WEEKLY COMMENTARY

The Public Service Strikes Back

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

The curtains may have closed on budget season in Canada, but fiscal policy remains a hot topic. This week, Bank of Canada (BoC) Governor Tiff Macklem faced attempts by some members of parliament to put words in his mouth that would come off as critical of fiscal policy decisions. The Bank might have invited the topic in its Monetary Policy Report of April 12, in which it underscored the impact of government spending on the outlook. Its consumer survey published on April 3 also relayed the public's perception that high government spending risked hampering the Bank's ability to stabilize inflation for years to come. Macklem stuck with tradition and refrained from offering further judgment on fiscal matters.

Standard and Poor's was less guarded in its decision to downgrade British Columbia's credit rating from AA+ to AA with a negative outlook, observing that "the province's commitment to fiscal discipline and stability has waned." True, BC's 2023 budget had the largest deterioration in the fiscal balance of any province as a share of GDP. But these words seem somewhat harsh for a province that maintains strong debt metrics relative to many other jurisdictions and embeds significant risk buffers, including for public sector wage increases.

While we are not overly concerned about similar downgrades elsewhere, it is at least a warning shot for all other finance ministers. This includes Canada's Finance Minister Chrystia Freeland, whose budget didn't allocate funds for the wage hike demands of public servants who have started one of the biggest strikes in Canadian history. In February, we warned that Canada was at risk of strike-related economic disruption similar to what the UK has been experiencing. Moreover, in our fiscal analyses, we have stressed the downside risk to windfall-boosted bottom lines, as wage clawbacks from public servants would only occur with a lag. At the federal level, our view was that risks to the fiscal projection tabled in late March were tilted to the downside (that is, toward larger deficits and higher debt), given the aspirational nature of planned revenue and saving measures. Importantly, this assessment was assuming the absence of additional future spending. Let's just say it didn't take long for this assumption to be challenged.

What agreement will come out of the strike is uncertain, but we believe that it will make a return to balanced budgets even more elusive. If the settlement strongly favours workers, it could have significant implications for wage growth stickiness—not only in terms of direct effects, but also by setting a precedent for future public sector wage negotiations across the country. This won't trigger wage-price spiral dynamics similar to those that could arise in the private sector, but it will likely add further stickiness to wages and protect the purchasing power of a segment of the workforce that is typically immune to economic cycles. This indeed is not helpful for the BoC.

In the meantime, the strike is disrupting economic activity. While about a third of federal government employees deemed essential are still on the job, delays could affect merchandise trade, transportation, travel and immigration application processing (potentially affecting temporary foreign worker availability). If the strike continues through the remainder of April, it could mean a major hit to GDP due to the combined effects of the strike and the lengthy power outages in Montreal a few weeks ago.

Almost as miserable as the picketing workers could be economists without data to crunch. At the time of writing, Statistics Canada's website was warning of potential delays. The 35-day US government shutdown in December 2018 and January 2019 provides a rough precedent. The Bureau of Labor Statistics had some of its operations affected, but important statistics such as employment and CPI were collected and released on time. A shutdown is different from a strike, but this underscores the vital importance of data to decision makers (and economists), and we would hope for the publication of economic statistics to be treated as an essential service.

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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.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, Francis Généreux, Principal Economist, Marc-Antoine Dumont, Economist and Maëlle Boulais-Préseault, Economist

UNITED STATES

TUESDAY, April 25 - 9:00	
February	**y/y**
Consensus	-0.1%
Desjardins	-0.1%
January	**2.6%**

S&P/Case-Shiller index of existing home prices (February) – For the first time since 2012, existing home sales are set to post a year-over-year decline. January's 12-month change came in at 2.6%. On a month-over-month basis, we've seen a string of negative changes since last summer. February's predicted 0.4% drop would push the Case-Shiller index just below where it was a year ago, for a year-over-year change of -0.1%. That's in stark contrast to the 20%-plus gains recorded in early 2022.

TUESDAY, April 25 - 10:00	
March	m/m
Consensus	632,000
Desjardins	645,000
February	**640,000**

New home sales (March) – Sales of new single-family homes continued their recent uptrend in February. That makes three months of increases in a row, a first since 2020, with March forecast to deliver another (albeit small) gain. March also saw single-family building permits reach their highest level since October. Additionally, mortgage applications for home purchases have continued to edge up, and the home builder confidence survey shows an increase in buyer demand for single-family homes. All in all, we expect sales to come in at 645,000 units.

