

Economics

THE WEEK AHEAD

January 29 - February 2, 2024

What dentists and US economists share

by Avery Shenfeld avery.shenfeld@cibc.com

What do dentists and American economists have in common? They're in agreement with each other. An old, long-running TV ad claimed that four out of five dentists recommended sugarless gum for their patients that chew gum. I suppose the fifth practitioner needed more business. And a recent survey by a US association of business economists found that 91% of them expect the American economy to avoid a recession this year.

One shouldn't translate that into a probability measure. The odds of a recession in any random year are about 10%, since we see one about once every decade. Despite the strength seen in the last half of 2023, the odds of a recession are still higher than average. Healthy growth can turn negative in a hurry when there are underlying fragilities; just ahead of the onset of the 2008 recession, the economy was only slightly slower than what we saw in Q4 2023, and looked to have weathered the storm clouds that were already hitting the housing and mortgage market.

In this case, there are legitimate risks as home and abroad. Major overseas economies are in or on the precipice of recessions, wars are raging in Europe and the Middle East, and geopolitical tensions remain with China. Domestically, much of the growth has been tied to a consumption surge that looks a bit long in the tooth, having drained savings rates, and pushed up credit card use. Commercial and industrial loans were down year-on-year in December, historically a recession signpost. And GDP gains have been boosted by a productivity surge that might reflect a one-time bounce from supply chain improvements, rather than a new normal.

So why then, do we find ourselves among the 91% who don't expect a recession this year? Oddly enough, it's for the same reason that we were not with the majority camp a year ago, when we expected the US to avoid a 2023 recession that the consensus was predicting. Simply put, it's because of our conviction that with much of the inflation tied to issues other than overheated demand, Americans didn't need to suffer a recession to get inflation under control. We were, and still are, unwilling to forecast a policy error that the Fed hasn't yet made.

Last year, the error would have been to keep hiking aggressively until the economy had fallen into an outright downturn. Many on the FOMC started 2023 with that intention, but as luck would have it, the inflation data turned early enough for the Fed to realize the errors in its thinking.

At this point, the odds that the Fed would err by keeping rates too high for too long seem quite remote. Yes, there are shocks from abroad or risks at home that could see growth fall off more than we expect. But with inflation generally tame, a dual-mandate central bank would have no reason to eschew significant monetary policy relief if its needed.

Indeed, that balance of risks calculation suggests that we should be a bit more worried about the Fed overdoing it, and cutting too far, too soon. The market's current pricing might already be too aggressive. Wage inflation suggests that we need to see at least some cooling in hiring to keep inflation at bay, particularly once more of the supply chain improvements that depressed goods prices are behind us. So, given our proclivity to avoid forecasting policy errors that haven't yet happened, we see the Fed cutting only 100 bps this year. We view that as sufficient to avoid turning a likely slowdown into an outright recession.

There are contrarian investors who will see a headline about 91% of economists being in agreement as a reason to bet against them. Yes, sometimes the consensus is dead wrong, and many of those in this survey had called for a 2023 recession. On our part, we had forecast a slowdown, and even that was too pessimistic. But sometimes the "experts" are right, just like the dentists who advised against chewing sugar-laden gum.

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, January 29	-	-	-	-	-	-	-
Tuesday, January 30	-	AUCTION: 3-M BILLS \$12.2B, 6-M BILLS \$4.4B, 1-YR - BILLS \$4.4B	-	-	-	-	-
Wednesday, January 31	8:30 AM	GDP M/M	(Nov)	(H)	0.1%	-	0.0%
Wednesday, January 31	8:30 AM	GDP Y/Y	(Nov)	(H)	-	-	0.9%
Thursday, February 1	-	AUCTION: 30-YR CANADAS \$2.5B	-	-	-	-	-
Friday, February 2	-	-	-	-	-	-	-

