

## Economics

# THE WEEK AHEAD

September 18 - 22, 2023

## Ask not what your Fed will do for you

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

When “data dependance” is the mantra, as it is these days, there’s no point asking the Fed what they’re going to do for you on the interest rate front in 2024. They don’t know, or it wouldn’t be data dependant. Indeed, the likelihood that the central bank will eschew a further hike in the coming week, and the fact that at least some have signalled that rates are high enough already, would distinguish this meeting from the pause back in June, when Fed speakers were clearly on board for further hikes ahead.

Yes, you could look at the “dot” forecasts for the fed funds rate in 2024 from individual FOMC members, but that’s not that helpful if, as we expect, the dots are widely divergent, and so conditional on what the economy dishes out. That doesn’t, however, mean that there aren’t clues to be had in the Fed’s statements, not about what they will do for you, but what they would do in certain circumstances.

Take the projections for the unemployment rate, for example. Since Fed members don’t think they’ll blow it, the forecasts for the jobless rate reveal how much slack they think will be needed to wrestle inflation down. In June, there was a strong consensus that we’d need to get it to 4.5% by the end of 2024 and keep it there for year. If we were to reach that rate by mid-2024, a climb of that magnitude in less than a year has always been associated with a recession, and went on to include a larger spike in most cases.

If the Fed is getting more optimistic that they can be gentler, and avoid that much pain while getting inflation down, the jobless rate forecast could be a touch lower this time. That would be helpful in avoiding a further hike and in easing up on rates earlier.

The inflation forecast is a more ambiguous signal. If it’s higher, it’s not necessary a hawkish development, since it could

alternatively be a signal that the Fed is willing to be more patient in getting inflation to its target. Note that the Bank of Canada extended its timetable to reach its 2% target, and has subsequently taken a pause on a further rate hike.

We won’t fret if the Fed’s median dot plot forecast for the funds rate call isn’t quite as dovish as our own projection for no further hikes and a drop to 4.25% by year-end 2024, as long as their more hawkish view on rates is also tied to a firmer forecast for growth and inflation than our own. Remember, they’re data dependant, so if our outlook for the economy is on the mark, then central bankers will see that data as it comes out, and ease up on their own view for the appropriate path for rates.

Then of course, there’s the actual text of the statement, and the deluge of speeches and press appearances by FOMC members that typically follows the end of the pre-meeting blackout period. The Fed hasn’t always been a great predictor of its own future. True, the private economists’ consensus also has been off the mark, predicting too few hikes in this cycle, but also failing to see the downturn in rates that started well before the pandemic.

Where the FOMC voters may well have an edge is in knowing what they’re thinking of doing at the very next meeting, which comes up in barely more than a month from now. So we won’t really benefit by asking the Fed about what they think they’ll do in 2024 in this data dependent world. But with so little data from now to November 1, we will be listening for clues on what the division looks like between those sounding fairly confident they will hike again in November, and those committed to a longer pause to see how the data evolve.

## 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, September 18	8:15 AM	HOUSING STARTS SAAR	(Aug)	(M)	245K	256K	255K
Monday, September 18	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Aug)	(M)	-	0.1%	0.4%
Monday, September 18	8:30 AM	RAW MATERIALS M/M	(Aug)	(M)	-	-	3.5%
Tuesday, September 19	8:30 AM	CPI M/M	(Aug)	(H)	0.2%	0.2%	0.6%
Tuesday, September 19	8:30 AM	CPI Y/Y	(Aug)	(H)	3.8%	3.8%	3.3%
Tuesday, September 19	8:30 AM	Consumer Price Index	(Aug)	(M)	-	158.2	158.1
Tuesday, September 19	8:30 AM	CPI Core- Median Y/Y%	(Aug)	(M)	-	3.7%	3.7%
Tuesday, September 19	8:30 AM	CPI Core- Trim Y/Y%	(Aug)	(M)	-	3.6%	3.6%
Tuesday, September 19	2:00 PM	Speaker: Sharon Kozicki (Deputy Gov.)	-	-	-	-	-
Wednesday, September 20	1:30 PM	Publication: BoC Summary of Deliberations	-	-	-	-	-
Thursday, September 21	-	AUCTION: 30-YR CANADAS \$1.25B	-	-	-	-	-
Friday, September 22	8:30 AM	RETAIL TRADE TOTAL M/M	(Jul)	(H)	0.4%	0.4%	0.1%
Friday, September 22	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Jul)	(H)	0.5%	0.3%	-0.8%

