

Economics

THE WEEK AHEAD

December 5-9, 2022

Coke or Pepsi

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The Bank of Canada has some choices to make in the coming week, but the most likely options on its menu are about as different as Coke and Pepsi in terms of what they would mean for the economy. So unless you're sure about the kind of cola that Governor Macklem prefers, you can't be that confident about the outcome of the December rate setting decision.

For the overnight rate, the choice comes down to a half point hike, or dialing down to only a quarter point move. The closing statement can choose among three messages about what lies ahead: retaining the phrase that rates "will need to rise further"; amending that to something like "may need to rise further" to open the door to a pause; or stating that interest rates may be at an appropriate level to indicate that a pause is now quite likely. Two rate possibilities, times three options for guidance, leaves six combo platters on the central bankers' menu.

The most aggressive, a 50 bp hike and a promise of more to come, seems implausible, since the central bank can't be that sure that a rate higher than 4.25% will prove necessary. Surely that's now dependent on upcoming data. We are only just getting into the period in which the data will capture the squeeze on those hitting trigger rates on variable mortgages, and fixed rate mortgage renewals at higher rates will be an unfolding story right through the coming year. Third quarter growth topped expectations, but final domestic demand was a significant disappointment, and slim gains for September and October monthly GDP are in line with our expectations for very limited growth in Q4.

The most dovish option, a 25 bp move and a declaration that rates are now appropriate, also seems unlikely. If the Bank was now quite sure that 4% was the ceiling, it wouldn't have been that sure that a further hike was coming when it lifted

the target to 3.75% only weeks ago. Even if 4% ends up being the peak, it would make more sense to leave the door ajar for a further hike until the Bank has its next MPR forecast, since we are still at a near-record-low jobless rate with evident pressure on wages.

That leaves four reasonably plausible options on the table. Our call has been for a 50-basis point hike, but at least adding the same conditionality (i.e. the word "may") to a mention of further hikes. That would be followed by a decision to leave rates on hold at the first meeting in 2023 should Q4 growth signals look sufficiently soft. A day when you're hiking a full 50 basis points, which requires a stern message about inflation to justify that move, might not be the best day to formally announce a pause.

But for the economy, a 50 bp move and a pause at the next meeting wouldn't be materially different than hiking a quarter point now, stating that a further hike was either coming or a possibility, and then following up with a final quarter point hike early in 2023. The difference would amount to less than two months' of waiting before getting the overnight rate to the same level. About as different as Coke and Pepsi.

For traders putting on short-term positions, however, the difference would be material, a reason why we wouldn't put big bets on which cola Macklem reaches for. Of late, we've seen some significant market reactions to what sounded like trivial differences in the words chosen by central bankers. Just this past week, the market found some reason to react to a speech by Powell that was really a retread of things he'd already said. With BoC Deputy Governor Kozicki scheduled to speak on Thursday we could see the market tilt one way on the announcement, only to be jarred back the other way if her remarks attempt to correct its interpretation.

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, December 5	8:30 AM	BUILDING PERMITS M/M	(Oct)	(M)	-	-	-17.5%
Tuesday, December 6	-	AUCTION: 3-M BILLS \$9.2B, 6-M BILLS \$3.4B, 1-YR BILLS \$3.4B	-	-	-	-	-
Tuesday, December 6	8:30 AM	MERCHANDISE TRADE BALANCE	(Oct)	(H)	\$0.2B	\$0.89B	\$1.14B
Wednesday, December 7	10:00 AM	BANK OF CANADA RATE ANNOUNCE.	(Dec 7)	(H)	4.25%	4.00%	3.75%
Thursday, December 8	10:00 AM	IVEY PMI	(Nov)	(L)	-	-	50.1
Thursday, December 8	12:45 PM	Speaker: Sharon Kozicki (Deputy Gov.)	-	-	-	-	-
Friday, December 9	8:30 AM	CAPACITY UTILIZATION	(Q3)	(L)	-	-	83.8%

