WEEKLY COMMENTARY

Forecasts in a Time of High Uncertainty

By Royce Mendes, Managing Director and Head of Macro Strategy

Data can be manipulated to prove any theory true. Distinguishing between outright falsehoods, fallacies of weak induction and robust causal relationships is crucial to analyzing the world and forecasting its future path. But at times like these, when the global economy is undergoing substantial change, that task can be nearly impossible.

As statistician Nassim Taleb writes in The Black Swan, when a situation becomes even modestly more complex, the assumptions required to make accurate predictions must be significantly more precise. It's obvious that the world is a much more complex place than it was just a few months ago. The bottom line is that economic and financial market forecasts are at best fallacies of weak induction in the current environment. In other words, they're largely guesses based on limited evidence.

Our team's simulations regarding the economic fallout from a trade war are as good as it gets. Months after the initial publication of our results, the Bank of Canada released analysis that matched our own almost exactly. But that's cold comfort in times like these.

By definition, models are simplified versions of the real world that are most useful in analyzing modest disturbances around long-term trends. The statistical relationships that form the basis of such models break down when large shocks occur. Think about the pandemic or the global financial crisis. Some of the most sophisticated models in the world performed embarrassingly badly, with few if any predicting the surge in inflation in 2022 or the economic destruction in 2008–09.

The nature of Donald Trump's attempt to restructure the global trading system presents an additional problem for forecasters.

Not only is it a major structural change, but it's also one that is largely unprecedented, leaving forecasters with little by way of history to go on. If Trump's efforts usher in a period of global geopolitical upheaval, it will only work to amplify the complexity of the situation and reinforce the unprecedented nature of the current circumstances. And, of course, models have no way of capturing Trump's penchant for rapidly changing course.

This is not meant to be an indictment of models, which have many important uses when correctly specified. It's simply a warning to take any forecasts with the appropriate dose of caution, even those from reliable sources. It's better to concede that the future is unknown than be led astray by overconfidence in methods not well suited for the current situation.

That said, since central banks rarely heed this caution, our models can help predict their reaction function. Both our model and the Bank of Canada's point to a period of economic weakness, accompanied by only a modest one-time increase in inflation. It therefore seems likely that central bankers will have an easy decision to cut rates another 25 basis points again next week.

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What to Watch For

UNITED STATES

Consumer price index (February) – The all items consumer price index (CPI) posted its biggest monthly increase since August 2023 in January. The spike was fuelled by several items, including gasoline, food and other goods. We expect prices of most categories of goods to have risen in February, although gasoline may have edged down. The cost of fresh eggs has skyrocketed. The 10% tariffs imposed on imports from China could also have an impact, although we don't expect to see evidence of this until later months. Prices of used cars and trucks remain volatile. All things considered, we think the monthly gain in both headline and core CPI will come in at 0.3%. Year-over-year, headline inflation probably inched down from 3.0% to 2.9%, while core inflation likely held steady at 3.3%.

University of Michigan consumer sentiment index (March – preliminary) – Confidence is shaky in the United States. This week's ISM indexes showed that businesses are clearly concerned about the Trump administration's trade policy, but households are worried too. The University of Michigan consumer sentiment index has shed 9.3 points since December and is now at its lowest level since November 2023. Households are particularly anxious about a tariff-induced spike in inflation. However, there's still a clear partisan divide. Republicans are very confident, while sentiment among Democrats is at an all-time low. This week's stock market decline will likely push confidence indexes down further. That said, the Trump administration's tariff policy changes by the day. Surveys of consumers for March's preliminary print began on February 18 and will continue until Monday, March 10. A lot has happened during that time. All in all, we expect the University of Michigan index to have declined.

CANADA

Bank of Canada meeting (March) – US trade policy has already begun to weigh on economic activity in Canada, leaving the door open for the Bank of Canada to cut rates once again in March. Many businesses are hesitant to build or expand operations in Canada given the uncertainty. Even with the US administration delaying implementation of tariffs on some products, that investment is unlikely to return to Canada in the same magnitude. That bleak outlook for business investment coupled with the known headwinds from slowing population growth and the ongoing mortgage renewal cycle should be enough to push central bankers to lower rates further. A trade war with the US will put upward pressure on inflation going forward, but as long as inflation expectations remain anchored, central bankers can focus on the asymmetric downside risks to growth. The Bank of Canada's core inflation measures have risen, but most of that can be attributed to shelter, which has been slower to normalize. Excluding shelter inflation, the Bank of Canada's core inflation measures remain closer to the two percent target. While the Bank of Canada is likely to cut its policy rate by 25 basis points in March, central bankers are unlikely to offer much guidance on the path forward as it will be highly conditional on trade policy.

