

WEEKLY COMMENTARY

Spurring Investment: An Ongoing Priority for Quebec

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

All eyes will be on Quebec on Tuesday as the government tables its spring budget. Though the deficit has been falling sharply as the province recovers from the pandemic, more will need to be done to balance the budget. Last fall, it was estimated that Quebec still has a structural deficit of \$4 billion.

As we discussed in an [Economic Viewpoint](#) this week, public finance challenges remain significant. There are calls for government action on a number of fronts, from inflation, supply constraints and labour shortages to climate change and the public health system failings laid bare by the pandemic.

But raising revenue for all that while eliminating the structural deficit will be a real challenge. The province should therefore focus on boosting Quebec's economic potential, which pre-pandemic we estimated to be around 1.5% this decade. Why so low? Quebec has a lot of people retiring and not enough immigrants. In 2021, for example, Ontario admitted four times as many economic permanent residents as Quebec did. If this doesn't change, Quebec's potential growth could be even weaker, especially given disappointing business investment.

Quebec is well behind Ontario when it comes to investment in intellectual property products. Recent data barely shows any growth in Quebec since the end of 2019 as of the third quarter of 2021. By contrast, these investments had increased by close to 14% in Ontario. This measure includes money spent on research and development, software and information technology—investments that drive productivity growth.

One factor holding back business investment is the shortage of skilled labour. It's one of the ironies of today's market. Labour scarcity should be prompting businesses to invest in automation, robotics and things like training to make employees more productive. But these investments require expertise, which is also in short supply. There are other barriers to investment as well,

including overall economic uncertainty and fear of protectionism. Ministers of finance can't do much about these headwinds, which means they need to do more with tools like fiscal and demographic policy.

Despite the competing priorities, Quebec must stay laser focused on productivity and business investment if it wants to eliminate its structural deficit and avoid painful decisions down the road. Issues like the labour shortage, the climate transition and the supply crunch can all be addressed through massive investment in new technology, research and innovation. The government must step up its efforts to finally close the gap. Eric Girard pledged to do as much when he was named Quebec finance minister. It's still a big challenge, but now is not the time to give up.

CONTENT

Musing of the Week	1	Week in Review	2	What to Watch For	3	Economic Indicators.....	4
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Week in Review

By Benoit P. Durocher, Senior Economist, Francis Généreux, Senior Economist, Lorenzo Tessier-Moreau, Senior Economist, and Hendrix Vachon, Senior Economist

- ▶ While volatility remains, **some optimism is back on financial markets**, supported by the negotiations between Russia and Ukraine that hold out hope for peace. The **strict lockdown of several cities in China due to COVID-19** has nevertheless fueled some fears about Chinese economic growth. However, this has helped push down oil and other commodity prices, which has been welcomed by investors. Renewed optimism and expectations of the Federal Reserve (Fed) meeting led bond yields to rise. **U.S. and Canadian 10-year bond yields hit a new high** at over 2.15%.
- ▶ For the first time since 2018, **the Fed has decided to raise its key rates**, and the target range for federal fund rates now sits between 0.25% and 0.50%. The Fed also plans to increase its rates by 25 points at each of its next six meetings, suggesting it is determined to combat inflation a little more aggressively than we expected.
- ▶ Other central banks have also announced interest rate increases this week, including the Bank of England (BoE). This is the **third consecutive rate increase in the United Kingdom**. The war in Ukraine seems to be more worrisome for the BoE, however, and it is expected to review its economic growth projections in the quarterly update planned for May. It is already signalling that it may slow the pace of its interest rate hikes.
- ▶ **Retail sales rose just 0.3% in February in the United States**, after strong growth of 4.9% (revised from 3.8%) in January. Excluding motor vehicles and gasoline, sales dipped 0.4% following a 5.2% surge in January. The magnitude of the revision suggests that the increase in real consumption in January will be slightly higher than the 1.5% previously published. The net effect is that the contribution of real consumption to first-quarter GDP will also be a little higher.
- ▶ **U.S. industrial output grew 0.5% in February**, after an increase of 1.4% in January. This is a little less than expected. The manufacturing sector saw a solid increase of 1.2%, though, its strongest monthly growth since October 2021, despite a decrease of 3.5% in the automobile sector.
- ▶ Following a decrease of 5.5% in January, **U.S. housing starts jumped 6.8% in February** to 1,769,000 units, fairly close to expectations. Residential investment is expected to make a significant contribution to real GDP in the first quarter of 2022.
- ▶ **In Canada, the consumer price index (CPI) rose again in February**, with an increase of 1.0% during the month. The total annual inflation rate edged up from 5.1% to 5.7%, its highest level since August 1991. With the war in Ukraine, inflation may continue to climb in March and remain high, due to upward pressure on global prices for basic goods and heightened supply problems.
- ▶ **The Canadian housing market had a good month in February**, with an increase in the number of housing starts (from 229,185 to 247,256 units) and monthly growth of 4.6% in the number of existing properties sold. The rising number of new listings in some regions has led to an increase in sales. Early demand is contributing to this boom, as many buyers seek to conclude their transactions quickly to avoid the bulk of the interest rate increases ahead. In these conditions, property prices have continued to mount to new heights.
- ▶ January saw an upswing in Canadian wholesale and retail sales. Clearly, **the public health measures rolled out to combat the Omicron variant did little to affect consumer spending**. The results were less successful in terms of manufacturing sales, with an increase of just 0.6% in January, lower growth than the preliminary data suggested. The increase in manufacturing sales was partly offset by a decrease in automobile sales (-17.5%). In real terms, total manufacturing sales were down 1.8% for the month, attesting to the contribution of rising prices to the increase in the value of sales.

