WEEKLY COMMENTARY

Beyond the (Necessary) Kissing of the Ring

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

No matter one's opinion of Donald Trump, it's hard to ignore a clear pattern: most of his adversaries eventually fall in line after defeat. From Ron DeSantis and Nikki Haley to liberal-leaning media figures and even world leaders scrambling to dial up Mar-a-Lago since November 6, checking your ego at the door and "kissing the ring" appears to be the strategy *du jour*.

Canada might as well just jump on the bandwagon. This critical juncture requires both diplomatic finesse and strategic economic planning. The response must be twofold: defending our vital economic partnership with the United States while simultaneously addressing domestic priorities to bolster resilience and competitiveness.

When it comes to positioning Canada, there's no shortage of arguments. Moments like these have everyone appreciating the symbiotic nature of the Canada–US relationship that we typically take for granted. One of the most obvious examples is in the automotive industry, where parts manufactured in Auto Alley—which spans from southern Ontario, Michigan and Ohio to Tennessee and Alabama—cross the border as many as eight times before reaching final assembly.

This deep integration extends far beyond autos. Canadian aerospace companies, such as Bombardier and key defense contractors, play a critical role in the US industrial and military ecosystem. Some conservative estimates suggest that Canadian military exports to the US exceed $1 billion annually. Any move to impose tariffs on these sectors would not only disrupt vital supply chains, but also increase federal spending—an outcome that directly contradicts the Trump administration's government efficiency ambitions.

But nowhere is the Canada–US interdependence more evident than in the energy sector, with nearly 4 million barrels per day of crude oil shipped to the US in 2023. US refineries in the Midwest and Gulf Coast are specifically designed to process Canadian heavy crude, while natural gas pipelines crisscrossing both countries form the backbone of energy security for northern and central US states. Imposing tariffs on crude oil imports would drive up gasoline prices—an outcome directly at odds with Trump's promises. This therefore represents very low-hanging fruit for Canadian negotiators, especially given former Commerce Secretary Wilbur Ross's recent remark that Canadian energy might be exempt from tariffs.

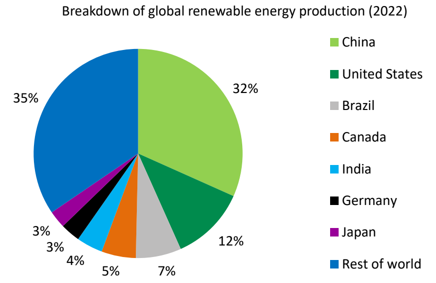
And while Donald Trump may not exactly be a climate activist, the man has expressed a desire for cleaner air for Americans—an area where Canada can make a meaningful contribution. The upcoming Champlain Hudson Power Express transmission line, which will connect Quebec to New York State, is projected to supply approximately 20% of New York City's electricity needs with Quebec's predominantly hydroelectric power. This supports both environmental goals and regional energy stability. Similarly, Canada's wealth of critical minerals in Ontario and Quebec offers the US a pathway to reduce its reliance on China (graph on page 2) for inputs crucial to clean technology and innovation.

So Canadian policymakers' job is straightforward: position Canada as an indispensable partner and persuade the Trump administration that targeting Canadian industries risks triggering unintended consequences for the US economy. While these arguments may appear compelling enough, Canadian diplomats will still need to navigate this challenge with skill and creativity.

CONTENTS

Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Senior Director of Canadian Economics
Benoit P. Durocher, Director and Principal Economist • Royce Mendes, Managing Director and Head of Macro Strategy
Hélène Bégin, Principal Economist • Marc-Antoine Dumont, Senior Economist • Tiago Figueiredo, Macro Strategist • Francis Généreux, Principal Economist
Florence Jean-Jacobs, Principal Economist • Kari Norman, Economist • Hendrix Vachon, Principal Economist • LJ Valencia, Economic Analyst
Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

GRAPH
China Dominates Renewable Energy Production



Note: The percentages add up to 101% due to rounding.
International Renewable Energy Agency and Desjardins Economic Studies

After all, they face a political movement with no shortage of unhinged "alternative facts" adherents who don't shy away from prioritizing ideology over reason and for whom style carries as much weight as substance, if not more. At least we're encouraged to see outside-the-box thinking already taking place in Canada. Perhaps the most entertaining idea we've heard is that Wayne Gretzky could serve as an effective envoy. Who knows? Maybe we'll have 99 reasons to be hopeful.

