WEEKLY COMMENTARY

When "Whatever It Takes" Turns Hawkish

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

This year marks the 10th anniversary of Mario Draghi's famous speech credited with turning the tide on the European sovereign debt crisis. "Whatever it takes" has since become shorthand among central bank watchers for aggressive action. It aptly described the Federal Reserve's (Fed) actions to keep liquidity flowing in the financial system in March 2020 and what it had been doing since to support the economic recovery from the pandemic. However, the last six months have seen one of the most spectacular pivots in central bank rhetoric in recent memory. That prior sense of urgency and commitment to supporting the economy is now being applied to the task of getting inflation back under control.

That was clear in the minutes from the Fed's March 15–16 meeting. The minutes revealed that the committee came a lot closer to raising rates by 50 basis points than initially believed. Markets thought the odds of such a move were only 15%, but the minutes suggest many officials would have preferred a 50 bp hike to the 25 bp move that was announced. In the end, St. Louis Fed President James Bullard was the lone dissenting vote. Others worried a bigger hike would disrupt markets amid the war in Ukraine. But it's now clear he wasn't as much of an outlier as he has been in the past. Furthermore, many officials also judged that "one or more" 50 basis point increases might be warranted at upcoming meetings.

Since the Fed's decision, Jerome Powell gave a double-barreled hawkish speech on March 21. Other typically dovish officials have also been using tough inflation rhetoric. The latest was Governor Lael Brainard, who on Tuesday signalled that the Fed could start slashing its balance sheet as soon as the May meeting. Then on Wednesday, the Fed minutes detailed a plan to ramp up quantitative tightening to US$95B per month (US$60B in Treasuries and US$35B in mortgage-backed securities) over just three months. Therefore, at top speed, the balance sheet unwind will reach nearly double the speed of the previous cycle's QT program.

But current Fed officials aren't the only ones making noise. Former New York Fed President William Dudley penned a provocative op-ed on Wednesday. In it, he argued that the Fed might need to engineer an equity market correction to achieve the tightening necessary to get a handle on inflation. For a Fed that's been skittish about ruffling feathers in financial markets, it doesn't get more "whatever it takes" than that!

How relevant is Dudley, you ask? In early January, he argued that the Fed needed to raise rates above neutral. At the time, the median FOMC projection didn't even have the federal funds rate exceeding 2% before 2024. Just two months later, officials had largely coalesced around his view. When Dudley speaks, Fed officials listen. So when he says the Fed needs to shock equity markets, investors should take notice as well. The Fed used to be the market's best friend. No longer.

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Week in Review

By Randall Bartlett, Senior Director of Canadian Economics, Francis Généreux, Senior Economist, Lorenzo Tessier-Moreau, Senior Economist, and Hendrix Vachon, Senior Economist

- The markets have had to digest **new hawkish signals from the leaders of the Federal Reserve**. The minutes from the last U.S. monetary policy meeting, published Wednesday, also presented arguments for a rapid increase in key rates in the United States, as well as a significant reduction in the size of its balance sheet. Bond yields resumed their upward trend. The U.S. 10-year yield gained almost 20 points in a week. The movement was more cautious in Canada, with an increase of about 10 points on the 10-year yield. Fearing the effects of monetary tightening and a pending decline in excess liquidity on the financial markets, stock markets have generally strayed into negative territory. The bad news in Ukraine is also fuelling investor pessimism.

- **Canada's Finance Minister Chrystia Freeland unveiled the 2022 Federal Budget on Thursday.** Higher real GDP, employment and inflation since the Economic & Fiscal Update 2021 have boosted federal government revenues significantly in Budget 2022 and contributed to lower spending in the near term, particularly on pandemic-related programs. The federal budget deficit is now projected to fall from 4.6% of GDP ($113.8 billion) in the 2021–2022 fiscal year to 0.3% of GDP ($8.4 billion) in the 2026–2027 fiscal year. Higher revenues explain the improved outlook, which was kept in check by only modestly higher, albeit still elevated, spending.

- **The post-Omicron hiring spree continued in March with the Canadian labour market adding 72,500 new jobs.** Those jobs gains pushed the unemployment rate down to 5.3%, a record low since comparable data became available in 1976. The labour market now seems to be on the verge of overheating, which would create unwanted inflationary pressures. As a result, look for aggressive action from the Bank of Canada next week to help bring the economy back into balance.

