WEEKLY COMMENTARY

The Return of "Might Makes Right" Is Reshaping the Economic Framework

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

This first note of the year could have been about a regular economic topic like the continued weakness in Canadian business investment, the urgent need to boost productivity amid sluggish population growth or the increasingly fraught path of public finances. They're all still important issues. But recent events have thrust geopolitics back into the spotlight.

Last weekend's US military intervention in Venezuela marks the return of a global economy in which "might makes right." For the first time since World War II, an American president has decided that projecting technological, financial and military superiority isn't enough and is openly talking about territorial expansion, including annexing Greenland. That's easier said than done, of course. But as with tariffs, deportations, Fed interference and other disruptive actions it's already taken, the Trump administration is pressing forward.

For several decades, macroeconomic analysis operated within an implicit framework of relative geopolitical stability. There was consensus around a seemingly solid foundation built on the rule of law, independent monetary policy and strong institutions. Sure, there were conflicts. But most were seen as exogenous, local and unlikely to undermine the rules-based international order. The justification for past US interventions was crisis management, deterrence or regime change, not territorial expansion. That framework is now in question.

Our challenge as economists is to assess the implications of this change. And those implications may be more sweeping than immediate market reactions suggest. It is rational for markets not to overreact if the intervention remains limited in scope and expectations around key variables such as growth, profits and monetary policy remain largely anchored. But the frame of reference used by economic agents is shifting. In this increasingly turbulent environment, investment is becoming more sensitive to political risk, value chains are becoming more vulnerable to disruption and risk premiums are becoming more volatile.

The security framework is transforming before our very eyes. NATO's commitments to increase military spending were intended as much as a deterrent as an attempt to appease the president of the United States. This past November, the head of France's military sparked controversy when he said the country must be prepared to "accept the loss of its children." The US Department of Defense has been renamed the Department of War. Leading experts have warned that 2026 could be the most dangerous year since 1945 and be marked by increased armed conflict and unprecedented geopolitical instability.

Others are less alarmist, believing that nuclear weapons and economic interdependence will serve as deterrents. Either way, there's reason to be somewhat humble about the frontiers of economic forecasting as we begin the new year. Economics is still a powerful explanatory tool, but it must now be considered alongside dynamics once relegated to the history books. This is likely to be one of the major story lines of 2026. Stay tuned.

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What to Watch For

UNITED STATES

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

TUESDAY January 13 - 8:30

December	y/y
Consensus	2.7%
Desjardins	2.6%
November	**2.7%**

Consumer price index (December) – November's consumer price index (CPI) print caused quite the surprise last month, with inflation coming in much lower than expected. That said, with no data for October and questions over the quality of November's, the true trend in consumer prices remains unclear. December's data will provide more insight. Energy and gasoline prices likely pulled the month-over-month change in the all items index down slightly. However, tariffs probably had a slightly more inflationary effect on food and goods excluding energy. On the services side, we may see a reversal of October and November's implied softness. Overall, we see the all items index and core CPI excluding food and energy both edging up 0.2%. The year-over-year change in the all items index should inch down again from 2.7% to 2.6%, with core inflation likely holding steady at 2.6%.

TUESDAY January 13 - 10:00

October	ann. rate
Consensus	714,000
Desjardins	700,000
August	**800,000**

New home sales (October) – Tuesday will be the first new single-family home sales print since the release of August's data in September. Surprisingly, sales of new single-family homes surged 20.5% in August, the fastest pace of monthly growth since August 2022. Annualized sales reached 800,000 units, the highest level since December 2021. There was little to suggest such a strong print at the time, so a drop-off in sales in September or October's data—which will be published at the same time—is likely. The rise in building permits in September followed by a decline in October paints a mixed picture but remains consistent with a drop in sales from August's elevated level. Meanwhile, online searches have remained high recently, and, although builder confidence remains low, it has improved a little.

WEDNESDAY January 14 - 8:30

November	m/m
Consensus	0.4%
Desjardins	0.5%
October	**0.0%**

Retail sales (November) – Retail sales growth was fairly muted in October, primarily due to a 1.6% drop in auto sales, combined with lower receipts for building material stores, food services and gas stations. We expect to see better performance in November's print. The end of the government shutdown likely helped boost consumption growth. Motor vehicle sales picked up in November, and the monthly increase in gasoline prices probably also provided some lift. Stripping out these two items, we're forecasting a 0.3% gain, in line with advances in other indicators, including the Chicago Fed Advance Retail Trade Summary and card transaction data. Anecdotal information on Black Friday purchases was also generally positive. Overall, we expect total sales to have increased by 0.5% in November, with upside risk to this forecast.

