Economics

THE WEEK AHEAD

November 11 - 15, 2024

Living up to your potential

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

Economic models place considerable emphasis on the concept of "potential GDP", defined as the level of real output that at any point in time is the maximum attainable without upward pressure on inflation. It's one that's of obvious use in theory, and central bankers and forecasters are always judging whether the existing GDP trend is too slow or too fast versus the nirvana of an economy growing right along its potential path. In both the US and Canada, we're on the cusp of some potentially important changes in that potential growth rate ahead.

In practice, using this concept isn't so simple for those central bankers and economic forecasters. Not only is estimating potential GDP a tricky econometric task, but as we've seen recently in the US and Canada, we don't really know what the actual level of real GDP is at any point in time. In the last couple of months, revisions raised the trend level for US GDP, and this past week, the same was true for Canada. Growth in the three years to 2023 was revised up by almost a half percent per year. The upshot is that for the given levels of employment over that period, Canada's productivity growth has been weak, but not as weak as we thought.

Does that revised history matter for where we sit today? Not really. Since labour productivity was stronger, it means that the economy's potential GDP was also faster than we understood. Potential GDP can be thought of as the output you achieve at full employment, if you define that as the level of employment that's also consistent with stable inflation. If productivity was better, then potential GDP was also larger and on a faster growth trend.

So when we look at the Canadian economy today, we're no closer to living up to our potential than we thought. Logically, that has to be true, because we know that wherever that mysterious number for potential sits, we're below it, given what we can see in the labour market, with an elevated 6.5% unemployment rate, and in inflation, which has faded dramatically in the past year.

But there are some changes ahead in both the US and Canada that will impact how fast potential GDP will grow in the next two years, and what that means for the non-inflationary speed limit for the economy. In a word, it's about immigration. That's not going to be as important for Canada until 2026, since there's a lot of slack to be absorbed, but it could start to matter for the US in 2025.

Even assuming that recent government measures to reduce the number of foreign students and temporary workers takes a year longer to achieve, Canada's population growth will decelerate from a roughly 3% pace in the past two years to less than 1% annually through 2026. Economic slack still leaves room for real GDP growth to average better than 2% per annum over that period, and with less demand coming from new arrivals, we'll need lots of support from low interest rates to increase per capita consumption and housing activity.

In the US, the incoming Trump administration could also portend some drama in the population trend, and therefore in where potential GDP lies. Even assuming that mass deportations don't live up to what campaign rhetoric would imply, a Brookings Institute analysis found that GDP growth could be nearly a half point slower in 2025 as a result of tighter border controls and a pick-up in removals of undocumented US residents. In an economy that is currently only modestly away from full employment, fewer people of working age will cut into the economy's non-inflationary potential.

Of late, the US has been able to achieve 3% real growth without tightening the labour market or preventing a cooling in inflation. Population gains from immigration and a burst in productivity made that happen. Looking ahead, we're likely facing something closer to a 2% speed limit, with the working age population not growing much or even shrinking, and productivity unlikely to stay this red hot. Slower population growth, with fewer new consumers, will take care of some of the required cooling in demand. But the Fed will have to steer a bit more carefully in 2026 to guide the economy to that potential GDP glide path.

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, November 11	-	Bond Market Closed (Remembrance Day)	-	-	-	-	-
Tuesday, November 12	8:30 AM	BUILDING PERMITS M/M	(Sep)	(M)	-	-	-7.0%
Wednesday, November 13	-	-	-	-	-	-	-
Thursday, November 14	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Friday, November 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Sep)	(M)	-0.8%	-0.8%	-1.3%
Friday, November 15	8:30 AM	WHOLESALE SALES EX-PETROLEUM M/M	(Sep)	(M)	0.9%	-	-0.6%
Friday, November 15	9:00 AM	EXISTING HOME SALES M/M	(Oct)	(M)	-	-	1.9%
Friday, November 15	10:30 AM	Release: Senior Loan Officer Survey	-	-	-	-	-