What to Watch For

By Francis Généreux, Senior Economist, and Benoit P. Durocher, Senior Economist

WEDNESDAY March 23 - 10:00

February	ann. rate
Consensus	815,000
Desjardins	840,000
January	801,000

THURSDAY March 24 - 8:30

February	m/m
Consensus	-0.5%
Desjardins	0.2%
January	1.6%

TUESDAY March 22 - 8:30

February	m/m
Consensus	n/a
Desjardins	2.5%
January	3.0%

WEDNESDAY March 23 - 11:00

March	m/m
Consensus	-13.0
February	-8.8

THURSDAY March 24 - 5:00

March	
Consensus	53.8
February	55.5

UNITED STATES

New home sales (February) – After two months of strong growth in November and December for a total increase of 25.8%, new home sales fell 4.5% in January. A rebound is expected in February, based on the healthy number of building permits for single-family homes (despite a 0.4% drop in February). Builder confidence was also still very high in February (before declining somewhat in March). It is worth bearing in mind that new home sales are recorded at the beginning of the building process, so they are less affected by (but not completely immune to) delays caused by supply issues. Sales should therefore move to 840,000 units in February.

New durable goods orders (February) – After rising 1.6% in January, new durable goods orders should see more modest growth in February. The main negative contributions will come from the transportation sector. A drop in civil aircraft orders is expected after three months of strong gains, which saw them more than double since October 2021. However, this will be offset by an increase in military orders. A decrease in auto sector orders is expected in line with the drop in production in this sector in February. Transportation as a whole is therefore expected to see a 1.1% decline. Excluding transportation, a 0.8% increase is anticipated. All in all, new orders should post a 0.2% gain.

CANADA

Industrial product price index (February) – After climbing 3.0% in January, the industrial product price index should see more strong growth in February. On the one hand, the price of energy and other commodities surged further. On the other, the uptrend in other components likely remained high.


OVERSEAS

Euro zone: Consumer confidence (March – preliminary) – The euro zone's consumer confidence index improved significantly in 2021. The Omicron wave of COVID-19 affected household sentiment, however, and the confidence index fell between the recent peak reached in September 2021 of -4.0 and the February result of -8.8. Obviously, the war in Ukraine likely caused major concerns in Europe, and energy price hikes may shake confidence. The March preliminary figures will reveal the extent to which Euroland households have been affected. This will also give us an indication of the possible impact on economic growth.


Euro zone: PMI indexes (March – preliminary) – Euroland household confidence was affected by the Omicron wave, but the consequences seem to have been less severe for businesses. Euroland's composite PMI index dipped in December and January, but climbed back up to 55.5 in February, its highest point since September. It remains to be seen how the war in Ukraine might have destabilized businesses over the past few weeks. The PMI indexes for March will give us a first glimpse into not only the euro zone, but other areas as well.

