

Economics

THE WEEK AHEAD

September 23 - 27, 2024

The meaning beyond the median

by Avery Shenfeld avery.shenfeld@cibc.com

Like everyone else, when the US Federal Reserve policy committee prints its new forecasts, our eyes jump right away to the median responses. But what differentiates the Fed from the Bank of Canada is that the committee shows the full distribution of the projections of its members, and there's meaning beyond the median if you take the time to look at the range of individual forecasts.

With only one exception (hello Ms. Bowman?) everyone expects to take the fed funds rate to about 3½% or lower by 2026, and all but a handful see that happening in 2025. What that suggests is that if the economy performs as expected, getting the funds rate to 3½% or so should be an easy decision.

Moreover, if committee members are in broad agreement that we're going to at least that low a rate to keep growth and inflation on track, why dilly dally about getting there? The sooner you're at that level, the sooner the economy will feel the lift. So we'd expect at least one more half point move, and no stand-pat meetings until we're at that level.

But to go beyond that, we'll need a bit more arm twisting, and more convincing data pointing to a slowing. At lower levels, more FOMC members seem to believe that there is a risk of overdoing the stimulus. So it's around 3½% that we might start to see the Fed have to pause and see what the data are telling us.

And the distribution of forecasts also says something beyond the pace of rate cuts ahead. It suggests that investors placing bets that will require rates to go beyond 3 ½% are getting into riskier territory. They might be right, but they're less of a sure thing if the Fed's soft landing forecast pans out. So yes, the median dot ends up slightly below 3% by 2026, but that's a distant forecast, and one that includes seven members who don't project a rate materially below 3½%. The range of projections for the end of 2026 have the fed funds rate anywhere from 2.4% to 3.9%, a gap you could drive a truck through (Chart).

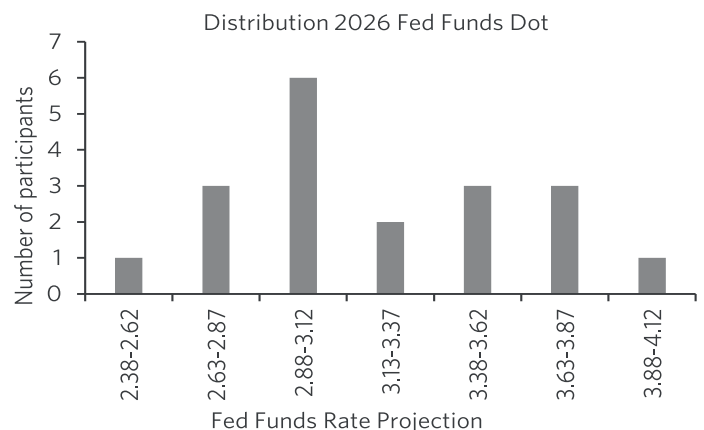
Markets don't seem to be paying much heed to that divergence of opinion, with fed funds futures already assuming a near 3% overnight rate by the end of 2025. If the rest of the curve is

banking on the same view, the easy money has already been made in the Treasuries rally we've seen in recent weeks. It's not that the overnight rate couldn't end up that low, since the median dot has it there in 2026. But it relies on seeing developments that, collectively, the FOMC decision makers aren't so sure about themselves, and who are therefore likely to at least pause for a while to see if that's what the economy really needs. So long positions are now a riskier bet than they were a few weeks ago.

On our part, we're in line with Powell's comments that the neutral rate may have moved up from where it was in the last cycle. If that's the case, and we're talking about a policy response in a soft landing rather than a recession, getting rates below 3% would also be no sure thing.

There are still reasons to hold US dollar bonds from a portfolio diversification standpoint. US equities aren't building in recession risks, and will therefore be vulnerable if the soft landing ends up being not so soft after all. It's exactly that same scenario in which the doves on the FOMC, those with dots below the median, will have their way.

Chart: Widely dispersed FOMC views on 2026 Rates



Source: US Federal Reserve Board, 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 23	-	-	-	-	-	-	-
Tuesday, September 24	-	AUCTION: 3-M BILLS \$12.2B, 6-M BILLS \$4.4B, 1-YR BILLS \$4.4B	-	-	-	-	-
Tuesday, September 24	1:10 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Wednesday, September 25	-	AUCTION: 10-YR CANADAS \$5B	-	-	-	-	-
Thursday, September 26	-	AUCTION: 2-YR CANADAS \$5.5B	-	-	-	-	-
Thursday, September 26	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Jul)	-	-	-	-47.3
Friday, September 27	8:30 AM	GDP M/M	(Jul)	(H)	0.2%	-	0.0%

