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

WEEKLY COMMENTARY

Did You Hear That Sigh of Relief?

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

Positive surprises on inflation reports have been a rare occurrence lately. That's why markets are cheering the lower-than-expected US inflation reading. At 7.7%, inflation came in below even the most conservative of the forecasts compiled by Bloomberg. The previously stubborn core inflation measure eased to 6.3% from 6.6%, which is encouraging. On an even more positive note, the three-month annualized measure of core inflation decelerated to 5.8%, which suggests that we should continue to see inflation cool.

It could still be a slow process. Even if supply chain pressures have been easing, along with global food and energy commodity prices, some academic literature suggests that full transmission from these types of shocks can take up to a year to get fully reflected into consumer prices.

That said, Fed officials are aware of the lags and October's positive surprise should give them a bit of reassurance. Just last week, the strong October jobs report gave the impression that the US job market still has plenty of momentum. Indeed, despite the layoffs in sectors like tech, construction and recreation that have been making headlines throughout the year, we've seen payrolls swell by 4M in 2022 so far. This is supposed to be positive news, but it isn't so when we have an overheated job market and the Fed is trying to cool demand. So, despite the red hot labour market, the fact that inflation might be starting to behave as hoped comes to reinforce our view that the Fed will be dialing down the pace of hikes starting next month.

Canada's CPI report will be out next Wednesday. Stickiness in core measures of inflation has been a concern for the Bank of Canada north of the border as well but like for the US, trends in short-term core inflation is what we should be paying more attention to. On this front, some cooling has already been observed and we will assess whether that momentum continues.

While the blowout jobs report for October had given a brief scare as to the Bank of Canada's policy trajectory, the improvement was accompanied by a strong uptick in the participation rate, leaving the unemployment rate unchanged. As a result, unless we see a major unwelcome surprise in CPI, the Bank of Canada should also be on track to slow the pace of tightening, with a 25bps hike in December. This would make it the smallest rate hike since March.

Importantly that's assuming that fiscal policy doesn't muddle things. From that perspective, the Fed can probably rest a bit easier than the Bank of Canada. The midterm elections look likely to result in a divided Congress, which will assuredly prevent major policy initiatives. That would have been a disheartening story during the 2010s decade but this "discipline via dysfunction" is actually helpful in the current context. And of course, Democrats haltingly enacted their large pieces of economic legislation during the two-year window where they were in control of Congress, meaning that the long-term public investment imperatives are being addressed.

It's a bit of a different context in Canada. Chrystia Freeland's fall economic statement managed to show the necessary solidarity with those that are the most distressed by cost-of-living pressures, yet without the kind of fiscal recklessness that has been seen elsewhere. Chrystia Freeland has explicitly vowed not to complicate the Bank of Canada's job.

However, that sort of coordination between fiscal and monetary policymakers goes out the window when we get to the provincial level. Given the political pressure to address affordability via expansionary fiscal policy, the upcoming provincial fiscal updates will be a relevant input to our interest rates outlook.

CONTENT

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

Ontario will be tabling its update next Monday. As far as affordability relief is concerned, it has been among the most parsimonious provinces, with only incremental affordability measures so far announced since the province's spring budget. That could change, as the government is under pressure to redistribute what will be another colossal revenue windfall. Alberta's windfall is even more dramatic, as the province is currently projecting the largest surplus in the recorded history of any Canadian province. The government has focused on debt repayment thus far but Premier Danielle Smith signaled this week that more affordability relief was on the way.

Quebec is expected to present its update in early December and the new round of cheques promised by the CAQ party during the recent election campaign will likely be formalized. At 1% about of nominal GDP this year according to the financial framework released by the CAQ during the election, Quebec's proposed affordability relief measures would make it among the most generous provinces on that front.

However, our forecast for Canada to experience a mild recession in early 2023 implies that all provinces will need to brace for deterioration to their bottom lines. Improperly calibrated affordability measures can make matters worse, not only via the increase in spending but with the more aggressive monetary policy response that would ensue.

This would in turn cause a more severe recession, hitting government revenues, possibly raising fiscal sustainability concerns, and in the end inhibiting governments' ability to support the recovery via supply-oriented policy measures.

Focus on bolstering supply happens to be the best contribution governments can make to the inflation fight. Let's hope that the fiscal updates show they've gotten that message loud and clear.

