Economics

THE WEEK AHEAD

July 29 - August 2, 2024

Shoulda, woulda, coulda?

by Ali Jaffery ali.jaffery@cibc.com

Central bankers love it when monetary policy is boring. And the July FOMC meeting has all classic hallmarks of a snoozefest. There is no chance the Fed cuts rates, and there is also little ambiguity about when the first cuts will be. The market has comfortably priced in quarter point rate reductions in September and December — a call we have held onto for many months now — and Fed speak has nudged in that direction. Powell should cement that view next week. Don't expect the unexpected.

But suppose it didn't have to be this way. Imagine for a moment that we lived in a world not governed by the mundane confines of forward guidance and there was a bit more spice and spontaneity in Fed watching. In that fictional world, is there a reasonable case for the Fed to actually cut rates next week?

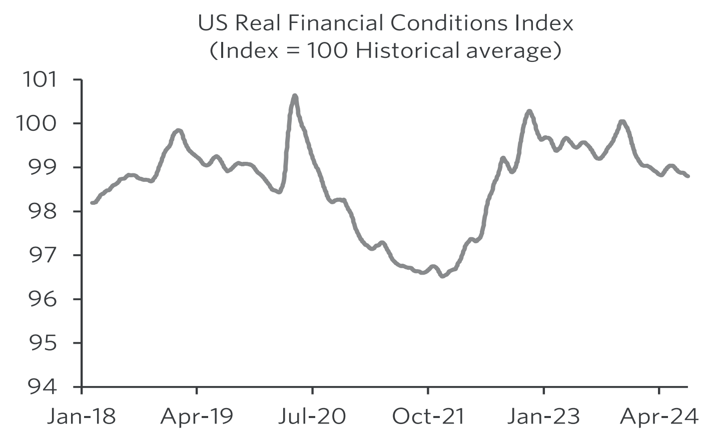
We certainly see some merit there. Core inflation is almost a half percentage point above target and inflation expectations have been well-behaved for sometime. No small part of the last mile for inflation rests on shelter inflation normalizing, for which there is a real hope (see one of our recent pieces, Seeking Shelter from Shelter Inflation). The labor market has fully rebalanced and wages-adjusted for productivity are growing around their pre-pandemic pace. At the same time, capacity in the economy has stayed robust. The supply of workers is at multi-decade highs judged by prime-age labor force participation, and store shelves and car lots are full. Cutting rates might even unlock some additional housing supply, with builders waiting on rates to fall. The economy, for all intents and purposes, is almost home. So why not start to bring rates home too?

The Fed would counter that the impact of rate cuts is essentially baked in and already working through the system with long-dated yields having come down, and broader measures of financial conditions sit around their lowest levels in the past two years (Chart). It is true that moving now would result in even more easing of financial conditions. But, as the GDP data this week showed, this economy is not crying out for interest rate relief. Added to that, you also get more juice from cutting rates than raising rates in the US because of how households exploit mortgage refinancing as interest rates fall, warranting some caution from easing.

Part of the Fed's thinking to wait a bit more is also strategic. When you start a journey, you usually know your destination. This FOMC still seems unsure about how much higher the neutral rate actually is. If they are leaning toward the view that it might end up being a short trip, that too would favor a later start. They can always cut faster or more aggressively later, if they judge in the end that neutral is actually not so different than what they wrote down in 2019.

So we stand in the middle, between those beating the drum for the Fed to cut now and the less imaginative Fed watching crowd. Neither cutting in July nor waiting till September will end up as "shoulda, woulda, coulda" moments. The reality is it won't matter so much when they start, but rather the path that they signal. A fresh set of projections showing rates coming down somewhat faster over the forecast horizon will help achieve that in September. But until then, enjoy the July snoozefest.

