

Economics

THE WEEK AHEAD

August 21 - 25, 2023

GDPnow...wow!?

by Avery Shenfeld avery.shenfeld@cibc.com

Don't look now, but the Atlanta Fed's nowcasting model is projecting a stunning 5.8% growth rate for the US economy in Q3. Actually, we mean literally don't look now, because it's likely too soon to rely on the GDPnow tool to get a sense of how hot this summer has been economically, given how it works. But that said, we've seen enough to suggest that this quarter won't be the start of the long awaited slowdown, but also enough on the inflation front to worry less about that fact than we might have a few quarters ago.

Excluding recessions, where the errors are larger, the average absolute value of the gap between the final GDPnow forecast for annualized growth, the one in place just before the advance GDP data are released, is 0.7%. Not bad, although the consensus also gets close by then.

But earlier in the quarter, GDPnow has too little information to go on. The absolute mean error with 70 days before advance GDP is reported is nearly 2%-points. The model started off with a non-judgemental, well-above-consensus estimate for Q3. And with so little actual data for Q3, one strong data point, like the past week's retail sales, will dramatically upgrade its estimate. We would look at a sale-driven jump in online retailing in July, and build in a likely retreat in August, but the model doesn't have that sort of judgement, and sees momentum in July as something to build on for the next two months.

There's a second source of error, which is that the "advance GDP" figure can differ notably from the final estimate, and subsequent benchmark revisions. Quarters with large growth rates typically see downward revisions that can easily chop a percentage point from the annualized pace.

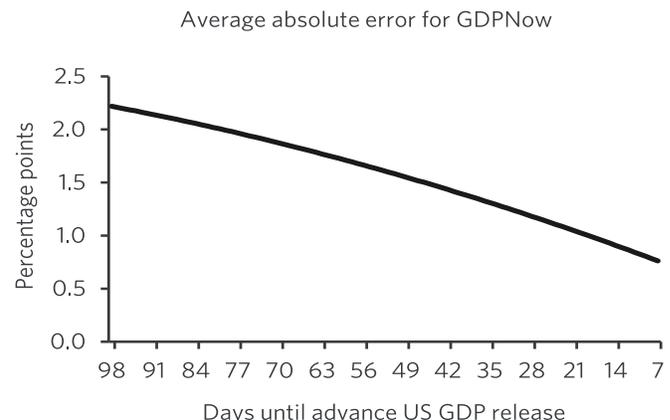
And we also have one reason to think that real GDP in the past few quarters could be overstating reality. An alternative measure which should match real GDP, real gross domestic income (GDI), had been tracking close to real GDP, but diverged to the downside in Q4 and Q1. Over those two quarters, at annual rates, real GDI fell by 2.6%, while real GDP grew by 2.3%. Late this month, we'll see if that gap narrowed, or

widened further in Q2, when we get the first GDI numbers for that quarter.

Still, it's fair to say that incoming data has caused many, including us, to start nudging up their Q3 forecasts to show at least moderate growth. Yet again, it seems, expectations that higher interest rates would stall activity are being pushed ahead. But oddly, while long bond yields have been climbing, markets are still placing less than 50% odds on a Fed rate hike in September or later this year.

That's a bit too optimistic in our view, because it reflects speeches and comments by FOMC members that in some cases pre-dated this week's data surprises. But even in our case, while we are expecting a quarter point hike in September, we don't see a follow-up move. That reflects recent reports that are making a stronger case that inflation could reach the 2% target with only a very modest climb in the jobless rate from here, and give the Fed room to be a bit more patient for that slack to materialize. GDPnow is telling us that we're not seeing the expected growth slowdown now, but the CPI is now telling us we aren't as desperate to see one.

