WEEKLY COMMENTARY

Does US Economic Resilience Mean a Miracle Is Possible?

By Francis Généreux, Principal Economist

The US economy isn't white hot anymore, but it's still surprisingly resilient. It has withstood a number of challenges that could have brought it down. High interest rates, a housing market correction, a rising cost of living, tighter credit conditions, a shaky global economy, relatively low consumer confidence—any one of these could have slowed growth sharply. Yet after two quarters of roughly 2% annualized real GDP growth in the first half of the year, we expect a gain of nearly 4% in the third quarter.

Even more remarkable? Inflation has fallen considerably over the past year without the Federal Reserve's (Fed) restrictive monetary policy triggering a recession. Once upon a time, a soft landing seemed like a pipe dream. Now we're wondering if the Fed can actually pull it off.

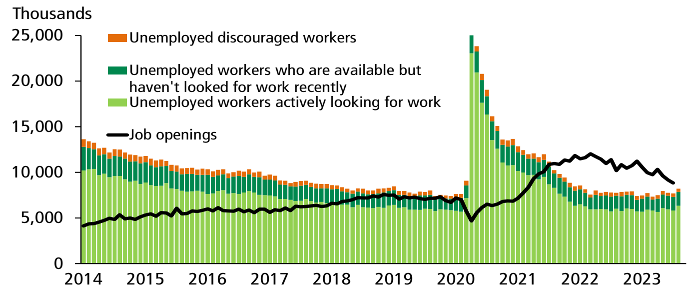
Can inflation really keep closing in on the Fed's 2% target without tanking the economy and the labour market? That was the topic of a September 2022 *Economic Viewpoint* in which we looked at the relationship between wage growth and other labour market indicators, like job openings. A year later, we wanted to see how things have played out.

First, the gap between labour demand and the number of available workers has narrowed (graph 1). It's still relatively easy to find work, but the job market isn't as tight as it was a year or two ago. The same is true of consumer confidence. Not counting the pandemic, this is the first time since 2018 that consumers who say jobs aren't plentiful have outnumbered those who say it's still easy to get a job (graph 2). With labour market optimism waning, workers appear to be less likely to look for better opportunities elsewhere, with quits down 21.2% from their 2022 peak.

This softening of the labour market is affecting worker pay. There's still competition for employees, but it's nowhere near as stiff as it had been, and this has reduced pressure on wages (graph 3 on page 2).

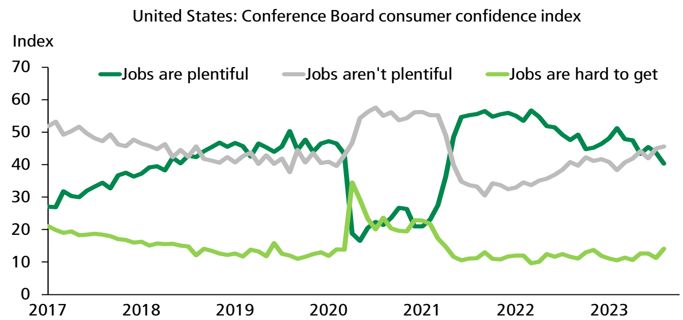
But wage growth will need to slow further to get inflation back to 2%. Between 2000 and 2019, core inflation averaged 2.0%.

GRAPH 1
The Gap between Worker Supply and Demand Is Narrowing in the US



Sources: Bureau of Labor Statistics and Desjardins Economic Studies

GRAPH 2
Consumer Confidence Readings Suggest the Labour Market Is Gradually Normalizing



Sources: Conference Board and Desjardins Economic Studies

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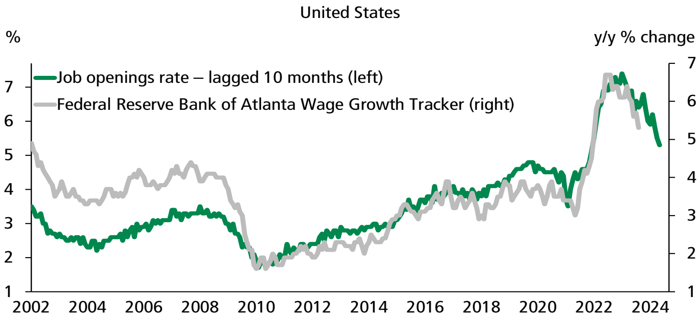
GRAPH 3
Wage Growth Has Slowed



