardins	47.0
July	46.4

THURSDAY August 31 - 8:30

Q2 2023	\$B
Consensus	-11.20
Desjardins	-12.80
Q1 2023	-6.17

UNITED STATES

S&P/Case-Shiller index of existing home prices (June) – After repeated declines in the second half of 2022 and January 2023, the S&P/Case-Shiller index has risen each month since February. The index likely gained another 0.6% in June, keeping the year-over-year change at -1.7%. However, the recent rebound in mortgage rates will probably drag resale market prices back down later in the summer.

Conference Board consumer confidence index (August) – The Conference Board index has added 14.5 points since bottoming out in May. We'd be surprised to see the index perform as well in August as gasoline prices have risen almost 10% since early July. Once we also factor in falling equity markets and higher mortgage rates, consumer sentiment seems likely to falter. The University of Michigan and TIPP indexes also ticked slightly lower in August. As a result, we expect the Conference Board's confidence index to drop to 110.0.

Consumer spending (July) – Real consumer spending rose 0.4% in June, primarily on the back of a rebound in durable goods spending. Based on retail sales trends, we're forecasting a similar gain for July due to higher spending on nondurable goods and services. Energy consumption also probably rose sharply due to a surge in demand for air conditioning caused by abnormally warm weather. We expect nominal consumption to have increased 0.6%.

Job creation according to the establishment survey (August) – Job creation remained stable between June (185,000) and July (187,000). However, each of these monthly gains falls short of the average of 287,000 for the first five months of the year. Job creation likely slowed further in July. Unemployment claims increased in August compared to July, and the number of open positions has also dropped since the beginning of the year. We expect around 150,000 jobs to be added and the unemployment rate to hold steady at 3.5%.

ISM Manufacturing index (August) – The ISM Manufacturing index has been hovering between 46.0 and 48.0 since the year began. After falling to a low of 46.0 in June, it rose slightly to 46.4 in July, but remains very weak. However, based on the regional manufacturing indexes published to date, it should continue to edge up in August. The regional indexes are moving in opposite directions (the Empire index plummeted 20.1 points in August, while the Philadelphia Fed index surged 25.5 points), suggesting a certain amount of volatility that makes forecasting more difficult. We expect the ISM Manufacturing index to come in at 47.0.

CANADA

Current account balance (Q2 2023) – Canada's current account deficit is expected to widen further in Q2 2023 to -\$12.8B from -\$6.2B in Q1. This largely reflects continued deterioration in the Canadian trade balance in the second quarter as well as a seasonally-adjusted decline in oil prices. However, the rebound in equity values in Q2 on a seasonally-adjusted basis is likely to have provided a modest offset by boosting investment income. While a current account deficit of this magnitude would be the largest since Q3 2020, it isn't out of line with the pre-COVID trend.

FRIDAY September 1 - 8:30

Q2 2023	ann. rate
Consensus	1.2%
Desjardins	1.4%
Q1 2023	3.1%

Real GDP by expenditure (Q2 2023) – Real GDP growth is expected to have slowed in Q2 2023, likely decelerating to an annualized 1.4% from 3.1% in Q1. A slowdown in inventory accumulation is likely to be a big part of the story, as volumes of manufacturing and wholesale stocks lost some forward momentum compared to the previous quarter. Meanwhile, real imports were broadly flat in Q2 while export volumes edged higher, although they remained well behind the Q1 surge. In contrast to the relative weakness in inventories and international trade, domestic demand looks set to post a solid advance in the second quarter. Investment should play a starring role, led higher by a likely rebound in residential investment driven by a short-lived resurgence in existing home sales and housing starts early in Q2. Consumer spending should also advance in the quarter, albeit at a slower pace than in Q1.

FRIDAY September 1 - 8:30

June	m/m
Consensus	-0.2%
Desjardins	-0.1%
May	0.3%

Real GDP by industry (June) – Real GDP by industry is likely to have slowed modestly in June, following a surge in activity in May after public servants ended their strike and returned to work. At -0.1%, our forecast for the projected drop in June 2023 is slightly more optimistic than Statistics Canada's flash estimate of -0.2%. The weakness should be felt in both goods- and services-producing sectors. For goods, all indicators point to a rebound in mining and oil and gas extraction in June. But a slump in construction and manufacturing activity is likely to undermine this gain. As for services, retail and wholesale trade volumes fell sharply over the month, while the remaining sectors appear to have delivered more mixed results. Together, this points to a broadly flat print for services activity in June. All in, we're tracking annualized quarterly growth in real GDP by industry of about 1.2% in Q2 2023. Meanwhile, we expect Statistics Canada's flash estimate of July real GDP growth to show a slight contraction for the month due to weakness in the goods sector and the impact of the BC Ports strike.

OVERSEAS
WEDNESDAY August 30 - 21:30

August	
Consensus	49.1
July	49.3

China: Composite PMI (August) – China's economic situation is deteriorating further. Deflation is threatening, international trade is slowing, and second quarter real GDP growth was disappointing. As such, after four months of declines, we think the PMIs will fall again in August. The central government is stepping up its support measures to restart the economy, particularly for consumer spending and real estate, which may help some components rebound.


THURSDAY August 31 - 5:00


August	y/y
Consensus	5.1%
July	5.3%

Eurozone: Consumer Price Index (August – preliminary) – As in most advanced economies, eurozone inflation has eased significantly. After peaking at 10.6% in October 2022, the year-over-year change in the all-items index fell to 5.3% in July. We expect this trend to continue in August. However, core inflation—less food and energy—is proving stickier, and it'll be interesting to see whether it improves in August's print.

