

# WEEKLY COMMENTARY

## Macklem's Opportunity to Lead

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

Markets are broadly assuming that the Bank of Canada will hold steady on June 4 and delay its next rate cut until July. That timeline might be too cautious. While Governor Macklem struck a slightly hawkish tone in interviews after the Banff G7 Summit, the downside risks to growth and the shifting inflation landscape may warrant more nimble action. We discuss reasons behind our view that the BoC will resume rate cuts next week.

**First, the recent jump in core inflation looks more benign than at first sight.** April's CPI release was the catalyst leading markets to stop pricing in a June cut, given the meaningful uptick in the BoC's preferred core inflation measures. But most of the acceleration came from a narrow set of components: rents (after several months of weakness) and airfares, which are notoriously volatile and seasonally erratic. We don't suspect these shifts mark an inflection to sustained price momentum in these categories. Goods affected by Canada's retaliatory tariffs also showed increases in prices, although these effects could be fleeting. More on that later. The carbon tax repeal may also have played a role if utility providers offset the tax cut by raising their prices, as some evidence suggests. Since core inflation measures exclude indirect taxes, they would capture the implicit price increase but not the corresponding tax relief. Yet for consumers, and ultimately for inflation expectations, both matter. As a result, this technical quirk is unlikely to sway expectations meaningfully. What that means, ironically, is that the Bank of Canada should probably disregard the noise currently affecting its core CPI measures.

**Second, a stronger Canadian dollar gives the BoC more room to tilt towards supporting growth.** The loonie is up by a bit over 3% year to date, and we expect it to appreciate a bit further in the second half of the year. This should somewhat help mitigate the inflationary effects of countervailing tariffs, although it comes at the expense of added drag on exports. To the extent that markets are not positioned for a cut next week, cutting in June could take some steam out of the loonie and offer a modest reprieve to exporters without materially altering the inflation path.

**Third, there is room for cautious optimism on the inflationary outlook for retaliatory tariffs.** With CUSMA carve-outs keeping Canada's effective tariff rate low, the Carney government has less incentive to escalate with aggressive countermeasures. So far, Ottawa has imposed tariffs on roughly \$60B worth of US goods and mirrored Washington's vehicle tariff approach. However, a portion of those measures has already been put on a six-month pause to avoid disrupting supply chains. While future trade policy decisions affecting Canada remain hard to predict, the tone between Ottawa and Washington has grown more conciliatory in recent weeks. The legal obstacles that Trump's trade policy encountered this week could perhaps also help pave the way for a deal. As a result, the likelihood that Canada proceeds with tariffs on the full \$185B list floated earlier this year has diminished.

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**Fourth, while tail risks to growth and inflation have eased, Canada's economy is hardly in the clear.**

Two of its largest housing markets are weakening, with rising listings and mounting price pressures. Population growth, a key support over the past two years, is fading as temporary resident policies tighten. For financially vulnerable households, particularly those with variable-rate mortgages, renewals at higher rates are becoming increasingly burdensome. Meanwhile, several provincial governments have signalled plans to significantly slow per capita operating spending growth in response to mounting fiscal pressures. These forces combined are already weighing on consumption, which barely advanced on a per capita basis in Q1, and housing activity. Business investment, which is typically the first casualty in periods of heightened uncertainty, will likely pull back after being artificially propped up by tariff front-running in Q1. Job losses are accumulating in manufacturing, and hiring appetite is softening in other sectors. We continue to expect that a mild Canadian recession has begun this quarter, reinforcing the case for policy action to ease the pressures facing trade-exposed and rate-sensitive segments of the economy.

**Fifth, the Bank of Canada still has room to cut.** With the neutral rate estimated to be between 2.25% and 3.25%, a 25bp reduction next week would still leave the policy rate within neutral territory. The move would be justified on a balance of risks that has shifted incrementally away from fast accelerating inflation and towards weakening growth. We ultimately expect the Bank to bring the overnight rate to 2.00% this year.

