

## Economics

## THE WEEK AHEAD

June 12 - 16, 2023

## Blame Canada

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

There were lots of references to that South Park song this week, as New York and other major east coast cities were blanketed with smoke from Canadian forest fires. But the most unusual headline we saw wasn't in reference to air quality, but to a dip in the US equity market that was attributed to a Bank of Canada rate hike on Wednesday. Governor Macklem must be surprised that his actions carry so much weight in New York.

Typically, it's the Fed that is seen as having influence over other central banks. But the BoC action piled on top of an earlier move by its Aussie counterpart, with both deciding to eschew patience in favour of immediate action. That has some worried about their call for a pause by the Fed next week.

The FOMC could indeed opt to follow the Bank of Canada's lead next week, but perhaps it would also note what happened two days later, when Statistics Canada reported a two-tick climb in the unemployment rate and a drop in employment and hours worked. That's a reminder that we can't be too sure about when the cumulative impact of a steep climb in rates in the past year might start to show up in the data, even if it hasn't yet.

The Fed has already moved further than either the RBA or the BoC, and so we lean towards it opting to hold its fire in June. Tip-toeing rates higher, rather than hiking at every meeting, is one way to avoid a nasty surprise if lagged impacts start to kick in. But unless banking issues flare up again, odds are that the Fed has a couple of fine-tuning moves of its own ahead, likely in the form of quarter point hikes in July and September. If there's no hike next week, there certainly will be language that hints that the Fed isn't declaring an extended pause or that rates have peaked. Indeed, we might see a rare dissent, with one FOMC member voting in favour of a hike to underscore that point.

The fact that US equity markets reacted at all to a Bank of Canada decision was revealing, even if the Fed really doesn't pay much heed to decisions in Ottawa. The S&P's climb has been narrowly based, tilted to potential winners in an assumed AI boom ahead, and to large companies with strong pricing

power. Cyclical and smaller Russell 2000 companies haven't partied as hard.

There's a reason for caution here, and it's not really about the Fed's June decision. Ten-year yields haven't attained new heights, and it's longer term rates that matter for equity valuations. What the Bank of Canada underscored is that the economic slowdown that hasn't really arrived, and its impact on earnings, still lies in our future as well as America's, because central banks see that as a precondition for getting inflation to 2%. You can't blame Canada for that reality.

It's that earnings hit that could stall the recent equities rally in the US. For whatever reason, we haven't seen a lot of US companies issue downside warnings about their future earnings, despite the fact that an economic slowdown has only been deferred, not cancelled. Canadian stocks are better protected in that regard, given their generous yield advantage, particularly since some of those dividends are being paid by companies in sectors that aren't that cyclically sensitive.

We'll leave the judgement about the AI high-flyers to those with a better understanding about the true potential for that emerging technology. While typically, growth companies are hurt by the impact of higher rates that more heavily discount earnings way out in the future, it's also the case that the success or failure of AI-related companies will be more tied to how widely new products are adopted than where we are in the business cycle.

## 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, June 12	-	-	-	-	-	-	-
Tuesday, June 13	-	-	-	-	-	-	-
Wednesday, June 14	-	-	-	-	-	-	-
Thursday, June 15	-	AUCTION: 2-YR CANADAS \$4.8B	-	-	-	-	-
Thursday, June 15	8:15 AM	HOUSING STARTS SAAR	(May)	(M)	240K	-	261.6K
Thursday, June 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Apr)	(M)	-	-	0.7%
Thursday, June 15	9:00 AM	EXISTING HOME SALES M/M	(May)	(M)	-	-	11.3%
Friday, June 16	8:30 AM	INT'L. SEC. TRANSACTIONS	(Apr)	(M)	-	-	-\$19.1B
Friday, June 16	8:30 AM	WHOLESALE TRADE M/M	(Apr)	(M)	-	-	-0.1%

## 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, June 12	-	AUCTION: 3-YR TREASURIES \$40B	-	-	-	-	-
Monday, June 12	-	AUCTION: 10-YR TREASURIES \$32B	-	-	-	-	-
Monday, June 12	2:00 PM	TREASURY BUDGET	(May)	(L)	-	-	\$176.2B
Tuesday, June 13	-	AUCTION: 1-YR TREASURIES \$38B	-	-	-	-	-
Tuesday, June 13	-	AUCTION: 30-YR TREASURIES \$18B	-	-	-	-	-
Tuesday, June 13	8:30 AM	CPI M/M	(May)	(H)	0.1%	0.2%	0.4%
Tuesday, June 13	8:30 AM	CPI M/M (core)	(May)	(H)	0.4%	0.4%	0.4%
Tuesday, June 13	8:30 AM	CPI Y/Y	(May)	(H)	4.0%	4.1%	4.9%
Tuesday, June 13	8:30 AM	CPI Y/Y (core)	(May)	(H)	5.3%	5.2%	5.5%
Wednesday, June 14	7:00 AM	MBA-APPLICATIONS	(Jun 9)	(L)	-	-	-1.4%
Wednesday, June 14	8:30 AM	PPI M/M	(May)	(M)	-0.1%	-0.1%	0.2%
Wednesday, June 14	8:30 AM	PPI M/M (core)	(May)	(M)	0.2%	0.2%	0.2%
Wednesday, June 14	8:30 AM	PPI Y/Y	(May)	(M)	-	1.5%	2.3%
Wednesday, June 14	8:30 AM	PPI Y/Y (core)	(May)	(M)	-	2.9%	3.2%
Wednesday, June 14	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Jun 14)	(H)	5.25%	5.25%	5.25%
Wednesday, June 14	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Jun 14)	(H)	5.00%	5.00%	5.00%
Wednesday, June 14	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)					
Thursday, June 15	8:30 AM	INITIAL CLAIMS	(Jun 10)	(M)	-	250K	261K
Thursday, June 15	8:30 AM	CONTINUING CLAIMS	(Jun 3)	(L)	-	-	1757K
Thursday, June 15	8:30 AM	RETAIL SALES M/M	(May)	(H)	-0.1%	0.0%	0.4%
Thursday, June 15	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(May)	(H)	0.1%	0.1%	0.4%
Thursday, June 15	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(May)	(H)	0.2%	0.3%	0.7%
Thursday, June 15	8:30 AM	IMPORT PRICE INDEX M/M	(May)	(L)	-	-0.6%	0.4%
Thursday, June 15	8:30 AM	EXPORT PRICE INDEX M/M	(May)	(L)	-	0.0%	0.2%
Thursday, June 15	8:30 AM	NEW YORK FED (EMPIRE)	(Jun)	(M)	-	-15.1	-31.8
Thursday, June 15	8:30 AM	PHILADELPHIA FED	(Jun)	(M)	-	-12.5	-10.4
Thursday, June 15	9:15 AM	INDUSTRIAL PRODUCTION M/M	(May)	(H)	0.0%	0.1%	0.5%
Thursday, June 15	9:15 AM	CAPACITY UTILIZATION	(May)	(M)	79.7%	79.7%	79.7%
Thursday, June 15	10:00 AM	BUSINESS INVENTORIES M/M	(Apr)	(L)	-	0.2%	-0.1%
Thursday, June 15	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Apr)	(L)	-	-	\$133.3B
Friday, June 16	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jun P)	(H)	-	60.0	59.2

