THE WEEK AHEAD

September 2 - 6, 2024

Labour days

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

Canada and the US will each have two "labour days" in the upcoming week, Monday's traditional holiday, and the financial market version on Friday, when August employment data will be unveiled. Financial market participants will enjoy their leisure on the former, but will be glued to their desks on the latter, since central bankers have made it clear that they too will be putting a lot of emphasis on labour market indicators.

North of the border, the Bank of Canada will have to make its September interest rate decision ahead of the jobs data, and before the Fed's announcement the following week. But Canada isn't a US copy-cat when it comes to its rate decisions, and having already provided 50 bps of relief before any Fed move, it's clearly not following the US lead. If past is prologue, it seems to have a taste for moving 25 bps at a time, so that's also our forecast.

On the home front, we've already seen enough of a drop in Canadian inflation, and sufficient labour market weakness, to make another rate cut a forgone conclusion, and not that dependent on one jobs number. The CPI has run below 2% over the past year excluding the one item, mortgage interest, that gets pushed lower as the Bank of Canada cuts rate.

As for the labour market, there's a myth that only recent immigrants have felt any deterioration in their prospects. That ignores the steep decline in overall job vacancies in the past year. True, the newly-arrived have experienced a larger percentage point climb in their unemployment rate. But because they are a modest part of the overall workforce, their contribution to the overall climb in the jobless rate has been smaller than that of the Canadian-born or immigrants who came more than five years ago (Chart).

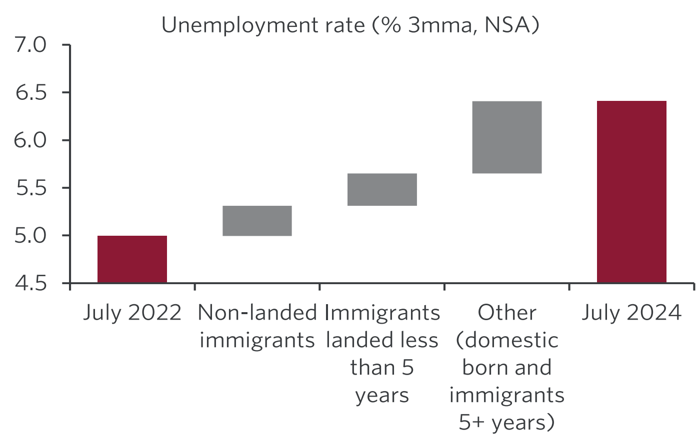
In the US, Powell has spoken decisively about where the Fed now stands. Inflation is no longer enemy number one; it's low enough and on a sufficiently easing path that the central bank is shifting its attention to increasing labour market slack. Rate cuts will be delivered with an eye to preventing "any" further deterioration on that front.

That certainly leaves the door open to a 50 basis point cut in September if the week ahead sees a weak enough jobs report. A sufficient uptick in the jobless rate, one not tied to higher participation and accompanied by a lacklustre payrolls gain, could see the Fed decide to make up for the cut they didn't deliver in July.

But at this point, we have no reason to expect a particularly weak August payrolls reading. US Q3 GDP appears to be tracking at a growth rate near 2%. That should be brisk enough to require enough net hiring to stabilize the jobless rate, particularly with tighter border controls now slowing immigration. Jobless benefit claims haven't shown upward momentum, suggesting that layoffs remain light. So US workers should not only enjoy their Monday labor day off, but should gain some comfort from a payrolls gain in the 150-200K range, and the lack of a further uptick in the unemployment rate.

If so, that's still not strong enough for the Fed to stand pat in September, but would be in line with our existing forecast for a 25 basis point cut, and two follow-up moves of the same magnitude before year end. That would be a slight disappointment to what markets have been pricing in, but one that the Fed can cushion by adding to its forecast for rate cuts in 2025. For labour, that same forecast will also provide some good news, with the Fed projecting that its rate cuts will do exactly what Powell promised, by not showing any further climb in the unemployment rate from here to the end of 2025. A Happy Labor Day indeed.

Chart: Contributions to Canadian jobless rate climb



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 2	-	Markets Closed (Labour Day)	-	-	-	-	-
Tuesday, September 3	-	-	-	-	-	-	-
Wednesday, September 4	8:30 AM	MERCHANDISE TRADE BALANCE	(Jul)	(H)	$0.9B	-	$0.6B
Wednesday, September 4	9:45 AM	BANK OF CANADA RATE ANNOUNCEMENT	(Sep 4)	(H)	4.25%	4.25%	4.50%
Thursday, September 5	-	AUCTION: 30-YR CANADAS $2.0B	-	-	-	-	-
Thursday, September 5	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(2Q)	(M)	-	-0.1%	-0.3%
Friday, September 6	8:30 AM	EMPLOYMENT CHANGE	(Aug)	(H)	30.0K	25.0K	-2.8K
Friday, September 6	8:30 AM	UNEMPLOYMENT RATE	(Aug)	(H)	6.5%	6.5%	6.4%
Friday, September 6	10:00 AM	IVEY PMI	(Aug)	(L)	-	-	57.6

