Economics

THE WEEK AHEAD

June 10 - 14, 2024

Make Data Great Again

by **Benjamin Tal** benjamin.tal@cibc.com

The Fed and the Bank are data dependent. But can you trust the data? Everything we do in economics depends on that data, which, in turn, is derived largely from surveys. And the response rates to those surveys are falling.

A US Bureau of Labor Statistics report last year showed that the response rate of no less than 16 major government surveys including nine of households and seven of businesses, had declined notably. The trend started well before Covid, but accelerated during the pandemic, with response rates now averaging well below 2019 levels.

Some examples: the BLS' JOLTS monthly survey which reports on job vacancies, quitting, and hiring, has seen its response rate drop from close to 70% a decade ago to only 30% currently (Chart). Ditto for the CPI, where the response rate for an interview survey on consumer expenditures has fallen from 70% to 38%. The response rate for the employment cost index has fallen to below 50% from nearly 75% at the end of 2012, while the current population survey, which is used to produce the U.S. unemployment rate, has seen its response rate drop to 67% currently from about 90% a decade ago.

Now, when it comes to the all mighty payroll report, the situation is a bit different. In that survey, employers are given two additional chances (three in total) to provide data, and the BLS revises its estimates as those additional responses come in. Usually by the third round nearly 95% of responses are in. The final numbers are vetted with unemployment tax records.

However, collecting the data in three rounds is not ideal. Research by the BLS suggests that first round response rate among large businesses is notably higher than that of SMEs. This means that preliminary job numbers are biased since they underrepresent SMEs. Recent months present a good example as first round response rates were lower than the ones seen in the same periods last year. Most of the decline in the response rates was among SMEs, which are doing much less hiring than larger firms in the current environment. This means that first round estimate of payroll statistics underrepresents the segment of the labour market that is not adding much to employment, and thus we should expect negative and at times large revisions.

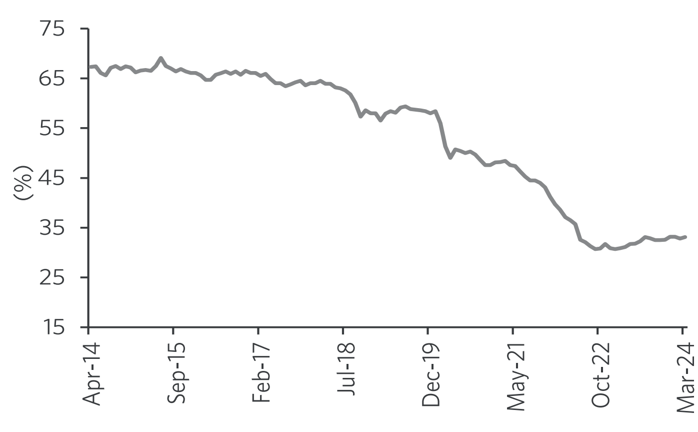
In fact, we are seeing it already. In 2022 and 2023, the average revision size between the 3rd round and the first-round estimate was negative 215,000 — more than twice the magnitude seen pre-Covid.

Now, this is important — falling response rates work to increase the uncertainty around the reported state of the economy. For example, the dramatic drop in the response rate to the JOLTS survey has resulted in a significant widening in the survey's confidence interval (roughly 700k according to the BLS), which makes data from this source questionable.

Another side effect of lower response rates is increased revision size. As mentioned earlier, the average gap between third and first rounds of the payroll survey is widening, while the average revision size of the JOLTS job openings data is currently double the size seen pre-Covid.

Bottom line — long volatility.

Chart: Falling response rate for JOLTS



Source: Bureau of Labor Statistics, 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, June 10	-	-	-	-	-	-	-
Tuesday, June 11	8:30 AM	BUILDING PERMITS M/M	(Apr)	(M)	-	5.0%	-11.7%
Wednesday, June 12	3:30 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Thursday, June 13	9:50 AM	Speaker: Sharon Kozicki (Deputy Gov.)	-	-	-	-	-
Friday, June 14	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Apr)	(M)	1.2%	1.3%	-2.1%
Friday, June 14	8:30 AM	WHOLESALE SALES EX PETROLEUM M/M	(Apr)	(M)	2.8%	2.5%	-1.1%

