

Economics

THE WEEK AHEAD

October 16 - 20, 2023

A broken record

by Avery Shenfeld avery.shenfeld@cibc.com

If the latest changes in our forecast sound like a broken record, you're right. And for those too young to remember listening to music on vinyl, that's a scratched record that skips and keeps repeating the same section, in this case one entailing an upward revision to the US economic outlook, an additional Fed rate hike before this year ends, and a further delay before our forecast slowdown kicks in. We'll soon be posting updated economic and bond market forecasts (the latter developed in partnership with our FICC Strategy team).

Our own frustration with that is only slightly ameliorated by the fact that at least we were never in the majority camp of those who called for a US recession as far back as a year ago. Those who saw an inverted yield curve as a harbinger of certain doom are still seeing it that way, but the Fed isn't now aiming for one, having lowered its call for the peak jobless rate from 4.5% to 4.1% in their last projection. We still expect that an outright recession can be avoided if the central bank plays its cards right, and starts to ease rates in the latter half of 2024.

But even that sort of soft landing has yet to commence stateside. Growth in the first half was respectable, and a resilient consumer has us raising our Q3 growth projection to nearly 4%, up from 2.5% a month ago. Revisions to prior payrolls data, and September's hiring pickup, aren't hard to explain given that acceleration. While we still expect the week ahead's retail sales will show a deceleration, setting the stage for a more muted Q4, income gains from recent hiring make it unlikely that the final quarter will fail to see at least modest further growth.

The Fed still seems to be leaning to a pause on rates at the upcoming meeting, counting on higher bond yields to provide the additional drag on activity, thereby substituting for another hike in the funds rate. But if long rates start to edge lower again, as they could in the absence of a fed funds hike in October, that could see them hike again before year end.

We'll risk being a broken record by simply pushing back our call for a stall in US growth into Q1 of 2024. Some of the leading

indicators for such a retreat, including slowing bank lending, and weaker activity in interest-sensitive measures like housing starts and resales, are still pointing that way, as is the market's favourite omen, an inverted yield curve.

In the near term, Canada will feel the impact of that upgraded US outlook, but not in the way you might think. While it could help delay an export pull back, there's an offsetting negative for Canadian domestic demand. A higher Fed funds rate, and a related upsurge in Treasury yields, has Canadian bond yields hitting higher levels that are adding to a drag on sectors like housing, and making mortgage renewals even more painful for some households.

For resource exporters that depend on global growth, that picture remains very muted, as captured in the latest outlook from the IMF, one that in the case of Europe is still a bit more optimistic than our own projections. Geopolitics, including spillover risks from tragic events in Ukraine and the Middle East, seems to be a deepening threat to stability and confidence.

Overall, on this side of the border, the record continues to play a less joyful tune. We're retaining our call for only negligible Canadian Q3 growth after a drop in Q2. While the final quarter will show a rebound from fire-related disruptions, it should still be muted enough to push the jobless rate higher in the face of brisk population growth.

True, we're not yet seeing the desired deceleration in core prices and wages, but that's to be expected given that we'll need more slack to drive that outcome. The Bank of Canada has a weaker case to follow the Fed with an additional hike, because current interest rates are already proving to be a sufficient headwind to expect that additional slack to arrive over the next few quarters. Canada has seen lower peak interest rates than the US in recent cycles, and its more visible growth response to the rate hikes to date suggests that this time should be no different.

