Economics

THE WEEK AHEAD

October 23 - 27, 2023

A penny saved

by **Avery Shenfeld** avery.shenfeld@cibc.com

To twist Benjamin Franklin's aphorism, in economics, a penny saved is a penny not spent. While Canada no longer mints those single cent pieces, there are now more quarters and loonies piling up in savings than was the case prior to the pandemic as a share of income. That's a key reason why the Bank of Canada should be setting aside the notion that further rate hikes are necessary to cool economic growth and thereby contain inflation, although we expect it to leave that prospect alive even as it keeps rates on hold in the coming week.

A shift towards putting more money aside as savings is a powerful signal that high interest rates are working as intended. The greater reward for savings with real interest rates now positive, and the higher cost of borrowing, is designed to induce such a shift. After all, some households earn net interest income, as do some businesses, while others pay it, but all economic agents are rewarded more for saving more of their pennies and borrowing fewer when rates are high.

What's notable these days is that Canada is in good company in seeing higher savings rates in response to central bank rate hikes (Chart). Not as high as during pandemic lockdowns, when COVID risks sent services activity plummeting, but higher than what we saw in each region at the lower interest rates that prevailed prior to the pandemic. As the New York Fed noticed, the US is the big exception in that regard, and its falling savings rate is behind America's brisk consumer spending this year, a signal that interest rates really aren't biting there yet.

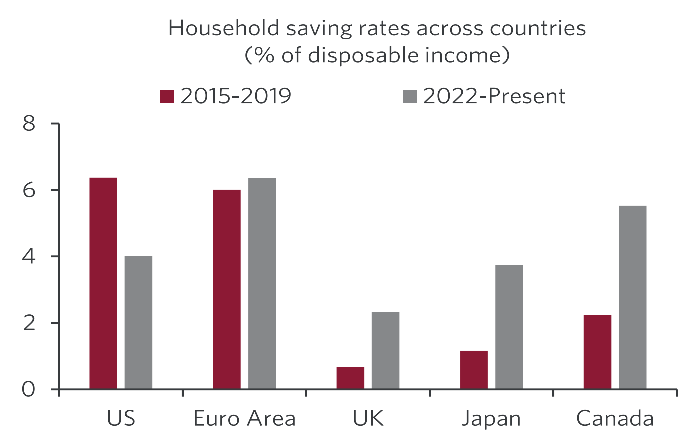
Why that difference? The NY Fed cites the ability to spend down funds accumulated during the pandemic. But Canadians also piled up savings in that period, and in both countries, inflation, and weaker capital markets, have combined to erode that slush fund in terms of its purchasing power, to the point where the pool of assets no longer looks that impressive relative to the current level of consumer spending.

Perhaps it's that Americans aren't fretting as much about their current debt burdens, which are lower than those in Canada, and locked in for up to 30 years at ultra-low interest rates. Canadians who have mortgage renewals ahead might be adding to precautionary savings, or unable to qualify for further borrowing, given what's hitting them on what they already owe. Those in the UK face a similar issue. Slower growth in Canada, the UK and much of the EU might also beget higher savings rates, as households put aside more of their pennies or euros for what could be rainier days ahead for employment prospects.

Whatever the cause, a more cautious household sector, and the resulting hit to spending patterns, justifies a pause on rate hikes in Canada and perhaps in some overseas economies, even if the Fed continues to deliver another hike this year.

Inflation isn't cured in any of these major industrialized economies. But in a Canadian economy that started the year in excess demand and a tight labour market, we shouldn't have expected inflation to melt away after only a few quarters of sluggish growth. We'll need more such quarters, and the resulting increase in slack in the labour market, for the disinflationary impacts of a higher rates to show up. But those accumulating pennies saved, and pennies not spent, are a signal that interest rates are already high enough to work their magic, and it's far too soon to decide that inflation will be sticky once the economy sees the further softening ahead.

Chart: Household saving rates above pre-pandemic levels outside the U.S.



Source: Federal Reserve of New York, 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, October 23	-	-	-	-	-	-	-
Tuesday, October 24	-	AUCTION: 3-M BILLS $11.6B, 6-M BILLS $4.2B, 1-YR BILLS $4.2B	-	-	-	-	-
Wednesday, October 25	10:00 AM	BANK OF CANADA RATE ANNOUNCE.	(Oct 25)	(H)	5.00%	5.00%	5.00%
Wednesday, October 25	11:00 AM	Press Conference: Monetary Policy Report	-	-	-	-	-
Thursday, October 26	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Aug)	-	-	-	4.9K
Friday, October 27	-	-	-	-	-	-	-

