WEEKLY COMMENTARY

#1 MEILLEUR PRÉVISIONNISTE GLOBAL – CANADA
FOCUS ECONOMICS ANALYST FORECAST AWARDS 2022
#1 BEST OVERALL FORECASTER – CANADA

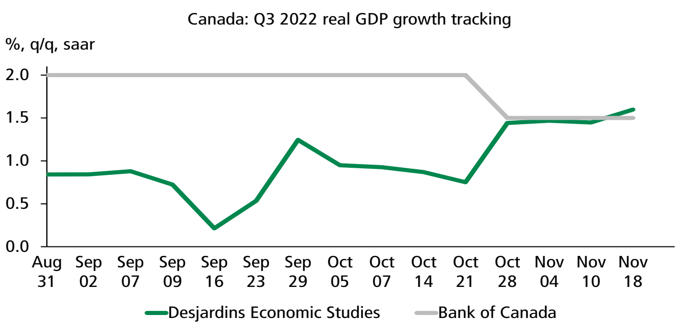
Has the Recent Batch of Positive Data Been a Head Fake or Something More?

By Randall Bartlett, Senior Director of Canadian Economics

With Canadian GDP for Q3 2022 out next week, it seemed like a good opportunity to put some of the latest macro data into context. Specifically, what it means for the economic outlook and what the implications could be for monetary policy.

When you compare our current tracking for Q3 with our forecast from last month, the most striking change is the upward revision to real GDP growth. Monthly GDP for August caused us to adjust our growth tracking upward to 1.5% annualized (Graph 1), exactly in line with the Bank of Canada's quarterly forecast in its October 2022 Monetary Policy Report (MPR). And over the course of the past month, the Q3 tracking has ground higher still, leaving the economy in excess demand and our estimate of the output gap broadly unchanged. (You can find the details of our Q3 outlook on page 4).

GRAPH 1
Our tracking for Q3 2022 growth is in line with the Bank of Canada's



Sources: Bank of Canada, Statistics Canada and Desjardins Economic Studies

Then along came the October jobs data, which threw our forecast for a loop. Before its release, we were again very much in line with the Bank's view that real GDP growth was going to come in around 0.5% annualized in Q4 2022. But after it was revealed that the Canadian economy apparently created over 100,000 net new jobs in October, we've been forced to adjust our forecast higher. (Keep in mind that the labour supply also increased and wage growth looks to have plateaued, so this jump in jobs isn't likely to have caused extra inflation on its own.) And it's not just employment. The outlooks for auto sales, manufacturing, wholesale trade and retail sales all look likely to have moved sharply higher in October. This is in part because of pandemic-era distortions that continue to reverberate through the economy, such as long-delayed deliveries of motor vehicles and tangles in supply chains that continue to unravel. As a result, we currently expect Q4 real GDP growth to come in around 1.2% annualized, a far cry from the Bank of Canada's outlook back in October. Of course, it's still early in the quarter, and we could see some of the shine come off with subsequent data releases. But this becomes increasingly less likely with each new data point.

It's important to recognize that these upside surprises aren't just a Canadian phenomenon. US real GDP growth in the third quarter came in at 2.6% annualized, roughly double the pace expected by forecasters in mid-October. And as of the last read, the Atlanta Fed was tracking real GDP growth of between 4% and 4.5% for Q4 2022—far from recession territory (Graph 2 on page 2). This is not only good news for the US. Growth of this magnitude will boost Canadian trade flows and bolster a quarter that already looks bright for Canada.

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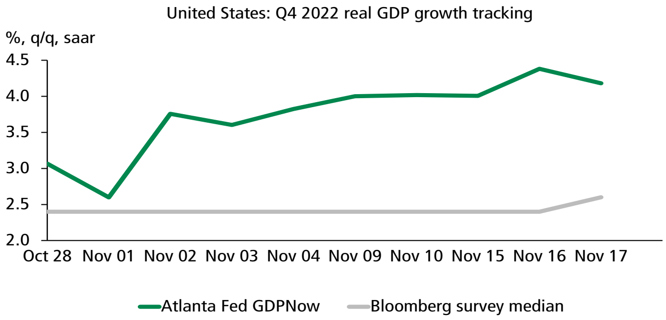
GRAPH 2
The US economy looks poised to post solid growth at the end of 2022



Sources: Federal Reserve Bank of Atlanta, Bloomberg and Desjardins Economic Studies

So where does this leave us? As a result of better-than-expected quarterly growth in the second half of 2022, we're likely to revise up our annual real GDP growth forecast in our upcoming Economic and Financial Outlook. No doubt other forecasters will be moving their growth outlooks higher as well, including the Bank of Canada. But that doesn't necessarily make us more optimistic on the outlook. That's because any upward revision to our outlook for next year comes from what economists call the "handoff," which is the impact that quarterly growth this year has on the annual rate of growth next year. We don't expect quarterly growth in 2023 to be any stronger than when we published our October outlook. If anything, it's likely to be even weaker. The first two quarters of 2023 are still anticipated to see real GDP contract, and Q3 of next year is more likely than ever to experience the same fate. This is because very aggressive monetary tightening in 2022 will hit the economy with a lag, with the slowdown broadening beyond housing and into other segments of the economy. (For more information, see our recent analysis on recession risks.)

