Economics

THE WEEK AHEAD

September 16 - 20, 2024

That other macro toolkit

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

There are two sides to every coin, and two sides to how Washington influences macroeconomic stimulus or restraint. Markets will be hyperfocused on monetary policy as the Fed meets next week, although the direction for the near term seems crystal clear, with only the timing up for grabs. Rates are headed lower, and while we lean slightly towards a quarter point cut now, and a couple of half point moves thereafter, one way or another we're likely to end up sharply lower in the coming year. The Fed's "dot" forecast will speak volumes on that front.

But there's that other toolkit, fiscal policy, which is still up for grabs but rumbling in the background. Deficits got barely a mention in the Presidential debate. House Leader Mike Johnson will end up finding some way to a stopgap bill to keep the government funded rather than see a shutdown right before the election. But at some point, we'll get down to serious talks about appropriations bills for the fiscal year soon to be underway, and after the election, decisions about the bigger picture for taxes and spending.

As Johnson's travails show, there are still those in the Republican party who favour spending restraint, and it was Harris who mentioned deficits in the debate. But less clear is whether either party actually wants to restrain deficits. Both Trump and Harris are giving away money to various voter blocs: tip earners in Nevada (from both), first time home buyers (from Harris), and this week, an offer from Trump for tax-free overtime earnings. Much of this finds little support among economists, even those who want to help lower income Americans. Why should two families with the same income pay different tax rates, or receive different benefits, based on whether they earn tips or just salary, work overtime or regular hours, buy their home next year rather than last year or opt to rent, and so on?

Sure, each candidate offers pledges to offset at least some of these gifts with other revenue or spending cuts. For Trump, it's cuts to the Department of Education, asking Europe to bear more of the cost of supporting Ukraine, or big tariff revenues. Harris pledges tax hikes on items like capital gains (though smaller than Biden's plan) and top bracket personal incomes. But many of these are either impractical or likely to run into enough opposition in one faction of Congress, whether it's the Republican caucus now battling with their own party leader in the House, or Senate Democrats who will battle to retain programs.

How fiscal policy will play out can't really be known until we see the post-election make-up of Congress. But it will still end up mattering to the Fed, and therefore to the bond market. Depending on how they're financed, sustained deficits at current levels will create funding pressures that could keep long rates elevated, and actually require deeper cuts in short-rates to provide enough juice to mortgage activity. Growing the deficit sharply from here, however, could add fiscal stimulus to the economy, and therefore allow the Fed to ease less. Sharply paring back deficits could be an economic headwind that then necessitates a deeper easing in monetary policy. It's complicated.

And that complexity also means that the outlook for the bond market is cloudier as we try to project yields deeper into 2025. For now, the prospect that the Fed will at some point start to front-load rate cuts by delivering a couple of 50 basis point moves should keep the bond market happy enough. But we'll need to keep an eye on that other policy tool kit when a funding deal reached in the days ahead expires, and a full set of appropriations bills is brought back to the floor.

Democrats want to see that scheduled for December, so they can be sure to still be in control of the Senate and the White House, and have a greater sway over spending levels. Spending hawks in the GOP want to push it into the next term of office, which could force more restraint if they gain power in either branch of government. So we'll soon get a clue, at least on the spending side, of what we'll face in that other macroeconomic tool kit.

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, September 16	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Jul)	(M)	1.2%	0.7%	-2.1%
Monday, September 16	9:00 AM	EXISTING HOME SALES M/M	(Aug)	(M)	-	-	-0.7%
Tuesday, September 17	8:15 AM	HOUSING STARTS SAAR	(Aug)	(M)	255.0K	245.0K	279.5K
Tuesday, September 17	8:30 AM	CPI M/M	(Aug)	(H)	-0.1%	0.1%	0.4%
Tuesday, September 17	8:30 AM	CPI Y/Y	(Aug)	(H)	2.0%	2.1%	2.5%
Tuesday, September 17	8:30 AM	Consumer Price Index	(Aug)	(M)	-	162.1	162.1
Tuesday, September 17	8:30 AM	CPI Core- Median Y/Y%	(Aug)	(M)	2.2%	2.3%	2.4%
Tuesday, September 17	8:30 AM	CPI Core- Trim Y/Y%	(Aug)	(M)	2.5%	2.6%	2.7%
Tuesday, September 17	6:00 PM	Speaker: Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Wednesday, September 18	8:30 AM	INT'L. SEC. TRANSACTIONS	(Jul)	(M)	-	-	$5.2B
Wednesday, September 18	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Thursday, September 19	8:15 AM	Speaker: Nicolas Vincent (Deputy gov.)	-	-	-	-	-
Friday, September 20	8:30 AM	RETAIL TRADE TOTAL M/M	(Jul)	(H)	0.6%	0.4%	-0.3%
Friday, September 20	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Jul)	(H)	0.3%	-	0.3%
Friday, September 20	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Aug)	(M)	-	-	0.0%
Friday, September 20	8:30 AM	RAW MATERIALS M/M	(Aug)	(M)	-	-	0.7%
Friday, September 20	8:30 AM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-

