Economics

THE WEEK AHEAD

November 20 - 24, 2023

Tackle, not touch

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

Touch football, or formally "flag football", has apparently been approved as an Olympic sport. But for those now looking at a sharply decelerating US CPI, it's important to remember that the Fed is playing the tackle version of the game, not touch.

With core inflation looking much softer in the last five monthly increases, financial markets are toying with a new scenario for the US economy in 2024, one which isn't a hard landing, or a soft landing, but no landing at all. In that outcome, inflation melts away on its own accord, the Fed cuts rates substantially next year, and economic growth remains healthy. That would be quite a different outcome than in Canada or Europe, where inflation is coming down, but economic growth has already stalled as a part of that process.

Talk of that "no landing" scenario is being encouraged by the prospect that US inflation could actually reach the 2% target in a hurry. Headline inflation will be helped by the return of softer crude prices after a short-lived spike. Other elements of goods inflation have been tamed by weak global demand and improved supplies.

Services, the last bastion of sharply rising prices, should see a considerable improvement as the CPI's still-elevated but lagging measure of rent moves towards the much slower increases seen in more timely indicators of asking rents. Excluding shelter, the CPI was up only 1.5% in the year to October, with rent and owner's equivalent rent to blame for nearly all of shelter's 6.7% pace. And since lagged inflation rates are an important driver of wages, the pressure on labour-intensive services costs should also ease somewhat.

But the Fed doesn't just need to see inflation touch 2%, it needs to tackle inflation over the medium term. There's the rub. Because absent a slowing in US growth, or an increase in labour market slack, some of the deceleration or declines that we're seeing in goods prices could prove — dare we say the word — transitory.

Some of the softness, as in the case of falling prices for used cars, captures a return to normalized price levels after having been escalated due to supply shortages (in this case for new vehicles). We can't expect that decline to continue indefinitely. Goods prices, including fuels, are also benefiting from economic weakness abroad, but that too will come to an end after 2024 once central banks ease up on the brakes, and China adds some further stimulus to domestic demand.

At least some slowing in US growth still seems necessary to keep the lid on US inflation beyond the first half of next year. Wages might slow a bit on their own, but our modelling still ascribes some of the necessary deceleration in labour costs and household spending power to a moderate further climb in the jobless rate and an additional drop in job vacancies. The Fed has stepped away from further rate hikes not only due to the progress on inflation, but in expectation that current interest rates will produce just that sort of slowing.

Indeed, some of the leading indicators for US economic growth suggest that it might be too late for a "no landing" scenario, because the plane might already be on a glide path to a lower altitude. Interest sensitive demand has stalled. That's apparent in existing home sales, furniture and non-auto durables, retailing, and an outright decline in industrial/commercial bank loans outstanding the past year. Nonfarm payroll gains have eased off a bit, but there's been a more notable downturn in the household survey jobs measure that might be telling us something.

Still, even if we can't get the wonderful world of lower inflation with no slowdown at all, the case for a non-recessionary cure for inflation continues to improve, and that would still enable the Fed to begin cutting interest rates before the end of 2024. Even the 350 pound lineman lets the running back get up after the tackle has been made.

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 20	-	-	-	-	-	-	-
Tuesday, November 21	-	AUCTION: 3-M BILLS $11.6B, 6-M BILLS $4.2B, 1-YR BILLS $4.2B	-	-	-	-	-
Tuesday, November 21	8:30 AM	CPI M/M	(Oct)	(H)	-0.1%	0.2%	-0.1%
Tuesday, November 21	8:30 AM	CPI Y/Y	(Oct)	(H)	3.0%	3.2%	3.8%
Tuesday, November 21	8:30 AM	Consumer Price Index	(Oct)	(M)	-	158.9	158.5
Tuesday, November 21	8:30 AM	CPI Core- Median Y/Y%	(Oct)	(M)	-	3.6%	3.8%
Tuesday, November 21	8:30 AM	CPI Core- Trim Y/Y%	(Oct)	(M)	-	3.6%	3.7%
Tuesday, November 21	-	Federal fiscal mid-year update	-	-	-	-	-
Wednesday, November 22	11:45 AM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Thursday, November 23	-	-	-	-	-	-	-
Friday, November 24	8:30 AM	RETAIL TRADE TOTAL M/M	(Sep)	(H)	0.0%	0.0%	-0.1%
Friday, November 24	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Sep)	(H)	-0.5%	-0.3%	0.1%

