

Economics

THE WEEK AHEAD

April 10 - 14, 2023

How bad is the good news?

by Avery Shenfeld avery.shenfeld@cibc.com

In this topsy-turvy world, good news for the economy isn't really what we're looking for. If the slowdown that central banks are aiming at fails to materialize, that could force yet more rate hikes, and risk a harder landing. So how bad is the good news we've been hearing about the Canadian economy through its first few months of 2023 from the perspective of our own central bank?

First quarter growth looks headed for something close to 3%, materially above the last Bank of Canada projection for a 0.5% pace. But that good news likely isn't as bad as it appears in terms of its inflationary consequences. Increased quarterly volatility in economic activity since the pandemic hit makes it more difficult for statistical methods to isolate seasonality from other changes in the data, and it will take a few years of calmer waters to be confident about seasonal adjustments.

Statistics Canada acknowledged that in reporting on a huge gain in January exports that could be distorted somewhat. A mild winter may also have brought forward some spring activity. If we put Q4 and Q1 together to smooth out some of those issues, annualized growth over that period looks to be averaging a more moderate 1½.

Moreover, some of the gains are coming from two factors that should have opened up some additional elbow room for non-inflationary growth: more workers, and improved supply chains. Canada's labour force has grown at an annualized 3.4% in the last six months, averaging 58 thousand new entrants each month. Improving supply chains are part of the story behind the 6% growth we've seen in year-to-date car and truck production in Canada to February over the prior year period. The same trend in the US is starting to improve inventory levels, and likely easing inflation for new vehicles ahead.

The fly in the ointment has been weak productivity growth. Even with that, the Bank's MPR could end up adding a bit more room for non-inflationary GDP gains if it decides that some of the "supply" headwinds are abating.

New data for the fourth quarter showed that brisk hiring made some headway in reducing job vacancies, which could help moderate the wages that employers are willing to offer ahead. Canada's various sources of wage data each have considerable flaws, which is why the Bank of Canada aggregates several such measures rather than rely on any one of them. But the payrolls (SEPH) data for January, generally more reliable than wages from the Labour Force (household) Survey, showed a sizeable, if a bit implausible, deceleration in year-on-year and monthly pay rate changes in its fixed-weighted index.

Finally, what really counts for the week ahead's Bank of Canada decision is whether, after the rebound over the winter, they have reason to believe that growth will again slow in the quarters ahead. There the answer is still a decided "yes", so an upward revision in next week's MPR forecast for Q1 needn't carry through to future quarters. One signpost in that direction has been the almost universal malaise we're seeing in manufacturing ISM indexes in North America and Europe, a typical hallmark of a recessionary period. The Bank's business outlook survey, which we don't weight as heavily as the BoC seems to, also reported a subdued outlook, a bit of a surprise since the poll was taken during the bump up in Q1 growth.

All that said, the Bank of Canada won't be completely willing to dismiss the "bad" news about better growth to start this year, and will therefore be far from joining the market's thinking about rate cuts coming soon. For that, we'll really need to see some genuinely bad news, in the form of higher unemployment and a drop in output for a quarter or two.

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, April 10	-	-	-	-	-	-	-
Tuesday, April 11	-	AUCTION: 3-M BILLS \$11.6B, 6-M BILLS \$4.2B, 1-YR BILLS \$4.2B	-	-	-	-	-
Wednesday, April 12	10:00 AM	BANK OF CANADA RATE ANNOUNCE.	(Apr 12)	(H)	4.50%	4.50%	4.50%
Wednesday, April 12	11:00 AM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Thursday, April 13	-	AUCTION: 2-YR CANADAS	-	-	-	-	-
Thursday, April 13	9:00 AM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Friday, April 14	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Feb)	(M)	-2.5%	-	4.1%
Friday, April 14	9:00 AM	EXISTING HOME SALES M/M	(Mar)	(M)	-	-	2.3%

