

WEEKLY COMMENTARY

Mixed Government Responses to High Food Prices So Far

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

Soaring food inflation is among the most significant global consequences of the war in Ukraine. This week, Chicago futures for wheat prices jumped to reach their highest level since 2008. Since the beginning of March, the price of bread has soared by 70% in Lebanon, which imports over 70% of its wheat from Ukraine. Egypt capped the price of wheat this week, with 2008's deadly food riots still fresh in politicians' memories.

Some countries have also resorted to protectionism. Egypt, Argentina and Indonesia have put in place measures to restrict agricultural exports. Of course, these moves only make matters worse from a global standpoint. Developed nations are not as acutely affected as emerging countries, but even some of them are contemplating ways to support their citizens. This week, France raised the idea of giving food stamps to low- and middle-income households.

Clearly, we should expect high, persistent inflationary pressures on food, beyond the ongoing, broad-based price pressures we've been contending with for the past year. There's little hope that the gap in the wheat supply left by the invasion will be filled anytime soon. First, winter wheat season is already over, so the near-term supply is set. The spring wheat planting season starts in a few weeks, but harvesting won't begin until late summer. A second issue is cost. The war has sent the price of fuel and fertilizers dramatically higher, not least because Russia is a major fertilizer producer. This makes farmers hesitant as they can't tell what will come down first—the cost of their inputs or the price they'll get for their output. The third problem is the global supply chain disruptions we've seen over the last 18 months. They've caused delays in the delivery of crucial farm machinery and equipment. That means many farmers couldn't plant more even if they wanted to.

In this context, we think that the instinct some governments have shown to protect the most vulnerable segments of

their population is appropriate. However, going the one-time relief route seems to assume that recent price spikes are only temporary. There's no such guarantee, however.

Moreover, as we commented in our Quebec [Budget Analysis](#), more progressive measures are preferable. Instead of giving just about everyone a \$500 tax credit, the Quebec government could have prioritized those who need it the most, like single-parent families or low-income seniors. That's what the government did in its update last fall when it upped the solidarity tax credit.

Households with more discretionary spending buffers can more easily make the necessary consumption choices to adapt to the context of high inflation. Let's also not lose sight of the fact that middle- and high-income households are still sitting on a significant amount of excess savings. They have options and therefore do not need the government's help.

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Week in Review

By Benoit P. Durocher, Senior Economist, Francis Généreux, Senior Economist, Lorenzo Tessier-Moreau, Senior Economist, and Hendrix Vachon, Senior Economist

- ▶ **Jerome Powell**, Chair of the Federal Reserve (Fed), **gave a rather hawkish speech** at the beginning of the week, boosting the upward trend in bond yields. The U.S. 10-year yield hovered around the 2.40% level during the week, as did its Canadian counterpart. Oil prices were back in the news as they rebounded due to new fears over global supplies.
- ▶ **U.S. new home sales were disappointing in February**, dropping 2.0% instead of rising as expected. This follows an 8.4% drop in January. Sales of existing homes also slumped 7.2% in February. Growth may come roaring back in the coming months, but higher mortgage rates should dampen the U.S. housing sector for the next few quarters.
- ▶ **New jobless claims declined sharply** in the United States last week, dropping from 215,000 to 187,000. They have not been this low since September 1969. This is one more sign that the job market is still very strong, and it could prompt the Fed to raise its rates even faster.
- ▶ **New durable goods orders dropped 2.2%** in February after a gain of 1.6% in January. The decline is due mainly to transportation (-5.6%), but also to orders outside of that sector (-0.6%). The 0.3% drop in new capital goods orders not including aviation and defence is a sign that investment in equipment may slow down.
- ▶ **Inflation is still climbing in several countries.** The February results of the British consumer price index (CPI) show an annual variation of 6.2% compared to 5.5% in January. This is the highest level since March 1992. Rising energy prices remain an important factor on both transportation and housing-related costs in the United Kingdom. Even the core CPI rose considerably in February, with its annual variation going from 4.4% to 5.2%.
- ▶ **European consumer confidence slumps.** The index compiled by the European Commission plummeted from -8.8 in February to -18.7 according to the preliminary March figures. It is close to the low point at the beginning of the pandemic and to levels of the 2012 euro zone debt crisis and the 2009 recession. The decline confirms that the war in Ukraine is affecting both real household income and consumer confidence. Not including the effects of the post-Omicron reopening, European consumer consumption could turn out to be very weak in the first quarter of 2022. Businesses remain on a more even keel, however. According to preliminary March figures, **the composite PMI indexes were down very slightly in the euro zone**, Germany and the United Kingdom. They are still above the 50 level, suggesting that the economy may be growing again. France's composite index has even risen.
- ▶ **Canada's industrial product price index rose 3.1%** in February. That strong showing is partly due to surges in the prices of energy products and oil (+8.5%). The prices of other products also rose sharply, gaining 2.3% during the month. The upward pressure on the international prices of many commodities, sparked by the war in Ukraine, is clearly starting to be reflected here.

