

WEEKLY COMMENTARY

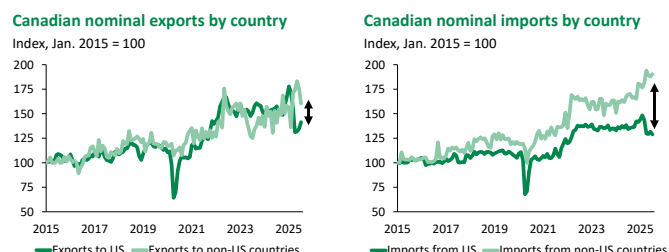
Canada's Economy Is Weak, but a Recession Isn't a Foregone Conclusion

By Randall Bartlett, Deputy Chief Economist

What a week in Canada's economy! The release of [Canadian inflation](#) data for August was shortly followed by rate cuts from the [Bank of Canada](#) and the [Federal Reserve](#) after a prolonged period of staying on the sidelines. And this came after a leak from a senior official that the Government of Canada's deficit could reach \$100B this year when the long-overdue federal budget is released on November 4. The reason for this firehose of monetary and fiscal policy support is that North American economies and labour markets are weak and risk getting weaker.

But what we're seeing in the data gives a little more reason for cautious optimism regarding the Canadian economy. For instance, manufacturing sales volumes increased in July for the first time since January. Wholesale trade volumes also rose in the month, following an outsized advance in June. This corresponds with the turn in [export volumes](#) observed in July (graph 1), which fits with [our finding](#) that manufacturing and wholesale trade were among the sectors most vulnerable to shifting trade flows with the US. Sharply higher car and truck production likely contributed to the advance in July, after adjusting for seasonality. Seasonally adjusted data show railcar loadings and volumes of crude oil exports to the US picked up in the month as well, with each moving higher again in August. And that's in spite of crude oil production likely having taken a dip over the summer resulting from the second-worst wildfire season on record. Activity in Canada's housing market also looks to be improving, with [home sales](#) in August reaching their highest level in 2025 and housing starts remaining elevated despite recently slipping from a nearly three-year peak reached in July.

Graph 1
Canadian Exports Have Rebounded Modestly After a Sharp Drop in Q2



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However, the Canadian economy isn't out of the woods yet. While some sectors seem to have found a firmer footing, the [labour market data](#) was notably soft in July and August. [Retail sales](#) indicate consumers pulled back on spending in July, even when adjusting for inflation, although Statistics Canada's flash estimate suggests retail sales may have moved higher in August. The recent weakness in consumer activity doesn't come as a huge surprise, as much of the strength earlier in the year probably reflected a desire to get ahead of tariffs and to buy local. Indeed, the solid pace of consumer activity recorded last spring came just as consumer confidence in Canada reached its record low—an uncommon pairing (graph 2 on page 2). Fundamentally, headwinds to household consumption growth remain, and they extend beyond the trade war uncertainty to

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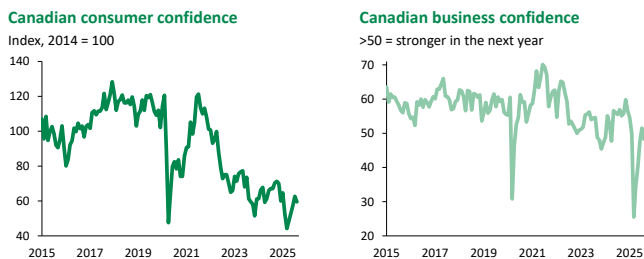
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encompass domestic factors such as rising monthly mortgage payments at renewal, still-stretched housing affordability and rapidly slowing population gains. Business investment is also likely to be weak in the third quarter despite business sentiment that is well above its March lows. Ongoing hesitancy to invest in machinery and equipment resulting from US trade policy uncertainty, combined with the completion of a one-off energy sector investment in an oil project off the coast of Newfoundland, should lead business investment to reverse its Q2 advance in the third quarter.

Graph 2

Consumer and Business Confidence Are No Longer at Record Lows

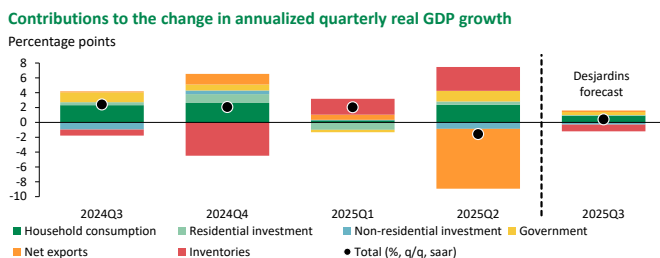


Conference Board of Canada, Canadian Federation of Independent Business and Desjardins Economic Studies

So where does that leave our outlook for economic growth in Q3? We're currently tracking a 0.1% print for growth in real GDP by industry in July, in line with the flash estimate published by Statistics Canada. Accounting for this, as well as broader data so far in the third quarter and the elimination of tariffs on most consumer goods imports from the US as of September 1, we're currently projecting Q3 real GDP growth to be in the range of 0.0%–0.5% annualized (graph 3). This is below the Bank of Canada's baseline forecast of 1% in the third quarter, published in its [July 2025 Monetary Policy Report](#), but we're currently forecasting real GDP to end 2025 roughly in line with the Bank's summer outlook. While not an economic rebound to write home about, it does suggest that a 2025 recession in Canada isn't a foregone conclusion.

