

DAILY POINTS

March 22, 2024 @ 9:25 EST

Contributors

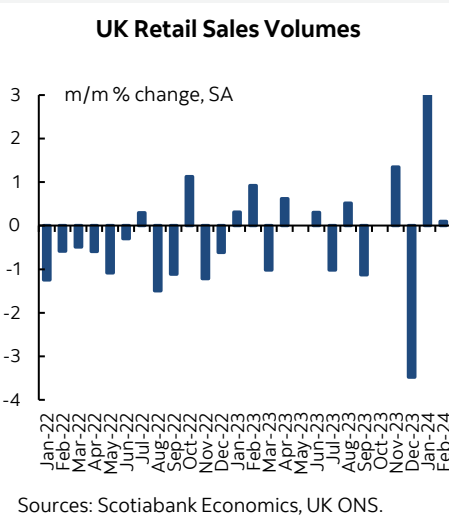
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Chart 1



Chart 2



On Deck for Friday, March 22

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	03-22	08:30	Retail Sales (m/m)	Jan	-0.4	-0.4	-0.3
CA	03-22	08:30	Retail Sales ex. Autos (m/m)	Jan	--	-0.4	0.5
US	03-22	09:00	Fed Listens Event, Opening Remarks from Powell				
US	03-22	12:15	Fed's Barr Speaks on International Economic & Monetary Design				
US	03-22	16:00	Fed's Bostic Participates in Moderated Conversation				

KEY POINTS:

- **Bonds ending the week in rally mode**
- **Canadian retail sales were resilient**
- **UK retail sales post a slight beat along a weak trend**
- **Canada's 15% projected cut to temporary resident immigration...**
- **...will still result in excessive immigration flows to Canada...**
- **...that will stimulate demand and inflation risk with little to no wage effect**
- **Japanese core inflation continues to ebb**
- **BanRep to cut today**

The week is ending with bonds rallying but this time alongside more mixed evidence across equities. There are only light fresh developments to consider in terms of data and central banks.

Japanese Disinflation

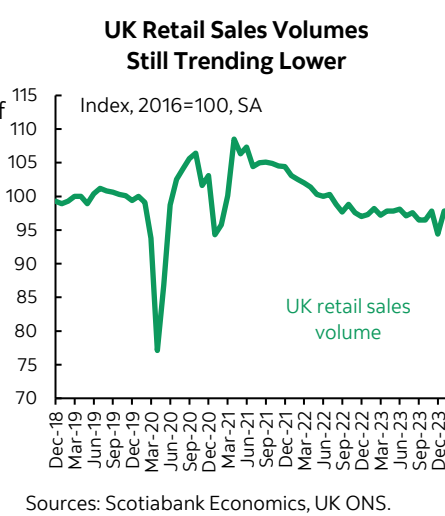
Japan's national CPI print merely confirmed evidence from the previously released Tokyo gauge earlier this month. National core CPI ex-food and energy was up by just 0.1% m/m SA in February, matching the Tokyo estimate. That was the softest reading since April 2022 as clearly Japanese core inflationary pressures have ebbed (chart 1). This approach omits food and energy as beyond the influence of the central bank and per convention elsewhere, and also evaluates evidence at the margin instead of using base-effect driven year-over-year estimates. The chart clearly shows that core inflation is moving well past its peak such that sustainably hitting the BoJ's 2% target will strongly rely upon a broadening of more durable wage pressures transmitting into the core basket.

Mild European Data

UK retail sales volumes were a little better than expected. February's flat print (-0.4% m/m consensus) was accompanied by a slight upward revision to the prior month (3.6% m/m instead of 3.4%). Ex-fuel sales were up 0.2% m/m (-0.1% consensus) and with the prior revised up two-tenths to 3.4%. Still, the oscillating pattern of gains and losses leaves the trend in UK retail sales volumes quite flat and for an extended period of time (charts 2, 3).

