THE WEEK AHEAD

October 28 - November 1, 2024

Some Monday morning quarterbacking…on a Friday

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

The good news is that Canadian monetary policy is now on a decisive easing path, one that should allow a return to full employment by 2026. Three cheers for that. But forgive us if we do a little Monday morning quarterbacking, by exploring whether, with the benefit of hindsight, all of the economic pain inflicted by high interest rates, in the battle to wrestle inflation back to 2%, was actually necessary.

That's not to say that a less painful approach would have been readily apparent back in 2022. There were differing views on how high rates would have to go to slow the economy, but when "transitory" inflation started to seem less temporary, there was near unanimity among economists that some pain would be necessary to get it under wraps. Indeed, while we weren't among them, and neither was Governor Macklem, many judged that outright recessions in the US, Canada and Europe would be what the doctor ordered. But was that pain actually key to the subsequent disinflation?

Comparing economic fortunes in the US, Canada and major European economies strongly suggests that much less of the inflation we saw was tied to an economic overheating; nearly all of it, and inflation expectations, melted away as supply-side shocks abated. Canada, the Eurozone and the UK slowed enough to create meaningful economic slack, as evidenced in IMF output gap measures (Chart). That institution estimates that US GDP is actually running above potential by an even greater margin than in 2022. America's jobless rate of 4.1% is only a hair above our estimate of its non-inflationary full-employment benchmark, but Canada's 6.5% unemployment rate is much further above our NAIRU rate of 5.8% or so.

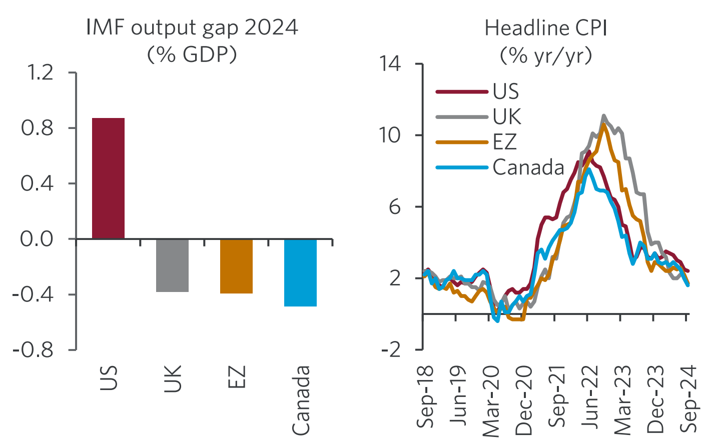
Yet all these countries are making solid progress on inflation. The available measures aren't strictly comparable, as shelter costs are tracked differently, and the central banks have different targets, with the PCE price index the Fed's preference, versus the CPI in Canada. CPI inflation in the Eurozone, the UK and Canada are all a few decimal places below 2%. While the US is at 2.5%, it seems to be on a glide path to 2% PCE inflation despite the economy still chugging along at a roughly 3% real GDP clip.

It's not that the Fed had a different viewpoint than the Bank of Canada back in 2022. Both were trying to engineer material growth slowdowns, while perhaps still avoiding a full blown recession. It's just that the Fed got lucky, with growth holding up better than it had forecast, despite a more aggressive tightening than Canada's.

Is this all water under the bridge at this point? Not really. Remember that, in deciding how quickly to ease policy, central banks need to weigh the risks of cutting too little and leaving a lot of economic slack, or cutting too aggressively and reigniting inflation. Judging by what we now know with hindsight, that latter risk would appear to be much less threatening. Inflation might not in fact be that sensitive to facing a bit too much demand if the supply side is well functioning. That's similar to what various US researchers have concluded in estimating that the Philips curve is relatively flat, with little inflation response, until labour markets are significantly overheated.

The Bank of Canada is engaged in its own post-mortem look at monetary policy after the pandemic. Let's hope it reaches a similar conclusion, and stays on what looks to be a reasonably timely path to lower interest rates in the coming year. And, by the same logic, the Fed shouldn't be thinking about a pause in its gradual path to lower rates at this point.

Chart: Economic slack and inflation: Canada, US, Eurozone, UK



Source: IMF, Bloomberg, 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, October 28	1:30 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Tuesday, October 29	3:30 PM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Wednesday, October 30	4:15 PM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Thursday, October 31	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Thursday, October 31	8:30 AM	GDP M/M	(Aug)	(H)	0.0%	0.1%	0.2%
Thursday, October 31	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Aug)	-	-	-	32.8K
Friday, November 1	-	-	-	-	-	-	-