What to Watch For

By Francis Généreux, Senior Economist, and Benoit P. Durocher, Senior Economist

UNITED STATES

TUESDAY March 29 - 9:00

January	y/y
Consensus	18.60%
Desjardins	18.30%
December	18.56%

TUESDAY March 29 - 10:00

March	
Consensus	107.0
Desjardins	102.0
February	110.5

THURSDAY March 31 - 8:30

February	m/m
Consensus	0.5%
Desjardins	0.3%
January	2.1%

FRIDAY April 1 - 8:30

March	
Consensus	475,000
Desjardins	425,000
February	678,000

FRIDAY April 1 - 10:00

March	
Consensus	58.6
Desjardins	59.0
February	58.6

S&P/Case-Shiller index of existing home prices (January) – The Case-Shiller index accelerated again in December with growth of 1.5% (the strongest since July) following gains of 1.2% in November and 1.0% in October. However, a slight slowdown is expected for January, with a monthly variation of around 1.2%. As a result, the annual variation stands to slip from 18.6% to 18.3%.

Conference Board consumer confidence index (March) – The Conference Board index fell 0.6 points in February. This decline seems modest, as other confidence indicators have tumbled sharply in recent months. However, surging gas prices and growing geopolitical uncertainty caused by the war in Ukraine are expected to have a severe impact on household sentiment. There are also fluctuations in financial markets, inflation, which remains strong, and the prospect of significant interest rate hikes. Yet, the strength of the labour market remains a key supporting factor. We expect a Conference Board index moving from 107.0 to 102.0.

Consumer spending (February) – After contracting 1.3% in December, real consumption snapped back with a 1.5% gain in January, despite a sixth consecutive decline in real household disposable income. However, real consumption is expected to recede in February. The decline in new motor vehicle units sold, the 0.4% drop in retail sales excluding motor vehicles and gasoline, and lastly the growth in consumer prices all suggest a reduction in real household spending on goods. However, services could fare better with a decent increase in food services being expected after the Omicron wave, which should offset the expected decline in energy demand. All told, real consumption is expected to ease 0.2%. The consumer expenditure deflator is expected to tick up 0.6%, which will boost nominal consumption into positive territory. We expect the deflator to show an annual variation of 6.4%, a level not seen since January 1982.

Job creation based on business (March) – The U.S. job market was still booming in February with 678,000 new jobs, the highest monthly growth since July 2021. Another strong gain is expected for March but potentially not as impressive. The clearest indication of robust hiring performance is the drop in jobless claims, even though the bulk of the decline occurred the week after the monthly employment survey. However, international tensions sparked by the war in Ukraine may have dampened corporate enthusiasm for hiring. However, this risk remains minimal given the labour shortage in the United States. As a result, 425,000 net hires are anticipated in March. The jobless rate is expected to drop to 3.7%. Average hourly wages are also expected to pick up a bit more quickly after a flat monthly variation in February.

