WEEKLY COMMENTARY

Playing Not to Lose

By Royce Mendes, Managing Director and Head of Macro Strategy

After cutting rates another 25 basis points in October, Canadian central bankers made a bold statement: they claimed that they now felt rates were low enough to return the economy to full health. With the policy rate at the lower end of their estimated neutral rate range—and still higher than its peak of 1.75% between the Global Financial Crisis and the pandemic—it's difficult to see how central bankers can have any confidence that the current 2.25% interest rate setting is low enough to heal the ailing economy. Despite the latest strong labour force survey and GDP figures, Canada's economy still looks fragile.

But reading between the lines of the October Monetary Policy Report, it seems as if something else is at play. Central bankers are very afraid of another bout of inflation. So rather than being confident that they have done enough, they are really saying that they have done as much as they think they can.

Former Bank of Canada Governor Stephen Poloz recently said that the institution was in "risk-management mode." A sports analogy might be even more apt. It looks like the central bank is playing not to lose rather than trying to win.

The COVID-induced inflation spike appears to have scarred those in the institution. With very little evidence outside of anecdotes, central bankers are now explicitly building in an additional push on inflation from Canadian businesses reorienting supply chains and seeking out new markets to sell their wares. There's no doubt that this is an upside risk to the inflation outlook, but to build it into the base case forecast is jumping the gun. Most measures of underlying inflation point to benign conditions.

What central bankers don't seem to be giving enough weight to in their calculus is the risk that interest rates at these levels will choke off a prospective cycle of business investment. The federal government has high hopes for crowding in private capital and has made clear strides to spur business investment. Separately, the AI revolution south of the border may soon begin spilling over into Canada more clearly, as firms figure out how to operationalize the tools that have been developed. The latest productivity numbers show that businesses have also begun to adapt to the new trade dynamic with the US. Firms have become leaner, but production is still growing. It would be a shame if central bankers snuffed out these prospects.

Because the Bank of Canada was so clear and forceful in its messaging (outside of the obtuse language suggesting that they can change their mind if conditions change), we are no longer forecasting any more cuts for this cycle. We expect the Bank of Canada will maintain the language from the last statement about the current level of rates being appropriate. However, for the next six months or so, until fiscal policy becomes a more important player, the Bank of Canada is the only game in town for the economy. If evidence emerges that their cost-push inflation theory has led them astray, they will need to change tack quickly. There's too much at stake to delay further easing unnecessarily. They need to play to win.

CONTENTS

Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Deputy Chief Economist
Benoit P. Durocher, Director and Principal Economist • Royce Mendes, Managing Director and Head of Macro Strategy
Mirza Shaheryar Baig, Foreign Exchange Strategist • Marc-Antoine Dumont, Senior Economist • Tiago Figueiredo, Macro Strategist
Francis Généreux, Principal Economist • Florence Jean-Jacobs, Principal Economist • Kari Norman, Economist • Sonny Scarfone, Principal Economist
Oskar Stone, Analyst • LJ Valencia, Economist
Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

What to Watch For

UNITED STATES

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

WEDNESDAY December 10 - 14:00

December	
Consensus	3.75%
Desjardins	3.75%
October 29	**4.00%**

Federal Reserve meeting (December) – There's a little more suspense than usual surrounding the upcoming Federal Reserve meeting. While the members of the Federal Open Market Committee largely telegraphed their intentions for recent decisions, this time it's hard to know whether they'll decide to cut rates or stand pat. At the time of writing, roughly one-third of Bloomberg-surveyed forecasters expected rates to hold, while two-thirds anticipated another 25-bp cut. We think they'll end up trimming rates. Although opinions may be divided, even within the FOMC, a rate cut seems more likely given the expectations of weak fourth-quarter GDP growth, the fact that tariffs have so far only modestly affected consumer prices, and the general uncertainty stemming from the data gaps caused by the government shutdown. For the time being, the Fed doesn't have much to fear from moving a little closer to the neutral rate, which is estimated to be around 3%. Undoubtedly, Fed officials must be wishing they had the latest figures for inflation, employment and real GDP, all of which will be released between now and Christmas. It will be particularly interesting to see what their new forecasts are.

THURSDAY December 11 - 8:30

Dec. 1–5	
Consensus	n/a
Desjardins	215,000
Nov. 24-28	**191,000**

Initial jobless claims (Dec. 1–5) – Even though this measure is closely watched, it's rare for weekly initial jobless claims to make headlines. But last week's drop—to the lowest level since September 2022—came as a surprise. The sharp decline in unemployment claims suggests that the labour market is strong, in contrast to other indicators that paint a bleaker picture. Any new information is especially welcome right now, given the lack of recent monthly employment data (October results won't be available until November figures are released on December 16). After reaching a low of 191,000, will claims rebound and return to average levels (which have been around 225,000 since the beginning of the third quarter)? It will also be interesting to see the September and October data for job openings, hires and layoffs, which will be published on Tuesday.

CANADA

WEDNESDAY December 10 - 9:45

December	
Consensus	2.25%
Desjardins	2.25%
October 29	**2.25%**

Bank of Canada decision (December) – The Bank of Canada is largely expected to hold rates at their upcoming meeting. However, the prospect of further easing remains topical, given that the Canadian economy still shows signs that further stimulus may be appropriate. With core inflation likely to trend towards pre-pandemic levels, focus should remain on the labour market. We see the Bank holding rates steady but remain vigilant to any further deterioration in the Canadian economy.

THURSDAY December 11 - 8:30

September	**$B**
Consensus	-5.68
Desjardins	-4.50
August	**-6.32**

International trade (September) – Canada's trade deficit likely narrowed in September. We expect a modest decline in exports, probably due to lower imports stateside. On the other hand, imports likely rose, especially as the removal of most retaliatory tariffs took effect that month. However, it should be noted that much of the data that feeds into our trade estimates is still unavailable, due to the US government shutdown.

