

Economics

THE WEEK AHEAD

May 27 - 31, 2024

Who do you believe?

by Avery Shenfeld avery.shenfeld@cibc.com

We were already calling for a June rate cut by the Bank of Canada, but got even better news than we were hoping for in the past week's CPI print. So why, then, are markets putting only 60% odds on that rate cut, and little credence on the prospect for back-to-back cuts in June and July? That won't impact the Bank's decisions, but it behooves us to consider where the skeptics' views are coming from.

Judging by discussions with clients, the doubts may harken back to the decent GDP growth we expect in the upcoming week's data for Q1, and to thoughts that we might get more of the same over the spring. Whether that's the right call comes down to who do you believe, or rather, which teams at Statistics Canada do you put your faith in right now.

Barring revisions next week, Q1 activity seemed to start off hot, but end up not, with tepid estimates for February and March GDP growth. So if you believe the folks running the national accounts, we're looking at limited momentum heading into Q2, and yet another reason for the Bank of Canada to deliver a June rate cut.

Others might be eyeing what those running the Labour Force Survey had to say about April, who reported an outsized 90 thousand jobs gain. On our part, we'll hold our judgement about April, and not only because the LFS is based on a household sample rather than census of employers like the US nonfarm payrolls.

The issue with the LFS, which showed up in spades in April, is that the survey only estimates the percentage of the 15-year and older population that has a job. That showed no improvement from March, and the jobless rate also held steady at 6.1%. To translate the sample into a total employment figure, StatsCan grosses up each month's survey to represent the total working-age population. If, as we saw in April, there's a massive 112K jump in the population, a constant employment rate would still represent a huge leap in the number of Canadians who are working.

The trouble is that a full population census is undertaken only every five years. Moreover, the LFS comes out ahead of even the quarterly population estimates that StatsCan creates based on incoming news on births, deaths, and immigration, and even these often go off track from what either annual data, or eventually the census, reveals. When they do, the LFS is forced to play catch-up by tacking on either faster or slower population gains to make the grand totals line up better.

That might well be behind the population surge, and therefore, the estimated LFS employment gains in April. The LFS population estimate for July 2023 for those 15 and over was nearly 1.4 million below the annual count for that age group for 2023, which is based on a July level. The result is that those running the LFS are phasing in higher population numbers in recent reports, but these could well be counting job and headcount gains that took place amidst a record population surge over the prior year.

Those involved in measuring monthly GDP by industry do rely on employment and hours worked measures for sectors lacking data on production or revenues. But importantly, they eschew the LFS figures in favour of Canada's payrolls data. We don't yet have for those payrolls figures for March, but February registered a nearly 18K drop in employment.

We'll get fresh monthly GDP data in the week ahead, and we'll put a lot more weight on those data in assessing whether there is indeed any serious momentum as of early Q2. Given how tame inflation seems to be running in the last four months, and that this is a central bank that puts its greatest focus on price stability, we would need to see a lot of vigor in per capita GDP to justify waiting any longer to provide a bit of interest rate relief. We doves need to keep the faith.

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, May 27	-	-	-	-	-	-	-
Tuesday, May 28	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Apr)	(M)	-	-	0.8%
Tuesday, May 28	8:30 AM	RAW MATERIALS M/M	(Apr)	(M)	-	-	4.7%
Wednesday, May 29	-	AUCTION: 30-YR CANADAS \$2.0B	-	-	-	-	-
Thursday, May 30	-	AUCTION: 2-YR CANADAS \$5.5B	-	-	-	-	-
Thursday, May 30	8:30 AM	CURRENT ACCOUNT BAL.	(1Q)	(M)	-\$5.5B	-\$5.7B	-\$1.6B
Thursday, May 30	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Mar)	-	-	-	-17.7K
Friday, May 31	8:30 AM	GDP M/M	(Mar)	(H)	-0.1%	0.0%	0.2%
Friday, May 31	8:30 AM	GDP (annualized)	(1Q)	(H)	2.5%	2.0%	1.0%

