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

WEEKLY COMMENTARY

For Better or for (a Lot) Worse

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

What a chaotic year it's been for financial markets. It started with persistent, elevated inflation, then came aggressive monetary policy tightening. Now financial stability is moving up the list of investor concerns. Low liquidity and high leverage are fuelling fast and furious repricing, and markets are on the lookout for contagion effects. Sentiment wasn't helped by Bank of England Governor Andrew Bailey, who announced that the Bank's emergency bond buying program would come to an end this week. Global demand for the US dollar is surging, and the era of abundant liquidity is over, with US M2 money supply looking to grow this year at the weakest annual rate since 2009. Transmission to the real economy is undeniable, with corporate spreads continuing to widen and 30-year US mortgage rates hitting a 16-year high this week.

You don't have to be a market veteran to remember when the Fed would pull out all the stops and aggressively ease monetary policy under such circumstances. But today, the Fed continues to push back against the pivot concept. The minutes of the September FOMC meeting show the committee is united behind the hike-and-hold strategy. This is also apparent in the way officials are describing their reaction function as being less data dependent, at least for the time being. The minutes stressed "the importance of staying on this course even as the labour market slowed" and were fairly explicit on the need to "move to, and then maintain, a more restrictive policy stance." With core inflation refusing to cooperate and accelerating further in September, the Fed seems locked into 75bp hikes over the next couple of meetings.

But how much tightening is too much? The Fed hasn't offered much clarity on this point so far this year, although some traditionally dovish committee members are now more willing to raise the issue. Lael Brainard has framed the debate from the angle of global rather than simply US financial conditions. This year, we've seen the most concerted global tightening effort since the early 1980s. It's working synergistically, generating feedback loops through the US that the Fed should be mindful of.

That doesn't mean the Fed will stop hiking anytime soon, even as the US dollar is wreaking havoc globally and as financial stability is being tested. But lags still matter, and overshooting has costs. Chicago Fed President Charles Evans has stuck his neck out, calling for a "rest" at slightly above 4.5% to take stock of the impact. In recent months, we've seen job openings decline and home prices roll over. This gives the doves some room to cautiously start making the case for slowing down, even as current core inflation makes for poor optics.

Meanwhile in Canada, grieving Blue Jays fans may have found solace this week when Toronto came in first on the list of the world's frothiest housing markets. Toronto seems to be able to win something after all. It may not keep that spot for very long though, as benchmark home prices in the GTA are down 9% since February. It's even worse in Hamilton (-16%) and Kitchener (-18%). So far at the provincial level, average home prices have fallen most precipitously in Ontario. This is consistent with our recent housing forecast, although we don't expect Ontario's housing correction to improve housing affordability much. Policymakers may be tempted to intervene, but they need to be careful. As the IMF warned this week, if they provide additional support to first-time homebuyers, they'll just be offsetting the affordability gains borne by the correction.

And like broad fiscal stimulus, support for first-time homebuyers will only further encourage the Bank of Canada to press forward with aggressive rate hikes. We say "further" because in his speech on October 6, Governor Macklem made clear that the recent peak in headline inflation was no reason to back down. He also said the Bank needs to see declines in some of the core inflation measures and, importantly, measures of inflation

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expectations in the upcoming household and business surveys. Macklem was likely privy to some of the survey results set to be released on Monday. We'll be watching his remarks following the IMF meeting closely. In any event, this chaotic year has shown us the importance of being flexible. If the surveys contain worrying inflation expectation data, the Bank of Canada could very well decide a 4% terminal rate is needed to bring down inflation in Canada. But the growing market turmoil is also telling us that even more restrictive monetary policy could be for better—or for a lot worse.

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 October 18 - 9:15	
September	**m/m**
Consensus	0.1%
Desjardins	0.3%
August	**-0.2%**

Industrial production (September) – After picking up 0.5% in July, industrial production shed 0.2% in August due to a slowdown in the automotive sector and a drop in energy production. We expect to see better performance in September. There's been a strong uptick in hours worked in the automotive sector and in manufacturing more generally, leading us to forecast 0.5% growth for the manufacturing sector. In the resources and energy sectors, however, we foresee declines. These sectors are more likely to have been affected by weather events such as Hurricane Ian, which tore through parts of the US at the end of September. Overall, we anticipate 0.3% growth in industrial production.

WEDNESDAY October 19 - 8:30	
September	
Consensus	1,475,000
Desjardins	1,460,000
August	**1,575,000**

Housing starts (September) – After falling 10.9% in July, housing starts shot up 12.2% in August, the largest monthly increase since March 2021. Even so, the prevailing trend is downward. Housing starts have tumbled 12.7% from their cyclical peak in April, and the trend is likely to have continued in September. Between declining new home sales, depressed builder confidence and spiking mortgage rates, we expect housing starts to fall. In the very short term, there's some support from relatively stable employment figures in residential building construction (-100 workers in September). Look for September housing starts to come in at 1,460,000 units.

