THE WEEK AHEAD

March 25 - 29, 2024

Who needs a bigger dose?

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

Switzerland made the first move, but the stage is being set for others to follow. Markets were surprised by the Swiss National Bank's choice to cut rates this week rather than wait until June, but really should have expected that, since inflation has been subdued for a full year. In other countries where central banks have hiked rates, the inflation trend has been choppier, but overall, still headed in the right direction. So, the focus is now not on whether we'll see interest rate relief in the next couple of years in much of the developed world, but when, and importantly, in what dosage.

Once inflation looks sufficiently tamed, the dosage will come down to just how much of an economic squeeze the existing level of rates has applied. That will reflect differences in how high rates actually climbed, but also on the degree to which domestic demand is interest sensitive. In turn, one of the most salient drivers of that sensitivity has been the divergent response to higher rates in consumer spending. Canada has seen falling per capita consumption while American consumers, until perhaps the last two months, stayed on an all-out shopping spree, helping the US economy avoid the economic slowdown seen in Canada, the UK and much of the Eurozone.

The sharp divide across the 49th parallel owes in part to how mortgage markets function in the US and Canada. Unlike Canadians, Americans are largely in long-term fixed rate mortgages that don't reset for as long as 30 years when rates are rising, but which can be refinanced when rates fall. That difference has been widely cited over the past few years, but where do other countries stand?

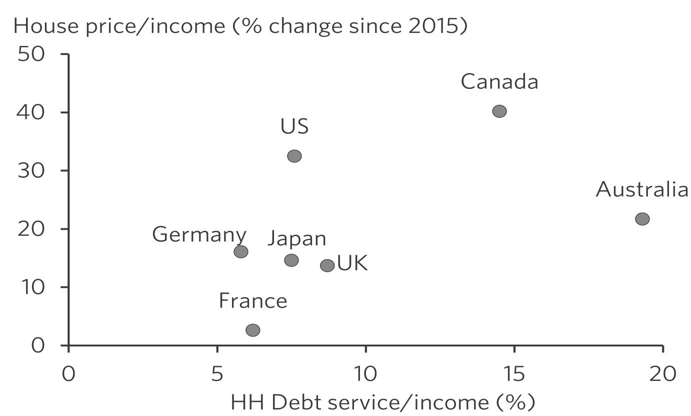
Like Canadians, home buyers in the UK and Australia are exposed to higher rates when their mortgages reset, which happens in five years or less. Germans often lock in for a decade or more. But nowhere other than the US is a 30-year fixed rate the norm.

There are also differences in home ownership rates, and importantly, in typical mortgage sizes relative to incomes. That's where Canada has been particularly hard hit by rising rates relative to other countries that also don't lock in rates for decades. OECD data show that the ratio of house prices to incomes in Canada has climbed 40% since 2015, far eclipsing what's been seen in other countries where mortgage borrowers are also exposed to rising rates. Countries in Europe and Japan with older populations also tend to have more home owners who have paid off their mortgages.

Put it all together, and Canada's household sector was set up to be among the most vulnerable to rising mortgage rates. Driven by the fastest run-up in house prices since 2015, a harmonized measure of debt service burdens, shows Canadians are second only to Australians among seven major economies in the share of their incomes spent on interest and principal (Chart).

The result is that when it does come time to ease, Canada's central bank could require a larger dose of interest rate relief to get the economy moving again. That is reinforced by the fact that only about half of all mortgages issued have faced a reset since rates rose materially, and those coming due in 2025 will include maturing five-year mortgages issued when rates were at rock bottom levels in 2020. Whether Canada will be next after the Swiss, or wait a bit longer, there's a good reason to expect that rate cuts will have to be deeper here than in countries with lower household debt burdens, cheaper houses, or locked in mortgages.

Chart: Canadians among the most squeezed by high rates and house prices



Source: BIS, OECD

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, March 25	-	-	-	-	-	-	-
Tuesday, March 26	-	AUCTION: 3-M BILLS $15.8B, 6-M BILLS $5.6B, 1-YR BILLS $5.6B	-	-	-	-	-
Tuesday, March 26	8:15 AM	Speaker: Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Tuesday, March 26	4:00 PM	Ontario Budget	-	-	-	-	-
Wednesday, March 27	-	AUCTION: 10-YR CANADAS $5B	-	-	-	-	-
Thursday, March 28	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Jan)	-	-	-	31.6K
Thursday, March 28	8:30 AM	GDP M/M	(Jan)	(H)	0.4%	0.4%	0.0%
Thursday, March 28	8:30 AM	GDP Y/Y	(Jan)	(H)	-	0.8%	1.1%
Friday, March 29	-	Markets Closed (Good Friday)	-	-	-	-	-