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, November 11	-	Treasury Markets Closed (Veteran's Day)	-	-	-	-	-
Tuesday, November 12	10:00 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Tuesday, November 12	10:15 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Tuesday, November 12	2:00 PM	Release: Senior Loan Officer Opinion Survey	-	-	-	-	-
Tuesday, November 12	5:00 PM	Speaker: Patrick Harker (Philadelphia) (Non-Voter)	-	-	-	-	-
Tuesday, November 12	5:30 PM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Wednesday, November 13	7:00 AM	MBA-APPLICATIONS	(Nov 8)	(L)	-	-	-10.8%
Wednesday, November 13	8:30 AM	CPI M/M	(Oct)	(H)	0.2%	0.2%	0.2%
Wednesday, November 13	8:30 AM	CPI M/M (core)	(Oct)	(H)	0.3%	0.3%	0.3%
Wednesday, November 13	8:30 AM	CPI Y/Y	(Oct)	(H)	2.6%	2.6%	2.4%
Wednesday, November 13	8:30 AM	CPI Y/Y (core)	(Oct)	(H)	3.3%	3.3%	3.3%
Wednesday, November 13	2:00 PM	TREASURY BUDGET	(Oct)	(L)	-	-	$64.3B
Wednesday, November 13	9:45 AM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Wednesday, November 13	1:00 PM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Wednesday, November 13	1:30 PM	Speaker: Jeffrey Schmid (Kansas City)	-	-	-	-	
Thursday, November 14	8:30 AM	INITIAL CLAIMS	(Nov 9)	(M)	-	-	221K
Thursday, November 14	8:30 AM	CONTINUING CLAIMS	(Nov 2)	(L)	-	-	1892K
Thursday, November 14	8:30 AM	PPI M/M	(Oct)	(M)	0.2%	0.2%	0.0%
Thursday, November 14	8:30 AM	PPI M/M (core)	(Oct)	(M)	0.3%	0.3%	0.2%
Thursday, November 14	8:30 AM	PPI Y/Y	(Oct)	(M)	-	2.3%	1.8%
Thursday, November 14	8:30 AM	PPI Y/Y (core)	(Oct)	(M)	-	-	2.8%
Thursday, November 14	9:15 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Thursday, November 14	3:00 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, November 14	4:15 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, November 15	8:30 AM	NEW YORK FED (EMPIRE)	(Nov)	(M)	-	3.5	-11.9
Friday, November 15	8:30 AM	RETAIL SALES M/M	(Oct)	(H)	0.4%	0.3%	0.4%
Friday, November 15	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Oct)	(H)	0.3%	0.2%	0.5%
Friday, November 15	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Oct)	(H)	0.3%	0.2%	0.7%
Friday, November 15	8:30 AM	IMPORT PRICE INDEX M/M	(Oct)	(L)	-	-0.1%	-0.4%
Friday, November 15	8:30 AM	EXPORT PRICE INDEX M/M	(Oct)	(L)	-	0.0%	-0.7%
Friday, November 15	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Oct)	(H)	-0.5%	-0.2%	-0.3%
Friday, November 15	9:15 AM	CAPACITY UTILIZATION	(Oct)	(M)	77.1%	77.3%	77.5%
Friday, November 15	10:00 AM	BUSINESS INVENTORIES M/M	(Sep)	(L)	-	0.2%	0.3%

Week Ahead's market call

by Andrew Grantham

In the **US**, there's no rest following last week's election, with plenty of data on tap. CPI inflation is expected to accelerate slightly on a year-over-year basis due to base effects, but a 0.3% monthly increase in core CPI prices will still be consistent with a 0.2% lift to core PCE prices. While shelter inflation should eventually slow, services ex-shelter are also still showing strength. Wealth gains are expected to drive a further moderate increase in retail sales, while plenty of Fed speakers get a chance to give their views on the post-election landscape.

In **Canada**, economic data is mainly mid-tier in importance, with a decline in manufacturing shipments expected to be offset by growth in wholesaling within tracking forecasts for September GDP.

There are no major Canadian data releases next week.

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

(Wednesday, 8:30 am)

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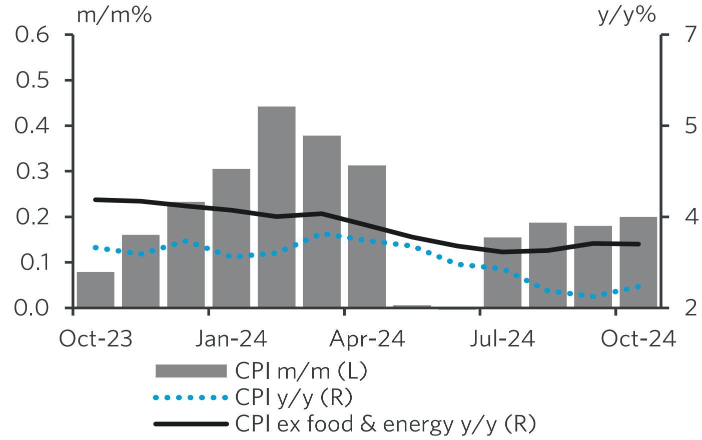
Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.2	0.2	0.2
Headline CPI (y/y)	2.6	2.6	2.4
Core CPI (m/m)	0.3	0.3	0.3
Core CPI (y/y)	3.3	3.3	3.3

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

The October CPI report will be the focus next week. Core inflation should come in at 0.3% m/m and the headline measure at 0.2% m/m. We expect to see more elements of the "catch-up" inflation Powell spoke about to show up again in the October report with sticky services prices. Housing inflation has been increasingly noisy and still elevated while non-housing services prices have rebounded over the past few months after a very weak Q2. But we expect mild goods disinflation to return in October, offsetting some of the heat in services. With inflation expectations solidly anchored and slack starting to open up in the labor market, there are no clear fundamental forces on the horizon that will be putting significant upward pressure on prices in near term, keeping the Fed focused on stabilizing the labor market.

Forecast implications — We expect the October 0.3% m/m CPI will be equivalent to a 0.2% in core PCE terms. Inflation is likely to reach target and durably stay around 2% around the middle of next year.

Market implications — Our views are aligned with consensus and given Powell's mostly dovish take on inflation, a 0.3% likely will not generate much action so long as it's consistent with a core PCE a notch lower. Like the Fed, the focus is on the jobs market and activity data.

Other US Releases: Retail sales—October

(Friday, 8:30 am)

We expect headline retail sales in come in at 0.4% and the control group one notch below headline in October. Despite a softening jobs market, real labor income has been healthy while wealth gains have continued to be very strong. That should continue to keep consumption growth at solid pace in Q4.

Industrial production—October

(Friday, 9:15 am)

We expect industrial production to contract again in October owing to the hurricane-related impacts and capacity utilization to dip further. But production should pick up strongly in later part of Q4 and into Q1 of next year.

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