WEEKLY COMMENTARY

No Time to Blink

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

Like the Bank of Canada a few weeks before, the Federal Reserve (Fed) delivered a supersized rate hike on Wednesday. It also announced that quantitative tightening would begin on June 1. The Bank of England hiked by only 25 basis points this week, though it continued to tee up outright sales of government bonds—a step no other major central banks have taken since they started using their balance sheets as policy tools.

These moves are forceful but necessary, as we continue to see upside risks to inflation materialize. This week, the President of the European Commission proposed phasing out imports of Russian oil and refined products over six months. This comes after the European Union set a target to cut Russian gas imports by 66% by the end of the year. Crude oil prices rose on the news, and that momentum could be sustained if Russia decides to cut oil exports to Europe in retaliation, similar to how it cut off gas supplies to Bulgaria and Poland when they refused to pay in rubles.

We can't look to China for comfort. New COVID-19 cases may be receding, but authorities have reaffirmed their goal of achieving zero community transmission before lifting lockdowns. And the reopening of the Chinese economy won't help cool inflation in the near term. Chinese lockdowns did prove helpful in one sense, as they temporarily dampened global oil demand. When economic activity recovers in the world's second-largest oil consuming country, so too will demand and prices for oil and other commodities. This impact will most likely be felt sooner on inflation than the relief effect that will eventually come from improving supplier delivery times. Given these recent developments, we're raising our year-end target price for WTI crude oil from $88 to $96.

In light of current conditions, we've been arguing that central banks would need to lift interest rates towards neutral expeditiously. However, this week the Fed effectively put a cap on how much it will be willing to move at each meeting. This is a major shift in tone. Not even a month ago, central bankers refused to rule anything out. Obviously markets picked up on this shift on Wednesday, as equities rallied, bond yields fell and market-based inflation expectations rose. For a central bank contending with 8.5% inflation, a meeting that ends with financial conditions easing can hardly be deemed a resounding success. The remainder of the week was characterized by wild market swings. These can be chalked up to a number of developments, although confusion about the monetary policy outlook and recession risks remained a dominant theme. The credibility of central banks is on the line, and that means they can't show the slightest sign of weakness. So until neutral is within sight, there's no time to blink.

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Week in Review

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Francis Généreux, Senior Economist, and Hendrix Vachon, Senior Economist

- **As expected, the Fed decided to raise the target range for the federal funds rate by 0.50%.** It's now in a range of 0.75% to 1.00%. The Fed anticipates that ongoing increases in the target range will be appropriate. It also announced that it will seek to reduce its assets by up to US$47.5 billion per month starting June 1 and up to US$95 billion per month starting in September. The Fed remains focused on taming inflation, and rightly so. Expect more 50-point rate hikes at the next two meetings, if not beyond.
- The Bank of England (BoE) announced a 25-point rate hike. **The latest BoE forecasts point to a significant risk of recession in 2023** in the United Kingdom. Moreover, a return to the inflation target isn't expected before 2024.
- **Investor jitters drove the markets this week.** Many investors are pricing in the possibility of harder-to-fight-inflation which may require more interest rate hikes. US stocks initially rallied on the Fed announcement on Wednesday, then had their worst day since 2020 on Thursday, bringing them into negative territory for the week. As of this writing, US and Canadian 10-year bond yields were both hovering around 3.1%.
- **The Canadian labour market remains drum tight despite talk of a cooling economy.** Employers added 15K new workers in April, which was less than half the consensus forecast. Most of the gain in employment was in the services sector, which saw an increase of 31K jobs. Goods-producing sectors saw a decline of 16K jobs, but in level terms, employment in those industries remains well above pre-pandemic levels. While hours worked were down on the month, that decline was largely driven by absences related to illness, potentially a reflection of the latest Covid wave beginning to take hold. Ultimately, this slightly weaker than anticipated employment reading shouldn't alter market pricing for a 50bp hike since the economy is still by most measures overheating.
- **Canada's international merchandise trade surplus narrowed again in March, falling to $2.5 billion from an upwardly revised $3.1 billion in February.** Imports moved substantially higher in the month, up 7.7% to a record high of $61.1 billion, as 9 of 11 product categories saw gains. In real terms, imports rose 6.4% in the month as supply chain disruptions eased somewhat and concerns over energy availability were elevated. Exports increased by 6.3% to $63.6 billion in March, surpassing the previous record set in February. Volumes played a modest role in the advance, rising by 0.8% versus a 5.5% increase in prices. On a quarterly basis, both goods export and import volumes contracted. But given that real exports fell more than imports, net exports of goods look to have been a drag on real GDP growth in Q1 2022.
- **According to the establishment survey, the US economy added 428,000 jobs in April** after a similar gain in March and a 714,000 increase in February. The US labour market continues to be a bright spot amid declining quarterly real GDP and fears about inflation, rising interest rates and the war in Ukraine.
- **In the United States, the ISM manufacturing index declined from 57.1 in March to 55.4 in April**, equalling its September 2020 low. The backlog of orders, new orders and employment components all fell, while supplier deliveries and prices continued to rise. Respondents cited the lockdowns in China as the latest source of concern.
- **The ISM services index in the US also dropped, from 58.3 in March to 57.1 in April.** Here again, the employment, new orders and backlog of orders components slipped back, although business activity/production was up.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics,
Tiago Figueiredo, Associate – Macro Strategy, and Francis Généreux, Senior Economist

