

WEEKLY COMMENTARY



The Rising Price of Everything, including the Cost to Contain Inflation

By Royce Mendes, Managing Director and Head of Macro Strategy

This week, North American central bankers looked like they were playing a game of dodgeball, as they masterfully avoided answering questions about whether a recession is needed to cool inflation. The responses given were cryptic at best. In Canada, Deputy Governor Paul Beaudry outlined why it all depends on you and me. If consumers believe inflation is headed lower, then the Bank of Canada might not have to trigger a recession to bring inflation back down to target. A modest slowdown in economic growth could do the trick by realigning supply and demand. But if households believe high inflation is here to stay, and begin incorporating those beliefs into everyday life, a recession will be necessary to break the inflationary mindset. Federal Reserve Chair Jerome Powell sang from the same songbook when he echoed those sentiments in his press conference earlier this week.

Reading between the lines, though, it's clear which way monetary policymakers are leaning. Both officials said the longer it takes to restore price stability, the more likely it is more draconian measures will be needed to contain price growth. So central bankers want to get the job done soon, and if it causes a recession, so be it. Deputy Governor Beaudry said that the Bank of Canada would take "whatever actions are necessary" to control inflation.

The trade-offs are clear. Policymakers are willing to risk a mild near-term recession rather than allow high inflation to become entrenched, as that would eventually necessitate a more severe downturn. US central bankers now see the unemployment rate rising nearly a full percentage point from its summer lows as a result of the Fed's efforts to control inflation. That's more than double the average increase in the jobless rate that triggered past recessions. But in forecasting only a 4.4% unemployment

rate, the Fed is also saying that if the economy takes its medicine now, it can avoid a much larger dose in the future. A peak unemployment rate in that range is hardly a terrible outcome.

Look for the Bank of Canada to convey a similar message in its October *Monetary Policy Report*. Those who look closely will be able to identify a recession being incorporated, but not one that will be overly harsh. We've been forecasting a recession in Canada since earlier this summer. The Fed's willingness to hike rates more aggressively has prompted us to upgrade our forecast for the terminal rate south of the border to 4.375%. It's true that the US economy is less interest rate-sensitive than Canada's. But given that our new forecasts have the Fed raising rates more than 60bps higher than the Bank of Canada, we don't think even the American economy will be able to fend off a recession.

Central bankers are right that the costs of reining in inflation will only rise the longer they wait. The so-called "front-loading" of rate hikes is a welcome change in tack from their earlier complacency. Monetary policymakers are now on the job, racing ahead to make up for lost time.

Containing inflation will still be costly, but the price tag will only grow as time passes. So getting the job done sooner rather than later might just be the difference between a mild near-term recession and a severe contraction down the road.

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What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, and Francis Généreux, Principal Economist

TUESDAY September 27 - 8:30

August	m/m
Consensus	-0.1%
Desjardins	-2.0%
July	-0.1%

TUESDAY September 27 - 9:00

July	y/y
Consensus	16.90%
Desjardins	17.30%
June	18.65%

TUESDAY September 27 - 10:00

September	
Consensus	104.3
Desjardins	106.0
August	103.2

TUESDAY September 27 - 10:00

August	ann. rate
Consensus	500,000
Desjardins	470,000
July	511,000

THURSDAY September 29 - 8:30

Q2 2022 - 3 rd est.	ann. rate
Consensus	-0.6%
Desjardins	-0.6%
Q1 2022	-0.6%

FRIDAY September 30 - 8:30

August	m/m
Consensus	0.2%
Desjardins	0.0%
July	0.1%

UNITED STATES

New durable goods orders (August) – After four straight monthly gains totalling 4.2%, new durable goods orders dipped slightly in July, mainly due to the transportation sector, which fell back 0.7%. We expect transportation orders to drop more sharply in August. Last month's industrial production data suggests that automotive sector orders are declining. Meanwhile, new orders at Boeing appear to have plummeted in August, pointing to a contraction in the civilian aircraft sector. We're expecting transportation orders to slip 6.2% and orders excluding transportation to mirror July's rise of 0.2%. Overall, we think new durable goods orders will fall 2.0%.

S&P/Case-Shiller index of existing home prices (July) – US home price growth seems to be starting to slow. June's monthly increase of 0.4% was the smallest since June 2020. We expect this to continue and predict that prices will edge up 0.1% in July, which would bring the year-over-year change down to 17.3%. Poor performances from several housing market indicators since mortgage rates began to rise suggest that home prices are likely to start dropping very soon.

Conference Board consumer confidence index (September) – US consumer confidence is improving. The Conference Board index gained 8.9 points in August, its first monthly increase since April and the largest since March 2021. Lower gas prices—which are expected to have the same impact in September—appear to be behind this increase. Soaring mortgage rates and the almost 10% drop in the US stock market in the last month may temper this confidence, although the University of Michigan consumer sentiment and TIPP indexes both rose this month. The Conference Board index is projected to rise from 103.2 to 106.0 in September.

