WEEKLY COMMENTARY

A New US Economy?

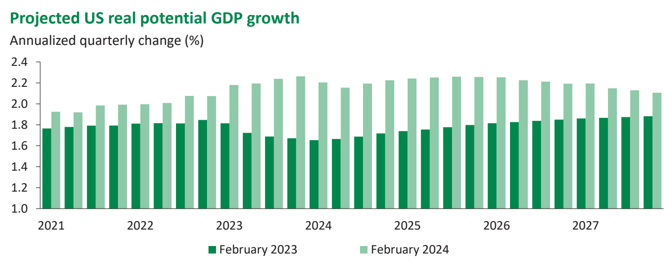
By Francis Généreux, Principal Economist

One of the major themes so far in 2024 has been the surprising resilience of the US economy. Solid real GDP growth in the second half of 2023, improving consumer confidence in recent months, an uptick in some business activity indicators, and a robust job market south of the border in January all argue against an imminent recession. So is the US economy completely immune to a downturn? Not by any stretch. Interest rates remain elevated, excess savings are dwindling and [disruptions in the Red Sea] are jeopardizing the disinflation process. Retail sales, manufacturing output and housing starts were all weak in January. While the weather was likely to blame, these numbers are a reminder we still need to be cautious—especially as the latest inflation data came in stronger than expected. Yet until we get evidence to the contrary, [we still expect healthy US economic growth] in Q1 2024.

But the good news about US economic resilience doesn't end there. Not only is the economy strong, estimates of US real potential GDP growth have improved. When the Congressional Budget Office[1] (CBO) released its latest Budget and Economic Outlook in early February, it raised its projection for potential GDP growth. Potential GDP is defined as the level of GDP the US economy can achieve without generating too much inflation. When actual GDP is higher than potential GDP, we have what's called a positive output gap. Growth exceeds production capacity, resulting in additional price pressures. Conversely, when potential GDP is higher than actual GDP, we have a negative output gap. In this case, production capacity is being underutilized, which tends to reduce inflationary pressures. That said, since the pandemic, the output gap hasn't reflected actual inflationary pressures. Supply and demand disruptions have been too sudden and deep to be captured by an indicator like potential GDP, which relies more on long-term movements. But the potential GDP growth rate is still a useful measure of economic activity.

The fact that potential GDP growth was revised upward is striking, and it's a good sign for the US economy. The projected annual growth rate of real potential GDP for 2024 was raised from 1.7% in February 2023 to 2.2% in February 2024 (graph 1). This 0.5 percentage point increase is significant. It suggests we can expect the US economy to grow faster without fuelling inflation.

Graph 1
Potential GDP Growth Was Revised Sharply Higher



Congressional Budget Office and Desjardins Economic Studies

What's behind this upward revision? Potential GDP projections are based on two factors: labour force growth and productivity growth. The CBO's latest revision was due entirely to higher labour force growth estimates (graph 2 on page 2). Productivity was actually a slight negative contributor to the revised projection of real potential GDP growth. This is quite surprising given the changes that appear to be at work in the US economy.

[1] The CBO is a nonpartisan agency of the US Congress that produces analysis of budgetary and economic issues to support the Congressional budget process.

CONTENT

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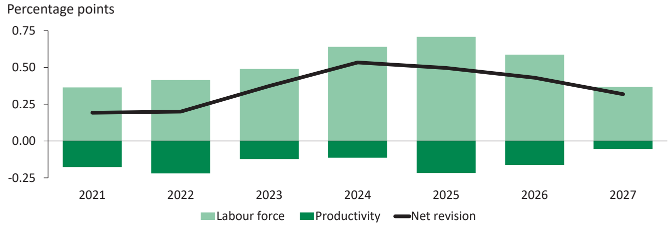
Graph 2
Potential GDP Growth Was Revised Upward Exclusively on the Strength of Updated Labour Force Estimates
Contributions to revised US annual real potential GDP growth



