WEEKLY COMMENTARY

Back to Business As (Un)usual

By Jimmy Jean, Vice-President, Chief Economist and Strategist

We should probably not read too much into the fact that Bank of Canada Deputy Governor Toni Gravelle pointed out that he was more attuned to the upside inflationary risks than to the downside economic risks just a day after Finance Minister Freeland unveiled a budget containing close to $70B in new spending. Healthcare and tax incentives to support energy transition investment accounted for 78% of the new spending, whereas affordability support represented only 4.8%. Freeland's red-inked budget may have been met with consternation for many valid reasons (some discussed in our Budget Analysis), but the fiscal inflationary tune has been played so many times that it's become trite. It would be more fitting to keep serenading just one or two provincial finance ministers with it at this point.

Gravelle's tone rather echoes that of many central bankers earlier this week, with ECB Governing Council member Joachim Nagel supporting further rate hikes and a step-up in the pace of QT in upcoming months, and with BoE Governor Bailey ruling out the use of interest rates to address banking system issues. Recovering market risk appetite on the back of the acquisition of most of Silicon Valley Bank's assets by First Citizen Bank may have instilled central bankers with newfound confidence. They must remain alert though, as several core vulnerabilities persist among US regional banks. These include highly mobile deposits, poorly hedged interest rate exposures and large commercial mortgage exposures amid falling commercial real estate valuations. It would be surprising if recent events didn't produce a noticeable additional squeeze in US bank lending, although data on this may only be trickling in slowly.

In the meantime, as the spotlight tentatively shifts back onto economic data, a look at the Canadian context reveals an economy that, while vulnerable, is not buckling yet. We had evidence of this with the solid 0.5% rebound in real GDP in January, although this was partly flattered by weather distortions.

We also saw strength in the Q4 Quebec economic accounts this week. Whereas the Q3 contraction had pushed the provincial economy towards recession, Q4 marked a 1.9% rebound, including a robust 2.4% increase in domestic demand and an almost vengeful 7.3% gain in consumer spending. Upon closer inspection, the latter strength was largely attributable to a 22.3% spike in durable goods consumption, which was driven by the delivery of previously ordered vehicles. This serves as a reminder as to how we're still not back to business as usual, as the data we are working with continues to be affected by pandemic-related shockwaves.

Next week, we'll be able to take the pulse of the job market. The Easter holiday has bestowed upon us the extraordinary occurrence of a Canadian job number being released one day ahead of US payrolls. If we are right that Canada added jobs again in March, it will mark an impressive streak of six consecutive months of job creation, despite gloomy business sentiment over that period. This need not be automatically interpreted as hawkish, however. Thanks to record-high population growth and an elevated participation rate, the Canadian job market has successfully kept downward pressures on the unemployment rate at bay, while pushing the job vacancy rate lower.

Nonetheless, BoC officials have been unequivocal about the need to see wage growth slow from the current 4%–5% range to a pace compatible with the inflation target. As of February, most sectors were experiencing a three-month annualized growth in average hourly earnings that exceeded their year-over-year pace. This points to a worrying acceleration in wages, which is especially concerning for a central bank that places special emphasis on ex-shelter services inflation, a segment of the CPI basket that is inherently more sensitive to wage pressures.

CONTENT

Musing of the Week 1
What to Watch For 3
Economic Indicators.. 4

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

The release of the Business Outlook Survey on Monday will provide valuable insight into the degree to which the recent influx of labour supply can be expected to help contain wage hike intentions. And the Canadian Survey of Consumer Expectations will inform us as to whether short-run inflation expectations have finally peaked. But the bottom line is that the Bank of Canada has many things it needs to worry about, both macro and systemic. It's fair to say that a grocery rebate amounting to 0.1% of GDP isn't what's flashing red on its radar right now.

