

Economics

THE WEEK AHEAD

July 17 - 21, 2023

The risks from the rear view mirror

by Avery Shenfeld avery.shenfeld@cibc.com

Neils Bohr supposedly said that “prediction is very difficult, especially about the future”, and he had the immutable laws of physics to work with, not the hazy social science of economics. The danger is that when forecasts go awry, the temptation is to put increasing weight on what has already happened as a sign of things to come. That’s indeed what the Bank of Canada risks doing if it carries on hiking interest rates based on the kind of analysis presented in this week’s Monetary Policy Report.

Much of that report rests on a comparison of data to date, some of which goes back to Q1, versus what the Bank of Canada had expected when it paused its rate hikes at 4.5% in January. Presumably, its models, like our own, were then telling it that the rapid-fire dose of hikes in the prior year would be sufficient to stall demand growth. But despite recognizing that lags between hikes and their impact are long and variable, after less than a half year, it has tacked on a further 50 bps of hikes, and seems to be leaning to a further move in September.

But its own analysis is replete with factors that would only delay, not prevent, the easing in growth it’s looking for. The MPR notes that only a third of mortgage borrowers have yet felt the sting of higher rates. That easily explains why looking at current household financial stress indicators could miss most of the story still to come.

Similarly, the rebound it cited in housing sales and prices might prove to be a flash in the pan. It came during a period in which mortgage rates had eased on mistaken market expectations that rate cuts were on the way, and looks like a dead cat bounce from extremely weak levels of activity, particularly on a per-capita basis. The trend in housing starts, of importance for construction jobs down the road, is still weakening.

First quarter consumption gains were similarly a bounce from a weak Q4, and the MPR concedes that some of the factors behind it could be temporary. The lingering concern would be that a tight labour market drives wages and spending power, but the most recent indicators on that front are moving in the

right direction. Not only has the jobless rate moved up, but the last two payrolls surveys (SEPH) showed outright declines. It’s possible that these are picking up a turning point missed in the more volatile, small sample labour force survey.

Even though the MPR’s chart 2 shows Canada doing better than others in its deceleration in core inflation, the Bank is disappointed with the stickiness of some CPI measures. Inflation is, however, a lagging indicator. If the Bank had kept the faith about a more material slowing in demand ahead, it wouldn’t be as concerned about the failure of some of the core measures to keep diving.

Instead, it put a lot of weight on upside surprises in a few months of economic growth to conclude that future growth will be firmer, which in turn underpinned this week’s additional hike. There’s still time for softer numbers to dissuade it from a September hike, but the Bank will also need to put a bit more weight on its forecasting ability, and a bit more emphasis on the role of lagged impacts, if it’s to step away from the rate hike game in time to avoid a more serious overshoot.

There is another, less hawkish explanation for the BoC’s change to its inflation forecast: it’s buying time. A projection for a longer wait for 2% inflation is also a concession that the Bank is willing to live with that timetable. After all, it could opt to hike even more aggressively, and do more damage to the economy if it deemed the later deadline as unacceptable.

That tougher line might not be in sync with a federal government that could well be fighting an election next year. It would likely be happier doing so with 3% inflation if it would take an outright recession to push the CPI lower in a hurry. Canadians, particularly those in debt or whose jobs would be at risk, would likely agree.

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, July 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(May)	(M)	-	-	\$13.5B
Monday, July 17	8:30 AM	WHOLESALE TRADE M/M	(May)	(M)	-	0.8%	-1.4%
Tuesday, July 18	-	AUCTION: 3-M BILLS \$12.2B, 6-M BILLS \$4.4B, 1-YR - BILLS \$4.4B	-	-	-	-	-
Tuesday, July 18	8:15 AM	HOUSING STARTS SAAR	(Jun)	(M)	-	216.3K	202.5K
Tuesday, July 18	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Jun)	(M)	-	-	-1.0%
Tuesday, July 18	8:30 AM	RAW MATERIALS M/M	(Jun)	(M)	-	-	-4.9%
Tuesday, July 18	8:30 AM	CPI M/M	(Jun)	(H)	0.3%	0.3%	0.4%
Tuesday, July 18	8:30 AM	CPI Y/Y	(Jun)	(H)	3.0%	3.1%	3.4%
Tuesday, July 18	8:30 AM	Consumer Price Index	(Jun)	(M)	-	-	157.0
Tuesday, July 18	8:30 AM	CPI Core- Median Y/Y%	(Jun)	(M)	-	3.7%	3.9%
Tuesday, July 18	8:30 AM	CPI Core- Trim Y/Y%	(Jun)	(M)	-	3.6%	3.8%
Wednesday, July 19	-	AUCTION: 2-YR CANADAS \$4.8B	-	-	-	-	-
Thursday, July 20	-	-	-	-	-	-	-
Friday, July 21	8:30 AM	RETAIL TRADE TOTAL M/M	(May)	(H)	0.5%	0.5%	1.1%
Friday, July 21	8:30 AM	RETAIL TRADE EX-AUTO M/M	(May)	(H)	-	0.1%	1.3%

