Economics

THE WEEK AHEAD

April 24 - 28, 2023

The other government shutdown

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

When we get enough client questions on a given topic, we're compelled to provide some answers. But truth be told, we're being asked about the wrong shutdown of government services, one that will have little bearing on financial markets or the broader economic outlook, rather than one that might.

The inbound queries are centred on a strike by Canadian federal government workers, and what that will mean for GDP and inflation. If missing hours are typical in terms of their GDP contribution as what we see for "public administration", it would represent a 0.7% real GDP haircut if they were off the job for a full month. It could be more if there were material spillovers in the private sector if the strike disrupted other parts of the economy, or if the striking workers pared back their spending.

That 0.7% is a big number, given that in a reasonably good month the economy would only grow at 0.3% or so. But it's not akin to the first month of a bad recession, since GDP would magically bounce back by the same amount if the strike then ended, or even more if overtime hours are assigned to catch up on a backlog of tasks. The Bank of Canada will look past that dent to a month or quarter, since it will be tracking the level of activity and employment after the strike is over, so there would be no implications for monetary policy.

As for inflation, other than for CRA employees seeking a quite large settlement, the workers' demands, whatever you think of them, aren't outside the pay hikes we've already been seeing in the private sector. They can't really be the trigger for a wage-price spiral if they aren't breaking new ground in terms of the percentage increases.

The government shutdown we should be fretting over is the potential one in Washington, should Congress and the White House fail to reach a deal over raising the debt ceiling. Not only would it impact a much larger share of the civil service, it would also raise fears of an outright default, bringing a period of volatility in global debt markets.

While this issue comes up every time we reach the deadline for a debt ceiling passage, a divided Congress, and importantly, divisions within the Republican Party over how far they should be willing to go, make at least a short-term impasse a genuine risk this time around. The spending cuts and energy sector provisions the GOP house leadership is seeking are non-starters among Democrats and the Biden administration, and it's not clear they are enough to even gain full Republican approval.

There are potential workarounds for the White House, none tested in practice or in the courts. It could mint a trillion-dollar coin, sell it to the Fed, and use that money to pay its bills. It could invoke the 14th amendment clause declaring that "the validity of the public debt of the United States, authorized by law, shall not be questioned", to continue issuing debt over the debt ceiling. But any of these steps could end up at the Supreme Court, and the outcome isn't clear. Does "authorized by law" mean just the passage of the spending and tax bills that create the need for borrowing, or does it require a debt ceiling vote?

House Republican fiscal hawks could stand their ground and refuse to approve a debt ceiling hike, but conveniently have enough abstain from voting, or even side with the Democrats on a compromise bill with much lighter spending restraint so that a shutdown and a default are avoided.

That seems like the most likely end game to the brinksmanship we're seeing now, as a full-blown financial crisis is unlikely to be a winner at the polls. Two government shutdowns triggered by Clinton's refusal to accept Republican spending cuts in exchange for budget passage and a debt limit increase ultimately did not play well for the GOP at the polls in the subsequent election. Perhaps that lesson hasn't been completely forgotten, but this issue is still one that bears close watching in the weeks ahead.

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, April 24	-	AUCTION: 3-YR CANADAS $3.0B	-	-	-	-	-
Tuesday, April 25	-	AUCTION: 3-M BILLS $12.8B, 6-M BILLS $4.6B, 1-YR BILLS $4.6B	-	-	-	-	-
Wednesday, April 26	-	AUCTION: 30-YR CANADAS $12.5B	-	-	-	-	-
Wednesday, April 26	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Thursday, April 27	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Feb)		-	-	71.1K
Friday, April 28	8:30 AM	GDP M/M	(Feb)	(H)	0.1%	-	0.5%

