Focus

Feature Article

Fiscal Outlook: The Fire Next Time

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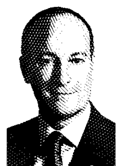
Nord-Storm



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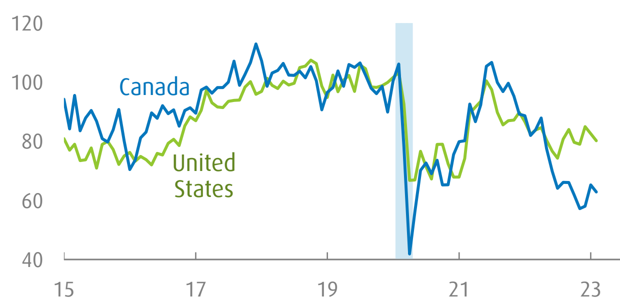
And on the ninth meeting, the Bank rested. Following a year-long blast, which saw interest rates hiked in eight consecutive meetings by a cumulative 425 basis points, **markets fully expect the Bank of Canada to hold steady at next week's decision**. While this Governing Council has shown little concern about crossing markets in the past, it's not going to dump its conditional pause before the first gate. It's true that the global economy has had a strong run of data since the decision to go on pause, but Canada's domestic story has been a bit more two-sided. Market pricing still leans towards the possibility of additional hiking, but no longer has another full rate increase built in for later this year. And our view remains that overnight rates will stay on hold through the rest of 2023—albeit with the risk to the upside.

Within a few weeks of publicly announcing a move to the sidelines, the Bank was promptly greeted with one of the hottest employment reports on record, followed by a series of surprisingly strong retail, wholesale and manufacturing sales reports for January. Coming on top of rollicking U.S. results for the same month, and it suddenly looked like the Bank had been woefully premature in pausing. However, January can often be a wonky month for economic data, since it is so heavily adjusted for seasonality, and especially when the season itself is wonky (i.e., an extraordinarily warm month). We always said: "Wait for February". The Bank won't have the benefit of either of the North American jobs reports for next week's meeting, but **the real decisions will be made in the following meetings** in any event.

Chart 1
Woe Canada?



Shading marks U.S. recession
Sources: Haver Analytics, The Conference Board

The cause for pause has found some support in more recent developments. First, in contrast to stronger-than-expected **inflation** readings in the U.S. and Europe to start the year, Canada's CPI was milder than expected. Some core measures have even seen the three-month trend approach 3%. Next, the Q4 GDP report was staggeringly below expectations at flat—whereas the Bank was expecting 1.3% annualized growth, and consensus was even higher (no doubt swayed by StatCan's flash estimate of 1.6%). True, the preliminary estimate for January pointed to a 0.3% rise in monthly GDP, but that followed a 0.1% dip in December, and was probably weather-aided. Finally, there are growing signs that the consumer may be struggling under the weight of past rate hikes.

One of the rare parts of the Canadian economy that remained relatively firm late last year was the consumer. Even as headline growth was flat, real **consumption** churned out a decent 2.0% advance in Q4, and was up 4.8% after inflation for all of last year (following a 5.1% snapback in 2021). A massive increase in government transfer payments in Q4 provided support for disposable income, helping boost the savings rate a percentage point to 6.0%. But still-strong inflation and the weight of higher interest rates may now be finally taking its toll. After a bounce at the start of the year, consumer confidence retreated again in February, and is at levels normally reserved for recessionary times (*Chart 1*). Auto sales were up 5% from year-ago levels last month,

but they still marked the second-lowest February in the past 10 years. Consumer insolvencies rose 33% y/y in January (although they're still 20% below Jan/20). And then there was the abrupt announcement that Nordstrom is closing its 13 Canadian stores, with a loss of 2,500 jobs. While this may say more about the particulars of the tough Canadian retail market, rather than the health of the consumer, it nevertheless added to the sense of a chillier economy.

On balance, one can quibble with the wisdom of the Bank being so public about its decision to pause when there are so many deep uncertainties about both the inflation and growth outlook. And, there is the risk that the pause could act as a loud all-clear signal for the **housing market**, even when the risks are definitely not all cleared. The very early readings from the largest cities suggest that home sales picked up in seasonally adjusted terms in February (albeit from very low levels). But the reality is that **a lengthy pause is likely a prudent path at this point, to more fully assess the impact of the massive tightening of the past year**. After all, every economics student knows that it takes 12-18 months for rate hikes to fully affect the economy, and this week marks the one-year anniversary of rate hike #1.

Rare is the week that a **Euro Area** data point stands above all others. But the region's preliminary estimate for February CPI was not what the doctor ordered. Coming in three ticks above expectations, the meaty 0.8% m/m rise left the annual rate at 8.5%, down just one tick from the prior month. Expectations for all economies were that headline inflation rates would fall heavily in the first half of 2023 as the large gains of a year ago dropped out of the calculation. Well, the direction is right, but the descent is proving tedious. More unnerving was that core CPI rose three ticks to 5.6%, matching the U.S. January pace. If the latter dips even a tick in February (data due March 14), this would leave the Euro Area with higher core inflation than stateside for the first time in more than a decade.

The high-side inflation surprise in Europe is an issue for the rest of the world for at least two reasons. First, it may be a signal for others that inflation pressures generally remain stubborn, which may well be reflected in coming February CPI data elsewhere. But it also keeps the flame squarely on the ECB to keep going aggressively—and 50 bp hikes look likely at the next two meetings, at least. In turn, this puts renewed pressure on global yields, which saw the 10-year Treasury drive above 4% this week, while like-dated GoCs moved above 3.4%, up more than 60 bps just since the Bank paused. To paraphrase Trotsky, the Bank may not be interested in moving rates, but moving rates are interesting to the Bank.

Fed Policy: At Sixes and Sevens over 5-Handles

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Fed Chair Powell will appear before the Senate Banking Committee on March 7 and the House Financial Services Committee the next day to **testify on the semi-annual Monetary Policy Report**. The MPR was published today, and it reiterated recent policy messaging.

The two rounds of testimony will be scrutinized for clues to coming policy moves; specifically, whether the FOMC is sticking with its median projection for two more quarter-point rate hikes. That was a projection crafted for December 14; and, in the February 1 presser, Powell stuck to these guns. Heading into these past two meetings,

the enthusiasm for even more tightening was tempered by the flow of decelerating or contracting economic and inflation figures for November and December.

However, during the soon-to-be five weeks since we last heard from the Fed head, **the economic and inflation data for January have taken on a strong tone**. For example:

- Nominal retail sales dropped a pair of 1.1%s and then rebounded 3.0%, with real PCE dropping a pair of 0.3%s and then rebounding 1.1%.
- Industrial production decreased a combined 1.6% and then inched up only 0.1%. But January's result was depressed by the largest drop in utilities output in 84 years of data (-9.9%) owing to the month's extremely mild weather (it alone lopped 0.9 ppts from total output).
- Even still-too-strong payroll growth posted the smallest two-month result in almost two years (275k average) and then popped 517k.
- Before new seasonal factors, the core CPI originally increased 0.2% in November and 0.3% in December for the slowest three-month change in 15 months at 3.1% annualized. But then, the monthly moves were both bumped by a tenth and January's came in at 0.4%, pumping the three-month trend to 4.6% annualized.
- The core PCE price index originally increased 0.2% and 0.3% respectively, for the slowest three-month change in 23 months at 2.9% annualized. December was revised up by a tenth and January came in at 0.6%, boosting the three-month trend to 4.7% annualized.

