Economics

THE WEEK AHEAD

June 5 - 9, 2023

A warning now, a speeding ticket next time?

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

One year ago, I was quoted in Canadian Business magazine alongside two "experts" who were convinced that in June 2022 the US economy was already in a recession: Elon Musk and Cardi B. Our view at that time was that the weakness in US quarterly GDP was belied by continued gains in employment and other indicators that ruled out a 2022 recession. I suppose that Elon's Tesla sales and Cardi B's macro models said otherwise.

Since then, America has stayed miles from an outright recession, one we didn't think would be entirely necessary to make decent progress against price pressures. But even the stall in growth we did see as a pre-condition to returning to the 2% inflation target has failed to materialize through the first half of 2023. In Canada, a weak second half in 2022 was been followed by a pick-up in growth in the first quarter of 2023, and April figures point to at least moderate growth in the spring.

There are signs in both countries that a deceleration is still coming. US business bank loans are less in demand, and harder to get. Housing starts are down 22% y/y in the US, which with a lag will see declines in residential construction jobs. Business surveys on both sides of the border show a reasonable degree of pessimism, as do cyclically sensitive commodity prices. The inversion in the yield curve suggests that markets see the economy weakening enough to bring interest rate cuts in 2024.

But US and Canadian labour markets have continued to drive above their non-inflationary speed limits. So central banks have to decide whether to pull them over and issue a ticket, by hiking rates again this month, or be a kinder cop and only issue a friendly warning this time, saving the rate decision for July.

We lean towards the latter, particularly for Canada. The Bank of Canada is in the uncomfortable position of having to make a rate announcement next Wednesday, and then see the May jobs data on Friday. By using the June announcement to issue a stern warning that a rate hike could well be in the cards for July, they can keep bond yields and mortgage rates elevated, while putting off the decision until they have that data. We'll do the same in our own forecast, making a firm call on the BoC's July decision after next Friday's LFS. We'll need to see the jobless rate start to tick upwards for the Bank to stay on hold this summer.

The Fed has already taken rates higher than the Bank, and a divided committee seems unlikely to garner a sufficient consensus to make a move in June. But their announcement will no doubt include a warning that they haven't fully put away their book of speeding tickets, and momentum in the labour market has made a July hike more likely than not.

Market participants have moved to price in a hike by both central banks by July. But investors need to put two misplaced ideas to bed. The first is that a central bank never decides to hike just once, so a July 25 bp hike would imply that they've concluded that at least 50 bps is needed. Yes, hikes come in bunches, but every rate hike cycle has a last hike. When rates are already elevated, we're in a fine tuning mode in which each decision will be taken individually in light of incoming data.

The second misconception is that there's always a short window between the last hike and the first cut. That's been true when inflation wasn't that problematic, or when central banks grossly overdid the tightening phase. Should the Fed and the Bank of Canada get it just right, the economy will stall but not plunge, and inflation will creep lower rather than nosedive. Even if there are no hikes in July because those softening trends arrived and gave us a last minute reprieve, we could be waiting a full year before any move to ease up on interest rates.

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, June 5	-	-	-	-	-	-	-
Tuesday, June 6	-	AUCTION: 3-M BILLS $11.6B, 6-M BILLS $4.2B, 1-YR BILLS $4.2B	-	-	-	-	-
Tuesday, June 6	8:30 AM	BUILDING PERMITS M/M	(Apr)	(M)	-	-	11.3%
Tuesday, June 6	10:00 AM	IVEY PMI	(May)	(L)	-	-	56.8
Wednesday, June 7	8:30 AM	MERCHANDISE TRADE BALANCE	(Apr)	(H)	$0.6B	-	$0.97B
Wednesday, June 7	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(1Q)	(M)	-	-	-0.5%
Wednesday, June 7	10:00 AM	BANK OF CANADA RATE ANNOUNCE.	(Jun 7)	(H)	4.50%	4.50%	4.50%
Thursday, June 8	3:25 PM	Speaker: Paul Beaudry (Deputy Gov.)	-	-	-	-	-
Friday, June 9	8:30 AM	EMPLOYMENT CHANGE	(May)	(H)	20K	-	41.4K
Friday, June 9	8:30 AM	UNEMPLOYMENT RATE	(May)	(H)	5.1%	-	5.0%
Friday, June 9	8:30 AM	CAPACITY UTILIZATION	(1Q)	(L)	-	-	81.7%

