

# WEEKLY COMMENTARY

## Credit Where Credit Is Due

By Royce Mendes, Managing Director and Head of Macro Strategy

Inflation has fallen just about as fast as it went up, going from 8.1% to just 1.6% in the span of two years. The mechanics of that sharp decline are both simple and complex at the same time.

Pandemic-related supply chain disruptions and pent-up demand have both faded, even if they took longer than anticipated to turn a corner. Labour shortages are a thing of the past, as businesses and workers found each other after settling into the new post-COVID world. On the surface, it's a simple story about transitory disruptions and reorientation. However, that ignores the important role that anchored inflation expectations played.

The fact that households and businesses believed that inflation would eventually return to a lower trend kept their spending and investment in check. If consumers believed inflation was going to remain high, they would have rushed to make purchases before prices rose further. Firms would have responded to the increased demand by raising prices even faster and attempting to add more labour and capital. Hiring and investment would have pushed up wages, and an ensuing wage-price spiral could have taken hold.

Such a scenario didn't play out because of the actions taken by both current central bankers and former policymakers. Aggressive rate hiking cycles not only cooled off overheated economies, but served as a stark warning for those that might have believed monetary policymakers weren't committed to containing price pressures. Global central bankers seemed willing to accept recessions in their local jurisdictions if it meant controlling inflation. These actions were informed by the successes and failures of central bankers over the past 100 years.

Formalized inflation targets, increased independence and three decades of success in keeping inflation low had shown the ability of the current central bank model to maintain price stability.

Throughout the world, governments of all political stripes seemingly abandoned perceived fiscal constraints, driving inflation rather than cooling it in recent years. However, most governments should get credit for maintaining the institutional independence of their central banks through the recent hiking cycle. At a time when populism has left fiscal conservatism in the rearview mirror, the independence afforded to developed market central banks proved absolutely necessary to contain inflation.

The Nobel prize in economics was awarded to Daron Acemoglu, Simon Johnson and James Robinson this week for their research showing that strong domestic institutions increase the likelihood of economic prosperity. On that note, one of the most important implications of the upcoming US election for financial markets will be whether the winner maintains the independence of the world's most important central bank.

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# What to Watch For

## MONDAY October 21 - 10:00

<b>September</b>	<b>m/m</b>
Consensus	-0.3%
Desjardins	-0.4%
<b>August</b>	<b>-0.2%</b>

## WEDNESDAY October 23 - 10:00

<b>September</b>	<b>ann. rate</b>
Consensus	3,890,000
Desjardins	3,860,000
<b>August</b>	<b>3,860,000</b>

## THURSDAY October 24 - 10:00

<b>September</b>	<b>ann. rate</b>
Consensus	717,000
Desjardins	700,000
<b>August</b>	<b>716,000</b>

## FRIDAY October 25 - 8:30

<b>September</b>	<b>m/m</b>
Consensus	-1.0%
Desjardins	-2.0%
<b>August</b>	<b>0.0%</b>

## WEDNESDAY October 23 - 9:45

<b>October</b>	
Consensus	3.75%
Desjardins	3.75%
<b>September 4</b>	<b>4.25%</b>

## UNITED STATES

**Leading indicator (September)** – The leading indicator has been marching steadily downward, with declines in 29 of the past 30 months, having momentarily stalled in February. In all, it has fallen 15.5% since peaking in 2021. We expect that it slid further in September. Downward pressure likely came from consumer confidence, the ISM index, interest rate spreads and building permits. However, these negative factors were probably partially offset by a strong stock market and lower jobless claims. We're forecasting a 0.4% decline.

**Existing home sales (September)** – The uptick in home resales was short-lived. After four consecutive monthly declines between March and June, existing home sales increased by 1.5% in July, only to fall 2.5% in August. We believe the September print will come in largely unchanged. Pending sales only rose 0.6% in August after tumbling 5.5% in July. And the regional data published so far also paints a negative picture. Activity may have been dampened by the hurricanes that cut through the US in September.

