

February 26 - March 1, 2024

## Head fake

by Benjamin Tal [benjamin.tal@cibc.com](mailto:benjamin.tal@cibc.com)

We do not envy the poor souls at Statistics Canada that are in charge of producing the nation's productivity numbers on a quarterly basis. They probably wouldn't bet their paycheques on how accurate the numbers are. It is almost an impossible task — but somebody has to do it. Unfortunately, however, those numbers are important. Their fingerprints can be found in bond and stock market valuations and are key ingredients in determining your mortgage or GIC rates.

What's important here is not that productivity growth in Canada is subpar, but that it is getting worse. In fact, for the first time on record, productivity growth has been negative for nearly four consecutive years. Now, it is very possible that something is wrong with the measurement. But statisticians in the US are facing the same methodological issues, only to show surging productivity growth south of the border.

Beyond methodology and accuracy, there is another reason to be cautious in acting on the productivity numbers, especially at this critical point of the cycle. While the monthly Canadian GDP production numbers suggest that GDP growth in Q4 was better than expected, the quarterly expenditure numbers will have the final say, and they probably will not be quite as strong. Regardless, the economy is clearly sluggish, and if you look closely, you will find that the labour market is starting to dance to the same tune.

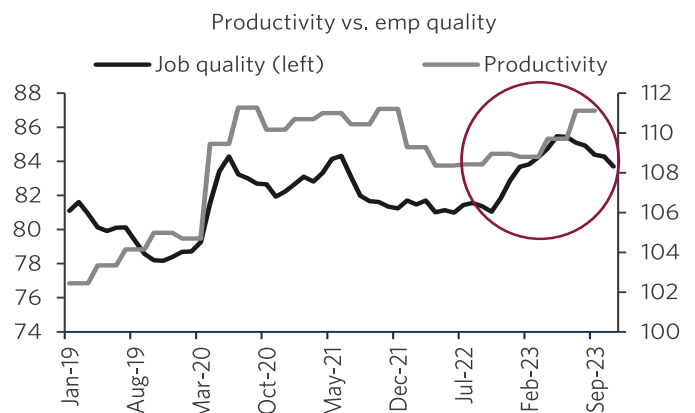
Now, during economic turning points, productivity exhibits elements of counter-cyclicality — largely due to the change in composition of labour during the early stages of an economic slowing. The most obvious example is perhaps the Covid recession. The asymmetrical nature of the crisis led to a situation in which most of the job losses were in low-wage industries or among low-wage workers in high-wage industries. That of course led to a significant increase in labour quality, which single handedly accounted for nearly two-thirds of labour productivity growth in mid 2020. That, of course, was not a "real" increase in productivity, and surely enough it was reversed very quickly after.

Fast forward to today's situation: reflecting the still tight labour market, employment quality in the US has been trending downward in recent quarters. And if history is a guide,

productivity growth will follow (Chart). In Canada, the recent rapid widening in the performance gap with the US was largely due to the surge in the number of non-permanent residents (NPRs) in general, and foreign students in particular. We estimate that there are currently 500k foreign students in the Canadian labour force beyond what is officially reported. With labour market conditions starting to soften, those low productivity jobs will be the first to go, leading to an increase in employment quality, which should trigger a temporary improvement in reported productivity growth. The Bank of Canada and the market should not confuse that improvement with a real, structural productivity gain.

Bottom line: when the next productivity numbers come out — take a look but don't read into them too much. Any improvement will be nothing more than a head fake. We think the Bank shares that view. Quietly behind the scenes, the Bank of Canada is shifting its attention away from the concept of the output gap (which is a desperate attempt by economists to turn the art of economics into science, and relies heavily on productivity growth), into something that you can touch, such as the unemployment rate.

**Chart: Lower employment quality in the US suggests slowing productivity growth**



Source: Bureau of Labor Statistics, JQI IP Holdings, 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, February 26	-	-	-	-	-	-	-
Tuesday, February 27	-	AUCTION: 3-M BILLS \$14B, 6-M BILLS \$5B, 1-YR BILLS \$5B	-	-	-	-	-
Wednesday, February 28	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Dec)	-	-	-	-88.3K
Wednesday, February 28	8:30 AM	CURRENT ACCOUNT BAL.	(4Q)	(M)	-\$1.1B	-\$1.3B	-\$3.2B
Thursday, February 29	-	AUCTION: 2-YR CANADAS \$6.5B	-	-	-	-	-
Thursday, February 29	8:30 AM	GDP M/M	(Dec)	(H)	0.2%	0.2%	0.2%
Thursday, February 29	8:30 AM	GDP (annualized)	(4Q)	(H)	0.8%	1.0%	-1.1%
Friday, March 1	-	-	-	-	-	-	-

