

# WEEKLY COMMENTARY

## It's Difficult to Make Predictions, Especially about the Future

By Royce Mendes, Managing Director and Head of Macro Strategy

Making predictions about economic growth and inflation is difficult. Look no further than the massive forecast misses of the past few years. While central banks employ hundreds of highly trained economists, they have little, if any, edge over private sector analysts in projecting these variables. However, policymakers do have special insight into the financial system.

Due to their regulatory and oversight roles, officials can employ financial data unavailable to the public. From their access to loan-level statistics used to assess the risks of mortgage renewals to the special trade data on the repo market used to understand the recent upward pressure on repo rates, it's clear that policymakers have an edge in identifying and understanding the evolution of financial stability risks.

When it's released on May 9, the Bank of Canada's annual Financial System Review (FSR) publication will operate as the most prominent dissemination of this information. Last year's iteration highlighted important financial risks, most notably the ability of households to service their debt.

It's a topic that we've published on extensively. The good news in the 2023 FSR was that the central bank's simulations came to similar conclusions as our own, giving us confidence in our forecasts, which must rely on a more limited set of statistics. The bad news was that those simulations suggested that the share of households experiencing financial stress is likely to rise in 2025 and 2026.

Since the 2023 FSR was published, the median household debt service ratio (DSR) and the share of new mortgages with DSRs above 25% have both risen. As the FSR said at the time, "Higher

DSRs reduce flexibility for borrowers who experience unforeseen increases in expenses or losses in income."

A year ago, the unemployment rate was 5.1%. Today it's a full percentage point higher at 6.1%. Thus far, there's only been a slight increase in mortgage arrears. There's also been a stabilization in house prices over the past year, meaning that homeowners have not seen their equity further eroded. But the wall of mortgage renewals will only really begin to bite in 2025.

Today, financially stressed households are more likely to be renters. The high cost of living, including rent prices and interest rates, as well as perceived job risks are causing many renters to worry about their finances.

So, while the Bank of Canada might conclude once again that mortgage holders are weathering the storm, central bankers will have to add renters to their list of worries in this year's FSR.

There's no silver bullet for reducing the financial stability or economic risks emanating from these household vulnerabilities, but a comprehensive plan to lower inflation and then lower interest rates is key.

Reducing the pace of growth in the cost of living will help the incomes of Canadians catch up to, or at least narrow the gap with, the current high level of consumer prices. Lowering overall inflation will also open the door to potential rate cuts. Clearly high interest rates are making households and businesses more vulnerable to any other shock that could materialize, as well as weakening economic activity and employment growth. Getting interest rates down in a sustainable way will therefore reduce the overall risks to the financial system.

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No one knows what economic or financial shocks the future may hold. While the Bank of Canada will no doubt find that financial stability risks are currently contained, beginning a gradual rate cutting cycle could help ensure that they stay that way.

# What to Watch For

TUESDAY May 7 - 15:00

<b>March</b>	<b>US\$B</b>
Consensus	16.500
Desjardins	5.000
<b>February</b>	<b>14.125</b>

FRIDAY May 10 - 10:00

<b>May</b>	
Consensus	76.8
Desjardins	74.0
<b>April</b>	<b>77.2</b>

FRIDAY May 10 - 8:30

<b>April</b>	
Consensus	17,500
Desjardins	15,000
<b>March</b>	<b>-2,200</b>

THURSDAY May 9 - 7:00

<b>May</b>	
Consensus	5.25%
Desjardins	5.25%
<b>March 21</b>	<b>5.25%</b>

FRIDAY May 10 - 2:00

<b>Q1 2024</b>	<b>q/q</b>
Consensus	0.4%
<b>Q4 2023</b>	<b>-0.3%</b>

## UNITED STATES

**Consumer credit (March)** – Consumer credit growth picked up slightly in February on the back of a stronger advance in revolving credit (cards and lines of credit). However, term credit remains particularly weak. Based on the decline in bank credit in recent weeks, consumer credit probably expanded less quickly in March. That said, the drop in the savings rate and solid growth in nominal consumption in March likely kept weakness in check.

