

# WEEKLY COMMENTARY



## Spending Serenity Now Can Help Prevent Deficit Insanity Later

By Marc Desormeaux, Principal Economist

If [Bizarro World](#) describes Canada's economy in 2023, then The Comeback may be the Seinfeld episode for this year's provincial budget season. Two years ago, at the pandemic's peak, we got forecasts for record deficits. Entering the fiscal year 2023–2024 (FY2024) season, which kicks off on Tuesday with BC's and Alberta's blueprints, many provinces find themselves in better financial shape than before COVID-19. But with a recession looming, could the good news continue, or will we soon be airing our fiscal grievances around the Festivus pole?

Well, it's been a long journey from red ink to black. In our report titled [Five Takeaways from Mid-Year Updates in Canada's Provinces](#), we discussed how a stronger-than-expected economic recovery first drove revenue windfalls. The subsequent wave of inflation then boosted provincial government receipts in 2022. Related to the latter driving force, commodity prices also played a role in generating a historic budget surplus in Alberta and huge fiscal gains in Saskatchewan and Newfoundland and Labrador. Meanwhile, record rates of in-migration have boosted revenues in the Maritimes.

The data once again imply reduced deficits, debt and borrowing. Provinces that have not revised projections for FY2024 since their mid-year updates should show big starting point improvements. That is [what we saw in Ontario in November](#), and in many cases strong revenue handoffs should dominate any modest downward revisions to 2023 economic growth. Ontario—with help from prior-year tax adjustments—and New Brunswick also forecast further revenue windfalls in their Q3 FY2023 updates. Meanwhile, Quebec's own-source receipts are still tracking higher than projected in their mid-year update. Recent positive surprises in Canadian employment data have added to early 2023 momentum, and most provincial bond yields have tightened versus Canada.

The bigger questions revolve around government spending. Although pandemic-era supports are winding down, we don't think we've seen the full effects of inflation on government expenditures. While employee earnings gains have cooled across industries, public sector wages—a key provincial government cost driver—remain on a generally upward trajectory. Down the road, weakening economic growth could also put pressure on governments to offer support. In fact, we've seen high rates of expenditure gains persist following past periods of elevated inflation and monetary tightening. Furthermore, despite rising immigration, populations will continue to age across Canada's provinces in the coming years, weighing on labour force participation and increasing health care costs. Fortunately, transfers announced under the recent federal–provincial agreement will fill some of this demographically-driven deficit.

We wouldn't go so far as to say “no new expenditures for you,” but we would argue for prudence in this budget cycle. Inflation, while easing, is still elevated. Measures that aren't sufficiently targeted towards the most vulnerable groups most impacted by rapidly rising prices risk re-inflaming it. And while a modest recession remains our base case, keeping the powder dry will make it easier to support households and businesses later if a more severe downturn materializes.

The best way for provincial governments to support Canadians over the long haul is to keep their budgets on a sustainable track and maintain fiscal firepower for now. One thing is clear: with strong revenue gains, uncertain economic prospects, still-high inflation, and structural spending pressures coming into view, budget season 2023 won't be a show about nothing.

### CONTENT

Musing of the Week.....	1	What to Watch For.....	2	Economic Indicators.....	4
-------------------------	---	------------------------	---	--------------------------	---

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com) • [desjardins.com/economics](https://desjardins.com/economics)

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.  
IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2023, Desjardins Group. All rights reserved.

# 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

## MONDAY, February 27 - 8:30

<b>January</b>	<b>m/m</b>
Consensus	-3.9%
Desjardins	-4.3%
<b>December</b>	<b>5.6%</b>

## TUESDAY, February 28 - 9:00

<b>December</b>	<b>y/y</b>
Consensus	n/a
Desjardins	4.7%
<b>November</b>	<b>6.8%</b>

## TUESDAY, February 28 - 10:00

<b>February</b>	<b>Index</b>
Consensus	108.4
Desjardins	107.5
<b>January</b>	<b>107.1</b>

## WEDNESDAY, March 1 - 10:00

<b>February</b>	<b>Index</b>
Consensus	47.8
Desjardins	47.3
<b>January</b>	<b>47.4</b>

## FRIDAY, March 3 - 10:00

<b>February</b>	<b>Index</b>
Consensus	54.5
Desjardins	55.5
<b>January</b>	<b>55.2</b>

