WEEKLY COMMENTARY

#1 MEILLEUR PRÉVISIONNISTE GLOBAL – CANADA
FOCUS ECONOMICS
ANALYST FORECAST AWARDS
2022
#1 BEST OVERALL FORECASTER – CANADA

Will the Bank of Canada's Latest Plan Finally Do the Trick?

By Royce Mendes, Managing Director and Head of Macro Strategy

In January, the Bank of Canada announced it wouldn't raise interest rates any further if the economy and inflation evolved according to plan. The central bank's plan assumed that a process of slowing price growth was already underway and that past interest rate increases just needed more time to push inflation back down to the 2% target. The Bank of Canada is trying to control inflation without crashing the economy. But over the past few years, it has had a number of such plans that ultimately didn't pan out. Based on early indications, it looked like this plan would eventually suffer the same fate.

The first major data release after the decision showed that the Canadian economy added a whopping 150K jobs in January. That wasn't part of the central bank's plan. Subsequently, US inflation numbers revealed an apparent reacceleration in consumer price growth south of the border. Again, the data didn't seem to jibe with the Bank of Canada's forecasts. Excess inflationary pressures in the US can and do spill over into Canada. So by mid-February, it looked increasingly likely that Canadian central bankers would be forced to raise rates once again—if not in March, a month or two later.

Then the data began to cooperate. Canadian inflation came in below expectations for the second month in a row. As a result, our tracking for the first quarter of 2023 now suggests headline inflation might end up a touch below the Bank of Canada's January projection. Core inflation also showed progress. Measures of the recent trend in underlying inflationary pressures now appear to be running between 3 and 3.5%. While the US numbers suggest a different track south of the border, Canadian "supercore" measures of inflation have been less volatile lately. So maybe there's a bit more signal than noise in the Canadian readings.

But slowing near-term inflation prints was only one part of the central bank's plan. If the economy remained as overheated as it seemed late last year, eventually consumer prices would likely begin rising at a faster pace again. That's why the recent GDP numbers were so critical. While the Bank of Canada had previously estimated that the economy had grown by 1.3% in the fourth quarter of 2022 and private sector economists were forecasting even stronger growth, the data ultimately showed that the economy stalled during that period. It's true that the underlying details of the GDP report were a bit more upbeat, but it still looks like the economy has meaningfully slowed down.

So there's little doubt the Bank of Canada will hold rates steady next week. The statement accompanying the decision will again leave the door open to further rate hikes if the economy or inflation veer off this path. But central bankers will be able to credibly argue that both inflation and the economy have made as much progress as predicted back in January, if not more.

As past rate hikes continue to work their way through the economy, it will become more likely that Canadian rate hikes are really in the rear-view mirror. That's especially true if the economy slips into recession as we expect.

To be sure, economies around the world have proven more resilient in the face of higher interest rates than previously expected. So, in the near-term, markets will continue to price in a probability of one or more rate increases. But the dataflow is finally beginning to show that the economy and inflationary trends are more or less going according to the Bank of Canada's plan. That's a big improvement relative to the central bank's prior such plans.

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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 Francis Généreux, Principal Economist, Tiago Figueiredo, Associate – Macro Strategy, Marc-Antoine Dumont, Economist, and Maëlle Boulais-Préseault, Economist

UNITED STATES

FRIDAY, March 10 - 8:30

February	
Consensus	200,000
Desjardins	180,000
January	**517,000**

Nonfarm payrolls (February) – The jobs report released in early February caught everyone by surprise, showing 517,000 new jobs added in January. After such a huge surge, will February's numbers return to earth? On the one hand, it would make sense to see job creation slow. After all, that was the trend at the end of 2022, and the employment component of the ISM Manufacturing index is back below 50. On the other hand, there's been little sign that a slowdown is coming, and jobless claims remain very low. Consumer confidence in the job market even improved in February according to the Conference Board's index. We project that 180,000 jobs were added in February, but we're anything but confident about it. The unemployment rate is expected to edge up to 3.5%.

CANADA

WEDNESDAY, March 8 - 8:30

January	**$B**
Consensus	-0.2
Desjardins	0.2
December	**-0.2**

International merchandise trade (January) – Canada's trade balance is expected to have moved into surplus territory in January on the back of higher exports and flat imports. Rebounding refining activity in the US suggests crude oil exports to America increased after a down month. Strong auto production data in Canada also lead us to believe motor vehicle and parts exports rose again in January after an impressive resurgence in December. Inputs into our forecast for January imports suggest very little change from the previous month. If anything, a slight decline in volumes was likely offset by rising prices tied to the depreciation in the Canadian dollar. The risk to our $0.2B trade surplus forecast is tilted to the downside, however. Important revisions were made to the quarterly trade data this week, which could prompt a downward revision to the starting point for January.

WEDNESDAY, March 8 - 10:00

March	
Consensus	4.50%
Desjardins	4.50%
January 25	4.50%

Bank of Canada (March) – Expect the Bank of Canada to keep rates steady next week. In January, the Bank of Canada announced that it wouldn't raise interest rates any further if the economy and inflation evolved in line with its projections. Economic data since the January decision have been mixed. A robust labour market coupled with a reacceleration of inflation south of the border has raised the spectre of further rate hikes down the road. But with recent growth figures showing the Canadian economy stalling in Q4 and inflation data slowing early this year, the Bank of Canada can be comfortable knowing there are credible signs its monetary policy medicine is working its way through the economy. That said, given how many times the central bank has been burned by bad forecasts recently, the statement accompanying the rate decision will still leave the door open to further increases should the economy veer off its intended path.

