Economics

THE WEEK AHEAD

July 22 - 26, 2024

The unredacted Bank of Canada

by Avery Shenfeld avery.shenfeld@cibc.com

Alongside a quarter point rate cut that won't surprise anyone, the Bank of Canada is set to unveil its revised economic outlook. But for market participants looking for clues on what lies ahead, the Monetary Policy Report will read like a partially redacted intelligence agency release, with some of the juicy bits covered up. In contrast to the US Fed's statement, there's no interest rate forecast to be found, and no unemployment rate projection. So here's a guide to what lies in those blackened out sections, as well as what the Bank will be free to say.

In cutting rates a second consecutive time, it will rightly argue that it needs to look past every little blip in the CPI, and focus instead on two key elements of the "big picture". First, the economy is now operating with visible disinflationary economic slack, as evidenced by labour market softness and an extended run of mediocre growth that has trailed the Bank's estimate of the economy's non-inflationary potential. Current interest rates would be a hurdle towards any improvement, with the Bank likely to again mention mortgage renewals as a drag ahead.

Second, considerable progress has been made on inflation in the past year, and the conditions are in place for that to continue. While they might not single it out, mortgage interest costs now represent the lion's share of the gap to the 2% target, and rate cuts will bring that component of the CPI down sharply. Wages are still looking overheated, but in line with what the Bank's Business Outlook Survey showed, they should cool next year in a lagged response to softer inflation and labour market slack.

So the Bank will confidently predict that the headline CPI will sit at 2% by the end of next year. In effect, its message is, don't worry, we've got this. The GDP forecast could concede a bit of sluggishness in the next couple of quarters. But easier financial conditions will drive a call for above-potential real GDP growth in 2025, likely a shade under 2½% on a Q4 over Q4 basis, so that the output gap will be eliminated by the end of next year. Governor Macklem has repeatedly said he can get to the inflation target without a recession, and he's not going to give up on that pledge just yet.

The catch in this is that the Bank's estimates for potential growth have been all over the map. Population and labour force growth is supposed to decelerate next year, and productivity should rebound, but how that will impact potential output is highly uncertain.

That's where one of the redacted items in the MPR kicks in. The Bank's estimates of slack in GDP terms have been partly influenced by more visible measures of labour market slack. The job vacancy rate is near its historical norms, but a climbing 6.4% unemployment rate is well above the roughly 5.7% level that proved to be noninflationary in the last cycle. The Bank's GDP projection will effectively be what it sees as achievable while getting the unemployment rate back to that full-employment level.

Therein lies the clue to the other redacted item, the expected path for policy rates. An economy sitting at full employment and on-target inflation will in theory be one requiring interest rates to be at a neutral setting, which the Bank (and CIBC) see at 2.75%. Barring an economic shock, that's a reasonable forecast for where 2025 will end up.

That also implies that we won't need a move at each and every rate setting date. Without much to guide us, months ago, we pencilled in the first pause in September, with cuts in June, July, October and December of this year. As we've seen in the CPI news, economic data don't follow a straight line path, and such pauses are more likely to be seen if there is a non-trivial upside surprise in employment, growth or inflation.

But since neither we, nor the Bank, can know when those blips will show up, even a fully unredacted Monetary Policy Report wouldn't be able to accurately provide that level of detail on the rate path ahead. We'll see if the press conference drops any hints, but September might well see another cut, with the pause pushed out to December. By then, rates will have dropped a full percentage point, giving more reason to pause and let the data show the need for a further easing.

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, July 22	-	-	-	-	-	-	-
Tuesday, July 23	-	-	-	-	-	-	-
Wednesday, July 24	8:30 AM	BANK OF CANADA RATE ANNOUNCE.	(Jul 24)	(H)	4.50%	4.50%	4.75%
Thursday, July 25	-	AUCTION: 30-YR CANADAS $2B	-	-	-	-	-
Thursday, July 25	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(May)	-	-	-	-22.7K
Friday, July 26	-	-	-	-	-	-	-

