WEEKLY COMMENTARY

A Little Bit Yippy

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On "Liberation Day," America sharply raised the price of participating in the US-centric international trade and financial system.

Until now, this US-led system had promoted a relatively free flow of goods and capital across borders despite an uneven playing field. Businesses sought the most efficient means of production, while savers pursued the best returns on capital. Flows were netted through the US dollar, against which most other currencies are quoted, placing the greenback at the centre of the system.

President Trump sees the US trade deficit as an outflow of wealth. But most dollars that "leave" the United States through trade are recycled back into US securities. Before the Lehman crisis, this recycling was done mainly by foreign central banks with pegged currencies, such as China's. Recently, private investors have taken the lead, attracted by America's remarkable post-COVID resurgence.

In other words, America's trade deficit and the liquidity that drives its financial markets are linked. Causality can be debated and probably runs both ways, but the key takeaway is as follows: cutting the deficit means choking off the liquidity that makes America's financial markets unique.

According to data from the US Treasury, foreign private investors purchased half a trillion US dollars' worth of US Treasuries in 2024, or about 40% of total net issuance. They also purchased US$430 billion of American stocks. We have no current data on how much they might have sold since "Liberation Day," but the liquidation of American securities, including US Treasuries, was substantial. US stocks broadly underperformed global indices, and the treasury market came unstuck. The fact that foreign investors were fleeing is also evident in the US dollar's broad-based decline.

While President Trump seemed willing to accept lower stock prices, this week's rout in the treasury market precipitated an about-face. Interest rates on US government debt had risen across the curve, with the long end leading the way higher and exhibiting unusually high volatility. At one point, the 10-year bond yield broke above 4.50%, and 30-year yields revisited cycle highs around 5.00%.

President Trump announced a 90-day pause during which the reciprocal tariffs are 10% for all countries that faced these tariffs, except for China, whose tariff rate stands at 145% at the time of writing.

We think there are three key takeaways here for investors.

1. The bond market once again played its role in regulating the government. It revealed America's vulnerability as a debtor nation.

2. A 90-day pause is a 90-day pause. Significant business uncertainty is likely to persist, especially since the outcome of bilateral negotiations is unclear, and even the lower tariff rate is a significant stagflationary shock to the US economy. Forward-looking market indicators such as the ratio of copper to gold prices continue to signal a recession even after the 90-day reprieve was announced.

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3. China looks isolated for now, but a cornered tiger is dangerous. If China is completely shut out of US markets, President Xi may think he has little left to lose. He may order sales of US Treasuries (China owns US$760 billion) or even escalate the sabre-rattling around Taiwan. On the other hand, President Trump may yet offer an olive branch to China.

In short, we doubt President Trump's 90-day pause will put the recession genie back in the bottle or rebuild lost trust overnight. Markets may stay "a little bit yippy" for a while yet.

What to Watch For

UNITED STATES

WEDNESDAY April 16 - 8:30	
March	**m/m**
Consensus	1.4%
Desjardins	1.0%
February	**0.2%**

Retail sales (March) – After plummeting in January, retail sales edged up 0.2% in February. We're forecasting March's print to be much stronger. Despite deteriorating confidence, consumers have been trying to get ahead of US tariffs and their impact on prices and availability of consumer goods, especially autos. New vehicle sales jumped 11.0% in March, the biggest monthly increase since January 2023. Other categories of goods retailers probably saw consumers attempting to fast-track purchases, albeit to a lesser extent. However, we expect gasoline station receipts to have fallen on the heels of lower gasoline prices. The news in the food services sector—where we've noticed a spike in hours worked—looks to have been more positive in March than in February. Finally, the monthly decline in the goods component of the consumer price index may have tempered the rise in retail sales. All in all, we expect a 1.0% increase in total sales and a 0.4% gain in sales excluding motor vehicles and gasoline.

