WEEKLY COMMENTARY

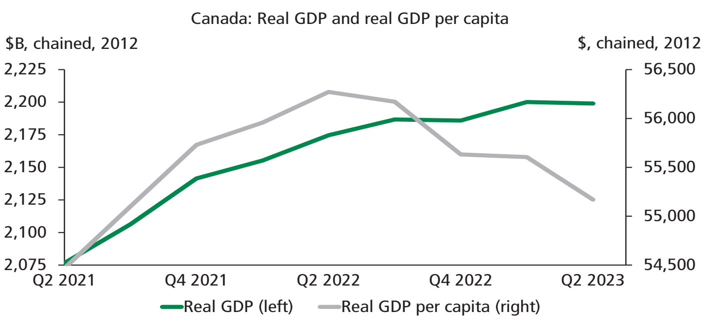
The Population Boom Is Masking Economic Gloom in Canada

By Randall Bartlett, Senior Director of Canadian Economics

It came as little surprise this week that the Bank of Canada dusted off its pause playbook and kept the overnight rate unchanged. For many of the reasons discussed in last Friday's Weekly Commentary, the Bank's press release made clear that the central bank believes it's done enough for now. We expect the Bank of Canada to remain on the sidelines for the foreseeable future to survey the impacts of past rate hikes as they continue to ripple through the economy. Indeed, we anticipate the Bank's next move is likely to be a cut in the first half of 2024.

But while the Bank's public statements have largely focused on the headline economic indicators—real GDP, employment and CPI inflation—looking at these numbers on a per capita basis where possible provides an even more downbeat picture of the Canadian economy. Starting with real GDP, while staccato moves over the past year have created a see-saw pattern of modest contractions followed by sharp accelerations, real GDP per capita has declined in each of the past four quarters (graph 1). Growth in domestic demand per capita has fared even worse.

GRAPH 1
Surging Population Growth Has Boosted Headline Real GDP



Sources: Statistics Canada and Desjardins Economic Studies

Not surprisingly, a lot of the weakness can be chalked up to a sustained drop in highly-interest-rate-sensitive residential investment. However, other sectors like consumption of non-durable goods (e.g., gasoline and food) and investment in machinery and equipment have also contracted consistently on a per capita basis. In contrast, growth in per capita spending on consumer durables has largely bucked this trend, thanks in large part to a jump in pandemic-delayed auto sales.

None of this is a coincidence. Surging population growth—the highest since the 1950s—has provided a tailwind to headline economic activity since mid-2022. This is entirely driven by newcomers to Canada. And given newcomers' need to purchase cars, home furnishings and the like, household expenditures have been boosted in a way that economists hadn't expected as recently as a year ago and seemed to defy the gravitational pull of high interest rates.

Importantly, this unprecedented number of newcomers primarily comprises non-permanent residents, such as temporary foreign workers and foreign students. Since many of these individuals came here to meet specific labour market needs, they have been able to quickly find work and earn an income. As a result, Canada's unemployment rate has hardly budged from historic lows even as the job vacancy rate has gradually trended lower from the record highs reached last year (graph 2 on page 2). This has supported elevated disposable income growth and a savings rate above the pre-COVID average despite high prices and interest rates having eroded household purchasing power.

More alarming is the lack of business investment in Canada. While investment in non-residential structures has been supported by high commodity prices, capital expenditures on machinery and equipment have been very soft. Instead of investing in productivity-enhancing technology, it appears that businesses have been addressing labour shortages with

