Economics

THE WEEK AHEAD

April 22 - 26, 2024

6…5…4…3…2…?

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

It's now become a steady countdown, and not one that's going to be followed by a spectacular liftoff. Financial markets had at one point been pricing-in expectations for six quarter-point rate reductions from the US Fed in 2024, and even Jay Powell seemed to be hinting that the first one could come before mid-year. Now even two cuts are seen as no certainty. We weren't quite as enthused, but our forecast nudged down from four second-half cuts to three, and we concede that a mere two cuts is now more likely.

What went wrong? It's a long list, but it centres around the fact that those who hoped for an immaculate disinflation, with no economic slowdown at all, were always engaged in a bit of wishful thinking. Powell stressed productivity and supply gains as a way of having supply catch up to demand and cool prices, but that worked largely in the goods sector, and generated spending power for the new hires. The supply gains tied to labour force participation seemed more likely to plateau having already surpassed pre-COVID levels for prime-age workers. Without an economic cooling, we're left with too much money chasing too few services.

We weren't in that camp, so in our case, what's gone wrong was that the gentle economic slowing we were expecting, while not a recession, would take us on the last mile towards 2% inflation. A deceleration in hiring would sap the income growth needed to keep upward pressure on prices, and would also ease up on wage rates. With homebuilding and exports already quiescent, we just needed a bit less heat from consumers.

That too, didn't happen. It may well be that the US neutral rate has drifted higher, so current policy isn't as tight as we thought. But we also can blame the bane of all economists, issues with the underlying data we were looking at. Population growth in 2023 was greater than the staticians were assuming. That may well explain why gross domestic income has been trailing GDP, when the two should match. If so, there's actually more income out there, and more spending power, and the savings rate might not in fact be as unsustainably low as it looked. Moreover, signs that that retail demand was cracking in Q1 were revised away, and strong fresh readings on March retail sales and February services consumption repainted the Q1 picture to one of consumer strength.

Even the inflation data itself may have thrown us a headfake. Like others, we took solace in a sharp deceleration in six-month inflation rates in the back half of 2023. We ought to have been more skeptical, because anything other than 12-month data depends on seasonally-adjusted measures whose reliability has been marred by huge swings during the pandemic. Early 2024 inflation data reversed course, and while some see that as skewed higher due to those adjustment factors, if that's true, it implied that the data for late 2023 were also skewed downward.

With few signs of a slowdown, not only is inflation stuck a bit too high for the Fed's liking, but a dual-mandate central bank has less reason to act pre-emptively. The FOMC is still ready to ease well ahead of reaching 2% inflation if its other target, full employment, seems in jeopardy. We still expect the consumer sector to run out of gas at some point, and for rent increases to ease up enough to help on the inflation front. But we might not see enough of that before the final quarter of the year, so two quarter point cuts is a reasonable call.

None of this applies to Canada. Here, an improved Q1 growth pace doesn't nearly make up for the softness seen since mid-2022. The labour market is steadily adding slack, and perhaps because of that, progress on inflation has continued into 2024. The Bank of Canada can easily outgun the Fed by cutting four times this year, as such differences in either direction have been a feature in the past when the economies diverged.

Yes, that will mean a weaker Canadian dollar is in the cards until the Fed starts catching up, but the inflation sensitivities to the exchange rate aren't as large as many think. Non-traded services are a big part of the CPI basket, importers hedge FX risks to dampen price impacts, and many goods are priced to meet local markets, rather than sold at the same exchange-adjusted price. But the Bank of Canada also cares about how higher US rates impact our exports and financial conditions in Canada, and these forces could offset the impact of a weaker dollar on inflation. A slower pace of Fed cuts will dampen Canada's export prospects and will translate into higher Canadian long-term yields. So we're not counting down Canadian rate cuts at this point.

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 22	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Mar)	(M)	-	-	0.7%
Monday, April 22	8:30 AM	RAW MATERIALS M/M	(Mar)	(M)	-	-	2.1%
Monday, April 22	10:30 AM	Release: Market Participants Survey	-	-	-	-	-
Tuesday, April 23	-	AUCTION: 3-M BILLS $12.8B, 6-M BILLS $4.6B, 1-YR BILLS $4.6B	-	-	-	-	-
Wednesday, April 24	8:30 AM	RETAIL TRADE TOTAL M/M	(Feb)	(H)	0.1%	0.1%	-0.3%
Wednesday, April 24	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Feb)	(H)	-0.2%	0.0%	0.5%
Wednesday, April 24	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Thursday, April 25	-	AUCTION: 30-YR CANADAS $2B	-	-	-	-	-
Thursday, April 25	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Feb)	-	-	-	39.8K
Friday, April 26	-	-	-	-	-	-	-