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, July 17	8:30 AM	NEW YORK FED (EMPIRE)	(Jul)	(M)	-	-3.6	6.6
Tuesday, July 18	8:30 AM	RETAIL SALES M/M	(Jun)	(H)	0.6%	0.5%	0.3%
Tuesday, July 18	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Jun)	(H)	0.4%	0.3%	0.1%
Tuesday, July 18	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Jun)	(H)	0.5%	0.4%	0.2%
Tuesday, July 18	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Jun)	(H)	-0.2%	0.0%	-0.2%
Tuesday, July 18	9:15 AM	CAPACITY UTILIZATION	(Jun)	(M)	79.4%	79.5%	79.6%
Tuesday, July 18	10:00 AM	BUSINESS INVENTORIES M/M	(May)	(L)	-	0.2%	0.2%
Tuesday, July 18	10:00 AM	NAHB HOUSING INDEX	(Jul)	(L)	-	56.0	55.0
Tuesday, July 18	4:00 PM	NET CAPITAL INFLOWS (TICS)	(May)	(L)	-	-	\$127.8B
Wednesday, July 19	-	AUCTION: 20-YR TREASURIES \$12B	-	-	-	-	-
Wednesday, July 19	7:00 AM	MBA-APPLICATIONS	(Jul 14)	(L)	-	-	0.9%
Wednesday, July 19	8:30 AM	BUILDING PERMITS SAAR	(Jun)	(H)	1480K	1470K	1496K
Wednesday, July 19	8:30 AM	HOUSING STARTS SAAR	(Jun)	(M)	1435K	1468K	1631K
Thursday, July 20	-	AUCTION: 10-YR TIPS \$17B	-	-	-	-	-
Thursday, July 20	8:30 AM	INITIAL CLAIMS	(Jul 15)	(M)	-	245K	237K
Thursday, July 20	8:30 AM	CONTINUING CLAIMS	(Jul 8)	(L)	-	-	1729K
Thursday, July 20	8:30 AM	EXISTING HOME SALES SAAR	(Jun)	(M)	-	4.3M	4.3M
Thursday, July 20	8:30 AM	EXISTING HOME SALES M/M	(Jun)	(M)	-	-1.2%	0.2%
Thursday, July 20	8:30 AM	LEADING INDICATORS M/M	(Jun)	(M)	-	-0.6%	-0.7%
Friday, July 21	-	-	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, there's nothing on the calendar that will be enough to sway the Fed from hiking later this month. Retail sales could have a bit more room to bounce than the consensus forecast after a soft prior month, but it's the opposite story for housing starts, where the prior month's jump seems likely to have been an outlier in a generally more subdued trend. June industrial production will also likely add a weaker note.

In **Canada**, the news on the CPI will be similar in tone to what we saw stateside: better, but not yet good enough. While headline inflation could drop to 3%, our forecast includes a 0.3% seasonally-adjusted gain for prices excluding food and energy, a tick faster than the prior month, although that includes the steep climb in mortgage interest costs tied to BoC rate hikes. Food inflation has yet to see the cooling underway stateside, although we'd note that the US had seen a steeper run-up, so perhaps a downshift is still coming north of the border. May retail sales could match the earlier flash estimate, but we expect muted volume gains in the flash estimate for June.

