

Economics

THE WEEK AHEAD

March 21-25, 2022

The US yield curve and the R word

by Avery Shenfeld avery.shenfeld@cibc.com

“The dismal science” is an appropriate moniker for economics, since it seems that as soon as the good times roll, we start to worry about recession risks. A forecaster who likes to go with the odds should remember that, in the last several decades, only about one year in ten sees a recession. So if you pick a random year, odds are it won’t be recessionary.

But we are hearing chatter about US recession risks these days, enough for Jay Powell to be asked by the media if he expects to see one. The “R” word talk is coming from three sources: those who use the yield curve slope as their forecasting guru, those worried about an oil price spike, and those who argue that the central bank inevitably causes one when it takes aim at inflation.

The nabobs of negativism who focus on the yield curve cite the very flat slope from 2-year to 10-year Treasuries. Flat curves are a great forecasting tool, but their track record is much stronger when both the 2s-10s slope, and the slope from 3 month to 2-years are flat.

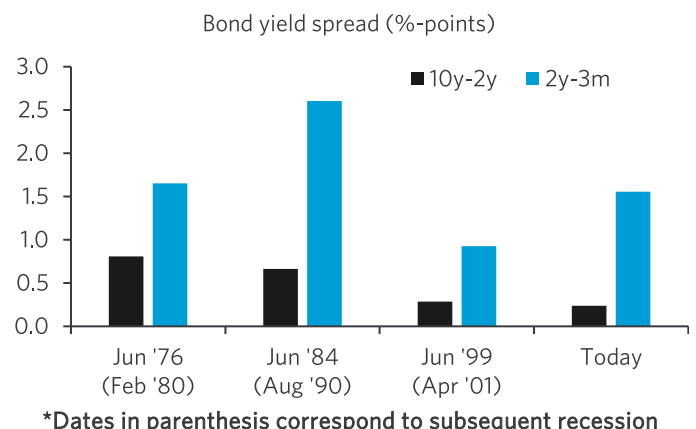
When we’ve had what we see now, steepness in the front end of the curve and flatness beyond 2-years, recessions haven’t generally followed until at least two years out or more (Chart), and it’s unlikely that the curve was really telling us anything about conditions that far ahead. Moreover, today’s slope has been distorted by quantitative easing, and might not be comparable to past Treasury curves as a signal for the economy.

Oil prices have contributed to several prior recessions, and if Russian oil is completely shut out, and not replaced by increases elsewhere, we could see a sufficient climb in prices to threaten another one. But at this point, prices aren’t high enough in constant dollar terms to create a large enough shock, and we need to allow for the fact that the economy’s oil intensity isn’t as high as it was in decades past.

So that leaves us with the risks of a Fed error, and at least some cycles have seen just that. Paul Volker is credited with being an inflation-fighting superhero, but in the process we did see a nasty recession. Tightening cycles that end in a steady state of moderate inflation and full employment haven’t exactly been common. Often, once full employment has been reached, either an excessive rate hike cycle, or a shock that hit too abruptly for an easing in rates to take care of it, has sent us into recession. If the Fed overdoes its tightening in 2022-23, given the lags, there would indeed be a recession risk in 2024.

But to accuse the Fed of making that mistake after only one quarter point hike seems premature. We’d point out that had it not been for Covid-19, Powell’s turn to easier policy in 2019 looked well placed to prolong the last cycle. Mid-cycle eases in 1998, 1995 and after the 1987 stock market crash were well timed to extend those expansions. As long as the Fed gets careful after the next 100 basis points or so, and leaves time between subsequent hikes to gauge the economy’s resilience, there’s nothing inevitable about a 2024 recession. So economics doesn’t have to be that dismal just yet.

Chart : The US yield curve and recession dates



Source: Bloomberg, CIBC

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, March 21	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Tuesday, March 22	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Feb)	(M)	-	-	3.0%
Tuesday, March 22	8:30 AM	RAW MATERIALS M/M	(Feb)	(M)	-	-	6.5%
Tuesday, March 22	-	NEW BRUNSWICK BUDGET	-	-	-	-	-
Tuesday, March 22	-	QUEBEC BUDGET	-	-	-	-	-
Wednesday, March 23	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Wednesday, March 23	-	AUCTION: 50-YR CANADAS \$1B	-	-	-	-	-
Wednesday, March 23	-	SASKATCHEWAN BUDGET	-	-	-	-	-
Thursday, March 24	-	-	-	-	-	-	-
Friday, March 25	12:45PM	Speaker: 12:45 PM Sharon Kozicki (Deputy Gov.)	-	-	-	-	-

