Economics

THE WEEK AHEAD

August 28 - September 1, 2023

Sahm's Club, Canadian style

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

The week ahead's quarterly GDP likely won't raise any eyebrows, and should be enough to dampen recession fears for a while longer. Some searches for the "R" word were no doubt triggered by the flash estimate for real GDP in June. It showed a decline of 0.2%, and that benefited from a rebound in oil/gas production after fire-related disruptions in May.

The coming week will see the advance reading on July, and what we know so far about the month suggests a return to growth. Although employment was down, hours worked were up marginally, and gains in nominal retail, wholesale, and manufacturing sales also point to some growth. The impact of a west coast port strike is difficult to assess, and evacuations tied to forest fires also represent a peril for August activity. So we're not out of the woods, no pun intended, from seeing another negative month pop up at some point.

Still, a dip here or there does not a recession make, and needn't indicate the start of one, particularly when impacted by the likes of strikes and wildfires. We've seen many one-off negative quarters outside of recessions in the past. Looking at US data, the former Fed economist Claudia Sahm found a much more reliable signal. Whenever the three month average unemployment rate stood 0.5%-points or more above its lows in the prior year, a recession had commenced, going all the way back to 1948.

A similar rule has worked for Canada, but not for quite as many decades. In the 1960s and 70s, we faced a trend increase in the jobless rate due to a rise in structural unemployment, which meant that there were non-recessionary periods showing significant increases in Sahm's measure. Moreover, the greater noise in Canada's employment surveys, and in output per worker, has meant that we've avoided being in recession when Sahm's measure has risen by 0.5-0.7% percentage points. But since 1979, any time Canada's three-month average unemployment rate stood 0.8%-points or more above its lows in the prior 12 months, a recession had commenced, and no recession failed to see such a climb.

If that continued to be true, we should be a bit worried, because we're not far from membership in Sahm's Club. Our forecast for a roughly 6% jobless rate in Q4 would qualify us for that unwelcome status. Three successively monthly upticks have the jobless rate already sitting at 5.5% as of July, which is 0.5%-points above its Q1 average. Moreover, we've argued in a recent paper that the Bank of Canada actually wants to spend a bit of time somewhat above our 5.7% estimate for the non-inflationary jobless rate to cool wage and price pressures further.

Fortunately, Sahm has herself noted that such rules of thumb are merely observations from the historical record, not iron clad guarantees, and there are two reasons to think that we could avoid an outright recession in GDP terms even if the labour market slows as much as we predict. Productivity in Canada has been inexplicably weak, failing to rebound as much as one might have expected as supply chains improved, even after allowing for the country's lacklustre capital spending trend. That opens the door to a recovery ahead if whatever is holding us back on output per hour eases off.

Should that happen, it would show up in a period of weak employment growth, and a rise in the jobless rate, without a proportional drop in real GDP. Add to that the extra output tied to an expanding workforce via immigration, which means that we could have a higher unemployment rate despite moderate employment growth. Both factors might allow us to stretch the limits of Sahm's indicator to something above the 0.8% cut-off. In turn, it means we can get enough slack in the labour market to cool inflation without having made the "R" word relevant again, helped by the fact that inflation is already well off it peak without having fallen into a recession.

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, August 28	-	-	-	-	-	-	-
Tuesday, August 29	-	AUCTION: 3-M BILLS $15.2B, 6-M BILLS $5.4B, 1-YR BILLS $5.4B	-	-	-	-	-
Wednesday, August 30	-	AUCTION: 10-YR CANADAS $3.5B	-	-	-	-	-
Thursday, August 31	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Jun)	-	-	-	129.9K
Thursday, August 31	8:30 AM	CURRENT ACCOUNT BAL.	(2Q)	(M)	-$8.9B	-	-$6.2B
Friday, September 1	8:30 AM	GDP M/M	(Jun)	(H)	-0.1%	-	0.3%
Friday, September 1	8:30 AM	GDP (annualized)	(2Q)	(H)	1.3%	-	3.1%

