

Economics

# THE WEEK AHEAD

Nov 13 - 17, 2023

## Canadian inflation: A sticky situation?

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

What comes next for Canadian interest rates boils down to two questions: does the economy remain fragile, and second, does that bring inflation to heel over the coming year? The past week’s summary of deliberations shows that the Bank of Canada seems aligned on sluggish growth continuing, but more divided on whether inflation will prove to be sticky.

Governor Macklem, in various recent remarks, seems a bit less worried about inflation becoming a sticky situation. History would suggest that the opening up of slack in the labour market will ease wage inflation, and that the resulting downward pressure on business costs and household spending power will then see a moderation in prices. So why the worry among his deputies?

Some of the factors cited in the summary of the last BoC meeting seem unlikely to persist. Oil prices have already reversed course, as fears of a wider Middle East conflict haven’t offset slowing global demand growth.

Yes, wage hikes are elevated, but the unemployment rate is on a clear uptrend, and job vacancies are also moving decisively towards looser conditions. We know of no persuasive argument that would suggest that labour market slack will fail to show up in less robust pay hikes in the coming year.

Some at the BoC are fretting that corporate behaviour has morphed towards more frequent and larger price hikes. Companies do want higher prices for their products or services. It was ever thus. But the last we looked, it was supply AND demand that determined where prices settle. Weaker spending power as the job market softens should ensure that firms testing out larger price jumps will find their products piling up on shelves and their services going unwanted.

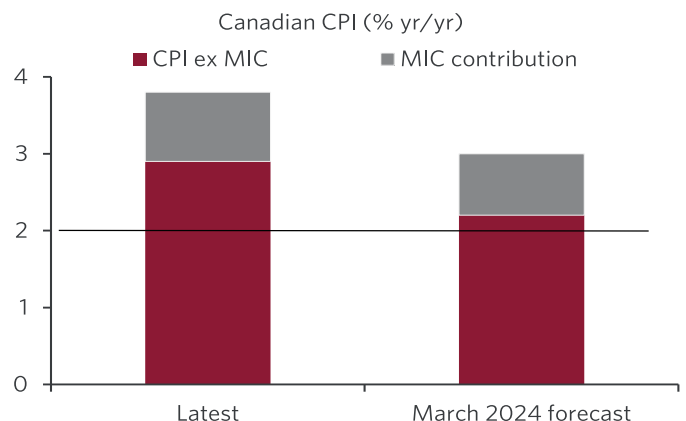
There is, however, one truly sticky situation in Canada’s inflation mix, but not one that will necessitate further rate hikes ahead. That’s in shelter costs. Of its key drivers, one now looks to be cooling, as it’s tied to house prices. The two others, mortgage interest costs (MIC) and rent, are both being exacerbated by higher interest rates. The MIC component captures renewals

that are resetting maturing loans at higher rates. With a lag, rents are pushed higher as mortgage rates shut some Canadians out of home ownership, and the supply of new units slows due to higher financing costs.

In a recent interview, the Governor was careful to say that an easing cycle could begin before overall inflation reached the 2% target if there was clear evidence of progress in “core” inflation. Note the emphasis on core, which the BoC tracks with the median and trimmed mean CPI. The latter has consistently trimmed out increases in MIC in the past year, as they’ve been outliers on the high side.

The Bank of Canada’s core measures are likely to make better progress in the months ahead, particularly if food price hikes abate. If, as we expect, Q1 core inflation falls, but the overall CPI ends up near 3% due to the outsized contribution from MIC, we’ll be set up for rate cuts before mid-year. Oddly enough, sticky inflation in this case will be a reason to ease up on rates.

**Chart: Soon, mortgage interest costs will be primary reason for above-target inflation**



Source: Statistics Canada, CIBC

## 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, November 13	-	Bond Market Closed (Remembrance Day)	-	-	-	-	-
Tuesday, November 14	-	-	-	-	-	-	-
Wednesday, November 15	-	AUCTION: 2-YR CANADAS \$5.5B	-	-	-	-	-
Wednesday, November 15	8:30 AM	WHOLESALE SALES EX. PETROLEUM M/M	(Sep)	(M)	0.2%	-	2.3%
Wednesday, November 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Sep)	(M)	0.0%	-	0.7%
Wednesday, November 15	9:00 AM	EXISTING HOME SALES M/M	(Oct)	(M)	-	-	-1.9%
Thursday, November 16	8:15 AM	HOUSING STARTS SAAR	(Oct)	(M)	255K	-	270.5K
Friday, November 17	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Oct)	(M)	-	-	0.4%
Friday, November 17	8:30 AM	RAW MATERIALS M/M	(Oct)	(M)	-	-	3.5%
Friday, November 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Sep)	(M)	-	-	-\$8.5B

