Economics

# THE WEEK AHEAD

September 12-15, 2022

## The customer is not always right

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

What's said to be true in retailing doesn't apply everywhere; for fiscal policy, the customer is not always right. If the customer is the voting public at large, these days, what they typically want is more of everything that governments can dole out. Sure, there are voters who tell pollsters that they favour debt and deficit reduction, but they're usually talking about hiking someone else's taxes, and cutting spending that supports the other guy.

While there are times where fiscal largesse is just what the economy needs, these aren't such times. In a period of high inflation and excess demand, cutting taxes or handing out cheques can add fuel to the inflationary fire, and make the job of a central bank that's raising rates to cool demand all that more troublesome.

What concerns us is that federal and provincial governments in Canada are feeling tempted to "do something" to help their constituents cope with high prices. While governments are feeling some inflation in their own costs, they've done even better on the revenue side, which creates the impression that they have the green light to put more money in voters' pockets. That issue is apparently at least up for discussion as the Liberals meet to plan their agenda for the upcoming parliament.

Provinces have already moved in that direction. Either through fee rebates or broad-based cheques, most residents of Ontario, Quebec, Saskatchewan and Manitoba have or will soon receive payments marketed as a helping hand to deal with inflation. Alberta's governing party is choosing a new leader, and it remains to be seen whether that will impact its apparent willingness to devote a huge $13 bn surplus this year to debt reduction.

The appeal of handouts to voters complaining about inflation is evident in the fact the provinces opting for them were generally about to face the electorate. But unless very narrowly targeted to only reach those in the most need of support to put food on the table, or even better, financed by offsetting spending cuts elsewhere, they add to the inflation pressure in the economy by increasing spending power.

To amend a famous quote attributed to US Senator Dirksen, a billion here, a billion there, and pretty soon a billion doesn't buy much anymore. By helping Chantal pay her food or gasoline bill with a government cheque, you hit John with higher overall inflation, and Carlos with higher mortgage payments as the Bank of Canada responds with a more aggressive rate hike cycle.

The other source of spending pressure in Canada is for healthcare, where what were small cracks in the system prior to the pandemic are looking more like chasms every day. While there's much debate over which level of government should pay for improvements, and the role various reforms might play, there's little doubt that health care budgets will be growing overall. But here too, in a period of elevated inflation, it makes sense to start by reallocating expenditures where possible, rather than by increasing deficits.

If, as seems to be the case, revenues are leading to lower-than-expected deficits, or larger surpluses, then this is the point in the cycle to let that flow through to lower borrowing plans. A recession is a distinct risk in the next two years, so this year's revenue windfall might not last long, particularly if weaker global growth puts downward pressure on revenues tied to commodities. And if another global crisis comes along in future years to sink growth and inflation, whatever fiscal room we can build up now will come in handy, by providing ammunition to hand out cheques, cut taxes, or increase spending when the economy actually needs it.

## 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 12 | - | - | - | - | - | - | - |
| Tuesday, September 13 | - | AUCTION: 3-M BILLS $9.2B, 6-M BILLS $3.4B, 1-YR BILLS $3.4B | - | - | - | - | - |
| Wednesday, September 14 | 8:30 AM | MANUFACTURING SHIPMENTS M/M | (Jul) | (M) | -0.9% | - | -0.8% |
| Thursday, September 15 | - | AUCTION: 2-YR CANADAS $4B | - | - | - | - | - |
| Thursday, September 15 | 9:00 AM | EXISTING HOME SALES M/M | (Aug) | (M) | - | - | -5.3% |
| Friday, September 16 | 8:15 AM | HOUSING STARTS SAAR | (Aug) | (M) | 250K | - | 275K |
| Friday, September 16 | 8:30 AM | INT'L. SEC. TRANSACTIONS | (Jul) | (M) | - | - | -$17.5B |
| Friday, September 16 | 8:30 AM | WHOLESALE TRADE M/M | (Jul) | (M) | -0.6% | - | 0.1% |

