WEEKLY COMMENTARY

Cautious Optimism on Canadian Consumers

By Royce Mendes, Managing Director and Head of Macro Strategy

Aside from tariffs, consumer expenditure growth—or the lack thereof—will drive the fortunes of the Canadian economy this year. Household spending accounts for more than half of the nation's economic activity. While we think consumption could be a source of strength again in 2025, the outlook is extremely fragile.

Strength in 2024

Last year, as a significant number of mortgages renewed at higher rates and the unemployment rate rose, it was an open question whether households would need to pull back on discretionary spending. While many households did make adjustments to their finances, it wasn't enough to derail the momentum of consumer spending. In part, that was because population growth continued to add new consumers to the Canadian economy. But the resiliency of consumption was also due to some surprising dynamics in the labour market.

Typically, an elevated national unemployment rate portends slower spending growth and a rise in mortgage arrears. Not so last year. That's because the increase in joblessness primarily reflected the difficulties of newcomers and recent graduates in finding work. Given that these demographics don't tend to have much debt or spend a lot of money, the rise in unemployment didn't impact the economy as much as it has in the past. Job separation, a proxy for layoffs, remained very low last year. Importantly, that meant that households that were approved for and had taken on a lot of debt maintained stable incomes.

Rising wages also drove healthy disposable income growth for those that were employed. According to our analysis, wage growth has been particularly strong for workers in lower-paid jobs. Given that those employees tend to recycle income gains back into spending relatively quickly, such wage growth likely contributed to the resiliency of spending in 2024.

New Year, New Challenges

This year, however, will see new challenges as some economic tailwinds turn into headwinds. The number of temporary residents in the country is plunging. While the federal government might not fully implement its very aggressive plan to shrink the population, it's likely that the pace of growth will slow to a crawl this year from the previous sprint.

The only silver lining is that the dwindling pool of temporary residents might not inflict as much pain on the economy as some businesses fear. The declining population of temporary residents in Canada has thus far been driven by a significant reduction in the number of international students in the country. As mentioned above, this demographic hasn't been a significant source of spending and so will have less of an impact on the overall pace of consumption growth.

As a result, we're cautiously optimistic that household spending growth cools off only slightly in 2025. However, much depends on Canadians spending more per capita.

Keys to Success

With inflation back down to the central bank's target, incomes are once again rising faster than consumer prices. That's a necessary ingredient for an acceleration in per person spending growth.

The decline in inflation has, of course, also opened the door to lower interest rates. While lower rates probably helped buoy consumer spending to some extent last year, further declines

CONTENTS

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

will be key in keeping growth in household expenditures on track. With so many mortgages facing the prospect of material payment shocks when they come up for renewal this year, the Bank of Canada will need to keep cutting rates to keep a lid on arrears. Measures of household wealth and debt suggest that there is some scope for consumers to draw from savings or borrow more to prop up spending, but it looks like some households are already showing signs of being financially stressed.

Despite the good news on the ability of households to service their mortgage debt last year, many fell behind on other debt. At times, arrears on such products have been a harbinger of trouble for mortgages. According to survey responses, households are banking on interest rates coming down further this year to avoid defaulting on debt.

As a result, the outlook for another year of healthy consumer spending growth is on shaky ground. Even before accounting for the potential impacts of a trade war, household spending is entering the year in a precarious position. No longer can retailers rely on surging population growth and households with cheap mortgages to drive revenues higher. But the Bank of Canada holds the key to avoiding a major slowdown in the economy. Cutting rates isn't a silver bullet, but it's probably the best hope for the economy this year.

What to Watch For

UNITED STATES

WEDNESDAY February 19 - 8:30

January	ann. rate
Consensus	1,394,000
Desjardins	1,440,000
December	**1,499,000**

Housing starts (January) – In December, housing starts posted their best monthly growth since March 2021. The 15.8% monthly gain drove new builds up to their highest level since February 2024. However, housing starts likely decreased in January. Hours worked fell slightly in the construction sector, and the cold snap that hit most of the United States during the month may have held back activity. The California wildfires also likely affected construction in the area (although we should see a rebound eventually). Housing starts outpaced new building permit approvals in December, a scenario that's often followed by a drop in new builds. We expect housing starts to have fallen to 1,440,000.

