

WEEKLY COMMENTARY

Bank of Canada Preview: It Was All a Dream

By Royce Mendes, Managing Director and Head of Macro Strategy

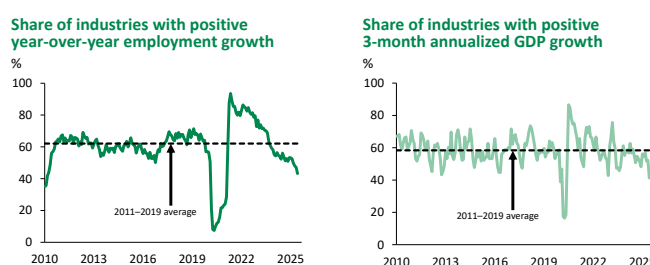
As we wrote earlier this summer, the firmness seen in activity and price data was a mirage—an optical illusion caused by tariffs that fooled some analysts into believing they saw economic resilience and sticky inflation in Canada. Other than avoiding some of the worst-case trade war scenarios, there’s been little to cheer about regarding the economy. Moreover, there’s been even less to worry about regarding inflation. As the central bank shied away from providing monetary support this summer, the economy has steadily deteriorated and inflation has normalized.

The weakness that some economists had mistakenly identified as isolated in trade-exposed sectors has, as we expected, spread to non-trade-exposed industries. While goods-producing sectors have borne the brunt of the pain, the data have shown a deterioration across a number of services industries. The share of sectors with positive year-over-year employment growth has fallen to very low levels. Similarly, the share of industries with positive 3-month GDP growth has also declined further (graph).

Back in May, our detailed analysis of consumer prices led us to believe that the pickup in core inflation measures seen earlier this year was nothing more than an aberration. Moreover, to the extent that Canada’s retaliatory tariffs were boosting consumer prices, we found that the impact had been consistently fading since peaking in April. Subsequently, the 3-month annualized rate of the Bank of Canada’s core inflation measures slowed to an average of just 2.4%. The government’s decision to remove most retaliatory tariffs makes inflation even less of a worry, with price growth likely tracking closer to the Bank of Canada’s “de-escalation” scenario.

Graph

Weakness Is Spreading Across the Economy



Statistics Canada and Desjardins Economic Studies

It’s no wonder then that analysts in the “no cut” camp have been revising their projections. Members of the Bank of Canada’s Governing Council who had mistakenly argued that the economy would be recovering by now or those who were spooked by the prospect of tariff-induced inflation must now also revisit their assumptions. The debate has shifted away from whether or not to ease monetary policy—a 25-basis-point cut is largely baked in for next week—but rather by how much the Bank of Canada should lower rates. Our terminal rate projection of 2.00% embeds three 25-basis-point cuts, still slightly more aggressive than the updated consensus of forecasters and what’s currently implied in market pricing.

CONTENTS

Musing of the Week.....	1	What to Watch For.....	3	Economic Indicators.....	6
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In cutting rates 25 basis points on September 17, the Bank of Canada won't endorse any particular rate path. However, in their typical intentionally vague communications, Governing Council is very likely to leave the door wide open to another rate reduction in October. As a result, we see market pricing moving to incorporate a greater chance of reaching a 2.00% policy rate. The balance of risks has shifted, and markets will likely begin thinking more about downside scenarios for both growth and inflation after hearing from a more dovish central bank.

What to Watch For

TUESDAY September 16 - 8:30

August	m/m
Consensus	0.2%
Desjardins	0.3%
July	0.5%

TUESDAY September 16 - 9:15

August	m/m
Consensus	-0.1%
Desjardins	-0.4%
July	-0.1%

WEDNESDAY September 17 - 8:30

August	ann. rate
Consensus	1,365,000
Desjardins	1,325,000
July	1,428,000

WEDNESDAY September 17 - 14:00

September	
Consensus	4.25%
Desjardins	4.25%
July 30	4.50%

THURSDAY September 18 - 10:00

August	m/m
Consensus	-0.1%
Desjardins	-0.3%
July	-0.1%

UNITED STATES

Retail sales (August) – Late spring and summer have so far been favourable for retailers. Total retail sales were up 0.9% in June and 0.5% in July. We're expecting another relatively solid performance in August. While sales at motor vehicle dealers likely fell, this performance will probably be offset by increases in both gasoline and food services sales. Preliminary data from the Federal Reserve Bank of Chicago, among others, also showed further improvement over the month. That said, card transaction data are less positive. Overall, we expect total retail sales to have risen 0.3% and sales excluding motor vehicles and gasoline to have gone up 0.6%.

