

**WEEKLY COMMENTARY**

# Can the Bank of Canada Pull Off a Second Soft Landing?

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

The agricultural sector is one of the first channels through which geopolitical shocks are passed on to the Canadian economy. Agriculture is especially sensitive to swings in global energy markets because it's heavily reliant on diesel fuel and nitrogen fertilizers, whose production costs closely follow natural gas prices. That said, these impacts typically emerge later in the agricultural production cycle.

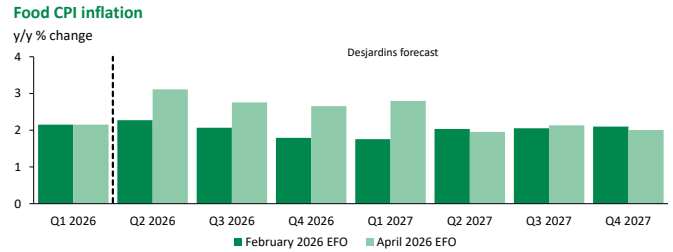
Natural gas accounts for 70%–80% of the production costs for nitrogen fertilizers like urea and ammonia. The current friction in the Strait of Hormuz is disrupting exports from Gulf producers, particularly those in Qatar and Saudi Arabia, and ultimately affecting global markets.

Domestic natural gas prices are still in line with the North American benchmark (Henry Hub), but agricultural producers are continuing to feel the sting of higher global fertilizer prices, which have been pushed up by the increased energy costs in Europe and the Middle East, and by the contraction in global supply. According to international benchmark data, prices are up by 30% to 50% from the start of the year, putting upward pressure on field crop production costs. In Quebec and Ontario, grain corn (a dominant crop and key input for livestock feed) is most exposed to this pressure, whereas in the Western provinces, the impact will be more pronounced for wheat and canola.

The agricultural sector absorbs these shocks with a lag, due to its production decision calendars. Acreage, crops and fertilizer rates are all determined several months before the planting season begins. At this point, producers have already negotiated or secured a substantial portion of their inputs for 2026. The

effects we see this year will primarily stem from higher direct energy costs, such as diesel for equipment and transportation, and surging prices for imported inputs, as freight costs track oil prices. In our base case scenario (graph 1), a gradual easing of tensions in the Strait of Hormuz would limit second-round effects on food prices. Margin pressure on producers would be temporary and would not result in a lasting acreage reallocation.

**Graph 1**  
Our Base Case Forecast Assumes a Moderate and Temporary Acceleration in Food Inflation



EFO: Economic and Financial Outlook  
Statistics Canada and Desjardins Economic Studies

The risk is that this shock persists. If fertilizer prices remain high over a longer timeline, second-round effects would be greater in 2027. Faced with persistently high fertilizer prices, producers would begin making adjustments, such as switching fields from corn to soybean, reducing the amount of fertilizer used, or letting less profitable acres lie fallow. This would likely affect crop yields and production volumes during the 2027 harvest before driving up dairy and pork production costs.

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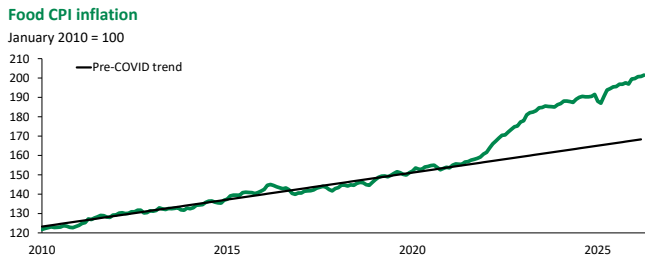
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This shock would then compound existing structural weaknesses. Food prices already underwent a structural change in the first half of this decade (graph 2) that can be attributed to several factors: input costs and import prices both rose, wages grew throughout the supply chain during the pandemic, extreme weather events multiplied and demand jumped.

