

WEEKLY COMMENTARY



The Bad Good News That Keeps Piling Up

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

We're not even two months into the new year and a number of seemingly positive surprises are forcing us to think deeply about a few of the assumptions we held heading into 2023. Our forecast [update](#) released yesterday now shows positive GDP growth in the first quarter of this year in North America, and we have upgraded our outlooks for Europe and China as well.

The reason we call the better-than-expected numbers "seemingly positive" is because they force us to revise our monetary policy outlooks in favour of more hawkish outcomes. We've pushed our first rate cut in the US to 2024 and we've delayed the timing of the first BoC rate cut of 2023. Further economic momentum (or perhaps "stubbornness") would lead us to adjust our terminal rate estimates higher.

The feeble moderation in US inflation in January did little to assuage hawkish concerns raised following the strong nonfarm payrolls report two weeks ago. Neither did producer prices, which jumped 0.7% in January, almost doubling the median consensus forecast. US central bankers have been vocal about the upwardly skewed balance of risks to policy rates, and now that one of the precious few doves on the FOMC has joined the White House, that cry will turn even more strident. It already started, with James Bullard and Loretta Mester entertaining a new 50bp hike in remarks made this week.

Markets are responding in earnest, repricing Fed policy and lifting shorter-dated bond yields, which is in turn deepening the inversion of the yield curve. This means that in sharp contrast to the equity market early this year, the bond market's recession conviction has gotten stronger. This is consistent with the notion that when central banks are dealing with overheating, good news is really more like "bad good news."

And there's been plenty of bad good news in 2023. One example is China's reopening, as it stands to add upward pressures to global demand (and prices) for commodities. Iron ore, steel and copper are among the commodities that have rallied in the wake of the reopening. This could usher in a sooner-than-expected end of the disinflationary trend we've seen in imported goods since mid-2022.

Another example is the North American job market. It is true that the January surprises were more about job retention than job creation, but either way you look at it, demand for workers started the year stronger than expected. The fact that US job openings recorded their strongest increase since mid-2021 in December gives scope for further upside surprises in US payrolls. The streak of nine consecutive months of above-consensus job creation could thus continue.

But such strength could compromise the recent moderation in wage pressures at a time when bargaining power is significantly lopsided in favour of workers. In the UK, pay negotiations have been acrimonious enough to lead to a GDP contraction late in the year, and yet near 7% year-over-year wage growth is forcing the Bank of England to keep tightening. This might echo here as well, as Canadian federal public servants are currently asking for a 47% increase in their compensation over three years.

Unlike in the UK though, GDP has been another example of bad good news. Our latest forecast puts 2022Q4 at 1.8%, which is stronger than the Bank of Canada's upwardly revised 1.3% forecast shown in its January Monetary Policy Report. This seriously challenges the BoC's contention that GDP grew at a slower pace than potential output at the end of last year. While we expect this to be the case starting in 2023Q1, the risk of

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stubbornly above-potential growth is not to be taken lightly. This would normally be great news, but the problem is that inflation will never be brought under control with GDP clocking in above potential.

Of course, there's genuinely bad news as well. Rather than abating, geopolitical tensions have intensified, with Western tank deliveries set to roll into Ukraine and still a lack of visibility over how disorderly the conflict's end game will be. The latest flare-up in US–China tensions over the latter's suspected spy balloon program is also triggering a raft of tech-related punishing measures, which could cause some new strains in supply chains and cost increases over time.

Closer to home, food inflation remains in the double digits, and recent headlines over relentless price pressures in the grocery sector have been disheartening enough to earn supermarket CEOs an invitation to a grilling session on Parliament Hill. Meanwhile, Canadian homeowners already struggling with rising living and borrowing costs are also looking at stiffer-than-usual hikes in municipal taxes, with increases of between 4% and 7% having been proposed or enacted in Canada's largest cities.

So, what's going to be the good news, you ask? We'd hate to sound like recession cheerleaders. But early signs of recession are probably going to be the most comforting developments out there. Anything else just speaks to more trouble ahead. Welcome to the bizarro world of 2023.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, and Francis Généreux, Principal Economist

TUESDAY, February 21 - 10:00

January

Consensus 4,100,000

Desjardins 4,270,000

December 4,020,000

FRIDAY, February 24 - 8:30

January m/m

Consensus 1.3%

Desjardins 1.3%

December -0.2%

TUESDAY, February 21 - 8:30

January m/m

Consensus 0.6%

Desjardins 0.8%

December -0.6%

TUESDAY, February 21 - 8:30

December m/m

Consensus 0.5%

Desjardins 0.4%

November -0.1%

TUESDAY, February 21 - 4:00

February

Consensus 50.6

January 50.3

UNITED STATES

New home sales (January) – Sales of existing homes haven't posted a monthly increase since January 2022. Since that cyclical high, they've seen a total drop of 38.8%. However, there are a number of signs that the situation began to improve at the start of 2023 and that sales may have even bottomed out. In December, pending home sales recorded their strongest monthly growth since October 2021. Mortgage loans in anticipation of a purchase have been rising nearly 15% since hitting their lowest level last fall. Preliminary regional figures for home resales also show a less negative year-over-year change in January, which would be in keeping with a monthly uptick in sales. Existing home sales are expected to climb to 4,270,000 units.