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 22	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Mar)	(M)	-	-	0.1
Tuesday, April 23	-	AUCTION: 2-YR TREASURIES $69B	-	-	-	-	-
Tuesday, April 23	9:45 AM	S&P GLOBAL US SERVICES PMI	(Apr P)	(L)	-	52.1	51.7
Tuesday, April 23	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Apr P)	(L)	-	-	52.1
Tuesday, April 23	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Apr P)	(L)	-	51.8	51.9
Tuesday, April 23	10:00 AM	NEW HOME SALES SAAR	(Mar)	(M)	640K	670K	662K
Tuesday, April 23	10:00 AM	NEW HOME SALES M/M	(Mar)	(M)	-3.3%	1.2%	-0.3%
Tuesday, April 23	10:00 AM	RICHMOND FED MANUF. INDEX	(Apr)	(M)	-	-	-11.0
Wednesday, April 24	-	AUCTION: 5-YR TREASURIES $70B	-	-	-	-	-
Wednesday, April 24	-	AUCTION: 2-YR FRN $30B	-	-	-	-	-
Wednesday, April 24	7:00 AM	MBA-APPLICATIONS	(Apr 19)	(L)	-	-	3.3%
Wednesday, April 24	8:30 AM	DURABLE GOODS ORDERS M/M	(Mar P)	(H)	2.0%	2.8%	1.3%
Wednesday, April 24	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Mar P)	(H)	0.4%	0.3%	0.3%
Thursday, April 25	-	AUCTION: 7-YR TREASURIES $44B	-	-	-	-	-
Thursday, April 25	8:30 AM	INITIAL CLAIMS	(Apr 20)	(M)	-	-	212K
Thursday, April 25	8:30 AM	CONTINUING CLAIMS	(Apr 13)	(L)	-	-	1812K
Thursday, April 25	8:30 AM	WHOLESALE INVENTORIES M/M	(Mar P)	(L)	-	0.2%	0.5%
Thursday, April 25	8:30 AM	GDP (annualized)	(1Q A)	(H)	2.6%	2.3%	3.4%
Thursday, April 25	8:30 AM	GDP DEFLATOR (annualized)	(1Q A)	(H)	2.3%	3.0%	1.6%
Thursday, April 25	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Mar)	(M)	-$91.0B	-$90.4B	-$90.3B
Thursday, April 25	8:30 AM	RETAIL INVENTORIES M/M	(Mar)	(H)	-	-	0.6%
Thursday, April 25	10:00 AM	PENDING HOME SALES M/M	(Mar)	(M)	-	1.0%	1.6%
Friday, April 26	8:30 AM	PCE DEFLATOR Y/Y	(Mar)	(H)	2.6%	2.6%	2.5%
Friday, April 26	8:30 AM	PCE DEFLATOR Y/Y (core)	(Mar)	(H)	2.7%	2.7%	2.8%
Friday, April 26	8:30 AM	PERSONAL INCOME M/M	(Mar)	(H)	0.3%	0.5%	0.3%
Friday, April 26	8:30 AM	PERSONAL SPENDING M/M	(Mar)	(H)	0.7%	0.6%	0.8%
Friday, April 26	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Apr)	(H)	-	77.9	77.9

Week Ahead's market call

by Avery Shenfeld

In the **US**, forecasts for Q1 growth have been ratcheting higher on upside surprises and revisions in readings tied to consumption, as has been the case for our own projection, which now sits at 2.6%. Personal consumption for March will be part of that story, showing a heady gain, and leaving a generous handoff that will put upward pressure on forecasts for Q2 growth. The core PCE price index won't look all that bad on a year-on-year basis, but its 0.3% monthly gain would be the third consecutive reading above the Fed's 2% annualized pace, so there's nothing to cheer about there.

In **Canada**, we won't read too much into a soft reading for February retail sales, as it will look a bit firmer in real terms given price weakness, and still leave Q1 positioned for a healthy advance in consumer spending. That said, the quarterly pick-up also shouldn't be given too much weight. We saw something similar in the first quarter of 2023, and it proved to be a flash in the pan, and this year's Q1 was helped by mild weather and the delivery of vehicles that might have been ordered months ago.