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, August 28	-	AUCTION: 2-YR TREASURIES $45B	-	-	-	-	-
Monday, August 28	-	AUCTION: 5-YR TREASURIES $46B	-	-	-	-	-
Monday, August 28	12:30 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Tuesday, August 29	-	AUCTION: 7-YR TREASURIES $36B	-	-	-	-	-
Tuesday, August 29	9:00 AM	HOUSE PRICE INDEX M/M	(Jun)	(M)	-	-	0.7%
Tuesday, August 29	9:00 AM	S&P CORELOGIC CS Y/Y	(Jun)	(H)	-	-	-1.7%
Tuesday, August 29	10:00 AM	JOLTS Job Openings	(Jul)	-	-	-	9582K
Tuesday, August 29	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Aug)	(H)	116.6	116.6	117.0
Tuesday, August 29	3:00 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Wednesday, August 30	7:00 AM	MBA-APPLICATIONS	(Aug 25)	(L)	-	-	-4.2%
Wednesday, August 30	8:15 AM	ADP EMPLOYMENT CHANGE	(Aug)	(M)	-	200K	324K
Wednesday, August 30	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Jul)	(M)	-$95.0B	-$90.0B	-$88.8B
Wednesday, August 30	8:30 AM	GDP (annualized)	(2Q S)	(H)	2.4%	2.4%	2.4%
Wednesday, August 30	8:30 AM	GDP DEFLATOR (annualized)	(2Q S)	(H)	-	2.2%	2.2%
Wednesday, August 30	8:30 AM	WHOLESALE INVENTORIES M/M	(Jul P)	(L)	-	-	-0.5%
Wednesday, August 30	8:30 AM	RETAIL INVENTORIES M/M	(Jul)	(H)	-	-	0.7%
Wednesday, August 30	10:00 AM	PENDING HOME SALES M/M	(Jul)	(M)	-	-0.5%	0.3%
Thursday, August 31	8:30 AM	INITIAL CLAIMS	(Aug 26)	(M)	-	-	230K
Thursday, August 31	8:30 AM	CONTINUING CLAIMS	(Aug 19)	(L)	-	-	1702K
Thursday, August 31	8:30 AM	PCE DEFLATOR Y/Y	(Jul)	(H)	3.3%	3.3%	3.0%
Thursday, August 31	8:30 AM	PCE DEFLATOR Y/Y (core)	(Jul)	(H)	4.2%	4.2%	4.1%
Thursday, August 31	8:30 AM	PERSONAL INCOME M/M	(Jul)	(H)	0.2%	0.3%	0.3%
Thursday, August 31	8:30 AM	PERSONAL SPENDING M/M	(Jul)	(H)	0.7%	0.7%	0.5%
Thursday, August 31	9:45 AM	CHICAGO PMI	(Aug)	(M)	-	44.1	42.8
Thursday, August 31	9:00 AM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Thursday, August 31	3:15 AM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Friday, September 1	8:30 AM	NON-FARM PAYROLLS	(Aug)	(H)	175K	168K	187K
Friday, September 1	8:30 AM	UNEMPLOYMENT RATE	(Aug)	(H)	3.6%	3.5%	3.5%
Friday, September 1	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Aug)	(H)	0.3%	0.3%	0.4%
Friday, September 1	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Aug)	(H)	-	34.3	34.3
Friday, September 1	8:30 AM	MANUFACTURING PAYROLLS	(Aug)	(H)	-	5K	-2K
Friday, September 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Aug)	(L)	-	-	47.0
Friday, September 1	10:00 AM	ISM - MANUFACTURING	(Aug)	(H)	46.0	46.9	46.4
Friday, September 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Jul)	(M)	-	0.5%	0.5%
Friday, September 1	6:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Friday, September 1	9:45 AM	Speaker: Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, labour markets haven't looked quite as red hot of late, but the message in the August figures could still underscore that from the Fed's perspective, we're not there yet. We're expecting an uptick in the jobless rate, but at 3.6%, both unemployment and the 175K net hiring figure would be still not cool enough to give the central bank sufficient comfort that there's enough slack to bring inflation sustainably down. It's the same story for the core PCE, which we see ticking up to 4.2%. And notably, personal consumption for July was likely quite brisk given what we saw in retail sales for that month. The ISM manufacturing will be a key exception, remaining well below the 50 mark.

In **Canada**, the breakdown of Q2 GDP growth might be more interesting than the headline tally, which we expect will be roughly in line with what monthly GDP figures have already indicated. The other highlight will be the advance reading on monthly GDP for July. Readings on manufacturing, wholesaling and retailing point to a return to reasonable growth after a dip in June, but the wildcard will be how much of a hit was associated with a west coast port strike, and we'll see if Statistics Canada provides enough colour to strip that out. The Q2 current account balance looks to have moved deeper into the red.

