Economics

THE WEEK AHEAD

September 30 - October 4, 2024

Revisionist history

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

Data revisions can be an economist's friend or foe, depending on whether they enhance or negate the facts you've been drawing on to support your outlook. Those of us calling for a soft landing for the American economy, with a bit less of a reduction in rates from the Fed than the market expects, got some welcome news, as revised data painted an even brighter picture of this expansion.

The 2020 pandemic year still shows US real GDP declining by 2.2%. By comparison, Canada registered a 5% drop, reflecting the tighter reins placed on activity to contain the pandemic. That might still have been worth it, at least for the tens of thousands of Canadians who survived the pandemic relative to what would have been the case had their country matched the US per capita fatality rate.

Post 2020, the US recovery now looks decidedly faster, with a 6.1% surge in real GDP in 2021 (up from 5.9% previously), and the next two years at 2.5% and 2.9%, revised up from 1.9% and 2.5%. The American horse was already ahead of the pack of other major industrialized economies in this expansion, but it now looks like Secretariat at the Belmont Stakes.

Even better, the expansion hasn't been on quite as shaky a footing as it appeared to be prior to these revisions. It's still true that consumer spending has been its bulwark, with consumption being the source of much of the upward revision in growth, although capital spending also looked stronger for 2022-23. But a much improved picture for income growth means that the revised history shows that households didn't have to stretch as much to do all that spending.

We had anticipated an upward revision to incomes, given that the Gross Domestic Income measure for economic activity appeared much too low relative to the GDP data. But the adjustments were even more impressive than expected. Personal income as of July 2024 is now 3.3% higher than previously thought. Up to the end of last year, that wasn't due to worker compensation revisions, although compensation has been revised up by about 1% for this year. In earlier years, the big winners were asset owners, with much more income from interest, dividends and for business owners. Pay scales have shown big improvements at the lower end, but in terms of asset incomes, the rich got richer, and these data don't include capital gains, which have been rising with a buoyant equity market.

A stronger series for incomes means that the saving rate no longer looks nearly as low as previously reported, and it was actually trending higher in the past year. Instead of diving below 3%, it's instead been climbing back to the 5% range, not dramatically lower than where it ran in the prior business cycle.

That suggests that households aren't as drained of spending power as previously thought, and as long as the job market holds up, there's no reason to expect a consumer retreat, particularly with the Fed easing interest burdens on indebted Americans. Corporate profits have also been revised upwards, leaving a more supportive picture for capital spending as the Fed provides interest rate relief and more favourable financial conditions.

If there's one fly in the ointment, it's that the bar for GDP growth to stay at full employment, and thereby keep the consumer engines roaring, now looks a bit more challenging. We'll get revised productivity data in the weeks ahead, but these upward revisions to real output, coupled with the downward revisions for 2023 payrolls employment, will combine to substantially lift real output per worker.

While that's great news for living standards, if it continues, it means that to stay at full employment, we'll need to achieve a faster pace for real GDP growth than earlier thought. Without a drop in productivity growth, or much slower population gains, the Fed's projection for a steady 2% growth rate might not be enough to nudge the unemployment rate back down again. Hopefully, a household sector that isn't as drained of savings, and a more profitable corporate sector in this revised history, will make that a reality when the lagged impacts of rate cuts begin to kick in.

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 30	-	Bond Market Closed (National Day for Truth and Reconciliation)	-	-	-	-	-
Tuesday, October 1	-	-	-	-	-	-	-
Wednesday, October 2	-	AUCTION: 5-YR CANADAS $5B	-	-	-	-	-
Thursday, October 3	-	-	-	-	-	-	-
Friday, October 4	8:30 AM	IVEY PMI	(Sep)	(L)	-	-	48.2

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 30	9:45 AM	CHICAGO PMI	(Sep)	(M)	-	46.4	46.1
Monday, September 30	1:00 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, October 1	-	AUCTION: 1-YR TREASURIES $48B	-	-	-	-	-
Tuesday, October 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Sep)	(L)	-	47.0	47.0
Tuesday, October 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Aug)	(M)	-	0.1%	-0.3%
Tuesday, October 1	10:00 AM	JOLTS Job Openings	(Aug)	-	7500K	7693K	7673K
Tuesday, October 1	10:00 AM	ISM - MANUFACTURING	(Sep)	(H)	47.2	47.7	47.2
Tuesday, October 1	11:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Tuesday, October 1	11:10 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter) & Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Tuesday, October 1	6:15 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter), Thomas I. Barkin (Richmond) (Voter) & Susan M. Collins (Boston)	-	-	-	-	-
Wednesday, October 2	7:00 AM	MBA-APPLICATIONS	(Sep 27)	(L)	-	-	11.0%
Wednesday, October 2	8:30 AM	ADP EMPLOYMENT CHANGE	(Sep)	(M)	-	120K	99K
Wednesday, October 2	10:05 AM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Wednesday, October 2	11:00 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, October 2	12:15 PM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Thursday, October 3	8:30 AM	INITIAL CLAIMS	(Sep 28)	(M)	-	-	218K
Thursday, October 3	8:30 AM	CONTINUING CLAIMS	(Sep 21)	(L)	-	-	1834K
Thursday, October 3	9:45 AM	S&P GLOBAL US SERVICES PMI	(Sep)	(L)	-	-	55.4
Thursday, Ocober 3	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Sep)	(L)	-	-	54.4
Thursday, October 3	10:00 AM	FACTORY ORDERS M/M	(Aug)	(M)	0.1%	0.1%	5.0%
Thursday, October 3	10:00 AM	DURABLE GOODS ORDERS M/M	(Aug)	(H)	-	-	0.0%
Thursday, October 3	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Aug)	(H)	-	-	0.5%
Thursday, October 3	10:00 AM	ISM - SERVICES	(Sep)	(M)	52.0	51.5	51.5
Thursday, October 3	10:40 AM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter) & Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Friday, October 4	8:30 AM	NON-FARM PAYROLLS	(Sep)	(H)	110K	130K	142K
Friday, October 4	8:30 AM	UNEMPLOYMENT RATE	(Sep)	(H)	4.3%	4.2%	4.2%
Friday, October 4	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Sep)	(H)	0.2%	0.3%	0.4%
Friday, October 4	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Sep)	(H)	-	34.3	34.3
Friday, October 4	8:30 AM	MANUFACTURING PAYROLLS	(Sep)	(H)	-	-	-24K

