

WEEKLY COMMENTARY

The Auto Sector Is Blurring Canada’s Economic Data

By H el ene B egin, Principal Economist

Over the past few months, the automotive sector has been driving big shifts in many indicators, obscuring the Canadian economic picture. The sector struggled with supply chain disruptions during the pandemic and is gradually getting back to normal after being [severely out of balance](#). Now that production is up and running again, we’re seeing changes in inventory levels as well as wholesaler and dealer sales. This is having a significant impact on real GDP and—to a lesser extent—inflation.

Slower inventory build-up was one reason Canada’s economic growth was flat in the fourth quarter of last year, despite increased vehicle sales pushing consumer spending higher. To get an idea of what lies ahead, we need to ask two questions: How far along is the recovery and—more importantly—will it continue in the short term? The answers to these questions vary greatly depending on what link in the automotive supply chain we look at. Upstream, production is critical to inventory levels and vehicle sales and, by extension, the economy. Downstream, better availability gradually eases price pressures. Here’s what the indicators are telling us.

During the pandemic, manufacturer production fell in Canada due to global supply chain disruptions, including the semiconductor shortage. As automotive and other supply chains recover, more parts and components are becoming available. Manufacturer production is back up above 95% of pre-pandemic levels. While vehicle production accounts for less than 1% of Canada’s GDP, the recovery has been contributing to economic growth the past few months.

But according to manufacturers, the recovery has been very uneven and dependent on supply capacity. The recovery varies widely by make and model, meaning inventories aren’t back to normal across the board. Auto manufacturers, wholesalers and dealers all reported extremely low inventories until just recently. While inventories are gradually recovering, there’s considerable

variation. Like production, availability has improved for some gasoline-powered cars and trucks. But there’s still a very long wait for most new electric vehicles, and dealer inventory is virtually nonexistent. While many dealers are seeing higher inventories, some are still reporting slow sales as buyers prefer to purchase vehicles off the lot.

Inventories will continue to recover but are unlikely to return to pre-pandemic levels. Larger inventories mean additional financing, maintenance and insurance costs for dealers. As was the case during the pandemic, dealers will want to minimize these costs to boost their bottom line. That means striking a new balance between inventory and sales rather than returning to their pricier pre-pandemic business model.

Improved availability across the market and shorter wait times for certain cars and trucks translated to higher vehicle sales early this year. But this rebound didn’t last, as monthly sales fell in February and March according to DesRosiers Automotive Consultants. Still, first quarter sales were up 5.2% year-over-year.

Despite the ongoing improvement in dealer inventories for new vehicles, it’s unclear whether sales will continue to recover. We can expect a certain volume of sales from orders placed during the pandemic, though some buyers have cancelled their orders. Most pent-up demand remains unmet, but high interest rates will sideline many buyers. So while dealer sales look encouraging for now, we expect them to soften this year. After rebounding briefly, vehicle sales should weaken, slowing consumer spending growth and—by extension—the economy.

Surging vehicle prices helped fuel soaring inflation through last spring. Price growth has since moderated and is now helping to mitigate inflation. And while the vehicle price index doesn’t weigh heavily in the inflation calculation, greater price stability is good for consumers.

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Price pressure is easing for both new and used vehicles due to improved availability. According to AutoTrader, there are more used vehicles for sale, and prices have even started to come down from their peak last June. This is quite a turnaround from the pandemic, when very few used vehicles were for sale, even at inflated prices.

We're no longer seeing a widespread shortage of new and used vehicles. Some buyers who settled for a used vehicle during the pandemic could now switch to a new car as price growth continues to slow. And as availability continues to improve for more makes and models, price pressure on new vehicles will ease further, helping to keep inflation moving in the right direction in Canada.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, Francis Généreux, Principal Economist, Marc-Antoine Dumont, Economist and Maëlle Boulais-Préseault, Economist

TUESDAY, April 18 - 8:30

March	
Consensus	1,405,000
Desjardins	1,460,000
February	1,450,000

THURSDAY, April 20 - 10:00

March	m/m
Consensus	-0.4%
Desjardins	-1.0%
February	-0.3%

THURSDAY, April 20 - 10:00

March	
Consensus	4,500,000
Desjardins	4,495,000
February	4,580,000

TUESDAY, April 18 - 8:30

March	m/m
Consensus	n/a
Desjardins	0.6%
February	0.4%

WEDNESDAY, April 19 - 8:15

March	
Consensus	n/a
Desjardins	220,000
February	243,959

FRIDAY, April 21 - 8:30

February	m/m
Consensus	n/a
Desjardins	0.1%
January	1.4%

UNITED STATES

Housing starts (March) – February’s housing starts print saw its biggest monthly increase since March 2021. However, the 9.8% gain comes on the back of a 26.8% total decline between April 2022 and January 2023. We expect housing starts to climb again in March, but at a much slower pace. The number of building permits issued, which was much higher than housing starts in February, suggests that the latter are likely to pick up. We also saw a few jobs created in residential building construction in March. The continuation of the recent spike in new single-family home sales is a positive sign, while March’s relatively mild weather also likely helped new builds. We think March’s housing starts print will rise to 1,460,000 units.

