THE WEEK AHEAD

November 25 - 29, 2024

A few billion doesn't buy you much these days

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

Don't worry Elon, that title doesn't apply to an individual with billions to spend. We're referencing what this week's "multi-billion" package from Canada's federal government might mean for the economy and its growth rate ahead. And the answer is, not that much, however nice it might be in the month or quarter when it gets doled out. As a result, we don't see this fiscal package as having more than a very marginal impact on upcoming Bank of Canada interest rate decisions, and nor is it a significant budget-buster in terms of the track for the federal deficit-to-GDP ratio.

This week's announcement from Ottawa was designed to respond to what pollsters say is a broad concern over "affordability." There's reason for incumbent governments to worry. Voters in the UK, the US, and parts of the eurozone turfed out those who had held the reins of power during the post-COVID upsurge in inflation, and gave them no credit for the past year's easing in inflation that didn't reverse earlier price increases. As an aside, nobody attributes the elevated wage gains they got during that period to inflation.

So bring on the billions in relief for those dissatisfied voters. But even taken together, the two measures announced this week won't move the needle much on overall economic growth. That's apparent when you look at the amount of money each household or taxpayer will actually see in their pocket: a few hundred dollars for those who can spend a couple of thousand during the GST holiday on certain goods, and a $250 tax rebate for those earning less than $150K a year.

For a lower income Canadian, that's welcome relief, and we don't begrudge them that support, or want to trivialize the impact of even a few hundred dollars for those who are struggling financially. But scale it up for the economy as a whole, and the induced spending doesn't add up to much. Ottawa pegged the fiscal cost of its temporary GST exemptions on a select list of goods at $1.6 bn. Because some provinces' sales taxes are integrated with the federal levy, the total foregone tax revenue could be in the $2-3 bn range. But that's in a $3 trillion economy, or less than 0.1% of annual GDP. Some of the impact will be to shift spending into the GST-free period rather than generate additional activity.

Unlike a GST cut, which only goes to those who spend, the $4.7 bn in tax rebates could partly go to savings or debt paydowns, but tilting it to those earning less than $150K could reduce the share going to savings. Given that there's a greater multiplier impact on the economy when there's slack, the Bank of Canada might conclude that the peak impact on GDP could be as much as quarter point higher in a year. But that's only if these cheques are permitted to raise the federal deficit. If Ottawa is merely shifting funds from what it otherwise would have spent elsewhere, in order to stick to a given deficit target, the impact could be negated.

Because these dollars are flowing out in a concentrated time frame, we could see some measurable impacts on a given month's or perhaps even a given quarter's GDP. But temporary measures have temporary impacts, unlike a permanent tax reduction. Inflation will dip in the months where the GST cut kicks in. In practice, not all the GST cut gets passed on in prices to consumers, and if you need the details on why, go back to your Econ 100 notes and look at the implications of sales taxes for prices in industries with an upward sloping supply curve. The extra spending funded from the tax rebates will subsequently add to inflation, but even with a generous impact from multiplier effects, a Phillips curve approach to translating the demand boost into CPI impacts would suggest that we're only talking about a mere 0.1%-point bump to prices at most.

Could these impacts remove one quarter point rate cut from the Bank of Canada's agenda next year? Maybe, or they just might be a counterweight to the new drag from trade-related uncertainties. The Bank is focused on steering inflation over a time horizon that stretches out a year or more, and will look through the short-lived dip and the tiny subsequent boost to inflation. What would matter more for the Bank would be a larger scale fiscal stimulus, of the type that would normally be announced at budget time next year. There's certainly some chance that we see such goodies in 2025, but there are also risks of a change in government that brings in a different fiscal stance. Neither we, nor the Bank, are in a position to take such scenarios into account without more certainty about what's coming.

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 25	-	-	-	-	-	-	-
Tuesday, November 26	8:20 AM	Speaker: Rhys R. Mendes (Deputy Gov.)	-	-	-	-	-
Wednesday, November 27	-	AUCTION: 30-YR CANADAS $2B	-	-	-	-	-
Thursday, November 28	8:30 AM	CURRENT ACCOUNT BAL.	(3Q)	(M)	-$9.8B	-	-$8.5B
Thursday, November 28	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Sep)	-	-	-	13.5K
Friday, November 29	8:30 AM	GDP M/M	(Sep)	(H)	0.3%	0.2%	0.0%
Friday, November 29	8:30 AM	GDP (annualized)	(3Q)	(H)	1.0%	0.9%	2.1%

