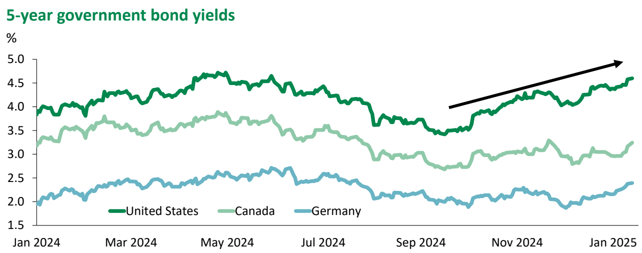
# WEEKLY COMMENTARY

## Shifts Happen

**Randall Bartlett, Deputy Chief Economist**

Monday, January 20, has the potential to meaningfully shift the trajectory of the US, Canadian and global economies. With the inauguration of President Donald Trump for a second term, there is a material risk that hefty import tariffs could be introduced soon after he returns to the White House. The new administration could also move to slash migration to the US. Deregulation and tax cuts are likely as well, with the latter leading to lower US federal government revenues. Increased customs duties could provide some offset, although weaker economic growth should keep a lid on US government revenues in general. Higher tariffs and larger budget deficits may also fuel inflation, leaving interest rates more elevated than they would be otherwise. Bond yields have already been climbing in anticipation (graph 1). And while spending cuts are possible, as with any ill-defined plan to find public-sector savings, the proof of the pudding will be in the tasting.

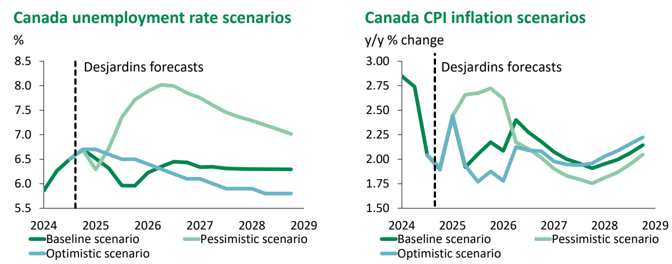
**Graph 1**
**US Bond Spreads Continue to Widen Against Other Major Economies**




Datastream and Desjardins Economic Studies

We've written extensively about the potential economic impacts of President Trump's policy plans on the [US](#) and [Canada](#). On balance, [these policies are likely to be stagflationary](#), hurting growth while boosting inflation in both countries. And the larger the tariff or the sooner it's introduced, the [more detrimental the economic impact](#). Our pessimistic scenario of a 25% targeted tariff on all Canadian exports to the US could tip Canada's economy into recession as early as the middle of 2025. If this were to occur, inflation could hit 3% y/y while the unemployment rate would likely jump to levels not seen since the COVID-19 pandemic (graph 2). The tariff headwind to economic activity would be further exacerbated by policies to slow population growth and an impending wall of mortgage renewals starting in Canada this year.

**Graph 2**
**Pessimistic Scenario Could See Sharply Higher Unemployment and Inflation**




Statistics Canada and Desjardins Economic Studies

This would be a tough environment for any Canadian government. But at the federal level, it's further exacerbated by a prorogued Parliament, a Liberal Party of Canada leadership race, and the prospect of an election beginning as early as late March. This leaves a void in federal leadership for much of the first half of 2025, at a time when risks coming from south of the

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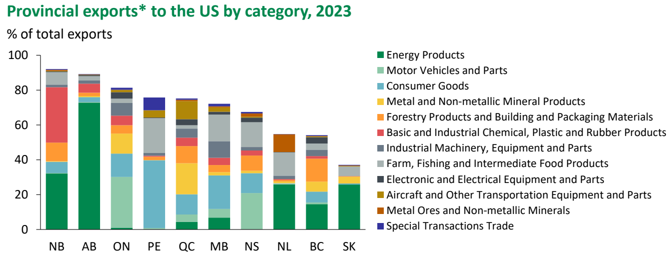
border are extremely elevated. The next prime minister, whoever it is, will need to outline a new economic and fiscal direction for Canada, potentially against the backdrop of a shrinking economy and accelerating inflation. This trend is likely to get worse before it gets better, making it difficult to cut taxes and shrink deficits without finding substantial savings in the fiscal framework.