Industrial production (August) – After relatively strong growth of 0.4% in June, industrial production slipped 0.1% in July. We're expecting a slightly sharper decline in August. The job market is cooling, and manufacturing hours worked were down. The production component of the ISM Manufacturing index has also edged below 50, and motor vehicles and parts production has also slowed—further evidence of a potential drop-off. We're forecasting a 0.4% decrease in manufacturing output and additional declines in mining and energy production. All told, industrial production probably fell 0.4%.

Housing starts (August) – Housing starts accelerated sharply in June and July, exceeding 5% in both months. This contrasts with the weakness observed earlier this year. We'd be surprised if this upturn persists, though, and instead expect a slowdown in August. While housing starts have surged recently, building permits have been trending down for several months now—they've fallen 8.0% since March. Sales of new single-family homes are also quite low, and inventories are up. What's more, residential construction payrolls have been steadily declining for the past five months. Lastly, homebuilder confidence remains depressed. One positive factor may be the weather: the United States wasn't hit by any major tropical storms in August this year (or in September, thus far). All in all, we expect housing starts to have fallen well below 1,400,000 annualized units in August.

Federal Reserve meeting (September) – For the first time in 2025, Federal Reserve (Fed) officials should decide to lower rates at their meeting, which concludes on Wednesday. While inflation remains above target and tariff-related risks are still in the picture, we nevertheless feel that the Fed can afford to make this move. One of the main arguments in favour of a rate cut is the labour market's evident weakness over the last few months. At the July meeting, two FOMC members voted for a 25-basis-point cut instead of a hold. Most forecasters are expecting rates to be lowered by 25 basis points at this meeting. Of course, this will not be enough to satisfy President Trump, who has been calling for a more dramatic rate cut. We'll have more insight into Fed officials' expectations once they publish their latest forecasts. It will be clearer if they plan to lower rates further before the end of the year as anticipated.

Leading indicator (August) – Once again, the leading indicator fell in July. It hasn't gone up substantially since November 2024, and that rise came after a months-long series of declines. Unsurprisingly, we can expect another dip in August. The biggest detractors will likely be consumer confidence, hours worked, jobless claims and the ISM index.

MONDAY September 15 - 8:30

July	m/m
Consensus	1.8%
Desjardins	1.8%
June	0.3%

MONDAY September 15 - 9:00

August	m/m
Consensus	n/a
Desjardins	0.0%
July	3.8%

TUESDAY September 16 - 8:15

August	ann. rate
Consensus	280,000
Desjardins	280,000
July	294,100

TUESDAY September 16 - 8:30

August	m/m
Consensus	0.1%
Desjardins	0.0%
July	0.3%

WEDNESDAY September 17 - 9:45

September	
Consensus	2.50%
Desjardins	2.50%
July 30	2.75%

FRIDAY September 19 - 8:30

July	m/m
Consensus	-0.8%
Desjardins	-0.8%
June	1.5%

CANADA

Manufacturing sales (July) – Manufacturing sales are expected to have increased by 1.8% m/m in July, accelerating from the more sluggish 0.3% advance in June. With the seasonally adjusted Industrial Product Price Index up 1.1% in July, manufacturing shipments are still likely to have posted a gain in sales volumes in the month.

Existing home sales (August) – Seasonally adjusted monthly sales growth was likely flat in August at the national level. Early year-over-year figures from local real estate boards were a mixed bag—Edmonton ran out of gas with sales down almost 8% from a year ago, while home sales in the province of Quebec rose 10% y/y. The Toronto Regional Real Estate Board reported that seasonally adjusted sales declined by 1.8% month over month in August.

Housing starts (August) – We expect housing starts decreased to about 280k (saar) in August, reflecting a modest pullback after July's surge. Strong gains in the purpose-built rental sector, backed by government support, likely kept overall housing starts at levels higher than economic conditions might typically suggest.