**University of Michigan consumer sentiment index (May – preliminary)** – The University of Michigan consumer sentiment index fell 2.5 points in April, its biggest monthly decline since last November. We expect the index to slide further in May. The sharp fall in the Conference Board index in April—and the 13.9-point drop in the three months since January—along with the pullback in the major stock indexes and a modest increase in mortgage interest rates all suggest consumer confidence will likely fade. But gasoline prices have stabilized in recent weeks, which could help cushion the blow. The job market is also holding up. Overall, we expect the University of Michigan index to slip to 74.0.

## CANADA

**Net change in employment (April)** – Hiring in Canada may have resumed in April after stalling in March. That said, the expected 15K increase would still have population growth outpacing employment gains. Employment has been increasing more slowly than the working-age population for some time, which has led to a rise in the unemployment rate over the past year. That trend is expected to have continued in April, with the jobless rate likely rising by one tick to 6.2 percent. While the government is planning to restrict the number of temporary residents, those policies won't start to influence population growth until later this year. Ultimately the Canadian labour market is in better balance today, and that has filtered through to wage growth, which has continued to slow across a myriad of measures. While wage growth in the Labour Force Survey has proven to be stickier relative to other measures, it is expected to have moved lower in April.

## OVERSEAS

**United Kingdom: Bank of England meeting (May)** – We don't expect the Bank of England to change interest rates next week. However, it will still be an important meeting, as the BoE may give us more insight into when it intends to start cutting rates. As usual, the Bank will also publish the outcome of its Monetary Policy Committee vote. In April, one member voted for a cut. If two were to do so in May, a rate cut might be on the table for June. We'll also have to analyze the contents of the Monetary Policy Report, which will be published at next week's meeting. If the BoE expects inflation to continue to fall, it would set the stage for it to start monetary easing.

**United Kingdom: Real GDP (Q1)** – UK real GDP suffered two consecutive quarterly declines in the second half of 2023. While this pushed the country into a technical recession, at -0.1% in Q3 and -0.3% in Q4, the contractions weren't significant enough to talk of a traditional recession. In addition, monthly GDP never declined consecutively in H2 2023, falling in July, October and December. Monthly data also indicate that the economy returned to growth in Q1 2024. At the end of February, non-annualized carry-over growth was +0.3%. Monthly GDP would have had to drop substantially in March to offset this carry-over, which we don't think was the case. As a result, quarterly real GDP likely increased.


FRIDAY May 10 - 21:30


<b>April</b>	<b>y/y</b>
Consensus	0.1%
<b>March</b>	<b>0.1%</b>

**China: Consumer price index (April)** – Inflation remains very low in China. The 0.7% year-over-year rebound in the consumer price index proved to be short-lived and was likely caused by the Lunar New Year. Inflation fell to 0.1% in March. While this is better than the negative prints seen from October to January, it shows that there’s no real inflationary pressure in the Chinese economy. Will March’s data indicate a return to deflation or renewed positive momentum?

# Economic Indicators

## Week of May 6 to 10, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
<b>UNITED STATES</b>						
<b>MONDAY 6</b>	12:50	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	13:00	Speech by Federal Reserve Bank of New York President J. Williams				
<b>TUESDAY 7</b>	11:30	Speech by Federal Reserve Bank of Minneapolis President N. Kashkari				
	15:00	Consumer credit (US\$B)	March	16.500	5.000	14.125
<b>WEDNESDAY 8</b>	10:00	Wholesale inventories – final (m/m)	March	-0.4%	-0.4%	-0.4%
	11:00	Speech by Federal Reserve Vice Chair P. Jefferson				
	11:45	Speech by Federal Reserve Bank of Boston President S. Collins				
	13:30	Speech by Federal Reserve Governor L. Cook				
<b>THURSDAY 9</b>	8:30	Initial unemployment claims	Apr. 29–May 3	213,000	212,000	208,000
<b>FRIDAY 10</b>	9:00	Speech by Federal Reserve Governor M. Bowman				
	10:00	University of Michigan consumer sentiment index – preliminary	May	76.8	74.0	77.2
	12:45	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	13:30	Speech by Federal Reserve Vice Chair M. Barr				
	14:00	Federal budget (US\$B)	April	n/a	n/a	-236.5
<b>CANADA</b>						
<b>MONDAY 6</b>	---					
<b>TUESDAY 7</b>	8:30	Wholesale sales (m/m)	March	n/a	n/a	2.3%
<b>WEDNESDAY 8</b>	---					
<b>THURSDAY 9</b>	10:00	Release of the Bank of Canada's Financial System Review				
<b>FRIDAY 10</b>	8:30	Net change in employment	April	17,500	15,000	-2,200
	8:30	Unemployment rate	April	6.2%	6.2%	6.1%
	10:30	Release of the Bank of Canada's Senior Loan Officer Survey				

