Economics

THE WEEK AHEAD

November 27 - December 1, 2023

Jobs aplenty. Output? Not so much.

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

The week ahead's report on Canada's Q3 GDP, which we expect will show minescule growth, risks being a second consecutive slight negative. That wouldn't yet be a recession, which requires material declines in output, employment and other activity measures. But even if it's not a negative quarter for output, the GDP data are likely to imply a negative growth rate for another key indicator: labour productivity. Gains in output per hour are central to increases in living standards, and Canada's poor trend growth on that measure has now given way to outright declines.

Once again, we have a quarter in which total hours worked were advancing, but without much output to show for it. That has been a feature of this recovery, leaving Canadian GDP still anemic relative to the pre-pandemic trend level. That's a sharp contrast to the US, which has made up all the lost ground and returned to its prior trend for real GDP.

Part of the recent spell of negatives isn't that worrisome, as it simply reflects a return to normalized levels of output per hour in sectors where there had been a spike higher during the pandemic. In some industries, that captured heavy layoffs of the least productive workers at the height of the pandemic. In others, like wholesaling, it reflected a temporary surge in output during the pandemic as consumers shifted to goods over services, and online over in-store shopping. We've actually had productivity recovering in sectors like hospitality and entertainment, as consumers returned to those services and increased capacity use.

But there are a few sectors where productivity has been woeful and remains so. Construction output has been steadily lagging employment, and that's problematic for a country short on housing, public transit, and other key infrastructure. If your local condo building, oil pipeline or subway project is behind schedule and over budget, falling output per hour could be part of that story, or a symptom of poorly managed megaprojects. We had earlier ascribed these difficulties to supply chain disruptions that had workers waiting around for materials and other inputs, but we would have expected that to show some improvement as these disruptions eased up. Ottawa's mid-year update highlight steps to increase Canada's pool of construction trades, which might address some of the troubles.

Professional, scientific, admin and waste management services are also stuck at a weak level for output per hour, for reasons that are more difficult to discern. These services are lumped into some broad categories that mix companies that provide bookeepers with high end corporate law firms, so a shift in where employment is growing or shrinking can have big impacts on productivity for the sector as a whole.

Measuring the volume of output rather than revenues or employment in these sectors is a challenge, so it's possible we are overcounting inflation and understating real output. The legal services sector seems to have a lot of employment growth relative to its output, but that could capture shorter working hours or a greater tilt to lower-value-added services, rather than negative productivity per hour on any given service.

One other possibility for the aggregate weakness in productivity is that businesses have been surprised by weak sales in the past couple of quarters, and have yet to adjust headcounts to be in better alignment with more tepid demand for their goods and services. Some may still be holding onto jobs that were supported by pandemic period subsidies. Given the drag from high interest rates, we're not expecting demand to quickly catch up to staffing levels, leaving the required realignment coming from a less-happy story for employees.

If so, we might be on a precipice of seeing a more rapid run-up in the jobless rate than the slow upward creep that we've witnessed in the past year. The week ahead will give us a look at hiring in November, and the weakness in productivity in Q3 suggests that there are greater risks to the downside for job creation in upcoming months. Nobody will really be cheering for that sort of road to productivity improvement.

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 27	-	-	-	-	-	-	-
Tuesday, November 28	-	-	-	-	-	-	-
Wednesday, November 29	-	AUCTION: 10-YR CANADAS $4B	-	-	-	-	-
Wednesday, November 29	8:30 AM	CURRENT ACCOUNT BAL.	(3Q)	(M)	$1.8B	-	-$6.6B
Thursday, November 30	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Sep)	-	-	-	-46.8K
Thursday, November 30	8:30 AM	GDP M/M	(Sep)	(H)	0.1%	-	0.0%
Thursday, November 30	8:30 AM	GDP (annualized)	(3Q)	(H)	0.4%	-	-0.2%
Friday, December 1	8:30 AM	EMPLOYMENT CHANGE	(Nov)	(H)	10.0K	-	17.5K
Friday, December 1	8:30 AM	UNEMPLOYMENT RATE	(Nov)	(H)	5.8%	-	5.7%

