Economics

THE WEEK AHEAD

October 3-7, 2022

Two's company, 285 thousand's a crowd

by Avery Shenfeld avery.shenfeld@cibc.com

Markets carry the wisdom of crowds, and they clearly voted thumbs down on the UK's plans for a large scale fiscal easing during a period of heightened inflation. Fortunately, Canadian governments have shown more restraint. The new money included in Ottawa's recent package came to little more than 0.1% of GDP, although provinces have doled out several times that in recent months.

The lesson from the UK is that at this point in the cycle, new spending or tax relief needs to be funded by spending restraint or tax hikes elsewhere, to avoid adding pressure on the central bank for still more rate hikes to quell inflation. And for Canada, that's of particular importance given that rate hikes will take a lot of their toll on one sector in which, from a medium term perspective, we need more growth, not less: homebuilding.

Statistics Canada reported this past week that, fueled almost completely by immigration, Canada's population grew by nearly 285,000 in the second quarter, a 0.7% increase that was the countries largest since Newfoundland joined confederation in 1949. With the peak years for baby boomers hitting retirement, that's welcome news for an economy that would otherwise be starved for those of working age, and is making up for a lean year for immigration when the pandemic first hit. Relative to the US, Canada's more welcoming immigration stance should be of assistance in addressing what would otherwise be a mismatch between the increased demands for health care from an aging population and the shrinking workforce that can be taxed to pay for it.

But just think about these numbers for a moment. At that pace, which admittedly is unlikely to be fully sustained, the country would add the equivalent of a fresh city of more than a million people every year. The immigrants coming into this country aren't turtles; they don't carry their housing on their backs. To continue to attract these inflows, and to avoid squeezing out those already here from their housing needs, we can't afford much of a lull in housing construction.

That in turn has some broader implications for investors and policy makers. The optimal mix of monetary and fiscal tightening to address inflation would actually lean more heavily on the latter, so that interest rate hikes cut a bit less into homebuilding. That doesn't mean an across the board slashing in government spending, because some of that goes towards meeting the costs for health care and the infrastructure needed to accommodate population growth. But as in the UK, other things we might like to have, like lower taxes, might have to wait for less-inflationary times.

For investors, it likely means that if housing land prices retreat during this period of higher interest rates, there should be opportunities lying in wait for the inevitable rebound in demand when interest rates moderate. The lull we expect to see in housing starts in 2023, and perhaps extending into 2024, is likely to be followed by new highs thereafter, particularly if the three levels of government cooperate to remove barriers to increased urban density.

For young people looking to buy their first home, their current frustration might not get much better. Houses are becoming less expensive to repair as construction materials cheapen up in a global slowdown, but whatever they will save on purchase prices is being more than offset by higher mortgage rates.

Strong population growth suggests that in the next cycle, lower mortgage rates could just be countered by a recovery in prices, unless we can add a lot more new units than we've seen in recent years. We'll need full guns blazing on policies aimed at building more housing, including apartments, if we're going to have room for the crowd of immigrants our economy needs for its labour market.

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, October 3	-	-	-	-	-	-	-
Tuesday, October 4	-	-	-	-	-	-	-
Wednesday, October 5	-	AUCTION: 10-YR CANADAS	-	-	-	-	-
Wednesday, October 5	8:30 AM	MERCHANDISE TRADE BALANCE	(Aug)	(H)	$3.4B	$3.9B	$4.05B
Wednesday, October 5	8:30 AM	BUILDING PERMITS M/M	(Aug)	(M)	-	-2.2%	-6.6%
Thursday, October 6	10:00 AM	IVEY PMI	(Sep)	(L)	-	-	60.9
Thursday, October 6	11:50 AM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Friday, October 7	8:30 AM	EMPLOYMENT CHANGE	(Aug)	(H)	35.0K	15.0K	-39.7K
Friday, October 7	8:30 AM	UNEMPLOYMENT RATE	(Aug)	(H)	5.2%	5.5%	5.4%