Consumer price index (August) – Headline consumer prices were likely unchanged in August. Aside from April, when the carbon tax was eliminated, this would mark the weakest reading since December of last year. That said, the year-over-year rate still likely accelerated to 1.9%. Excluding food and energy, consumer prices probably rose by 0.2% in seasonally adjusted terms, keeping the annual rate at 2.6%—well within recent ranges—with sectors exposed to retaliatory tariffs seeing fewer price increases again. While we don't anticipate much slowdown in the annual rates of the Bank of Canada's core measures, which are expected to print around 3.1%, we do expect the timelier three-month annualized rate to show that the Bank's core measures remained below 3% again in August. Importantly, the removal of most counter-tariffs this month has reduced the upside risks to inflation. Barring any major surprises in the August CPI data, we expect the Bank of Canada to cut rates the following day.

Bank of Canada meeting (September) – Canadian central bankers are expected to deliver a 25-basis-point rate cut after remaining on hold since April. While the Bank of Canada won't be armed with a fresh set of forecasts, developments since the July MPR point to a further deterioration in the growth outlook and a notable reduction in upside risks to inflation. The latest employment and GDP data suggest that the Canadian economy has continued to soften, while the removal of counter-tariffs on US goods will reduce any lingering inflationary pressures. As a result, the direction of travel for interest rates is clear. That said, we still expect the Bank of Canada to deliver more cuts than the market is currently pricing, with the policy rate likely to trough at 2.00%.

Retail sales (July) – Retail sales probably declined by 0.8% in July, in line with Statistics Canada's flash estimate. We expect a modest deterioration in sales at motor vehicle and parts dealerships, likely due to lower volumes, since seasonally adjusted auto prices were stable month to month. Receipts at gasoline stations probably dropped in July, due in part to lower seasonally adjusted prices. We anticipate core sales—which exclude gasoline and autos—to be nearly flat. For August's flash estimate, we expect a slight negative print. Automotive retail sales likely declined more sharply than in the previous month, while higher gasoline prices month to month probably contributed to an advance in sales for fuel retailers.

SUNDAY September 14 - 22:00
August

THURSDAY September 18
September

Consensus	0.50%
Desjardins	0.50%
July 30	0.50%

THURSDAY September 18 - 7:00
September

Consensus	4.00%
Desjardins	4.00%
August 7	4.00%

OVERSEAS


China: Industrial production and retail sales (August) – China’s economy is running at two speeds. While US tariffs could have done considerable damage, international trade still seems to be contributing to growth, offering some support to industrial production—even though it slowed in July. The relative weakness of the Manufacturing PMI remains a concern, and trade uncertainties could persist. On the other hand, China’s domestic demand remains modest, and the property market has yet to rally in a lasting fashion. In July, retail sales posted their weakest annual growth since fall 2024.


Japan: Bank of Japan meeting (September) – We expect the policy rate to remain at 0.50% at the Bank of Japan’s Monetary Policy Meeting, in line with market expectations. However, the real debate is whether the BoJ will signal a hike at the October meeting. We think Governor Ueda will maintain a cautious stance and keep his options open without committing to a hike. Despite the lack of clear signalling, we expect a rate hike at the October meeting. We believe the BoJ is increasingly falling behind the curve. And with the yen now at a relatively weak level around 148 and debates brewing about the efficacy of the BoJ’s measure of underlying inflation, the Bank will have to bite the bullet sooner rather than later.

United Kingdom: Bank of England meeting (September) – We expect the Bank of England to keep rates unchanged, in line with market expectations. Recent comments from Governor Bailey have reiterated the message from the last Monetary Policy Committee meeting that there is “considerably more doubt about exactly when and how quickly we can take further steps [to cut rates].” Overall, fiscal rather than monetary policy is more in focus in the United Kingdom, and the BoE is likely considering contingency plans for how it would deal with rising long-term bond yields and the functioning of the gilts market.

