

# WEEKLY COMMENTARY



## Inflation Hints at Stabilizing, but No Central Banker Is Celebrating

By Jimmy Jean, Vice-President, Chief Economist and Strategist

In a year filled with anxiety-inducing developments, any feel-good news is welcome. And nothing relieves the anxiety better than signs inflation might be plateauing. Think of all the variables that are contingent on the inflation outlook—the size of rate hikes, the terminal rate, the housing market and the odds of a recession. After exceeding expectations for over a year, inflation is finally sending some encouraging signals. July’s surprisingly tame US CPI report featured rapidly abating pressures from reopening-related categories such as airfares and lodging. Prices fell for a second consecutive month in these categories. We also saw prices decline for core goods like used cars and apparel. There may be more to come on the goods side if the worst is indeed behind us on the supply chain front. As we’ve [noted](#), container rates are normalizing and we’re seeing improvements in supplier delivery times, including in Canada.

We’re also noticing some moderation in consumer inflation expectations. The New York Fed’s Survey of Consumer Expectations showed the biggest decline in the one-year outlook for food price growth since the survey began. And the decline in expected gasoline price growth was the second-largest ever observed in this survey. Why does it matter? Because research has shown frequently-purchased items such as food and gasoline have a disproportionate influence on inflation expectations.

These developments have improved market risk appetite. However, the recent moves have been driven by what we believe are hasty conclusions about the implications of a few data points on the monetary policy trajectory. In a year with so many twists and turns, it doesn’t take long for headlines to become old news. But we shouldn’t forget the half-million jobs created in July and continued 5% wage growth. The Survey of Consumer Expectations also tells us that consumers are more bullish on the

job market. The mean probability of voluntarily leaving a job has moved higher, and voluntary quits are typically underpinned by strong wage expectations. This is key because the Fed is on a stated mission to loosen a job market that Chair Powell deemed “tight to an unhealthy level” earlier this year. Nothing has fundamentally changed here as job openings remain excessively high. Domestic demand will therefore need to slow on a more sustained basis to put a real dent in demand for workers. Only then will officials be confident that the risk of an inflationary spiral has been properly mitigated.

So it’s no surprise that Fed officials are unhappy with the easing of financial conditions this summer. San Francisco Fed President Mary Daly has moved from dove to hawk on the FOMC’s ideological spectrum. After this week’s CPI report, she warned that another 75bp hike is not off the table for September. It’s worth noting the report also showed stickier core inflation compared to the headline improvement. At the Jackson Hole Symposium in two weeks, Jerome Powell will likely reaffirm the Fed’s commitment to bringing down inflation. He may also elaborate on the “string” of improvements the Fed is looking for and emphasize that risk management considerations continue to argue for erring on the side of forcefulness. As a result, we’re still comfortable calling a 75bp hike for September. That means the recent risk rally rests on some pretty shaky foundations.

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# What to Watch For

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## TUESDAY August 16 - 8:30

July	ann. rate
Consensus	1,537,000
Desjardins	1,550,000
June	1,559,000

## TUESDAY August 16 - 9:15

July	m/m
Consensus	0.4%
Desjardins	0.2%
June	-0.2%

## WEDNESDAY August 17 - 8:30

July	m/m
Consensus	0.1%
Desjardins	0.1%
June	1.0%

## THURSDAY August 18 - 10:00

July	m/m
Consensus	-0.5%
Desjardins	-0.6%
June	-0.8%

## MONDAY August 15 - 8:30

June	m/m
Consensus	n/a
Desjardins	0.0%
May	1.6%

## MONDAY August 15 - 9:00

July	
Consensus	n/a
Desjardins	-6.9%
June	-5.6%

## MONDAY August 15 - 8:30

June	m/m
Consensus	-1.0%
Desjardins	-0.3%
May	-2.0%

## UNITED STATES

**Housing starts (July)** – The decline in housing starts is expected to have continued in July. The US housing market is increasingly feeling the pinch of rising interest rates. The number of building permits was also relatively low in June, pointing to weaker activity.

**Industrial production (July)** – After declining in June, industrial production is expected to have edged up slightly in July. Increases in manufacturing and mining are likely to be largely offset by a drop in utilities. Industrial capacity utilization could rise from 80.0% to 80.1%.

**Retail sales (July)** – The Consumer Price Index was flat in July. The rising cost of food and shelter was mainly offset by a sharp drop in gasoline prices. As a result, retail sales growth in value terms is expected to be more modest on the month.

**Leading indicator (July)** – The Conference Board's leading indicator is expected to have declined for the fifth consecutive month in July. It was likely dragged down by higher unemployment claims and a decline in the new orders component of the ISM index. The downward trend in the leading indicator suggests the US economy will continue to struggle over the coming months as rapidly rising interest rates bite.

## CANADA

**Wholesale trade (June)** – Wholesale trade is expected to be flat in June following a solid 1.6% advance in May. Look for a contraction in wholesale trade volumes. This on the back of a sharp drop in real imports of goods typically destined for the wholesale market and a modest dip in hiring in the month. In contrast, prices are likely to have increased in June, as suggested by the rise in seasonally-adjusted goods CPI. This estimate is slightly lower than Statistics Canada's early indicator of wholesale trade, which points to a 0.5% uptick in June.