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, October 3	10:00 AM	ISM - MANUFACTURING	(Sep)	(H)	52.3	52.2	52.8
Monday, October 3	10:00 AM	CONSTRUCTION SPENDING M/M	(Aug)	(M)	-	-0.2%	-0.4%
Monday, October 3	-	NEW VEHICLE SALES	(Sep)	(M)	-	13.45M	13.18M
Monday, October 3	9:05 AM	Speaker: Raphael W. Bostic (Atlanta)	-	-	-	-	-
Monday, October 3	3:10 PM	Speaker: 3:10 PM John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, October 4	-	AUCTION: 1-YR TREASURIES	-	-	-	-	-
Tuesday, October 4	10:00 AM	FACTORY ORDERS M/M	(Aug)	(M)	0.1%	0.4%	-1.0%
Tuesday, October 4	10:00 AM	JOLTS Job Openings	(Aug)	-	-	-	11239K
Tuesday, October 4	9:00 AM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Tuesday, October 4	9:00 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, October 4	9:15 AM	Speaker: Loretta Mester (Cleveland) (Voter)	-	-	-	-	-
Tuesday, October 4	1:00 PM	Speaker: Mary C. Daly (San Francisco)	-	-	-	-	-
Wednesday, October 5	7:00 AM	MBA-APPLICATIONS	(Sep 30)	(L)	-	-	-3.7%
Wednesday, October 5	8:15 AM	ADP EMPLOYMENT CHANGE	(Sep)	(M)	-	200K	132K
Wednesday, October 5	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Aug)	(H)	-$68.9B	-$67.7B	-$70.7B
Wednesday, October 5	10:00 AM	ISM - SERVICES	(Sep)	(M)	56.0	56.0	56.9
Wednesday, October 5	4:00 PM	Speaker: 4:00 PM Raphael W. Bostic (Atlanta)	-	-	-	-	-
Thursday, October 6	8:30 AM	INITIAL CLAIMS	(Oct 1)	(M)	-	-	-
Thursday, October 6	8:30 AM	CONTINUING CLAIMS	(Sep 24)	(L)	-	-	-
Thursday, October 6	1:00 PM	Speaker: Charles L. Evans (Chicago) (Non-Voter)	-	-	-	-	-
Thursday, October 6	1:00 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Thursday, October 6	6:30 PM	Speaker: Loretta Mester (Cleveland) (Voter)	-	-	-	-	-
Friday, October 7	8:30 AM	NON-FARM PAYROLLS	(Sep)	(H)	240K	250K	315K
Friday, October 7	8:30 AM	UNEMPLOYMENT RATE	(Sep)	(H)	3.7%	3.7%	3.7%
Friday, October 7	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Sep)	(H)	0.3%	0.3%	0.3%
Friday, October 7	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Sep)	(H)	-	34.5	34.5
Friday, October 7	8:30 AM	MANUFACTURING PAYROLLS	(Sep)	(H)	-	20K	22K
Friday, October 7	10:00 AM	WHOLESALE INVENTORIES M/M	(Aug F)	(L)	-	-	1.3%
Friday, October 7	3:00 PM	CONSUMER CREDIT	(Aug)	(L)	-	$25.00B	$23.81B
Friday, October 7	10:00 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, for those of us on the slightly more dovish side for the degree of Fed tightening ahead, the most problematic indicator is employment growth, which as Powell has emphasized, remains robust. Why that's been so is less obvious, given the softness in other growth indicators, but it could simply be that sectors that are still growing are hiring, while sectors starting to weaken were understaffed at the start of the year, and therefore don't need to pare their workforce. In any event, our call for just under the consensus call for 250K new jobs is still miles above what the Fed needs to see to pause on rate hikes. ISM and trade data fill out the calendar, but payrolls gains and wage hikes will be key to where we end the week.

In **Canada**, just as the last employment report was an undercount due to a quirk that showed a big drop in education workers, this one will overstate gains if those jobs reappear in the data. If that represents most of the gain, then the overall trend will still look soft after several months of decline. The trade surplus is pulling back as a slowing global economy impacts export prices. Markets will also hear from the BoC Governor, and while he really should hold off on specific guidance until he has the new forecast (due in October), we might still get some clues on what lies ahead.