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

UNITED STATES

MONDAY, April 3 - 10:00

March	Index
Consensus	47.5
Desjardins	48.2
February	**47.7**

ISM Manufacturing index (March) – The ISM Manufacturing index rose in February for the first time since August 2022. However, its 0.3-point gain pales in comparison to the 5.5-point decline seen over the previous five months. As a result, the index is still well below the 50 threshold. However, based on the regional manufacturing indexes published to date, we're expecting another monthly increase in March. The ISM Manufacturing index could rise to 48.2, a level that continues to reflect challenging times for the manufacturing sector.

WEDNESDAY, April 5 - 10:00

March	Index
Consensus	54.5
Desjardins	54.1
February	**55.1**

ISM Services index (March) – The ISM Services index consolidated the previous month's rebound in February, dropping just 0.1 points after January's 6-point surge. We're forecasting a slightly larger dip in March, but the index should still remain well above the 50 threshold, based on the household confidence indexes and regional non-manufacturing indicators published so far this month. The ISM Services index is expected to fall to 54.1.

FRIDAY, April 7 - 8:30

March	
Consensus	240,000
Desjardins	255,000
February	**311,000**

Job creation according to the establishment survey (March) – The US labour market remains strong. After 504,000 hires in January, 311,000 new workers were added in February, and there's still little sign that the market is slowing. While there has been an uptick in massive layoff announcements, new unemployment insurance claims are still low. Plus, consumer confidence in the current job market remains very positive according to the Conference Board's index. Against this backdrop, March's print is likely to add close to 250,000 jobs. We expect the unemployment rate to hold steady at 3.6%.

CANADA

TUESDAY, April 4 - 8:30

February	m/m
Consensus	2.3%
Desjardins	1.9%
January	**-0.4%**

Building permits (February) – Building permits are expected to have staged a modest comeback in February after tumbling in each of the prior two months. This in part reflects the recent improvement in housing market activity, which was concentrated in Canada's largest cities. However, we expect the February bump in housing starts and sales will be short lived, particularly housing starts, which will weigh on building permits in the coming months.

WEDNESDAY, April 5 - 8:30

February	$B
Consensus	1.7
Desjardins	1.9
Januaray	**1.9**

International merchandise trade (February) – Canada's trade balance is expected to have remained in positive territory in February, as imports look to have decreased while exports remained flat. The latter continued to be supported by strong auto and oil production in Canada, but were held back by falling WTI prices and a depreciation of the Canadian dollar in February. On the other hand, our tracking of nominal imports suggests a drop despite rising prices due to lower import volumes. The risk to our $1.9B trade surplus forecast is, however, tilted to the downside as a downward revision to January could lower the starting point for February.

THURSDAY, April 6 - 8:30

March	
Consensus	12,500
Desjardins	5,000
February 21	**21,800**

Labour Force Survey (March) – The strong showing of the Canadian labour market is expected to have fizzled out in March, with the economy posting a modest gain of 5K jobs. Stronger-than-expected housing data last month will likely add a tailwind to construction employment, which contracted slightly the previous month. Furthermore, continued immigration should keep population growth elevated, but lower than levels seen over the past few months. That should see the unemployment rate unchanged at 5%, although a stronger-than-expected increase in population growth may nudge the unemployment rate higher by a tick. Meanwhile, wage growth is likely to remain above 5% with the potential to move higher should monthly wage growth come in around the average monthly change seen throughout last year.

