

Economics

THE WEEK AHEAD

May 22 - 26, 2023

Squeezing on the balloon

by Avery Shenfeld avery.shenfeld@cibc.com

The hyper focus on every twitch in the CPI these days extends well beyond the handful of time series we used to look at. Now everyone seems to be peddling their own core, supercore, super-duper core measure that supposedly tells the real story. But when we're asked which of these one should look at, we're not being glib when we give our answer: all of them. And that has to include the so-called "headline CPI", or what these days would be known as CPI excluding nothing.

That's in part because of the risk that inflation is like a balloon: squeeze down on part of the balloon, and it bulges up somewhere else, unless we've seen a change in overall spending power in the economy or improvements on the supply side.

Take the Canadian picture. Huge increases in mortgage interest costs (MIC) aren't distorting the pressure on Canadians' living standards, because they're very real for those whose mortgages have come due. But we've also been keeping tabs on CPI measures excluding MIC on the grounds that, at some point, they'll level off as we get past more of the mortgage renewals, or see interest rates actually ease up. There's also a logic in wanting to look through MIC increases, since it's an item that's escalating because of the very steps the Bank of Canada has taken to cool inflation overall.

Still, there's a hazard on focusing too much on stripped down measures like CPI ex-food/energy/MIC to the exclusion of others, including the total CPI. Doing so ignores the possibility that inflation is lower in some other items because Canadians' buying power is being held back by those mortgage rates. All else equal, if we squeezed down on the MIC inflation component, the balloon might pop up in some other CPI category as more spending power is unleashed from relieved homeowners. If inflation is about too much money chasing too few goods, then it's really the aggregate picture, not a component-by-component story, that will matter over the medium term.

There's also a lot of attention being paid to three-month annualized rates of change, on the grounds that what we're looking for is a turning point. True, the 12-month rate includes a lot of old news about price hikes well back in 2022. But the fresher news of 3-month rates comes at a cost: a lot of extra volatility. One new data tick that's higher, or dropping off an outlier that's now 4 months old, can change the picture dramatically.

We saw that with Canada's 3-month CPI excluding food, energy and MIC, which "soared" from just over 2% to 3.4% in April. It wasn't that April had a heated gain, but that a low monthly change dropped out from four months earlier. In the US, tame 3-month core rates reported for late 2022 disappeared when revised seasonal adjustments bumped up some of the monthly gains a bit.

In any event, we're actually paying as much attention to labour market and income gains, as opposed to any one slice of the CPI, in order to understand where inflation might be headed. We've made great progress on inflation in Canada, but it seems implausible that we can get to and stick with a 2% pace as long as labour markets are generating sizeable gains in spending power, and wage rates are adding to that by advancing at a 4-5% clip.

If that continues, anything we might save on cars, clothing or cheese could just end up being spending room that bids up prices for plane tickets or rents. Rather than squeezing down on one spot on the balloon, we need to deflate it a bit overall, and that entails a slower pace to economic growth and incomes. We're now waiting to see if current interest rates are high enough to take some of the air out of the economy.

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, May 22	-	Markets Closed (Victoria Day)	-	-	-	-	-
Tuesday, May 23	-	AUCTION: 3-M BILLS \$13.4B, 6-M BILLS \$4.8B, 1-YR BILLS \$4.8B	-	-	-	-	-
Tuesday, May 23	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Apr)	(M)	-	0.2%	0.1%
Tuesday, May 23	8:30 AM	RAW MATERIALS M/M	(Apr)	(M)	-	0.6%	-1.7%
Wednesday, May 24	-	AUCTION: 10-YR CANADAS \$3.5B	-	-	-	-	-
Thursday, May 25	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Mar)	-	-	-	62.5K
Friday, May 26	-	-	-	-	-	-	-

