

Economics

# THE WEEK AHEAD

April 17 - 21, 2023

## Pay watch

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

You can't blame workers for inflation. For one, statistical evidence suggests that changes in price inflation lead changes in wage inflation more than the reverse is true. But rising wages are still a necessary condition for sustained inflation due to their role in business costs, particularly in services, and in supporting purchasing power for consumers.

That's why central bankers and investors are keeping a close eye on pay rates these days. So it's worth clearing up some confusion we sense among market participants, and some economists, about which type of wage measure they need to be tracking. The right answer is: all of them.

In the US, some argue that the deceleration seen in average hourly earnings gains in recent months doesn't count as good news on inflation, as it's been helped by a change in the mix of jobs towards industries with lower pay scales. An Atlanta Fed fixed weight measure that tracks what individual workers are getting still shows a median increase of 6½% (Chart).

But both weighted and unweighted pay rates bear watching. What employers are paying for a constant type of job feeds into business costs, and what economists call cost-push inflation. But if we're getting a hiring in low wage sectors like hospitality, but losing jobs in high wage sectors like technology, that will slow the growth in labour income, and cool what economists call demand-push inflation. A fast-food worker won't be in a position to push up the price of steak to the same extent as a highly paid software engineer.

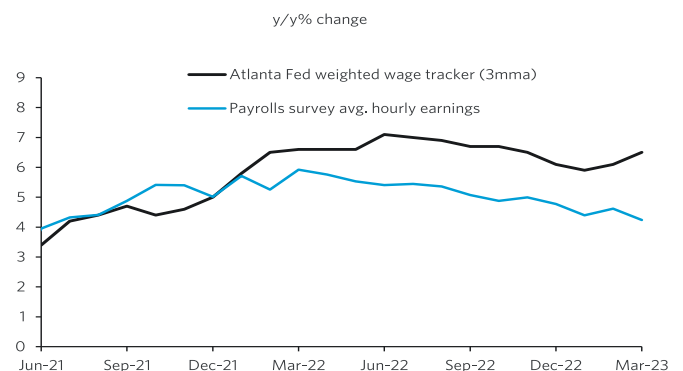
In Canada, we have to use all of the available measures for another reason: none of them are very good. The monthly Labour Force Survey is the timeliest source for employment data, but market participants give undue attention to its wage data. Undue because there's little reason to believe that it's particularly accurate. The sample of households changes each month and isn't that large, respondents are asked on the phone for information on how many hours each member of their household worked in their latest pay period and what they

earned, and noise in each of those answers will create noise in calculating pay per hour. The Bank of Canada puts little weight on the LFS wage figures for that reason.

The payrolls (SEPH) wage data are generally considered more accurate, and they include a fixed weight measure. But they lag a couple of months behind, and still seem to be subject to implausible swings that suggest mismeasurement. January data showed a huge dive in even the year-on-year fixed weight average wages, down to only 2.5% from 4.1% in December. Other measures, from the national accounts and productivity reports, might be better, but are only out quarterly, so we don't have any sense of what's happened yet in Q1.

Most likely, wages are still running too hot for the Bank of Canada's tastes. Its business survey suggested that employers see a moderation in wages ahead, but that's not giving the central bank much comfort, as we have a bit of a circular argument here. Employers expect the Bank to do what it takes to cool both growth and inflation, and therefore are anticipating an easing in wage pressures. That still leaves Governor Macklem wondering whether, in fact, interest rates are high enough to do that. He'll have to rely more on employment and GDP data to answer that question, given the noise and lags in Canada's wage indicators.