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 2	-	Markets Closed (Labor Day)	-	-	-	-	-
Tuesday, September 3	-	AUCTION: 1-YR TREASURIES $46B	-	-	-	-	-
Tuesday, September 3	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Aug)	(L)	-	48.1	48.0
Tuesday, September 3	10:00 AM	ISM - MANUFACTURING	(Aug)	(H)	46.0	47.5	46.8
Tuesday, September 3	10:00 AM	CONSTRUCTION SPENDING M/M	(Jul)	(M)	-	0.1%	-0.3%
Wednesday, September 4	7:00 AM	MBA-APPLICATIONS	(Aug 30)	(L)	-	-	0.5%
Wednesday, September 4	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Jul)	(H)	-75.0K	-78.7B	-$73.1B
Wednesday, September 4	10:00 AM	JOLTS Job Openings	(Jul)	-	7800K	8000K	8184K
Wednesday, September 4	10:00 AM	FACTORY ORDERS M/M	(Jul)	(M)	-	4.5%	-3.3%
Wednesday, September 4	10:00 AM	DURABLE GOODS ORDERS M/M	(Jul)	(H)	-	-	9.9%
Wednesday, September 4	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jul)	(H)	-	-	-0.2%
Wednesday, September 4	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Thursday, September 5	8:15 AM	ADP EMPLOYMENT CHANGE	(Aug)	(M)	-	145K	122K
Thursday, September 5	8:30 AM	INITIAL CLAIMS	(Aug 31)	(M)	-	-	231K
Thursday, September 5	8:30 AM	CONTINUING CLAIMS	(Aug 24)	(L)	-	-	1868K
Thursday, September 5	8:30 AM	NON-FARM PRODUCTIVITY	(2Q)	(M)	2.4%	2.3%	2.3%
Thursday, September 5	9:45 AM	S&P GLOBAL US SERVICES PMI	(Aug)	(L)	-	-	55.2
Thursday, September 5	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Aug)	(L)	-	-	54.1
Thursday, September 5	10:00 AM	ISM - SERVICES	(Aug)	(M)	52.0	50.9	51.4
Friday, September 6	8:30 AM	NON-FARM PAYROLLS	(Aug)	(H)	170K	165K	114K
Friday, September 6	8:30 AM	UNEMPLOYMENT RATE	(Aug)	(H)	4.3%	4.2%	4.3%
Friday, September 6	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Aug)	(H)	0.3%	0.3%	0.2%
Friday, September 6	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Aug)	(H)	-	34.3	34.2
Friday, September 6	8:30 AM	MANUFACTURING PAYROLLS	(Aug)	(H)	-	-	1K
Friday, September 6	8:45 AM	Speaker: Williams (Vice Chair, New York) (Voter)	-	-	-	-	-
Friday, September 6	11:00 AM	Speaker: Waller (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, it won't be an entirely sunny week for economic news, as job vacancies could edge lower, and the ISM manufacturing survey should line up with other indicators pointing to sectoral weakness. But less cyclical services should help keep payroll and household employment numbers in reasonable shape, sufficient to prevent a further uptick in the jobless rate. That would be generally in line with what one would expect if the economy is still tracking close to 2% growth in Q3, and it will be key to keeping the Fed leaning towards a 25 bp cut, rather than an outsized move, the following week.

In **Canada**, there is a case for larger rate cuts when we're sitting at what's now an excessively elevated real interest rate, and monthly GDP readings point to a material undershoot of the Bank of Canada's Q3 growth forecast. But we saw no hints that a 50 bp move was actively considered at the last meeting, and having to move ahead of the jobs figures will likely hold them to another 25 bp reduction. Still, at least in the press conference, the Governor will signal that both the timing and size of further rate cuts could be impacted by upcoming data, which will have markets paying close heed to Friday's employment report. Canadian jobs data are always a wildcard, being based only on a choppy household survey, but a weak patch for GDP growth in early summer suggests that we'll see another month in which hiring fails to keep pace with population growth, pushing the unemployment rate up a tick.

