Economics

THE WEEK AHEAD

Aug 7 - 11, 2023

Still living the high life?

by Avery Shenfeld avery.shenfeld@cibc.com

F. Scott Fitzgerald noted that the rich "are different from you and me." But in one important way for the economy, a lot of Canadians have temporarily shared something in common with the monied class.

In normal times, the rich differ in that their consumer spending is much less tied to just how much money they made in a given year, as they can draw on their wealth to smooth out their consumption patterns. The average Canadian can't chase a Great Gatsby lifestyle. But in the past two years, many have been able to tap into an atypically large pool of savings, accumulated in the first half of the pandemic when travel, movies, and restaurants were shunned and spending therefore trailed incomes.

The Bank of Canada's latest policy report expressed concerns that this financial spending cushion might continue to dull the response to higher interest rates, necessitating a deeper pull back in incomes to cool spending. They pointed to the fact that across most income groups, the ratio of liquid household financial assets to spending is still elevated relative to its pre-pandemic level.

But a deeper dive into the data suggests that we have likely seen most if not all of the lift to spending coming from an excess pool of savings, and that Canadians are no longer, ahem, richer than they think. Instead, the liquid financial asset measure is simply capturing an unusually large share of total household financial assets, which don't look particularly elevated overall.

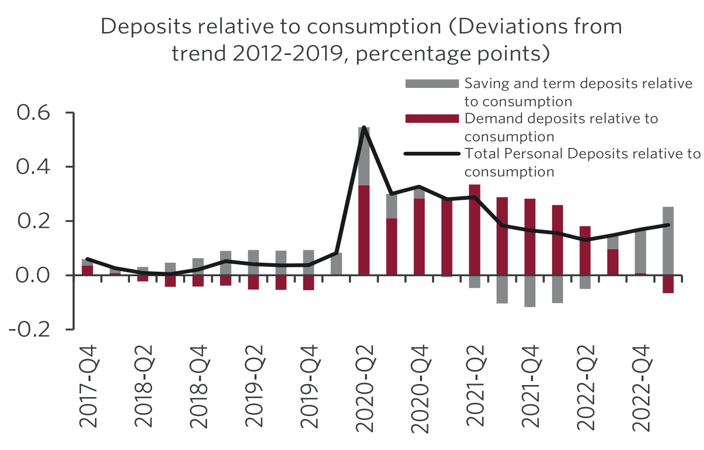
Relative to the pre-Covid trend, all of the excess in liquid assets is now showing up in term deposits and other vehicles that pay high interest rates (Chart). These assets are now tough competition for stocks and bonds. Funds in chequing accounts with much lower rates are no longer pushing us above trend. Moreover, Canadians that had their longer term savings in either stocks or bonds haven't had much to crow about in recent years, a reason why a 5% GIC might look tempting.

As a test of whether these funds are more likely to be spent rather than considered part of longer term savings, we can look at what's happened to Canadian's overall financial assets or net worth. Net worth is relevant, because Canadians have started to run up the credit card debts again, or have seen their home equity give back some earlier gains. In inflation adjusted terms, household net worth has fallen almost 10% from its late 2021 peak.

Focusing only the asset side of the ledger, and on financial assets so that housing price fluctuations are excluded, the picture is similar. Having soared during the first half of the pandemic, the ratio of total financial assets to consumption has now fallen back to its pre-2020 trend line.

All of this suggests that households aren't atypically flush with spending power, and their liquid financial assets look heavy only because they have allocated more of their overall portfolio to such deposits given their high yield, and some disappointments in the returns reaped on stocks, bonds and real estate of late. If so, while the rich can dip into their portfolios to keep spending as interest rates rise and job growth slows, other Canadians, as Fitzgerald said, will be different, and more likely to respond to the squeeze from higher borrowing costs and cooler job gains.

