

WEEKLY COMMENTARY



Canadian Investment Data Paint a Troubling Picture

By Marc Desormeaux, Principal Economist

Commentary on recession in Canada these days tends to focus on consumer spending and housing, but how business investment moves in the coming quarters will also shape the economy's trajectory. More importantly, how investment responds once the dust eventually clears is critical to Canada's long-run prosperity. We've gotten a few key data points on this front in recent weeks, and most of them aren't positive.

Somewhat under the radar, this week's Bank of Canada statement noted weakening business investment against a backdrop of softening foreign demand. In fact, in Q4 2022, real non-residential capital outlays fell by the most since the peak of the pandemic, anchored by a 28% q/q annualized plunge in machinery and equipment spending. That left total Canadian non-residential capital spending just a shade above where it was in the quarter before the pandemic started.

Investment intentions data for 2023, collected between September 2022 and January 2023, was more optimistic in aggregate but mixed under the hood. Oil and gas singlehandedly made up almost a quarter of the \$13B capital spending increase anticipated in 2023. Yet growth rates for oil production and related investment have already peaked. And consistent with the latest Alberta government projections, capital outlays are not expected to get anywhere near their 2014 heights. Other mining investment plans are strong, but over three-quarters is in Saskatchewan alone, largely because of ongoing work on the Jansen potash mine. Car plant completions last year will pose a drag on spending in the key transportation equipment industry this year. The renewable energy sector faces challenges with respect to competitiveness following the passage of the US Inflation Reduction Act.

Government spending can help to fill gaps in the short run, but is vulnerable to project timing changes and shortages of labour and key input products. [Alberta](#) and [BC's](#) budgets last week

boosted near-term infrastructure spending plans significantly, partly because delays last year pushed activity into 2023.

Moreover, we still likely haven't seen the full impacts of higher borrowing costs on business sector activity. The share of small and medium-sized firms under pressure from higher borrowing costs has risen to its highest level since at least 2009. And in Q4 2022, the number of businesses reporting that they couldn't take on more debt increased meaningfully in interest-sensitive sectors. Decades-high inflation, upward pressures on wages and supply chain constraints continue to impact the bottom line.

We also know that investment can take a long time to recover following economic downturns, which risks undermining Canadian living standards. We've seen uneven performance in Canada's oil and gas sector since 2014, and capital outlays in Ontario's manufacturing industry took eleven years to return to their pre-Global Financial Crisis peak. Meanwhile Canada's lagging business investment and productivity performance are behind OECD projections that it will see the weakest per-capita real GDP growth of any advanced economy in the coming decades.

As more fiscal plans are released, policymakers should focus on the supports that businesses need as well as concerns about affordability. Last year, we noted that small businesses were particularly hard hit by the pandemic in [Ontario](#) and [Quebec](#) and tend to be disproportionately impacted during recessions. Targeted cost and fee relief for small- and medium-sized firms could therefore be part of sensible budget planning in anticipation of an economic downturn. And following the US Inflation Reduction Act's passage, all levels of government can and should work to signal greater certainty for the renewable energy sector. This industry was [recently cited by the OECD](#) as key to strengthening Canada's productivity. Ultimately, efforts to support business investment during this downturn will not only affect the course of the next few quarters, but Canadians' quality of life for years to come.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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What to Watch For

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UNITED STATES

TUESDAY, March 14 - 8:30

February	m/m
Consensus	0.4%
Desjardins	0.4%
December	0.5%

Consumer price index (February) – In positive news, the year-over-year change in the consumer price index (CPI) continues to decline. Headline inflation came in at 6.3% in January, well down from last June's peak of 9.1%. That said, inflation is still high, and the monthly and quarterly changes in the all items index and core CPI—which strips out food and energy—remain strong, suggesting that prices are stickier than the Fed would like. The all items index likely edged up 0.4% month-over-month in February on the back of higher pump prices. Meanwhile food prices probably rose less than the 0.5% increase in January. Stripping out food and gasoline, we think February's print will also come in at 0.4%. Price growth will likely come primarily from services again, but some temporary goods price pressure is also possible. There are signs that used car and truck prices are rising. Despite relatively high monthly figures, the 12-month change in the all items index should fall from 6.4% to 6.0%, with core inflation inching down from 5.6% to 5.4%.

WEDNESDAY, March 15 - 8:30

February	m/m
Consensus	0.1%
Desjardins	-0.5%
November	3.0%

Retail sales (February) – After declining in the final two months of 2022, retail sales rebounded strongly in January, rising 3.0%. It was the biggest increase since October 2001 excluding the surges caused by the pandemic and federal assistance programs. However, we think sales declined again in February. We already know new vehicle sales were down, and gas station receipts are likely to be relatively flat. Excluding motor vehicles and gasoline, preliminary card transaction data is negative, particularly for durable goods, which saw fairly strong sales in January. We're also anticipating a decline in the food services sector. All in all, we expect a 0.5% drop in total retail sales and a 0.3% decrease in sales excluding motor vehicles and gasoline.