Week Ahead's key Canadian number: Employment—August

(Friday, 8:30 am)

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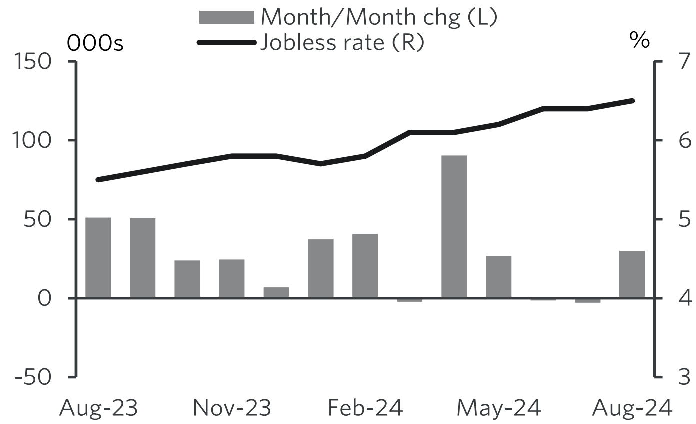
Variable	CIBC	Mkt	Prior
Employment change	30.0K	25.0K	-2.8K
Unemployment rate	6.5%	6.5%	6.4%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Employment fell marginally in both June and July, largely because students who typically enter the labour force during these months found it harder than normal to find jobs. By August all of the students who would be entering the labour market have already done so, and because of that these figures shouldn't be as influenced by weaker seasonal patterns this year. As a result, we forecast a 30K seasonally adjusted gain in employment on the month, which would be in line with the moderate pace of GDP growth seen so far this year. However, it wouldn't be enough to prevent the unemployment rate from ticking up to 6.5%, given still strong population growth and potentially a slight rebound in the participation rate.

Forecast implications — While we expect that employment growth resumed in August, it will take further interest rate cuts and an improvement in demand before the unemployment rate starts to come back down again. We expect that to be a 2025 story, and the higher jobless rate currently will be one factor driving consecutive 25bp reductions to their overnight rate during the balance of this year.

Other Canadian releases: Merchandise trade—July

(Wednesday, 8:30 am)

Canada's goods trade balance swung into surplus in June on the back of higher energy exports, and a continued rise in oil volumes should keep trade in the black in July. While oil prices fell as the month progressed, the average was largely in line with June. Moreover, US import data suggests another sharp rise in volumes heading south as the Trans Mountain pipeline continues to bolster exports. We forecast a trade surplus of $0.9bn, which would be a slight improvement relative to the previous month.

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

(Friday, 8:30 am)

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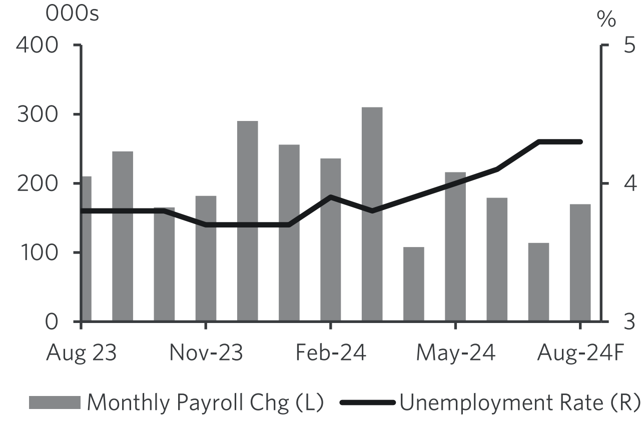
Variable	CIBC	Mkt	Prior
Employment (m/m)	170K	165K	114K
Unemployment rate	4.3%	4.2%	4.3%
Avg hourly earnings (m/m)	0.3%	0.3%	0.2%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

It all boils down to next week's job report for the Fed. We expect job gains in August to come in at a steady pace of 170K, not far from the current consensus of 165K, but far enough from a sharp slowdown in hiring that could pressure the Fed into a jumbo rate cut in September. We expect the acyclical sectors, healthcare and government, to provide a floor around 80K jobs gain in the month, and cyclical sectors to get a boost from the unwinding of some weather-distortions and a bounce back in the information sector which had an unusually weak July. The household survey should show a bit more employment growth, keeping the unemployment rate unchanged at 4.3%. The participation rate also should remain steady at 62.7% and wage growth should edge up to 0.3% m/m.

Forecast implications — A solid payroll number and a tick up in wage growth will support steady labor income growth and as a result, consumer spending. But the Fed is worried about risks of sharp downturn in the labor market and Friday's payroll data will be how they assess that risk.

Market impact — A solid jobs report and a steady unemployment rate should have the market downgrade odds of 50bps cuts over the balance of the year.

Other US Releases: ISM Manufacturing—August

(Tuesday, 10:00 am)

ISM Manufacturing should move further into contractionary territory to 46.0, given the weakness seen in other regional manufacturing surveys. Slow global growth and restrictive interest rates continue to weigh on the sector.

JOLTS Job Openings—July

(Wednesday, 10:00 am)

We expect job openings to tick down further to 7800K and the openings to unemployment ratio to move down one notch to 1.1. The message from the JOLTS data has been the same for a while: the labor market has moved into better balance, and we are not far from a point where labor market slack will open up, through a further fall in vacancies, continued rising unemployment or both.

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