

Economics

THE WEEK AHEAD

April 25-29, 2022

When the surprises all go one way

by Avery Shenfeld avery.shenfeld@cibc.com

My late father started his career as a meteorologist forecasting the weather, and as he used to put it, he had the immutable laws of physics on his side, rather than the very mutable forces behind the human behaviours that underlie an economic forecast.

When we economists are lucky, the errors pull in opposite directions and cancel each other out enough to leave the overall forecast intact. But the past few quarters haven't been that lucky, since the surprises have all gone one way in terms of their implications for inflation.

In the US, early last year we stood out from the crowd in predicting that the Fed would start hiking a bit in 2022, rather than the 2024 date US central bankers were then looking at. But "a bit" has turned into a mad dash, because of those one-way surprises on the inflation front.

Instead of fading away after vaccines became available, Covid-19 continued to come in waves that did more to impede the production of goods than they stood in the way of demand. American consumers are out shopping, but Chinese factory workers are in lockdown.

Then we threw in a tragic war in Ukraine that lifted food, energy and other materials prices and hampered some European manufactures. The resulting spike in inflation raised the risk that wages were going to get more than the typical lift from a low jobless rate, and would chase compensation for higher inflation.

Canada had a similar story with a few of its own twists. Employment growth surged to tighten labour markets a lot faster than would be typically consistent with the large gap we still see in GDP relative to its pre-Covid trend-line. The same exogenous shocks to inflation, coupled with those coming on domestic fronts like housing, now have wages playing catch-up to prices.

Not only has inflation eclipsed our projections and those of the central banks, but financial markets, which also respond to human behaviour rather than physics, are extrapolating what they're seeing into a lot more of the same. I see your 50-basis point rate hike, and I raise you another 50 basis points that I tack onto my prior forecast for overnight rates a year from now.

We continue to expect that taking overnight rates from near zero into the mid-2% range will provide a good deal of dampening impact, particularly when combined with quantitative tightening and the end of massive fiscal stimulus. CIBC Economics and FICC Strategy bumped up our targets for the fed funds rate to 2.63% and the Bank of Canada overnight rate to 2.5%, each a quarter point higher than our prior view, and the inflation surprise will see nearly all of that come in 2022. As a part of that, both the Fed and the Bank of Canada could easily do another 100 bps in total over their next two meetings.

But until the data show that slowing, the market is free to project even higher short rates, and build that into a larger overshoot in bond yields. We're going to need some surprises on growth and inflation going the other way, relative to market expectations, in order to stand in the way of that trend, and it may be several months before those are in evidence.

The risk for 2023 economic activity is that such evidence comes too late to stay the central bankers' hands, and leaves us facing a recession next year. We still put decent odds on Powell and Macklem's well-staffed teams reading the tea leaves in time to avoid that outcome. But it's fair to say that after the pleasant surprises we've seen on growth in recent quarters, there are emerging risks of unpleasant surprises for 2023.

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, April 25	-	-	-	-	-	-	-
Tuesday, April 26	-	AUCTION: 3-M BILLS \$8.6B, 6-M BILLS \$3.2B, 1-YR BILLS \$3.2B	-	-	-	-	-
Tuesday, April 26	8:55 AM	Speaker: Timothy Lane (Deputy Gov.)	-	-	-	-	-
Wednesday, April 27	-	-	-	-	-	-	-
Thursday, April 28	-	AUCTION: 30-YR RRB \$2B	-	-	-	-	-
Thursday, April 28	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Feb)	-	-	-	-
Friday, April 29	8:30 AM	GDP M/M	(Feb)	(H)	0.7%	-	0.2%