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, March 25	-	AUCTION: 2-YR TREASURIES $66B	-	-	-	-	-
Monday, March 25	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Feb)	(M)	-	-0.3	-0.3
Monday, March 25	10:00 AM	NEW HOME SALES SAAR	(Feb)	(M)	700K	675K	661K
Monday, March 25	10:00 AM	NEW HOME SALES M/M	(Feb)	(M)	5.9%	2.1%	1.5%
Monday, March 25	8:25 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Monday, March 25	10:30 AM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Tuesday, March 26	-	AUCTION: 5-YR TREASURIES $67B	-	-	-	-	-
Tuesday, March 26	8:30 AM	PHILADELPHIA FED	(Mar)	(M)	-	-	-8.8
Tuesday, March 26	8:30 AM	DURABLE GOODS ORDERS M/M	(Feb)	(H)	3.0%	1.4%	-6.2%
Tuesday, March 26	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Feb)	(H)	0.5%	0.3%	-0.4%
Tuesday, March 26	9:00 AM	HOUSE PRICE INDEX M/M	(Jan)	(M)	-	-	0.1%
Tuesday, March 26	9:00 AM	S&P CORELOGIC CS Y/Y	(Jan)	(H)	-	-	6.1%
Tuesday, March 26	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Mar)	(H)	106.0	107.0	106.7
Tuesday, March 26	10:00 AM	RICHMOND FED MANUF. INDEX	(Mar)	(M)	-	-	-5.0
Wednesday, March 27	-	AUCTION: 7-YR TREASURIES $43B	-	-	-	-	-
Wednesday, March 27	-	AUCTION: 2-YR FRN $28B	-	-	-	-	-
Wednesday, March 27	7:00 AM	MBA-APPLICATIONS	(Mar 22)	(L)	-	-	-1.6%
Wednesday, March 27	6:00 PM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Thursday, March 28	8:30 AM	INITIAL CLAIMS	(Mar 23)	(M)	-	-	210K
Thursday, March 28	8:30 AM	CONTINUING CLAIMS	(Mar 16)	(L)	-	-	1807K
Thursday, March 28	8:30 AM	GDP (annualized)	(4Q T)	(H)	3.2%	3.2%	3.2%
Thursday, March 28	8:30 AM	GDP DEFLATOR (annualized)	(4Q T)	(H)	-	1.6%	1.6%
Thursday, March 28	9:45 AM	CHICAGO PMI	(Mar)	(M)	-	46.0	44.0
Thursday, March 28	10:00 AM	PENDING HOME SALES M/M	(Feb)	(M)	-	-	-4.9%
Thursday, March 28	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Mar)	(H)	-	76.6	76.5
Friday, March 29	8:30 AM	PCE DEFLATOR Y/Y	(Feb)	(H)	2.5%	2.5%	2.4%
Friday, March 29	8:30 AM	PCE DEFLATOR Y/Y (core)	(Feb)	(H)	2.8%	2.8%	2.8%
Friday, March 29	8:30 AM	PERSONAL INCOME M/M	(Feb)	(H)	0.0%	0.4%	1.0%
Friday, March 29	8:30 AM	PERSONAL SPENDING M/M	(Feb)	(H)	0.5%	0.5%	0.2%
Friday, March 29	8:30 AM	WHOLESALE INVENTORIES M/M	(Feb P)	(L)	-	-	-0.3%
Friday, March 29	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Feb)	(M)	-$92.0B	-$89.7B	-$90.5B
Friday, March 29	8:30 AM	RETAIL INVENTORIES M/M	(Feb)	(H)	-	-	0.4%
Friday, March 29	11:30 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, the report on incomes and consumption will be a good news, bad news mix from the Fed's perspective. On the plus side, consumption looks to have slowed, which could be enough to see Q1 GDP growth dip below 2%. If so, that would be below the FOMC's median forecast for average quarterly growth in 2024. The negative will be in the PCE price index data, although not quite as bad as the CPI for the same month, and not really a surprise to anybody at this point. We're a bit above consensus for durable orders and new home sales, but we expect the income, consumption and PCE data to be the key for markets in the coming week.

In **Canada**, Ontario will complete this year's round of provincial budgets, and the general trend elsewhere has been towards inflation in government operations, and weak economic growth, combining to lift deficits and borrowing requirements relative to previous projections. Even if the first read on February is lacklustre, January's GDP print could position Q1 growth above the Bank of Canada's projection, but appears to have been aided by mild weather that will therefore borrow some activity from Q2. Overall, growth remains on a anemic trend, particularly in per capita terms, which is gradually opening up the economic slack needed to contain inflation.