Chart: Divergent US wage measures



Source: Atlanta Fed, BLS, 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, April 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Feb)	(M)	-	-	\$4.21B
Monday, April 17	8:30 AM	WHOLESALE TRADE M/M	(Feb)	(M)	-	-	2.4%
Tuesday, April 18	8:30 AM	CPI M/M	(Mar)	(H)	0.5%	-	0.4%
Tuesday, April 18	8:30 AM	CPI Y/Y	(Mar)	(H)	4.3%	-	5.2%
Tuesday, April 18	8:30 AM	Consumer Price Index	(Mar)	(M)	-	-	154.5
Tuesday, April 18	8:30 AM	CPI Core- Median Y/Y%	(Mar)	(M)	-	-	4.9%
Tuesday, April 18	8:30 AM	CPI Core- Trim Y/Y%	(Mar)	(M)	-	-	4.8%
Tuesday, April 18	11:00 AM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Wednesday, April 19	-	AUCTION: 5-YR CANADAS \$5B	-	-	-	-	-
Wednesday, April 19	8:15 AM	HOUSING STARTS SAAR	(Mar)	(M)	-	-	244.0K
Wednesday, April 19	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Mar)	(M)	-	-	-0.8%
Wednesday, April 19	8:30 AM	RAW MATERIALS M/M	(Mar)	(M)	-	-	-0.4%
Thursday, April 20	11:30 AM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Friday, April 21	8:30 AM	RETAIL TRADE TOTAL M/M	(Feb)	(H)	-1.0%	-	1.4%
Friday, April 21	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Feb)	(H)	-0.8%	-	0.9%

## 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, April 17	8:30 AM	NEW YORK FED (EMPIRE)	(Apr)	(M)	-	-18.0	-24.6
Monday, April 17	10:00 AM	NAHB HOUSING INDEX	(Apr)	(L)	-	45	44
Monday, April 17	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Feb)	(L)	-	-	\$31.9B
Tuesday, April 18	-	AUCTION: 1-YR TREASURIES \$34B	-	-	-	-	-
Tuesday, April 18	8:30 AM	BUILDING PERMITS SAAR	(Mar)	(H)	1420K	1455K	1550K
Tuesday, April 18	8:30 AM	HOUSING STARTS SAAR	(Mar)	(M)	1390K	1405K	1450K
Tuesday, April 18	1:00 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, April 19	-	AUCTION: 20-YR TREASURIES \$12B	-	-	-	-	-
Wednesday, April 19	7:00 AM	MBA-APPLICATIONS	(Apr 14)	(L)	-	-	5.3%
Wednesday, April 19	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, April 19	5:30 PM	Speaker: Austan D. Goolsbee, Chicago (Voter)	-	-	-	-	-
Wednesday, April 19	7:00 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, April 20	-	AUCTION: 5-YR TIPS \$21B	-	-	-	-	-
Thursday, April 20	8:30 AM	INITIAL CLAIMS	(Apr 15)	(M)	-	-	239K
Thursday, April 20	8:30 AM	CONTINUING CLAIMS	(Apr 8)	(L)	-	-	1810K
Thursday, April 20	8:30 AM	PHILADELPHIA FED	(Apr)	(M)	-	-19.4	-23.2
Thursday, April 20	10:00 AM	EXISTING HOME SALES SAAR	(Mar)	(M)	-	\$4.50M	\$4.58M
Thursday, April 20	10:00 AM	EXISTING HOME SALES M/M	(Mar)	(M)	-	-1.8%	14.5%
Thursday, April 20	10:00 AM	LEADING INDICATORS M/M	(Mar)	(M)	-	-0.4%	-0.3%
Thursday, April 20	12:00 PM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Thursday, April 20	12:20 PM	Speaker: PM Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-
Thursday, April 20	3:00 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Thursday, April 20	5:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Friday, April 21	9:45 AM	S&P GLOBAL US SERVICES PMI	(Apr P)	(L)	-	51.5	52.6
Friday, April 21	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Apr P)	(L)	-	-	52.3
Friday, April 21	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Apr P)	(L)	-	49.2	49.2
Friday, April 21	4:35 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-

## Week Ahead's market call

by Avery Shenfeld

In the **US**, don't leave your desk too early on Fridays, because these days, the late-day banking data from the Fed, which show what's happening to both loans and deposits on a weekly basis, are likely as important as the usual macro indicators we track. That's particularly true for this coming week, with data focused on housing indicators that the market doesn't tend to react to that much. The banking data for the last two weeks of March raised eyebrows with significant declines in both commercial/industrial loans and overall deposits, but that was in the thick of the headlines on regional banks, and we'll be looking to see if April has brought further showers or more of a respite.

In **Canada**, the CPI will see a big dive in the 12-month headline rate, helped by the year-on-year trend in gasoline prices, but also, we hope, a bit of an easing in food inflation, even if that doesn't match up with the outright monthly drop we saw in food-at-home prices stateside. Food carries a significant weight in the two core measures that the Bank of Canada tracks, so we might get some relief there as well, although brisk inflation in rents might still be a problem. We're looking for a slightly larger drop in February retail sales than in the advanced indicator, although part of that was price related and impacted by still-limited auto supply.

