Economics

THE WEEK AHEAD

September 25 - 29, 2023

The least bad

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

Three major economies got fresh news on inflation in the last week and a half, but judging by how two-year yields reacted, the one with the worst news was the most blessed, and the one that looked the least bad is in the most trouble. That alone suggests that market participants need to look beyond their own backyard to gain bit more perspective on where things actually sit in their own country.

In the UK, there was some good cheer at the local pub after the latest inflation numbers showed that CPI (including housing) was only, yes only, 6.3%. Not to worry, because excluding food and energy, it was a tepid 5.9%. Brilliant, as the say across the pond. And good enough for the Bank of England to stand pat, albeit in as close a vote as you can get.

In the US, the last inflation report helped cement the case for the Fed to take a pass on a rate hike this month. Its August CPI printed at 3.7%, but a 0.3% seasonally adjusted climb left the 12 month ex-food/energy pace at 4.3%. God bless American disinflation, right? While the FOMC's "dot plot" outlook for rates in 2024/25 showed fewer cuts, it also decided that enough progress was being seen on the inflation front to project that it would need a lower peak unemployment rate (4.1%, versus 4.5% previously) to reach its inflation target

Now cast your eyes north in Canada, where August's CPI reading was apparently enough to convince many that the Bank of Canada's decision to pause on rates had been too hasty. And where did it stand? At 4.0%, and 3.6% excluding food and energy. Scorching, eh?

So in fact, inflation excluding food and energy, the most commonly cited core measure in the industrialized world, is actually the least bad of these three countries in Canada. True, that's not the Bank of Canada's favourite benchmark. But the Cleveland Fed's trimmed mean for the US CPI is at 4.5%, about a half point above Canada's trimmed mean, one of the BoC's two preferred indicators.

When it comes to overall inflation, the UK CPI doesn't include mortgage interest costs, which as in the case in Canada, will rise as mortgages get renewed. The US inflation rate doesn't include mortgage payments, like the UK, opting to track the costs of renting a house. And it wouldn't really matter if it did, because when rates are rising, Americans can sit on their existing 30-year fixed rate mortgages if they choose not to move.

Canada is not only the least bad in underlying inflation, it's also not the best in recent economic performance, a reason to be patient in delivering any further monetary tightening. The UK picture isn't steller, and it's suffered a larger climb in the jobless rate from its lows than Canada. But certainly, the US has seen much less evidence of a growth slowdown. It's miles ahead of Canada in per capita GDP gains this year, and has seen a smaller bump in its jobless rate.

For markets, being the least bad in underlying inflation, and not the best in recent growth, should mean that the odds of another hike in the Canada, or a more protracted wait fo the first rate cuts, are lower than than they are in the US. That's all the more so since a given level for rates would be much more punitive north of the border as we move into 2025, when Canadians who took on ultra-cheap mortgages at the lows in rates in 2020 face a nastly refinancing hit.

Sure, Canada's inflation numbers, like those elsewhere, are too high to completely rule out a further rate hike, should upcoming employment and CPI data surprise us on the upside. But we shouldn't assume that either a further hike, or the pace of rate cuts, will be glued to whatever proves to be the right approach for the US if Canada's economy continues to look not quite as resilient as its American neighbour.

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, September 25	-	-	-	-	-	-	-
Tuesday, September 26	-	AUCTION: 3-M BILLS $13.4B, 6-M BILLS $4.8B, 1-YR BILLS $4.8B	-	-	-	-	-
Wednesday, September 27	-	AUCTION: 10-YR CANADAS $3.0B	-	-	-	-	-
Thursday, September 28	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Jul)		-	-	47.7K
Friday, September 29	8:30 AM	GDP M/M	(Jul)	(H)	0.0%	-	-0.2%