New home sales (August) – Sales of new single-family homes are clearly in decline, plunging 39.0% since late 2021. The latest annualized figure of 511,000 is also the lowest since January 2016. Rising mortgage rates are hitting the market hard. We expect sales to have fallen further in August. Building permits for single-family homes were down 3.5% last month, for a total decrease of 25.3% since February. Mortgage applications for home purchases have also continued to slow, and builder confidence has tumbled. We expect single-family home sales to fall from 511,000 to 470,000 units.

Real GDP (Q2 – 3rd estimate and annual update) – Annualized real GDP growth for the second quarter rose from -0.9% to -0.6% between the advance and second estimates. Generally, the third estimate doesn't change much and won't come as a surprise. However, Thursday's figures will also include the annual update of the national economic accounts, which are usually published in late July. This update will present revised statistics for national and regional GDP, and GDP by industry that cover Q1 2017 through Q1 2022. It'll be interesting to see if this update changes the pattern of real GDP fluctuations during and since the pandemic, including the previous estimates for a decline in early 2022.

Consumer spending (August) – After falling 0.1% in May and staying flat (0.0%) in June, real consumer spending edged up 0.2% in July. The outlook is for another dip in August. Spending on motor vehicles is expected to have dropped. We're forecasting a decline in spending on other types of goods—as reflected in August's retail sales figures when adjusted for price increases—but an increase in services spending, including on food services. Real consumer spending is projected to have fallen 0.1%. In current dollars, nominal consumption is expected to be flat. The Personal Consumption Expenditures price index probably rose 0.1%, whereas the index excluding food and energy likely increased 0.4% month-over-month.

THURSDAY September 29 - 8:30

July	m/m
Consensus	-0.1%
Desjardins	-0.1%
June	0.1%

MONDAY September 26 - 4:00

September	
Consensus	87.0
August	88.5

THURSDAY September 29 - 21:30

September	
Consensus	49.4
August	49.4

FRIDAY September 30 - 5:00

September	m/m
Consensus	0.9%
August	0.6%

CANADA

Real GDP by industry (July) – Real GDP by industry is expected to have contracted by 0.1% in July, in line with Statistics Canada's flash estimate for the month. Goods-producing sectors likely advanced thanks to a rebound in construction activity following three monthly declines. An acceleration in manufacturing activity on solid seasonally-adjusted sales and auto production should also have contributed to growth. In contrast, services-producing sectors are expected to have retreated on an aggregate basis, dragged lower by weakness in wholesale and retail trade in particular. We expect the August sneak peek to reveal a flat to slightly positive print on a reversal in the fortunes of services-producing sectors and only a modest decline in goods-producing sectors.

OVERSEAS

Germany: ifo Index (September) – The ifo Index fell to 88.5 in August, its lowest level since October 2009 not counting the early months of the pandemic. A figure this low shows that German businesses are facing serious challenges and that the country is likely to fall into a recession. Problems related to the war in Ukraine, including energy supply, are clearly major concerns for the German manufacturing sector. It'll be interesting to see whether the situation has deteriorated further in September, or if there are initial signs that things are stabilizing, or even improving.

China: Manufacturing PMI (September) – China's manufacturing PMI edged up from 49.0 to 49.4 in August, moving a little further away from April's low of 47.4. However, it's still below 50, indicating that the industrial sector remains rather sluggish. September's PMI will give us some more insight into the strength of Chinese manufacturing.

Eurozone: Consumer Price Index (September – preliminary) – Eurozone inflation continues to pick up speed, hitting 9.1% in August, largely due to energy prices, which have skyrocketed 38.6% year-over-year. However, core inflation is also relatively high at 4.3%, compared to just 1.6% a year ago. We're starting to see signs that inflation is cooling in North America, but we'd be surprised if the same happened in Europe. The consensus is that inflation will rise further.