Graph 3

Real GDP Is Expected to Eke Out a Slight Rebound in Q3



Statistics Canada and Desjardins Economic Studies

What to Watch For

WEDNESDAY September 24 - 10:00

August	ann. rate
Consensus	650,000
Desjardins	635,000
July	652,000

THURSDAY September 25 - 8:30

Q2 2025 - 3 rd est.	ann. rate
Consensus	3.3%
Desjardins	3.3%
Q2 2025 - 2 nd est.	3.3%

THURSDAY September 25 - 8:30

August	m/m
Consensus	-0.5%
Desjardins	2.3%
July	-2.8%

THURSDAY September 25 - 10:00

August	ann. rate
Consensus	3,950,000
Desjardins	3,920,000
July	4,010,000

FRIDAY September 26 - 8:30

August	m/m
Consensus	0.5%
Desjardins	0.4%
July	0.5%

FRIDAY September 26 - 8:30

July	m/m
Consensus	0.1%
Desjardins	0.1%
June	-0.1%

UNITED STATES

New home sales (August) – After spiking 4.1% in June, new single-family home sales edged down 0.6% in July. Sales remain 9% below their year-end 2024 level, and we're also seeing an increasing number of unsold new homes. Based on lower numbers of building permits for single-family homes and weakness in the homebuilder confidence index, look for sales to have fallen further in August. However, the increase in online searches for new homes is an upside risk.

Real GDP (second quarter – third estimate and annual update) – Annualized second-quarter real GDP growth rose from 3.0% to 3.3% between the advance and second estimates. Generally, the third estimate doesn't change much or come as a surprise. However, Thursday's figures will also include the annual update of the national economic accounts. This update will present revised data that cover Q1 2020 through Q1 2025. It'll be interesting to see if this update changes the pattern of real GDP fluctuations in the US.

Durable goods orders (August) – Volatile aviation orders heavily influenced durable goods orders in July and were almost entirely responsible for the month's 2.8% decline. However, we expect aviation to have made a positive contribution to growth in August. Boeing's orders suggest a first rise in nondefense aircraft orders since May. We're also likely to see growth in the automotive sector based on industrial vehicle production data. Excluding transportation, orders jumped a surprising 1.0% in July, the biggest increase since September 2024. However, similar to the trend in industrial production data, we're expecting August's print to reveal a much weaker 0.1% gain. All sectors combined, durable goods orders probably climbed 2.3%.

Existing home sales (August) – After falling 2.7% in June, existing home sales rose 2.0% in July. The volatility we've seen so far in 2025 likely continued, and we're anticipating August's print to show another dip based on pending sales and preliminary regional data. Mortgage applications for home purchases also dropped between July and August. We expect existing home sales fell to 3,920,000 units.

Consumer spending (August) – Real consumer spending had its best month since March in July. Spending rose 0.3%, primarily thanks to durable goods, particularly motor vehicles and parts. However, this sector likely held back growth in August. Other types of goods probably did reasonably well, based on the stronger-than-expected retail sales print. In contrast, we're only anticipating a slight rise in spending on services, especially on the energy demand side. All told, look for real consumer spending to have edged up 0.1%. Once we factor in the 0.3% increase forecast for the Personal Consumption Expenditures price index, we should see a 0.4% jump in nominal consumption. PCE inflation likely advanced from 2.6% to 2.8% year over year, while the core deflator, which strips out food and energy, probably climbed from 2.9% to 3.0%.

CANADA

Real GDP by industry (July) – Real GDP by industry is expected to have advanced by 0.1% in July, in line with Statistics Canada's flash estimate. Output in manufacturing, wholesale trade, and transportation and warehousing likely led headline output higher, supported by a rebound in exports to the US in the month. In contrast, retail sales and energy extraction probably moved lower in July. Looking ahead to August, Statistics Canada's flash estimate will likely show that real GDP will remain broadly unchanged in the month.

TUESDAY September 23 - 4:00

September

Consensus


51.1

August**51.0****OVERSEAS**

Eurozone: PMI (September – preliminary) – The eurozone’s composite PMI hit 51.0 in August, its highest level in a year. Even the Manufacturing PMI improved, exceeding 50 for the first time since the second quarter of 2022. However, the Services PMI edged down in August, erasing July’s increase. September’s data will show whether these recent trends continued through the end of the third quarter.