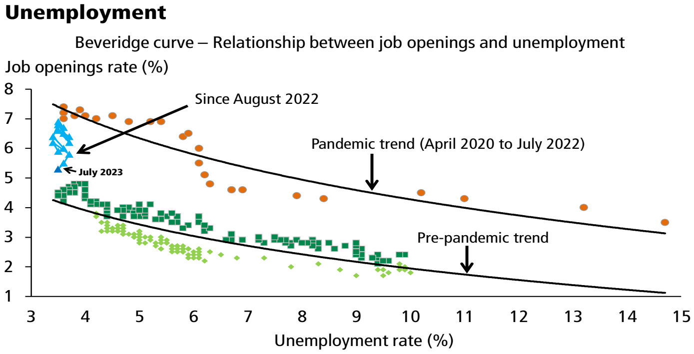
Sources: Bureau of Labor Statistics, Federal Reserve Bank of Atlanta and Desjardins Economic Studies

According to the Federal Reserve Bank of Atlanta's Wage Growth Tracker, annual wage growth during that time averaged 3.4%. To match that number, wage growth would have to slow another 2 percentage points. That means the labour market needs to soften further, starting with job openings. Can that happen without a spike in unemployment? Until recently, it looked like the answer was no. A recession in the US was therefore very likely. But now, the answer surprisingly seems to be yes.

Miracle on the Beveridge Curve

The Beveridge curve shows the inverse relationship between the job openings rate and the unemployment rate (graph 4). It demonstrates how deteriorating economic conditions would send the unemployment rate higher (towards the right in the graph) and the job openings rate lower. During the pandemic, disruptions in the economy and labour market pushed the whole curve up. After the pandemic, the economy could have continued on this new path or returned to its previous trend. It seems to have done the latter. But now the relationship between job openings and unemployment is breaking down. So far, the decline in job openings has affected wage growth, but not the unemployment rate. As a result, price pressures are easing without hurting the economy.

GRAPH 4
The Trend Appears to Be Changing without a Spike in Unemployment



Sources: Bureau of Labor Statistics and Desjardins Economic Studies

If this new trend continues, we will see a soft landing. Congratulations will be in order for the miracle workers at the Fed. But let's not get ahead of ourselves: the fight against inflation isn't over yet. As we discussed above, the job openings rate would have to fall below 4% to be consistent with wage growth of just over 3%, which in turn would be consistent with 2% inflation. Based on the pre-pandemic trend in the Beveridge curve, a job openings rate below 4% would drive up the unemployment rate to around 5%. This is in line with our baseline scenarios and would almost certainly mean a recession, depending on how quickly we get there. But by the looks of the recent data, it's increasingly likely that we could see another scenario in which job openings continue to fall without unemployment spiking. That's because businesses have had trouble finding skilled workers lately, prompting them to hold on to staff and keeping layoffs low. In other words, that miracle soft landing is still in the cards.

What to Watch For

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

UNITED STATES

TUESDAY September 26 - 9:00

July	**y/y**
Consensus	n/a
Desjardins	-0.30%
June	**-1.17%**

S&P/Case-Shiller index of existing home prices (July) – US home prices are clearly back on an upward trajectory. The S&P/Case-Shiller index rose for the fourth month in a row, with June's 0.9% increase bringing its total gain over that period to 3.3%. This no doubt reflects the decline in mortgage rates earlier this year. However, rates have started to rise again since the spring, which is likely to eventually impact home values, especially from the fall onwards. That said, the index probably gained another 0.5% in July, which should push the year-over-year change up from -1.2% to -0.3%.

TUESDAY September 26 - 10:00

September	
Consensus	105.5
Desjardins	106.0
August	**106.1**

Conference Board consumer confidence index (September) – The August Conference Board release was the worst monthly print since August 2021 due to declines in the consumer expectations and consumers' present situation components. Other confidence indexes also dropped last month, but not by as much. Signs for September are more mixed. The University of Michigan index fell again, but the TIPP index improved. Rising gasoline prices and interest rates continue to be pain points for households, while optimism about the labour market is waning. The stock market has been falling since the beginning of the month, so there's nothing to suggest an imminent rebound in consumer confidence. That said, after a dire August, we expect the index to be flat in September.

TUESDAY September 26 - 10:00

August	**ann. rate**
Consensus	700,000
Desjardins	720,000
July	**714,000**

New home sales (August) – After falling 2.8% in June, new single-family home sales rose 4.4% in July. Sales were up an impressive 31.5% compared to July 2022 when the cycle bottomed out. This positive momentum is surprising amid high interest rates and likely reflects low resale market inventory and promotional offers from builders, especially discounts on mortgage rates. Based on the increase in building permits for single-family homes, we're expecting further—albeit more modest—growth in August's print. However, the situation may become less favourable in the coming months as builder confidence starts to deteriorate.