Wonky turn-of-the-year **seasonal adjustments could be an issue here**, exaggerated by January's extremely mild weather. But, it's important how Chair Powell and his policy-making colleagues are interpreting these patterns. This week, most of the Fed speakers were sticking to the 'more rate hikes are needed' and 'the data will dictate how many' scripts. But a few mused that required rate hikes could be more than they originally thought, including Governor Waller and (voter) Minneapolis President Kashkari. Next week, it's Chair Powell's turn to pipe in. We suspect he'll mention that although recent data have been volatile, the latest readings still highlight the upside risks to inflation and Fed tightening. And we'll be waiting to see how February and March data unfold to determine whether these upside risks are being realized.

Enter **February's employment report**. We look for a 220k increase in payrolls, a result with mixed policy implications. This would be the smallest increase in 26 months that reasserts, encouragingly, the slowing growth pattern. But, coming off a 500k-plus print (and given that 200k-plus results still portray a persistent imbalance between labour demand and supply), this points, discouragingly, to stubborn wage pressures. Against the background of January's high-side inflation surprises, this could get still more FOMC participants musing about tightening more aggressively than their December projections.

The (OIS) market currently has the fed funds target range rising to 5.25%-to-5.50% this summer with 41% odds it could peak a quarter-point higher by September. Our forecast is still for a 5.00%-to-5.25% range by May 3rd, ending the year at that level (in line with the FOMC's median projection). However, the mix of a still-too-tight labour market and a rash of eyebrow-raising core inflation readings for January is causing our conviction

to waver. Short of a low-100k-ranged gain (or less) for February payrolls, the wavering is unlikely to steady. A high-200k-ranged gain (or more) could see us tacking another quarter-point on our call. And, between these bookends, the wavering would continue with an eye to February's CPI report on March 14. The next FOMC meeting is March 21-22.

Key Inflation Driver Still Motoring

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The Fed received more bad news on the inflation front this week with the latest revisions to productivity and unit labour cost data. In the nonfarm business sector, **productivity** growth was carved in half to 1.7% annualized in Q4, which marked a small improvement from Q3's trimmed gain of 1.2%. For all of 2022, productivity fell 1.7%, matching 1974's record low. But the decline was mostly payback for the big upswing in 2020 when lower-skilled services jobs were slashed during the shutdowns. In fact, productivity growth has averaged 1.6% in the past three years, as per the prior three. Moreover, it has largely returned to the rising trend from before the pandemic. The Fed's main problem is not worker efficiency, but cost.

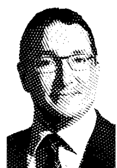
Big upward wage adjustments boosted **unit labour costs** 3.2% (annualized) in Q4 and 6.9% in Q3, both nearly triple the initial estimates. For all of 2022, costs shot up 6.5%, the most since 1982. Moreover, the surge was not simply a payback from earlier wonkiness. Growth averaged 4.1% in the past three years, double that of the previous three. While the Q4 rate has stepped down, it's still above the rate consistent with a 2% inflation target. The Fed has consistently warned of the close link between a tight labour market and services inflation. Look for those warnings to get louder, especially if the next jobs report prints the lowest unemployment rate in seven decades.

At least productivity has turned up in the U.S. Not so in **Canada**, possibly because the country lagged in reopening. Labour **productivity** in the business sector fell 2.0% annualized in Q4, double the prior quarter's slide. This was the ninth setback in ten quarters. As per the U.S., the weakness mostly reflects payback from a huge 8.8% jump in 2020. But the past three-year average of 0.4% is half the pace of the previous three years and just one quarter the trend stateside. Moreover, while productivity has risen just over 4% in the U.S. since late 2019, it's down slightly in Canada.

The poor productivity performance, alongside rapidly rising compensation, lifted **unit labour costs** 4.5% annualized in Q4. That capped a full-year increase of 6.8%, the most in four decades. The past three-year average of 5.2% is more than double the 2.0% pace of the prior three years that was consistent with the inflation target. Canadian unit labour costs have soared 16.8% since the start of the pandemic, versus a 14.5% climb in the U.S. Costs rose a lesser 13.6% in U.S. dollar terms, meaning the lower loonie prevented a loss of competitiveness. But that's not the path to prosperity nor to price stability.

Bottom Line: With companies hoarding workers and hiring unskilled help in one of the tightest job markets in decades, central banks are unlikely to receive a "get out of jail free card" from a near-term surge in productivity. That puts even more onus on tight monetary policy to restore price stability.

BoC Preview: Conditional Question



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The Bank of Canada is widely expected to keep policy rates on hold at 4.50% at the March 8 policy announcement. At the January policy meeting, the BoC hiked rates 25 bps, bringing the cumulative increase in the overnight rate to 425 bps since early 2022, but also announced a *"conditional pause"* in the rate hike campaign. The pause was driven by the belief that we have yet to see the full impact of past hikes. The *"conditional"* aspect of the pause is that if the data (activity and/or inflation) remain firm, policymakers reserve the right to push interest rates higher.

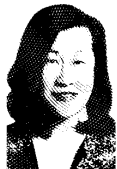
The question that the BoC is left to answer is: **What are the conditions which will prompt a restart of rate hikes?** From an **activity** perspective, the Bank has made it clear that the economy is running with excess demand, contributing to inflation pressure. The January Monetary Policy Report projected that GDP growth would be around flat for Q1 through Q3, narrowing the excess demand. Accordingly, if economic growth outperforms that forecast, there's a clear path for policy rates to resume an upward march. Thus far, flat Q4 GDP growth meaningfully underperformed the BoC's 1.3% forecast, so this avenue for more hikes is closed for now. However, the details of the Q4 GDP report weren't quite as soft, suggesting there could be some residual positive momentum. Indeed, the strength of the January data thus far point to a rebound in Q1 growth. We'll get the February employment figures a couple of days after the BoC announcement, and policymakers will be watching closely for signs of ongoing strength that could fuel wage gains and, in turn, inflation.

Inflation is the other major data point that can push the Bank back into the rate hike lane. The latest inflation data were generally milder, with the yearly rate for every metric decelerating. In addition, the three-month annualized rates of the BoC's preferred core CPIs and more traditional measures slowed. We'll likely see a continued slowdown in the yearly pace of most inflation metrics due to base effects, but that won't be enough to satisfy policymakers. The BoC will be more focused on shorter-term trends (e.g. 3-month annualized rates). And, given the stubbornness in inflation we've seen in other countries, the risks are skewed similarly for Canada.

The latest GDP and inflation prints suggest that the Bank of Canada will maintain its current posture of *"conditional pause"*. The risks remain heavily tilted toward higher inflation, which will keep the BoC's finger on the rate hike trigger through at least mid-year. That could prompt a bit more intense discussion on what *"conditional"* means. However, if you consider that the minutes showed that policymakers considered pausing in January, they could once again take the more dovish route and lean on the lagged effects of tightening already in place.