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, September 16	8:30 AM	NEW YORK FED (EMPIRE)	(Sep)	(M)	-	-3.7	-4.7
Tuesday, September 17	-	AUCTION: 20-YR TREASURIES $13B	-	-	-	-	-
Tuesday, September 17	8:30 AM	RETAIL SALES M/M	(Aug)	(H)	-0.5%	-0.2%	0.1%
Tuesday, September 17	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Aug)	(H)	-0.2%	0.2%	0.4%
Tuesday, September 17	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Aug)	(H)	-0.3%	0.3%	0.3%
Tuesday, September 17	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Aug)	(H)	0.3%	0.1%	-0.6%
Tuesday, September 17	9:15 AM	CAPACITY UTILIZATION	(Aug)	(M)	78.1%	77.9%	77.8%
Tuesday, September 17	10:00 AM	BUSINESS INVENTORIES M/M	(Jul)	(L)	-	0.4%	0.3%
Tuesday, September 17	10:00 AM	NAHB HOUSING INDEX	(Sep)	(L)	-	41.0	39.0
Wednesday, September 18	7:00 AM	MBA-APPLICATIONS	(Sep 13)	(L)	-	-	1.4%
Wednesday, September 18	8:30 AM	BUILDING PERMITS SAAR	(Aug)	(H)	1450K	1410K	1396K
Wednesday, September 18	8:30 AM	HOUSING STARTS SAAR	(Aug)	(M)	1350K	1311K	1238K
Wednesday, September 18	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Sep 18)	(H)	5.25%	5.25%	5.50%
Wednesday, September 18	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Sep 18)	(H)	5.00%	5.00%	5.25%
Wednesday, September 18	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Jul)	(L)	-	-	$96.1B
Thursday, September 19	-	AUCTION: 10-YR TIPS $17B	-	-	-	-	-
Thursday, September 19	8:30 AM	INITIAL CLAIMS	(Sep 14)	(M)	-	-	230K
Thursday, September 19	8:30 AM	CONTINUING CLAIMS	(Sep 7)	(L)	-	-	1850K
Thursday, September 19	8:30 AM	CURRENT ACCOUNT BALANCE	(2Q)	(L)	-	-$261.0B	-$237.6B
Thursday, September 19	10:00 AM	LEADING INDICATORS M/M	(Aug)	(M)	-	-0.3%	-0.6%
Thursday, September 19	10:00 AM	EXISTING HOME SALES SAAR	(Aug)	(M)	-	3.9M	4.0M
Thursday, September 19	10:00 AM	EXISTING HOME SALES M/M	(Aug)	(M)	-	-1.3%	1.3%
Friday, September 20	-	-	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, we lean towards a 25 bp cut drawing on Waller's comments just before the Fed blackout. But that's not a decisive call on our part, as a 50 bp move would be well justified given that we're starting from very elevated real rates, and our own forecast has the Fed upping the pace to 50 bps at the remaining meetings this year. The dot forecast for the funds rate in 2025 will drop a lot, and although it might still rest above what markets are assuming for next years' end point, bond market bulls will take solace from the fact that the "long term" dot will still be sitting below 3%. Retail sales could look weaker than consensus, but in line with the message from some major chains, and that might only mark down some tracking forecasts to our current 2% projection for Q3 GDP growth.

In **Canada**, the media fireworks will go off if we manage to touch the 2% CPI target as we expect. But even if there's a decimal place miss tied to a methodology change in measuring communications services prices, that's really not the story at this point, as the central bank pays little attention to that sort of fine print. Retail sales should see an autos-led bounce back in July, with that month's GDP looking like it might see a very small gain rather than the flat result that showed up in the disappointing flash estimate. We'll be looking at the Bank of Canada's summary of deliberations to see if they seriously consider a 50 bp cut in July.