- **Canadian trade had a solid showing in February**, with both exports (+2.8%) and imports (+3.9%) advancing and the trade surplus remaining well in the black (+$2.7 billion). Commodities continue to dominate the export story, while the anticipated sharp rebound in the Canadian economy in February pushed imports higher. This should be a modest positive for real GDP growth in Q1, but it will be most acutely felt in gross national income through the terms of trade. This will provide a boost to household incomes, corporate earnings and government coffers in the first quarter of 2022.

- **In the United States, the ISM services index improved in March.** It rose from 56.5 in February to 58.3 last month. Despite the 1.8-point increase, the ISM services index is still below the levels seen in January and late 2021. The uptick was nevertheless a pleasant surprise, as the consumer confidence indexes were generally on the decline and some regional non-manufacturing indexes were also pointing downward. Export orders, employment and new orders were among the ISM services components that showed the most growth. Supplier performance (decrease in delivery times) also improved in March.

- **The U.S. balance of trade in goods and services remained steady in February.** At -US$89.2B, it was the first time since last October that the trade deficit did not deepen, but the consensus had expected a slight improvement. The real-term decline in goods exports (-0.8%) and goods imports (-1.0%) suggests, however, that international trade made a fairly significant negative contribution to GDP growth in the first quarter of 2021.

- **New car sales were down again in the U.S. in March.** Annualized sales slid from 13,973,000 units in February to 13,333,000 in March. Thanks to strong sales growth in January (+19.8%), the decreases in February (-7.0%) and March (-4.6%) did not manage to push the average for Q1 2022 below that of Q4 2021. Real consumption of durable goods is therefore expected to post robust growth for the quarter overall.

What to Watch For

By Royce Mendes, Managing Director and Head of Macro Strategy,
Randall Bartlett, Senior Director of Canadian Economics, and Francis Généreux, Senior Economist

UNITED STATES

TUESDAY April 12 - 8:30

March	**m/m**
Consensus	1.2%
Desjardins	1.2%
February	**0.8%**

Consumer price index (March) – Inflation continues to accelerate in the United States. The annual variation in the consumer price index (CPI) reached 7.9% in February, its highest rate since January 1982. Another increase is expected for March. The war in Ukraine has triggered a sharp 21.0% average increase in gasoline prices at the pump and is expected to be a key driver of the new increase in the CPI. We expect energy prices to rise at least 10%. Food price growth is expected to come in near the average of 0.9% for the past two months. Not including food and gasoline, the forecast core CPI increase for March is 0.4%. Some indexes are beginning to reflect an easing in price growth for used cars. Supply-side constraints have not yet been alleviated, while strong price pressures, heightened by the war in Ukraine, persist on a number of goods. All told, we peg the monthly variation in total CPI at 1.2%. That would push the annual variation up from 7.9% to 8.5%, a peak not seen since January 1982. The uptick in core inflation will be less drastic, increasing from 6.4% to 6.5%.

THURSDAY April 14 - 8:30

March	**m/m**
Consensus	0.6%
Desjardins	1.1%
February	**0.3%**

Retail sales (March) – After a very strong 4.9% increase in January, growth in retail sales was more tempered in February with a gain of 0.3%. Another increase is expected for March. This will be strongly supported by higher service station sales in dollar terms, which are expected to jump by about 10% due to surging prices sparked by the war in Ukraine. However, rising gas prices are expected to dampen sales growth at other retailers. That being said, the preliminary card transaction data is not disastrous, and higher sales are still expected across a number of retail categories. Motor vehicles, however, are expected to be flat. Excluding motor vehicles and gasoline, sales may have climbed 0.3%, with a potential rise in total sales pegged at 1.1%. The downside risks to these forecasts are nonetheless very significant.

THURSDAY April 14 - 10:00

April	
Consensus	58.8
Desjardins	59.5
March	**59.4**

University of Michigan consumer confidence index (April – preliminary) – The University of Michigan confidence index continued to trend lower in March, shedding 11.2 points in the past three months. It is now 28.9 points off its recent cyclical peak a year ago, plunging to depths not seen since August 2011. Rising gas prices and growing general uncertainty prompted by the war in Ukraine have clearly soured household sentiment. That being said, the index is expected to hold somewhat steady in April. Gasoline prices have retreated somewhat, stock markets have rebounded from their March low, and the labour market remains strong with further declines in jobless claims. Yet, inflationary fears are still alive and kicking. Nonetheless, we expect a relatively unchanged reading in April for the University of Michigan index.

