WEEKLY COMMENTARY

Bank of Canada Preview: Look Here Not There

By Royce Mendes, Managing Director and Head of Macro Strategy

Economists have spilled plenty of ink debating the economic impacts of higher oil prices. For Canada, the national-level implications are relatively straightforward. If sustained, higher oil prices represent a positive terms-of-trade shock, lifting both economic output and inflation. Our team quantified these effects in a timely note last week.

The Bank of Canada's reaction function to higher energy prices is also fairly simple. Even in a world where central banks are more sensitive to supply shocks, the Governing Council retains substantial flexibility to remain patient. Policymakers will generally look through an oil price shock unless inflation expectations become unanchored, underlying inflation reaccelerates or the output gap closes meaningfully.

At this stage, it's far too early for central bankers to conclude that any of those conditions are materializing, particularly with the sharp deterioration in labour market conditions this year. As a result, it should come as no surprise that the Bank of Canada will hold rates steady next week, reiterating that the current level of rates remains appropriate. Officials will likely just layer on a reference to upside inflation risks from higher global energy prices.

Even if oil prices remain elevated, serious conversations about rate hikes shouldn't gain much traction in the near term. Instead, attention should remain focused on key downside risks to the economy—most notably those tied to the labour market and housing.

Central bankers have largely sidestepped any detailed discussion of residential real estate, characterizing the housing market as simply subdued and uneven across regions. But the data in several of Canada's largest cities are clearly deteriorating, and higher oil prices risk compounding those pressures.

While higher oil prices will support growth in Alberta, Saskatchewan, and Newfoundland and Labrador, they will weigh on activity in provinces such as British Columbia, Ontario and Quebec. Housing markets in Montreal, Saskatoon, Regina and St. John's have proven resilient and aren't in need of support. Calgary and Edmonton have softened more recently and will welcome any lift from a stronger resource sector. But the areas most in need of support lie elsewhere. Housing markets in Toronto, Vancouver and many surrounding regions are firmly in recession.

Rising oil prices, which have pushed benchmark interest rates higher, could amplify those headwinds. Mortgage rates are set to increase just as a tidal wave of homeowners face renewal. The most vulnerable are those with variable-rate, fixed-payment mortgages, some of whom could see payment increases of 70% or more. While the share of residential mortgages in arrears is just slightly above the pre-COVID average, the numbers have been trending consistently higher. In Ontario, arrears rates haven't been this high since early 2012, and the province now accounts for more than half of all arrears.

With hopes that improved seasonal dynamics will bring some relief to Canada's hardest-hit housing markets, we'll be watching real estate conditions closely in the months ahead. On their own,

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housing market strains could argue for additional monetary stimulus, causing markets to at least rethink the likelihood that rate hikes will arrive before the end of the year.

But if Canada is undergoing a more structural shift that lowers potential growth—similar to how Governor Macklem has described the evolving trade relationship with the US—then the neutral rate of interest may ultimately be lower than the Bank of Canada's current estimate. In contrast to the central bank's recent claim, that would mean that the current policy rate setting isn't stimulative at all. But since policymakers won't revisit their neutral rate estimate until April, expect them to dodge questions on that topic too.

What to Watch For

UNITED STATES

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

MONDAY March 16 - 9:15

February	m/m
Consensus	0.0%
Desjardins	0.0%
January	**0.7%**

Industrial production (February) – In January, industrial production recorded its strongest monthly advance since February 2025. The gains were mostly driven by the automotive industry and energy production. We expect both sectors offered less support in February. After a big run-up in January, hours worked in the auto industry rose only 0.1% in February, while they flatlined across the broader manufacturing sector. But the January uptick in the ISM Manufacturing index was nevertheless a hopeful signal. As for energy, milder weather in February compared with January likely reduced demand and production. The mining sector probably edged higher after two months of declines. Overall, we expect industrial production stalled (0.0%), with manufacturing output rising a modest 0.1%.