Leading indicator (March) – The Conference Board’s leading indicator has been firmly on a downward trend for almost a year now. While January and February’s 0.3% declines were smaller than in previous months, we’re expecting a larger dip in March. Higher unemployment insurance claims, further drops in the ISM and household confidence indexes, the lower stock market and increasingly negative interest rate spreads are all likely to drag down the leading indicator. We think it will fall by around 1%.

Existing home sales (March) – After 12 straight months of decline, existing home sales finally rose in February. Indeed, at 14.5%—the biggest increase since July 2020—we could even say they surged. After such a spike, we expect a modest fall in March based on pending home sales figures. Looking at the preliminary regional data for existing home sales, a negative year-over-year change suggests there’s been a slight decrease over the month. We project existing home sales will come in at just below 4,500,000 units.

CANADA

Consumer Price Index (March) – Look for headline prices to have risen 4.4% year-over-year in March, down from the 5.2% annual rate in February. That would be the slowest pace since the fall of 2021. Prices excluding food and energy are also expected to have risen by 4.4% in the twelve months ending in March after a long period of headline inflation running much faster than this core measure. The three-month annualized rate of inflation excluding food and energy was likely around 3% in March, but we prefer to focus on the Bank of Canada’s core inflation indicators. The three-month annualized rate of those metrics was roughly 3.5% in February but may have fallen further in March. The Bank of Canada views progress in these measures as critical to declaring victory in the inflation fight, so a further move towards 2% would make central bankers more comfortable with the current level of interest rates.

Housing starts (March) – Housing starts are expected to have taken a step back in March, largely unwinding the surprise move higher in February on the back of surging multi-family starts. Earlier weakness in existing home sales likely weighed on housing starts in March as demand has cooled, while still elevated household borrowing costs probably kept a chill on new construction.

Retail sales (February) – Retail sales are expected to have risen 0.1% during the month of February, above Statistics Canada’s -0.6% flash estimate. The anticipated increase was likely driven by volumes as prices are expected to have dropped 0.1%. Imports of consumer goods rose considerably in February and are expected to have pushed up retail sales volumes despite lower auto sales. Retail sales excluding motor vehicles and parts are anticipated to have increased by 0.5% in February.

MONDAY, April 17 - 22:00

Q1 2023	y/y
Consensus	3.9%
Q4 2022	2.9%

FRIDAY, April 21 - 4:00

April	
Consensus	53.8
March	53.7


OVERSEAS


China: Real GDP (first quarter) – Hobbled by strict lockdowns and the spread of COVID-19, China’s real GDP was flat in the fourth quarter of 2022. China has since abandoned its draconian public health measures and monthly data now shows a rebound in economic activity. Services are recovering the fastest. The Services PMI has increased for three straight months and hit 56.9 in March. Meanwhile, Chinese domestic demand seems to finally be bouncing back and, with the country’s real estate market starting to normalize, we expect real GDP to rebound in the first quarter. Year-over-year changes in several indicators to be published on Monday evening—including industrial production and retail sales—could come out abnormally high due to the troughs caused by last year’s lockdowns.

Eurozone: PMI (April – preliminary) – Composite PMIs continued to improve in Europe after bottoming out in the fall. While gains were more broad-based during the first few months of the recovery, they’re now much more concentrated in the service sector. In contrast, Manufacturing PMIs dropped off in March. The situation remains positive, but if April’s PMIs exacerbate this divergence, it could be a sign of future challenges for the European economy.

