

Economics

THE WEEK AHEAD

June 17 - 21, 2024

Striking out the BoC?

by Katherine Judge katherine.judge@cibc.com

We've already discussed the ability of the Bank of Canada to diverge from the Fed, but another question raised has been whether or not ongoing labour disputes could present a barrier to further BoC policy easing. Potential strike action in the transportation sector poses a direct threat to goods supply chains and inflation. Meanwhile, large pay settlements would prevent the moderation in wages that policymakers are looking for. However, we believe there are counterforces to those factors that mean these labour disputes won't be material enough to act as a hindrance to further BoC easing.

While last year's port strike in BC did seem to have an impact on inflation, it was only short lived. With the Canadian economy weaker today than it was then, it should be easier for the Bank of Canada to separate short-lived inflationary pressures from any strike activity from longer-term pressures. The rise in the unemployment rate over the past year and the associated negative impact on demand will provide an offset over the medium term to any short-lived boost to goods prices, leaving the broader trend of decelerating inflation intact. Inventory levels in the economy will also act as a cushion to goods inflation in the near-term, as they are now sitting well above pre-pandemic norms relative to the pace of sales.

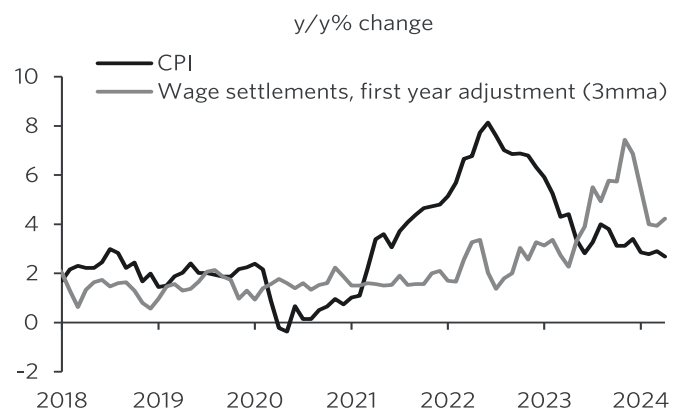
Demand-side factors as a result of wage settlements also seem unlikely to pose a threat to inflation, as strikes are grounded in unionized workers' wages playing catch-up to what's already been observed in the non-unionized segment of the labour market. Average hourly wages for full-time employees in the former category are 16% above end of 2019 levels versus a lofty 25% for non-unionized workers, and unionized workers make up a relatively small share of the workforce. The overriding factor for wages will continue to be fewer job vacancies that are easier to fill with the rise in unemployment, a force that will be even more prevalent than it was during last year's strikes given the greater degree of labour market slack now.

The weak demand backdrop means that businesses won't have a lot of room to push higher wage settlements through to consumer prices either, as households remain under pressure from high interest rates as mortgages continue to renew. Our

team's prior research has shown that wages tend to lag CPI inflation in the US, and that seems to be in evidence in the Canadian data on the first-year percentage adjustments for wage settlements, which have fallen from their late 2023 peak of almost 8%, to close to 4% as of April (Chart), and the average annual increase over entire contracts now sits at just 3.1%. Wage expectations data have also stabilized for private sector workers in the BoC's latest available survey. And with the cost of capital declining with interest rates, firms also have the option to substitute towards capital.

So with the BoC signaling that they are taking monetary policy decisions on a meeting-by-meeting basis, ongoing labour disputes shouldn't be viewed as a hindrance towards achieving its inflation target, as they will likely cause nothing more than a small impact on inflation. We therefore still see the BoC cutting rates again in July.

Chart: Union wage settlements lag CPI



Source: Statistics Canada, 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, June 17	8:15 AM	HOUSING STARTS SAAR	(May)	(M)	240.0K	240.3K	240.2K
Monday, June 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Apr)	(M)	-	-	\$14.8B
Monday, June 17	9:00 AM	EXISTING HOME SALES M/M	(May)	(M)	-	-	-1.7%
Tuesday, June 18	-	AUCTION: 3-M BILLS \$12.2B, 6-M BILLS \$4.4B, 1-YR - BILLS \$4.4B	-	-	-	-	-
Wednesday, June 19	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Thursday, June 20	-	AUCTION: 10-YR CANADAS \$5B	-	-	-	-	-
Friday, June 21	8:30 AM	RETAIL TRADE TOTAL M/M	(Apr)	(H)	0.7%	0.9%	-0.2%
Friday, June 21	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Apr)	(H)	0.5%	0.5%	-0.6%
Friday, June 21	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(May)	(M)	-	-	1.5%
Friday, June 21	8:30 AM	RAW MATERIALS M/M	(May)	(M)	-	-	5.5%

