

Economics

THE WEEK AHEAD

February 13-17, 2023

A reprieve or a stay of execution?

by Avery Shenfeld avery.shenfeld@cibc.com

Huge January job gains in both the US and Canada, coupled with a solid bounce in the US ISM services report, made it readily apparent that North America was not in a recession as 2023 got under way. Our own call for a negative real GDP growth rate in Q1 on both sides of the border now looks too pessimistic.

But investors were left with a nagging question. Was this a full reprieve from the threat of a recession? Or, was this just a stay of execution, because central bankers are far from dropping the idea that a higher unemployment rate will be needed to get inflation sustainably to their 2% target. We had expected a dip in Q1 GDP to put the Fed on hold after one more 25 bp hike, but a positive Q1 pace which tilted the odds towards yet another bump up in May.

Where are we then on recession odds? Some are keeping a close eye on financial market conditions for a clue, with the focus on the deepening US Treasuries yield curve inversion. When long rates fall below short term yields, that has historically been a fairly good guide to recession risks ahead, better, it's often noted, than the track record of my own economics profession. The only recession it failed to clearly signal was the 2020 COVID shock, which came on too suddenly, and from a non-economic source.

Our CIBC recession probability model takes a somewhat broader view than others, on the grounds that investors express their recession fears in more than one indicator. An inverted curve predicts recessions because it implies investors think tough times will compel an easing in monetary policy and lower short rates. The spread between 2-year bonds and 3-month bills should capture such expectations well, because that's the timeframe over which monetary policy would likely ease off if we had a recession in the next year or so. The slope beyond two years can capture other factors, including expectations for lower inflation that might not be related to recession odds.

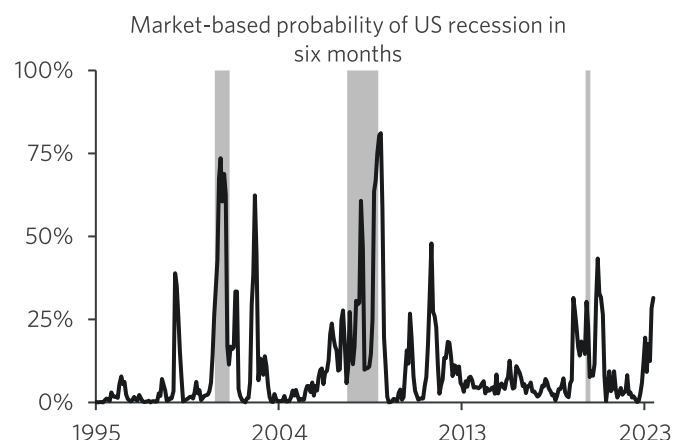
But we've found that two other market indicators add to the predictive power of the yield curve slope: corporate bond

spreads, which widen ahead of a recession on credit risk concerns, and the performance of the equity market, which weakens as a recession approaches on earnings fears.

As of this week, that model was consistent with a 31% probability of being in a US recession six months hence (Chart). That's a new high for this expansion, suggesting that we're clearly not out of the woods. And a US recession in most cases is sufficient to generate a Canadian downturn.

Even so, we can look back at other occasions, in 1999 and 2012, where we reached this level without progressing to an actual recession. So at this point, we'll stick with our view that 2023 will at some point see at least two quarters where growth averages near zero, and enough of a stall that some labour market slack shows up in higher unemployment and lower job vacancies. But there's still a fighting chance that we'll skirt a full blown recession, as both price and wage data are suggesting we won't need one to get inflation under wraps.

Chart: Recession odds rise but not yet decisive



Source: CIBC

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, February 13	-	-	-	-	-	-	-
Tuesday, February 14	-	AUCTION: 3-M BILLS \$10.4B, 6-M BILLS \$3.8B, 1-YR BILLS \$3.8B	-	-	-	-	-
Wednesday, February 15	-	AUCTION: 3-YR CANADAS \$2B	-	-	-	-	-
Wednesday, February 15	8:15 AM	HOUSING STARTS SAAR	(Jan)	(M)	235K	-	248.6K
Wednesday, February 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Dec)	(M)	-1.8%	-	0.0%
Wednesday, February 15	8:30 AM	WHOLESALE TRADE M/M	(Dec)	(M)	-1.8%	-	0.5%
Wednesday, February 15	9:00 AM	EXISTING HOME SALES M/M	(Jan)	(M)	-	-	1.3%
Thursday, February 16	6:10 PM	Speaker: Paul Beaudry (Deputy Gov.)	-	-	-	-	-
Friday, February 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Dec)	(M)	-	-	\$12.76B
Friday, February 17	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Jan)	(M)	-	-	-1.1%
Friday, February 17	8:30 AM	RAW MATERIALS M/M	(Jan)	(M)	-	-	-3.1%

