

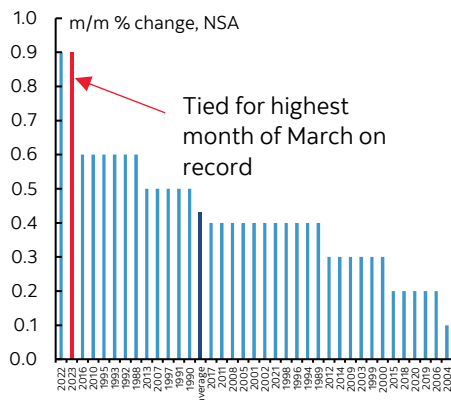
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Chart 1

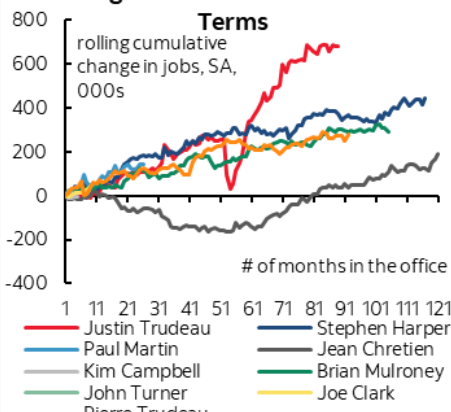
#### Comparing UK Core CPI for All Months of March



Sources: Scotiabank Economics, Bloomberg.

Chart 2

#### Hiring of Public Sector Workers During Canadian Prime Ministers'



Sources: Scotiabank Economics, Haver.

#### On Deck for Wednesday, April 19

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04-19	07:00	MBA Mortgage Applications (w/w)	Apr 14	--	--	5.3
CA	04-19	08:15	Housing Starts (000s a.r.)	Mar	260	237.5	244.0
CA	04-19	08:30	IPPI (m/m)	Mar	--	-0.3	-0.8
CA	04-19	08:30	Raw Materials Price Index (m/m)	Mar	--	-0.8	-0.4
US	04-19	14:00	Federal Reserve Releases Beige Book				
US	04-19	17:30	Fed's Goolsbee Interviewed on Marketplace				
US	04-19	19:00	Fed's Williams Speaks in New York				

#### KEY POINTS:

- **UK inflation roils global markets**
- **UK core CPI posts hottest back-to-back gains on record...**
- **...lighting up BoE pricing and adding to sentiment after jobs and wages**
- **US bank earnings beats continue, giving the further all-clear for hikes**
- **Gauging Canada's strike effects**

Fear of central bank hikes is denting risk appetite this morning. Risk-off sentiment picked up steam when European market participants came in and stared at another upside surprise to UK inflation that lit up BoE bets. S&P futures were softening before that point but picked up the pace as soon as the data hit. The same holds true for European stocks as the FTSE fell right at the 2amET mark when CPI was released. Overall, we have N.A. futures down by either side of ½% across benchmarks and most European benchmarks are down by up to ¼%. Sovereign yields are pushing higher everywhere—led by gilts, but also spilling over into US Treasuries with 2s cheaper by about 6bps and Canada 2s are outperforming but generally going along for the ride. Fed funds futures added a little more to June meeting expectations after UK CPI. The USD is broadly stronger, although sterling is slightly outperforming other crosses.

UK inflation beat expectations and that is driving the yield on UK 2s up 13bps in a bear flattener move that has markets pricing in more than a quarter point hike for the May 11<sup>th</sup> meeting and a terminal rate that is 16bps higher and toward 5% from 4.25% now. At 0.9% m/m NSA, core CPI was tied with March 2022 for the hottest m/m reading since at least 1988 and hence it was firmer than is seasonally normal (chart 1). This follows the hottest gain for a month of February on record. It also arrives in the wake of the previous day's strong jobs and wages in setting what is very likely to be a hawkish tone at the BoE.

Morgan Stanley beat estimates for earnings and revenues and thus continued the general pattern of stronger than expected Q1 bank results. Tesla reports in today's after-market and the Fed updates the Beige Book at 2pmET.

I doubt we'll hear anything new from Governor Macklem's second round of parliamentary committee testimony with another opening statement due at 11:30amET. Otherwise, Canada will focus on gauging the effects of the federal strike that was called overnight, plus housing starts that disappointed for the month of March; they landed at about 214k, down from 241k as both singles and multiples fell.