Week Ahead's key Canadian number: GDP—June and Q2

(Friday, 8:30 am)

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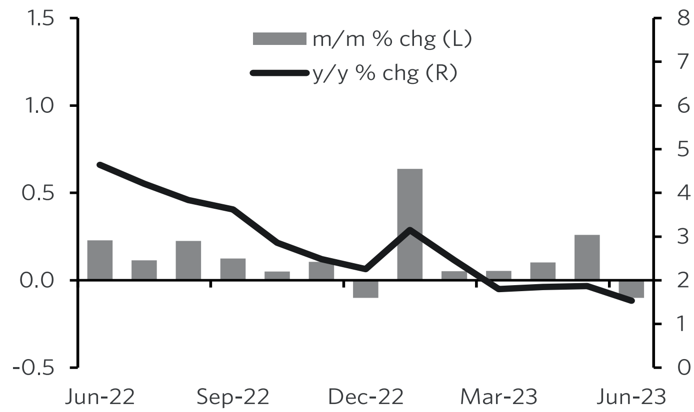
Variable (%)	CIBC	Mkt	Prior
GDP June (m/m)	-0.1	-	0.3
GDP Q2 (annualized)	1.3	-	3.1

Chart: Canadian real GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

The Canadian economy appears to have shifted into reverse in June, with GDP likely contracting by 0.1% m/m. That's a touch better than Statistics Canada's advance estimate and implies a 1.3% annualized pace of growth in the second quarter, a sharp slowdown from the first quarter's torrid pace, but not materially different from the Bank of Canada's 1.5% forecast. The devil will be in the details, however, with a possible contraction in consumption casting doubt on the resilience of the consumer and the need for a final rate hike, while inventories likely led growth, representing a further easing of supply side price pressures.

Flash indicators for July suggest a return to moderate growth in that month, consistent with the increase in hours worked. While the port strikes in BC could be an offsetting factor, west coast ports handled only 9% of Canada's exports and 5% of its imports in 2022.

Forecast implications — With GDP growth on a slower trajectory in the second quarter, reflecting cooler domestic demand, the Bank of Canada should be comfortable enough to pause after a final quarter point hike in September, especially given the climb in the unemployment rate.

Other Canadian releases: Current account balance—Q2

(Thursday, 8:30 am)

Canada's goods trade balance swung into deficit territory in the second quarter, with export volumes dropping off, which will be behind a likely widening of the current account deficit to $8.9bn in the second quarter.

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

(Friday, 8:30 am)

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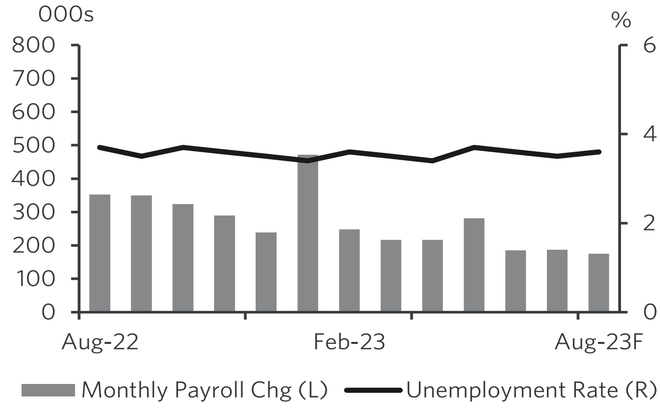
Variable	CIBC	Mkt	Prior
Employment (m/m)	175K	168K	187K
Unemployment rate	3.6%	3.5%	3.5%
Avg hourly earnings (m/m)	0.3%	0.3%	0.4%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Headlining the deluge of data next week will be Friday's August labour report. Firms will remain focused on the softening outlook and increase their reluctance to add labour in an environment where financial conditions have tightened significantly and higher wages are squeezing margins. So we expect more of the same for August, an uncomfortably slow pace of labour market softening for policymakers with the unemployment rate ticking up a notch.

Forecast implications — A softer labour market implies a slower pace of labour income growth going forward which should keep a lid on trend consumption growth from reaccelerating. But the pace of the slowdown still won't be enough to please the Fed. We expect the Fed to stay on track for a September final rate hike.

Market impact — We are mostly aligned with the consensus this week on payrolls and as a result, the ADP release. ADP has been a poor predictor of payrolls for several months now, so don't be fooled again. An upside surprise on job gains and a tick down on the unemployment rate could change sentiment around the near-term outlook and entrench a September hike.

Other US Releases: Personal income & outlays—July

(Thursday, 8:30 am)

The July personal income and spending report should come in hot, with spending up by a brisk of 0.7%. That has pushed up our expectations for consumption growth in Q3 to the 2.5 to 3% range. That's mostly on the back of the surprise uptick in goods, which we expect to reverse in August. We expect a continued moderation in service consumption.

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