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 20	-	AUCTION: 20-YR TREASURIES $16B	-	-	-	-	-
Monday, November 20	10:00 AM	LEADING INDICATORS M/M	(Oct)	(M)	-	-0.6%	-0.7%
Tuesday, November 21	-	AUCTION: 10-YR TIPS $15B	-	-	-	-	-
Tuesday, November 21	-	AUCTION: 2-YR FRN $26B	-	-	-	-	-
Tuesday, November 21	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Oct)	(M)	-	-	0.0
Tuesday, November 21	8:30 AM	PHILADELPHIA FED	(Nov)	(M)	-	-	-20.3
Tuesday, November 21	10:00 AM	EXISTING HOME SALES SAAR	(Oct)	(M)	-	3.9M	4.0M
Tuesday, November 21	10:00 AM	EXISTING HOME SALES M/M	(Oct)	(M)	-	-1.5%	-2.0%
Tuesday, November 21	2:00 PM	FOMC Meeting Minutes	(Nov 1)	-	-	-	-
Wednesday, November 22	7:00 AM	MBA-APPLICATIONS	(Nov 17)	(L)	-	-	2.8%
Wednesday, November 22	8:30 AM	DURABLE GOODS ORDERS M/M	(Oct P)	(H)	-3.0%	3.1%	4.6%
Wednesday, November 22	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Oct P)	(H)	0.3%	0.2%	0.4%
Wednesday, November 22	8:30 AM	INITIAL CLAIMS	(Nov 18)	(M)	-	225K	231K
Wednesday, November 22	8:30 AM	CONTINUING CLAIMS	(Nov 11)	(L)	-	-	1865K
Wednesday, November 22	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Nov)	(H)	-	61.0	60.4
Thursday, November 23	-	-	-	-	-	-	-
Friday, November 24	9:45 AM	S&P GLOBAL US SERVICES PMI	(Nov P)	(L)	-	50.4	50.6
Friday, November 24	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Nov P)	(L)	-	-	50.7
Friday, November 24	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Nov P)	(L)	-	49.6	50.0

Week Ahead's market call

by Avery Shenfeld

In the **US**, Thanksgiving will push most of the action into the first couple of days of the week, and we don't have any of the first tier economic indicators on the calendar. Durable goods orders will likely see a dip due to the volatile transport category, while showing some growth elsewhere. The Fed minutes won't be that revealing to markets that already are convinced that the central bank has moved to the sidelines for now.

In **Canada**, the federal government will release its mid-year fiscal update. Much ink will be spilled by those pouring over the deficit figures, but the reality is that, compared to what we're seeing in the US and elsewhere, Canada's modest federal deficit isn't much of an issue for the bond market these days. If there's a fiscal issue for Canada, it lies in the fact that real GDP per capita has been seriously trailing not only the US but the average pace in among advanced economies for several years running, so the pie isn't growing in a way that leaves room for social programs and other government priorities over the medium term. A policy backdrop that promotes productivity gains, and deals with housing affordability, is more pressing than the decimal places on the deficit. The CPI and retail data should be tame enough to maintain market expectations that the Bank of Canada will stay on hold in December, given the sluggish economy that's now in evidence.

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

(Tuesday, 8:30 am)

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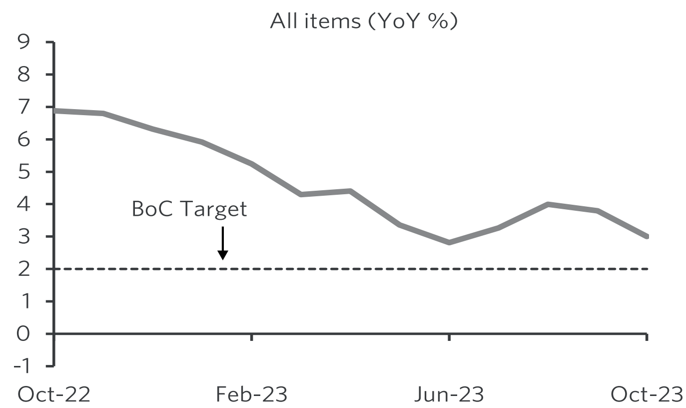
Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	-0.1	0.2	-0.1
CPI (y/y)	3.0	3.2	3.8