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 23	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Aug)	(M)	-	-0.2	-0.3
Monday, September 23	9:45 AM	S&P GLOBAL US SERVICES PMI	(Sep P)	(L)	-	55.2	55.7
Monday, September 23	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Sep P)	(L)	-	-	54.6
Monday, September 23	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Sep P)	(L)	-	48.5	47.9
Monday, September 23	8:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Monday, September 23	10:15 AM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Monday, September 23	1:00 PM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Tuesday, September 24	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Tuesday, September 24	8:30 AM	PHILADELPHIA FED - NON-MANUFACTURING	(Sep)	(M)	-	-	-25.1
Tuesday, September 24	9:00 AM	HOUSE PRICE INDEX M/M	(Jul)	(M)	-	-	-0.1%
Tuesday, September 24	9:00 AM	S&P CORELOGIC CS Y/Y	(Jul)	(H)	-	-	6.5%
Tuesday, September 24	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Sep)	(H)	102.5	102.8	103.3
Tuesday, September 24	10:00 AM	RICHMOND FED MANUF. INDEX	(Sep)	(M)	-	-	-19
Tuesday, September 24	9:00 AM	Speaker: Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, September 25	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Wednesday, September 25	-	AUCTION: 2-YR FRN \$28B	-	-	-	-	-
Wednesday, September 25	7:00 AM	MBA-APPLICATIONS	(Sep 20)	(L)	-	-	14.2%
Wednesday, September 25	10:00 AM	NEW HOME SALES SAAR	(Aug)	(M)	680K	693K	739K
Wednesday, September 25	10:00 AM	NEW HOME SALES M/M	(Aug)	(M)	-8.0%	-6.3%	10.6%
Wednesday, September 25	4:00 PM	Speaker: Kugler (Governor) (Voter)	-	-	-	-	-
Thursday, September 26	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Thursday, September 26	8:30 AM	INITIAL CLAIMS	(Sep 21)	(M)	-	-	219K
Thursday, September 26	8:30 AM	CONTINUING CLAIMS	(Sep 14)	(L)	-	-	1829K
Thursday, September 26	8:30 AM	GDP (annualized)	(2Q T)	(H)	2.9%	2.9%	3.0%
Thursday, September 26	8:30 AM	GDP DEFLATOR (annualized)	(2Q T)	(H)	2.5%	-	2.5%
Thursday, September 26	8:30 AM	DURABLE GOODS ORDERS M/M	(Aug P)	(H)	-4.0%	-2.9%	9.8%
Thursday, September 26	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Aug P)	(H)	0.0%	0.0%	-0.2%
Thursday, September 26	10:00 AM	PENDING HOME SALES M/M	(Aug)	(M)	-	-	-5.5%
Thursday, September 26	9:10 AM	Speaker: Collins (Boston), Kugler (Governor) (Voter)	-	-	-	-	-
Thursday, September 26	9:15 AM	Speaker: Bowman (Governor) (Voter)	-	-	-	-	-
Thursday, September 26	9:20 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, September 26	9:25 AM	Speaker: Williams (Vice Chair, New York) (Voter)	-	-	-	-	-
Thursday, September 26	10:30 AM	Speaker: Barr (Governor, Voter), Cook (Gov., Voter)	-	-	-	-	-
Thursday, September 26	1:00 PM	Speaker: Kashkari (Minneapolis) (Non-Voter), Barr (Governor) (Voter)	-	-	-	-	-
Thursday, September 26	6:00 PM	Speaker: Cook (Governor) (Voter)	-	-	-	-	-
Friday, September 27	8:30 AM	PCE DEFLATOR Y/Y	(Aug)	(H)	2.2%	2.3%	2.5%
Friday, September 27	8:30 AM	PCE DEFLATOR Y/Y (core)	(Aug)	(H)	2.7%	2.7%	2.6%
Friday, September 27	8:30 AM	PERSONAL INCOME M/M	(Aug)	(H)	0.6%	0.4%	0.3%
Friday, September 27	8:30 AM	PERSONAL SPENDING M/M	(Aug)	(H)	0.3%	0.3%	0.5%
Friday, September 27	8:30 AM	WHOLESALE INVENTORIES M/M	(Aug P)	(L)	-	-	0.2%
Friday, September 27	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Aug)	(M)	-\$99.5B	-\$99.3B	-\$102.8B
Friday, September 27	8:30 AM	RETAIL INVENTORIES M/M	(Aug)	(H)	-	-	0.8%
Friday, September 27	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Sep)	(H)	-	-	-
Friday, September 27	1:15 PM	Speaker: Bowman (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, with a smaller weighting for shelter and a larger weight on medical care, the core PCE price index might show a slightly tamer rise than the core CPI did for August. In any event, neither markets nor the Fed seem too fussed about inflation these days. Personal consumption spending for August should look fairly solid in terms of what it meant in real terms, with consumers still the major force keeping growth on the firm side in Q3. Several Fed speakers have a chance to give their spin on the easing cycle ahead, but don't read too much into what any of that means for the November decision, with key employment data still ahead.