So where could we go wrong next Wednesday? The classic counterargument contends that waiting until July would provide the Bank with more data. But this is the apology of hesitancy. Indecisiveness comes at the expense of responsiveness. A June cut, by contrast, would allow the Bank to get ahead of a downturn at a time when upside tail inflation risks have diminished. In other words, if Macklem still takes the lags of monetary policy seriously, this is the moment for him to take the lead.

# What to Watch For

MONDAY June 2 - 10:00

**May**

Consensus 49.2

Desjardins 49.5

**April 48.7**

WEDNESDAY June 4 - 10:00

**May**

Consensus 52.0

Desjardins 52.5

**April 51.6**

FRIDAY June 6 - 8:30

**May**

Consensus 130,000

Desjardins 160,000

**April 177,000**

WEDNESDAY June 4 - 8:30

**Q1 2025**

**q/q**

Consensus n/a

Desjardins 0.0%

**Q4 2024 0.6%**

WEDNESDAY June 4 - 9:45

**June**

Consensus 2.50%

Desjardins 2.50%

**April 16 2.75%**

## UNITED STATES

**ISM Manufacturing index (May)** – The ISM Manufacturing index fell further in April to 48.7, its lowest level since November 2024. Most notable was the drop in the production component to 44.0, its weakest level since April 2009 excluding the first few months of the pandemic. We expect the ISM Manufacturing index to have edged up in May. More positive tariff news, especially regarding China, seems to be creating a somewhat more favourable environment for the manufacturing sector. Most regional indicators have also improved slightly. We expect the ISM index to come in near the 50-point threshold. That said, risks remain acute, and the trends in the ISM index and actual output will depend on whether manufacturers perceive the tariff pauses as permanent or temporary.

**ISM Services index (May)** – Despite all the uncertainty surrounding the US and global economies, the ISM Services index remains well above the 50 mark for the time being. However, the average for March and April was 51.2, well below the average for the previous six months (53.9). We expect the ISM Services index to have edged up in May. The easing of the US–China trade war should help some businesses—particularly importers—avoid more serious consequences. Regional indexes and the Conference Board Consumer Confidence Index both inched up. Look for the ISM Services index to have moved above 52.0.

**Change in nonfarm payrolls (May)** – Hiring remained relatively strong in April with 177,000 jobs added, just below March's figure of 185,000. We expect a similar print for May, with businesses keen to not lay off employees too quickly as the trade war eases. Unemployment claims remained quite low during the reference week, which included the 12th of the month. However, despite May's rebound in the headline index, the Conference Board's Consumer Confidence Survey shows that consumers' views of the labour market and job availability continue to weaken. All in all, we expect net job creation to come in around 160,000, while the unemployment rate will likely edge up from 4.2% to 4.3%.

## CANADA

**Labour productivity (Q4)** – We anticipate that labour productivity did not change at the beginning of the year, following a 0.6% increase in the previous quarter. Business sector real GDP probably increased 0.5% q/q in Q1 2025. However, the gain in real business output was likely offset by a 0.5% rise in business sector total hours worked. We expect slowing population growth and tariff uncertainty to influence the trajectory of productivity in Canada.

**Bank of Canada meeting (June)** – The Bank of Canada approaches next week's policy rate decision under a cloud of uncertainty surrounding the Canadian economy. The central challenge lies in the opposing forces at play: persistent inflation on one side and mounting growth concerns on the other. These conflicting pressures have intensified in recent weeks, making the decision between a rate cut and a pause a close call. The latest inflation data revealed an uptick in the core measures that the Bank monitors more closely than the headline rate. At the same time, the Q1 GDP figure was artificially boosted by inventory front-loading, masking underlying economic weakness. Given these dynamics, we anticipate a 25-basis-point rate cut next week.

**THURSDAY June 5 - 8:30**

<b>April</b>	<b>\$B</b>
Consensus	n/a
Desjardins	-1.00
<b>March</b>	<b>-0.51</b>

**International trade (April)** – Canada likely saw its merchandise trade deficit widen in April as a result of reduced demand for Canadian exports south of the border. A rise in Canadian import volumes driven by higher motor vehicle sales should further add to the trade deficit. That said, we expect a boost in oil exports to have had a modest offsetting positive impact on the trade balance, especially given [increased Chinese demand](#) and added transport capacity from the TMX. Our trade forecast continues to contain a lot of uncertainty given the US tariffs and unusually large revisions, which could lead to unexpected increases or decreases in the trade balance.