FRIDAY April 15 - 9:15

March	**m/m**
Consensus	0.4%
Desjardins	1.1%
February	**0.5%**

Industrial production (April) – In February, industrial production suffered from declines in both automotive output and energy demand. On the automotive side, a rebound is expected as early as March, based on the sector's 5.6% gain in hours worked last month. For the rest of manufacturing, positive yet modest growth is anticipated. Hours worked are up there was well, but the production component of the ISM manufacturing index has lost steam. Energy production is expected to stagnate in March after a sharp rise in January and a pullback in February. Decent growth is anticipated in the mining sector after a fairly lacklustre result in February. All told, growth of 1.1% in industrial production and manufacturing is expected.

WEDNESDAY April 13 - 10:00

April	
Consensus	1.00%
Desjardins	1.00%
March 2	**0.50%**

THURSDAY April 14 - 8:30

February	**m/m**
Consensus	3.3%
Desjardins	2.6%
January	**0.6%**

THURSDAY April 14 - 8:30

February	**m/m**
Consensus	0.9%
Desjardins	0.9%
January	**4.2%**

SUNDAY April 10 - 21:30

March	**y/y**
Consensus	1.3%
February	**0.9%**

MONDAY April 11 - 2:00

February	**m/m**
Consensus	0.3%
January	**0.8%**

THURSDAY April 14 - 7:45

April	
Consensus	0.00 %
Desjardins	0.00%
March 10	**0.00%**

CANADA

Bank of Canada policy announcement (April) – The Bank of Canada (BoC) is likely to kick its tightening cycle into high gear. Look for policymakers to raise the overnight policy rate by 50 bps to 1.00%. Central bankers are also likely to announce the beginning of their quantitative tightening program. The BoC has said it will reduce the size of its balance sheet by allowing bonds to mature and roll off. A quantitative tightening announcement next week would see asset holdings beginning to shrink in May.

Manufacturing sales and orders (February) – Given continued strong demand for goods at home and in the US, we expect manufacturing shipments will have posted their fifth consecutive monthly advance in February. Both exports of manufactured goods and imports of manufacturing inputs were likely up sharply in the month despite disruptions from the blockades at the Ambassador Bridge and other key international trade corridors. Manufactured goods prices are also expected to spike due to rising costs of labour, materials, energy and other inputs.

Wholesale trade (February) – February is expected to have seen the sixth consecutive advance in wholesale trade. We've seen robust gains in imports and manufacturing activity, which is usually a pretty reliable harbinger of decent wholesale data to come. But as with everything these days, price pressures will be a big contributor to February's print, likely dwarfing gains in wholesale volumes.

OVERSEAS

China: Consumer price index (March) – Inflation has remained relatively modest in China to date, particularly when its rate of 0.9% is compared with 7.9% in the United States. Unlike in the rest of the world, low food prices are a factor curbing Chinese inflation. With the war in Ukraine and surging international prices, particularly for food and energy, plus the knock-on effects of lockdowns in major Chinese cities, it will be interesting to see whether Chinese inflation starts to bite harder or remains just as moderate.

United Kingdom: Monthly GDP (February) – After slipping 0.2% due to the Omicron wave of COVID-19, UK monthly real GDP recovered in January with a strong 0.8% gain. The carryover for the fourth quarter of 2022 already stands at a non-annualized 0.9%. Further monthly real GDP growth is anticipated for February, but at a more subdued pace than in January.

Euro zone: European Central Bank Meeting (April) – Accelerating euro zone inflation will definitely fuel high-level discussions at the European Central Bank (ECB). The latest figures outstripped forecasts once again. Much of the inflationary pressure stems from the effects of the war in Ukraine on energy prices, but increases are also spreading to other goods and services. As elsewhere in the world, the danger is that inflation expectations will become de-anchored, making it more difficult to reach the inflation target in the medium term. As a result, the ECB may adopt a more concerned tone about inflation at its April meeting, signalling a greater willingness to intervene. Yet, an interest rate hike at this meeting remains unlikely.

