Economics

THE WEEK AHEAD

February 6-10, 2023

A jolt from the JOLTS?

by Avery Shenfeld avery.shenfeld@cibc.com

Amidst all the favorable news we've had about inflation of late, news from the American labour market wasn't quite as comforting. The payrolls gain in January raised eyebrows, but we also got a jolt from the JOLTS report, which covers job openings and other trends. A second consecutive monthly increase in unfilled jobs undid some previous progress, and had December showing an elevated 11 million open positions. Perhaps that explained the upside surprise we got in January hiring, as whatever the impact might have been from the spate of layoff announcements we've seen, it was clearly swamped by firms working to fill those vacant slots.

As we've seen through the COVID-19 era, job vacancies remain much higher at a given rate of unemployment than in the pre-2020 cycle. The concern is that desperate employers unable to fill such jobs are tempted to lure workers away from existing positions by dangling higher pay, thereby adding to the risk of a wage-price spiral. That's why some of the hawks on inflation believe that, unlike what we saw in the prior cycle, a mid-3% jobless rate would no longer be consistent with 2% inflation.

Dig into both the wage and job vacancy data, however, and the picture isn't quite so crystal clear, as is often the case when theory is put to an empirical test. A lot of the spike in December's job vacancies came in two sectors: leisure and hospitality (which also has the highest share of jobs going vacant) and retailing. Yet wages in both sectors seem to be decelerating. Retailing wages are up a bit less in the last 12 months than aggregate non-production wages, and while hospitality is still above that pace, it's up less than 1% annualized in the last three months. Where are those desperate employers?

Perhaps they are questioning the profitability of attempting to fill these vacancies at ever higher labour costs, and while they're hiring when they can find people, they are no longer as willing to pay up as much to do so. If that remains the case, the overhang of job vacancies might not prove to be as inflationary as it was earlier in this expansion.

Why would behaviour have changed? Because inflation impacts wages, if anything, a bit more than wages impact inflation. Statistically, there's a stronger correlation between the CPI and wage gains four months hence (the best fit in terms of leads/lags) than there is between wages and prices four months later.

Businesses are no doubt aware that inflation is beginning to cool, partly due to improved supply chains, but also in some sectors, on a slower advance in demand. All of that makes employers more wary of assuming that they would simply be able to pass on any outsized pay hikes in their prices to their customers. Restaurant meal inflation isn't reported on a seasonally-adjusted basis, but looks to have started to cool in year-on-year terms. Hotel prices were soaring in 2021 and early 2022, but as of December were only up 3.2% from a year earlier.

At some point, if employers recognize that their vacant job is one that they can't hope to fill at a wage that will leave profits on the table, these job vacancies might simply be cancelled. Or a slowing in the goods sector could see workers pushed into accepting hotel, restaurant and other vacant service jobs at lower pay scales. The latter scenario would see the jobless rate stay low even if layoffs accelerate, but would still help engender the cooling in wage pressures that the Fed is looking for. Today's payrolls data buttresses the case for another quarter point rate hike in March, but if inflation remains tame, the Fed might be willing to stay on hold thereafter if it decides that we might not need as much slack in the labour market to reach their inflation objectives.

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, February 6	10:00 AM	IVEY PMI	(Jan)	(L)	-	-	33.4
Tuesday, February 7	8:30 AM	MERCHANDISE TRADE BALANCE	(Dec)	(H)	-$0.5B	-	-$0.04B
Wednesday, February 8	-	AUCTION: 2-YR CANADAS $3.5B	-	-	-	-	-
Wednesday, February 8	1:30 PM	BoC Summary of deliberations	-	-	-	-	-
Thursday, February 9	-	-	-	-	-	-	-
Friday, February 10	8:30 AM	EMPLOYMENT CHANGE	(Jan)	(H)	5.0K	-	69.2K
Friday, February 10	8:30 AM	UNEMPLOYMENT RATE	(Jan)	(H)	5.1%	-	5.0%
Friday, February 10	10:30 AM	Senior Loan Officer Survey	-	-	-	-	-