FRIDAY, March 10 - 8:30

February	
Consensus	2,500
Desjardins	10,000
January	**150,000**

Labour Force Survey (February) – While the 150K barnburner employment report in January had the tailwind of an abnormally warm start to the year, months that see sizeable employment gains are typically followed by another positive monthly print. As such, we expect hiring to have continued into February with another 10K jobs added. One area where momentum is expected to have waned is construction employment, which should see some weakness due to the recent decline in housing activity. The surge in population growth in January probably didn't reverse in February, but likely slowed. The combination of modest job gains and slower population growth should keep the unemployment rate unchanged at 5.0%. However, the annual pace of wage growth could reaccelerate to the 5% mark or higher given base effects. One thing to note is that survey participation rates are still well below their pre-pandemic levels and could be increasing volatility in the reported numbers.

FRIDAY, March 10 - 2:00

January	**m/m**
Consensus	0.1%
December	**-0.5%**

OVERSEAS

United Kingdom: Monthly GDP (January) – The final quarter of 2022 ended on a sour note in the United Kingdom, with a 0.5% drop in monthly real GDP. But the economy did manage to narrowly avoid a quarterly contraction. While things aren't expected to get any easier in the first quarter of 2023, January data seems relatively positive so far, with retail sales up 0.5% and PMI readings on the rise. January's monthly GDP release will give us a better idea of where the UK economy stands.

Economic Indicators

Week of March 6 to 10, 2023

Day	Time	Indicator	Period	Consensus	Desjardins forecast	Previous data
UNITED STATES						
MONDAY 6	8:30	Factory orders (m/m)	Jan.	-1.5%	-3.5%	1.8%
TUESDAY 7	10:00	Wholesale inventories – final (m/m)	Jan.	-0.4%	-0.4%	-0.4%
	10:00	Testimony of Federal Reserve Chair J. Powell before a Senate committee				
	15:00	Consumer credit (US$B)	Jan.	25,000	27,000	11,565
WEDNESDAY 8	8:30	Trade balance – goods and services (US$B)	Jan.	-69.0	-68.2	-67.4
	10:00	Testimony of Federal Reserve Chair J. Powell before a House committee				
	14:00	Release of the Beige Book				
THURSDAY 9	8:30	Initial unemployment claims	Feb. 27–March 3	200,000	195,000	190,000
	10:00	Speech by Federal Reserve Vice Chair M. Barr				
FRIDAY 10	8:30	Change in nonfarm payrolls	Feb.	200,000	180,000	517,000
	8:30	Unemployment rate	Feb.	3.4%	3.5%	3.4%
	8:30	Average hourly earnings (m/m)	Feb.	0.3%	0.3%	0.3%
	8:30	Weekly worked hours	Feb.	34.6	34.6	34.7
	14:00	Federal budget (US$B)	Feb.	n/a	n/a	-38.8
CANADA						
MONDAY 6	---	---				
TUESDAY 7	---	2023 Manitoba Budget				
WEDNESDAY 8	8:30	International trade ($B)	Jan.	-0.2	0.2	-0.2
	10:00	Bank of Canada meeting	March	4.50%	4.50%	4.50%
THURSDAY 9	13:30	Speech by Bank of Canada Senior Deputy Governor C. Rogers				
FRIDAY 10	8:30	Net change in employment	Feb.	2,500	10,000	150,000
	8:30	Unemployment rate	Feb.	5.1%	5.0%	5.0%

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 March 6 to 10, 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 6							
Eurozone	5:00	Retail sales	Jan.	0.6%	-1.8%	-2.7%	-2.8%
China	22:00	Trade balance (US$B)	Feb.	81.8		78.0	
Australia	22:30	Reserve Bank of Australia meeting	March	3.60%		3.35%	
TUESDAY 7							
Germany	3:00	Factory orders	Jan.	-0.9%	-12.3%	3.2%	-10.1%
Japan	18:50	Current account (¥B)	Jan.	853.4		1,182.1	
Japan	18:50	Trade balance (¥B)	Jan.	-2,918.0		-1,225.6	
WEDNESDAY 8							
Japan	00:00	Leading index – preliminary	Jan.	96.9		97.2	
Japan	00:00	Coincident index – preliminary	Jan.	96.4		99.1	
Germany	2:00	Industrial production	Jan.	1.4%	-3.7%	-3.1%	-3.9%
Germany	2:00	Retail sales	Jan.	2.4%	-5.0%	-5.3%	-6.6%
Italy	4:00	Retail sales	Jan.	n/a	n/a	-0.2%	3.4%
Eurozone	5:00	Real GDP – final	Q4	0.0%	1.9%	0.1%	1.9%
Japan	18:50	Real GDP – final	Q4	0.2%		0.2%	
China	20:30	Consumer price index	Feb.		1.9%		2.1%
China	20:30	Producer price index	Feb.		-1.3%		-0.8%
THURSDAY 9							
Japan	18:50	Producer price index	Feb.	-0.3%	8.5%	0.0%	9.5%
FRIDAY 10							
Japan	---	Bank of Japan meeting	March	-0.10%		-0.10%	
Germany	2:00	Consumer price index – final	Feb.	0.8%	8.7%	0.8%	8.7%
United Kingdom	2:00	Monthly GDP	Jan.	0.1%		-0.5%	
United Kingdom	2:00	Industrial production	Jan.	0.0%	-3.9%	0.3%	-4.0%
United Kingdom	2:00	Index of services	Jan.	0.2%		-0.8%	
United Kingdom	2:00	Construction	Jan.	0.0%	2.5%	0.0%	3.7%
United Kingdom	2:00	Trade balance (£M)	Jan.	-5,600		-7,150	
France	2:45	Trade balance (€M)	Jan.	n/a		-14,934	
France	2:45	Current account (€B)	Jan.	n/a		-8.5	

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic fi gures 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).