Economic Indicators

Week of September 22 to 26, 2025

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 22	9:45	Speech by Federal Reserve Bank of New York President J. Williams				
	10:00	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
	12:00	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
	12:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	12:00	Speech by Federal Reserve Governor S. Miran				
TUESDAY 23	8:30	Current account (US\$B)	Q2	-268.2	-260.0	-450.2
	9:00	Speech by Federal Reserve Governor M. Bowman				
	12:35	Speech by Federal Reserve Chair J. Powell				
WEDNESDAY 24	10:00	Existing home sales (ann. rate)	Aug.	650,000	635,000	652,000
	16:10	Speech by Federal Reserve Bank of San Francisco President M. Daly				
THURSDAY 25	8:30	Initial unemployment claims	Sep. 15–19	236,000	235,000	231,000
	8:30	Real GDP – (ann. rate)	Q2t	3.3%	3.3%	3.3%
	8:30	Durable goods orders (m/m)	Aug.	-0.5%	2.3%	-2.8%
	8:30	Goods trade balance – preliminary (US\$B)	Aug.	-95.6	-100.0	-103.6
	8:30	Retail inventories (m/m)	Aug.	n/a	n/a	0.2%
	8:30	Wholesale inventories – preliminary (m/m)	Aug.	n/a	n/a	0.1%
	10:00	New home sales (ann. rate)	Aug.	3,950,000	3,920,000	4,010,000
	13:40	Speech by Federal Reserve Bank of Dallas President L. Logan				
FRIDAY 26	8:30	Personal income (m/m)	Aug.	0.3%	0.3%	0.4%
	8:30	Personal consumption expenditures (m/m)	Aug.	0.5%	0.4%	0.5%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Aug.	0.3%	0.3%	0.2%
		Excluding food and energy (m/m)	Aug.	0.2%	0.3%	0.3%
		Total (y/y)	Aug.	2.7%	2.8%	2.6%
		Excluding food and energy (y/y)	Aug.	2.9%	3.0%	2.9%
	9:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	10:00	University of Michigan consumer sentiment index – final	Sep.	55.4	55.4	55.4
	13:00	Speech by Federal Reserve Governor M. Bowman				

CANADA

MONDAY 22	8:30	Industrial product price index (m/m)	Aug.	n/a	0.2%	0.7%
	8:30	Raw materials price index (m/m)	Aug.	n/a	-1.7%	0.3%
TUESDAY 23	---	---				
WEDNESDAY 24	---	---				
THURSDAY 25	---	---				
FRIDAY 26	8:30	Real GDP by industry (m/m)	July	0.1%	0.1%	-0.1%

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 September 22 to 26, 2025

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
MONDAY 22							
Eurozone	10:00	Consumer confidence – preliminary	Sep.	-15.0		-15.5	
TUESDAY 23							
France	3:15	Composite PMI – preliminary	Sep.	49.7		49.8	
France	3:15	Manufacturing PMI – preliminary	Sep.	50.1		50.4	
France	3:15	Services PMI – preliminary	Sep.	49.6		49.8	
Germany	3:30	Composite PMI – preliminary	Sep.	50.7		50.5	
Germany	3:30	Manufacturing PMI – preliminary	Sep.	50.0		49.8	
Germany	3:30	Services PMI – preliminary	Sep.	49.5		49.3	
Sweden	3:30	Bank of Sweden meeting	Sep.	2.00%		2.00%	
Switzerland	3:30	Swiss National Bank meeting	Sep.	0.00%		0.00%	
Eurozone	4:00	Composite PMI – preliminary	Sep.	51.1		51.0	
Eurozone	4:00	Manufacturing PMI – preliminary	Sep.	50.8		50.7	
Eurozone	4:00	Services PMI – preliminary	Sep.	50.5		50.5	
United Kingdom	4:30	Composite PMI – preliminary	Sep.	53.0		53.5	
United Kingdom	4:30	Manufacturing PMI – preliminary	Sep.	47.1		47.0	
United Kingdom	4:30	Services PMI – preliminary	Sep.	53.5		54.2	
Japan	20:30	Composite PMI – preliminary	Sep.	n/a		52.0	
Japan	20:30	Manufacturing PMI – preliminary	Sep.	n/a		49.7	
Japan	20:30	Services PMI – preliminary	Sep.	n/a		53.1	
WEDNESDAY 24							
Eurozone	4:00	M3 money supply	Aug.	3.3%		3.4%	
Germany	4:00	ifo Business Climate Index	Sep.	89.4		89.0	
Germany	4:00	ifo Current Assessment Index	Sep.	86.6		86.4	
Germany	4:00	ifo Expectations Index	Sep.	92.0		91.6	
THURSDAY 25							
Germany	2:00	Consumer confidence	Oct.	-23.2		-23.6	
France	2:45	Consumer confidence	Sep.	87		87	
Mexico	15:00	Bank of Mexico meeting	Sep.	7.50%		7.75%	
Japan	19:30	Tokyo Consumer Price Index	Sep.		2.8%		2.6%
FRIDAY 26							
Italy	4:00	Consumer confidence	Sep.	96.5		96.2	
Italy	4:00	Economic confidence	Sep.	n/a		93.6	

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. 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).