Economics

# THE WEEK AHEAD

July 11-15, 2022

## America's Noncession

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

While we cling to hopes for a small gain, if the Atlanta Fed's nowcast is right in seeing a decline in US GDP in Q2, then we've just come through what we'd call a "noncession," a two-quarter output drop that was not a recession. Rumours to the contrary, economists don't define two consecutive negative quarters as a recession. One needs to see a material decline in a broader range of activity measures, and the key missing ingredient thus far has been in the labour market. There can be job-free recoveries for a while, but the very definition of a recession essentially rules out having one without job losses, let alone a recession with a hiring boom.

So what induced this odd combination of brisk hiring with nothing to show for it in output? It's possible that when we look back at these quarters a few years from now, after multiple rounds of revisions to both the jobs count and particularly to real GDP, we'll see less of a disconnect. The Fed's Waller argued that GDI is showing better growth than GDP, and a BEA study found that using the average of the two growth rates gives a better estimate of the final revised numbers.

But some of the GDP disappointment captures weakness in the output of high productivity sectors like construction, and gains in weaker productivity services, implying less growth in output than in hours worked. Given massive job vacancies, someone losing a job in a sector that's been softening will find solace in a lower-wage and less-productive position that's waiting for them. Even within services, the shift from online to in-store shopping would likely lower output per hour.

Finally, huge swings in the contribution of inventories have contributed to volatility in real GDP, and some of that relates to supply-chain bottlenecks that mask the true trend in demand. We can't easily distinguish between a tendency to slash stockpiles in fear of sales weakness ahead, from parts and product shortages that prevent firms from manufacturing as much as they would like, or that keep store shelves and car dealer lots bare.

The noncession in the first half of the year doesn't mean that the coast is clear. The most interest-sensitive sectors, including housing, are part of the Q2 softness, and the Fed is bent on turning up the pressure by taking the funds rate through 3%. Revised data on consumption show that Americans squeezed by prices running faster than wages are being forced to slow their spending habits.

But this noncession, and a parallel slowing globally, may have opened the window a bit for the Fed to back away from its most hawkish projections, after what's likely to be another 75 basis point hike this month. The minutes of the last FOMC meeting, at which the "dots" for further rate hikes were dramatically escalated, already look out of date in their references to a pick-up in growth and consumer demand. Notwithstanding today's employment data, the overall tone of recent reports has been a bit cooler in terms of growth and inflation benchmarks.

Bond market measures for inflation expectations have eased significantly. Commodities that feed into inflation, including crude oil and a some raw foods, have stopped climbing or have started to retreat, particularly those with a tie to global growth. That's not going to help the CPI much in the here and now, but is consistent with our view that we won't need an outright recession to have inflation looking a lot lower a year from now. Still, if as we expect, the coming few months point to the end of the noncession and a return to positive US GDP growth in Q3, the bond market could see a bit of pressure as recession talk diminishes.

## 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 11 | - | - | - | - | - | - | - |
| Tuesday, July 12 | - | - | - | - | - | - | - |
| Wednesday, July 13 | 10:00 AM | BANK OF CANADA RATE ANNOUNCEMENT | (Jul 13) | (H) | 2.25% | 2.13% | 1.50% |
| Wednesday, July 13 | 11:00 AM | Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.) | - | - | - | - | - |
| Thursday, July 14 | - | AUCTION: 2-YR CANADAS $4B | - | - | - | - | - |
| Thursday, July 14 | 8:30 AM | MANUFACTURING SHIPMENTS M/M | (May) | (M) | -2.5% | - | 1.7% |
| Friday, July 15 | 8:30 AM | INT'L. SEC. TRANSACTIONS | (May) | (M) | - | - | $22.23B |
| Friday, July 15 | 8:30 AM | WHOLESALE TRADE M/M | (May) | (M) | - | - | -0.5% |
| Friday, July 15 | 9:00 AM | EXISTING HOME SALES M/M | (Jun) | (M) | - | - | -8.6% |