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, June 17	8:30 AM	NEW YORK FED (EMPIRE)	(Jun)	(M)	-	-14.0	-15.6
Monday, June 17	1:00 PM	Speaker: Patrick Harker (Philadelphia) (Non-Voter)	-	-	-	-	-
Monday, June 17	9:00 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Tuesday, June 18	-	AUCTION: 20-YR TREASURIES \$13B	-	-	-	-	-
Tuesday, June 18	8:30 AM	RETAIL SALES M/M	(May)	(H)	0.4%	0.3%	0.0%
Tuesday, June 18	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(May)	(H)	0.3%	0.2%	0.2%
Tuesday, June 18	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(May)	(H)	0.4%	0.3%	-0.3%
Tuesday, June 18	9:15 AM	INDUSTRIAL PRODUCTION M/M	(May)	(H)	0.4%	0.4%	0.0%
Tuesday, June 18	9:15 AM	CAPACITY UTILIZATION	(May)	(M)	78.7%	78.6%	78.4%
Tuesday, June 18	10:00 AM	BUSINESS INVENTORIES M/M	(Apr)	(L)	-	-	-0.1%
Tuesday, June 18	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Apr)	(L)	-	-	\$100.5B
Tuesday, June 18	10:00 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Tuesday, June 18	11:40 AM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Tuesday, June 18	1:00 PM	Speaker: Lorie K. Logan (Dallas) (Non-Voter) & Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Tuesday, June 18	1:20 PM	Speaker: Alberto G. Musalem (St Louis)	-	-	-	-	-
Tuesday, June 18	2:00 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Wednesday, June 19	7:00 AM	MBA-APPLICATIONS	(Jun 14)	(L)	-	-	15.6%
Wednesday, June 19	10:00 AM	NAHB HOUSING INDEX	(Jun)	(L)	-	45.0	45.0
Thursday, June 20	-	AUCTION: 5-YR TIPS \$21B	-	-	-	-	-
Thursday, June 20	8:30 AM	INITIAL CLAIMS	(Jun15)	(M)	-	-	242K
Thursday, June 20	8:30 AM	CONTINUING CLAIMS	(Jun 8)	(L)	-	-	1820K
Thursday, June 20	8:30 AM	CURRENT ACCOUNT BALANCE	(1Q)	(L)	-	-\$206.1B	-\$194.8B
Thursday, June 20	8:30 AM	HOUSING STARTS SAAR	(May)	(M)	1400K	1375K	1360K
Thursday, June 20	8:30 AM	BUILDING PERMITS SAAR	(May)	(H)	1450K	1460K	1440K
Thursday, June 20	4:00 PM	Speaker: Thomas I. Barkin (Richmond)(Voter)	-	-	-	-	-
Friday, June 21	8:30 AM	S&P GLOBAL US SERVICES PMI	(Jun P)	(L)	-	53.4	54.8
Friday, June 21	8:30 AM	S&P GLOBAL US COMPOSITE PMI	(Jun P)	(L)	-	-	54.5
Friday, June 21	8:30 AM	S&P GLOBAL US MANUFACTURING PMI	(Jun P)	(L)	-	51.0	51.3
Friday, June 21	10:00 AM	LEADING INDICATORS M/M	(May)	(M)	-	-0.3%	-0.6%
Friday, June 21	10:00 AM	EXISTING HOME SALES SAAR	(May)	(M)	-	4.1M	4.1M
Friday, June 21	10:00 AM	EXISTING HOME SALES M/M	(May)	(M)	-	-1.0%	-1.9%

Week Ahead's market call

by Ali Jaffery and Katherine Judge

In the **US**, the key data of the week will be retail sales which will provide a view into how exuberant the consumer is. With spending power remaining solid, our expectation is the consumer will flex a bit more muscle and we should see a slightly above consensus reading on the control group of retail sales that feeds into GDP. Industrial production and housing starts should also show modest gains. A host of Fed speakers will raise their hands and tell us which dot they were and why next week. But at this point, there is not much they can say that hasn't already been said by Powell. It's all about inflation data for June and whether we see a trend again. Everyone already knows the May core PCE reading at the end of this month is going to look stellar after soft CPI and PPI reports. The conclusion here is that Fed watchers can take a breather and go fishing next week, just like Kyrie and the Mavs.

In **Canada**, the April retail sales report will likely point to moderate growth in volume terms, but that will only be enough to erase the drop seen in March. The broader trend remains weak, with real sales well below year-ago levels in per-capita terms. The pace of housing starts in May likely remained steady, but should receive a lift in the coming months, in line with the BoC beginning to cut rates. The BoC's summary of deliberations could shed more light on how policymakers are viewing the risks to the inflation outlook and the trajectory of interest rates.

