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GLOBAL ECONOMICS

DAILY POINTS

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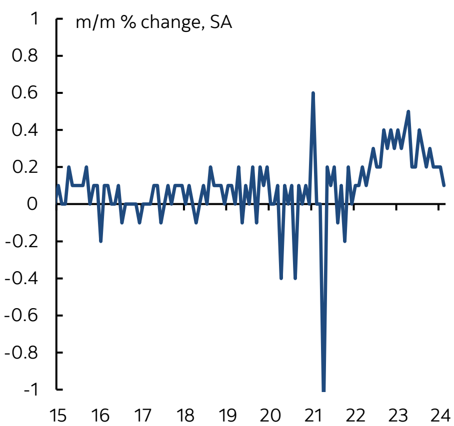
Chart 1

Tokyo Core Inflationary Pressure Eases



Sources: Scotiabank Economics, Ministry of Internal Affairs and Communications.

On Deck for Tuesday, March 5

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03-05	10:00	Factory Orders (m/m)	Jan	--	-3.0	0.2
US	03-05	10:00	ISM Non-Manufacturing Composite	Feb	--	53.0	53.4
US	03-05	12:00	Fed's Barr Speaks on Panel about CRA Modernization				
US	03-05	14:15	Fed's Barr Participates in Roundtable Listening Session				

KEY POINTS:

- **Risk off sentiment probably driven by uncertainty toward the back half of the week**
- **Tokyo core CPI continues to ebb, casting further doubt on ending negative rates**
- **Japanese FinMin denies deflation communications plan**
- **China updated its meaningless targets**
- **It's not-so-Super Tuesday in the US**
- **Canadian home sales taking a temporary breather ahead of the key Spring market...**
- **...as auto sales continue to soar**
- **Canada's Budget date was deliberately set to follow the BoC's April MPR meeting...**
- **...which is added reason for the BoC to stay guarded at that meeting**
- **Canada's planned government drug monopoly could be costlier than estimates...**
- **...as Big Government continues its burdensome ascent in Canada**
- **Fed's Bostic's suggested rate plan makes no sense**

Mild risk-off sentiment probably has more to do with cautious positioning ahead of developments over the back half of the week than thin overnight developments. That includes Powell's appearances, nonfarm payrolls, the BoC and ECB, Canadian jobs etc etc. There were no catalysts to explain small declines across equity benchmarks and modestly dearer sovereign bonds across most benchmarks. Overnight developments threw added caution against ending negative rates in Japan, while China's farcical Congress offered up another batch of thoroughly meaningless numbers and rhetoric. Today's not-so Super Tuesday in the US election marathon simply doesn't matter given that we all know who the two candidates will be in November. Haley's probably toast after today.

Tokyo Core CPI Adds Further Doubt to Ending Negative Rates

Tokyo core CPI (ex-fresh food and energy) landed at 0.1% m/m SA in February. That was the softest reading since way back in April 2022. That continues the decelerating trend that has been in place since the peak last April (chart 1). In my opinion, the clearly decelerating trend serves as a warning sign to the BoJ on withdrawing negative rates. Japan probably faces the strongest case for viewing the surge in core inflation as having been a transitory occurrence.

Added to this need for caution is that Japan's economy is in technical recession, plus the potential perils of zigging when the Fed is more likely to zag later this year. How to manage markets that aren't buying the one-and-done view is an added complication to BoJ communications that are typically shake and difficult to decipher at best.

I'm also not convinced that wage growth is buoyant enough, sustainable enough, or as widespread as needed. Last year's Shunto negotiations sought a 5% gain and settled for 3.6%. Rengo's target for this year was "more than 5%" and an ESP Forecast is for the gain to be more like 3.9%. That would still be the strongest back-to-back gains since the early 1990s. But Japan—unlike, say, the Eurozone or Canada—sets wages one year at a time in collective bargaining exercises versus the multi-year approach in those other regions. A key question is whether this kind of wage growth—that is not supported by productivity growth that has been between 0–2% y/y over the past couple of years—will persist next year and beyond or crash right back down. A further uncertainty is the pass-through effect; average real earnings are still falling in year-over-year terms with the Shunto wage setting exercise driving large corporations but small businesses are weighing down average wages.

The mild hype into BoJ Governor Ueda's brief appearance overnight was much ado about nothing at all. His "special message" was just to say that having a central bank digital currency is something that should be left to the public to decide. Meh. Further, Finance Minister Suzuki doused speculation driven by Kyodo that the government was considering officially stating that deflation is over in a series of communications.

Anyway, let's see how it all unfolds while keeping in mind the hope for better days ahead but the reality that the BoJ has fouled up before.