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 27	-	AUCTION: 2-YR TREASURIES $54B	-	-	-	-	-
Monday, November 27	-	AUCTION: 5-YR TREASURIES $55B	-	-	-	-	-
Monday, November 27	10:00 AM	NEW HOME SALES SAAR	(Oct)	(M)	725K	723K	759K
Monday, November 27	10:00 AM	NEW HOME SALES M/M	(Oct)	(M)	-4.5%	-4.8%	12.3%
Tuesday, November 28	-	AUCTION: 1-YR TREASURIES $44B	-	-	-	-	-
Tuesday, November 28	-	AUCTION: 7-YR TREASURIES $39B	-	-	-	-	-
Tuesday, November 28	9:00 AM	HOUSE PRICE INDEX M/M	(Sep)	(M)	-	0.4%	0.6%
Tuesday, November 28	9:00 AM	S&P CORELOGIC CS Y/Y	(Sep)	(H)	-	4.2%	2.2%
Tuesday, November 28	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Nov)	(H)	101.0	101.0	102.6
Tuesday, November 28	10:00 AM	RICHMOND FED MANUF. INDEX	(Nov)	(M)	-	1.0	3.0
Tuesday, November 28	10:00 AM	Speaker: Austan D. Goolsbee, Chicago (Voter) & Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Tuesday, November 28	10:45 AM	Speaker: Bowman (Governor) (Voter)	-	-	-	-	-
Tuesday, November 28	1:05 PM	Speaker: Barr (Governor) (Voter)	-	-	-	-	-
Tueday, November 28	3:30 PM	Speaker: Barr (Governor) (Voter)	-	-	-	-	-
Wednesday, November 29	7:00 AM	MBA-APPLICATIONS	(Nov 24)	(L)	-	-	-
Wednesday, November 29	8:30 AM	WHOLESALE INVENTORIES M/M	(Oct P)	(L)	-	-	0.2%
Wednesday, November 29	8:30 AM	ADVANCED GOODS TRADE BALANCE	(Oct)	(H)	-$86.0B	-$86.5B	-$86.8B
Wednesday, November 29	8:30 AM	RETAIL INVENTORIES M/M	(Oct)	(H)	-	-	0.9%
Wednesday, November 29	8:30 AM	GDP (annualized)	(3Q S)	(H)	4.9%	5.0%	4.9%
Wednesday, November 29	8:30 AM	GDP DEFLATOR (annualized)	(3Q S)	(H)	3.5%	3.5%	3.5%
Wednesday, November 29	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, November 29	1:45 PM	Speaker: Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-
Thursday, November 30	8:30 AM	INITIAL CLAIMS	(Nov 25)	(M)	-	218K	209K
Thursday, November 30	8:30 AM	CONTINUING CLAIMS	(Nov 18)	(L)	-	1868K	1840K
Thursday, November 30	8:30 AM	PCE DEFLATOR Y/Y	(Oct)	(H)	3.0%	3.1%	3.4%
Thursday, November 30	8:30 AM	PCE DEFLATOR Y/Y (core)	(Oct)	(H)	3.5%	3.5%	3.7%
Thursday, November 30	8:30 AM	PERSONAL INCOME M/M	(Oct)	(H)	0.2%	0.2%	0.3%
Thursday, November 30	8:30 AM	PERSONAL SPENDING M/M	(Oct)	(H)	0.2%	0.2%	0.7%
Thursday, November 30	9:45 AM	CHICAGO PMI	(Nov)	(M)	-	46.0	44.0
Thursday, November 30	10:00 AM	PENDING HOME SALES M/M	(Oct)	(M)	-	-0.9%	1.1%
Friday, December 1	8:30 AM	S&P GLOBAL US MANUFACTURING PMI	(Nov)	(L)	-	-	-
Friday, December 1	10:00 AM	ISM - MANUFACTURING	(Nov)	(H)	47.0	47.7	46.7
Friday, December 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Oct)	(M)	-	0.4%	0.4%
Friday, December 1	3:00 AM	Speaker: Barr (Governor) (Voter)	-	-	-	-	-
Friday, December 1	10:00 AM	Speaker: Goolsbee (Chicago) (Voter)	-	-	-	-	-
Friday, December 1	11:00 AM	Speaker: Powell (Chair) (Voter)	-	-	-	-	-
Friday, December 1	2:00 PM	Speaker: Powell (Chair, Voter) & Cook (Gov., Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, new home sales look to be weaker in October, and therefore in better alignment with the moribund pace for existing home sales. The factory ISM will stay well below 50, but the key to recent growth has been the consumer. October looks to be a much more tepid month for nominal consumption and income gains, although soft prices that month imply that real consumption will still have advanced by a respectable 0.2%. There are few Fed speakers on tap, but we don't see the market changing its views on the December FOMC based on what they say at this point.

In **Canada**, we get output and employment measures back to back on Thursday and Friday, and neither will look particularly good. We're expecting very slightly positive growth, since a 0.4% annualized pace is actual only 0.1% quarter over quarter. Obviously, one can't rule out a negative print given that slim margin of error. The flash estimates for October GDP, and November employment, will be key to sticking with our call for a one quarter bounce to the plus side in Q4. With hiring having run above output of late (see cover), odds are that November will continue the trend towards job growth trailing the population driven gains in the size of the workforce, keeping the jobless rate ticking higher.