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

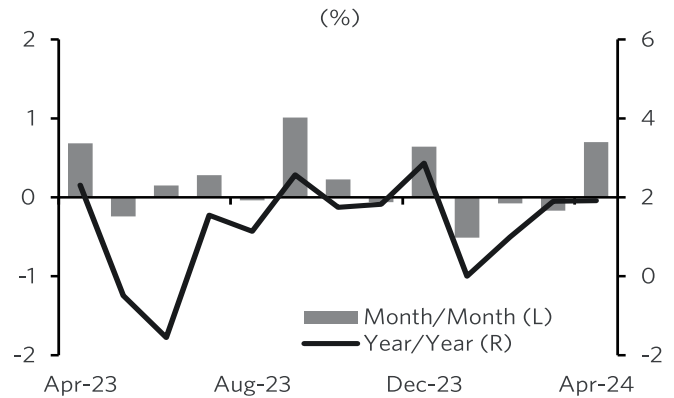
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Retail sales m/m	0.7	0.9	-0.2
Ex-autos m/m	0.5	0.5	-0.6

Retail sales likely rose by 0.7% in April, matching the advance estimate. However, with goods prices edging up in April following a couple of monthly declines, sales will likely look less impressive in volume terms. Discretionary areas of spending such as sporting goods, clothing and furniture have continued to struggle in recent months, and we expect this trend to continue. The advance estimate for May could point to a broadly flat sales in both nominal and volume terms.

Chart: Canadian retail sales



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Any growth in inflation-adjusted retail sales during April likely only offset the prior month's decline, suggesting consumer spending could be decelerating again following solid growth towards the end of 2023 and into the start of this year. Soft demand will continue to limit the pricing power of companies and keep inflation decelerating, leaving the door open to further Bank of Canada interest rate cuts.

Week Ahead's key US number: Retail sales—May

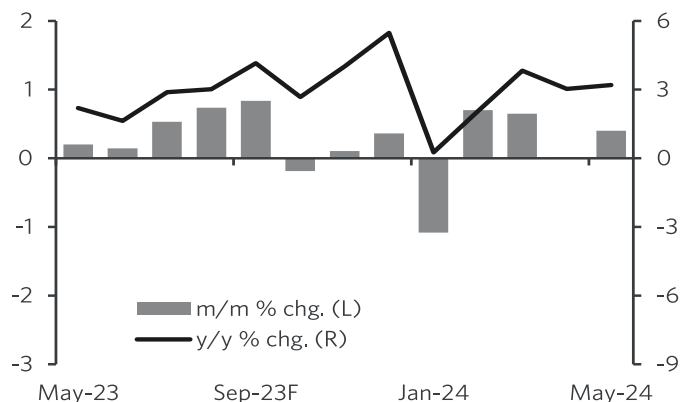
(Tuesday, 8:30 am)

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Variable (m/m %)	CIBC	Mkt	Prior
Retail sales	0.4	0.3	0.0
Retail sales - ex auto	0.3	0.2	0.2
Retail sales - control group	0.4	0.3	-0.3

We expect US retail sales to bounce back in May, with the headline and control group of retail sales increasing by 0.4% m/m, after contracting in April. Solid labor income gains from the May payroll report tell us that a lack of spending power should not be an issue in the month. May was also slightly warmer than average as well, which could spur consumers to get out of the house. While retail sales prints have been choppy over the past few months, the broader trend seen in the year-over-year numbers shows a gradual normalization of growth back to pace we saw prior to the pandemic, in line with the rebalancing of the labor market. However, we don't expect the level of sales to adjust to its pre-pandemic path, as that has permanently shifted higher with retirees spending more out of wealth and work-from-home helping to shift consumer preferences towards goods.

Chart: US retail sales (%)



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — Our tracking for 24Q2 consumption is slightly above 2% annualized based on our assumptions for retail sales and strong momentum from 24Q1. Our early tracking for GDP growth in 24Q2 is 2.4%, a rebound after 24Q1 came in softer at 1.3% due largely to a negative inventory shock.

Other US Releases: Industrial production—May

(Tuesday, 9:15 am)

Industrial production should rise by 0.4% in May supported by solid manufacturing and utilities production. The S&P Global Manufacturing PMI data (which we put more faith in than the ISM) pointed to a modest firming manufacturing in the month and warmer-than-usual temperatures should have had households running their air conditioners for longer than is normal.

Housing starts—May

(Thursday, 8:30 am)

Housing starts should increase a little to 1400K in May, and we expect permits to slightly rise to 1450K. The modest improvement likely owes to an improving trend in mortgage rates and some usual bounce back after a very low number the prior month. Starts have stood at 1400K since the summer of 2022. We expect them to stay there until the Fed gains confidence and starts to bring rates down.

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