

WEEKLY COMMENTARY

Pragmatic Instead of Dogmatic

By Royce Mendes, Managing Director and Head of Macro Strategy

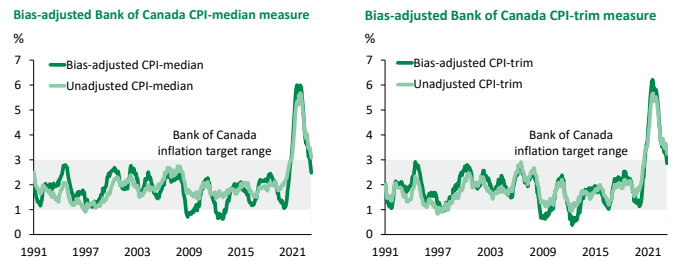
The Bank of Canada is at risk of leaving monetary policy restrictive for too long. Doing so could tip the economy into an unnecessary recession. Before the last rate decision, we argued that the central bank’s preferred measures of core inflation were overestimating the true nature of underlying price pressures.

Since the original publication of our [work](#), we’ve been joined by other economics groups in pointing out the limitations of using CPI-median and CPI-trim as operational guides for monetary policy. Our research, however, remains the most robust and sophisticated method for demonstrating their shortcomings.

We showed how skewness in the underlying distribution of price changes has caused the central bank’s indicators to become biased upward. What surprised most readers was how much of the distribution was exhibiting price changes well below the 2% target, as evidenced by the fat left tail (graph 1).

The way raw CPI-median and CPI-trim are calculated causes them to ignore important signals about the underlying trends in consumer prices. Following research conducted at the Cleveland Fed, we adjusted for this bias and found that underlying inflation is probably lower than what the unadjusted measures suggest (graph 2).

Graph 2
Adjusted for Bias, BoC Core Measures Are Materially Lower

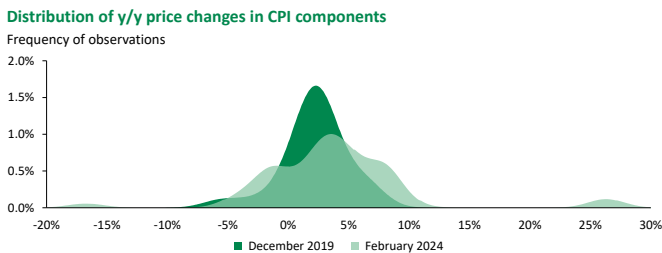


Statistics Canada and Desjardins Capital Markets

To the credit of Governor Macklem, he hasn’t been dogmatic in his defence of the Bank of Canada’s so-called preferred metrics. He’s been open about the need to review the indicators in an effort to ensure that central bankers are doing everything they can to accurately gauge underlying inflation.

In recent communications, policymakers have repeatedly stated that they’re looking at a host of inflation indicators, including CPI ex-food and energy, CPIX and the share of CPI components rising faster than 3%. What they’re looking for is consistency across all these indicators.

Graph 1
The Distribution of Price Changes Now Exhibits a Fat Left Tail



Statistics Canada and Desjardins Capital Markets

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The good news is that such uniformity is beginning to reveal itself. The three-month annualized rates of CPI-median, CPI-trim, CPI-ex food and energy and CPIX range from 0.0% to 2.3%. As recently as December 2023, that range was 2.4% to 3.8%. While the share of components with prices rising faster than 3% per year remains elevated at 40%, the share of below 1% is now also roughly 40%, higher than it averaged in 2019. The only fly in the ointment is crude oil prices, which have risen 20% since the beginning of 2024.

Still, as it stands today, central bankers should have more confidence that inflation is on its way back to their 2% target than they had earlier this year. Assuming officials are being forthright in their desire to balance the risks around the economy and inflation, a pragmatic approach would call for the Bank of Canada to begin easing around the middle of 2024.

Doing so in a gradual but consistent manner likely wouldn't stoke any renewed inflationary pressures, given that rates would still be in restrictive territory until at least 2025. But it would soften the blow from mortgage renewals and business insolvencies, which are both piling up. So while we don't expect any move in rates next week, policymakers could begin signalling that cuts aren't too far off in the future.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Marc Desormeaux, Principal Economist, Marc-Antoine Dumont, Senior Economist, Francis Généreux, Principal Economist, and Tiago Figueiredo, Macro Strategist