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, October 16 | 8:30 AM | MANUFACTURING SHIPMENTS M/M | (Aug) | (M) | 1.0% | - | 1.6% |
| Monday, October 16 | 8:30 AM | WHOLESALE SALES EX. PETROLEUM M/M | (Aug) | (M) | 3.0% | - | 0.2% |
| Monday, October 16 | 10:30 AM | Release: Business Outlook Survey and Canadian Survey of Consumer Expectations | - | - | - | - | - |
| Tuesday, October 17 | 8:15 AM | HOUSING STARTS SAAR | (Sep) | (M) | - | - | 252.8K |
| Tuesday, October 17 | 8:30 AM | INT'L. SEC. TRANSACTIONS | (Aug) | (M) | - | - | \$11.6B |
| Tuesday, October 17 | 8:30 AM | CPI M/M | (Sep) | (H) | 0.1% | - | 0.4% |
| Tuesday, October 17 | 8:30 AM | CPI Y/Y | (Sep) | (H) | 4.1% | - | 4.0% |
| Tuesday, October 17 | 8:30 AM | Consumer Price Index | (Sep) | (M) | - | - | 158.7 |
| Tuesday, October 17 | 8:30 AM | CPI Core- Median Y/Y% | (Sep) | (M) | - | - | 4.1% |
| Tuesday, October 17 | 8:30 AM | CPI Core- Trim Y/Y% | (Sep) | (M) | - | - | 3.9% |
| Wednesday, October 18 | - | - | - | - | - | - | - |
| Thursday, October 19 | - | AUCTION: 10-YR CANADAS \$ | - | - | - | - | - |
| Thursday, October 19 | 8:30 AM | INDUSTRIAL PROD. PRICES M/M | (Sep) | (M) | - | - | 1.3% |
| Thursday, October 19 | 8:30 AM | RAW MATERIALS M/M | (Sep) | (M) | - | - | 3.0% |
| Friday, October 20 | 8:30 AM | RETAIL TRADE TOTAL M/M | (Aug) | (H) | -0.3% | - | 0.3% |
| Friday, October 20 | 8:30 AM | RETAIL TRADE EX-AUTO M/M | (Aug) | (H) | 0.2% | - | 1.0% |

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, October 16 | 8:30 AM | NEW YORK FED (EMPIRE) | (Oct) | (M) | - | -5.0 | 1.9 |
| Monday, October 16 | 10:30 AM | Speaker: Patrick Harker (Philadelphia) (Voter) | - | - | - | - | - |
| Monday, October 16 | 4:30 PM | Speaker: Patrick Harker (Philadelphia) (Voter) | - | - | - | - | - |
| Tuesday, October 17 | 8:30 AM | RETAIL SALES M/M | (Sep) | (H) | 0.3% | 0.3% | 0.6% |
| Tuesday, October 17 | 8:30 AM | RETAIL SALES (X-AUTOS) M/M | (Sep) | (H) | 0.3% | 0.2% | 0.6% |
| Tuesday, October 17 | 8:30 AM | RETAIL SALES CONTROL GROUP M/M | (Sep) | (H) | 0.1% | 0.0% | 0.1% |
| Tuesday, October 17 | 9:15 AM | INDUSTRIAL PRODUCTION M/M | (Sep) | (H) | -0.2% | 0.0% | 0.4% |
| Tuesday, October 17 | 9:15 AM | CAPACITY UTILIZATION | (Sep) | (M) | 79.4% | 79.6% | 79.7% |
| Tuesday, October 17 | 10:00 AM | BUSINESS INVENTORIES M/M | (Aug) | (L) | - | 0.3% | 0.0% |
| Tuesday, October 17 | 10:00 AM | NAHB HOUSING INDEX | (Oct) | (L) | - | 45.0 | 45.0 |
| Tuesday, October 17 | 4:00 PM | NET CAPITAL INFLOWS (TICS) | (Aug) | (L) | - | - | \$8.8B |
| Tuesday, October 17 | 8:00 AM | Speaker: John C. Williams (Vice Chairman, New York) (Voter) | - | - | - | - | - |
| Tuesday, October 17 | 9:20 AM | Speaker: Michelle W Bowman (Governor) (Voter) | - | - | - | - | - |
| Tuesday, October 17 | 10:45 AM | Speaker: Thomas I. Barkin (Richmond) (Non-Voter) | - | - | - | - | - |
| Wednesday, October 18 | - | AUCTION: 20-YR TREASURIES \$13B | - | - | - | - | - |
| Wednesday, October 18 | 7:00 AM | MBA-APPLICATIONS | (Oct 13) | (L) | - | - | 0.6% |
| Wednesday, October 18 | 8:30 AM | BUILDING PERMITS SAAR | (Sep) | (H) | 1520K | 1450K | 1541K |
| Wednesday, October 18 | 8:30 AM | HOUSING STARTS SAAR | (Sep) | (M) | 1320K | 1380K | 1283K |
| Wednesday, October 18 | 2:00 PM | FED'S BEIGE BOOK | - | - | - | - | - |
| Wednesday, October 18 | 12:00 PM | Speaker: Christopher J. Waller (Governor) (Voter) | - | - | - | - | - |
| Wednesday, October 18 | 12:30 PM | Speaker: John C. Williams (Vice Chairman, New York) (Voter) | - | - | - | - | - |
| Wednesday, October 18 | 1:00 PM | Speaker: Michelle W Bowman (Governor) (Voter) | - | - | - | - | - |
| Wednesday, October 18 | 3:15 PM | Speaker: Patrick Harker (Philadelphia) (Voter) | - | - | - | - | - |
| Wednesday, October 18 | 6:55 PM | Speaker: Lisa D Cook (Governor) (Voter) | - | - | - | - | - |
| Thursday, October 19 | - | AUCTION: 5-YR TIPS \$22B | - | - | - | - | - |
| Thursday, October 19 | 8:30 AM | INITIAL CLAIMS | (Oct 14) | (M) | - | 210K | 209K |
| Thursday, October 19 | 8:30 AM | CONTINUING CLAIMS | (Oct 7) | (L) | - | - | 1702K |
| Thursday, October 19 | 8:30 AM | PHILADELPHIA FED | (Oct) | (M) | - | -6.4 | -13.5 |
| Thursday, October 19 | 10:00 AM | EXISTING HOME SALES SAAR | (Sep) | (M) | - | 3.9M | 4.0M |
| Thursday, October 19 | 10:00 AM | EXISTING HOME SALES M/M | (Sep) | (M) | - | -3.5% | -0.7% |
| Thursday, October 19 | 10:00 AM | LEADING INDICATORS M/M | (Sep) | (M) | - | -0.4% | -0.4% |
| Thursday, October 19 | 9:00 AM | Speaker: Philip N Jefferson (Governor) (Voter) | - | - | - | - | - |
| Thursday, October 19 | 12:00 PM | Speaker: Jerome H Powell (Chairman) (Voter) | - | - | - | - | - |
| Thursday, October 19 | 1:20 PM | Speaker: Austan D. Goolsbee, Chicago (Voter) | - | - | - | - | - |
| Thursday, October 19 | 1:30 PM | Speaker: Michael S Barr (Governor) (Voter) | - | - | - | - | - |
| Thursday, October 19 | 4:00 PM | Speaker: Raphael W. Bostic (Atlanta) (Non-Voter) | - | - | - | - | - |
| Thursday, October 19 | 5:30 PM | Speaker: Patrick Harker (Philadelphia) (Voter) | - | - | - | - | - |
| Thursday, October 19 | 7:00 PM | Speaker: Lorie K. Logan (Dallas) (Voter) | - | - | - | - | - |
| Friday, October 20 | 9:00 AM | Speaker: Patrick Harker (Philadelphia) (Voter) | - | - | - | - | - |
| Friday, October 20 | 12:15 AM | Speaker: Loretta Mester (Cleveland) (Non-Voter) | - | - | - | - | - |

