WEEKLY COMMENTARY

Buckle Up, Canada. The Next Four Years Are Going to Be a Bumpy Ride.

By Randall Bartlett, Senior Director of Canadian Economics

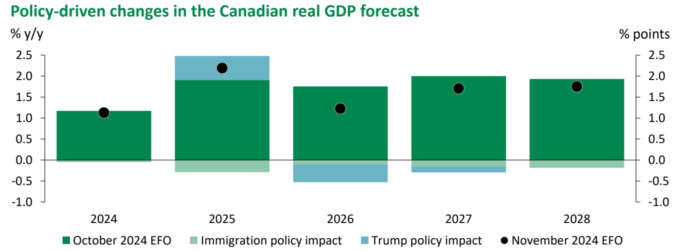
Beating the odds again in the 2024 presidential election, Donald Trump not only bested the Democrats in the Electoral College but also won the popular vote. The Republicans took majorities in the Senate and House of Representatives as well, making it a Republican sweep. In combination with a much more organized campaign apparatus and unquestioned control over the Republican Party, President-elect Trump will now be able to deliver on his agenda in a way he wasn't in 2016. This unrivaled mandate is likely to mean substantial tax cuts, less immigration, escalating tariffs, higher inflation, still-elevated interest rates and yawning federal deficits south of the border.

For Canada, a Trump victory of this magnitude spells tough times ahead. Back in early October, we published our analysis of what a Republican sweep would mean if Trump was able to execute effectively on every policy he opined on. Under the assumption that tariffs would be enacted by the end of next year, we determined they could lead to a recession in Canada, starting as early as the end of 2025. In our most recent *Economic & Financial Outlook*, released on Wednesday, we tempered that view somewhat, reflecting both the uncertain timing of tariffs and the possibility that cooler heads will prevail in the incoming administration, or that Canada successfully negotiates some exemptions. And while we have our doubts that we should be so lucky, hope springs eternal.

Unfortunately, the timing couldn't be much worse for Canada. The country's productivity is in the dumps. And one of the key drivers of growth over the past couple of years—surging population gains—is about to grind to a halt. While this could spur investment in labour-saving technologies and machinery & equipment in normal times, the uncertainty posed by the impending upheaval in global and North American trade could keep some businesses on the sidelines. That despite likely higher export demand in 2025 before tariffs take effect, which should boost headline real GDP growth next year. But assuming the Government of Canada achieves only part of its planned reduction in newcomer admissions and the Trump administration decides to take it a little easier on Canada than the recent campaign bluster might suggest, economic growth will probably be much weaker than we projected in October. This is especially true in 2026 once tariffs and slower population growth really begin to bite (graph 1). The impact will be even more pronounced if policies proposed by both the US and Canadian federal governments are fully implemented. And while we assume only one additional Bank of Canada rate cut over the next couple of years relative to our pre-election projection,

Graph 1
Canadian GDP Will Be Lower Due to Recent Policy Announcements

Policy-driven changes in the Canadian real GDP forecast



EFO: *Economic & Financial Outlook*
Statistics Canada, Immigration, Refugees and Citizenship Canada and Desjardins Economic Studies

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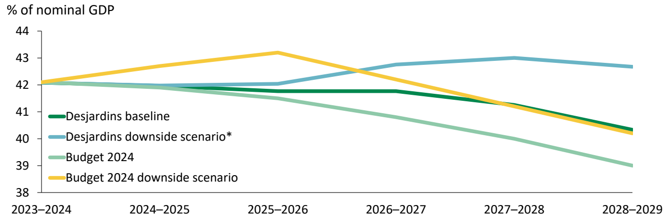
the risks are clearly tilted to the downside of the central bank's especially rosy economic outlook.

All else equal, this is likely to spell larger deficits for the Government of Canada. As we published in late October, just reaching planned population reductions and NATO's defence spending target of 2% of GDP by 2032 would lead to a steadily rising federal debt-to-GDP ratio. Now that Trump is soon to return to the White House, that's almost a foregone conclusion (graph 2). It's a tough starting point to be hit with this kind of shock. But it wasn't inevitable. Responsibility should be taken for running sustained budget deficits, even if they are smaller than in other major advanced economies as a share of GDP. And while tax hikes offset higher spending in the federal budget and some recent provincial fiscal plans, that well is running increasingly dry.