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, December 5	10:00 AM	FACTORY ORDERS M/M	(Oct)	(M)	0.8%	0.7%	0.3%
Monday, December 5	10:00 AM	ISM - SERVICES	(Nov)	(M)	53.0	53.5	54.4
Tuesday, December 6	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Oct)	(H)	-\$80.1B	-\$77.0B	-\$73.3B
Wednesday, December 7	7:00 AM	MBA-APPLICATIONS	(Dec 2)	(L)	-	-	-0.8%
Wednesday, December 7	8:30 AM	NON-FARM PRODUCTIVITY	(3Q F)	(M)	-	0.3%	0.3%
Wednesday, December 7	3:00 PM	CONSUMER CREDIT	(Oct)	(L)	-	\$26.5B	\$24.9B
Thursday, December 8	8:30 AM	INITIAL CLAIMS	(Dec 3)	(M)	-	-	225K
Thursday, December 8	8:30 AM	CONTINUING CLAIMS	(Nov 26)	(L)	-	-	1608K
Friday, December 9	8:30 AM	PPI M/M	(Nov)	(M)	0.2%	0.2%	0.2%
Friday, December 9	8:30 AM	PPI M/M (core)	(Nov)	(M)	0.2%	0.2%	0.0%
Friday, December 9	8:30 AM	PPI Y/Y	(Nov)	(M)	-	7.1%	8.0%
Friday, December 9	8:30 AM	PPI Y/Y (core)	(Nov)	(M)	-	-	5.4%
Friday, December 9	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Dec P)	(H)	-	56.8	56.8

Week Ahead's market call

by Avery Shenfeld

In the **US**, there's a light data calendar ahead, as the big news will be later in the month when the next CPI report is due. For the coming week, an easing in the ISM services index should still leave it in growth territory, as that side of the economy appears to still have more momentum than what we're seeing in the goods sector. Consumer confidence will be buffeted in two directions, helped by an easing in gasoline prices, but negatively impacted by all the talk about recession risks in a rising interest rate environment.

In **Canada**, the Bank of Canada's rate decision tops the agenda for the week, and we've stuck with our call for a 50 basis point move, but the language of the statement no longer guaranteeing further hikes ahead. The trade figures should come in close to a balance, driven by a downward revision to the prior months figures to bring them into line with the more recently released quarterly data.

Week Ahead's key Canadian number: Merchandise trade balance—October

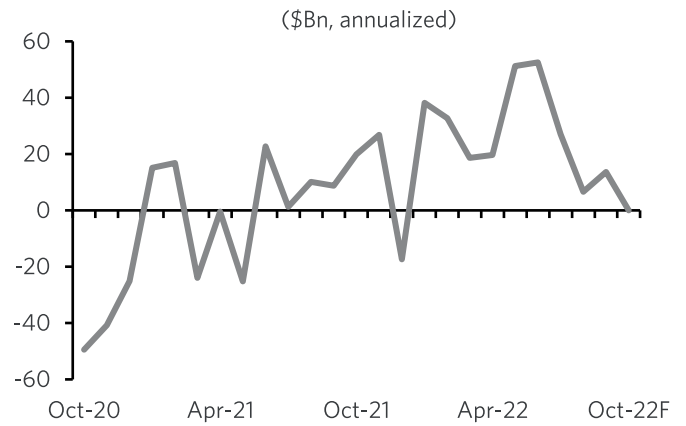
(Tuesday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Merchandise trade balance (Oct)	\$0.2B	\$0.89B	\$1.14B

Global commodity prices moved lower again in October, although a depreciation of the local currency and volume gains should have acted as an offset for the overall trade balance. As such, we expect little change in the trade balance on a month-to-month basis. The complicating factor is how prior data may be revised, with the goods surplus for Q3 as a whole released in the current accounts data suggesting a lower starting point as we entered the fourth quarter. Because of that expected downward revision, we forecast a very modest \$0.2bn goods trade surplus in October.

Chart: Canadian merchandise trade balance



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — The trade surplus is slimming due to falling global commodity prices. However, with demand for Canadian resources still strong and some supply chain issues starting to resolve, exports should continue to advance in volume terms and act as a support to broader economic growth.

There are no major US data releases next week.

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