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're in good company in expecting that August's retail spending surge will give way to more tepid gains in September. Indeed, we're actually a bit stronger than the consensus across the readings for ex-auto and control group sales, but even our call would entail a small contraction in real terms. Still, Q3 will have seen a healthy gain in overall consumer activity, a key to our upgraded quarterly GDP projection. Industrial production and housing data aren't likely to garner as much attention. Fed speakers include heavyweights like Powell and Vice Chair Williams, and markets will be looking to see if they also reference elevated bond yields as a factor that could weigh on their upcoming rate decision.

In **Canada**, those looking for an early Halloween spooking can focus on the CPI data. Remember that StatsCan reports the monthly change in not-seasonally-adjusted terms, so a 0.1% there isn't really soft, as it could be equivalent to 0.5% seasonally adjusted, and enough bump the 12-month rate to 4.1%. But that should mark a near-term high, and weak readings on August retail sales should lend some comfort by reminding markets of an economic slowdown that is consistent with dampening price pressures in 2024.

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

(Tuesday, 8:30 am)

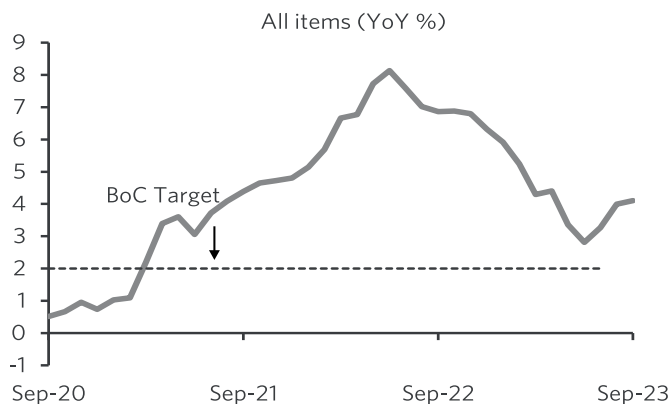
Andrew Grantham andrew.grantham@cibc.com

| Variable (%) | CIBC | Mkt | Prior |
|---------------|------|-----|-------|
| CPI NSA (m/m) | 0.1 | - | 0.4 |
| CPI (y/y) | 4.1 | - | 4.0 |

Gasoline prices had a roller coaster ride in September, firstly accelerating sharply before falling again. Although they ended the month broadly flat relative to August, because they fell sharply last September, they will still exert upward pressure on the year-over-year reading this time around. In contrast, food price inflation will likely continue to ease.

