CIBC Economics

THE WEEK AHEAD

August 26 - 30, 2024

Commodities: "meh" is the message

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

Industrial commodities are often cited for what they have to say about the state of the global business cycle. Alan Greenspan was a heavy metal fan, not because he listened to Black Sabbath, but because he judged industrial materials prices as a useful cyclical signpost to supplement economic mainstays like employment and GDP. Dr. Copper supposedly has a Ph.D in economics. Oil and natural gas demand key off transportation activity and electric power generation respectively, which in turn relate to the movement of goods and their production. So what's the message from commodities these days?

Each of these markets is, of course, partly driven by supply developments. But it's interesting that, as a pack, their price trends collectively paint a very middling picture of global economic activity. Prices for global industrial and energy commodities are neither at elevated levels or on a steep uptrend, nor plunging into the doldrums as we see in global economic downturns. Instead, they're sort of "meh" (Chart).

That would appear to be somewhat at odds with the performance of equities and corporate bonds, which paint a rosier picture of economic times ahead. Equity valuations are a bit lofty, at least among US large caps, but admittedly less so in broader benchmarks. But spreads on US corporate bonds, even in the cyclically-sensitive high-yield space, are clearly on the tight side of their norms. That makes some sense in a world in which inflation has ebbed away, leaving central banks an open door to combat any serious economic weakness, of the kind that leads to major upswings in defaults, with as many interest rate cuts as it takes.

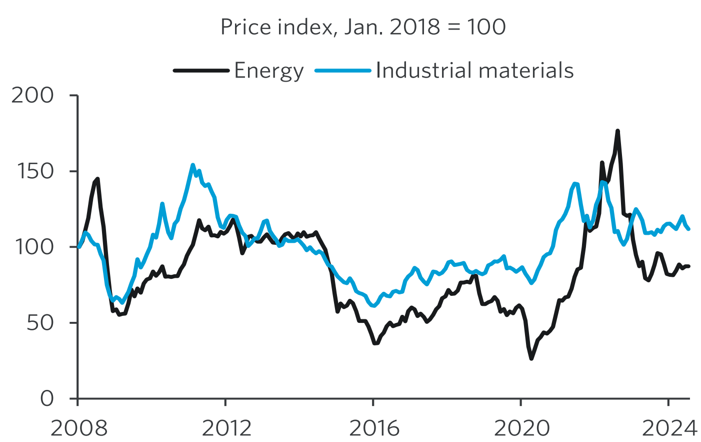
But there's a good reason for commodity markets, while not fearing the worst, to be discounting only mediocre global demand growth ahead. The good news on inflation is that we've managed to vanquish it without doing a whole lot of damage to economic activity, unlike what it took to get inflation back under wraps in the early 1980s.

The bad news for economic growth ahead is that having not opened up an ocean of economic slack, we don't have that much room for an economic boom without bringing inflation back into the picture. The revisions to US payrolls didn't alter the key metrics for labour market slack, which show a very average level of job vacancies, and an only modestly elevated unemployment rate. It's much the same in the UK and the eurozone, where jobless rates are still at historically low levels. Canada has a bit more elbow room than some, but as yet, nothing like we see after an outright recession, and labour force growth is set to slow in 2025.

That means that, barring an escalation in productivity, or improvements in participation rates, the speed limits for growth in major industrialized economies in 2025 and 2026 aren't that high. China might be one exception, but only if it can energize its domestic demand, because its frictions on the trade front are less likely to clear up. Emerging markets like India, Brazil and others can continue to emerge, and increase their material usage. But broadly speaking, we can cheer the downside protection that central bank easing can now provide, but not get too excited about how great the next two years are likely to be.

Each commodity will still tell its own story. Oil prices could still see upside if Mideast conflicts spread to OPEC members, copper demand will be linked to the pace of electrification, and so on. How supply responds matters too. But for those not playing in the commodities space, and instead thinking about the demand for other cyclical goods, the broad message from today's commodities markets is "meh": not great, but not terrible either.

Chart: Industrial and energy commodities: Middle of the road



Source: FRED, IMF, 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, August 26	-	-	-	-	-	-	-
Tuesday, August 27	-	AUCTION: 3-M BILLS $14.6B, 6-M BILLS $5.2B, 1-YR BILLS $5.2B	-	-	-	-	-
Wednesday, August 28	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Thursday, August 29	8:30 AM	CURRENT ACCOUNT BAL.	(2Q)	(M)	-$5.5B	-	-$5.4B
Thursday, August 29	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Jun)	-	-	-	41K
Friday, August 30	8:30 AM	GDP M/M	(Jun)	(H)	0.0%	0.1%	0.2%
Friday, August 30	8:30 AM	GDP (annualized)	(2Q)	(H)	1.9%	1.8%	1.7%