WEDNESDAY January 14 - 10:00

December	ann. rate
Consensus	4,230,000
Desjardins	4,250,000
November	**4,130,000**

Existing home sales (December) – For the first time since late 2024, existing home sales rose in three successive months. The total increase from September to November was 3.3%. That said, sales in November were still lower than at the start of the year. Pending home sales climbed again, which is usually a good sign, and mortgage applications for home purchases also rose in December. Finally, most regional data published so far have improved. We expect annualized existing home sales to have advanced to around 4,250,000 units.

FRIDAY January 16 - 9:15	
December	**m/m**
Consensus	0.2%
Desjardins	0.1%
November	**0.2%**

Industrial production (December) – US industrial production growth was rather weak in 2025. Including November's 0.2% gain, industrial production increased just 1.4% over the first 11 months of the year. For December, the decline in the ISM index and the slight drop in hours worked point to a modest decrease in manufacturing output. After falling in November, energy production should provide a boost to industrial production growth. Overall, industrial output is expected to post a 0.1% increase.

CANADA

THURSDAY January 15 - 5:00	
December	**m/m**
Consensus	n/a
Desjardins	0.0%
November	**-0.6%**

Existing home sales (December) – Monthly seasonally adjusted national home sales are estimated to have held steady in December. This would leave 2025 sales slightly below the previous year's total, but still well above 2023 levels. Preliminary year-over-year figures from local real estate boards point to declines across most major centres as compared to December 2024. Meanwhile, the Toronto Regional Real Estate Board reported that seasonally adjusted sales edged down 0.4% m/m from November.

THURSDAY January 15 - 8:30	
November	**m/m**
Consensus	-1.1%
Desjardins	-1.1%
October	**-1.0%**

Manufacturing sales (November) – On manufacturing sales, we anticipate a decrease of 1.1% m/m in November, in line with Statistics Canada's flash estimate. Weaker sales of transportation equipment and food products likely influenced the decline. In real terms, manufacturing sales appear to have fallen by 2.1%, as seasonally adjusted industrial product prices rose by 1.0%.

FRIDAY January 16 - 8:15	
December	**ann. rate**
Consensus	260,000
Desjardins	255,000
November	**254,100**

Housing starts (December) – We estimate that December housing starts came in at roughly 255k (saar), in line with November's pace. This would bring the fourth quarter to under 250k due to a very weak October print. It would also put the annual average at around 256k—above 2024's 245k units, though still far from the federal government's aspirational target of 500k per year. Strong growth in the purpose-built rental segment, supported by government initiatives, will likely continue to keep overall starts elevated relative to what broader economic conditions might otherwise imply.

OVERSEAS

THURSDAY January 15 - 2:00	
November	**m/m**
Consensus	0.1%
October	**-0.1%**

United Kingdom: Monthly GDP (November) – The UK economy has been on a rocky path since last summer. Monthly GDP hasn't increased since June and declined 0.1% in both September and October. Carry-over growth for the fourth quarter is currently negative. It remains to be seen whether November's data brings more of the same or marks a reversal. Stalled retail sales in November are not a good sign, but there's better news from the composite PMI, which remains above the 50 threshold. A flat or negative monthly print for December could put fourth-quarter GDP in the red.

