

Economics

THE WEEK AHEAD

July 10 - 14, 2023

Tipping the scales

by Andrew Grantham andrew.grantham@cibc.com

Following last month’s 25bp rate hike from the Bank of Canada, most forecasters instantly predicted a follow up move at next week’s July meeting. After all, why would the Bank break its prolonged pause to hike just once?

We weren’t convinced with that argument, as with interest rates already at quite high levels we suspected that the Bank would need a further accumulation of evidence that the economy is outperforming expectations in order to warrant pulling the trigger again so soon. This morning’s labour force data could well have been the evidence it needed.

Interest rates have already risen a lot over the past 15 months, but the lags involved between rates rising, the economy slowing, and finally inflation decelerating, mean that the full effects of these hikes have not yet been felt. While the aggressive “front-loading” of rate hikes last year was at least partly necessary for policy to catch up with the speedy post-pandemic recovery happening within the economy, the level of rates today is already higher than if the Bank had started hiking earlier but at a more traditional pace. With hindsight, the “transitory” inflation that started brewing in the first half of 2021 didn’t live up to its name. However, even if the BoC had started hiking by 25bp a meeting in July 2021, and didn’t pause that hiking cycle in the first half of this year, the level of the overnight rate today would still only be 4.25%— 50bp lower than the current rate (Chart).

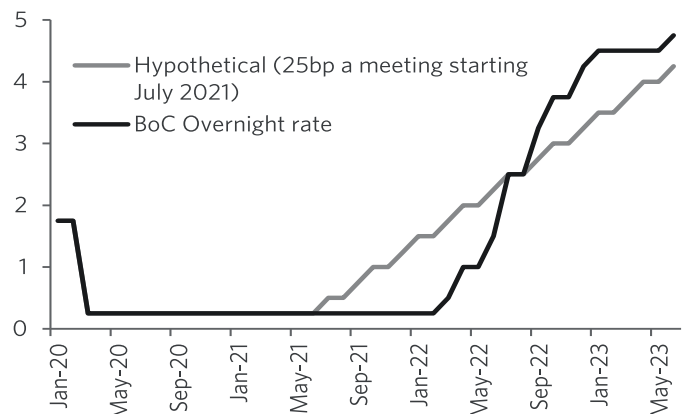
Of course, the exact timing of when the Bank of Canada should have started hiking interest rates can be heavily debated. The main point here though is that interest rates are already at, or even above, levels that would have prevailed under a more normal hiking cycle. Any moves from here should be about fine-tuning policy and responding to most recent data.

Data released since the June hike have been somewhat mixed. Core measures of inflation are still running above target and appear somewhat sticky, but the latest monthly changes at least gave a little bit of hope for deceleration ahead. Monthly

GDP suggests that the economy is outperforming the Bank’s April MPR forecasts in Q2, albeit modestly.

Perhaps most importantly for the Bank of Canada, though, is the lack of any real cooling in the labour market. While job vacancy rates have continued to fall, the latest labour force report suggests that May’s drop in employment was nothing more than a statistical anomaly related to volatility in youth employment. The rebound in jobs during June, and an unemployment rate that is still low relative to pre-pandemic norms, may have just tipped the scales towards an immediate hike. Because of that we now forecast a 25bp hike next week, rather than at the September meeting, although we still suspect that 5.0% will be the peak for the Bank of Canada’s overnight rate.

Chart: Bank of Canada rate hikes more than made up for late start



Source: Haver Analytics, 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 10	8:30 AM	BUILDING PERMITS M/M	(May)	(M)	-	-	-18.8%
Tuesday, July 11	-	-	-	-	-	-	-
Wednesday, July 12	10:00 AM	BANK OF CANADA RATE ANNOUNCE.	(Jul 12)	(H)	5.00%	5.00%	4.75%
Wednesday, July 12	11:00 AM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Thursday, July 13	-	-	-	-	-	-	-
Friday, July 14	8:30 AM	MANUFACTURING SHIPMENTS M/M	(May)	(M)	-	0.8%	0.3%
Friday, July 14	9:00 AM	EXISTING HOME SALES M/M	(Jun)	(M)	-	-	5.1%

