

WEEKLY COMMENTARY

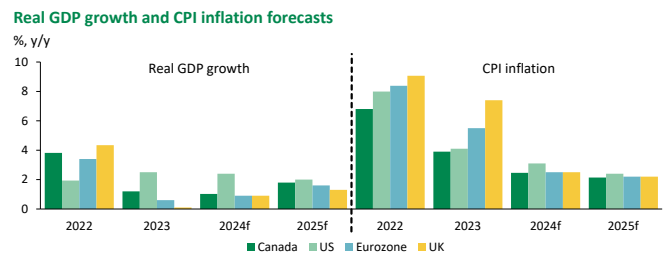
Is Everything in Canada’s Economy Broken? No, but There’s a Lot That Needs Fixing

By **Randall Bartlett**, Senior Director of Canadian Economics

As Canadians prepare to spend a long weekend by the water or watching fireworks, it’s a good time to take stock of the state of the economy and where it’s going. As our latest [Economic and Financial Outlook \(EFO\)](#) highlighted, the prospects for growth in Canada have improved, as they have broadly around the globe. We now expect real GDP to increase faster in the Great White North than in any other advanced economy this year and next, save for the US (graph 1). Some of this respectable growth performance we anticipate can be chalked up to relief coming for Canadian borrowers, as Canada was also the first G7 country whose central bank cut interest rates. And this early easing in rates was supported by prices that have advanced more slowly here than in most peer countries—also a good news story. All told, better growth and lower inflation than in many other advanced economies, coupled with relatively early rate cuts, tell a comparatively positive tale.

But these high-level economic indicators are cold comfort for a lot of households still feeling the pressure of elevated borrowing costs and high prices. Canada’s housing market remains highly unaffordable, and [our research suggests that isn’t likely to change anytime soon](#). Rents are sky high too, as an influx of non-permanent residents (NPRs) compete for a limited stock of rental housing (graph 2). High and rising shelter costs have helped keep the overall level of prices high, even as the pace of inflation has slowed. And [with a wave of mortgage renewals at much higher rates just around the corner](#), many households are feeling more squeezed than ever before. This is particularly true for the lowest income Canadians, whose savings rates have

Graph 1
Canada’s Economy Is Performing Relatively Well against Its Peers



f: forecast. Forecasts are from Desjardins Economic Studies’ June 2024 Economic and Financial Outlook, World Bank, Consensus Forecasts and Desjardins Economic Studies

Graph 2
Rent Inflation Is Accelerating Even as Ownership Cost Growth Slows



Statistics Canada and Desjardins Economic Studies

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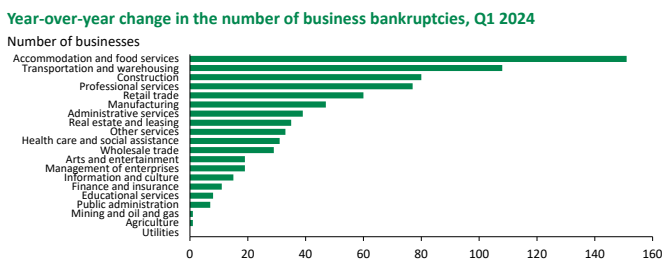
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fallen into negative territory, as we will discuss in detail in a forthcoming note.

Businesses are experiencing challenges too. The surge in insolvencies this year is particularly stark (graph 3). The sectors with the highest insolvency rates, such as hospitality and retail, were also [those we flagged as being most vulnerable in the run-up to the Canada Emergency Business Account \(CEBA\) loan repayment deadline in January](#). These were the same sectors experiencing the sharpest labour shortages coming out of the pandemic as well, and who turned to NPRs to fill much of that gap. But if the federal government follows through on its plan to limit the number of NPRs in the country, this source of relatively inexpensive labour will become scarcer. And with [few Canadians waiting on the sidelines to fill those positions](#), [labour costs are likely to rise](#) and margins to be squeezed.

entrepreneurship (in contrast to [the recent increase in the capital gains inclusion rate](#)), along with reduced regulations, could be more effective. Focusing on incentives that reward businesses for growing as opposed to staying small may also be helpful. Fortunately, as we've highlighted [time](#) and [again](#), Canada is in one of the strongest fiscal positions of any advanced economy, both at the federal and total government levels. Without jeopardizing our fiscal standing, it may be time to try something new to boost investment, because what Canada's doing now isn't working. And when something's broken, it's best to fix it.

