Economics

THE WEEK AHEAD

September 9 - 13, 2024

An oldie but goodie

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

In the battle against the last vestiges of inflation, Canada got a somewhat dated, but pleasant bit of news in a look at labour costs in the second quarter. There are two monthly series on wages that are more current, but each has measurement flaws and a lot of noise. A better reading, and one that ties directly into business costs, measures compensation and unit labour costs on a quarterly basis, and the Q2 data released this past week showed more benign results for both.

We zero in on the figures for the business sector, as that's where the rubber hits the road in terms of impacts on inflation. Nonbusiness sector wages matter for incomes and government finances, but some of their output (public administration) isn't in the CPI, and in other cases prices for such services aren't as closely tied to their delivery costs. For the business sector data, given the imprecision in quarterly changes, we look at year-on-year growth for pay and unit labour costs.

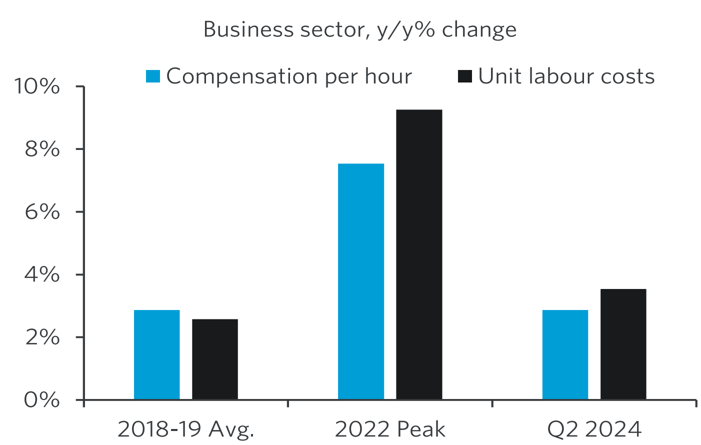
Business sector compensation continues to grow at a milder pace in this series than in the monthly hourly wages reports from the payrolls or labour force survey. Hourly compensation is up a moderate 2.9%, down from a peak of over 7% in 2022, and including a sharp deceleration in cyclical goods sectors like manufacturing and construction. That has the pace of compensation back in line with its average in 2018-19 (Chart).

While productivity remains anemic, the slowing in compensation gains has seen unit labour cost growth easing to 3.5% over the past four quarters, down from a peak of over 9% in early 2022. That's still about a percentage point higher than where it stood in the two years prior to the pandemic, and perhaps not quite "there" to be consistent with a 2% inflation rate target. But it's reasonable to expect productivity growth to cease being negative once the economy picks up pace, and workers are more fully utilized. So the last mile in bringing cost inflation down might be to allow lower interest rates to lift economic growth.

All of this has some importance in the Bank of Canada's thinking. Even though their base case is for a further slowing in inflation, and an easing in monetary policy, they still cited two-sided risks to inflation at their last press conference. In terms of upside pressures, they specifically mentioned shelter costs, and the pace of wages relative to productivity.

While the monthly wage data are still singing a different tune, these quarterly figures should give the Bank some comfort that labour costs are a diminishing threat to inflation. With the CPI already below 2% excluding mortgage interest costs, an unemployment rate now at 6.6%, and joblessness growing among prime-age workers, the Bank should be accelerating the pace of rate cuts, in order to get to less restrictive levels sooner. That hasn't been their style thus far, so we'll await at least some hints in that direction from their team before changing our forecast for a steady series of quarter point cuts.

Chart: Canadian labour costs have decelerated



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, September 9	-	-	-	-	-	-	-
Tuesday, September 10	-	AUCTION: 3-M BILLS $14B, 6-M BILLS $5B, 1-YR BILLS $5B	-	-	-	-	-
Tuesday, September 10	8:25 AM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Wednesday, September 11	-	AUCTION: 5-YR CANADAS $5B	-	-	-	-	-
Thursday, September 12	8:30 AM	BUILDING PERMITS M/M	(Jul)	(M)	-	-	-13.9%
Friday, September 13	8:30 AM	WHOLESALE SALES EX PETROLEUM M/M	(Jul)	(M)	-1.1%	-	-0.6%
Friday, September 13	8:30 AM	CAPACITY UTILIZATION	(2Q)	(L)	-	-	78.5%