THURSDAY October 20 - 10:00	
September	**m/m**
Consensus	-0.3%
Desjardins	-0.4%
August	**-0.3%**

Leading indicator (September) – The leading indicator continues to trend lower. It's now recorded five consecutive monthly dips, declining 2.7% overall—a pretty clear sign of a US economic downturn. We anticipate a further drop in September, with negative contributions from the stock market, consumer confidence, the ISM manufacturing index and building permits. We forecast a 0.4% decline.

THURSDAY October 20 - 10:00	
September	
Consensus	4,700,000
Desjardins	4,730,000
August	**4,800,000**

Existing home sales (September) – Existing home sales have been falling steadily since peaking in January of this year. Year-over-year sales dropped to 4,800,000 units, down 26.0% since the start of the year, the lowest level since November 2015 excluding the first few months of the pandemic. Based on the contraction in pending home sales, a further decline is expected for September. There's also been a steep drop-off in mortgage applications for home purchases alongside a spike in interest rates. Some regional data is showing the resale market contracting in September as well. We think sales of existing homes will drop to 4,730,000 units.

CANADA

TUESDAY October 18 - 8:15	
September	
Consensus	263,800
Desjardins	265,000
August	**267,400**

Housing starts (September) – Housing starts are expected to continue to move modestly lower in September, falling to 265K from 267K in August. Such a slight decline would reflect the tug of war between surging building permits in the prior month and ongoing weakness in existing home sales on the back of higher interest rates. Multi-unit starts likely continued to bolster new building activity in September, whereas starts of single-detached units probably slumped further on lower existing home sales.

WEDNESDAY October 19 - 8:30	
September	**m/m**
Consensus	0.0%
Desjardins	-0.1%
August	**-0.3%**

Consumer price index (September) – Falling energy prices likely gave Canadians a bit of an inflation reprieve in September. Look for headline prices to have declined 0.1% month-over-month not seasonally adjusted, leaving the annual rate tracking 6.7%, down from 7.0% in August. But if you take out energy prices, inflation probably accelerated. After a one-month decline on lower rents, core price growth looks to have picked up the pace. The average of the Bank of Canada's two preferred core measures of inflation will likely come in around 5%. We therefore expect the Bank of Canada to continue hiking rates aggressively the rest of the year.

WEDNESDAY October 19 - 8:30	
September	**m/m**
Consensus	-0.8%
Desjardins	-0.1%
August	**-1.2%**

Industrial Product Price Index (September) – The Industrial Product Price Index likely contracted by 0.1% in September, for the fourth consecutive monthly decline. This is expected to be the result of a sharp pullback in both energy and non-energy commodity prices almost entirely offset by a depreciation in the Canadian dollar.

WEDNESDAY October 19 - 8:30	
September	**m/m**
Consensus	-3.6%
Desjardins	-3.8%
August	**-4.2%**

Raw Materials Price Index (September) – The Raw Materials Price Index looks to have continued its sharp slide in September, likely dropping by 3.8% m/m for the third consecutive monthly decline. This projection reflects the steep drop in both energy and non-energy prices which should outweigh the effects of the Canadian dollar's depreciation.

FRIDAY October 21 - 8:30	
August	**m/m**
Consensus	0.1%
Desjardins	0.4%
July	**-2.5%**

Retail trade (August) – Retail trade likely advanced by 0.4% in August, as an ongoing decline in seasonally-adjusted goods prices was probably offset by an uptick in retail sales volumes. Such a print would be in line with the advance estimate published by Statistics Canada. We expect motor vehicle sales to be a source of weakness given the 13.9% y/y decline reported by Desrosiers, with retail trade excluding auto sales set to increase by closer to 1.0% over July.

OVERSEAS

MONDAY October 17 - 22:00	
Q3 2022	**y/y**
Consensus	3.4%
Q2 2021	**0.4%**

China: Real GDP (Q3) – Taking a heavy hit from the lockdowns imposed under the country's zero-COVID policy, China's real GDP fell by 2.6% (non-annualized) over the second quarter, for a year-over-year increase of only 0.4% compared to spring 2021. While the outlook is far from optimistic for China, we do anticipate an improvement in real GDP for Q3. Growth was likely strongly supported by re-openings in regions and industries that had been heavily impacted in the spring.

FRIDAY October 21 - 10:00	
October	
Consensus	-30.0
September	**-28.8**

Eurozone consumer confidence (October – preliminary) – Economic anxiety is growing among eurozone consumers. After a brief reprieve in August, the consumer confidence index plummeted to a record low of -28.8 in September. With persistent fears about energy prices, inflation more generally and a looming economic downturn, we expect a similarly low reading in October.