UNITED STATES

WEDNESDAY May 11 - 8:30	
April	**m/m**
Consensus	0.2%
Desjardins	0.2%
March	**1.2%**

Consumer price index (April) – Inflation likely reached a cyclical peak in March, with the annual variation in the US consumer price index (CPI) hitting 8.5%. Obviously, as the price increases we've seen over the last year have shown, surprises can come at any time. However, the decline in average gasoline prices in April is a sign that headline inflation is slowing. Prices at the pump dropped 2.9% compared to March, whereas they usually spike in April. As a result, seasonal adjustments may lead to a monthly variation of -8%. Energy prices should therefore make a significant downside contribution. We're anticipating food prices climbing nearly 1% again this month. Stripping out food and energy, core CPI is expected to rise 0.4% in April, slightly above March's 0.3% increase. Prices will remain under a great deal of pressure due to supply chain issues that are now being exacerbated by lockdowns in China. All told, we expect a monthly variation in total CPI of 0.2%—its weakest month since November 2020. Given that the index gained 0.6% in April 2021, the annual variation is projected to come in at 8.0%—its first slowdown since August 2021. Core inflation is also expected to ease from 6.5% to 6.0%.

FRIDAY May 13 - 10:00	
May	
Consensus	64.0
Desjardins	63.0
April	**65.2**

University of Michigan consumer confidence index (May – preliminary) – The University of Michigan consumer confidence index posted its first monthly increase of the year in April. It would be surprising to see another gain in May, however. After falling for part of April, gasoline prices started to rise again, though they didn't return to their early March high. The stock market has also struggled in recent weeks, and interest rates continue to rise. Inflation concerns remain firmly in place as well. These factors suggest that the University of Michigan consumer confidence index could fall again to nearly 63.0.

CANADA

MONDAY May 9 - 8:30	
March	**m/m**
Consensus	n/a
Desjardins	-7.9%
February	**21.0%**

Building permits (March) – Building permits are expected to take a step back in March, which is in line with the moderation in overall housing market activity in Canada in the month. However, building permits are not expected to give back all of February's outsized gain, remaining above their January 2022 level.

OVERSEAS

TUESDAY May 10 - 21:30	
April	**y/y**
Consensus	1.9%
March	**1.5%**

China: Consumer price index (April) – Inflation rose in China in March. However, the annual variation in the consumer price index remains fairly modest compared to most advanced economies. March's increase was primarily due to smaller decreases in food prices. April's data will help us see whether price pressure is becoming more intense and broad-based amid widespread lockdowns in major urban areas.

THURSDAY May 12 - 2:00	
Q1 2022	**q/q**
Consensus	1.0%
Q4 2021	**1.3%**

United Kingdom: Real GDP (Q1) – Real GDP rose near 1.0% (non-annualized) in both the third and fourth quarters of 2021. For the moment, the carryover for the first quarter of 2022, calculated using data from January and February, also points to a gain of 1.0%. As a result, if real GDP growth deviates from its current trend, March's figures will be to blame. The 1.6% drop in retail sales augurs for rather weak growth in March, while rising prices—especially energy—are likely to have seriously eroded real household income.