Graph 2
Federal Debt Could Keep Rising on Headwinds to Growth

Federal debt (accumulated deficit)
% of nominal GDP

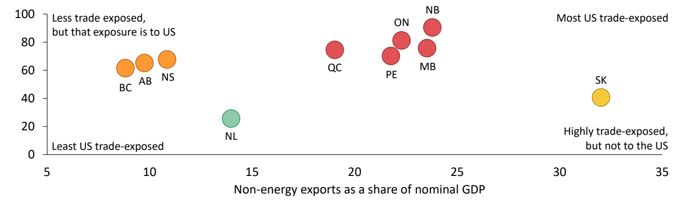


* Desjardins baseline plus planned defence spending to reach NATO target, planned reduction in newcomer admissions, and full implementation of President-elect Trump's policy plans.
Government of Canada and Desjardins Economic Studies

Then there are the provinces. In our earlier analysis of a potential Republican sweep, we assumed energy may be exempt from tariffs to avoid raising the cost of gasoline for American consumers. If this comes to pass, it may help energy-producing provinces, especially Alberta, escape the worst of the tariff impacts. But other provinces are likely to be less immune, including Ontario, Quebec and Manitoba. (New Brunswick's exports are also highly exposed to the US, but these are disproportionately made up of petroleum and coal products.) These provinces have a relatively large share of their economic activity linked to non-energy exports destined for the US (graph 3). This could spell trouble ahead for GDP and revenue growth, potentially weighing on budget balances.

Graph 3
Ontario, Quebec and Manitoba Are Highly Exposed to US Tariffs

Provincial non-energy export* exposure to the US, 2023
Share of non-energy exports to US



* Domestic exports, excluding re-exports.
Note: The largest non-energy export category in New Brunswick and Alberta is chemical products, which includes petroleum and coal products.
Statistics Canada and Desjardins Economic Studies

All told, the Canadian economic and fiscal outlook is going to be in for some serious challenges ahead. While the diplomatic charm offensive has already begun, it's time to kick it into high gear. The case for a continued close economic relationship between Canada and the US is strong, but that doesn't mean it won't be tested. So buckle up, Canada. The next four years are going to be a bumpy ride.

What to Watch For

UNITED STATES

TUESDAY November 19 - 8:30	
October	**ann. rate**
Consensus	1,338,000
Desjardins	1,360,000
September	**1,354,000**

Housing starts (October) – After rebounding in August, housing starts edged back down in September. This dip was partly hurricane-induced, although we didn't see a steeper decline in areas hit by Helene. We expect Hurricane Milton to have impacted October's print, although housing starts probably still ticked up on the month. September's jump in new home sales and the 1,300 jobs added in residential construction in October are positive signs. The spike in mortgage rates in recent weeks has created a headwind, but this will likely have a greater impact in future months.

THURSDAY November 21 - 10:00	
October	**m/m**
Consensus	-0.3%
Desjardins	-0.3%
September	**-0.5%**

Leading indicator (October) – The leading indicator continues to march downward and declined by 0.5% in September. However, the negative signal this index has been sending for more than two years hasn't really manifested in the US real economy. The leading indicator likely fell further in October. Hours worked and the ISM Manufacturing index were probably the biggest detractors this month. However, these negative factors were likely partially offset by a fairly strong stock market. Overall, we expect the indicator to fall 0.3%.

THURSDAY November 21 - 10:00	
October	**ann. rate**
Consensus	3,930,000
Desjardins	4,050,000
September	**3,840,000**

Existing home sales (October) – Hurricanes dampened September's existing home sales, which fell to their lowest level since October 2010. Although another major storm hit the southern United States in October, we expect resale activity to have picked up nationally. In fact, pending home sales recorded their biggest monthly increase since 2010, which should be reflected in real activity. Mortgage applications also increased, particularly at the beginning of the month, although they have since declined due to higher interest rates. We're anticipating annualized existing home sales to come in above 4,000,000 units. The impact of Hurricane Milton in Florida still needs to be determined.

FRIDAY November 22 - 10:00	
November - final	
Consensus	73.5
Desjardins	76.0
November - prel.	**73.0**

University of Michigan consumer sentiment index (November – final) – Generally, we don't expect to see major differences between the first and second versions of the University of Michigan consumer sentiment index. However, this isn't a typical month. All the answers in this month's first estimate were received before the November 5 election. The final version will be based on responses collected until November 18. In addition to reflecting the changes in economic data over the past week and a half, including further declines in unemployment claims and gasoline prices, as well as higher stock markets and interest rates, the new version will show how consumers are reacting to the election. It's clear that Donald Trump's victory will be a game-changer. Confidence among Republicans has likely soared since election day, while Democrats have probably experienced the opposite. The overall impact on the University of Michigan consumer sentiment index should be positive. Look for a 3-point gain in the total index between the preliminary and final versions.

