Economics

THE WEEK AHEAD

December 9 - 13, 2024

Why not?

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

The story might be apocryphal, but a philosophy professor asked a one-word question on his final exam: "Why"? As the tale goes, the student assigned the highest grade responded with a two-word answer: "Why not?". That's also been the best answer to those who have been questioning our long-held forecast that the Bank of Canada will and ought to deliver a second consecutive 50 basis point rate cut in its December announcement.

Virtually every Canadian forecaster has projected that the Bank will have to take the overnight rate to 3% or less in the months ahead to generate its targeted pick-up in growth. If so, there's no reason to think that cutting 50 basis points, to 3.25%, could be overdoing it. So "why not" get there next week, rather than early next year, if we're going to end up needing even more interest rate relief in 2025? Why not give the economy more of what it needs a bit earlier?

It's not as if a half point move would send inflation roaring ahead. In the Bank's way of looking at the inflation outlook, the key driver is the output gap, and today's labour market data were consistent with considerable economic slack. Take mortgage interest out of the inflation tally, since rate cuts will cool that component, and the 12-month CPI has been running below the Bank's 2% target for much of 2024.

Looking deeper into 2025, there are upside and downside risks to our forecast for a move to a 2.25% overnight rate by mid-year. That's only about a half point below our estimate of the neutral rate, and hardly seems like overkill for an economy that needs monetary stimulus to get moving at a better clip.

What could eliminate some of that need is a turn to material fiscal stimulus. We're not talking about the short-lived blips inherent in the recently announced sales tax holiday on certain items, or the one time cheques to workers, each of which is worth a decimal place or two of GDP. But the Prime Minister revealed this week that the Fall Economic Statement (FES) would include "investments in economic growth across the country." That sounds like something beyond a very partial GST holiday and a $250 cheque. To substitute for some rate cuts, these "investments" would have to be large enough to move the GDP needle, represent fresh expenditures or tax cuts rather than reallocated funds, and delivered on a timely basis.

There are lots of cases of counter examples from past budgets that didn't meet those tests, particularly when budget deficit targets lacked a lot of elbow room. Some years we've seen long lists of small initiatives that added up to not much, or simply shuffled spending from one envelope to another. On other occasions, it took many years for the announced funds to be actually allocated to projects on the ground. That was the case for a previous deluge of infrastructure funds offered by the Liberal government, for example. Ottawa recently announced a $1.2 billion contribution to Toronto transit, but that will mostly go to subway cars that aren't set to be delivered until 2030 in a contract that won't even be awarded next year. So we'll need to carefully dissect the details of any FES announcements to see if they reduce the case for 2025 rate cuts.

Indeed, the Bank of Canada could find itself needing to be even more aggressive. The threat of US tariffs will already weigh on business capital spending here while we wait to find out if they are actually imposed. If Trump follows through, the dent to Canada's exports would necessitate even further monetary policy easing to support domestic demand.

Retaliatory tariffs by Canada would complicate that decision, by raising prices for imported goods. But that might be a good answer to the question "why not" if posed about such a retaliation. Rather than hit Canadians' wallets, Ottawa might opt to seek other means (a Florida travel boycott? Repatriate our hockey players? No Ryan Reynolds movies?) to get the Trump team to drop a tariff war.

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, December 9	-	-	-	-	-	-	-
Tuesday, December 10	-	-	-	-	-	-	-
Wednesday, December 11	9:45 AM	BANK OF CANADA RATE ANNOUNCE.	(Dec 11)	(H)	3.25%	3.25%	3.75%
Thursday, December 12	-	AUCTION: 10-YR CANADAS $5B	-	-	-	-	-
Thursday, December 12	8:30 AM	BUILDING PERMITS M/M	(Oct)	(M)	-	-	11.5%
Friday, December 13	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Oct)	(M)	1.3%	-	-0.5%
Friday, December 13	8:30 AM	WHOLESALE SALES EX-PETROLEUM M/M	(Oct)	(M)	0.5%	-	0.8%
Friday, December 13	8:30 AM	CAPACITY UTILIZATION	(3Q)	(L)	-	-	79.1%