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, May 22	8:30 AM	Speaker: James Bullard (St Louis)	-	-	-	-	-
Monday, May 22	11:05 AM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter) & Thomas I. Barkin (Richmond) (Non-Voter)	-	-	-	-	-
Tuesday, May 23	-	AUCTION: 2-YR TREASURIES \$42B	-	-	-	-	-
Tuesday, May 23	8:30 AM	PHILADELPHIA FED	(May)	(M)	-	-	-22.8
Tuesday, May 23	9:45 AM	S&P GLOBAL US SERVICES PMI	(May P)	(L)	-	52.6	53.6
Tuesday, May 23	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(May P)	(L)	-	-	53.4
Tuesday, May 23	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(May P)	(L)	-	50.0	50.2
Tuesday, May 23	10:00 AM	NEW HOME SALES SAAR	(Apr)	(M)	-	663K	683K
Tuesday, May 23	10:00 AM	NEW HOME SALES M/M	(Apr)	(M)	-	-2.9%	9.6%
Tuesday, May 23	10:00 AM	RICHMOND FED MANUF. INDEX	(May)	(M)	-	-	-10
Tuesday, May 23	9:00 AM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Wednesday, May 24	-	AUCTION: 5-YR TREASURIES \$43B	-	-	-	-	-
Wednesday, May 24	-	AUCTION: 2-YR FRN \$22B	-	-	-	-	-
Wednesday, May 24	7:00 AM	MBA-APPLICATIONS	(May 19)	(L)	-	-	-5.7%
Wednesday, May 24	2:00 PM	FOMC Meeting Minutes	(May 3)	-	-	-	-
Thursday, May 25	-	AUCTION: 7-YR TREASURIES \$35B	-	-	-	-	-
Thursday, May 25	8:30 AM	INITIAL CLAIMS	(May 20)	(M)	-	-	242K
Thursday, May 25	8:30 AM	CONTINUING CLAIMS	(May 13)	(L)	-	-	1799K
Thursday, May 25	8:30 AM	GDP (annualized)	(1Q S)	(H)	-	1.1%	1.1%
Thursday, May 25	8:30 AM	GDP DEFLATOR (annualized)	(1Q S)	(H)	-	4.0%	4.0%
Thursday, May 25	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Apr)	(M)	-	-	-0.19
Thursday, May 25	10:00 AM	PENDING HOME SALES M/M	(Apr)	(M)	-	-	-5.2%
Friday, May 26	8:30 AM	PCE DEFLATOR Y/Y	(Apr)	(H)	-	4.3%	4.2%
Friday, May 26	8:30 AM	PCE DEFLATOR Y/Y (core)	(Apr)	(H)	4.5%	4.6%	4.6%
Friday, May 26	8:30 AM	PERSONAL INCOME M/M	(Apr)	(H)	0.4%	0.4%	0.3%
Friday, May 26	8:30 AM	PERSONAL SPENDING M/M	(Apr)	(H)	0.4%	0.4%	0.0%
Friday, May 26	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Apr)	(H)	-	-\$85.6B	-\$84.6B
Friday, May 26	8:30 AM	WHOLESALE INVENTORIES M/M	(Apr P)	(L)	-	-	0.0%
Friday, May 26	8:30 AM	RETAIL INVENTORIES M/M	(Apr)	(H)	-	-	0.7%
Friday, May 26	8:30 AM	DURABLE GOODS ORDERS M/M	(Apr P)	(H)	-1.5%	-1.0%	3.2%
Friday, May 26	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Apr P)	(H)	-0.2%	-0.2%	0.2%
Friday, May 26	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(May)	(H)	-	58.0	57.7

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're expecting some sluggish readings on durable goods orders and consumption, with the gain in the latter capturing inflation rather than volume gains. But the week will be shaped by whether the weekend sees progress on a debt ceiling deal, and if so, whether there are enough votes (including a potential bipartisan approval in the House) to garner Congressional approval. Fed speakers appear very divided on a June rate hike, and we'll be staying tuned as well on that front.

In **Canada**, a holiday shortened trading week will also be short on economic news. We'll have a look at the wage data in the SEPH report due on Thursday, as it's a bit higher quality than that included in the more timely Labour Force Survey. Since they aren't particularly weighted to consumer goods, Canada's Industrial and raw material price indexes aren't really that relevant for CPI, other than for gasoline (which we can track elsewhere at a higher frequency), although they are relevant for nominal GDP and corporate profits.

There are no major Canadian data releases next week.

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

(Friday, 8:30 am)

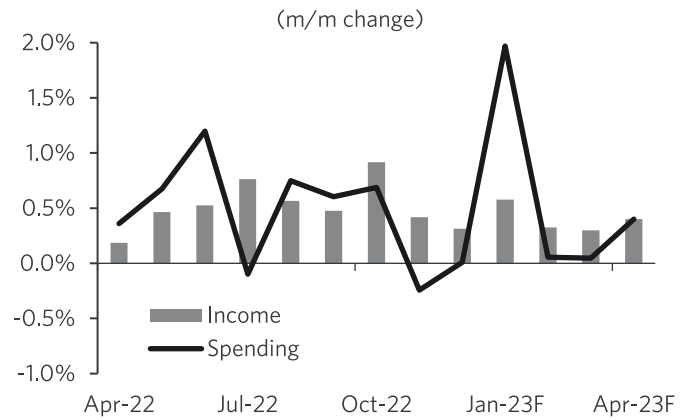
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Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.4	0.4	0.3
Personal spending (m/m)	0.4	0.4	0.0
Core PCE price index (y/y)	4.5	4.6	4.6

The rebound in goods spending seen during April should have at least been matched by an advance in services spending, resulting in a 0.4% increase in total consumer expenditures during the month. However, with prices rising by a similar amount, real spending would be broadly flat. A rebound in wage inflation should have seen income growth matching that of spending, at 0.4%.

With the PCE price index weighting medical care services (a disinflationary force) higher than the CPI basket, but housing (an inflationary force) lower, the monthly seasonally adjusted increase in core PCE should be at least a tick weaker than ex food/energy CPI. However, that would leave the annual rate only one tick lower than in the previous month, at 4.5%.

Chart: US Personal income and spending



Source: BEA, Haver Analytics, CIBC

Forecast implications — Even though job growth and wage inflation have been surprisingly resilient so far this year, the US consumer still appears stretched with the savings rate remaining well below pre-pandemic norms. Even with no further rate hikes now expected, consumer spending will likely be sluggish in real terms for the remainder of the year.

Market impact — We are close to consensus and would expect little market reaction.

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