Chart: Despite higher for longer, financial conditions have been slowly edging down



Source: Goldman Sachs Research, 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, July 29	-	-	-	-	-	-	-
Tuesday, July 30	-	AUCTION: 3-M BILLS $13.4B, 6-M BILLS $4.8B, 1-YR BILLS $4.8B	-	-	-	-	-
Wednesday, July 31	8:30 AM	GDP M/M	(May)	(H)	0.1%	0.2%	0.3%
Wednesday, July 31	8:30 AM	GDP Y/Y	(May)	(H)	-	-	1.1%
Thursday, August 1	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Friday, August 2	10:30 AM	Release: BoC Market Participants Survey	-	-	-	-	-

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, July 29	-	-	-	-	-	-	-
Tuesday, July 30	9:00 AM	HOUSE PRICE INDEX M/M	(May)	(M)	-	-	0.2%
Tuesday, July 30	9:00 AM	S&P CORELOGIC CS Y/Y	(May)	(H)	-	-	7.2%
Tuesday, July 30	10:00 AM	JOLTS Job Openings	(Jun)	(M)	7800K	-	8140K
Tuesday, July 30	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Jul)	(H)	99.5	99.7	100.4
Wednesday, July 31	7:00 AM	MBA-APPLICATIONS	(Jul 26)	(L)	-	-	-2.2%
Wednesday, Jully 31	8:15 AM	ADP EMPLOYMENT CHANGE	(Jun)	(M)	-	168K	150K
Wednesday, July 31	8:30 AM	EMPLOYMENT COST INDEX	(2Q)	(M)	-	1.0%	1.2%
Wednesday, July 31	9:45 AM	CHICAGO PMI	(Jul)	(M)	-	44.0	47.4
Wednesday, July 31	10:00 AM	PENDING HOME SALES M/M	(Jun)	(M)	-	1.5%	-2.1%
Wednesday, July 31	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Jul 31)	(H)	5.50%	5.50%	5.50%
Wednesday, July 31	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Jul 31)	(H)	5.25%	5.25%	5.25%
Wednesday, July 31	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, August 1	8:30 AM	INITIAL CLAIMS	(Jul 27)	(M)	-	-	235K
Thursday, August 1	8:30 AM	CONTINUING CLAIMS	(Jul 20)	(L)	-	-	1851K
Thursday, August 1	8:30 AM	NON-FARM PRODUCTIVITY	(2Q P)	(M)	1.9%	1.6%	0.2%
Thursday, August 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jul)	(L)	-	-	49.5
Thursday, August 1	10:00 AM	ISM - MANUFACTURING	(Jul)	(H)	48.0	49.0	48.5
Thursday, August 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Jun)	(M)	-	0.2%	-0.1%
Friday, August 2	8:30 AM	NON-FARM PAYROLLS	(Jul)	(H)	210K	175K	206K
Friday, August 2	8:30 AM	UNEMPLOYMENT RATE	(Jul)	(H)	4.1%	4.1%	4.1%
Friday, August 2	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Jul)	(H)	0.3%	0.3%	0.3%
Friday, August 2	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Jul)	(H)	-	34.3	34.3
Friday, August 2	8:30 AM	MANUFACTURING PAYROLLS	(Jul)	(H)	-	-	-8K
Friday, August 2	10:00 AM	FACTORY ORDERS M/M	(Jun)	(M)	-	0.5%	-0.5%
Friday, August 2	10:00 AM	DURABLE GOODS ORDERS M/M	(Jun)	(H)	-	-	-6.6%
Friday, August 2	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jun)	(H)	-	-	0.5%

Week Ahead’s market call

by Ali Jaffery and Katherine Judge

In the **US**, the FOMC meeting will be background noise compared to the Presidential election campaign that is in overdrive. The Fed will be a bore (see cover story) but a rich data week, that includes the core labor market metrics, will keep everyone entertained. We expect another above consensus print for payrolls while vacancies should keep coming down in the JOLTS report. Sentiment will wane, both for consumers and manufacturing firms.

In **Canada**, the May GDP data will show a tepid advance, leaving more economic slack open ahead of the start of the BoC’s interest rate cuts. The advance June data will likely show a slight retrenchment in activity, tied partly to a software outage that weighed on auto sales for part of that month. Markets will also remain attuned to earnings reports.