Looking to the provinces, some are more exposed to potential tariffs than others (graph 3). Alberta, Saskatchewan and Newfoundland and Labrador could get lucky if energy exports are exempt from US duties, as we assume in our baseline forecast. Refined petroleum products, one of New Brunswick's largest exports, could also potentially also be spared. And if fortune favours Ontario, the closely integrated North American auto industry could give cause for pause in applying tariffs to Canadian exports of motor vehicles and parts. But even if duties are not applied to these exports, [a hit to the remaining non-energy exports] would hobble economic activity in provinces like Quebec, Ontario and Manitoba. This could drag on provincial government revenues at a time when the federal government is likely to be looking for ways to reduce spending. Meanwhile the more trade-diversified provinces of Saskatchewan and British Columbia should be better protected from some of the immediate, direct impacts of US tariffs.

**Graph 3**
**Energy and Autos Make Up About Half of Canada's Export Exposure to the US**

**Provincial exports* to the US by category, 2023**




* Domestic exports, excluding re-exports
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All told, a second Trump administration is poised to change the North American economic landscape. We just don't yet know exactly how, when and by how much. But shifts happen, and policymakers need to be prepared. A focus on diversifying international trade, reducing internal trade barriers, leveraging our comparative advantages and creating a more investment-friendly environment could lay the groundwork for a resurgent Canadian economy down the road.

# What to Watch For

## UNITED STATES

**WEDNESDAY January 22 - 10:00**

| December | m/m |
|---|---|
| Consensus | -0.1% |
| Desjardins | 0.0% |
| **November** | **0.3%** |

**Leading indicator (December) –** The US leading indicator rose 0.3% in November. This was the first monthly increase since February 2022. Every other move since then has been negative, except in February 2024, when the indicator stagnated. This rare improvement was driven by an uptick in hours worked and building permits, as well as the stock market's strong performance. While a further increase is plausible for December, the sub-component data available at present suggests that the indicator likely stayed flat. Once again, any gains would stem mainly from the stock market and the labour market. Interest rate spreads, which have been a source of headwinds, are narrowing and could even become a positive contributor. It's worth noting that, in the past year, six months and especially the past three months, the leading indicator's downward trajectory has been less steep.

**FRIDAY January 24 - 10:00**

| December | ann. rate |
|---|---|
| Consensus | 4,200,000 |
| Desjardins | 4,250,000 |
| **November** | **4,150,000** |

**Existing home sales (December) –** Existing home sales were up in October and November. This is the first time we've seen two straight months of improvement since January and February 2024. Sales accelerated 4.8% in November and exceeded four million units for the first time in six months. We expect December sales were higher still, based on the previous month's pending home sales and preliminary regional data. Mortgage applications for home purchases also rose in December, but they've since declined as mortgage rates have edged up in the past few weeks. Our expectation is that existing home sales reached 4.25 million units (annualized).

## CANADA

**MONDAY January 20 - 10:30**

**Business Outlook Survey and Canadian Survey of Consumer Expectations –** The Business Outlook Survey and Canadian Survey of Consumer Expectations will be closely watched by market participants given that it will be the first read on how businesses and consumers are viewing the threat of tariffs. Businesses will likely be more reluctant to increase investments and add to their payrolls given the unusually elevated uncertainty about access to the US market. For consumers, the tariff threat is already driving up inflation expectations south of the border. Canadian central bankers will be looking to see if a similar trend is playing out in Canada and how worried households are about tariffs potentially impacting their jobs.

**TUESDAY January 21 - 8:30**

| December | m/m |
|---|---|
| Consensus | -0.7% |
| Desjardins | -0.2% |
| **November** | **0.0%** |

**Consumer Price Index (December) –** December's inflation numbers will need to be carefully parsed as the GST holiday will drive at most 12% of the basket materially lower. Look for headline Canadian consumer price growth to have fallen 0.3% in December, leaving the annual figure unchanged at 1.9%. Were it not for the tax holiday, base effects would probably have pushed headline inflation up to 2.2% from 1.9%. The GST holiday aside, some components of inflation could rebound in December due to particularly aggressive Black Friday discounts that held back price growth in November. The Bank of Canada's preferred measures of core inflation rely on pre-tax data and so will be shielded from any adjustments to taxes. Still, the trimmed-mean measure now includes mortgage interest costs, which is biasing the calculation higher. As such, we will be looking at the Bank of Canada's core measures excluding shelter to get a better gauge of underlying inflationary pressures.

