Economics

THE WEEK AHEAD

November 28-December 2, 2022

Delayed gratification

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

The central banks are looking for a slower pace for employment and a higher unemployment rate as keys to getting inflation under wraps. Investors would also like to see that sort of softness, because a cooling in growth now is preferable to the longer boom and deeper bust that would be the result if inflation stays hotter for longer.

Fresh labour market data for November are on tap in both the US and Canada in the coming week, but we'd caution that we probably won't get what we need wrapped up in an early Christmas present. At least in the US, where the data are more reliable and we can track jobless benefit claims to help with the forecast, odds are that job gains will still be too high relative to the moderation we're seeking.

There are reasons to expect only delayed gratification for those hoping for evidence of a soft landing. For one, there are all those job openings still out there. Although rate hikes and shifting spending patterns are starting to push layoff announcements, remember that employment data measure net hiring. Every employer who successfully fills a vacant post will offset another that is chopping headcounts. So given the elevated level for unfilled positions, the slowing impact of higher interest rates on payroll counts could be a bit longer in coming in this cycle.

That's not necessarily that concerning to the central bankers. They can get a cooling in wage inflation either by lowering the job vacancy rate —leaving fewer desperate employers tempted into big pay hikes— or by raising the unemployment rate, which makes job seekers more eager to take whatever pay is on offer. Bank of Canada research recently drew attention to the potential for a favourable move along the Beverage curve, which tracks where we stand on those two labour market benchmarks.

We still have a ways to go to get either the drop in vacancies or the climb in unemployment needed to quell inflation. But that doesn't mean that they're not on the way if we're patient enough, even if the Bank of Canada pauses after only another half point rate hike, and the Fed doesn't take rates through 5%.

Rate hikes on both sides of the border operate with a considerable lag in terms of when they take the biggest dent out of activity. The Fed's forecasting model suggests that as of Q4, the US economy has felt the equivalent of the full lagged impact of only 100 basis points of hikes. Much more of this year's tightening will show up in depressing activity in 2023.

The Bank of Canada drew attention to the fact that those with variable rate mortgages have started to hit interest rate triggers that could compel them to increase monthly payments, rather than simply reduce the share of existing payments going to principal.

But media reports on that subject ignored the elephant that will be crowding into the room over the next few years. Canadians with fixed rate mortgages have locked in rates for five years or less. We've seen only a small share of them have to refinance in 2022, but there's another big slice of households with mortgages coming due in 2023. They face a major hike in their monthly expenses, draining discretionary spending power elsewhere in the economy.

Home sales have dried up this year, impacting the GDP of real estate agents and moving companies. But homebuilders are still busy working on houses and condos they sold before sales dried up in the summer. Come 2023 and 2024, today's weak sales for new houses and condos will translate into a significant drop-in construction activity. The week ahead's employment data for the construction sector can't yet capture that major turning point.

We could be surprised by Friday's data, of course. But best bets are the additional slack we're looking for in the North American labour market will only come to those prepared to wait a bit longer.

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 28	8:30 AM	CURRENT ACCOUNT BAL.	(Q3)	(M)	-$5.3B	-	$2.69B
Tuesday, November 29	8:30 AM	GDP M/M	(Sep)	(H)	0.1%	-	0.1%
Tuesday, November 29	8:30 AM	GDP (annualized)	(Q3)	(H)	1.3%	-	3.3%
Wednesday, November 30	-	AUCTION: 2-YR CANADAS $3.5B	-	-	-	-	-
Thursday, December 1	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(Q3)	(M)	-	-	0.2%
Friday, December 2	8:30 AM	EMPLOYMENT CHANGE	(Nov)	(H)	10.0K	-	108.3K
Friday, December 2	8:30 AM	UNEMPLOYMENT RATE	(Nov)	(H)	5.3%	-	5.2%

