

WEEKLY COMMENTARY

Could They? Would They? Should They?

By Royce Mendes, Managing Director and Head of Macro Strategy

Canadian monetary policymakers have a major decision to make next week. In fact, it will be the most crucial deliberation of this rate hiking cycle so far. Traders have opened the door to a 75 basis point (bp) rate increase next Wednesday, so the Bank of Canada could certainly walk through that door without ruffling too many market feathers. But the overall environment is much more precarious now than it was at the time of the Bank’s previous meetings.

Raising rates in 75 or 100 bp increments isn’t all that daring when borrowing costs are starting from very low levels. It only makes sense to take away the punch bowl when the party is completely out of control and the police are on their way. It probably means you should have done so earlier—as we called for. But that was when rates were clearly still stimulating the economy. Rates are much higher now.

There are, of course, a number of reasons the Bank of Canada could use to justify a 75 bp rate move next week. An increase of that magnitude would match our expectations for the US Federal Reserve’s upcoming rate announcement. That would defend against a further depreciation in the Canadian dollar. The Bank would also maintain at least an air of strength in the face of another upside surprise in inflation, which might help in its bid to control inflation expectations.

For those reasons, we believe the Bank of Canada will raise rates 75 basis points next week. But we wonder whether it should start spacing out its increases instead. Monetary policy works with significant lags, so using current data to guide decisions is dangerous and almost guarantees an overshoot.

Recently, the Reserve Bank of Australia (RBA) took a different approach. Central bankers surprised markets and economists by raising rates only 25 basis points instead of the 50 that was expected. It’s true that the RBA has a broader mandate that

includes employment and economic prosperity in addition to inflation, whereas the Bank of Canada only has its eyes on inflation. Wage growth is also more subdued in Australia than in Canada. However, the two economies have a lot in common. Both have faster-growing labour forces than places like the US, which should help them alleviate worker shortages over time. Both also have very high household debt ratios, and their mortgage market structures are such that households feel rising interest rates quicker and with more ferocity. In fact, housing actually represents a larger share of the economy in Canada than in Australia, adding to the interest rate sensitivity of the former.

So while we think the Bank of Canada will raise rates 75 bp next week, we’re not convinced that it should. If the Bank does deliver a second consecutive 75-point increase, we strongly believe central bankers should be more transparent about the likelihood of a recession in 2023. But given their recent track record on that count, we can’t be sure they will.

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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 October 25 - 9:00

August	y/y
Consensus	14.0%
Desjardins	14.4%
July	16.1%

TUESDAY October 25 - 10:00

October	Index
Consensus	105.5
Desjardins	108.0
September	108.0

WEDNESDAY October 26 - 10:00

September	
Consensus	580,000
Desjardins	500,000
August	685,000

THURSDAY October 27 - 8:30

Q3 1st est.	Ann. rate
Consensus	2.3%
Desjardins	1.5%
Q2 3rd est.	-0.6%

THURSDAY October 27 - 8:30

September	m/m
Consensus	0.6%
Desjardins	2.0%
August	-0.2%

WEDNESDAY October - 10:00

October	
Consensus	3.75%
Desjardins	4.00%
September 7	3.25%

UNITED STATES

S&P/Case-Shiller index of existing home prices (August) – After 123 months with no material decline, the S&P Case-Shiller index dropped 0.4% in July. Like other US housing market indicators, it's starting to feel the pressure of soaring mortgage rates. This is likely to be the first of many months in the red. In fact, we expect the index to have shed 0.6% in August, which would push the year-over-year change down from 16.1% to 14.4%.

Conference Board consumer confidence index (October) – Consumer sentiment as measured by the Conference Board continued to improve in September. Together, August and September's gains virtually erased the index's decline over the prior three months. We expect some stability in the index in October. Gasoline prices have started to rise again, but the stock market is also up. Meanwhile, other consumer confidence indexes are sending mixed messages. The University of Michigan consumer sentiment index improved, while the TIPP index edged down. As such, we expect the Conference Board index to remain stable at 108.0 in October.

New home sales (September) – Surprisingly, sales of new single-family homes surged 28.8% in August. Despite improving to 685,000 from July's low of 532,000, annualized sales remain weak and are down 18.4% from the end of 2021. Lower demand for building permits for single-family homes (down 3.1% last month), fewer mortgage applications for home purchases and waning builder confidence all point towards new home sales falling further. As such, we expect annualized sales to have dropped from 685,000 to 500,000 units in September.