FRIDAY December 12 - 8:30	
Q3 2025	
Consensus	79.3%
Desjardins	79.7%
Q2 2025	**79.3%**

Industrial capacity utilization rate (Q3) – We anticipate that capacity utilization ticked up to 79.7% in Q3 2025, from 79.3% in Q2 2025. We expect this modest rise reflected higher activity in key sectors such as construction, utilities and manufacturing. Looking ahead, the spike in mortgage renewals, slowing population growth and the uncertainty around CUSMA negotiations are significant headwinds that could drag down capacity utilization.

OVERSEAS

TUESDAY December 9 - 20:30	
November	**y/y**
Consensus	0.7%
October	**0.2%**

China: Consumer price index (November) – China's inflation rate likely stayed low in November, despite the rebound observed in October. We expect the consumer price index to remain in positive territory, but only marginally, reflecting continued weakness in domestic demand. Core inflation, excluding food and energy, should remain stable, supported by stimulus-driven spending and service consumption. However, any upward pressure is expected to be held back by sliding food prices and weakness in the property sector. In the short term, risks remain skewed toward low inflation, given the country's sluggish growth and cautious economic support measures.

FRIDAY December 12 - 2:00	
October	**m/m**
Consensus	0.1%
September	**-0.1%**

United Kingdom: Monthly GDP (October) – UK real GDP growth weakened in the third quarter, slipping to 0.1% on a non-annualized basis from 0.3% in the second quarter. September's monthly GDP print didn't help, showing a 0.1% decline after flat growth in August and a 0.1% drop in July. We anticipate a 0.1% increase in October's monthly GDP, which would deliver a modest lift to fourth-quarter growth. While retail sales contracted 0.2% in October, other indicators are more encouraging, including the upward trend in PMIs over recent months.

Economic Indicators

Week of December 8 to 12, 2025

Day	Time	Indicator	Period	Consensus	Desjardins forecast	Previous reading
UNITED STATES						
* Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.						
MONDAY 8	---	---				
TUESDAY 9	---	---				
WEDNESDAY 10	8:30	Employment cost index (q/q)	Q3	0.9%	1.0%	0.9%
	14:00	Federal budget (US$B)	Dec.	n/a	n/a	-284.4
	14:00	Federal Reserve meeting	Nov.	3.75%	3.75%	4.00%
	14:30	Speech by Federal Reserve Chair J. Powell				
THURSDAY 11	8:30	Initial unemployment claims	Dec. 1–5	n/a	215,000	191,000
	8:30	Trade balance – Goods and services (US$B)	Sep.	-66.6	-66.3	-59.6
	10:00	Wholesale inventories – final (m/m)	Sep.	n/a	n/a	0.0%
-						
FRIDAY 12	8:00	Speech by Federal Reserve Bank of Philadelphia President A. Paulson				
	8:30	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
CANADA						
MONDAY 8	---	---				
TUESDAY 9	---	---				
WEDNESDAY 10	9:45	Bank of Canada decision	Dec.	2.25%	2.25%	2.25%
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 11	8:30	International trade ($B)	Sep.	-5.68	-4.50	-6.32
FRIDAY 12	8:30	Building permits (m/m)	Oct.	-1.3%	-2.2%	4.5%
	8:30	Industrial capacity utilization rate	Q3	79.3%	79.7%	79.3%
	8:30	Wholesale sales (m/m)	Oct.	-0.1%	-0.1%	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 Standard Time (GMT -5 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of December 8 to 12, 2025

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							
China	---	Trade balance (US$B)	Nov.	103.30		90.07	
SUNDAY 7							
Japan	18:50	Current account (¥B)	Oct.	2,993.2		4,347.6	
Japan	18:50	Real GDP – final	Q3	-0.5%		-0.4%	
MONDAY 8							
Germany	2:00	Industrial production	Oct.	0.3%	-0.4%	1.3%	-1.0%
Australia	22:30	Reserve Bank of Australia meeting	Dec.	3.60%		3.60%	
TUESDAY 9							
Germany	2:00	Trade balance (€B)	Oct.	15.2		15.3	
Japan	18:50	Producer price index	Nov.	0.3%	2.7%	0.4%	2.7%
China	20:30	Consumer price index	Nov.		0.7%		0.2%
China	20:30	Producer price index	Nov.		-2.0%		2.1%
WEDNESDAY 10							
Italy	10:00	Industrial production	Oct.	-0.5%	0.2%	2.8%	1.5%
Brazil	16:30	Central Bank of Brazil meeting	Dec.	15.00%		15.00%	
THURSDAY 11							
Switzerland	3:30	Swiss National Bank meeting	Dec.	0.00%		0.00%	
Japan	23:30	Industrial production – final	Oct.	n/a	n/a	1.4%	1.5%
FRIDAY 12							
Germany	---	Current account (€B)	Oct.	n/a		18.6	
United Kingdom	2:00	Trade balance (£M)	Oct.	-1,200		-1,094	
United Kingdom	2:00	Construction	Oct.	-0.1%	1.5%	0.2%	1.3%
United Kingdom	2:00	Index of services	Oct.	0.0%		0.2%	
United Kingdom	2:00	Monthly GDP	Oct.	0.1%		-0.1%	
United Kingdom	2:00	Industrial production	Oct.	1.0%	-1.2%	-2.0%	-2.5%
Germany	2:00	Consumer price index – final	Oct.	-0.2%	2.3%	-0.2%	2.3%
France	2:45	Consumer price index – final	Nov.	-0.1%	0.9%	-0.1%	0.9%
France	2:45	Wages – final	Q3	n/a		0.3%	

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. 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).