WEDNESDAY April 10 - 8:30

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

FRIDAY April 12 - 10:00

April	
Consensus	78.7
Desjardins	78.8
March	79.4

WEDNESDAY April 10 - 9:45

April	
Consensus	5.00%
Desjardins	5.00%
March 6	5.00%

FRIDAY April 12 - 9:00

March	m/m
Consensus	n/a
Desjardins	-1.5%
February	-3.1%

UNITED STATES

Consumer price index (March) – Inflation has been sticky for several months, which means progress toward the Fed’s 2% target has been underwhelming. In February, year-on-year growth in the consumer price index (CPI) came in at 3.2%, which is more or less where it was in June and July of 2023. We don’t expect things to improve in March. On the contrary, 12-month growth in the all items index probably increased to 3.5%. As in February, the monthly gain was likely 0.4%. Once again, energy prices—including gasoline prices, which jumped by an average of 6.9% in March—are expected to have fuelled month-on-month growth in headline CPI. Meanwhile, core inflation is expected to have risen 0.3%. This would be just below the 0.4% advance recorded in February, when goods prices (excluding food and energy) rose after eight consecutive months of decline, while services prices edged lower. It will be interesting to see whether these trends continued in March. We expect core inflation to have pulled back slightly, from 3.8% to 3.7%.

University of Michigan consumer sentiment index (April – preliminary) – The University of Michigan consumer sentiment index surprised everyone by accelerating in March. Even though the preliminary reading came in at 76.5, down from the final February result (76.9), March’s final print revealed the index had climbed to 79.4 instead. That’s the highest it’s been since July 2021. But we expect it to lose some momentum in April. The modest decline in the Conference Board index in March, the uptick in unemployment claims last week and especially the surge in gasoline prices that lasted throughout the month all suggest consumer confidence may fade slightly. That said, stock market gains could make up for these difficulties. Overall, we expect the University of Michigan index to slip only a few tenths of a percentage point.

CANADA

Bank of Canada meeting (April) – The Bank of Canada (BoC) won’t be changing interest rates in April, but will be looking to signal that rate cuts aren’t too far off. With recent data showing sluggish economic growth, easing price pressures, and further weakening in the labour market, the case for keeping monetary policy unchanged is becoming more tenuous. The latest BoC consumer and business surveys suggest that with the right amount of monetary easing, the Canadian economy could still skirt a recession. Easing policy gradually and consistently likely won’t stoke any inflationary pressures and would soften the blow from mortgage renewals and business insolvencies, both of which are piling up.

Existing home sales (March) – We’re anticipating a 1.5% decline in national home sales for March. Preliminary numbers from local real estate boards suggest seasonally adjusted month-over-month declines in Toronto, Vancouver, Calgary and Edmonton, though activity looks to have remained relatively high in the latter two markets. We’ll continue to watch what happens with new listings. This indicator—important for measuring supply–demand balances and predicting near-term price pressures—has gone through ups and downs in the last year along with expectations for interest rates. Higher borrowing costs at mortgage renewal appear to be pushing some homeowners to list their properties, while others may be waiting until buying activity stabilizes.

OVERSEAS
WEDNESDAY April 10 - 21:30

March	y/y
Consensus	0.4%
February	0.7%

THURSDAY April 11 - 8:15

April	
Consensus	4.50%
Desjardins	4.50%
March 7	4.50%

FRIDAY April 12 - 2:00

February	m/m
Consensus	0.1%
January	0.2%


China: Consumer price index (March) – After four months in negative territory, the year-over-year change in China’s consumer price index (CPI) jumped from -0.8% in January to 0.7% in February. But this leap hides the diverging trajectories of the index’s components. Although services popped 1.9% higher month-on-month, goods faltered by 0.1%. Meat prices, a key indicator of Chinese domestic demand, also lost 2.9%. So it’s a little early to say China has won its battle with deflation. That said, February’s sharp rise in industrial production and retail sales suggest things could be getting back to normal.


Eurozone: European Central Bank meeting (April) – At its last monetary policy meeting, the European Central Bank (ECB) welcomed the slowdown in inflation but still felt it was better to wait before it starts cutting rates. The most recent inflation numbers showed further progress towards the 2% target, which should please the ECB, but service prices are still marching higher. Salaries could be another stumbling block. Up to now, limited progress has been made on reining in wage increases. The ECB will have to wait until its June meeting for updated salary data to confirm wage growth really is cooling. In short, the ECB will most likely stand pat on monetary policy in April, while laying the groundwork for a pivot in June if the data shows trends are improving.

United Kingdom: Monthly GDP (February) – The UK economy started 2024 on a high note, with monthly real GDP expanding 0.2% in January. This contrasted with how it ended 2023, with a 0.1% drop in December. The improvement in the PMI indexes was a promising sign for the country’s economic growth. However, retail sales fell 0.3% in February (after rising 0.5% in January), which suggests monthly GDP may have ticked lower.