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, January 29	-	-	-	-	-	-	-
Tuesday, January 30	9:00 AM	HOUSE PRICE INDEX M/M	(Nov)	(M)	-	0.2%	0.3%
Tuesday, January 30	9:00 AM	S&P CORELOGIC CS Y/Y	(Nov)	(H)	-	-	4.9%
Tuesday, January 30	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Jan)	(H)	118.5	113.0	110.7
Tuesday, January 30	10:00 AM	JOLTS Job Openings	(Dec)	-	8700K	8700K	8790K
Wednesday, January 31	7:00 AM	MBA-APPLICATIONS	(Jan 26)	(L)	-	-	3.7%
Wednesday, January 31	8:15 AM	ADP EMPLOYMENT CHANGE	(Jan)	(M)	-	135K	164K
Wednesday, January 31	8:30 AM	EMPLOYMENT COST INDEX	(4Q)	(M)	-	1.0%	1.1%
Wednesday, January 31	9:45 AM	CHICAGO PMI	(Jan)	(M)	-	48.2	47.2
Wednesday, January 31	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Jan 31)	(H)	5.50%	5.50%	5.50%
Wednesday, January 31	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Jan 31)	(H)	5.25%	5.25%	5.25%
Wednesday, January 31	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, February 1	8:30 AM	INITIAL CLAIMS	(Jan 27)	(M)	-	-	214K
Thursday, February 1	8:30 AM	CONTINUING CLAIMS	(Jan 20)	(L)	-	-	1833K
Thursday, February 1	8:30 AM	NON-FARM PRODUCTIVITY	(4Q P)	(M)	1.9%	1.9%	5.2%
Thursday, February 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jan F)	(L)	-	-	50.3
Thursday, February 1	10:00 AM	ISM - MANUFACTURING	(Jan)	(H)	47.0	47.3	47.2
Thursday, February 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Dec)	(M)	-	0.5%	0.4%
Friday, February 2	8:30 AM	NON-FARM PAYROLLS	(Jan)	(H)	170K	180K	216K
Friday, February 2	8:30 AM	UNEMPLOYMENT RATE	(Jan)	(H)	3.7%	3.8%	3.7%
Friday, February 2	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Jan)	(H)	0.3%	0.3%	0.4%
Friday, February 2	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Jan)	(H)	-	34.4	34.3
Friday, February 2	8:30 AM	MANUFACTURING PAYROLLS	(Jan)	(H)	-	4K	6K
Friday, February 2	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jan F)	(H)	-	78.8	78.8
Friday, February 2	10:00 AM	FACTORY ORDERS M/M	(Dec)	(M)	0.4%	0.4%	2.6%
Friday, February 2	10:00 AM	DURABLE GOODS ORDERS M/M	(Dec F)	(H)	-	-	0.0%
Friday, February 2	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Dec F)	(H)	-	-	0.6%

Week Ahead's market call

by Avery Shenfeld

In the **US**, the Fed is prepared to give the US economy what it needs, but solid growth suggests that it's hardly desperate for a rate cut just yet, and nobody expects one this month. There's no new forecast or interest rate projection this time, but Powell is likely to laud progress on inflation and indicate a willingness to ease policy if the economy decelerates and inflation remains under wraps, leaving markets to decide on their own when those conditions will be met. Employment tops the data calendar, and we expect a trend-like advance in payrolls that keeps the jobless rate glued at 3.7%. Much of the easing in labour market tightness has instead come in declining job vacancies, which we expect to creep lower in the JOLTS data. The ISM for factories should remain in the doldrums, but that's been true for some time now and hasn't stood in the way of decent GDP gains.

In **Canada**, slim but still positive growth in the monthly GDP tally for November and the preliminary figure for December would combine to put the quarter showing a roughly 0.5% annualized pace for Q4. That estimate comes from measures of value added by industry, and the more important quarterly expenditure GDP figures can differ. Even so, we're not quite as pessimistic as the Bank of Canada, which sees quarterly GDP only flat, but our call for a dip in Q1 relative to the BoC's expectation for modest growth would essentially offset that. However these decimal places pan out, this is still a Canadian economy running at close to stall speed in terms of output, despite rapid population growth.

