WEEKLY COMMENTARY

Web Conference Q&A

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

Last Tuesday we held our fall web conference. (The playback is available here, in French only.) As always, participants had many questions. This week we're dedicating our Weekly Commentary to answering some of the most frequently asked.

1. What are the biggest risks posed by the conflict in the Middle East?

The main risk is war engulfing the Middle East. The likelihood of that has grown in recent weeks. A direct confrontation would impact financial markets, especially as the threat to supply would raise the risk premium on oil. Stock market indexes are hitting record highs, which suggests that so far the markets have been complacent about the risks in the region. As a result, if there's a major military offensive, risk assets look particularly vulnerable. Soaring energy prices would fuel inflation, but central banks may not necessarily feel the need to respond. The root causes of these price gains wouldn't be solved by tighter monetary policy, and history has shown that they tend not to last. Central banks would also be well aware of how a wider conflict could shatter confidence and potentially disrupt supply chains, which would have serious implications for the economy.

2. We're seeing many new measures to stimulate residential construction. Can we hope for housing to become affordable again?

Governments have put a lot of measures into place, some of which were aligned with our recommendations for Canada. Yet despite their good intentions, we've shown that constraints on labour in the construction industry will continue to be a major challenge. Furthermore, our analyses demonstrate that in an optimistic scenario, housing starts would reach at most slightly more than 300,000 units annually, with labour costs rising substantially due to the shortage of workers. Population growth must therefore be restrained. Other barriers limiting supply—such as local infrastructure financing for real estate developments—also need to come down. In addition, the construction industry needs to boost its productivity, which currently trails the average across all sectors.

3. The policy interest rate has already been cut several times. Why aren't mortgage rates falling faster?

The Bank of Canada's rate cuts were widely expected and had already been priced into fixed mortgage rates. Markets would have to expect even more aggressive rate cuts for fixed rates to fall significantly. But deeper cuts would only happen in response to a downside scenario for economic growth. As we explained in a recent note, Bank of Canada rate cuts only have an immediate impact on variable rates. The policy rate is still high, as the 75 basis points trimmed so far only partly reverse the 475-point increase over 2022 and 2023. Variable rates are expected to slide further and even fall below five-year fixed rates in about a year. But we need to have realistic expectations, as our forecasts see interest rates stabilizing in 2025 at higher levels than the pre-pandemic norm.

4. What's next for the Canadian dollar?

Right now, the Canadian dollar is being heavily influenced by the trajectory of the US dollar index. The Fed is determined to prevent the economy from cooling too quickly, which is weighing on the greenback and therefore offering support to the loonie. Although we expect the Canadian dollar to keep trending upward until the end of 2025, its rise should be very gradual. The loonie will probably spend the next few months hovering around recent levels. Our latest currency forecasts are available here.

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5. What are the biggest challenges to housing supply? The construction industry seems unable to boost productivity even though there's been some innovation.
There are numerous constraints, some of which we touched on in our answer to question 2. These challenges include a shortage of labour and materials, permit delays, development costs, NIMBY opposition to high-density initiatives and the construction industry's slow adoption of new technology. It would be hard to single out any of these challenges as the primary culprit. A note we published in January looked at productivity issues in construction. Prefabricated and modular homes hold a lot of promise as a way to deliver housing more quickly and affordably. Earlier this year, the federal government announced that it would launch an innovation fund to encourage this kind of construction. That said, the details are still a little fuzzy on where this money will come from.

6. As more and more workers retire over the next few years, how can employers keep doing business—much less expand—if they hire fewer people?
Businesses aren't hiring as much these days, but the fact that they also haven't been laying many people off shows they understand how hard recruiting can be with an aging population. That's also why it would be a serious mistake to completely shut the door on immigration when there are persistent structural labour shortages in critical sectors like health, education and construction. But beyond that, businesses will have to invest in automation and technology, which will improve productivity by reducing dependence on workers to complete certain tasks. This includes adopting artificial intelligence for customer service and using robots in warehouses. This will also mean changes in working conditions. Skills development and continuing education will be key to meeting this challenge.