Taken together, we don't believe the recent spate of positive data has moved the goalposts for central banks in any material way. Indeed, we suspect this data has largely been a head fake and that the economy is on a downward trajectory. This reaffirms our view that the Bank of Canada has not just pivoted to smaller rate hikes but is getting close to taking a prolonged pause after its December meeting. The same is likely true for the Fed, which we see extending its tightening into early 2023, but then pausing. As Bank of Canada Governor Tiff Macklem said back in October, "This tightening phase will draw to a close. We are getting closer, but we are not there yet."

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

TUESDAY November 29 - 9:00

September	y/y
Consensus	10.65%
Desjardins	10.90%
August	**13.08%**

S&P/Case Shiller index of existing home prices (September) – Although existing home prices have definitely started to come down, recent monthly declines—0.7% in July and 1.3% in August—have been faint compared to more dramatic drops in most other housing market indicators. Look for the downward price trend to continue, with the S&P/Case Shiller index projected to fall by 1.0% in September. We also expect year-over-year price growth to slow from 13.1% to 10.9%.

TUESDAY November 29 - 10:00

November	
Consensus	100.0
Desjardins	99.5
October	**102.5**

Conference Board consumer confidence index (November) – After two consecutive months of improvement, the Conference Board index lost 5.3 points in October. If other US confidence indexes are to be believed, a further fall is in the cards for November. The University of Michigan consumer sentiment index is down 3.1 points (in the final version) and the TIPP index has shed 1.2 points. Unemployment claims have also risen somewhat. At the same time, stock markets are up, if a bit jumpy, and gas prices have gone back down. All things considered, we expect the Conference Board index to dip slightly to 99.5.

THURSDAY December 1 - 8:30

October	m/m
Consensus	0.8%
Desjardins	0.7%
September	**0.6%**

Consumer spending (October) – After monthly gains of 0.3% in August and September, October should see slightly stronger growth in real spending (0.4%) thanks to a positive contribution from motor vehicle sales. With retail sales rebounding in October as consumer price growth slowed, we anticipate a strong showing from real spending on goods. And despite an expected decline in energy spending, real spending on services should be bolstered by food services. In current dollars, we forecast a 0.7% increase in nominal consumption. The total Personal Consumption Expenditures deflator likely rose 0.3% over the month, or 0.2% after stripping out food and energy.

THURSDAY December 1 - 10:00

November	
Consensus	49.8
Desjardins	50.4
October	**50.2**

ISM Manufacturing PMI (November) – As close as the ISM Manufacturing PMI has come to the 50 mark recently, it still hasn't dipped below it. And if the regional manufacturing indexes are any indication, it might just make it another month. Although the Philadelphia Fed manufacturing index cratered in November, the rest were mostly up. We expect the ISM Manufacturing PMI to come in at 50.4, up slightly from 50.2.

FRIDAY December 2 - 8:30

November	
Consensus	200,000
Desjardins	210,000
October	**261,000**

Job creation according to the establishment survey (November) – Job creation continues to outperform expectations. Although hiring numbers are lower than they were at the start of the year, they're pretty impressive considering fears of a looming recession. We expect to see another slowdown in job creation in November. Unemployment claims were up between mid-October and mid-November. We project that 210,000 new jobs were added in November and the unemployment rate stayed put at 3.7%.

CANADA

MONDAY November 28 - 8:30	
Q3 2022	**$B**
Consensus	-4.00
Desjardins	-4.90
Q2 2022	**2.69**

Current account balance (Q3 2022) – Canada's current account balance is expected to have taken a turn for the worse in the third quarter of 2022, likely moving into negative territory for the first time this year. The services trade balance played a role, with the deficit returning to pre-COVID levels in Q3 as it trends further into the red. The investment income balance is also expected to have been in deficit again in Q3, albeit a more modest one relative to the second quarter. Meanwhile, the goods trade balance is estimated to have remained positive in Q3, although with the smallest surplus so far in 2022 on lower commodity prices.

