

WEEKLY COMMENTARY

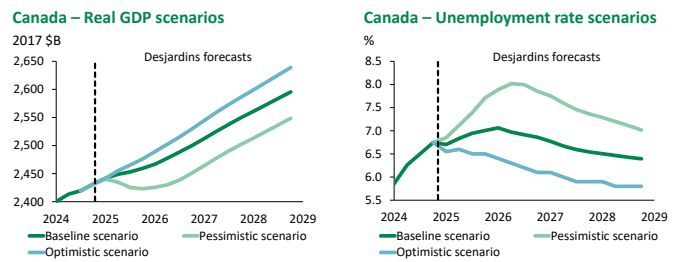
When US Tariff Threats Change, We Change Our Forecast

By Randall Bartlett, Deputy Chief Economist

Last week we published [our revised baseline forecast](#) for the Canadian economy. Given the erratic nature of economic policy south of the border, we were forced to move up the tariff impact relative to the outlook we released just prior to Christmas. Now our baseline real GDP and unemployment rate forecasts look more like our pessimistic scenario, albeit much less severe (graph 1). That's because our baseline scenario assumes 10% tariffs will be applied across the board on non-energy imports from Canada starting April 1, compared to 25% tariffs in the pessimistic scenario.

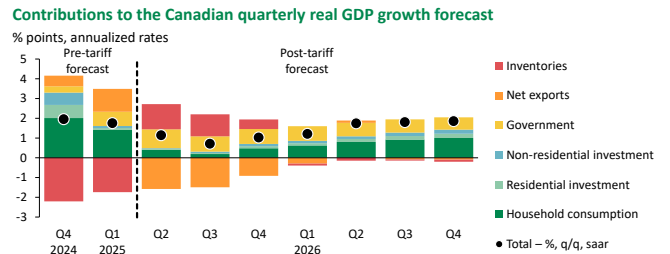
Looking at the details of our revised real GDP outlook, there isn't much good news to speak of (graph 2). Business investment is likely to be soft, as the uncertainty posed by on-again, off-again tariff threats will probably persuade business leaders to remain on the sidelines. There should be less front-loading of export demand as well given earlier tariff threats than previously assumed. All bets are off if substantial new tariffs do come into effect and North American supply chains start to be disentangled. That would add to already moribund business investment and productivity in Canada in recent years, particularly relative to the US. And while per capita consumption growth is projected to move higher as fewer permanent and non-permanent resident admissions weigh on population growth, it should still be weak. Mortgage renewals at higher interest rates, still-elevated prices and a rising unemployment rate should add to the drag on consumer confidence and overall consumption growth. Indeed, the only substantive driver of domestic demand we foresee in the coming year is from government consumption and investment, as [policymakers in Canada look to support households, businesses and industries hit by tariffs](#). But on balance, domestic demand growth shouldn't be enough to offset the drag from trade without a helping hand from inventories.

Graph 1
Risks to Our Baseline Are Balanced, but the Downside Could Be Severe



Statistics Canada and Desjardins Economic Studies

Graph 2
Tariffs Should Weigh on Economic Growth Even Before They Take Effect



Desjardins Economic Studies

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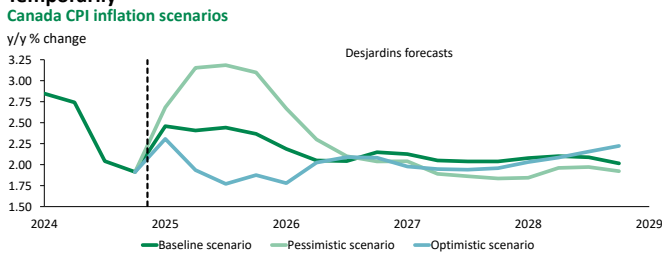
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Despite economic activity and employment likely to grow more slowly than previously anticipated, this drag on inflation won't be enough to offset the impact of US import tariffs and Canadian retaliatory tariffs on prices. We now expect inflation could surpass 2.5% y/y in the coming months in our baseline scenario, probably eclipsing 3% in the event of an escalating trade war (graph 3). And now that we've had a glimpse of what goods could be subject to retaliatory tariffs, fresh and processed food imports from the States could be on the table. So too could consumer goods and intermediate inputs. That should push core goods inflation higher, alongside the prices of imported food and fuel from the US. [Even without tariffs, inflation in Canada would currently be higher if not for the GST/HST holiday](#), which distorted the consumer price numbers starting in December but will be entirely in the rearview mirror by March.