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 28	12:00 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Monday, November 28	12:00 PM	Speaker: James Bullard (St Louis) (Voter)	-	-	-	-	-
Tuesday, November 29	-	AUCTION: 1-YR TREASURIES	-	-	-	-	-
Tuesday, November 29	9:00 AM	HOUSE PRICE INDEX M/M	(Sep)	(M)	-	-1.3%	-0.7%
Tuesday, November 29	9:00 AM	S&P CORELOGIC CS Y/Y	(Sep)	(H)	-	10.7%	13.1%
Tuesday, November 29	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Nov)	(H)	99.6	100.0	102.5
Wednesday, November 30	7:00 AM	MBA-APPLICATIONS	(Nov 25)	(L)	-	-	2.2%
Wednesday, November 30	8:15 AM	ADP EMPLOYMENT CHANGE	(Nov)	(M)	-	195K	239K
Wednesday, November 30	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Oct)	(M)	-$90.6B	-$90.2B	-$92.2B
Wednesday, November 30	8:30 AM	GDP (annualized)	(3Q S)	(H)	2.7%	2.7%	2.6%
Wednesday, November 30	8:30 AM	GDP DEFLATOR (annualized)	(3Q S)	(H)	-	4.1%	4.1%
Wednesday, November 30	8:30 AM	RETAIL INVENTORIES M/M	(Oct)	(H)	-	-	0.4%
Wednesday, November 30	8:30 AM	WHOLESALE INVENTORIES M/M	(Oct P)	(L)	-	0.5%	0.6%
Wednesday, November 30	9:45 AM	CHICAGO PMI	(Nov)	(M)	-	47.0	45.2
Wednesday, November 30	10:00 AM	JOLTS Job Openings	(Oct)	-	-	10325K	10717K
Wednesday, November 30	10:00 AM	PENDING HOME SALES M/M	(Oct)	(M)	-	-5.2%	-10.2%
Wednesday, November 30	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, November 30	8:50 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, November 30	12:35 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Wednesday, November 30	1:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, December 1	8:30 AM	INITIAL CLAIMS	(Nov 26)	(M)	-	-	240K
Thursday, December 1	8:30 AM	CONTINUING CLAIMS	(Nov 19)	(L)	-	-	1551K
Thursday, December 1	8:30 AM	PCE DEFLATOR Y/Y	(Oct)	(H)	6.0%	6.0%	6.2%
Thursday, December 1	8:30 AM	PCE DEFLATOR Y/Y (core)	(Oct)	(H)	5.0%	5.0%	5.1%
Thursday, December 1	8:30 AM	PERSONAL INCOME M/M	(Oct)	(H)	0.5%	0.4%	0.4%
Thursday, December 1	8:30 AM	PERSONAL SPENDING M/M	(Oct)	(H)	0.9%	0.8%	0.6%
Thursday, December 1	10:00 AM	ISM - MANUFACTURING	(Nov)	(H)	50.2	49.8	50.2
Thursday, December 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Oct)	(M)	-	-0.2%	0.2%
Thursday, December 1	-	NEW VEHICLE SALES	(Nov)	(M)	-	14.9M	14.9M
Thursday, December 1	9:25 AM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Thursday, December 1	9:30 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Thursday, December 1	3:00 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Friday, December 2	8:30 AM	NON-FARM PAYROLLS	(Nov)	(H)	180K	200K	261K
Friday, December 2	8:30 AM	UNEMPLOYMENT RATE	(Nov)	(H)	3.7%	3.7%	3.7%
Friday, December 2	8:30 AM	AVG HOURLY EARNINGS ALL EMPLOYEES M/M	(Nov)	(H)	0.3%	0.3%	0.4%
Friday, December 2	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Nov)	(H)	-	34.5	34.5
Friday, December 2	8:30 AM	MANUFACTURING PAYROLLS	(Nov)	(H)	-	20K	32K
Friday, December 2	10:15 AM	Speaker: Charles L. Evans (Chicago) (Non-Voter)	-	-	-	-	-
Friday, December 2	2:00 PM	Speaker: Charles L. Evans (Chicago) (Non-Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're just a touch lighter that the consensus on payrolls, but not yet subdued enough in terms of what the Fed is likely looking for. Average hourly earnings could be impacted by a tilt towards filling lower paid services jobs. October personal consumption looks to have been quite brisk given what we saw in retail sales, but that will run well ahead of incomes, so it's coming from a falling savings rates (and an upturn in credit card debt). Survey data on consumer confidence and from ISM manufacturing will likely be a bit steadier than the notable dip we saw in the past week's PMI readings, as other data just don't seem to line up with that PMI weakness. There are lots of Fed speakers on the calendar, but it would take a significant surprise in the jobs data to knock them off course for a 50 bp hike in December.

In **Canada**, employment data have been all over the map, so we're not particularly confident in our call for a slightly soft 10K jobs gain, although that would be not far from the six month average pace. Both September and third quarter GDP will show a step towards the slowdown that the Bank of Canada is seeking, but the flash estimate for October could be a bit of a discordant note, likely showing a stronger start to Q4 than what we or the central bankers are expecting for the full quarter.

Week Ahead's key Canadian number: Gross domestic product—September and Q3

(Tuesday, 8:30 am)

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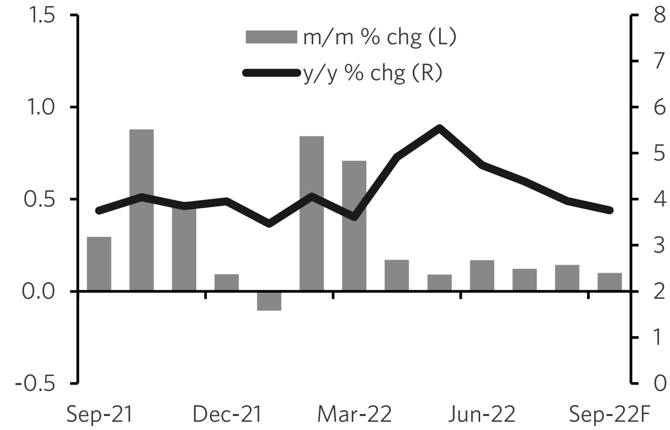
Variable	CIBC	Mkt	Prior
GDP Sep (m/m)	0.1%	-	0.1%
GDP Q2 (q/q SAAR)	1.3%	-	3.3%

Chart: Canadian real GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Growth in the Canadian economy likely decelerated below its long-run potential in Q3, as drivers of the economy narrowed. A decline in goods spending will have partly offset the continued recovery in services, while residential investment likely saw another steep drop due to lower resale and renovation activity. That would leave final domestic demand likely below a 1% annualized pace, and overall economic growth driven largely by exports.