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, April 24	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Mar)	(M)	-	-	-0.19
Tuesday, April 25	-	AUCTION: 2-YR TREASURIES $42B	-	-	-	-	-
Tuesday, April 25	9:00 AM	S&P CORELOGIC CS Y/Y	(Feb)	(H)	-	-	2.6%
Tuesday, April 25	10:00 AM	NEW HOME SALES SAAR	(Mar)	(M)	630K	632K	640K
Tuesday, April 25	10:00 AM	NEW HOME SALES M/M	(Mar)	(M)	-1.6%	-1.3%	1.1%
Tuesday, April 25	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Apr)	(H)	104.0	104.1	104.2
Tuesday, April 25	10:00 AM	RICHMOND FED MANUF. INDEX	(Apr)	(M)	-	-	-5
Wednesday, April 26	-	AUCTION: 5-YR TREASURIES $43B	-	-	-	-	-
Wednesday, April 26	-	AUCTION: 2-YR FRN $24B	-	-	-	-	-
Wednesday, April 26	7:00 AM	MBA-APPLICATIONS	(Apr 21)	(L)	-	-	-8.8%
Wednesday, April 26	8:30 AM	WHOLESALE INVENTORIES M/M	(Mar P)	(L)	-	-	0.1%
Wednesday, April 26	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Mar)	(M)	-89.7B	-89.8B	-$91.6B
Wednesday, April 26	8:30 AM	RETAIL INVENTORIES M/M	(Mar)	(H)	-	-	0.8%
Wednesday, April 26	8:30 AM	DURABLE GOODS ORDERS M/M	(Mar P)	(H)	1.1%	0.7%	-1.0%
Wednesday, April 26	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Mar P)	(H)	-0.3%	-0.2%	-0.1%
Thursday, April 27	-	AUCTION: 7-YR TREASURIES $35B	-	-	-	-	-
Thursday, April 27	8:30 AM	INITIAL CLAIMS	(Apr 22)	(M)	-	-	245K
Thursday, April 27	8:30 AM	CONTINUING CLAIMS	(Apr 15)	(L)	-	-	1865K
Thursday, April 27	8:30 AM	GDP (annualized)	(1Q A)	(H)	1.8%	2.0%	2.6%
Thursday, April 27	8:30 AM	GDP DEFLATOR (annualized)	(1Q A)	(H)	3.7%	3.7%	3.9%
Thursday, April 27	10:00 AM	PENDING HOME SALES M/M	(Mar)	(M)	-	1.0%	0.8%
Friday, April 28	8:30 AM	EMPLOYMENT COST INDEX	(1Q)	(M)	-	1.1%	1.0%
Friday, April 28	8:30 AM	PERSONAL INCOME M/M	(Mar)	(H)	0.2%	0.2%	0.3%
Friday, April 28	8:30 AM	PERSONAL SPENDING M/M	(Mar)	(H)	-0.4%	-0.1%	0.2%
Friday, April 28	8:30 AM	PCE DEFLATOR Y/Y	(Mar)	(H)	4.1%	4.1%	5.0%
Friday, April 28	8:30 AM	PCE DEFLATOR Y/Y (core)	(Mar)	(H)	4.5%	4.5%	4.6%
Friday, April 28	9:45 AM	CHICAGO PMI	(Apr)	(M)	-	43.5	43.8
Friday, April 28	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Apr)	(H)	-	63.5	63.5

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're looking for a fairly lacklustre set of readings from three separate economic releases. Our call for real GDP in Q1, at 1.8%, is a bit on the soft side. Durable goods orders could look anemic after looking past the volatile transport component, while March could see a retreat in consumer spending. The fly in the ointment is that the core PCE price increase should still be sitting near 4 ½%, still too hot for the Fed's taste and sufficient to justify another quarter point rate hike in May.

In **Canada**, monthly GDP for February could show a slim 0.1% advance, although a small further gain in March would put the quarter on track for a roughly 2½% annualized pace. That's in line with the Bank of Canada's last forecast, and while that's too hot to be consistent with a steady cooling in core inflation, the growth was for the most part back in January. Should the quarter end with two softer months, it sets the stage for at least a material deceleration in Q2, and importantly, less robust hiring than we've seen over the winter, the key to keeping a nervous Bank of Canada from returning to rate hikes in June.

Week Ahead's key Canadian number: GDP—February

(Friday, 8:30 am)

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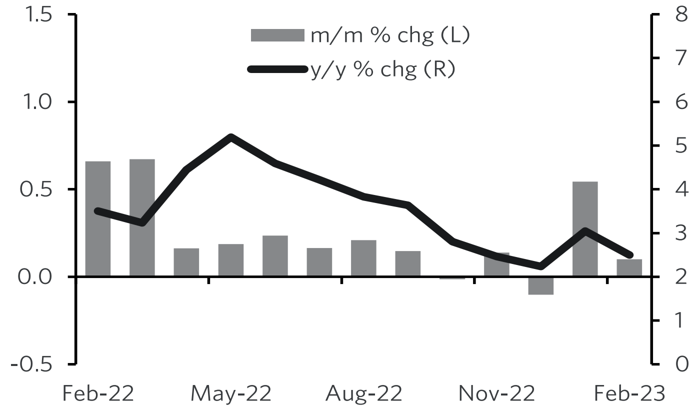
Variable (%)	CIBC	Mkt	Prior
GDP m/m (Feb)	0.1	-	0.5

