WEEKLY COMMENTARY

Bank of Canada: Full Circle

By Royce Mendes, Managing Director and Head of Macro Strategy

The world has changed a lot since the Bank of Canada's last policy decision. A banking crisis in the US has reverberated across the globe, leaving a significant repricing in financial markets in its wake. Investors are now questioning central banks' resolve to keep interest rates high even more. That said, the Bank of Canada's modus operandi shouldn't have changed all that much since its March announcement.

Policymakers around the world have made progress in containing the fallout from bank failures. Of course, Canadian banks are world-renowned for their stability. The largest, most heavily regulated institutions make up the vast majority of the Canadian market. While they too face higher funding costs in the aftermath of the turmoil, there haven't been any concerns about their viability. So rather than keeping one eye on price stability and the other on financial stability, the Bank of Canada can continue to focus squarely on its inflation mandate next week.

Policymakers are undoubtedly relieved that they don't have to juggle competing priorities the way their US counterparts do, because getting inflation back to target is a full-time job. While underlying inflationary pressures have eased, they still indicate that consumer price growth in Canada is persistently running faster than the top end of the central bank's 1%–3% target range.

Moreover, GDP growth looks like it reaccelerated after a soft end to 2022. A month ago, just after the Bank of Canada's March decision, it seemed like central bankers might need to raise rates further in response to economic strength. The subsequent turbulence in the global banking system means another rate hike is for all intents and purposes off the table. But that's really just taken policymakers full circle back to where they were at the time of their last decision. In central bankers' view, stronger economic fundamentals will likely be offset by tighter borrowing conditions as a result of the turmoil.

What the Bank of Canada needs most now is time. Traditional models suggest it can take as long as 18 to 24 months for higher interest rates to really make their mark on the economy and inflation. But it's barely been 13 months since the first 25bp rate hike of this cycle.

As a result, most fixed-rate mortgages are still locked in at low rates. While interest costs on variable-rate mortgages adjust immediately, most homeowners have fixed payments. Many financial institutions are also allowing borrowers who owe more in interest than their fixed payment would cover to hold their payment steady. The extra interest is simply being added to the principal owed. But as more fixed- and variable-rate mortgages come up for renewal, higher interest rates will begin to bite harder.

With the banking system having stronger defenses than in other jurisdictions, the Bank of Canada can credibly claim that financial institutions should be able to weather the storm of higher interest rates better. As a result, look for policymakers to again signal that they intend to leave the policy rate on hold and quantitative tightening on autopilot until they get inflation back down to 2%. To push back against the rate cuts priced into markets, they'll probably continue to suggest that risks in the near-term remain tilted towards more rate hikes rather than cuts. But that's probably just tough talk. All in all, while the world has changed a lot since the last Bank of Canada announcement, the narrative from central bankers will be a familiar one–patiently wait for past policy moves to work their magic.

CONTENT

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

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

WEDNESDAY, April 12 - 8:30

March	m/m
Consensus	0.3%
Desjardins	0.1%
February	**0.4%**

Consumer price index (March) – The year-over-year change in the consumer price index (CPI) continued to decline in February, falling from 6.4% in January to 6.0%. We expect this trend to have continued in March. After February's 0.4% increase, March's monthly CPI print probably slowed, thanks in part to the energy sector. Pump prices were up an average of 0.4% in March, but since they usually rise much more at this time of year, seasonal adjustments are likely to lead to a sharp drop in the CPI's gasoline component. However, we think food prices increased a bit more than the 0.3% we saw in February. Stripping out food and energy, the monthly core CPI print should come in lower than February's 0.5% gain. That said, we'll have to keep a close eye on airfares, which have spiked in recent months, and prices of used cars and trucks, which could start climbing again according to certain indexes. We expect the all items index to edge up 0.1% and core CPI excluding food and energy to rise 0.3%. The year-over-year change in the all items index should fall further from 6.0% to 5.1%, while core inflation is likely to come in flat at 5.5%.

FRIDAY, April 14 - 8:30

March	m/m
Consensus	-0.4%
Desjardins	-1.2%
February	**-0,4%**

Retail sales (March) – After surging 3.2% in January, retail sales dipped by a modest 0.4% in February. We're forecasting a bigger decline in March. The number of new vehicles sold fell 1.2% on the month, but the fact that customers are purchasing less high-end vehicles could lead to a bigger drop in retail sales. Gasoline prices were lower on a seasonally adjusted basis, likely eroding gasoline station receipts. Excluding motor vehicles and gasoline, preliminary card transaction data is negative, particularly for durable goods and food services. All in all, we expect a 1.2% drop in total retail sales and a 1.1% decrease in sales excluding motor vehicles and gasoline.