Economic Indicators

Week of September 1 to 5, 2025

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY I5	8:30	Empire State Manufacturing Index	Sep.	4.5	0.0	11.9
TUESDAY I6	8:30	Export prices (m/m)	Aug.	-0.1%	-0.1%	0.1%
	8:30	Import prices (m/m)	Aug.	-0.2%	0.0%	0.4%
	8:30	Retail sales				
		Total (m/m)	Aug.	0.2%	0.3%	0.5%
		Excluding automobiles (m/m)	Aug.	0.4%	0.6%	0.3%
	9:15	Industrial production (m/m)	Aug.	-0.1%	-0.4%	-0.1%
	9:15	Production capacity utilization rate	Aug.	77.4%	77.1%	77.5%
	10:00	NAHB Housing Market Index	Sep.	33	n/a	32
	10:00	Business inventories (m/m)	July	0.2%	0.2%	0.2%
WEDNESDAY I7	8:30	Housing starts (ann. rate)	Aug.	1,365,000	1,325,000	1,428,000
	8:30	Building permits (ann. rate)	Aug.	1,370,000	1,350,000	1,362,000
	14:00	Federal Reserve meeting	Sep.	4.25%	4.25%	4.50%
	14:30	Speech by Federal Reserve Chair J. Powell				
THURSDAY I8	8:30	Initial unemployment claims	Sep. 8–12	245,000	248,000	263,000
	8:30	Philadelphia Fed index	Sep.	1.5	0.0	-0.3
	10:00	Leading indicator (m/m)	Aug.	-0.1%	-0.3%	-0.1%
	16:00	Net foreign securities purchases (US\$B)	July	n/a	n/a	150.8
FRIDAY I9	---	---				
CANADA						
MONDAY I5	8:30	Wholesale sales (m/m)	July	1.3%	1.3%	0.7%
	8:30	Manufacturing sales (m/m)	July	1.8%	1.8%	0.3%
	9:00	Existing home sales (m/m)	Aug.	n/a	0.0%	3.8%
TUESDAY I6	8:15	Housing starts (ann. rate)	Aug.	280,000	280,000	294,100
	8:30	Consumer price index				
		Total (m/m)	Aug.	0.1%	0.0%	0.3%
		Total (y/y)	Aug.	2.0%	1.9%	1.7%
WEDNESDAY I7	8:30	International securities transactions (\$B)	July	n/a	n/a	0.71
	9:45	Bank of Canada meeting	Sep.	2.50%	2.50%	2.75%
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY I8	---	---				
FRIDAY I9	8:30	Retail sales				
		Total (m/m)	July	-0.8%	-0.8%	1.5%
		Excluding automobiles (m/m)	July	0.4%	-0.9%	1.9%

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 1 to 5, 2025

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
SUNDAY I4							
China	22:00	Industrial production	Aug.		5.6%		5.7%
China	22:00	Retail sales	Aug.		3.8%		3.7%
MONDAY I5							
Italy	4:00	Trade balance (€M)	July	n/a		5,409	
Eurozone	5:00	Trade balance (€B)	July	12.0		2.8	
TUESDAY I6							
Japan	0:30	Tertiary Industry Activity Index	July	0.1%		0.5%	
United Kingdom	2:00	ILO unemployment rate	July	4.7%		4.7%	
Italy	4:00	Consumer price index – final	Aug.	n/a	1.6%	0.1%	1.6%
Eurozone	5:00	Industrial production	July	0.3%	1.7%	-1.3%	0.2%
Germany	5:00	ZEW Current Conditions Survey	Sep.	-74.0		-68.6	
Germany	5:00	ZEW Expectations Survey	Sep.	26.3		34.7	
Japan	19:50	Trade balance (¥B)	Aug.	-348.7		-303.0	
WEDNESDAY I7							
United Kingdom	2:00	Consumer price index	Aug.	0.3%	3.8%	0.1%	3.8%
Eurozone	5:00	Consumer price index – final	Aug.	0.2%	2.1%	0.2%	2.0%
Brazil	17:30	Central Bank of Brazil meeting	Sep.	15.00%		15.00%	
THURSDAY I8							
Japan	---	Bank of Japan meeting	Sep.	0.50%		0.50%	
Norway	4:00	Bank of Norway meeting	Sep.	4.00%		4.25%	
Eurozone	4:00	Current account (€B)	July	n/a		35.8	
Italy	4:30	Current account (€M)	July	n/a		5,737	
Eurozone	5:00	Construction	July	n/a	n/a	-0.8%	1.7%
United Kingdom	7:00	Bank of England meeting	Sep.	4.00%		4.00%	
United Kingdom	19:01	Consumer confidence	Sep.	-18		-17	
Japan	19:30	Consumer price index	Aug.		2.8%		3.1%
FRIDAY I9							
United Kingdom	2:00	Retail sales	Aug.	0.4%	0.6%	0.6%	1.1%
Germany	2:00	Producer price index	Aug.	-0.1%	-1.7%	-0.1%	-1.5%
France	2:45	Business confidence	Sep.	95		96	
France	2:45	Production outlook	Sep.	-11		-12	
France	2:45	Wages – final	Q2	n/a		0.5%	

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 Daylight Time (GMT -4 hours).