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

(Tuesday, 8:30 am)

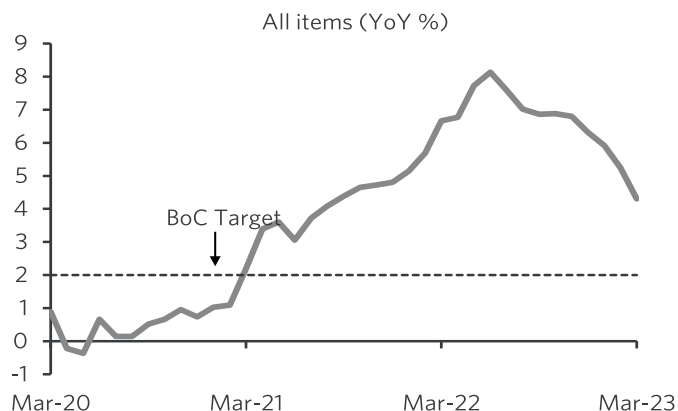
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Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.5	-	0.4
CPI (y/y)	4.3	-	5.2

While we are not counting on the outright decline seen in US food prices to show up in Canadian CPI until closer to the summer months, an easing in food inflation combined with lower gasoline prices than a year ago will be the main drivers behind the expected deceleration in headline inflation this month. Food price fluctuations can also play a role in driving the Bank of Canada's CPI-trim and CPI-median core measures, and as such we expect to see some moderation in those on both a year-over-year and a 3-month annualized basis.

Excluding food and energy, the monthly increases in mortgage interest costs appear to be moderating, but that could be offset by an acceleration in rental prices with strong population growth fueling demand.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications** — The recent rebound in oil and gasoline prices following OPEC's decision to cut production means that a further deceleration in year-over-year inflation in April is no longer as clear-cut. However, assuming only modest further increases in gasoline prices from today, we still expect the annual rate of CPI inflation to drop below 3% by June even if progress all the way back to 2% is slower from there.

## Other Canadian releases: Retail sales—February

(Friday, 8:30 am)

We suspect that retail sales fell by 1.0% in February, which would be a slightly bigger drop than suggested by the advance estimate. However, with some of the decline likely driven by a pullback in autos and by lower gasoline prices, core and volume measures of sales could look a little better.

## Week Ahead's key US number: Housing starts—March

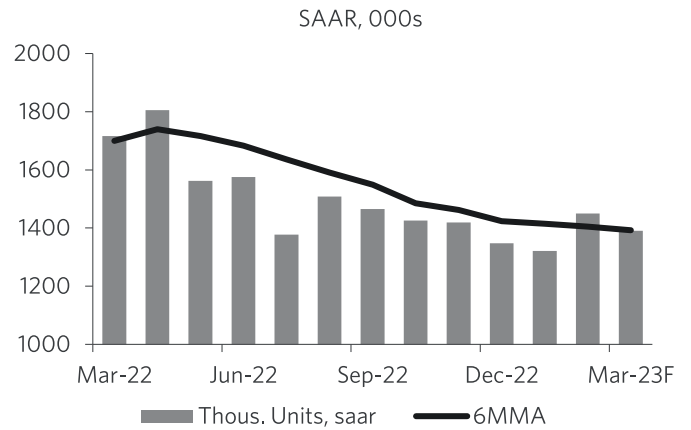
(Tuesday, 8:30 am)

Katherine Judge [katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

Variable	CIBC	Mkt	Prior
Housing starts	1390K	1405K	1450K
Building permits	1420K	1455K	1550K

Mortgage rates descended in March along with the drop in bond yields as banking sector fears reverberated through financial markets. That supported home purchase intentions, although they still remain close to pandemic-era lows, and we expect mortgage rates to rise in the coming months as markets push expectations for rate cuts into 2024. The banking sector fallout will likely work to restrain lending to builders. Overall, homebuilding likely registered a 1390K pace in March, representing a 4% m/m decline following an outsized 10% gain in February.

Chart: US Housing starts



Source: Census Bureau, Haver Analytics, CIBC

**Forecast implications** — Tighter lending conditions and higher mortgage rates in the months ahead will be barriers to homebuilding. But given the undersupply in the pre-COVID market, we look for building to perk up in the latter part of the year as rate cuts in early 2024 come in to focus.

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