TUESDAY, April 25 - 10:00	
April	**Index**
Consensus	104.5
Desjardins	104.5
Mars	**104.2**

Conference Board consumer confidence index (April) – After two consecutive months of declines, the Conference Board index picked up 0.8 points in March to stand at 104.2, well below December's 109.0. There are conflicting signals about where household sentiment is headed in April. Other confidence indicators (University of Michigan and TIPP) have registered increases. The stock market has also been up for the past month, with some concerns about the US banking sector having dissipated. However, gasoline prices have increased, and the job market is looking less likely to support confidence as layoff announcements pile up. Unemployment claims, while still low, appear to be trending upward. We predict that these mixed signals will result in virtually no change in the Conference Board reading for April.

WEDNESDAY, April 26 - 8:30	
March	**m/m**
Consensus	0.7%
Desjardins	0.7%
February	**-1.0%**

Durable goods orders (March) – Durable goods orders dipped in February, dragged down by declines in the transportation sector. Industrial production data suggests automotive orders will fall further in March, but figures published by Boeing point to an aviation sector rebound. In a change from the previous two months, we expect the transportation sector to contribute to growth in durable goods orders, with non-transportation orders remaining flat. Weakness in the new orders component of the ISM Manufacturing index and a decline in some manufacturing sectors suggest there won't be a rebound from February's 0.1% drop. Overall, we're anticipating 0.7% growth in durable goods orders.

THURSDAY, April 27 - 8:30	
Q1 1st est.	**Ann. rate**
Consensus	2.0%
Desjardins	2.0%
Q2 3rd est.	**2.6%**

Real GDP (Q1 – first estimate) – The US economy continued to grow in the first quarter of 2023. The main contributor to growth will come from real spending. Despite it falling in February and probably again in March, January's rise was big enough that we expect the annualized quarterly gain to exceed 4%. We also anticipate a modest increase in business investment and another dip in residential investment. Somewhat stronger growth in real imports versus exports is expected to detract from GDP growth. But the biggest drag will come from business inventories, which will see a much less positive change than at the end of 2022. We're forecasting annualized real GDP growth of 2.0%.

CANADA

FRIDAY, April 28 - 8:30	
February	**m/m**
Consensus	n/a
Desjardins	0.2%
January	**0.5%**

Real GDP by industry (February) – After a print that was through the roof in January, real GDP growth is expected to have tempered somewhat in February, cooling to +0.2% from +0.5%. This outlook is marginally more modest than the +0.3% flash estimate from Statistics Canada. Services-producing sectors are poised to have led the advance again, as gains were likely broad-based but nowhere near January's pace. This isn't surprising, as accommodation and food services as well as transportation and warehousing weren't expected to repeat the unseasonable gains booked in January. In contrast, goods-producing sectors probably took a step back in February, weighed down by lower manufacturing activity in particular. Looking ahead to economic activity in March, Statistics Canada's flash estimate should show a further cooling in activity in the month to +0.1%.

OVERSEAS

FRIDAY, April 28 - 5:00	
Q1 2023	**q/q**
Consensus	0.2%
Q4 2022	**0.0%**

Eurozone: Real GDP (Q1 – preliminary) – Until recently, the eurozone was expected to dip into a recession this winter. While growth did remain flat in Q4 2022, warm weather and falling energy costs seem to have given the eurozone economy a boost in the first few months of 2023. That's according to PMI figures, which have generally rebounded. Average quarterly figures for retail sales are down, but industrial production and net exports have improved. All in all, we can expect positive real GDP growth.

SATURDAY, April 29 - 21:30	
April	**Index**
Consensus	n/a
March	**57.0**

China: Composite PMI (April) – China's composite PMI rebounded strongly at the start of the year, with the non-manufacturing side of the index climbing from 41.6 to 58.2 points between December and March. April's data will provide the first look at where China stands at the start of the second quarter. While the recovery is expected to continue, there may be initial signs of slowing. We're particularly interested in PMI data as it's less likely to be skewed by last year's lockdowns, which could exaggerate year-over-year comparisons for some other indicators.