Manufacturing sales (January) – On manufacturing sales, we anticipate growth of 2.0% m/m in January, in line with Statistics Canada's flash estimate. The US January ISM survey points to increasing concern among businesses regarding the cost of tariffs, resulting in increased demand for Canadian manufacturing goods. In real terms, manufacturing sales likely increased by 1.0%, as sales growth probably offset a modest 1.0% rise in seasonally adjusted industrial product prices during the month.

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January	m/m
Consensus	0.1%
December	**0.4%**

OVERSEAS

United Kingdom: Monthly GDP (January) – Economic growth in the UK was surprisingly strong in December. The 0.4% monthly increase in real GDP was the biggest advance since March 2024 and helped avoid a negative quarterly print. January's GDP release will show whether this positive trend continued in early 2025. Retail sales growth has had a decent start to the year, but the UK's composite PMI has been flat in recent months.

Economic Indicators
Week of March 10 to 14, 2025

Date	Time	Indicator	Period	Consensus	⬡	Previous reading
UNITED STATES						
MONDAY 10	---	---				
TUESDAY 11	---	---				
WEDNESDAY 12	8:30	Consumer price index				
		Total (m/m)	Feb.	0.3%	0.3%	0.5%
		Excluding food and energy (m/m)	Feb.	0.3%	0.3%	0.4%
		Total (y/y)	Feb.	2.9%	2.9%	3.0%
		Excluding food and energy (y/y)	Feb.	3.2%	3.3%	3.3%
	14:00	Federal budget (US$B)	Feb.	n/a	n/a	-128.6
THURSDAY 13	8:30	Initial unemployment claims	March 3–7	n/a	228,000	221,000
	8:30	Producer price index				
		Total (m/m)	Feb.	0.3%	0.2%	0.4%
		Excluding food and energy (m/m)	Feb.	0.3%	0.3%	0.3%
FRIDAY 14	10:00	University of Michigan consumer sentiment index – prel.	March	63.9	62.0	64.7
CANADA						
MONDAY 10	---	---				
TUESDAY 11	---	---				
WEDNESDAY 12	9:45	Bank of Canada meeting	March	2.75%	2.75%	3.00%
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 13	8:30	National balance sheet	Q4			
	8:30	Building permits (m/m)	Jan.	-5.0%	-5.3%	11.0%
FRIDAY 14	8:30	Wholesale sales (m/m)	Jan.	1.8%	1.8%	-0.2%
	8:30	Manufacturing sales (m/m)	Jan.	2.0%	2.0%	0.3%

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 10 to 14, 2025

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
SUNDAY 9							
Japan	19:50	Current account (¥B)	Jan.	1,987.1		2,731.6	
MONDAY 10							
Japan	1:00	Leading index – preliminary	Jan.	108.2		108.3	
Japan	1:00	Coincident index – preliminary	Jan.	116.3		116.4	
Germany	3:00	Trade balance (€B)	Jan.	20.0		20.7	
Germany	3:00	Industrial production	Jan.	1.6%	-2.8%	-2.4%	-3.1%
Japan	19:50	Real GDP – final	Q4	0.7%		0.7%	
TUESDAY 11							
Japan	19:50	Producer price index	Feb.	-0.1%	4.0%	0.3%	4.2%
WEDNESDAY 12							
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THURSDAY 13							
Eurozone	6:00	Industrial production	Jan.	0.7%	-0.8%	-1.1%	-2.0%
FRIDAY 14							
Germany	---	Current account (€B)	Jan.	n/a		24.0	
United Kingdom	3:00	Trade balance (£M)	Jan.	-3,000		-2,816	
United Kingdom	3:00	Construction	Jan.	-0.1%	0.4%	-0.2%	1.5%
United Kingdom	3:00	Index of services	Jan.	0.1%		0.4%	
United Kingdom	3:00	Monthly GDP	Jan.	0.1%		0.4%	
United Kingdom	3:00	Industrial production	Jan.	-0.1%	-0.7%	0.5%	-1.9%
Germany	3:00	Consumer price index – final	Feb.	0.4%	2.3%	0.4%	2.3%
France	3:45	Consumer price index – final	Feb.	0.0%	0.8%	0.0%	0.8%
Italy	5:00	Industrial production	Jan.	1.1%	-3.0%	-3.1%	-7.1%

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).