

WEEKLY COMMENTARY

Leader of the Pack

By Royce Mendes, Managing Director and Head of Macro Strategy

Measured by both the size of its balance sheet and the jurisdiction its policy covers, the Bank of Canada is the smallest of the G7’s central banks. But that doesn’t mean Canadian policymakers are destined to be followers. Officials must do what’s best for the domestic economy, a responsibility that will likely result in a rate cut on June 5.

High household debt ratios and five-year mortgage terms mean that Canada’s economy has been hit much harder by rate hikes than its southern neighbour. Smaller debt loads and thirty-year mortgage terms have insulated the US economy from the impacts of the Fed’s rate hiking cycle.

The weakening economic backdrop has, however, helped to normalize price pressures in Canada. Total inflation now stands at 2.7%, the lowest level since March 2021. The Bank of Canada’s preferred measures of core inflation have also fallen back into the 1% to 3% target range and are expected to decelerate further in the months to come. But maybe the clearest sign that conditions are normalizing is that businesses are no longer frequently raising prices (graph), a sign that supply of and demand for their wares are in better balance.

The combination of soft price pressures and a weakening economy means that Canadian central bankers not only have an opening to lower interest rates, but a responsibility to ease the pain on Canadian businesses and households. The question is whether the Bank of Canada is willing to be the leader of the pack when it comes to rate cuts.

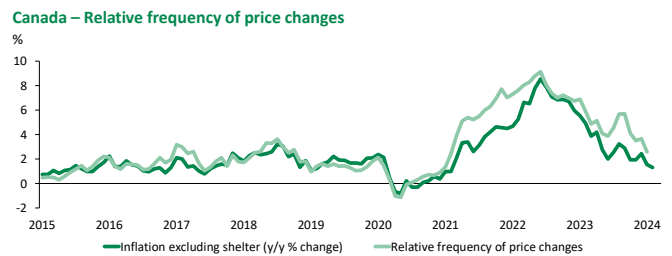
It’s often believed that Canadian policymakers can’t lead their US counterparts by too much because of the resultant impacts on the exchange rate. But [our recent research](#) has shown that

interest rates tend to be of less importance to the Canadian dollar than factors such as risk sentiment, oil prices and broad US dollar moves. Moreover, it takes a very large exchange rate depreciation to push total inflation noticeably higher. But even then central bankers tend to look through such exchange rate pass-through, viewing it as a one-time level shift in prices.

As a result, the Bank of Canada should have no qualms cutting rates with the Fed still on the sidelines. Canadian policymakers are likely to be joined by their European counterparts later in the month, as the ECB is also expected to embark on a rate cutting cycle in the near future. Markets also anticipate that the Bank of England will need to cut rates before the Fed.

The US will therefore stand out as an outlier. With a resilient economy and stickier inflationary pressures, American central bankers must proceed more cautiously. So just as Canadian policymakers’ decision to cut rates will come as a result of local

Graph
Corporate Pricing Behaviour Has Normalized



Statistics Canada and Desjardins Economic Studies

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conditions, US officials will need to hold rates higher for longer because that's what's best to achieve their dual mandate of price stability and maximum sustainable employment.

What to Watch For

MONDAY June 3 - 10:00

May

Consensus	49.7
Desjardins	49.6

April 49.2

WEDNESDAY June 5 - 10:00

May

Consensus	51.0
Desjardins	50.2

April 49.4

FRIDAY June 7 - 8:30

May

Consensus	180,000
Desjardins	185,000

April 175,000

FRIDAY June 7 - 15:00

April

Consensus	10.200
Desjardins	3.500

March 6.274

WEDNESDAY June 5 - 9:45

June

Consensus	4.75%
Desjardins	4.75%

April 10 5.00%

THURSDAY June 6 - 8:30

April

Consensus	-\$1.04
Desjardins	-\$0.50

March -2.28

UNITED STATES

ISM Manufacturing index (May) – After temporarily edging past the 50-point threshold in March, the ISM Manufacturing index slipped back down to 49.2 in April. We expect it to have improved a bit in May, but it should remain below 50, as indicated by the main regional indicators published so far this month.