But of course, hope is not a strategy. The more fundamental challenge is to strengthen Canada's economic sovereignty *vis-à-vis* the US. While this is arguably the longer game, Canada needs to face up to the fact that Americans have voted for isolationism twice in the last decade. It should therefore be taken as a feature of today's US political landscape rather than a bug. Building trade resilience requires action on three fronts.

First, Canada needs to accelerate export market diversification. Agreements like CETA with Europe and emerging partnerships in the Indo-Pacific offer significant opportunities. The latter region opens up a market covering 4 billion people and $47 trillion in economic activity. Diversified trade relationships not only mitigate the risks of US protectionism, but also spur innovation and competitiveness among Canadian businesses. As our own research has shown, companies operating in multiple markets tend to drive productivity and contribute more robustly to economic growth. On that front, some provinces like Manitoba and Saskatchewan are better positioned.

Second, it's time to tackle the paradox that many Canadian businesses find it easier to trade with the US than with neighbouring provinces. The IMF estimates that eliminating regulatory barriers and mismatches, as well as the administrative complexities hindering interprovincial trade, could boost GDP per capita by 4%. Removing these obstacles once and for all would enable Canada to both maximize domestic growth potential and better cushion against external trade shocks.

Finally, Canadian businesses must capitalize on this pivotal moment by investing in automation. According to data from the International Federation of Robotics, Canadian manufacturers deploy only 176 robots per 10,000 workers compared to 255 in the United States and over 800 in leading Asian economies. With the immigration slowdown likely to rekindle labour shortages at some point, and with the looming threat of new tariffs that would undermine competitiveness, automation presents an opportunity to still achieve significant gains in efficiency and productivity.

Policymakers can support this transition through targeted incentives: accelerated depreciation for automation equipment, enhanced R&D tax credits, and deductions for specialized training in automation technologies. A coordinated and ambitious national automation strategy could prove useful at this stage. Some businesses might react to Trump's return by scaling back investments, but the solution may in fact lie in doing the exact opposite. As a result, policymakers must send clear and unequivocal signals to encourage a proactive and dynamic response, enabling businesses to find the opportunities that often lie behind the threats.

What to Watch For

TUESDAY November 26 - 9:00	
September	**y/y**
Consensus	n/a
Desjardins	4.70%
August	**5.20%**

UNITED STATES

S&P/Case-Shiller home price index (September) – Month-on-month growth in existing home prices perked back up in August, rising 0.4% after a gain of just 0.2% in July. That was its smallest increase since January. We're expecting a 0.3% increase for September—a result that falls halfway between the last two months' figures. This would bring the index's year-over-year change below 5% for the first time in 12 months.

TUESDAY November 26 - 10:00	
November	
Consensus	113.0
Desjardins	110.0
October	**108.7**

Conference Board Consumer Confidence Index (November) – US consumer confidence as measured by the Conference Board Index improved significantly in October, reaching its highest level since January. However, this survey was conducted just before the November election. It's hard to predict what effect Trump's victory had on household sentiment. Further improvement does, however, seem plausible. That's what happened after the 2016 election. Stock markets soared after the election and gas prices have kept falling, both of which should give confidence a boost. At the same time, some downside risks persist—namely rising mortgage rates and a sharp drop in Democratic consumer sentiment. All things considered, we expect the Conference Board Index to have increased moderately.

TUESDAY November 26 - 10:00	
October	**ann. rate**
Consensus	720,000
Desjardins	740,000
September	**738,000**

New home sales (October) – After falling 2.3% in August, new single-family home sales were up 4.1% in September. These sales are often recorded before construction is complete, so hurricanes have a much smaller impact here than on other real estate market indicators. We expect that sales stayed relatively stable in October. Single-family permits and the NAHB homebuilder confidence index both point to slight gains. The recent rise in mortgage rates may put a damper on sales, but we might not see its effects until later. Online searches for new homes increased in October but began decreasing in November. We expect new single-family home sales to have grown to around 740,000 units on an annualized basis in October.

WEDNESDAY November 27 - 10:00	
October	**m/m**
Consensus	0.3%
Desjardins	0.4%
September	**0.5%**

Consumer spending (October) – Real consumer spending is still on a fairly good uptrend. After ticking up 0.2% in August, it jumped 0.4% in September. This number may be revised even higher—retail sales for September were lifted in the revision. Real consumer spending likely advanced 0.2% in October, primarily due to a surge in motor vehicle sales and a relatively strong showing by retail sales. Spending on services probably contributed very little to this growth. In current dollars, we expect gains of 0.4%. PCE inflation may have risen from 2.1% to 2.3% year over year, while the core deflator, which strips out food and energy, likely stayed at 2.7% year over year.