China Sets its Meaningless Annual Targets

There was a lot of hot air and thoroughly meaningless targets coming out of China's heavily scripted National People's Congress. I guess that should be the expected outcome when you get a bunch of communist party officials trying to micromanage and over-plan everything. I'll never understand why people pay so much attention to the various targets that are set because China routinely misses them.

The 2024 growth target of 'around 5%' surprised no one. Premier Li Qiang said this required "policy support and joint efforts from all fronts." China has been generally missing its GDP growth targets since 2019; before that, it had a pretty decent run dating back to 2012 and before that it regularly beat its target. Chart 2. GDP is actually the least bad performance target compared to the others. Of course, there are always large question markets surrounding data quality out of China. For instance, they are typically first to release GDP among major economies and almost never revise; guess they get it perfect on the first try each time…

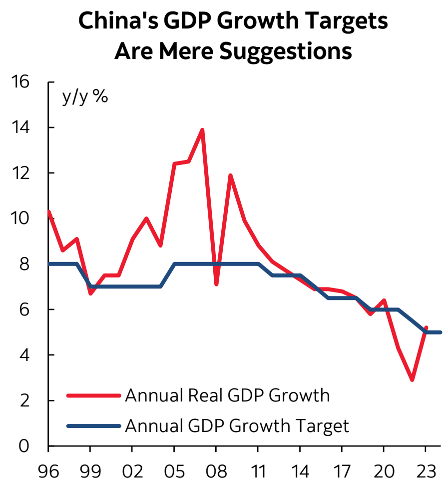
China also announced that the fiscal deficit target for 2024 will be 3% of GDP, down from 3.9% as the actual deficit last year. China has exceeded its fiscal deficit target in each of the last 9 consecutive years (chart 3). Silly me, I think when you set targets, there should probably be some sort of symmetrical pattern to the misses!

The inflation target—you know, the one the PBOC never hits—was set at 3% yet again. China hasn't hit its inflation target since 2019 and it has undershot its inflation target in every other year dating back to 2011 (chart 4). The unemployment rate target of 5.5% was also unchanged.

Light Data On Tap into N.A. Session

The key data into the N.A. session will be US ISM-services for February (10amET). Most expect it to decelerate. They expected the same thing in January when the data beat. Let's just see the numbers and then move on to more meaningful developments from Wednesday to Friday. The US also updates factory orders that are expected to post a significant decline based on the already known durables component with nondurables to be added to this morning's overall figure (10amET).

Chart 2



Sources: Scotiabank Economics, Bloomberg.

Chart 3

Sources: Scotiabank Economics, National Bureau of Statistics of China.

Chart 4

Sources: Scotiabank Economics, National Bureau of Statistics of China.

Bostic's Plan for the Fed

Atlanta Fed President Bostic is a two cut kind of guy for 2024 and he votes this year. He said yesterday that he'd like to cut in Q3 and then immediately pause afterward, presumably to deliver one more cut before the end of the year given his dot in the dot plot.

I think this approach would only damage any residual confidence in the Fed that people may have. If you don't have conviction to be cutting along a steadier path, then don't cut at all. I can see a case for pauses along the way, but would prefer to see delivery of a series of cuts before pausing. Maybe go down 100bps or more and then pause in order to make the initial experiment meaningful. Not immediately getting scared silly after one measly cut. How would you even handle that path as a Fed Chair that likes to tee up the next meeting and plan smooth communications? Each time you cut the press conference would be all about apologizing for cutting and keeping market participants highly uncertain toward the nearer term rate path. I can't see that as being helpful. If that's really how you feel, then hold off cutting until you have greater conviction that it's the right thing to do rather than offering an erratic path that really makes it look like the Fed has no clue what to do or any confidence in what it is delivering. Markets need confidence Mr. Bostic.

Canadian FinMin Freeland's Budget Date Was Deliberately Set to be After the BoC's April Forecast Meeting

Make no mistake about it, Ottawa's choice of April 16th for the Federal Budget to be released was deliberate in that it will fall nearly a week after the Bank of Canada's policy decision and full set of forecasts on April 10th. That's added reason for the BoC's April meeting to be a non-event since they'll very likely have a desire to wait until they see the contents of the Budget and won't be able to formally incorporate its effects until the next forecast round in July. It's also likely providing confirmation that this will be a Budget that is focused upon heavy additional spending across drugs, housing, cost of living pressures etc. Why release right before Macklem and Co have to update forecasts and when he would be asked about the Budget's implications during the press conference? Sparks would fly in Ottawa at that sequence of events and this way the FinMin holds the upper hand in being able to criticize the BoC while telling it what to do again, instead of Macklem crafting monetary policy with a fuller understanding of what the free spenders are doing. He'll have to do that after the Budget and probably only by the July MPR meeting. Big spending on pharmacare, housing, cost of living issues etc is very likely while provinces add even more to this fiscal largesse. That cost will be to dash the dreams of anyone hoping for rate cuts any time soon.