WEDNESDAY September 27 - 8:30

August	**m/m**
Consensus	-0.4%
Desjardins	-1.3%
July	**-5.2%**

Durable goods orders (August) – After spiking 4.3% in June, durable goods orders declined 5.2% in July. Excluding the first wave of the pandemic, this was the biggest drop since January 2018, and was primarily due to a 39.5% plunge in aviation orders (which surged 57.8% the previous month). Based on figures from Boeing, the aviation sector likely plummeted further in August. The automotive sector also probably contracted slightly. We're forecasting a 5.0% drop in new transportation sector orders and a 0.6% rise excluding transportation, up slightly from July's 0.4% gain. We're anticipating a 1.3% contraction in durable goods orders overall.

THURSDAY September 28 - 8:30

Q2 2023 - 3rd est.	**ann. rate**
Consensus	2.3%
Desjardins	2.1%
Q2 2023 - 2nd est.	**2.1%**

Real GDP (second quarter – third estimate and annual update) – Annualized second quarter real GDP growth rose from 2.4% to 2.1% between the advance and second estimates. Generally, the third estimate doesn't change much or come as a surprise. However, Thursday's figures will also include the annual update of the national economic accounts. This update will present revised statistics that cover Q1 2013 through Q1 2023. Price indexes will now use 2017 as their reference year rather than 2012. It'll be interesting to see if this update changes the pattern of real GDP fluctuations in the US.

FRIDAY September 29 - 8:30	
August	**m/m**
Consensus	0.4%
Desjardins	0.5%
July	**0.8%**

Consumer spending (August) – Real consumer spending had its best month since January in July. We're anticipating more modest growth of 0.1% in August after July's 0.6% gain. Motor vehicle sales probably declined, while spending on nondurable goods and food services was likely flat. We expect nominal consumption to have increased 0.5% in August on the back of a 0.5% rise in the Personal Consumption Expenditures deflator. That said, the updates to the national accounts will also impact consumption and personal income data. We'll also have to keep an eye on August's savings rate, which may have dipped due to the end of the moratorium on student loan payments. Interest paid on student loans is considered a non-consumption expense but must still be deducted from income when calculating the savings rate.

CANADA

FRIDAY September 29 - 8:30	
July	**m/m**
Consensus	n/a
Desjardins	0.0%
June	**-0.2%**

Real GDP by industry (July) – July real GDP is expected to come in essentially flat—in line with Statistics Canada's flash estimate—with weakness led by a decline in goods-producing sectors. Construction should be particularly hard hit, as evidenced by a drop in a broad suite of housing market indicators in the month. At the same time, services-producing sectors should have edged higher thanks to relatively broad-based gains led by finance and insurance. The notable exception will probably be transportation and warehousing due to port strikes and wildfires. Looking ahead, Statistics Canada's flash estimate for August is likely to come in at a solid +0.2% m/m, as the July weakness related to port strikes and wildfires subsides.

OVERSEAS

FRIDAY September 29 - 21:30	
September	
Consensus	n/a
August	**51.3**

China: Composite PMI (September) – China's composite PMI reversed its five-month slide, rising from 51.1 in July to 51.3 in August. Although this uptick could be short-lived, the resilience of certain indicators such as industrial production—which gained 4.5% last month—is noteworthy. However, the global trade situation is less rosy, with exports and imports declining once again. September's data will provide greater insight into the state of the Chinese economy, particularly since the central government implemented its new support measures, which are likely to have more of an impact in the coming months.

FRIDAY September 29 - 5:00	
September	**y/y**
Consensus	4.5%
August	**5.2%**

Eurozone: Consumer Price Index (September – preliminary) – Disinflation slowed in August, with an energy price rebound causing the eurozone's monthly CPI to rise 0.5%. Still, the all items index ticked down from 5.3% to 5.2%, a vast improvement over the 10%+ prints we saw last fall. It'll be interesting to see whether headline and core inflation are able to get back on the right track in September.

