

Economics

THE WEEK AHEAD

June 20-24, 2022

Comings and goings

by Andrew Grantham andrew.grantham@cibc.com

As we release this week ahead, it has been approximately 36 hours since we published revised interest rate forecasts following the Fed’s 75bp hike. Even in a fast-moving, post-pandemic world, it’s too soon to be rethinking forecasts again (maybe check back on Monday). That leaves space for something a little different.

Last week, Statistics Canada released its daily tourism data for May, covering arrivals at major airports. The data continued to show a rapid rebound, and anyone who has been through an airport recently will know that demand appears to be recovering faster than supply. However, what’s also becoming clear is that the recovery in Canadians going abroad has moved well ahead of visitors coming into the country (Chart).

It’s easy to pin the blame for that on delays at Canadian airports and the slower removal of travel restrictions compared to some other countries. However, that may only be a small contributing factor. After all, Canada is far from the only country to be experiencing airport delays related to quickly rebounding demand but ongoing staff shortages.

Moreover, digging a little deeper into the data suggests that the slower recovery in incoming tourism is mainly due to lower numbers of travelers from Europe and, in particular, Asia. That is consistent with the World Tourism Association’s global recovery tracker, which suggests that travel has rebounded more strongly in North America this year than Asia and Europe. In other words, travel from those regions has been slow to recover globally, not just towards Canada.

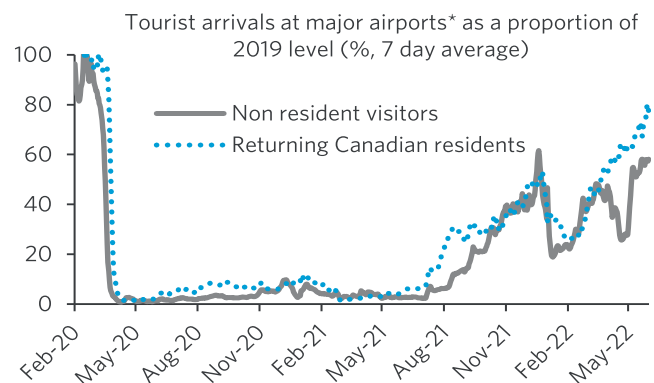
For potential tourists living in Europe, the costs of fueling their homes is probably taking a bite out of travel plans – particularly long distance ones. From Asia, the key source of growth pre-pandemic was China, and tourists from there clearly aren’t coming back in droves. After all, if at times you can’t leave your own apartment due to public health restrictions, it’s not easy to hop on a plane to another country.

So unfortunately this uneven recovery between inbound and outbound tourism could continue through the important

summer season, even as public health policies for travelling are loosened further. What does this mean for the Canadian economy? While 2022 will obviously be a much better year for hotels, restaurants and other services in tourist hotspots, it is difficult to see a full recovery back to 2019 levels, particularly as Canadians take fewer staycations and more vacations. It also means that Canadians are spending proportionally more of their excess savings built up during the pandemic outside of the country. That will see the deficit in services within the current account widen further and act as a drag on the Canadian dollar.

In terms of interest rates, at the moment the Bank of Canada is, correctly, hiking in response to excess demand and inflation across the economy as a whole. However, in cooling previously hot areas of the economy such as housing back towards their pre-pandemic trend, policymakers will also have to bear in mind that some hard-hit sectors may not see a full recovery this year. If the recovery gap between inbound and outbound travel persists, tourist-reliant areas could be on that list.

Chart: Recovery in tourism becoming uneven between incoming and outgoing travelers



*using airports where comparable 2019 data were available

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, June 20	-	-	-	-	-	-	-
Tuesday, June 21	-	AUCTION: 3-M BILLS \$8B, 6-M BILLS \$3B, 1-YR BILLS \$3B	-	-	-	-	-
Tuesday, June 21	8:30 AM	RETAIL TRADE TOTAL M/M	(Apr)	(H)	0.8%	-	0.0%
Tuesday, June 21	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Apr)	(H)	0.5%	-	2.4%
Wednesday, June 22	-	AUCTION: 3-YR CANADAS \$3B	-	-	-	-	-
Wednesday, June 22	8:30 AM	CPI M/M	(May)	(H)	1.0%	-	0.6%
Wednesday, June 22	8:30 AM	CPI Y/Y	(May)	(H)	7.3%	-	6.8%
Wednesday, June 22	8:30 AM	CPI Core- Common Y/Y%	(May)	(M)	-	-	3.2%
Wednesday, June 22	8:30 AM	CPI Core- Median Y/Y%	(May)	(M)	-	-	4.4%
Wednesday, June 22	8:30 AM	CPI Core- Trim Y/Y%	(May)	(M)	-	-	5.1%
Wednesday, June 22	10:40 AM	Speaker: Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Thursday, June 23	-	AUCTION: 10-YR CANADAS \$4B	-	-	-	-	-
Friday, June 24	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Apr)	-	-	-	-

