Economics

THE WEEK AHEAD

October 30 - November 3, 2023

All good things...

by Avery Shenfeld avery.shenfeld@cibc.com

Whoever said “all good things must come to an end” should have been an economist, given that our profession is known as the dismal science. It’s particularly appropriate for the US economy these days, which keeps churning out impressive growth numbers while also seeing inflation edge lower. While we’ve never been in the recession camp, we’re on the side of Fed Chairman Powell, who recently reiterated that getting to a 2% inflation target will require a deceleration in activity, in which really good things give way to not quite as good things for output and hiring.

Amidst all the hoopla, there are in fact scattered signs of that cooling ahead. Consumer spending has feasted on a declining saving rate, something that has to come to an end at some point. True, today’s low savings are an echo effect from high savings early in the pandemic, which could then be run down. But the financial asset bulge those savings built up has been winnowed down in terms of its purchasing power by the renewal of services spending, less-robust capital markets, and higher prices for goods and services. High interest rates should also discourage the borrowing that typically powers durable goods buying.

Business investment in plant and equipment flattened out in the third quarter. While such data can be choppy, that could be a sign that higher rates and reduced credit availability are cutting into corporate plans. The lacklustre pace for banks’ corporate and industrial lending has the same message. Where businesses were active in the last quarter was in building up inventories. Without that lift, growth would still have been a healthy 3.5% in Q3, but production could be pared back if stockpiles are too elevated in some sectors.

Abroad, markets that are key customers for American exports don’t look to be in great shape. Canada’s economy has seen virtually no growth in the middle two quarters of the year, while Europe’s largest economies are seeing enough pain for the ECB to keep rates on hold even with inflation miles above target. Relations with China remain strained, with the US restricting some exports to the Middle Kingdom as a result.

Finally, government spending, a big driver again in Q3, is still under the cloud of a potential shutdown, with the GOP House speakership now in the hands of a committed fiscal conservative, at least on the spending side. The elbow room for compromise with Senate Democrats and the White House has narrowed considerably. House Republicans are now likely to press Speaker Mike Johnson to insist on at least some additional spending restraint before signing on to any deal to keep the government up and running.

All that said, the momentum in spending seen in September makes it hard to be too pessimistic about Q4 growth. The Fed seems to have talked itself into a pause on rates at the next FOMC meeting, but there are still too many good things in the data, and likely too much momentum in employment, to be comfortable in concluding that interest rates are now high enough to do the job. If, as we expect, the week ahead’s employment report is still fairly healthy, another rate hike before year end seems likely.

It’s really that prospect, and even the risk of a follow-up hike if need be, that guarantees that the brisk growth we’re seeing now will give way to more muted gains in 2024. Ultimately, the Fed can set rates high enough, and leave them there long enough, to ensure that we see a few quarters of growth averaging in the 1% range, or perhaps even a bit less, as still seems necessary to cool prices and wages. We’ll stick to our view that such a slowdown is coming, but in addition to the hike we have pencilled in for December, we’re slightly pushing back the timetable for the first Fed rate cut into Q3 2024 to keep that deceleration in place for long enough to get inflation to target.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, October 30	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Monday, October 30	3:30 PM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Tuesday, October 31	8:30 AM	GDP M/M	(Aug)	(H)	0.1%	0.1%	0.0%
Wednesday, November 1	4:15 PM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Thursday, November 2	-	AUCTION: 30-YR CANADAS $1.3B	-	-	-	-	-
Friday, November 3	8:30 AM	EMPLOYMENT CHANGE	(Oct)	(H)	20.0K	25.0K	63.8K
Friday, November 3	8:30 AM	UNEMPLOYMENT RATE	(Oct)	(H)	5.6%	5.6%	5.5%