Week Ahead's key Canadian number: Gross domestic product—November

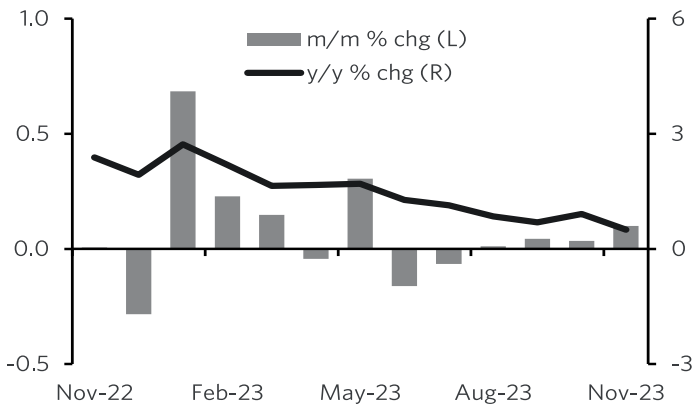
(Wednesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.1	-	0.0

While final manufacturing and wholesale data were marginally better than their advance estimates in November, retailing was a little weaker than first predicted. Those offsetting pieces of the puzzle suggest that monthly GDP will still show a marginal 0.1% gain. Indicators for December have also been somewhat mixed, albeit leaning towards a further slight increase in activity. That will leave Q4 GDP tracking roughly a 0.5% annualized pace for these industry figures.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — The Canadian economy may narrowly avoid a second successive quarterly contraction, but any growth continues to be weak. We expect that activity will continue to flatline in the first half of 2024, resulting in a further creep up in the unemployment rate. Rate cuts starting before mid-year should bring an acceleration in interest rate sensitive sectors of the economy later this year and into 2025.

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

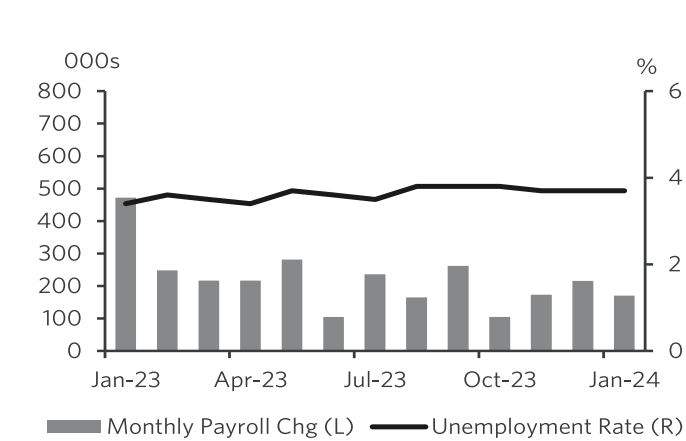
(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment (m/m)	170K	180K	216K
Unemployment rate	3.7%	3.8%	3.7%
Avg hourly earnings (m/m)	0.3%	0.3%	0.4%

New year, same old labor market. We expect job gains to remain solid with a pickup of 170K in the month, about the average three month pace in December. Government and healthcare hiring should continue to be the main source of employment, both sectors less sensitive to the business cycle. But perhaps more important than the January payroll number could be previous revisions. Recently, revisions have been material and this time around, we would not be surprised to see upward revisions given the surge in consumption, implying an even higher level of real income in the system. The unemployment rate and the participation rate should stay unchanged in the month while wage growth should moderate slightly to 0.3% m/m.

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Forecast implications — A solid labor market is clearly translating into further strength in consumption. Added to this, household balance sheets remain very strong and the American consumer has shown no signs of a desire to normalize saving behaviour. A strong upside surprise or upward revisions is likely to imply a very strong income backdrop for consumption and GDP growth in 24Q1.

Market impact — We are slightly below consensus on payrolls because there were some outsized increases in leisure and hospitality that will likely pull back in January. But one should be careful about making big conclusions on the first release of payrolls these days. The fog will settle for January in the next release. What markets will be most sensitive is the magnitude and direction of the revisions to prior months.

Other US Releases: ISM Manufacturing—January

(Thursday, 10:00 am)

We expect the ISM Manufacturing survey to move a bit deeper into contractionary territory at 47. While household demand remains strong, that domestic strength has not been enough to prevent manufacturing from buckling under the weight of likely growing exposure to interest rates and headwinds from slowing global demand. Hard US manufacturing data has been showing this picture for the past several months, and we don't expect that to change in January.

JOLTS Job Openings—December

(Tuesday, 10:00 am)

We expect job openings to remain roughly unchanged at 8700 and the vacancy to unemployment ratio to stay at 1.4 and would not be surprised to see the quits rate move up a notch. That would be consistent with the strength seen in other December labour market measures. Market participants are understating the importance of this metric to the FOMC. Chris Waller re-emphasized the costless normalization of the job openings rate as an important piece of the labor market rebalancing the Fed is looking to see.

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