A portion of Canada's Federal government workers have launched a general strike commencing today as talks failed to reach an agreement by last night's 9pmET deadline. Gauging the effects could become important.

Unlike the US that has rather perfected them I'd say, government shutdowns of any sort are pretty rare in Canada. This partial one could risk being the biggest, longest, most disruptive and politically dicey one. 1991 and 2004 and Ontario's Days of Action over the 1996–98 period are the closest but still very different parallels.

April 19, 2023

Just under half of the Federal civil service is affected and after excluding essential services that means about one-third of all Federal government workers will walk off the job today. Difficulty monitoring employees in a virtual work-from-home setting may result in some cheating against the union, but then again who knows how many others may work to rule in sympathy toward their PSAC brothers and sisters.

What could be the impact on GDP? That depends critically upon how long the strike lasts and so we need to be very careful not to reach overly hasty conclusions just yet while nevertheless putting market participants on watch for a few things. A crude back-of-the-envelope approach could say that for every day that one-third of the Federal workforce remains off the job and assuming that the effect on Federal government spending is proportionate, the hit to government spending would be about \$200 million based on GDP accounts. A one-month strike, for example, would therefore reduce quarterly NGDP by 0.2 ppts that when annualized is a growth hit of around 0.8% q/q SAAR. Then add multiplier effects as other levels of government, households and businesses would be affected and it's not inconceivable that the ceiling to the hit is toward 1% of NGDP. In reality, spending is very unlikely to be proportionate to each and every job in the civil service and in the case of the workers behind this strike the impact is likely well under this ceiling.

Still, the BoC projects Q2 GDP growth at just 1.0% q/q SAAR and so if they are right in terms of the baseline expectation then a strike like this could matter more than if the baseline forecast continued to expect strong growth. The risk of a Q2 contraction cannot be dismissed. The BoC would nevertheless be very likely to look through the effects as an intertemporal shock with activity punted to the next period, although it could cloud the data.

The BoC may instead have a keener eye on any wage agreement and potential spillover effects that could carry longer-lasting effects than the temporary effects on growth as argued in the Global Week Ahead. A very tight labour market risks seeing public sector wage gains being copied in other parts of the public and private sectors and flowing through toward higher-for-longer core inflation. If so, then this could be a part of the narrative that the BoC may not be done hiking due to idiosyncratic Canadian risks. That one-third of air travel in Canada may also be disrupted should WestJet pilots go on strike next month adds to the feeling that strike risk is very much in the air this Spring.

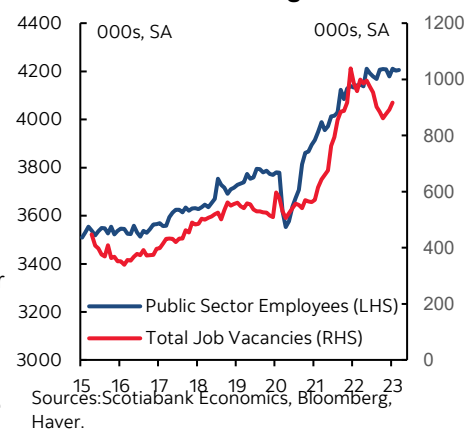
There will also be effects on other considerations of importance to markets such as government data releases. From what I understand the releases themselves will still be available, but advance, embargoed media lockups will be cancelled which probably hurts the media outlets that benefit from them more than markets in my opinion. Further it's not inconceivable that Statcan's common website problems at the best of times may be further disrupted and so there could be delays.

I'm not optimistic that this walkout could be short lived, but it's not impossible assuming that the government's chequebook hasn't run out of cheques! The NDP's Singh knows his base—hence his public opposition to back-to-work laws that have been used in the past. Maybe the Liberals pair with the Conservatives on such legislation (although they are quiet on the issue...), but then the trilemma is that the Libs could lose Singh's support in a confidence motion and perhaps that sails through. Voters may not be too receptive toward cutting juicy deals with a public service that has grown faster under PM Trudeau than any other PM since at least the inception of the Labour Force survey in the 1970s and it's not even close. As a reminder see chart 2. Also see chart 3 that vividly depicts how soaring job vacancies that are overwhelmingly in the private sector occurred simultaneously to heavy government hiring that crowded out private employers and induced such worker shortages. This started well before the pandemic that amplified the trend. The public sector has been competing against private business for workers for years now and with that has gone foregone output and wealth creation.

