

WEEKLY COMMENTARY

Please note that there will be no release of the *Weekly Commentary* from July 8 to August 9, 2024 inclusive.

The US Presidential Debate Wasn't Really About the Economy

By Francis Généreux, Principal Economist

Polls show that economic concerns, such as inflation and the cost of living, are the key issues for the US presidential election. But it seems like Donald Trump's and Joe Biden's character, along with their ability to govern, are among the biggest considerations for US voters as they choose their president on November 5. Most of the attention surrounding the June 27 debate—and especially President Biden's terrible performance—was centred on these considerations. Meanwhile, the economic issues discussed at the event were quickly forgotten.

During the debate, President Biden failed to effectively parry Donald Trump's attacks regarding the US economy. Trump repeatedly claimed that the economy is now a disaster while his own presidency oversaw the greatest economy ever. Biden retorted that the economy had collapsed due to Trump's mismanagement of the pandemic and that "what we had to do is try to put things back together again." That said, the rest of the debate didn't have much to do with real economic issues. Of course, the moderators asked questions about the cost of living and public finances (including whether the 2018 tax cuts would be extended and how Social Security would be paid for), but the candidates' responses quickly went off topic. There were also questions about other issues that have an impact on the economy, such as climate change, immigration and the cost of childcare. However, the candidates often gave evasive answers. Despite all the talk, we didn't really get a clear picture of what either one of them hoped to accomplish in their second term to help the US economy adapt to an environment with [major medium and long-term challenges](#). In fact, they both said they would continue the policies of their previous mandates.

According to Donald Trump, pre-pandemic America had "the greatest economy in its history," thanks to "the largest tax cut in history" and "the largest regulation cut in history." He also said that lower taxes, especially for businesses, actually increased tax revenues. Some of his claims were questionable. No, the [tax cuts](#) and [regulation cuts](#) weren't the largest in history, but they were still significant. However, their exact impact isn't clear. It's true that the US economy grew at a solid clip in 2018–2019, with average real GDP growth of 2.7%, while potential GDP growth was estimated at 2.1%. But growth in those two post-tax-cut years wasn't much better than in the two years immediately preceding them, since average real GDP growth amounted to 2.6% in 2016–2017. There was, however, a significant net cost to public finances, as revenues from personal and especially corporate income taxes fell as a percentage of GDP. The federal government ran a US \$984 billion deficit in fiscal 2019, which meant it was nowhere near "ready to start paying down debt," as the former president claimed during the debate. Furthermore, employment growth had slowed somewhat at the beginning of 2019, and concerns about an end to the economic cycle were rising. The Federal Reserve (Fed) even cut its key rates three times in the summer and fall of 2019.

During the debate, Trump made it clear that he plans to go back to the same formula of low taxes (by extending all of the 2018 tax cuts) and deregulation if he returns to the White House. He also wants to impose a 10% tariff on all goods coming into the US (60% on goods from China). He believes this would help the economy and significantly reduce the budget deficit. We're not so sure about that. Of course, [on the face of it, these tariffs would bring in US\\$227 billion per year](#). But that doesn't take into account the impact of a change in trade

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volumes (and the source of imported goods), exchange rate fluctuations and the hit to economic growth. In addition, the new tariffs would [fuel inflation](#), which could prompt the Fed to keep interest rates higher. They're also highly [regressive](#), and would disproportionately affect the lowest-income Americans. Finally, another major plank of Trump's platform has to do with immigration, which he claims needs to be restricted as soon as possible. As Biden said during the debate, this would take a big bite out of growth, since foreign workers provide labour that's essential for economic activity. Under [various scenarios](#), the mass deportations proposed by Trump could both drag down real GDP and drive up inflation. There's a reason why, after Trump's relatively strong debate performance, US bond yields rose for several days as investors took in the inflationary potential of a second Trump administration's policies. It's also worth noting that the Republicans don't have any real proposal to combat climate change, which is an important issue with a direct impact on [the economy](#) and [US household finances](#).

President Biden failed to effectively point out potential problems with the policies proposed by his predecessor. He criticized the Trump presidency's economic and fiscal record, while neglecting to mention that it had been badly tarnished by the pandemic. He did bring up a [letter from 16 Nobel Prize winners in economics](#) that underlined the risks posed by a second Trump administration. But he missed the opportunity to highlight his own achievements, as the economists' letter praised his "major investments in the US economy, including in infrastructure, domestic manufacturing and climate. Together, these investments are likely to increase productivity and economic growth, while lowering long-term inflationary pressures and facilitating the clean energy transition."

The problem for Joe Biden is that voters don't seem to see the results of his policies. Republicans, including Trump, and the right-wing media have done a great job of convincing voters that the rise in the cost of living is the result of the federal government's spending and investment since the pandemic. At the same time, they've managed to dissociate federal spending and investment from strong economic growth, labour market resilience and the slowdown in price gains after inflation peaked in 2022.

