

Economics

THE WEEK AHEAD

May 23-27, 2022

Bad news as good news

by Avery Shenfeld avery.shenfeld@cibc.com

They used to say that “what’s good for General Motors is good for America”, but that was back in the days when GM was the country’s largest company. Today’s version might substitute Amazon or Walmart, given that they dwarf any automaker in sales and market capitalization. But we’re actually at the stage of the cycle where what’s bad, or at least disappointing, for these and other retail giants could be seen as good for America in the medium term.

The past week saw earnings fall short of expectations in reports from some large retailers, sending nervous equity markets into a bit of a tailspin. The details in each of these reports, and what they mean for individual equities, are beyond our scope. But there’s a macroeconomic story woven into the themes that were common to several of them.

First, there were signs that retailers are having difficulty passing on all of the increase in their costs in what they can charge their customers. That may well be an early signpost for a turn in inflation, at least in the goods side of the economy. Pressed by higher prices for essentials like food and gasoline, and despite rising wages, Americans might not quite have enough to cover escalating inflation in everything else on the shelf.

Some reported rising inventories, consistent with official data that showed a climb in retail inventories since the start of the year. While supply chains aren’t fully healed, and can’t be while parts of China are in severe lockdowns, we might be seeing at least some relief on that front, which would also be a dampener on inflation.

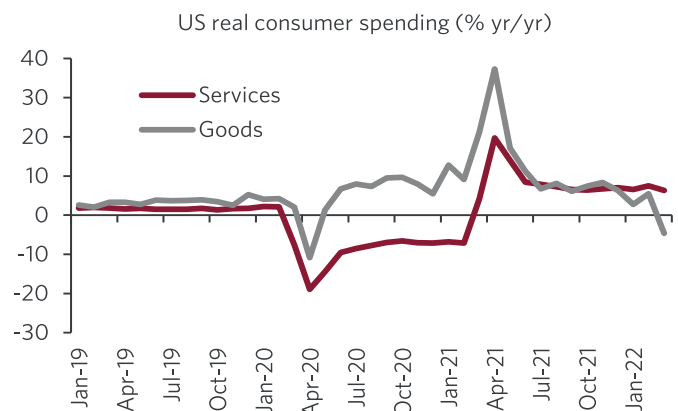
Consumer spending was still reasonably healthy in the first quarter, and could be revised higher given an upward revision to retailing data. But a handoff is underway from goods consumption, which has been miles above trend, towards services, which are outpacing the goods sector in year-on-year volume growth for the first time since the pandemic (Chart). The services sector is less constrained by capacity limitations

— it’s easier to get a hotel room these days than a newly made vehicle — and better positioned to absorb additional demand without as much of an inflationary bump.

The retailing results prompted a sharp sell-off in equities earlier this week, and while that might have been warranted for some of the companies that reported, their pain could be other’s gain. The biggest threat to the overall stock market at this point is that growth and inflation won’t show a sufficient response to the early rounds of interest rate hikes. That would not only see the Fed ramp up its monetary tightening, but as history shows, add to the risks that the central bank will push the economy into recession as it seeks that easing in price pressures.

That’s the one-two punch that the equity market is now fretting over: higher rates that lower equity multiples, coupled with a recession that crushes earnings. If, instead, a smaller dose of Fed medicine, and consumer resistance to higher prices, brings an earlier cooling, the recession risks would be significantly diminished.