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

The Canadian economy started 2023 with a bang, although January's 0.5% monthly increase in GDP was in part driven by several one-off factors that won't be repeated in February. Indeed, pullbacks in manufacturing, wholesale and retail trade during February were on average a little more pronounced than advance data had suggested, implying a mere 0.1% gain in monthly GDP (relative to the +0.2% advance estimate). Penciling in a further small advance in March, the quarter as a whole should show a 2.5% annualized rate of growth, which would be close to the Bank of Canada's most recent MPR forecast.

Forecast implications — While the Canadian economy has performed better than expected so far in 2023, some of that growth has come from an easing of prior supply chain disruptions (particularly in the auto sector) rather than necessarily a strengthening in domestic demand. With consumer spending likely to remain subdued due to high interest rates, we still expect overall GDP to slow to a pace below its long-run potential later in the year, which will further help ease inflationary pressures.

Week Ahead's key US number: Real GDP—Q1 (Advance)

(Thursday, 8:30 am)

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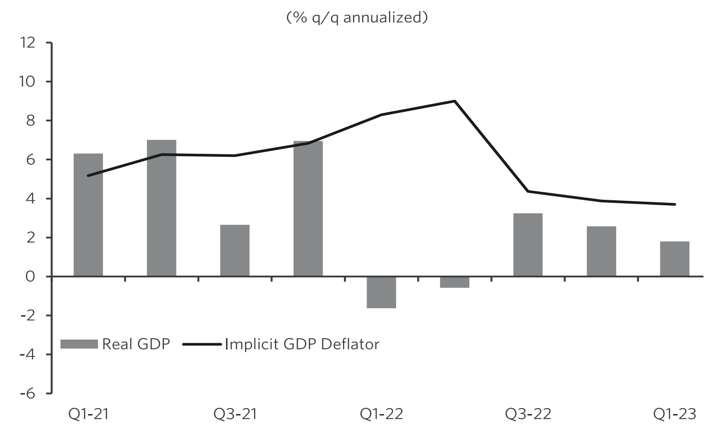
Variable (%)	CIBC	Mkt	Prior
GDP q/q annualized	1.8	2.0	2.6
GDP deflator	3.7	3.7	3.9

Chart: US GDP



Source: BEA, Haver Analytics, CIBC

The first quarter got off to a better start than envisioned, with GDP growth likely registering a 1.8% annualized pace. Warmer than normal temperatures supported activity in January, while a strong labor market combined with state tax cuts and credits were catalysts for robust consumption to start the year. Indeed, the consumer will have been the main driver of growth, with more interest-sensitive areas likely retrenching, including residential investment and business investment in equipment. Manufacturing and wholesale inventories fell in the first months of the year, suggesting that inventories subtracted from growth, and implying an even stronger advance in final domestic demand than suggested by the headline forecast.

Forecast implications — Although the first quarter started strong, there was a tapering off of momentum in monthly indicators over the quarter, suggesting that there could be a contraction in activity in Q2 as the impact of past rate hikes materializes more fully, excess savings continue to dwindle, and tighter credit conditions weigh on activity. That would allow the Fed to stop hiking after a final 25bp move in May, but we don't foresee enough of a deterioration to justify rate cuts this year.

Market impact — We aren't far enough from the consensus to see a sustained market reaction.

Other US Releases: Durable goods orders—March

(Wednesday, 8:30 am)

A rebound in orders in the volatile transportation group could have propelled a 1.1% advance in durable goods orders in March, but things likely looked less rosy in other categories, as dim growth prospects could have held back capex, resulting in a 0.3% drop in ex. transportation durable goods orders.

Personal income and outlays—March

(Friday, 8:30 am)

Consumers became more cautious in March as retail sales dropped off, and with services unlikely to provide enough of an offset, total consumer spending could have decreased by 0.4%, providing a weak lead-in to the second quarter. That likely occurred against the backdrop of a modest 0.2% gain in household income, as hours worked fell. The Fed's preferred measure of inflation, core PCE prices, likely remained hot enough to justify a final 25bp Fed hike, at 4.5% y/y.

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