Economic Indicators

Week of March 21 to 25, 2022

Day	Hour	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 21						
	12:00	Speech of the Federal Reserve Chair, J. Powell				
TUESDAY 22						
	17:00	Speech of the Federal Reserve Bank of Cleveland President, L. Mester				
WEDNESDAY 23						
	10:00	New home sales (ann. rate)	Feb.	815,000	840,000	801,000
	15:00	Speech of the Federal Reserve Bank of St. Louis President, J. Bullard				
THURSDAY 24						
	8:30	Initial unemployment claims	March 14-18	211,000	219,000	214,000
	8:30	Current account (US\$B)	Q4	-218.0	-218.0	-214.8
	8:30	Durable goods orders (m/m)	Feb.	-0.5%	0.2%	1.6%
	8:30	Speech of the Federal Reserve Bank of Minneapolis President, N. Kashkari				
	9:10	Speech of a Federal Reserve Governor, C. Waller				
	9:50	Speech of the Federal Reserve Bank of Chicago President, C. Evans				
FRIDAY 25						
	10:00	Michigan's consumer sentiment index – final	March	59.7	59.7	59.7
	10:00	Pending home sales (m/m)	Feb.	1.0%	n/a	-5.7%
	10:00	Speech of the Federal Reserve Bank of New York President, J. Williams				
	11:30	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				
CANADA						
MONDAY 21						
	8:30	New housing price index (m/m)	Feb.	n/a	0.4%	0.9%
TUESDAY 22						
	---	2022 Quebec Budget				
	8:30	Industrial product price index (m/m)	Feb.	n/a	2.5%	3.0%
	8:30	Raw materials price index (m/m)	Feb.	n/a	6.0%	6.5%
WEDNESDAY 23						
	---	2022 Saskatchewan Budget				
THURSDAY 24						

FRIDAY 25						

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 March 21 to 25, 2022

Country	Hour	Indicator	Period	Consensus		Previous data		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 21								
Germany	3:00	Producer price index	Feb.	1.7%	26.2%	2.2%	25.0%	
TUESDAY 22								
Euro zone	5:00	Current account (€B)	Jan.	n/a		22.6		
Euro zone	6:00	Construction	Jan.	n/a	n/a	-4.0%	-3.9%	
WEDNESDAY 23								
United Kingdom	3:00	Consumer price index	Feb.	0.6%	5.9%	-0.1%	5.5%	
United Kingdom	3:00	Producer price index	Feb.	0.9%	10.1%	1.2%	9.9%	
Euro zone	11:00	Consumer confidence – preliminary	March	-13.0		-8.8		
Japan	20:30	PMI composite index – preliminary	March	n/a		45.8		
Japan	20:30	PMI manufacturing index – preliminary	March	n/a		52.7		
Japan	20:30	PMI services index – preliminary	March	n/a		44.2		
THURSDAY 24								
France	3:45	Business confidence	March	110		112		
France	3:45	Production outlook	March	n/a		22		
France	4:15	PMI composite index – preliminary	March	54.3		55.5		
France	4:15	PMI manufacturing index – preliminary	March	55.1		57.2		
France	4:15	PMI services index – preliminary	March	55.0		55.5		
Germany	4:30	PMI composite index – preliminary	March	54.0		55.6		
Germany	4:30	PMI manufacturing index – preliminary	March	56.0		58.4		
Germany	4:30	PMI services index – preliminary	March	53.9		55.8		
Switzerland	4:30	Swiss National Bank meeting	March	-0.75%		-0.75%		
Euro zone	5:00	PMI composite index – preliminary	March	53.8		55.5		
Euro zone	5:00	PMI manufacturing index – preliminary	March	56.0		58.2		
Euro zone	5:00	PMI services index – preliminary	March	54.1		55.5		
Norway	5:00	Bank of Norway meeting	March	0.75%		0.50%		
United Kingdom	5:30	PMI composite index – preliminary	March	57.4		59.9		
United Kingdom	5:30	PMI manufacturing index – preliminary	March	57.0		58.0		
United Kingdom	5:30	PMI services index – preliminary	March	58.0		60.5		
Mexico	15:00	Bank of Mexico meeting	March	6.50%		6.00%		
Japan	19:30	Consumer price index – Tokyo	March		1.2%		1.0%	
United Kingdom	20:01	Consumer confidence	March	-30		-26		
FRIDAY 25								
United Kingdom	3:00	Retail sales	Feb.	0.5%	7.8%	1.9%	9.1%	
Euro zone	5:00	Money supply M3	Feb.		6.3%		6.4%	
Germany	5:00	Ifo survey – Business climate	March	94.1		98.9		
Germany	5:00	Ifo survey – Current situation	March	96.6		98.6		
Germany	5:00	Ifo survey – Expectations	March	92.0		99.2		
Italy	5:00	Consumer confidence	March	108.0		112.4		
Italy	5:00	Economic confidence	March	n/a		108.2		

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