Graph 3
The Most Vulnerable Sectors Saw the Sharpest Rise in Insolvencies



Innovation, Science and Economic Development Canada and Desjardins Economic Studies

Less temporary labour could be an impetus for renewed investment in productivity-enhancing innovation. But [poor productivity is a perennial problem in Canada](#) that long precedes the recent boom in newcomers. [The same is true for real GDP per capita](#), which first stagnated following the drop in oil prices in 2014. Businesses need to adopt new technologies such as [artificial intelligence](#) to help boost efficiency. [This is particularly true for small businesses](#), which struggle to find the time, staff and financing to invest in the latest innovations. And despite being Canada's productivity leader, oil and gas extraction is unlikely to return to its pre-2014 dominance of the Canadian economy against the backdrop of a global energy transition.

That leaves a potential role for policy in supporting Canadian business investment. A decade ago, many economists would have championed governments playing a more activist role in supporting innovation. Indeed, we [found](#) that the public sector has historically played an outsized role in innovation leaders like the US, Israel and South Korea. However, picking winners and scattering spending around has proven ineffective in spurring innovation and productivity growth in Canada. Instead, more supply-side policies like lower taxes on investment and

What to Watch For

MONDAY July 1 - 10:00

| | |
|-------------|-------------|
| June | |
| Consensus | 49.2 |
| Desjardins | 48.5 |
| May | 48.7 |

WEDNESDAY July 3 - 10:00

| | |
|-------------|-------------|
| June | |
| Consensus | 52.5 |
| Desjardins | 53.5 |
| May | 53.8 |

FRIDAY July 5 - 8:30

| | |
|-------------|----------------|
| June | |
| Consensus | 188,000 |
| Desjardins | 175,000 |
| May | 272,000 |

WEDNESDAY July 3 - 8:30

| | |
|--------------|--------------|
| May | \$B |
| Consensus | n/a |
| Desjardins | -0.80 |
| April | -1.05 |

FRIDAY July 5 - 8:30

| | |
|-------------|---------------|
| June | |
| Consensus | 25,000 |
| Desjardins | 20,000 |
| May | 26,700 |

TUESDAY July 2 - 5:00

| | |
|-------------|-------------|
| June | y/y |
| Consensus | 2.5% |
| May | 2.6% |

UNITED STATES

ISM Manufacturing index (June) – After temporarily climbing above 50 in March, the ISM Manufacturing index slid for two straight months in April and May. These losses were mainly driven by the new orders component, which fell to a 12-month low of 45.4 in May. We expect a very minor pullback in the ISM Manufacturing index in June, while the regional manufacturing index readings published so far have been quite mixed.

ISM Services index (June) – The ISM Services index climbed to 53.8 in May, a high since August 2023. This was in sharp contrast to the April print, which dipped below the 50-point threshold. In fact, the 4.4-point gain from April to May was the biggest monthly increase since January 2023. After such a big jump, we expect a much smaller change in the ISM Services index in June. Regional and consumer confidence indexes suggest it may have dropped slightly.

Change in nonfarm payrolls (June) – After a disappointing reading in April, the establishment survey came in hot once again in May with 272,000 new jobs. We expect growth in payrolls to have faltered somewhat in June. Weekly unemployment claims were significantly higher in mid-June than they had been a month earlier. That said, according to the Conference Board Consumer Confidence Index, more consumers felt jobs were easy to get in June, suggesting that the slowdown won't be too severe. We therefore expect a net gain of around 175,000 jobs. The unemployment rate probably held steady at 4.0%, but it will be interesting to see whether the divergence between the establishment and household surveys narrowed. We also need to keep an eye on wage inflation after the 0.4% monthly increase in May, the biggest climb since January.