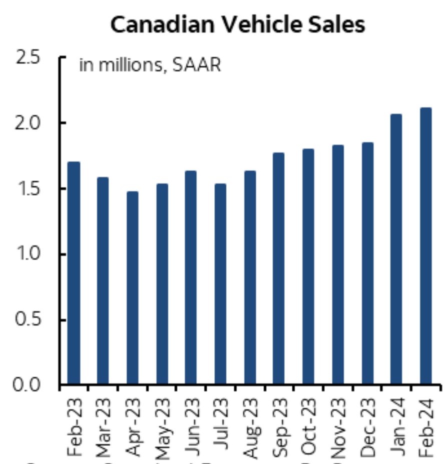
Canadian Home Sales Taking a (Probably) Temporary Breather

Toronto and Vancouver are reporting lower existing home sales in February over January on a seasonally adjusted basis. In Toronto, sales fell by 12% m/m SA in February following gains of 19% and about 13% in December and January respectively. Toronto's new listings were flat in m/m SA terms in February. The market took a breather but the data is volatile and the real test lies ahead into the April through June period that marks the Spring housing market. Canada will also update S&P PMIs for February (9:30amET) that are little watched by market participants.

Canadian Auto Sales Keep Soaring

While the trend in home sales is robust albeit volatile, the second biggest purchase most households will ever make continues to be on fire. This continues to indicate that rumours of the death of the Canadian consumer have been greatly exaggerated. Chart 5 shows that February's auto sales posted a further gain even after January's large jump. February's 2.11 million auto sales at a seasonally adjusted and annualized rate were the highest for any month since January 2018. Rumour has it that when you arrive in a new country you need some mode of transportation and often times in this country that means a vehicle. Rumour has it that when you get a job (480k of them since the end of 2022) you often need a vehicle to get to said job and have the income to pay for it. Rumour has it that soaring wages give people more income to afford said vehicles. Rumour has it that when the average age of a vehicle on the roads is about a dozen years they get a bit shaky especially since, being an average, many are much older than that. There is a lot of pent-up demand out there..

Chart 5



Sources: Scotiabank Economics, DesRosiers Automotive Consultants Inc.

Canada's Pharmacare Will Likely Prove to be Costlier than Advertised

Canada believes in fairy tales. You see, we're asked to believe that a national pharmacare program wouldn't impose any net cost over and above the existing system of provincial plans and private insurers. Believing in that outcome goes against my training as an economist taught not to trust bloated government monopolies.

The PBO (**here**) had estimated last October that Pharmacare would cost the Fed's $33–38 billion per year as it is fully phased in over FY24–25 to FY27–28. They argued it would largely just replace existing spending by provinces and so incremental outlay by all governments would be only $11–13B higher per year over the projection period. They then deduct the existing private insurers' spending that would be replaced by the public plan and arrive at no net incremental impact to spending on drugs on Canada. Presto, it's magic, a national drug care program suddenly costs nothing! How convenient. Socialism never cost so little.

There are big caveats to their analysis:

1. First, it was assumed there would be a co-payment model but the deal that was just struck last week seems not to feature a co-pay. The purpose of a co-pay is to help ration demand at the point of the user by imposing a relatively small share of the cost on individuals with the rest covered by the plan. It mitigates abuse and waste. Ergo, take-up is likely to be larger than they assumed. Now obviously when it comes to truly essential drugs for things like cancer treatment or diabetes there isn't a choice, but what about other drugs? For instance, hasn't it been understood for many years that wildly excessive prescriptions are doled out for many other medications, like antibiotics, the result of which has been to lessen their effectiveness within the population over time? The lack of a co-pay will make that worse and they could have at least tiered the program. I can see the lack of a co-pay having the effect of inflating many of the other costs for drugs and devices that this deal appears to cover.

2. Also, the scope of the plan seems larger than initially costed and even covers things that private plans often do not. That too would add to the cost. The feds also indicated they intend to further broaden coverage toward more drugs and devices over time. Also not covered in the costing. The Feds themselves say they don't know the ultimate cost of the program as it will depend upon negotiations with provinces and territories and presumably drug companies themselves. That's comforting. Just make it up as you go.

3. Some have noted that the costing assumption that drug prices in Canada will immediately fall with a single-payer system of negotiation are unrealistic. They argue this is unlikely to happen and it's uncertain how this factor will evolve over time. At a minimum, if this assumption of an immediate decline in drug prices proves to be invalid, then the costs in the early years are likely understated.

My bias is that concentrating purchases in the hands of one single-payer monopoly buyer is not a clearly superior outcome from a price, cost, choice and quality standpoint. Monopolies can become rather inefficient and folks selling into said monopolies can engage in regulatory capture that drives inefficient outcomes. The Feds are going to be dictating what drugs you can have, and over time I don't trust that Canadians will have the same choices.