Economic Indicators

Week of April 3 to 7, 2023

Day	Time	Indicator	Period	Consensus	Desjardins	Previous data
UNITED STATES						
MONDAY 3	10:00	Construction spending (m/m)	Feb.	0.1%	0.3%	-0.1%
	10:00	ISM Manufacturing index	March	47.5	48.2	47.7
	---	Total vehicle sales (ann. rate)	March	14,850,000	14,400,000	15,890,000
TUESDAY 4	8:30	Factory orders (m/m)	Feb.	-0.5%	-0.3%	-1.6%
	18:15	Speech by Federal Reserve Bank of Cleveland President L. Mester				
WEDNESDAY 5	8:30	Trade balance – goods and services (US$B)	Feb.	-68.5	-68.8	-68.3
	10:00	ISM Services index	March	54.5	54.1	55.1
THURSDAY 6	8:30	Initial unemployment claims	March 27–31	200,000	204,000	198,000
	10:00	Speech by Federal Reserve Bank of St. Louis President J. Bullard				
FRIDAY 7	---	Markets closed (Good Friday)				
	8:30	Change in nonfarm payrolls	March	240,000	255,000	311,000
	8:30	Unemployment rate	March	3.6%	3.6%	3.6%
	8:30	Average hourly earnings (m/m)	March	0.3%	0.3%	0.2%
	8:30	Average weekly hours	March	34.5	34.5	34.5
	15:00	Consumer credit (US$B)	Feb.	18,000	20,000	14.799
CANADA						
MONDAY 3	10:30	Release of the Bank of Canada's Business Outlook Survey				
	10:30	Release of the Bank of Canada's Survey of Consumer Expectations				
TUESDAY 4	8:30	Building permits (m/m)	Feb.	2.3%	1.9%	-4.0%
WEDNESDAY 5	8:30	International trade ($B)	Feb.	1.7	1.9	1.9
THURSDAY 6	8:30	Net change in employment	March	12,500	5,000	21,800
	8:30	Unemployment rate	March	5.1%	5.0%	5.0%
FRIDAY 7	---	Markets closed (Good Friday)				

Note: Desjardins, Economic Studies are involved every week 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 monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are daylight saving time (GMT - 4 hours). Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of April 3 to 7, 2023

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous data m/m (q/q)	Previous data y/y
OVERSEAS							
SUNDAY 2							
Japan	19:50	Tankan Large Manufacturers Index	Q1	3		7	
Japan	20:30	Manufacturing PMI – final	March	n/a		48.6	
MONDAY 3							
Italy	3:45	Manufacturing PMI	March	51.0		52.0	
France	3:50	Manufacturing PMI – final	March	47.7		47.7	
Germany	3:55	Manufacturing PMI – final	March	44.4		44.4	
Eurozone	4:00	Manufacturing PMI – final	March	47.1		47.1	
United Kingdom	4:30	Manufacturing PMI – final	March	48.0		48.0	
Eurozone	5:00	Producer price index	Feb.	-0.5%	13.2%	-2.8%	15.0%
TUESDAY 4							
Australia	00:30	Reserve Bank of Australia meeting	April	3.60%		3.60%	
Germany	2:00	Trade balance (€B)	Feb.	16.6		16.0	
Japan	20:30	Composite PMI – final	March	n/a		51.9	
Japan	20:30	Services PMI – final	March	n/a		54.2	
New Zealand	22:00	Reserve Bank of New Zealand meeting	April	5.00%		4.75%	
WEDNESDAY 5							
Germany	2:00	Factory orders	Feb.	0.5%	-9.5%	1.0%	-10.9%
France	2:45	Industrial production	Feb.	0.5%	-0.2%	-1.9%	-2.2%
Italy	3:45	Composite PMI	March	53.1		52.2	
Italy	3:45	Services PMI	March	53.3		51.6	
France	3:50	Composite PMI – final	March	54.0		54.0	
France	3:50	Services PMI – final	March	55.5		55.5	
Germany	3:55	Composite PMI – final	March	52.6		52.6	
Germany	3:55	Services PMI – final	March	53.9		53.9	
Eurozone	4:00	Composite PMI – final	March	54.1		54.1	
Eurozone	4:00	Services PMI – final	March	55.6		55.6	
United Kingdom	4:30	Composite PMI – final	March	52.2		52.2	
United Kingdom	4:30	Services PMI – final	March	52.8		52.8	
Italy	5:00	Retail sales	Feb.	n/a	n/a	1.7%	6.2%
THURSDAY 6							
Germany	2:00	Industrial production	Feb.	-0.3%	-2.0%	3.5%	-1.6%
FRIDAY 7							
France	2:45	Trade balance (€M)	Feb.	n/a		-12,939	
France	2:45	Current account (€B)	Feb.	n/a		-3.6	

NOTE: In contrast to the situation in Canada and the United States, disclosure of overseas economic figures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are daylight saving time (GMT - 4 hours).