Economics

THE WEEK AHEAD

December 4 - 8, 2023

Yes, we have some bananas

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

Why is inflation melting away, not just here but in Europe and in the US, in the latter case without any material slowing in the economy? Here at home, some revisions in the latest GDP report that date back into last year shed light on why all of these countries are seeing a similar story play out.

Prices for non-tradeable services can and do follow their own course around the world. The cost of renting an apartment or getting a haircut in Frankfurt doesn't track what's paid in rents or salons in Calgary. But for tradeable goods, globalization has meant that the broad trends in inflation have significant cross-country correlations.

We saw a rapid escalation of goods prices play out in 2021-22 across many of the world's advanced economies, and we're now seeing much more muted increases or even outright declines for those same items. Those who argued that the inflation spike would prove to be transitory can plant a belated victory flag, at least in terms of goods inflation.

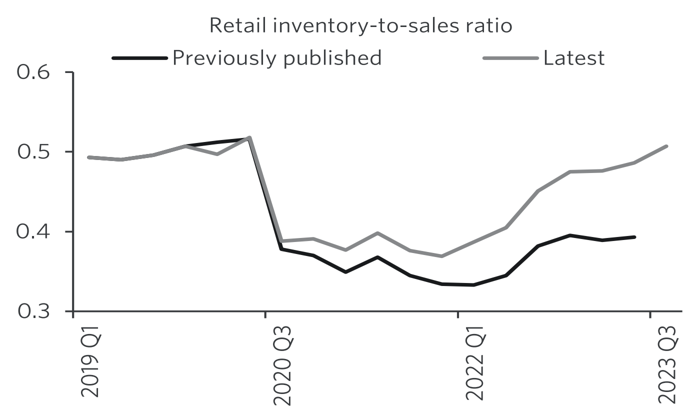
Economists say that everything comes down to supply and demand, and that's the case here. On the supply side, much of the initial shock to prices stemmed from actual and feared disruptions to production. These were associated with the war in Ukraine, COVID-related factory shutdowns, port bottlenecks and chip shortages. That was compounded by a worldwide shift towards consumer goods rather than services when COVID kept people away from restaurants, hotels, airports and theatres. Harvard's Cavallo and the Bank of Canada's Kryvtsov showed that online prices for goods in Canada and other countries they studied showed large spikes, but subsequent reversions, in lagged responses to the shortages that emerged during that period.

We're now, across the globe, in the midst of a cooling off period for goods prices, because retailers can say that yes, we have some bananas today, along with more cars, electronics, toilet paper and other items that had been in short supply. The Ukraine war disruptions to Russian oil and gas, or grain shipments, eased or were offset by other developments. Factories are humming again after COVID lockdowns or high absenteeism, and ports are in full swing.

Moreover, global goods demand has cooled off in the face of higher interest rates, a Chinese property crunch, and a return to a more normal split between services and goods. We also reached price levels that may have induced some sticker shock in those thinking of picking up a used car at prices not far from new vehicles, or had people opting for pasta over steak.

The revisions to Canadian macro data this week illuminate what's happened not only here, but globally. The revised data for retail inventories, having been very lean during the worst of the pandemic disruptions, are now fully back in line with their typical ratio to sales (Chart). If, as we expect, sales in Canada remain lacklustre, we may still have another step towards still lower goods inflation in January, if retailers end up overstocked with holiday goods they haven't cleared out. Watch for those on-sale stickers at a store near you, and in 2024 CPI reports as well.

Chart: Canadian inventory levels look healthier in revised data



Source: Statistics Canada, 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, December 4	-	-	-	-	-	-	-
Tuesday, December 5	-	AUCTION: 3-M BILLS $11.6B, 6-M BILLS $4.2B, 1-YR BILLS $4.2B	-	-	-	-	-
Wednesday, December 6	8:30 AM	MERCHANDISE TRADE BALANCE	(Oct)	(H)	$0.4B	-	$2.0B
Wednesday, December 6	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(3Q)	(M)	-	-	-0.6%
Wednesday, December 6	10:00 AM	BANK OF CANADA RATE ANNOUNCE.	(Dec 6)	(H)	5.00%	5.00%	5.00%
Wednesday, December 6	10:00 AM	IVEY PMI	(Nov)	(L)	-	-	53.4
Thursday, December 7	8:30 AM	BUILDING PERMITS M/M	(Oct)	(M)	-	-	-6.5%
Thursday, December 7	12:30 PM	Speaker: Toni Gravelle (Deputy Gov.)	-	-	-	-	-
Friday, December 8	8:30 AM	CAPACITY UTILIZATION	(3Q)	(L)	-	-	81.4%

