

Economics

THE WEEK AHEAD

May 15 - 19, 2023

After you, Chairman Powell

by Avery Shenfeld avery.shenfeld@cibc.com

Although it's still an open issue, the Fed seems ready to put away its rate hiking pen, if not as decisively as financial markets seem to assume. The latest CPI data weren't really worthy of the roughly 10 basis point rally they engendered in two year Treasuries, a rally validated only if the Fed cuts before the end of this year. The hoopla rested on only one below target seasonally adjusted monthly gain for one specific subgroup of the overall CPI index.

After its slim 0.1% climb in April, that "supercore" measure was still running at roughly 4% annualized in the last three months, an improvement for sure, but a long way from the 2% inflation target. Meanwhile, the old-fashioned measure of core inflation, CPI excluding food and energy, saw a still-heated 0.4% monthly advance. We still see rate cuts as a 2024 story.

Overseas it's even less clear that Europe's two leading central banks are done with hikes, after both the ECB and the Bank of England delivered a quarter point move in the last couple of weeks. True, they've lagged behind the Fed, and the absolute level of yields is still shy of where the fed funds rate now sits.

That clearly explains some of why they could still be pressing ahead. But there's more to the story of the hawkish tone of some European central bankers, one that suggests that when it eventually comes time to cut interest rates, the message from Europe will be "after you, Chairman Powell".

It's not that Europe's economy is proving more resilient to higher rates. The UK central bank has moved off its prior forecast for an outright recession, but that's based on what could have been a very short-lived dose of better news. Given its export mix, Germany is exposed to what looks to now be a deceleration in China after the Middle Kingdom's initial post-lockdown surge. Our GDP forecasts for the UK and the eurozone are in fact more pessimistic than our calls for the US or Canada.

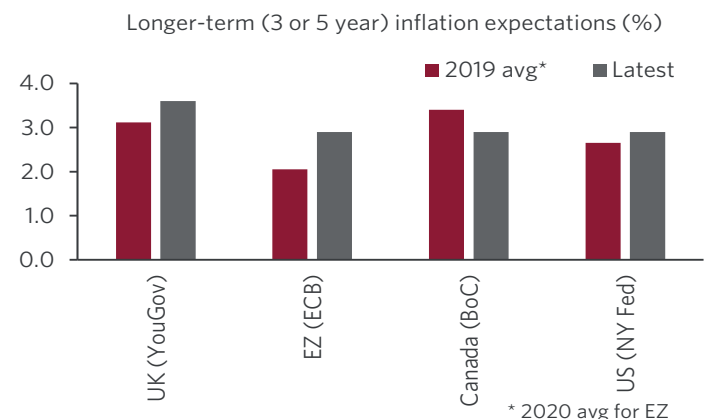
Instead, it's the greater risk of stubborn inflation that could force both the ECB and the BoE into tolerating a longer run of

economic pain before they will see fit to ease up on monetary policy. Not only is inflation running hotter in the UK and on the continent, but because of that, it might be gaining more of a foothold in medium term inflation expectations. These are at a higher level in the UK than in the US or Canada, and while still tamer in the eurozone, they have seen a greater increase versus their prior levels than what we've seen elsewhere (Chart).

We do expect material progress in Europe's inflation picture in the coming quarters, with base effects helping out. But if, as seems likely, the embers of higher inflation glow a bit longer than in North America, that will delay the response of European central banks to come to the economy's rescue with rate cuts until deeper into 2024.

A higher-for-longer policy for European rates is one reason to favour the euro and Sterling over the US dollar in the year ahead. Countries with persistent inflation gaps versus their trading partners eventually see their currencies weaken, since otherwise their exports would become uncompetitive. But a short dose of inflation trouble that is cured with a sterner run of higher interest rates typically is supportive for a currency.

Chart: Inflation expectations surveys: UK the hottest, EZ up the most since 2019



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 15	8:15 AM	HOUSING STARTS SAAR	(Apr)	(M)	220K	-	213.9K
Monday, May 15	8:30 AM	WHOLESALE TRADE M/M	(Mar)	(M)	-	-	-1.7%
Monday, May 15	9:00 AM	EXISTING HOME SALES M/M	(Apr)	(M)	-	-	1.4%
Monday, May 15	10:00 AM	BoC Financial System Review	-	-	-	-	-
Tuesday, May 16	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Mar)	(M)	-	-	-3.6%
Tuesday, May 16	8:30 AM	CPI M/M	(Apr)	(H)	0.4%	-	0.5%
Tuesday, May 16	8:30 AM	CPI Y/Y	(Apr)	(H)	4.1%	-	4.3%
Tuesday, May 16	8:30 AM	Consumer Price Index	(Apr)	(M)	-	-	155.3
Tuesday, May 16	8:30 AM	CPI Core- Median Y/Y%	(Apr)	(M)	-	-	4.6%
Tuesday, May 16	8:30 AM	CPI Core- Trim Y/Y%	(Apr)	(M)	-	-	4.4%
Wednesday, May 17	-	AUCTION: 3-YR CANADAS \$3B	-	-	-	-	-
Wednesday, May 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Mar)	(M)	-	-	4.62B
Thursday, May 18	11:00 AM	Speaker: Tiff Macklem (Governor) & Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Friday, May 19	8:30 AM	RETAIL TRADE TOTAL M/M	(Mar)	(H)	-1.5%	-	-0.2%
Friday, May 19	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Mar)	(H)	-1.0%	-	-0.7%