Chart: Liquid asset bulge might be for investments, given shift in type



Source: Statistics Canada, BoC, 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, August 7	-	Markets Closed (Civic Holiday)	-	-	-	-	-
Tuesday, August 8	8:30 AM	MERCHANDISE TRADE BALANCE	(Jun)	(H)	-$2.2B	-	-$3.4B
Wednesday, August 9	8:30 AM	BUILDING PERMITS M/M	(Jun)	(M)	-	-	10.5%
Thursday, August 10	-	-	-	-	-	-	-
Friday, August 11	-	-	-	-	-	-	-

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, August 7	3:00 PM	CONSUMER CREDIT	(Jun)	(L)	-	$13.5B	$7.2B
Monday, August 7	8:30 AM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter) & Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Tuesday, August 8	-	AUCTION: 1-YR TREASURIES $40B	-	-	-	-	-
Tuesday, August 8	-	AUCTION: 3-YR TREASURIES $42B	-	-	-	-	-
Tuesday, August 8	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Jun)	(H)	-$65.7B	-$65.0B	-$69.0B
Tuesday, August 8	10:00 AM	WHOLESALE INVENTORIES M/M	(Jun)	(L)	-	-0.3%	-0.3%
Tuesday, August 8	8:15 AM	Speaker: Patrick Harker (Philadelphia) (Voter)	-	-	-	-	-
Wednesday, August 9	-	AUCTION: 10-YR TREASURIES $38B	-	-	-	-	-
Wednesday, August 9	7:00 AM	MBA-APPLICATIONS	(Aug 4)	(L)	-	-	-3.0%
Thursday, August 10	-	AUCTION: 10-YR TREASURIES $23B	-	-	-	-	-
Thursday, August 10	8:30 AM	INITIAL CLAIMS	(Aug 5)	(M)	-	-	227K
Thursday, August 10	8:30 AM	CONTINUING CLAIMS	(Jul 29)	(L)	-	-	1700K
Thursday, August 10	8:30 AM	CPI M/M	(Jul)	(H)	0.2%	0.2%	0.2%
Thursday, August 10	8:30 AM	CPI M/M (core)	(Jul)	(H)	0.2%	0.2%	0.2%
Thursday, August 10	8:30 AM	CPI Y/Y	(Jul)	(H)	3.2%	3.3%	3.0%
Thursday, August 10	8:30 AM	CPI Y/Y (core)	(Jul)	(H)	4.7%	4.8%	4.8%
Thursday, August 10	2:00 PM	TREASURY BUDGET	(Jul)	(L)	-	-	-$227.8B
Thursday, August 10	3:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Friday, August 11	8:30 AM	PPI M/M	(Jul)	(M)	0.2%	0.2%	0.1%
Friday, August 11	8:30 AM	PPI M/M (core)	(Jul)	(M)	0.2%	0.2%	0.1%
Friday, August 11	8:30 AM	PPI Y/Y	(Jul)	(M)	-	0.7%	0.1%
Friday, August 11	8:30 AM	PPI Y/Y (core)	(Jul)	(M)	-	2.4%	2.4%
Friday, August 11	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Aug P)	(H)	-	71.0	71.6

Week Ahead's market call

by Avery Shenfeld

In the **US**, it's inflation week, and the 12-month CPI will no longer benefit from the easy year-on-year declines in energy prices. That said, the monthly pace for both headline and core prices should hold at 0.2%, with the only fly in the ointment being some upside risks to core services ex-shelter, an indicator that the Fed seems to be paying a bit more attention to than is probably warranted. June trade and PPI aren't likely to garner much attention, but we'll hear from a few Fed speakers and will be watching to see how they interpreted the latest job and wage figures.

In **Canada**, this spring's trade data have been swung around by distortions linked to fire-related disruptions, and looking ahead we'll also have some impacts from a port strike. Overall, trade wasn't helpful for Q2 GDP, but the recent firming in oil prices could support at least the nominal goods balance in Q3.