Congressional Budget Office and Desjardins Economic Studies

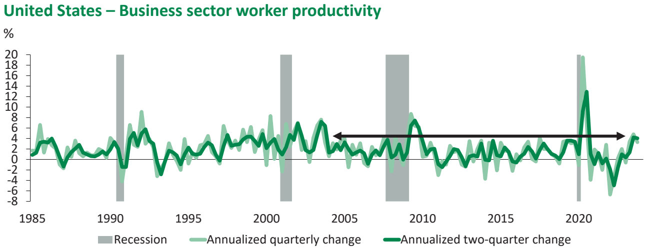
US Productivity Is Surging Again

The CBO is forecasting modest gains in US workers' potential productivity in 2024 and the ensuing two years. Between 2024 and 2026, the average gain is expected to be just 1.1%. That compares to a projected potential productivity gain of 1.4% for 2023. But could productivity surprise to the upside and prove the CBO wrong? It seems increasingly likely.

Productivity—defined as output per hour worked—surged in 2023, and recent productivity growth has hit levels not seen in nearly 20 years if we exclude the pandemic and recessions (graph 3). But can these gains continue?

Graph 3
Productivity Growth Was Especially Strong in the Second Half of 2023

United States – Business sector worker productivity



Bureau of Labor Statistics and Desjardins Economic Studies

On the one hand, it's possible that 2023's gains were simply a rebound following 2022's declines. On the other hand, recent productivity growth seems like more than just a rebound, with levels surpassing early-pandemic highs in 2023. And there are signs this surge in productivity may have staying power. While US productivity data isn't very sector-specific, we know recent productivity growth hasn't come from durable goods manufacturing. But that could soon change. Heavy investment in manufacturing thanks to various federal programs could boost worker productivity in the target industries. The recent interest in artificial intelligence and cloud computing, along with the growing use of robots, online solutions and other information technology, could also bolster productivity.

So there's reason to be cautiously optimistic about future productivity gains. If current productivity growth proves sustainable, it could mean higher potential productivity and real potential GDP growth. Solidifying recent gains would be valuable. It would mean the US economy could grow at a faster pace without generating additional inflationary pressures. It would also give the Fed more leeway in delivering on its dual mandate of maximum employment and stable inflation at a rate of 2%.

There's a good chance the US will be able to build on its recent productivity gains. Increased investment—especially in the manufacturing sector—is cause for cautious optimism. Higher potential GDP driven by both solid labour force growth and improved worker productivity suggests the US economy can continue to expand briskly. It's already proven surprisingly resilient. But could the next few years be just as good, if not better? Other factors could cloud the economic picture, meaning the US economy isn't completely immune to a slowdown. The outcome of November's presidential election is just one unknown that will have major implications.

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

MONDAY February 26 - 10:00

January	ann. rate
Consensus	684,000
Desjardins	690,000
December	**664,000**

New home sales (January) – After plunging almost 16% from July to November, new single-family home sales climbed 8% in December, their biggest monthly advance in a year. We believe this growth continued into the new year, as suggested by the 2.1% increase in building permits for single-family homes and an upswing in the home builder confidence survey. Mortgage applications for home purchases also rose in December and January. We therefore expect single-family home sales to have accelerated to 690,000 units.

TUESDAY February 27 - 8:30

January	m/m
Consensus	-5.0%
Desjardins	-4.0%
December	**0.0%**

Durable goods orders (January) – Month-on-month, orders for transportation equipment (-0.9%) and orders excluding transportation (+0.5%) moved in opposite directions, which resulted in durable goods orders stalling in December. The two sectors probably remained on divergent trajectories in January. But this time we think the negative pull from transportation was strong enough to yank total orders into the red. Aircraft orders are expected to have nosedived as recent safety issues with Boeing jets sent future 737 Max purchases plummeting. Once we also factor in flatlining motor vehicle and parts orders, this likely brought the transportation component down more than 10%. We expect a 0.2% gain in orders excluding transportation, which is in line with both the pickup in the ISM Manufacturing index and the weak manufacturing numbers in January. Overall, we believe durable goods orders lost 4.0%.