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, June 5	9:45 AM	S&P GLOBAL US SERVICES PMI	(May)	(L)	-	55.1	55.1
Monday, June 5	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(May)	(L)	-	-	54.5
Monday, June 5	10:00 AM	FACTORY ORDERS M/M	(Apr)	(M)	1.2%	0.8%	0.4%
Monday, June 5	10:00 AM	DURABLE GOODS ORDERS M/M	(Apr)	(H)	-	-	1.1%
Monday, June 5	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Apr)	(H)	-	-	-0.2%
Monday, June 5	10:00 AM	ISM - SERVICES	(May)	(M)	52.2	52.5	51.9
Tuesday, June 6	-	-	-	-	-	-	-
Wednesday, June 7	7:00 AM	MBA-APPLICATIONS	(Jun 2)	(L)			-3.7%
Wednesday, June 7	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Apr)	(H)	-$76.4B	-$75.3B	-$64.2B
Wednesday, June 7	3:00 PM	CONSUMER CREDIT	(Apr)	(L)	-	$21.6B	$26.5B
Thursday, June 8	8:30 AM	INITIAL CLAIMS	(Jun 3)	(M)	-	236K	232K
Thursday, June 8	8:30 AM	CONTINUING CLAIMS	(May 27)	(L)	-	-	1795K
Thursday, June 8	10:00 AM	WHOLESALE INVENTORIES M/M	(Apr)	(L)	-	-0.2%	-0.2%
Friday, June 9	-	-	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, after being busy on the economics and fiscal policy fronts, the week ahead will give market participants a welcome breather. A wider trade deficit isn't likely to garner any reaction, strength in factory orders will be largely driven by the news we already had on durables, and we can't see the services ISM moving much either way. All in all, a good week to brush up on the golf swing.

Canada, in contrast, will be action central. The Bank of Canada won't have the May jobs data when they make their rate announcement on Wednesday, but they've been putting out a lot of research emphasizing that the labour market is just too hot to bring inflation back to target. We look for a stern warning that rates will have to move higher if slack doesn't start to show up soon, one that will keep the markets pricing in a quarter point hike in July. Paul Beaudry will underline that in his remarks on Thursday. Friday's jobs data will be biased higher because Statistics Canada is phasing in population growth that actually took place months ago. So rather than the employment figure, or the wage data, which in this survey are highly suspect and not well regarded by the Bank of Canada, the key is the unemployment rate. If it doesn't start ticking higher, the wheels will be in motion for a July rate hike.

Week Ahead's key Canadian number: Employment—May

(Friday, 8:30 am)

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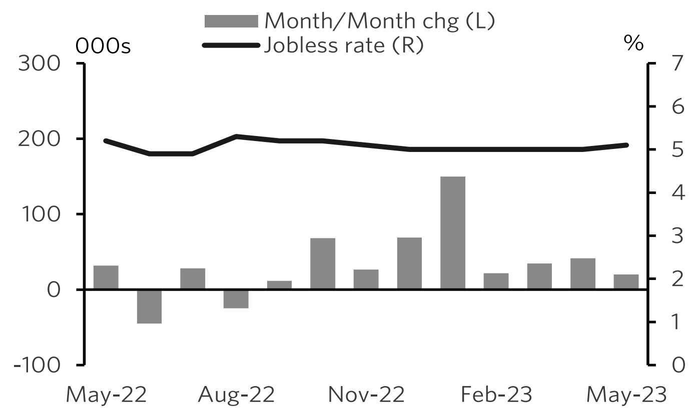
Variable	CIBC	Mkt	Prior
Employment change	20K	-	41.4K
Unemployment rate	5.1%	-	5.0%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Rapid population growth is creating a larger pool of potential workers, but cooling demand due to past interest rate hikes should see employment gains start to undershoot growth in the population. While the 20K in jobs we predict for May would have previously been considered solid, in 2023 it would be weak enough to see the unemployment rate rise a tick to 5.1%.

The Bank of Canada's latest benchmarks for assessing labour market health try to break down demand and supply factors, with one demand-side area they are looking at being the proportion of workers involuntarily in part-time jobs. This has been edging up closer to pre-pandemic norms in recent months, and it appears that policymakers are looking for a continuation of that trend as a signpost that demand for staff is easing, even if the headline unemployment rate remains low.

Forecast implications — The Canadian labour market is loosening, but so far this has only really shown up in a decline in job vacancies and slight uptick in the involuntary part-time rate. However, the unemployment rate is likely to head modestly higher from here, reaching nearly 6% before starting to recover again in 2024.

Other Canadian releases: Merchandise trade—April

(Wednesday, 8:30 am)

Higher volumes and prices likely supported a rise in energy exports during April, while US trade data suggests that Canadian auto exports could have been strong. However, aircraft exports will have come back down to earth after soaring in March. Overall, we expect a goods trade surplus of $0.6bn in April.

There are no major US data releases next week.

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