In the United States, as in the rest of the world, people are still having trouble absorbing the cumulative price increases since the pandemic. They hope, in vain, to see prices go back to where they were five years ago, while governments and central banks only seem to be aiming for weaker inflation that's closer to the 2% target. The rise in the cost of living remains one of the biggest economic problems for US voters. In contrast, the Biden administration's commendable but not exactly down-to-earth goals seem abstract. Fighting climate change, electrifying transportation, strengthening US manufacturing, improving supply chains, ensuring the future financial viability of social programs and offsetting wealth inequality just don't

seem that important when there are bills to pay. And on top of all that, Americans don't see any real impact from these policies. The fact that, like Trump, Biden is also offering "more of the same" doesn't help. That's clear from polls that show voters have greater confidence in Trump on economic matters. Donald Trump's attacks on Biden's proposals and record are harsh, but they're also pretty easy to prove wrong. No, the cost of food hasn't "doubled and tripled and quadrupled." Grocery prices have increased by 26.4% since December 2019 (which is still a big change). No, the US doesn't currently have its "largest deficit with China." Assuming that Trump was talking about the trade deficit, it's the lowest it's been since 2010, and Canada and Mexico have now surpassed China as the main source of US imports. No, Biden's platform won't "raise everybody's taxes by four times." This platform, which for the most part has already been worked into the White House's [budget proposal for 2025](#), would raise personal taxes as a percentage of GDP from 8.9% in 2024 to 10.3% in 2029. That's definitely an increase, but it's nothing major, especially since the proposed tax hikes wouldn't affect anyone earning less than US\$400,000.

But criticisms of some other items in Biden's record and platform are valid. It's true that the current administration hasn't made much of an effort to initiate real and lasting improvement in public finances, even in the midst of an economic boom. The benefit to Americans of maintaining many of the tariffs established under Trump and increasing other tariffs on certain imports from China is also debatable. Given the importance of fighting climate change, isn't raising tariffs on electric vehicle imports counterproductive? And when will we see the results of costly efforts to support US manufacturing? Construction in the manufacturing sector has surged, but growth in orders, production and employment in that same sector remains relatively slow in an environment of sluggish international demand.

In addition, although this isn't our baseline scenario, economic conditions could suddenly deteriorate before November under the influence of past interest rate hikes, the depletion of accumulated household savings and wavering confidence. This would further erode President Biden's chances of re-election.

All things considered, economic concerns will probably continue to be major political issues until the election. We'll have to hope that both candidates will give us a clearer picture of their platforms and their economic and fiscal implications. The debate didn't enlighten us much in this respect, but at least we know a little more about their golfing skills.

What to Watch For

MONDAY July 8 - 15:00

May	US\$B
Consensus	11.000
Desjardins	11.000
April	6.403

THURSDAY July 11 - 8:30

June	m/m
Consensus	0.1%
Desjardins	0.1%
May	0.0%

FRIDAY July 12 - 10:00

July	Index
Consensus	67.0
Desjardins	71.5
June	68.2

FRIDAY July 12 - 9:00

June	m/m
Consensus	n/a
Desjardins	-1.0%
May	-0.6%

TUESDAY July 9 - 21:30

June	y/y
Consensus	0.4%
May	0.3%

THURSDAY July 11 - 2:00

May	m/m
Consensus	0.2%
April	0.0%

UNITED STATES

Consumer credit (May) – After decreasing in March, consumer credit perked up a little in April, thanks in part to growth by term credit. All the same, the annualized monthly gain was US\$6.4 billion, which is relatively slow. We expect further improvements in May, as signalled by weekly banking credit data. But since the personal saving rate also picked up in May, monthly growth should be relatively modest.

Consumer price index (June) – After a rather disappointing start to the year, when inflation proved to be stickier than anticipated in the US, May's data was more encouraging. CPI growth was flat, its weakest performance since June 2022. The index for all items less food and energy advanced 0.2%, its smallest growth since August 2021 if we look at the exact numbers. We expect another round of relatively slow growth again in June. Falling energy prices (especially gasoline) should help rein in the all items index, keeping the gains to just 0.1%. All items less food and energy should edge up another 0.2%. Headline inflation should drop from 3.3% to 3.1%, but core inflation is expected to hold steady at 3.4%.

University of Michigan consumer sentiment index (July – preliminary) – The University of Michigan consumer sentiment index fell three months in a row, from April to June, sliding 11.2 points in total. This is its lowest level since November 2023. However, we expect it to improve slightly in July. First, June's data was revised from 65.6 to 68.2, which is a positive sign. Second, the stock market has been marching upwards since mid-June. And while gas prices have increased slightly in recent weeks, they're still lower than they were a month ago. Given these circumstances, the Michigan index could rise above 70.