## 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 11 | - | AUCTION: 3-YR TREASURIES $43B | - | - | - | - | - |
| Monday, July 11 | 2:00 PM | Speaker: Williams (Vice Chair, New York) (Voter) | - | - | - | - | - |
| Tuesday, July 12 | - | AUCTION: 1-YR TREASURIES $34B | - | - | - | - | - |
| Tuesday, July 12 | - | 10-YR AUCTION: $33B | - | - | - | - | - |
| Tuesday, July 12 | 12:30PM | Speaker: Barkin (President, Richmond) (Non-voter) | - | - | - | - | - |
| Wednesday, July 13 | - | 30-YR AUCTION: $19B | - | - | - | - | - |
| Wednesday, July 13 | 7:00 AM | MBA-APPLICATIONS | (Jul 8) | (L) | - | - | - |
| Wednesday, July 13 | 8:30 AM | CPI M/M | (Jun) | (H) | 1.1% | 1.1% | 1.0% |
| Wednesday, July 13 | 8:30 AM | CPI M/M (core) | (Jun) | (H) | 0.6% | 0.6% | 0.5% |
| Wednesday, July 13 | 8:30 AM | CPI Y/Y | (Jun) | (H) | 8.8% | 8.8% | 8.6% |
| Wednesday, July 13 | 8:30 AM | CPI Y/Y (core) | (Jun) | (H) | 5.8% | 5.8% | 6.0% |
| Wednesday, July 13 | 2:00 PM | TREASURY BUDGET | (Jun) | (L) | - | - | -$66.2B |
| Wednesday, July 13 | 2:00 PM | FED'S BEIGE BOOK | - | - | - | - | - |
| Thursday, July 14 | 8:30 AM | INITIAL CLAIMS | (Jul 9) | (M) | - | - | - |
| Thursday, July 14 | 8:30 AM | CONTINUING CLAIMS | (Jul 2) | (L) | - | - | - |
| Thursday, July 14 | 8:30 AM | PPI M/M | (Jun) | (M) | 0.8% | 0.8% | 0.8% |
| Thursday, July 14 | 8:30 AM | PPI M/M (core) | (Jun) | (M) | 0.4% | 0.5% | 0.5% |
| Thursday, July 14 | 8:30 AM | PPI Y/Y | (Jun) | (M) | - | - | 10.8% |
| Thursday, July 14 | 8:30 AM | PPI Y/Y (core) | (Jun) | (M) | - | - | 8.3% |
| Thursday, July 14 | 11:00 AM | Speaker: Waller (Board of Governers) (Voter) | - | - | - | - | - |
| Friday, July 15 | 8:30 AM | NEW YORK FED (EMPIRE) | (Jul) | (M) | - | - | -1.2 |
| Friday, July 15 | 8:30 AM | RETAIL SALES M/M | (Jun) | (H) | 0.9% | 0.9% | -0.3% |
| Friday, July 15 | 8:30 AM | RETAIL SALES (X-AUTOS) M/M | (Jun) | (H) | 0.8% | 0.6% | 0.5% |
| Friday, July 15 | 8:30 AM | RETAIL SALES CONTROL GROUP M/M | (Jun) | (H) | 0.3% | 0.3% | 0.0% |
| Friday, July 15 | 8:30 AM | IMPORT PRICE INDEX M/M | (Jun) | (L) | - | - | 0.6% |
| Friday, July 15 | 8:30 AM | EXPORT PRICE INDEX M/M | (Jun) | (L) | - | - | 2.8% |
| Friday, July 15 | 9:15 AM | INDUSTRIAL PRODUCTION M/M | (Jun) | (H) | -0.2% | 0.0% | 0.1% |
| Friday, July 15 | 9:15 AM | CAPACITY UTILIZATION | (Jun) | (M) | 80.5% | 80.5% | 80.8% |
| Friday, July 15 | 10:00 AM | BUSINESS INVENTORIES M/M | (May) | (L) | - | - | 1.2% |
| Friday, July 15 | 10:00 AM | MICHIGAN CONSUMER SENTIMENT | (Jul P) | (H) | - | - | 50 |
| Friday, July 15 | 8:45 AM | Speaker: Bostic (President, Atlanta) (Non-voter) | - | - | - | - | - |