WEDNESDAY March 18 - 14:00

March	
Consensus	3.75%
Desjardins	3.75%
January 28	**3.75%**

Federal Reserve meeting (March) – The Federal Reserve (Fed) appears to be in wait-and-see mode. Since the January meeting, most statements made by Fed officials suggest they'll keep rates on hold at the March 17–18 meeting. The key economic indicators indicate that overall conditions are largely unchanged from January. Inflation remained relatively stable up to February, and the labour market continued to show some weakness, with February's job losses offsetting much of January's gains. Of course, the crisis in the Middle East could change everything, but Fed officials are unlikely to react immediately. They'll want to see whether its effects on US energy prices are temporary or more persistent—and whether they put upward pressure on prices in other sectors. They'll also assess the conflict's potential impacts on confidence, economic activity and employment. But since it's still too early to draw conclusions that would warrant a change in policy, Jerome Powell and his colleagues will almost certainly leave rates unchanged while signalling readiness to act if needed. It will also be interesting to hear what Powell has to say at one of his final meetings as Fed Chair. Updated Fed projections for real GDP, inflation, unemployment and interest rates will also be released at the meeting.

THURSDAY March 19 - 10:00

January	ann. rate
Consensus	725,000
Desjardins	710,000
December	**745,000**

New home sales (January) – New single-family home sales fell in December, but not enough to wipe out the strong gains posted in previous months. Sales therefore remained very high. We expect another decline in January, in line with the downturn in existing home sales. Lower mortgage rates could still provide some support, but several indicators point to a month-on-month decrease in sales: fewer mortgage applications for home purchases, a drop in building permits and a slowdown in online searches for new homes. Sales are expected to move closer to 700,000 units, although the volatility of this indicator means the swing could be larger.

CANADA

MONDAY March 16 - 8:15

February	ann. rate
Consensus	255,000
Desjardins	268,000
January	**238,000**

Housing starts (February) – We estimate that February housing starts were roughly 268k (saar). This anticipated rebound reflects some catch-up by builders in the month, after two major blizzards and an intense polar vortex resulted in a sharp slowdown in January. Strength in purpose-built rental construction—supported by government measures—also likely kept starts above what current economic conditions would normally imply. For a detailed view of our projections through 2026 and 2027, see our latest Desjardins Housing Outlook.

MONDAY March 16 - 8:30

February	m/m
Consensus	0.6%
Desjardins	0.6%
January	**0.0%**

Consumer price index (February) – Consumer prices likely rose 0.6% nsa (+0.2% sa) in February, largely reflecting higher energy prices. Even so, year-over-year inflation should ease down to 1.9% from 2.3% previously, as the effects of last year's temporary GST/HST holiday drop out of the annual comparison. While energy prices were higher during the month, the late-February escalation in the Middle East is not captured in these data. Excluding food and energy, core inflation pressures should remain subdued. The unusual jump in appliance prices seen in January, which contributed significantly to the rise in headline CPI, was likely just a one-off. Conversely, shelter inflation should continue to moderate. Mortgage interest costs appear to have plateaued and could edge lower, while the sharp decline in new home prices in January should push homeowners' replacement costs further down. That said, rent prices remain volatile and could once again be a key swing category. The Bank of Canada's preferred core inflation measures could ease to a touch below 2.5% year over year, with the three-month annualized rates still averaging well below 2%. Absent a meaningful surprise, the release is likely to be viewed as stale given the recent spike in energy prices.

TUESDAY March 17 - 5:00

February	m/m
Consensus	n/a
Desjardins	-2.5%
January	**-5.8%**

Existing home sales (February) – Monthly seasonally adjusted national home sales likely edged down about 2.5% in February. Early year-over-year figures from local real estate boards show declines across most major markets as compared to February 2025. The Toronto Regional Real Estate Board also indicated that seasonally adjusted sales fell 4.9% from January. For our outlook on home sales and prices over the next two years, see our latest Desjardins Housing Outlook.