In **Canada**, coming off a flat reading for June, we're hoping that July GDP does better than the flash estimate, which showed a second consecutive zero growth month. August should also see some growth, but the flash estimate for that month might be held back very slightly by a short-lived rail disruption. Even then, we're tracking well short of the Bank of Canada's Q3 growth forecast. BoC Governor Macklem speaks on Tuesday, but having already said he's amenable to larger cuts if the data justifies it, we don't expect he'll add anything to that, given that his talk comes ahead of those GDP numbers, as well as the jobs data due early next month. He'll want to see both sets of numbers before sitting down to consider his options for October's rate decision.

Week Ahead's key Canadian number: Gross domestic product—July

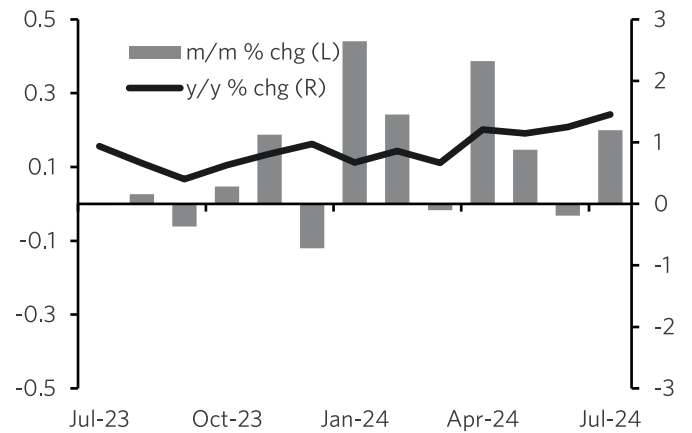
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP m/m	0.2	-	0.0

The advance estimate for July GDP was for another flat month in economic activity, although industry data released in the interim suggests that the revised figure may be somewhat better. Manufacturing, wholesale, and retail sales handily beat their advance estimates, and those upside surprises would be enough to lift July GDP to a moderate 0.2% increase. The advance figure for August could be aided by a bounceback in mining, oil & gas, although the brief rail shutdown seen mid-month could have negatively impacted activity. We assume a further marginal advance in activity for August.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Even if July GDP posts a better result than the advance estimate, growth for the quarter would still only be tracking a little above a 1% annualized pace. That's well below the 2.8% pace that the Bank of Canada had forecast back in its July MPR, and as a result there would still be plenty of reason for policymakers to keep cutting interest rates and even accelerate the pace of cuts at future meetings.

Week Ahead's key US number: Personal income & outlays—August

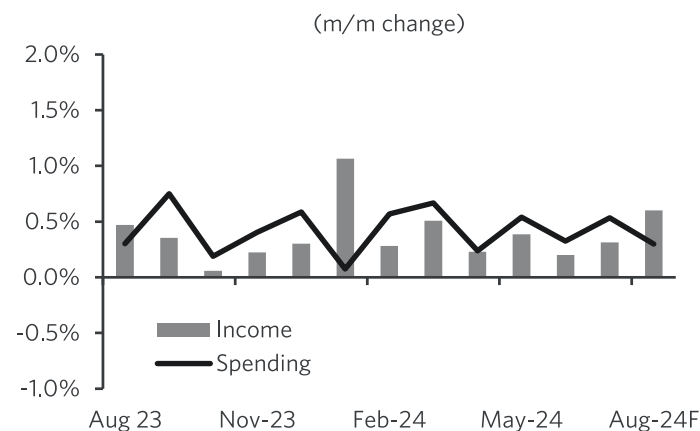
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.6	0.4	0.3
Personal spending (m/m)	0.3	0.3	0.5
Core PCE price index (y/y)	2.7	2.7	2.6

The August personal spending and income report will be the focus next week. There should be no major surprises in the report, especially with inflation expected to be tame. We forecast the PCE price index to increase by 0.1% m/m, and core PCE at 0.2%. Consumption growth is expected to moderate to 0.3% m/m and in inflation-adjusted terms, spending growth should come in at 0.2% m/m. Personal income growth should rise by 0.6%, due to a solid increase in wage growth and average hours worked in the month, offsetting slow employment growth. The saving rate will likely edge up slightly above 3%. Overall, the report will portray a still healthy picture of consumer spending in August, but there will be risks evident not far below the surface. Income growth in August is being flattered by noisy wage and average hours data, and the downward trend in employment risks slowing consumer spending in the months ahead.

Chart: US Personal income and spending



Source: BEA, Haver Analytics, CIBC

Forecast implications — Our nowcast points to GDP growth in Q3 tracking somewhat above our 2% Q3 forecast. However, GDP revisions with the final release of Q2 GDP could also alter our nowcast.

Market implications — With most of the source data for this report already known and a fresh projection from the Fed in hand, market participants can't be blamed for sleeping in next Friday morning.

Other US Releases: Durable goods orders—August

(Thursday, 8:30 am)

Durable goods orders should come back to earth after a surge in aircraft orders in July, with headline orders expected to contract by 4.0% m/m in August. Excluding the volatile transportation category, growth should be flat in the month. With the Fed finally easing policy and also signaling a dovish path ahead, the outlook for durable goods orders is starting to get brighter.

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