Week Ahead's key Canadian number: Consumer price index—August

(Tuesday, 8:30 am)

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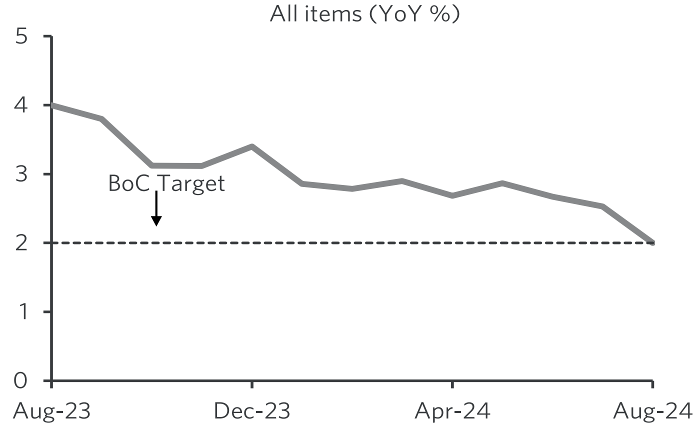
Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	-0.1	0.1	0.4
CPI (y/y)	2.0	2.1	2.5

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

After three-and-a-half years, CPI inflation may have finally eased back to the 2% target in August. With gasoline prices falling on the month and shelter price inflation finally showing signs of abating, we expect the year-over-year change in CPI to fall from 2.5% in July to 2.0%. On a monthly basis, prices would be 0.1% lower in unadjusted terms, and up by a marginal 0.1% when adjusted for seasonality.

The expected easing in shelter inflation should also help keep core measures of inflation on a cooler trajectory in August, and 0.2% monthly increases in CPI-trim and CPI-median would see the annual rates of both ease by two-ticks to 2.5% and 2.2% respectively. However, a methodology change impacting communications (which has been a source of disinflation in recent years) creates some two-way risk around this forecast.

Forecast implications — The steep drop in gasoline prices that started in mid-August has continued into the first half of September and as a result inflation will likely ease again and drop modestly below the 2% target. With inflation no longer threatening, the Bank of Canada has plenty of room to cut interest rates and help spur some growth in the economy. We forecast a further 200bp of easing between now and the middle of next year.

Other Canadian releases: Retail sales—July

(Friday, 8:30 am)

Headline retail sales were held back by auto sales faltering due to a software outage in June, and a rebound in that area should have driven the expected rebound in July. The 0.6% headline increase we expect will look a little weaker in real terms and in the details, with ex-auto sales expected to have risen by a more modest 0.3%.

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

(Tuesday, 8:30 am)

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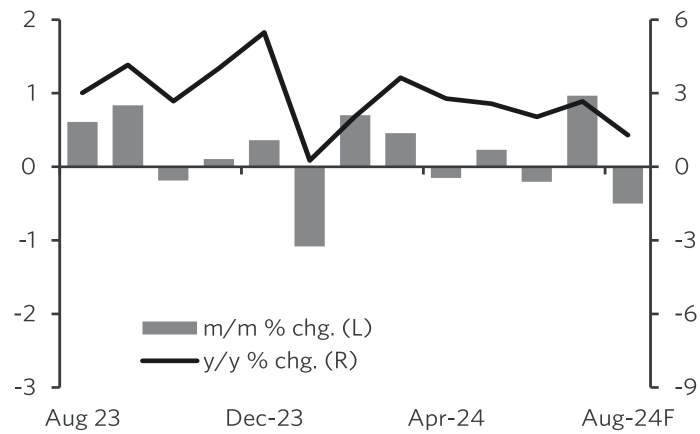
Variable (%)	CIBC	Mkt	Prior
Retail sales (m/m)	-0.5	-0.2	0.1
Retail sales - ex-auto	-0.2	0.3	0.4
Retail sales - control group	-0.3	0.3	0.3

We expect the US consumer to pull back a bit in August, after the mid-summer spending spree. The headline retail sales figure should contract by 0.5%. Excluding autos, that figure will look slightly better at -0.2% in the month. The control group, which feeds into non-auto goods consumption in the national accounts, should also come in softer at -0.3%. With more visible signs of slack in the labor market, especially with wage growth slowing, consumer spending is likely shift down a few gears. Weaker labor income will make it even more difficult for American households to maintain such a low saving rate and towards overtime, as joblessness rises a bit further, they will be focused more on building up their rainy day funds.

Chart: US retail sales



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — Even with a modest deceleration in goods consumption in Q3, the economy is still on track to grow by a solid 2% in the quarter. Services consumption growth will remain steady in the quarter.

Market implications — Retail sales is the last stop ahead of the FOMC, and some corners of market could view it as decisive, given that market pricing is still split on how much the Fed will cut in September.

Other US Releases: Industrial production—August

(Tuesday, 9:15 am)

Industrial production should increase by 0.3% in the month, as manufacturing picks up after being slowed by Hurricane Beryl in July. The auto sector was particularly hard hit and our equity analysts expect production to bounce back in August and September.

Housing starts—August

(Wednesday, 8:30 am)

Housing starts and permits should also rebound after being disrupted by the hurricane in July. We expect starts to rise by 9% in August to 1350K, and permits to increase by nearly 4% to 1450K.

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