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, September 25	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Aug)	(M)	-	-	0.1
Monday, September 25	6:00 PM	Speaker: Kashkari (Minneapolis) (Voter)	-	-	-	-	-
Tuesday, September 26	-	AUCTION: 2-YR TREASURIES $48B	-	-	-	-	-
Tuesday, September 26	8:30 AM	PHILADELPHIA FED	(Sep)	(M)	-	-1.0%	-13.1
Tuesday, September 26	9:00 AM	HOUSE PRICE INDEX M/M	(Jul)	(M)	-	-	0.3%
Tuesday, September 26	9:00 AM	S&P CORELOGIC CS Y/Y	(Jul)	(H)	-	-	-1.2%
Tuesday, September 26	10:00 AM	NEW HOME SALES SAAR	(Aug)	(M)	695K	700K	714K
Tuesday, September 26	10:00 AM	NEW HOME SALES M/M	(Aug)	(M)	-2.7%	-2.0%	4.4%
Tuesday, September 26	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Sep)	(H)	105.5	105.9	106.1
Tuesday, September 26	10:00 AM	RICHMOND FED MANUF. INDEX	(Sep)	(M)	-	-	-7
Tuesday, September 26	1:30 PM	Speaker: Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, September 27	-	AUCTION: 5-YR TREASURIES$49B	-	-	-	-	-
Wednesday, September 27	-	AUCTION: 2-YR FRN $24B	-	-	-	-	-
Wednesday, September 27	7:00 AM	MBA-APPLICATIONS	(Sep 22)	(L)	-	-	5.4%
Wednesday, September 27	8:30 AM	DURABLE GOODS ORDERS M/M	(Aug P)	(H)	-0.5%	-0.4%	-5.2%
Wednesday, September 27	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Aug P)	(H)	0.1%	0.1%	0.4%
Thursday, September 28	-	AUCTION: 7-YR TREASURIES $37B	-	-	-	-	-
Thursday, September 28	8:30 AM	INITIAL CLAIMS	(Sep 23)	(M)	-	225K	201K
Thursday, September 28	8:30 AM	CONTINUING CLAIMS	(Sep 16)	(L)	-	1692K	1662K
Thursday, September 28	8:30 AM	GDP (annualized)	(2Q T)	(H)	-	2.3%	2.1%
Thursday, September 28	8:30 AM	GDP DEFLATOR (annualized)	(2Q T)	(H)	-	2.0%	2.0%
Thursday, September 28	10:00 AM	PENDING HOME SALES M/M	(Aug)	(M)	-	-	0.9%
Thursday, September 28	9:00 AM	Speaker: Austan D. Goolsbee, (Chicago) (Voter)	-	-	-	-	-
Thursday, September 28	1:00 PM	Speaker: Cook (Governor) (Voter)	-	-	-	-	-
Thursday, September 28	4:00 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, September 28	7:00 PM	Speaker: Barkin (Richmond) (Non-Voter)	-	-	-	-	-
Friday, September 29	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Aug)	(H)	-89.5B	-	-$90.9B
Friday, September 29	8:30 AM	WHOLESALE INVENTORIES M/M	(Aug P)	(L)	-	-	-0.2%
Friday, September 29	8:30 AM	RETAIL INVENTORIES M/M	(Aug)	(H)	-	-	0.3%
Friday, September 29	8:30 AM	PCE DEFLATOR Y/Y	(Aug)	(H)	3.5%	3.5%	3.3%
Friday, September 29	8:30 AM	PCE DEFLATOR Y/Y (core)	(Aug)	(H)	3.9%	3.9%	4.2%
Friday, September 29	8:30 AM	PERSONAL INCOME M/M	(Aug)	(H)	0.4%	0.5%	0.2%
Friday, September 29	8:30 AM	PERSONAL SPENDING M/M	(Aug)	(H)	0.5%	0.4%	0.8%
Friday, September 29	9:45 AM	CHICAGO PMI	(Sep)	(M)	-	47.6	48.7
Friday, September 29	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Sep)	(H)	-	67.7	67.7
Friday, September 29	12:45 PM	Speaker: Williams (Vice Chair, New York) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, higher gasoline prices will likely be enough to nudge consumer confidence readings lower, but actions speak louder than words, making the income and consumption report for August of greater importance. August's spending should be close to flat in real terms, but after big prior gains, Q3 still looks to be tracking towards a strong pace for real consumption. We're looking for a deceleration in incomes, tied to cooling job and wage gains, as the key to ending that resilience in upcoming quarters. Other reports on home sales and durable orders this week should lean on the soft side. The widely divided views in the latest Fed dot plot rate forecasts could show up in what we hear from FOMC speeches this coming week.

In **Canada**, the third quarter likely won't see much of a bounce back from the negative reading in Q2, with July GDP likely flat, and the advance figure for August expected to register only a 0.2% gain. All of that will be clouded by the economic smoke from forest fires and a port strike, and we do expect somewhat better figures for Q4 as a result. Still, the consumer led momentum we saw back in Q1 now looks like a blip in an otherwise tepid growth trend, one that we expect will be reflected in increased labour market slack as employers adjust their headcounts.