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, May 15	8:30 AM	NEW YORK FED (EMPIRE)	(May)	(M)	-	-1.5	10.8
Monday, May 15	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Mar)	(L)	-	-	\$71.0B
Monday, May 15	8:45 AM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Monday, May 15	9:15 AM	Speaker: Neel Kashkari (Minneapolis) (Voter)	-	-	-	-	-
Monday, May 15	5:00 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Tuesday, May 16	-	AUCTION: 1-YR TREASURIES \$36B	-	-	-	-	-
Tuesday, May 16	8:30 AM	RETAIL SALES M/M	(Apr)	(H)	0.9%	0.7%	-0.6%
Tuesday, May 16	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Apr)	(H)	0.4%	0.3%	-0.4%
Tuesday, May 16	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Apr)	(H)	0.3%	0.3%	-0.3%
Tuesday, May 16	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Apr)	(H)	0.0%	0.0%	0.4%
Tuesday, May 16	9:15 AM	CAPACITY UTILIZATION	(Apr)	(M)	79.8%	79.7%	79.8%
Tuesday, May 16	10:00 AM	BUSINESS INVENTORIES M/M	(Mar)	(L)	-	0.0%	0.2%
Tuesday, May 16	10:00 AM	NAHB HOUSING INDEX	(May)	(L)	-	45	45
Tuesday, May 16	8:15 AM	Speaker: Loretta Mester (Cleveland) (Non-Voter)	-	-	-	-	-
Tuesday, May 16	10:00 AM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Tuesday, May 16	12:15 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, May 16	3:15 PM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Tuesday, May 16	7:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter) & Austan D. Goolsbee, Chicago (Voter)	-	-	-	-	-
Wednesday, May 17	-	AUCTION: 20-YR TREASURIES \$15B	-	-	-	-	-
Wednesday, May 17	7:00 AM	MBA-APPLICATIONS	(May 12)	(L)	-	-	6.3%
Wednesday, May 17	8:30 AM	BUILDING PERMITS SAAR	(Apr)	(H)	1420K	1440K	1430K
Wednesday, May 17	8:30 AM	HOUSING STARTS SAAR	(Apr)	(M)	1400K	1400K	1420K
Thursday, May 18	-	AUCTION: 10-YR TIPS \$15B	-	-	-	-	-
Thursday, May 18	8:30 AM	INITIAL CLAIMS	(May 13)	(M)	-	-	264K
Thursday, May 18	8:30 AM	CONTINUING CLAIMS	(May 6)	(L)	-	-	1813K
Thursday, May 18	8:30 AM	PHILADELPHIA FED	(May)	(M)	-	-18.0	-31.3
Thursday, May 18	10:00 AM	EXISTING HOME SALES SAAR	(Apr)	(M)	-	\$4.3M	\$4.4M
Thursday, May 18	10:00 AM	EXISTING HOME SALES M/M	(Apr)	(M)	-	-3.3%	-2.4%
Thursday, May 18	10:00 AM	LEADING INDICATORS M/M	(Apr)	(M)	-	-0.5%	-1.2%
Thursday, May 18	9:05 AM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Thursday, May 18	9:30 AM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Thursday, May 18	10:00 AM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Friday, May 19	8:45 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, May 19	9:00 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Friday, May 19	11:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, April retail sales look to rebound a bit more than consensus expectations after a weak March report, but the control group might only just recoup the prior month's decline. Housing starts look to be little changed. In contrast to widespread expectations for a rate pause, Fed Governor Bowman indicated her leaning towards further hikes being necessary, so its worth paying heed to the flood of Fed speakers in the coming week to see how widespread that view might be. And yes, the tick, tick clock on the approaching debt ceiling reminds us that we need to hear some better news from Kevin McCarthy and the Biden administration sooner rather than later.

In **Canada**, a moderating trend in inflation seems likely to remain on track, with our forecast resting on a 0.2% seasonally-adjusted monthly change for CPI excluding food/energy. Of course, we'll need a long string of such reports to get annual inflation back to 2%, but this would be a step in the right direction if it materializes. Food inflation could also be a bit tamer than we've seen thus far. Retail sales for March will be close to the weak readings of the earlier flash estimates, and we expect only a partial bounce back for the flash estimates for April.