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, December 4	10:00 AM	FACTORY ORDERS M/M	(Oct)	(M)	-2.4%	-2.6%	2.8%
Monday, December 4	10:00 AM	DURABLE GOODS ORDERS M/M	(Oct)	(H)	-	-	-5.4%
Monday, December 4	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Oct)	(H)	-	-	0.0%
Tuesday, December 5	9:45 AM	S&P GLOBAL US SERVICES PMI	(Nov)	(L)	-	-	50.8
Tuesday, December 5	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Nov)	(L)	-	-	50.7
Tuesday, December 5	10:00 AM	JOLTS Job Openings	(Oct)	-	9200K	9450K	9553K
Tuesday, December 5	10:00 AM	ISM - SERVICES	(Nov)	(M)	51.5	52.5	51.8
Wednesday, December 6	7:00 AM	MBA-APPLICATIONS	(Dec 1)	(L)	-	-	0.3%
Wednesday, December 6	8:15 AM	ADP EMPLOYMENT CHANGE	(Nov)	(M)	-	-	113K
Wednesday, December 6	8:30 AM	NON-FARM PRODUCTIVITY	(3Q)	(M)	-	4.8%	4.7%
Wednesday, December 6	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Oct)	(H)	-$62.0B	-$63.4B	-$61.5B
Thursday, December 7	8:30 AM	INITIAL CLAIMS	(Dec 2)	(M)	-	225K	218K
Thursday, December 7	8:30 AM	CONTINUING CLAIMS	(Nov 25)	(L)	-	-	1927K
Thursday, December 7	10:00 AM	WHOLESALE INVENTORIES M/M	(Oct)	(L)	-	-	-0.2%
Thursday, December 7	3:00 PM	CONSUMER CREDIT	(Oct)	(L)	-	$8.8B	$9.1B
Friday, December 8	8:30 AM	NON-FARM PAYROLLS	(Nov)	(H)	170K	198K	150K
Friday, December 8	8:30 AM	UNEMPLOYMENT RATE	(Nov)	(H)	3.9%	3.9%	3.9%
Friday, December 8	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Nov)	(H)	0.2%	0.3%	0.2%
Friday, December 8	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Nov)	(H)	-	34.3	34.3
Friday, December 8	8:30 AM	MANUFACTURING PAYROLLS	(Nov)	(H)	-	35K	-35K
Friday, December 8	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Dec P)	(H)	-	61.6	61.3

Week Ahead’s market call

by Avery Shenfeld

In the **US**, two key reports will lean towards a bit of an easing in labour market tightness. That might look more material in the JOLTS data, where job vacancies are likely to show a significant drop, than in the payrolls data, which will benefit from the return of striking workers, as well as a rebound in the household survey measure of employment that should keep the jobless rate steady. The ISM services index is the other major release on tap, but we don’t anticipate a significant change there.

In **Canada**, it’s almost easy to forget that the central bank has a rate decision to announce, because there’s absolutely no reason to expect that interest rates will budge at this point. We’re not “there” yet on inflation, but if the Governor wants to stick to his view that a recession won’t be necessary get to a 2% CPI, he can’t add interest rate pressure to an economy that has already shown zero average growth in the prior two quarters. The merchandise trade balance will likely have more movement in the revisions to the prior month than in the monthly change. The quarterly GDP report showed much weaker net trade than the monthly trade data had implied, suggesting that we’ll see the downward revision to the prior month’s surplus.