TUESDAY February 27 - 9:00

December	y/y
Consensus	6.0%
Desjardins	6.0%
November	**5.4%**

S&P/Case-Shiller index of existing home prices (December) – Although existing home prices rose once again in November, it was the smallest advance since February 2023. It seems that the rise in mortgage interest rates in early fall is finally catching up with home values. We expect that at the end of 2023 the price index slowed further, and maybe even ground to a halt month-on-month. But that doesn't mean the 12-month change didn't increase again in December to end up at 6.0%. The average price for 2023 as a whole was probably 1.7% higher than in 2022, which is outstanding given the high interest rate environment.

TUESDAY February 27 - 10:00

February	Index
Consensus	115.0
Desjardins	115.0
January	**114.8**

Conference Board Consumer Confidence Index (February) – US consumer confidence has soared since November. Overall, it's surged 15.7 points, the biggest three-month jump since May 2021. This lifted the Conference Board index to its highest since December 2021. The recent improvement was mostly driven by consumer views of their current situation and, to a lesser extent, their expectations. This may be the result of lower gasoline prices, which have probably had less of an impact in February since prices at the pump started moving back up. But the uptick has been modest so far, and the past month's stock market rally and the sizzling job market have probably compensated for it. We therefore believe that in February the index consolidated its recent gains.

THURSDAY February 29 - 8:30

January	m/m
Consensus	0.2%
Desjardins	0.2%
December	**0.7%**

Consumer spending (January) – Consumers decided to close out 2023 with a bang, boosting real consumption by 0.5% for two months in a row. That's the strongest streak since spring 2021. But real consumer spending probably slowed in early 2024, as suggested by dwindling new car and retail sales that were dragged down by the plunge in temperatures after December. But the resulting spike in heating demand likely helped mitigate the situation by driving up spending on services. All told, we believe real consumption edged down 0.1%. However, nominal consumption probably went up due to the expected increase in the Personal Consumption Expenditures deflator. We should keep an eye on month-on month increases in the deflator to see if they remain lower than the consumer price index. Meanwhile, we expect the year-on-year change in the deflator to slip from 2.6% to 2.3%, bringing it closer to the Fed target.

FRIDAY March 1 - 10:00	
February	
Consensus	49.5
Desjardins	50.0
January	**49.1**

ISM Manufacturing index (February) – The ISM Manufacturing index jumped 2 points to hit 49.1 in January, the highest it's been since October 2022. In fact, the production (50.4) and new orders (52.5) components even rose past the 50-point threshold. We expect the ISM to have kept rising in February, with the index as a whole possibly reaching 50 as well. The Philadelphia Fed Manufacturing Business Outlook Survey returned to positive territory this month. That said, the volatility of manufacturing indexes and potential shipping-related disruptions to the supply chain may yet surprise us all. This means we also need to keep an eye on the prices paid and supplier deliveries components.

CANADA

MONDAY February 26 - 8:30	
Q4	**$B**
Consensus	-1.61
Desjardins	-2.9
Q3	**-3.2**

Current account balance (Q4 2023) – We anticipate the current account balance to have remained in the red in Q4 2023 due to additional weakness in investment income. This despite the trade balance moving further into positive territory in Q4 2023 and the services trade deficit remaining broadly unchanged.

MONDAY February 26 - 8:30	
December	**m/m**
Consensus	0.2%
Desjardins	0.2%
November	**0.2%**

Real GDP by industry (December) – Real GDP is expected to have increased by 0.2% in December, in line with the prior month's print and below the flash estimate of 0.3% from Statistics Canada. Services-producing sectors likely led output higher, with solid gains from finance and insurance; real estate and rental and leasing; and other services. In contrast, goods-producing sectors may have held growth back in the month due to weakness in construction and utilities. Looking ahead, Statistics Canada's flash estimate for January 2024 could point to another +0.2% advance. We saw solid job gains following the end of the public service strike in Quebec, and it was another decent month for new motor vehicle sales.