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 28	-	AUCTION: 2-YR TREASURIES $69B	-	-	-	-	-
Monday, October 28	-	AUCTION: 5-YR TREASURIES $70B	-	-	-	-	-
Tuesday, October 29	-	AUCTION: 1-YR TREASURIES $48B	-	-	-	-	-
Tuesday, October 29	-	AUCTION: 7-YR TREASURIES $44B	-	-	-	-	-
Tuesday, October 29	-	AUCTION: 2-YR FRN $30B	-	-	-	-	-
Tuesday, October 29	8:30 AM	WHOLESALE INVENTORIES M/M	(Sep P)	(L)	-	-	0.1%
Tuesday, October 29	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Sep)	(M)	-$95.0B	-$96.0B	-$94.3B
Tuesday, October 29	8:30 AM	RETAIL INVENTORIES M/M	(Sep)	(H)	-	-	0.5%
Tuesday, October 29	9:00 AM	HOUSE PRICE INDEX M/M	(Aug)	(M)	-	-	0.1%
Tuesday, October 29	9:00 AM	S&P CORELOGIC CS Y/Y	(Aug)	(H)	-	-	5.9%
Tuesday, October 29	10:00 AM	JOLTS Job Openings	(Sep)	-	7750K	7900K	8040K
Tuesday, October 29	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Oct)	(H)	-	99.0	98.7
Wednesday, October 30	7:00 AM	MBA-APPLICATIONS	(Oct 25)	(L)	-	-	-6.7%
Wednesday, October 30	8:15 AM	ADP EMPLOYMENT CHANGE	(Oct)	(M)	-	98K	143K
Wednesday, October 30	8:30 AM	GDP (annualized)	(3Q A)	(H)	3.2%	3.0%	3.0%
Wednesday, October 30	8:30 AM	GDP DEFLATOR (annualized)	(3Q A)	(H)	2.3%	-	2.5%
Wednesday, October 30	10:00 AM	PENDING HOME SALES M/M	(Sep)	(M)	-	-	0.6%
Thursday, October 31	8:30 AM	INITIAL CLAIMS	(Oct 26)	(M)	-	-	227K
Thursday, October 31	8:30 AM	CONTINUING CLAIMS	(Oct 19)	(L)	-	-	1897K
Thursday, October 31	8:30 AM	EMPLOYMENT COST INDEX	(3Q)	(M)	-	0.9%	0.9%
Thursday, October 31	8:30 AM	PCE DEFLATOR Y/Y	(Sep)	(H)	2.1%	2.1%	2.2%
Thursday, October 31	8:30 AM	PCE DEFLATOR Y/Y (core)	(Sep)	(H)	2.6%	2.6%	2.7%
Thursday, October 31	8:30 AM	PERSONAL INCOME M/M	(Sep)	(H)	0.2%	0.4%	0.2%
Thursday, October 31	8:30 AM	PERSONAL SPENDING M/M	(Sep)	(H)	0.6%	0.4%	0.2%
Thursday, October 31	9:45 AM	CHICAGO PMI	(Oct)	(M)	-	-	46.6
Friday, November 1	8:30 AM	NON-FARM PAYROLLS	(Oct)	(H)	110K	120K	254K
Friday, November 1	8:30 AM	UNEMPLOYMENT RATE	(Oct)	(H)	4.2%	4.1%	4.1%
Friday, November 1	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Oct)	(H)	0.2%	0.3%	0.4%
Friday, November 1	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Oct)	(H)	-	34.2	34.2
Friday, November 1	8:30 AM	MANUFACTURING PAYROLLS	(Oct)	(H)	-	-30K	-7K
Friday, November 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Oct)	(L)	-	-	47.8
Friday, November 1	10:00 AM	ISM - MANUFACTURING	(Oct)	(H)	47.8	47.6	47.2
Friday, November 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Sep)	(M)	-	0.0%	-0.1%

Week Ahead's market call

by Avery Shenfeld

In the **US**, the payrolls report will be strike and hurricane affected, so a sub-consensus reading might not generate much of a market reaction while economists try to sort out the underlying trend. That trend should still be reasonably healthy, given that we're coming off a quarter with yet another solid gain in economic activity. Our 3.2% call for Q3 real GDP growth isn't newsworthy now, but is more than a full point faster than what we were expecting as of our mid-September forecast. Not-so-rosy numbers are likely for the ISM manufacturing index in view of regional Fed survey results, and we expect the JOLTS data to show a drop in job vacancies in September after the uptick we've seen in hiring. Presidential election polls are showing a dead heat, so markets may not be able to price-in more potential policy impacts in a vote that still looks like a coin toss.

Canada's economy is still stuck in the mud, at least relative to what we're seeing stateside, and a flat monthly GDP reading, coupled with a return to growth in the last month of Q3, points to a quarterly growth rate a bit over 1%, marginally lower than the downgraded Bank of Canada forecast. Speeches from the BoC aren't likely to add much, since the message after the last rate decision was as clear as its going to be, given that the Governor doesn't like to give specific guidance on the magnitude of cuts ahead.