The advance estimate for October is expected to show moderate growth of 0.2-0.3%, with advance indicators for retail, wholesale and manufacturing all pointing to healthy rebounds during the month.

Forecast implications — The slowdown in domestic demand growth, even including the continued recovery in services consumption, should be the most important indicator from Q3's GDP report with regards to how much further the BoC takes interest rates. A rebound in agriculture and increased international demand for Canadian produced commodities will continue to support export growth into 2023, but that isn't the sort of growth that policymakers should be worried about from an inflation point of view.

Other Canadian releases: Labour force surve—November

(Friday, 8:30 am)

Employment surged in October, although with the size of the labour force doing the same the unemployment rate held steady. We forecast a modest gain in employment of 10K in November, which would be modestly below the pace of labour force growth and as such could see the jobless rate tick up to 5.3%.

Current account balance—Q3

(Monday, 8:30 am)

Lower commodity prices and a widening deficit in services likely drove the current account into deficit for the first time since Q4 2021 with the -$5.3bn deficit we forecast also representing the most red ink since Q3 2020.

Week Ahead's key US number: Employment situation—November

(Friday, 8:30 am)

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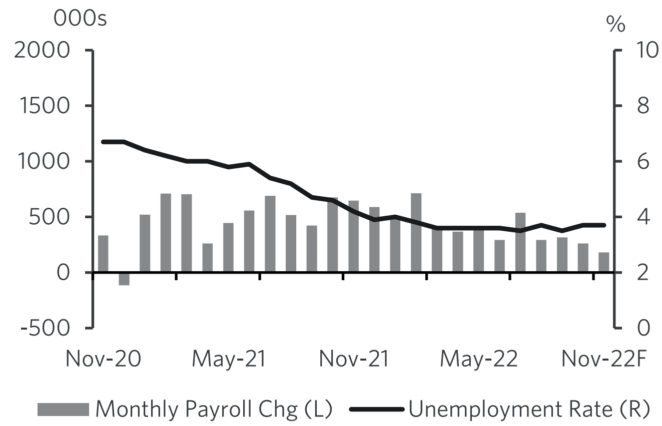
Variable	CIBC	Mkt	Prior
Employment (m/m)	180K	200K	261K
Unemployment rate	3.7%	3.7%	3.7%
Avg hourly earnings (m/m)	0.3%	0.3%	0.4%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Initial jobless claims rose modestly over the November payrolls survey reference period, while the Conference Board's indicator of job availability deteriorated in October, and the ISM's index of employment in service sectors slipped into contractionary territory in that month as well. Layoffs in the tech sector have gained momentum, and although job openings ticked up into the end of October, the 3-month moving average continues to indicate a softening in labor market conditions.

All told, hiring likely slowed to a still-healthy 180K pace in November. The strength of the consumer could have supported employment in industries including leisure, restaurants, and retail trade, while the easing of supply chain issues could have prevented a drop in manufacturing payrolls. The unemployment rate likely remained at 3.7% in November after rising by two ticks in October, reflecting a drop in employment in the household survey.

Forecast implications — With the prime-age participation rate close to its pre-pandemic level, there is little room for continued, strong hiring without faster wage inflation, and the Fed will remain on track for a 50bp rate hike in December as a result. With the impact of past rate hikes still materializing, the labor market is set to deteriorate markedly in 2023, which will likely cause the Fed to stop hiking once it reaches a ceiling of 5.0% on the fed funds range in early 2023.

Market impact — We're slightly below the consensus, which could cause bond yields and the USD to edge lower.

Other US Releases: Personal income and outlays—November

(Thursday, 8:30 am)

Consumers haven't shown much resistance to higher prices lately, and spending likely rose by a strong 0.9% in November, with gains in services adding to the impressive increase in goods spending implied by the retail sales report. However, that pace of spending isn't sustainable, as incomes likely rose by a slower 0.5%, implying a drawdown of savings. Core PCE prices, the Fed's preferred measure of inflation, could have eased by a tick to 5.0% y/y.

ISM Manufacturing—November

(Thursday, 10:00 am)

Regional indices sent mixed signals for the ISM's manufacturing index in November, implying that the index could have been flat, and barely in expansionary territory, at 50.2. New orders could have been held back by the slowdown in growth that's underway, but production could have received a lift in some sectors as supply chain issues continued to fade, supporting the fulfillment of past orders.

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