TUESDAY November 29 - 8:30	
September	**m/m**
Consensus	0.1%
Desjardins	0.1%
August	**0.1%**

Real GDP by industry (September) – Real GDP by industry is expected to have advanced by 0.1% in September, in line with Statistics Canada's flash estimate for the month. A projected decline in goods sector activity should be more than offset by an improvement in services output. In goods-producing sectors, weakness in manufacturing and construction activity are likely to have been partially offset by strength in resources. Meanwhile, services-producing sectors will probably eke out a modest advance as more public sector-linked industries, like health and education, are projected to more than make up for output declines in sectors like wholesale and retail trade. Looking to October, we are tracking a strong 0.2% advance in the month and expect Statistics Canada's flash estimate to be around this pace.

TUESDAY November 29 - 8:30	
Q3 2022	**ann. rate**
Consensus	1.4%
Desjardins	1.5%
Q2 2022	**3.3%**

Real GDP (Q3 2022) – Real GDP growth is expected to have clocked in at 1.5% annualized in the third quarter of 2022. This is in line with Statistics Canada's advance estimate and the Bank of Canada's forecast in its October 2022 MPR. Underpinning this anticipated growth is continued strength in real exports in Q3 while real imports moved lower. Much of the weakness in imports can be linked to soft domestic demand, which is likely to be characterized by contraction in gross fixed capital formation. A drop in residential investment is projected to be the primary culprit, but we're tracking weakness in non-residential business investment as well. Looking to consumption, the story is a little rosier but not by much. Sustained consumption of services, government spending and high non-durables consumption thanks to pent-up demand for summertime activities are likely to have offset weakness in the more interest-rate sensitive durables consumption. Capping it all off should be a drag from inventories, as still positive consumption and surging goods exports were not accompanied by rising imports.

THURSDAY December 1 - 8:30	
Q3 2022	**q/q**
Consensus	n/a
Desjardins	0.3%
Q2 2022	**0.2%**

Labour productivity (Q3 2022) – Labour productivity may have posted another advance in Q3 2022 as an anticipated modest gain in business sector output is paired with a mild contraction in total hours worked in the same sector. This would be just the second quarterly advance since Q2 2020. But if we're correct that it comes as a result of total hours worked slowing at a faster pace than output, this second consecutive positive print doesn't give much to celebrate.

FRIDAY December 2 - 8:30	
November	
Consensus	10,000
Desjardins	12,000
October	**109,300**

Labour Force Survey (November) – The surge in hiring in October was certainly a surprise and isn't likely to have continued into November. With higher interest rates beginning to pinch businesses and illnesses likely a creating a headwind to labour supply, we expect to see that only a modest further increase in employment occurred in November. As a result, the unemployment rate likely ticked up to 5.3%. Wage growth will also be in focus as the central bank tries to calibrate monetary policy to domestic inflationary pressures. It's likely that the annual pace of wage increases slowed a touch from the 5.5% seen in October, which would suggest that the Bank of Canada will raise by only 25bps in December.

OVERSEAS

WEDNESDAY November 30 - 5:00	
November	**y/y**
Consensus	10.4%
October	**10.6%**

Eurozone: Consumer Price Index (November, preliminary) – October saw eurozone inflation hit a new high of 10.6%. Price increases remain strongly affected by energy prices, which have risen at an annual rate of 41.5%. Core inflation has also hit a record high of 5.0%. Although it remains to be seen if relief is on the horizon, some indicators, like producer prices, have started to come down.

Economic Indicators

Week of November 28 to December 2, 2022

Day	Hour	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 28	12:00	Speech of the Federal Reserve Bank of New York President, J. Williams				
TUESDAY 29	9:00	S&P/Case-Shiller home price index (y/y)	Sept.	10.65%	10.90%	13.08%
	10:00	Consumer confidence	Nov.	100.0	99.5	102.5
WEDNESDAY 30	8:30	Real GDP (ann. rate)	Q3s	2.7%	2.6%	2.6%
	8:30	Goods trade balance – preliminary (US$B)	Oct.	-90.2	-88.4	-92.2
	8:30	Retail inventories (m/m)	Oct.	n/a	n/a	0.4%
	8:30	Wholesale inventories – preliminary (m/m)	Oct.	0.5%	n/a	0.6%
	9:45	Chicago PMI index	Nov.	47.0	46.0	45.2
	10:00	New home sales (ann. rate)	Oct.	-5.2%	n/a	-10.2%
	12:35	Speech of a Federal Reserve Governor, L. Cook				
	13:30	Speech of the Federal Reserve Chair, J. Powell				
	14:00	Release of the *Beige Book*				
THURSDAY 1	8:30	Initial unemployment claims	Nov. 21-25	n/a	233,000	240,000
	8:30	Personal income (m/m)	Oct.	0.4%	0.5%	0.4%
	8:30	Personal consumption expenditures (m/m)	Oct.	0.8%	0.7%	0.6%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Oct.	0.4%	0.3%	0.3%
		Excluding food and energy (m/m)	Oct.	0.3%	0.2%	0.5%
		Total (y/y)	Oct.	6.0%	6.0%	6.2%
		Excluding food and energy (y/y)	Oct.	5.0%	4.9%	5.1%
	10:00	Construction spending (m/m)	Oct.	-0.2%	-0.4%	0.2%
	10:00	ISM manufacturing index	Nov.	49.8	50.4	50.2
	---	Total vehicle sales (ann. rate)	Nov.	14,900,000	14,300,000	14,900,000
FRIDAY 2	8:30	Change in nonfarm payrolls	Nov.	200,000	210,000	261,000
	8:30	Unemployment rate	Nov.	3.7%	3.7%	3.7%
	8:30	Weekly worked hours	Nov.	34.5	34.5	34.5
	8:30	Average hourly earnings (m/m)	Nov.	0.3%	0.3%	0.4%
CANADA						
MONDAY 28	8:30	Current account balance ($B)	Q3	-4.00	-4.90	2.69
TUESDAY 29	8:30	Real GDP by industry (m/m)	Sept.	0.1%	0.1%	0.1%
	8:30	Real GDP (ann. rate)	Q3	1.4%	1.5%	3.3%
WEDNESDAY 30	---	---				
THURSDAY 1	8:30	Labour productivity (q/q)	Q3	n/a	0.3%	0.2%
FRIDAY 2	8:30	Net change in employment	Nov.	10,000	12,000	108,300
	8:30	Unemployment rate	Nov.	5.3%	5.3%	5.2%