Economic Indicators

Week of April 17 to 21, 2023

Day	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 17	8:30	Empire State Manufacturing Index	April	-16.5	20.0	-24.6
TUESDAY 18	8:30	Housing starts (ann. rate)	March	1,405,000	1,460,000	1,450,000
	8:30	Building permits (ann. rate)	March	1,455,000	1,495,000	1,550,000
	13:00	Speech by Federal Reserve Governor M. Bowman				
WEDNESDAY 19	14:00	Release of the Beige Book				
	19:00	Speech by Federal Reserve Bank of New York President J. Williams				
THURSDAY 20	8:30	Initial unemployment claims	April 10–14	238,000	242,000	239,000
	8:30	Philadelphia Fed index	April	-19.0	20.0	-23.2
	10:00	Leading indicator (m/m)	March	-0.4%	-1.0%	-0.3%
	10:00	Existing home sales (ann. rate)	March	4,500,000	4,495,000	4,580,000
	12:00	Speech by Federal Reserve Governor C. Waller				
	12:20	Speech by Federal Reserve Bank of Cleveland President L. Mester				
	15:00	Speech by Federal Reserve Governor M. Bowman				
17:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic					
FRIDAY 21	16:35	Speech by Federal Reserve Governor L. Cook				
CANADA						
MONDAY 17	8:30	Wholesale sales (m/m)	Feb.	n/a	0.5%	2.4%
TUESDAY 18	8:30	Consumer price index				
		Total (m/m)	March	n/a	0.6%	0.4%
		Total (y/y)	March	n/a	4.4%	5.2%
	11:00	Testimony of Bank of Canada Governor T. Macklem before a House of Commons committee				
WEDNESDAY 19	8:15	Housing starts (ann. rate)	March	n/a	220,000	243,959
	8:30	Industrial product price index (m/m)	March	n/a	0.2%	-0.8%
	8:30	Raw materials price index (m/m)	March	n/a	-1.2%	-0.4%
THURSDAY 20	11:30	Testimony of Bank of Canada Governor T. Macklem before a Senate committee				
FRIDAY 21	8:30	Retail sales				
		Total (m/m)	Feb.	n/a	0.1%	1.4%
		Excluding automobiles (m/m)	Feb.	n/a	0.5%	0.9%

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 daylight saving time (GMT - 4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of April 17 to 21, 2023

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 17								
China	22:00	Real GDP	Q1	2.1%	3.9%	0.0%	2.9%	
China	22:00	Industrial production	March		4.7%		2.4%	
China	22:00	Retail sales	March		8.0%		3.5%	
TUESDAY 18								
United Kingdom	2:00	ILO unemployment rate	Feb.	3.7%		3.7%		
Italy	4:00	Trade balance (€M)	Feb.	n/a		-4,194		
Eurozone	5:00	Trade balance (€B)	Feb.	n/a		-11.3		
Germany	5:00	ZEW Current Conditions Survey	April	-40.0		-46.5		
Germany	5:00	ZEW Expectations Survey	April	16.0		13.0		
WEDNESDAY 19								
United Kingdom	2:00	Consumer price index	March	0.5%	9.8%	1.1%	10.4%	
United Kingdom	2:00	Producer price index	March	-0.2%	8.6%	-0.3%	12.1%	
Italy	4:30	Current account (€M)	Feb.	n/a		-5,225		
Eurozone	4:00	Current account (€B)	Feb.	n/a		17.1		
Eurozone	5:00	Consumer price index – final	March	0.9%	6.9%	0.9%	6.9%	
Eurozone	5:00	Construction	Feb.	n/a	n/a	3.9%	0.9%	
Japan	19:50	Trade balance (¥B)	March	-1,776.7		-1,190.7		
THURSDAY 20								
Japan	00:30	Tertiary Industry Activity Index	Feb.	0.4%		0.9%		
Germany	2:00	Producer price index	March	-0.7%	9.8%	-0.3%	15.8%	
France	2:45	Business confidence	April	103		103		
Eurozone	10:00	Consumer confidence – preliminary	April	-18.5		-19.2		
United Kingdom	19:01	Consumer confidence	April	-35		-36		
Japan	19:30	Consumer price index	March		3.2%		3.3%	
Japan	20:30	Composite PMI – preliminary	April	n/a		52.9		
Japan	20:30	Manufacturing PMI – preliminary	April	n/a		49.2		
Japan	20:30	Services PMI – preliminary	April	n/a		55.0		
FRIDAY 21								
United Kingdom	2:00	Retail sales	March	-0.5%	-3.0%	1.2%	-3.5%	
France	3:15	Composite PMI – preliminary	April	53.0		52.7		
France	3:15	Manufacturing PMI – preliminary	April	47.9		47.3		
France	3:15	Services PMI – preliminary	April	53.5		53.9		
Germany	3:30	Composite PMI – preliminary	April	52.8		52.6		
Germany	3:30	Manufacturing PMI – preliminary	April	45.5		44.7		
Germany	3:30	Services PMI – preliminary	April	53.4		53.7		
Eurozone	4:00	Composite PMI – preliminary	April	53.8		53.7		
Eurozone	4:00	Manufacturing PMI – preliminary	April	48.0		47.3		
Eurozone	4:00	Services PMI – preliminary	April	54.5		55.0		
United Kingdom	4:30	Composite PMI – preliminary	April	52.5		52.2		
United Kingdom	4:30	Manufacturing PMI – preliminary	April	48.5		47.9		
United Kingdom	4:30	Services PMI – preliminary	April	52.9		52.9		

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 daylight saving time (GMT - 4 hours).