Graph 3
A Scenario with 25% Tariffs Would Cause Inflation to Accelerate Temporarily



Statistics Canada and Desjardins Economic Studies

Now, it's not all bad news for the Canadian economic outlook. Reducing internal trade barriers could help to boost productivity and real GDP per capita growth in Canada. But we'll reserve some skepticism as to whether there will be any material change in this regard. While the recent rhetoric on increasing interprovincial trade leaves room for optimism, we've been down this road before. As for any policy whose benefits are concentrated but whose costs are spread across a broad group of Canadians, change will be hard. We're also skeptical when it comes to encouraging international trade diversification. Immigrant-owned businesses typically lead trade diversification, and recent immigration policy changes will work against that. And if President Trump chooses not to follow through on his policy threats, it's tough to see Canadian businesses changing their behaviour. For these reasons, combined with likely weaker business investment overall, we haven't yet baked higher productivity growth from these factors into our medium-term forecast. Hence, when US tariff threats change, we change our forecast.

What to Watch For

TUESDAY February 25 - 9:00

December	y/y
Consensus	n/a
Desjardins	4.40%
November	4.33%

TUESDAY February 25 - 10:00

February	
Consensus	103.2
Desjardins	103.9
January	104.1

WEDNESDAY February 26 - 10:00

January	ann. rate
Consensus	678,000
Desjardins	685,000
December	698,000

THURSDAY February 27 - 8:30

January	m/m
Consensus	2.2%
Desjardins	4.3%
December	-2.2%

UNITED STATES

S&P/Case-Shiller home price index (December) – Month-on-month growth in existing home prices continued to accelerate in November. The S&P/Case-Shiller 20-city composite index posted monthly gains of 0.4% in November after rising 0.3% in October and 0.2% in September. Only two cities saw their prices fall on the month—Tampa in Florida (-0.2%) and Seattle in Washington (-0.1%)—and both declines were rather modest. We expect that the composite index advanced 0.3% in December. This would be in line with the surge in existing home sales observed in late 2024 and would bring the year-over-year change in the S&P/Case-Shiller index to 4.4%. For the year as a whole, growth would stand at 5.9%, which is a clear improvement over the 1.8% recorded for 2023.

Conference Board Consumer Confidence Index (February) – Consumer confidence spiked in November after Donald Trump was elected, but that increase seems to have been short-lived. US consumer confidence is now faltering, and the Conference Board Consumer Confidence Index dropped to 104.1 in January, its lowest level since September. Signals are rather mixed for February. The University of Michigan and TIPP indexes both continued to fall over the month, but the Conference Board index doesn't always move in tandem with the other indexes. It's often one step ahead. What's more, gasoline prices have increased in the last few weeks—rarely good news for household sentiment—and other inflationary pressures have ramped back up, fuelled by the ongoing threat of tariffs. At the same time, the major stock indexes have been up for a month and mortgage interest rates have begun falling. The job market is also doing pretty well. All in all, we don't expect the Conference Board Consumer Confidence Index to have moved much in February, though political considerations could still shake things up.

New home sales (January) – New single-family home sales ended 2024 on a high note, with monthly gains of 9.6% in November and 3.7% in December. All the same, December's seasonally adjusted annual rate was 698,000 units, below the peaks observed earlier in 2024. We also expect sales to keep edging down over the first few months of 2025. The number of building permits granted in January was unchanged from December. We can also see that builder confidence is starting to wane and that online searches for new homes are trending slightly downwards. We expect new single-family home sales to have slid to an annualized 685,000 units.

Durable goods orders (January) – In December, durable goods orders experienced their biggest monthly drop since June 2024. The 2.2% decrease was caused by contraction in the transportation sector, including a 45.7% plunge in nondefense aircraft orders. However, this sector should have firmed up considerably in January. Preliminary data from Boeing point to a surge in seasonally adjusted orders. We're forecasting an increase of more than 100%. Excluding transportation, the ISM Manufacturing index held up in January. This is good news, but some industrial production components are showing weakness. We're therefore keeping our hopes in check and expect a monthly gain of 0.3% for orders excluding transportation. We expect total new durable goods orders to have risen 4.3%.