Chart: Services takes the lead from goods



Source: BEA, 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, May 23	-	Markets Closed (Victoria Day)	-	-	-	-	-
Tuesday, May 24	-	AUCTION: 3-M BILLS \$8.6B, 6-M BILLS \$3.2B, 1-YR BILLS \$3.2B	-	-	-	-	-
Wednesday, May 25	-	AUCTION: 10-YR CANADAS \$4B	-	-	-	-	-
Thursday, May 26	-	AUCTION: 30-YR RRB \$400M	-	-	-	-	-
Thursday, May 26	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Mar)	-	-	-	-
Thursday, May 26	8:30 AM	RETAIL TRADE TOTAL M/M	(Mar)	(H)	1.4%	-	0.1%
Thursday, May 26	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Mar)	(H)	0.9%	-	2.1%
Friday, May 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, May 23	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Apr)	(M)	-	-	0.44
Monday, May 23	12:00 PM	Speaker: Raphael W. Bostic (President, Atlanta)	-	-	-	-	-
Monday, May 23	7:30 PM	Speaker: Esther George (President, Kansas City) (Voter)	-	-	-	-	-
Tuesday, May 24	-	AUCTION: 2-YR TREASURIES \$47B	-	-	-	-	-
Tuesday, May 24	9:45 AM	S&P GLOBAL US SERVICES PMI	(May P)	(L)	-	55.2	55.6
Tuesday, May 24	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(May P)	(L)	-	-	56.0
Tuesday, May 24	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(May P)	(L)	-	57.9	59.2
Tuesday, May 24	10:00 AM	RICHMOND FED MANUF. INDEX	(May)	(M)	-	9	14
Tuesday, May 24	10:00 AM	NEW HOME SALES SAAR	(Apr)	(M)	741K	750K	763K
Tuesday, May 24	10:00 AM	NEW HOME SALES M/M	(Apr)	(M)	-	-1.7%	-8.6%
Wednesday, May 25	-	AUCTION: 5-YR TREASURIES \$48B	-	-	-	-	-
Wednesday, May 25	-	AUCTION: 2-YR FRN \$22B	-	-	-	-	-
Wednesday, May 25	7:00 AM	MBA-APPLICATIONS	(May 20)	(L)	-	-	-11.0%
Wednesday, May 25	8:30 AM	DURABLE GOODS ORDERS M/M	(Apr P)	(H)	1.0%	0.6%	1.1%
Wednesday, May 25	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Apr P)	(H)	0.7%	0.6%	1.4%
Wednesday, May 25	2:00 PM	FOMC Meeting Minutes	(May 4)	-	-	-	-
Thursday, May 26	-	AUCTION: 7-YR TREASURIES \$42B	-	-	-	-	-
Thursday, May 26	8:30 AM	INITIAL CLAIMS	(May 21)	(M)	-	-	218K
Thursday, May 26	8:30 AM	CONTINUING CLAIMS	(May 14)	(L)	-	-	1317K
Thursday, May 26	8:30 AM	GDP (annualized)	(Q1 S)	(H)	-	-1.3%	-1.4%
Thursday, May 26	8:30 AM	GDP DEFLATOR (annualized)	(Q1 S)	(H)	-	8.0%	8.0%
Thursday, May 26	10:00 AM	PENDING HOME SALES M/M	(Apr)	(M)	-	-1.8%	-1.2%
Friday, May 27	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Apr)	(M)	-\$108.2B	-\$115.0B	-\$127.1B
Friday, May 27	8:30 AM	WHOLESALE INVENTORIES M/M	(Apr P)	(L)	-	-	2.3%
Friday, May 27	8:30 AM	RETAIL INVENTORIES M/M	(Apr)	(H)	-	-	2.0%
Friday, May 27	8:30 AM	PCE DEFLATOR Y/Y	(Apr)	(H)	6.3%	6.3%	6.6%
Friday, May 27	8:30 AM	PCE DEFLATOR Y/Y (core)	(Apr)	(H)	5.0%	4.9%	5.2%
Friday, May 27	8:30 AM	PERSONAL INCOME M/M	(Apr)	(H)	0.7%	0.5%	0.5%
Friday, May 27	8:30 AM	PERSONAL SPENDING M/M	(Apr)	(H)	0.8%	0.6%	1.1%
Friday, May 27	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(May F)	(H)	-	59.1	59.1

Week Ahead's market call

by Avery Shenfeld

In the **US**, our calls for durable orders and personal spending are a shade above the consensus, and spending for March could be revised higher in line with the earlier revision to retail sales. That could also flow through to a small improvement in the second estimate for Q1 GDP. The personal spending number, while amplified somewhat by inflation, might still represent a healthy 0.5% in real terms. None of these are likely to be major market movers, with the employment data the following week more of a focal point. We don't expect to learn much from the FOMC minutes, as it's abundantly clear that another 50 basis point move is on tap for the next meeting.