Economic Indicators

Week of April 8 to 12, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 8	19:00	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
TUESDAY 9	---	---				
WEDNESDAY 10	8:30	Consumer price index				
		Total (m/m)	March	0.3%	0.4%	0.4%
		Excluding food and energy (m/m)	March	0.3%	0.3%	0.4%
		Total (y/y)	March	3.5%	3.5%	3.2%
		Excluding food and energy (m/m)	March	3.7%	3.7%	3.8%
	8:45	Speech by Federal Reserve Governor M. Bowman				
	10:00	Wholesale inventories – preliminary (m/m)	Feb.	n/a	0.5%	0.5%
	12:45	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	14:00	Federal budget (US\$B)	March	n/a	n/a	-296.3
	14:00	Release of the Federal Reserve's meeting minutes				
THURSDAY 11	8:30	Initial unemployment claims	April 1–5	n/a	215,000	221,000
	8:30	Producer price index				
		Total (m/m)	March	0.3%	0.5%	0.6%
		Excluding food and energy (m/m)	March	0.2%	0.3%	0.3%
	8:45	Speech by Federal Reserve Bank of New York President J. Williams				
	12:00	Speech by Federal Reserve Bank of Boston President S. Collins				
FRIDAY 12	8:30	Export prices (m/m)	March	0.2%	0.8%	0.8%
	8:30	Import prices (m/m)	March	0.3%	0.4%	0.3%
	10:00	University of Michigan consumer sentiment index – preliminary	April	78.7	78.8	79.4
	13:30	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	14:30	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	15:30	Speech by Federal Reserve Bank of San Francisco President M. Daly				
CANADA						
MONDAY 8	---	---				
TUESDAY 9	---	---				
WEDNESDAY 10	8:30	Building permits (m/m)	Feb.	-3.9%	-5.4%	13.5%
	9:45	Bank of Canada meeting	April	5.00%	5.00%	5.00%
	9:45	Release of the Bank of Canada's Monetary Policy Report				
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 11	---	---				
FRIDAY 12	9:00	Existing home sales (m/m)	March	n/a	-1.5%	-3.1%

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 April 8 to 12, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
SUNDAY 7								
Japan	19:50	Current account (¥B)	Feb.	1,995.0		2,727.5		
MONDAY 8								
Germany	2:00	Trade balance (€B)	Feb.	25.0		27.6		
Germany	2:00	Industrial production	Feb.	0.5%	-6.7%	1.0%	-5.5%	
TUESDAY 9								
Japan	1:00	Consumer confidence	March	39.6		39.1		
France	2:45	Trade balance (€M)	Feb.	n/a		-7,388		
France	2:45	Current account (€B)	Feb.	n/a		-1.0		
Japan	19:50	Producer price index	March	0.3%	0.8%	0.2%	0.6%	
New Zealand	22:00	Reserve Bank of New Zealand meeting	April	5.50%		5.50%		
WEDNESDAY 10								
Italy	4:00	Retail sales	Feb.	n/a	n/a	-0.1%	1.0%	
China	21:30	Consumer price index	March		0.4%		0.7%	
China	21:30	Producer price index	March		-2.8%		-2.7%	
THURSDAY 11								
South Korea	---	Bank of Korea meeting	April	3.50%		3.50%		
Germany	---	Current account (€B)	Feb.	n/a		29.7		
China	---	Trade balance (US\$B)	March	70.22		75.31		
Italy	4:00	Industrial production	Feb.	0.5%	-2.7%	-1.2%	-3.4%	
Eurozone	8:15	European Central Bank meeting	April	4.50%		4.50%		
FRIDAY 12								
Japan	0:30	Industrial production – final	Feb.	n/a	n/a	-0.1%	-3.4%	
United Kingdom	2:00	Trade balance (€M)	Feb.	-3,100		-3,129		
United Kingdom	2:00	Construction	Feb.	-0.4%	-1.0%	1.1%	0.7%	
United Kingdom	2:00	Index of services	Feb.	0.1%		0.2%		
United Kingdom	2:00	Monthly GDP	Feb.	0.1%		0.2%		
United Kingdom	2:00	Industrial production	Feb.	0.0%	0.6%	-0.2%	0.5%	
Germany	2:00	Consumer price index – final	March	0.4%	2.2%	0.4%	2.2%	
France	2:45	Consumer price index – final	March	0.2%	2.3%	0.2%	2.3%	

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 Eastern Daylight Time (GMT - 4 hours).