FRIDAY, April 14 - 9:15

March	m/m
Consensus	0.3%
Desjardins	0.5%
February	**0.0%**

Industrial production (March) – After falling for three straight months last fall, industrial production rose 0.4% in January and was flat in February. It remains 1.5% below its September 2022 peak. We expect a slight uptick in March, primarily on the back of a sharp increase in energy production. Meanwhile manufacturing should come in relatively stable. The production component of the ISM Manufacturing index edged up to 47.8 in March, but remains below 50. The March hours worked print due out Friday will help us fine tune our forecast. For now, we expect industrial production to rise 0.5%.

FRIDAY, April 14 - 10:00

April	Index
Consensus	64.0
Desjardins	62.8
March	**62.0**

University of Michigan consumer sentiment index (April – preliminary) – The University of Michigan consumer sentiment index fell 5.0 points in March, its biggest monthly decline since June 2022. The index slumped from 67.0 in February to 63.4 in the preliminary March estimate, then ultimately to 62.0. The scale of the drop between March's two prints leads us to believe that the late-month deterioration may have continued into April. However, this was likely related to concerns about the US banking sector, and most of those fears appear to have been allayed. We've also seen the stock market rebound in recent weeks, which could boost confidence. Furthermore, gasoline prices have been fairly stable, although rising oil prices in early April pose a risk. March's Conference Board index print (+0.8 points) and April's TIPP index reading (+0.5 points) both saw modest increases. All in all, we're expecting the University of Michigan index to inch up.

CANADA

WEDNESDAY, April 12 - 10:00	
April	
Consensus	4.50%
Desjardins	4.50%
March 8	**4.50%**

Bank of Canada (April) – Expect the Bank of Canada to hold the line and keep rates unchanged at its April decision. While stresses in the global financial system have weighed on sentiment and forced policymakers into action, the strength and resilience of the Canadian financial system should allow Canadian policy setters to remain focused on inflation. Underlying inflationary pressures have eased recently, but price growth remains above the central bank's 1%–3% target range and points to a job that's not finished yet. Economic growth is also not cooperating with the Bank of Canada, showing few signs that monetary policy is having its intended effect. All of this suggests that the Bank of Canada will keep the door open to further rate increases, implicitly pushing back on market pricing for rate cuts this year. That leaves central bankers with the same game plan they had at their last decision—essentially leaving the policy rate on hold and quantitative tightening on autopilot until they get inflation back down to 2%.

FRIDAY, April 14 - 8:30	
February	
Consensus	n/a
Desjardins	-1.1%
January	**4.1%**

Manufacturing sales (February) – After January's outsized gain, manufacturing sales are forecast to have declined 1.1% in February, smaller than the -2.8% published by Statistics Canada in its flash estimate. This projected February decline is expected to be led by prices, while volumes look as if they may have been broadly flat, as another advance in car and truck production in February largely offset weakness in trade activity. However, we anticipate a broad-based decline in manufacturing sales for February.

FRIDAY, April 14 - 9:00	
March	
Consensus	n/a
Desjardins	3.1%
February	**2.3%**

Existing home sales (March) – A survey of regional real estate boards across Canada suggests we could be in for another month of gains in existing home sales in March. While seasonally-adjusted data are scarce, the Toronto Regional Real Estate Board estimates home sales rose 1.6% (m/m) in the Greater Toronto Area in March. Looking to other major urban centres in Canada, year-over-year growth numbers for Vancouver, Calgary and smaller cities in Ontario point to a more broad-based national advance in March than that experienced in February.

OVERSEAS

THURSDAY, April 13 - 2:00	
February	**m/m**
Consensus	0.1%
January	**0.3%**

United Kingdom: Monthly GDP (February) – The first quarter of 2023 started out strong, with monthly GDP expanding 0.3% in January. However, carryover growth is still negative due to December's contraction. It remains to be seen whether February's print will continue January's trend or reveal new challenges for the UK economy. Labour disputes abounded again in February, likely disrupting the economy. Still, the UK's PMI readings surged in February before edging down in March. Retail sales were also up nicely in February. As such, we're hoping for further growth in UK monthly GDP.

