Economics

THE WEEK AHEAD

April 29 - May 3, 2024

Are we too well-housed for our own good?

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

Would we all be better off living in straw huts? Does adequate housing make us worse off? That seems to be the implication from those who argue that investment in residential real estate has weakened Canada's GDP per capita, a claim cited in a review of the literature in the April Issue of Statistics Canada's Economic and Social Reports. But it's one that's flawed even in theory, lacking in evidence, and which seems to defy common sense notions of economic well-being.

Let's start with the theory. The idea being bandied about is the attraction of real estate investments has put a squeeze on the available pool of savings that might otherwise have flowed to productivity-enhancing machinery and equipment investment. But Canada is not a closed economy with a fixed pool of domestic investable savings. If there were solid returns available to M&E, technology or non-residential construction investments, they would draw in funds from abroad. Indeed, resource capital spending booms of the past were often partly funded by foreign capital inflows, and Canada has historically run a capital account surplus (i.e. net inflows of investment) to offset a current account deficit.

Second, it's not as if investment in real estate is non-productive in terms of future GDP. Someone investing in a new condo project today will generate a flow of consumption of housing services. Someone buying an existing property in search of income or capital gains doesn't add to the housing stock, but the seller of that property then has funds to invest.

Then there's the evidence, or lack thereof. There's no negative correlation between one or five year growth rates in total factor productivity in Canada and real spending on residential investment. There have been many periods showing strength in both GDP per capita and residential construction. Average house sizes in the US exceed those in Canada, and that hasn't deterred the US from stronger performance in GDP per capita. We've seen no proof that countries with a weaker housing stock have either higher GDP per capita, or for that matter, happier households.

Indeed, lets get away from per capita GDP, which is one measure, but not the only relevant measure, of living standards, and get back to common sense notions of economic well-being. Non-economists would generally agree that being adequately housed is one of the most important contributors to their sense of well being. A person's home is their castle, as an updated version of that saying goes.

Living in substandard housing is in fact often cited as a limitation on people achieving their full potential. Children need a place to study and get a good night's sleep to perform at school. Increasingly, the home is also a workplace, where there's a need for a quiet space to get the job done. Attractive housing options can be a draw for the skilled workforce necessary to power economic growth. Housing availability is critical in getting the labour mobility needed to shift workers to parts of the economy that have the greatest potential for economic growth.

True, rapidly rising house prices, as we've seen in Canada in recent decades, are a barrier to attracting workers, and can also incent a lot of less-productive activity in flipping existing houses back and forth. But the cure for house price inflation isn't to defer investments elsewhere, but the opposite. We'll only rein in housing costs by adding to supply, which entails more, not less investment in residential construction.

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, April 29	-	-	-	-	-	-	-
Tuesday, April 30	8:30 AM	GDP M/M	(Feb)	(H)	0.3%	0.3%	0.6%
Tuesday, April 30	8:30 AM	GDP Y/Y	(Feb)	(H)	1.1%	1.1%	0.9%
Wednesday, May 1	4:15 PM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Thursday, May 2	-	AUCTION: 2-YR CANADAS $6B	-	-	-	-	-
Thursday, May 2	8:30 AM	MERCHANDISE TRADE BALANCE	(Mar)	(H)	$0.8B	$1.0B	$1.4B
Thursday, May 2	8:45 AM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Friday, May 3	-	-	-	-	-	-	-