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, April 25	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Mar)	(M)	-	-	0.51
Tuesday, April 26	-	AUCTION: 2-YR TREASURIES \$48B	-	-	-	-	-
Tuesday, April 26	8:30 AM	DURABLE GOODS ORDERS M/M	(Mar P)	(H)	1.4%	1.0%	-2.1%
Tuesday, April 26	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Mar P)	(H)	0.7%	0.5%	-0.6%
Tuesday, April 26	9:00 AM	HOUSE PRICE INDEX M/M	(Feb)	(M)	-	1.5%	1.6%
Tuesday, April 26	9:00 AM	S&P CORELOGIC CS Y/Y	(Feb)	(H)	-	19.2%	19.1%
Tuesday, April 26	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Apr)	(H)	110.5	108.0	107.2
Tuesday, April 26	10:00 AM	RICHMOND FED MANUF. INDEX	(Apr)	(M)	-	8	13
Tuesday, April 26	10:00 AM	NEW HOME SALES SAAR	(Mar)	(M)	764K	774K	772K
Tuesday, April 26	10:00 AM	NEW HOME SALES M/M	(Mar)	(M)	-1.0%	0.3%	-2.0%
Wednesday, April 27	-	AUCTION: 5-YR TREASURIES \$49B	-	-	-	-	-
Wednesday, April 27	-	AUCTION: 2-YR FRN \$24B	-	-	-	-	-
Wednesday, April 27	7:00 AM	MBA-APPLICATIONS	(Apr 22)	(L)	-	-	-5.0%
Wednesday, April 27	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Mar)	(M)	-\$104.8B	-\$105.0B	-\$106.3B
Wednesday, April 27	8:30 AM	WHOLESALE INVENTORIES M/M	(Mar P)	(L)	-	1.8%	2.5%
Wednesday, April 27	8:30 AM	RETAIL INVENTORIES M/M	(Mar)	(H)	-	-	1.1%
Wednesday, April 27	10:00 AM	PENDING HOME SALES M/M	(Mar)	(M)	-	-1.3%	-4.1%
Thursday, April 28	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Thursday, April 28	8:30 AM	INITIAL CLAIMS	(Apr 23)	(M)	-	178K	184K
Thursday, April 28	8:30 AM	CONTINUING CLAIMS	(Apr 16)	(L)	-	1385K	1417K
Thursday, April 28	8:30 AM	GDP (annualized)	(Q1 A)	(H)	1.8%	1.0%	6.9%
Thursday, April 28	8:30 AM	GDP DEFLATOR (annualized)	(Q1 A)	(H)	7.8%	7.3%	7.1%
Friday, April 29	8:30 AM	EMPLOYMENT COST INDEX	(Q1)	(M)	-	1.1%	1.0%
Friday, April 29	8:30 AM	PCE DEFLATOR Y/Y	(Mar)	(H)	6.7%	6.7%	6.4%
Friday, April 29	8:30 AM	PCE DEFLATOR Y/Y (core)	(Mar)	(H)	5.3%	5.3%	5.4%
Friday, April 29	8:30 AM	PERSONAL INCOME M/M	(Mar)	(H)	0.4%	0.4%	0.5%
Friday, April 29	8:30 AM	PERSONAL SPENDING M/M	(Mar)	(H)	1.0%	0.6%	0.2%
Friday, April 29	9:45 AM	CHICAGO PMI	(Apr)	(M)	-	61.5	62.9
Friday, April 29	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Apr F)	(H)	-	65.7	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, we lean towards a consensus-topping Q1 GDP pace given the evidence from gains in industrial production and hours worked among other indicators. But in any event, final domestic demand will look much hotter, since the softness was in exports and inventory building, the latter still hampered by supply chain issues. In the personal income and consumption data, watch for a fairly large gap between spending and incomes, implying a tumbling savings rate that could portend less room for spending gains ahead until inflation cools. Durable goods and trade data are also on tap, with neither likely to be market movers.

In **Canada**, February GDP looks to have been rock solid, part of a Q1 pace that has generally surprised to the upside relative to what was expected when the year began. Deputy Governor Lane doesn't have much room to outdo the hawkish message already delivered by the Governor. Canadian payrolls data for February lag so far behind the release of household survey employment (which were out weeks ago for March) that they don't garner market attention, but the release does include one of the four wage measures tracked by the Bank of Canada.

Week Ahead's key Canadian number: Gross domestic product—February

(Friday, 8:30 am)

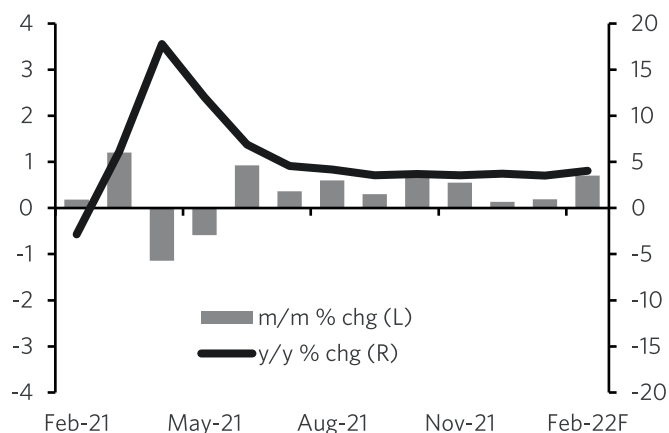
Andrew Grantham andrew.grantham@cibc.com

GDP (%)	CIBC	Mkt	Prior
GDP m/m (February)	0.7	-	0.2

After navigating Omicron-driven restrictions much better than expected in January, a rebound in those areas upon reopening, combined with a surprisingly strong rise in manufacturing production as well, likely drove a solid 0.7% gain in February GDP. Our forecast is marginally lower than the advance estimate mainly due to final data for the wholesale sector showing a decline in activity on the month. However, the increase would still represent a good performance considering that not all areas of the country had fully reopened their service sectors by the start of the month, and that supply disruptions owing to bridge blockades would have had at least a modest impact on manufacturing and wholesale trade.