## 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, February 26	-	AUCTION: 2-YR TREASURIES \$63B	-	-	-	-	-
Monday, February 26	-	AUCTION: 5-YR TREASURIES \$64B	-	-	-	-	-
Monday, February 26	10:00 AM	NEW HOME SALES SAAR	(Jan)	(M)	700K	684K	664K
Monday, February 26	10:00 AM	NEW HOME SALES M/M	(Jan)	(M)	5.5%	3.0%	8.0%
Monday, February 26	7:40 PM	Speaker: Jeffrey Schmid (Kansas City)	-	-	-	-	-
Tuesday, February 27	-	AUCTION: 7-YR TREASURIES \$42B	-	-	-	-	-
Tuesday, February 27	8:30 AM	DURABLE GOODS ORDERS M/M	(Jan P)	(H)	-4.0%	-4.5%	0.0%
Tuesday, February 27	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jan P)	(H)	0.5%	0.2%	0.5%
Tuesday, February 27	9:00 AM	HOUSE PRICE INDEX M/M	(Dec)	(M)	-	-	0.3%
Tuesday, February 27	9:00 AM	S&P CORELOGIC CS Y/Y	(Dec)	(H)	-	6.0%	5.4%
Tuesday, February 27	10:00 AM	RICHMOND FED MANUF. INDEX	(Feb)	(M)	-	-	-15
Tuesday, February 27	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Feb)	(H)	116.0	114.8	114.8
Tuesday, February 27	9:05 AM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Wednesday, February 28	7:00 AM	MBA-APPLICATIONS	(Feb 23)	(L)	-	-	-10.6%
Wednesday, February 28	8:30 AM	GDP (annualized)	(4Q S)	(H)	-	3.3%	3.3%
Wednesday, February 28	8:30 AM	GDP DEFLATOR (annualized)	(4Q S)	(H)	-	1.5%	1.5%
Wednesday, February 28	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Jan)	(M)	-\$86.0B	-\$88.1B	-\$87.9B
Wednesday, February 28	8:30 AM	RETAIL INVENTORIES M/M	(Jan)	(H)	-	-	0.8%
Wednesday, February 28	8:30 AM	WHOLESALE INVENTORIES M/M	(Jan P)	(L)	-	-	0.4%
Wednesday, February 28	12:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Wednesday, February 28	12:15 PM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Wednesday, February 28	12:45 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, February 29	8:30 AM	INITIAL CLAIMS	(Feb 24)	(M)	-	210K	201K
Thursday, February 29	8:30 AM	CONTINUING CLAIMS	(Feb 17)	(L)	-	-	1862K
Thursday, February 29	8:30 AM	PCE DEFLATOR Y/Y	(Jan)	(H)	2.3%	2.4%	2.6%
Thursday, February 29	8:30 AM	PCE DEFLATOR Y/Y (core)	(Jan)	(H)	2.8%	2.8%	2.9%
Thursday, February 29	8:30 AM	PERSONAL INCOME M/M	(Jan)	(H)	0.2%	0.5%	0.3%
Thursday, February 29	8:30 AM	PERSONAL SPENDING M/M	(Jan)	(H)	0.3%	0.2%	0.7%
Thursday, February 29	9:45 AM	CHICAGO PMI	(Feb)	(M)	-	47.9	46.0
Thursday, February 29	10:00 AM	PENDING HOME SALES M/M	(Jan)	(M)	-	1.0%	8.3%
Thursday, February 29	10:50 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Thursday, February 29	11:00 AM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Thursday, February 29	1:15 PM	Speaker: Loretta Mester (Cleveland) (Voter)	-	-	-	-	-
Thursday, February 28	8:10 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, March 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Feb)	(L)	-	-	51.5
Friday, March 1	10:00 AM	ISM - MANUFACTURING	(Feb)	(H)	49.5	49.5	49.1
Friday, March 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Jan)	(M)	-	0.2%	0.9%
Friday, March 1	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Feb)	(H)	-	79.6	79.6
Friday, March 1	10:15 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Friday, March 1	12:15 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Friday, March 1	1:30 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Friday, March 1	3:30 PM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-

## Week Ahead's market call

by Ali Jaffery and Katherine Judge

In the **US**, the main event this week will be the release of the PCE report on Friday with the market zeroing in on how the Fed's preferred inflation gauge, core PCE, evolved in January. Like the consensus, we expect a hot reading. The release of Q4 GDI in the second report of Q4 GDP will also get some attention. The gap between the two series as a share of GDP is close to its historically widest point. Hopefully we will get some views on which series the Fed is placing more weight on as a slew of Fed speakers will also be out this week. They will likely hammer home the message that rate cuts are not imminent and FOMC continues to maintain a data-dependent posture.

In **Canada**, all eyes will be on the GDP figures, where we expect to see a rebound in activity in Q4 driven largely by a fading of supply chain issues, while domestic demand is still likely to look sluggish, particularly in per-capita terms. Although our call for 0.8% annualized growth is well above the BoC's expectation for a flat quarter, that will likely be driven by an expansion in the supply side of the economy, which doesn't pose a threat to inflation. Early indicators for activity in January have looked mixed so far, and the January advance estimate for GDP will provide more colour on activity in a month where mild weather conditions could have boosted output.