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 6 to 10, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
<b>OVERSEAS</b>								
<b>MONDAY 6</b>								
Italy	3:45	Composite PMI	April	53.3		53.5		
Italy	3:45	Services PMI	April	54.6		54.6		
France	3:50	Composite PMI – final	April	49.9		49.9		
France	3:50	Services PMI – final	April	50.5		50.5		
Germany	3:55	Composite PMI – final	April	50.5		50.5		
Germany	3:55	Services PMI – final	April	53.3		53.3		
Eurozone	4:00	Composite PMI – final	April	51.4		51.4		
Eurozone	4:00	Services PMI – final	April	52.9		52.9		
Eurozone	5:00	Producer price index	March	-0.4%	-7.7%	-1.0%	-8.3%	
Japan	20:30	Composite PMI – final	April	n/a		52.6		
Japan	20:30	Services PMI – final	April	n/a		54.6		
<b>TUESDAY 7</b>								
Australia	0:30	Reserve Bank of Australia meeting	May	4.35%		4.35%		
Germany	2:00	Trade balance (€B)	March	22.4		21.4		
Germany	2:00	Factory orders	March	0.5%	-0.7%	0.2%	-10.6%	
France	2:45	Trade balance (€M)	March	n/a		-5,244		
France	2:45	Current account (€B)	March	n/a		0.9		
France	2:45	Wages – preliminary	Q1	n/a		0.4%		
United Kingdom	4:30	Construction PMI	April	505		50.2		
Eurozone	5:00	Retail sales	March	0.7%	-0.2%	-0.5%	-0.7%	
<b>WEDNESDAY 8</b>								
China	---	Trade balance (US\$B)	April	81.35		58.55		
Germany	2:00	Industrial production	March	-0.9%	-3.5%	2.1%	-4.9%	
Sweden	3:30	Bank of Sweden meeting	May	3.75%		4.00%		
Italy	4:00	Retail sales	March	n/a	n/a	0.1%	2.4%	
Brazil	17:30	Central Bank of Brazil meeting	May	10.50%		10.75%		
<b>THURSDAY 9</b>								
United Kingdom	7:00	Bank of England meeting	May	5.25%		5.25%		
Mexico	15:00	Bank of Mexico meeting	May	11.00%		11.00%		
Japan	19:50	Current account (¥B)	March	2,044.2		1,368.6		
<b>FRIDAY 10</b>								
United Kingdom	2:00	Trade balance (€M)	March	-2,400		-2,291		
United Kingdom	2:00	Construction	March	0.8%	-1.1%	-1.9%	-2.0%	
United Kingdom	2:00	Index of services	March	0.0%		0.1%		
United Kingdom	2:00	Monthly GDP	March	0.1%		0.1%		
United Kingdom	2:00	Real GDP – preliminary	Q1	0.4%	0.0%	-0.3%	-0.2%	
United Kingdom	2:00	Industrial production	March	-0.5%	0.3%	1.1%	1.4%	
Italy	4:00	Industrial production	March	0.3%	n/a	0.1%	-3.1%	
China	21:30	Consumer price index	April		0.1%		0.1%	
China	21:30	Producer price index	April		-2.3%		-2.8%	

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).