THURSDAY, March 16 - 8:30

February	
Consensus	1,310,000
Desjardins	1,315,000
January	1,309,000

Housing starts (February) – Monthly housing starts haven't increased since last August and are down 27.5% from their April 2022 peak. But given that new home sales appear to have already bottomed out, we should see more stability in housing starts over the coming months. The number of building permits issued was stable in December and January. Warmer-than-normal temperatures may have also boosted construction despite heavy precipitation in the Midwest. We think February's housing starts print will rise slightly to 1,315,000 units.

FRIDAY, March 17 - 9:15

February	m/m
Consensus	0.5%
Desjardins	-0.5%
January	0.0%

Industrial production (February) – After falling in November and December, industrial production stabilized in January. However, this conceals a 0.9% spike in manufacturing output, the sector's strongest performance since February 2022. These manufacturing gains were offset by a drop in energy production due to unseasonably warm weather. Although average temperatures have remained mild, we expect energy production to have rebounded in February. The situation will undoubtedly be more difficult for the manufacturing sector. 4,000 jobs were lost last month in this sector and hours worked are definitely pointing to a drop in manufacturing output, although the auto sector could show some growth. And the production component of the ISM Manufacturing index contracted again to 47.3, which is consistent with declining manufacturing activity. Thus, manufacturing output should decline by 0.9%. All in all, we expect industrial production to have fallen by 0.5% in February.

FRIDAY 17 March - 10:00

March	Index
Consensus	-0.2%
Desjardins	-0.6%
January	-0.3%

Leading indicator (February) – The Conference Board's leading indicator moved lower again in January. However, as with other economic indicators, we did see some improvement. The 0.3% drop was the smallest since March 2022. Nonetheless, it was the tenth straight monthly decline. We expect the indicator to have fallen a sharper 0.6% in February, led by a lower ISM index, weaker consumer confidence and higher interest rates.

FRIDAY, March 17 - 10:00

February	m/m
Consensus	67.0
Desjardins	68.5
January	67.0

University of Michigan consumer sentiment index (March – preliminary) – After declining in November, the University of Michigan consumer sentiment index has risen three months in a row. Since its cyclical low in June, the index has added 17 points to hit 67.0 in February—its highest level since January 2022. But signals for March are mixed. Stock markets are down, and mortgage rates have started to creep back up. However, gasoline prices are fairly stable. The Conference Board consumer confidence index has lost 6.1 points year-to-date and tends to lead the University of Michigan index. That said, the U of M index tracks more closely with the TIPP index, which was up 1.8 points in March. We therefore expect the University of Michigan consumer sentiment index to edge up 1.5 points to 68.5, although the risks of a larger move in either direction are significant.

CANADA

MONDAY, March 13 - 8:30
Q4

National Balance Sheet Accounts (Q4) – While not an indicator that finds its way into regular economist forecast surveys, the National Balance Sheet Accounts provide an important glimpse into the health of household finances in Canada. This is particularly true of the oft-cited household debt-to-disposable income ratio. Looking at household credit market debt specifically in the third quarter of 2022, that number topped 183% of disposable income—not quite the historic peak, but not far off. However, more recent monthly data suggest that this ratio may have fallen in Q4 as a result of household income growth that outpaced the advance in household credit. We therefore predict that the household credit market debt-to-disposable income ratio fell in Q4 2022 to closer to 180%.

TUESDAY, March 14 - 8:30

January	m/md
Consensus	n/a
Desjardins	3.3%
Q3 2022	-1.5%

Manufacturing sales (January) – After two consecutive monthly decreases, manufacturing sales are expected to have risen 3.3% in January. That's slightly less than Statistics Canada's 3.9% flash estimate, but easily enough to offset the declines seen in November and December. This January surge was probably led by volumes, with prices looking relatively stable according to previously released industrial product price data. Our upbeat January forecast is based on a projected spike in car and truck production and increase in parts manufacturing. Furthermore, non-commodity and auto exports rose 5.9% in volume (real) terms in January, pointing to higher manufacturing sales even outside the auto sector.

WEDNESDAY, March 15 - 8:15

February	
Consensus	n/a
Desjardins	200,000
November	215,400

Housing starts (February) – Housing starts are expected to have posted their third consecutive monthly decline in February, likely falling to 200,000 in the month as the lagged impact of higher interest rates and falling sales activity continues to be felt. The December and January drop in building permits issued also reinforces this view.

WEDNESDAY, March 15 - 9:00

February	m/m
Consensus	n/a
Desjardins	3.9%
Q3 2022	-3.0%

Existing home sales (February) – Existing home sales likely posted their steepest monthly gain in February since Canada's housing market correction began a year ago. The Greater Toronto Area is expected to have led the move higher, with the Toronto Regional Real Estate Board estimating an 8.5% m/m seasonally-adjusted advance in the month. And while seasonally-adjusted data are more scarce outside The Big Smoke, year-over-year growth estimates from other regional real estate boards across Ontario point to a lower average advance in sales activity in the remainder of the province. Sales in Quebec probably also inched higher in the month, albeit less so than the average in the rest of Canada outside Ontario.