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, February 6	-	-	-	-	-	-	-
Tuesday, February 7	-	AUCTION: 3-YR TREASURIES $40B	-	-	-	-	-
Tuesday, February 7	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Dec)	(H)	-$68.4B	-$68.5B	-$61.5B
Tuesday, February 7	3:00 PM	CONSUMER CREDIT	(Dec)	(L)	-	$25.00B	$27.96B
Tuesday, February 7	12:00 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, February 7	2:00 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Wednesday, February 8	-	AUCTION: 10-YR TREASURIES $35B	-	-	-	-	-
Wednesday, February 8	7:00 AM	MBA-APPLICATIONS	(Feb 3)	(L)	-	-	-9.0%
Wednesday, February 8	9:15 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Wednesday, February 8	9:30 AM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Wednesday, February 8	10:00 AM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Wednesday, February 8	10:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Wednesday, February 8	12:30 PM	Speaker: Neel Kashkari (Minneapolis) (Voter)	-	-	-	-	-
Wednesday, February 8	1:45 PM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Thursday, February 9	-	30-YR AUCTION: $21B	-	-	-	-	-
Thursday, February 9	8:30 AM	INITIAL CLAIMS	(Feb 4)	(M)	-	195K	183K
Thursday, February 9	8:30 AM	CONTINUING CLAIMS	Jan 28)	(L)	-	-	1655K
Friday, February 10	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Feb P)	(H)	-	65.0	64.9
Friday, February 10	2:00 PM	TREASURY BUDGET	(Jan)	(L)	-	-	-$85.0B
Friday, February 10	12:30 PM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Friday, February 10	4:00 PM	Speaker: Patrick Harker (Philadelphia) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, it's a light week ahead for the economic calendar. A deluge of Fed speakers have a chance to gently push back against the very dovish market interpretation of the Fed Chair's muddled remarks, while of course acknowledging the progress made against inflation thus far.

In **Canada**, a marginally wider goods trade deficit likely won't be a market mover, leaving Friday's jobs data to take centre stage. Q4 employment gains looked a bit too brisk relative to the paltry monthly advances for real GDP over that period, and job vacancies were narrowing, suggesting that we're set up for little if any employment gain for January and at least some uptick in the unemployment rate. But as always, these household survey data come with a lot of volatility (and, in last year's data, seasonal adjustments that were subsequently revised materially), so there's plenty of room for a surprise either way.

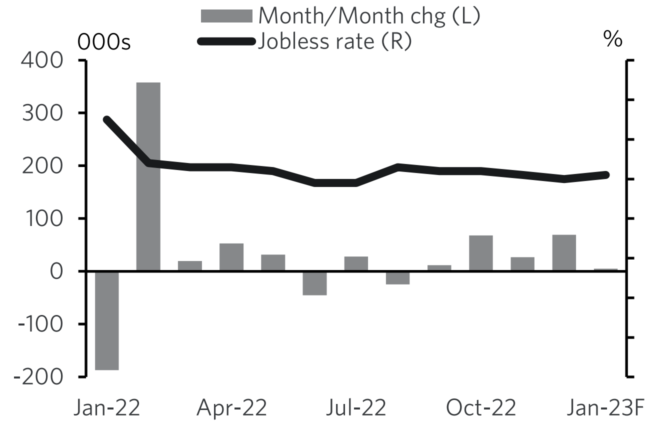
Week Ahead's key Canadian number: Labour force survey—January

(Friday, 8:30am)

Andrew Grantham andrew.grantham@cibc.com

Variable	CIBC	Mkt	Prior
Employment (m/m)	5.0K	-	69.2K
Unemployment rate	5.1%	-	5.0%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Statistics Canada's annual revisions released last week appear to have smoothed out some of the monthly volatility seen during 2022, which we suspected was due to difficulties in seasonal adjustment following the lockdowns and reopenings of previous years. However, December's downwardly revised 69K gain is still well above the pace we would deem consistent with only very modest growth in GDP. A decline in job vacancies late last year also suggests that companies had either already filled positions or were putting hiring plans on the backburner. We forecast a modest 5K gain in employment during January, which would be below the pace of labour force growth and see the unemployment rate tick up to 5.1%.

Forecast implications — Employment growth will slow and some job losses could be seen over the next few months, causing a rise in the unemployment rate from the near-record lows seen recently. However, with staff sickness and absenteeism likely to remain elevated relative to 2019, requiring companies to keep more staff for any given level of demand, we suspect that the rise in unemployment will be less severe than seen in previous slowdowns.

Other Canadian releases: Merchandise trade balance—December

(Tuesday, 8:30 am)

The Canadian trade balance dipped a toe into deficit waters in November, but could have moved into deeper waters during December. That's largely due to a further decline in oil prices. Following some monthly volatility caused by a normalization in pharmaceutical exports and production issues in US auto manufacturing, trade volumes should look stronger in December than they were in the previous month.

There are no major US data releases next week.

Contacts:

Avery Shenfeld
416 594-7356
avery.shenfeld@cibc.com

Benjamin Tal
416 956-3698
benjamin.tal@cibc.com

Andrew Grantham
416 956-3219
andrew.grantham@cibc.com

Karyne Charbonneau
613 552-1341
karyne.charbonneau@cibc.com

Katherine Judge
416 956-6527
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
Bloomberg @ CIBC

economics.cibccm.com