**THURSDAY January 23 - 8:30**

| December | m/m |
|---|---|
| Consensus | 0.1% |
| Desjardins | 0.2% |
| **November** | **0.6%** |

**Retail sales (November) –** Retail sales probably increased by 0.2% m/m in November, two ticks above Statistics Canada's flash estimate of 0.0%. We expect sales at motor vehicle dealerships to have increased, as seasonally adjusted auto prices grew month-over-month and volumes advanced. The Bank of Canada's rate cuts and an incentive to purchase electric vehicles (EVs) before a planned reduction in EV rebates were likely contributing factors. We also expect gasoline receipts to have surged, on a seasonally adjusted basis, on the back of higher gas prices. That said, core sales—which exclude autos and gasoline—probably declined, with some consumers postponing what would have been late-November spending until mid-December's GST holiday. For December's flash estimate, we expect an increase in retail sales, with autos, gasoline and core sales all likely advancing, the latter being boosted by the mid-month sales tax reduction on some items.

## OVERSEAS

| FRIDAY January 24 - 8:30 | |
|---|---|
| **January** | **m/m** |
| Consensus | 0.50% |
| **December 18** | **0.25%** |

**Japan: Bank of Japan meeting (January) –** The Bank of Japan (BoJ) is taking a slow and measured approach to interest rate hikes. It announced increases in March and July 2024. Another hike seemed plausible in December, but in the end the BoJ decided to leave its policy unchanged. Things aren't cut and dried for next week's meeting either. Opinions are divided, with some analysts believing that the bank's officials will want to postpone the next increase until March, or even later, so that they can see what happens with wage negotiations and US tariffs. That said, they will have access to December's national consumer price data, which is coming out this week. After easing at the beginning of the fourth quarter, inflation picked up in November, and Tokyo area data points to a further acceleration in year-on-year consumer price growth.

| FRIDAY January 24 - 4:00 | |
|---|---|
| **January** | |
| Consensus | 49.7 |
| **December** | **49.6** |

**Eurozone: PMI (January – preliminary) –** The Eurozone Composite PMI continued its bumpy ride, dropping from 50.0 in October to 48.3 in November before climbing back up to 49.6 in December. Services accounted for most of the growth, while the Manufacturing Index fell 0.1 points, a situation that can be partly attributed to the recent rise in energy prices in Europe. If the PMI continues to slide or only makes weak gains, the European Central Bank could very well announce additional interest rate cuts.

# Economic Indicators

## Week of January 20 to 24, 2025

| Day | Time | Indicator | Period | Consensus | Desjardins | Previous reading |
|---|---|---|---|---|---|---|
| **UNITED STATES** | | | | | | |
| MONDAY 20 | --- | Markets closed (Martin Luther King Jr. Day) | | | | |
| | 12:00 | Inauguration of D. Trump as President of the United States | | | | |
| TUESDAY 21 | --- | --- | | | | |
| WEDNESDAY 22 | 10:00 | Leading indicator (m/m) | Dec. | -0.1% | 0.0% | 0.3% |
| THURSDAY 23 | 8:30 | Initial unemployment claims | Jan. 13–17 | n/a | 215,000 | 217,000 |
| FRIDAY 24 | 10:00 | University of Michigan consumer sentiment index – final | Jan. | n/a | 73.2 | 73.2 |
| | 10:00 | Existing home sales (ann. rate) | Dec. | 4,200,000 | 4,250,000 | 4,150,000 |
| **CANADA** | | | | | | |
| MONDAY 20 | 10:30 | Release of the Bank of Canada’s Business Outlook Survey | | | | |
| TUESDAY 21 | 8:30 | Consumer price index | | | | |
| | | Total (m/m) | Dec. | -0.7% | -0.2% | 0.0% |
| | | Total (y/y) | Dec. | 1.8% | 2.0% | 1.9% |
| WEDNESDAY 22 | 8:30 | Raw materials price index (m/m) | Dec. | n/a | 0.0% | -0.5% |
| | | Industrial product price index (m/m) | Dec. | n/a | 0.6% | 0.6% |
| THURSDAY 23 | 8:30 | Retail sales | | | | |
| | | Total (m/m) | Nov. | 0.1% | 0.2% | 0.6% |
| | | Excluding automobiles (m/m) | Nov. | n/a | -1.1% | 0.1% |
| FRIDAY 24 | --- | --- | | | | |