CANADA

International merchandise trade (May) – Canada's trade balance is expected to have remained in negative territory in May. While weak US auto production and US advanced trade data likely weighed on export volumes, the anticipated decline in total exports was probably more of a price story. Moreover, last month's wildfires in Alberta combined with seasonal maintenance of Canadian oil fields may have disrupted oil deliveries, putting further downward pressure on exports. On the import side, the forecast suggests a month-over-month decline in May as US advanced auto and industrial exports fell.


Net change in employment (June) – Hiring in the Canadian economy likely rose 20k in June, roughly matching the pace seen in the prior month. However, given the continued strength in population growth, the unemployment rate is expected to have ticked up to 6.3%. The Bank of Canada recently noted that while the aggregate unemployment rate has gradually increased, the unemployment rate for newcomers has increased to almost 12%. That's a significant development given newcomers' increasing share of the labour market, and it's something we'll keep monitoring in upcoming releases. Ultimately, the labour market is in better balance today and wage growth should continue to moderate.


OVERSEAS

Eurozone: Consumer price index (June – preliminary) – Inflation briefly stopped slowing in May, rising to 2.6% from April's 2.4%. Core inflation accelerated to 2.9% from 2.7%. Despite these gains, the European Central Bank didn't shy away from initiating rate cuts in early June. But ECB officials still struck a cautious tone, signalling that price pressures remain. It will be interesting to see whether inflation started to fall again in June or remained on the uptrend that started in May.

Economic Indicators

Week of July 1 to 5, 2024

| Date | Time | Indicator | Period | Consensus |  | Previous reading |
|----------------------|-------|--|------------|------------|---|------------------|
| UNITED STATES | | | | | | |
| SUNDAY 30 | 9:00 | Speech by Federal Reserve Bank of New York President J. Williams | | | | |
| MONDAY 1 | 10:00 | Construction spending (m/m) | May | 0.3% | -0.2% | -0.1% |
| | 10:00 | ISM Manufacturing index | June | 49.2 | 48.5 | 48.7 |
| TUESDAY 2 | --- | Total vehicle sales (ann. rate) | June | 15,900,000 | 15,800,000 | 15,900,000 |
| | 9:30 | Speech by Federal Reserve Chair J. Powell | | | | |
| WEDNESDAY 3 | 8:30 | Initial unemployment claims | June 24–28 | 235,000 | 228,000 | 233,000 |
| | 8:30 | Trade balance – goods and services (US\$B) | May | -76.0 | -77.0 | -74.6 |
| | 10:00 | Factory orders (m/m) | May | 0.3% | 0.6% | 0.7% |
| | 10:00 | ISM Services index | June | 52.5 | 53.5 | 53.8 |
| | 14:00 | Release of the Federal Reserve's meeting minutes | | | | |
| THURSDAY 4 | --- | Markets closed (Independence Day) | | | | |
| FRIDAY 5 | 8:30 | Change in nonfarm payrolls | June | 188,000 | 175,000 | 272,000 |
| | 8:30 | Unemployment rate | June | 4.0% | 4.0% | 4.0% |
| | 8:30 | Average weekly hours | June | 34.3 | 34.3 | 34.3 |
| | 8:30 | Average hourly earnings (m/m) | June | 0.3% | 0.2% | 0.4% |
| CANADA | | | | | | |
| MONDAY 1 | --- | Markets closed (Canada Day) | | | | |
| TUESDAY 2 | --- | --- | | | | |
| WEDNESDAY 3 | 8:30 | International trade (\$B) | May | n/a | -0.80 | -1.05 |
| THURSDAY 4 | --- | --- | | | | |
| FRIDAY 5 | 8:30 | Net change in employment | June | 25,000 | 20,000 | 26,700 |
| | 8:30 | Unemployment rate | June | 6.3% | 6.3% | 6.2% |