**Existing home sales (July)** – Sales of existing homes are expected to fall by 6.9% (m/m) in July, for the fifth consecutive monthly decline. Local real estate boards suggest the nationwide drop in sales activity is widespread with few if any communities immune from the ongoing correction.

**Manufacturing sales (June)** – Following a sharp 2.0% drop in May, manufacturing sales are expected to fall another 0.3% (m/m) in June. Volumes likely contracted, with a modest increase in seasonally-adjusted auto production and manufacturing employment not enough to offset lower import volumes of key manufacturing inputs. We think this decline will be partially offset by an increase in prices due to the ongoing depreciation of the Canadian dollar and sustained rise in the seasonally-adjusted goods CPI. This despite modestly lower energy prices in June. This outlook for a modest monthly decline in manufacturing sales stands in contrast to Statistics Canada's -1.0% flash estimate.

**TUESDAY August 16 - 8:30**

<b>July</b>	<b>m/m</b>
Consensus	0.1%
Desjardins	0.1%
<b>June</b>	<b>0.7%</b>

**Consumer Price Index (July)** – Lower energy prices in July will likely mean a 0.1% month-over-month increase in headline inflation, leaving the annual pace at 7.6%. The gas tax cut in Ontario that came into effect in July is also expected to have pushed headline inflation lower. Core prices are projected to have risen in July, posting an annual increase of 5.2%. That said, headline inflation has likely peaked. Although commodity prices are expected to remain elevated, their recent decline has provided some relief which should continue to be felt in the coming months. Tighter monetary policy has begun to weigh on the Canadian economy, as evidenced by a steep slowdown in the housing sector and some weakness in employment. This should cool demand and exert further downward pressure on core goods going forward.

**TUESDAY August 16 - 8:15**

<b>July</b>	<b>ann. rate</b>
Consensus	265,000
Desjardins	265,000
<b>June</b>	<b>273,800</b>

**Housing starts (July)** – After a strong first half of 2022, housing starts are expected to post their second consecutive monthly decline in July, falling to a still-elevated 265,000 units in the month. This would reflect a slowing housing market as sales of existing homes plummet due to rapidly rising interest rates. However, housing starts are proving stickier than sales. We continue to see an increase in the value and volume of building permits issued, particularly for multi-unit buildings. As such, while we expect housing starts to ultimately reflect the weakness in the existing home market, July's adjustment is likely to be more modest.

**THURSDAY August 18 - 8:30**

<b>July</b>	<b>m/m</b>
Consensus	n/a
Desjardins	-0.8%
<b>June</b>	<b>-1.1%</b>

**Industrial Product Price Index (July)** – The Industrial Product Price Index (IPPI) is expected to have fallen 0.8% (m/m) in July, with both energy and non-energy commodity prices taking a step back in the month. It would be the second straight monthly decline. However, it's expected to have been partially offset by higher import prices on the back of the ongoing depreciation of the Canadian dollar.

**THURSDAY August 18 - 8:30**

<b>July</b>	<b>m/m</b>
Consensus	n/a
Desjardins	-5.2%
<b>June</b>	<b>-0.1%</b>

**Raw Material Price Index (July)** – After receding modestly in June, the Raw Material Price Index (RMPI) is expected to fall by 5.2% (m/m) in July, for the second consecutive monthly decline. This would reflect hefty pullbacks in both energy and non-energy commodity prices offset modestly by the weaker Canadian dollar.


**FRIDAY August 19 - 8:30**


<b>June</b>	<b>m/m</b>
Consensus	0.3%
Desjardins	-0.1%
<b>May</b>	<b>2.2%</b>

**Retail sales (June)** – Following an outsized gain of 2.2% (m/m) in May, retail sales are expected to take a step back in June, dropping by 0.1% in the month. This stands in contrast to Statistics Canada's flash estimate of +0.3%. If it materializes, the decline would be due entirely to a contraction in retail sales volumes, as real imports of consumer goods and motor vehicles fell, as did seasonally-adjusted new motor vehicle sales. In contrast, retail prices are expected to move higher on the month, as suggested by the rise in seasonally-adjusted goods CPI and the depreciation of the Canadian dollar, which has pushed up prices for imported consumer goods. Taking autos out of the equation, retail sales are expected to increase by 0.4% in June.