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 10	10:00 AM	WHOLESALE INVENTORIES M/M	(May)	(L)	-	-0.1%	-0.1%
Monday, July 10	3:00 PM	CONSUMER CREDIT	(May)	(L)	-	\$20.5B	\$23.0B
Monday, July 10	10:00 AM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Monday, July 10	11:00 AM	Speaker: Mary C. Daly (San Francisco) (Non-Voter)	-	-	-	-	-
Monday, July 10	11:00 AM	Speaker: Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-
Monday, July 10	12:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Tuesday, July 11	-	AUCTION: 1-YR TREASURIES \$38B	-	-	-	-	-
Tuesday, July 11	-	AUCTION: 3-YR TREASURIES \$40B	-	-	-	-	-
Wednesday, July 12	-	AUCTION: 10-YR TREASURIES \$32B	-	-	-	-	-
Wednesday, July 12	7:00 AM	MBA-APPLICATIONS	(Jul 7)	(L)	-	-	-4.4%
Wednesday, July 12	8:30 AM	CPI M/M	(Jun)	(H)	0.3%	0.3%	0.1%
Wednesday, July 12	8:30 AM	CPI M/M (core)	(Jun)	(H)	0.3%	0.3%	0.4%
Wednesday, July 12	8:30 AM	CPI Y/Y	(Jun)	(H)	3.1%	3.1%	4.0%
Wednesday, July 12	8:30 AM	CPI Y/Y (core)	(Jun)	(H)	5.0%	5.0%	5.3%
Wednesday, July 12	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, July 12	8:30 AM	Speaker: Thomas I. Barkin (Richmond) (Non-Voter)	-	-	-	-	-
Wednesday, July 12	9:45 AM	Speaker: Neel Kashkari (Minneapolis) (Voter)	-	-	-	-	-
Wednesday, July 12	1:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Wednesday, July 12	4:00 PM	Speaker: Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-
Thursday, July 13	-	AUCTION: 30-YR TREASURIES \$18B	-	-	-	-	-
Thursday, July 13	8:30 AM	INITIAL CLAIMS	(Jul 8)	(M)	-	-	248K
Thursday, July 13	8:30 AM	CONTINUING CLAIMS	(Jul 1)	(L)	-	-	1720K
Thursday, July 13	8:30 AM	PPI M/M	(Jun)	(M)	0.2%	0.2%	-0.3%
Thursday, July 13	8:30 AM	PPI M/M (core)	(Jun)	(M)	0.2%	0.2%	0.2%
Thursday, July 13	8:30 AM	PPI Y/Y	(Jun)	(M)	-	0.4%	1.1%
Thursday, July 13	8:30 AM	PPI Y/Y (core)	(Jun)	(M)	-	2.5%	2.8%
Thursday, July 13	2:00 PM	TREASURY BUDGET	(Jun)	(L)	-	-	-\$240.3B
Thursday, July 13	6:45 PM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Friday, July 14	8:30 AM	IMPORT PRICE INDEX M/M	(Jun)	(L)	-	-0.1%	-0.6%
Friday, July 14	8:30 AM	EXPORT PRICE INDEX M/M	(Jun)	(L)	-	0.0%	-1.9%
Friday, July 14	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jul P)	(H)	-	65.5	64.4

Week Ahead's market call

by Katherine Judge and Andrew Grantham

In the **US**, the inflation data will take center stage, in which base effects will be behind an expected sharp deceleration in the headline. But with core prices still elevated, and in combination with strong wage pressures in June, the Fed will remain on track for a 25bp hike in July.

In **Canada**, focus will be on the Bank, and even though it should be in fine-tuning mode at the moment there has probably been just enough evidence for policymakers to pull the trigger on another 25bp interest rate hike. The statement will have to sound hawkish, but with evidence mounting that the economy is slowing down we ultimately expect next week's move to be the final one for this cycle.

There are no major Canadian data releases next week.

Week Ahead's key US number: CPI—June

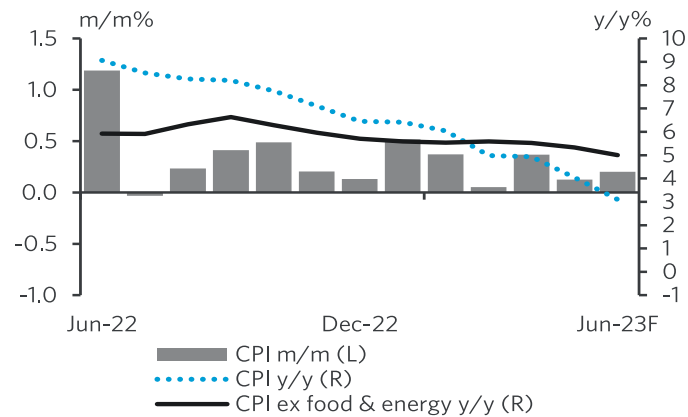
(Wednesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.3	0.3	0.1
Headline CPI (y/y)	3.1	3.1	4.0
Core CPI (m/m)	0.3	0.3	0.4
Core CPI (y/y)	5.0	5.0	5.3

Base effects will be behind a sharp drop in the pace of annual headline inflation to 3.1% in the US in June, as surging gasoline prices from a year ago drop out of the calculation. That will leave inflation at the slowest pace since March 2021. Excluding food and energy, core price pressures could have also subsided to a pace not seen since late 2021 at 5.0%, with potentially slower inflation in shelter adding to a possible drop in used car prices, in line with industry measures. But all eyes will be on the Fed's preferred measure of underlying prices tied to demand, core services ex. housing, which will provide an indication of how the tight labor market is feeding through to inflation.

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

Forecast implications — Annual headline inflation could accelerate temporarily in the coming months due to unfavorable base effects, but core inflation is set to continue its descent, which will leave the Fed on hold after two final 25bp hikes, with one expected in July and the final one in September.

Market impact — We're in line with the consensus expectation, which should limit market reaction.

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