THURSDAY February 20 - 10:00

January	m/m
Consensus	0.0%
Desjardins	-0.2%
December	**-0.1%**

Leading indicator (January) – The leading indicator rose for the second time in 2024 in November but fell back into the red in December with a 0.1% decline. We expect the indicator to have weakened further in January. The main detractors will likely be fewer hours worked and lower consumer confidence. The stock market also probably made its first negative contribution since last August. The spread between the 10-year Treasury yield and the federal funds rate likely made a positive contribution to the leading indicator's month-over-month change for the first time since November 2022. All in all, we expect the leading indicator to have slipped by 0.2%.

FRIDAY February 21 - 10:00

January	ann. rate
Consensus	4,150,000
Desjardins	4,130,000
December	**4,240,000**

Existing home sales (January) – Existing home sales were up in December. This is the first time we've seen three straight months of improvement since the fall of 2021. October to December's 10.7% cumulative gain drove sales up to their highest level since February 2024. However, based on the 5.5% dip in pending sales, existing home sales likely fell in January. Preliminary regional data point to a flatter print. Mortgage applications for home purchases also rose in January. The decline was therefore probably quite modest, and annualized sales likely remained well above 4 million units.

CANADA

MONDAY February 17 - 8:15

January	ann. rate
Consensus	250,000
Desjardins	237,000
December	**231,500**

Housing starts (January) – January housing starts likely rose to about 237k (saar) after a somewhat weak December print. While fundamentals would suggest housing starts should remain soft through 2025, our recent report detailing the drivers of resilience in housing starts in the face of adverse homebuilding conditions suggests starts could remain solid in the coming months.

TUESDAY February 18 - 8:30

January	m/m
Consensus	0.1%
Desjardins	0.3%
December	**-0.4%**

Consumer price index (January) – Look for headline Canadian consumer price growth to have risen by 0.3% not seasonally adjusted in January, pushing the annual rate to 2.1% from 1.8% at the end of last year. The monthly advance was likely driven by energy prices, which probably offset downward pressure from the GST holiday. Without the temporary tax cut, headline inflation would likely come in at 2.6%. We're expecting a 0.2% seasonally adjusted increase in core prices, resulting in an annual rate of 2.3%. It is worth noting that both the year-over-year headline and core readings will be skewed higher by base effects caused by the flat monthly reading last January falling out of the calculation. While the Bank of Canada's preferred core measures will also be impacted by base effects, those metrics won't be affected by the sales tax holiday. We expect the monthly growth rate in the central bank's core measures will have cooled off slightly.

TUESDAY February 18 - 9:00

January	m/m
Consensus	n/a
Desjardins	-3.5%
December	**-5.8%**

Existing home sales (January) – Overall, we expect that seasonally adjusted home sales declined by 3.5% m/m to start 2025. This despite another Bank of Canada rate cut in the month as well as the first full month since new mortgage rules came into effect. Early sales figures from local real estate boards showed a mixed bag, with Montreal leading the pack with 36% year-over-year growth, while Calgary experienced a significant decline in sales (-30% y/y). Despite a year-over-year decline, the Toronto Regional Real Estate Board announced seasonally adjusted sales growth of about 10% m/m, a sharp U-turn from the -19% figure in December. But this likely won't be enough to offset weakness in many other regions. Overall, the slight year-over-year increase in national sales expected for January shouldn't outpace December's print on a seasonally adjusted basis.