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

(Tuesday, 8:30 am)

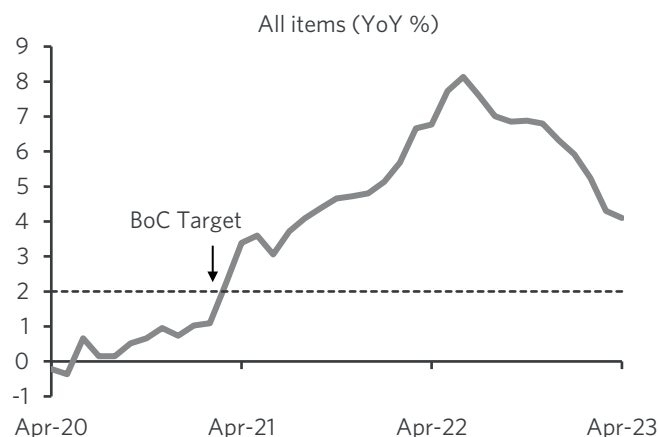
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Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.4	-	0.5
CPI (y/y)	4.1	-	4.3

The deceleration in inflation likely slowed in April, largely due to a modest monthly rebound in gasoline prices. However, with prices at the pump slipping again to start May, and a large monthly increase dropping out of the annual calculation from a year ago, progress should quicken again next month. We should also soon see a continued easing of food price inflation, even if monthly price declines likely won't happen until the summer months.

Core inflation (excluding food and energy) is expected to have advanced at a 0.2% seasonally adjusted pace, as some of the large increases in travel seen during the prior month reverse. While house prices have started to creep up again, the mortgage interest component of CPI is starting to show smaller monthly increases, meaning that the overall pace of shelter inflation is not expected to re-accelerate.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Headline inflation should fall to around 2½% year-over-year by early summer, largely due to gasoline prices that are well off the peaks seen last year. However, less favourable base effects thereafter will mean that inflation hovers in the 2.5-3% range for a while, before a slowing economy brings weaker service sector inflation by early 2024.

Other Canadian releases: Retail sales—March

(Friday, 8:30 am)

Retail sales are expected to have fallen by 1.5% in March. Although a pullback in the volatile auto segment may have contributed, ex-auto sales are still expected to have fallen by 1%, while overall sales in volume terms are also expected to have been down sharply during the month. A cold start to the spring, combined with power outages in Quebec, may have also limited any rebound in sales activity during April.

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

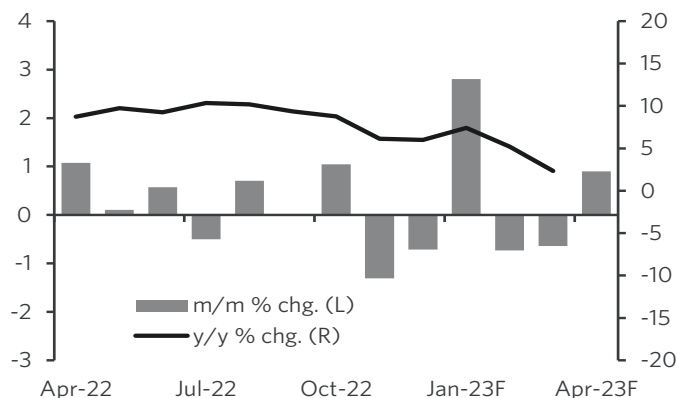
(Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Retail sales m/m	0.9	0.7	-0.6
Retail sales - ex auto	0.4	0.3	-0.4
Retail sales - control group	0.3	0.3	-0.3

Consumers were cautious to open their wallets to retailers at the end of the first quarter, but a jump in unit vehicle sales in April suggests that the second quarter could have started on more solid footing, with retail sales likely increasing by an impressive 0.9%. Higher gasoline prices could have also helped the nominal headline gain. In the control group, which excludes autos, gasoline, restaurants, and building materials, and feeds more directly into non-auto goods consumption in GDP, sales could have increased by a healthy 0.3%, reflecting strength in wages and job growth.

Chart: US Retail sales (%)



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — Although there remains pent-up demand for autos, inventory-to-sales ratios are generally at their pre-pandemic levels in other retail categories, which should keep a lid on goods prices ahead. Given how far above pre-pandemic trends sales volumes are in the control group, we see scope for drops in spending on goods outside of autos ahead.

Market impact — We are a bit above consensus which could be modestly bearish for bonds.

Other US Releases: Industrial production—April

(Tuesday, 9:15 am)

Employment in manufacturing rebounded in April, and hours worked increased slightly for production workers. However, oil rig counts eased off, and temperatures were warmer than normal and suggest a reversal in strength of utilities production, which surged in March. Overall, industrial production likely flatlined, leaving capacity utilization off of its pandemic-era peaks at 79.8%.

Housing starts—April

(Wednesday, 8:30 am)

The drop in building permit issuance in March suggests that homebuilding could have fallen to a 1400K pace in April, as mortgage rates stopped falling and tighter lending standards for builders could have also weighed on activity, and also caused building permit issuance to fall to a 1420K pace. We expect mortgage rates to rise ahead as the market pushes rate cut expectations into 2024, which will further limit housing market activity.

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