Real GDP (Q3 – first estimate) – After declining for the last two quarters either due to inventory drawdowns or international trade, real GDP is expected to return to growth. However, we think annualized real consumer spending will only edge up slightly by around 0.6%. Residential investment is likely to remain anchored in the red, while nonresidential fixed investment should do better than the paltry 0.1% growth we saw in the second quarter. Net exports are forecast to be one of the biggest contributors to growth given a solid increase in real exports combined with a decline in imports. Overall, we think that annualized US real GDP will rise 1.5% in the third quarter.

New durable goods orders (August) – New durable goods orders dipped for the second successive month in August. The aviation sector was behind this drop once more, while orders excluding transportation continued to advance. Based on data from Boeing, we expect a jump in aviation sector orders in September. The automotive sector is also projected to have expanded and, as a result, we're forecasting 5.4% monthly growth in transportation orders. Orders excluding transportation should increase 0.3%, similar to August's print. Overall, we're anticipating a 2.0% rise in new durable goods orders.

CANADA

Bank of Canada (October) – Canadian central bankers are set for another extraordinary 75 bp rate increase next week following September's surprisingly strong inflation number. However, the accompanying statement or ensuing press conference is likely to concede that future adjustments won't be as large. Either or both may even go so far as to say the central bank will take a more balanced, decision-by-decision approach in the future. The rate hiking cycle isn't over yet, but we're inching closer to the finish line.

FRIDAY October 28 - 8:30

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

Real GDP by industry (August) – We expect real GDP by industry to advance by 0.1% in August, slightly better than Statistics Canada’s flash estimate. Goods-producing sectors should post an aggregate decline after increasing in July, as the pace of the construction and manufacturing contraction likely accelerated. In contrast, we foresee services-producing sectors recovering some of July’s loss, with retail and wholesale trade rebounding and other customer-facing services providing less of a drag. We expect a pause in the recent real estate and leasing declines, as the correction in the existing home market took a bit of a breather in August. Look for Statistics Canada’s September flash estimate to show a flat to slightly positive performance, with a forecasted advance in services-producing sectors likely to outpace further weakness in goods-producing sectors. This would put annualized real GDP growth at just shy of 1% for the third quarter as a whole.

OVERSEAS

MONDAY October 24 - 4:00

October	Index
Consensus	47.6
September	48.1

Eurozone: Purchasing Managers’ Index (October – preliminary) – PMIs are down in most European countries and for the eurozone as well. The levels we’re seeing are generally consistent with fairly modest drops in real GDP. We’ll have to wait and see whether future prints indicate a more pronounced economic contraction.

THURSDAY October 27 - 8:15

September	
Consensus	2.00%
September 8	1.25%

Eurozone: European Central Bank meeting (October) – Markets are pricing in another 75 basis point hike in the eurozone. The central bank took a more patient approach over the first half of the year before initiating rate liftoff, but will have to play catch-up now in order to effectively rein in high inflation. The European Central Bank is also likely to indicate that we should expect more aggressive rate hikes at future monetary policy meetings.

Economic Indicators

Week of October 24 to 28, 2022

Date	Time	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 24						
TUESDAY 25						
	9:00	S&P/Case-Shiller home price index (y/y)	Aug.	14.0%	14.4%	16.1%
	10:00	Consumer confidence	Oct.	105.5	108.0	108.0
WEDNESDAY 26						
	8:30	Goods trade balance – preliminary (US\$B)	Sept.	-87.7	-88.5	-87.3
	8:30	Retail inventories (m/m)	Sept.	1.2%	n/a	1.4%
	8:30	Wholesale inventories – preliminary (m/m)	Sept.	1.1%	n/a	1.3%
	10:00	New home sales (ann. rate)	Sept.	580,000	500,000	685,000
THURSDAY 27						
	8:30	Initial unemployment claims	Oct. 17-21	225,000	220,000	214,000
	8:30	Real GDP (ann. rate)	Q3f	2.3%	1.5%	-0.6%
	8:30	Durable goods orders (m/m)	Sept.	0.6%	2.0%	-0.2%
FRIDAY 28						
	8:30	Employment cost index (q/q)	Q3	1.2%	1.2%	1.3%
	8:30	Personal income (m/m)	Sept.	0.3%	0.3%	0.3%
	8:30	Personal consumption expenditures (m/m)	Sept.	0.4%	0.4%	0.4%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Sept.	0.3%	0.3%	0.3%
		Excluding food and energy (m/m)	Sept.	0.5%	0.4%	0.6%
		Total (y/y)	Sept.	6.3%	6.2%	6.2%
		Excluding food and energy (y/y)	Sept.	5.2%	5.1%	4.9%
	10:00	Michigan's consumer sentiment index – final	Oct.	59.7	59.8	59.8
	10:00	Pending home sales (m/m)	Sept.	-5.3%	n/a	-2.0%
CANADA						
MONDAY 24						
TUESDAY 25						
WEDNESDAY 26						
	10:00	Bank of Canada meeting	Oct.	3.75%	4.00%	3.25%
	10:00	Release of the Bank of Canada <i>Monetary Policy Report</i>				
	11:00	Speech of the Bank of Canada Governor, T. Macklem				
THURSDAY 27						
FRIDAY 28						
	8:30	Real GDP by industry (m/m)	Aug.	0.0%	0.1%	0.1%

