

Economics

THE WEEK AHEAD

September 4 - 8, 2023

What would Fallstaff do?

by Avery Shenfeld avery.shenfeld@cibc.com

If you're up on your English lit, you'd know that it was Shakespeare's character Fallstaff who advised that sometimes, discretion is the better part of valour. A central banker has to be brave enough to plow ahead with interest rate hikes, and mete out pain in the economy, when inflation is the enemy that needs to be vanquished. But there are also occasions where, as Fallstaff noted, bravery requires one to eschew bold action, and for North American central bankers, the data are suggesting that this is one such time.

Stateside, the Fed still gets another peek at the CPI before having to cement a rate decision in September. Monthly price gains have cooled, but we're unlikely to get a completely all clear signal just yet. Even so, a brave central banker now has enough other evidence to play the waiting game.

We had thought that a pause was the wise course, but were expecting that the Fed would press on with one final hike on the basis of firm early readings on Q3 GDP. But weak growth in household incomes suggests that July's spending spree was a flash in the pan, and today's payrolls report buttresses the case that hiring and wage gains are decelerating, crimping spending power ahead.

There appear to be enough votes on the FOMC from those who either think that rates are high enough, or who are willing to wait and see, to suggest that it won't hike in September. By year end, a further deceleration should have the Fed more definitively signalling an extended pause.

In Canada, we had expressed doubts about the need for July's rate hike when that one was announced. Those doubts were borne out in the lacklustre GDP data today, particularly since the monthly GDP trend isn't encouraging for Q3. The Bank of Canada's impatience in July had us believing that it would carry on with yet another intemperate hike in September. But data in the past week has tipped the scales enough that we expect the BoC to do the right thing, and opt to pause next week.

As in the US, don't expect Governor Macklem to formally declare that rates have definitely peaked. He'll need to see more disinflationary momentum for that, and it could be some months before we'll have enough labour market slack for the Bank to be comfortable in stating that rates are high enough to do the job. But if they skip a hike in September, we expect that the balance of risk calculation will ultimately clarify that rates have in fact peaked for this cycle.

For investors, and for the broad public, that's of course good news, because it's not just about avoiding the pain of even higher yields. It also reflects the reality that a lot of inflation has melted away before we really saw much slack emerge, owing to healing supply chains and cooling growth abroad.

That's changing the calculus of central banks in the US and Canada in terms of how much pain we'll need for how much gain in fighting inflation. Diminishing job vacancies, rather than a more troubling climb in unemployment, are also playing a role in cooling future wage inflation, and its feed through into consumer prices.

Valour was still required of both Governor Macklem and Chairman Powell, since there will no doubt be an economic cost in getting all the way to a 2% target. To some extent, that's already showing up in softness in per capita growth in Canada, and a rising unemployment rate.

But they'll end up having to be a bit less bold than might have been feared a few quarters ago, and after a Shakesperian winter of discontent for borrowers, there should be room for move towards less punishing interest rates by the spring of 2024.

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, September 4	-	Markets Closed (Labour Day)	-	-	-	-	-
Tuesday, September 5	-	-	-	-	-	-	-
Wednesday, September 6	8:30 AM	MERCHANDISE TRADE BALANCE	(Jul)	(H)	-\$4.5B	-	-\$3.7B
Wednesday, September 6	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(2Q)	(M)	-	-	-0.6%
Wednesday, September 6	10:00 AM	BANK OF CANADA RATE ANNOUNCE.	(Sep 6)	(H)	5.00%	5.00%	5.00%
Thursday, September 7	8:30 AM	BUILDING PERMITS M/M	(Jul)	(M)	-	-	6.1%
Thursday, September 7	10:00 AM	IVEY PMI	(Aug)	(L)	-	-	48.6
Thursday, September 7	2:10 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Friday, September 8	8:30 AM	EMPLOYMENT CHANGE	(Aug)	(H)	13.0K	-	-6.4K
Friday, September 8	8:30 AM	UNEMPLOYMENT RATE	(Aug)	(H)	5.6%	-	5.5%
Friday, September 8	8:30 AM	CAPACITY UTILIZATION	(2Q)	(L)	-	-	81.9%