**New home sales (September)** – After surging 10.3% in July, new single-family home sales fell 4.7% in August. This shows just how volatile this segment is right now. Signs for September are mixed. On the one hand, building permits for single-family homes suggest that sales were up just a little. On the other hand, online searches for new homes and traffic among prospective buyers remained weak despite falling mortgage rates (though rates edged up again in recent weeks). We anticipate that sales slowed a bit to roughly 700,000 units.

**Durable goods orders (September)** – Durable goods orders were held back by the transportation sector in August and came in flat. It's likely that transportation negatively affected orders in September too. Boeing's new orders were up, which bodes well for the nondefense aircraft sector, but since the numbers haven't been seasonally adjusted, we still expect a month-over-month decline. The automotive sector also probably contracted slightly. Orders excluding transportation were up 0.5% month-over-month in August, which was quite good—and the biggest improvement recorded so far in 2024. But we expect that non-transportation orders slowed to 0.1% in September. All sectors combined, durable goods orders probably slipped 2.0%.

## CANADA

**Bank of Canada meeting (October)** – Look for the Bank of Canada to cut its policy rates by 50 basis points at its meeting next week. The conditions for a jumbo-sized rate cut from Canadian policymakers have been in place for some time now. Economic growth has been disappointing, particularly given the blistering pace of population growth, while forward-looking indicators of business activity and consumer spending remain soft. Inflationary risks are limited, with many measures of underlying inflation having normalized. In fact, risks to inflation now appear to be skewed to the downside. All of this means that a 50-basis-point reduction in October makes sense. But the bar for a subsequent jumbo cut could be high given the lower starting point after next week. As such, we expect central bankers to return to 25-basis-point reductions beginning in December on the way to taking the policy rate down to a trough of 2.25% in 2025.

**FRIDAY October 25 - 8:30**

<b>August</b>	<b>m/m</b>
Consensus	0.5%
Desjardins	0.6%
<b>July</b>	<b>0.9%</b>

**Retail sales (August)** – Retail sales are expected to have increased by a healthy 0.6% m/m in August, one tick above Statistics Canada’s flash estimate of 0.5%. Gas station receipts probably decreased, driven in part by lower prices at the pump. That said, sales at motor vehicle and parts dealerships likely increased, with both prices and volumes probably inching up on a seasonally adjusted basis. We anticipate that a positive move in core sales—which exclude autos and gasoline—further helped support growth in retail sales in August. For September’s flash estimate, we expect retail sales to be close to flat. Declining gasoline prices and falling auto purchases likely offset any strength in core sales.

### OVERSEAS


**THURSDAY October 24 - 4:00**


<b>October</b>	
Consensus	49.7
<b>September</b>	<b>49.6</b>

**Eurozone: PMI (October – preliminary)** – The Eurozone Composite PMI slid into negative territory (below 50) for the first time since February. This is evidence that Europe’s economy remains fragile. In fact, weak economic signals and lower inflation prompted the European Central Bank (ECB) to cut interest rates again at its October meeting. If the PMI is still below 50 at the start of the fourth quarter, the ECB could very well announce further monetary easing.