CANADA

THURSDAY November 28 - 8:30	
Q3 2024	**$B**
Consensus	n/a
Desjardins	-10.8
Q2 2024	**-8.5**

Current account balance (Q3) – We anticipate the current account deficit widened in Q3, to -$10.8B from -$8.5B in Q2. The merchandise trade balance remained in deficit in Q3, while the services trade deficit widened. Oil prices were weak, contributing to the drag. And while the new TMX pipeline added some export capacity, ongoing uncertainty and external factors are driving global oil demand. However, a strong performance in Canadian equities provided some tailwind, a reflection of positive investor and business confidence. The Canadian dollar experienced some modest depreciation, providing some boost as well.

FRIDAY November 29 - 8:30	
September	**m/m**
Consensus	0.2%
Desjardins	0.3%
August	**0.0%**

Real GDP by industry (September) – We anticipate monthly real GDP by industry grew by 0.3% m/m in September, in line with Statistics Canada's flash estimate. Strength in monthly home sales, housing starts and resource extraction likely drove up growth. The September Labour Force Survey showed job gains for a second consecutive month. In contrast, weak numbers for manufacturing sales and wholesale trade likely put downward pressure on the headline number. Looking ahead to the October real GDP release, we expect Statistics Canada's flash estimate will show that growth slowed to a still-respectable 0.2% m/m. In the coming months, we continue to anticipate the TMX to provide some economic growth, as shown in our analysis. Auto production should also provide a tailwind to economic expansion in the final months of 2024. Lastly, while June and July data were revised down, there could be upward revisions to those months because of knock-on effects from upwardly revised 2023 annual GDP estimates.

FRIDAY November 29 - 8:30

Q3 2024	ann. rate
Consensus	0.9%
Desjardins	1.1%
Q2 2024	**2.1%**

Real GDP (Q3) – Turning to real GDP by expenditure, we anticipate that growth in the third quarter likely came in at 1.1% annualized, which is below the Bank of Canada's October forecast of 1.5%. Household consumption likely continued to be positive despite high interest rates, underpinned by strength across all categories. Growth in government expenditures appears to have remained robust. Net exports also seem to have remained positive, partly caused by a boost in crude oil exports from the opening of the TMX. (See our recent research on the TMX.) While the TMX should provide some tailwind for net exports, we expect inventories to be a drag on the headline number, partly as a result of crude oil producers drawing down their inventories. Furthermore, business fixed investment seems to have experienced a modest reversal, driven by declines in investment of non-residential structures and machinery and equipment. Residential investment probably fell as well due to weak home sales and new home construction during the summer. Given the upward revision to the 2023 annual GDP estimate, we could also see some knock-on effects that could push quarterly GDP estimates higher in 2024.

OVERSEAS

FRIDAY November 29 - 5:00

November	y/y
Consensus	2.3%
October	**2.0%**

Eurozone: Consumer price index (November – preliminary) – In October, inflation in the eurozone crept back up after months of deceleration. After hitting a recent low of 1.7% in September, the year-on-year change in the all-items index rose to 2.0% in October. Since this result is still directly on target for the European Central Bank and September's desinflation seemed a bit too steep, there's not really any reason for concern. We'll have to wait and see if inflation continues to climb in November.

FRIDAY November 29 - 20:30

November	
Consensus	n/a
October	**50.8**

China: Composite PMI (November) – China's composite PMI posted two straight months of growth after retreating in the first half of 2024. Both the manufacturing and non-manufacturing sectors ramped up in October. That said, the sub-indexes paint a more nuanced picture. The manufacturing inventories and new exports components fell by 1.5 and 0.8 points, respectively. The construction sector continues to advance in fits and starts with no clear trend, and average new home prices pulled back another 0.5% in October. November's data will shed more light on the strength of China's economic growth in the last quarter of the year.