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, November 25	-	AUCTION: 2-YR TREASURIES $69B	-	-	-	-	-
Monday, November 25	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Oct)	(M)	-	-	-0.3
Tuesday, November 26	-	AUCTION: 1-YR TREASURIES $48B	-	-	-	-	-
Tuesday, November 26	-	AUCTION: 5-YR TREASURIES $70B	-	-	-	-	-
Tuesday, November 26	-	AUCTION: 2-YR FRN $28B	-	-	-	-	-
Tuesday, November 26	8:30 AM	PHILADELPHIA FED - NON-MANUFACTURING	(Nov)	(M)	-	-	6.0
Tuesday, November 26	9:00 AM	HOUSE PRICE INDEX M/M	(Sep)	(M)	-	-	0.3%
Tuesday, November 26	9:00 AM	S&P CORELOGIC CS Y/Y	(Sep)	(H)	-	-	5.2%
Tuesday, November 26	10:00 AM	NEW HOME SALES SAAR	(Oct)	(M)	730K	722K	738K
Tuesday, November 26	10:00 AM	NEW HOME SALES M/M	(Oct)	(M)	-1.1%	-2.2%	4.1%
Tuesday, November 26	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Nov)	(H)	109.0	112.5	108.7
Tuesday, November 26	10:00 AM	RICHMOND FED MANUF. INDEX	(Nov)	(M)	-	-	-14
Tuesday, November 26	2:00 PM	FOMC Meeting Minutes	(Nov 7)	-	-	-	-
Wednesday, November 27	-	AUCTION: 7-YR TREASURIES $44B	-	-	-	-	-
Wednesday, November 27	7:00 AM	MBA-APPLICATIONS	(Nov 22)	(L)	-	-	1.7%
Wednesday, November 27	8:30 AM	GDP (annualized)	(3Q S)	(H)	2.8%	2.8%	2.8%
Wednesday, November 27	8:30 AM	GDP DEFLATOR (annualized)	(3Q S)	(H)	1.8%	-	1.8%
Wednesday, November 27	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Oct)	(M)	-$103.0B	-$99.3B	-$108.7B
Wednesday, November 27	8:30 AM	WHOLESALE INVENTORIES M/M	(Oct P)	(L)	-	-	-0.2%
Wednesday, November 27	8:30 AM	RETAIL INVENTORIES M/M	(Oct)	(H)	-	-	0.8%
Wednesday, November 27	8:30 AM	DURABLE GOODS ORDERS M/M	(Oct P)	(H)	0.6%	0.5%	-0.7%
Wednesday, November 27	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Oct P)	(H)	0.1%	0.2%	0.5%
Wednesday, November 27	8:30 AM	INITIAL CLAIMS	(Nov 23)	(M)	-	-	213K
Wednesday, November 27	8:30 AM	CONTINUING CLAIMS	(Nov 16)	(L)	-	-	1908K
Wednesday, November 27	10:00 AM	PCE DEFLATOR Y/Y	(Oct)	(H)	2.3%	2.3%	2.1%
Wednesday, November 27	10:00 AM	PCE DEFLATOR Y/Y (core)	(Oct)	(H)	2.7%	2.8%	2.7%
Wednesday, November 27	10:00 AM	PERSONAL INCOME M/M	(Oct)	(H)	0.3%	0.3%	0.3%
Wednesday, November 27	10:00 AM	PERSONAL SPENDING M/M	(Oct)	(H)	0.4%	0.4%	0.5%
Wednesday, November 27	10:00 AM	PENDING HOME SALES M/M	(Oct)	(M)	-	-2.1%	7.4%
Thursday, November 28	-	Markets Closed (US Thanksgiving)	-	-	-	-	-
Friday, November 29	-	-	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, market reactions to the inflation data might hinge on the second decimal place. Our call has the widely-watched core PCE price index coming it at 0.26%, which unfortunately would be just enough for that to be rounded up to a 0.3% gain on the newswires. We don't see that, or the accompanying income and consumption data, as strong enough to put the Fed on a pause in December given where real interest rates currently stand. But the central bankers are going to continue to speak cautiously about the room for further easing, particularly with so much uncertainty about where other policy developments will head in the incoming Trump administration.

In **Canada**, there's some upside risk to our Q3 GDP forecast, but we're not likely to top the Bank of Canada's 1½% projection. What will be more of interest is the September GDP pace, and what that says about Q4 momentum. But we still see the November employment data, due in early December, as an important piece of the Bank of Canada's thinking about the appropriate size of the December rate cut. Without that data in hand, we don't expect Deputy Governor Mendes to give markets any hints in his remarks in the week ahead.