7. It seems counterintuitive that despite the thousands of jobs available, many people are having trouble finding a job right now. Can you shed some light on this situation?
Canada is currently not at full employment. Job vacancies are at their lowest since early 2019, while the unemployment rate has climbed to 6.6%. This is hitting first-time job seekers especially hard, particularly youth and immigrants in larger metropolitan areas. That said, there will always be individuals who have trouble finding a job that suits their skills, aspirations or location. The jobs available aren't always the right fit for a job seeker's qualifications or expectations, resulting in mismatched supply and demand in the labour market.

What to Watch For

UNITED STATES

TUESDAY October 1 - 10:00

September	
Consensus	47.0
Desjardins	47.7
August	**47.2**

ISM Manufacturing index (September) – After declining for four consecutive months, the ISM Manufacturing index inched up by 0.4 points in August, although it remains low at 47.2. Even though the ISM Manufacturing index is still under 50 and has been stuck in this contraction zone for 21 of the last 22 months, this weakness didn't extend to manufacturing output, which rose year-over-year in August. Based on the regional manufacturing indicators published so far this month, we expect the ISM Manufacturing index to have ticked higher in September to 47.7.

THURSDAY October 3 - 10:00

September	
Consensus	51.5
Desjardins	51.9
August	**51.5**

ISM Services index (September) – The ISM Services index eked out a 0.1-point gain in August. At 51.5, it remains quite low but continues to signal economic growth. Most of the regional non-manufacturing indexes published so far this month are up, while consumer confidence indexes are somewhat mixed. The ISM Services index likely edged up in September, but probably remained below 52.

FRIDAY October 4 - 8:30

September	
Consensus	132,000
Desjardins	150,000
August	**142,000**

Change in nonfarm payrolls (September) – After July's weak print, August's hiring gains eased the most acute fears of an imminent recession. That said, August's data was nothing to write home about, as employment growth was still below expectations, and the previous two monthly prints were revised lower. Based on the recent decline in unemployment claims, we're expecting a slightly stronger showing in September. However, consumers were less confident about the ease of finding work this month, suggesting that any improvement in hiring will be quite limited. The strike at Boeing is unlikely to affect employment because it started at the end of the reference week. Hurricane Francine also made landfall toward the end of the same week. In both cases, since the affected employees were at work during the week, they will be considered employed. Hiring is expected to have increased to 150,000, while the unemployment rate likely stayed put at 4.2%.

OVERSEAS

SUNDAY September 29 - 21:30

September	
Consensus	n/a
August	**50.1**

China: Composite PMI (September) – China's composite PMI has fallen for six months in a row and is barely above the 50-point mark, the threshold between economic contraction and expansion. The manufacturing index dropped below 50 in May and has remained there ever since due to weak domestic demand. The impact of China's sluggish property market seems to be spreading to other sectors, including transportation, services and manufacturing output. Despite the new stimulus measures announced earlier this week, it'll take some time before the situation begins to normalize. September's PMI indexes are likely to mirror recent months' prints, suggesting rather weak economic growth at the end of the third quarter.

TUESDAY October 1 - 5:00

September	**y/y**
Consensus	1.9%
August	**2.2%**

Eurozone: Consumer price index (September – preliminary) – Inflation continues to ease in the eurozone. It fell to 2.2% in August, its lowest level since July 2021. However, core inflation was a little stickier at 2.8% in August, the same as the average for the previous five months. It remains to be seen whether headline inflation has slowed again in September. A 0.1% monthly increase would put the index's year-over-year change below the European Central Bank's 2% target, which could push the Governing Council to cut interest rates again.