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Lower gasoline prices, on both a month-over-month and year-over-year basis, will be the main driver of weaker consumer prices in October. The 0.1% decline in unadjusted prices in October (-0.2% seasonally adjusted) would see the annual rate of inflation slow to 3.0%, which would be the lowest reading since June. Food price inflation should also continue to ease, even though prices are still expected to be up modestly on the month.

In contrast, ex food/energy prices could look a little firmer than in the prior month, with a 0.3% seasonally adjusted increase expected. That said, this increase is still anticipated to be more narrowly based than the inflation we were seeing in the first half of the year, with mortgage interest costs and rental prices the main contributors. The Bank of Canada's preferred trim and median measures of inflation are expected to decelerate further on both a year-over-year and a 3-month annualized basis.

Forecast implications — Inflation should decelerate further in November, but after that is likely to be sticky just above 3% throughout the first quarter of 2024. However, because the drivers of inflation are becoming more narrowly based (mainly mortgage interest costs and rents), the Bank of Canada's preferred CPI-trim and CPI-median should continue to decelerate and even drop below the headline rate which would enable rate cuts to start as early as Q2 next year.

Other Canadian releases: Retail sales—September

(Friday, 8:30 am)

Retail sales were likely flat in September, with a moderate gain in auto sales broadly offsetting some weakness elsewhere. A 0.5% decline excluding autos will partly reflect lower gasoline prices, but also the stall in spending we have seen for non-discretionary purchases as prior interest rate hikes continue to bite. Looking ahead to October, the flash estimate is likely to show a drop in retail sales, albeit mostly driven by lower pump prices during that month.

Week Ahead's key US number: Durable goods orders—October

(Wednesday, 8:30 am)

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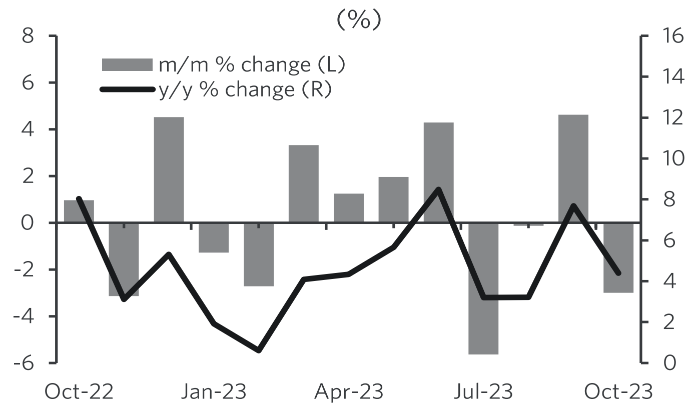
Variable (%)	CIBC	Mkt	Prior
Durable goods orders (m/m)	-3.0	3.1	4.6
Ex. transportation (m/m)	0.3	0.2	0.4

Chart: Durable goods orders



Source: Census Bureau, Haver Analytics, CIBC

Durable goods orders have surged in second half of 2023, largely on the back of the volatile transportation category. A pullback in transportation should cause the headline figure to drop by 3% m/m in October. But in recent months, durable goods excluding transportation has also shown strong momentum. We expect to that to continue with 0.3% growth in next week's advanced release. The strength in consumer demand and some tailwinds from fiscal policy are likely playing a role in that uptick. The Inflation Reduction Act and the CHIPS Act have supported infrastructure investment in manufacturing and that capacity increase could be fueling greater equipment investment.

Forecast implications — Equipment investment contracted at a 3.8% annualized rate in Q3. There should be a pickup in Q4, at least in part because of the momentum in non-transportation categories from the supportive tailwinds of solid consumer demand and fiscal policy. But monetary restraint should offset some of that support, keeping equipment investment growth subdued at a roughly 2% annualized pace.

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