Economic Indicators

Week of November 25 to 29, 2024

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 25	---	---				
TUESDAY 26	9:00	S&P/Case-Shiller home price index (y/y)	Sep.	n/a	4.70%	5.20%
	10:00	Consumer confidence	Nov.	112.0	110.0	108.7
	10:00	New home sales (ann. rate)	Oct.	720,000	740,000	738,000
	14:00	Release of the Federal Reserve's meeting minutes				
WEDNESDAY 27	8:30	Initial unemployment claims	Nov. 18–22	217,000	217,000	213,000
	8:30	Real GDP (ann. rate)	Q3s	2.8%	2.8%	2.8%
	8:30	Durable goods orders (m/m)	Oct.	0.3%	1.0%	-0.7%
	8:30	Goods trade balance – preliminary (US$B)	Oct.	-102.0	-102.1	-108.2
	8:30	Retail inventories (m/m)	Oct.	n/a	n/a	0.8%
	8:30	Wholesale inventories – preliminary (m/m)	Oct.	n/a	n/a	-0.2%
	9:45	Chicago PMI	Nov.	45.0	46.0	41.6
	10:00	Personal income (m/m)	Oct.	0.3%	0.4%	0.3%
	10:00	Personal consumption expenditures (m/m)	Oct.	0.3%	0.4%	0.5%
	10:00	Personal consumption expenditures deflator				
		Total (m/m)	Oct.	0.2%	0.2%	0.2%
		Excluding food and energy (m/m)	Oct.	0.3%	0.2%	0.3%
		Total (y/y)	Oct.	2.3%	2.3%	2.1%
		Excluding food and energy (y/y)	Oct.	2.8%	2.7%	2.7%
	10:00	Pending home sales (m/m)	Oct.	-1.8%	n/a	7.4%
THURSDAY 28	---	Markets closed (Thanksgiving Day)				
FRIDAY 29	---	---				
CANADA						
MONDAY 25	---	---				
TUESDAY 26	8:05	Speech by Bank of Canada Deputy Governor R. Mendes				
WEDNESDAY 27	---	---				
THURSDAY 28	8:30	Current account balance ($B)	Q3	n/a	-10.80	-8.48
FRIDAY 29	8:30	Real GDP (ann. rate)	Q3	0.9%	1.1%	2.1%
	8:30	Real GDP by industry (m/m)	Sep.	0.2%	0.3%	0.0%

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 25 to 29, 2024

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
South Korea	---	Bank of Korea meeting	Nov.	3.25%		3.25%	
MONDAY 25							
Japan	0:00	Leading index – final	Sep.	n/a		109.4	
Japan	0:00	Coincident index – final	Sep.	n/a		115.7	
Germany	4:00	ifo Business Climate Index	Nov.	86.0		86.5	
Germany	4:00	ifo Current Assessment Index	Nov.	85.5		85.7	
Germany	4:00	ifo Expectations Index	Nov.	87.0		87.3	
TUESDAY 26							
New Zealand	20:00	Reserve Bank of New Zealand meeting	Nov.	4.25%		4.75%	
WEDNESDAY 27							
Germany	2:00	Consumer confidence	Dec.	-18.8		-18.3	
France	2:45	Consumer confidence	Nov.	93		94	
THURSDAY 28							
Eurozone	4:00	M3 money supply	Oct.		3.4%		3.2%
Italy	4:00	Consumer confidence	Nov.	97.4		97.4	
Italy	4:00	Economic confidence	Nov.	n/a		93.4	
Eurozone	5:00	Consumer confidence – final	Nov.	n/a		-13.7	
Eurozone	5:00	Industrial confidence	Nov.	-12.9		-13.0	
Eurozone	5:00	Services confidence	Nov.	6.3		7.1	
Eurozone	5:00	Economic confidence	Nov.	95.1		95.6	
Germany	8:00	Consumer price index – preliminary	Nov.	-0.2%	2.3%	0.4%	2.0%
Japan	18:30	Unemployment rate	Oct.	2.5%		2.4%	
Japan	18:50	Industrial production – preliminary	Oct.	4.0%	1.7%	1.6%	-2.6%
Japan	18:50	Retail sales	Oct.	0.5%	2.1%	-2.2%	0.7%
FRIDAY 29							
Japan	0:00	Consumer confidence	Nov.	36.5		36.2	
Japan	0:00	Housing starts	Oct.		-2.0%		-0.6%
France	2:45	Personal consumption expenditures	Oct.	-0.1%	n/a	0.1%	-0.1%
France	2:45	Consumer price index – preliminary	Nov.	0.0%	1.4%	0.4%	1.3%
France	2:45	Real GDP – final	Q3	0.4%	1.3%	0.4%	1.3%
Eurozone	5:00	Consumer price index – preliminary	Nov.	-0.2%	2.3%	0.3%	2.0%
Italy	5:00	Consumer price index – preliminary	Nov.	-0.2%	1.4%	0.0%	0.9%
China	20:30	Composite PMI	Nov.	n/a		50.8	
China	20:30	Manufacturing PMI	Nov.	50.3		50.1	
China	20:30	Non-manufacturing PMI	Nov.	n/a		50.2	

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