WEEKLY COMMENTARY

This Time Is NOT Different

By Royce Mendes, Managing Director and Head of Macro Strategy

The most aggressive rate hiking cycle in history was, until recently, accompanied by a surprising chorus of voices reassuring everyone that "this time would be different". From central bankers to government officials to talking heads, the public was told that the economy could handle the record-breaking pace of rate hikes. Whether it was because of elevated job openings, recovering supply or excess savings, the conclusion from many was the same: No need to worry.

According to them, the pandemic had created such a unique set of circumstances that historical records were irrelevant. The economy would gradually adjust, weakening exactly enough to bring inflation back down to 2%, but by less than could be called a recession. These past few weeks have shown how wrong that thinking was.

Some of us warned that the tide had simply yet to recede, believing that when it did, this time would not be any different. Of course, it wasn't going to be exactly like the 2008-09 financial crisis or the bursting of the tech bubble before that. But there was little reason to doubt that sharply higher interest rates would hit economies any less hard today than in years past, or that the adjustment would be any less swift when it happened. In words often attributed to Mark Twain, "History doesn't repeat itself, but it often rhymes."

So strong was the belief, though, that this time would be different that just a few weeks ago, the rates market was pricing a 5.70% peak federal funds rate with little reaction from the equity markets. While Treasury yields marched higher, credit spreads remained relatively undisturbed, and equities bounced around in a range. Market-implied earnings expectations also showed little concern about a recession. The idea that maybe this time was different seemed to have gained traction.

Now that the tide has gone out and we're discovering who's been swimming naked, policymakers need to come to terms with the fact that the story they were telling was a fairy tale. Instead of achieving its goal of price stability with unprecedented calmness in markets and the economy, the central bank is now failing on two out of its three mandates. Inflation remains too hot, and the financial system is now on shaky ground.

Next week, the Federal Reserve will have the unenviable task of keeping both financial instability and excess inflation in its crosshairs. Policymakers need to heed the lessons of history and be highly vigilant on both fronts. Assuming that this time is different with regards to inflation or the financial system was folly.

Easy monetary policy, combined with massive fiscal stimulus and disrupted supply chains, created exceedingly high inflation. Aggressive monetary tightening to contain those price pressures has understandably uncovered vulnerabilities in the financial system, especially after years of easy money, and will likely drive material weakness in the economy. These developments are not without historical precedent. So, the first order of business at the FOMC meeting should be to recognize that the current circumstances are very similar to past episodes.

By admitting that there will be bumps along the way to price stability similar to those in the past, policymakers can stand ready to face those obstacles, rather than keeping their heads in the sand until it's too late. Assuming there's no significant further deterioration in financial stability between now and next Wednesday, the Federal Reserve should raise rates 25bps, keeping the outlook for the policy rate tied to the outlook for inflation. It can then use asset purchases and credit easing to address potential financial stability risks.

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As Fed Chairman Jerome Powell has himself said many times, "History cautions strongly against premature policy easing." This time is no different. While it should remain nimble in the face of a potential deterioration, the central bank risks significantly more pain down the road if it loses sight of its inflation fight now.

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, March 21 - 10:00

February	
Consensus	4,190,000
Desjardins	4,350,000
January	**4,000,000**

Existing home sales (February) – Existing home sales have been falling for 12 straight months now, plummeting 37.1% from their November 2021 peak—although it's still not as bad as the 52.4% drop between 2005 and 2010. But an increase in existing home sales is finally in the cards for February. Pending home sales recorded consecutive rises in December and January, a first since the summer of 2020, and January's 8.1% gain is a particularly strong sign of a potential increase in February. Looking at the preliminary regional data for existing home sales, a less negative year-over-year change suggests there's been a decent increase over the month. We project existing home sales will come in at 4,350,000 units.

WEDNESDAY, March 22 - 14:00

March	
Consensus	5.00%
Desjardins	5.00%
February 1	**4.75%**

Federal Reserve meeting (March) – Recent official statements from the Federal Reserve (Fed), including Jerome Powell's recent testimony to Congress, had left no doubt that another rate hike was coming. There were even high expectations for a 50-point increase. But now a year into the monetary tightening cycle, while economic conditions and high inflation are clear arguments in favour of carrying on, things just got more complicated. With the collapse of Silicon Valley Bank and two other financial institutions highlighting the fragility of the country's regional banks, there's less certainty about what the Fed's plans are. Our bet is on a 25-point increase of the target range for the federal funds to come out of this meeting. But what will be interesting to see is the Fed's read on this new development, including what Jerome Powell says at his press conference. We'll also be looking out for Fed officials' latest economic and interest rate forecasts and how much more tightening they think will be needed.