# Economic Indicators

## Week of October 21 to 25, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
<b>UNITED STATES</b>						
<b>MONDAY 21</b>	8:55	Speech by Federal Reserve Bank of Dallas President L. Logan				
	10:00	Leading indicator (m/m)	Sep.	-0.3%	-0.4%	-0.2%
	13:00	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
	17:05	Speech by Federal Reserve Bank of Kansas City President J. Schmid				
	18:40	Speech by Federal Reserve Bank of San Francisco President M. Daly				
<b>TUESDAY 22</b>	10:00	Speech by Federal Reserve Bank of Philadelphia President P. Harker				
<b>WEDNESDAY 23</b>	10:00	Existing home sales (ann. rate)	Sep.	3,890,000	3,860,000	3,860,000
	14:00	Release of the Beige Book				
<b>THURSDAY 24</b>	8:30	Initial unemployment claims	Oct. 14–18	241,000	240,000	241,000
	10:00	New home sales (ann. rate)	Sep.	717,000	700,000	716,000
<b>FRIDAY 25</b>	8:30	Durable goods orders (m/m)	Sep.	-1.0%	-2.0%	0.0%
	10:00	University of Michigan consumer sentiment index – final	Oct.	69.5	68.9	68.9
<b>CANADA</b>						
<b>MONDAY 21</b>	---	New Brunswick Election				
<b>TUESDAY 22</b>	8:30	Industrial product price index (m/m)	Sep.	n/a	-0.5%	-0.8%
	8:30	Raw materials price index (m/m)	Sep.	n/a	-1.6%	-3.1%
<b>WEDNESDAY 23</b>	9:45	Bank of Canada meeting				
	9:45	Release of the Bank of Canada's Monetary Policy Report				
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
<b>THURSDAY 24</b>	---	---				
<b>FRIDAY 25</b>	8:30	Retail sales				
		Total (m/m)	Aug.	0.5%	0.6%	0.9%
		Excluding automobiles (m/m)	Aug.	0.3%	0.1%	0.4%

**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 October 21 to 25, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
<b>OVERSEAS</b>								
<b>MONDAY 21</b>								
Germany	2:00	Producer price index	Sep.	-0.2%	-1.1%	0.2%	-0.8%	
<b>TUESDAY 22</b>								
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<b>WEDNESDAY 23</b>								
Eurozone	10:00	Consumer confidence – preliminary	Oct.	-12.5		-12.9		
Japan	20:30	Composite PMI – preliminary	Oct.	n/a		52.0		
Japan	20:30	Manufacturing PMI – preliminary	Oct.	n/a		49.7		
Japan	20:30	Services PMI – preliminary	Oct.	n/a		53.1		
<b>THURSDAY 24</b>								
France	2:45	Business confidence	Oct.	98		98		
France	2:45	Production outlook	Oct.	-11		-11		
France	3:15	Composite PMI – preliminary	Oct.	49.0		48.6		
France	3:15	Manufacturing PMI – preliminary	Oct.	45.0		44.6		
France	3:15	Services PMI – preliminary	Oct.	50.0		49.6		
Germany	3:30	Composite PMI – preliminary	Oct.	47.6		47.5		
Germany	3:30	Manufacturing PMI – preliminary	Oct.	40.8		40.6		
Germany	3:30	Services PMI – preliminary	Oct.	50.7		50.6		
Eurozone	4:00	Composite PMI – preliminary	Oct.	49.7		49.6		
Eurozone	4:00	Manufacturing PMI – preliminary	Oct.	45.1		45.0		
Eurozone	4:00	Services PMI – preliminary	Oct.	51.5		51.4		
United Kingdom	4:30	Composite PMI – preliminary	Oct.	52.6		52.6		
United Kingdom	4:30	Manufacturing PMI – preliminary	Oct.	51.5		51.5		
United Kingdom	4:30	Services PMI – preliminary	Oct.	52.4		52.4		
United Kingdom	19:01	Consumer confidence	Oct.	-21		-20		
Japan	19:30	Tokyo Consumer Price Index	Oct.		1.8%		2.1%	
<b>FRIDAY 25</b>								
Japan	1:00	Leading index – final	Aug.	n/a		106.7		
Japan	1:00	Coincident index – final	Aug.	n/a		113.5		
France	2:45	Consumer confidence	Oct.	95		95		
Eurozone	4:00	M3 money supply	Sep.		2.9%		2.9%	
Germany	4:00	ifo Business Climate Index	Oct.	85.6		85.4		
Germany	4:00	ifo Current Assessment Index	Oct.	84.4		84.4		
Germany	4:00	ifo Expectations Index	Oct.	87.0		86.3		
Italy	4:00	Consumer confidence	Oct.	98.5		98.3		
Italy	4:00	Economic confidence	Oct.	n/a		95.7		
Russia	6:30	Bank of Russia meeting	Oct.	20.00%		19.00%		

**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).