CANADA

MONDAY November 18 - 8:15	
October	**ann. rate**
Consensus	240,000
Desjardins	239,000
September	**223,800**

Housing starts (October) – We're anticipating October housing starts rose slightly to 239k, in line with the consensus of economic forecasters, but remained below the year-to-date average of 244k. This would be a modest improvement over the past couple of months, which, at around 220k in August and September, underperformed economists' expectations. The increase reflects the volatile month-to-month nature of housing starts, particularly in the multi-unit sector. Homebuilding continues to face many headwinds to finish 2024. We're still forecasting soft housing starts through the end of the year and into 2025.

TUESDAY November 19 - 8:30	
October	**m/m**
Consensus	0.3%
Desjardins	0.3%
September	**-0.4%**

Consumer price index (October) – Expect headline Canadian consumer price growth to have accelerated notably on an annual basis to 1.9% in October from 1.6% in September. The drift lower in consumer prices the past few months was in part tied to base effects, particularly in the energy component. That energy component is now rebounding and should explain a large portion of the anticipated reacceleration in price growth in October and continue through to year-end. The Bank of Canada is aware of this and will likely look through the strength. Excluding food and energy, traditional core inflation is expected to decline one tick to 2.2%, marking the lowest pace of annual growth since inflation started to rise markedly in 2021. The distribution of price growth across goods and services is normalizing, but central bankers will hope to see more progress on the services side of the economy in October. The share of services and services excluding shelter growing above 3% remains above pre-pandemic levels. That said, central bankers will also be looking at the other tail of the distribution, where the overall share of components falling below 1% has steadily increased. The Bank of Canada's preferred measures of inflation should remain unchanged in October.

FRIDAY November 22 - 8:30	
September	**m/m**
Consensus	0.3%
Desjardins	0.3%
August	**0.4%**

Retail sales (September) – Retail sales probably increased by 0.3% m/m in September, one tick below Statistics Canada's flash estimate of 0.4%. We expect that nominal gasoline sales declined on the back of lower prices. Sales at motor vehicle and parts dealerships likely edged up in the month thanks to higher volumes, as seasonally adjusted prices were stable. Core sales—which exclude autos and gasoline—probably inched higher, helping support growth in retail sales in September. For October's flash estimate, we expect retail sales to be roughly flat. We anticipate declining volumes to have driven nominal gasoline sales lower, while seasonally adjusted prices likely edged up. Both auto sales and core sales probably increased slightly.

OVERSEAS

WEDNESDAY November 20 - 2:00	
October	**y/y**
Consensus	2.2%
September	**1.7%**

United Kingdom: Consumer price index (October) – UK inflation finally fell below the Bank of England's (BoE) target in September. At 1.7%, year-over-year consumer price growth is at its lowest level since April 2021. It was still at 4.0% at the beginning of 2024. Core inflation hasn't come down as quickly, but the decline from 3.6% in August to 3.2% in September was still good news. We'll have to wait and see if inflation dropped further in October and whether the downward trend continues over the coming months. If it does, we can expect the BoE to keep on easing monetary policy.

THURSDAY November 21 - 18:30	
October	**y/y**
Consensus	2.3%
September	**2.5%**

Japan: Consumer price index (October) – Japanese inflation slowed in September. Consumer prices rose just 2.5% year-over-year, primarily thanks to a decline in energy prices. This was the slowest growth since April and a reversal of the uptrend seen in previous months. Based on preliminary data from the Tokyo area, inflation likely fell further in October, once again mainly on the back of cheaper energy. Core inflation slowed less sharply in September and was probably flat in October.

FRIDAY November 22 - 4:00	
November	
Consensus	50.0
October	**50.0**

Eurozone: PMI (November – preliminary) – The Eurozone Composite PMI rose from 49.6 in September to 50.0 in October. However, this increase hides some disparities between eurozone countries, with composite indexes in France (48.1) and Germany (48.6) still below 50 points and indicating an economic contraction. As in recent months, weakness was concentrated primarily in the manufacturing sector, which has still not fully recovered from the 2022 energy crisis. If PMI gains remain muted, the European Central Bank could very well announce further monetary easing.