## MONDAY, February 27 - 8:30

<b>Q4 2022</b>	<b>\$B</b>
Consensus	-11.0
Desjardins	-9.1
<b>Q3 2022</b>	<b>-11.1</b>

## UNITED STATES

**Durable goods orders (January)** – New durable goods orders rose 5.6% in December, driven by an 88.6% surge in aviation orders. Excluding transportation, the picture was gloomier with a drop of 0.2%. We're expecting the opposite in January. Based on information from Boeing, nondefense aircraft orders likely declined, and slight growth in automotive orders won't be enough to offset this negative impact. Meanwhile, a strong industrial production print in January suggests a temporary spike in demand, and we're forecasting a 0.4% increase in new durable goods orders excluding transportation. That said, weakness in the ISM Manufacturing index will remain a major headwind over the next few months. Overall, we're anticipating a 4.3% decline in new durable goods orders.

**S&P/Case-Shiller index of existing home prices (December)** – Existing home prices have already fallen 4.1% from their June peak as the housing market suffers the impact of rising mortgage rates. However, monthly declines were smaller during the fall (-0.5% on average in October and November) than in late summer (-1.3% on average in August and September). We're forecasting another 0.5% drop in December. We also think year-over-year price growth will slow sharply from 6.8% to 4.7%.

**Conference Board consumer confidence index (February)** – After surging 7.6 points in December, mainly on the back of lower gasoline prices, consumer sentiment as measured by the Conference Board fell 1.9 points in January as pump prices rose. We expect some stability in the index in February as several mixed signals are emerging. Gasoline prices have stabilized over the past month. In addition, labour market indicators remain very positive and new unemployment claims have recently reached new cyclical lows. On the flip side, mortgage rates are rising once more, and the stock market has fallen sharply since early February. That said, the University of Michigan consumer sentiment index and the TIPP index were both up in February. All things considered, we expect the Conference Board index to edge up to 107.5.

**ISM Manufacturing index (February)** – The ISM Manufacturing index fell further in January to 47.4—its lowest level since the spring of 2009 if we exclude the early days of the pandemic. Based on the various regional manufacturing indexes published to date, we expect February's print to be rather flat. At 47.3, the ISM Manufacturing index would continue to reflect contracting manufacturing activity and some weakness in the broader economy.

**ISM Services index (February)** – After a surprising drop to 49.2 in December—signalling an increased probability of recession—the ISM Services index recovered almost all of this loss in January, rebounding to 55.2. After two big shifts in December and January, February's print should be more stable, based on the household confidence indexes and regional non-manufacturing indicators published so far this month.

## CANADA

**Current account balance (Q4 2022)** – The current account balance is expected to have posted a smaller deficit of \$9.1 billion in the final quarter of 2022, down from a deficit of \$11.1 billion in Q3 2022. This reflects an anticipated reduction in the services trade deficit for the quarter, as exports picked up while imports were flat, and possible modest improvement in the investment income deficit. Meanwhile, the trade surplus for goods looks to have shrunk again in Q4 2022, as the decline in the price of traded goods caused nominal exports to fall more quickly than nominal imports.

TUESDAY, February 28 - 8:30

**Q4 2022**      **q/q, annualized**

Consensus      1.5%

Desjardins      1.8%

**Q3 2022**      **2.9%**

**Real GDP by expenditure (Q4 2022)** – Real GDP by expenditure is anticipated to have risen by 1.8% annualized in the final quarter of 2022. This is down from an advance of 2.9% in Q3 and well above the Bank of Canada's tracking of 1.3% in its January 2023 Monetary Policy Report. A big part of the positive Q4 print will likely be strong auto sales, which probably pushed consumer durables sharply higher in the quarter (although we don't expect it to last). As a result, consumption in Q4 should more than offset the drag from investment, the latter likely weighed down by a still-slumping housing market and lower manufacturing activity in the quarter. Net exports are expected to have added to real GDP growth in the final quarter of the year, but it's not a particularly positive story. Weak real export growth was paired with a sharp decline in import volumes, which was more a signal of soft domestic demand than strength north of the border. Thanks to anticipated solid consumption and sharply lower imports, we expect inventories to have been drawn down significantly in Q4. Indeed, the final quarter of 2022 may have seen the largest drag from inventories since the dark days of the pandemic.