Key Takeaway: Following January's 25 bp hike, the Bank of Canada stated it is on a *"conditional pause"*. The data in the interim have been largely consistent with a pause at the March meeting. The question heading into the meeting is whether the recent strong January figures and persistently-strong global inflation prints drive a bit more concern that rate hikes might need to be restarted. Given this is a non-MPR meeting, we anticipate that the policy statement will be relatively low-key, noting that the data have been largely in line with its January projections, reinforcing the conditional pause. However, the Bank will also stress that if economic activity rebounds or inflation presses higher again, they will not hesitate to hike rates.

Inflation To Keep the ECB Busy and the BoJ on Alert



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Do central bankers ever say to other central bankers "I told you so!"? I imagine that some members of the **ECB's Governing Council** must be at least thinking it (inside voice!), particularly after this week's shocking acceleration in the **Euro Area's core CPI** to a record-high 5.6% y/y in February, when a slowdown was widely expected. The increase in energy costs over the past year has managed to seep into other areas and that will likely force the central bank to go further with its hikes, and hold rates higher for longer than the market was perhaps expecting. Until this week at least.

At the ECB's previous meeting in February, there was "*broad agreement*" behind the decision to increase key interest rates by 50 bps, along with communicating the intent to repeat that move in March, depending on how the data fare. However, the **accounts of that meeting** revealed "*reservations*" were expressed about the forward guidance around March. Those who weren't fully on board felt that there have been enough hikes (300 bps so far) to bring rates to a level that warranted some caution. Besides, "*the risk of doing too much deserved as much consideration as the risk of doing too little*". Fair enough. But during this meeting, it was noted that short-term momentum in core inflation had already begun to decline. Obviously that has changed since that meeting four weeks ago. Even before the February inflation release, a number of Governing Council members had already voiced their openness for a May rate hike. They were more vocal this week, including those from Germany, Belgium, Slovenia and Estonia (granted, all land on the hawkish side of the spectrum). Now, with evidence that inflation is persistently high across much of the region (including Germany, France and Spain), **we expect two more rate hikes of 50 bps each (in March and May), bringing the refi rate to 4.00%**. There is a risk that it will not end there, but we will take this on a meeting-by-meeting basis.

The **BoJ** has been the tall poppy, although a little less so, after tweaking its 10-year JGB trading range last year. But inflation has yet to peak and is still double the official 2% target. The headline Tokyo CPI for February at least cooled from its 42-year high thanks to government assistance to lower utility costs, but core CPI is still at a multi-decade high. And the jobless rate unexpectedly fell in the latest month to a low 2.4%. Can the central bank keep ignoring these pressures? Incoming Governor Kazuo Ueda has been a little vague, but his most recent comments suggest he will be patient.

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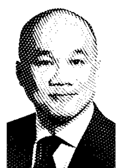
The **EUR** is deriving some support from short-term interest rates and expectations for further ECB tightening. Ultimately, however, EURUSD will be determined by Fed policy, energy prices, and investor risk tolerance levels. On the basis of those factors and at least 50 bps more of Fed rate hikes, expect EURUSD to drift higher over the balance of 2023, barring sharply higher energy prices or very uncooperative inflation on either side of the Atlantic.

The BoJ has a long history of being sensitive to fluctuations in the USDJPY exchange rate, and **JPY** appreciation in particular. BoJ gradualism is therefore the name of the game. That said, the domestic and global inflation backdrops mean the BoJ can't fall much further behind its central bank peers without the JPY weakening beyond its comfort zone. USDJPY should drift modestly lower over the next couple of quarters if the BoJ follows through.

Brazil: Are Market Fears Overblown?



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Frankly, it's hard to say. Some pre-election optimism that a victorious Luiz Inácio Lula da Silva (a.k.a. Lula) may choose to follow a relatively pragmatic approach in managing the economy has been misplaced. He is clearly intent on pursuing more populist policies in an effort to address longstanding issues of wide income inequality and weak growth potential. Thus, there will likely be changes on a number of critical fronts: fiscal and monetary policy, and the management of public banks and enterprises. It's highly uncertain how big these changes could be, but we think they are likely to occur gradually. Or put another way, the prospect of the country being suddenly swept into another large financial crisis appears quite low for now though the **long-term risk of macro-financial instability is rising**.

The Lula Administration has yet to provide solid clues on what type of new fiscal anchor it has in mind. The public spending cap implemented in 2017, which limits the rise in federal non-interest spending to the previous year's inflation rate, is now considered overly restrictive and has been getting bypassed, reducing its effectiveness in stabilizing the government debt/GDP ratio. Some likely alternatives being considered include: (1) debt/GDP ceiling, (2) balanced (primary) budget rule (e.g., over the cycle, or deficit/GDP limit), or (3) modifying the current expenditure rule (e.g., aligning real public spending with real GDP growth). Either way, **the prospect of a more flexible fiscal rule raises the risk of the general government debt/ GDP ratio** (estimated at 74% at end-2022) **trending upwards in the longer run**. However, to mitigate such pressure, the Lula Administration has stated it will introduce tax reform (e.g., increase tax revenues) and cut expenditures, which are tall orders.

Lula has toned down his attacks on the central bank (BCB) of late, likely recognizing they have unnerved financial markets. Although it's doubtful that he would be able to strip the BCB of its autonomy as it is enshrined in the constitution, there is the **distinct possibility that the central bank's control of setting inflation targets and adjusting monetary policy could succumb to pressure over time**. This is because the National Monetary Council, which sets the annual inflation targets, includes key members of Lula's administration (Minister of Finance and Minister of Planning and Budget). Further out, the term of the BCB Governor Neto expires at end-2024. Lifting the inflation target would prove counterproductive as inflation expectations would likely rise and force the BCB to keep rates higher than would otherwise be the case.

It's also difficult to judge how Lula will proceed with reviving the role of the state, but a wholesale return of the extensive off-budget policies of the past seems unlikely. The government simply does not have financial resources to provide cheap subsidized credit (via the Brazilian Development Bank—a.k.a. BNDES) to preferred sectors/ companies as occurred during Lula's first presidency (i.e., the building of so-called national champions). Though, it does seem **reasonable to believe that Lula will begin to lean on the three key public banks** (BNDES, Banco do Brasil and Caixa Econômica Federal, which account for around 40% of system-wide banking assets) **to provide more credit** given their relatively healthy balance sheets. In tandem, Lula is likely to encourage stronger state-owned companies to invest more.

Key Takeaway: There will be a lot of sleepless nights ahead for participants in Brazil's financial markets.

