

WEEKLY COMMENTARY

One More Thing

By Jimmy Jean, Vice-President, Chief Economist and Strategist

The trend continues to be the Bank of Canada's friend. The first quarter ended with a whimper, implying a lacklustre carryover to Q2. Markets were quick to pare down expectations for a June cut following the strong headline employment numbers this month, but this might have been shortsighted. The Bank of Canada focuses on labour market slack, and the April jobs report showed there was still plenty of it. This week's weak wholesale and manufacturing reports further underscored that the economy is not yet on solid ground.

Another overhyped theme three months ago was the notion that impending rate cuts would make for a hot homebuying season this spring. Yet April was another [soft month](#) for home sales. In the GTA, sales fell for a third consecutive month. The GTA is also coming off its weakest quarter of new condo sales since 2009. Home sales fell by more than the national average in Quebec. And in Vancouver, some developers are giving purchasers their deposits back as they cancel projects failing to hit pre-sale thresholds. With listings on the rise, it looks like sellers are the more enthusiastic bunch, while buyers are late to the party.

What we've seen play out is fairly consistent with what we've been expecting. [Our research](#) indicated that the anticipated rate cuts would only improve affordability at the margin. The real challenge for the Bank of Canada may be the persistent lack of affordability on the homeownership side, which continues to drive rent increases, delaying prospects for any significant reduction in shelter inflation. That's different than concern about a renewed real estate frenzy.

Speaking of concerns for the BoC, don't look to the US either. The reassuring inflation and retail sales published stateside

gave a bit of support to the loonie as the US dollar pulled back against most currencies this week. For now, this should alleviate concerns about the loonie reducing the BoC's latitude to cut rates. Research by our macro strategy team finds that interest rate differentials have exerted less influence on the loonie than other factors such as the USD index (ex-CAD), risk sentiment and oil prices. The direct currency pass-through to overall Canadian inflation is also fairly modest, and the more compelling case for the BoC to react is if exports are boosted to a significant extent. But that's only plausible in a much-lower-for-longer scenario for the CAD.

Taken together, and for the purposes of the initiation of rate cuts in June, we shall treat all these developments as constructive news. But as Steve Jobs used to say, "One more thing." That thing is the April CPI report next Tuesday. If our call for core inflation to continue to weaken comes to fruition, a June cut will be close to a done deal. Our updated [forecast](#) published this week calls for three additional cuts during the year, putting the overnight rate at 4%.

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Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Senior Director of Canadian Economics
Benoit P. Durocher, Director and Principal Economist • Royce Mendes, Managing Director and Head of Macro Strategy
Hélène Bégin, Principal Economist • Marc Desormeaux, Principal Economist • Marc-Antoine Dumont, Senior Economist • Tiago Figueiredo, Macro Strategist
Francis Généreux, Principal Economist • Florence Jean-Jacobs, Principal Economist • Kari Norman, Economist • Hendrix Vachon, Principal Economist

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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What to Watch For

WEDNESDAY May 22 - 10:00

April	ann. rate
Consensus	4,190,000
Desjardins	4,225,000
March	4,190,000

THURSDAY May 23 - 10:00

April	ann. rate
Consensus	675,000
Desjardins	680,000
March	693,000

FRIDAY May 24 - 8:30

April	m/m
Consensus	-0.8%
Desjardins	-2.3%
March	0.9%

TUESDAY May 21 - 8:30

April	m/m
Consensus	0.5%
Desjardins	0.5%
March	0.6%

FRIDAY May 24 - 8:30

March	m/m
Consensus	-0.1%
Desjardins	0.0%
February	-0.1%

WEDNESDAY May 22 - 2:00

April	y/y
Consensus	2.1%
March	3.2%

UNITED STATES

Existing home sales (April) – Existing home sales had two solid months in January (+3.1%) and February (+9.5%), but this momentum proved short-lived as sales fell 4.3% in March, the worst print since November 2022. However, based on preliminary regional data and March's 3.4% increase in pending home sales, we expect sales to have increased in April to more than 4,200,000 units on an annualized basis.

New home sales (April) – Sales of new single-family homes surged 8.8% in March, their strongest monthly growth since December 2022. At 693,000 units, new home sales were the highest they've been since September 2023. However, single-family building permits have been falling for a few months now, and it appears that builder confidence is starting to wane. Our expectation is that sales declined to 680,000 units.

Durable goods orders (April) – Durable goods orders grew just 0.9% in March after revision, well below the initial estimate of 2.6%. We expect orders to have fallen quite sharply in April, largely due to the aviation sector once again, with the problems at Boeing seemingly being reflected in order levels. In addition, with automotive orders likely to come in flat, we could see transportation orders sink almost another 7%. Non-transportation orders are expected to have edged up 0.1%, reflecting April's slight decreases in the ISM Manufacturing index and industrial production. All sectors combined, durable goods orders probably slipped 2.3%.

CANADA

Consumer price index (April) – Headline consumer price growth likely decelerated to 2.7% on an annual basis, a two-tick decrease from March. We expect prices to have risen 0.5% in April, with most of that increase coming from energy prices, particularly gasoline, which rose almost 6% on the month. Excluding food and energy, inflation is expected to have fallen to 2.6% from 2.9% the prior month. We're also expecting declines in the annual rates for the Bank of Canada's preferred core inflation measures. Assuming there are no surprises in the inflation report, the Bank of Canada should begin easing rates in June.

