Economics

THE WEEK AHEAD

February 5 - 9, 2024

Mick Jagger monetary policy

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

The Rolling Stone's lead singer, who was also a dropout from the London School of Economics, had some important advice for those pondering monetary policy ahead: you can't always get what you want, but... you get what you need. For different reasons in the US and Canada, recent data should be telling bond market bulls that, right now, they can't get what they want, which is a quick dose of central bank rate cuts. But other indicators still suggest that, in terms of avoiding a severely negative economic outcome for equities, we'll still get what we need.

Today's US jobs data were uniformly bad news for the bond market. The 0.3% decline in total hours worked, on the heels of a small drop in December, seems to have been largely due to weather. The drop in household survey jobs was actually a gain of over 200K after allowing for the distortion from the new population estimate.

The January payrolls surge only adds to the evidence from a GDP boom in the latter half of 2023, that in terms of getting what it needs, the US economy is hardly desperate for quick interest rate relief. The upward adjustments to Q4 hiring mean that incomes were stronger and savings rates less depleted. The Fed will worry that if productivity gains were a one-time rebound from supply-chain disruptions, labour costs will be running too hot to keep inflation at 2%, even if that's where core PCE inflation has been in the last six months.

We still expect a US economic deceleration to be in evidence as we move deeper into the year, tied to weak loan growth and a rising savings rate. But in terms of getting what it needs, America's resilience in the face of rates above 5% suggests that the Fed will have the luxury of taking its time. Hence our call for only 100 bps of Fed cuts in 2024.

In Canada, November/December GDP data looked a bit brighter than expected, but haven't countered a picture of an economy that really does need interest rate relief as soon as it can get it. Given the weakness we've seen in employment, some of that output bounce was an overdue productivity recovery, and domestic demand indicators are still languishing. If that productivity turn has any legs, it could feed into another slow month for hiring in next week's Canadian employment figures. The Bank of Canada seems much more focused these days on labour market slack indicators than GDP performance, with productivity swings making it more difficult to track non-inflationary potential output.

Relief from high interest rates in Canada will, however, await further evidence that inflation is more confined to rents and mortgage interest. Growing economic slack should fill in that missing piece in time for the economy to get the rate relief it needs before too much further damage is done. We'll be watching for a deceleration in wages in the months ahead as a signpost of that, as well as in the non-shelter components of the CPI. The Governor appears to be counting on other government policy changes to cool rents, and its rate cuts will address inflation in mortgage interest costs.

When rate cuts do come, sometime near mid-year, giving the Canadian economy what it needs would appear to mean being a bit more aggressive than what the US will require. We're not talking about getting back to pre-2020 levels, and lingering inflation will likely mean that this will be a two-year transition towards neutral rates.

Our call for 150 bps in cuts this year is admittedly a bit aggressive, and is no doubt more than the BoC is now contemplating. But if sluggish domestic demand continues into 2024, rate cuts that exceed what the Fed delivers could end up being Canada's version of Mick Jagger monetary policy, giving the economy what it needs to stay clear of a deep downturn.

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 5	-	-	-	-	-	-	-
Tuesday, February 6	8:30 AM	BUILDING PERMITS M/M	(Dec)	(M)	-	-	-3.9%
Tuesday, February 6	10:00 AM	IVEY PMI	(Jan)	(L)	-	-	56.3
Tuesday, February 6	1:00 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Wednesday, February 7	8:30 AM	MERCHANDISE TRADE BALANCE	(Dec)	(H)	$1.0B	$1.1B	$1.6B
Thursday, February 8	-	AUCTION: 2-YR CANADAS $6.5B	-	-	-	-	-
Friday, February 9	8:30 AM	EMPLOYMENT CHANGE	(Jan)	(H)	10K	15K	0.1K
Friday, February 9	8:30 AM	UNEMPLOYMENT RATE	(Jan)	(H)	5.9%	5.9%	5.8%
Friday, February 9	10:30 AM	Release: Senior Loan Officer Survey	-	-	-	-	-