WEDNESDAY April 16 - 9:15	
March	**m/m**
Consensus	-0.2%
Desjardins	-0.2%
February	**0.7%**

Industrial production (March) – Industrial production grew 0.7% in February. The biggest boost came from manufacturing, which posted its biggest gain in a year at 0.9%. After such a solid increase, we expect manufacturing to fall back again. Auto production—the primary factor behind February's increase—also likely dropped back in March. Look for modest growth from the rest of the manufacturing sector due to a slowdown in hours worked and the decline in the ISM Manufacturing index. The mining sector also probably fell after a strong 2.8% gain in February. Finally, energy production also likely dropped once more. All told, industrial production probably edged down 0.2%. We expect to see a fair amount of volatility over the coming months as businesses react to the Trump administration's trade policy flip-flopping.

THURSDAY April 17 - 8:30	
March	**ann. rate**
Consensus	1,420,000
Desjardins	1,460,000
February	**1,501,000**

Housing starts (March) – Housing starts surged 11.2% in February, partly due to milder weather after a harsh January. Recent volatility in housing starts suggests that February's stellar print will be followed by a decline. The fact that new builds exceeded building permits issued in February also points to a contraction in March. However, on the plus side, there were 3,100 residential construction hires in March. As a result, the drop in housing starts will likely be relatively modest, and we expect the latest print to come in at 1,460,000 units.

CANADA

TUESDAY April 15 - 8:15	
March	**ann. rate**
Consensus	237,800
Desjardins	240,000
February	**229,030**

Housing starts (March) – Housing starts likely increased to about 240k (saar) following weather-induced delays in February. We expect a certain amount of resilience in homebuilding in the near term, particularly in the larger multi-unit sector, despite many economic and industry-specific headwinds. Our latest report looked in detail at the impacts of tariffs on the Canadian homebuilding sector. While the full effect will depend on how long tariffs remain in place and how effectively the sector adapts, we're anticipating downward pressure on housing starts over the longer term.

TUESDAY April 15 - 8:30	
March	**m/m**
Consensus	0.7%
Desjardins	0.7%
February	**1.1%**

Consumer price index (March) – Look for headline Canadian consumer price growth to have risen by 0.7% not seasonally adjusted in March, causing the annual rate to increase by one tick to 2.7%. We anticipate that this was driven by a strong reading in the food component of CPI, as this will be the first full monthly reading following the HST/GST holiday. The March CPI print will be the last that includes the carbon tax, and as a result energy prices will experience a steep drop in subsequent releases. Excluding food and energy, inflation probably rose 2.7% year over year, down two ticks from the prior month. The Bank of Canada's core measures of inflation, which exclude taxes, are likely to remain unchanged on an annual basis. Canadian central bankers will be looking for evidence of inflationary pressures from tariffs, but it is likely too early for there to be a material impact on Canadian prices.

TUESDAY April 15 - 8:30

February	m/m
Consensus	-0.2%
Desjardins	-0.2%
January	**1.7%**

Manufacturing sales (February) – We anticipate that manufacturing sales fell by 0.2% m/m, in line with Statistics Canada's flash estimate. Based on data released so far, the largest decreases were in the food and petroleum and coal product subsectors. In real terms, manufacturing sales appear to have declined by 0.2%, as seasonally adjusted industrial product prices were unchanged during the month.

TUESDAY April 15 - 9:00

March	m/m
Consensus	n/a
Desjardins	-2.5%
February	**-9.8%**

Existing home sales (March) – We expect seasonally adjusted home sales declined by 2.5% m/m in March. The uncertainty created by an ever-changing trade war likely weighed on many households' homebuying decisions. The Toronto Regional Real Estate Board announced that seasonally adjusted sales declined 2.4% month over month in March, building on the almost 30% m/m decline in February. March 2025 also marked the lowest number of seasonally adjusted sales in any month since May 2020. Early year-over-year figures from other local real estate boards showed large declines in Calgary (-19%) and Vancouver (-13%), partly offset by gains in the provinces of Quebec (9%, led by Montreal at 12%) and Saskatchewan (8%).