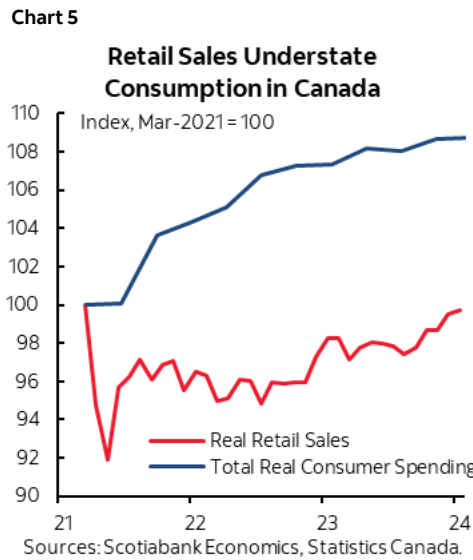
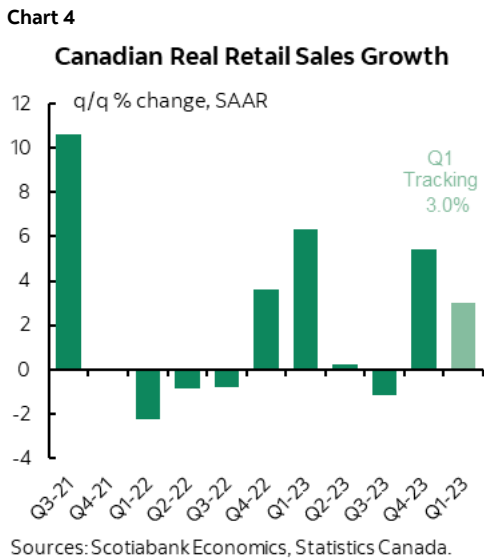
German business confidence picked up in March's IFO readings. Expectations jumped by 3.1 points for the second consecutive improvement and to the highest reading since last May. That reinforces the gains in German PMIs and the ZEW measure of investor expectations as soft data strengthened this month.

Chart 3



Canadian Consumers Remain Resilient

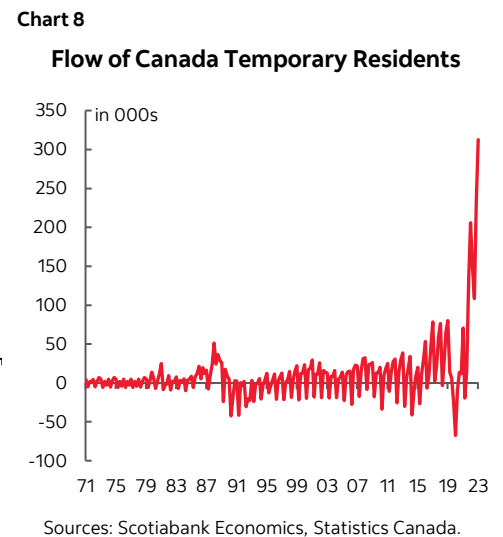
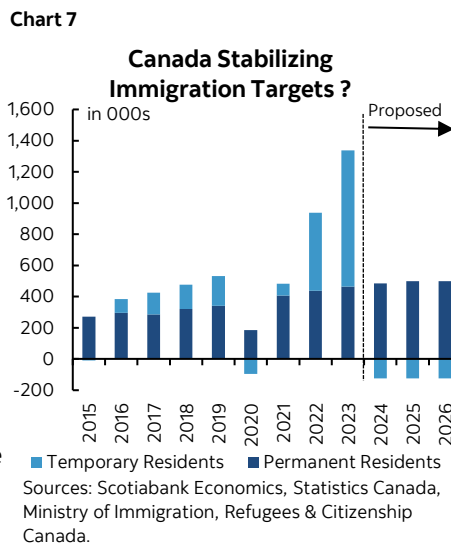
Canadian retail sales were ok. In value terms, they were down by -0.3% m/m SA in January versus Statcan's earlier flash guidance of -0.4% , but that was all due to lower prices as volumes were up by 0.2% m/m SA. Tentative guidance for February points to a mild 0.1% m/m SA gain in the value of retail sales which probably implies little change in volumes. Chart 4 shows tracking for the quarter that is probably up by around 3% q/q SAAR after a prior quarter gain of over 5% . Folks wrote off the Canadian consumer prematurely especially after considering that in Canada, retail sales do not include any services that are instead included in total consumer spending (chart 5). Chart 6 shows what drove the m/m change in the volume of sales in January as several sectors drove the gain. Some say take out sales of gasoline and gas station merchandise volumes which makes no sense to me. It's a mobility gauge that indicates folks are driving around, probably consuming lots of services too. Or how about removing vehicles and parts that according to Statcan was led by a big drop in sales at new vehicle dealers which defies what the industry reports to have been a large gain in new vehicle sales ([here](#)). #can'tcherrypick.