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 5	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jan)	(L)	-	52.9	52.9
Monday, February 5	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jan)	(L)	-	-	52.3
Monday, February 5	10:00 AM	ISM - SERVICES	(Jan)	(M)	51.5	52.0	50.5
Monday, February 5	2:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Monday, February 5	2:00 PM	Release: Senior Loan Officer Opinion Survey	-	-	-	-	-
Tuesday, February 6	-	AUCTION: 3-YR TREASURIES $54B	-	-	-	-	-
Tuesday, February 6	12:00 PM	Speaker: Loretta Mester (Cleveland) (Voter)	-	-	-	-	-
Tuesday, February 6	1:00 PM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Tuesday, February 6	2:00 PM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Tuesday, February 6	7:00 PM	Speaker: Patrick Harker (Philadelphia) (Non-Voter)	-	-	-	-	-
Wednesday, February 7	-	AUCTION: 10-YR TREASURIES $42B	-	-	-	-	-
Wednesday, February 7	7:00 AM	MBA-APPLICATIONS	(Feb 2)	(L)	-	-	-7.2%
Wednesday, February 7	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Dec)	(H)	-$63.0B	-$62.2B	-$63.2B
Wednesday, February 7	3:00 PM	CONSUMER CREDIT	(Dec)	(L)	-	$16.5B	$23.8B
Wednesday, February 7	11:00 AM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Wednesday, February 7	11:30 AM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Wednesday, February 7	12:30 PM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Wednesday, February 7	2:00 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Thursday, February 8	-	AUCTION: 30-YR TREASURIES $25B	-	-	-	-	-
Thursday, February 8	8:30 AM	INITIAL CLAIMS	(Feb 3)	(M)	-	215K	224K
Thursday, February 8	8:30 AM	CONTINUING CLAIMS	(Jan 27)	(L)	-	-	1898K
Thursday, February 8	8:30 AM	WHOLESALE INVENTORIES M/M	(Dec)	(L)	-	-	0.4%
Thursday, February 8	12:05 PM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Friday, February 9	-	-	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, there isn't much potential for economic data to catch the market's eyes in the week ahead, but an army of Fed speakers will have a chance to weigh in after the blockbuster payrolls data for January. Powell already put the kibosh on a March easing, so now we'll be judging just how much further the hiring and wage burst has altered the timetable for other's on the FOMC. If they're at all significant, CPI revisions could also impact the market's thinking.

In **Canada**, while the household survey jobs figures are subject to a lot of statistical noise and therefore often surprise one way our another, but our base case is for another lacklustre month. Recent GDP data point to a bit better productivity, and perhaps therefore less need to add workers, while domestic demand remains quite soft. An uptick in the jobless rate would be just the sign of additional slack that the central bank is looking for to open the door to rate cuts later this year. December trade data should show a smaller goods surplus due to softer energy prices, but cap a quarter in which net exports helped GDP show modestly positive growth overall.

Week Ahead's key Canadian number: Labour force survey—January

(Friday, 8:30 am)

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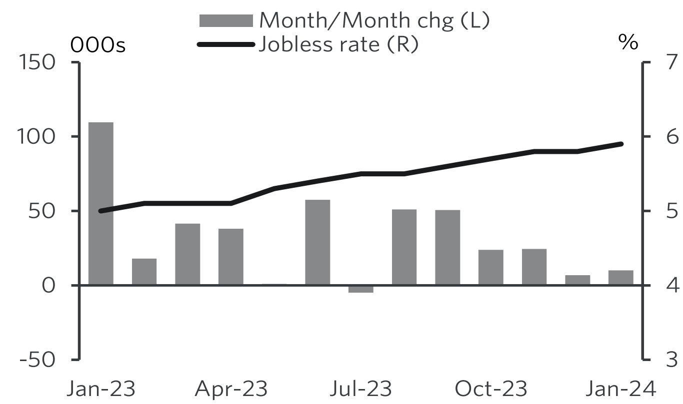
Variable	CIBC	Mkt	Prior
Employment (m/m)	10K	15K	0.1K
Unemployment rate	5.9%	5.9%	5.8%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Canada's labour market likely weakened in January, with a modest 10K gain in jobs leading the unemployment rate to tick up to 5.9%. That would reflect a deterioration in domestic demand, with consumers becoming more cautious with spending as mortgages renew, and the rise in business insolvencies portending layoffs in some sectors. Hours worked could have picked up, but that will likely be a one-time impact owing to the end of public sector strikes in Quebec. With a strong year-ago monthly wage growth figure falling out of the annual calculation, wage growth for permanent employees could have subsided by a few ticks, but that would still leave it above 5.0% y/y.

Forecast implications — We expect the labour market to continue to loosen gradually in the first half of the year, with the unemployment rate likely peaking in the 6-6.5% range. That will likely leave the Bank of Canada on the sidelines until June, as it gathers more evidence of wages and inflationary pressures abating before it starts to cut rates.

Other Canadian releases: Merchandise trade balance—December

(Wednesday, 8:30 am)

Canada's goods trade surplus likely narrowed again in December, to $1.0bn, partly reflecting lower oil prices for Canada's exporters. Still, exports will be a growth driver for the quarter as a whole based on the strong starting point, with shipments helped by a fading of supply-side disruptions and strong growth south of the border. Import volumes look to have declined over the quarter, consistent with businesses anticipating weaker domestic demand. We don't expect the trade surplus to last in 2024, as weak global demand for goods will put a cap on exports.

There are no major US data releases next week.

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