Economic Indicators

Week of May 9 to 13, 2022

Day	Hour	Indicator	Period	Consensus	Desjardins	Previous data
UNITED STATES						
MONDAY 9	10:00	Wholesale inventories – final (m/m)	March	2.3%	2.3%	2.3%
TUESDAY 10	7:40	Speech of the Federal Reserve Bank of New York President, J. Williams				
	9:15	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				
	13:00	Speech of a Federal Reserve Governor, C. Waller				
	13:00	Speech of the Federal Reserve Bank of Minneapolis President, N. Kashkari				
	15:00	Speech of the Federal Reserve Bank of Cleveland President, L. Mester				
	19:00	Speech of the Federal Reserve Bank of Atlanta President, R. Bostic				
WEDNESDAY 11	8:30	Consumer price index				
		Total (m/m)	April	0.2%	0.2%	1.2%
		Excluding food and energy (m/m)	April	0.4%	0.4%	0.3%
		Total (y/y)	April	8.1%	8.0%	8.5%
		Excluding food and energy (y/y)	April	6.0%	6.0%	6.5%
	12:00	Speech of the Federal Reserve Bank of Atlanta President, R. Bostic				
	14:00	Federal budget (US$B)	April	220.0	n/a	-192.7
THURSDAY 12	8:30	Initial unemployment claims	May 2-6	190,000	192,000	200,000
	8:30	Producer price index				
		Total (m/m)	April	0.5%	0.2%	1.4%
		Excluding food and energy (m/m)	April	0.6%	0.6%	1.0%
	16:00	Speech of the Federal Reserve Bank of San Francisco President, M. Daly				
FRIDAY 13	8:30	Export prices (m/m)	April	0.7%	0.5%	4.5%
	8:30	Import prices (m/m)	April	0.7%	0.5%	2.6%
	10:00	Michigan's consumer sentiment index – preliminary	May	64.0	63.0	65.2
	11:00	Speech of the Federal Reserve Bank of Minneapolis President, N. Kashkari				
	12:00	Speech of the Federal Reserve Bank of Cleveland President, L. Mester				
CANADA						
MONDAY 9	8:30	Building permits (m/m)	March	n/a	-7.9%	21.0%
TUESDAY 10	---	---				
WEDNESDAY 11	---	---				
THURSDAY 12	11:35	Speech of a Bank of Canada Deputy Governor, T. Gravelle				
FRIDAY 13	10:30	Release of the Bank of Canada *Senior Loan Officer Survey*				

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 - 4 hours). Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of May 9 to 13, 2022

Country	Hour	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous data m/m (q/q)	Previous data y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US$B)	April	51.90		47.38	
SUNDAY 8							
Japan	20:30	PMI composite index – final	April	n/a		50.5	
Japan	20:30	PMI services index – final	April	n/a		50.9	
MONDAY 9							
France	2:45	Trade balance (€M)	March	-11,190		-10,273	
France	2:45	Current account (€B)	March	n/a		-1.1	
TUESDAY 10							
Italy	4:00	Industrial production	March	-1.5%	1.4%	4.0%	3.3%
Germany	5:00	ZEW survey – Current situation	May	-35.0		-30.8	
Germany	5:00	ZEW survey – Expectations	May	-43.0		-41.0	
China	21:30	Consumer price index	April		1.9%		1.5%
China	21:30	Producer price index	April		7.8%		8.3%
WEDNESDAY 11							
Japan	1:00	Leading indicator – preliminary	March	100.9		100.0	
Japan	1:00	Coincident indicator – preliminary	March	97.0		96.8	
Germany	2:00	Consumer price index – final	April	0.8%	7.4%	0.8%	7.4%
Japan	19:50	Current account (¥B)	March	628.2		516.6	
THURSDAY 12							
Germany	---	Current account (€B)	March	n/a		20.8	
United Kingdom	2:00	Trade balance (£M)	March	-7,900		-9,261	
United Kingdom	2:00	Construction	March	0.2%	2.2%	-0.1%	6.1%
United Kingdom	2:00	Index of services	March	0.1%		0.2%	
United Kingdom	2:00	Monthly GDP	March	0.0%		0.1%	
United Kingdom	2:00	Real GDP – preliminary	Q1	1.0%	8.9%	1.3%	6.6%
United Kingdom	2:00	Industrial production	March	0.0%	0.6%	-0.6%	1.6%
Mexico	14:00	Bank of Mexico meeting	May	7.00 %		6.50%	
FRIDAY 13							
France	2:45	Consumer price index – final	April	0.4%	4.8%	0.4%	4.8%
France	2:45	Wages – preliminary	Q1	0.9%		0.5%	
Euro zone	5:00	Industrial production	March	-2.0%	-1.1%	0.7%	2.0%

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 - 4 hours).