

WEEKLY COMMENTARY

What's the Opposite of Sticky?

By Royce Mendes, Managing Director and Head of Macro Strategy

To make the case that core inflation is sticky in Canada, there would need to be evidence that underlying price pressures are persistently strong. Other than the year-over-year rates of core inflation, which are being heavily influenced by CPI readings from some time ago, there's little to suggest that there's anything amiss with the trend in price growth. The average of the three-month annualized rates of core trimmed mean and median inflation fell all the way down to 2.4% in July from 3.4% in June, the lowest reading since September 2024.

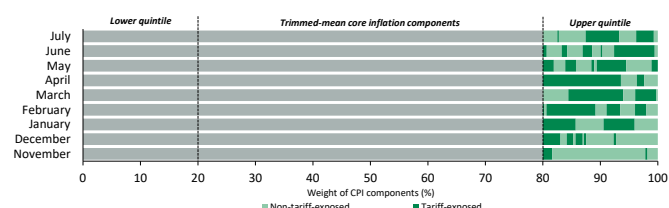
What some have called sticky inflation in the past few months is nothing more than an illusion. As we've stated time and time again, the April core inflation print was skewed higher by a myriad of one-off factors, making the data for that month mostly noise. There's no clearer way to see that than in the monthly distributions of price changes across categories. The April distribution was nowhere close to normal, which has meant that the three-month annualized readings haven't been "clean" since March.

In part, the April spike was seemingly driven by retaliatory tariff-related price increases. Our research has pointed out that January, February, March and April saw unusually large increases in tariff-exposed sectors (graph). But those pressures have been progressively subsiding since May. In fact, the July data show the smallest share of tariff-exposed categories in the upper quartile of the CPI distribution since December 2024. It's plain to see that outside of the year-over-year measures of price growth, most fears about inflation should be moving into the rearview mirror.

Graph

Distribution of Tariff-Exposed Categories in Trimmed-Mean Core Inflation

Upper quintile no longer dominated by tariff-exposed categories



Statistics Canada and Desjardins Economics Studies

In contrast, the main contributors to headline inflation have been rent and mortgage interest costs. Given that asking rents are falling across the country, it seems like only a matter of time until rent inflation, as measured in CPI, shifts into a lower gear. We estimate that there is an eight-month lag between changes in asking rents and correspondent moves in CPI rent inflation. Our models also suggest that the mortgage interest cost contribution to inflation will continue to shrink over the remainder of this year.

As a result, the only real argument in favour of holding back further monetary stimulus rests on the debate regarding whether past rate cuts are still working their way through the economy. According to the Bank of Canada's own models, the vast majority of impacts from a change in monetary policy occur within the first six months of a move, all else equal. Incidentally, by the time of the September rate decision, it will have been six months since the last rate cut.

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Keep in mind, though, that all else is not equal. So far this year, term premia on 10-year Government of Canada bonds have increased roughly 60 basis points, dragged higher by the rise in global term premia. According to the central bank's simulations, that could be enough to offset a chunk of the stimulus provided by both the January and March rate cuts, even after accounting for tightening credit spreads and rising equity prices.

We continue to believe that the market is underpriced for the monetary easing the Bank of Canada will need to deliver to restore the economy to full health. This week's inflation data reinforced our view that trade frictions are hurting the economy much more than they are stoking inflation. With the market already braced for a series of Fed rate cuts, we still see Canada-US spreads widening before they begin to narrow again.

What to Watch For

MONDAY August 25 - 10:00

July	ann. rate
Consensus	635,000
Desjardins	635,000
June	627,000

TUESDAY August 26 - 8:30

July	m/m
Consensus	-4.0%
Desjardins	-3.8%
June	-9.4%

TUESDAY August 26 - 9:00

June	y/y
Consensus	n/a
Desjardins	2.20%
May	2.79%

TUESDAY August 26 - 10:00

August	
Consensus	96.2
Desjardins	97.7
July	97.2

FRIDAY August 29 - 8:30

July	m/m
Consensus	0.5%
Desjardins	0.4%
June	0.3%

THURSDAY August 28 - 8:30

Q2 2025	\$B
Consensus	-18.73
Desjardins	-19.3
Q1 2025	-2.1

UNITED STATES

New home sales (July) – New single-family home sales ticked up slightly by 0.6% in June, which seems relatively weak after the 11.6% plunge in May. The average for May and June is still 7.7% below the average for the previous six months. Our expectation is that sales remained more or less unchanged in July. That's the signal we're getting from the number of single-family building permits, the builder confidence index and the data on online searches for homes.