Economic Indicators

Week of August 28 to September 1, 2023

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 28	12:30	Speech by Federal Reserve Vice Chair M. Barr				
TUESDAY 29	9:00	S&P/Case-Shiller home price index (y/y)	June	n/a	-1.70%	-1.70%
	10:00	Consumer confidence	Aug.	116.3	110.0	117.0
WEDNESDAY 30	8:30	Real GDP (ann. rate)	Q2s	2.4%	2.4%	2.4%
	8:30	Goods trade balance – preliminary (US\$B)	July	-90.0	-87.6	-87.8
	8:30	Retail inventories (m/m)	July	n/a	n/a	0.7%
	8:30	Wholesale inventories – preliminary (m/m)	July	n/a	n/a	-0.5%
	10:00	Pending home sales (m/m)	July	-0.9%	n/a	0.3%
THURSDAY 31	8:30	Initial unemployment claims	Aug. 21–25	235,000	235,000	230,000
	8:30	Personal income (m/m)	July	0.3%	0.3%	0.3%
	8:30	Personal consumption expenditures (m/m)	July	0.7%	0.6%	0.5%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	July	0.2%	0.2%	0.2%
		Excluding food and energy (m/m)	July	0.2%	0.2%	0.2%
		Total (y/y)	July	3.3%	3.2%	3.0%
		Excluding food and energy (y/y)	July	4.2%	4.2%	4.1%
	9:45	Chicago PMI	Aug.	44.1	43.0	42.8
FRIDAY 1	6:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	8:30	Change in nonfarm payrolls	Aug.	170,000	155,000	187,000
	8:30	Unemployment rate	Aug.	3.5%	3.5%	3.5%
	8:30	Average weekly hours	Aug.	34.3	34.3	34.3
	8:30	Average hourly earnings (m/m)	Aug.	0.3%	0.3%	0.4%
	9:45	Speech by Federal Reserve Bank of Cleveland President L. Mester				
	10:00	Construction spending (m/m)	July	0.5%	0.7%	0.5%
	10:00	ISM Manufacturing index	Aug.	47.0	47.0	46.4
	---	Total vehicle sales (ann. rate)	Aug.	15,500,000	15,300,000	15,740,000
CANADA						
MONDAY 28	---	---				
TUESDAY 29	---	---				
WEDNESDAY 30	---	---				
THURSDAY 31	8:30	Current account balance (\$B)	Q2	-11.20	-12.80	-6.17
FRIDAY 1	8:30	Real GDP by industry (m/m)	June	-0.2%	-0.1%	0.3%
	8:30	Real GDP (ann. rate)	Q2	1.2%	1.4%	3.1%

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 August 28 to September 1, 2023

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 28								
Japan	1:00	Leading indicator – final	June	n/a		108.9		
Japan	1:00	Coincident index – final	June	n/a		115.2		
Eurozone	4:00	M3 money supply	July		0.0%			0.6%
Japan	19:30	Unemployment rate	July	2.5%		2.5%		
TUESDAY 29								
Germany	2:00	Consumer confidence	Sept.	-24.5		-24.4		
France	2:45	Consumer confidence	Aug.	85		85		
WEDNESDAY 30								
Japan	1:00	Consumer confidence	Aug.	37.4		37.1		
Italy	4:00	Consumer confidence	Aug.	107.0		106.7		
Italy	4:00	Economic confidence	Aug.	n/a		109.1		
Eurozone	5:00	Consumer confidence – final	Aug.	n/a		-16		
Eurozone	5:00	Industrial confidence	Aug.	-9.9		-9.4		
Eurozone	5:00	Services confidence	Aug.	4.6		5.7		
Eurozone	5:00	Economic confidence	Aug.	93.5		94.5		
Germany	8:00	Consumer price index – preliminary	Aug.	0.3%	6.0%	0.3%		6.2%
Japan	19:50	Industrial production – preliminary	July	-1.3%	-1.4%	2.4%		0.0%
Japan	19:50	Retail sales	July	0.9%	5.5%	-0.6%		5.6%
China	21:30	Manufacturing PMI	Aug.	49.1		49.3		
China	21:30	Non-manufacturing PMI	Aug.	51.0		51.5		
THURSDAY 31								
Japan	1:00	Housing starts	July		-1.3%			-4.8%
Germany	2:00	Retail sales	July	0.3%	-1.4%	-0.8%		0.1%
France	2:45	Personal consumption expenditures	July	0.3%	n/a	0.9%		-2.8%
France	2:45	Consumer price index – preliminary	Aug.	0.7%	4.6%	0.1%		4.3%
France	2:45	Real GDP – final	Q2	0.5%	0.9%	0.5%		0.9%
Italy	4:00	Unemployment rate	July	7.4%		7.4%		
Eurozone	5:00	Consumer price index – preliminary	Aug.	0.4%	5.1%	-0.1%		5.3%
Eurozone	5:00	Unemployment rate	July	6.4%		6.4%		
Italy	5:00	Consumer price index – preliminary	Aug.	n/a	n/a	5.3%		6.0%
Japan	20:30	Manufacturing PMI – final	Aug.	n/a		49.7		
FRIDAY 1								
United Kingdom	2:00	Nationwide house prices	Aug.	-0.4%	-4.9%	-0.2%		-3.8%
Italy	3:45	Manufacturing PMI	Aug.	45.5		44.5		
France	3:50	Manufacturing PMI – final	Aug.	46.4		46.4		
Germany	3:55	Manufacturing PMI – final	Aug.	39.1		39.1		
Eurozone	4:00	Manufacturing PMI – final	Aug.	43.7		43.7		
Italy	4:00	Real GDP – final	Q2	-0.3%	0.6%	-0.3%		0.6%
United Kingdom	4:30	Manufacturing PMI – final	Aug.	42.5		42.5		

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).