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, June 10	-	AUCTION: 3-YR TREASURIES $58B	-	-	-	-	-
Tuesday, June 11	-	AUCTION: 1-YR TREASURIES $46B	-	-	-	-	-
Tuesday, June 11	-	AUCTION: 10-YR TREASURIES $39B	-	-	-	-	-
Wednesday, June 12	7:00 AM	MBA-APPLICATIONS	(Jun 7)	(L)	-	-	-5.2%
Wednesday, June 12	8:30 AM	CPI M/M	(May)	(H)	0.1%	0.1%	0.3%
Wednesday, June 12	8:30 AM	CPI M/M (core)	(May)	(H)	0.3%	0.3%	0.3%
Wednesday, June 12	8:30 AM	CPI Y/Y	(May)	(H)	3.4%	3.4%	3.4%
Wednesday, June 12	8:30 AM	CPI Y/Y (core)	(May)	(H)	3.5%	3.5%	3.6%
Wednesday, June 12	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Jun 12)	(H)	5.50%	5.50%	5.50%
Wednesday, June 12	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Jun 12)	(H)	5.25%	5.25%	5.25%
Wednesday, June 12	2:00 PM	TREASURY BUDGET	(May)	(L)	-	-	$209.5B
Wednesday, June 12	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, June 13	-	AUCTION: 30-YR TREASURIES $22B	-	-	-	-	-
Thursday, June 13	8:30 AM	INITIAL CLAIMS	(Jun 8)	(M)	-	-	229K
Thursday, June 13	8:30 AM	CONTINUING CLAIMS	(Jun 1)	(L)	-	-	1792K
Thursday, June 13	8:30 AM	PPI M/M	(May)	(M)	0.1%	0.1%	0.5%
Thursday, June 13	8:30 AM	PPI M/M (core)	(May)	(M)	0.3%	0.3%	0.5%
Thursday, June 13	8:30 AM	PPI Y/Y	(May)	(M)	-	-	2.2%
Thursday, June 13	8:30 AM	PPI Y/Y (core)	(May)	(M)	-	-	2.4%
Thursday, June 13	12:00 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, June 14	8:30 AM	IMPORT PRICE INDEX M/M	(May)	(L)	-	0.1%	0.9%
Friday, June 14	8:30 AM	EXPORT PRICE INDEX M/M	(May)	(L)	-	0.2%	0.5%
Friday, June 14	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jun P)	(H)	-	73.0	69.1
Friday, June 14	2:00 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Friday, June 14	7:00 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-

Week Ahead’s market call

by Ali Jaffery and Katherine Judge

In the **US**, it’s a big week with both the FOMC meeting and the May CPI on Wednesday. The fed funds rate will stay unchanged and Powell’s message will be that progress has resumed, albeit at a slower pace. He will once again avoid giving a definitive signal on when the Fed will cut and stick with the patient, data-dependent narrative. We’re hoping he opines on the source of the uptick in inflation. With an oversized impact from transportation services and the Fed’s analytical measures of underlying inflation suggesting that hotter readings are not demand-driven, there is some chance that Powell may give off “transitory” vibes without saying the unspeakable word. His message will compete for attention with the new dots, of course. Our FICC colleagues expect the median voter will shift down from three to one cuts this year, with small revisions to growth, unemployment and inflation after less than stellar data. The median long-run dot is also unlikely to move higher this round. CPI, which comes the morning off the meeting, should show mild price pressures were maintained in May.

In **Canada**, it’s a light week for economic data, with the April wholesale and manufacturing shipments data likely confirming that GDP started the second quarter with an acceleration as activity at auto plants resumed following re-tooling. Still, the weak trend in GDP over the past year, particularly in per-capita terms, underscores the need for further BoC policy easing in the coming months.

There are no major Canadian data releases next week.

Week Ahead's key US number: CPI—May

(Wednesday, 8:30 am)

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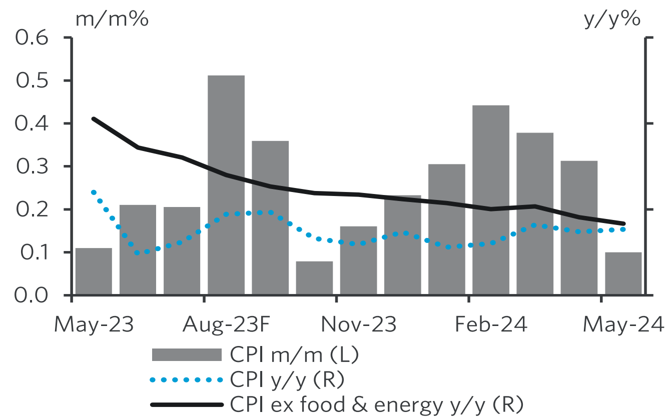
Variable (%)	CIBC	Mkt	Prior
Headline CPI m/m	0.1	0.1	0.3
Headline CPI y/y	3.4	3.4	3.4
Core CPI m/m	0.3	0.3	0.3
Core CPI y/y	3.5	3.5	3.6

Chart: US Consumer price index



Source: BLS, Haver Analytics, CIBC

Will we see another bump in the road for May CPI? We think not, and expect core CPI to come in at 0.3% m/m and headline to edge down to 0.1%. Expect more continued deflation in used car prices, sticky non-housing services inflation and another slight step down in shelter prices. Transportation costs, namely auto insurance and maintenance costs have supported non-housing services inflation and could push that component again up in May. But rental inflation, and even Owner's Equivalent Rent (OER), is starting to show a slightly faster pace of disinflation over the pace few months. The turnover of market rents will show up more in May balancing out upside pressures.

Forecast implications — The composition of the 0.3% on core CPI matters a lot given the difference in weights between CPI and PCE. Non-housing services has a higher weight in PCE, meaning further strength in that category will result in a higher core PCE reading.

Market implications — We are in line with the consensus for this release but expect the market to remain sensitive to inflation surprises, given the release will be on the heels of an FOMC Meeting with a fresh set of projections.

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