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, February 13	8:00 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Tuesday, February 14	8:30 AM	CPI M/M	(Jan)	(H)	0.5%	0.5%	0.1%
Tuesday, February 14	8:30 AM	CPI M/M (core)	(Jan)	(H)	0.3%	0.4%	0.4%
Tuesday, February 14	8:30 AM	CPI Y/Y	(Jan)	(H)	6.3%	6.2%	6.5%
Tuesday, February 14	8:30 AM	CPI Y/Y (core)	(Jan)	(H)	5.5%	5.5%	5.7%
Tuesday, February 14	11:00 AM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Tuesday, February 14	11:30 AM	Speaker: Patrick Harker (Philadelphia) (Voter)	-	-	-	-	-
Tuesday, February 14	2:05 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Wednesday, February 15	-	20-YR AUCTION: \$15B	-	-	-	-	-
Wednesday, February 15	7:00 AM	MBA-APPLICATIONS	(Feb 10)	(L)	-	-	7.4%
Wednesday, February 15	8:30 AM	RETAIL SALES M/M	(Jan)	(H)	1.6%	1.7%	-1.1%
Wednesday, February 15	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Jan)	(H)	0.7%	0.8%	-1.1%
Wednesday, February 15	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Jan)	(H)	0.5%	0.7%	-0.7%
Wednesday, February 15	8:30 AM	NEW YORK FED (EMPIRE)	(Feb)	(M)	-	-20.0	-32.9
Wednesday, February 15	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Jan)	(H)	0.4%	0.5%	-0.7%
Wednesday, February 15	9:15 AM	CAPACITY UTILIZATION	(Jan)	(M)	79.2%	79.1%	78.8%
Wednesday, February 15	10:00 AM	BUSINESS INVENTORIES M/M	(Dec)	(L)	-	0.3%	0.4%
Wednesday, February 15	10:00 AM	NAHB HOUSING INDEX	(Feb)	(L)	-	37	35
Wednesday, February 15	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Dec)	(L)	-	-	\$171.5B
Thursday, February 16	-	AUCTION: 30-YR TIPS \$9B	-	-	-	-	-
Thursday, February 16	8:30 AM	INITIAL CLAIMS	(Feb 11)	(M)	-	-	196K
Thursday, February 16	8:30 AM	CONTINUING CLAIMS	(Feb 4)	(L)	-	-	1688K
Thursday, February 16	8:30 AM	HOUSING STARTS SAAR	(Jan)	(M)	1335K	1355K	1382K
Thursday, February 16	8:30 AM	BUILDING PERMITS SAAR	(Jan)	(H)	1355K	1350K	1337K
Thursday, February 16	8:30 AM	PHILADELPHIA FED	(Feb)	(M)	-	-7.4	-8.9
Thursday, February 16	8:30 AM	PPI M/M	(Jan)	(M)	0.4%	0.4%	-0.5%
Thursday, February 16	8:30 AM	PPI M/M (core)	(Jan)	(M)	0.3%	0.3%	0.1%
Thursday, February 16	8:30 AM	PPI Y/Y	(Jan)	(M)	-	5.4%	6.2%
Thursday, February 16	8:30 AM	PPI Y/Y (core)	(Jan)	(M)	-	4.9%	5.5%
Thursday, February 16	8:45 AM	Speaker: Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-
Thursday, February 16	1:30 PM	Speaker: James Bullard (St Louis)	-	-	-	-	-
Thursday, February 16	4:00 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Thursday, February 16	6:15 PM	Speaker: Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-
Friday, February 17	8:30 AM	IMPORT PRICE INDEX M/M	(Jan)	(L)	-	-0.1%	0.4%
Friday, February 17	8:30 AM	EXPORT PRICE INDEX M/M	(Jan)	(L)	-	-0.2%	-2.6%
Friday, February 17	10:00 AM	LEADING INDICATORS M/M	(Jan)	(M)	-	-0.3%	-0.8%
Friday, February 17	8:30 AM	Speaker: Thomas I. Barkin (Richmond) (Non-Voter)	-	-	-	-	-
Friday, February 17	8:45 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, markets are hungry for signs that inflation is continuing to decelerate, particularly after revisions to seasonal adjustments bumped up the three month trend. Still, a monthly core reading of 0.3% is still not quite what the Fed is looking for, so we wouldn't look for any real relief in the more hawkish outcome that the bond market has priced-in over recent days. We're looking for a somewhat softer rebound in control group retail sales and industrial production than the consensus, as economic growth in Q1 will be more tilted to services.