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 October 24 to 28, 2022

Country	Time	Indicator	Period	Consensus		Previous data		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 24								
France	3:15	PMI composite index – preliminary	Oct.	50.2		51.2		
France	3:15	PMI manufacturing index – preliminary	Oct.	47.0		47.7		
France	3:15	PMI services index – preliminary	Oct.	51.5		52.9		
Germany	3:30	PMI composite index – preliminary	Oct.	45.5		45.7		
Germany	3:30	PMI manufacturing index – preliminary	Oct.	47.0		47.8		
Germany	3:30	PMI services index – preliminary	Oct.	44.9		45.0		
Euro zone	4:00	PMI composite index – preliminary	Oct.	47.6		48.1		
Euro zone	4:00	PMI manufacturing index – preliminary	Oct.	47.9		48.4		
Euro zone	4:00	PMI services index – preliminary	Oct.	48.2		48.8		
United Kingdom	4:30	PMI composite index – preliminary	Oct.	48.0		49.1		
United Kingdom	4:30	PMI manufacturing index – preliminary	Oct.	48.0		48.4		
United Kingdom	4:30	PMI services index – preliminary	Oct.	49.0		50.0		
TUESDAY 25								
Germany	4:00	Ifo survey – Business climate	Oct.	83.5		84.3		
Germany	4:00	Ifo survey – Current situation	Oct.	92.0		94.5		
Germany	4:00	Ifo survey – Expectations	Oct.	75.0		75.2		
WEDNESDAY 26								
France	2:45	Consumer confidence	Oct.	77		79		
Euro zone	4:00	Money supply M3	Sept.		6.0%		6.1%	
Brazil	17:30	Bank of Brazil meeting	Oct.	13.75%		13.75%		
THURSDAY 27								
Japan	---	Bank of Japan meeting	Oct.	-0.10%		-0.10%		
Germany	2:00	Consumer confidence	Nov.	-42.0		-42.5		
Italy	4:00	Consumer confidence	Oct.	93.5		94.8		
Italy	4:00	Economic confidence	Oct.	n/a		105.2		
Euro zone	8:15	European Central Bank meeting	Oct.	2.00%		1.25%		
Japan	19:30	Consumer price index – Tokyo	Oct.		3.3%		2.8%	
Japan	19:30	Unemployment rate	Sept.	2.5%		2.5%		
FRIDAY 28								
France	1:30	Personal consumption expenditures	Sept.	1.1%	-3.2%	0.0%	-3.8%	
France	1:30	Real GDP – preliminary	Q3	0.2%	1.0%	0.5%	4.2%	
France	2:45	Consumer price index – preliminary	Oct.	0.5%	5.7%	-0.6%	5.6%	
Euro zone	5:00	Consumer confidence – final	Oct.	-27.6		-27.6		
Euro zone	5:00	Industrial confidence	Oct.	-1.5		-0.4		
Euro zone	5:00	Services confidence	Oct.	3.0		4.9		
Euro zone	5:00	Economic confidence	Oct.	92.4		93.7		
Italy	5:00	Consumer price index – preliminary	Oct.	1.4%	9.7%	1.7%	9.4%	
Russia	6:30	Bank of Russia meeting	Oct.	7.50%		7.50%		
Germany	8:00	Consumer price index – preliminary	Oct.	0.6%	10.1%	1.9%	10.0%	

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).