

Economics

THE WEEK AHEAD

November 21-25, 2022

Look over here, not over there

by Avery Shenfeld avery.shenfeld@cibc.com

US financial market participants had a lot of economic news to catch their attention these past couple of weeks, and from our perspective, investors made some odd choices on where to focus their eyes. We count ourselves among the optimists in terms of our expectations for inflation to be vanquished in the next couple of years. But even with that stance, we were perplexed by the degree to which the market reacted to the last US CPI report, and failed to be moved by the retail data.

As we wrote when the CPI data came out, everyone wanted to see the type of deceleration we saw in core prices, and we expect that softer GDP and employment in 2023 will give us just that. But in October, the big driver of the downside surprise in core inflation was exactly where it's least helpful as a signpost for what's to come. Much of it was rooted in a big drop in the medical care component, an element in which prices are measured in a very roundabout fashion (don't even ask!), and a part of the consumer basket where prices least reflect the balance between overall supply and demand.

Yes, it was great to see used car prices also weakening. But most other cyclical goods and services were still running much too hot in October. We need to see higher interest rates work their way into softer consumer demand to cool those fires on a sustained basis.

On that score, the US retail sales figures for October should have caught more attention. While we knew a big gain at auto dealers was coming, the "control" group of core items also surprised to the upside, including a positive revision to September.

Although there was some inflation feeding into the dollar values, the bump in retailer revenues should still translate into a healthy advance in real consumption for October. We therefore had to raise our Q4 GDP forecast to make room for

that, given that consumer spending represents the largest slice of demand in the economy overall. In real terms, control group sales are running at 7½% above their pre-COVID trend line, an overheated pace that is helping to sustain high goods prices.

True, October doesn't tell the real story for Q4 consumption, which leans heavily on how strong holiday shopping ends up being for November and December. Still, the brisk readings for the first month of the quarter suggested that the dive we've seen in some confidence measures might be overstating the gloom for what's coming.

For their part, major retailers have been expressing quite varying views on what lies ahead after Thanksgiving, and the signals are indeed mixed. Employment rates are very high, but households have suffered from declining real incomes as inflation has outstripped wage gains. Credit card balances have risen, perhaps a sign that wallets aren't quite as full after buying higher priced necessities. But many Americans, those not rolling over credit card balances, still have a stock of savings left over from the pandemic spending lull, and household debt service costs are historically tame as a share of income.

By the end of this past week, Fed speakers were working to correct the impression that the markets seemed to have formed by putting so much more emphasis on the core CPI than on the retail data. Their hawkish comments have shorter-term yields moving higher again, and better braced for the Fed to talk and act tough in December. We're still of the view that a 5% ceiling on the fed funds rate should prove to be enough of a braking force to dial down inflation in 2023. But in contrast to the market's narrow gaze these past two weeks, we'll keep our eyes as focused over here, on indicators of consumer demand, as well as over there, on what the CPI is telling us from month to month.

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 21	-	-	-	-	-	-	-
Tuesday, November 22	-	AUCTION: 3-M BILLS \$9.2B, 6-M BILLS \$,3.4B 1-YR BILLS \$3.4B	-	-	-	-	-
Tuesday, November 22	8:30 AM	RETAIL TRADE TOTAL M/M	(Sep)	(H)	-0.5%	-	0.7%
Tuesday, November 22	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Sep)	(H)	-0.2%	-	0.7%
Wednesday, November 23	-	AUCTION: 30-YR CANADAS \$1.5B	-	-	-	-	-
Thursday, November 24	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	-	-	-	-	-
Friday, November 25	-	-	-	-	-	-	-

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 21	-	AUCTION: 2-YR TREASURIES \$42B	-	-	-	-	-
Monday, November 21	-	AUCTION: 5-YR TREASURIES \$43B	-	-	-	-	-
Monday, November 21	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Oct)	(M)	-	-	0.1
Tuesday, November 22	-	AUCTION: 7-YR TREASURIES \$35B	-	-	-	-	-
Tuesday, November 22	-	AUCTION: 2-YR FRN \$22B	-	-	-	-	-
Tuesday, November 22	10:00 AM	RICHMOND FED MANUF. INDEX	(Nov)	(M)	-	-0.6	-10.0
Tuesday, November 22	11:00 AM	Speaker: Loretta Mester (Cleveland) (Voter)	-	-	-	-	-
Tuesday, November 22	2:15 PM	Speaker: Esther George (Kansas City) (Voter)	-	-	-	-	-
Tuesday, November 22	2:45 PM	Speaker: James Bullard (St Louis) (Voter)	-	-	-	-	-
Wednesday, November 23	7:00 AM	MBA-APPLICATIONS	(Nov 18)	(L)	-	-	-
Wednesday, November 23	8:30 AM	INITIAL CLAIMS	(Nov 19)	(M)	-	-	222K
Wednesday, November 23	8:30 AM	CONTINUING CLAIMS	(Nov 12)	(L)	-	-	1507K
Wednesday, November 23	8:30 AM	DURABLE GOODS ORDERS M/M	(Oct P)	(H)	0.3%	0.4%	0.4%
Wednesday, November 23	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Oct P)	(H)	-0.3%	0.1%	-0.5%
Wednesday, November 23	9:45 AM	S&P GLOBAL US SERVICES PMI	(Nov P)	(L)	-	48.0	47.8
Wednesday, November 23	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Nov P)	(L)	-	-	48.2
Wednesday, November 23	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Nov P)	(L)	-	50.0	50.4
Wednesday, November 23	10:00 AM	NEW HOME SALES SAAR	(Oct)	(M)	565K	576K	603K
Wednesday, November 23	10:00 AM	NEW HOME SALES M/M	(Oct)	(M)	-6.3%	-4.6%	-10.9%
Wednesday, November 23	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Nov F)	(H)	-	55.5	54.7
Wednesday, November 23	2:00 PM	FOMC Meeting Minutes	(Nov 2)	-	-	-	-
Thursday, November 24	-	Markets Closed (Thanksgiving Day)	-	-	-	-	-
Friday, November 25	-	NYSE Early Close	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, the talk will be about turkey and football, with a very thin economics calendar over the Thanksgiving week. Durable goods orders could look light aside from a gain for autos. New home sales could tilt to the downside. The Fed minutes will come out Wednesday afternoon, when many will be headed to airports or on the road to get an early start to the holiday, and in any event, they'll be predictably hawkish given what we heard from Powell right after the meeting.