Consumer spending (January) – Real consumer spending fell over the holidays, with monthly dips of 0.2% in November and 0.3% in December. However, as seen with the 3.0% rebound in nominal retail sales in January, household spending seems to be off to a flying start in 2023. New motor vehicle sales also rose in January. The only dark cloud on the horizon is the likely drop in energy demand due to unusually mild weather. However, demand for services should be supported by increased spending on food services. Bottom line: real consumption should see a healthy 0.9% gain. If we add the expected 0.4% increase in the consumption expenditure deflator, nominal consumption should grow 1.3%.

CANADA

Consumer Price Index (January) – Canadian headline CPI is expected to have risen 6.2% in January, only a touch slower than the pace of year-over-year growth seen in December. Look for total prices to have jumped 0.8% during the month due to a rebound in energy prices and typically strong seasonal trends elsewhere. Excluding food and energy, the annual rate of core inflation likely remained at 5.3%. While part of that reflects base effects, the 3-month annualized pace of core inflation is expected to come in around 3.6%. That's a touch lower than where it stood in December. However, most market participants will focus on the Bank of Canada's core measures, which have stabilized around 4% in 3-month annualized terms. Although the Bank of Canada has officially signalled a pause, if inflation surprises to the upside, we can't rule out the chance of further rate increases later this year.


Retail sales (December) – Retail sales are expected to have advanced in December, likely rising 0.4% on the back of another strong month of auto sales offsetting weakness in the remaining retail categories. Indeed, retail sales excluding motor vehicles and parts are expected to have fallen back by 0.5% in December. Our tracking for end-of-year retail sales is just shy of Statistics Canada's advance estimate for a 0.5% increase.


OVERSEAS

Eurozone: PMI (February – preliminary) – For the first time since June 2022, Eurozone's composite PMI rose above 50, a sign that the eurozone's economy hasn't deteriorated to the extent feared in early winter. Continued growth of the PMIs would signal a real possibility that Eurozone's economy could avoid a recession. If it falls back below 50, there's a greater risk of an imminent economic setback.

Economic Indicators

Week of February 20 to 24, 2023

| Day | Time | Indicator | Period | Consensus |  | Previous data |
|---------------|-------|---|------------|-----------|---|---------------|
| UNITED STATES | | | | | | |
| MONDAY 20 | | | | | | |
| | --- | --- | | | | |
| TUESDAY 21 | 10:00 | Existing home sales (ann. rate) | Jan. | 4,100,000 | 4,270,000 | 4,020,000 |
| WEDNESDAY 22 | 14:00 | Minutes of the Federal Reserve meeting | | | | |
| THURSDAY 23 | 8:30 | Initial unemployment claims | Feb. 13-17 | 200,000 | 199,000 | 194,000 |
| | 8:30 | Real GDP – second estimate (ann. rate) | Q4 | 2.9% | 2.9% | 2.9% |
| | 10:50 | Speech by Federal Reserve Bank of Atlanta President R. Bostic | | | | |
| | 14:00 | Speech by Federal Reserve Bank of San Francisco President M. Daly | | | | |
| FRIDAY 24 | 8:30 | Personal income (m/m) | Jan. | 0.9% | 1.0% | 0.2% |
| | 8:30 | Personal consumption expenditures (m/m) | Jan. | 1.3% | 1.3% | -0.2% |
| | 8:30 | Personal consumption expenditures deflator | | | | |
| | | Total (m/m) | Jan. | 0.5% | 0.4% | 0.1% |
| | | Excluding food and energy (m/m) | Jan. | 0.4% | 0.3% | 0.3% |
| | | Total (y/y) | Jan. | 5.0% | 4.9% | 5.0% |
| | | Excluding food and energy (y/y) | Jan. | 4.3% | 4.2% | 4.4% |
| | 10:00 | University of Michigan consumer sentiment index – final | Feb. | 66.4 | 66.4 | 66.4 |
| | 10:00 | New home sales (ann. rate) | Jan. | 620,000 | 600,000 | 616,000 |
| | 10:15 | Speech by Federal Reserve Governor P. Jefferson | | | | |
| | 10:15 | Speech by Federal Reserve Bank of Cleveland President L. Mester | | | | |
| | 13:30 | Speech by Federal Reserve Bank of Boston President S. Collins | | | | |
| | 13:30 | Speech by Federal Reserve Governor C. Waller | | | | |
| CANADA | | | | | | |
| MONDAY 20 | | | | | | |
| | --- | Markets closed (Family Day, except for Quebec) | | | | |
| TUESDAY 21 | | | | | | |
| | 8:30 | Consumer price index | | | | |
| | | Total (m/m) | Jan. | 0.6% | 0.8% | -0.6% |
| | | Total (y/y) | Jan. | 6.1% | 6.2% | 6.3% |
| | 8:30 | Retail sales | | | | |
| | | Total (m/m) | Dec. | 0.5% | 0.4% | -0.1% |
| | | Excluding automobiles (m/m) | Dec. | -0.1% | -0.5% | -0.6% |
| WEDNESDAY 22 | | | | | | |
| | --- | --- | | | | |
| THURSDAY 23 | | | | | | |
| | --- | --- | | | | |
| FRIDAY 24 | | | | | | |
| | --- | --- | | | | |