Chart: GDPnow has wide misses early in a quarter



Source: Federal Reserve Bank of Atlanta, 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, August 21	-	-	-	-	-	-	-
Tuesday, August 22	-	-	-	-	-	-	-
Wednesday, August 23	8:30 AM	RETAIL TRADE TOTAL M/M	(Jun)	(H)	0.0%	0.0%	0.2%
Wednesday, August 23	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Jun)	(H)	0.3%	0.4%	0.0%
Thursday, August 24	-	AUCTION: 5-YR CANADAS \$5B	-	-	-	-	-
Friday, August 25	-	-	-	-	-	-	-

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 21	-	-	-	-	-	-	-
Tuesday, August 22	8:30 AM	PHILADELPHIA FED	(Aug)	(M)	-	-	1.4
Tuesday, August 22	10:00 AM	EXISTING HOME SALES SAAR	(Jul)	(M)	-	4.2M	4.2M
Tuesday, August 22	10:00 AM	EXISTING HOME SALES M/M	(Jul)	(M)	-	-0.2%	-3.3%
Tuesday, August 22	10:00 AM	RICHMOND FED MANUF. INDEX	(Aug)	(M)	-	-	-9.0
Tuesday, August 22	2:30 PM	Speaker: Austan D. Goolsbee, Chicago (Voter)	-	-	-	-	-
Tuesday, August 22	3:30 PM	Speaker: Austan D. Goolsbee, Chicago (Voter) & Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, August 23	-	AUCTION: 20-YR TREASURIES \$16B	-	-	-	-	-
Wednesday, August 23	-	AUCTION: 2-YR FRN \$24B	-	-	-	-	-
Wednesday, August 23	7:00 AM	MBA-APPLICATIONS	(Aug 18)	(L)	-	-	-0.8%
Wednesday, August 23	9:45 AM	S&P GLOBAL US SERVICES PMI	(Aug P)	(L)	-	52	52.3
Wednesday, August 23	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Aug P)	(L)	-	-	52.0
Wednesday, August 23	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Aug P)	(L)	-	48.9	49.0
Wednesday, August 23	10:00 AM	NEW HOME SALES SAAR	(Jul)	(M)	696K	707K	697K
Wednesday, August 23	10:00 AM	NEW HOME SALES M/M	(Jul)	(M)	-0.2%	1.4%	-2.5%
Thursday, August 24	-	AUCTION: 30-YR TIPS \$8B	-	-	-	-	-
Thursday, August 24	8:30 AM	INITIAL CLAIMS	(Aug 19)	(M)	-	240K	239K
Thursday, August 24	8:30 AM	CONTINUING CLAIMS	(Aug 12)	(L)	-	1700K	1716K
Thursday, August 24	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Jul)	(M)	-	-	-0.3
Thursday, August 24	8:30 AM	DURABLE GOODS ORDERS M/M	(Jul P)	(H)	-2.0%	-4.0%	4.6%
Thursday, August 24	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jul P)	(H)	-0.2%	0.3%	0.5%
Thursday, August 24	12:00 PM	Speaker: Patrick Harker (Philadelphia) (Voter)	-	-	-	-	-
Friday, August 25	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Aug)	(H)	-	71.2	71.2
Friday, August 25	9:00 AM	Speaker: Patrick Harker (Philadelphia) (Voter)	-	-	-	-	-
Friday, August 25	10:05 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, a parade of Fed speakers, including the head honcho, highlights a calendar in which the data will feature indicators that typically aren't market movers. We suspect that durable orders will look on the soft side, because the tepid July factory ISM would otherwise have been miles off given the rebound seen in manufacturing production. We look for a fairly pedestrian Jackson Hole speech from Jay Powell that signals that better inflation news has been welcomed, but maintains the "data dependent" messaging about another hike in September. We will be watching for what the various Fed speakers have to say, if anything about the strength seen in early indicators of Q3 growth (see our cover story).

In **Canada**, we have a light week for data, with the bigger news saved for the subsequent week's GDP release. June's retail data will likely be in line with the flat flash estimate, and we expect that July's first reading will look sluggish in real terms. The Bank of Canada had cited strong Q1 consumption as a reason to resume rate hikes, but that seems to have given way to a stall in Q2.