In **Canada**, retail sales are likely to bump down in September but show a rebound in the advance reading for October, giving not much direction in terms of views on the consumer sector. As in the US, the story for retailers in Q4 will really be told in Nov/Dec holiday shopping, which could get some competition for household dollars from a further recovery in winter travel plans and other services. Markets tend to ignore the release of the payrolls data, which in Canada lag well behind household survey (LFS) employment measures, and with their release coming while the US is off for Thanksgiving, that's not going to change this month. But they include a better measure for wage trends than the one in the LFS.

Week Ahead's key Canadian number: Retail sales—September

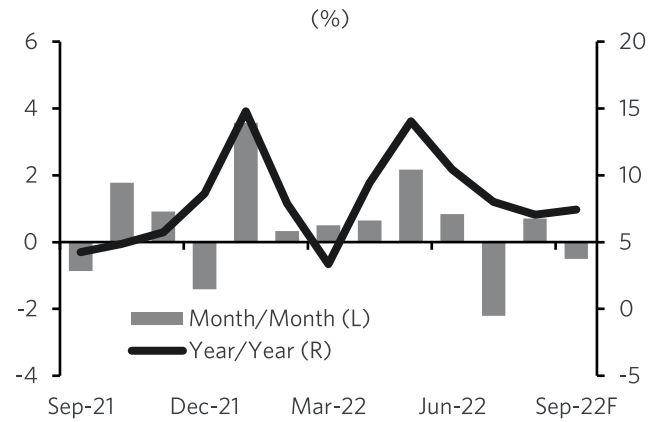
(Tuesday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Retail sales	-0.5%	-	0.7%
Ex-autos	-0.2%	-	0.7%

Retail sales appear to have taken a step back in nominal terms during September, although with lower pump prices playing a role in that move sales likely held up better in volume terms. Auto sales may have been a negative in September as well, but hopefully should see a bounce back soon given some encouraging signs from US retail sales and CPI prints which suggest that supply constraints could be easing. The flash estimate for October should signal an increase in retail sales of around 1%, with higher pump prices and potentially car sales driving that move.

Chart: Canadian retail sales



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Looking through the usual monthly volatility, retail sales volumes have been broadly flat over the past year as consumer spending growth has been focused on services rather than goods. The encouraging news for retailers is that we haven't yet seen much evidence that high inflation and interest rate hikes are leading to an outright retreat in spending on goods. That could be a 2023 story.

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

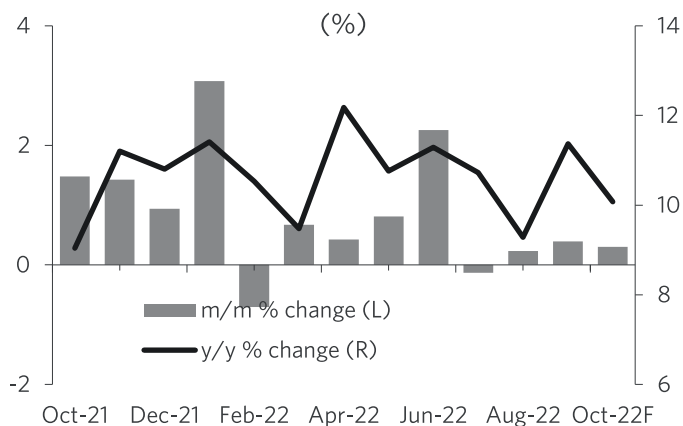
(Wednesday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Durable goods orders (m/m)	0.3%	0.4%	0.4%
Ex-transportation (m/m)	-0.3%	0.1%	-0.5%

Orders of durable goods remain near pandemic peaks in the US, but have shown signs of plateauing in recent months, in line with the slowdown in growth that's underway in goods-producing sectors outside of autos. Orders of durable goods could have advanced by a modest 0.3% in October, supported by orders of motor vehicles, as supply chain issues in that sector continue to fade, and pent-up demand is realized. Excluding transportation, however, orders could have declined by 0.3%, reflecting weakness in the core capital goods group (ex. transportation and defense), as capacity utilization in the industrial sector has flatlined lately and is likely to ease ahead as demand cools further.

Chart: US Durable goods orders



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — Orders in the core capital goods group are a leading indicator of business investment in equipment, and are likely to signal softness in that component in early 2023. In the current quarter, however, business investment in equipment is still being bolstered by the fulfillment of past orders of equipment as supply chain issues ease, with a sizeable backlog of orders now being shipped.

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