ISM Services index (May) – The ISM Services index fell to 49.4 in April. This is the first time the index has been below 50 since December 2022, when it dropped to 49.2. In fact, these are the only two times the index has gone below 50 since the early days of the pandemic. This current dip into contraction territory is unlikely to last. According to the Conference Board index, consumer confidence perked up in May, and most regional non-manufacturing indexes improved as well. We therefore expect the ISM Services index to climb back to 50.2.

Change in nonfarm payrolls (May) – April’s establishment survey came in weaker than expected—a rare turn of events in the current economic climate. While the 175,000 job gain is hardly terrible, it’s still the weakest performance by net hires since October 2023. We’re calling for slightly better employment growth in May, but we don’t expect the stellar results we saw at the start of the year. Weekly unemployment claims jumped at the start of the month but fell during the weeks that followed, including the week of the monthly establishment survey. Consumer confidence in the job market also improved in May according to the Conference Board index. We believe around 185,000 new jobs were added in May.

Consumer credit (April) – As discussed in a recent [Economic Viewpoint](#), consumer credit growth has been cooling for a while. It’s a perfectly natural response to the current high interest rate environment. All the same, March’s numbers were particularly surprising because they showed a more pronounced slowdown in revolving credit (credit cards and lines of credit) than term credit. This is the opposite of what we’ve generally seen over the last two years. It’s hard to say how these two components behaved specifically, but we expect that annualized monthly growth in consumer credit as a whole (which was \$6.3B in March) slowed again in April.

CANADA

Bank of Canada meeting (June) – Expect the Bank of Canada to begin easing policy rates in June. The economy has been playing ball, continuing to soften at the margin while inflation continues to surprise to the downside. The latest iterations of the Bank of Canada’s consumer and business surveys all point to more pain ahead, while the Bank’s Financial Stability Report shows that households are still adjusting to higher interest rates. That adjustment is far from over. However, with the right dose of monetary easing, central bankers should still be able to avoid a recession in Canada.

International trade (April) – After March’s disappointing data, Canada’s trade deficit in goods is expected to have narrowed in April. Exports likely rose as auto production came in strong and precious metal prices continued to climb. However, seasonal maintenance has started in Alberta and early oil production estimates suggest weaker-than-anticipated output in April, which may have weighed on export volumes. On the import side, inputs into our forecast also point to an increase as US advance trade data posted significant gains during the month. Moreover, the depreciation of the seasonally adjusted Canadian dollar (CAD) is anticipated to have further boosted both exports and imports as most transactions are denominated in US dollars and need to be converted to CAD.

FRIDAY June 7 - 8:30

May	
Consensus	25,000
Desjardins	20,000
April	90,400

Net change in employment (May) – After an impressive showing in April, hiring in the Canadian economy likely rose 20k in May. The unemployment rate is likely to remain unchanged at 6.1% on the month. Still, employment is growing more slowly than the working-age population, which has led to a gradual increase in the unemployment rate over the past year. While the government is planning to restrict the number of temporary residents, those policies should only start to influence population growth later this year. Ultimately, the Canadian labour market is in better balance today, and that has filtered through to wage growth, which has continued to slow across a myriad of measures.

THURSDAY June 6 - 8:15


June	
Consensus	4.25%
Desjardins	4.25%
April 11	4.50%


OVERSEAS

Eurozone: European Central Bank meeting (June) – If the European Central Bank (ECB) doesn't announce its first rate cut next week, more than a few jaws will hit the floor. The ECB has been telegraphing this move for a while now. The real questions heading into this monetary policy meeting are, Will other cuts follow, and when? Recent economic data from the eurozone has been slightly stronger than expected, including wages. Inflation has continued to cool, but it's not clear if the ECB is still confident it will reach its 2% inflation target. The updated ECB forecasts will give us valuable insight, as will the official press release that accompanies the monetary policy decision. We'll also be paying close attention to what ECB President Christine Lagarde says in her press conference after the meeting.

