

WEEKLY COMMENTARY

5 Questions Following June's Central Bank Rate Announcements

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

1. Will the Bank of Canada (BoC) cut rates again in July?

The BoC could have started cutting in April, but it wanted further evidence that inflation is coming down, which it got. This delay was probably not strictly due to a lack of confidence, but also to a desire to take into account how the expectations of market participants, forecasters, businesses and households were likely to shift once the train of rate cuts left the station. Given current conditions, we expect the BoC to lower rates again in July. We're still calling for a total of four cuts this year.

2. What does the BoC's rate cut mean for mortgages?

The BoC's initial rate cut was mostly symbolic. The winners are variable-rate mortgage holders, who were hit hard by rate hikes over the last two years. But renewing at a variable rate [isn't necessarily the best option right now](#). Compared to a fixed rate locked in for a slightly longer term, the potential savings of a variable rate don't compensate for the risk. That could change in a couple of years when we think rates will stabilize at lower levels. But for borrowers worried that their payments will go up, a long-term fixed rate will be just as attractive. That's why [we're calling for](#) incentives to encourage lenders to offer 10-year fixed-rate mortgages.

3. Will lower interest rates lead the housing market to overheat again?

If that was going to happen, we'd probably be seeing it already. Even though rate cuts were widely anticipated, pricey housing markets like Vancouver and Toronto haven't been all that hot this year. On the contrary. In Quebec, sales have [recovered](#) but remain below pandemic highs. Listings are up in many areas of the country, a sign that homeowners are eager to sell. Given today's low inventories and pent-up demand, we could see prices rise,

but severe [affordability challenges](#) will continue to sideline most first-time home buyers and keep a lid on prices.

4. Why did the Federal Reserve (Fed) trim its rate cut projections for this year?

The Fed kept rates unchanged this week despite encouraging new inflation data. Only 8 of 19 FOMC members think two rate cuts will be warranted this year, with the median forecast now seeing just one reduction instead of two. This means that a couple of encouraging inflation reports aren't enough to satisfy the Fed. Wage growth will have to come down to reassure them that the decline in services inflation we're starting to see will continue. Although Jerome Powell is downplaying the possibility of additional rate hikes, some Fed officials have recently signalled they're still open to the idea. US and Canadian interest rates have diverged this month, but the loonie has largely held its ground, falling less than 1% since the start of June. Despite recent divergence concerns, we [believe](#) the BoC has ample room to pursue its own monetary policy.

5. The BoC has hinted at its next moves. Why is the European Central Bank (ECB) playing it so close to the vest?

Faced with economic uncertainty and inflationary pressures, the ECB this month revised its inflation projections higher and noted that progress on inflation has been very uneven across the eurozone. Wage growth remains historically strong in Europe, unlike in Canada where it's showing signs of moderating. It's hard for central banks to cut rates decisively under such circumstances. So the ECB will likely fall somewhere between the BoC and the Fed when it comes to the number of rate cuts in the second half of the year.

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What to Watch For

TUESDAY June 18 - 8:30

May	m/m
Consensus	0.3%
Desjardins	0.3%
April	0.0%

TUESDAY June 18 - 9:15

May	m/m
Consensus	0.4%
Desjardins	0.4%
April	0.0%

THURSDAY June 20 - 8:30

May	ann. rate
Consensus	1,375,000
Desjardins	1,425,000
April	1,360,000

FRIDAY June 21 - 10:00

May	m/m
Consensus	-0.3%
Desjardins	-0.4%
April	-0.6%

FRIDAY June 21 - 10:00

May	ann. rate
Consensus	4,100,000
Desjardins	4,000,000
April	4,140,000

MONDAY June 17 - 8:15

May	ann. rate
Consensus	245,300
Desjardins	236,000
April	240,200

UNITED STATES

Retail sales (May) – Retail sales fell short of expectations in April. Growth appeared to hold steady, but that concealed a 0.2% drop in sales excluding gas station receipts. In contrast, gas stations likely had a negative impact on total sales in May, as lower gasoline prices are expected to have reduced the value of their receipts. That said, other sectors probably did better. We expect an uptick in motor vehicle sales. We also anticipate a 0.5% gain in retail sales excluding gasoline and motor vehicles, along with a 0.3% increase in total sales.