Economic Indicators

Week of April 10 to 14, 2023

Day	Time	Indicator	Period	Consensus		Previous data

UNITED STATES

Day	Time	Indicator	Period	Consensus		Previous data
MONDAY 10	10:00	Wholesale inventories – final (m/m)	Feb.	0.2%	0.2%	0.2%
	16:15	Speech by Federal Reserve Bank of New York President J. Williams				
TUESDAY 11	13:30	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	18:00	Speech by Federal Reserve Bank of Philadelphia President P. Harker				
	19:30	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
WEDNESDAY 12	8:30	Consumer price index				
		Total (m/m)	March	0.3%	0.1%	0.4%
		Excluding food and energy (m/m)	March	0.4%	0.3%	0.5%
		Total (y/y)	March	5.2%	5.1%	6.0%
		Excluding food and energy (y/y)	March	5.6%	5.5%	5.5%
	9:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	14:00	Federal budget (US$B)	March	n/a	n/a	-262.4
	14:00	Release of the Federal Reserve's meeting minutes				
THURSDAY 13	8:30	Initial unemployment claims	April 4–7	n/a	235,000	228,000
	8:30	Producer price index				
		Total (m/m)	March	0.0%	-0.2%	-0.1%
		Excluding food and energy (m/m)	March	0.3%	0.1%	0.0%
FRIDAY 14	8:30	Export prices (m/m)	March	-0.2%	-0.8%	0.2%
	8:30	Import prices (m/m)	March	-0.1%	-0.5%	-0.1%
	8:30	Retail sales				
		Total (m/m)	March	-0.4%	-1.2%	-0.4%
		Excluding automobiles (m/m)	March	-0.3%	-1.3%	-0.1%
	9:15	Industrial production (m/m)	March	0.3%	0.5%	0.0%
	9:15	Production capacity utilization rate	March	78.7%	79.4%	79.1%
	10:00	Business inventories (m/m)	Feb.	0.3%	0.3%	-0.1%
	10:00	University of Michigan consumer sentiment index – preliminary	April	64.0	62.8	62.0

CANADA

Day	Time	Indicator	Period	Consensus		Previous data
MONDAY 10	---	---				
TUESDAY 11	---	---				
WEDNESDAY 12	10:00	Bank of Canada meeting	April	4.50%	4.50%	4.50%
	10:00	Release of the Bank of Canada's Monetary Policy Report				
	11:00	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 13	9:00	Speech by Bank of Canada Governor T. Macklem				
FRIDAY 14	8:30	Manufacturing sales (m/m)	Feb.	n/a	-1.1%	4.1%
	9:00	Existing home sales (m/m)	March	n/a	3.1%	2.3%

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 10 to 14, 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 9							
Japan	19:50	Current account (¥B)	Feb.	1,267.7		216.3	
Japan	19:50	Trade balance (¥B)	Feb.	-575.5		-3,181.8	
MONDAY 10							
Japan	1:00	Consumer confidence	March	31.5		31.1	
China	21:30	Consumer price index	March		1.0%		1.0%
China	21:30	Producer price index	March		-2.5%		-1.4%
TUESDAY 11							
Eurozone	5:00	Retail sales	Feb.	-0.8%	-3.3%	0.3%	-2.3%
Japan	19:50	Producer price index	March	0.1%	7.2%	-0.4%	8.2%
WEDNESDAY 12							
South Korea	---	Bank of Korea meeting	April	3.50%		3.50%	
THURSDAY 13							
China	---	Trade balance (US$B)	March	41.00		78.01	
Germany	---	Current account (€B)	Feb.	n/a		16.2	
Germany	2:00	Consumer price index – final	March	0.8%	7.4%	0.8%	7.4%
United Kingdom	2:00	Monthly GDP	Feb.	0.1%		0.3%	
United Kingdom	2:00	Industrial production	Feb.	0.2%	-3.7%	-0.3%	-4.3%
United Kingdom	2:00	Index of services	Feb.	0.2%		0.5%	
United Kingdom	2:00	Construction	Feb.	0.5%	1.3%	-1.7%	0.6%
United Kingdom	2:00	Trade balance (£M)	Feb.	-5,000		-5,861	
Italy	4:00	Industrial production	Feb.	0.4%	n/a	-0.7%	1.4%
Eurozone	5:00	Industrial production	Feb.	0.8%	1.2%	0.7%	0.9%
FRIDAY 14							
France	2:45	Consumer price index – final	March	n/a	5.6%	0.8%	5.6%

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).