Week Ahead's key Canadian number: Retail sales—June

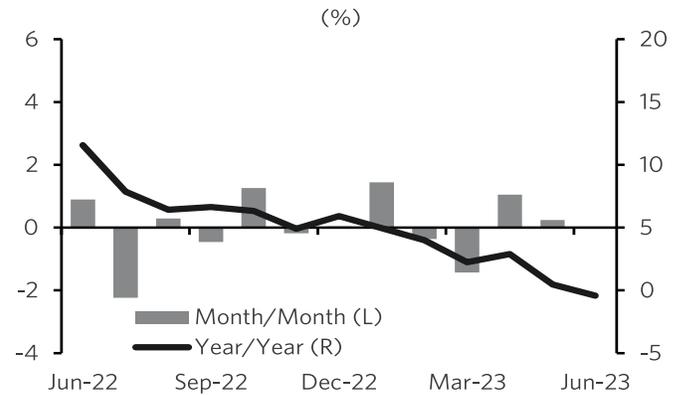
(Wednesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Retail sales total m/m	0.0	0.0	0.2
Ex-autos m/m	0.3	0.4	0.0

Nominal retail sales were likely flat in June, matching Statistics Canada's advance estimate, and implying a retreat in volume terms that extends the recent sluggishness seen in goods consumption. A decline in unit auto sales likely held back the headline, and ex. auto sales likely looked slightly better, rising at a 0.3% monthly pace, although that would still translate into a negative in volume terms. The advance estimate for July will likely indicate continued lacklustre sales in real terms, in line with the deterioration in the labour market, and as households adjust to higher interest rates.

Chart: Canadian retail sales



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Goods consumption likely contracted modestly in the second quarter, with gains in autos earlier on masking most of the weakness in other categories. While this leaves a soft starting point for goods consumption leading into the third quarter, auto sales could continue to be an offsetting factor given the remaining pent-up demand, but consumption will continue to look weak in per-capita terms.

Week Ahead's key US number: Durable goods orders—July

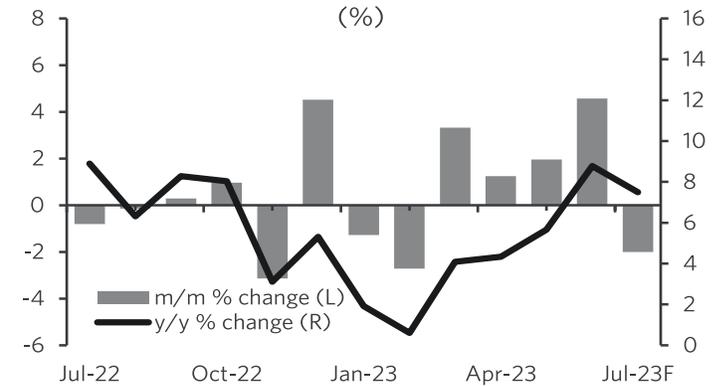
(Thursday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Durable goods orders m/m	-2.0	-4.0	4.6
Ex. transportation m/m	-0.2	0.3	0.5

Durable goods momentum has been strong in recent months. The insatiable demand for travel and the unclogging of production backlogs has meant a surge in aircraft investment recently. But we expect both durable goods new orders and durable goods ex transportation will both take a breather from the hot growth and edge down in July.

Chart: Durable goods orders



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — Equipment investment surged in Q2 due to transportation investment and we expect some modest pullback in Q3 given the cautious sentiment reflected in the ISM manufacturing index.

Market impact — We're a bit more optimistic about durable goods new orders and more pessimistic than the consensus on the other indicators due in the coming week. After the hot retail report this week, an upside surprise on durable goods could further boost sentiment about the trend of domestic demand in the US economy.

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