Economic Indicators
Week of April 11 to 15, 2022

Day	Hour	Indicator	Period	Consensus	Desjardins	Previous data
UNITED STATES						
MONDAY 11	12:40	Speech of the Federal Reserve Bank of Chicago President, C. Evans				
TUESDAY 12	8:30	Consumer price index				
		Total (m/m)	March	1.2%	1.2%	0.8%
		Excluding food and energy (m/m)	March	0.5%	0.4%	0.5%
		Total (y/y)	March	8.4%	8.5%	7.9%
		Excluding food and energy (y/y)	March	6.6%	6.5%	6.4%
	14:00	Federal budget (US$B)	March	n/a	n/a	-216.6
	18:45	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				
WEDNESDAY 13	8:30	Producer price index				
		Total (m/m)	March	1.1%	1.4%	0.8%
		Excluding food and energy (m/m)	March	0.5%	0.6%	0.2%
THURSDAY 14	8:30	Initial unemployment claims	April 4-8	175,000	190,000	166,000
	8:30	Export prices (m/m)	March	2.2%	2.0%	3.0%
	8:30	Import prices (m/m)	March	2.4%	1.9%	1.4%
	8:30	Retail sales				
		Total (m/m)	March	0.6%	1.1%	0.3%
		Excluding automobiles (m/m)	March	0.9%	1.4%	0.2%
	10:00	Michigan's consumer sentiment index – preliminary	April	58.8	59.5	59.4
	10:00	Business inventories (m/m)	Feb.	1.3%	1.4%	1.1%
	18:00	Speech of the Federal Reserve Bank of Philadelphia President, P. Harker				
FRIDAY 15	---	Markets closed, limited activity (Good Friday)				
	8:30	Empire manufacturing index	April	1.0	4.0	-11.8
	9:15	Industrial production (m/m)	March	0.4%	1.1%	0.5%
	9:15	Production capacity utilization rates	March	77.8%	78.5%	77.6%
	16:00	Net foreign security purchases (US$B)	Feb.	n/a	n/a	58.8
CANADA						
MONDAY 11	---	---				
TUESDAY 12	---	2022 Manitoba Budget				
WEDNESDAY 13	10:00	Bank of Canada meeting	April	1.00%	1.00%	0.50%
	10:00	Release of the Bank of Canada *Monetary Policy Report*				
	11:00	Speech of the Bank of Canada Governor, T. Macklem				
THURSDAY 14	8:30	Wholesale sales (m/m)	Feb.	0.9%	0.9%	4.2%
	8:30	Manufacturing sales (m/m)	Feb.	3.3%	2.6%	0.6%
FRIDAY 15	---	Markets closed (Good Friday)				

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 April 11 to 15, 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)	March	20.50		94.46	
SUNDAY 10							
China	21:30	Consumer price index	March		1.3%		0.9%
China	21:30	Producer price index	March		8.1%		8.8%
MONDAY 11							
United Kingdom	2:00	Trade balance (£M)	Feb.	-4,900		-16,159	
United Kingdom	2:00	Construction	Feb.	0.4%	6.8%	1.1%	9.9%
United Kingdom	2:00	Index of services	Feb.	0.2%		0.8%	
United Kingdom	2:00	Monthly GDP	Feb.	0.3%		0.8%	
United Kingdom	2:00	Industrial production	Feb.	0.3%	2.1%	0.7%	2.3%
Japan	19:50	Producer price index	March	0.9%	9.2%	0.8%	9.3%
TUESDAY 12							
Germany	---	Current account (€B)	Feb.	n/a		11.0	
United Kingdom	2:00	ILO unemployment rate	Feb.	3.8%		3.9%	
Germany	2:00	Consumer price index – final	March	2.5%	7.3%	2.5%	7.3%
France	2:45	Trade balance (€M)	Feb.	n/a		-8,034	
France	2:45	Current account (€B)	Feb.	n/a		-1.8	
Germany	5:00	ZEW survey – Current situation	April	-35.0		-21.4	
Germany	5:00	ZEW survey – Expectations	April	-48.5		-39.3	
New Zealand	22:00	Reserve Bank of New Zealand meeting	April	1.25%		1.00%	
WEDNESDAY 13							
South Korea	---	Bank of Korea meeting	April	1.50%		1.25%	
United Kingdom	2:00	Consumer price index	March	0.8%	6.7%	0.8%	6.2%
United Kingdom	2:00	Producer price index	March	1.2%	11.1%	0.8%	10.1%
Italy	4:00	Industrial production	Feb.	1.4%	0.9%	-3.4%	-2.6%
THURSDAY 14							
Euro zone	7:45	European Central Bank meeting	April	0.00%		0.00%	
FRIDAY 15							
France	2:45	Consumer price index – final	March	1.4%	4.5%	1.4%	4.5%

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).