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 23	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Sep)	(M)	-	-	-0.2
Tuesday, October 24	-	AUCTION: 2-YR TREASURIES $51B	-	-	-	-	-
Tuesday, October 24	8:30 AM	PHILADELPHIA FED	(Oct)	(M)	-	-	-16.6
Tuesday, October 24	9:45 AM	S&P GLOBAL US SERVICES PMI	(Oct P)	(L)	-	49.4	50.1
Tuesday, October 24	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Oct P)	(L)	-	-	50.2
Tuesday, October 24	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Oct P)	(L)	-	49.5	49.8
Tuesday, October 24	10:00 AM	RICHMOND FED MANUF. INDEX	(Oct)	(M)	-	-	5.0
Wednesday, October 25	-	AUCTION: 5-YR TREASURIES $52B	-	-	-	-	-
Wednesday, October 25	-	AUCTION: 2-YR FRN $26B	-	-	-	-	-
Wednesday, October 25	7:00 AM	MBA-APPLICATIONS	(Oct 20)	(L)	-	-	-6.9%
Wednesday, October 25	10:00 AM	NEW HOME SALES SAAR	(Sep)	(M)	685K	684K	675K
Wednesday, October 25	10:00 AM	NEW HOME SALES M/M	(Sep)	(M)	1.5%	1.3%	-8.7%
Wednesday, October 25	4:35 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, October 26	-	AUCTION: 7-YR TREASURIES $38B	-	-	-	-	-
Thursday, October 26	8:30 AM	INITIAL CLAIMS	(Oct 21)	(M)	-	-	198K
Thursday, October 26	8:30 AM	CONTINUING CLAIMS	(Oct 14)	(L)	-	-	1734K
Thursday, October 26	8:30 AM	WHOLESALE INVENTORIES M/M	(Sep P)	(L)	-	-	-0.1%
Thursday, October 26	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Sep)	(H)	-	-$85.5B	-$84.6B
Thursday, October 26	8:30 AM	GDP (annualized)	(3Q A)	(H)	3.9%	4.3%	2.1%
Thursday, October 26	8:30 AM	GDP DEFLATOR (annualized)	(3Q A)	(H)	2.7%	2.5%	1.7%
Thursday, October 26	8:30 AM	RETAIL INVENTORIES M/M	(Sep)	(H)	-	-	1.1%
Thursday, October 26	8:30 AM	DURABLE GOODS ORDERS M/M	(Sep P)	(H)	0.2%	1.1%	0.1%
Thursday, October 26	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Sep P)	(H)	0.2%	0.3%	0.4%
Thursday, October 26	10:00 AM	PENDING HOME SALES M/M	(Sep)	(M)	-	1.0%	-7.1%
Thursday, October 26	9:00 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Friday, October 27	8:30 AM	PCE DEFLATOR Y/Y	(Sep)	(H)	3.4%	3.4%	3.5%
Friday, October 27	8:30 AM	PCE DEFLATOR Y/Y (core)	(Sep)	(H)	3.7%	3.7%	3.9%
Friday, October 27	8:30 AM	PERSONAL INCOME M/M	(Sep)	(H)	0.3%	0.4%	0.4%
Friday, October 27	8:30 AM	PERSONAL SPENDING M/M	(Sep)	(H)	0.7%	0.4%	0.4%
Friday, October 27	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Oct)	(H)	-	63.2	63.0
Friday, October 27	9:00 AM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, the GDP data will remind us that we're not seeing a slowdown, but an acceleration in growth in recent months. There's even some upside risk to our 3.9% projection if inventories fail to provide the drag that we've built in. There's not really much logic, then, to the talk of a Fed pause at the upcoming meeting, and as a result, that could be just another "skip", with a further hike in store for December. Thereafter, we're hoping that some of the resilience we're seeing stateside reflects a longer lag for rate hikes to kick in to the broader economy, with the most interest-sensitive part of the economy, home resales, looking quite weak, and lending to businesses showing no growth.

In **Canada**, look for the Bank of Canada to keep the overnight rate on hold at 5%. The statement will cite the ample evidence that economic growth has been curtailed by the rate hikes delivered thus far. We don't share the Bank's worry that inflation will prove sticky in the face of an evident economic slowdown, as it's too soon in the move from a tight economy to one with slack to have expected to see a drop in price pressures tied to domestic demand. But we sense that those worries, and references in the statement to the lack of downside momentum in key core inflation metrics, will see the Bank maintain a somewhat hawkish tone, with the statement's conclusion leaving the door open to further hikes if we don't see progress towards the 2% target in the months ahead.

There are no major Canadian data releases next week.

Week Ahead's key US number: Real GDP—Q3 (Advance)

(Thursday, 8:30 am)

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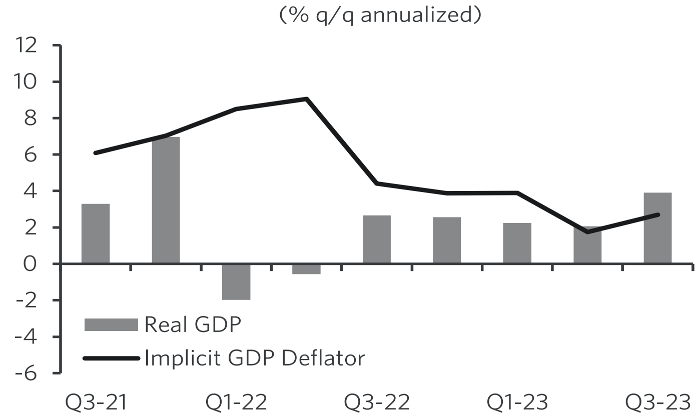
Variable (%)	CIBC	Mkt	Prior
GDP (q/q) annualized	3.9	4.3	2.1
GDP deflator	2.7	2.5	1.7

Chart: US GDP



Source: BEA, Haver Analytics, CIBC

The main event in the US data lineup this week will be the 23Q3 GDP print, and it should be a hot one. Our forecast calls for 3.9% Q/Q SAAR, not far below the consensus number of 4.3%. Most of the strength in GDP will come from the sizzling consumption prints we've seen. The wild card is the often volatile inventory measure, which we're expecting will be a drag given evidence of light production and weak imports, although it's less clear how that will translate into real inventories in the face of a softening in good prices.

Forecast implications — 23Q3 will set the stage for the momentum heading into 23Q4, and we are watching for the implied services consumption number as well as business investment. Large GDP prints are also subject to significant revisions, of about 1-2 percentage points. So the final story on 23Q3 GDP won't be resolved for another few months.

Market impact — A large GDP surprise based on inventories doesn't merit an overreaction. The Fed's primary focus in terms of economic activity is domestic demand and in particular, consumption. With a full slate of retail sales reports and two months of personal spending data, that information is already available. An upside surprise on business investment could provide further evidence of monetary restraint not being as effective as hoped for.

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