## 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, November 13	2:00 PM	TREASURY BUDGET	(Oct)	(L)	-	-\$65.0B	-\$171.0B
Tuesday, November 14	8:30 AM	CPI M/M	(Oct)	(H)	0.2%	0.1%	0.4%
Tuesday, November 14	8:30 AM	CPI M/M (core)	(Oct)	(H)	0.3%	0.3%	0.3%
Tuesday, November 14	8:30 AM	CPI Y/Y	(Oct)	(H)	3.4%	3.3%	3.7%
Tuesday, November 14	8:30 AM	CPI Y/Y (core)	(Oct)	(H)	4.1%	4.1%	4.1%
Tuesday, November 14	11:15 AM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Tuesday, November 14	12:45 PM	Speaker: Austan D. Goolsbee, Chicago (Voter)	-	-	-	-	-
Wednesday, November 15	7:00 AM	MBA-APPLICATIONS	(Nov 10)	(L)	-	-	2.5%
Wednesday, November 15	8:30 AM	RETAIL SALES M/M	(Oct)	(H)	-0.2%	-0.3%	0.7%
Wednesday, November 15	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Oct)	(H)	0.0%	-0.2%	0.6%
Wednesday, November 15	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Oct)	(H)	0.3%	0.2%	0.6%
Wednesday, November 15	8:30 AM	PPI M/M	(Oct)	(M)	0.1%	0.1%	0.5%
Wednesday, November 15	8:30 AM	PPI M/M (core)	(Oct)	(M)	0.3%	0.3%	0.3%
Wednesday, November 15	8:30 AM	PPI Y/Y	(Oct)	(M)	-	-	2.2%
Wednesday, November 15	8:30 AM	PPI Y/Y (core)	(Oct)	(M)	-	-	2.7%
Wednesday, November 15	8:30 AM	NEW YORK FED (EMPIRE)	(Nov)	(M)	-	-2.1	-4.6
Wednesday, November 15	10:00 AM	BUSINESS INVENTORIES M/M	(Sep)	(L)	-	0.4%	0.4%
Thursday, November 16	8:30 AM	INITIAL CLAIMS	(Nov 11)	(M)	-	-	217K
Thursday, November 16	8:30 AM	CONTINUING CLAIMS	(Nov 4)	(L)	-	-	1834K
Thursday, November 16	8:30 AM	IMPORT PRICE INDEX M/M	(Oct)	(L)	-	-0.3%	0.1%
Thursday, November 16	8:30 AM	EXPORT PRICE INDEX M/M	(Oct)	(L)	-	-	0.7%
Thursday, November 16	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Oct)	(H)	-0.3%	-0.4%	0.3%
Thursday, November 16	9:15 AM	CAPACITY UTILIZATION	(Oct)	(M)	79.4%	79.4%	79.7%
Thursday, November 16	10:00 AM	NAHB HOUSING INDEX	(Nov)	(L)	-	40.0	40.0
Thursday, November 16	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Sep)	(L)	-	-	\$63.5B
Thursday, November 16	8:30 AM	Speaker: Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-
Thursday, November 16	9:25 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, November 16	10:35 AM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Thursday, November 16	11:45 AM	Speaker: Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-
Friday, November 17	8:30 AM	BUILDING PERMITS SAAR	(Oct)	(H)	1420K	1450K	1471K
Friday, November 17	8:30 AM	HOUSING STARTS SAAR	(Oct)	(M)	1320K	1350K	1358K
Friday, November 17	8:45 AM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Friday, November 17	9:45 AM	Speaker: Austan D. Goolsbee, Chicago (Voter)	-	-	-	-	-
Friday, November 17	10:00 AM	Speaker: Mary C. Daly (San Francisco) (Non-Voter)	-	-	-	-	-

## Week Ahead's market call

by Avery Shenfeld

In the **US**, inflation isn't yet where the Fed wants to see it. We're a touch higher than consensus on the headline number, but in line with the pack in expecting a 0.3% gain in core. Watch for the usual dissecting of core services and other subcategories to guide how markets react. September was such a red hot month for retailing that it's reasonable to expect a cooling pace in October, although our forecasts are a hair above consensus. Strikes will distort industrial production to the downside. We'll get more chattering from FOMC members, who look more divided on whether a further hike will be needed than the impression left by Powell's dovish post-meeting remarks.