**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 20 to 24, 2025

| Country | Time | Indicator | Period | Consensus m/m (q/q) | Consensus y/y | Previous reading m/m (q/q) | Previous reading y/y |
|---|---|---|---|---|---|---|---|
| **OVERSEAS** | | | | | | | |
| **SUNDAY 19** | | | | | | | |
| Japan | 23:30 | Tertiary Industry Activity Index | Nov. | 0.1% | | 0.3% | |
| Japan | 23:30 | Industrial production – final | Nov. | n/a | n/a | -2.3% | -2.8% |
| **MONDAY 20** | | | | | | | |
| Germany | 2:00 | Producer price index | Dec. | 0.3% | 1.1% | 0.5% | 0.1% |
| Eurozone | 5:00 | Construction | Nov. | n/a | n/a | 1.0% | 0.2% |
| **TUESDAY 21** | | | | | | | |
| United Kingdom | 2:00 | ILO unemployment rate | Nov. | 4.4% | | 4.3% | |
| Germany | 5:00 | ZEW Current Conditions Survey | Jan. | -93.1 | | -93.1 | |
| Germany | 5:00 | ZEW Expectations Survey | Jan. | 15.2 | | 15.7 | |
| **WEDNESDAY 22** | | | | | | | |
| Japan | 18:50 | Trade balance (¥B) | Dec. | -664.9 | | -384.2 | |
| **THURSDAY 23** | | | | | | | |
| France | 2:45 | Business confidence | Jan. | 94 | | 94 | |
| France | 2:45 | Production outlook | Jan. | -18 | | -19 | |
| Norway | 4:00 | Bank of Norway meeting | Jan. | 4.50% | | 4.50% | |
| Eurozone | 10:00 | Consumer confidence – preliminary | Jan. | -14.0 | | -14.5 | |
| United Kingdom | 19:01 | Consumer confidence | Jan. | -18 | | -17 | |
| Japan | 18:30 | Consumer price index | Dec. | | 3.4% | | 2.9% |
| Japan | 19:30 | Composite PMI – preliminary | Jan. | n/a | | 50.5 | |
| Japan | 19:30 | Manufacturing PMI – preliminary | Jan. | n/a | | 49.6 | |
| Japan | 19:30 | Services PMI – preliminary | Jan. | n/a | | 50.9 | |
| **FRIDAY 24** | | | | | | | |
| Japan | --- | Bank of Japan meeting | Jan. | 0.50% | | 0.25% | |
| France | 3:15 | Composite PMI – preliminary | Jan. | 47.7 | | 47.5 | |
| France | 3:15 | Manufacturing PMI – preliminary | Jan. | 42.5 | | 41.9 | |
| France | 3:15 | Services PMI – preliminary | Jan. | 49.5 | | 49.3 | |
| Germany | 3:30 | Composite PMI – preliminary | Jan. | 48.3 | | 48.0 | |
| Germany | 3:30 | Manufacturing PMI – preliminary | Jan. | 42.8 | | 42.5 | |
| Germany | 3:30 | Services PMI – preliminary | Jan. | 51.0 | | 51.2 | |
| Eurozone | 4:00 | Composite PMI – preliminary | Jan. | 49.7 | | 49.6 | |
| Eurozone | 4:00 | Manufacturing PMI – preliminary | Jan. | 45.5 | | 45.1 | |
| Eurozone | 4:00 | Services PMI – preliminary | Jan. | 51.5 | | 51.6 | |
| United Kingdom | 4:30 | Composite PMI – preliminary | Jan. | 50.1 | | 50.4 | |
| United Kingdom | 4:30 | Manufacturing PMI – preliminary | Jan. | 47.0 | | 47.0 | |
| United Kingdom | 4:30 | Services PMI – preliminary | Jan. | 50.8 | | 51.1 | |

**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).