FRIDAY February 21 - 8:30

December	m/m
Consensus	1.6%
Desjardins	1.7%
November	**0.0%**

Retail sales (December) – Retail sales probably increased 1.7% m/m in December, one tick above Statistics Canada's flash estimate of 1.6%. We expect sales at motor vehicle dealerships to have continued to increase, as seasonally adjusted auto prices advanced month over month and volumes likely also rose. An incentive to purchase electric vehicles (EVs) before the end of EV rebates probably contributed to that strength. As such, the monthly retail sales reading won't reflect underlying momentum in spending. Separately, we expect nominal sales at gasoline stations to have surged on the back of higher gas prices on a seasonally adjusted basis. Core sales—which exclude autos and gasoline—probably advanced too. Consumers who had previously postponed spending in order to take advantage of the GST-HST holiday that began in mid-December likely made up for it in the second half of the month. For January's flash estimate, we expect a more moderate increase in retail sales of around 0.0% to 0.5%, with advances in core sales and gasoline probably offsetting the softness in auto purchases.

OVERSEAS

SUNDAY February 16 - 18:50

Q4 2024	q/q
Consensus	0.3%
Q3 2024	**0.3%**

Japan: Real GDP (fourth quarter) – Japan's economy was up and down in the last few months of 2024. Industrial production moved higher, and although foreign trade slowed in the fall, it hit imports harder than exports. However, retail sales and housing starts declined. All signs point to a modest growth print, similar to the non-annualized 0.3% gain in the third quarter.

WEDNESDAY February 19 - 2:00

January	y/y
Consensus	2.8%
December	**2.5%**

United Kingdom: Consumer price index (January) – UK inflation has been sticky for several months now. After moving closer to the Bank of England's (BoE) target throughout 2024, headline inflation has remained stubbornly close to 2.5% since the fall. Core inflation is yet to drop below 3%. Although UK economic growth has slowed considerably, the BoE recently reported that domestic inflationary pressures remain somewhat elevated, with some indicators easing more slowly than expected. January's data should provide further insight into this uncertain trend.

FRIDAY February 21 - 4:00

February	
Consensus	50.5
January	**50.2**

Eurozone: Purchasing Managers' Index (February, preliminary) – After dropping below 50 for two months, the Eurozone Composite PMI increased to 50.2 in January. This is its highest level since August, and the lacklustre prints since the previous peak were reflected in fourth-quarter real GDP weakness. Even though the gap narrowed slightly last month, the Manufacturing (46.6) and Services (51.3) PMIs remain far apart. America's protectionist policies may widen the gap between the two sectors. However, we'll have to see if a short-term run-up in trade in Q1 2025 could help the eurozone economy before the trade war hits.

Economic Indicators

Week of February 17 to 21, 2025

Day	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 17	---	Markets closed (Presidents' Day)				
	9:30	Speech by Federal Reserve Bank of Philadelphia President P. Harker				
	10:20	Speech by Federal Reserve Governor M. Bowman				
	18:00	Speech by Federal Reserve Governor C. Waller				
TUESDAY 18	8:30	Empire State Manufacturing Index	Feb.	-1.0	-5.0	-12.6
	10:00	NAHB Housing Market Index	Feb.	47	n/a	47
	10:20	Speech by Federal Reserve Bank of San Francisco President M. Daly				
	13:00	Speech by Federal Reserve Vice Chair M. Barr				
WEDNESDAY 19	8:30	Housing starts (ann. rate)	Jan.	1,394,000	1,440,000	1,499,000
	8:30	Building permits (ann. rate)	Jan.	1,448,000	1,460,000	1,482,000
	14:00	Release of the Federal Reserve's meeting minutes				
	17:00	Speech by Federal Reserve Vice Chair P. Jefferson				
THURSDAY 20	8:30	Initial unemployment claims	Feb. 10–14	n/a	217,000	213,000
	8:30	Philadelphia Fed index	Feb.	25.4	10.0	44.3
	9:35	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	10:00	Leading indicator (m/m)	Jan.	0.0%	-0.2%	-0.1%
	12:05	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
	17:00	Speech by Federal Reserve Governor A. Kugler				
FRIDAY 21	10:00	University of Michigan consumer sentiment index – final	Feb.	n/a	67.8	67.8
	10:00	Existing home sales (ann. rate)	Jan.	4,150,000	4,130,000	4,240,000
	11:30	Speech by Federal Reserve Vice Chair P. Jefferson				
CANADA						
MONDAY 17	---	Markets closed (Family Day)				
	8:15	Housing starts (ann. rate)	Jan.	250,000	237,000	231,500
TUESDAY 18	8:30	Consumer price index				
		Total (m/m)	Jan.	0.1%	0.3%	-0.4%
		Total (y/y)	Jan.	1.9%	2.1%	1.8%
	9:00	Existing home sales (m/m)	Jan.	n/a	-3.5%	-5.8%
WEDNESDAY 19	---	---				
THURSDAY 20	8:30	Industrial product price index (m/m)	Jan.	n/a	0.6%	0.2%
	8:30	Raw materials price index (m/m)	Jan.	n/a	0.2%	1.3%
FRIDAY 21	8:30	Retail sales				
		Total (m/m)	Dec.	1.6%	1.7%	0.0%
		Excluding automobiles (m/m)	Dec.	n/a	1.1%	-0.7%
	12:30	Speech by Bank of Canada Governor T. Macklem				