Week Ahead's key Canadian number: GDP—August, September advance

(Thursday, 8:30 am)

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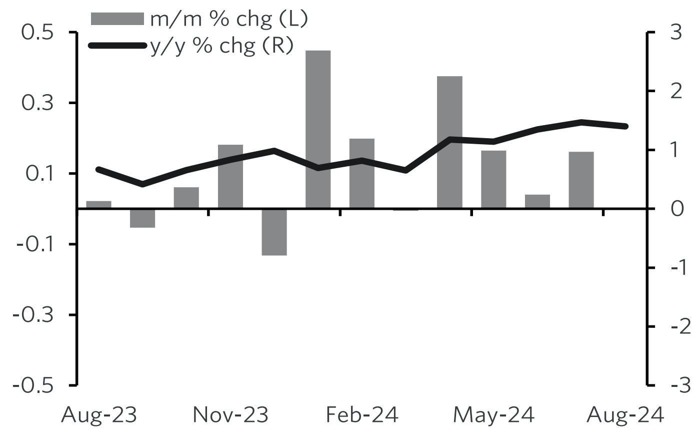
Variable (%)	CIBC	Mkt	Prior
GDP m/m	0.0	0.1	0.2

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

The Canadian economy likely stalled again in August, following modest growth in the prior month. A decline in manufacturing production, combined with the impact of a brief rail dispute on transportation activity, were likely offset by increases in areas such as mining oil & gas. The advance reading for September is expected to show a return to modest growth, albeit partly due to a rebound in transportation activity. That would leave the quarter as a whole tracking roughly 1.2% — close to the Bank of Canada's downwardly revised forecast of 1.5%.

Forecast implications — Even though growth has picked up somewhat this year relative to 2023, recent sluggishness in inflation suggests that there is plenty of room for further acceleration before upside inflation concerns reemerge. The question is how low rates need to go to achieve that acceleration? We expect that interest rates will need to dip below neutral for the economy to accelerate above its long-run potential.

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

(Friday, 8:30 am)

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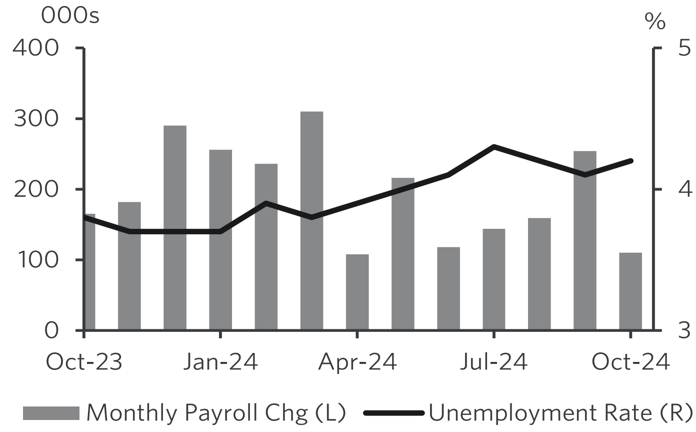
Variable	CIBC	Mkt	Prior
Employment (m/m)	110K	120K	254K
Unemployment rate	4.2%	4.1%	4.1%
Avg hourly earnings (m/m)	0.2%	0.3%	0.4%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

In a star-studded data week, the main attraction will be Friday's October payroll report. We expect on the surface it should look soft, mostly because of the noise from hurricane-impacts and the Boeing strike, and are forecasting headline payroll job gains at 110K, which is below the current consensus of 120K. But underlying labor demand looks healthy with the economy growing at a strong pace, and our estimate in the absence of these events would have been around 150K. The unemployment rate should tick up one notch to 4.2% and wage growth should slow a bit to 0.2%. It will be a little more difficult to separate the signal from the noise for the October data point, but the Fed will be looking at revisions to the two prior months and placing more weight on the three-month trend prior to October to get a read of the labor market. Overall, we expect that picture to show a healthy but cooling jobs market that will benefit from some more rate relief.

Forecast implications — The labor market should look a little cooler in October, and that should modestly slow consumption and GDP growth going forward.

Market impact — Markets are likely bracing themselves for a wild ride given the risks from hurricanes and the Boeing strike, but the broad sweep of data and the latest Fedspeak will still make the market comfortable in pricing in a normal sized-cut in November.

Other US Releases: Real GDP—Q3 (Advance)

(Wednesday, 8:30 am)

The advanced reading of Q3 should come in around 3% for the second straight quarter. We are a couple of notches above consensus, expecting growth at 3.2% Q/Q SAAR, but below the Atlanta Fed GDPNow, which is currently sitting at 3.4%. Is the economy overheating? Well, not exactly. 3% is the new 2%! Growth has averaged 3% over the past two years, while inflation and job market have cooled over the same period. The only way to square that circle is if the non-inflationary speed limit of the economy, potential output, has improved materially. So as odd as it seems, a 3% reading should no longer be eye-popping at this point. In component terms, the consumer has been the primary engine of growth and that will be no different in Q3. We are forecasting consumption growth to come in at 3.4%, and business investment and export growth should be strong in the quarter as well.

Forecast implications — Momentum heading into Q4 looks solid but we expect to growth to slow modestly as the job market softens further. We will update our Q4 tracking sometime after the Q3 advanced release.

Market impact — GDP will not be much of a surprise to the Fed given much of the underlying data on domestic demand is known. The market sees the Atlanta Fed nowcast is primed on another elevated growth reading. Volatility from trade and inventory data are always a risk, but the market will be more responsive to Friday's payroll number rather than GDP.

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