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, August 26	8:30 AM	DURABLE GOODS ORDERS M/M	(Jul P)	(H)	4.0%	3.9%	-6.7%
Monday, August 26	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jul P)	(H)	0.0%	0.1%	0.4%
Tuesday, August 27	-	AUCTION: 2-YR TREASURIES $69B	-	-	-	-	-
Tuesday, August 27	9:00 AM	HOUSE PRICE INDEX M/M	(Jun)	(M)	-	-	0.0%
Tuesday, August 27	9:00 AM	S&P CORELOGIC CS Y/Y	(Jun)	(H)	-	-	6.8%
Tuesday, August 27	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Aug)	(H)	99.5	100.0	100.3
Tuesday, August 27	10:00 AM	RICHMOND FED MANUF. INDEX	(Aug)	(M)	-	-	-17
Wednesday, August 28	-	AUCTION: 5-YR TREASURIES $70B	-	-	-	-	-
Wednesday, August 28		AUCTION: 2-YR FRN $28B	-	-	-	-	-
Wednesday, August 28	7:00 AM	MBA-APPLICATIONS	(Aug 23)	(L)	-	-	-
Wednesday, August 28	6:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Thursday, August 29	-	AUCTION: 7-YR TREASURIES $44B	-	-	-	-	-
Thursday, August 29	8:30 AM	INITIAL CLAIMS	(Aug24)	(M)	-	-	232K
Thursday, August 29	8:30 AM	CONTINUING CLAIMS	(Aug 17)	(L)	-	-	1863K
Thursday, August 29	8:30 AM	GDP (annualized)	(2Q S)	(H)	2.8%	2.8%	2.8%
Thursday, August 29	8:30 AM	GDP DEFLATOR (annualized)	(2Q S)	(H)	-	-	2.3%
Thursday, August 29	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Jul)	(M)	-$98.0B	-$97.5B	-$96.6B
Thursday, August 29	8:30 AM	WHOLESALE INVENTORIES M/M	(Jul P)	(L)	-	-	0.2%
Thursday, August 29	8:30 AM	RETAIL INVENTORIES M/M	(Jul)	(H)	-	-	0.7%
Thursday, August 29	10:00 AM	PENDING HOME SALES M/M	(Jul)	(M)	-	-	4.8%
Thursday, August 29	3:30 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Friday, August 30	8:30 AM	PCE DEFLATOR Y/Y	(Jul)	(H)	2.6%	2.6%	2.5%
Friday, August 30	8:30 AM	PCE DEFLATOR Y/Y (core)	(Jul)	(H)	2.7%	2.7%	2.6%
Friday, August 30	8:30 AM	PERSONAL INCOME M/M	(Jul)	(H)	0.3%	0.2%	0.2%
Friday, August 30	8:30 AM	PERSONAL SPENDING M/M	(Jul)	(H)	0.5%	0.5%	0.3%
Friday, August 30	9:45 AM	CHICAGO PMI	(Aug)	(M)	-	-	45.3
Friday, August 30	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Aug)	(H)	-	67.8	67.8

Week Ahead's market call

by Avery Shenfeld

In the **US**, we don't anticipate any major surprises in the personal income and spending numbers, with the latter being key to economic momentum. The core PCE price index looks likely to rise by 0.2%, in the vicinity of what the Fed wants to see on a sustained basis. That said, the next payrolls report will be much more critical in the Fed's choice between a 25 or 50 basis point cut in September. Durable orders should get a lift from aircraft, but a flat ex-transport reading would be in line with other indicators pointing to a factory sector that has stalled out, a signpost that current interest rates are indeed a headwind to that part of the economy.

In **Canada**, Q2 GDP looks to come in just under 2%, but a flat monthly reading for June would pose a poor handoff for Q3, and a challenge to the Bank of Canada's forecast for an acceleration in that quarter. We see Q3 growth as in the 1½% range, assuming that the Labour Minister's actions yesterday do bring a quick end to the labour disruptions in the rail sector. That's not yet a given, as the union is retaining picket lines at one of the two companies, and could issue a court challenge over whether the Minister can force them back to work without legislative action by Parliament, so we'll still be watching developments on that front in the coming days. While a bit dated, payrolls data for June provide a second look at labour markets as a supplement to what we've already seen in the household survey.