Week Ahead's key Canadian number: Merchandise trade balance—October

(Wednesday, 8:30 am)

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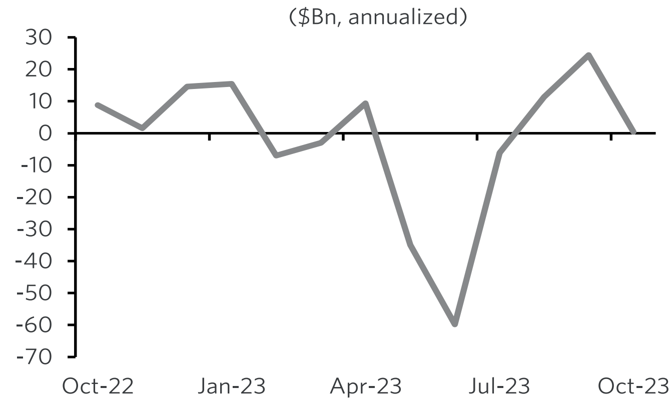
Variable	CIBC	Mkt	Prior
Merchandise trade balance (Oct)	$0.4B	-	$2.0B

Chart: Canadian merchandise trade balance



Source: Statistics Canada, Haver Analytics, CIBC

A weakening of global oil prices from September's peak, combined with slightly reduced volumes, should see Canada's trade balance with the rest of the world worsen slightly compared with the prior month. That prior month's starting point could also be weaker than initially estimated, with the current account for Q3 signaling a weaker goods trade balance than the monthly series would have implied. Because of those factors, we expect a slim $0.4bn trade surplus in October. The advance trade report from the US suggests that two-way trade in the auto industry has been impacted by the strike activity happening stateside.

Forecast implications — Global demand for Canadian exports has clearly slowed relative to last year, and there is less scope for further supply chain improvement to bring export growth in areas such as autos. We forecast real export growth to slow from close to 5% this year to only 1.5% in 2024.

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

(Friday, 8:30 am)

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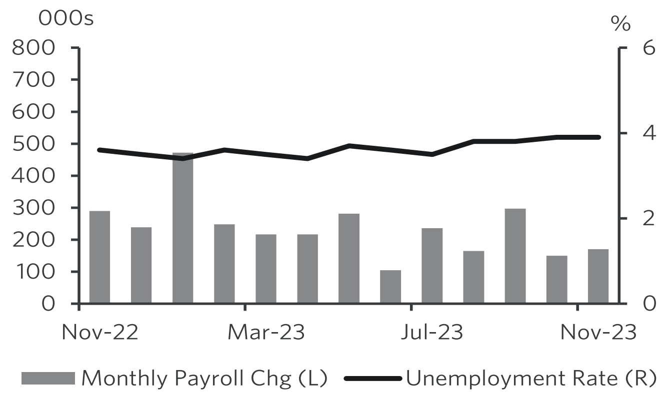
Variable	CIBC	Mkt	Prior
Employment (m/m)	170K	198K	150K
Unemployment rate	3.9%	3.9%	3.9%
Avg hourly earnings (m/m)	0.2%	0.3%	0.2%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

November should show a modest bounce back in US employment with over 30K auto workers coming back to work. We expect 170K job gains in November. But abstracting from the volatility from the October UAW strike, the trend in job growth is falling as firms' expectations of the outlook are dimming in a high interest rate environment. The unemployment rate should stay unchanged at 3.9%, as we should also see a rebound in employment and the labour force in the household survey. Overall, the labour market will continue to show gradual deceleration at the pace that the Fed can tolerate.

Forecast implications — While the trend in employment and income will be moving lower this quarter, consumption should still remain solid with a saving rate still at a low level. We expect consumption growth of about 2% annualized in 23Q4 and GDP growth of 1.5% at an annualized rate.

Market impact — We are below consensus on job gains. But in the context of almost six months of a solid inflation readings, an upside surprise does not mean much for the Fed. A large downside surprise would have their attention but it would be the first major piece of evidence of slower growth ahead.

Other US Releases: ISM Services—November

(Tuesday, 10:00 am)

ISM Services should move sideways, remaining in positive territory, as the prospects for service sector start to dim with firms' increasing feeling the effects of monetary policy restraint and expectations of slowing sales.

JOLTS Job Openings—October

(Tuesday, 10:00 am)

We expect the October JOLTS data to show job openings cooled materially in the month, consistent with other measures in October that pointed to labour demand cooling. The vacancy-to-unemployment ratio should slip down a notch to 1.4 as a result.

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