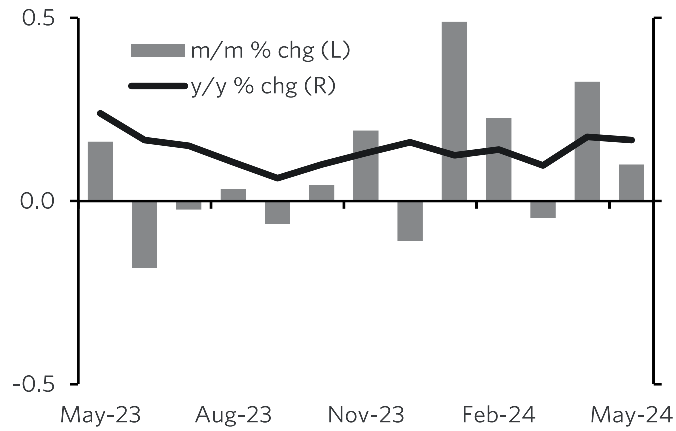
Week Ahead's key Canadian number: GDP—May

(Wednesday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.1	0.2	0.3

Chart: Canadian real GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Economic activity appears to have tapered off over the second quarter, with GDP likely increasing by a tepid 0.1% in May, in line with the advance estimate. That will reflect widespread consumer caution as discretionary spending is being curtailed in anticipation of mortgage renewals, and the unemployment rate has continued to rise. The drop in two-way trade volumes also suggests weakness in wholesale trade activity.

June's advance estimate could show a slight decline in GDP, reflecting the drop in manufacturing sales, the deterioration in the labour market, and the decline in retail sales, although some of that may be temporary due to a software outage that held back car sales.

Forecast implications — Q2 GDP is likely to come in at roughly 1 ½ % annualized, in line with the BoC's latest Monetary Policy Report. We are less optimistic on Q3 growth than the BoC, however, given the anticipated weak handoff to the quarter and the fact that interest rates are still at very restrictive levels. We should see activity pick up in later in the year, with both domestic and foreign demand receiving a lift from lower interest rates. Given strong population growth, the economy is operating with substantial excess supply, which will be absorbed into 2025 as GDP continues to accelerate.

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

(Friday, 8:30 am)

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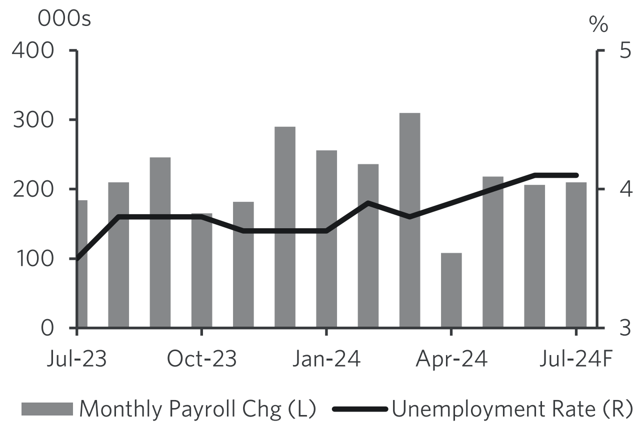
Variable	CIBC	Mkt	Prior
Employment (m/m)	210K	175K	206K
Unemployment rate	4.1%	4.1%	4.1%
Avg hourly earnings (m/m)	0.3%	0.3%	0.3%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

We expect job gains in July to come in at 210K, above the current consensus figure of 175K. It should be more of the same, with government and healthcare hiring anchoring solid payroll jobs. Recent estimates from the San Francisco Fed put the short-run breakeven employment pace at 230K jobs per month given the surge in immigration. Hence, even though we are below consensus, that will still be enough to keep the unemployment rate unchanged at 4.1% in the month. We expect the participation rate to also remain unchanged at 62.6% and wage growth to come in at 0.3% m/m.

Forecast implications — More important than the July labor numbers will be the revisions to the prior months. Last month's print saw material downward revisions. The Fed will be looking to see how much the three-month trend is shifting and whether past income growth could be revised down.

Market impact — Consensus forecasts have systematically under-predicted payrolls and for reasons unclear to us, still have not caught onto the population story driving solid payrolls. An overreaction to a solid job number is possible but the Fed won't panic so long as inflation continues to stay close to target.

Other US Releases: JOLTS—June

(Tuesday, 10:00 am)

We expect job openings to tick down further to 7800K, and the openings-to-unemployment ratio to move down one notch to 1.1. That is signaling labor demand is softening and further declines in the closely watched openings-to-unemployment ratio will come from rising unemployment as well.

ISM Manufacturing—July

(Thursday, 10:00 am)

ISM Manufacturing should move further into contractionary territory to 48.0, given the weakness seen in regional manufacturing surveys. Tough talk on trade combined with high rates is likely weighing on sentiment in the sector.

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