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, May 27	-	-	-	-	-	-	-
Tuesday, May 28	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Tuesday, May 28	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Tuesday, May 28	9:00 AM	HOUSE PRICE INDEX M/M	(Mar)	(M)	-	0.5%	1.2%
Tuesday, May 28	9:00 AM	S&P CORELOGIC CS Y/Y	(Mar)	(H)	-	-	7.3%
Tuesday, May 28	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(May)	(H)	95.0	96.0	97.0
Tuesday, May 28	12:55 AM	Speaker: Loretta Mester (Cleveland) (Voter)	-	-	-	-	-
Tuesday, May 28	9:55 AM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Tuesday, May 28	1:05 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Wednesday, May 29	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Wednesday, May 29	-	AUCTION: 2-YR FRN \$28B	-	-	-	-	-
Wednesday, May 29	7:00 AM	MBA-APPLICATIONS	(May 24)	(L)	-	-	1.9%
Wednesday, May 29	10:00 AM	RICHMOND FED MANUF. INDEX	(May)	(M)	-	-	-7
Wednesday, May 29	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, May 29	1:45 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Wednesday, May 29	7:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Thursday, May 30	8:30 AM	INITIAL CLAIMS	(May 25)	(M)	-	218K	215K
Thursday, May 30	8:30 AM	CONTINUING CLAIMS	(May 18)	(L)	-	-	1794K
Thursday, May 30	8:30 AM	GDP (annualized)	(1Q S)	(H)	1.3%	1.3%	1.6%
Thursday, May 30	8:30 AM	GDP DEFLATOR (annualized)	(1Q S)	(H)	3.1%	3.1%	3.1%
Thursday, May 30	8:30 AM	ADVANCED GOODS TRADE BALANCE	(Apr)	(M)	-\$91.0B	-\$91.8B	-\$91.8B
Thursday, May 30	8:30 AM	WHOLESALE INVENTORIES M/M	(Apr P)	(L)	-	-0.1%	-0.4%
Thursday, May 30	8:30 AM	RETAIL INVENTORIES M/M	(Apr)	(H)	-	-	0.3%
Thursday, May 30	10:00 AM	PENDING HOME SALES M/M	(Apr)	(M)	-	-0.6%	3.4%
Thursday, May 30	12:05 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, May 30	5:00 PM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Friday, May 31	8:30 AM	PCE DEFLATOR Y/Y	(Apr)	(H)	2.6%	2.7%	2.7%
Friday, May 31	8:30 AM	PCE DEFLATOR Y/Y (core)	(Apr)	(H)	2.7%	2.8%	2.8%
Friday, May 31	8:30 AM	PERSONAL INCOME M/M	(Apr)	(H)	0.0%	0.3%	0.5%
Friday, May 31	8:30 AM	PERSONAL SPENDING M/M	(Apr)	(H)	0.2%	0.3%	0.8%
Friday, May 31	9:45 AM	CHICAGO PMI	(May)	(M)	-	40.9	37.9
Friday, May 31	6:15 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, a second decimal place could determine whether markets end the week on a happy note. We're hoping that the April monthly core PCE price index gets rounded down to a 0.2% gain, but concede that our model just barely leans that way, and a 0.3% wouldn't be viewed as a positive signpost. Personal spending could be tamer than consensus for that month, but it's coming off such a strong March that one can't call that a trend just yet. The week will get revised GDP numbers, trade data, and yet more Fed chatter, none of which looks likely to be market-moving.

In **Canada**, what's now a four month stretch of tame CPI data should be sufficient to see an inflation-targeting central bank easing in June, even with the coming week's GDP figures showing a decent rebound in Q1 growth, one aided by weather and the end of a strike. One quarter isn't yet a trend, and we saw a similar bounce in Q1 2023 that proved to be ephemeral. The monthly data could show that nearly all of that momentum was back in January, although the flash estimate for April could get a bit of life from the advance readings on retailing for that month and a rebound in auto assemblies. It's worth keeping an eye on the less-watched payrolls data for March that come out a day ahead of the GDP release, since the readings on March hours worked are one of the inputs for the monthly GDP figures.