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, April 29	-	-	-	-	-	-	-
Tuesday, April 30	8:30 AM	EMPLOYMENT COST INDEX	(1Q)	(M)	-	1.0%	0.9%
Tuesday, April 30	9:00 AM	HOUSE PRICE INDEX M/M	(Feb)	(M)	-	0.1%	-0.1%
Tuesday, April 30	9:00 AM	S&P CORELOGIC CS Y/Y	(Feb)	(H)	-	-	6.6%
Tuesday, April 30	9:45 AM	CHICAGO PMI	(Mar)	(M)	-	45.0	41.4
Tuesday, April 30	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Apr)	(H)	-	104.1	104.7
Wednesday, May 1	7:00 AM	MBA-APPLICATIONS	(Apr 26)	(L)	-	-	-
Wednesday, May 1	8:15 AM	ADP EMPLOYMENT CHANGE	(Apr)	(M)	-	185K	184K
Wednesday, May 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Apr)	(L)	-	49.9	49.9
Wednesday, May 1	10:00 AM	ISM - MANUFACTURING	(Apr)	(H)	50.0	50.1	50.3
Wednesday, May 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Mar)	(M)	-	0.3%	-0.3%
Wednesday, May 1	10:00 AM	JOLTS Job Openings	(Mar)	-	8700K	8725K	8756K
Wednesday, May 1	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(May 1)	(H)	5.50%	5.50%	5.50%
Wednesday, May 1	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(May 1)	(H)	5.25%	5.25%	5.25%
Wednesday, May 1	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, May 2	8:30 AM	INITIAL CLAIMS	(Apr 27)	(M)	-	-	207K
Thursday, May 2	8:30 AM	CONTINUING CLAIMS	(Apr 20)	(L)	-	-	1781K
Thursday, May 2	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Mar)	(H)	-$70.0B	-$69.0B	-$68.9B
Thursday, May 2	8:30 AM	NON-FARM PRODUCTIVITY	(1Q P)	(M)	0.7%	1.5%	3.2%
Thursday, May 2	10:00 AM	FACTORY ORDERS M/M	(Mar)	(M)	-	1.6%	1.4%
Thursday, May 2	10:00 AM	DURABLE GOODS ORDERS M/M	(Mar)	(H)	-	-	2.6%
Thursday, May 2	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Mar)	(H)	-	-	0.2%
Friday, May 3	8:30 AM	NON-FARM PAYROLLS	(Apr)	(H)	200K	250K	303K
Friday, May 3	8:30 AM	UNEMPLOYMENT RATE	(Apr)	(H)	3.8%	3.8%	3.8%
Friday, May 3	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Apr)	(H)	0.3%	0.3%	0.3%
Friday, May 3	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Apr)	(H)	-	34.4	34.4
Friday, May 3	8:30 AM	MANUFACTURING PAYROLLS	(Apr)	(H)	-	9K	0K
Friday, May 3	9:45 AM	S&P GLOBAL US SERVICES PMI	(Apr)	(L)	-	50.9	50.9
Friday, May 3	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Apr)	(L)	-	-	50.9
Friday, May 3	10:00 AM	ISM - SERVICES	(Apr)	(M)	52.0	52.0	51.4
Friday, May 3	7:45 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-

Week Ahead's market call

by Ali Jaffery and Andrew Grantham

In the **US**, we are below consensus on payrolls but we nonetheless expect solid job growth driven by sectors somewhat less sensitive to the business cycle. But the headline event of the week will be the FOMC meeting on Wednesday. Powell does not have many reasons to be dovish at this meeting. We expect him to say the FOMC's confidence is not moving in the right direction and to signal that policy will likely need to remain restrictive for longer. Some arguments about why one might be less concerned about the inflation pick up last quarter will resurface, such as the residual seasonality view or the rebalancing in labor market from supply increases, but he will be clear that the FOMC is extremely data-dependent and will need to see the white of the eyes of disinflation progress again before talking about rate cuts.

In **Canada**, the latest GDP data is likely to show momentum in the economy fading quickly following the surprisingly strong start to the year, suggesting much of that earlier strength was driven by an easing of previous supply constraints and better than normal winter weather. February GDP may come in a tick below it's advance estimate, while early data for March have shown declines in manufacturing and wholesaling, raising the possibility of a modest decline in economic activity for that month.

Week Ahead's key Canadian number: GDP—February

(Tuesday, 8:30 am)

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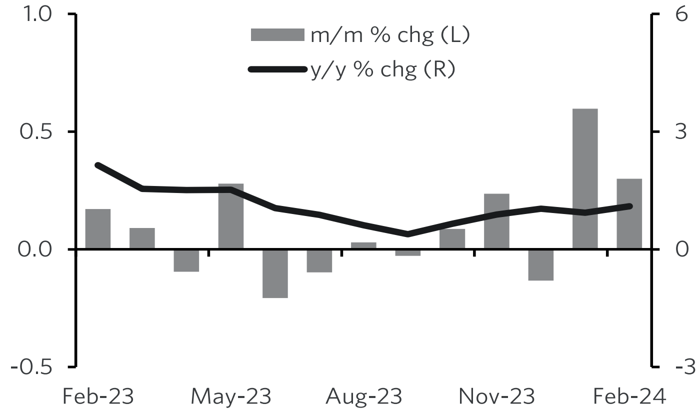
Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.3	0.3	0.6
GDP (y/y)	1.1	1.1	0.9

Following a fast start to the year in January, new data will likely show momentum easing as Q1 progressed. We expect February GDP to post a 0.3% advance, which would be a solid increase but slightly weaker than the advance estimate. Manufacturing shipments and retail sales both printed marginally below their first estimates for the month. Moreover, the advance estimate for March may show a slight pullback in activity, with manufacturing and retail sales appearing to struggle during that month and housing starts decelerating modestly.