CANADA

Existing home sales (June) – We anticipate that monthly home sales declined by 1.0% in June, following a 0.6% month-on-month drop in May. Would-be homebuyers seem to have remained on the sidelines despite the Bank of Canada's first interest rate cut since 2020—the first of several expected this year. Early figures from local real estate boards showed small increases in sales in Montreal and Vancouver offset by larger declines in Edmonton and Calgary, while Toronto sales held steady. Toronto home prices so far this year have been essentially flat, a trend we expect to continue in the coming months.


OVERSEAS


China: Consumer price index (June) – Inflation held at 0.3% for the second consecutive month in May. While China's deflationary episode is in the rear-view mirror, CPI growth is weak and uneven. A bit more than 40% of the index's components, particularly goods, pulled back in May. In June, import prices continued to accelerate. If inflation remained virtually non-existent over the month, it could be a sign that Chinese domestic demand remains sluggish.

United Kingdom: Monthly GDP (May) – After gains of 0.4% in March, its best performance since June 2023, the UK's monthly GDP stagnated in April. This could point to further economic weakness in the second quarter, but the carry-over from March's numbers suggests that growth is firmly in positive territory, after non-annualized gains of 0.7% in the first quarter. What's more, retail sales jumped 2.9% in May, which bodes well for monthly GDP. The UK's economic situation remains fragile, but it looks like the new Labour government elected on Thursday can count on sunnier economic conditions.

Economic Indicators

Week of July 8 to 12, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 8	15:00	Consumer credit (US\$B)	May	11.000	11.000	6.403
TUESDAY 9	10:00	Testimony of Federal Reserve Chair J. Powell before a Senate committee				
WEDNESDAY 10	10:00	Wholesale inventories – final (m/m)	May	n/a	0.6%	0.6%
	10:00	Testimony of Federal Reserve Chair J. Powell before a House committee				
	19:30	Speech by Federal Reserve Governor L. Cook				
THURSDAY 11	8:30	Initial unemployment claims	July 1–5	n/a	233,000	238,000
	8:30	Consumer price index				
		Total (m/m)	June	0.1%	0.1%	0.0%
		Excluding food and energy (m/m)	June	0.2%	0.2%	0.2%
		Total (y/y)	June	3.1%	3.1%	3.3%
		Excluding food and energy (y/y)	June	3.4%	3.4%	3.4%
	13:00	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
	14:00	Federal budget (US\$B)	June	n/a	n/a	-347.1
FRIDAY 12	8:30	Producer price index				
		Total (m/m)	June	0.1%	-0.2%	-0.2%
		Excluding food and energy (m/m)	June	0.2%	0.0%	0.0%
	10:00	University of Michigan consumer sentiment index – prel.	July	67.0	71.5	68.2
CANADA						
MONDAY 8	---	---				
TUESDAY 9	---	---				
WEDNESDAY 10	---	---				
THURSDAY 11	---	---				
FRIDAY 12	8:30	Building permits (m/m)	May	-5.2%	-7.2%	20.5%
	9:00	Existing home sales (m/m)	June	n/a	-1.0%	-0.6%

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 July 8 to 12, 2024

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
DURING THE WEEK							
Germany	---	Retail sales	May	0.0%	n/a	-0.2%	2.9%
China	---	Trade balance (US\$B)	June	85.05		82.62	
SUNDAY 7							
Japan	19:50	Current account (¥B)	May	2,051.0		2,524.1	
MONDAY 8							
Germany	2:00	Trade balance (€B)	May	19.9		22.2	
TUESDAY 9							
Japan	19:50	Producer price index	June	0.4%	2.9%	0.7%	2.4%
China	21:30	Consumer price index	June		0.4%		0.3%
China	21:30	Producer price index	June		-0.8%		-1.4%
New Zealand	22:00	Reserve Bank of New Zealand meeting	July	5.50%		5.50%	
WEDNESDAY 10							
Italy	4:00	Industrial production	May	0.0%	n/a	-1.0%	-2.9%
THURSDAY 11							
United Kingdom	2:00	Trade balance (£M)	May	-2,000		-6,750	
United Kingdom	2:00	Construction	May	0.8%	-1.8%	-1.4%	-3.3%
United Kingdom	2:00	Index of services	May	0.2%		0.2%	
United Kingdom	2:00	Monthly GDP	May	0.2%		0.0%	
United Kingdom	2:00	Industrial production	May	0.2%	0.6%	-0.9%	-0.4%
Germany	2:00	Consumer price index – final	June	0.1%	2.2%	0.1%	2.2%
South Korea	---	Bank of Korea meeting	July	3.50%		3.50%	
FRIDAY 12							
Germany	---	Current account (€B)	May	n/a		25.9	
Japan	0:30	Industrial production – final	May	n/a	n/a	2.8%	0.3%
France	2:45	Consumer price index – final	June	0.1%	2.1%	0.1%	2.1%

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).