WEDNESDAY March 18 - 9:45

March	
Consensus	2.25%
Desjardins	2.25%
January 28	**2.25%**

Bank of Canada decision (March) – The Bank of Canada is widely expected to keep the target for the policy rate unchanged. Recent disruptions in energy prices have unsettled bond markets, though the implications for Canadian monetary policy are less clear. Policymakers will need to acknowledge that these developments have likely shifted the balance of risks around both inflation and growth higher. However, with inflation starting from a relatively low level and the economy still exhibiting slack, the Bank has the flexibility to remain on the sidelines to gather more information. Unless the energy price shock becomes more persistent or inflation expectations become unanchored, the Bank of Canada is likely to look through the impact of higher oil prices in the near term. With the Canadian economy still vulnerable, policymakers aren't in any rush to raise interest rates, even if they are somewhat more sensitive to supply-side shocks these days. As a result, some modest tweaks to the statement's language are likely, but the overall message is expected to remain unchanged: officials are comfortable with the current stance of policy.

OVERSEAS

SUNDAY March 15 - 22:00

China: Industrial production and retail sales (February) – These readings will be the first economic data released after the Lunar New Year break in January and February. As of December 2025, China's economic picture remained mixed. Industrial production grew 5.2%, while retail sales slowed, rising only 0.9%—the weakest advance since late 2022. PMI data point to a continuation of this trend, suggesting domestic demand remains fragile despite measures aimed at boosting consumption. Taken together, these results indicate that China's recovery remains uneven, with the resilience of manufacturing failing to offset persistent weakness in consumer spending. The repercussions of the conflict in Iran will also need to be monitored in the coming months, as China remains heavily dependent on energy imports that pass through the Strait of Hormuz.

THURSDAY March 19 - 8:00	
March	
Consensus	3.75%
Desjardins	3.75%
February 5	**3.75%**

United Kingdom: Bank of England meeting (March) – The Bank of England (BoE) put rates on hold at its February meeting after a 25-basis-point cut in December. The decision was close: five members supported a pause, while four wanted another 25bp cut. Until recently, another rate cut seemed plausible, but the Middle East crisis has shifted the outlook. Inflation remains slightly above the BoE's 2% target. It had been expected to reach that target soon, but the conflict in Iran has pushed energy prices higher. Given the heightened uncertainty, no change in policy is expected at the March 19 meeting.

THURSDAY March 19 - 9:15	
March	
Consensus	2.00%
Desjardins	2.00%
February 5	**2.00%**

European Central Bank meeting (March) – The European Central Bank (ECB) has held rates steady since June 2025. This suggests that decision-makers believe the central bank's monetary policy is right for current economic conditions. That cautious stance is unlikely to change given the conflict in the Middle East. Recent remarks from ECB Governing Council members highlight the need to stay calm and avoid overreacting, so we don't expect any change to the status quo.