Week Ahead's key Canadian number: Labour force survey—September

(Friday, 8:30 am)

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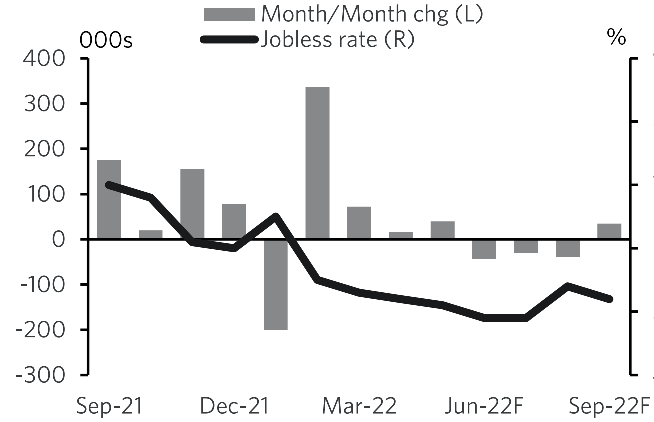
Variable	CIBC	Mkt	Prior
Employment (m/m)	35.0K	15.0K	-39.7K
Unemployment rate	5.2%	5.5%	5.4%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Employment fell for a third successive month in August, although a suspect late-summer plunge in headcounts within education meant that last month's figure was taken with a grain of salt. If the decline in education during August was a quirk of the seasonal adjustment process, then September's figure should show a healthy rebound in that area. However, other sectors such as construction and real estate could show weakness, which would partly offset the rebound in educational employment.

The 35K increase in total jobs expected for September would offset only around a third of the combined jobs lost over the prior three months. Assuming a slowdown in monthly population growth relative to August's brisk pace, as well as a slight reduction in participation, the job gain expected would take the jobless rate down to 5.2% — historically low but still above the 4.9% mark seen in June and July.

Forecast implications — Looking through the suspected volatility caused by the swing in education employment, the labour market appears to be on a gradually weakening trend. With employment expected to rise at a slower pace than the labour force over the coming 12 months as higher interest rates impact hiring decisions, we suspect that the unemployment rate could rise to 6% by next July.

Other Canadian releases: Merchandise trade—August

(Wednesday, 8:30 am)

The continued slide in oil prices likely saw Canada's goods trade surplus slim in August, although higher natural gas prices likely acted as a slight offset. We expect a surplus of $3.4bn for the latest month, which would be the smallest since April and down from $4.1bn in July.

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

(Friday, 8:30 am)

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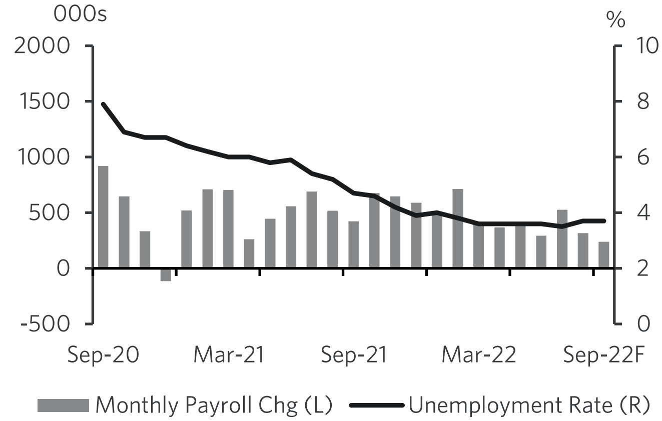
Variable	CIBC	Mkt	Prior
Employment (m/m)	240K	250K	315K
Unemployment rate	3.7%	3.7%	3.7%
Avg hourly earnings (m/m)	0.3%	0.3%	0.3%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Early indications of the health of the US labor market in September suggest that hiring continued at a brisk pace, with 240K jobs likely added. That's consistent with the improvement seen in initial jobless claims and the Conference Board's labor differential measure. While that pace of hiring would typically cause the unemployment rate to fall, there is still room for participation gains in the prime-age group, and the unemployment rate could have remained at 3.7% with some increase in participation.

Forecast implications — Despite the slowdown in interest-sensitive sectors, employers don't appear to be shedding employees at this stage, which could be a sign that sectors that were once understaffed are now adequately staffed in the face of slower demand. Still, higher interest rates are clearly needed to cool demand and the pace of hiring further, and the Fed will remain on track for further outsized interest rate hikes over the rest of the year.

Market impact — We're not far enough from the consensus to see a material market reaction.

Other US Releases: ISM Manufacturing—September

(Thursday, 10:00 am)

The ISM's gauge of manufacturing activity could have fallen slightly, to 52.3 in September, as softer global demand could have weighed on the new orders measure, negating any improvement in the production sub-index on a fading of supply chain issues. The supplier deliveries sub-index falls as supply chain disruptions ease, so that could have also weighed on the headline index.

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