Economic Indicators

Week of June 3 to 7, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 3	10:00	Construction spending (m/m)	April	0.2%	0.3%	-0.2%
	10:00	ISM Manufacturing index	May	49.7	49.6	49.2
	---	Total vehicle sales (ann. rate)	May	15,800,000	16,100,000	15,740,000
TUESDAY 4	10:00	Factory orders (m/m)	April	0.6%	0.6%	0.8%
WEDNESDAY 5	10:00	ISM Services index	May	51.0	50.2	49.4
THURSDAY 6	8:30	Initial unemployment claims	May 27–31	220,000	217,000	219,000
	8:30	Trade balance – goods and services (US\$B)	April	-75.1	-77.0	-69.4
	8:30	Nonfarm productivity – final (ann. rate)	Q1	0.3%	-0.1%	0.3%
	8:30	Unit labor costs – final (ann. rate)	Q1	4.8%	5.1%	4.7%
FRIDAY 7	8:30	Change in nonfarm payrolls	May	180,000	185,000	175,000
	8:30	Unemployment rate	May	3.9%	3.9%	3.9%
	8:30	Average hourly earnings (m/m)	May	0.3%	0.2%	0.2%
	8:30	Average weekly hours	May	34.3	34.3	34.3
	10:00	Wholesale inventories – final (m/m)	April	n/a	0.2%	0.2%
	15:00	Consumer credit (US\$B)	April	10,200	3,500	6,274
CANADA						
MONDAY 3	---	---				
TUESDAY 4	---	---				
WEDNESDAY 5	8:30	Labour productivity (q/q)	Q1	n/a	-0.1%	0.4%
	9:45	Bank of Canada meeting	June	4.75%	4.75%	5.00%
	10:30	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
THURSDAY 6	8:30	International trade (\$B)	April	-1.04	-0.50	-2.28
FRIDAY 7	8:30	Net change in employment	May	25,000	20,000	90,400
	8:30	Unemployment rate	May	6.2%	6.1%	6.1%
	8:30	Industrial capacity utilization rate	Q1	78.7%	82.2%	78.7%

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 June 3 to 7, 2024

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US\$B)	May	71.50		72.35	
SUNDAY 2							
Japan	20:30	Manufacturing PMI – final	May	n/a		50.5	
MONDAY 3							
Italy	3:45	Manufacturing PMI	May	47.9		47.3	
France	3:50	Manufacturing PMI – final	May	46.7		46.7	
Germany	3:55	Manufacturing PMI – final	May	45.4		45.4	
Eurozone	4:00	Manufacturing PMI – final	May	47.4		47.4	
United Kingdom	4:30	Manufacturing PMI – final	May	51.3		51.3	
TUESDAY 4							
Japan	20:30	Composite PMI – final	May	n/a		52.4	
Japan	20:30	Services PMI – final	May	n/a		53.6	
WEDNESDAY 5							
France	2:45	Industrial production	April	0.5%	0.7%	-0.3%	0.7%
Italy	3:45	Composite PMI	May	n/a		52.6	
Italy	3:45	Services PMI	May	54.5		54.3	
France	3:50	Composite PMI – final	May	49.1		49.1	
France	3:50	Services PMI – final	May	49.4		49.4	
Germany	3:55	Composite PMI – final	May	52.2		52.2	
Germany	3:55	Services PMI – final	May	53.9		53.9	
Eurozone	4:00	Composite PMI – final	May	52.3		53.9	
Eurozone	4:00	Services PMI – final	May	53.3		52.3	
United Kingdom	4:30	Composite PMI – final	May	52.8		52.8	
United Kingdom	4:30	Services PMI – final	May	52.9		52.9	
Eurozone	5:00	Producer price index	April	-0.6%	-5.3%	-0.4%	-7.8%
THURSDAY 6							
Germany	2:00	Factory orders	April	0.6%	0.3%	-0.4%	-1.9%
Italy	4:00	Retail sales	April	n/a	n/a	0.0%	2.0%
Eurozone	5:00	Retail sales	April	-0.2%	0.3%	0.8%	0.7%
Russia	6:30	Bank of Russia meeting	June	16.00%		16.00%	
Eurozone	8:15	European Central Bank meeting	June	4.25%		4.50%	
FRIDAY 7							
India	0:30	Reserve Bank of India meeting	June	6.50%		6.50%	
Germany	2:00	Trade balance (€B)	April	23.4		22.2	
Germany	2:00	Industrial production	April	0.2%	-3.1%	-0.4%	-3.3%
France	2:45	Trade balance (€M)	April	n/a		-5,473	
France	2:45	Current account (€B)	April	n/a		1.3	
Eurozone	5:00	Real GDP – final	Q1	0.3%	0.4%	0.3%	0.4%

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).