OVERSEAS

TUESDAY, March 14 - 22:00
February

China: Retail sales and industrial production (February) – Due to the Lunar New Year, we haven't seen many major economic indicators out of China so far in 2023. But the stakes are high as we try to assess how well the Chinese economy has rebounded after most public health measures were relaxed in late 2022. We know that the Manufacturing and Services PMIs improved in January and February,

THURSDAY, March 16 - 9:15

March

December 3.50%

Desjardins 3.50%


February 2 3.00%


suggesting a sharp rebound in retail sales and industrial production. However, international trade figures have been rather disappointing and may be reflected in weaker production growth.

Eurozone: European Central Bank meeting (March) – ECB officials have already telegraphed that another 50-basis point hike will be coming out of March's meeting. The focus will be on what comes next. By then, new economic growth and inflation forecasts will be out, and the ECB will be able to provide more guidance on the pace of future rate hikes. Further 50-point increases this spring aren't out of the question, especially if the economy proves stronger than anticipated and inflation doesn't show sufficient signs of easing. Right now we're expecting two more 25-point hikes this spring.

Economic Indicators

Week of March 13 to 17, 2023

Day	Time	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY I3	---	---				
TUESDAY I4	8:30	Consumer price index				
		Total (m/m)	Feb.	0.4%	0.4%	0.5%
		Excluding food and energy (m/m)	Feb.	0.4%	0.4%	0.4%
		Total (y/y)	Feb.	6.0%	6.0%	6.4%
		Excluding food and energy (y/y)	Feb.	5.5%	5.4%	5.6%
WEDNESDAY I5	8:30	Empire State Manufacturing Index	March	-7.7	-10.0	-5.8
	8:30	Producer price index				
		Total (m/m)	Feb.	0.3%	0.3%	0.7%
		Excluding food and energy (m/m)	Feb.	0.4%	0.4%	0.5%
	8:30	Retail sales				
		Total (m/m)	Feb.	0.1%	-0.5%	3.0%
		Excluding automobiles (m/m)	Feb.	-0.1%	-0.2%	2.3%
	10:00	Business inventories (m/m)	Jan.	0.0%	-0.1%	0.3%
THURSDAY I6	8:30	Initial unemployment claims	6-10 March	n/a	215,000	211,000
	8:30	Export prices (m/m)	Feb.	-0.3%	-0.1%	0.8%
	8:30	Import prices (m/m)	Feb.	-0.2%	-0.2%	-0.2%
	8:30	Housing starts (ann. rate)	Feb.	1,310,000	1,315,000	1,309,000
	8:30	Building permits (ann. rate)	Feb.	1,350,000	1,325,000	1,339,000
	8:30	Philadelphia Fed index	March	-14.8	-10.0	-24.3
FRIDAY I7	9:15	Industrial production (m/m)	Feb.	0.5%	-0.5%	0.0%
	9:15	Production capacity utilization rate	Feb.	78.5%	77.8%	78.3%
	10:00	Leading indicator (m/m)	Feb.	-0.2%	-0.6%	-0.3%
	10:00	University of Michigan consumer sentiment index – preliminary	March	67.0	68.5	67.0
CANADA						
MONDAY I3	8:30	National balance sheet				
TUESDAY I4	8:30	Manufacturing sales (m/m)	Jan.	n/a	3.3%	-1.5%
WEDNESDAY I5	8:15	Housing starts (ann. rate)	Feb.	n/a	200,000	215,400
	9:00	Existing home sales (m/m)	Feb.	n/a	3.9%	-3.0%
THURSDAY I6	8:30	Wholesale sales (m/m)	Jan.	n/a	3.0%	-0.8%
FRIDAY I7	8:30	Industrial product price index (m/m)	Feb.	n/a	0.1%	0.4%
	8:30	Raw materials price index (m/m)	Feb.	n/a	-0.1%	-0.1%

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 March 13 to 17, 2023

Country	Time	Indicator	Period	Consensus		Previous data	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
MONDAY 13							
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TUESDAY 14							
United Kingdom	3:00	ILO unemployment rate	Jan.	3.8%			3.7%
Italy	5:00	Industrial production	Jan.	-0.2%	2.9%	1.6%	0.1%
China	22:00	Retail sales	Feb.		3.5%		-1.8%
China	22:00	Industrial production	Feb.		2.6%		1.3%
WEDNESDAY 15							
Germany	---	Current account (€B)	Jan.	n/a		24.3	
France	3:45	Consumer price index – final	Feb.	0.9%	6.2%	0.9%	6.2%
Eurozone	6:00	Industrial production	Jan.	0.4%	0.3%	-1.1%	-1.7%
Japan	19:50	Trade balance (¥B)	Feb.	-1,459.2		-1,821.3	
THURSDAY 16							
Japan	00:30	Industrial production – final	Jan.	n/a	n/a	-4.6%	-2.3%
Eurozone	9:15	European Central Bank meeting	March	3.50%		3.00%	
FRIDAY 17							
Japan	00:30	Tertiary Industry Activity Index	Jan.	0.5%		-0.4%	
Italy	5:00	Trade balance (€M)	Jan.	n/a		1,067	
Eurozone	6:00	Consumer price index – final	Feb.	0.8%	8.5%	0.8%	8.6%

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).