Retail sales (March) – Retail sales likely stayed flat in March, in line with Statistics Canada's flash estimate. We expect sales of motor vehicles and parts to have fallen in March on the back of lower volumes and softer prices. Sales at gasoline stations and fuel vendors probably declined on a seasonally adjusted basis. Higher prices at the pump may have held back consumers, in turn exerting downward pressure on gasoline volumes. Excluding these categories, core retail sales probably edged up. For April's flash estimate, we anticipate a modestly positive print, with stronger gasoline sales more than offsetting the fading momentum in autos.

OVERSEAS

United Kingdom: Consumer price index (April) – UK inflation continued to cool in March, falling to 3.2%. Core inflation also slowed from 4.5% in February to 4.2% in March. If progress continues, starting with April's print, the Bank of England may soon begin cutting rates.


THURSDAY May 23 - 19:30


	y/y
April	
Consensus	2.4%
March	2.7%

Japan: Consumer price index (April) – Consumer price growth seems to be softening in Japan. At 2.7% in March, inflation remains relatively high by Japanese standards but is down from its peak of nearly 4% a year ago. Based on preliminary data for the Tokyo area, where annualized inflation dropped from 2.6% in March to just 1.8% in April, its lowest level since March 2022, inflation likely cooled further in April. Of course, Japan's economy is weak. The 0.5% non-annualized decline in real GDP in the first quarter is helping to curb price pressure.

Economic Indicators

Week of May 20 to 24, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 20	8:45	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	9:00	Speech by Federal Reserve Vice Chair M. Barr				
	9:00	Speech by Federal Reserve Governor C. Waller				
	10:30	Speech by Federal Reserve Vice Chair P. Jefferson				
TUESDAY 21	9:00	Speech by Federal Reserve Governor C. Waller				
	19:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
WEDNESDAY 22	10:00	Existing home sales (ann. rate)	April	4,190,000	4,225,000	4,190,000
	14:00	Release of the Federal Reserve's meeting minutes				
THURSDAY 23	8:30	Initial unemployment claims	May 13–17	220,000	219,000	222,000
	10:00	New home sales (ann. rate)	April	675,000	680,000	693,000
FRIDAY 24	8:30	Durable goods orders (m/m)	April	-0.8%	-2.3%	0.9%
	9:35	Speech by Federal Reserve Governor C. Waller				
	10:00	University of Michigan consumer sentiment index – final	May	67.8	67.4	67.4
CANADA						
MONDAY 20	---	Markets closed (Victoria Day)				
TUESDAY 21	8:30	Consumer price index				
		Total (m/m)	April	0.5%	0.5%	0.6%
		Total (y/y)	April	2.7%	2.7%	2.9%
WEDNESDAY 22	---	---				
THURSDAY 23	---	---				
FRIDAY 24	8:30	Retail sales				
		Total (m/m)	March	-0.1%	0.0%	-0.1%
		Excluding automobiles (m/m)	March	n/a	0.4%	-0.3%

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 May 20 to 24, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 20								
Japan	0:30	Tertiary Industry Activity Index	March	-0.1%		1.5%		
Germany	2:00	Producer price index	April	0.3%	-3.2%	0.2%	-2.9%	
TUESDAY 21								
Eurozone	4:00	Current account (€B)	March	n/a		29.5		
Italy	4:30	Current account (€M)	March	n/a		2,306		
Eurozone	5:00	Construction	March	n/a	n/a	1.8%	-0.4%	
Eurozone	5:00	Trade balance (€B)	March	20.0		17.9		
Japan	19:50	Trade balance (¥B)	April	-735.2		-701.5		
New Zealand	22:00	Reserve Bank of New Zealand meeting	May	5.50%		5.50%		
WEDNESDAY 22								
United Kingdom	2:00	Consumer price index	April	0.1%	2.1%	0.6%	3.2%	
United Kingdom	2:00	Producer price index	April	0.4%	1.1%	0.2%	0.6%	
Japan	20:30	Composite PMI – preliminary	May	n/a		52.3		
Japan	20:30	Manufacturing PMI – preliminary	May	n/a		49.6		
Japan	20:30	Services PMI – preliminary	May	n/a		54.3		
THURSDAY 23								
France	3:15	Composite PMI – preliminary	May	51.1		50.5		
France	3:15	Manufacturing PMI – preliminary	May	45.8		45.3		
France	3:15	Services PMI – preliminary	May	51.7		51.3		
Germany	3:30	Composite PMI – preliminary	May	51.0		50.6		
Germany	3:30	Manufacturing PMI – preliminary	May	43.3		42.5		
Germany	3:30	Services PMI – preliminary	May	53.5		53.2		
Eurozone	4:00	Composite PMI – preliminary	May	52.0		51.7		
Eurozone	4:00	Manufacturing PMI – preliminary	May	46.1		45.7		
Eurozone	4:00	Services PMI – preliminary	May	53.6		53.3		
United Kingdom	4:30	Composite PMI – preliminary	May	54.0		54.1		
United Kingdom	4:30	Manufacturing PMI – preliminary	May	49.5		49.1		
United Kingdom	4:30	Services PMI – preliminary	May	54.7		55.0		
Eurozone	10:00	Consumer confidence – preliminary	May	-14.3		-14.7		
United Kingdom	19:01	Consumer confidence	May	-18		-19		
Japan	19:30	Consumer price index	April		2.4%		2.7%	
South Korea	---	Bank of Korea meeting	May	3.50%		3.50%		
FRIDAY 24								
United Kingdom	2:00	Retail sales	April	-0.6%	-0.3%	0.0%	0.8%	
Germany	2:00	Real GDP – final	Q1	0.2%	-0.2%	0.2%	-0.2%	
France	2:45	Business confidence	May	100		99		
France	2:45	Production outlook	May	n/a		-7		

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).