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 9	10:00 AM	WHOLESALE INVENTORIES M/M	(Jul)	(L)	-	0.3%	0.3%
Monday, September 9	3:00 PM	CONSUMER CREDIT	(Jul)	(L)	-	$12.0B	$8.9B
Tuesday, September 10	-	AUCTION: 3-YR TREASURIES $58B	-	-	-	-	-
Wednesday, September 11	-	AUCTION: 10-YR TREASURIES $39B	-	-	-	-	-
Wednesday, September 11	7:00 AM	MBA-APPLICATIONS	(Sep 6)	(L)	-	-	1.6%
Wednesday, September 11	8:30 AM	CPI M/M	(Aug)	(H)	0.2%	0.2%	0.2%
Wednesday, September 11	8:30 AM	CPI M/M (core)	(Aug)	(H)	0.2%	0.2%	0.2%
Wednesday, September 11	8:30 AM	CPI Y/Y	(Aug)	(H)	2.6%	2.6%	2.9%
Wednesday, September 11	8:30 AM	CPI Y/Y (core)	(Aug)	(H)	3.2%	3.2%	3.2%
Thursday, September 12	-	AUCTION: 30-YR TREASURIES $22B	-	-	-	-	-
Thursday, September 12	8:30 AM	INITIAL CLAIMS	(Sep 7)	(M)	-	230K	227K
Thursday, September 12	8:30 AM	CONTINUING CLAIMS	(Aug 31)	(L)	-	-	1838K
Thursday, September 12	8:30 AM	PPI M/M	(Aug)	(M)	0.2%	0.2%	0.1%
Thursday, September 12	8:30 AM	PPI M/M (core)	(Aug)	(M)	0.2%	0.2%	0.0%
Thursday, September 12	8:30 AM	PPI Y/Y	(Aug)	(M)	-	1.8%	2.2%
Thursday, September 12	8:30 AM	PPI Y/Y (core)	(Aug)	(M)	-	-	2.4%
Thursday, September 12	2:00 PM	TREASURY BUDGET	(Aug)	(L)	-	-	-$243.7B
Friday, September 13	8:30 AM	IMPORT PRICE INDEX M/M	(Aug)	(L)	-	-0.3%	0.1%
Friday, September 13	8:30 AM	EXPORT PRICE INDEX M/M	(Aug)	(L)	-	-0.2%	0.7%
Friday, September 13	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Sep P)	(H)	-	68.0	67.9

Week Ahead's market call

by Avery Shenfeld

In the **US**, the number of the week will be 0.2, as that's what we expect to see for percentage increases in both core and headline readings for CPI and PPI. That's not going to really swing the 25 to 50 debate over the September Fed decision one way or another, and the Fed will be in blackout mode in terms of speeches. We admit to being a bit on the fence, seeing ample reason for the Fed to make up for missing a 25 bp cut in July by delivering a 50 bp cut this time. But these are, after all, the same people who made that cautious decision to stay on hold in July, and the little dip in the jobless rate might be enough to hold them to a quarter point, while using the "dot" forecast to assure markets that more relief is on the way.

In **Canada**, there's nothing of note on the data calendar. The Bank of Canada Governor has a chance in an upcoming speech to tweak the message he gave at the past week's rate decision, now that he has Friday's weak jobs report in hand. But specific forward guidance isn't his style, particularly with the next decision date not on the calendar until well into October, and a lot more data still to come. He won't want to raise doubts about cutting only 25 bps in September, but if pressed in the Q&A, he certainly won't be closing the door to a faster pace of cuts ahead. We're getting lots of questions about risks of an early election, but parliament doesn't return until September 16th, and the NDP hasn't signaled any interest in joining in a non-confidence vote that the Conservatives are pushing for. We still see better odds of a 2025 election date, perhaps after the budget is released. The NDP is not in great shape in the polls or in campaign funds, and the Liberals are likely to avoid bringing forward controversial measures that would see them defeated in the House and facing a vote while well behind the Conservatives.

There are no major Canadian data releases next week.

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

(Wednesday, 8:30 am)

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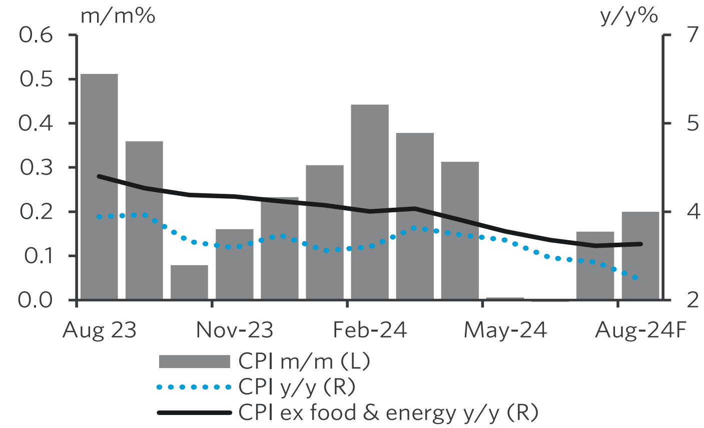
Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.2	0.2	0.2
Headline CPI (y/y)	2.6	2.6	2.9
Core CPI (m/m)	0.2	0.2	0.2
Core CPI (y/y)	3.2	3.2	3.2

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

The August CPI report will be the focus next week. We expect to see more progress, as headline and core CPI should both come in at 0.2% m/m. Disinflation in shelter should continue in the month, building confidence that the last mile will be fairly smooth. Price pressures in goods will remain muted while we expect non-housing services prices to grow at a pace broadly consistent with the target. With inflation expectations solidly anchored and slack starting to open up in the labor market, there are no clear forces on the horizon that will be putting upward pressure on prices in the near term, providing the Fed room to focus on stabilizing the labor market.

Forecast implications — Inflation is likely to reach target and durably stay around 2% by the middle of next year, with growing risks that there may be a period of a modest undershoot given the dynamics of shelter inflation.

Market implications — A reading other than a bland 0.2% on core inflation could tip the market one way for another on the odds of a 25 or 50 bp cut in September.

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