Week Ahead's key Canadian number: GDP by industry—July

(Friday, 8:30am)

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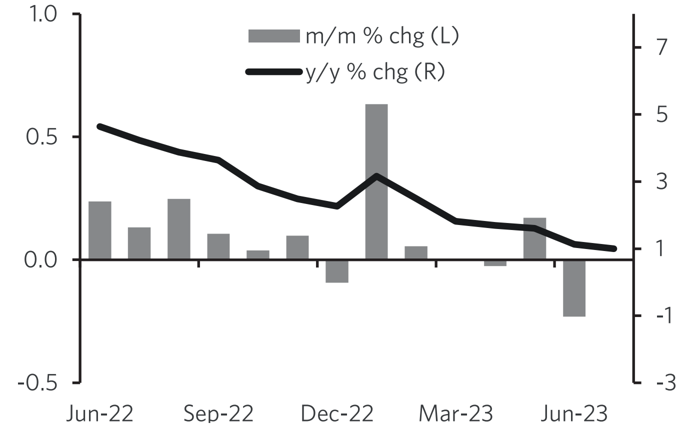
Variable	CIBC	Mkt	Prior
GDP (m/m%)	0.0	-	-0.2

Chart: Canada real GDP



Source: Statistics Canada, Haver Analytics, CIBC

The third quarter appears to have got off to a slow start, albeit with the BC port strike early in the month and continued disruptions from wildfires across the country weighing on the overall level of activity. We expect that the flat GDP reading from the advance estimate will be maintained, as an upward revision to the early estimate of manufacturing output should be broadly offset by the downward adjustment made to wholesaling. For August's advance estimate, we look for a 0.2% increase in GDP, tied to an expected rebound from the port strike, combined with a solid employment gain. Those factors will likely offset the negative advance estimate obtained for retail sales in August.

Forecast Implications— The rebound we expect in monthly GDP during August and September, as the negative impacts from the port strike and wildfires eases, should bring a positive print for Q3 as a whole despite the sluggish start. However, through some of the volatility in GDP caused by these supply disruptions, we also expect to see further evidence that domestic demand is buckling under the pressure of higher interest rates, with resale volumes in the housing market easing again and consumer spending on services cooling.

Week Ahead's key US number: Personal income and outlays—August

(Friday, 8:30am)

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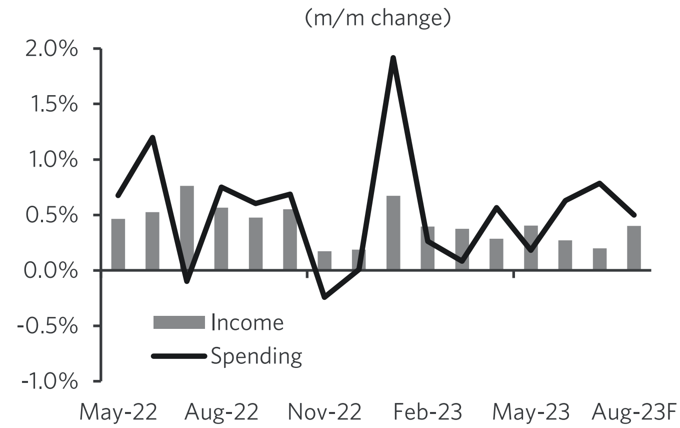
Variable	CIBC	Mkt	Prior
Consumption (m/m%)	0.5	0.4	0.8
Income (m/m%)	0.4	0.5	0.2
PCE deflator (y/y%)	3.5	3.5	3.3
Core PCE deflator (y/y%)	3.9	3.9	4.2

Chart: Personal income and outlays



Source: BEA, Haver Analytics, CIBC

Given Powell's uneasiness about momentum in consumer spending, the personal spending and income report stands out as the key piece of data to watch this week. The biggest unknown is whether the recent uptick in service spending will be sustained. The retail and car sales data suggest spending on goods should modestly contract in the month. We expect growth in service spending to edge down compared to July, due to slower real income growth, and fading consumer confidence. Overall, consumer spending should be flat in volume terms in the month.

Forecast implications– Although real consumption growth should be around zero in August, the strong momentum from June and July still imply annualized consumption growth in Q3 is tracking a little under 4%. That suggests some upside risk to our 2.5% Q3 GDP forecast even assuming less inventory accumulation. The recent weakening in the labour market should continue to push personal income readings down.

Market implications– Our views are not far away from consensus this week. A strong upside surprise on service consumption will increase bets for the Fed to hike once more this year. Anything short of that will keep markets skeptical about additional tightening.

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