Economic Indicators

Week of April 24 to 28, 2023

Day	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 24	---	---				
TUESDAY 25	9:00	S&P/Case-Shiller home price index (y/y)	Feb.	-0.1%	-0.1%	2.6%
	10:00	New home sales (ann. rate)	March	632,000	645,000	640,000
	10:00	Consumer confidence	April	104.1	104.5	104.2
WEDNESDAY 26	8:30	Goods trade balance – preliminary (US$B)	March	-89.5	-89.4	-91.6
	8:30	Retail inventories (m/m)	March	n/a	n/a	0.8%
	8:30	Wholesale inventories – preliminary (m/m)	March	n/a	n/a	0.1%
	8:30	Durable goods orders (m/m)	March	0.7%	0.7%	-1.0%
THURSDAY 27	8:30	Initial unemployment claims	April 17–21	250,000	248,000	245,000
	8:30	Real GDP – first estimate (ann. rate)	Q1	2.0%	2.0%	2.6%
FRIDAY 28	8:30	Employment cost index (q/q)	Q1	1.1%	1.1%	1.0%
	8:30	Personal income (m/m)	March	0.2%	0.2%	0.3%
	8:30	Personal consumption expenditures (m/m)	March	-0.1%	0.1%	0.2%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	March	0.1%	0.1%	0.3%
		Excluding food and energy (m/m)	March	0.3%	0.3%	0.3%
		Total (y/y)	March	4.1%	4.1%	5.0%
		Excluding food and energy (y/y)	March	4.5%	4.5%	4.6%
	9:45	Chicago PMI	April	43.5	45.0	43.8
	10:00	University of Michigan consumer sentiment index – final	April	63.5	63.5	63.5
CANADA						
MONDAY 24	---	---				
TUESDAY 25	---	---				
WEDNESDAY 26	13:30	Release of the Bank of Canada Summary of Deliberations				
THURSDAY 27	---	---				
FRIDAY 28	8:30	Real GDP by industry (m/m)	Feb.	n/a	0.2%	0.5%

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 daylight saving time (GMT - 4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of April 24 to 28, 2023

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 24							
Germany	4:00	ifo Business Climate Index	April	93.5		93.3	
Germany	4:00	ifo Current Assessment Index	April	96.0		95.4	
Germany	4:00	ifo Expectations Index	April	91.2		91.2	
TUESDAY 25							
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WEDNESDAY 26							
Germany	2:00	Consumer confidence	May	-28.0		-29.5	
France	2:45	Consumer confidence	April	80		81	
Sweden	3:30	Bank of Sweden meeting	April	3.50%		3.00%	
THURSDAY 27							
Japan	---	Bank of Japan meeting	April	-0.10%		-0.10%	
Japan	1:00	Coincident index – final	Feb.	n/a		99.2	
Japan	1:00	Leading index – final	Feb.	n/a		97.7	
Italy	4:00	Consumer confidence	April	105.0		105.1	
Italy	4:00	Economic confidence	April	n/a		110.2	
Eurozone	5:00	Consumer confidence – final	April	n/a		n/a	
Eurozone	5:00	Economic confidence	April	99.9		99.3	
Eurozone	5:00	Industrial confidence	April	0.0		-0.2	
Eurozone	5:00	Services confidence	April	9.5		9.4	
Japan	19:30	Tokyo Consumer Price Index	April		3.3%		3.3%
Japan	19:30	Unemployment rate	March	2.5%		2.6%	
Japan	19:50	Retail sales	March	0.3%	6.5%	1.4%	6.6%
Japan	19:50	Industrial production – preliminary	March	0.4%	-1.2%	4.6%	-0.5%
FRIDAY 28							
Japan	1:00	Housing starts	March		-3.8%		-0.3%
France	1:30	Real GDP – preliminary	Q1	0.1%	0.8%	0.1%	0.5%
France	2:45	Consumer price index – preliminary	April	0.5%	5.7%	0.9%	5.7%
France	2:45	Personal consumption expenditures	March	0.6%	-2.1%	-0.8%	-4.1%
France	2:45	Producer price index	March	n/a	n/a	-0.9%	15.7%
Germany	4:00	Real GDP – preliminary	Q1	0.2%	0.3%	-0.4%	0.9%
Italy	4:00	Real GDP – preliminary	Q1	0.2%	1.4%	-0.1%	1.4%
Eurozone	5:00	Real GDP – preliminary	Q1	0.2%	1.4%	0.0%	1.8%
Germany	8:00	Consumer price index – preliminary	April	0.6%	7.3%	0.8%	7.4%
SATURDAY 29							
China	21:30	Composite PMI	April	n/a		57.0	
China	21:30	Manufacturing PMI	April	51.5		51.9	
China	21:30	Non-manufacturing PMI	April	n/a		58.2	

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 daylight saving time (GMT - 4 hours).