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, October 30	-	-	-	-	-	-	-
Tuesday, October 31	-	AUCTION: 1-YR TREASURIES $44B	-	-	-	-	-
Tuesday, October 31	8:30 AM	EMPLOYMENT COST INDEX	(3Q)	(M)	-	1.0%	1.0%
Tuesday, October 31	9:00 AM	HOUSE PRICE INDEX M/M	(Aug)	(M)	-	0.5%	0.8%
Tuesday, October 31	9:00 AM	S&P CORELOGIC CS Y/Y	(Aug)	(H)	-	-	0.1%
Tuesday, October 31	9:45 AM	CHICAGO PMI	(Oct)	(M)	-	44.6	44.1
Tuesday, October 31	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Oct)	(H)	-	100.3	103.0
Wednesday, November 1	7:00 AM	MBA-APPLICATIONS	(Oct 27)	(L)	-	-	-1.0%
Wednesday, November 1	8:15 AM	ADP EMPLOYMENT CHANGE	(Oct)	(M)	-	135K	89K
Wednesday, November 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Oct)	(L)	-	-	50.0
Wednesday, November 1	10:00 AM	ISM - MANUFACTURING	(Oct)	(H)	48.0	49.0	49.0
Wednesday, November 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Sep)	(M)	-	0.4%	0.5%
Wednesday, November 1	10:00 AM	JOLTS Job Openings	(Sep)	-	-	9200K	9610K
Wednesday, November 1	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Nov 1)	(H)	5.50%	5.50%	5.50%
Wednesday, November 1	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Nov 1)	(H)	5.25%	5.25%	5.25%
Wednesday, November 1	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, November 2	8:30 AM	INITIAL CLAIMS	(Oct 28)	(M)	-	210K	210K
Thursday, November 2	8:30 AM	CONTINUING CLAIMS	(Oct 21)	(L)	-	-	1790K
Thursday, November 2	8:30 AM	NON-FARM PRODUCTIVITY	(3Q P)	(M)	4.4%	4.0%	3.5%
Thursday, November 2	10:00 AM	FACTORY ORDERS M/M	(Sep)	(M)	-	1.1%	1.2%
Thursday, November 2	10:00 AM	DURABLE GOODS ORDERS M/M	(Sep)	(H)	-	-	4.7%
Thursday, November 2	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Sep)	(H)	-	-	0.5%
Friday, November 3	8:30 AM	NON-FARM PAYROLLS	(Oct)	(H)	190K	180K	336K
Friday, November 3	8:30 AM	UNEMPLOYMENT RATE	(Oct)	(H)	3.8%	3.8%	3.8%
Friday, November 3	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Oct)	(H)	0.3%	0.3%	0.2%
Friday, November 3	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Oct)	(H)	-	34.4	34.4
Friday, November 3	8:30 AM	MANUFACTURING PAYROLLS	(Oct)	(H)	-	0K	17K
Friday, November 3	9:45 AM	S&P GLOBAL US SERVICES PMI	(Oct)	(L)	-	-	50.9
Friday, November 3	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Oct)	(L)	-	-	51.0
Friday, November 3	10:00 AM	ISM - SERVICES	(Oct)	(M)	53.5	53.0	53.6

Week Ahead's market call

by Avery Shenfeld

In the **US**, brisk growth and the lack of an upturn in jobless benefit claims suggest that October hiring remained fairly healthy. While we expect a deceleration after an outsized gain in September, we're a bit above the consensus on payrolls, and in line with the pack in seeing no upturn in the jobless rate. At some point, markets will start to up the odds of another rate hike with jobs data like this rolling in. All this hiring should, however, be sufficient to fill some of the vacancies that are still out there, so we look for the JOLTS data to head lower again after an upward spike the prior month, which might well have been statistical noise given the low response rate to the survey that generates this data. ISM manufacturing could be the other indicator that stays soft enough to give the bond market a touch of comfort.

In **Canada**, the data should continue to be consistent with an extended pause by the central bank, with August GDP seeing only marginal growth. With not much to show for economic output over both Q2 and Q3, there's reasons to expect that hiring will also be muted, at least relative to brisk population gains that are seeing lots of new entrants to the workforce. An uptick in the unemployment rate to 5.6% will be another small step towards the additional labour market slack that the Bank of Canada sees as a necessary step towards getting inflation back to target.