# Economic Indicators

Week of August 15 to 19, 2022

Date	Time	Indicator	Period	Consensus		Previous data
<b>UNITED STATES</b>						
<b>MONDAY 15</b>	8:30	Empire manufacturing index	Aug.	5.0	5.5	11.1
	10:00	NAHB housing market index	Aug.	55	n/a	55
	16:00	Net foreign security purchases (US\$B)	June	n/a	n/a	155.3
<b>TUESDAY 16</b>	8:30	Housing starts (ann. rate)	July	1,537,000	1,550,000	1,559,000
	8:30	Building permits (ann. rate)	July	1,645,000	1,700,000	1,685,000
	9:15	Industrial production (m/m)	July	0.4%	0.2%	-0.2%
	9:15	Production capacity utilization rates	July	80.2%	80.1%	80.0%
<b>WEDNESDAY 17</b>	8:30	Retail sales				
		Total (m/m)	July	0.1%	0.1%	1.0%
		Excluding automobiles (m/m)	July	-0.1%	-0.1%	1.0%
	10:00	Business inventories (m/m)	June	1.4%	1.4%	1.4%
	14:00	Minutes of the Federal Reserve meeting				
<b>THURSDAY 18</b>	8:30	Initial unemployment claims	Aug. 8-12	265,000	264,000	262,000
	8:30	Philadelphia Fed index	Aug.	-4.0	-6.0	-12.3
	10:00	Existing home sales (ann. rate)	July	4,880,000	4,850,000	5,120,000
	10:00	Leading indicator (m/m)	July	-0.5%	-0.6%	-0.8%
	13:20	Speech of the Federal Reserve Bank of Kansas City President, E. George				
	13:45	Speech of the Federal Reserve Bank of Minneapolis President, N. Kashkari				
<b>FRIDAY 19</b>	---	---				
<b>CANADA</b>						
<b>MONDAY 15</b>	8:30	Wholesale sales (m/m)	June	n/a	0.0%	1.6%
	8:30	Manufacturing sales (m/m)	June	-1.0%	-0.3%	-2.0%
	9:00	Existing home sales	July	n/a	-6.9%	-5.6%
	10:30	Release of the Bank of Canada <i>Senior Loan Officer Survey</i>				
<b>TUESDAY 16</b>	8:15	Housing starts (ann. rate)	July	265,000	265,000	273,800
	8:30	Consumer price index				
		Total (m/m)	July	0.1%	0.1%	0.7%
		Total (y/y)	July	7.6%	7.6%	8.1%
	8:30	International transactions in securities (\$B)	June	n/a	n/a	2.35
<b>WEDNESDAY 17</b>	---	---				
<b>THURSDAY 18</b>	8:30	Industrial product price index (m/m)	July	n/a	-0.8%	-1.1%
	8:30	Raw materials price index (m/m)	July	n/a	-5.2%	-0.1%
<b>FRIDAY 19</b>	8:30	Retail sales				
		Total (m/m)	June	0.3%	-0.1%	2.2%
		Excluding automobiles (m/m)	June	n/a	0.4%	1.9%

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 August 15 to 19, 2022

Country	Time	Indicator	Period	Consensus		Previous data	
				m/m (q/q)	y/y	m/m (q/q)	y/y
<b>OVERSEAS</b>							
<b>SUNDAY 14</b>							
Japan	19:50	Real GDP – preliminary	Q2	0.7%		-0.1%	
China	22:00	Industrial production	July		4.3%		3.9%
China	22:00	Retail sales	July		4.9%		3.1%
<b>MONDAY 15</b>							
Japan	0:30	Industrial production – final	June	n/a	n/a	8.9%	-3.1%
<b>TUESDAY 16</b>							
Japan	0:00	Tertiary industry activity index	June	0.4%		0.8%	
United Kingdom	2:00	ILO unemployment rate	June	3.8%		3.8%	
Euro zone	5:00	Trade balance (€B)	June	-20.0		-26.0	
Germany	5:00	ZEW survey – Current situation	Aug.	-48.0		-45.8	
Germany	5:00	ZEW survey – Expectations	Aug.	-53.9		-53.8	
Japan	19:50	Trade balance (¥B)	July	-1,923		-1,928	
New Zealand	22:00	Reserve Bank of New Zealand meeting	Aug.	3.00%		2.50%	
<b>WEDNESDAY 17</b>							
United Kingdom	2:00	Consumer price index	July	0.4%	9.8%	0.8%	9.4%
United Kingdom	2:00	Producer price index	July	0.8%	16.2%	1.4%	16.5%
Euro zone	5:00	Net change in employment – preliminary	Q2	n/a	n/a	0.6%	2.9%
Euro zone	5:00	Real GDP – preliminary	Q2	0.7%	4.0%	0.7%	4.0%
<b>THURSDAY 18</b>							
Norway	4:00	Bank of Norway meeting	Aug.	1.75%		1.25%	
Euro zone	5:00	Construction	June	n/a	n/a	0.4%	2.9%
Euro zone	5:00	Consumer price index – final	July	0.1%	8.9%	0.1%	8.6%
United Kingdom	19:01	Consumer confidence	Aug.	-42		-41	
Japan	19:30	Consumer price index	July		2.6%		2.4%
<b>FRIDAY 19</b>							
United Kingdom	2:00	Retail sales	July	-0.2%	-3.3%	-0.1%	-5.8%
Germany	2:00	Producer price index	July	0.7%	32.0%	0.6%	32.7%
Euro zone	4:00	Current account (€B)	June	n/a		-4.5	
Italy	4:30	Current account (€M)	June	n/a		-1,251	

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).