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 November 16 - 8:30

October	m/m
Consensus	0.9%
Desjardins	0.9%
September	**0.0%**

Retail sales (October) – After rising 0.4% in August and stagnating in September, we expect retail sales to be a bit more solid in October. Increased gas station receipts—on the back of higher gas prices after several months of decline—should provide a boost. We think motor vehicle sales will also drive total sales. Based on the data released at the beginning of the month, sales of new vehicles jumped 9.8% in October. However, growth is expected to be fairly slow in other sectors. Preliminary data from card transactions points to a drop in durable goods sales but an increase in food services and online shopping. All in all, retail sales should rise 0.9%, while sales excluding food and gas are projected to grow by 0.4%.

WEDNESDAY November 16 - 9:15

October	m/m
Consensus	0.1%
Desjardins	0.2%
September	**0.4%**

Industrial production (October) – Industrial production rose 0.4% in September. We expect further growth in October, albeit at a slightly slower pace. Hours worked point to a dip in production in the automotive sector, but a slight 0.3% gain in manufacturing more generally. The mining sector may have suffered a slight contraction in October, possibly related to Hurricane Ian which hit at the very end of the previous month. We're forecasting a 0.8% increase for utilities. Overall, total industrial production and manufacturing output should both rise 0.2% this month.

THURSDAY November 17 - 8:30

October	ann. rate
Consensus	1,420,000
Desjardins	1,420,000
September	**1,439,000**

Housing starts (October) – Housing starts have been fluctuating wildly since the beginning of 2022 and haven't seen the same trend in two successive months since last year. After plummeting 12.6% in July, they shot up 13.7% in August, before falling 8.1% in September. However, we believe October's print will put an end to this erratic trend, as we're forecasting a second consecutive monthly decline. Between spiking mortgage rates, declining new home sales and depressed builder confidence, we expect housing starts to fall. However, employment in residential building construction did increase a little in October, adding 2,400 workers. Look for October housing starts to come in at 1,420,000 units.

FRIDAY November 18 - 10:00

October	m/m
Consensus	-0.4%
Desjardins	-0.4%
September	**-0.4%**

Leading indicator (October) – After a flat month in August, the leading indicator fell 0.4% in September, continuing the highly negative trend that has prevailed since last winter. We anticipate a further drop in October, with negative contributions from the ISM manufacturing index, the stock market, consumer confidence and building permits. We're forecasting a 0.4% decline, which would be further evidence that a recession is imminent in the United States.

FRIDAY November 18 - 10:00

October	ann. rate
Consensus	4,380,000
Desjardins	4,350,000
September	**4,710,000**

Existing home sales (October) – Existing home sales have been falling consistently since January. Sales have dropped 27.4% year-to-date and annualized sales have plummeted to 4,710,000 units from 6,490,000 in January. Based on the 10.2% contraction in pending home sales, this downward trend probably continued in October as a direct consequence of surging mortgage rates. Mortgage applications for home purchases dropped to their lowest level since January 2015. Some regional data is showing the resale market contracting sharply in October as well. We think sales of existing homes will drop to 4,350,000 units.

CANADA

TUESDAY November 15 - 8:30

September	m/m
Consensus	n/a
Desjardins	-0.6%
August	**-2.0%**

Manufacturing sales and orders (September) – Manufacturing shipments are expected to have dropped 0.6% in September, following a precipitous plunge of 2.0% in August. This forecast is in line with Statistic Canada's flash estimate. The more modest slowdown anticipated in the month is the result of a projected moderation in pace of decline in manufacturing volumes pared with a likely move higher in manufacturing prices. On the volume side, manufacturing employment, import volumes of manufacturing inputs, and seasonally adjusted auto production in September all point to lower shipment volumes. Meanwhile the depreciation of the Canadian dollar and resulting higher import prices in the month suggest manufacturing prices may have perked up after retreating in the prior two months. But this uptick was probably partially offset by lower commodity prices.

TUESDAY November 15 - 8:30

September	m/m
Consensus	n/a
Desjardins	0.2%
August	**1.4%**

Wholesale trade (September) – After an outsized advance of 1.4% in August, wholesale trade likely edged up a more modest 0.2% in September. We expect volumes to be broadly unchanged from their August levels, making them the primary culprit behind this smaller monthly gain. At the same time, prices are projected to have moved higher in the month, at roughly the same pace as August. Our call for September wholesale trade is more optimistic than the -0.2% early indicator from Statistics Canada.

TUESDAY November 15 - 9:00

October	m/m
Consensus	n/a
Desjardins	0.9%
September	**-3.9%**

Existing home sales (October) – Existing home sales are expected to take a breather from recent declines in October, inching up a modest 0.9%. This gain is anticipated to be broad-based, reflecting advances in a wide swath of communities across the country. But with interest rates continuing to move higher, this improvement in housing market activity will probably be short lived.