THURSDAY February 29 - 8:30	
Q4	**ann. rate**
Consensus	1.0%
Desjardins	0.5%
Q3	**-1.1%**

Real GDP by expenditure (Q4 2023) – Real GDP by expenditure is tracking annualized growth of +0.5% in Q4 2023. Final consumption and net exports likely pushed real GDP higher, offset by soft business investment and a substantial drawdown on inventories that weighed heavily on the quarter. Notably, our forecast falls in the midpoint of the Bank of Canada's latest outlook (0.0%) and the projected quarterly annualized advance in real GDP by industry (around +1.1%). Something to watch in the Q4 2023 real GDP release is the extent of historical revisions. These have been substantial in recent months, leading to meaningful misses in Q2 and Q3 of last year on the part of forecasters, including the Bank of Canada. Our current expectation is that Q3 2023 is likely to be revised up from its current estimate.

OVERSEAS

THURSDAY February 29 - 20:30	
February	
Consensus	n/a
January	**50.9**

China: Composite PMI (February) – China's composite PMI inched up from 50.3 in December to 50.9 in January. This is the highest it's been since September. Recent numbers showed that the manufacturing (49.2) and non-manufacturing (50.7) components have remained on diverging trajectories. These relatively unimpressive figures reflect the struggles of the Chinese economy. We don't get as much Chinese economic data at the start of the year, so it will be interesting to see how PMIs have changed in February. If they show further improvement, that could mean the central government's stimulus program has started to pay off.

FRIDAY March 1 - 5:00	
February	**y/y**
Consensus	2.5%
January	**2.8%**

Eurozone: Consumer price index (February, preliminary) – It looks like eurozone headline inflation has firmly settled below 3%. It was 2.8% in January. That same month, the seasonally adjusted, three-month annualized increase came in at just 1.1%. Core inflation hasn't improved as much, but it's still getting better. The year-on-year change in core CPI, which strips out food and energy, hit 3.3% in January, down from more than 5% six months earlier. Preliminary February data will tell us whether headline and core inflation will keep slowing toward the European Central Bank's target. We'll also be able to see whether the Red Sea crisis and resultant rise in shipping costs have already started affecting consumer prices.

Economic Indicators

Week of February 26 to March 1, 2024

Day	Time	Indicator	Period	Consensus	Desjardins forecast	Previous reading
UNITED STATES						
MONDAY 26	10:00	New home sales (ann. rate)	Jan.	684,000	690,000	664,000
TUESDAY 27	8:30	Durable goods orders (m/m)	Jan.	-5.0%	-4.0%	0.0%
	9:00	S&P/Case-Shiller home price index (y/y)	Dec.	6.00%	6.00%	5.40%
	10:00	Consumer confidence	Feb.	115.0	115.0	114.8
WEDNESDAY 28	8:30	Real GDP – second estimate (ann. rate)	Q4	3.3%	3.3%	3.3%
	8:30	Goods trade balance – preliminary (US$B)	Jan.	-88.6	-91.7	-87.9
	8:30	Retail inventories (m/m)	Jan.	n/a	n/a	0.8%
	8:30	Wholesale inventories – preliminary (m/m)	Jan.	n/a	n/a	0.4%
THURSDAY 29	8:30	Initial unemployment claims	Feb. 19–23	209,000	208,000	201,000
	8:30	Personal income (m/m)	Jan.	0.4%	0.2%	0.3%
	8:30	Personal consumption expenditures (m/m)	Jan.	0.2%	0.2%	0.7%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Jan.	0.3%	0.2%	0.2%
		Excluding food and energy (m/m)	Jan.	0.4%	0.3%	0.2%
		Total (y/y)	Jan.	2.4%	2.3%	2.6%
		Excluding food and energy (y/y)	Jan.	2.8%	2.7%	2.9%
	9:45	Chicago PMI	Feb.	48.0	48.0	46.0
	10:00	Pending home sales (m/m)	Jan.	1.5%	n/a	8.3%
FRIDAY 1	10:00	Construction spending (m/m)	Jan.	0.2%	-0.1%	0.9%
	10:00	University of Michigan consumer sentiment index – final	Feb.	79.6	79.6	79.6
	10:00	ISM Manufacturing index	Feb.	49.5	50.0	49.1
	12:15	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	15:30	Speech by Federal Reserve Governor A. Kugler				
	---	Total vehicle sales (ann. rate)	Feb.	15,400,000	15,400,000	15,000,000
CANADA						
MONDAY 26	---	---				
TUESDAY 27	---	Capital and Repair Expenditures Survey (year)				
WEDNESDAY 28	8:30	Current account balance ($B)	Q4	-1.61	-2.90	-3.22
THURSDAY 29	8:30	Real GDP by industry (m/m)	Dec.	0.2%	0.2%	0.2%
	8:30	Real GDP (ann. rate)	Q4	1.0%	0.5%	-1.1%
	---	2024 Alberta Budget				
	---	2024 Nova Scotia Budget				
FRIDAY 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 Standard Time (GMT - 5 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of February 26 to March 1, 2024