Economic Indicators

Week of October 17 to 21, 2022

Date	Time	Indicator	Period	Consensus	⬡	Previous data
UNITED STATES						
MONDAY 17	8:30	Empire manufacturing index	Oct.	-2,6	-7.0	-1.5
TUESDAY 18	9:15	Industrial production (m/m)	Sept.	0.1%	0.3%	-0.2%
	9:15	Production capacity utilization rates	Sept.	79.9%	80.2%	80.0%
	10:00	NAHB housing market index	Oct.	43	n/a	46
	16:00	Net foreign security purchases (US$B)	Aug.	n/a	n/a	21.4
	17:30	Speech of the Federal Reserve Bank of Minneapolis President, N. Kashkari				
WEDNESDAY 19	8:30	Housing starts (ann. rate)	Sept.	1,475,000	1,460,000	1,575,000
	8:30	Building permits (ann. rate)	Sept.	1,550,000	1,515,000	1,542,000
	14:00	Release of the *Beige Book*				
	18:30	Speech of the Federal Reserve Bank of Chicago President, C. Evans				
	18:30	Speech of the Federal Reserve Bank of St. Louis President, J. Bullard				
THURSDAY 20	8:30	Initial unemployment claims	Oct. 10-14	235,000	230,000	228,000
	8:30	Philadelphia Fed index	Oct.	-5.0	-7.0	-9.9
	10:00	Leading indicator (m/m)	Sept.	-0.3%	-0.4%	-0.3%
	10:00	Existing home sales (ann. rate)	Sept.	4,700,000	4,730,000	4,800,000
FRIDAY 21	---	---				
CANADA						
MONDAY 17	10:30	Release of the Bank of Canada *Business Outlook Survey*				
TUESDAY 18	8:15	Housing starts (ann. rate)	Sept.	263,800	265,000	267,400
	8:30	International transactions in securities ($B)	Aug.	n/a	n/a	14,83
WEDNESDAY 19	8:30	Consumer price index				
		Total (m/m)	Sept.	0.0%	-0.1%	-0.3%
		Total (y/y)	Sept.	6.8%	6.7%	7.0%
	8:30	Industrial product price index (m/m)	Sept.	-0.8%	-0.1%	-1.2%
	8:30	Raw materials price index (m/m)	Sept.	-3.6%	-3.8%	-4.2%
THURSDAY 20	---	---				
FRIDAY 21	8:30	Retail sales				
		Total (m/m)	Aug.	0.1%	0.4%	-2.5%
		Excluding automobiles (m/m)	Aug.	0.4%	1.0%	-3.1%

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 17 to 21, 2022

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous data m/m (q/q)	Previous data y/y
OVERSEAS							
MONDAY 17							
Japan	0:30	Tertiary industry activity index	Aug.	0.3%		-0.6%	
Japan	0:30	Industrial production – final	Aug.	n/a	n/a	2.7%	5.1%
China	22:00	Real GDP	Q3	3.4%	3.4%	-2.6%	0.4%
China	22:00	Industrial production	Sept.		4.9%		4.2%
China	22:00	Retail sales	Sept.		3.5%		5.4%
TUESDAY 18							
Italy	4:00	Trade balance (€M)	Aug.	nd		-361.0	
Germany	5:00	ZEW survey – Current situation	Oct.	-69.0		-60.5	
Germany	5:00	ZEW survey – Expectations	Oct.	-66.7		-61.9	
WEDNESDAY 19							
United Kingdom	2:00	Consumer price index	Sept.	0.4%	10.0%	0.5%	9.9%
United Kingdom	2:00	Producer price index	Sept.	0.3%	15.7%	-0.1%	16.1%
Euro zone	5:00	Construction	Aug.	n/a	n/a	0.3%	1.5%
Euro zone	5:00	Consumer price index – final	Sept.	1.2%	10.0%	1.2%	9.1%
Japan	19:50	Trade balance (¥B)	Sept.	-2,145.4		-2,371.3	
THURSDAY 20							
Germany	2:00	Producer price index	Sept.	1.0%	44.7%	4.3%	32.7%
France	2:45	Business confidence	Oct.	101		102	
France	2:45	Production outlook	Oct.	-8		-6	
Euro zone	4:00	Current account (€B)	Aug.	n/a		-19.9	
Italy	4:30	Current account (€M)	Aug.	n/a		1,636	
United Kingdom	19:01	Consumer confidence	Oct.	-52		-49	
Japan	19:30	Consumer price index	Sept.		2.9%		3.0%
FRIDAY 21							
United Kingdom	2:00	Retail sales	Sept.	-0.3%	-5.0%	-1.6%	-5.4%
Euro zone	10:00	Consumer confidence – preliminary	Oct.	-30.0		-28.8	

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 - 4 hours).