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*Indications of stronger growth and a move toward price stability are **good news** for the economy.*

	Good News	Bad News
Canada ▪ BoC likely to stay on hold next week, deviating from Fed	**Auto Sales** +5.1% y/y (Feb.) **S&P Global Manufacturing PMI** +1.4 pts to 52.4 (Feb.) **Alberta** projects a $2.4 bln budget surplus (FY23/24)	**Real GDP** unch (Q4)—below expected **Monthly Real GDP** -0.1% (Dec.)—but January's flash estimate +0.3% **Consumer Insolvencies** +33.0% y/y (Jan.) **Current Account Deficit** widened to $42.6 bln a.r. (Q4) **Business Sector Labour Productivity** -0.5% (Q4) **Building Permits** -4.0% (Jan.) **Conference Board Consumer Confidence Index** -2.7 pts to 71.4 (Feb.) **Capital Spending Intentions** +4.3% y/y (2023)—sluggish especially after inflation **B.C.** projects a $4.2 bln budget deficit (FY23/24)
United States ▪ Fed's MPR: "*ongoing*" rate hikes needed to calm inflation ▪ 10-year Treasury yields top 4% for the first time since November	**Core Durable Goods Orders** +0.8% (Jan.) **ISM Manufacturing PMI** +0.3 pts to 47.7 (Feb.)—but still under the 50-mark **Pending Home Sales** +8.1% (Jan.) **Retail Inventories** +0.3% (Jan. A) **Jobless Claims** -2k to 190k (Feb. 25 week)	**Auto Sales** slipped to 15.2 mln a.r. (Feb.) **'Control' Durable Goods Shipments** -1.0% (Jan.) **ISM Services PMI** -0.1 pts to 55.1 (Feb.) **Nonfarm Productivity** revised down to +1.7% a.r. (Q4)—**Unit Labor Costs** revised up to +3.2% a.r. **Goods Trade Deficit** grew to $91.5 bln (Jan. A) **Wholesale Inventories** -0.4% (Jan. A) **Construction Spending** -0.1% (Jan.) **S&P Case-Shiller Home Prices** slowed to +4.6% y/y; **FHFA Home Prices** +6.6% y/y (Dec.) **Conference Board Consumer Confidence Index** -3.1 pts to 102.9 (Feb.)
China ▪ Government expected to introduce new 2023 growth target (around 5½%)	**Manufacturing PMI** +2.5 pts to 52.6; **Non-manufacturing PMI** +1.9 pts to 56.3 (Feb.) **Caixin Manufacturing PMI** +2.4 pts to 51.6; **Services PMI** +2.1 pts to 55.0 (Feb.)	
Japan ▪ Government subsidies slow Tokyo's inflation for the first time in one year	**Retail Sales** +1.9% (Jan.) **Capital Spending** +7.7% y/y (Q4) **Consumer Confidence** +0.1 pts to 31.1 (Feb.) **Jobless Rate** -0.1 ppts to 2.4% (Jan.)	**Industrial Production** -4.6% (Jan. P)
Europe ▪ Persistent Euro Area inflation keeps ECB on track to hike by 50 bps this month ▪ Northern Ireland deal may end post-Brexit impasse	**Euro Area—Producer Prices** sharply slowed to +15.0% y/y (Jan.) **Euro Area—Jobless Rate** steady at 6.7% (Jan.) **Germany—Trade Surplus** widened to €16.7 bln (Jan.) **France—Consumer Spending** +1.5% (Jan.) **Italy—Consumer Confidence** +3.1 pts to 104.0 (Feb.) **U.K.—Nationwide House Prices** -1.1% (Feb.)	**Euro Area—Consumer Prices** eased a bit to 8.5% y/y (Feb. P)—but **core** up a record +5.6% y/y **Euro Area—Adjusted Private Sector Credit** slowed to +4.9% y/y (Jan.) **Euro Area—Economic Confidence** -0.1 pt to 99.7 (Feb.) **Germany—Unemployment** +2,000 (Feb.) **France—Industrial Production** -1.9% (Jan.)
Other ▪ RBA likely to further slow the pace of rate hikes amid lower GDP growth, inflation	**Australia—Real GDP** +0.5% q/q (Q4) **Australia—Consumer Prices** slowed to +7.4% y/y (Jan.) **Australia—Retail Sales** +1.9% (Jan.)	**Australia—Building Approvals** -27.6% (Jan.) **Brazil—Real GDP** eased to +1.9% y/y (Q4) **India—Real GDP** slowed to +4.4% y/y (Q4)

Fiscal Outlook: The Fire Next Time

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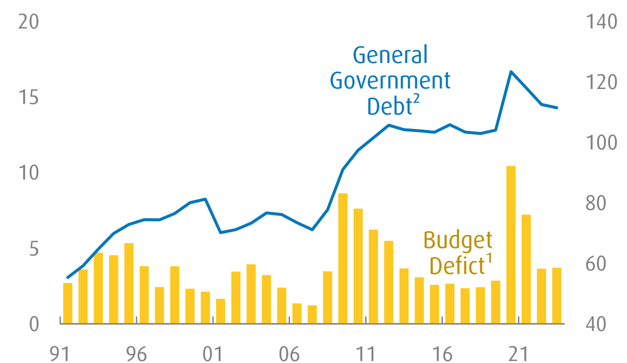
Bringing inflation to heel is undoubtedly the most important economic priority for policymakers globally, and the most pressing issue for financial markets. However, after this inflation episode is over, we suspect that the **next big concern** will be the (wounded) **state of government finances** in many major economies. After being dealt a terrible blow by the pandemic, **public finances now face the ugly combination of much higher borrowing costs, prospects of chillier economic growth, and challenging demographic trends**. There have already been a few loud warning shots on this front in recent months, including the spectacularly sour market reaction to last fall's U.K. mini budget, as well as the opening tremors around the U.S. debt ceiling showdown.

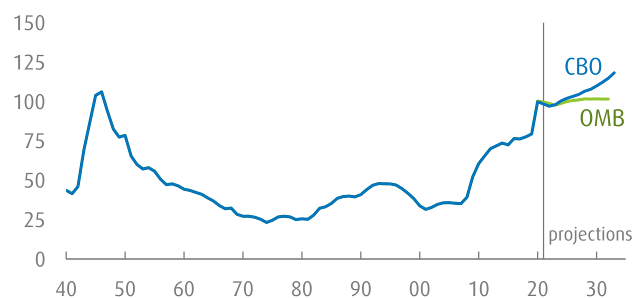
Long-term government bond yields are grinding higher again on renewed inflation concerns, although they remain relatively stable in the face of the looming fiscal forces. But, the U.K. experience suggests that this is **a fragile calm which could easily be upset**, by a protracted U.S. debt ceiling battle this summer, for example, or perhaps by a renewed spark in energy prices. And any further rise in long-term yields would simply compound fiscal pressures, ultimately leading to the need for restraint even amid a tougher growth backdrop. Essentially, we have quickly morphed from a seeming fiscal free lunch (as espoused by Modern Monetary Theory), to very serious constraints on the public purse in the short space of a little more than a year.

Chart 1
Fiscal Fitness?
Advanced Economies (% of GDP)



Sources: Haver Analytics, International Monetary Fund *[1] (lhs); [2] (rhs)*

Chart 2
Two Paths You Can Go By
United States (% of GDP)
Federal Debt Held by Public



Sources: Haver Analytics, Congressional Budget Office, Office of Management and Budget

Government finances globally were heavily stressed by the intense demands of the pandemic, with revenues crushed by the economic shutdowns, and spending spiked by income support packages and health care needs. While revenues have largely recovered, and spending has calmed, the pandemic's legacy is a heavier debt burden, weighing in at over 100% of GDP in the advanced world (*Chart 1*). During the height of the pandemic, the groaning budget deficits were seen as: a) a necessary evil as policymakers had few options; and b) manageable, due to near-zero interest rates. But the latter soothing balm has evaporated with the historic rise in rates in the past year, at a time of record debt levels.