ISM manufacturing index (March) – The ISM manufacturing index rose in February to a relatively high 58.6, much to observers' surprise. Paradoxically, it remains supported by supply woes that boost components related to backlogs and delivery times. The manufacturing ISM is poised to log another, albeit slimmer, uptick in March. It may reach 59.0, as signalled by the regional indicators released to date. However, such indicators are very volatile and also offer diverging pictures of conditions depending on the region.

FRIDAY April 1

March	ann. rate
Consensus	13,950,000
Desjardins	13,200,000
February	14,070,000

THURSDAY March 31 - 8:30

January	m/m
Consensus	0.2%
Desjardins	0.1%
December	0.0%

WEDNESDAY March 30 - 5:00
March
FRIDAY April 1 - 5:00

March	y/y
Consensus	6.6%
February	5.8%

New car sales (March) – After a strong 19.9% jump in January, new car sales took a breather in February with a 6.4% decline. Another downtick is also expected for March due to persistent supply snags.

CANADA

Real GDP by industry (January) – According to Statistics Canada’s preliminary results, January is thought to have ended with growth in real GDP by industry of around 0.2%. It is true that a number of indicators rose during the month when expressed in real terms. However, the month will be overshadowed by a significant slump in manufacturing sales volumes, which were greatly hampered by price growth, as well as a sharp pullback in total hours worked. Note that public health measures were in place last January to counter the Omicron wave, which particularly affected the hours worked in accommodation and food, as well as cultural and recreational sectors. As a result, real GDP growth is expected to come in slightly below Statistics Canada’s preliminary reading. We now anticipate an uptick of only 0.1%.


OVERSEAS


Euro zone: Confidence indicators (March) – The war in Ukraine and the fallout on energy prices present a significant risk to the European economy. The preliminary euro zone consumer confidence result reflected a sharp drop in March. It remains to be seen whether business confidence will hold up better. However, the relative strength of the PMI indexes is fairly encouraging.

Euro zone: Consumer price index (March – preliminary) – Inflation accelerated again in the euro zone in February at a rate of 5.8%, the highest since the euro zone index was created in 1990. Prices are expected to rise sharply again in March. Naturally, we expect a significant impact from the surge in energy prices prompted by the war in Ukraine.

Economic Indicators

Week of March 28 to April 1, 2022

Day	Hour	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 28	8:30	Goods trade balance – preliminary (US\$B)	Feb.	-106.6	-103.8	-107.6
	8:30	Retail inventories (m/m)	Feb.	1.3%	n/a	1.9%
	8:30	Wholesale inventories – preliminary (m/m)	Feb.	1.2%	n/a	0.8%
TUESDAY 29	9:00	S&P/Case-Shiller home price index (y/y)	Jan.	18.60%	18.30%	18.56%
	10:00	Consumer confidence	March	107.0	102.0	110.5
	10:45	Speech of the Federal Reserve Bank of Philadelphia President, P. Harker				
	21:30	Speech of the Federal Reserve Bank of Atlanta President, R. Bostic				
WEDNESDAY 30	8:30	Real GDP (ann. rate)	Q4t	7.1%	7.0%	7.0%
	9:15	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				
THURSDAY 31	8:30	Initial unemployment claims	March 21-25	200,000	200,000	187,000
	8:30	Personal income (m/m)	Feb.	0.5%	0.3%	0.0%
	8:30	Personal consumption expenditures (m/m)	Feb.	0.5%	0.3%	2.1%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Feb.	0.6%	0.6%	0.6%
		Excluding food and energy (m/m)	Feb.	0.4%	0.4%	0.5%
		Total (y/y)	Feb.	6.4%	6.4%	6.1%
		Excluding food and energy (y/y)	Feb.	5.5%	5.5%	5.2%
	9:00	Speech of the Federal Reserve Bank of New York President, J. Williams				
	9:45	Chicago PMI index	March	57.0	56.3	56.3
FRIDAY 1	---	Total vehicle sales (ann. rate)	March	13,950,000	13,200,000	14,070,000
	8:30	Change in nonfarm payrolls	March	475,000	425,000	678,000
	8:30	Unemployment rate	March	3.7%	3.7%	3.8%
	8:30	Weekly worked hours	March	34.7	34.8	34.7
	8:30	Average hourly earnings (m/m)	March	0.4%	0.3%	0.0%
	10:00	Construction spending (m/m)	Feb.	1.0%	1.1%	1.3%
	10:00	ISM manufacturing index	March	58.6	59.0	58.6
	CANADA					
MONDAY 28	---	---				
TUESDAY 29	8:30	Average weekly earnings (y/y)	Jan.	n/a	1.1%	1.7%
	8:30	Number of salaried employees (m/m)	Jan.	n/a	-1.0%	0.7%
WEDNESDAY 30	---	---				
THURSDAY 31	8:30	Real GDP by industry (m/m)	Jan.	0.2%	0.1%	0.0%
FRIDAY 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 Eastern Standard Time (GMT - 4 hours).  Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of March 28 to April 1, 2022