Just ask folks subject to liquor monopolies that are run by self-serving bureaucrats who enjoy many benefits in their positions and drive a system that over charges and reduces selection. Aren't we trying to get away from those? I recall reading years ago about the experience of an Australian winery that had to wine and dine (literally…) provincial liquor control board officials for years in order to get listed in that province. Ring ring, hello, you've reached the Drug Control Board of Canada.

Just wait until they decide to go on strike too, not that public sector workers hold systems hostage by walking off the job or anything totally crazy like that…

In a bigger picture sense, I'm deeply worried about public policy in my country. Productivity is in a tailspin. A greater share of GDP is spent on here-today-gone-tomorrow current spending by governments and households than in decades. Tax policy is uncompetitive. Business bashing has become commonplace by people who've never spent two seconds working in private industry. Competition policy changes face serious criticisms (eg **here**). Changes to labour laws have benefited unions while collective bargaining exercises are driving wage growth to the moon despite collapsing productivity. Major sectors of the economy are literally being taken over by government with recent examples being child care, dental care, and now pharmacare. Do we get better quality outcomes in state-run health and education sectors? Tried visiting an ER lately? 'nough said.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	4.58	4.60	4.69	4.18	4.20	4.31	4.18	4.21	4.30	4.32	4.35	4.43
CANADA	4.09	4.12	4.23	3.49	3.52	3.63	3.41	3.45	3.55	3.30	3.34	3.41
GERMANY	2.89	2.90	2.93	2.40	2.42	2.47	2.37	2.39	2.46	2.52	2.54	2.61
JAPAN	0.18	0.18	0.17	0.36	0.37	0.35	0.71	0.72	0.69	1.77	1.76	1.70
U.K.	4.31	4.32	4.35	4.01	4.05	4.08	4.05	4.12	4.20	4.48	4.54	4.66
	Spreads vs. U.S. (bps):											
CANADA	-49	-48	-47	-69	-68	-68	-77	-76	-75	-102	-102	-102
GERMANY	-169	-170	-177	-178	-178	-184	-182	-182	-184	-180	-181	-182
JAPAN	-440	-442	-452	-381	-383	-396	-348	-350	-361	-256	-259	-273
U.K.	-27	-29	-35	-17	-15	-23	-13	-10	-11	16	19	23

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	21531	-21.3	-0.1	1.0	3.2	4.6
Dow 30	38990	-97.5	-0.2	-0.2	1.6	16.8
S&P 500	5131	-6.1	-0.1	1.2	3.8	26.8
Nasdaq	16208	-67.4	-0.4	1.4	3.9	38.7
DAX	17717	0.7	0.0	0.9	4.8	13.7
FTSE	7640	-0.8	-0.0	-0.6	0.4	-3.9
Nikkei	40098	-11.6	-0.0	2.2	10.9	42.0
Hang Seng	16163	-433.3	-2.6	-3.7	0.2	-21.6
CAC	7958	1.6	0.0	0.1	4.8	8.3
Commodities	Level		% change:			
WTI Crude	78.02	-0.72	-0.9	-1.1	7.2	-2.1
Natural Gas	1.90	-0.02	-1.1	17.3	-9.0	-37.0
Gold	2123.11	8.64	0.4	4.6	4.8	14.4
Silver	23.10	0.38	1.7	2.6	-0.6	9.5
CRB Index	277.29	0.18	0.1	1.3	3.4	0.8
Currencies	Level		% change:			
USDCAD	1.3596	0.0022	0.2	0.5	0.4	-0.1
EURUSD	1.0846	-0.0010	-0.1	0.0	1.0	1.5
USDJPY	150.42	-0.1100	-0.1	-0.1	1.2	10.7
AUDUSD	0.6489	-0.0021	-0.3	-0.8	0.1	-3.6
GBPUSD	1.2676	-0.0016	-0.1	-0.1	1.1	5.4
USDCHF	0.8865	0.0016	0.2	0.9	1.8	-4.7

Central Banks	Current Rate
Canada - BoC	**5.00**
US - Fed	**5.50**
England - BoE	**5.25**
Euro zone - ECB	**4.50**
Japan - BoJ	**-0.10**
Mexico - Banxico	**11.25**
Australia - RBA	**4.35**
New Zealand - RBNZ	**5.50**

Central Banks	Next Meeting Date
Canada - BoC	**Mar 06, 2024**
US - Fed	**Mar 20, 2024**
England - BoE	**Mar 21, 2024**
Euro zone - ECB	**Mar 07, 2024**
Japan - BoJ	**Mar 19, 2024**
Mexico - Banxico	**Mar 21, 2024**
Australia - RBA	**Mar 18, 2024**
New Zealand - RBNZ	**Apr 09, 2024**

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