Industrial production (May) – Industrial production flatlined in April as slowdowns in mining and manufacturing activity were offset by a surge in energy production. Despite the decrease in the ISM index, manufacturing output may have risen substantially in May, as suggested by the increase in hours worked in that sector. However, mining likely posted another decline, while energy production is expected to have contracted slightly. Total industrial production probably expanded by 0.4%.

Housing starts (May) – US housing starts are still highly volatile. They've alternated between monthly increases and decreases since the year began. After plunging 16.7% in March, they climbed 5.7% in April. Another jump is projected for May. This is suggested by the upsurge in building permits, as well as the May gains in employment and hours worked in the construction industry. We therefore expect housing starts to have topped 1,400,000.

Leading indicator (May) – After rising in February, the leading indicator started trending downward again in March (-0.3%) and April (-0.6%). We expect the indicator to have fallen further in May. The ISM index, consumer confidence, yield spreads and unemployment claims all probably helped push it downward. We believe the leading indicator probably sank by 0.4%.

Existing home sales (May) – After starting the year strong with a 12.9% cumulative increase in January and February, existing home sales lost ground in subsequent months, retreating 3.7% in March and 1.9% in April. They're expected to have sagged again in May. Pending home sales plunged 7.7% in April, the biggest drop since February 2021. This should have affected the sales that closed in May. That said, regional data released to date shows a modest uptick. All in all, we expect resales to have dipped slightly to 4,000,000 units, but both upside and downside risks were in play.

CANADA

Housing starts (May) – We expect housing starts to have continued their gradual decline in May, likely falling to 236k from about 240k in April. The construction sector continues to face multiple headwinds: high borrowing costs, shortages of skilled labour and sky-high residential building construction inflation. Altogether, we are projecting this year's housing starts to lag well behind those in 2023.

MONDAY June 17 - 9:00

May	m/m
Consensus	n/a
Desjardins	-1.0%
April	-1.7%

FRIDAY June 21 - 8:30

April	m/m
Consensus	0.7%
Desjardins	0.8%
March	-0.2%

SUNDAY June 16 - 22:00
May
WEDNESDAY June 19 - 2:00

May	y/y
Consensus	2.0%
April	2.3%

THURSDAY June 20 - 7:00

June	
Consensus	5.25%
Desjardins	5.25%
May 9	5.25%

THURSDAY June 20 - 19:30

May	y/y
Consensus	2.9%
April	2.5%

Existing home sales (May) – We’re anticipating a monthly decline of 1.0% in May for home sales, following a 1.7% m/m drop in April. Would-be homebuyers appear to have waited on the sidelines for the start of interest rate cuts by the Bank of Canada. Early figures from local real estate boards showed small declines in sales in Toronto, Vancouver and Calgary. New listings have outpaced sales in Toronto and Vancouver, leading to a buyer’s market in both cities. This may reduce upward pressures on prices in these cities, and in fact home sale prices have been essentially flat to date in Toronto.

Retail sales (April) – We expect retail sales to have increased by 0.8% in April, just one tick higher than Statistics Canada’s flash estimate of 0.7%. We anticipate that growth in sales at gasoline stations and fuel vendors was strong on the back of higher prices, which likely more than offset the potential decline in consumer purchases of motor vehicles and parts. Core retail sales, which exclude autos and gasoline, probably edged up. For May’s flash estimate, we anticipate a slightly positive print driven by core retail sales despite possible declines at auto retailers and gas stations, the latter being driven by a price effect given lower gas prices in May compared to April.