Week Ahead's key Canadian number: Gross domestic product—September and Q3

(Friday, 8:30 am)

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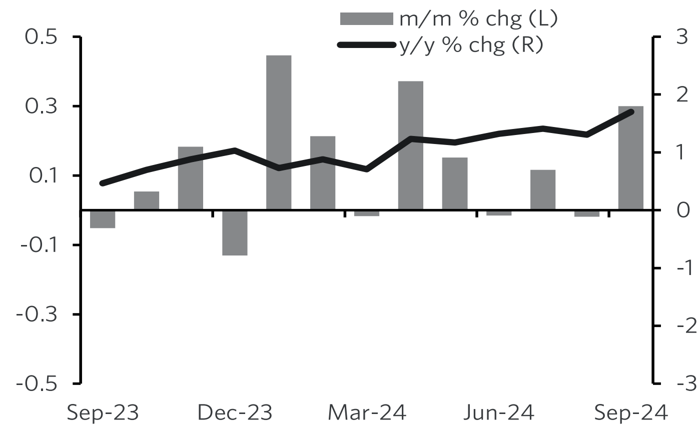
Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.3	0.2	0.0
GDP (annualized)	1.0	0.9	2.1

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Canadian GDP growth likely decelerated to a mere 1% annualized pace in Q3 although, with wildfire disruptions and a short-lived rail strike occurring during the quarter, that pace is likely below the underlying trend within the economy. The deceleration will be led by weaker growth in business investment and possibly tamer inventory accumulation, which appear to have overshadowed a slight acceleration in consumer spending. Residential investment may have turned from a negative to positive contributor, aided by a pick up in home resales from the very low levels seen earlier in the year and through 2023.

While growth has a whole was likely only modest during Q3, the quarter appears to have ended on a better note with 0.3% growth expected for September. October's advance GDP estimate should benefit from a solid gain for retailers and a continued rebound in real estate.

Forecast implications — Growth decelerated in Q3 and more slack opened up within the economy, but with a few temporary factors negatively impacting this print the underlying trend is likely stronger. Indeed, the solid hand-off to Q4 suggests growth could accelerate again to around 2% in the final quarter of the year.

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

(Wednesday, 10:00 am)

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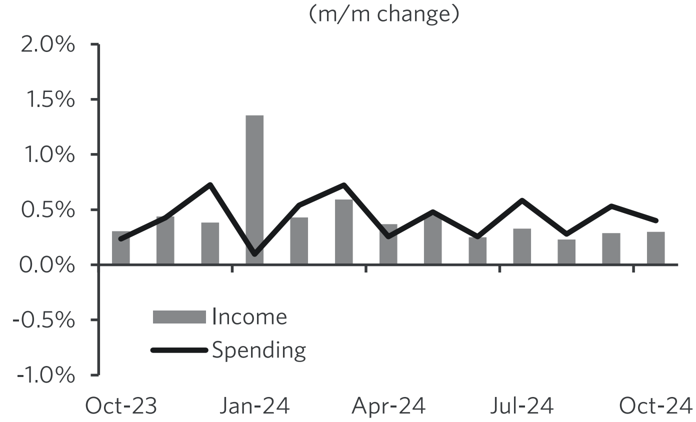
Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.3	0.3	0.3
Personal spending (m/m)	0.4	0.4	0.5
Core PCE price index (y/y)	2.7	2.8	2.7

Chart: US personal income and spending



Source: BEA, Haver Analytics, CIBC

The October personal spending and income report will be the focus next week. We forecast the PCE price index to increase by 0.2% and the Core PCE price index to rise by 0.26% m/m, barely crossing the 0.3% threshold. Consumption growth is expected come in at 0.4% m/m and inflation-adjusted terms, spending growth should come in at 0.2% m/m. Personal income growth should rise by 0.3%, due to a solid increase in wage growth, partly offsetting anemic employment growth. The saving rate will likely edge down to 4.4%. Overall inflation progress has clearly slowed but Powell seems inclined to look through most of the strength in services inflation as "catch-up" inflation, because most of that is due to lower shelter costs transmitting very slowly into measured prices.

Forecast implications — We expect the Fed to ease by 25bps in December and the solid October consumption imprint has our GDP growth in Q4 tracking starting at 2.1%.

Market implications — Our views are aligned with consensus but the market maybe uneasy about how the second decimal points shake out core, as well as revisions to prior months. After two not so great CPI prints, we may be back in a world where a 0.25% on core PCE feels like a world of difference from a 0.30%.

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