**FRIDAY June 6 - 8:30**

<b>May</b>	
Consensus	n/a
Desjardins	10,000
<b>April</b>	<b>7,400</b>

**Net change in employment (May)** – The lacklustre trend in the Canadian labour market likely continued in May as businesses remain wary about bringing on new staff. As a result, the Canadian economy probably only added 10k new jobs over the month. Weakness will likely be seen across the public sector, which saw a surge in temporary employment due to the federal election last month. The relatively benign pace of hiring will likely push the unemployment rate one tick higher to 7.0%, the highest level since late 2016 not counting the pandemic. Outside of the headline unemployment figure, unemployment rates for those ages 25 to 54 will also be in focus, as this rate has gradually increased throughout the year. That's a worrying sign, as that cohort has the greatest exposure to mortgages and tends to spend the most on average.


**OVERSEAS**
**THURSDAY June 5 - 8:15**


<b>June</b>	
Consensus	2.00%
Desjardins	2.00%
<b>April 17</b>	<b>2.25%</b>

**Eurozone: European Central Bank meeting (June)** – We think the door is wide open for a rate cut next week, with more easing to follow. Real-time data points to weaker economic activity in May. Export shipping volumes and electricity consumption growth are at their lowest levels in months. Meanwhile disinflation, particularly within services, is fully on track. The impact of trade tensions on inflation is unclear now, but a stronger euro is expected to keep a lid on imported inflation. We think the ECB remains on course to bring the terminal rate down to between 1.50% and 1.75%.

# Economic Indicators

Week of June 2 to 6, 2025

Date	Time	Indicator	Period	Consensus		Previous reading
<b>UNITED STATES</b>						
<b>MONDAY 2</b>	10:00	Construction spending (m/m)	April	0.4%	0.1%	-0.5%
	10:00	ISM Manufacturing index	May	49.2	49.5	48.7
	10:15	Speech by Federal Reserve Bank of Dallas President L. Logan				
	12:45	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	13:00	Speech by Federal Reserve Chair J. Powell				
<b>TUESDAY 3</b>	10:00	Factory orders (m/m)	April	-3.1%	-3.0%	3.4%
	12:45	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	13:00	Speech by Federal Reserve Governor L. Cook				
	15:30	Speech by Federal Reserve Bank of Dallas President L. Logan				
	---	Total vehicle sales (ann. rate)	May	16,300,000	15,750,000	17,270,000
<b>WEDNESDAY 4</b>	8:30	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	10:00	ISM Services index	May	52.0	52.5	51.6
	14:00	Release of the Beige Book				
<b>THURSDAY 5</b>	8:30	Initial unemployment claims	May 26–30	n/a	240,000	240,000
	8:30	Trade balance – goods and services (US\$B)	April	-117.3	-66.1	-140.5
	8:30	Nonfarm productivity – final (ann. rate)	Q1	-0.8%	-0.7%	-0.8%
	8:30	Unit labor costs – final (ann. rate)	Q1	5.7%	5.6%	5.7%
	12:00	Speech by Federal Reserve Governor A. Kugler				
	13:30	Speech by Federal Reserve Bank of Philadelphia President P. Harker				
	13:30	Speech by Federal Reserve Bank of Kansas City President J. Schmid				
<b>FRIDAY 6</b>	8:30	Change in nonfarm payrolls	May	130,000	160,000	177,000
	8:30	Unemployment rate	May	4.2%	4.3%	4.2%
	8:30	Average weekly hours	May	34.3	34.2	34.3
	8:30	Average hourly earnings (m/m)	May	0.3%	0.2%	0.2%
	15:00	Consumer credit (US\$B)	April	n/a	16.000	10.172
<b>CANADA</b>						
<b>MONDAY 2</b>	---	---				
<b>TUESDAY 3</b>	---	---				
<b>WEDNESDAY 4</b>	8:30	Labour productivity (q/q)	Q1	n/a	0.0%	0.6%
	9:45	Bank of Canada meeting	June	2.50%	2.50%	2.75%
	9:45	Speech by Bank of Canada Governor T. Macklem and Senior Deputy Governor C. Rogers				
<b>THURSDAY 5</b>	8:30	International trade (\$B)	April	n/a	-1.00	-0.51
	12:20	Speech by Bank of Canada Deputy Governor S. Kozicki				
<b>FRIDAY 6</b>	8:30	Net change in employment	May	n/a	10,000	7,400
	8:30	Unemployment rate	May	n/a	7.0%	6.9%