## 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, September 12 | - | AUCTION: 3-YR TREASURIES $41B | - | - | - | - | - |
| Monday, September 12 | - | 10-YR AUCTION: $32B | - | - | - | - | - |
| Tuesday, September 13 | - | AUCTION: 30-YR TREASURIES $18B | - | - | - | - | - |
| Tuesday, September 13 | 8:30 AM | CPI M/M | (Aug) | (H) | -0.1% | -0.1% | 0.0% |
| Tuesday, September 13 | 8:30 AM | CPI M/M (core) | (Aug) | (H) | 0.3% | 0.3% | 0.3% |
| Tuesday, September 13 | 8:30 AM | CPI Y/Y | (Aug) | (H) | 8.0% | 8.1% | 8.5% |
| Tuesday, September 13 | 8:30 AM | CPI Y/Y (core) | (Aug) | (H) | 6.0% | 6.1% | 5.9% |
| Tuesday, September 13 | 2:00 PM | TREASURY BUDGET | (Aug) | (L) | - | - | -$211.1B |
| Wednesday, September 14 | 7:00 AM | MBA-APPLICATIONS | (Sep 9) | (L) | - | - | -0.8% |
| Wednesday, September 14 | 8:30 AM | PPI M/M | (Aug) | (M) | -0.1% | -0.1% | -0.5% |
| Wednesday, September 14 | 8:30 AM | PPI M/M (core) | (Aug) | (M) | 0.3% | 0.3% | 0.2% |
| Wednesday, September 14 | 8:30 AM | PPI Y/Y | (Aug) | (M) | - | - | 9.8% |
| Wednesday, September 14 | 8:30 AM | PPI Y/Y (core) | (Aug) | (M) | - | - | 7.6% |
| Thursday, September 15 | 8:30 AM | INITIAL CLAIMS | (Sep 10) | (M) | - | 235K | 222K |
| Thursday, September 15 | 8:30 AM | CONTINUING CLAIMS | (Sep 3) | (L) | - | 1438K | 1473K |
| Thursday, September 15 | 8:30 AM | NEW YORK FED (EMPIRE) | (Sep) | (M) | - | -15.5 | -31.3 |
| Thursday, September 15 | 8:30 AM | RETAIL SALES M/M | (Aug) | (H) | -0.2% | 0.0% | 0.0% |
| Thursday, September 15 | 8:30 AM | RETAIL SALES (X-AUTOS) M/M | (Aug) | (H) | -0.1% | 0.0% | 0.4% |
| Thursday, September 15 | 8:30 AM | RETAIL SALES CONTROL GROUP M/M | (Aug) | (H) | 0.2% | 0.6% | 0.8% |
| Thursday, September 15 | 8:30 AM | PHILADELPHIA FED | (Sep) | (M) | - | 2.0 | 6.2 |
| Thursday, September 15 | 8:30 AM | IMPORT PRICE INDEX M/M | (Aug) | (L) | - | -1.3% | -1.4% |
| Thursday, September 15 | 8:30 AM | EXPORT PRICE INDEX M/M | (Aug) | (L) | - | - | -3.3% |
| Thursday, September 15 | 9:15 AM | INDUSTRIAL PRODUCTION M/M | (Aug) | (H) | 0.0% | 0.2% | 0.6% |
| Thursday, September 15 | 9:15 AM | CAPACITY UTILIZATION | (Aug) | (M) | 80.3% | 80.4% | 80.3% |
| Thursday, September 15 | 10:00 AM | BUSINESS INVENTORIES M/M | (Jul) | (L) | - | 0.6% | 1.4% |
| Friday, September 16 | 10:00 AM | MICHIGAN CONSUMER SENTIMENT | (Sep P) | (H) | - | 59.3 | 58.2 |
| Friday, September 16 | 4:00 PM | NET CAPITAL INFLOWS (TICS) | (Jul) | (L) | - | - | $121.8B |

# Week Ahead's market call

by Avery Shenfeld

In the **US**, with the Fed still at only a 2½% fed funds rate, they're so far from anyone's forecast of the final resting point that the one tick difference between our core CPI call and consensus won't be material for the path of rates to year end. Indeed, even the doves on the FOMC could be persuaded to eschew dissenting on a 75 bp move this month, given that all will agree that going to 3.25% won't overdo it. But we are also below the consensus in our view on retail sales, and if we're on the mark, that will have some implications for Q3 growth, and therefore, on views about how far the Fed has to go to sufficiently cool demand.