Election risk is therefore not assured but it could be hanging in the air. In that scenario, in exchange for possibly having to pay more to Federal workers, voters may seek offsets like a hiring freeze, allowing attrition to reduce the size of the workforce and perhaps more aggressive reductions to what was shown in chart 2. The better ones would be snapped up by private businesses that are starved for workers.

Chart 3

### Government Hiring Drives Private Sector Labour Shortage in Canada



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.	4.25	4.20	3.96	3.74	3.68	3.46	3.63	3.58	3.39	3.82	3.79	3.63	Canada - BoC	4.50	
CANADA	3.89	3.86	3.67	3.27	3.23	3.04	3.09	3.06	2.88	3.15	3.14	2.99	US - Fed	5.00	
GERMANY	2.96	2.91	2.80	2.56	2.52	2.40	2.51	2.48	2.37	2.55	2.53	2.45	England - BoE	4.25	
JAPAN	-0.04	-0.04	-0.05	0.17	0.17	0.16	0.48	0.48	0.47	1.33	1.34	1.33	Euro zone - ECB	3.50	
U.K.	3.81	3.69	3.52	3.71	3.59	3.41	3.86	3.75	3.57	4.19	4.10	3.90	Japan - BoJ	-0.10	
	Spreads vs. U.S. (bps):														
CANADA	-36	-34	-30	-47	-45	-43	-54	-52	-51	-68	-65	-64	Mexico - Banxico	11.25	
GERMANY	-129	-129	-116	-118	-116	-107	-112	-110	-102	-128	-126	-118	Australia - RBA	3.60	
JAPAN	-430	-424	-401	-356	-351	-330	-314	-310	-292	-249	-245	-230	New Zealand - RBNZ	5.25	
U.K.	-44	-51	-44	-3	-9	-6	23	17	18	37	31	27			
Equities	Level						% change:						Next Meeting Date		
	Last	Change		1 Day	1-wk	1-mo	1-yr								
S&P/TSX	20685	42.7		0.2	1.1	6.7	-6.1							Canada - BoC	Jun 07, 2023
Dow 30	33977	-10.6		-0.0	0.9	6.6	-2.7							US - Fed	May 03, 2023
S&P 500	4155	3.6		0.1	1.1	6.1	-6.9							England - BoE	May 11, 2023
Nasdaq	12153	-4.3		-0.0	1.0	4.5	-10.8							Euro zone - ECB	May 04, 2023
DAX	15852	-31.1		-0.2	0.9	7.3	12.0							Japan - BoJ	Apr 28, 2023
FTSE	7893	-16.3		-0.2	0.9	7.6	3.8								
Nikkei	28607	-52.1		-0.2	1.9	6.2	5.1							Canada - BoC	Jun 07, 2023
Hang Seng	20368	-282.8		-1.4	0.3	7.2	-2.8							US - Fed	May 03, 2023
CAC	7530	-3.6		-0.0	1.8	8.7	15.2							England - BoE	May 11, 2023
Commodities	Level						% change:								
	Last	Change		1 Day	1-wk	1-mo	1-yr								
WTI Crude	79.10	-1.76		-2.2	-5.0	18.5	-22.9							England - BoE	May 11, 2023
Natural Gas	2.29	-0.07		-3.0	9.6	-1.9	-68.0							Euro zone - ECB	May 04, 2023
Gold	1976.63	-28.82		-1.4	-1.9	-0.6	1.4							Japan - BoJ	Apr 28, 2023
Silver	25.09	-0.30		-1.2	0.1	14.6	-2.2								
CRB Index	278.93	2.12		0.8	1.2	9.5	-9.1							Mexico - Banxico	May 18, 2023
Currencies	Level						% change:								
	Last	Change		1 Day	1-wk	1-mo	1-yr								
USDCAD	1.3436	0.0046		0.3	-0.0	-1.7	6.5							Australia - RBA	May 02, 2023
EURUSD	1.0943	-0.0029		-0.3	-0.4	2.1	1.4							New Zealand - RBNZ	May 23, 2023
USDJPY	134.54	0.4200		0.3	1.1	2.5	4.4								
AUDUSD	0.6718	-0.0007		-0.1	0.4	0.0	-8.9								
GBPUSD	1.2423	-0.0002		-0.0	-0.5	1.2	-4.4								
USDCHF	0.8985	0.0022		0.2	0.3	-3.3	-5.6								

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