**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 2 to 6, 2025

Country	Time	Indicator	Period	Consensus		Previous reading	
				m/m (q/q)	y/y	m/m (q/q)	y/y
<b>OVERSEAS</b>							
<b>MONDAY 2</b>							
United Kingdom	2:00	Nationwide house prices	May	-0.0%	2.8%	-0.6%	3.4%
Italy	3:45	Manufacturing PMI	May	49.6		49.3	
France	3:50	Manufacturing PMI – final	May	49.5		49.5	
Germany	3:55	Manufacturing PMI – final	May	48.8		48.8	
Eurozone	4:00	Manufacturing PMI – final	May	49.4		49.4	
United Kingdom	4:30	Manufacturing PMI – final	May	45.1		45.1	
<b>TUESDAY 3</b>							
Italy	4:00	Unemployment rate	April	6.1%		6.0%	
Eurozone	5:00	Consumer price index – preliminary	May	0.0%	2.0%	0.6%	2.2%
Eurozone	5:00	Unemployment rate	April	6.2%		6.2%	
<b>WEDNESDAY 4</b>							
Italy	3:45	Composite PMI	May	n/a		52.1	
Italy	3:45	Services PMI	May	52.1		52.9	
France	3:50	Composite PMI – final	May	48.0		48.0	
France	3:50	Services PMI – final	May	47.4		47.4	
Germany	3:55	Composite PMI – final	May	48.6		48.6	
Germany	3:55	Services PMI – final	May	47.2		47.2	
Eurozone	4:00	Composite PMI – final	May	49.5		49.5	
Eurozone	4:00	Services PMI – final	May	48.9		48.9	
United Kingdom	4:30	Composite PMI – final	May	49.4		49.4	
United Kingdom	4:30	Services PMI – final	May	50.2		50.2	
<b>THURSDAY 5</b>							
Germany	2:00	Factory orders	April	-1.5%	2.4%	3.6%	3.8%
Eurozone	5:00	Producer price index	April	-1.8%	1.2%	-1.6%	1.9%
Italy	5:00	Retail sales	April	n/a	n/a	-0.5%	-2.8%
Eurozone	8:15	European Central Bank meeting	June	2.00%		2.25%	
<b>FRIDAY 6</b>							
India	0:30	Reserve Bank of India meeting	June	5.75%		6.00%	
Japan	1:00	Leading index – preliminary	April	103.9		108.1	
Japan	1:00	Coincident index – preliminary	April	115.4		115.9	
Germany	2:00	Trade balance (€B)	April	20.0		21.2	
Germany	2:00	Industrial production	April	-0.9%	-1.0%	3.0%	-0.2%
France	2:45	Trade balance (€M)	April	n/a		-6,248	
France	2:45	Current account (€B)	April	n/a		1.4	
France	2:45	Industrial production	April	0.0%	-0.3%	0.2%	0.2%
Eurozone	5:00	Net change in employment – final	Q1	n/a	n/a	0.3%	0.8%
Eurozone	5:00	Real GDP	Q1t	0.4%	1.2%	0.3%	1.2%
Eurozone	5:00	Retail sales	April	0.2%	1.5%	-0.1%	1.5%
Russia	6:00	Bank of Russia meeting	June	20.50%		21.00%	

**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. 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).