Excluding food and energy, price pressures could look a little tamer this month as demand for services such as travel, hotels and restaurants exerts some downward pressure. However, the ongoing rise in mortgage interest costs will continue to apply upward pressure. Adding it all up, we see a 0.1% monthly advance in overall CPI in September (0.5% seasonally adjusted), which will see the annual rate tick up slightly to 4.1%.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — September's CPI reading should represent a near-term peak, with lower gasoline prices bringing a sharp deceleration in October to just above 3%. While the Bank of Canada's core measures of inflation will likely prove stickier, we expect that by the second quarter of next year they will be running close to the top end of the 1-3% inflation target band and will be on a decelerating trend which will allow policymakers to consider trimming interest rates before mid-year.

Other Canadian releases: Retail sales—August

(Friday, 8:30 am)

Auto sales have been better than in 2022, but still well below pre-pandemic norms thanks to rising interest rates and continued supply issues in some areas. They may also weigh on headline retail sales in August, and we suspect that the -0.3% advance estimate for headline sales will be maintained in this final release. Ex auto sales will likely look better in nominal terms, but any growth on that breakdown will largely reflect higher prices particularly for gasoline.

Week Ahead's key US number: Retail sales—September

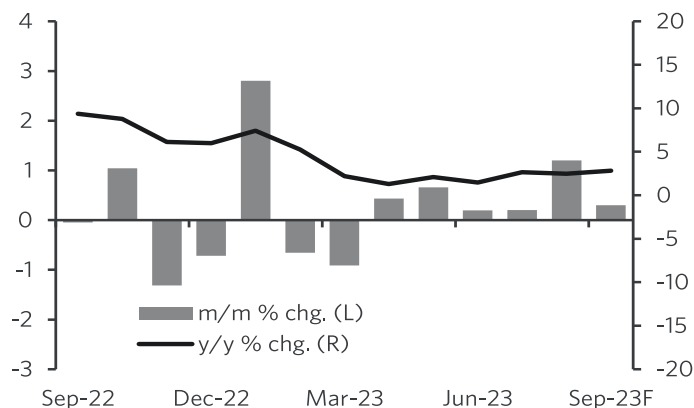
(Tuesday, 8:30 am)

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| Variable (%) | CIBC | Mkt | Prior |
|------------------------------|------|-----|-------|
| Retail sales | 0.3 | 0.3 | 0.6 |
| Retail sales - ex auto | 0.3 | 0.2 | 0.6 |
| Retail sales - control group | 0.1 | 0.0 | 0.1 |

US September retail sales should draw most of the attention from markets this week. After surging growth throughout the summer, we expect nominal sales in the control group — which feeds into the national accounts estimate of core goods consumption excluding autos — to increase modestly in the month. This implies a modest contraction in volume terms after five consecutive months of solid growth given core goods prices from the September CPI release. The key category to watch, and what has driven most of the summer strength in retail sales, are online sales. This category now accounts for 30% of the control group and has essentially not slowed down since the pandemic first hit. This suggests part of the underlying strength in consumption growth, and the lower saving rate we have seen, could reflect some more permanent behaviour shifts on the part of consumers.

Chart: US Retail sales



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — September retail sales will be more consequential for 23Q4 consumption growth than for 23Q3, given the release comes at the tail end of the quarter and sets the momentum for the next quarter. Today we upgraded our US GDP outlook and expect growth of 3.9% in 23Q3 and 0.9% in 23Q4.

Other US Releases: Industrial production—September

(Tuesday, 9:15 am)

Industrial production growth should pull back modestly after heat-wave driven strength in utilities and temporary pick up in mining the previous month.

Housing starts—September

(Wednesday, 8:30 am)

A slew of housing indicators next week should show starts rebounding modestly in September after a sharp contraction in August and permits decelerating after their previous month pick up.

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