TUESDAY, February 28 - 8:30

**December**      **m/m**

Consensus      0.0%

Desjardins      0.1%

**November**      **0.1%**

**Real GDP by industry (December)** – Real GDP by industry is expected to have advanced by 0.1% in December, while Statistics Canada's flash estimate was for a flat print in the month. This move higher is likely entirely on the back of stronger activity in services-producing sectors. Retail sales showed particular strength in December, but the anticipated advance in services looks to have been broad-based. In contrast, weakness in resource extraction and manufacturing is expected to have largely offset strength in construction and other goods-producing sectors. This would put growth in real GDP by industry at 1.8% annualized in Q4 2022 and 3.8% for 2022. Looking ahead, the flash estimate for real GDP growth in January 2023 is likely to come in around +0.2%, supported by a rebound in resource extraction and goods-producing sectors more broadly. And with some potential upside risk to even this solid projection, 2023 looks to be set up for strong start.

FRIDAY, March 3 - 8:30

**Q4 2022**      **q/q**

Consensus      n/a

Desjardins      0.1%

**Q3 2022**      **0.6%**

**Labour productivity (Q4 2022)** – Labour productivity is expected to have eked out a very modest advance in Q4 2022, likely coming in flat or slightly positive. This would be the third consecutive quarterly advance following a string of negative productivity growth prints that started in Q3 2020, and would leave the level of labour productivity only a tad better than where it ended 2019.

## OVERSEAS

TUESDAY, February 28 - 20:00

**February**      **Index**

Consensus      50.7

**January**      **50.1**

**China: Manufacturing PMI (February)** – China's January PMIs—virtually the only Chinese indicators published during the reporting period—showed that the economy improved in early 2023. The 3.1-point increase in the manufacturing index and, in particular, the 12.8-point rise in the non-manufacturing index showed the extent of the rebound in economic activity after public health measures were relaxed. February's prints will give us a better idea of the strength of the Chinese economy in the first quarter of 2023.

THURSDAY, March 2 - 5:00

**February**      **y/y**


Consensus      0.5%


**January**      **-0.2%**

**Eurozone: Consumer Price Index (February, preliminary)** – Eurozone inflation fell again in January. The consumer price index was up 8.6% year-over-year, down sharply from October's 10.6% peak. January's slowdown is particularly remarkable as the all items less food and energy index declined 0.7% month-over-month. We'll have to wait and see whether inflationary pressure continues to ease in February.

# Economic Indicators

Week of February 27 to March 3, 2023

Day	Time	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 27	8:30	Durable goods orders (m/m)	Jan.	-3.9%	-4.3%	5.6%
	10:00	Pending home sales (m/m)	Jan.	0.9%	n/a	2.5%
	10:30	Speech by Federal Reserve Governor P. Jefferson				
TUESDAY 28	8:30	Goods trade balance – preliminary (US\$B)	Jan.	-91.0	-90.5	-89.7
	8:30	Retail inventories (m/m)	Jan.	n/a	n/a	0.5%
	8:30	Wholesale inventories – preliminary (m/m)	Jan.	0.1%	n/a	0.1%
	9:00	S&P/Case-Shiller home price index (y/y)	Dec.	n/a	4.7%	6.8%
	9:45	Chicago PMI	Feb.	45.0	45.0	44.3
	10:00	Consumer confidence	Feb.	108.4	107.5	107.1
	14:30	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
WEDNESDAY 1	10:00	Construction spending (m/m)	Dec.	0.3%	0.0%	-0.4%
	10:00	ISM manufacturing index	Feb.	47.8	47.3	47.4
	---	Total vehicle sales (ann. rate)	Feb.	14,850,000	14,650,000	15,740,000
THURSDAY 2	8:30	Initial unemployment claims	Feb. 20-24	n/a	197,000	192,000
	8:30	Nonfarm productivity – final (ann. rate)	Q4	2.5%	3.0%	3.0%
	8:30	Unit labor costs – final (ann. rate)	Q4	1.6%	1.1%	1.1%
	14:00	Speech by Federal Reserve Governor C. Waller				
FRIDAY 3	10:00	ISM services index	Feb.	54.5	55.5	55.2
	11:00	Speech by Federal Reserve Bank of Dallas President L. Logan				
	12:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	15:00	Speech by Federal Reserve Governor M. Bowman				
CANADA						
MONDAY 27	8:30	Current account balance (\$B)	Q4	-11.0	-9.1	-11.1
TUESDAY 28	---	2023 British Columbia Budget				
	---	2023 Alberta Budget				
	8:30	Real GDP by industry (m/m)	Dec.	0.0%	0.1%	0.1%
	8:30	Real GDP (ann. rate)	Q4	1.5%	1.8%	2.9%
WEDNESDAY 1	---	---				
THURSDAY 2	---	---				
FRIDAY 3	8:30	Building permits (m/m)	Jan.	n/a	0.9%	-7.3%
	8:30	Labour productivity (q/q)	Q4	n/a	0.1%	0.6%