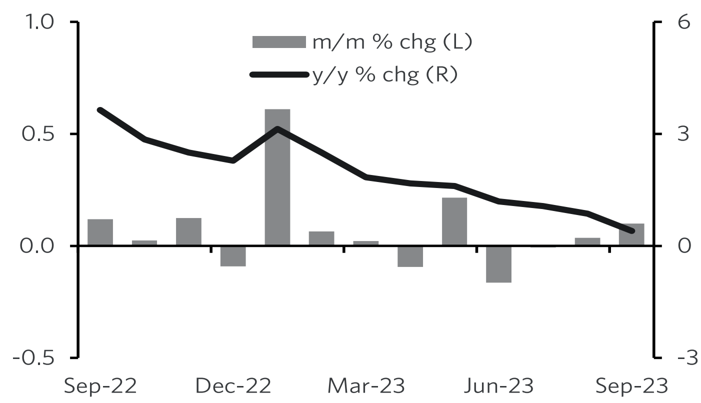
Week Ahead's key Canadian number: GDP—September and Q3

(Thursday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable (%)	CIBC	Mkt	Prior
GDP September (m/m)	0.1	-	0.0
GDP Q3 (annualized)	0.4	-	-0.2

Chart: Canadian real GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Canada's economy likely eked out a 0.4% annualized pace of GDP growth in the third quarter, which would represent another decline in per-capita terms. While that's slightly above what was implied by the monthly industry GDP data, it's within the scope of typical divergences seen between the series, and indicates a floundering Canadian economy in which consumers are feeling the squeeze from higher interest rates. That should show up in a drop in goods consumption, and a sharp deceleration in final domestic demand. The main driver of growth will have been trade, as oil exports rebounded following wildfire disruptions in the prior quarter.

The third quarter appears to have ended on soft footing, even with our expectation for a slight upgrade to the advance estimate of September GDP due to more favourable final readings in manufacturing, wholesale, and retail trade than expected. Advanced indicators so far for October have been mixed, and we expect the advance GDP estimate to show moderate growth in that month.

Forecast implications — Our forecast is a bit below the growth pace that the Bank of Canada predicted in its last MPR, a sign that the Canadian economy is faring worse than expected. This also extends the trend of weak labour productivity, and although we could see an acceleration in output in the final quarter, that will be a one-off tied to a rebound in inventory investment and trade as the impacts of the port strike and wildfires continues to fade. Beneath that, a struggling consumer will leave the BoC on track to cut rates in Q2.

Other Canadian releases: Labour force survey—November

(Friday, 8:30 am)

The labour market likely continued to soften in November, in line with the deterioration in economic activity and labour demand. Our forecast for 10K jobs to have been created would leave the unemployment rate a tick higher at 5.8%, in the context of still-strong population growth. The continued easing in the labour market will work to quell wage pressures ahead, setting the stage for BoC cuts in Q2 next year.

Current account balance—Q3

(Wednesday, 8:30 am)

Canada's goods trade balance swung into the black in the third quarter as oil exports rebounded, while imports dropped off, underscoring our expectation for the current account balance to move into surplus territory, at $1.8bn.

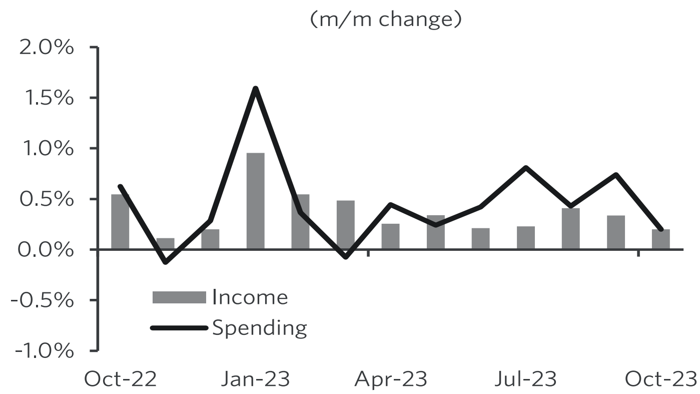
Week Ahead's key US number: Personal income and outlays—October

(Thursday, 8:30 am)

Ali Jaffery ali.jaffery@cibc.com

Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.2	0.2	0.3
Personal spending (m/m)	0.2	0.2	0.7
Core PCE price index (y/y)	3.5	3.5	3.7

Chart: US Personal income and spending



Source: BEA, Haver Analytics, CIBC

October's personal spending and income report will be the key piece of US data next week, and the main take away will be that the US consumer will show a bit of fatigue after a six-month spending spree. Nominal and real consumption growth should both come in about 0.2% m/m as PCE deflator will be flat in month-over-month terms. The October labour report suggests that personal income growth also come in at 0.2%. We expect the saving rate to edge up one notch in the month to 3.5%.

Forecast implications — Consumption growth in 23Q4 will remain solid, with our tracking at about 2% annualized. This follows a 4% annualized surge last quarter, and much of the strength in 23Q4 will reflect momentum from September. Consumption growth should moderate in the coming months consistent with the cracks showing in the labour market.

Market implications — With the earlier October retail, labour and CPI reports providing many clues, and the Fed in a more patient stance, we don't expect any material surprises and relatively low market sensitivity to the release.

Other US Releases: ISM Manufacturing—November

(Friday, 10:00 am)

The November ISM manufacturing index should improve slightly compared to previous month, consistent with some other regional surveys. However, the index will remain in contractionary territory given its exposure to interest rates and relatively weak foreign demand.

New home sales—October

(Monday, 10:00 am)

New home sales should pullback after last month's surge. That will still leave the level of new home sales looking firmer than the rock bottom pace for existing homes. New home sales represent about 10% of overall home sales.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
Bloomberg @ CIBC

economics.cibccm.com