**Graph 2**  
**Structural Change in Food Inflation Since COVID-19**



Statistics Canada and Desjardins Economic Studies

All of this further complicates the Bank of Canada’s task. In its April 2026 Monetary Policy Report, the Bank calls for inflation to jump briefly before returning to the 2% target in 2027, while warning against the second-round effects of a persistent energy shock. Although it represents only about 17% of the CPI basket, food is a particularly visible pain point for households and therefore plays a disproportionate role in their inflation expectations. Should these second-round effects materialize, the Bank would find itself in a difficult position, forced to further tighten domestic demand even as it is weighed down by multiple headwinds, including slower demographic growth, tariff uncertainty and vulnerabilities in the Toronto and Vancouver real estate markets. Back in 2022, the Canadian economy was able to weather an aggressive tightening cycle and the Bank managed to achieve a soft landing. There is markedly less room for manoeuvre today, and a repeat performance seems much more challenging.

# What to Watch For

## MONDAY May 11 - 10:00

<b>April</b>	<b>ann. rate</b>
Consensus	4,050,000
Desjardins	4,020,000
<b>March</b>	<b>3,980,000</b>

## TUESDAY May 12 - 8:30

<b>April</b>	<b>m/m</b>
Consensus	0.6%
Desjardins	0.5%
<b>March</b>	<b>0.9%</b>

## THURSDAY May 14 - 8:30

<b>April</b>	<b>m/m</b>
Consensus	0.6%
Desjardins	0.6%
<b>March</b>	<b>1.7%</b>

## FRIDAY May 15 - 9:15

<b>April</b>	<b>m/m</b>
Consensus	0.2%
Desjardins	0.5%
<b>March</b>	<b>-0.5%</b>

## UNITED STATES

**Existing home sales (April)** – Home resales continue to fluctuate. After falling 5.9% in January, activity rose 2.7% in February before sliding 3.6% in March. This brought existing home sales to their lowest level since June 2025. We expect this seesaw pattern continued in April with another gain. Pending sales recently went up despite higher mortgage rates. Mortgage applications for home purchases also climbed in March and April. At the time of writing, we have little preliminary regional data to go on, but the data that had been released were somewhat promising. We project existing home sales will come in at an annualized 4,020,000 units.

**Consumer price index (April)** – The consumer price index (CPI) surged 0.9% in March, the biggest monthly jump since June 2022. The skyrocketing cost of gasoline (+21.2%) and fuel oil (+30.7%) pushed energy prices up by 10.9%. This component accounted for 0.7 percentage points of the 0.9% monthly increase in the all-items index. In April, energy likely fuelled another increase in headline inflation, as oil and gasoline prices continued to rise, albeit at a slower pace. Prices at the pump were up nearly 13% in April, though we expect seasonal adjustments to temper their impact. Energy should add around 0.3 percentage points to monthly growth in total CPI. We expect core CPI, which strips out food and energy, rose about 0.2% in April, similar to March and February. Overall, total CPI probably advanced 0.5% month over month. This would bring year-over-year growth up from 3.3% to 3.6%. Core inflation likely remained unchanged at 2.6%.

**Retail sales (April)** – In March, retail sales growth saw its strongest monthly print since March 2025. But two thirds of that increase came from higher gas station sales, which were inflated by the steep rise in gasoline prices. That said, sales excluding motor vehicles and gasoline were up 0.6%, which isn't exactly insignificant. In April, gasoline stations likely posted another positive contribution, although growth probably moderated from March. Sales at motor vehicle dealers probably declined, as data released earlier in the month revealed a downturn in new vehicle sales. Monthly growth in other sectors was probably weaker in April than in March, as higher energy prices started to take a bigger bite out of real income and confidence. However, disposable income was probably partly supported by larger tax refunds this year, following last summer's tax cuts. All in all, we expect a 0.6% increase in total sales and a 0.3% gain in sales excluding motor vehicles and gasoline.

**Industrial production (April)** – After jumping 0.7% in February—the biggest month-over-month gain in a year—industrial production ticked 0.5% lower in March. This slump was mainly due to the energy sector, as warmer temperatures cooled heating demand. That said, there was also a decrease in manufacturing, which lost ground for the first time since December. The energy sector probably made a positive contribution in April, as the weather went back to normal. As for manufacturing, the production component of the ISM Manufacturing index fell in April but remained above the 50-point threshold. Hours worked in the automotive sector surged last month. Look for manufacturing output to have grown 0.3% and total industrial production to have risen 0.5%.