For Q1 as a whole, we expect that next week's first estimate will point to growth of around 3% annualized, which would be broadly in line with the 2.8% pace the Bank of Canada had forecast in its latest MPR.

Forecast implications — We suspect that strong growth to start the year was driven largely by an unwinding of previous supply constraints and better than normal winter weather, and an easing in momentum as Q1 progressed would support that view. We expect that GDP growth could stall again in Q2, supporting the case for four 25bp interest rate cuts from the Bank of Canada before the end of the year.

Other Canadian releases: Merchandise trade balance—March

(Thursday, 8:30 am)

While higher oil prices would often bring a rise in exports and a wider trade surplus, the impact of that area may be offset by a decline in gold exports following the prior month's surge. We expect a surplus of $0.8bn for March, which would be modestly narrower than the $1.4bn seen in the prior month.

Week Ahead's key US number: Employment situation—April

(Friday, 8:30 am)

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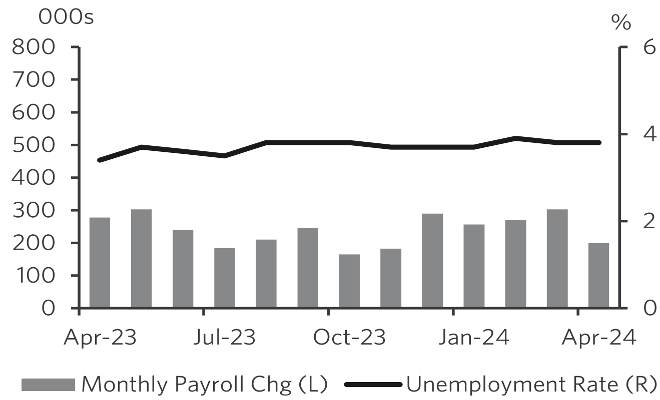
Variable	CIBC	Mkt	Prior
Employment (m/m)	200K	250K	303K
Unemployment rate	3.8%	3.8%	3.8%
Avg hourly earnings (m/m)	0.3%	0.3%	0.3%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

We expect job gains to moderate in April to a still very solid pace of 200K in the month. Retail, leisure and hospitality and construction employment were very strong over the winter months, perhaps in part due to unseasonably warm weather, which is why some of the strength in those categories will likely fade. But hiring in healthcare and government should continue to anchor job growth, as these two sectors have generated an average of 150K jobs together since the start of the year, a slight step up from their average pace in 2023. The unemployment rate and participation rate will remain unchanged in the month at 3.8% and 62.7% respectively, and wage gains should remain at 0.3% in the month.

Forecast implications — A solid labor market is translating into further strength in consumption. Added to this, household balance sheets remain very strong and the American consumer has shown no signs of a desire to normalize saving behavior. An upside surprise or upward revisions are likely to imply a robust income backdrop for consumption and GDP growth in 24Q2.

Market impact — We are slightly below consensus on payrolls, but 200K is likely at the top end of break-even estimates of job growth so we are by no stretch expecting the economy to weaken. Job growth consistently below the 150K mark, combined with a participation rate that either stalls or edges down, is when the Fed will be concerned that the labor market could be at risk of moving into excess supply.

Other US Releases: ISM Manufacturing—April

(Wednesday, 10:00 am)

We expect the ISM Manufacturing survey to edge down very slightly to 50. Sentiment will be caught in a tug-of-war between expectations of tight monetary policy for longer and firming growth in China, but overall stay slightly positive going forward.

JOLTS Job Openings—March

(Wednesday, 10:00 am)

We expect job openings to remain roughly unchanged at 8700K and the openings to unemployment ratio to stay at 1.4. That would be consistent with the strength seen in other March labor market measures. But more broadly, we think JOLTS is indicating a labor market fairly close to balance with only small businesses showing vacancy levels above where they were before the pandemic.

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