Economic Indicators

Week of September 30 to October 4, 2024

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 30	9:45	Chicago PMI	Sept.	46.4	47.0	46.1
	13:00	Speech by Federal Reserve Chair J. Powell	August			
TUESDAY 1	10:00	Construction spending (m/m)	August	0.1%	0.3%	-0.3%
	10:00	ISM Manufacturing index	Sept.	47.0	47.7	47.2
	11:10	Speech by Federal Reserve Bank of Atlanta President R. Bostic and Federal Reserve Governor L. Cook				
	18:15	Speech by Federal Reserve Bank of Richmond President T. Barkin and Federal Reserve Bank of Boston President S. Collins				
	---	Total vehicle sales (ann. rate)	Sept.	15,700,000	16,000,000	15,130,000
WEDNESDAY 2	11:00	Speech by Federal Reserve Governor M. Bowman				
THURSDAY 3	8:30	Initial unemployment claims	Sept. 23–27	n/a	224,000	218,000
	10:00	ISM Services index	Sept.	51.5	51.9	51.5
	10:00	Factory orders (m/m)	August	0.1%	0.2%	5.0%
	10:40	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari and Federal Reserve Bank of Atlanta President R. Bostic				
FRIDAY 4	8:30	Change in nonfarm payrolls	Sept.	132,000	150,000	142,000
	8:30	Unemployment rate	Sept.	4.2%	4.2%	4.2%
	8:30	Average weekly hours	Sept.	34.3	34.2	34.3
	8:30	Average hourly earnings (m/m)	Sept.	0.3%	0.2%	0.4%

CANADA

MONDAY 30	---	Bond markets closed (National Day for Truth and Reconciliation)
TUESDAY 1	---	---
WEDNESDAY 2	---	---
THURSDAY 3	---	---
FRIDAY 4	---	---

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 30 to October 4, 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 29							
Japan	19:50	Industrial production – preliminary	August	-0.5%	-1.5%	3.1%	2.9%
Japan	19:50	Retail sales	August	0.5%	2.6%	0.2%	2.6%
China	21:30	Composite PMI	Sept.	n/a		50.1	
China	21:30	Manufacturing PMI	Sept.	49.4		49.1	
China	21:30	Non-manufacturing PMI	Sept.	50.4		50.3	
MONDAY 30							
Japan	1:00	Housing starts	August		-3.5%		-0.2%
United Kingdom	2:00	Current account (£B)	Q2	-33.0		-21.0	
United Kingdom	2:00	Real GDP – final	Q2	0.6%	0.9%	0.6%	0.9%
United Kingdom	2:00	Nationwide house prices	Sept.	0.3%	2.7%	-0.2%	2.4%
Italy	5:00	Consumer price index – preliminary	Sept.	-0.2%	0.7%	0.2%	1.1%
Germany	8:00	Consumer price index – preliminary	Sept.	0.1%	1.7%	-0.1%	1.9%
Japan	19:30	Unemployment rate	August	2.6%		2.7%	
TUESDAY 1							
Italy	3:45	Manufacturing PMI	Sept.	49.0		49.4	
Germany	3:55	Manufacturing PMI – final	Sept.	40.3		40.3	
France	3:50	Manufacturing PMI – final	Sept.	44.0		44.0	
Eurozone	4:00	Manufacturing PMI – final	Sept.	44.8		44.8	
United Kingdom	4:30	Manufacturing PMI – final	Sept.	51.5		51.5	
Eurozone	5:00	Consumer price index	Sept.	0.0%	1.9%	0.1%	2.2%
WEDNESDAY 2							
Japan	1:00	Consumer confidence	Sept.	37.0		36.7	
Italy	4:00	Unemployment rate	August	6.6%		6.5%	
Eurozone	5:00	Unemployment rate	August	6.5%		6.4%	
THURSDAY 3							
Italy	3:45	Composite PMI	Sept.	n/a		50.8	
Italy	3:45	Services PMI	Sept.	51.4		51.4	
France	3:50	Composite PMI – final	Sept.	47.4		47.4	
France	3:50	Services PMI – final	Sept.	48.8		48.3	
Germany	3:55	Composite PMI – final	Sept.	47.2		47.2	
Germany	3:55	Services PMI – final	Sept.	50.6		50.6	
Eurozone	4:00	Composite PMI – final	Sept.	48.9		48.9	
Eurozone	4:00	Services PMI – final	Sept.	50.5		50.5	
United Kingdom	4:30	Composite PMI – final	Sept.	52.9		52.9	
United Kingdom	4:30	Services PMI – final	Sept.	52.8		52.8	
Eurozone	5:00	Producer price index	August	0.4%	-2.3%	0.8%	-2.1%
FRIDAY 4							
France	2:45	Industrial production	August	0.4%	-1.9%	-0.5%	-2.2%
Italy	6:00	Retail sales	August	n/a	n/a	0.5%	1.0%

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).