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, April 10	10:00 AM	WHOLESALE INVENTORIES M/M	(Feb)	(L)	-	0.2%	0.2%
Monday, April 10	4:15 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, April 11	-	AUCTION: 3-YR TREASURIES	-	-	-	-	-
Tuesday, April 11	1:30 PM	Speaker: Austan D. Goolsbee, Chicago (Voter)	-	-	-	-	-
Tuesday, April 11	6:00 PM	Speaker: Patrick Harker (Philadelphia) (Voter)	-	-	-	-	-
Tuesday, April 11	7:30 PM	Speaker: Neel Kashkari (Minneapolis) (Voter)	-	-	-	-	-
Wednesday, April 12	-	AUCTION: 10-YR TREASURIES	-	-	-	-	-
Wednesday, April 12	7:00 AM	MBA-APPLICATIONS	(Apr 7)	(L)	-	-	-4.1%
Wednesday, April 12	8:30 AM	CPI M/M	(Mar)	(H)	0.2%	0.3%	0.4%
Wednesday, April 12	8:30 AM	CPI M/M (core)	(Mar)	(H)	0.4%	0.4%	0.5%
Wednesday, April 12	8:30 AM	CPI Y/Y	(Mar)	(H)	5.2%	5.2%	6.0%
Wednesday, April 12	8:30 AM	CPI Y/Y (core)	(Mar)	(H)	5.6%	5.6%	5.5%
Wednesday, April 12	2:00 PM	TREASURY BUDGET	(Mar)	(L)	-	-	-\$192.6B
Wednesday, April 12	2:00 PM	FOMC Meeting Minutes	(Mar 22)	-	-	-	-
Wednesday, April 12	9:00 AM	Speaker: Thomas I. Barkin (Richmond) (Non-Voter)	-	-	-	-	-
Thursday, April 13	-	AUCTION: 30-YR TREASURIES	-	-	-	-	-
Thursday, April 13	8:30 AM	INITIAL CLAIMS	(Apr 8)	(M)	-	-	-
Thursday, April 13	8:30 AM	CONTINUING CLAIMS	(Apr 1)	(L)	-	-	-
Thursday, April 13	8:30 AM	PPI M/M	(Mar)	(M)	0.0%	0.0%	-0.1%
Thursday, April 13	8:30 AM	PPI M/M (core)	(Mar)	(M)	0.3%	0.3%	0.0%
Thursday, April 13	8:30 AM	PPI Y/Y	(Mar)	(M)	-	-	4.6%
Thursday, April 13	8:30 AM	PPI Y/Y (core)	(Mar)	(M)	-	-	4.4%
Friday, April 14	8:30 AM	IMPORT PRICE INDEX M/M	(Mar)	(L)	-	-0.1%	-0.1%
Friday, April 14	8:30 AM	EXPORT PRICE INDEX M/M	(Mar)	(L)	-	-0.2%	0.2%
Friday, April 14	8:30 AM	RETAIL SALES M/M	(Mar)	(H)	-0.6%	-0.4%	-0.4%
Friday, April 14	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Mar)	(H)	-0.6%	-0.4%	-0.1%
Friday, April 14	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Mar)	(H)	-0.6%	-0.5%	0.5%
Friday, April 14	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Mar)	(H)	0.2%	0.2%	0.0%
Friday, April 14	9:15 AM	CAPACITY UTILIZATION	(Mar)	(M)	79.2%	79.0%	79.1%
Friday, April 14	10:00 AM	BUSINESS INVENTORIES M/M	(Feb)	(L)	-	0.3%	-0.1%
Friday, April 14	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Apr P)	(H)	-	64.0	62.0

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're a shade lower than the consensus on headline CPI and retail sales, but the gaps might not be that meaningful for markets. We're writing this Week Ahead a day ahead of the US payrolls data, which will likely be more instrumental in setting market views on the state of the economy. Fed representatives continue to back a further quarter point hike, which is in our forecast for May, and it's really up to the labour market to show more slack if the central bankers are going to be deterred from that final nudge higher.