In **Canada**, a holiday-shortened trading week has only the retail figures in terms of major data releases. A strong March seems to have followed on the heels of a soft February, ending a robust quarter for the economy overall. The establishment level employment data don't typically get much attention, but they include one of the four wage measures tracked by the Bank of Canada, and are therefore worth a look given where we are in the cycle.

Week Ahead's key Canadian number: Retail sales—March

(Thursday, 8:30 am)

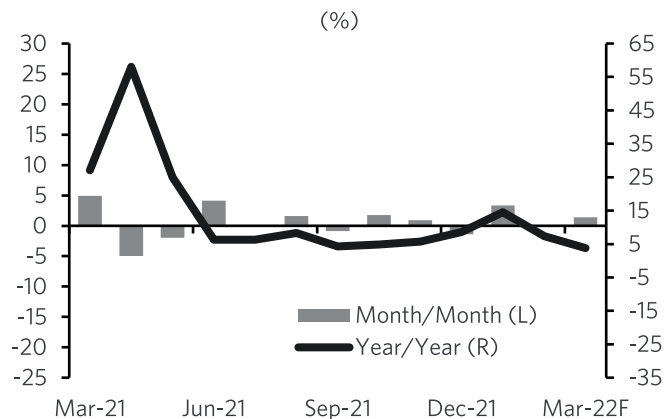
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Retail sales (%)	CIBC	Mkt	Prior
Retail sales	1.4	-	0.1
Ex-autos	0.9	-	2.1

Retail sales appear to have made a solid advance in March, with a rebound in autos helping the way. However, with demand for services returning, some areas of goods spending that benefitted from earlier restrictions could see softer trends at least in volume terms, including food and sporting goods stores. With price pressures, including gasoline, flattering the nominal increase, the overall rise in spending will look more modest in volume terms.

The advance estimate for April is likely to show a softer trend, in part because price pressures weren't as acute during that month, but also due to indications that auto sales could have pulled back again. Supply disruptions still mean that sales are running below expected actual demand.

Chart: Canadian retail sales (%)



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — With consumer spending on services continuing to recover from the pandemic, a flattish trend in retail sales volumes should not be unexpected or a concern for the macro outlook. However, the continued squeeze on household incomes from high inflation could bring weaker goods spending in the second half of the year, particularly as the savings cushion becomes less plump.

Week Ahead's key US number: Personal income and outlays—April

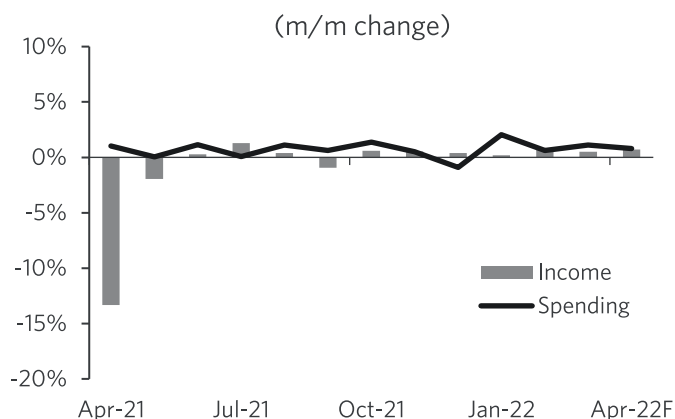
(Friday, 8:30 am)

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Personal income and outlays (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.7	0.6	0.5
Personal spending (m/m)	0.8	0.6	1.1
Core PCE price index (y/y)	5.0	4.9	5.2

A solid gain in retail sales, combined with evidence that the services recovery was picking up pace again in April, should bring another decent gain in overall spending. The 0.8% increase we expect would still represent a modest gain in volume terms, even after accounting for strong inflationary pressure. Strong job and wage growth should mean household incomes broadly kept pace with spending in April.

Chart: US Personal income and spending



Source: BEA, Haver Analytics, CIBC

Forecast implications — With the unemployment rate already so low, job gains will become more modest and cap the increase in aggregate household incomes going forward even if wages rise at a fairly brisk rate. With inflation continuing to squeeze real incomes and with signs of a possible resurgence in Covid cases preventing a full recovery in demand for services, expect consumer spending to look cooler in real terms going forward.

Market impact — We are a little above the consensus for spending and inflation, which should be a negative for bonds and positive for the US\$.

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