Week Ahead's market call

by Avery Shenfeld

In the **US**, we've been seeing gloomy goods and snappy services in the ISM reports for manufacturing and non-manufacturing sectors, and we expect something similar in the latest readings. Fed speakers will be out in force, and will likely draw attention to reasonably healthy growth indicators for Q3, but also take some comfort in the trend for core PCE inflation. But we won't place much weight on what they say, because their chatter will come ahead of the all important labour market data on Friday. We're a tad below consensus on both payrolls and average wages, but remember that the Fed will also have October payrolls figures when they announce their next rate decision in November.

In **Canada**, some Canadians will be taking a day off on Monday to reflect on the history of the residential school system and the path for reconciliation with Indigenous communities. The bond market will also be closed that day, and over the rest of the week, market participants will also get a break from meaningful economic news.

There are no major Canadian data releases next week.

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

(Friday, 8:30 am)

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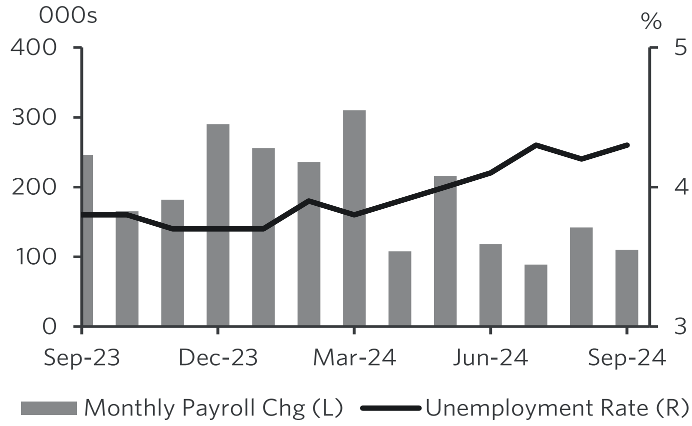
Variable	CIBC	Mkt	Prior
Employment (m/m)	110K	130K	142K
Unemployment rate	4.3%	4.2%	4.2%
Avg hourly earnings (m/m)	0.2%	0.3%	0.4%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

For the Fed to deliver another 50bps cut, they will need to see another weak payroll report, and we expect that will be the case. Our forecast is for payroll job creation to take another step down in September, with 110K jobs gained. Look for more than half of the job growth to come from acyclical sectors (healthcare and government hiring) yet again, and private cyclical employment will likely continue to be anemic. The soft pace of hiring should result in the unemployment rate ticking up again to 4.3%, and wage growth will likely cool to 0.2% after the pickup last month.

Forecast implications — We're in a unique situation with GDP growth on very solid footing but the job market looking like it could buckle. Firms are leaning on capital rather than expensive labor, and getting more out of their existing workers, to preserve the healthy margin gains made since the pandemic. Monetary policy, with long and variable lags, won't rescue the labor market in the next few quarters. That's why we expect the jobless rate to continue gradually rising.

Market impact — A soft jobs report will likely support the case for another 50bps cut in November in the market's eyes.

Other US Releases: ISM Manufacturing—September

(Tuesday, 10:00 am)

ISM Manufacturing should improve modestly but remain in contractionary territory at 47.2. Regional surveys were mixed, but those showing improvements (Philly and Empire) saw large gains relative to modest declines in other surveys (Kansas and Richmond).

JOLTS Job Openings—August

(Tuesday, 10:00 am)

We expect job openings to tick down further to 7500 and the openings to unemployment ratio to stay at 1.1. Since July of last year, the ratio has dropped by four notches. The cause of that decline is equally split between higher unemployment and lower vacancies. Movements along that Beveridge Curve are showing the fragility of the labor market, just as the Fed worried.

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