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, December 9	10:00 AM	WHOLESALE INVENTORIES M/M	(Oct)	(L)	-	-	0.2%
Tuesday, December 10	-	AUCTION: 3-YR TREASURIES $58B	-	-	-	-	-
Tuesday, December 10	8:30 AM	NON-FARM PRODUCTIVITY	(3Q)	(M)	-	2.2%	2.2%
Wednesday, December 11	-	AUCTION: 10-YR TREASURIES $39B	-	-	-	-	-
Wednesday, December 11	7:00 AM	MBA-APPLICATIONS	(Dec 6)	(L)	-	-	2.8%
Wednesday, December 11	8:30 AM	CPI M/M	(Nov)	(H)	0.3%	0.3%	0.2%
Wednesday, December 11	8:30 AM	CPI M/M (core)	(Nov)	(H)	0.3%	0.3%	0.3%
Wednesday, December 11	8:30 AM	CPI Y/Y	(Nov)	(H)	2.8%	2.7%	2.6%
Wednesday, December 11	8:30 AM	CPI Y/Y (core)	(Nov)	(H)	3.3%	3.3%	3.3%
Thursday, December 12	-	AUCTION: 30-YR TREASURIES $22B	-	-	-	-	-
Thursday, December 12	8:30 AM	INITIAL CLAIMS	(Dec 7)	(M)	-	-	224K
Thursday, December 12	8:30 AM	CONTINUING CLAIMS	(Nov 30)	(L)	-	-	1871K
Thursday, December 12	8:30 AM	PPI M/M	(Nov)	(M)	-	0.3%	0.2%
Thursday, December 12	8:30 AM	PPI M/M (core)	(Nov)	(M)	-	0.2%	0.3%
Thursday, December 12	8:30 AM	PPI Y/Y	(Nov)	(M)	-	-	2.4%
Thursday, December 12	8:30 AM	PPI Y/Y (core)	(Nov)	(M)	-	-	3.1%
Friday, December 13	8:30 AM	IMPORT PRICE INDEX M/M	(Nov)	(L)	-	-0.3%	0.3%
Friday, December 13	8:30 AM	EXPORT PRICE INDEX M/M	(Nov)	(L)	-	-0.3%	0.8%

Week Ahead's market call

by Avery Shenfeld

In the **US**, the CPI (and its implications for the PCE price index) is the final piece of the puzzle for the Fed's December rate decision, and our call for a 0.3% monthly rise in core prices would still leave some uncertainties about our call for a quarter point cut, although we'll also sift through the details in both CPI and PPI to get a sense on whether core PCE will also be a 0.3%. Otherwise, there's no much on the calendar that is likely to be market moving in the coming week.

In **Canada**, the jump in the unemployment rate had the market come around to our view that the Bank of Canada will deliver a 50 bp rate cut in the week ahead, which should come as no surprise at this point. This isn't an announcement with a new monetary policy report or forecast, so don't expect a lot of detail on the outlook. The statement could cite the mix of positive (stronger final domestic demand in Q3) and negative (soft overall GDP in Q3, rising unemployment etc.) signposts on growth and inflation, while still suggesting that the most likely outcome will entail further interest rate relief in the coming year, with no specifics on the pace or magnitude. Expect the Q&A session to include questions on the impact of recent fiscal moves (GST holiday and one-time cheques) and the downside impacts of uncertainties over US trade policies, and how the Bank is factoring those forces into its views.

There are no major Canadian data releases next week.

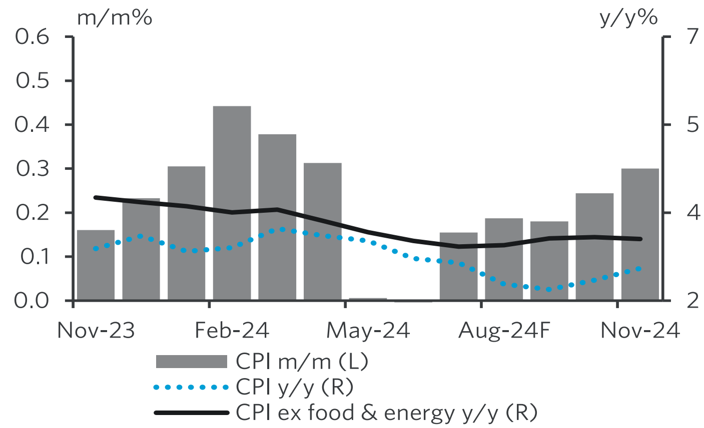
Week Ahead's key US number: Consumer price index—November

(Wednesday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.3	0.3	0.2
Headline CPI (y/y)	2.8	2.7	2.6
Core CPI (m/m)	0.3	0.3	0.3
Core CPI (y/y)	3.3	3.3	3.3

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

Price pressures likely accelerated to 0.3% m/m for US headline CPI in November, and remained at 0.3% m/m for core CPI. That will leave the annual pace of inflation two ticks higher at 2.8%, partly on base effects, while annual core inflation will have remained at 3.3%. Progress on the inflation front has stalled in recent months, but that's largely due to "catch-up inflation" in Powell's view, particularly for car insurance and rents. Rent growth as measured by new leases has eased off and that will gradually feed through to the CPI, but that component has a lower weight in the Fed's preferred measure of prices, core PCE, which has seen progress stall since mid year.

Forecast implications — We continue to expect a 25bp cut in December, but the lack of progress in inflation measures will likely require a cautious accompanying message about how much easing is to come thereafter.

Market implications — We're in line with the consensus which implies little market reaction.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

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

economics.cibccm.com