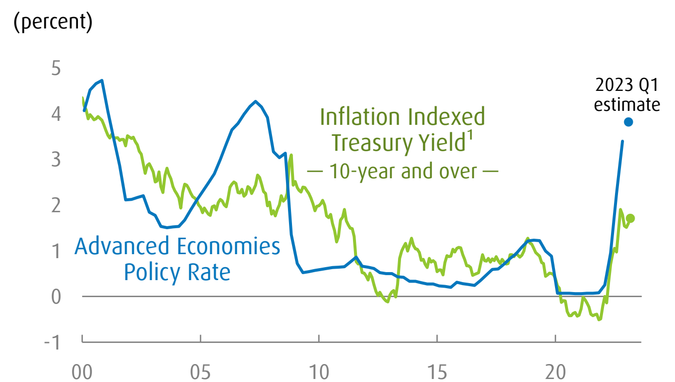
To cite one specific and representative example, the **U.S. federal debt held by the public** (arguably the single best measure of debt) has surged in the past three years and is poised to head even higher (*Chart*

2). This measure rose from just under 80% of GDP right before the pandemic to almost 100% currently. The CBO recently estimated that it will rise another 20 ppts over the coming decade with no change in policy, to levels far beyond anything previously seen—including the temporary spike after WWII. Notably, this year's budget deficit is expected to clock in at $1.4 trillion (5.4% of GDP), up from the pre-pandemic level of just under $1 trillion (4.6% of GDP). Keep in mind that this still-hefty shortfall is at a time of full employment and the peak of the economic cycle, and before the surge in Treasury yields has been fully reflected in interest costs. On the debt ceiling debate, while one may understandably decry the tactics of those using it as a tool to rein in fiscal largess, one can also sympathize with the goals.

The main reason that markets have largely shrugged off fiscal concerns in this cycle, both in the U.S. and most major economies, is because **debt dynamics** have been very favourable—until recently. During the European debt crisis of early last decade, investors became all-too-familiar with some of the debt sustainability metrics, which essentially boiled down to: Were real interest rates above or below real growth? Below meant the possibility of fiscal sustainability, above meant pain and the need for austerity. In the aftermath of the Great Recession, real interest rates cracked for most major economies and stayed low for a decade. But the aggressive policy tightening of 2022 and a taste of serious inflation have pushed some real interest rates to their highest levels in a decade (*Chart 3*).

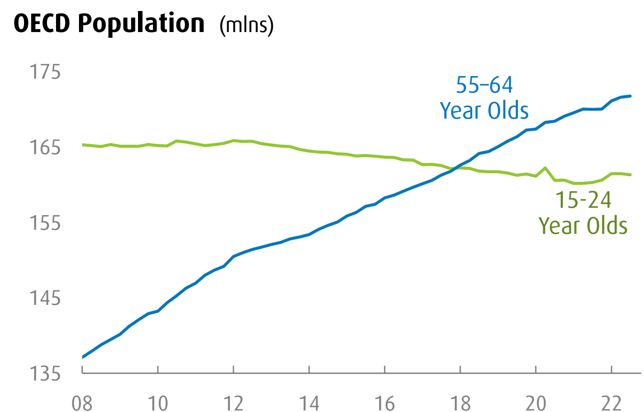
While real rates are more challenging, they are not yet sustainably above potential GDP growth in most cases—for example, U.S. 10-year TIPs are now about 1.6%, while U.S. potential growth is pegged at about 1.8% over the next decade. So, debt dynamics are not yet a pressing problem, but this does not give fiscal policy a free pass. Even if real interest rates remain generally mild, government debt/GDP can still ratchet higher if core finances (i.e., ex interest payments) remain in deficit and/or deteriorate, as is the U.S. case. Moreover, budgets everywhere face a heavy **demographic challenge** in coming years (*Chart 4*). Spending will be pressured by the slow-moving train of rising health care and pension costs, which has been well-telegraphed for decades. Perhaps less appreciated is that economic growth could slow more than expected as labour force growth cools

Chart 3
A Different Rate Reality



[1] *at constant maturity*
Sources: Haver Analytics, Federal Reserve Board, BMO Economics

Chart 4
Senior Boom

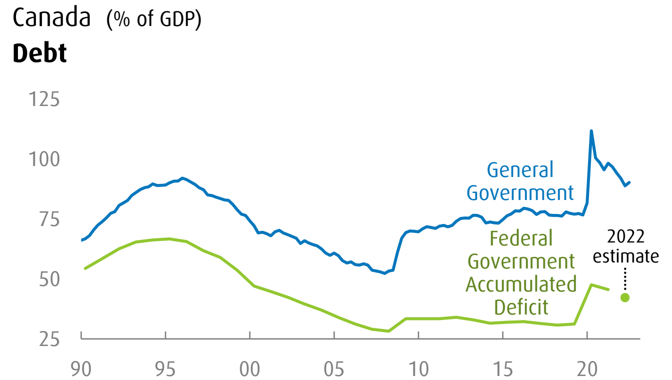


Sources: Haver Analytics, OECD

sharply (already declining in Japan and some European economies), undercutting the revenue side of the ledger.

Against this fiscal backdrop and with budget season now upon us, **Canada is in relatively better shape**. Demographics are less challenging, and interest rate increases may be done. Moreover, the fiscal starting point is better than most, notably for the current deficit—Ottawa and the provinces combined will have a shortfall of around 1% of GDP this fiscal year. Government debt is mostly lower than the OECD norm, depending on the measure (Canada fares well when viewed on a net debt basis as public pension assets are included), and there has been notable improvement since the COVID-related spike in 2020. But don't be lulled by Ottawa's relatively mild debt ratio of about 42% of GDP, as gross general government debt is now around 90%—basically back to the bad old days of the mid-1990s (*Chart 5*). Again, the key difference with that episode is the much, much lower level of real borrowing costs currently (say 1% now versus over 4% then).

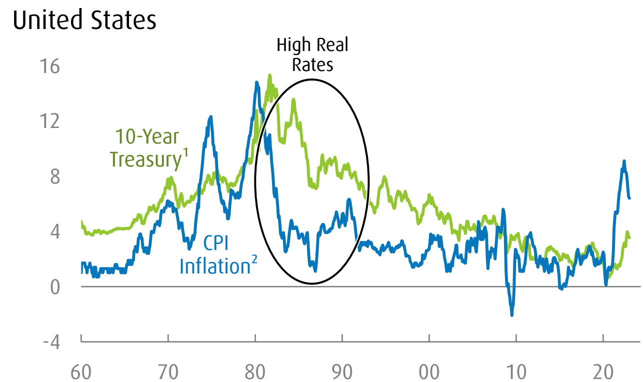
Chart 5
Better Than Others, Perhaps



Sources: Haver Analytics, Department of Finance Canada, Statistics Canada, BMO Economics

Financial markets are mostly unfazed by the looming fiscal issues in many key economies, aside from simmering concerns about the coming U.S. debt ceiling drama, with the inflation fight and recession worries dominating. But we would harken back to **what unfolded in the wake of the last great inflation battle**, culminating in the deep 1981-82 recession. The aftermath saw a decade of very high real interest rates after inflation was quashed (*Chart 6*). And while economic growth recovered strongly in the 1980s, a legacy of debt and high real borrowing costs left fiscal policy in a tough bind for that decade and even beyond in some economies. The period was punctuated by the Latin American debt crisis, years of budget battles in Washington, and a 10-year struggle in Canada to corral deficits, which only ended with a deeply austere budget in 1995. For some, policymakers went straight from the inflation frying pan to the budget deficit fire.