Week Ahead's key Canadian number: Retail sales—February

(Wednesday, 8:30 am)

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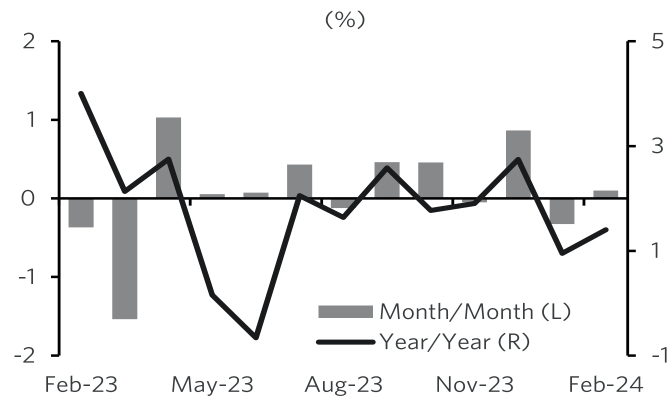
Variable (%)	CIBC	Mkt	Prior
Retail sales total m/m	0.1	0.1	-0.3
Ex-autos m/m	-0.2	0.0	0.5

Chart: Canadian retail sales



Source: Statistics Canada, Haver Analytics, CIBC

Nominal retail sales were likely sluggish in February, rising by 0.1%, in line with the advance estimate. However, excluding autos, sales could have fallen by 0.2%, following a jump in January that was likely boosted by milder than normal weather. That figure would look worse in per-capita terms, as households are curtailing discretionary spending as mortgages renew at higher interest rates and the unemployment rate increases.

Forecast implications — Goods prices fell in February, which means that retail sales will likely show modest growth in volume terms. For the quarter as a whole, goods consumption looks set to be relatively healthy, but that reflects a boost from activity amidst mild winter weather. In per-capita terms, real retail sales are roughly 1 ½ % below year-ago levels and that weakness leaves the door open for a June cut from the Bank of Canada.

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

(Thursday, 8:30 am)

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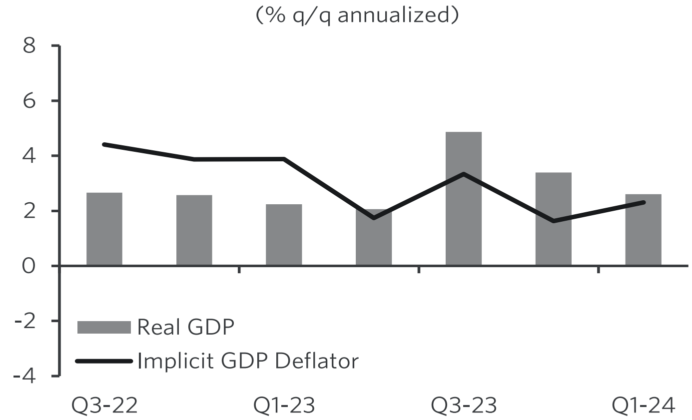
Variable (%)	CIBC	Mkt	Prior
GDP q/q annualized	2.6	2.3	3.4
GDP deflator	2.3	3.0	1.6

Chart: US GDP



Source: BEA, Haver Analytics, CIBC

The main event this week will be the 24Q1 GDP print, and it should be yet another strong one. Our nowcast calls for 2.6% Q/Q SAAR, above the current consensus number of 2.3%, which understates forecasters' views as most estimates were not updated since the March retail sales report, including our own last published forecast. The Atlanta Fed GDPNow is sitting at 2.9%. The US consumer will once again be doing most of the work to drive growth. But that will mask some weakness in the rest of the economy. We expect other components of domestic demand to be softer with investment indicators ticking down, and weak public construction suggesting a slower pace of government spending in the quarter. In addition, the data on trade and inventories point to a modest drag from those components.

Forecast implications — Consumption momentum heading into 24Q2 is very strong. Even assuming some pullback in goods spending in April, consumption growth next quarter is likely to range between 2-3% annualized, and that has our nowcast for 24Q2 tracking between 1.5-2.5%.

Market impact — A hot GDP number will be no surprise to the Fed given most of the underlying data is known to them, and it's also important to remember that FOMC does not place as much weight on GDP as it does on the labor market for assessing slack in the economy. But GDP will be at or above 2% for the 7th consecutive quarter. It is going to be hard for the Fed to convince itself most or all of this is supply-driven while inflation looks sticky.

Other US Releases: Durable goods orders—March

(Wednesday, 8:30 am)

Durable orders growth should accelerate to 2.0% due mainly to a pickup in the volatile transportation category. But excluding transportation, we expect momentum to accelerate with global manufacturing sentiment starting to pick up.

Personal income & outlays—March

(Friday, 8:30 am)

Based on the recent CPI and PPI reports, we expect the core PCE deflator to be 0.3% m/m, the third month in a row where core inflation is tracking above 2% annualized on a monthly basis. Real consumption should be strong at 0.5% and income growth should remain solid at 0.3% which will mean most of the spending once again will come from a dip in saving. We expect the saving rate will back down to the low 3s.

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