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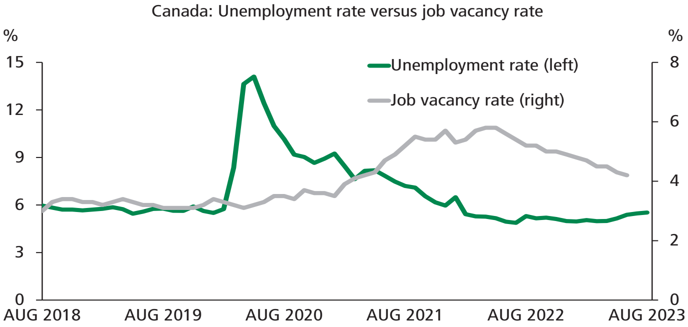
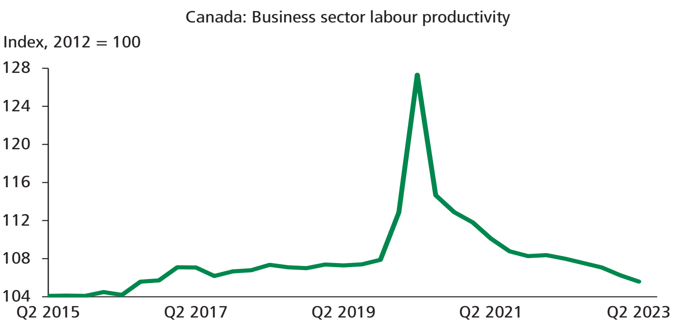
GRAPH 2
Despite Job Vacancies Falling, the Labour Market Remains Tight



Sources: Statistics Canada and Desjardins Economic Studies

temporary foreign labour. This has boosted hours worked in Canada but has pushed productivity consistently lower throughout the post-pandemic recovery. Indeed, the Q2 2023 data released earlier this week revealed that Canadian businesses are less productive now than at any point since 2016 (graph 3). And it doesn't look like the situation is going to get better anytime soon. For instance, the Bank of Canada's latest Business Outlook Survey showed the lowest investment intentions since 2020 for firms not tied to natural resource activity.

GRAPH 3
Canadian Business Are Less Productive than at Any Time since 2017



Sources: Statistics Canada and Desjardins Economic Studies

This moribund productivity performance is not new. As our [recent research] pointed out, anemic productivity growth is primarily responsible for Canada's lacklustre real GDP per capita since 2014. A lack of capital expenditures in mining and oil and gas extraction due to low commodity prices and an uncertain long-term investment environment are largely to blame. But even as that sector has become more productive to preserve profitability, the rest of the Canadian economy has seen its productivity slide.

Looking ahead, souring sentiment suggests business investment isn't likely to pick up anytime soon. Flagging consumer confidence portends a similar fate for household consumption. Given that a recession could begin any day, real GDP and domestic demand per capita can be expected to dip further, particularly if population gains continue apace. While falling labour demand on slumping sales is likely to prompt net non-permanent resident admissions to slow, it probably won't be enough to alter the long-standing sluggishness in real GDP per capita in Canada. That will take an acceleration in Canadian productivity that has been sorely lacking for some time and shows little sign of improving.

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

UNITED STATES

WEDNESDAY September 13 - 8:30

August	m/m
Consensus	0.6%
Desjardins	0.6%
July	**0.2%**

Consumer Price Index (August) – Inflation rose in July for the first time since June 2022, but this was mostly due to base effects from last year. We expect another jump in August, this time on the back of higher monthly price gains due to a recent surge in gasoline prices. Pump prices tend to fall in August, but they were up nearly 7% last month. As a result, energy prices will contribute more and likely push the month-over-month change in the consumer price index up to 0.6%, its highest level in a year. Stripping out food and energy, we expect to see a 0.2% increase for August, just like the previous two months. The year-over-year change in the all items index should rise from 3.2% to 3.7%, with core inflation edging down from 4.7% to 4.3%.

THURSDAY September 14 - 8:30

August	m/m
Consensus	0.2%
Desjardins	0.3%
July	**0.7%**

Retail sales (August) – July's retail sales growth was the strongest monthly print since January. We're expecting another increase in August, although motor vehicle sales likely fell. Bolstered by the rise in pump prices, gasoline station receipts should contribute positively. August's preliminary card transaction data is also telegraphing gains in several sectors, particularly furniture, apparel and nonstore retailers. All in all, we expect total retail sales and sales excluding motor vehicles and gasoline to edge up 0.3% and 0.5%, respectively.

FRIDAY September 15 - 9:15

August	m/m
Consensus	0.1%
Desjardins	0.1%
July	**1.0%**

Industrial production (August) – Industrial production rose a solid 1.0% in July, primarily on the back of a spike in energy production due to unseasonably warm weather. We're not anticipating quite the same impact in August. The improvement in the ISM Manufacturing index—although it remains below 50—and stronger growth in hours worked point to a slight improvement in the manufacturing sector. Overall, we expect industrial production to rise 0.1%.