OVERSEAS

China: Industrial production and retail sales (May) – The Chinese economy’s year-to-date performance has been relatively mixed, but industrial production was one of the indicators that posted substantial gains. In April, it grew to 6.7% year-on-year, up from 4.5% the previous month. That said, the manufacturing PMI slipped below 50 points, signalling a contraction in this sector, which would in turn slow growth in industrial production. Retail sales have also posted smaller gains since January and are included among the indicators that are underperforming. The property crisis continues to sap consumer confidence, which has been reflected in household spending.

United Kingdom: Consumer price index (May) – UK inflation slowed sharply in April, sliding from 3.2% to just 2.3%. This is the slowest it’s been since July 2021 and is well below the 8.7% posted in April 2023. That said, core inflation is proving more persistent. The core consumer price index—which strips out food, energy, alcohol and tobacco—came in at 3.9% in April. The Bank of England would like to see another pullback in inflation for May.

United Kingdom: Bank of England meeting (June) – The Bank of England (BoE) probably won’t follow the example of the European Central Bank, which started cutting key interest rates in early June. The conditions for such a move still haven’t been met, and although considerable progress has been made on inflation, it still seems shaky. Services inflation remains especially sticky, which is in line with persistently strong wage growth. Economically speaking, the year started off better than expected, but more recent data on employment and industrial production still shows problems that will probably exert more downward pressure on inflation. Finally, the UK election is another reason why the BoE should stay on the sidelines.

Japan: Consumer price index (May) – Japanese inflation cooled further in April. Japan’s core consumer price index, which excludes fresh food and energy, fell to 2.4%, a low since September 2022. But headline inflation is expected to have picked up again in May. That’s what the preliminary data from the Tokyo area is signalling. However, the same data suggests this acceleration mostly came from energy prices, so core inflation may have slowed a little further.

FRIDAY June 21 - 4:00

June


Consensus 52.5


May **52.2**

Eurozone: PMI (June – preliminary) – The eurozone Composite PMI continued to advance, rising from 51.7 in March to 52.2 in April. But the Services PMI fell (-0.1 points) for the first time since December 2023. Although this is an isolated case for now, we'll check the May data to see whether a downward trend is emerging. It's worth pointing out that the Services PMI remains above 50 points, which means the economy is still expanding. Meanwhile, the Manufacturing PMI has stayed on an uptrend. The sector finally seems to be emerging from the extended slump triggered by the 2022 energy crisis. Overall, the recent PMI readings suggest the eurozone is returning to growth, and the June print will show us whether the recovery is ongoing.