Economic Indicators

Week of March 16 to 20, 2026

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

Date	Time	Indicator	Period	Consensus	Desjardins forecast	Previous reading
UNITED STATES						
MONDAY 16	8:30	Empire State Manufacturing Index	Mar.	3.9	2.0	7.1
	9:15	Industrial production (m/m)	Feb.	0.1%	0.0%	0.7%
	9:15	Production capacity utilization rate	Feb.	76.2%	76.1%	76.2%
	10:00	NAHB Housing Market Index	Mar.	37	n/a	36
TUESDAY 17	10:00	Leading indicator (m/m)	Feb.	n/a	0.1%	-0.2%
	10:00	Pending home sales (m/m)	Feb.	-1.0%	n/a	-0.8%
WEDNESDAY 18	8:30	Producer price index				
		Total (m/m)	Feb.	0.3%	0.5%	0.5%
		Excluding food and energy (m/m)	Feb.	0.3%	0.4%	0.8%
	10:00	Factory orders (m/m)	Jan.	n/a	0.1%	-0.7%
	14:00	Federal Reserve meeting	Mar.	3.75%	3.75%	3.75%
THURSDAY 19	8:30	Initial unemployment claims	Mar. 9–13	n/a	214,000	213,000
	8:30	Philadelphia Fed index	Mar.	n/a	8.0	16.3
	10:00	Wholesale inventories – final (m/m)	Jan.	n/a	0.0%	0.2%
	10:00	New home sales (ann. rate)	Jan.	725,000	710,000	745,000
FRIDAY 20	---	---				
CANADA						
MONDAY 16	8:15	Housing starts (ann. rate)	Feb.	255,000	268,000	238,000
	8:30	Consumer price index				
		Total (m/m)	Feb.	0.6%	0.6%	0.0%
		Total (y/y)	Feb.	1.9%	1.9%	2.3%
TUESDAY 17	---	2026 New Brunswick Budget				
	5:00	Existing home sales (m/m)	Feb.	n/a	-2.5%	-5.8%
WEDNESDAY 18	---	2026 Saskatchewan Budget				
	---	2026 Quebec Budget				
	8:30	International securities transactions ($B)	Jan.	n/a	n/a	-5.57
	9:45	Bank of Canada decision	Mar.	2.25%	2.25%	2.25%
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 19	---	---				
FRIDAY 20	8:30	Retail sales				
		Total (m/m)	Jan.	1.3%	1.4%	-0.4%
		Excluding automobiles (m/m)	Jan.	1.4%	1.5%	0.1%
	8:30	Industrial product price index (m/m)	Feb.	n/a	1.1%	2.7%
	8:30	Raw materials price index (m/m)	Feb.	n/a	2.4%	7.7%

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 March 16 to 20, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
Japan	---	Bank of Japan meeting	Mar.	0.75%		0.75%	
SUNDAY 15							
China	22:00	Industrial production	Feb.		5.3%		5.2%
China	22:00	Retail sales	Feb.		2.5%		0.9%
MONDAY 16							
Australia	23:30	Reserve Bank of Australia meeting	Mar.	4.10%		3.85%	
TUESDAY 17							
Japan	0:30	Tertiary Industry Activity Index	Jan.	0.7%		-0.5%	
Italy	5:00	Consumer price index – final	Feb.	0.8%	1.6%	0.8%	1.6%
Germany	6:00	ZEW Current Conditions Survey	Mar.	-67.5		-65.9	
Germany	6:00	ZEW Expectations Survey	Mar.	39.2		58.3	
Japan	19:50	Trade balance (¥B)	Feb.	-611.6		455.5	
WEDNESDAY 18							
Eurozone	6:00	Consumer price index – final	Feb.	0.7%	1.9%	0.7%	1.9%
Brazil	17:30	Central Bank of Brazil meeting	Mar.	14.50%		15.00%	
THURSDAY 19							
Japan	0:30	Industrial production – final	Jan.	n/a	n/a	2.2%	2.3%
United Kingdom	3:00	ILO unemployment rate	Jan.	5.3%		5.2%	
Sweden	4:30	Bank of Sweden meeting	Mar.	1.75%		1.75%	
Switzerland	4:30	Swiss National Bank meeting	Mar.	0.00%		0.00%	
Eurozone	6:00	Construction	Jan.	n/a	n/a	0.9%	-0.9%
United Kingdom	8:00	Bank of England meeting	Mar.	3.75%		3.75%	
Eurozone	9:15	European Central Bank meeting	Mar.	2.00%		2.00%	
FRIDAY 20							
France	---	Retail sales	Feb.		n/a		1.2%
Germany	3:00	Producer price index	Feb.	0.3%	-2.7%	-0.6%	-3.0%
France	3:45	Wages – final	Q4	0.2%		0.2%	
Eurozone	5:00	Current account (€B)	Jan.	n/a		14.6	
Italy	5:00	Trade balance (€M)	Jan.	n/a		6,037	
Italy	5:00	Current account (€M)	Jan.	n/a		3,109	
Eurozone	6:00	Trade balance (€B)	Jan.	n/a		11.6	
Russia	6:30	Bank of Russia meeting	Mar.	15.00%		15.50%	

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).