Economic Indicators

Week of January 12 to 16, 2026

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

Day	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 12	---	---				
TUESDAY 13	8:30	Consumer price index				
		Total (m/m)	Dec.	0.3%	0.2%	n/a
		Excluding food and energy (m/m)	Dec.	0.3%	0.2%	n/a
		Total (y/y)	Dec.	2.7%	2.6%	2.7%
		Excluding food and energy (y/y)	Dec.	2.7%	2.6%	2.6%
	10:00	New home sales (ann. rate)	Oct.	714,000	700,000	n/a
	14:00	Federal budget (US$B)	Dec.	n/a	n/a	-173.3
WEDNESDAY 14	8:30	Current account (US$B)	Q3	n/a	-241.0	-251.3
	8:30	Producer price index				
		Total (m/m)	Nov.	0.3%	0.3%	n/a
		Excluding food and energy (m/m)	Nov.	0.2%	0.2%	n/a
	8:30	Retail sales				
		Total (m/m)	Nov.	0.4%	0.5%	0.0%
		Excluding automobiles (m/m)	Nov.	0.4%	0.4%	0.4%
	9:50	Speech by Federal Reserve Bank of Philadelphia President A. Paulson				
	10:00	Business inventories (m/m)	Oct.	n/a	0.1%	0.2%
	10:00	Existing home sales (ann. rate)	Dec.	4,230,000	4,250,000	4,130,000
	14:00	Release of the Beige Book				
THURSDAY 15	8:30	Initial unemployment claims	Jan. 5–9	n/a	217,000	208,000
	8:30	Philadelphia Fed index	Jan.	-2.9	2.0	-10.2
	8:30	Empire State Manufacturing Index	Jan.	1.0	2.0	-3.9
	8:30	Export prices (m/m)	Nov.	n/a	0.3%	n/a
	8:30	Import prices (m/m)	Nov.	-0.2%	0.2%	n/a
	13:30	Speech by Federal Reserve Bank of Kansas City President J. Schmid				
FRIDAY 16	9:15	Industrial production (m/m)	Dec.	0.2%	0.1%	0.2%
	9:15	Production capacity utilization rate	Dec.	76.0%	75.9%	76.0%
	10:00	NAHB Housing Market Index	Jan.	n/a	n/a	39
	11:00	Speech by Federal Reserve Vice Chair M. Bowman				
	15:30	Speech by Federal Reserve Vice Chair P. Jefferson				
CANADA						
MONDAY 12	---	---				
TUESDAY 13	8:30	Building permits (m/m)	Nov.	n/a	-5.5%	14.9%
WEDNESDAY 14	---	---				
THURSDAY 15	5:00	Existing home sales (m/m)	Dec.	n/a	0.0%	-0.6%
	8:30	Wholesale sales (m/m)	Nov.	0.1%	0.7%	0.1%
	8:30	Manufacturing sales (m/m)	Nov.	-1.1%	-1.1%	-1.0%
FRIDAY 16	8:15	Housing starts (ann. rate)	Dec.	260,000	255,000	254,100

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 Standard Time (GMT -5 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of January 12 to 16, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 12							
Germany	---	Current account (€B)	Nov.	n/a		14.8	
Japan	18:50	Current account (¥B)	Nov.	3,036.4		2,476.4	
TUESDAY 13							
China	---	Trade balance (US$B)	Dec.	114.05		111.68	
WEDNESDAY 14							
Japan	18:50	Producer price index	Dec.	0.2%	2.4%	0.3%	2.7%
THURSDAY 15							
South Korea	---	Bank of Korea meeting	Jan.	2.50%		2.50%	
United Kingdom	2:00	Trade balance (£M)	Nov.	-2,500		-4,824	
United Kingdom	2:00	Construction	Nov.	-0.3%	-0.2%	-0.6%	0.9%
United Kingdom	2:00	Index of services	Nov.	0.2%		-0.3%	
United Kingdom	2:00	Monthly GDP	Nov.	0.1%		-0.1%	
United Kingdom	2:00	Industrial production	Nov.	0.0%	-0.4%	1.1%	-0.8%
France	2:45	Consumer price index – final	Dec.	0.1%	0.8%	0.1%	0.8%
Germany	4:00	Annual GDP – preliminary	2025		0.2%		-0.2%
Italy	4:00	Industrial production	Nov.	0.6%	-0.1%	-1.0%	-0.3%
Eurozone	5:00	Trade balance (€B)	Nov.	n/a		14.0	
Eurozone	5:00	Industrial production	Nov.	0.5%	2.0%	0.8%	2.0%
Italy	6:00	Trade balance (€M)	Nov.	n/a		4,156	
FRIDAY 16							
Germany	2:00	Consumer price index – final	Dec.	0.0%	1.8%	0.0%	1.8%
Italy	4:00	Consumer price index – final	Dec.	0.2%	1.2%	0.2%	1.2%

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. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Standard Time (GMT -5 hours).