Economic Indicators

Week of September 26 to 30, 2022

Date	Time	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 26	10:00	Speech of the Federal Reserve Bank of Boston President, S. Collins				
	12:00	Speech of the Federal Reserve Bank of Atlanta President, R. Bostic				
	16:00	Speech of the Federal Reserve Bank of Cleveland President, L. Mester				
TUESDAY 27	6:15	Speech of the Federal Reserve Bank of Chicago President, C. Evans				
	7:30	Speech of the Federal Reserve Chair, J. Powell				
	8:30	Durable goods orders (m/m)	Aug.	-0.1%	-2.0%	-0.1%
	9:00	S&P/Case-Shiller home price index (y/y)	July	16.90%	17.30%	18.65%
	9:55	Speech of the Federal Reserve Bank of St. Louis President, J. Bullard				
	10:00	Consumer confidence	Sept.	104.3	106.0	103.2
	10:00	New home sales (ann. rate)	Aug.	500,000	470,000	511,000
	20:35	Speech of the Federal Reserve Bank of San Francisco President, M. Daly				
WEDNESDAY 28	8:30	Goods trade balance – preliminary (US\$B)	Aug.	-88.5	-94.1	-89.1
	8:30	Retail inventories (m/m)	Aug.	n/a	n/a	1.1%
	8:30	Wholesale inventories – preliminary (m/m)	Aug.	0.5%	n/a	0.6%
	10:00	Pending home sales (m/m)	Aug.	-0.8%	n/a	-1.0%
	10:15	Speech of the Federal Reserve Chair, J. Powell				
	14:00	Speech of the Federal Reserve Bank of Chicago President, C. Evans				
THURSDAY 29	8:30	Initial unemployment claims	Sept. 19-23	220,000	213,000	213,000
	8:30	Real GDP (ann. rate)	Q2t	-0.6%	-0.6%	-0.6%
	9:30	Speech of the Federal Reserve Bank of St. Louis President, J. Bullard				
FRIDAY 30	8:30	Personal income (m/m)	Aug.	0.3%	0.5%	0.2%
	8:30	Personal consumption expenditures (m/m)	Aug.	0.2%	0.0%	0.1%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Aug.	0.1%	0.1%	-0.1%
		Excluding food and energy (m/m)	Aug.	0.5%	0.4%	0.1%
		Total (y/y)	Aug.	6.0%	6.0%	6.3%
		Excluding food and energy (y/y)	Aug.	4.7%	4.6%	4.6%
	9:00	Speech of a Federal Reserve Governor, L. Brainard				
	9:45	Chicago PMI index	Sept.	51.8	52.0	52.2
	10:00	Michigan's consumer sentiment index – final	Sept.	59.5	59.5	59.5
	12:30	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				

CANADA

MONDAY 26	---	---				
TUESDAY 27	---	---				
WEDNESDAY 28	---	---				
THURSDAY 29	8:30	Real GDP by industry (m/m)	July	-0.1%	-0.1%	0.1%
FRIDAY 30	---	Bond markets closed (Reconciliation Day)				

Note: Desjardins, Economic Studies are involved every week 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 monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are Eastern Standard Time (GMT - 4 hours).  Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of September 26 to 30, 2022

Country	Time	Indicator	Period	Consensus		Previous data	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
DURING THE WEEK							
United Kingdom	19:01	Nationwide house prices	Sept.	0.3%	9.9%	0.8%	10.0%
MONDAY 26							
Germany	4:00	Ifo survey – Business climate	Sept.	87.0		88.5	
Germany	4:00	Ifo survey – Current situation	Sept.	96.0		97.5	
Germany	4:00	Ifo survey – Expectations	Sept.	79.0		80.3	
TUESDAY 27							
Euro zone	4:00	Money supply M3	Aug.		5.3%		5.5%
WEDNESDAY 28							
Japan	1:00	Leading indicator – final	July	n/a		99.6	
Japan	1:00	Coincident indicator – final	July	n/a		100.6	
Germany	2:00	Consumer confidence	Oct.	-39.0		-36.5	
France	2:45	Consumer confidence	Sept.	80		82	
Italy	4:00	Consumer confidence	Sept.	95.0		98.3	
Italy	4:00	Economic confidence	Sept.	n/a		109.4	
THURSDAY 29							
Euro zone	5:00	Consumer confidence – final	Sept.	n/a		-28.8	
Euro zone	5:00	Industrial confidence	Sept.	-0.7		1.2	
Euro zone	5:00	Services confidence	Sept.	7.0		8.7	
Euro zone	5:00	Economic confidence	Sept.	95.0		97.6	
Germany	8:00	Consumer price index – preliminary	Sept.	1.5%			
Mexico	14:00	Bank of Mexico meeting	Sept.	9.25%		8.50%	
Japan	19:30	Unemployment rate	Aug.	2.5%		2.6%	
Japan	19:50	Industrial production – preliminary	Aug.	-0.2%	1.8%	0.8%	-2.0%
Japan	19:50	Retail sales	Aug.	0.2%	2.7%	0.8%	2.4%
China	21:30	PMI manufacturing index	Sept.	49.4		49.4	
China	21:30	PMI non-manufacturing index	Sept.	52.6		52.6	
FRIDAY 30							
India	0:30	Reserve Bank of India meeting	Sept.	5.90%		5.40%	
Japan	1:00	Consumer confidence	Sept.	33.5		32.5	
Japan	1:00	Housing starts	Aug.		-3.9%		-5.4%
United Kingdom	2:00	Current account (£B)	Q2	-43.6		-51.7	
United Kingdom	2:00	Real GDP – final	Q2	-0.1%	2.9%	-0.1%	2.9%
France	2:45	Personal consumption expenditures	Aug.	-0.1%	-3.7%	-0.8%	-4.3%
France	2:45	Consumer price index – preliminary	Sept.	-0.2%	6.0%		
Italy	4:00	Unemployment rate	Aug.	7.9%		7.9%	
Euro zone	5:00	Consumer price index – preliminary	Sept.	0.9%	9.7%	0.6%	9.1%
Euro zone	5:00	Unemployment rate	Aug.	6.6%		6.6%	
Italy	5:00	Consumer price index – preliminary	Sept.	-0.4%	8.2%	0.8%	8.4%

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic figures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are Eastern Standard Time (GMT - 4 hours).