## Week Ahead's market call

by Avery Shenfeld

In the **US**, we lean towards the Fed opting to hike in July and September, rather than June, to signal that it's in a fine tuning mode now. But if there's no hike, the language will make clear that this isn't a declaration that rates have peaked, and a dissenting vote in favour of a hike could be part of that. While we see further progress over the next year in the battle against inflation, core CPI will stay stubbornly high until we see more slack in the labour market, so we're not expecting anything particularly soft in the monthly change in ex-food/energy prices. Retail sales are coming off a hot month, so we're leaning towards a softer monthly gain for May.

In **Canada**, it's a very light week ahead for economic news. A modest pull back in housing starts will just be the usual noise. The flurry of stories about a revitalized housing market in recent months was partly due to the very sluggish pace in prior months, with prices rebounding due to low listings. But housing has been helped this spring by a rally in bonds, and its impact on mortgage rates, one that has now been fully reversed. We expect the housing sector to return to a softer pace in upcoming months.

**There are no major Canadian data releases next week.**

## Week Ahead's key US number: CPI—May

(Tuesday, 8:30 am)

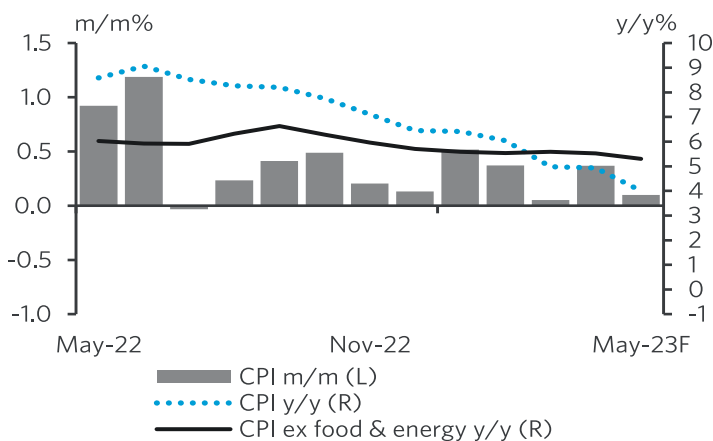
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Variable (%)	CIBC	Mkt	Prior
Headline CPI m/m	0.1	0.2	0.4
Headline CPI y/y	4.0	4.1	4.9
Core CPI m/m	0.4	0.4	0.4
Core CPI y/y	5.3	5.2	5.5

With prices at the pump averaging lower over the month, the total CPI was likely limited to a 0.1% increase in May, masking a hotter advance in categories outside of energy and food. Indeed, core CPI prices could have risen by 0.4%, extending April's momentum, in line with continued strength in the labor market that will have worked to support demand, implying an acceleration in the Fed's preferred sub-category of services ex housing.

The risks to the core figure could be slightly to the downside, as the rent measures could have resumed their deceleration following a temporary pause in April, and used car prices could have declined following a sharp increase in April. Moreover, the ISM services prices paid measure also fell in May.

Chart: US Consumer price index



Source: BLS, Haver Analytics, CIBC

**Forecast implications** — The Fed will likely pause on rate hikes in June, and await further information on the labor market and growth backdrop in order to judge where inflation is headed, which could underly two final 25bp rate hikes in Q3. However, if core prices were to accelerate to 0.5% in May, policymakers would be compelled to hike rates in June.

**Market impact** — We're in line with the consensus expectation on core prices, which should limit market reaction.

## Other US Releases: Retail sales—May

(Thursday, 8:30 am)

The decrease in unit vehicle sales in May portends a 0.1% decline in total retail sales, reinforced by the drop in prices at the pump. However, lower gasoline prices will have left more money on the table for spending elsewhere, and the control group of sales could have risen by a modest 0.2%, in line with labor market gains that continue to support incomes.

## Industrial production—May

(Thursday, 9:15 am)

Hours worked in manufacturing were up only slightly in May, while rig counts dropped off sharply, which could have resulted in industrial production flatlining. Forward-looking indicators have sent mixed signals on new orders, but production is likely to deteriorate over the second half of the year as higher interest rates weigh on demand.

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