# Week Ahead's market call

by Avery Shenfeld

In the **US**, although we're seeing some early signposts for an easing in inflation, that's not going to be of much help for the June data, where we're in line with the consensus in seeing the headline rate bump up to 8.8%. Core inflation might be a bit softer year-on-year, but the monthly change will still be miles above Fed objectives. We're a bit weaker than the consensus on industrial production, and in line on retail sales, and don't expect either report to be a market mover.

In **Canada**, rising inflation expectations seem likely to cement a 75 basis point rate hike from the Bank of Canada, but that's also because the resulting 2.25% overnight rate is unlikely to be too much for the economy to handle. Subsequent rate hikes will likely be smaller, as the risk of overdoing it becomes more material the higher rates climb. The Bank will reiterate its view that rates might have to exceed 3% (the top of the neutral range) to do the job, although we'll retain our call for a 3% peak. Look for the Bank to downgrade its growth forecasts, effectively conceding that with higher price pressures than it expected, getting inflation back to target will require more of a sacrifice in the pace of output. But we also expect the report to dig into the inflation data to explain that much of this year's inflation shock isn't coming from excess demand in Canada, and therefore, how inflation might dissipate in the coming years without the need to drive the country into the deep recession that would be necessary if all of the spike was due to an economic overheating.

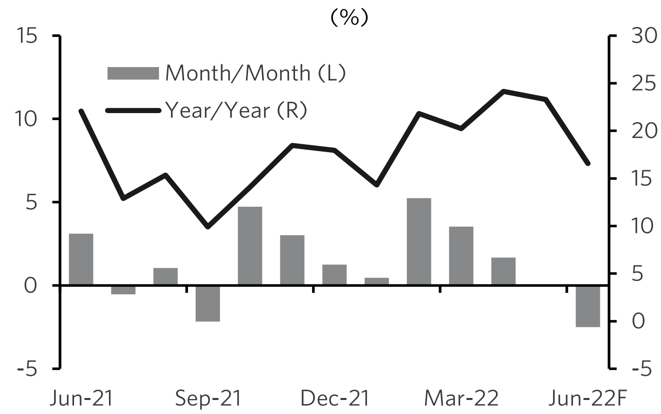
## Week Ahead's key Canadian number: Manufacturing shipment—May

(Thursday, 8:30 am)

Andrew Grantham andrew.grantham@cibc.com

| Variable | CIBC | Mkt | Prior |
|---|---|---|---|
| Mfg shipments SA (m/m) | -2.5% | - | 1.7% |

Chart: Canadian factory shipments (%)




Source: Statistics Canada, Haver Analytics, CIBC

The advance estimate from Statistics Canada suggested a 2½% decline in manufacturing sales during May, and with that estimate made from more than two-thirds (71.8%) of respondents, a large scale revision is unlikely. The drop will look even sharper in inflation-adjusted terms, with petroleum products particularly likely to have been positively impacted by price movements during the month. Autos and primary metal manufacturing appear to have led the decline in overall shipments, potentially signaling renewed supply chain disruptions in those areas.

**Forecast implications** — With some of the weakness during May linked to the auto industry, where parts and vehicles are shipped regularly and so the value add at any single point of the production process is lower than in some other sectors, the decline in manufacturing GDP may not be as severe as the fall in shipments. That said, it does look as if the manufacturing sector was a fairly large drag on monthly GDP in May, and one of the reasons why Statistics Canada's advance estimate showed a surprise decline.