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 - 5 hours). Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of November 28 to December 2, 2022

Country	Hour	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous data m/m (q/q)	Previous data y/y
OVERSEAS							
MONDAY 28							
Euro zone	4:00	Money supply M3	Oct.	6.1%		6.3%	
Japan	18:30	Unemployment rate	Oct.	2.5%		2.6%	
Japan	18:50	Retail sales	Oct.	1.0%	5.0%	1.1%	4.5%
TUESDAY 29							
Euro zone	5:00	Consumer confidence – final	Nov.	n/a		-23.9	
Euro zone	5:00	Industrial confidence	Nov.	-0.5		-1.2	
Euro zone	5:00	Services confidence	Nov.	1.9		1.8	
Euro zone	5:00	Economic confidence	Nov.	93.0		92.5	
Germany	8:00	Consumer price index – preliminary	Nov.	-0.2%	10.4%	0.9%	10.4%
Japan	18:50	Industrial production – preliminary	Oct.	-1.8%	5.2%	-1.7%	9.6%
China	20:30	PMI manufacturing index	Nov.	49.2		49.2	
China	20:30	PMI non-manufacturing index	Nov.	48.0		48.7	
WEDNESDAY 30							
Japan	0:00	Housing starts	Oct.		-0.7%		1.0%
France	2:45	Personal consumption expenditures	Oct.	-0.9%	-4.9%	1.2%	-3.0%
France	2:45	Consumer price index – preliminary	Nov.	0.3%	6.1%	1.0%	6.2%
France	2:45	Real GDP – final	Q3	0.2%	1.0%	0.2%	1.0%
Italy	4:00	Real GDP – final	Q3	0.5%	2.6%	0.5%	2.6%
Euro zone	5:00	Consumer price index – preliminary	Nov.	0.2%	10.4%	1.5%	10.6%
Italy	5:00	Consumer price index – preliminary	Nov.	0.1%	11.3%	3.5%	11.9%
Japan	19:30	PMI manufacturing index – final	Nov.	n/a		49.4	
THURSDAY 1							
Japan	0:00	Consumer confidence	Nov.	30.2		29.9	
Japan	0:00	Vehicle sales	Nov.		n/a		19.7%
United Kingdom	2:00	Nationwide house prices	Nov.	-0.4%	5.8%	-0.9%	7.2%
Germany	2:00	Retail sales	Oct.	-0.6%	-2.9%	0.9%	-0.6%
Italy	3:45	PMI manufacturing index	Nov.	47.0		46.5	
France	3:50	PMI manufacturing index – final	Nov.	49.1		49.1	
Germany	3:55	PMI manufacturing index – final	Nov.	46.7		46.7	
Euro zone	4:00	PMI manufacturing index – final	Nov.	47.3		47.3	
Italy	4:00	Unemployment rate	Oct.	8.0%		7.9%	
United Kingdom	4:30	PMI manufacturing index – final	Nov.	46.2		46.2	
Euro zone	5:00	Unemployment rate	Oct.	6.6%		6.6%	
FRIDAY 2							
Germany	2:00	Trade balance (€B)	Oct.	5.2		3.7	
Euro zone	5:00	Producer price index	Oct.	-2.0%	31.8%	1.6%	41.9%

NOTE: In contrast to the situation in Canada and the United States, disclosure of overseas economic fi gures 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 - 5 hours).