## 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, September 18	10:00 AM	NAHB HOUSING INDEX	(Sep)	(L)	-	50	50
Monday, September 18	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Jul)	(L)	-	-	\$195.9B
Tuesday, September 19	-	AUCTION: 20-YR TREASURIES \$13B	-	-	-	-	-
Tuesday, September 19	8:30 AM	BUILDING PERMITS SAAR	(Aug)	(H)	1450K	1445K	1443K
Tuesday, September 19	8:30 AM	HOUSING STARTS SAAR	(Aug)	(M)	1450K	1440K	1452K
Wednesday, September 20	7:00 AM	MBA-APPLICATIONS	(Sep 15)	(L)	-	-	-0.8%
Wednesday, September 20	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Sep 20)	(H)	5.50%	5.50%	5.50%
Wednesday, September 20	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Sep 20)	(H)	5.25%	5.25%	5.25%
Wednesday, September 20	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, September 21	-	AUCTION: 10-YR TIPS \$15B	-	-	-	-	-
Thursday, September 21	8:30 AM	INITIAL CLAIMS	(Sep 16)	(M)	-	225K	220K
Thursday, September 21	8:30 AM	CONTINUING CLAIMS	(Sep 9)	(L)	-	1690K	1688K
Thursday, September 21	8:30 AM	CURRENT ACCOUNT BALANCE	(2Q)	(L)	-	-\$219.8B	-\$219.3B
Thursday, September 21	10:00 AM	EXISTING HOME SALES SAAR	(Aug)	(M)	-	4.1M	4.1M
Thursday, September 21	10:00 AM	EXISTING HOME SALES M/M	(Aug)	(M)	-	0.7%	-2.2%
Thursday, September 21	10:00 AM	LEADING INDICATORS M/M	(Aug)	(M)	-	-0.4%	-0.4%
Friday, September 22	9:45 AM	S&P GLOBAL US SERVICES PMI	(Sep P)	(L)	-	-	50.5
Friday, September 22	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Sep P)	(L)	-	-	50.2
Friday, September 22	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Sep P)	(L)	-	47.9	47.9
Friday, September 22	8:50 AM	Speaker: Cook (Governor) (Voter)	-	-	-	-	-
Friday, September 22	1:00 PM	Speaker: Daly (San Francisco) (Non-voter)	-	-	-	-	-

## Week Ahead's market call

by Avery Shenfeld

In the **US**, is it three strikes and yer out in the battle against inflation? The auto sector strikes will trim a few decimal places off GDP if they last a month or so, but some may be more worried more about what any settlement does for wage and price pressures across the economy. Remember, however, that only a small minority of private sector workers are unionized, and we're seeing a deceleration in wages in sectors like retailing that employ far more Americans. The Fed seems highly likely to leave rates unchanged and signal data dependence ahead, which might not move markets materially. Housing starts and permits look likely to be essentially flat from the prior month.

In **Canada**, we'll see another jump in the 12-month inflation rate as base effects turn less favourable. Retail trade looks to post a moderate July gain after a weak June, but housing starts could slip a bit in August. We already had a post-rate-decision speech from the Governor, so remarks by one of Bank of Canada Deputy Governors and the "summary of deliberations" from that meeting don't seem likely to add much further colour on their decision to pause.

## Week Ahead's key Canadian number: Consumer price index—August

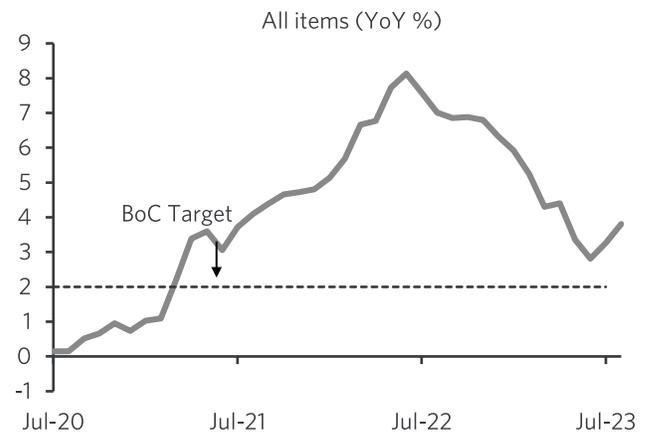
(Tuesday, 8:30am)