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

(Thursday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.2	0.2	0.2
GDP Q4 annualized	0.8	1.0	-1.1

Economic activity likely rebounded, at least partially, in Q4 following the contraction in the previous quarter. Consumer spending likely posted a modest increase, following two stagnant quarters, although in per capita terms consumption will continue to look sluggish. Exports should also be a positive contributor to headline GDP, as some of the supply issues that hampered activity in the prior quarter faded. Partially offsetting those positives, residential building may have slowed and government spending could have partly reversed the prior quarter's wildfire-fighting advance.

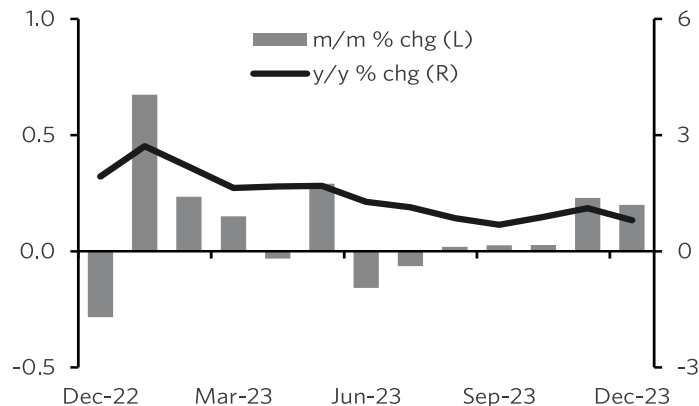
Monthly GDP for December likely showed a 0.2% advance, a tick weaker than the advance estimate due to somewhat weaker wholesale trade than first assumed. Mild weather and a further recovery in auto sales likely drove a further 0.2% increase in January as well.

## Other Canadian releases: Current account balance—Q4

(Wednesday, 8:30 am)

The goods trade balance swung further into positive territory in Q4, while the services deficit narrowed as Canadian's were more cautious in their spending abroad. Combined that should see the current account deficit slim from -\$3.2bn to -\$1.1bn.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications** — Canadian GDP was likely stronger than the flat reading assumed by the Bank of Canada for Q4, and early tracking for the first quarter of 2024 will likely be more positive as well. However, the rebound in economic activity largely stems from an easing of previous supply disruptions rather than necessarily a strengthening in domestic demand. And with inflation tracking lower than the Bank's MPR forecast, we still forecast a first interest rate cut in June.

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

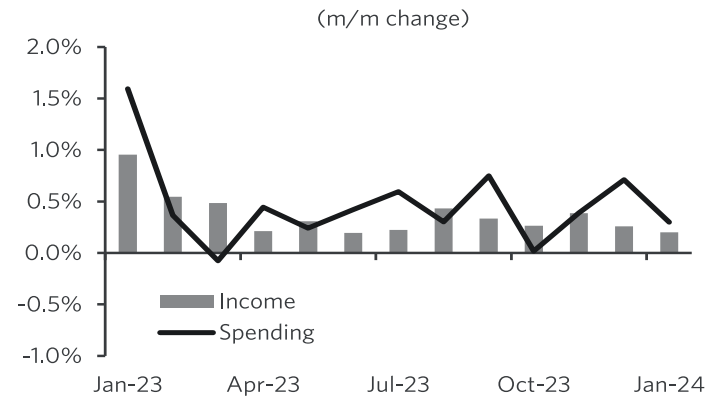
(Thursday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.2	0.5	0.3
Personal spending (m/m)	0.3	0.2	0.7
Core PCE price index (y/y)	2.8	2.8	2.9

All eyes will be on the core PCE numbers this upcoming Friday and we expect it to be a hot one with a 0.4% m/m reading based on the CPI and PPI data. But spending in volume terms should come in flat due to the pullback in goods spending while income growth should remain solid at 0.2% in the month. The saving rate edge down two notches to its lowest level since December of 2022 as it hits 3.5%. Is inflation starting to heat up? That is not our base case. Distortions from price resetting at the beginning of the year and post-COVID seasonal patterns mean one should not read too much into this data. The labour market continues to move into better balance and while the consumer is spending at a rapid clip, a non-trivial portion of that spending is on goods, whose prices continue to benefit from a rebound in supply. The labour market does need to soften a bit more, but the US economy right now is enjoying post-COVID productivity rebound.

Chart: US personal income and spending



Source: BEA, Haver Analytics, CIBC

**Forecast implications** — Despite the flat reading in real consumption growth, our tracking for 24Q1 is still around 2% on an annualized basis and we believe GDP growth should be around that as well.

**Market implications** — Markets should not be too surprised with a hot core PCE reading given it's the consensus view so we don't expect much over reaction. Most Fed speakers have emphasized that cuts are not imminent and the pace of easing is going to be gradual.

## Other US Releases: Durable goods order—January

(Tuesday, 8:30 am)

Durable goods orders should pullback as aircraft orders come off. However, excluding transportation we should see growth continue to firm benefitting from expectations of solid domestic demand and fiscal support.

## ISM Manufacturing—February

(Friday, 10:00 am)

The February ISM manufacturing index should improve compared to previous month and come within a touch of being neutral. But this likely reflects firms increasingly optimistic about a soft landing and global monetary policy easing, which should support export demand.

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