In **Canada**, the bond market will close on Monday, and the rest of the week also gets a rest in terms of economic data, leaving the focus on corporate earnings and US news. The tone of reports on wholesaling, manufacturing and housing starts will be consistent with what we're seeing overall: not yet an outright recession, but no growth either.

**There are no major Canadian data releases next week.**

## Week Ahead's key US number: CPI—October

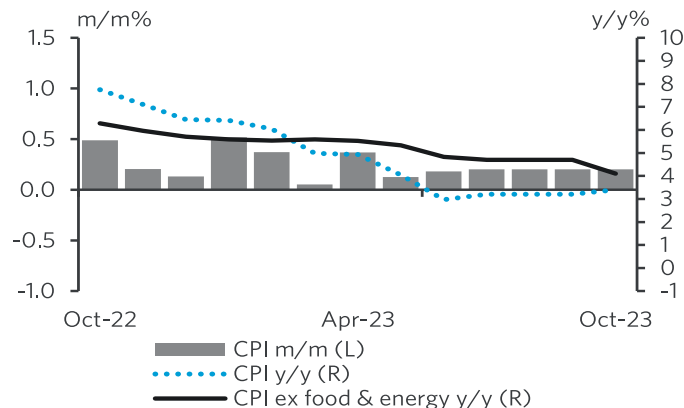
(Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.2	0.1	0.4
Headline CPI (yr/yr)	3.4	3.3	3.7
Core CPI (m/m)	0.3	0.3	0.3
Core CPI (yr/yr)	4.1	4.1	4.1

We expect next week's October CPI will show that core inflation remains just outside of a range consistent with target, coming in at 0.3% m/m. Weaker energy prices will likely result in a softer headline reading around 0.2% m/m. Inflation will continue to reflect a tug-of-war between firming price pressures in demand-sensitive categories such as core services ex. shelter and easing goods prices from the normalization in supply chains. The Fed will be looking for clues about the persistence of these two forces as it assesses the appropriate degree of monetary restraint. Shelter inflation will also be important to watch as it surprised in September and has been somewhat stickier than expected this year.

Chart: US Consumer price index



Source: BLS, Haver Analytics, CIBC

**Forecast implications** — The Fed is keeping an open mind about further rate hikes and remains in a firmly data-dependent position. With inflation no longer excessively above target, that means they will continue to assess the totality of the data. In that sense, the October CPI is important but not a make-or-break for the December decision.

**Market implications** — Our views on inflation are closely aligned with the consensus. Given where market pricing is, an upside surprise on inflation will likely generate a strong reaction. But the details will matter. The Fed will look through idiosyncratic shocks but will be worried about a broadening of price pressures. The same goes for a soft reading. If driven once again by sharp disinflation in used cars while other demand-sensitive categories edge up, the market could be underpricing Fed action in that case.

## Other US Releases: Retail sales—October

(Wednesday, 8:30 am)

High-frequency credit card spending data point to a further pick up in the retail control group in October, which we think will be 0.3% m/m. Weak auto sales and gas prices in October, however, will likely cause the headline advanced reading to show a contraction of -0.2% m/m. The October retail sales report will be just as an important CPI next week as it provides a signal about the underlying strength of the economy. A reading above our forecast and the steadying of the saving rate at a very low level would challenge's the Fed's theory that the supply-side of the economy is partly responsible for surge in activity.

**Forecast implications** — October retail sales has very important implications for Q4 GDP, because October has a large weight in the quarterly annualized GDP growth calculation and the control category of retail sales proxies for about 13% of GDP. There's a greater risk of an upside surprise given the tightness in the labour market and the signal from high-frequency data.

## Industrial production—October

(Thursday, 9:15 am)

Industrial production should hit a temporary snag with a 0.3% drop in October as the impact of UAW auto workers strike will weigh on manufacturing.

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