Durable goods orders (July) – The month-on-month change in durable goods orders has been heavily influenced by aviation orders in recent months. This was probably still the case in July. Although aviation orders climbed in May, in June they began a slide that appears to have continued last month. Consequently, transportation likely made another significant negative contribution. Excluding transportation, durable goods orders probably rose by about 0.2%, matching both the June increase and the 12-month average. All sectors combined, durable goods orders likely fell by nearly 4% in July.

S&P/Case-Shiller home price index (June) – For the first time since winter 2023, existing home prices have decreased for three straight months. The overall slump remains relatively modest at -0.9%, but certain cities such as San Francisco (-3.5%), Seattle (-2.5%) and Phoenix (-2.3%) are on a steeper downtrend. Although we wouldn't be surprised if prices kept falling month on month, we believe the S&P/Case-Shiller index flatlined in June. That would nevertheless bring year-on-year growth down to 2.2%.

Consumer confidence (August) – The Conference Board index perked up in July. Although we expect another increase in August, it will probably be weaker than the 2-point jump in July. Despite continued uncertainty and somewhat disappointing job numbers, confidence should get a modest boost from the ongoing stock market rally, slightly softer gasoline prices and lower mortgage rates.

Personal consumption expenditures (July) – After growing by a rather tepid 0.1% in June, real consumer spending likely advanced 0.2% in July. While motor vehicles and parts probably provided a strong tailwind, last month's retail sales suggest other types of goods also did well. That said, services are expected to post relatively weak growth, as spending on energy and food services likely faltered. Once we factor in the 0.2% increase expected for the Personal Consumption Expenditures price index, total nominal consumption probably rose 0.4%. PCE inflation likely held steady at 2.6% year over year, while the core deflator, which strips out food and energy, probably edged up from 2.8% to 2.9%.

CANADA

Current account balance (Q2 2025) – We anticipate that the current account deficit widened significantly in Q2 2025 to \$19.3B from \$2.1B in Q1 2025. There was likely a significant drag from Canada's deepening trade deficit, which reached a record high in April 2025. [Lower oil prices](#) were an extra headwind, while the Canadian dollar remained broadly stable in the quarter. In contrast, the strong performance by Canadian equities provided some offset to the doom and gloom on the trade front.

FRIDAY August 29 - 8:30

June	m/m
Consensus	0.2%
Desjardins	0.1%
May	0.1%

Real GDP by industry (June) – We anticipate that monthly real GDP grew by 0.1% m/m in June, in line with Statistics Canada’s flash estimate. Resource extraction likely drove up growth as production resumed following wildfire-related disruptions. We also expect retail sales to have recovered from the previous month’s decline. In addition, the [June Labour Force Survey](#) showed that job gains were concentrated in private services such as wholesale and retail trade. In contrast, we anticipate some modest headwind from manufacturing as tariff pressures continue to mount. Looking ahead to the July 2025 real GDP release, we expect Statistics Canada’s flash estimate will show another slightly positive advance.

FRIDAY August 29 - 8:30

Q2 2025	ann. rate
Consensus	-0.3%
Desjardins	-0.7%
Q1 2025	2.2%

Real GDP (Q2 2025) – Turning to quarterly real GDP by expenditure, we anticipate that growth in the second quarter of 2025 came in at -0.7% annualized, in line with [our outlook](#) and several ticks better than the Bank of Canada’s forecast in the [July 2025 Monetary Policy Report](#). Household consumption likely continued to be positive despite the precarious environment, as goods purchases moved higher in the quarter, notably autos. We anticipate a modest boost in government expenditures and residential structures as well. In addition, net exports probably fell significantly because of US tariffs, albeit with a partial offset from inventory accumulation. Concurrently, we expect business fixed investment to have slowed due to the uncertain outlook for trade.

OVERSEAS


SATURDAY August 30 - 21:30

August	
Consensus	n/a
July	50.2

China: Composite PMI (August) – Growth has remained sluggish in China, with the composite PMI retreating 0.5 points in July to 50.2. This is just above the 50-point threshold, indicating economic expansion is subdued. Although the weakness was widespread, it was mainly concentrated in the construction sector, which fell sharply by 2.2 points. The persistent weakness in domestic demand continues to be the main drag on Chinese growth. This is weighing heavily on the country’s economic outlook, and the August PMI readings will shed further light on the situation. Manufacturing could still be under pressure, in part due to continued US tariffs on China, despite the recently announced extension of the trade truce postponing the implementation of reciprocal tariffs between both countries.