THURSDAY, March 23 - 10:00

February	
Consensus	650,000
Desjardins	685,000
January	**670,000**

New home sales (February) – Sales of new single-family homes recorded another 7.2% increase in January, a repeat of December. That's the fourth increase in six months. Early 2023 numbers came out to an annualized pace of 670,000 homes, an increase of 21.8% from the September 2022 low. With mortgage rates as high as they are, the rebound in new home sales comes as a surprise. The trend may even continue in the very short term, with building permits for single-family homes up 7.6% in February and the home builder confidence survey showing increased buyer demand for single-family homes. That said, mortgage applications for home purchases are down from January. All in all, we expect single-family home sales to inch up from 670,000 to 685,000 units.

FRIDAY, March 24 - 8:30

Février	m/m
Consensus	1.5%
Desjardins	-1.3%
Janvier	**-4.5%**

New durable goods orders (February) – After growing 5.1% in December, new durable goods orders declined 4.5% in January, with the aviation sector largely driving the swings. Based on figures published by Boeing, we expect the sector to drag down orders again in February. Excluding transportation, we expect a modest 0.2% increase in new orders after January's 0.8% rise. Manufacturing output excluding automobiles edged up 0.1% in February. The new orders component of the ISM Manufacturing index remains negative at 47.0, but it's closer to the 50 mark than the 42.5 recorded in January. Total new durable goods orders should post a total decline of 1.3%.

CANADA

TUESDAY, March 21 - 8:30	
Febuary	**m/m**
Consensus	0.5%
Desjardins	0.6%
January	**0.5%**

Consumer Price Index (February) – Canadian headline prices likely rose 5.5 % in the twelve months ending in February, down from the 5.9% pace seen in January. Falling gasoline prices throughout February helped drive the headline figure lower. While electricity rates plummeted in January, due to energy subsidies from the Albertan government, it won't add any further to the declines seen last month. Excluding food and energy, the annual rate of core inflation is projected to slow just a tick, from 4.9% to 4.8%. Putting upward pressure on these figures are telecommunication services prices, which should have bounced back in February after weighing on the index in January, when holiday cellphone plan discounts were unusually extended into the new year. That said, expect the 3-month annualized pace of core inflation to fall to roughly 3%, a welcome development for the Bank of Canada. Still, all eyes will be on the Bank of Canada's own core inflation measures, which have stabilized around 3.5%, the lower bound of recent ranges. Ultimately, the Bank of Canada wants to see those measures fall further to reassure them that the inflation is on a path back to 2 percent.

FRIDAY, March 24 - 8:30	
January	**m/m**
Consensus	0.7%
Desjardins	1.0%
December	**0.5%**

Retail sales (January) - Retail sales are expected to have risen 1.0% during the month of January, slightly above Statistics Canada's 0.7% flash estimates. Once again, auto sales likely drove all of the growth during the first month of 2023. The strength in car sales is at least partially attributable to delayed deliveries of autos ordered earlier. Retail sales excluding motor vehicles and parts are anticipated to have decreased by 0.3% in January, and core retail sales, excluding gasoline stations in addition to motor vehicle and parts, by 0.7%. That stripped-down measure of sales has been stagnant since mid-2022, suggesting that spending has moved away from consumer goods and towards services not contained in this report. More generally, retail sales do tend to slow during recessions. As a result, we'll be watching this data closely as Canadians continue to digest the rate hikes conducted over the past year by the Bank of Canada.

OVERSEAS

THURSDAY, March 23 - 8:00	
March	
Consensus	4.25%
February 2	**4.00%**

United Kingdom: Bank of England meeting (March) – The European Central Bank continued with its monetary tightening stance despite recent tensions in the financial system. Will the Bank of England (BoE) follow suit? The two central banks are at different stages of their tightening cycles: the BoE has a head start and seems closer to hitting pause, based on recent messaging. That said, inflation remains high—even higher than in the eurozone—and the labour market is still very hot. That might be enough for the BoE to stay the course and add another 25 basis points to its key rate.

FRIDAY, March 24 - 5:00	
March	
Consensus	52.0
February	**52.0**

Eurozone: Purchasing Managers' Index (March – preliminary) – Purchasing Managers' Indexes (PMIs) are rebounding strongly in Europe. The eurozone composite index hit 52.0 in February, its highest reading since June 2022. That signals a return to real GDP growth for Q1 2023. Another increase would be a positive sign for the economy. But we'll be curious to see whether this week's financial market turmoil and the uncertainty surrounding the banking sector will show up in the PMI numbers.