WEDNESDAY April 16 - 9:45

April	
Consensus	2.75%
Desjardins	2.75%
March 12	**2.75%**

Bank of Canada meeting (April) – With uncertainty around US trade policy greater than ever, Canadian central bankers will likely wait for more clarity before delivering additional rate cuts. While the Bank of Canada typically offers a point forecast, the unpredictable nature of the risks facing the Canadian economy may push policymakers to provide a range of possible outcomes instead. The Bank last did this in April 2020 at the onset of the pandemic. Volatility in financial markets has tightened global financial conditions. But overall, the price action has remained somewhat orderly, and concerns around market functioning are abating. What Canadian policymakers need most is clarity on the nature of the incoming inflation shock. That will take time to assess, and Governor Macklem has already admitted that waiting for that clarity may mean his central bank moves more quickly later in the year. The direction of travel for interest rates is still lower, but where the policy rate troughs will be highly conditional on where trade policy settles.

OVERSEAS

TUESDAY April 15 - 22:00

Q1 2025	y/y
Consensus	5.2%
Q4 2024	**5.4%**

China: Real GDP (Q1) – First-quarter real GDP growth could prove fairly robust. The property market improved slightly, economic activity picked up as consumers and businesses tried to get ahead of US tariffs, although China was hit with additional duties as early as February 4, and the central government adopted stimulus measures. The composite PMI also rose from 50.1 in January to 51.4 in March. However, the good news ends there. The escalating trade war between the United States and China, which have imposed 145% and 125% tariffs on each other's imports respectively at the time of writing, will inevitably harm economic activity. As a result, we're still expecting Chinese real GDP to slow in 2025, starting in the second quarter.

WEDNESDAY April 16 - 2:00

March	y/y
Consensus	2.7%
February	**2.8%**

United Kingdom: Consumer price index (March) – UK inflation slowed slightly in February, easing from 3.0% to 2.8%. However, inflation is still higher than in the second half of 2024 and well above last September's 1.7% low. Core inflation remains more stable—February's 3.5% print was the same as the average over the previous 10 months. However, core and headline inflation both increased month over month in February. March's data will tell us whether the recent month-over-month uptrend has prevailed or whether 12-month price growth will continue to slow.

THURSDAY April 17 - 8:15

April	
Consensus	2.25%
Desjardins	2.25%
March 6	**2.50%**

Eurozone: European Central Bank meeting (April) – Governing Council members are split on how the ECB should respond to US tariffs. The latest indication from the Trade Commission is that they will not retaliate for new tariffs applied on "Liberation Day," at least for now. Thus, we expect the Council to vote in favour of a 25bps cut while maintaining a guarded tone about the evolution of price pressure. However, it will likely be a close call between a 25bps cut and a hold.

THURSDAY April 17 - 19:30

March	y/y
Consensus	3.7%
February	**3.7%**

Japan: Consumer price index (March) – The year-over-year change in the consumer price index slowed in February after spiking in January. We even saw a net monthly decline in prices in February. However, the situation is likely to reverse in March. Preliminary data from the Tokyo area point to a solid monthly increase. That said, base effects mean that these same data point to a more stable year-over-year change.