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, July 22	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Jun)	(M)	-	-0.1	0.2
Tuesday, July 23	-	AUCTION: 2-YR TREASURIES $69B	-	-	-	-	-
Tuesday, July 23	8:30 AM	PHILADELPHIA FED - NON-MANUFACTURING	(Jul)	(M)	-	-	2.9
Tuesday, July 23	10:00 AM	RICHMOND FED MANUF. INDEX	(Jul)	(M)	-	-7.0	-10.0
Tuesday, July 23	10:00 AM	EXISTING HOME SALES SAAR	(Jun)	(M)	-	4.0M	4.1M
Tuesday, July 23	10:00 AM	EXISTING HOME SALES M/M	(Jun)	(M)	-	-2.9%	-0.7%
Wednesday, July 24	-	AUCTION: 5-YR TREASURIES $70B	-	-	-	-	-
Wednesday, July 24	-	AUCTION: 2-YR FRN $30B	-	-	-	-	-
Wednesday, July 24	7:00 AM	MBA-APPLICATIONS	(Jul 19)	(L)	-	-	3.9%
Wednesday, July 24	8:30 AM	WHOLESALE INVENTORIES M/M	(Jun P)	(L)	-	-	0.6%
Wednesday, July 24	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Jun)	(M)	-$97.5B	$98.0B	-$99.4B
Wednesday, July 24	8:30 AM	RETAIL INVENTORIES M/M	(Jun)	(H)	-	-	0.7%
Wednesday, July 24	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jul P)	(L)	-	55.0	55.3
Wednesday, July 24	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jul P)	(L)	-	-	54.8
Wednesday, July 24	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jul P)	(L)	-	51.4	51.6
Wednesday, July 24	10:00 AM	NEW HOME SALES SAAR	(Jun)	(M)	650K	643K	619K
Wednesday, July 24	10:00 AM	NEW HOME SALES M/M	(Jun)	(M)	5.0%	3.8%	-11.3%
Wednesday, July 24	4:05 AM	Speaker: Michelle W Bowman (Governor) (Voter) & Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Thursday, July 25	-	AUCTION: 7-YR TREASURIES $44B	-	-	-	-	-
Thursday, July 25	8:30 AM	INITIAL CLAIMS	(Jul 20)	(M)	-	-	243K
Thursday, July 25	8:30 AM	CONTINUING CLAIMS	(Jul 13)	(L)	-	-	1867K
Thursday, July 25	8:30 AM	GDP (annualized)	(2Q A)	(H)	1.9%	1.9%	1.4%
Thursday, July 25	8:30 AM	GDP DEFLATOR (annualized)	(2Q A)	(H)	2.4%	2.6%	3.1%
Thursday, July 25	8:30 AM	DURABLE GOODS ORDERS M/M	(Jun P)	(H)	0.6%	0.4%	0.1%
Thursday, July 25	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jun P)	(H)	0.2%	0.2%	-0.1%
Friday, July 26	8:30 AM	PCE DEFLATOR Y/Y	(Jun)	(H)	2.4%	2.5%	2.6%
Friday, July 26	8:30 AM	PCE DEFLATOR Y/Y (core)	(Jun)	(H)	2.5%	2.5%	2.6%
Friday, July 26	8:30 AM	PERSONAL INCOME M/M	(Jun)	(H)	0.3%	0.4%	0.5%
Friday, July 26	8:30 AM	PERSONAL SPENDING M/M	(Jun)	(H)	0.4%	0.3%	0.2%
Friday, July 26	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jul)	(H)	-	66.0	66.0

Week Ahead's market call

by Ali Jaffery and Katherine Judge

In the **US**, the GDP and PCE reports are the main events of the week. We are aligned with consensus on GDP but the bigger news is going to be a softer domestic demand print, with the headline exaggerated higher mainly due to inventories. The Fed's preferred inflation gauge, barring past revisions, should come slightly below target for the month. We expect more Fed speakers will stay with the theme of "almost there", keeping the market (and us) comfortable with our September call for the first cut. Yet again, the big news of the week could be on the political front as pressure on Biden to step down is mounting.

In **Canada**, all eyes will be on the Bank of Canada decision, with a rate cut essentially a certainty, the focus will be on any forward guidance about the September meeting, along with the updated economic projections (see cover story). The job vacancy data within the SEPH report will also be watched for further signs of labour market slack opening up.

There are no major Canadian data releases next week.

Week Ahead's key US number: Real GDP—2Q (Advance)

(Thursday, 8:30 am)

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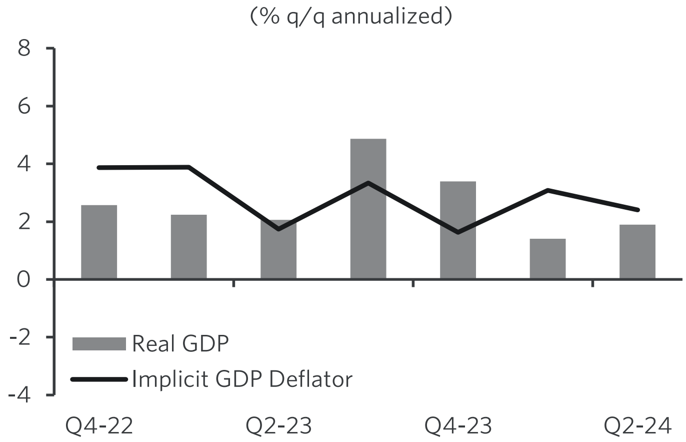
Variable (%)	CIBC	Mkt	Prior
GDP (q/q) annualized	1.9	1.9	1.4
GDP deflator	2.4	2.6	3.1

Chart: US GDP



Source: BEA, Haver Analytics, CIBC

The headline of the week will be 24Q2 GDP print. We are in line with consensus, expecting growth at 1.9% Q/Q SAAR. The Atlanta Fed GDPNow is sitting at a healthy 2.7%, with a large upward revision due to trade data earlier this week that pushed it up above consensus. Trade and inventories could very well be sources of surprise again, but its a fools errand (or the job of a blind nowcasting althogithm) to believe one can forecast those components with any precision. The big story in the release however will a material softening in domestic demand, where we have a lot of data. Real final sales should come down to 1.2% in the quarter and average 1.5% for the first half of the year. That is down from the almost 4% average pace in the second half of 2023, and a clear sign that demand is petering out.

Forecast implications — Momentum heading into Q3 is steady and we expect inventories and trade volatility to subside in Q3, allowing a weaker pace of domestic demand to be better represented in the headline GDP figures. We are beginning our 24Q3 tracking at a soft 1.3%.

Market impact — GDP is usually no surprise to the Fed given much of the underlying data on domestic demand is known to them already, and it's also important to remember that the FOMC does not place as much weight on GDP as it does on the labor market for assessing slack in the economy. Based on where Fed pricing has stuck, the market gets it and the risk of an overreaction appears lower.

Other US Releases: Personal income & outlays—June

(Friday, 8:30 am)

Based on the recent CPI and PPI reports, we expect the core PCE deflator to be 0.1% m/m or 2.5% in year-over-year terms, though the Thursday GDP report will indicate if other months were revised before the Friday release. That is a notch below the consensus on both measures and hallelujah territory for Powell. Real consumption and income growth should remain solid at 0.3%. We expect the saving rate to tick down to 3.7%.

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