BanRep is expected to cut 50bps today (2pmET).

CANADA'S IMMIGRATION POLICY REMAINS EXCESSIVE

As an aside, chart 7 shows the targeted path for Canadian immigration over the next three years including the effects of yesterday's announcements. The plan is to reduce temps from 2.5 million or 6.2% of the population now, to 5% of the population in three years. Because the population will be larger in three years, 5% at that point would imply a net reduction of about 375k in the temps category over this period. That's about a 15% reduction from the dizzying heights that were registered in 2023 when the flow of temps to Canada soared (chart 8). On an annualized quarterly basis, this planned reduction will only take us back to where the temp level was around the middle of last year which isn't much of a rollback!



If they succeed in bringing temps down while leaving the permanent resident targets unchanged, then immigration will drive a 1.11 million increase in Canada's population over the next three years through netting out the plans for the two categories. That's still too much in my

opinion. Canada is still struggling to accommodate the massive surge of the past couple of years and will continue to struggle for a while yet, only to continue to face further large increases in immigration over the medium-term. In my view, that will remain a source of demand stimulus to the Canadian economy and continue to pressure inflation risk, thereby complicating the BoC's efforts.

I've long argued that the immigration targets are too high relative to the ability of the economy to absorb this many and continue to believe as much in the wake of yesterday's announcement. That could turn out to be especially true if Ottawa's first move into announcing targets for temps turns out to be a bust if they can't reach agreement on targets and credible enforcement with the provinces when negotiations kick off over coming months. I'm sure educational institutions will be pressuring provinces against curtailing the temps category since they get the benefits of much higher tuition from international students than domestic students while bearing little to no responsibility for their housing and other needs. Of course, that's speaking only of the credible educational institutions, not the strip mall pop-ups that have been abusing the system.

As for the opposite narrative that immigration dampens inflation risk by expanding the labour supply pool and curtailing wage growth, let's just say I'm no fan of the Donald Trump school of economics. When he said that into his first term, none other than the Cato Institute—typically a supporter—put out [this](#) survey of the US literature on the immigrant wage elasticity effect that concluded, well, that there wasn't any! That's likely also the case in Canada since a lot of the type of immigration in temps including international students, asylum seekers and temporary foreign workers is not much a substitute for existing workers. This is also something for US shops to bear in mind given I've heard some of them saying that surging immigration into the US will clearly dampen wage growth; that view defies the literature and ignores the composition of recent immigration.

