

## Economics

# THE WEEK AHEAD

September 26-30, 2022

## Tweedledee and Tweedledon't

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

The Fed had every reason to talk tough this week, perhaps even to the point of erring on the high side in terms of its forecasts for rate hikes ahead. Should the Fed press on to 4.5% or higher, does that force the Bank of Canada to follow suit? Or are there reasons why the two central banks are more like close cousins than identical twins?

Historically, overnight rates in the two countries do tend to move in the same direction, as do their two economies. But peaks and troughs in rates have had significant gaps in both directions, most recently in the last business cycle, when the Fed pressed on to mid-2% rates while the Bank paused at only a 1.75% peak.

Note that the Fed still estimates the long run neutral rate at 2.5%. That's important for the BoC outlook, since its models for the Canadian neutral rate put significant weight on where the US neutral rate lies.

The argument that aggressive Fed hikes force the Bank's hand is that failing to do so will weaken the Canadian dollar, and that acts as an easing in monetary conditions and a boost to import prices. But so far at least, that impact would be very modest, since the C\$ is appreciating against other trading partners. That helps hold down prices for Japanese and European vehicles, for example.

The BoC's trade-weighted CAD index was 1% above the average in the first half of 2022 as of August, while the loonie is 6% weaker versus the US dollar alone as of today. Bank of Canada research suggests that even if the loonie was down that much against the full basket, that would add only a few decimal places to the CPI. There's reason to believe that, once the Fed goes on hold, major currencies, including the loonie, will recoup some of the lost ground against the US dollar.

While a cheaper Canadian dollar can stimulate exports, there's been an offset in the other determinant of export conditions: commodity prices. The BoC's index of commodity prices was down 10% in August from its first half average.

To some extent, the more other central banks hike rates, the less the Bank of Canada has to tighten to achieve its desired slowdown. The Fed's more aggressive stance this month reflects its willingness to sacrifice more US growth in order to get inflation down. The resulting downgrade of the US outlook, and similar shifts overseas as other central banks tighten, serves to weaken Canada's export prospects. Higher US target rates and quantitative tightening push up Treasury yields and weigh on equity markets, and some of that tightening in financial conditions spills over into Canadian stocks and bonds.

Canada has long rejected the idea of a common currency with the US, for the very reason that the right monetary policy for this country doesn't precisely mirror the Fed's path. Of late, the data are giving off several signals that the optimal peak rate will be lower north of the border. Hiring has softened more, core inflation hasn't been quite as ugly, and much of the squeeze from higher mortgage rates on Canada's household sector lies ahead, as more and more mortgages come up for renewal. That's not a factor in the US, given the preponderance of 30-year fixed rate mortgages stateside.

Of course, both central banks are still on a tightening path, and we still expect the Bank of Canada to deliver another 50 bp hike in October. But when it comes to picking the right peak for rates, one high enough to quell inflation in the coming year, we say "vive la différence".

## 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 26	-	AUCTION: 5-YR CANADAS \$4B	-	-	-	-	-
Tuesday, September 27	-	AUCTION: 3-M BILLS \$9.2B, 6-M BILLS \$3.4B, 1-YR BILLS \$3.4B	-	-	-	-	-
Wednesday, September 28	-	AUCTION: 30-YR CANADAS \$1.5B	-	-	-	-	-
Thursday, September 29	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Jun)	-	-	-	114.6K
Thursday, September 29	8:30 AM	GDP M/M	(Jul)	(H)	-0.2%	-0.1%	0.1%
Friday, September 30	-	Markets closed (National Day for Truth and Reconciliation)	-	-	-	-	-