Week Ahead's key Canadian number: GDP—June and Q2

(Friday, 8:30 am)

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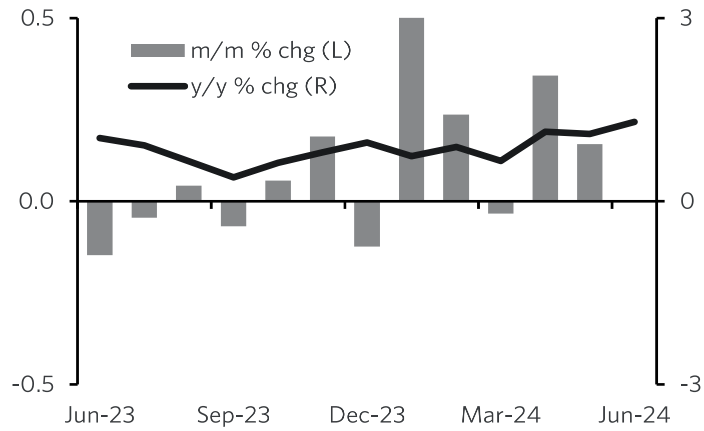
Variable (%)	CIBC	Mkt	Prior
GDP June (m/m)	0.0	0.1	0.2
GDP Q2 (annualized)	1.9	1.8	1.7

Chart: Canadian real GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Canadian GDP growth likely remained moderate in Q2, with the 1.9% annualized pace we forecast only slightly faster than that seen in the first quarter. Consumer spending on goods was once again muted, although increases on the services side should mean that households were a modest positive contributor to overall GDP growth. While residential construction is no longer the drag on growth that it was for much of 2022 and 2023, it will take more interest rate cuts for this to become a large positive contributor again. Net trade was likely a slight drag on growth, with inventories a modest positive.

The quarter likely ended on a soft note, with our expectation for a flat reading in June GDP slightly softer than the advance estimate. However, with growth in June negatively impacted by software issues in the auto industry, we could see a firmer July print to start the third quarter.

Forecast implications — Growth in the Canadian economy remains stronger than it was through the latter part of 2023, but still only moderate and below the pace of population growth. Interest rates may need to come down further before residential investment and consumer spending perk up again, which could be a 2025 rather than a 2024 story.

Other Canadian releases: Current account balance—Q2

(Thursday, 8:30 am)

With the goods trade deficit slightly wider, but the shortfall in services marginally narrower, Canada's current account deficit likely saw little change in Q2. We forecast a $5.5bn current account deficit for the second quarter.

Week Ahead's key US number: Personal income & outlays—July

(Friday, 8:30 am)

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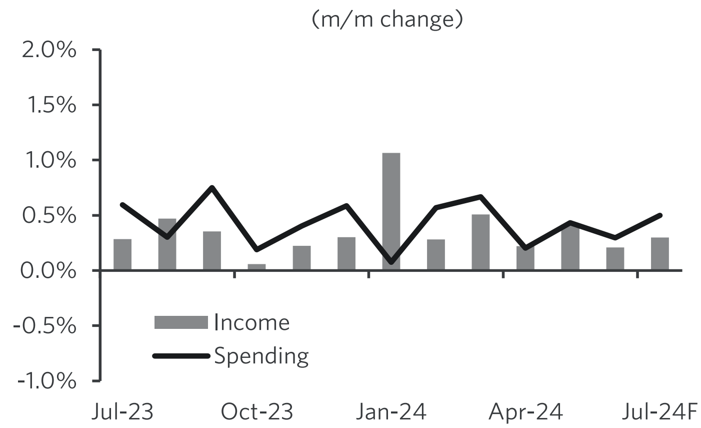
Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.3	0.2	0.2
Personal spending (m/m)	0.5	0.5	0.3
Core PCE price index (y/y)	2.7	2.7	2.6

Chart: US personal income and spending



Source: BEA, Haver Analytics, CIBC

July personal spending and income report will be the focus of the US data calendar next week, and the attention will be on how well the American consumer fared in the month. The retail sales report from earlier this month showed spending on consumer goods was firm, and next Friday's report will provide a view into spending on services, which accounts for two-thirds of household purchases. We expect overall consumption growth to be strong at 0.5% m/m. The CPI, PPI and import price data for July suggest the PCE and Core PCE prices should rise in line with the Fed's target, or 0.2% m/m. While labor market data suggests income gains will remain steady at 0.3% in July. Downward revisions to payroll employment, however, imply the level of labor income could be lower and as a consequence the saving rate could also be revised down over the past year.

Forecast implications — Our nowcast points to GDP growth in Q3 tracking modestly above our recent forecast of 1.6%. Powell's Jackson Hole speech made it clear that further cooling in the labor market is the Fed's top concern, so solid momentum in consumer spending won't deter them.

Market implications — There are few mysteries for the market or the Fed with this report, as most of the source data is already available. There may be some revisions to inflation which could surprise, but those have been fairly modest recently.

Other US Releases: Durable goods order—July

(Monday, 8:30 am)

Durable goods orders should rebound by 4.0% in July as civilian aircraft orders bounce back a bit. Last month non-defense aircrafts and parts orders posted net negative orders of over 4K, likely reflecting cancellations of planes in the wake of rising regulatory scrutiny at America's largest plane maker. We expect flat growth in orders excluding transportation.

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