FRIDAY September 15 - 10:00

September	
Consensus	69.2
Desjardins	67.5
August	**69.5**

University of Michigan consumer sentiment index (September – preliminary) – After surging 12.8 points in June and July, the University of Michigan consumer sentiment index fell 2.1 points in August. We expect a further drop in September. That said, the signs are somewhat vague and contradictory. Higher gasoline prices and mortgage rates, combined with August's decline in the Conference Board Consumer Confidence Index, seem to suggest rather negative consumer sentiment. However, unemployment claims are down, the stock market has been mixed for the last month, and the TIPP Economic Optimism Index rose in September. All in all, we expect the University of Michigan consumer sentiment index to tick down a few points, but this forecast is highly uncertain.

CANADA

FRIDAY September 15 - 8:30

July	m/m
Consensus	n/a
Desjardins	0.6%
June	**-1.7%**

Manufacturing sales (July) – Following the decline in June, manufacturing sales are expected to have increased 0.6% in Canada in July. This gain looks to have been led by prices, due in part to a rise in energy and petroleum values, as volumes likely fell in the month. Looking under the hood, exports of aircraft and other transportation equipment and parts and of farm, fishing and intermediate food products rose in July, pointing to higher manufacturing sales in this sector. Our projected increase in factory sales of 0.6% is close to but slightly lower than the 0.7% flash estimate from Statistics Canada.

FRIDAY September 15 - 9:00

August	m/m
Consensus	n/a
Desjardins	-0.2%
July	**-0.7%**

Existing home sales (August) – We're expecting Canadian Real Estate Association (CREA) data, set for release next Friday, to show a roughly flat print for national-level home purchases in August. Early indications from real estate boards—which predate the CREA publication and will be adjusted—suggest regional mixed results. In Toronto, Vancouver and Hamilton, sales retreats following the Bank of Canada's resumption of interest rate hikes look to have continued in August. By contrast, momentum appears to have persisted in Calgary and Edmonton, likely buoyed by outsized population gains and a relatively strong provincial labour market. Again, however, what happens to new listings is an important question. Early-year demand–supply tightness helped spur a price recovery earlier this year—particularly in high-priced Ontario markets. But the significant and broad-based rise in new listings in recent months suggests a shift in market sentiment. Continuation of this trend would mean more far less sanguine prospects for home values going forward.

OVERSEAS

WEDNESDAY September 13 - 2:00

July	m/m
Consensus	-0.2%
June	**0.5%**

United Kingdom: Monthly GDP (July) – The UK's monthly GDP grew a healthy 0.6% in June, boosting second-quarter growth and providing a solid handover to the third quarter. But based on the sharp 1.2% decline in retail sales, July's print is likely to be less positive. With PMIs languishing below 50 since early summer, it may even be negative.

THURSDAY September 14 - 8:15

September	
Consensus	4.25%
Desjardins	4.50%
July 27	**4.25%**

Eurozone: European Central Bank meeting (September) – Investors are split over the European Central Bank's upcoming rate decision, but we believe that the likelihood of another hike remains above 50%. The eurozone economy is clearly showing signs of slowing and inflation has come down, but this may not be enough to convince the ECB that it has done enough to reach its 2% target. The labour market remains robust, and the unemployment rate is at an all-time low. In addition, the annualized three-month change in the all items less food and energy index rose above 4% in August. Finally, several Governing Council members recently hinted that another hike was possible, either in September or at a subsequent meeting.

THURSDAY September 14 - 22:00

August

China: Industrial production and retail sales (August) – There's been a steady stream of bad economic news out of China for some time. With favourable base effects waning, August's year-over-year changes in industrial production and retail sales should more accurately reflect China's relatively weak growth, which we've already seen with net exports, price indexes and PMIs.