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, September 4	-	Markets Closed (Labor Day)	-	-	-	-	-
Tuesday, September 5	-	AUCTION: 1-YR TREASURIES \$42B	-	-	-	-	-
Tuesday, September 5	10:00 AM	FACTORY ORDERS M/M	(Jul)	(M)	-3.0%	-2.5%	2.3%
Tuesday, September 5	10:00 AM	DURABLE GOODS ORDERS M/M	(Jul)	(H)	-	-	-5.2%
Tuesday, September 5	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jul)	(H)	-	-	0.5%
Wednesday, September 6	7:00 AM	MBA-APPLICATIONS	(Sep 1)	(L)	-	-	2.3%
Wednesday, September 6	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Jul)	(H)	-\$69.0B	-\$68.0B	-\$65.5B
Wednesday, September 6	9:45 AM	S&P GLOBAL US SERVICES PMI	(Aug)	(L)	-	-	51.0
Wednesday, September 6	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Aug)	(L)	-	-	50.4
Wednesday, September 6	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, September 6	8:30 AM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Wednesday, September 6	9:00 AM	Speaker: James Bullard (St Louis)	-	-	-	-	-
Wednesday, September 6	3:00 PM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Thursday, September 7	8:30 AM	INITIAL CLAIMS	(Sep 2)	(M)	-	-	228K
Thursday, September 7	8:30 AM	CONTINUING CLAIMS	(Aug 26)	(L)	-	-	1725K
Thursday, September 7	8:30 AM	NON-FARM PRODUCTIVITY	(2Q)	(M)	-	3.7%	3.7%
Thursday, September 7	10:00 AM	Speaker: Patrick Harker (Philadelphia) (Voter)	-	-	-	-	-
Thursday, September 7	3:30 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, September 7	3:45 PM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Thursday, September 7	7:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Non-Voter)	-	-	-	-	-
Thursday, September 7	7:05 PM	Speaker: Lorie K. Logan (Dallas) (Voter)	-	-	-	-	-
Friday, September 8	10:00 AM	WHOLESALE INVENTORIES M/M	(Jul)	(L)	-	-	-0.1%
Friday, September 8	3:00 PM	CONSUMER CREDIT	(Jul)	(L)	-	\$16.0B	\$17.8B

Week Ahead's market call

by Avery Shenfeld

In the **US**, workers will get a day off for Labor Day, and market participants will get a generally quiet week for economic reports. The past week's jobs data nearly closed the door on a September rate hike, but the we won't see the last ingredient for that decision, the August CPI, just yet. Readings on trade and factory orders aren't likely to catch much attention. We expect the parade of Fed speakers to line up in favour of a pause, even if they're not all willing to join Bostic in saying that rates are definitively high enough to declare that they're done for good.

In **Canada**, the downside surprise in GDP data will make it an easy decision for the Bank of Canada to leave rates on hold, by even casting some doubts on the reasoning behind the July hike, given the strength in Q1 consumption that the BoC had cited for that move seems to have melted away in a hurry. We don't expect the Bank to declare that rate hikes are done for good, let alone offer any hints about an easing ahead. Instead, the emphasis will be on a judgement that the balance of risks make it reasonable to see how signs of a slowing evolve ahead, but our view is that rates have in fact peaked for the cycle. The jobs data could show some hiring resumed in August, but remember that brisk population growth has raised the bar for what's needed to prevent a further uptick in the unemployment rate.

Week Ahead's key Canadian number: Employment—August

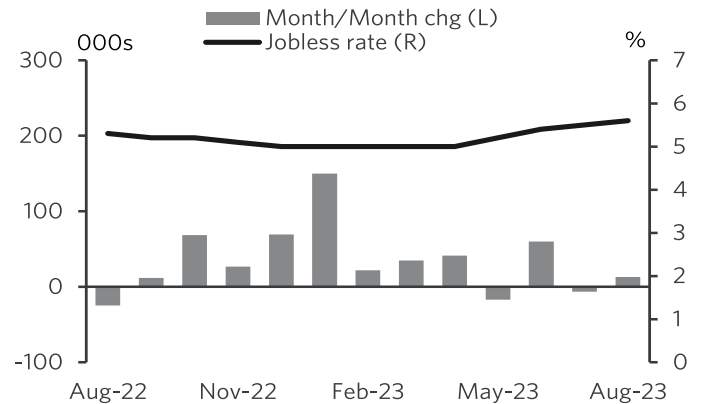
(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment change	13.0K	-	-6.4K
Unemployment rate	5.6%	-	5.5%

Slower trend growth in the Canadian economy portends a likely muted 13K advance in employment in August. Given the surge in population growth lately, that would push the unemployment rate up another tick to 5.6%, marking the fourth consecutive monthly increase and a further loosening of labour market conditions. The 12-month wage gain in this survey measure is likely to cool a bit after spiking in the prior month.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — With the unemployment rate on an upward trajectory and sluggish economic activity, the Bank of Canada likely won't take rates any higher. We expect to see a further deterioration in economic activity this fall as mortgages continue to renew at higher rates and the slowdown in global activity weighs.

Other Canadian releases: Merchandise trade—July

(Wednesday, 8:30 am)

Canada's goods trade balance could have fallen further into the red in July, with port strikes in BC and flooding in Nova Scotia hindering exports. However, with exporters fetching higher prices for oil, the widening in the deficit could have been limited somewhat, leaving the overall level at \$4.5bn. While the impact of port strikes will reverse in August, we expect slower global growth prospects to keep a lid on demand for Canadian exports over the remainder of the year.

There are no major US data releases next week.

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