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 26							
Japan	18:30	Consumer price index	Jan.		1.9%		2.6%
TUESDAY 27							
Germany	2:00	Consumer confidence	Mar.	-29.0		-29.7	
France	2:45	Consumer confidence	Feb.	92		91	
Eurozone	4:00	M3 money supply	Jan.		0.3%		0.1%
New Zealand	20:00	Reserve Bank of New Zealand meeting	Feb.	5.50%		5.50%	
WEDNESDAY 28							
Italy	4:00	Consumer confidence	Feb.	97.0		96.4	
Italy	4:00	Economic confidence	Feb.	n/a		98.1	
Eurozone	5:00	Consumer confidence – final	Feb.	n/a		-15.5	
Eurozone	5:00	Services confidence	Feb.	9.0		8.8	
Eurozone	5:00	Industrial confidence	Feb.	-9.2		-9.3	
Eurozone	5:00	Economic confidence	Feb.	96.6		96.2	
Japan	18:50	Retail sales	Jan.	0.5%	2.0%	-2.6%	2.3%
Japan	18:50	Industrial production – preliminary	Jan.	-7.0%	-1.8%	1.4%	-1.0%
THURSDAY 29							
Japan	0:00	Housing starts	Jan.		7.8%		-4.0%
Germany	2:00	Retail sales	Jan.	0.5%	-1.7%	-1.1%	-4.1%
France	2:45	Personal consumption expenditures	Jan.	-0.2%	n/a	0.3%	1.3%
France	2:45	Consumer price index – preliminary	Feb.	0.7%	2.8%	-0.2%	3.1%
France	2:45	Real GDP – final	Q4	0.0%	0.7%	0.0%	0.7%
Germany	8:00	Consumer price index – preliminary	Feb.	0.5%	2.6%	0.2%	2.9%
Japan	18:50	Unemployment rate	Jan.	2.4%		2.4%	
Japan	19:30	Manufacturing PMI – final	Feb.	n/a		47.2	
China	20:30	Composite PMI	Feb.	n/a		50.9	
China	20:30	Manufacturing PMI	Feb.	49.1		49.2	
China	20:30	Non-manufacturing PMI	Feb.	50.8		50.7	
FRIDAY 1							
Japan	0:00	Consumer confidence	Feb.	38.3		38.0	
United Kingdom	2:00	Nationwide house prices	Feb.	0.2%	0.6%	0.7%	-0.2%
Italy	3:45	Composite PMI	Feb.	49.0		48.5	
France	3:50	Manufacturing PMI – final	Feb.	46.8		46.8	
Germany	3:55	Manufacturing PMI – final	Feb.	42.3		42.3	
Italy	4:00	Unemployment rate	Jan.	7.3%		7.2%	
Eurozone	4:00	Manufacturing PMI – final	Feb.	46.1		46.1	
United Kingdom	4:30	Manufacturing PMI – final	Feb.	47.1		47.1	
Italy	5:00	Consumer price index – preliminary	Feb.	0.3%	0.8%	0.3%	0.8%
Eurozone	5:00	Consumer price index – preliminary	Feb.	0.6%	2.5%	-0.4%	2.8%
Eurozone	5:00	Unemployment rate	Jan.	6.4%		6.4%	

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).