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 17 to 21, 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 16							
Japan	18:50	Real GDP – preliminary	Q4	0.3%		0.3%	
Japan	23:30	Tertiary Industry Activity Index	Dec.	0.1%		-0.3%	
MONDAY 17							
Italy	4:00	Trade balance (€M)	Dec.	n/a		4,218	
Eurozone	5:00	Trade balance (€B)	Dec.	14.0		12.9	
TUESDAY 18							
United Kingdom	2:00	ILO unemployment rate	Dec.	4.5%		4.4%	
France	2:45	Consumer price index – final	Jan.	-0.1%	1.4%	-0.1%	1.4%
Germany	5:00	ZEW Current Conditions Survey	Feb.	-89.4		-90.4	
Germany	5:00	ZEW Expectations Survey	Feb.	20.0		10.3	
Japan	18:50	Trade balance (¥B)	Jan.	-243.6		-33.0	
WEDNESDAY 19							
United Kingdom	2:00	Consumer price index	Jan.	-0.3%	2.8%	0.3%	2.5%
United Kingdom	2:00	Producer price index	Jan.	0.2%	0.1%	0.1%	0.1%
Eurozone	4:00	Current account (€B)	Dec.	n/a		27.0	
THURSDAY 20							
Germany	2:00	Producer price index	Jan.	0.6%	1.2%	-0.1%	0.8%
Eurozone	5:00	Construction	Dec.	n/a	n/a	1.2%	1.4%
Eurozone	10:00	Consumer confidence – preliminary	Feb.	-14.0		-14.2	
Japan	18:30	Consumer price index	Jan.		4.0%		3.6%
United Kingdom	19:01	Consumer confidence	Feb.	-22		-22	
Japan	19:30	Composite PMI – preliminary	Feb.	n/a		51.1	
Japan	19:30	Manufacturing PMI – preliminary	Feb.	n/a		48.7	
Japan	19:30	Services PMI – preliminary	Feb.	n/a		53.0	
FRIDAY 21							
United Kingdom	2:00	Retail sales	Jan.	0.6%	0.6%	-0.3%	3.6%
France	2:45	Business confidence	Feb.	96		95	
France	3:15	Composite PMI – preliminary	Feb.	48.3		47.6	
France	3:15	Manufacturing PMI – preliminary	Feb.	45.3		45.0	
France	3:15	Services PMI – preliminary	Feb.	49.0		48.2	
Germany	3:30	Composite PMI – preliminary	Feb.	51.0		50.5	
Germany	3:30	Manufacturing PMI – preliminary	Feb.	45.5		45.0	
Germany	3:30	Services PMI – preliminary	Feb.	52.5		52.5	
Eurozone	4:00	Composite PMI – preliminary	Feb.	50.5		50.2	
Eurozone	4:00	Manufacturing PMI – preliminary	Feb.	47.0		46.6	
Eurozone	4:00	Services PMI – preliminary	Feb.	51.5		51.3	
United Kingdom	4:30	Composite PMI – preliminary	Feb.	50.6		50.6	
United Kingdom	4:30	Manufacturing PMI – preliminary	Feb.	48.5		48.3	
United Kingdom	4:30	Services PMI – preliminary	Feb.	51.0		50.8	

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).