Chart 6
History Lesson from the 1980s



[1] (percent); [2] (y/y % chng)
Sources: Haver Analytics, Federal Reserve Board, Bureau of Labor Statistics

Key Takeaway: Every cycle has its own unique features, and there are clearly many differences with the current episode and the great inflation of the 1970s/early 1980s. But given that advanced economies are already faced with a tough budgetary position —record debt, weakening growth, demographic pressures, and positive real interest rates—we should heed the lessons of the last major battle with inflation and its fiscal aftermath. For policymakers, the main message is to get the fiscal house in order *now*, both to assist monetary policy in taming inflation, but also to avoid an ugly budgetary position after the battle is presumably won.

Economic Forecast Summary for March 3, 2023

		2022				2023				Annual		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2021	2022	2023
CANADA												
Real GDP	(q/q % chng : a.r.)	2.4	3.6	2.3	0.0	1.0 ↑	-0.5 ↑	-0.7 ↑	1.0	5.0	3.4	0.7
Consumer Price Index	(y/y % chng)	5.8	7.5	7.2	6.7	5.5	3.8	3.5	3.1	3.4	6.8	4.0
Unemployment Rate	(percent)	5.7	5.1	5.1	5.1	5.1	5.4	5.6	5.8	7.5	5.3	5.5
Housing Starts	(000s : a.r.)	241	271	281	258	233	242	225	220	274	263	230
Current Account Balance	($blns : a.r.)	11.0	22.0	-33.7	-42.6	-36.3 ↑	-36.5	-42.4 ↓	-44.2 ↓	-6.7	-10.8	-39.9 ↓
Interest Rates						(average for the quarter : %)						
Overnight Rate		0.33	1.17	2.75	3.92	4.50	4.50	4.50	4.50	0.25	2.04	4.50
3-month Treasury Bill		0.39	1.43	2.91	3.96	4.40	4.50 ↑	4.50 ↑	4.50 ↑	0.11	2.17	4.45
10-year Bond		1.92	2.98	3.01	3.16	3.15 ↑	3.40 ↑	3.25 ↑	3.05	1.36	2.77	3.25 ↑
Canada-U.S. Interest Rate Spreads						(average for the quarter : bps)						
90-day		9	33	16	-22	-35 ↑	-51 ↑	-58 ↑	-58 ↑	7	9	-50 ↑
10-year		-2	5	-10	-67	-58 ↓	-55 ↓	-53	-51	-8	-18	-54
UNITED STATES												
Real GDP	(q/q % chng : a.r.)	-1.6	-0.6	3.2	2.7	0.5	-1.0	-1.0	0.8	5.9	2.1	0.7
Consumer Price Index	(y/y % chng)	8.0	8.6	8.3	7.1	6.0	4.5	3.9	3.5	4.7	8.0	4.5
Unemployment Rate	(percent)	3.8	3.6	3.5	3.6	3.5	4.0	4.6	4.8	5.4	3.6	4.2
Housing Starts	(mlns : a.r.)	1.72	1.65	1.45	1.41	1.34	1.33	1.34	1.37	1.61	1.56	1.34
Current Account Balance	($trlns : a.r.)	-1.13	-0.95	-0.87	-0.87	-0.86	-0.87	-0.87	-0.88	-0.85	-0.95	-0.87
Interest Rates						(average for the quarter : %)						
Fed Funds Target Rate		0.21	0.96	2.63	3.79	4.63	5.04	5.13	5.13	0.13	1.90	4.98
3-month Treasury Bill		0.30	1.10	2.75	4.18	4.80	5.00	5.05	5.05	0.05	2.08	5.00
10-year Note		1.94	2.93	3.10	3.83	3.75 ↑	3.95 ↑	3.80 ↑	3.55	1.44	2.95	3.75 ↑
EXCHANGE RATES						(average for the quarter)						
US¢/C$		79.0	78.4	76.6	73.7	74.5	75.1	75.9	76.7	79.8	76.9	75.5
C$/US$		1.27	1.28	1.31	1.36	1.34	1.33	1.32	1.30	1.25	1.30	1.32
¥/US$		116	130	138	141	132	132	131 ↑	130 ↑	110	131	131 ↑
US$/Euro		1.12	1.06	1.01	1.02	1.07 ↓	1.08 ↓	1.09 ↓	1.10 ↓	1.18	1.05	1.08 ↓
US$/£		1.34	1.26	1.18	1.17	1.21 ↓	1.22 ↓	1.23 ↓	1.25 ↓	1.38	1.24	1.23 ↓

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

Canada

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Merchandise Trade Balance

Wednesday, 8:30 am

Jan. (e)	**-$200 mln**
Dec.	-$160 mln

Canada's **merchandise trade** balance likely remained in modest deficit in January, as we look for a $200 mln shortfall, slightly deeper than December's $160 mln deficit. Energy exports look to bounce back on higher oil prices, with a small offset from lower prices for natural gas. Meantime, a solid manufacturing flash points to strength in imports and non-energy exports. We expect some upward revisions to the last few months of the year following the larger-than-expected goods trade surplus in Q4. Still, we look for modest deficits to persist in the coming months.

BoC Policy Announcement

Wednesday, 10:00 am

See Benjamin Reitzes' Thought on page 6.

Employment

Friday, 8:30 am

Feb. (e)	**unch**
Consensus	*+0.0% (+2,500)*
Jan.	+0.8% (+150,000)

Unemployment Rate

Feb. (e)	**5.1%**
Consensus	*5.1%*
Jan.	5.0%

Average Hourly Wages

Feb. (e)	**+5.0% y/y**
Jan.	+4.5% y/y

Employment growth boomed to start 2023, with a mammoth 150k increase. The gains were broad-based, with the details of the report positive almost across the board. Unseasonably warm weather likely provided support, though February was closer to normal, suggesting that some of the weather impact could reverse. The big question facing the January job surge is whether the increase was "real" and sustainable. Historically, gains of that magnitude have been followed by some retracement, and that is our lean heading into the February report. Accordingly, we're looking for employment to be flat on the month, with risks skewed toward a notable pullback. However, the broad strength in the data year-to-date points to the possibility that the economy is legitimately strong following a brief soft patch at the tail end of 2022. Add the notorious volatility of the Labour Force Survey into the equation and there's plenty of room for surprise. Our call for a flat reading would likely push the **unemployment rate** up a tick to 5.1%, still reflecting an extremely tight labour market.