WEDNESDAY 16 November - 8:15

October	ann. rate
Consensus	n/a
Desjardins	279,000
September	**299,600**

Housing starts (October) – October housing starts should take a step back after an explosive advance in September, likely dropping to 279K from 300K the prior month. Building permits—a harbinger of future building activity—posted their sharpest decline since the darkest days of the pandemic in September. Further, the existing home market continues to correct even as housing starts have gone through the roof. But given housing starts typically follow home sales with a lag, at some point housing starts will need to come down to earth.

WEDNESDAY November 16 - 8:30

October	m/m
Consensus	n/a
Desjardins	1.0%
September	**0.1%**

Consumer Price Index (October) – Progress on inflation won't be linear. After inflation dipped below 7.0% in September, higher gasoline prices probably pushed it back up to 7.1% in October. Strong seasonal factors are expected to have supported a robust 1.0% month-over-month increase in headline prices. Excluding food and energy, the inflation rate likely remained a brisk 5.4%. We expect the Bank of Canada's 12-month trim and median measures to have been roughly unchanged, but markets will be watching closely to see if the three-month annualized rates—what we call the "super core" metrics—decelerated further. Higher headline inflation will keep price growth top of mind for Canadians and keep the Bank of Canada on track to hike rates again in December. But we could see more evidence that underlying inflationary pressures are easing in the super core measures.

FRIDAY November 18 - 8:30

October	m/m
Consensus	n/a
Desjardins	0.9%
September	**0.1%**

Industrial Product Price Index (October) – Thanks to a notable depreciation in the average value of the Canadian dollar in October, the Industrial Product Price Index is expected to post a moderate advance as the price of imported goods became more expensive in the month. This likely offset the fourth consecutive monthly decline in the price of energy and the seventh straight monthly drop in non-energy commodity prices.

FRIDAY November 18 - 8:30

October	m/m
Consensus	n/a
Desjardins	0.1%
September	**-3.2%**

Raw Materials Price Index (October) – Following three consecutive months of meaningful declines, the Raw Materials Price Index is anticipated to have edged ever so slightly higher in October, likely rising by 0.1%. Sustained declines in commodity prices are expected to have offset a notable depreciation in the Canadian dollar, which would have raised the cost of raw material imports.

MONDAY November 14 - 18:50	
Q3 2022	**q/q**
Consensus	0.3%
Q2 2022	**0.9%**

MONDAY November 14 - 21:00
October

OVERSEAS

Japan: Real GDP (Q3) – Japanese real GDP posted fairly solid growth of 0.9% this spring. The recovery probably continued in the third quarter. Industrial production also picked up over the summer, and retail sales and residential building construction both increased. This all bodes well for further growth in real GDP, albeit at a more modest pace than the second quarter print.

China: Retail sales and industrial production (October) – Year-over-year industrial production rose in August and September, so it'll be interesting to see if this positive trend continued in October. However, exports declined, which suggests some weakness. Retail sales were disappointing, with a year-over-year increase of just 2.5% in September after a 5.4% rise in August. October's prints of these two indicators will give us some preliminary information on the strength of China's economy in the fourth quarter.