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 Eastern Standard Time (GMT - 5 hours).  Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of February 20 to 24, 2023

| Country | Time | Indicator | Period | Consensus | | Previous data | |
|---------------------|-------|-------------------------------------|--------|-----------|------|---------------|------|
| | | | | m/m (q/q) | y/y | m/m (q/q) | y/y |
| OVERSEAS | | | | | | | |
| MONDAY 20 | | | | | | | |
| Eurozone | 5:00 | Construction | Dec. | n/a | n/a | -0.8% | 1.3% |
| Eurozone | 10:00 | Consumer confidence – preliminary | Feb. | -19.0 | | -20.9 | |
| Japan | 19:30 | Composite PMI – preliminary | Feb. | n/a | | 50.7 | |
| Japan | 19:30 | Manufacturing PMI – preliminary | Feb. | n/a | | 48.9 | |
| Japan | 19:30 | Services PMI – preliminary | Feb. | n/a | | 52.3 | |
| TUESDAY 21 | | | | | | | |
| France | 3:15 | Composite PMI – preliminary | Feb. | 49.6 | | 49.1 | |
| France | 3:15 | Manufacturing PMI – preliminary | Feb. | 51.0 | | 50.5 | |
| France | 3:15 | Services PMI – preliminary | Feb. | 49.9 | | 49.4 | |
| Germany | 3:30 | Composite PMI – preliminary | Feb. | 50.3 | | 49.9 | |
| Germany | 3:30 | Manufacturing PMI – preliminary | Feb. | 48.0 | | 47.3 | |
| Germany | 3:30 | Services PMI – preliminary | Feb. | 51.0 | | 50.7 | |
| Eurozone | 4:00 | Composite PMI – preliminary | Feb. | 50.6 | | 50.3 | |
| Eurozone | 4:00 | Manufacturing PMI – preliminary | Feb. | 49.3 | | 48.8 | |
| Eurozone | 4:00 | Services PMI – preliminary | Feb. | 51.0 | | 50.8 | |
| United Kingdom | 4:30 | Composite PMI – preliminary | Feb. | 49.1 | | 48.5 | |
| United Kingdom | 4:30 | Manufacturing PMI – preliminary | Feb. | 47.5 | | 47.0 | |
| United Kingdom | 4:30 | Services PMI – preliminary | Feb. | 49.2 | | 48.7 | |
| Germany | 5:00 | ZEW survey – current situation | Feb. | -50.0 | | -58.6 | |
| Germany | 5:00 | ZEW survey – expectations | Feb. | 23.0 | | 16.9 | |
| New Zealand | 20:00 | Reserve Bank of New Zealand meeting | Feb. | 4.75% | | 4.25% | |
| WEDNESDAY 22 | | | | | | | |
| Germany | 2:00 | Consumer price index – final | Jan. | 1.0% | 8.7% | 1.0% | 8.7% |
| France | 2:45 | Business confidence | Feb. | 102 | | 102 | |
| France | 2:45 | Production outlook | Feb. | n/a | | -8 | |
| Germany | 4:00 | Ifo survey – business climate | Feb. | 91.1 | | 90.2 | |
| Germany | 4:00 | Ifo survey – current situation | Feb. | 94.8 | | 94.1 | |
| Germany | 4:00 | Ifo survey – expectations | Feb. | 88.2 | | 86.4 | |
| THURSDAY 23 | | | | | | | |
| South Korea | --- | Bank of Korea meeting | Feb. | 3.50% | | 3.50% | |
| Eurozone | 5:00 | Consumer price index – final | Jan. | -0.2% | 8.6% | -0.4% | 8.5% |
| Japan | 18:30 | Consumer price index | Jan. | | 4.3% | | 4.0% |
| United Kingdom | 19:01 | Consumer confidence | Feb. | -43 | | -45 | |
| FRIDAY 24 | | | | | | | |
| Germany | 2:00 | Real GDP – final | Q4 | -0.2% | 1.1% | -0.2% | 1.1% |
| Germany | 2:00 | Consumer confidence | March | -30.0 | | -33.9 | |
| France | 2:45 | Consumer confidence | Feb. | 80 | | 80 | |

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 Eastern Standard Time (GMT - 5 hours).