One important potential quirk to highlight is the **monthly seasonal factors**. January is in reality a very challenging month for employment, as the not seasonally adjusted (NSA) figures are normally down around 250k-300k. January 2023 was down only 125k, which translated into the big seasonally adjusted increase. However, the question is whether the tight labour market meant fewer layoffs than normal or if hiring was in fact strong? Conversely, February is a seasonally strong month for job growth with the NSA figure posting an average increase of 64k from 2015-2019 (to avoid pandemic distortions). If hiring in fact drove the January jobs boom, then February will likely be another solid month on a seasonally adjusted basis as well.

United States

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Global Supply Chain Pressure Index

Monday, 10:00 am

Feb.	
Jan.	0.95

The **NY Fed's Global Supply Chain Pressure Index** (GSCPI) has trended down from a record (24-year) high in December 2021, despite interruption from Russia's invasion of Ukraine and China's temporary COVID restrictions. That record reflected the pandemic's peak imbalance between strong demand and constrained supply as the Omicron variant ran rampant. In January 2023, the GSCPI slipped back to match a 26-month low (0.95). Alongside, U.S. CPI core goods inflation cooled from a 47-year high of 12.3% y/y

last February to just 1.4% this January. We expect both to cool further in February, with American factories helping to lower the GSCPI. For example, the PMI's supplier delivery delays and order backlogs (after seasonal adjustment) both ebbed in the month and remained well below 50.

Fed Chair Powell testifies to Congress
Senate Banking Committee
—Tuesday, 10:00 am
House Financial Services Committee
—Wednesday, 10:00 am

See Michael Gregory's Thought on page 3.

Beige Book
Wednesday, 2:00 pm

The January **Beige Book**, based on information to the first week of the year, reflected an economy that was gearing down, with activity "*relatively unchanged since the previous report*" and many respondents expecting "*little growth in the months ahead*". However, January data have since snapped back sharply, partly due to unusually mild weather. The updated Beige Book, prepared for the March 21-22 FOMC meeting, will help separate signal from noise, likely indicating a softening in February. The inflation comments will also garner much attention given that core services prices have shown little deceleration in the past year due to a tight labour market and robust wage gains.

Nonfarm Payrolls
Friday, 8:30 am

Feb. (e)	**+220,000**
Consensus	*+200,000*
Jan.	+517,000

Unemployment Rate

Feb. (e)	**3.4%**
Consensus	*3.4%*
Jan.	3.4%

Average Hourly Earnings

Feb. (e)	**+0.4%**	**+4.8% y/y**
Consensus	*+0.3%*	*+4.7% y/y*
Jan.	+0.3%	+4.4% y/y

Low jobless claims reflect restrained layoffs (outside the tech space) and rapid hiring in a still-hot labour market. But January's half-million surge in **payrolls** was at least partly due to milder-than-usual weather, so look for some payback in February with an expected downshift to 220,000. Thata is still above normal, but would at least mark the smallest advance since December 2020 and a material step back from the last quarter's mean (291,000). Look for some weather-related giveback in construction, retail, and food services. Aggregate work hours should partly retrace lower, flagging a deceleration in Q1 GDP growth. The **unemployment rate** looks to hold steady at a 54-year low of 3.4%. However, a dip in labour force participation could see the Fed staring at the lowest jobless rate since 1953, implying zero progress in prying open a drum-tight labour market. After fading somewhat in January, **average hourly earnings** are expected to jump 0.4%, as per the past-year norm, lifting the yearly rate four tenths to 4.8%. This should keep the heat on services inflation, and on the Fed to keep tightening the screws.

Financial Markets Update for March 3, 2023

		Mar 3 [1]	Feb 24	Week Ago	4 Weeks Ago	Dec 31, 2022
					(basis point change)	
Canadian Money Market	Call Money	4.50	4.50	0	0	25
	Prime Rate	6.70	6.70	0	0	25
U.S. Money Market	Fed Funds (effective)	4.75	4.75	0	0	25
	Prime Rate	7.75	7.75	0	0	25
3-Month Rates	Canada	4.48	4.49	-1	12	25
	United States	4.85	4.78	6	21	50
	Japan	-0.18	-0.14	-4	-1	-1
	United Kingdom	4.19	4.26	-8	3	31
	Australia	3.63	3.51	12	30	36
2-Year Bonds	Canada	4.24	4.27	-3	44	19
	United States	4.89	4.82	8	60	46
10-Year Bonds	Canada	3.38	3.39	-1	45	8
	United States	4.00	3.95	5	47	12
	Japan	0.50	0.50	0	1	9
	Germany	2.71	2.54	18	52	15
	United Kingdom	3.85	3.66	20	80	19
	Australia	3.90	3.82	8	52	-15
Risk Indicators	VIX	18.8	21.7	-2.8 pts	0.5 pts	-2.8 pts
	Inv. Grade CDS Spread [2]	76	77	0	9	-6
	High Yield CDS Spread [2]	462	465	-3	54	-22
					(percent change)	
Currencies	US¢/C$	73.41	73.47	-0.1	-1.7	-0.5
	C$/US$	1.362	1.361	—	—	—
	¥/US$	136.22	136.48	-0.2	3.8	3.9
	US$/€	1.0603	1.0548	0.5	-1.8	-1.0
	US$/£	1.198	1.194	0.3	-0.7	-0.9
	US¢/A$	67.51	67.26	0.4	-2.5	-0.9
Commodities	CRB Futures Index	271.30	267.15	1.6	1.9	-2.3
	Oil (generic contract)	78.83	76.32	3.3	7.4	-1.8
	Natural Gas (generic contract)	2.84	2.55	11.4	17.8	-36.6
	Gold (spot price)	1,845.06	1,811.04	1.9	-1.1	1.2
Equities	S&P/TSX Composite	20,492	20,219	1.3	-1.3	5.7
	S&P 500	4,017	3,970	1.2	-2.9	4.6
	Nasdaq	11,588	11,395	1.7	-3.5	10.7
	Dow Jones Industrial	33,166	32,817	1.1	-2.2	0.1
	Nikkei	27,927	27,453	1.7	1.5	7.0
	Frankfurt DAX	15,584	15,210	2.5	0.7	11.9
	London FT100	7,950	7,879	0.9	0.6	6.7
	France CAC40	7,355	7,187	2.3	1.7	13.6
	S&P ASX 200	7,284	7,307	-0.3	-3.6	3.5

[1] = as of 11:30 am *[2] = One day delay*

Monday March 6

China

Trade Surplus (YTD) [D]	in USD	in CNY
Jan.-Feb. (e)	**81.8 bln**	**n.a.**
Dec.	78.0 bln	550.1 bln