FRIDAY February 28 - 8:30

January	m/m
Consensus	0.2%
Desjardins	0.3%
December	0.7%

Consumer spending (January) – Real consumption had another solid month in December, advancing 0.4%. This growth came primarily from durable goods excluding automobiles (+1.5%). However, we’re not expecting a repeat performance in early 2025. New vehicle and retail sales both point to a marked drop in real personal consumption expenditures on goods, as do sticky consumer prices. Fortunately, this will have been offset by better growth in spending on services. The colder weather likely boosted demand for energy, and retail sales figures suggest that food services are picking up. All in all, real consumption probably stagnated, but we’re forecasting a 0.3% gain in nominal consumption thanks to a similar increase in the PCE deflator. PCE inflation likely dropped from 2.6% to 2.5% year-over-year, while the core deflator, which strips out food and energy, should have slowed from 2.8% to 2.6%.

CANADA

THURSDAY February 27 - 8:30

Q4 2024	\$B
Consensus	-3.1
Desjardins	-6.9
Q3 2024	-3.2

Current account balance (Q4) – We anticipate that the current account deficit widened in Q4 to \$6.9B from \$3.2B in Q3. The merchandise trade balance remained in deficit in Q4 while the services trade deficit widened. The Canadian dollar continued to depreciate, adding further weakness. Lower oil prices led to some drag and, despite the new TMX pipeline adding extra export capacity, we expect ongoing uncertainty and external factors to drive down [global oil prices](#). However, Canadian equities put in a solid performance on strong investor confidence, providing some tailwind.

FRIDAY February 28 - 8:30

December	m/m
Consensus	0.3%
Desjardins	0.2%
November	-0.2%

Real GDP by industry (December) – We anticipate monthly real GDP by industry grew by 0.2% m/m in December, in line with Statistics Canada’s flash estimate. Retail sales likely drove up growth. We also expect that utilities recovered from the previous month, as demand for heating increased due to colder weather. The [December Labour Force Survey](#) showed surging job gains, providing some further tailwind. In contrast, manufacturing sales and wholesale trade likely put downward pressure on growth. Looking ahead to the January 2025 real GDP release, we expect Statistics Canada’s flash estimate will show growth of 0.3% m/m.

FRIDAY February 28 - 8:30

Q4 2024	ann. rate
Consensus	1.9%
Desjardins	1.8%
Q3 2024	1.0%

Real GDP (Q4) – Turning to quarterly real GDP by expenditure, we anticipate that growth in the fourth quarter likely came in at 1.8% annualized, in line with the Bank of Canada’s forecast in the January 2025 Monetary Policy Report. Household consumption was probably positive again despite high interest rates, underpinned by strength across all categories. We anticipate modest growth in government expenditures. In addition, we expect robust growth in business fixed investment, supported by strength in residential and non-residential structures. A small gain from net exports is also likely, partly boosted by crude oil exports from the opening of the TMX pipeline. (See [our research](#) on the TMX.) We expect inventories to be a drag on growth, as crude oil producers and manufacturers continue drawing down their inventories.

OVERSEAS


FRIDAY February 28 - 20:30


February	
Consensus	n/a
January	50.1

China: Composite PMI (February) – China’s composite PMI fell 2.1 points in January. The decline was widespread, with the manufacturing (-1.0), services (-1.7) and construction (-3.9) indexes all down. This is a reminder that China’s economy is in a precarious position: the real estate market is still in a slump, consumer spending is soft and there’s a risk of a new trade war with the United States. Lunar New Year celebrations have delayed the release of several indicators, including retail sales and industrial output, so it’s hard to get an accurate picture of the Chinese economy at the start of the year. February’s data will help us determine if what we’re seeing is temporary weakness or a more persistent slowdown in economic activity.