Economic Indicators

Week of March 20 to 24, 2023

Day	Time	Indicator	Period	Consensus	Desjardins	Previous data
UNITED STATES						
MONDAY 20	---	---				
TUESDAY 21	10:00	Existing home sales (ann. rate)	Feb.	4,190,000	4,350,000	4,000,000
WEDNESDAY 22	14:00	Federal Reserve meeting	March	5.00%	5.00%	4.75%
	14:30	Speech by Federal Reserve Chair J. Powell				
THURSDAY 23	8:30	Initial unemployment claims	13-17 March	n/a	199,000	192,000
	8:30	Current account (US$B)	T4	-213.6	-218.4	-217.1
	10:00	New home sales (ann. rate)	Feb.	650,000	685,000	670,000
FRIDAY 24	8:30	Durable goods orders (m/m)	Feb.	1.5%	-1.3%	-4.5%
CANADA						
MONDAY 20	---	---				
TUESDAY 21	---	2023 Québec Budget				
	---	2023 New Brunswick Budget				
	8:30	Consumer price index				
		Total (m/m)	Feb.	0.5%	0.6%	0.5%
		Total (y/y)	Feb.	5.3%	5.4%	5.9%
WEDNESDAY 22	---	2023 Saskatchewan Budget				
	13:30	Release of the Bank of Canada Summary of Deliberations				
THURSDAY 23	---	2023 Ontario Budget				
	---	2023 Nova Scotia Budget				
	---	2023 Newfoundland and Labrador Budget				
FRIDAY 24	8:30	Retail sales				
		Total (m/m)	Jan.	0.7%	1.0%	0.5%
		Excluding automobiles (m/m)	Jan.	0.7%	0.3%	-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 daylight saving time (GMT - 4 hours). Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of March 20 to 24, 2023

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous data m/m (q/q)	Previous data y/y
OVERSEAS							
MONDAY 20							
Germany	3:00	Producer price index	Feb.	-1.4%	14.4%	-1.0%	17.8%
Eurozone	6:00	Trade balance (€B)	Jan.	n/a		-18.1	
TUESDAY 21							
Eurozone	6:00	Construction	Jan.	n/a	n/a	-2.5%	-1.3%
Germany	5:00	ZEW Current Situation Survey	March	-44.0		-45.1	
Germany	5:00	ZEW Expectations Survey	March	15.0		28.1	
WEDNESDAY 22							
United Kingdom	3:00	Consumer price index	Feb.	0.6%	9.8%	-0.6%	10.1%
Italy	5:30	Current account (€M)	Jan.	n/a		2,527	
Eurozone	6:00	Current account (€B)	Jan.	n/a		15.9	
Brazil	17:30	Central Bank of Brazil meeting	March	13.75%		13.75%	
THURSDAY 23							
Switzerland	4:30	Swiss National Bank meeting	March	1.50%		1.00%	
Norway	5:00	Bank of Norway meeting	March	3.00%		2.75%	
United Kingdom	8:00	Bank of England meeting	March	4.25%		4.00%	
Eurozone	11:00	Consumer confidence – preliminary	March	-18.5		-19.0	
Japan	19:30	Consumer price index	Feb.		3.3%		4.3%
United Kingdom	20:01	Consumer confidence	March	-36		-38	
Japan	20:30	Composite PMI – preliminary	March	n/a		51.1	
Japan	20:30	Manufacturing PMI – preliminary	March	n/a		47.7	
Japan	20:30	Services PMI – preliminary	March	n/a		54.0	
FRIDAY 24							
United Kingdom	3:00	Retail sales	Feb.	0.2%	4.8%	0.5%	-5.1%
France	3:45	Wages – final	Q4	n/a		0.6%	
France	4:15	Composite PMI – preliminary	March	51.2		51.7	
France	4:15	Manufacturing PMI – preliminary	March	48.0		47.4	
France	4:15	Services PMI – preliminary	March	52.5		53.1	
Germany	4:30	Composite PMI – preliminary	March	51.0		50.7	
Germany	4:30	Manufacturing PMI – preliminary	March	47.0		46.3	
Germany	4:30	Services PMI – preliminary	March	51.1		50.9	
Eurozone	5:00	Composite PMI – preliminary	March	52.0		52.0	
Eurozone	5:00	Manufacturing PMI – preliminary	March	49.0		48.5	
Eurozone	5:00	Services PMI – preliminary	March	52.5		52.7	
United Kingdom	5:30	Composite PMI – preliminary	March	52.7		53.1	
United Kingdom	5:30	Manufacturing PMI – preliminary	March	49.7		49.3	
United Kingdom	5:30	Services PMI – preliminary	March	53.0		53.5	

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).