Foreign Reserves [D]	
Feb. (e)	**$3.2 trln**
Jan.	$3.2 trln

Europe — EURO AREA

Retail Sales		
Jan. (e)	**+0.8%**	**-1.8% y/y**
Dec.	-2.7%	-2.8% y/y

Europe — UNITED KINGDOM

Construction PMI	
Feb. (e)	**48.6**
Jan.	48.4

Tuesday March 7

Europe — GERMANY

Factory Orders		
Jan. (e)	**-1.0%**	**-12.3% y/y**
Dec.	+3.2%	-10.1% y/y

Other — AUSTRALIA

RBA Monetary Policy Meeting

Trade Surplus	
Jan. (e)	**A$12.3 bln**
Dec.	A$12.2 bln

Wednesday March 8

China

Aggregate Yuan Financing [D]	
Feb. (e)	**2.2 trln**
Jan.	6.0 trln

New Yuan Loans [D]	
Feb. (e)	**1.5 trln**
Jan.	4.9 trln

M2 Money Supply [D]	
Feb. (e)	**+12.5% y/y**
Jan.	+12.6% y/y

Japan

Current Account Deficit	
Jan. '23 (e)	**¥737.4 bln**
Jan. '22	¥580.4 bln

Bank Lending Ex-Trusts	
Feb.	
Jan.	+3.5% y/y

Europe — EURO AREA

Real GDP		
Q4 F (e)	**+0.1%**	**+1.9% y/y**
Q4 P	+0.1%	+1.9% y/y
Q3	+0.3%	+2.3% y/y

Europe — GERMANY

Retail Sales		
Jan. (e)	**+2.2%**	**-5.0% y/y**
Dec.	-4.9%	-6.2% y/y

Industrial Production		
Jan. (e)	**+1.3%**	**-3.7% y/y**
Dec.	-3.1%	-3.9% y/y

Europe — ITALY

Retail Sales		
Jan.		
Dec.	-0.2%	+3.4% y/y

Thursday March 9

China

	CPI	PPI
Feb. (e)	**+1.9% y/y**	**-1.3% y/y**
Jan.	+2.1% y/y	-0.8% y/y

Japan

Real GDP		
Q4 F (e)	**+0.2%**	**+0.6% y/y**
Q4 P	+0.2%	+0.6% y/y
Q3	-0.3%	+1.5% y/y

Machine Tool Orders	
Feb. P	
Jan.	-9.7% y/y

BoJ Monetary Policy Meeting (Mar. 9-10)

Friday March 10

Japan

Household Spending	
Jan. (e)	**-0.1% y/y**
Dec.	-1.3% y/y

Europe — GERMANY

Consumer Price Index		
Feb. F (e)	**+1.0%**	**+9.3% y/y**
Jan.	+0.5%	+9.2% y/y

Europe — FRANCE

Trade Deficit	
Jan.	
Dec.	€14.9 bln

Europe — UNITED KINGDOM

Monthly Real GDP		3m/3m
Jan. (e)	**+0.1%**	**unch**
Dec.	-0.5%	-0.3%

Services Index		3m/3m
Jan. (e)	**+0.3%**	**-0.1%**
Dec.	-0.8%	unch

Industrial Production		
Jan. (e)	**-0.1%**	**-4.0% y/y**
Dec.	+0.3%	-4.0% y/y

Manufacturing Production		
Jan. (e)	**-0.1%**	**-5.0% y/y**
Dec.	unch	-5.7% y/y

Trade Deficit	
Jan. (e)	**£17.5 bln**
Dec.	£19.3 bln

[D] = date approximate

Upcoming Policy Meetings | Bank of England: Mar. 23, May 11, June 22 | European Central Bank: Mar. 16, May 4, June 15

North American Calendar — March 6–March 10

Canada

Monday March 6

(none)

Tuesday March 7

Manitoba Budget

11:15 am — Cash management bond buybacks $0.5 bln

Wednesday March 8

8:30 am	**Merchandise Trade Balance**
Jan. (e)	**-$200 mln**
Dec.	-$160 mln
10:00 am	**BoC Policy Announcement**

Thursday March 9

1:30 pm — **BoC Senior Deputy Governor Rogers presents the Economic Progress Report to Manitoba Chambers in Winnipeg**

2- & 10-year bond auction announcements

Friday March 10

8:30 am	**Employment**
Feb. (e)	**unch**
Consensus	*+0.0% (+2,500)*
Jan.	+0.8% (+150,000)
8:30 am	**Unemployment Rate**
Feb. (e)	**5.1%**
Consensus	*5.1%*
Jan.	5.0%
8:30 am	**Average Hourly Wages**
Feb. (e)	**+5.0% y/y**
Jan.	+4.5% y/y
8:30 am	**Capacity Utilization**
Q4 (e)	**81.3%**
Q3	82.6%

United States

Monday March 6

10:00 am	**Factory Orders**
Jan. (e)	**-2.0%**
Consensus	*-1.8%*
Dec.	+1.6%
10:00 am	**Global Supply Chain Pressure Index**
Feb.	
Jan.	0.95
11:30 am	13- & 26-week bill auctions $105 bln

Saturday March 4

Fed Speaker: San Francisco's Daly (1:00 pm)

Tuesday March 7

10:00 am	**Wholesale Inventories**
Jan. F (e)	**-0.4%**
Dec.	+0.1%
10:00 am	**Fed Chair Powell testifies to the Senate Banking Committee**
3:00 pm	**Consumer Credit**
Jan. (e)	**+$27.0 bln** [c]
Dec.	+$11.6 bln
11:00 am	4-, 8- & 17-week bill auction announcements
1:00 pm	3-year note auction $40 bln

Wednesday March 8

7:00 am	**MBA Mortgage Apps**
Mar. 3	
Feb. 24	-5.7%
8:15 am	**ADP National Employment Report**
Feb. (e)	**+200,000**
Consensus	*+200,000*
Jan.	+106,000
8:30 am	**Goods & Services Trade Deficit**
Jan. (e)	**$69.0 bln**
Consensus	*$69.0 bln*
Dec.	$67.4 bln
10:00 am	**Job Openings & Labor Turnover Survey (Jan.)**
10:00 am	**Fed Chair Powell testifies to the House Financial Services Committee**
2:00 pm	**Beige Book**
11:30 am	17-week bill auction
1:00 pm	10[R]-year note auction $32 bln

Thursday March 9

7:30 am	**Challenger Layoff Report**
Feb.	
Jan.	+440.0% y/y
8:30 am	**Initial Claims**
Mar. 4 (e)	**195k (+5k)** [c]
Feb. 25	190k (-2k)
8:30 am	**Continuing Claims**
Feb. 25 (e)	**1,665k (+10k)** [c]
Feb. 18	1,655k (-5k)
Noon	**Flow of Funds (Q4)**

Fed Speaker: Governor Barr (10:00 am)

11:00 am	13- & 26-week bill auction announcements
11:30 am	4- & 8-week bill auctions
1:00 pm	30[R]-year bond auction $18 bln

Friday March 10

8:30 am	**Nonfarm Payrolls**	
Feb. (e)	**+220,000**	
Consensus	*+200,000*	
Jan.	+517,000	
8:30 am	**Unemployment Rate**	
Feb. (e)	**3.4%**	
Consensus	*3.4%*	
Jan.	3.4%	
8:30 am	**Average Hourly Earnings**	
Feb. (e)	**+0.4%**	**+4.8% y/y**
Consensus	*+0.3%*	*+4.7% y/y*
Jan.	+0.3%	+4.4% y/y
2:00 pm	**Budget Balance**	
Feb. '23 (e)	**-$241.0 bln** [c]	
Feb. '22	-$216.6 bln	

[c] = consensus [D] = date approximate [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Apr. 12, June 7, July 12 | FOMC: Mar. 21-22, May 2-3, June 13-14

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