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

(Thursday, 8:30 am)

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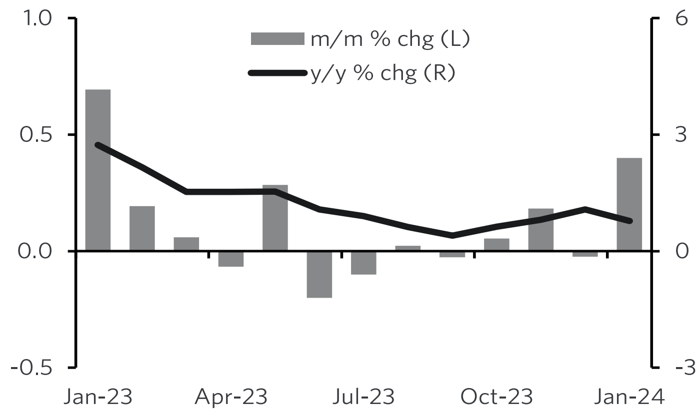
Variable (%)	CIBC	Mkt	Prior
GDP m/m	0.4	0.4	0.0

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

The Canadian economy appeared to fly out of the gates to start 2024, with growth of 0.4% expected for January GDP. However, the details of the report will look less favourable. More than half of the growth will likely have come from a rebound in public sector activity as strike action in Quebec came to an end. Moreover, mild weather likely resulted in positive contributions from areas such as real estate and restaurants — something that could fade in the months ahead. Indeed, the advance estimate for February is likely to show little change in activity, with an already-reported dip in housing sales during the month suggesting some areas that benefitted from mild January weather may have already witnessed a pull back.

Forecast implications — If January's advance estimate is maintained and February doesn't witness too much of a give back, growth in Q1 will still be tracking stronger than the Bank of Canada's January MPR forecast. However, that growth appears to have stemmed largely from an easing of supply constraints that have benefitted exports and auto sales, which has also helped bring inflation lower, rather than necessarily a pick-up in domestic demand. We still expect to see the Bank of Canada to take a dovish turn in April and to start cutting interest rates in June.

Week Ahead's key US number: Personal income & outlays—February

(Friday, 8:30 am)

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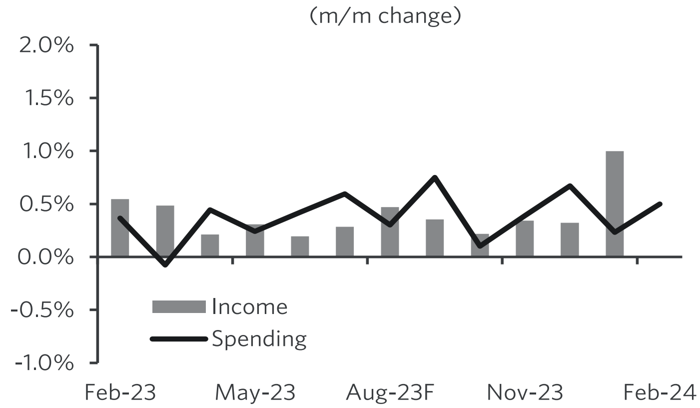
Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.0	0.4	1.0
Personal spending (m/m)	0.5	0.5	0.2
Core PCE price index (y/y)	2.8	2.8	2.8

Chart: US Personal income and spending



Source: BEA, Haver Analytics, CIBC

February's personal spending and income report is the major piece of US data next week. The Fed's preferred inflation gauge, core PCE, should come in hot for the second month in a row at 0.3% m/m. Headline PCE prices should rise by 0.4%. However, real consumption growth will be weak at just 0.1% given the retail sales and CPI reports from earlier this month. Personal income growth should be flat in the month reflecting a pullback from last month's surge in dividend income. Our attention is going to be on services consumption which has been strong recently and is essentially the only piece of the puzzle we don't already have some information on. The strength or weakness of service spending will give more clues about the overall appetite of the American consumer at this stage in the cycle.

Forecast implications — Despite the soft expected consumption reading, solid momentum from the previous quarter means that consumption growth is still tracking near 2% annualized for 24Q1. Our GDP tracking for the quarter is 1.5 to 2%.

Market implications — At the FOMC meeting this week, Powell struck a balanced tone and was not overly concerned about upside inflation risks just yet, attributing some of the heat in inflation to residual seasonality. A notch higher than the consensus view on core PCE inflation, after already seeing the February CPI report, will not be much of a surprise to the FOMC at this point.

Other US Releases: Durable goods orders—February

(Tuesday, 8:30 am)

Durable goods orders should perk up in February by 3.0% m/m after a weak prior month as the volatile transportation category bounces back. Excluding transportation, we expect an increase of 0.5% in the month. Equipment investment excluding transportation has been soft since early 2022, pressured on by restrictive monetary policy.

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