Week Ahead's key Canadian number: Consumer price index—June

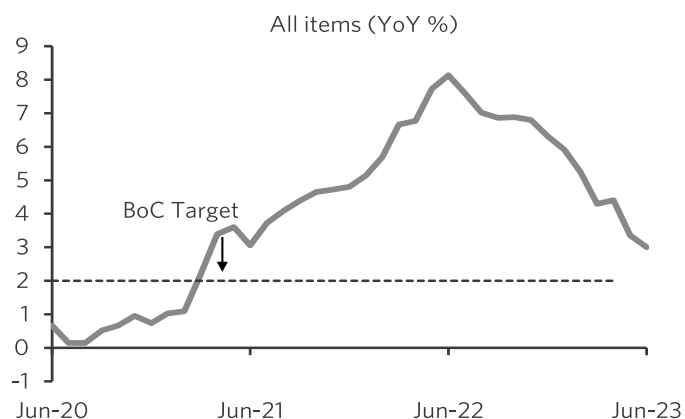
(Tuesday, 8:30 am)

Andrew Grantham andrew.grantham@cibc.com

Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.3	0.3	0.4
CPI (y/y)	3.0	3.1	3.4

Canadian inflation likely decelerated further in June, reaching 3.0% year-over-year, although that may be the low water mark for a few months as base effects become less favourable. June's data will compare this year's gasoline prices with the very peak of those seen in 2022, which will be the main factor behind the expected deceleration. Core (excluding food/energy) price pressures have eased, but are not yet back to levels consistent with a 2% inflation target. However, food prices remain the primary source of inflationary pressure now, with less sign of deceleration than witnessed recently in the US.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Headline inflation will likely tick back up again to around 3.5% by the fall, as the base effects from gasoline prices become less favourable. However, we see signs that core inflation is easing a little quicker than the Bank of Canada currently acknowledges, and as a result we see inflation easing back to the 2% target by the second half of next year (three quarters earlier than the Bank's most recent projection).

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

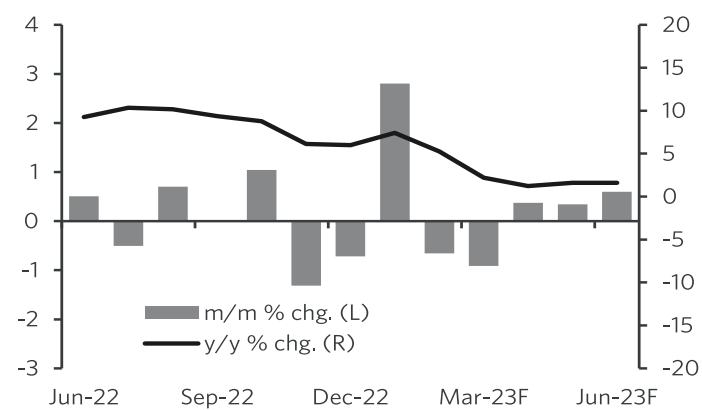
(Tuesday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable (m/m %)	CIBC	Mkt	Prior
Retail sales	0.6	0.5	0.3
Retail sales - ex auto	0.4	0.3	0.1
Retail sales - control group	0.5	0.4	0.2

Consumers showed signs of caution in discretionary retail sales categories in May, but stronger income growth in June likely resulted in an acceleration in retail sales in that month. The expected 0.6% headline advance in sales will include a boost from higher prices at the pump, but goods prices outside of gasoline and vehicles were generally flat on the month, implying a healthy advance in volume terms in the more important control group. That group excludes gasoline, autos, restaurants, and building materials, and feeds more directly into non-auto goods consumption in GDP, and likely accelerated to 0.5%.

Chart: US retail sales (%)



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — A pickup in retail sales driven by income gains from the tight labor market will leave the Fed on track to raise rates by 25bps in July and September. Inventory-to-sales ratios are generally at their pre-pandemic levels for retailers outside of car dealerships, and further Fed hikes will help keep a lid on goods prices ahead.

Market impact — We're slightly more optimistic on the control group than the consensus, which would reinforce the need for further Fed rate hikes and lift bond yields.

Other US Releases: Industrial production—June

(Tuesday, 9:15 am)

Hiring and hours worked rebounded in manufacturing in June, but oil rig counts continued to fall in line with demand concerns. And with temperatures below seasonal norms, utilities production could have also eased off, resulting in a 0.2% drop in industrial production, leaving capacity utilization at 79.4%, only slightly off its pandemic-era peaks.

Housing starts—June

(Wednesday, 8:30 am)

The pace of homebuilding jumped to an unsustainably strong level in May, and we expect housing starts to have declined to a 1435K pace in June, given signals from the Fed that further interest rate hikes are on the horizon. We expect high interest rates to limit activity in the months ahead, but in 2024, we could see a swift rebound in building as rate cuts approach, given undersupply in the market.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Katherine Judge
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
[Bloomberg @ CIBC](#)

economics.cibccm.com

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2023 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.