Week Ahead's key Canadian number: Gross domestic product—March & Q1

(Friday, 8:30 am)

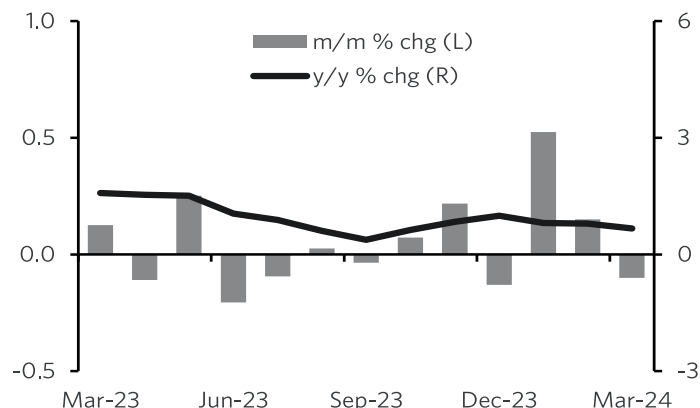
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Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	-0.1	0.0	0.2
GDP Q1 (annualized)	2.5	2.0	1.0

The Canadian economy appeared to fly out of the gates to start 2024, in part due to an easing of previous supply constraints such as the strike action in Quebec that negatively impacted growth towards the end of 2024. Residential investment should have been a positive for growth over the quarter, aided somewhat by better than average winter weather. Consumer spending could also have been stronger than in prior quarters, albeit still negative in per capita terms. Overall, the 2.5% growth we forecast would be a notable step up from the prior trimester.

However, momentum appeared to fade as the quarter went on, with March GDP expected to show a slight decline as manufacturing, retailing, and wholesaling struggled during the month. While the advance estimate for April could show a return to growth as auto plants resumed operations following retooling shutdowns, we expect only a modest increase that

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

would be weaker than the apparent surge in employment seen during the month.

Forecast implications — While economic growth has been better than initially expected to start the year, the fact that inflation has eased quicker as well suggests that much of the growth in activity has come from an easing of previous supply constraints. With the economy having slowed again towards the end of the quarter, solid headline growth in Q1 shouldn't deter the Bank of Canada from delivering a first interest rate cut at the next meeting in June.

Other Canadian releases: Current account balance—Q1

(Thursday, 8:30 am)

With the goods trade balance swinging to deficit again at the end of the quarter, and the shortfall in services worsening relative to the previous quarter, the Canadian current account deficit likely widened notably in Q1. We forecast a \$5.5bn shortfall, from \$1.6bn in the prior quarter.

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

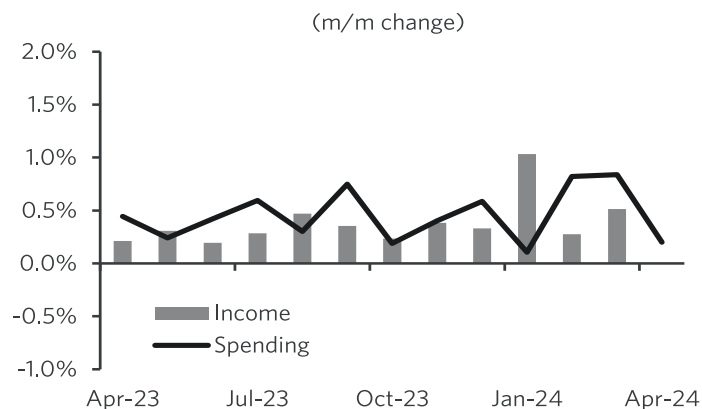
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.0	0.3	0.5
Personal spending (m/m)	0.2	0.3	0.8
Core PCE price index (y/y)	2.7	2.8	2.8

Next week all eyes will be on the April reading of the Fed's preferred inflation gauge. We expect core and headline PCE inflation will come in at 0.2% m/m, with core PCE coming somewhere between 0.22% and 0.25%, leaving a reasonable chance of rounding up to 0.3%. Nominal income growth should be flat in the month. While nominal spending growth could come in at 0.2%, in real terms, consumer spending will be about flat in the month. The Fed will clearly welcome a slight step down in price pressures judging by Waller's speech last week, even if it means looking to the second decimal point. They will also be putting weight on the pace of consumer service spending to see if domestic demand might also be cooling off a bit.

Chart: US personal income and spending



Source: BEA, Haver Analytics, CIBC

Forecast implications — Given the soft retail report, we expect consumption growth to get off to a slow start in the quarter and our GDP nowcast tracking for the quarter is at 2.5% currently, which averages out to 2% pace given for the first half of 2024. That's still a bit too fast to open up some much-needed slack.

Market impact — CPI, PPI and import price data all point to a slightly cooler inflation print and Fed speakers have made it clear that the Fed will want to see more of the same. All in all, the April data should not be much of a surprise. But what could rattle markets (and the Fed) are any adverse revisions to prior months of core PCE.

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