Economic Indicators

Week of June 17 to 21, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 17	8:30	Empire State Manufacturing Index	June	-14.0	-5.0	-15.6
	13:00	Speech by Federal Reserve Bank of Philadelphia President P. Harker				
TUESDAY 18	8:30	Retail sales				
		Total (m/m)	May	0.3%	0.3%	0.0%
		Excluding automobiles (m/m)	May	0.2%	0.4%	0.2%
	9:15	Industrial production (m/m)	May	0.4%	0.4%	0.0%
	9:15	Production capacity utilization rate	May	78.6%	78.6%	78.4%
	10:00	Business inventories (m/m)	April	0.3%	0.3%	-0.1%
	10:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	11:40	Speech by Federal Reserve Bank of Boston President S. Collins				
	13:00	Speech by Federal Reserve Bank of Dallas President L. Logan				
	13:00	Speech by Federal Reserve Governor A. Kugler				
13:20	Speech by Federal Reserve Bank of St. Louis President A. Musalem					
14:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee					
WEDNESDAY 19	10:00	NAHB housing market index	June	45	n/a	45
THURSDAY 20	8:30	Initial unemployment claims	June 10–14	n/a	228,000	242,000
	8:30	Current account (US\$B)	Q1	-206.1	-207.0	-194.8
	8:30	Philadelphia Fed index	June	4.5	2.0	4.5
	8:30	Housing starts (ann. rate)	May	1,375,000	1,425,000	1,360,000
	8:30	Building permits (ann. rate)	May	1,460,000	1,430,000	1,440,000
FRIDAY 21	10:00	Leading indicator (m/m)	May	-0.3%	-0.4%	-0.6%
	10:00	Existing home sales (ann. rate)	May	4,100,000	4,000,000	4,140,000
	16:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
CANADA						
MONDAY 17	8:15	Housing starts (ann. rate)	May	245,300	236,000	240,200
	9:00	Existing home sales (m/m)	May	n/a	-1.0%	-1.7%
TUESDAY 18	---	---				
WEDNESDAY 19	13:30	Release of the Bank of Canada Summary of Deliberations				
THURSDAY 20	---	---				
FRIDAY 21	8:30	Industrial product price index (m/m)	May	n/a	0.5%	1.5%
	8:30	Raw materials price index (m/m)	May	n/a	-0.6%	5.5%
	8:30	Retail sales				
		Total (m/m)	April	0.7%	0.8%	-0.2%
	Excluding automobiles (m/m)	April	0.5%	1.5%	-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 June 17 to 21, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
SUNDAY 16								
China	22:00	Industrial production	May		6.2%		6.7%	
China	22:00	Retail sales	May		3.0%		2.3%	
MONDAY 17								
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TUESDAY 18								
Australia	0:30	Reserve Bank of Australia meeting	June	4.35%		4.35%		
Eurozone	5:00	Consumer price index – final	May	0.2%	2.6%	0.2%	2.4%	
Germany	5:00	ZEW Current Conditions Survey	June	-65.0		-72.3		
Germany	5:00	ZEW Expectations Survey	June	49.5		47.1		
Japan	19:50	Trade balance (¥B)	May	-625.2		-560.8		
WEDNESDAY 19								
United Kingdom	2:00	Consumer price index	May	0.4%	2.0%	0.3%	2.3%	
United Kingdom	2:00	Producer price index	May	0.1%	1.7%	0.2%	1.1%	
Eurozone	4:00	Current account (€B)	April	n/a		35.8		
Eurozone	5:00	Construction	April	n/a	n/a	0.1%	0.1%	
Brazil	17:30	Central Bank of Brazil meeting	June	10.50%		10.50%		
THURSDAY 20								
Switzerland	3:30	Swiss National Bank meeting	June	1.38%		1.50%		
Norway	4:00	Bank of Norway meeting	June	4.50%		4.50%		
United Kingdom	7:00	Bank of England meeting	June	5.25%		5.25%		
Eurozone	10:00	Consumer confidence – preliminary	June	-13.8		-14.3		
United Kingdom	19:01	Consumer confidence	June	-16		-17		
Japan	19:30	Consumer price index	May		2.9%		2.5%	
Japan	20:30	Composite PMI – preliminary	June	n/a		52.6		
FRIDAY 21								
United Kingdom	2:00	Retail sales	May	1.6%	-0.6%	-2.3%	-2.7%	
France	3:15	Composite PMI – preliminary	June	49.7		48.9		
France	3:15	Manufacturing PMI – preliminary	June	46.9		46.4		
France	3:15	Services PMI – preliminary	June	50.0		49.3		
Germany	3:30	Composite PMI – preliminary	June	52.8		52.4		
Germany	3:30	Manufacturing PMI – preliminary	June	46.4		45.4		
Germany	3:30	Services PMI – preliminary	June	54.4		54.2		
Eurozone	4:00	Composite PMI – preliminary	June	52.5		52.2		
Eurozone	4:00	Manufacturing PMI – preliminary	June	47.9		47.3		
Eurozone	4:00	Services PMI – preliminary	June	53.5		53.2		
United Kingdom	4:30	Composite PMI – preliminary	June	53.2		53.0		
United Kingdom	4:30	Manufacturing PMI – preliminary	June	51.3		51.2		
United Kingdom	4:30	Services PMI – preliminary	June	53.0		52.9		

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).