Economic Indicators

Week of February 24 to 28, 2025

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 24	---	---				
TUESDAY 25	4:20	Speech by Federal Reserve Bank of Dallas President L. Logan				
	9:00	S&P/Case-Shiller home price index (y/y)	Dec.	n/a	4.40%	4.33%
	10:00	Consumer confidence	Feb.	103.2	103.9	104.1
	11:45	Speech by Federal Reserve Vice Chair M. Barr				
	13:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
WEDNESDAY 26	10:00	New home sales (ann. rate)	Jan.	678,000	685,000	698,000
	12:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
THURSDAY 27	8:30	Initial unemployment claims	Feb. 17–21	n/a	220,000	219,000
	8:30	Real GDP (ann. rate)	Q4s	2.3%	2.3%	2.3%
	8:30	Durable goods orders (m/m)	Jan.	2.2%	4.3%	-2.2%
	10:00	Pending home sales (m/m)	Jan.	-1.2%	n/a	-5.5%
	13:15	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
	15:15	Speech by Federal Reserve Bank of Philadelphia President P. Harker				
	---	Speech by Federal Reserve Bank of Richmond President T. Barkin				
FRIDAY 28	8:30	Personal income (m/m)	Jan.	0.3%	0.3%	0.4%
	8:30	Personal consumption expenditures (m/m)	Jan.	0.2%	0.3%	0.7%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Jan.	0.3%	0.3%	0.3%
		Excluding food and energy (m/m)	Jan.	0.3%	0.3%	0.2%
		Total (y/y)	Jan.	2.5%	2.5%	2.6%
		Excluding food and energy (y/y)	Jan.	2.6%	2.6%	2.8%
	8:30	Goods trade balance – preliminary (US\$B)	Jan.	-111.5	-120.8	-122.1
	8:30	Retail inventories (m/m)	Jan.	0.2%	n/a	-0.3%
	8:30	Wholesale inventories – preliminary (m/m)	Jan.	0.1%	n/a	-0.5%
	9:45	Chicago PMI	Feb.	n/a	42.0	39.5
	22:15	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
CANADA						
MONDAY 24	---	---				
TUESDAY 25	---	---				
WEDNESDAY 26	---	Capital and Repair Expenditures Survey (2025)				
THURSDAY 27	8:30	Current account balance (\$B)	Q4	-3.1	-6.9	-3.2
	---	Ontario Election				
FRIDAY 28	8:30	Real GDP by industry (m/m)	Dec.	0.3%	0.2%	-0.2%
	8:30	Real GDP (ann. rate)	Q4	1.9%	1.8%	1.0%

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 February 24 to 28, 2025

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 24								
South Korea	---	Bank of Korea meeting	Feb.	2.75%		3.00%		
Germany	4:00	ifo Business Climate Index	Feb.	85.8		85.1		
Germany	4:00	ifo Current Assessment Index	Feb.	86.3		86.1		
Germany	4:00	ifo Expectations Index	Feb.	85.0		84.2		
Eurozone	5:00	Consumer price index – final	Jan.	-0.3%	2.5%	-0.3%	2.4%	
TUESDAY 25								
Germany	2:00	Real GDP – final	Q4	-0.2%	-0.2%	-0.2%	-0.2%	
WEDNESDAY 26								
Japan	0:00	Leading index – final	Dec.	n/a		108.9		
Japan	0:00	Coincident index – final	Dec.	n/a		116.8		
Germany	2:00	Consumer confidence	March	-21.5		-22.4		
France	2:45	Consumer confidence	Feb.	93		92		
THURSDAY 27								
Eurozone	4:00	M3 money supply	Jan.		3.8%		3.5%	
Italy	4:00	Consumer confidence	Feb.	98.5		98.2		
Italy	4:00	Economic confidence	Feb.	n/a		95.7		
Eurozone	5:00	Consumer confidence – final	Feb.	n/a		-13.6		
Eurozone	5:00	Industrial confidence	Feb.	-12.0		-12.9		
Eurozone	5:00	Services confidence	Feb.	6.8		6.6		
Eurozone	5:00	Economic confidence	Feb.	96.0		95.2		
Japan	18:30	Tokyo Consumer Price Index	Feb.		3.2%		3.4%	
Japan	18:50	Industrial production – preliminary	Jan.	-1.0%	3.0%	-0.2%	-1.6%	
Japan	18:50	Retail sales	Jan.	0.6%	3.9%	-0.8%	3.5%	
FRIDAY 28								
Japan	0:00	Housing starts	Jan.		-2.7%		-2.5%	
United Kingdom	2:00	Nationwide house prices	Feb.	0.2%	3.4%	0.1%	4.1%	
Germany	2:00	Retail sales	Jan.	0.0%	1.7%	-1.1%	1.8%	
France	2:45	Personal consumption expenditures	Jan.	-0.8%	n/a	0.7%	0.9%	
France	2:45	Consumer price index – preliminary	Feb.	0.5%	1.2%	0.2%	1.7%	
France	2:45	Real GDP – final	Q4	-0.1%	0.7%	-0.1%	0.7%	
Italy	5:00	Consumer price index – preliminary	Feb.	0.2%	1.6%	0.6%	1.5%	
Germany	8:00	Consumer price index – preliminary	Feb.	0.4%	2.3%	-0.2%	2.3%	
China	20:30	Composite PMI	Feb.	n/a		50.1		
China	20:30	Manufacturing PMI	Feb.	50.0		49.1		
China	20:30	Non-manufacturing PMI	Feb.	50.3		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).