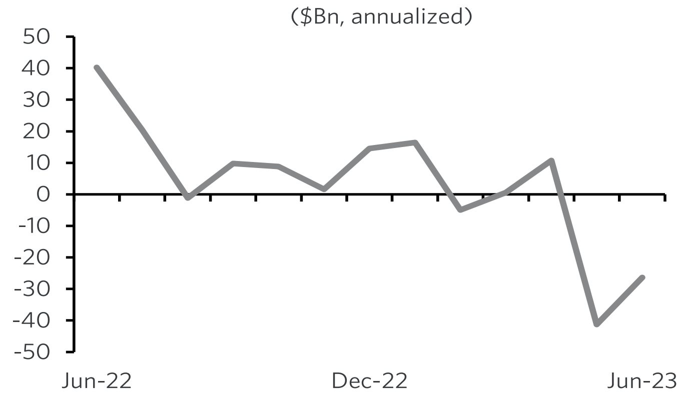
Week Ahead's key Canadian number: Merchandise trade balance—June

(Tuesday, 8:30 am)

Andrew Grantham andrew.grantham@cibc.com

Variable	CIBC	Mkt	Prior
Trade balance (Jun)	-$2.2B	-	-$3.4B

Chart: Canadian merchandise trade balance



Source: Statistics Canada, Haver Analytics, CIBC

Canada's trade balance took a big swing into deficit territory in May, albeit partly driven by some one-off factors that could have eased in June. On the import side, a large shipment of unwrought silver into Canada during the prior month likely won't be repeated. Meanwhile, the wildfires in Alberta that impacted oil and gas production within May's GDP figures may have also weighed on exports, and a partial recovery should be in store. So, even with oil prices down slightly relative to May, the trade deficit is expected to narrow to $2.2bn, from $3.4bn in the prior month.

Forecast implications — Net trade had been a big positive contributor to growth in prior quarters, but that appears to have come to an end in Q2. Still, some of the import growth seen recently could suggest strength in other areas of GDP, such as business investment or inventories, and as a result growth for the quarter is still expected to print close to the advance estimate of 1% annualized.

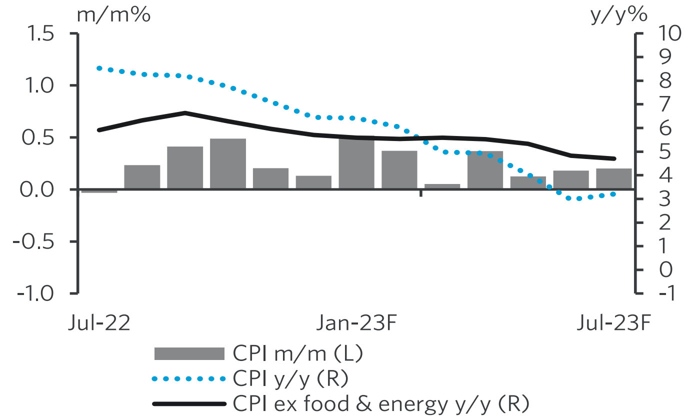
Week Ahead's key US number: CPI—July

(Thursday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.2	0.2	0.2
Headline CPI (y/y)	3.2	3.3	3.0
Core CPI (m/m)	0.2	0.2	0.2
Core CPI (y/y)	4.7	4.8	4.8

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

After some relief in core prices in June, price pressures likely maintained a 0.2% monthly pace in July for both headline and core (ex. food/energy) CPI. Unfavorable base effects will have propped up annual CPI inflation to 3.2%, while annual core inflation likely subsided to 4.7%.

Within core categories, shelter prices could have decelerated, reflecting the typical lag associated with softer rents seen last year, but the Fed will be focused on core services outside of rent of shelter, as that's a better gauge of underlying price pressures tied to demand. That measure was flat on a monthly basis in June, but that partly reflected a sizable drop in airfares that may not have extended into July. Still, even a bounce in core services ex. shelter to 0.3% m/m would leave the three-month annualized change at a tame 2.1%.

Forecast implications — The deceleration in annual core inflation should gain momentum ahead, helped by base effects, and core CPI could end the year at around 3%. While we don't expect to see enough of a cooling in the labor market to prevent a final 25bp rate hike in September, a slowdown in hiring thereafter, along with a further easing in core inflation, should leave the Fed on the sidelines after September.

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

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

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

economics.cibccm.com