Economic Indicators

Week of April 14 to 18, 2025

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 14	13:00	Speech by Federal Reserve Governor C. Waller				
	18:00	Speech by Federal Reserve Bank of Philadelphia President P. Harker				
	19:40	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
TUESDAY 15	8:30	Empire State Manufacturing Index	April	-15.0	-12.0	-20.0
	8:30	Export prices (m/m)	March	0.0%	-0.1%	0.1%
	8:30	Import prices (m/m)	March	0.0%	-0.1%	0.4%
WEDNESDAY 16	8:30	Retail sales				
		Total (m/m)	March	1.4%	1.0%	0.2%
		Excluding automobiles (m/m)	March	0.4%	0.1%	0.3%
	9:15	Industrial production (m/m)	March	-0.2%	-0.2%	0.7%
	9:15	Production capacity utilization rate	March	77.9%	77.9%	78.2%
	10:00	NAHB Housing Market Index	April	38	n/a	39
	10:00	Business inventories (m/m)	Feb.	0.3%	0.2%	0.3%
	12:00	Speech by Federal Reserve Bank of Cleveland President B. Hammack				
	13:30	Speech by Federal Reserve Chair J. Powell				
	16:00	Net foreign securities purchases (US$B)	Feb.	n/a	n/a	-45.2
	19:00	Speech by Federal Reserve Bank of Kansas City President J. Schmid				
THURSDAY 17	8:30	Initial unemployment claims	April 7–11	n/a	229,000	223,000
	8:30	Philadelphia Fed index	April	4.4	-12.0	12.5
	8:30	Housing starts (ann. rate)	March	1,420,000	1,460,000	1,501,000
	8:30	Building permits (ann. rate)	March	1,450,000	1,435,000	1,459,000
FRIDAY 18	---	Markets closed (Good Friday)				
CANADA						
MONDAY 14	8:30	Wholesale sales (m/m)	Feb.	n/a	0.4%	1.2%
TUESDAY 15	8:15	Housing starts (ann. rate)	March	237,800	240,000	229,030
	8:30	Consumer price index				
		Total (m/m)	March	0.7%	0.7%	1.1%
		Total (y/y)	March	2.7%	2.7%	2.6%
	8:30	Manufacturing sales (m/m)	Feb.	-0.2%	-0.2%	1.7%
	9:00	Existing home sales (m/m)	March	n/a	-2.5%	-9.8%
WEDNESDAY 16	9:45	Bank of Canada meeting	April	2.75%	2.75%	2.75%
	9:45	Release of the Bank of Canada’s Monetary Policy Report				
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 17	8:30	International securities transactions ($B)	Feb.	n/a	n/a	7.91
FRIDAY 18	---	Markets closed (Good Friday)				

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 Eastern Daylight Time (GMT -4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of April 14 to 18, 2025

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US$B)	March	74.40		104.64	
South Korea	---	Bank of Korea meeting	April	2.75%		2.75%	
MONDAY 14							
Japan	0:30	Industrial production – final	Feb.	n/a	n/a	2.5%	0.3%
TUESDAY 15							
United Kingdom	2:00	ILO unemployment rate	Feb.	4.4%		4.4%	
France	2:45	Consumer price index – final	March	0.2%	0.8%	0.2%	0.8%
Eurozone	5:00	Industrial production	Feb.	0.1%	-0.9%	0.8%	0.0%
Germany	5:00	ZEW Current Conditions Survey	April	-86.0		-87.6	
Germany	5:00	ZEW Expectations Survey	April	10.0		51.6	
China	22:00	Real GDP	Q1	1.4%	5.2%	1.6%	5.4%
China	22:00	Industrial production	March		5.6%		5.9%
China	22:00	Retail sales	March		4.2%		4.0%
WEDNESDAY 16							
United Kingdom	2:00	Consumer price index	March	0.4%	2.7%	0.4%	2.8%
Eurozone	4:00	Current account (€B)	Feb.	n/a		35.4	
Italy	4:00	Consumer price index – final	March	0.4%	2.0%	0.4%	2.0%
Italy	4:30	Current account (€M)	Feb.	n/a		- 3,811	
Eurozone	5:00	Consumer price index – final	March	0.6%	2.2%	0.6%	2.4%
Japan	19:50	Trade balance (¥B)	March	-249.8		182.3	
THURSDAY 17							
Germany	2:00	Producer price index	March	-0.1%	0.4%	-0.2%	0.7%
Eurozone	8:15	European Central Bank meeting	April	2.25%		2.50%	
Japan	19:30	Consumer price index	March		3.7%		3.7%
FRIDAY 18							
France	---	Retail sales	March		n/a		-0.2%
Italy	4:00	Trade balance (€M)	Feb.	n/a		-264	

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 Eastern Daylight Time (GMT -4 hours).