In **Canada**, softer data from various indicators on manufacturing and housing won't do much to counter the message sent from a red-hot employment report for January. We have one speaker on tap for the Bank of Canada, and we wouldn't expect to see any quick deviation from the message that the central bank wants to stand aside for a while to observe the lagged impacts of its rate hikes to date.

There are no major Canadian data releases next week.

Week Ahead's key US number: Consumer price index—January

(Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Headline CPI m/m	0.5	0.5	0.1
Headline CPI (y/y)	6.3	6.2	6.5
Core CPI m/m	0.3	0.4	0.4
Core CPI y/y	5.5	5.5	5.7

The BLS revisions of seasonal factors for the CPI revealed a more worrisome picture than previously reported, as the three-month annualized pace of core CPI inflation (ex. food and energy) was shown to be 4.3% at the end of 2022, materially higher than the 3.1% annualized pace that was previously reported. There's still scope for a deceleration in the core component in January to a 0.3% monthly pace, however, as wage growth decelerated, and shelter prices are set to decelerate imminently, in line with the typical lags associated with new leases that are resetting at lower rates. That could provide an offset to any slowdown in the pace of disinflation in goods prices, as industry measures of used car prices climbed in January.

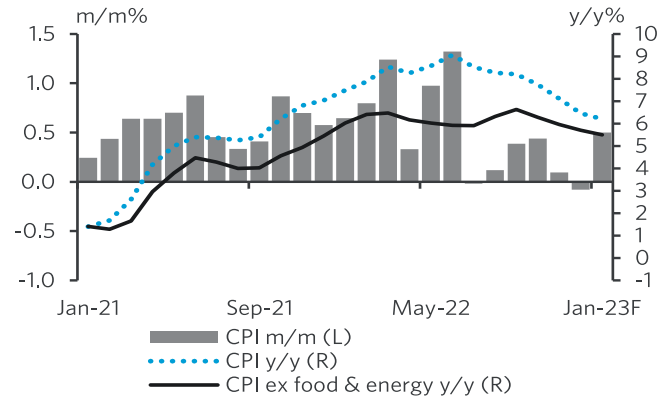
When adding gasoline and food prices back into the mix, total prices likely increased by a stronger 0.5% on the month. Consumers likely won't see much relief from gasoline prices ahead, as oil prices will have a floor under them due to OPEC+ production curtailments, the restocking of the SPR, and China's re-opening, while extreme weather conditions continue to boost food prices.

Other US Releases: Retail sales—January

(Wednesday, 8:30 am)

Retail sales likely bounced back in January, as gas prices climbed and unit auto sales surged, which likely added to an increase in restaurant spending as the weather improved in many areas. Total retail sales likely rose by a robust 1.6%. Sales could have looked less impressive but still healthy elsewhere, with the control group (ex. gasoline, autos, restaurants, and building materials) likely posting a 0.5% increase. That would represent an only partial rebound from December's decline, as spending on discretionary goods could have been squeezed by higher gasoline prices and spending on services.

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

With this release, the BLS will also update the spending weights of items in the CPI basket. The new weights will reflect consumer spending survey data collected in 2021.

Forecast implications — The updated seasonal factors showed a less comforting picture of prices, and combined with continued pressure in core service categories outside of the shelter component, it's looking more likely that the Fed will conduct two further 25bp hikes, and reinforce the higher for longer narrative.

Market impact — We're below the consensus on core CPI, which could slightly weigh on bond yields and the USD.

Industrial production—January

(Wednesday, 9:15 am)

A jump in hours worked in manufacturing amidst continued supply chain improvement suggests that total industrial production could have started the year with healthy 0.4% gain. While hours worked in mining increased, oil rig counts dropped off, and utilities production likely declined on an improvement in temperatures. Any strength in manufacturing is unlikely to be sustained outside of the transportation sector, as measures of new orders have deteriorated lately.

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