Economic Indicators

Week of November 14 to 18, 2022

Day	Hour	Indicator	Period	Consensus	Desjardins forecast	Previous data
UNITED STATES						
MONDAY 14	---	---				
TUESDAY 15	8:30	Producer price index				
		Total (m/m)	Oct.	0.5%	0.5%	0.4%
		Excluding food and energy (m/m)	Oct.	0.4%	0.3%	0.3%
	8:30	Empire manufacturing index	Nov.	-5.0	-8.0	-9.1
	9:00	Speech of the Federal Reserve Bank of Philadelphia President, P. Harker				
	10:00	Testimony of a Federal Reserve Vice Chair, M. Barr, before a Senate Committee				
WEDNESDAY 16	8:30	Export prices (m/m)	Oct.	-0.5%	0.2%	-0.8%
	8:30	Import prices (m/m)	Oct.	-0.5%	0.0%	-1.2%
	8:30	Retail sales				
		Total (m/m)	Oct.	0.9%	0.9%	0.0%
		Excluding automobiles (m/m)	Oct.	0.6%	0.7%	0.1%
	9:15	Industrial production (m/m)	Oct.	0.1%	0.2%	0.4%
	9:15	Production capacity utilization rates	Oct.	80.4%	80.5%	80.3%
	9:50	Speech of the Federal Reserve Bank of New York President, J. Williams				
	10:00	NAHB housing market index	Nov.	36	n/a	38
	10:00	Business inventories (m/m)	Sept.	0.5%	0.4%	0.8%
	16:00	Net foreign security purchases (US$B)	Sept.	n/a	n/a	197.9
THURSDAY 17	8:00	Speech of the Federal Reserve Bank of St. Louis President, J. Bullard				
	8:30	Initial unemployment claims	Nov. 7-11	n/a	228,000	225,000
	8:30	Philadelphia Fed index	Nov.	-5.0	-8.0	-8.7
	8:30	Housing starts (ann. rate)	Oct.	1,420,000	1,420,000	1,439,000
	8:30	Building permits (ann. rate)	Oct.	1,520,000	1,530,000	1,564,000
	9:40	Speech of the Federal Reserve Bank of Cleveland President, L. Mester				
FRIDAY 18	10:00	Leading indicator (m/m)	Oct.	-0.4%	-0.4%	-0.4%
	10:00	Existing home sales (ann. rate)	Oct.	4,380,000	4,350,000	4,710,000
CANADA						
MONDAY 14	10:30	Release of the Bank of Canada *Senior Loan Officer Survey*				
TUESDAY 15	8:30	Wholesale sales (m/m)	Sept.	n/a	0.2%	1.4%
	8:30	Manufacturing sales (m/m)	Sept.	n/a	-0.6%	-2.0%
	9:00	Existing home sales (m/m)	Oct.	n/a	0.9%	-3.9%
WEDNESDAY 16	8:15	Housing starts (ann. rate)	Oct.	n/a	279,000	299,600
	8:30	Consumer price index				
		Total (m/m)	Oct.	n/a	1.0%	0.1%
		Total (y/y)	Oct.	n/a	7.1%	6.9%
THURSDAY 17	---	---				
FRIDAY 18	8:30	Industrial product price index (m/m)	Oct.	n/a	0.9%	0.1%
	8:30	Raw materials price index (m/m)	Oct.	n/a	0.1%	-3.2%
	8:30	International transactions in securities ($B)	Sept.	n/a	n/a	22.01

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 14 to 18, 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 14							
Euro zone	5:00	Industrial production	Sept.	0.1%	2.7%	1.5%	2.5%
Japan	18:50	Real GDP – preliminary	Q3	0.3%		0.9%	
China	21:00	Industrial production	Oct.		5.2%		6.3%
China	21:00	Retail sales	Oct.		0.7%		2.5%
Japan	23:30	Industrial production – final	Sept.	n/a	n/a	-1.6%	9.8%
TUESDAY 15							
France	1:30	ILO unemployment rate	Q3	n/a		7.4%	
United Kingdom	2:00	ILO unemployment rate	Sept.	3.5%		3.5%	
France	2:45	Consumer price index – final	Oct.	n/a	n/a	1.0%	6.2%
Euro zone	5:00	Trade balance (€B)	Sept.	n/a		-47.3	
Euro zone	5:00	Net change in employment – preliminary	Q3	n/a	n/a	0.4%	2.7%
Euro zone	5:00	Real GDP – preliminary	Q3	0.2%	2.1%	0.2%	2.1%
Germany	5:00	ZEW survey – Current situation	Nov.	-70.0		-72.2	
Germany	5:00	ZEW survey – Expectations	Nov.	-54.0		-59.2	
Japan	23:30	Tertiary industry activity index	Sept.	n/a		0.7%	
WEDNESDAY 16							
United Kingdom	2:00	Consumer price index	Oct.	n/a	10.5%	0.5%	10.1%
United Kingdom	2:00	Producer price index	Oct.	n/a	n/a	0.2%	15.9%
Japan	18:50	Trade balance (¥B)	Oct.	-2,264		-2,009	
THURSDAY 17							
Italy	4:00	Trade balance (€M)	Sept.	n/a		-9,569	
Euro zone	5:00	Construction	Sept.	n/a	n/a	-0.6%	2.3%
Euro zone	5:00	Consumer price index – final	Oct.	1.5%	10.7%	1.5%	9.9%
Japan	18:30	Consumer price index	Oct.		3.7%		3.0%
United Kingdom	19:01	Consumer confidence	Nov.	n/a		-47	
FRIDAY 18							
United Kingdom	2:00	Retail sales	Oct.	n/a	n/a	-1.4%	-6.9%

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).