Country	Hour	Indicator	Period	Consensus		Previous data		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 28								
Japan	19:30	Unemployment rate	Feb.	2.8%		2.8%		
TUESDAY 29								
Germany	2:00	Consumer confidence	April	-15.0		-8.1		
France	2:45	Consumer confidence	March	94		98		
Japan	19:50	Retail sales	Feb.	-0.3%	-0.3%	-1.9%	1.6%	
WEDNESDAY 30								
Euro zone	5:00	Consumer confidence – final	March	n/a		-18.7		
Euro zone	5:00	Industrial confidence	March	9.0		14.0		
Euro zone	5:00	Services confidence	March	10.9		13.0		
Euro zone	5:00	Economic confidence	March	109.7		114.0		
Germany	8:00	Consumer price index – preliminary	March	1.6%	6.2%	0.9%	5.1%	
Japan	19:50	Industrial production – preliminary	Feb.	0.5%	0.8%	-0.8%	-0.5%	
China	21:30	PMI manufacturing index	March	50.0		50.2		
China	21:30	PMI non-manufacturing index	March	50.6		51.6		
THURSDAY 31								
Japan	1:00	Housing starts	Feb.		1.2%		2.1%	
United Kingdom	2:00	Current account (€B)	Q4	-19.1		-24.4		
United Kingdom	2:00	Real GDP – final	Q4	1.0%	6.5%	1.0%	6.5%	
United Kingdom	2:00	Nationwide house prices	March	0.7%	13.5%	1.7%	12.6%	
Germany	2:00	Retail sales	Feb.	0.5%	6.1%	2.0%	10.3%	
France	2:45	Personal consumption expenditures	Feb.	0.9%	n/a	-1.5%	-2.1%	
France	2:45	Consumer price index – preliminary	March	1.1%	4.3%	0.8%	3.6%	
Italy	4:00	Unemployment rate	Feb.	8.7%		8.8%		
Euro zone	5:00	Unemployment rate	Feb.	6.7%		6.8%		
Italy	5:00	Consumer price index – preliminary	March	0.9%	6.3%	0.9%	5.7%	
Japan	19:50	Tankan large manufacturers index	Q1	12		18		
Japan	20:30	PMI manufacturing index – final	March	n/a				
FRIDAY 1								
Japan	1:00	Vehicle sales	March		n/a		-18.6%	
Italy	3:45	PMI manufacturing index	March	57.0		58.3		
France	3:50	PMI manufacturing index – final	March	54.8		54.8		
Germany	3:55	PMI manufacturing index – final	March	57.6		57.6		
Euro zone	4:00	PMI manufacturing index – final	March	57.0		57.0		
United Kingdom	4:30	PMI manufacturing index – final	March	55.5		55.5		
Euro zone	5:00	Consumer price index – preliminary	March	1.7%	6.6%	0.9%	5.8%	

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 - 4 hours).