Economic Indicators

Week of September 25 to 29, 2023

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 25	18:00	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
TUESDAY 26	9:00	S&P/Case-Shiller home price index (y/y)	July	n/a	-0.3%	-1.17%
	10:00	Consumer confidence	Sept.	105.5	106.0	106.1
	10:00	New home sales (ann. rate)	Aug.	700,000	720,000	714,000
	13:00	Speech by Federal Reserve Governor M. Bowman				
WEDNESDAY 27	8:30	Durable goods orders (m/m)	Aug.	-0.4%	-1.3%	-5.2%
THURSDAY 28	8:30	Initial unemployment claims	Sept. 18–22	214,000	225,000	201,000
	8:30	Real GDP (ann. rate)	Q2t	2.3%	2.1%	2.1%
	9:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	10:00	Pending home sales (m/m)	Aug.	0.3%	n/a	0.9%
	13:00	Speech by Federal Reserve Governor L. Cook				
	16:00	Speech by Federal Reserve Chair J. Powell				
	19:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
FRIDAY 29	8:30	Personal income (m/m)	Aug.	0.5%	0.5%	0.2%
	8:30	Personal consumption expenditures (m/m)	Aug.	0.4%	0.5%	0.8%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Aug.	0.5%	0.5%	0.2%
		Excluding food and energy (m/m)	Aug.	0.2%	0.2%	0.2%
		Total (y/y)	Aug.	3.5%	3.5%	3.3%
		Excluding food and energy (y/y)	Aug.	3.9%	3.9%	4.2%
	8:30	Goods trade balance – preliminary (US$B)	Aug.	-91.2	-92.5	-91.2
	8:30	Retail inventories (m/m)	Aug.	n/a	n/a	0.3%
	8:30	Wholesale inventories – preliminary (m/m)	Aug.	-0.2%	n/a	-0.2%
	9:45	Chicago PMI	Sept.	47.4	47.0	48.7
	10:00	University of Michigan consumer sentiment index – final	Sept.	67.7	67.7	67.7
	12:45	Speech by Federal Reserve Bank of New York President J. Williams				
CANADA						
MONDAY 25	---	---				
TUESDAY 26	---	---				
WEDNESDAY 27	---	---				
THURSDAY 28	---	---				
FRIDAY 29	8:30	Real GDP by industry (m/m)	July	n/a	0.0%	-0.2%

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 September 25 to 29, 2023

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
United Kingdom	---	Nationwide house prices	Sept.	-0.5%	-5.8%	-0.8%	-5.3%
MONDAY 25							
Germany	4:00	ifo Business Climate Index	Sept.	85.1		85.7	
Germany	4:00	ifo Current Assessment Index	Sept.	88.0		89.0	
Germany	4:00	ifo Expectations Index	Sept.	82.9		82.6	
TUESDAY 26							
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WEDNESDAY 27							
Japan	1:00	Leading indicator – final	July	n/a		107.6	
Japan	1:00	Coincident index – final	July	n/a		114.5	
Germany	2:00	Consumer confidence	Oct.	-26.0		-25.5	
France	2:45	Consumer confidence	Sept.	84		85	
Eurozone	4:00	M3 money supply	Aug.	-1.1%		-0.4%	
THURSDAY 28							
Italy	4:00	Consumer confidence	Sept.	105.4		106.5	
Italy	4:00	Economic confidence	Sept.	n/a		106.8	
Eurozone	5:00	Consumer confidence – final	Sept.	n/a		-17.8	
Eurozone	5:00	Industrial confidence	Sept.	-10.5		-10.3	
Eurozone	5:00	Services confidence	Sept.	3.5		3.9	
Eurozone	5:00	Economic confidence	Sept.	92.5		93.3	
Germany	8:00	Consumer price index – preliminary	Sept.	0.3%	4.6%	0.3%	6.1%
Mexico	15:00	Bank of Mexico meeting	Sept.	11.25%		11.25%	
Japan	19:30	Tokyo Consumer Price Index	Sept.		2.8%		2.9%
Japan	19:30	Unemployment rate	Aug.	2.6%		2.7%	
Japan	19:50	Industrial production – preliminary	Aug.	-0.8%	-4.8%	-1.8%	-2.3%
Japan	19:50	Retail sales	Aug.	0.5%	6.4%	2.1%	6.8%
FRIDAY 29							
Japan	1:00	Consumer confidence	Sept.	36.2		36.2	
Japan	1:00	Housing starts	Aug.		-8.8%		-6.7%
United Kingdom	2:00	Current account (£B)	Q2	-14.2		-10.8	
United Kingdom	2:00	Real GDP – final	Q2	0.2%	0.4%	0.2%	0.4%
Germany	2:00	Retail sales	Aug.	0.5%	-0.7%	-1.0%	-2.6%
France	2:45	Personal consumption expenditures	Aug.	-0.4%	-1.7%	0.3%	-1.1%
France	2:45	Consumer price index – preliminary	Sept.	-0.2%	5.2%	1.0%	4.9%
Eurozone	5:00	Consumer price index – preliminary	Sept.	0.5%	4.5%	0.5%	5.2%
Italy	5:00	Consumer price index – preliminary	Sept.	0.2%	5.4%	0.3%	5.4%
China	21:30	Composite PMI	Sept.	n/a		51.3	
China	21:30	Manufacturing PMI	Sept.	50.2		49.7	
China	21:30	Non-manufacturing PMI	Sept.	51.5		51.0	

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).