The advance data for March is expected to show a further recovery in consumer services, and potentially a rebound in the wholesale sector as well. We have penciled in a further 0.3-0.4% increase in monthly GDP, for a 4-4½% annualized quarter. However, with the bulk of the advance industry data (manufacturing and wholesale trade) due to be released early next week, the forecast for March will be refined before next Friday.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — The first quarter will definitely be much stronger than anyone had expected at the start of the year as Omicron cases were climbing. The only question remaining is; by how much? Looking into the second half, we expect that the squeeze on household incomes from sky-high inflation and interest rates moving higher will slow the economy more than the Bank of Canada is currently forecasting. That could bring a pause in the current hiking cycle towards the lower-end of the Bank's neutral band.

Week Ahead's key US number: Real GDP—Q1 (Advance)

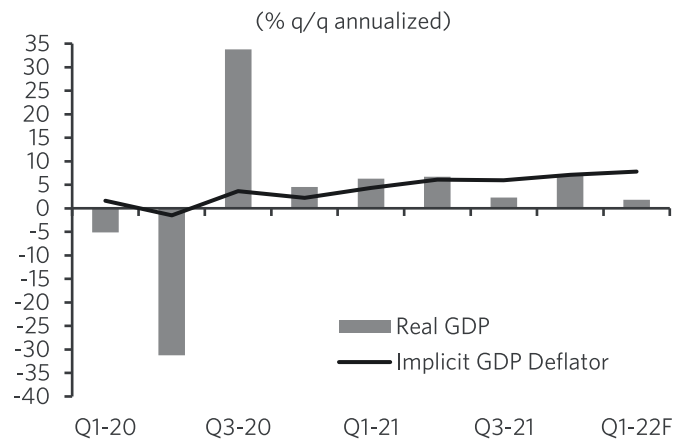
(Thursday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

GDP (%)	CIBC	Mkt	Prior
GDP q/q annualized	1.8	1.0	6.9
GDP deflator	7.8	7.3	7.1

With Omicron stifling the movement of US goods abroad and domestic inventory replenishment, growth in the US economy likely decelerated to 1.8% annualized in the first quarter. The headline growth rate would mask an acceleration in consumption, with contributions from both goods and service sectors, as auto unit sales rose and spending on food and travel services gained momentum as Omicron faded. Residential investment also likely boosted growth, as housing starts and construction spending climbed, while progress in capital goods imports and domestic shipments of such goods suggests a lift from capital spending. Excluding inventories, real final sales likely grew by a more robust 3½% annualized.

Chart: US GDP



Source: BEA, Haver Analytics, CIBC

Forecast implications — While the squeeze to incomes from higher gasoline prices will limit spending in discretionary categories of the economy in the second quarter, we expect growth to accelerate in the summer months on pent up demand for services. There have been some tentative signs of a levelling off in services activity lately as the Omicron subvariant spreads, but that's likely to represent an only temporary roadblock.

Market impact — We're above the consensus forecast, but likely not by enough to cause a material market reaction.

Other US Releases: Durable goods orders—March

(Tuesday, 8:30 am)

Commercial aircraft orders are poised to show a rebound in March, supporting a 1.4% gain in total durable goods orders. Outside of the transportation component, orders likely rebounded as capacity use in the industrial sector rose further above its pre-pandemic level, supporting orders in the core capital goods group, with the gains being amplified by higher prices. Overall, ex. transportation orders likely rose by 0.7%, although the delivery of such goods is threatened by impacts on US supply chains stemming from the lockdowns in China.

Advance trade in goods—March

(Wednesday, 8:30 am)

Export prices jumped in March, as food and industrial product prices climbed on impacts from the war in Ukraine, while the fading of global Omicron cases could have supported shipments of US goods abroad. However, the deficit in goods likely only narrowed marginally, to \$104.8bn, as higher petroleum product prices could have bolstered imports, while inventory restocking could have continued to support demand for international goods ahead of China's Covid lockdowns.

Contacts:

Avery Shenfeld
[416 594-7356](tel:4165947356)
avery.shenfeld@cibc.com

Benjamin Tal
[416 956-3698](tel:4169563698)
benjamin.tal@cibc.com

Andrew Grantham
[416 956-3219](tel:4169563219)
andrew.grantham@cibc.com

Karyne Charbonneau
[613 552-1341](tel:6135521341)
karyne.charbonneau@cibc.com

Katherine Judge
[416 956-6527](tel:4169566527)
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
[Bloomberg @ CIBC](#)

economics.cibccm.com

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2022 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.