## Week Ahead Calendar And Forecast—United States

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, September 26	-	AUCTION: 2-YR TREASURIES \$43B	-	-	-	-	-
Monday, September 26	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Aug)	(M)	-	-	0.27
Monday, September 26	10:00 AM	Speaker: Susan M. Collins (Boston) (Voter)	-	-	-	-	-
Monday, September 26	12:00 PM	Speaker: Raphael W. Bostic (Atlanta)	-	-	-	-	-
Monday, September 26	12:30 PM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Monday, September 26	4:00 PM	Speaker: Loretta Mester (Cleveland) (Voter)	-	-	-	-	-
Tuesday, September 27	-	AUCTION: 5-YR TREASURIES \$44B	-	-	-	-	-
Tuesday, September 27	8:30 AM	DURABLE GOODS ORDERS M/M	(Aug P)	(H)	0.1%	-0.1%	-0.1%
Tuesday, September 27	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Aug P)	(H)	0.2%	0.3%	0.2%
Tuesday, September 27	9:00 AM	HOUSE PRICE INDEX M/M	(Jul)	(M)	-	0.0%	0.1%
Tuesday, September 27	9:00 AM	S&P CORELOGIC CS Y/Y	(Jul)	(H)	-	16.9%	18.7%
Tuesday, September 27	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Sep)	(H)	105.0	104.5	103.2
Tuesday, September 27	10:00 AM	RICHMOND FED MANUF. INDEX	(Sep)	(M)	-	-10.0	-8.0
Tuesday, September 27	10:00 AM	NEW HOME SALES SAAR	(Aug)	(M)	505K	500K	511K
Tuesday, September 27	10:00 AM	NEW HOME SALES M/M	(Aug)	(M)	-1.2%	-2.2%	-12.6%
Tuesday, September 27	6:15 AM	Speaker: Charles L. Evans (Chicago) (Non-Voter)	-	-	-	-	-
Tuesday, September 27	7:30 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, September 27	9:55 AM	Speaker: James Bullard (St Louis) (Voter)	-	-	-	-	-
Tuesday, September 27	8:35 PM	Speaker: Mary C. Daly (San Francisco)	-	-	-	-	-
Wednesday, September 28	-	AUCTION: 7-YR TREASURIES \$36B	-	-	-	-	-
Wednesday, September 28	-	AUCTION: 2-YR FRN \$22B	-	-	-	-	-
Wednesday, September 28	7:00 AM	MBA-APPLICATIONS	(Sep 23)	(L)	-	-	3.8%
Wednesday, September 28	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Aug)	(M)	-\$88.7B	-\$88.0B	\$90.2B
Wednesday, September 28	8:30 AM	WHOLESALE INVENTORIES M/M	(Aug P)	(L)	-	0.4%	0.6%
Wednesday, September 28	8:30 AM	RETAIL INVENTORIES M/M	(Aug)	(H)	-	-	1.1%
Wednesday, September 28	10:00 AM	PENDING HOME SALES M/M	(Aug)	(M)	-	-0.5%	-1.0%
Wednesday, September 28	8:35 AM	Speaker: Raphael W. Bostic (Atlanta)	-	-	-	-	-
Wednesday, September 28	10:10 AM	Speaker: James Bullard (St Louis) (Voter)	-	-	-	-	-
Wednesday, September 28	2:00 PM	Speaker: Charles L. Evans (Chicago) (Non-Voter)	-	-	-	-	-
Thursday, September 29	8:30 AM	INITIAL CLAIMS	(Sep 24)	(M)	-	-	213K
Thursday, September 29	8:30 AM	CONTINUING CLAIMS	(Sep 17)	(L)	-	-	1379K
Thursday, September 29	8:30 AM	GDP (annualized)	(2Q T)	(H)	-0.6%	-0.6%	-0.6%
Thursday, September 29	8:30 AM	GDP DEFLATOR (annualized)	(2Q T)	(H)	-	8.9%	8.9%
Thursday, September 29	9:30 AM	Speaker: James Bullard (St Louis) (Voter)	-	-	-	-	-
Thursday, September 29	1:00 PM	Speaker: Loretta Mester (Cleveland) (Voter)	-	-	-	-	-
Thursday, September 29	4:45 PM	Speaker: Mary C. Daly (San Francisco)	-	-	-	-	-
Friday, September 30	8:30 AM	PCE DEFLATOR Y/Y	(Aug)	(H)	6.0%	6.0%	6.3%
Friday, September 30	8:30 AM	PCE DEFLATOR Y/Y (core)	(Aug)	(H)	4.7%	4.8%	4.6%
Friday, September 30	8:30 AM	PERSONAL INCOME M/M	(Aug)	(H)	0.2%	0.3%	0.2%
Friday, September 30	8:30 AM	PERSONAL SPENDING M/M	(Aug)	(H)	0.4%	0.2%	0.1%
Friday, September 30	9:45 AM	CHICAGO PMI	(Sep)	(M)	-	51.8	52.2
Friday, September 30	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Sep F)	(H)	-	59.5	59.5
Friday, September 30	9:00 AM	Speaker: Lael S Brainard (Governor) (Voter)	-	-	-	-	-
Friday, September 30	4:15 PM	Speaker: John C. Williams (Vice Chairman) (Voter)	-	-	-	-	-

## Week Ahead's market call

by Katherine Judge and Karyne Charbonneau

In the **US**, the Fed's preferred measure of inflation, core PCE prices, will show a more modest acceleration than its CPI counterpart given the lower weight for shelter in that measure. But it will remain too hot for the Fed's comfort, and the expected healthy advance in household spending volumes in August, despite higher interest rates, confirms that policymakers still have more work to do in order to tamp down demand. A plethora of Fed speakers throughout the week will echo that sentiment. An abundance of secondary economic indicators are also on the calendar, with consumer confidence set to receive a boost from falling gasoline prices, and a further drop in new home sales in the cards as mortgage rates started to climb again in August.

In **Canada**, a quiet week will leave all eyes on the monthly GDP numbers coming out on Thursday, which should show a small decline for July. The advance estimate for August could point to a rebound as consumers benefitted from lower gasoline prices and some money handed out by provinces to help with the cost of living. That would leave the economy on track for a third quarter growth rate somewhat slower than the 2% expected by the Bank of Canada in its last MPR. But with much more data to come before the next rate decision, they could still be on track for a 50 bps hike in October.