Week Ahead's key Canadian number: Employment—October

(Friday, 8:30 am)

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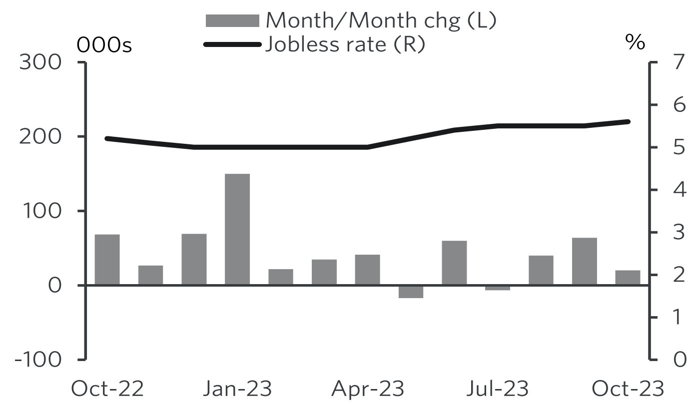
Variable	CIBC	Mkt	Prior
Employment change	20.0K	25.0K	63.8K
Unemployment rate	5.6%	5.6%	5.5%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

While employment surged in the prior month, most of the increase was driven by education which can be volatile at the start of a school year, and because of that there is the risk of a notable deceleration in October. The 20K increase in employment we expect for October would be below the still rapid pace of population growth, and result in a tick up in the unemployment rate to 5.6%. While that move up in the jobless rate, combined with further reductions in job vacancy postings, would highlight a continued loosening of labour market conditions that has probably not gone far enough to slow wage growth yet. We expect wage growth to remain above 5% on a year-over-year basis in October.

Forecast implications — Employment growth will likely remain weaker than the growth rate of the population throughout the remainder of this year and into 2024 as well, seeing the unemployment rate peak in excess of 6%. That would prevent any further interest rate hikes from the Bank of Canada and should be enough for policymakers to start gradually lowering rates by Q2 next year.

Other Canadian releases: Monthly GDP—August

(Tuesday, 8:30 am)

August appears to have seen only a partial rebound in trade following the port strike in July, and as a result we suspect that the muted 0.1% advance estimate for August GDP will be upheld. While consumer spending appears to have remained sluggish in September, a rebound in commodities production and transportation following the wildfire and port strike disruption should bring another modest increase in monthly GDP to end Q3. For the quarter as a whole, an annualized growth rate of 0.4% would be pretty disappointing following the surprise contraction in Q2.

Week Ahead's key US number: Employment situation—October

(Friday, 8:30 am)

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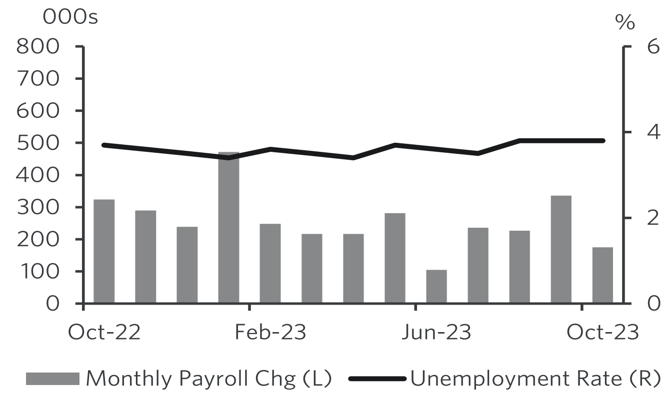
Variable	CIBC	Mkt	Prior
Employment (m/m)	190K	180K	336K
Unemployment rate	3.8%	3.8%	3.8%
Avg hourly earnings (m/m)	0.3%	0.3%	0.2%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Headlining next week's US data will be Friday's October labour report. Despite the UAW strike and its impact on related industries, job growth should remain solid due to firm underlying demand in the economy. Once again, we expect health care and government sectors to continue their strong pace of hiring and provide a high floor for job growth. Despite representing just under 30% of employment, these two sectors have accounted for 60% of the jobs created since the start of the year, or an average of 134K per month. Other sectors have shown an increased pace of hiring in recent months as well, consistent with a broadening of demand pressures. The participation rate and the unemployment rate should remain unchanged in the month.

Forecast implications — Another strong labour report, or additional upward revisions to previous months, will imply solid labour income growth and further strength in consumption. At the same time, a downside surprise may not dent consumer appetite much. Last quarter most of the consumer spending was financed through savings, and consumers may for some time, live with lower savings.

Market impact — We are slightly above consensus this week on jobs. Markets will start beating the drum for the Fed to tighten further if job gains turn well north of 200K again or there are material revisions to previous months.

Other US Releases: ISM Manufacturing—October

(Wednesday, 10:00 am)

The October ISM manufacturing index should edge down in the month, consistent with some regional PMIs. The index will remain in contractionary territory given its exposure to interest rates and relatively weak foreign demand.

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