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 Daylight Time (GMT - 4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of July 1 to 5, 2024

| Country | Time | Indicator | Period | Consensus | | Previous reading | | |
|--------------------|-------|------------------------------------|--------|-----------|-------|------------------|-------|--|
| | | | | m/m (q/q) | y/y | m/m (q/q) | y/y | |
| OVERSEAS | | | | | | | | |
| SUNDAY 30 | | | | | | | | |
| Japan | 19:50 | Tankan Large Manufacturers Index | Q2 | 11 | | 11 | | |
| Japan | 20:30 | Manufacturing PMI – final | June | n/a | | 50.1 | | |
| MONDAY 1 | | | | | | | | |
| Japan | 1:00 | Consumer confidence | June | 36.4 | | 36.2 | | |
| United Kingdom | 2:00 | Nationwide house prices | June | -0.1% | 1.2% | 0.4% | 1.3% | |
| Italy | 3:45 | Manufacturing PMI | June | 44.3 | | 45.6 | | |
| France | 3:50 | Manufacturing PMI – final | June | 45.3 | | 45.3 | | |
| Germany | 3:55 | Manufacturing PMI – final | June | 43.4 | | 43.4 | | |
| Eurozone | 4:00 | Manufacturing PMI – final | June | 45.6 | | 45.6 | | |
| United Kingdom | 4:30 | Manufacturing PMI – final | June | 51.4 | | 51.4 | | |
| Germany | 8:00 | Consumer price index – preliminary | June | 0.2% | 2.3% | 0.1% | 2.4% | |
| TUESDAY 2 | | | | | | | | |
| Italy | 4:00 | Unemployment rate | May | 6.9% | | 6.9% | | |
| Eurozone | 5:00 | Consumer price index – preliminary | June | 0.2% | 2.5% | 0.2% | 2.6% | |
| Eurozone | 5:00 | Unemployment rate | May | 6.4% | | 6.4% | | |
| Japan | 20:30 | Composite PMI – final | June | n/a | | 50.0 | | |
| Japan | 20:30 | Services PMI – final | June | n/a | | 49.8 | | |
| WEDNESDAY 3 | | | | | | | | |
| Italy | 3:45 | Composite PMI | June | n/a | | 52.3 | | |
| Italy | 3:45 | Services PMI | June | 53.8 | | 54.2 | | |
| France | 3:50 | Composite PMI – final | June | 48.2 | | 48.2 | | |
| France | 3:50 | Services PMI – final | June | 48.8 | | 48.8 | | |
| Germany | 3:55 | Composite PMI – final | June | 50.6 | | 50.6 | | |
| Germany | 3:55 | Services PMI – final | June | 53.5 | | 53.5 | | |
| Eurozone | 4:00 | Composite PMI – final | June | 50.8 | | 50.8 | | |
| Eurozone | 4:00 | Services PMI – final | June | 52.6 | | 52.6 | | |
| United Kingdom | 4:30 | Composite PMI – final | June | 51.7 | | 51.7 | | |
| United Kingdom | 4:30 | Services PMI – final | June | 51.2 | | 51.2 | | |
| Eurozone | 5:00 | Producer price index | May | -0.1% | -4.1% | -1.0% | -5.7% | |
| THURSDAY 4 | | | | | | | | |
| Germany | 2:00 | Factory orders | May | 0.7% | -5.8% | -0.2% | -1.6% | |
| United Kingdom | 4:30 | Construction PMI | June | 54.0 | | 54.7 | | |
| FRIDAY 5 | | | | | | | | |
| Germany | 2:00 | Industrial production | May | -0.1% | -4.3% | -0.1% | -3.9% | |
| France | 2:45 | Trade balance (€M) | May | n/a | | -7,579 | | |
| France | 2:45 | Current account (€B) | May | n/a | | -1.8 | | |
| France | 2:45 | Industrial production | May | -0.5% | -1.1% | 0.5% | 0.9% | |
| Italy | 4:00 | Retail sales | May | n/a | n/a | -0.1% | -1.9% | |
| Eurozone | 5:00 | Retail sales | June | 0.2% | 0.2% | -0.5% | 0.0% | |

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 Daylight Time (GMT - 4 hours).