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

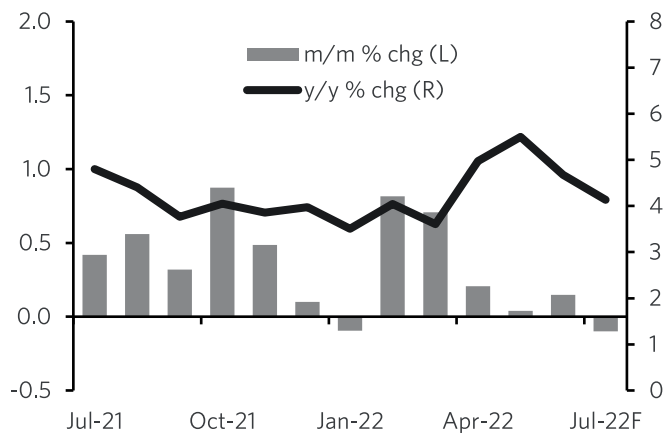
(Thursday, 8:30 am)

Andrew Grantham [andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

Variable (%)	CIBC	Mkt	Prior
GDP m/m (July)	-0.2	-0.1	0.1

The Canadian economy has been treading water in recent months and July's final release should show a continuation of that trend. While the drop in real estate activity appears to have become less steep, retail sales data suggest that inflation and interest rate hikes are starting to have a wider impact on consumer spending. Growth in consumer facing services is also slowing, with restaurant activity already back to its pre-pandemic level, and other areas stalling out below that level due to an incomplete recovery in demand but also supply constraints. The flash estimate for August could show a temporary reprieve as consumers likely benefited from lower gasoline prices and cheques handed out by provinces to help with the cost of living.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications** — The July and August data combined are likely to leave Q3 GDP tracking between 0.5-1.0%, which would be below the 2% pace expected by the Bank of Canada in its latest MPR. However, with supply constraints partly contributing to the slowdown in growth, it will likely take a bigger downside miss for policymakers not to make good on their latest policy decision commitment to hike interest rates further.

## Week Ahead's key US number: Personal income and outlays—August

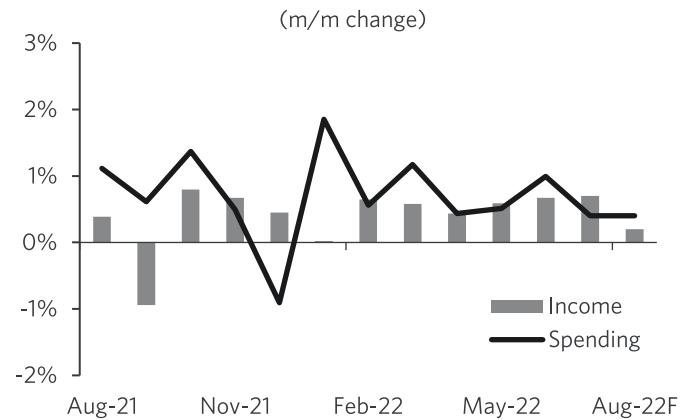
(Friday, 8:30 am)

Katherine Judge [katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

Personal income and outlays (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.2	0.3	0.2
Personal spending (m/m)	0.4	0.2	0.1
Core PCE price index (y/y)	4.7	4.8	4.6

With lower gasoline prices in August freeing up room for spending on services, total personal spending could have advanced by 0.4%, implying healthy growth in volume terms. But with hours worked dropping, incomes likely grew by a tepid 0.2%, suggesting that consumers had to draw down savings in order to fund spending. The Fed's preferred measure of prices, core PCE prices, could have accelerated more modestly than its CPI counterpart, to 4.7% y/y, given the lower weighting of shelter in the index.

Chart: US Personal income and spending



Source: BEA, Haver Analytics, CIBC

**Forecast implications** — Consumers continued to spend on discretionary goods in August, and the expected growth in services consumption suggests that the Fed will remain on track to raise interest rates by 100bps over the rest of the year, in an effort to contain the excesses in the economy.

**Market impact** — We are above the consensus on spending but the impact on yields and the USD could be offset by our below-consensus core PCE inflation call.

## Other US Releases: Durable goods orders—August

(Tuesday, 8:30 am)

While defense aircraft orders likely returned to growth in August, that could have been offset by weakness in commercial aircraft orders, leaving total durable goods orders only 0.1% higher in nominal terms in August. Excluding transportation, orders could have also looked soft, as uncertainty around the outlook for demand could have weighed, suggesting a modest 0.2% advance in that group; a precursor to weaker business investment in the final quarter of the year.

## Advance international trade in goods— August

(Wednesday, 8:30 am)

Shipments of LNG to Europe could have bolstered US exports in August, while the expansion of lockdowns in China coincided with the country posting a slimmer trade surplus with the US, suggesting that shipments of consumer products to the US were hindered. Together, that implies a narrowing of the US trade deficit in goods to \$88.7bn.

## Contacts:

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

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

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

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

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

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

[economics.cibccm.com](http://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.