In **Canada**, there won't be any surprises for markets if, as we expect, the Bank of Canada leaves rates unchanged. But there's just too much momentum in recent indicators for the Bank to eliminate its warning that additional hikes could still be required. There could be some acknowledgement that the non-inflationary level for real GDP could be higher than their last estimate, given the population and labour force surge we've just seen. We're also due for an update of the neutral rate. The Fed's policy committee left the "long run" projection for the fed funds rate unchanged at 2.5%, and that has a major impact on the Canadian neutral rate calculation by the Bank of Canada, which could therefore retain that same figure as the midpoint of its estimated range.

There are no major Canadian data releases next week.

Week Ahead's key US number: CPI—March

(Wednesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Headline CPI m/m	0.2	0.3	0.4
Headline CPI y/y	5.2	5.2	6.0
Core CPI m/m	0.4	0.4	0.5
Core CPI y/y	5.6	5.6	5.5

A re-acceleration in core service prices outside of housing in February kept policymakers on high alert, and although the March data will likely provide some signs of relief on that front, it won't be enough to prevent a final quarter point rate hike ahead. Indeed, core CPI likely decelerated to 0.4% m/m, in line with flagging consumer demand as excess savings have dwindled and the labor market has slowed, but that's still too hot of a pace to achieve on-target inflation.

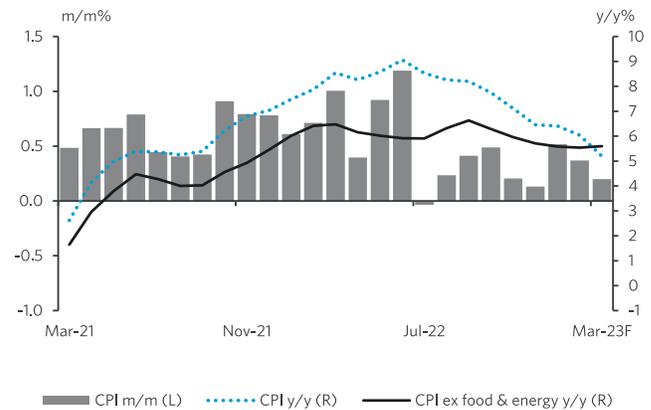
Although private measures of used car prices have increased recently, the weight of that component in the CPI index has fallen sharply, and other measures of goods prices, including the PPI for finished core consumer goods, suggest that pressure in core goods prices could have been limited. Adding food and energy prices back into the mix likely showed more modest price pressures of 0.2% m/m for the total CPI, as prices at the pump fell in seasonally-adjusted terms.

Other US Releases: Retail sales—March

(Friday, 8:30 am)

Unit auto sales fell further in March, and in combination with the drop in gasoline prices, likely resulted in a 0.6% drop in total retail sales. That will also include weakness in the control group of sales (ex. autos, gasoline, restaurants, and building materials), which feeds more directly into non-auto goods consumption in GDP. Indeed, sales could have also decreased by 0.6% in that group, as there have been signs of demand in discretionary categories waning. Moreover, real control group sales were still 6.7% above pre-pandemic trendlines as of February, and services could have garnered more funds than goods in March, given the generally higher pace of inflation in those sectors.

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

Forecast implications — The jump in oil prices on the OPEC+ production cut announcement will clearly add to inflationary pressures in April, and will leave less money for spending elsewhere. With housing inflation set to peak soon, and a deterioration in the labor market set to continue as previously announced layoffs come to fruition and the impact of past rate hikes materializes more fully, core inflation is set to fall below 3% y/y by the end of the year.

Market impact — We're nearly in line with the consensus expectation, which should limit market reaction.

Industrial production—March

(Friday, 9:15 am)

Industrial production stalled in February, and likely ended the first quarter with a tepid 0.2% advance. Activity in the factory sector could have waned, as the ISM's production and new orders sub-indices have been in negative territory for months, and rig counts also fell in March. Higher utilities production could have provided an offset, as temperatures returned closer to seasonal norms.

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