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, March 21	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Feb)	(M)	-	-	0.69
Monday, March 21	8:00 am	Speaker: Raphael W. Bostic (President, Atlanta)	-	-	-	-	-
Monday, March 21	12:00 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, March 22	-	AUCTION: 1-YR TREASURIES \$34B	-	-	-	-	-
Tuesday, March 22	8:30 AM	RICHMOND FED MANUF. INDEX	(Mar)	(M)	-	2.0	1.0
Tuesday, March 22	10:35 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, March 22	2:00 PM	Speaker: Mary C. Daly (President, San Francisco)	-	-	-	-	-
Tuesday, March 22	5:00 PM	Speaker: Loretta Mester (President, Cleveland) (Voter)	-	-	-	-	-
Wednesday, March 23	-	20-YR AUCTION: \$16B	-	-	-	-	-
Wednesday, March 23	-	AUCTION: 2-YR FRN \$22B	-	-	-	-	-
Wednesday, March 23	7:00 AM	MBA-APPLICATIONS	(Mar 18)	(L)	-	-	-1.2%
Wednesday, March 23	10:00 AM	NEW HOME SALES SAAR	(Feb)	(M)	827K	815K	801K
Wednesday, March 23	10:00 AM	NEW HOME SALES M/M	(Feb)	(M)	3.2%	1.8%	-4.5%
Wednesday, March 23	8:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Wednesday, March 23	11:45 AM	Speaker: AM Mary C. Daly (President, San Francisco)	-	-	-	-	-
Wednesday, March 23	3:00 PM	Speaker: James Bullard (President, St Louis) (Voter)	-	-	-	-	-
Wednesday, March 23	9:05 PM	Speaker: James Bullard (President, St Louis) (Voter)	-	-	-	-	-
Thursday, March 24	-	AUCTION: 10-YR TIPS \$14B	-	-	-	-	-
Thursday, March 24	8:30 AM	INITIAL CLAIMS	(Mar 19)	(M)	-	210K	214K
Thursday, March 24	8:30 AM	CONTINUING CLAIMS	(Mar 12)	(L)	-	-	1419K
Thursday, March 24	8:30 AM	CURRENT ACCOUNT BALANCE	(Q4)	(L)	-	-	-\$214.8B
Thursday, March 24	8:30 AM	DURABLE GOODS ORDERS M/M	(Feb P)	(H)	-0.5%	-0.5%	1.6%
Thursday, March 24	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Feb P)	(H)	0.6%	0.5%	0.7%
Thursday, March 24	9:45 AM	S&P GLOBAL US SERVICES PMI	(Mar P)	(L)	-	56.0	56.5
Thursday, March 24	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Mar P)	(L)	-	54.0	55.9
Thursday, March 24	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Mar P)	(L)	-	55.0	57.3
Thursday, March 24	8:30 AM	Speaker: Neel Kashkari (President, Minneapolis) (Non-Voter)	-	-	-	-	-
Thursday, March 24	9:10 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Thursday, March 24	11:00 AM	Speaker: Raphael W. Bostic (President, Atlanta)	-	-	-	-	-
Friday, March 25	10:00 AM	PENDING HOME SALES M/M	(Feb)	(M)	-	1.2%	-5.7%
Friday, March 25	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Mar F)	(H)	-	59.7	59.7
Friday, March 25	-	Speaker: Mary C. Daly (President, San Francisco)	-	-	-	-	-
Friday, March 25	9:10 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Friday, March 25	10:00 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, March 25	11:30 AM	Speaker: Thomas I. Barkin (President, Richmond)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, a flock of Fed speakers will put their spin on the newly launched tightening cycle, and we'd pay most attention to what Williams and Powell have to say, with Bullard likely to be the most hawkish of these central bankers given his vote for a 50 bp move. On the data front, new home sales should advance as weather turned a bit milder in February, with the recent upswing in 30-year mortgage rates as a headwind lying in wait for the spring season. Durable goods orders should see a healthy gain ex-transport, although we caution that higher prices for some equipment will translate that into less impressive growth in real terms.

In **Canada**, provincial budget season shifts into high gear with three provinces set to report. The provinces enter this fiscal year in better shape with a strong revenue backdrop, with the only downside from that being that there isn't the same room as last year for post-budget pleasant surprises. Other than that, it's a very light week for economic news, so global events, including developments in Ukraine, are likely to be the major market drivers.

There are no major Canadian data releases next week.

Week Ahead's key US number: Durable goods orders—February

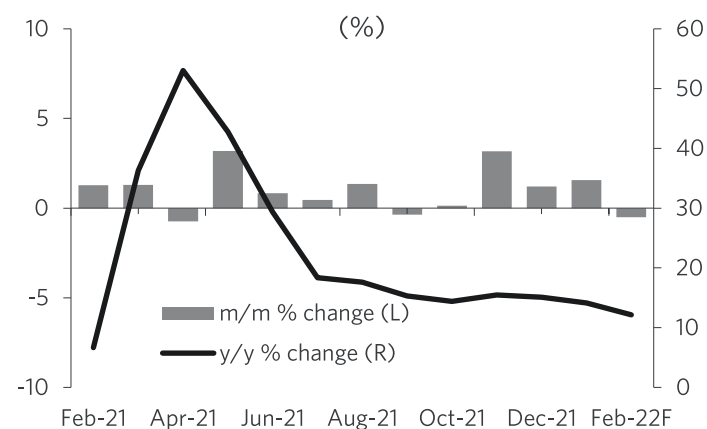
(Thursday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Durable goods orders (m/m)	-0.5	-0.5	1.6
Ex-transportation (m/m)	0.6	0.5	0.7

Commercial aircraft orders look to have taken a breather in February after flying high to start the year, likely causing total durable goods orders to retreat by 0.5%. Defense equipment orders could be supportive later in the year, to restock equipment sent to Ukraine. Outside of the transportation sector, orders could have grown by a healthy 0.6% as capacity in the industrial sector continues to be absorbed, supporting orders of core capital goods.

Chart: US Durable goods orders



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — With supply chain bottlenecks easing ahead of the war in Ukraine, shipments of core capital goods have accelerated and suggest a contribution to growth from capital spending in the first quarter. Although defense orders will likely be bolstered by the war in Ukraine, the delivery of durable goods ahead could be threatened by renewed supply chain disruptions from the war and lockdowns in China.

Market impact — We are slightly above the consensus on the ex. transportation figure, but markets will remain more focused on developments around the war.

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