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Variable	CIBC	Mkt	Prior
CPI NSA (m/m%)	0.2	0.2	0.6
CPI (y/y%)	3.8	3.8	3.3

The jump in oil prices that saw consumers paying more at the pump in August will be behind a likely 0.2% m/m NSA advance in the total CPI in that month. That would boost the annual rate of inflation to 3.8%, magnified by a weak year-ago reading falling out of the calculation. Higher gas prices will have left less money for spending elsewhere, and weaker demand could have prevailed in categories outside of food and energy, leaving 12-month ex. food and energy prices at 3.4%, and validating the Bank of Canada's hold in September.

Chart: Canada consumer price index



Source: Statistics Canada, CIBC

**Forecast implications-** Headline inflation could accelerate temporarily again in September, but is set to end the year lower, as consumers will be spending more on mortgage payments and rent, denting demand for discretionary goods and services, and extending the deceleration in core prices.

## Other Canadian releases: Housing starts—August

(Monday, 8:15am)

Despite strong demand from population growth, higher interest rates could have limited new housing construction to a 245K pace in August, in line with the retrenchment in building permit issuance seen in July, and compounding the supply deficit of homes. We expect homebuilding to remain under pressure until H2 2024, when interest rates are likely to be on a downward trajectory.

## Retail sales—July

(Friday, 8:30am)

The advance estimate for July retail sales suggested an acceleration to 0.4% m/m, but that comes on the heels of sluggish goods consumption in the second quarter, and would still leave sales within the range seen since the start of the year, and down slightly in per-capita terms from year-ago levels. Auto sales could have been weaker than the headline given the drop in unit sales, leaving ex. auto retail sales at 0.5%. We don't expect the momentum to continue ahead, however, as the increase in the unemployment rate and the lagged effects of monetary policy will limit discretionary consumption as households are squeezed by mortgage renewals at higher interest rates.

## Week Ahead's key US number: Housing starts—August

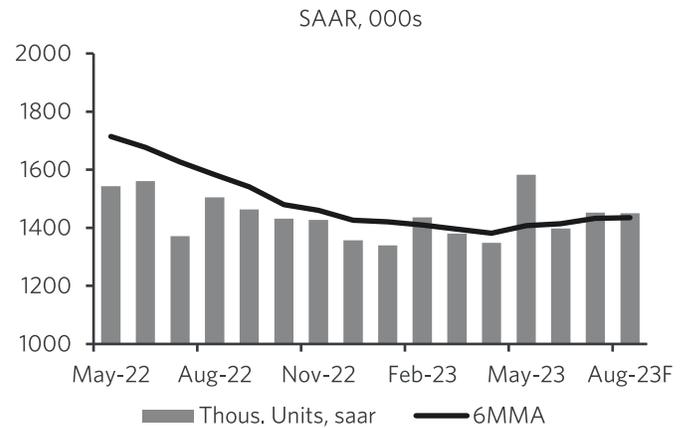
(Tuesday, 8:30am)

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Variable	CIBC	Mkt	Prior
Housing starts (K, saar)	1450	1440	1452
Building permits (K, saar)	1450	1445	1443

Housing activity in the US seems to have bottomed out in 2023Q2 with recent data on housing construction indicators printing stronger. In August, we expect starts to remain flat and permits to edge up modestly. Monetary policy transmits quickly to the housing sector, and expectations of lower rates in the future should be gradually supportive of housing construction. Sales activity, however, should remain subdued given lower affordability.

Chart: US housing starts



Source: Census Bureau, CIBC

**Forecast implications-** We expect residential investment growth of almost 8% at an annualized rate in 2023Q3, breaking a streak of five consecutive quarters of negative growth. The strength reflects past momentum in residential construction put-in-place as well as starts. Lower sales readings will weigh down growth in residential investment ahead.

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