Fixed Income	Government Yield Curves (%):												Central Banks		
	2-YEAR			5-YEAR			10-YEAR			30-YEAR			Current Rate		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk			
U.S.	4.59	4.64	4.73	4.19	4.25	4.33	4.20	4.27	4.31	4.37	4.44	4.43	Canada - BoC	5.00	
CANADA	4.11	4.16	4.25	3.49	3.55	3.62	3.44	3.51	3.54	3.36	3.43	3.41	US - Fed	5.50	
GERMANY	2.82	2.88	2.95	2.33	2.41	2.47	2.32	2.41	2.44	2.49	2.58	2.58	England - BoE	5.25	
JAPAN	0.20	0.19	0.19	0.39	0.38	0.38	0.74	0.74	0.79	1.81	1.81	1.85	Euro zone - ECB	4.50	
U.K.	4.10	4.18	4.33	3.80	3.88	4.02	3.91	4.00	4.10	4.43	4.49	4.53	Japan - BoJ	-0.10	
	Spreads vs. U.S. (bps):														
CANADA	-48	-47	-48	-71	-70	-71	-76	-75	-76	-101	-101	-102	Mexico - Banxico	11.00	
GERMANY	-177	-176	-178	-186	-185	-186	-188	-186	-187	-188	-186	-185	Australia - RBA	4.35	
JAPAN	-439	-445	-454	-380	-387	-395	-346	-353	-352	-256	-263	-258	New Zealand - RBNZ	5.50	
U.K.	-49	-46	-40	-39	-38	-31	-29	-27	-21	5	6	10			
Equities	Level			Level			% change:			% change:			Next Meeting Date		
	Last	Change		1 Day	1-wk	1-mo	1-yr								
S&P/TSX	22087	41.5		0.2	1.2	3.6	13.1						Canada - BoC	Apr 10, 2024	
Dow 30	39781	269.2		0.7	2.3	1.8	24.2						US - Fed	May 01, 2024	
S&P 500	5242	16.9		0.3	1.8	3.0	33.1						England - BoE	May 09, 2024	
Nasdaq	16402	32.4		0.2	1.7	2.2	40.5						Euro zone - ECB	Apr 11, 2024	
DAX	18211	32.0		0.2	1.5	4.8	19.7						Japan - BoJ	'A Field Not Applica	
FTSE	7925	42.5		0.5	2.6	3.1	4.7								
Nikkei	40888	72.8		0.2	5.4	4.6	49.3								
Hang Seng	16499	-363.6		-2.2	-1.3	-1.4	-17.2								
CAC	8157	-22.9		-0.3	-0.1	3.1	14.4								
Commodities	Level			Level			% change:			% change:					
	Last	Change		1 Day	1-wk	1-mo	1-yr								
WTI Crude	81.21	0.14		0.2	0.2	3.3	14.5						Mexico - Banxico	May 09, 2024	
Natural Gas	1.67	-0.02		-1.0	0.7	-3.8	-23.2						Australia - RBA	May 07, 2024	
Gold	2174.89	-6.44		-0.3	0.9	7.4	10.4						England - BoE	May 09, 2024	
Silver	25.43	0.58		2.3	1.8	10.2	13.2						Euro zone - ECB	Apr 11, 2024	
CRB Index	286.56	1.04		0.4	0.7	4.5	10.8						Japan - BoJ	'A Field Not Applica	
Currencies	Level			Level			% change:			% change:					
	Last	Change		1 Day	1-wk	1-mo	1-yr								
USDCAD	1.3569	0.0038		0.3	0.2	0.6	-1.2						Mexico - Banxico	May 09, 2024	
EURUSD	1.0826	-0.0034		-0.3	-0.6	0.0	-0.3						Australia - RBA	May 07, 2024	
USDJPY	151.17	-0.4500		-0.3	1.4	0.4	15.0						England - BoE	May 09, 2024	
AUDUSD	0.6525	-0.0045		-0.7	-0.5	-0.5	-2.4						Euro zone - ECB	Apr 11, 2024	
GBPUSD	1.2616	-0.0042		-0.3	-0.9	-0.3	2.8						Japan - BoJ	'A Field Not Applica	
USDCHE	0.8983	0.0008		0.1	1.6	2.1	-2.1						New Zealand - RBNZ	Apr 09, 2024	

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