**THURSDAY May 14 - 5:00**

<b>April</b>	<b>m/m</b>
Consensus	0.7%
Desjardins	1.0%
<b>March</b>	<b>-0.1%</b>

**FRIDAY May 15 - 8:15**

<b>April</b>	<b>ann. rate</b>
Consensus	242,500
Desjardins	245,000
<b>March</b>	<b>235,900</b>

**FRIDAY May 15 - 8:30**

<b>March</b>	<b>m/m</b>
Consensus	3.5%
Desjardins	3.5%
<b>February</b>	<b>3.6%</b>

**SUNDAY May 10 - 21:30**

<b>April</b>	<b>y/y</b>
Consensus	0.9%
<b>March</b>	<b>1.0%</b>

**THURSDAY May 14 - 2:00**

<b>Q1 2026</b>	<b>q/q</b>
Consensus	0.6%
<b>Q4 2025</b>	<b>0.1%</b>

**CANADA**

**Existing home sales (April)** – National seasonally adjusted home sales likely rose by about 1% m/m in April, even as early year-over-year data from local real estate boards point to continued declines in most major markets compared to April 2025. In Toronto, however, momentum appears to be improving. The Toronto Regional Real Estate Board reported that seasonally adjusted sales increased 6.1% from March, building on a 1.4% month-over-month gain in February.

**Housing starts (April)** – We estimate that housing starts likely averaged about 245k (saar) in April, broadly in line with recent homebuilding trends. Ongoing government support for purpose-built rental construction likely continued to underpin activity, keeping starts above levels that current economic conditions would otherwise suggest.

**Manufacturing sales (March)** – We anticipate that manufacturing sales increased by 3.5% m/m in March, in line with Statistics Canada’s flash estimate. Sales of petroleum, coal and transportation equipment products likely rose. In real terms, manufacturing sales appear to have advanced by 1.8%, as seasonally adjusted industrial product prices climbed (1.7% in March).


**OVERSEAS**


**China: Consumer price index (April)** – Despite rising energy prices, Chinese inflation slowed to 1.0% in March, down from 1.3% in February. Once again, low prices for food, especially meat, caused the decline. Food prices may have played a similar role in April. Energy prices may have gone up, but China’s energy market—particularly electricity prices—remains highly regulated. That likely eased the upward pressure. As a result, year-over-year growth in the Chinese CPI could come in close to the 1% increase posted in March.

**United Kingdom: Real GDP (Q1)** – At the end of 2025, the UK posted its weakest quarterly real GDP growth (a mere 0.05%) since fall 2023. We’re expecting a slightly stronger print for the first quarter of 2026. Monthly GDP for January and February suggest quarterly carry-over growth of 0.6%, which is relatively robust. So the March reading would have to be disappointing (or the January or February prints revised downward) to send growth back down to where it was in the fourth quarter of last year. Of course, March may surprise to the downside, as sharply higher energy prices may have reined in economic activity. But retail sales and PMIs have been resilient. In last week’s Monetary Policy Report, the Bank of England forecast a 0.5% increase in real GDP for the first quarter of 2026. But growth could slow significantly in the second quarter.