Economic Indicators

Week of November 18 to 22, 2024

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 18	10:00	NAHB Housing Market Index	Nov.	42	n/a	43
	16:00	Net foreign securities purchases (US$B)	Sep.	n/a	n/a	111.4
TUESDAY 19	8:30	Housing starts (ann. rate)	Oct.	1,338,000	1,360,000	1,354,000
	8:30	Building permits (ann. rate)	Oct.	1,438,000	1,415,000	1,425,000
	13:10	Speech by Federal Reserve Bank of Kansas City President J. Schmid				
WEDNESDAY 20	---	---				
THURSDAY 21	8:30	Initial unemployment claims	Nov. 11–15	220,000	220,000	217,000
	8:30	Philadelphia Fed index	Nov.	6.7	8.0	10.3
	10:00	Leading indicator (m/m)	Oct.	-0.3%	-0.3%	-0.5%
	10:00	Existing home sales (ann. rate)	Oct.	3,930,000	4,050,000	3,840,000
FRIDAY 22	10:00	University of Michigan consumer sentiment index – final	Nov.	73.5	76.0	73.0
CANADA						
MONDAY 18	8:15	Housing starts (ann. rate)	Oct.	240,000	239,000	223,800
	8:30	International securities transactions ($B)	Sep.	n/a	n/a	9.97
TUESDAY 19	8:30	Consumer price index				
		Total (m/m)	Oct.	0.3%	0.3%	-0.4%
		Total (y/y)	Oct.	1.9%	1.9%	1.6%
WEDNESDAY 20	---	---				
THURSDAY 21	8:30	Industrial product price index (m/m)	Oct.	n/a	0.8%	-0.6%
	8:30	Raw materials price index (m/m)	Oct.	n/a	4.9%	-3.1%
FRIDAY 22	8:30	Retail sales				
		Total (m/m)	Sep.	0.3%	0.3%	0.4%
		Excluding automobiles (m/m)	Sep.	n/a	0.1%	-0.7%

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 November 18 to 22, 2024

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 18							
Eurozone	5:00	Trade balance (€B)	Sep.	7.7		11.0	
TUESDAY 19							
Eurozone	4:00	Current account (€B)	Sep.	n/a		31.5	
Italy	4:30	Current account (€M)	Sep.	n/a		1,376	
Eurozone	5:00	Consumer price index – final	Oct.	0.3%	2.0%	0.3%	1.8%
Japan	18:50	Trade balance (¥B)	Oct.	-144.8		-187.2	
WEDNESDAY 20							
United Kingdom	2:00	Consumer price index	Oct.	0.5%	2.2%	0.0%	1.7%
United Kingdom	2:00	Producer price index	Oct.	-0.1%	-1.1%	-0.5%	-0.7%
Germany	2:00	Producer price index	Oct.	0.2%	-1.0%	-0.5%	-1.4%
Eurozone	5:00	Construction	Sep.	n/a	n/a	0.1%	-2.5%
THURSDAY 21							
France	2:45	Business confidence	Nov.	97		97	
France	2:45	Production outlook	Nov.	-12		-12	
Eurozone	10:00	Consumer confidence – preliminary	Nov.	-12.4		-12.5	
Japan	18:30	Consumer price index	Oct.		2.3%		2.5%
United Kingdom	19:01	Consumer confidence	Nov.	-22		-21	
Japan	19:30	Composite PMI – preliminary	Nov.	n/a		49.6	
Japan	19:30	Manufacturing PMI – preliminary	Nov.	n/a		49.2	
Japan	19:30	Services PMI – preliminary	Nov.	n/a		49.7	
FRIDAY 22							
United Kingdom	2:00	Retail sales	Oct.	-0.3%	3.4%	0.3%	3.9%
Germany	2:00	Real GDP – final	Q3	0.2%	-0.2%	0.2%	-0.2%
France	3:15	Composite PMI – preliminary	Nov.	48.5		48.1	
France	3:15	Manufacturing PMI – preliminary	Nov.	44.7		44.5	
France	3:15	Services PMI – preliminary	Nov.	49.0		49.2	
Germany	3:30	Composite PMI – preliminary	Nov.	48.7		48.6	
Germany	3:30	Manufacturing PMI – preliminary	Nov.	43.0		43.0	
Germany	3:30	Services PMI – preliminary	Nov.	51.8		51.6	
Eurozone	4:00	Composite PMI – preliminary	Nov.	50.0		50.0	
Eurozone	4:00	Manufacturing PMI – preliminary	Nov.	46.0		46.0	
Eurozone	4:00	Services PMI – preliminary	Nov.	51.6		51.6	
United Kingdom	4:30	Composite PMI – preliminary	Nov.	51.8		51.8	
United Kingdom	4:30	Manufacturing PMI – preliminary	Nov.	50.0		49.9	
United Kingdom	4:30	Services PMI – preliminary	Nov.	52.0		52.0	

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. Times shown are Eastern Standard Time (GMT -5 hours).