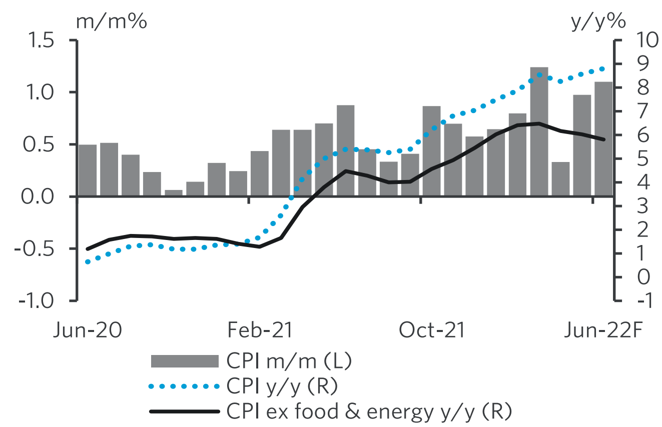
## Week Ahead's key US number: Consumer price index—June

(Wednesday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

| Variable (%) | CIBC | Mkt | Prior |
|---|---|---|---|
| Headline CPI m/m | 1.1 | 1.1 | 1.0 |
| Headline CPI (y/y) | 8.8 | 8.8 | 8.6 |
| Core CPI m/m | 0.6 | 0.6 | 0.6 |
| Core CPI y/y | 5.8 | 5.8 | 6.0 |

Chart: US consumer price index




Source: BLS, Haver Analytics, CIBC

With gasoline prices jumping in June as the EU announced an embargo on Russian oil shipments, total CPI inflation likely accelerated to 8.8% y/y in the US. Higher prices at the pump would also feed through to core inflation (ex. food and energy) in the transportation services component, helping to drive a likely 0.6% monthly increase in that group, and leaving annual core inflation at 5.8%. Shelter costs likely continued to add to price pressures, as the lagged impact of higher home prices is captured in the index, offsetting any easing in the pace of used car price growth, or relief in goods prices stemming from the end of lockdowns in China.

**Forecast implications** — Total annual inflation will likely ease off in July, as gasoline prices are on a downward trajectory. However, with base effects no longer helping to moderate annual core inflation readings, that group could re-accelerate temporarily over the next few months as higher shelter costs continue to feed through with a lag. Overall, this suggests that the Fed will likely raise rates by 75bps in July. Thereafter, the pace of tightening could slow as consumer demand is being thwarted by sky-high prices eating into real incomes, while the construction and real estate sectors are already cooling in response to higher rates.

**Market impact** — We are in line with consensus forecast and market reaction should therefore be limited.

## Other US Releases: Retail sales—June

(Friday, 8:30 am)

With higher gas prices and auto unit sales in June, retail sales likely more than made up for the weakness seen in May, and rose by 0.9%. However, things likely won't look as rosy elsewhere, as higher prices for essential goods will likely squeeze discretionary spending volumes, while the slowdown in housing activity could have weighed on furniture and appliance sales. The 0.3% advance expected in the control group (ex. gasoline, autos, restaurants, and building materials) will therefore reflect price increases, and implies a contraction in real spending.

## Industrial production—June

(Friday, 9:15 am)

Manufacturing production likely took a step back in the US in June, in line with the decline in hours worked, but providing some offset could have been growth in mining as producers responded to higher commodity prices. Utilities production likely won't have been a swing factor for the headline as temperatures remained warmer than normal, in line with May. Overall, total industrial production likely retreated by 0.2%, while momentum ahead will be limited by soft global growth.

# Contacts:


Avery Shenfeld
416 594-7356
avery.shenfeld@cibc.com

Benjamin Tal
416 956-3698
benjamin.tal@cibc.com

Andrew Grantham
416 956-3219
andrew.grantham@cibc.com

Karyne Charbonneau
613 552-1341
karyne.charbonneau@cibc.com

Katherine Judge
416 956-6527
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
Bloomberg @ CIBC

economics.cibccm.com