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 27 to March 3, 2023

Country	Time	Indicator	Period	Consensus		Previous data	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
MONDAY 27							
Eurozone	5:00	M3 money supply	Jan.		3.9%		4.1%
Eurozone	5:00	Consumer confidence – final	Feb.	n/a		-19.0	
Eurozone	5:00	Economic confidence	Feb.	101.0		99.9	
Japan	18:50	Retail sales	Jan.	0.7%	4.1%	1.1%	3.8%
Japan	18:50	Industrial production – preliminary	Jan.	-2.9%	-0.7%	0.3%	-2.4%
TUESDAY 28							
Japan	00:00	Housing starts	Jan.		1.2%		-1.7%
France	2:45	Personal consumption expenditures	Jan.	0.4%	-4.6%	-1.3%	-5.6%
France	2:45	Consumer price index – preliminary	Feb.	1.0%	6.1%	0.4%	6.0%
France	2:45	Real GDP – final	Q4	0.1%	0.5%	0.1%	0.5%
China	20:00	Manufacturing PMI	Feb.	50.7		50.1	
China	20:00	Non-manufacturing PMI	Feb.	55.0		54.4	
WEDNESDAY 1							
United Kingdom	2:00	Nationwide house prices	Feb.	-0.6%	-1.0%	-0.6%	1.1%
Italy	3:45	Manufacturing PMI	Feb.	50.9		50.4	
France	3:50	Manufacturing PMI – final	Feb.	47.9		47.9	
Germany	3:55	Manufacturing PMI – final	Feb.	46.5		46.5	
Eurozone	4:00	Manufacturing PMI – final	Feb.	48.5		48.5	
United Kingdom	4:30	Manufacturing PMI – final	Feb.	49.2		49.2	
Germany	8:00	Consumer price index – preliminary	Feb.	0.5%	8.6%	1.0%	8.7%
THURSDAY 2							
Eurozone	5:00	Consumer price index – preliminary	Feb.	0.5%	8.2%	-0.2%	8.6%
Eurozone	5:00	Unemployment rate	Jan.	6.6%		6.6%	
Italy	5:00	Consumer price index – preliminary	Feb.	n/a	9.1%	0.2%	10.1%
Japan	18:30	Tokyo Consumer Price Index	Feb.		3.4%		4.4%
Japan	18:30	Unemployment rate	Jan.	2.5%		2.5%	
FRIDAY 3							
Germany	2:00	Trade balance (€B)	Jan.	11.0		10.0	
France	2:45	Industrial production	Jan.	-0.2%	0.3%	1.1%	1.4%
Italy	3:45	Composite PMI	Feb.	52.0		51.2	
Italy	3:45	Services PMI	Feb.	52.2		51.2	
France	3:50	Composite PMI – final	Feb.	51.6		51.6	
France	3:50	Services PMI – final	Feb.	52.8		52.8	
Germany	3:55	Composite PMI – final	Feb.	51.1		51.1	
Germany	3:55	Services PMI – final	Feb.	51.3		51.3	
Eurozone	4:00	Composite PMI – final	Feb.	52.3		52.3	
Eurozone	4:00	Services PMI – final	Feb.	53.0		53.0	
Italy	4:00	Real GDP – final	Q4	-0.1%	1.7%	-0.1%	1.7%
United Kingdom	4:30	Composite PMI – final	Feb.	53.0		53.0	
United Kingdom	4:30	Services PMI – final	Feb.	53.3		53.3	

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).