Economic Indicators

Week of August 25 to 29, 2025

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 25	10:00	New home sales (ann. rate)	July	635,000	635,000	627,000
	15:15	Speech by Federal Reserve Bank of Dallas President L. Logan				
	19:15	Speech by Federal Reserve Bank of New York President J. Williams				
TUESDAY 26	00:01	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	8:30	Durable goods orders (m/m)	July	-4.0%	-3.8%	-9.4%
	9:00	S&P/Case-Shiller home price index (y/y)	June	n/a	2.20%	2.79%
	10:00	Consumer confidence	August	96.2	97.7	97.2
WEDNESDAY 27	00:01	Speech by Federal Reserve Bank of Richmond President T. Barkin				
THURSDAY 28	8:30	Initial unemployment claims	August 18–22	230,000	233,000	235,000
	8:30	Real GDP (ann. rate)	Q2s	3.1%	3.0%	3.0%
	10:00	Pending home sales (m/m)	July	-0.2%	n/a	-0.8%
	18:00	Speech by Federal Reserve Governor C. Waller				
FRIDAY 29	8:30	Personal income (m/m)	July	0.4%	0.6%	0.3%
	8:30	Personal consumption expenditures (m/m)	July	0.5%	0.4%	0.3%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	July	0.2%	0.2%	0.3%
		Excluding food and energy (m/m)	July	0.3%	0.2%	0.3%
		Total (y/y)	July	2.6%	2.6%	2.6%
		Excluding food and energy (y/y)	July	2.9%	2.9%	2.8%
	8:30	Goods trade balance – preliminary (US\$B)	July	-90.5	-73.6	-86.0
	8:30	Retail inventories (m/m)	July	n/a	n/a	0.3%
	8:30	Wholesale inventories – preliminary (m/m)	July	n/a	n/a	0.1%
	9:45	Chicago PMI	August	46.0	47.0	47.1
	10:00	University of Michigan consumer sentiment index – final	August	58.6	58.6	58.6

CANADA

MONDAY 25	---	---				
TUESDAY 26	---	---				
WEDNESDAY 27	---	---				
THURSDAY 28	8:30	Current account balance (\$B)	Q2	-18.73	-19.30	-2.13
FRIDAY 29	8:30	Real GDP by industry (m/m)	June	0.2%	0.1%	-0.1%
	8:30	Real GDP (ann. rate)	Q2	-0.3%	-0.7%	2.2%

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 August 25 to 29, 2025

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
MONDAY 25							
Japan	1:00	Leading index – final	June	n/a		106.1	
Japan	1:00	Coincident index – final	June	n/a		116.8	
Germany	4:00	ifo Business Climate Index	August	88.8		88.6	
Germany	4:00	ifo Current Assessment Index	August	86.7		86.5	
Germany	4:00	ifo Expectations Index	August	90.5		90.7	
TUESDAY 26							
France	2:45	Consumer confidence	August	89		89	
WEDNESDAY 27							
South Korea	---	Bank of Korea meeting	August	2.50%		2.50%	
Germany	2:00	Consumer confidence	September	-21.4		-21.5	
THURSDAY 28							
Eurozone	4:00	M3 money supply	July		3.5%		3.3%
Italy	4:00	Consumer confidence	August	96.5		97.2	
Italy	4:00	Economic confidence	August	n/a		93.6	
Eurozone	5:00	Consumer confidence – final	August	n/a		-15.5	
Eurozone	5:00	Industrial confidence	August	-10.0		-10.4	
Eurozone	5:00	Services confidence	August	3.9%		4.1	
Eurozone	5:00	Economic confidence	August	96.0		95.8	
Japan	19:30	Unemployment rate	July	2.5%		2.5%	
Japan	19:50	Industrial production – preliminary	July	-1.2%	-0.6%	2.1%	4.4%
Japan	19:50	Retail sales	July	-0.1%	1.6%	1.0%	2.0%
FRIDAY 29							
Japan	1:00	Consumer confidence	August	34.2		33.7	
Japan	1:00	Housing starts	July		-9.7%		-15.6%
Germany	2:00	Retail sales	July	-0.3%	2.6%		2.4%
France	2:45	Personal consumption expenditures	July	-0.4%	n/a	0.6%	0.9%
France	2:45	Consumer price index – preliminary	August	0.5%	1.0%	0.2%	1.0%
France	2:45	Real GDP – final	Q2	0.3%	0.7%	0.3%	0.7%
Italy	4:00	Real GDP – final	Q2	-0.1%	0.4%	-0.1%	0.4%
Italy	5:00	Consumer price index – preliminary	August	0.2%	1.6%	0.4%	1.7%
Germany	8:00	Consumer price index – preliminary	August	0.1%	2.1%	0.3%	2.0%
SATURDAY 30							
China	21:30	Composite PMI	August	n/a		50.2	
China	21:30	Manufacturing PMI	August	49.3		49.3	
China	21:30	Non-manufacturing PMI	August	50.1		50.1	

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. 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).