In **Canada**, weak readings on manufacturing and wholesaling will likely add support to the flash estimate showing a drop in real GDP in July. Housing starts are still running at historically firm levels, but remember that since these are largely built after being purchased, they lag sales of new units, particularly for larger condo projects. Today's softer market for signing up new customers will have more of an impact on construction activity a few quarters out.

There are no major Canadian data releases next week.

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

(Tuesday, 8:30 am)

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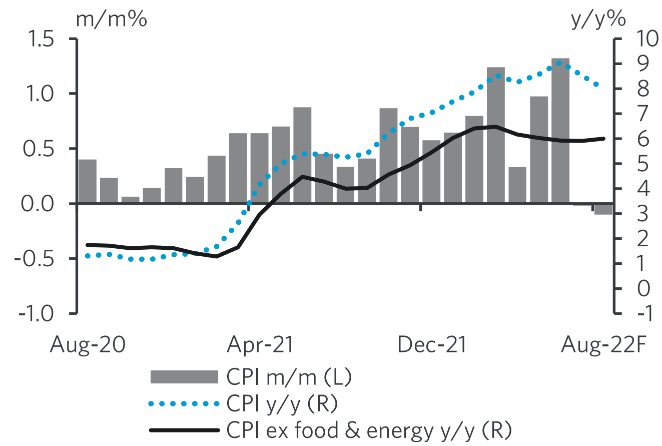
| Variable (%) | CIBC | Mkt | Prior |
|---|---|---|---|
| Headline CPI m/m | -0.1 | -0.1 | 0.0 |
| Headline CPI y/y | 8.0 | 8.1 | 8.5 |
| Core CPI m/m | 0.3 | 0.3 | 0.3 |
| Core CPI y/y | 6.0 | 6.1 | 5.9 |

Chart: US Consumer price index




Source: BLS, Haver Analytics, CIBC

The relief from higher prices at the pump extended into August, and should result in a cooling in annual inflation to 8.0%. While global indices of food prices have pulled back lately, that may take longer to feed through to the CPI. Although there was a sharp drop in used car prices, continued pressure from housing costs likely resulted in 0.3% monthly rise in core prices, leaving the annual rate a tick hotter at 6.0%, magnified by base effects.

**Forecast implications** — Core annual inflation is likely to accelerate further in September, before base effects and a fading in core goods prices put downwards pressure on inflation thereafter. Still, the lag with which housing costs feed through to CPI will limit its deceleration, and it likely won't reach the 2% target until mid-2023.

**Market impact** — We expect the annual inflation readings to look a touch softer than the consensus, but that won't matter for the Fed given the still-elevated readings.

## Other US Releases: Retail sales—August

(Thursday, 8:30 am)

Lower gasoline prices and unit auto sales will weigh on total retail sales in the US in August, but higher volumes at restaurants could have provided a partial offset, leaving total sales down by 0.2% on the month. While the drop in gas prices will have left money on the table for spending elsewhere, it's likely that that was directed towards services, rather than other goods, where excesses in spending remain. Moreover, the surge in online sales seen in July is unlikely to have been repeated in August, suggesting that the control group of sales (ex. gasoline, autos, building materials, restaurants) likely posted a lacklustre 0.2% advance, a likely contraction in volume terms.

## Industrial production—August

(Thursday, 9:15 am)

Factory workers worked fewer hours in August, suggesting that the outperformance in manufacturing output that was reported in July won't be repeated. Utilities production should be an offset, boosted in an even hotter-than-normal month. All told, that suggests that total industrial production only flatlined in August. Looking further out, while pent-up demand for autos could support vehicle assemblies, the outlook for other goods-producing sub-sectors is clouded by the slowdown in demand that is underway.

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