Economic Indicators

Week of September 11 to 15, 2023

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 11	---	---				
TUESDAY 12	---	---				
WEDNESDAY 13	8:30	Consumer price index				
		Total (m/m)	Aug.	0.6%	0.6%	0.2%
		Excluding food and energy (m/m)	Aug.	0.2%	0.2%	0.2%
		Total (y/y)	Aug.	3.6%	3.7%	3.2%
		Excluding food and energy (y/y)	Aug.	4.3%	4.3%	4.7%
	14:00	Federal budget (US$B)	Aug.	-258.2	n/a	-220.8
THURSDAY 14	8:30	Initial unemployment claims	Sept. 4–8	225,000	223,000	216,000
	8:30	Producer price index				
		Total (m/m)	Aug.	0.4%	0.7%	0.3%
		Excluding food and energy (m/m)	Aug.	0.2%	0.2%	0.3%
	8:30	Retail sales				
		Total (m/m)	Aug.	0.2%	0.3%	0.7%
		Excluding automobiles (m/m)	Aug.	0.4%	0.7%	1.0%
	10:00	Business inventories (m/m)	July	0.1%	0.1%	0.0%
FRIDAY 15	8:30	Empire State Manufacturing Index	Sept.	-10.0	-15.0	-19.0
	8:30	Export prices (m/m)	Aug.	0.3%	0.8%	0.7%
	8:30	Import prices (m/m)	Aug.	0.3%	0.7%	0.4%
	9:15	Industrial production (m/m)	Aug.	0.1%	0.1%	1.0%
	9:15	Production capacity utilization rate	Aug.	79.3%	79.3%	79.3%
	10:00	University of Michigan consumer sentiment index – preliminary	Sept.	69.2	67.5	69.5
CANADA						
MONDAY 11	---	---				
TUESDAY 12	---	---				
WEDNESDAY 13	8:30	National balance sheet	Q2			
THURSDAY 14	8:30	Wholesale sales (m/m)	July	n/a	n/a	-2.8%
FRIDAY 15	8:30	International securities transactions ($B)	July	n/a	n/a	12.56
	8:30	Manufacturing sales (m/m)	July	n/a	0.6%	-1.7%
	9:00	Existing home sales (m/m)	Aug.	n/a	-0.2%	-0.7%

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 11 to 15, 2023

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 11							
Italy	4:00	Industrial production	July	-0.3%	-1.8%	0.5%	-0.8%
TUESDAY 12							
Germany	---	Current account (€B)	July	n/a		29.6	
United Kingdom	2:00	ILO unemployment rate	July	4.3%		4.2%	
Germany	5:00	ZEW Current Conditions Survey	Sept.	-76.0		-71.3	
Germany	5:00	ZEW Expectations Survey	Sept.	-15.0		-12.3	
Japan	19:50	Producer price index	Aug.	0.2%	3.3%	0.1%	3.6%
WEDNESDAY 13							
United Kingdom	2:00	Trade balance (£M)	July	-4,500		-4,787	
United Kingdom	2:00	Construction	July	-0.5%	2.8%	1.6%	4.6%
United Kingdom	2:00	Index of services	July	-0.1%		0.2%	
United Kingdom	2:00	Monthly GDP	July	-0.2%		0.5%	
United Kingdom	2:00	Industrial production	July	-0.6%	0.4%	1.8%	0.7%
Eurozone	5:00	Industrial production	July	-0.9%	-0.4%	0.5%	-1.2%
THURSDAY 14							
Japan	0:30	Industrial production – final	July	n/a	n/a	-2.0%	-2.5%
Eurozone	8:15	European Central Bank meeting	Sept.	4.25%		4.25%	
China	22:00	Industrial production	Aug.		3.9%		3.7%
China	22:00	Retail sales	Aug.		3.0%		2.5%
FRIDAY 15							
Japan	0:30	Tertiary Industry Activity Index	July	0.3%		-0.4%	
France	2:45	Consumer price index – final	Aug.	1.0%	4.8%	1.0%	4.8%
Eurozone	5:00	Trade balance (€B)	July	n/a		12.5	
Italy	5:00	Trade balance (€M)	July	n/a		7,718	
Russia	6:30	Bank of Russia meeting	Sept.	12.00%		12.00%	

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).