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, June 20	12:45 PM	Speaker: James Bullard (President, St Louis) (Voter)	-	-	-	-	-
Tuesday, June 21	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(May)	(M)	-	-	0.47
Tuesday, June 21	10:00 AM	EXISTING HOME SALES SAAR	(May)	(M)	-	5.40M	5.61M
Tuesday, June 21	10:00 AM	EXISTING HOME SALES M/M	(May)	(M)	-	-3.7%	-2.40%
Tuesday, June 21	12:00 PM	Speaker: Loretta Mester (President, Cleveland) (Voter)	-	-	-	-	-
Tuesday, June 21	3:30 PM	Speaker: Thomas I. Barkin (President, Richmond)	-	-	-	-	-
Wednesday, June 22	-	20-YR AUCTION: \$14B	-	-	-	-	-
Wednesday, June 22	-	AUCTION: 2-YR FRN \$22B	-	-	-	-	-
Wednesday, June 22	7:00 AM	MBA-APPLICATIONS	(Jun 17)	(L)	-	-	6.6%
Wednesday, June 22	9:30 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Wednesday, June 22	12:50 PM	Speaker: Charles L. Evans (President, Chicago) (Non-Voter)	-	-	-	-	-
Wednesday, June 22	1:30 PM	Speaker: Patrick Harker (President, Philadelphia) (Non-Voter)	-	-	-	-	-
Wednesday, June 22	1:30 PM	Speaker: Thomas I. Barkin (President, Richmond)	-	-	-	-	-
Thursday, June 23	-	AUCTION: 5-YR TIPS \$18B	-	-	-	-	-
Thursday, June 23	8:30 AM	INITIAL CLAIMS	(Jun 18)	(M)	-	232K	229K
Thursday, June 23	8:30 AM	CONTINUING CLAIMS	(Jun 11)	(L)	-	1338K	1312K
Thursday, June 23	8:30 AM	CURRENT ACCOUNT BALANCE	(Q1)	(L)	-	-\$279.0B	-\$217.9B
Thursday, June 23	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jun P)	(L)	-	53.5	53.4
Thursday, June 23	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jun P)	(L)	-	-	53.6
Thursday, June 23	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jun P)	(L)	-	56.3	57.0
Thursday, June 23	10:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Friday, June 24	10:00 AM	NEW HOME SALES SAAR	(May)	(M)	580K	595K	591K
Friday, June 24	10:00 AM	NEW HOME SALES M/M	(May)	(M)	-1.9%	0.7%	-16.6%
Friday, June 24	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jun F)	(H)	-	50.2	50.2
Friday, June 24	7:30 AM	Speaker: James Bullard (President, St Louis) (Voter)	-	-	-	-	-
Friday, June 24	4:00 PM	Speaker: Mary C. Daly (President, San Francisco)	-	-	-	-	-

Week Ahead's market call

by Andrew Grantham

In the **US**, Chair Powell fielded questions from the media after this week's 75bp hike, but next week comes his semi-annual testimony to Congress which could provide further clues as to how much economic pain policymakers are willing (or expecting) to see to bring inflation back down to target. Given how much weight the Fed seems to have placed on it during its latest interest rate discussion, the most important release is probably the final Michigan sentiment survey, which will be viewed to see if long-run inflation expectations really did pick up as much as the preliminary data appeared to show.

In **Canada**, next week's inflation report won't be pretty in terms of the headline figure, with gasoline prices on the rise again and food costs continuing to escalate. However, we could see a more modest monthly increase in prices excluding food and energy than we have become accustomed to, largely due to the owned accommodation components. The advance retail sales figure for May will show if, like the US, consumers appear to be scaling back purchases in some areas due to the inflationary bite from higher food/energy costs.

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

(Wednesday, 8:30 am)

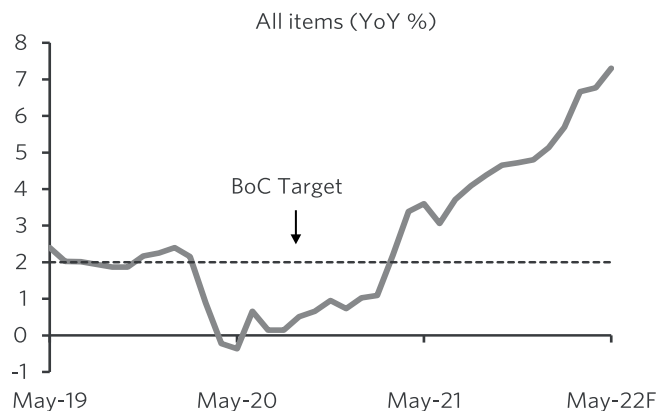
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Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	1.0	-	0.6
CPI (y/y)	7.3	-	0.8

A sharp rise in gasoline prices, combined with ongoing rapid food price inflation, are likely to have driven another acceleration in CPI in May, with the 1.0% monthly increase we expect taking the annual rate up to an eye-watering 7.3%. Unfortunately, with energy prices rising further in the first half of June, next week's reading is unlikely to represent peak inflation.

However, there may be a silver lining if you look hard enough, in terms of a softer monthly increase in CPI excluding food and energy. The New House Price Index, which tracks homeowners' rebuilding costs for CPI, saw its slowest monthly increase since December. Meanwhile, home resale prices, which factor into real estate fees in "other owned accommodation costs", are now falling. Both of these areas will see their weighting

Chart: Canadian consumer price index (YoY %)



Source: Statistics Canada, Haver Analytics, CIBC

rise even higher from this month, due to Statistics Canada reweighting for 2021 spending patterns. While rebounding areas of services such as airline fares and hotels will likely see much stronger price pressures, they will continue to receive a low weight in comparison to their pre-pandemic share. Used car prices will be incorporated as a separate line item for the first time in this release.

Forecast implications — Given the continued surge in energy prices during the first half of June, headline inflation could come close to reaching 8% next month. However, the impact of higher interest rates on demand, particularly housing components that have seen their weighting within the basket rise further above what was typical pre-pandemic, will likely see headline CPI cool much quicker than most expect in the second half of this year and into the first half of 2023.

Other Canadian releases: Retail sales—April

(Tuesday, 8:30 am)

A partial rebound in auto sales following March's decline, combined with modest spending in other areas, could see a 0.8% gain in headline retail sales in April. Excluding autos, sales could be up by 0.5%, which would represent a broadly flat trend in volume terms. The advance estimate for May could see an acceleration in terms of the headline nominal figure, albeit solely due to even more pronounced price pressures in that month for gasoline.

There are no major US data releases next week.

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