# Economic Indicators

## Week of May 11 to 15, 2026

Date	Time	Indicator	Period	Consensus		Previous reading
<b>UNITED STATES</b>						
<b>MONDAY 11</b>	10:00	Existing home sales (ann. rate)	April	4,050,000	4,020,000	3,980,000
<b>TUESDAY 12</b>	8:30	Consumer price index				
		Total (m/m)	April	0.6%	0.5%	0.9%
		Excluding food and energy (m/m)	April	0.3%	0.2%	0.2%
		Total (y/y)	April	3.7%	3.6%	3.3%
		Excluding food and energy (y/y)	April	2.7%	2.6%	2.6%
	13:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	14:00	Federal budget (US\$B)	April	225.0	n/a	-164.1
<b>WEDNESDAY 13</b>	8:30	Producer price index				
		Total (m/m)	April	0.5%	0.7%	0.5%
		Excluding food and energy (m/m)	April	0.3%	0.3%	0.1%
	11:30	Speech by Federal Reserve Bank of Boston President S. Collins				
	13:15	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
<b>THURSDAY 14</b>	8:30	Initial unemployment claims	May 4–8	205,000	212,000	200,000
	8:30	Export prices (m/m)	April	1.1%	0.9%	1.6%
	8:30	Import prices (m/m)	April	1.1%	0.5%	0.8%
	8:30	Retail sales				
		Total (m/m)	April	0.6%	0.6%	1.7%
		Excluding automobiles (m/m)	April	0.6%	0.8%	1.9%
	10:00	Business inventories (m/m)	March	0.9%	0.9%	0.4%
	13:00	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
	17:30	Speech by Federal Reserve Vice Chair M. Barr				
<b>FRIDAY 15</b>	8:30	Empire State Manufacturing Index	May	7.8	5.0	11.0
	9:15	Industrial production (m/m)	April	0.2%	0.5%	-0.5%
	9:15	Production capacity utilization rate	April	75.8%	76.0%	75.7%
<b>CANADA</b>						
<b>MONDAY 11</b>	---	---				
<b>TUESDAY 12</b>	---	---				
<b>WEDNESDAY 13</b>	13:30	Release of the Bank of Canada Summary of Deliberations				
	---	Speech by Bank of Canada External Deputy Governor M. Alexopoulos				
<b>THURSDAY 14</b>	5:00	Existing home sales (m/m)	April	0.7%	1.0%	-0.1%
	8:30	Wholesale sales (m/m)	March	1.4%	1.3%	2.0%
<b>FRIDAY 15</b>	8:15	Housing starts (ann. rate)	April	242,500	245,000	235,900
	8:30	International securities transactions (\$B)	March	n/a	n/a	6.17
	8:30	Manufacturing sales (m/m)	March	3.5%	3.5%	3.6%

**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 May 11 to 15, 2026

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
<b>OVERSEAS</b>								
<b>SUNDAY 10</b>								
China	21:30	Consumer price index	April		0.9%		1.0%	
China	21:30	Producer price index	April		1.8%		0.5%	
<b>MONDAY 11</b>								
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<b>TUESDAY 12</b>								
Japan	1:00	Leading index – preliminary	March	114.5		113.3		
Japan	1:00	Coincident index – preliminary	March	116.6		116.3		
Germany	2:00	Consumer price index – final	April	0.6%	2.9%	0.6%	2.9%	
Italy	4:00	Industrial production	March	0.2%	0.6%	0.1%	0.5%	
Germany	5:00	ZEW Current Conditions Survey	May	-78.0		-73.7		
Germany	5:00	ZEW Expectations Survey	May	-19.9		-17.2		
Japan	19:50	Current account (¥B)	March	2,938.0		2,709.0		
<b>WEDNESDAY 13</b>								
Germany	---	Current account (€B)	March	n/a		22.0		
France	1:30	ILO unemployment rate	Q1	7.8%		7.9%		
France	2:45	Consumer price index – final	April	1.0%	2.2%	1.0%	2.2%	
Eurozone	5:00	Net change in employment – preliminary	Q1	n/a	n/a	0.2%	0.7%	
Eurozone	5:00	Real GDP	Q1s	0.1%	0.8%	0.1%	0.8%	
Eurozone	5:00	Industrial production	March	0.3%	-1.6%	0.4%	-0.6%	
<b>THURSDAY 14</b>								
United Kingdom	2:00	Trade balance (£M)	March	n/a		-720		
United Kingdom	2:00	Construction	March	-0.5%	-2.4%	1.0%	-1.0%	
United Kingdom	2:00	Index of services	March	-0.1%		0.5%		
United Kingdom	2:00	Monthly GDP	March	-0.2%		0.5%		
United Kingdom	2:00	Real GDP – preliminary	Q1	0.6%	0.8%	0.1%	1.0%	
United Kingdom	2:00	Industrial production	March	-0.3%	0.3%	0.5%	-0.4%	
Japan	19:50	Producer price index	April	0.8%	3.0%	0.8%	2.6%	
<b>FRIDAY 15</b>								
Italy	4:00	Consumer price index – final	April	1.2%	2.8%	1.2%	2.8%	

**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).