CIBC Economics

THE WEEK AHEAD

July 1 - 5, 2024

Weather forecasts and weather vanes

by Avery Shenfeld avery.shenfeld@cibc.com

My late father spent some time as a weather forecaster, and while he could rely on the immutable laws of physics rather than the vagaries of human behavior, his tasks bore one common feature with those of an economist or fund manager. In projecting the wind direction, or the economic and market outlook, you're looking for the general trend, and needn't pay heed to every wobble of the weather vane.

So we're reluctant to throw in the towel on our forecast for a July Bank of Canada rate cut, and two further moves over the rest of 2024, after one monthly wobble in the CPI. The two core CPI measures advanced by 0.3% on the month, but nobody would have raised an eyebrow had they been a mere single tick softer.

The central bank wisely keeps tabs on the three-month and twelve-month trends, because the monthly data shift like the wind. The three month annualized pace for CPI trim and median, at 2.7% and 2.3% respectively, are still below their 12-month paces, suggesting that the broad direction of the economy is towards a disinflationary cooling, even if the weather vane pointed the other way this month. A former core inflation measure, CPIX, rose a mere 1.8% over the past year, because among the eight items it excludes is a measure of mortgage interest costs, which are up 23% due to higher interest rates. Inflation excluding only MIC stands at 2.1%. While these aren't "official" core benchmarks, the Governor has noted that his team does consider such "exclusionary" measures.

Recall that back in April, Macklem was already hinting that if inflation was well behaved, a rate cutting cycle could begin as early as June. It's noteworthy that even after the disappointing May data, inflation is still tracking below the Bank's April MPR forecast (Chart).

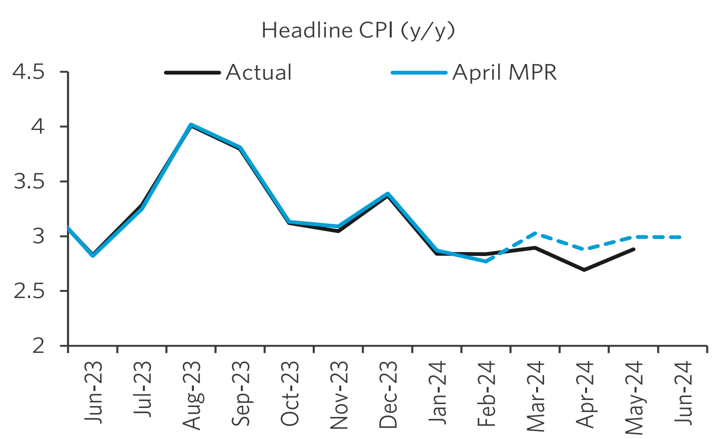
Despite June's quarter point rate cut, real interest rates are miles above where they sat when we first hit a 5% overnight rate. The Bank seems well aware of the economic pressure on those whose mortgages will renew in the next two years. Indeed, back in January, the Bank was already projecting better growth in the back half of this year driven by an easing in financial conditions.

There's still some elbow room for June's headline inflation reading, which would have to come in at 0.3% month over month (seasonally adjusted), to put CPI above the April forecast. Admittedly, another 0.3% advance in core measures would throw a more material wrench into their three-month annualized pace, and could thereby see the Bank opt to stand pat in July.

But thinking like a weather forecaster, not a weather vane, gives some reason to expect tame inflation readings ahead. Global trends show a continuing deceleration in goods prices, and a softer trend in global demand as registered by PMI figures. While we have an important set of jobs data next week that could still impact the July rate decision, wages in Canada do seem to be settling back to a less harried trend. Yesterday's payrolls report showed a dip in inflation for fixed-weight hourly earnings, and a further drop in job vacancies.

So for now, rather than blowing with the wind, we're keeping our call for three more rates cuts this year intact. That leaves opportunities for fixed income investors to benefit from rally room in mid-term bonds, with the market pricing in one fewer cut than our forecast.

Chart: Inflation is still below last Bank of Canada MPR forecast



Note: April 2024 MPR dotted line portion indicates the Bank of Canada's inflation forecast from March 2024 to June 2024.

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, July 1	-	Markets Closed (Canada Day)	-	-	-	-	-
Tuesday, July 2	-	AUCTION: 3-M BILLS $11.6B, 6-M BILLS $4.2B, 1-YR BILLS $4.2B	-	-	-	-	-
Wednesday, July 3	-	AUCTION: 5-YR CANADAS $5B	-	-	-	-	-
Wednesday, July 3	8:30 AM	MERCHANDISE TRADE BALANCE	(May)	(H)	-$1.2B	-	-$1.1B
Thursday, July 4	-	-	-	-	-	-	-
Friday, July 5	8:30 AM	EMPLOYMENT CHANGE	(Jun)	(H)	20.0K	25.0K	26.7K
Friday, July 5	8:30 AM	UNEMPLOYMENT RATE	(Jun)	(H)	6.3%	6.3%	6.2%
Friday, July 5	10:00 AM	IVEY PMI	(Jun)	(L)	-	-	52.0

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 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jun)	(L)	-	51.7	51.7
Monday, July 1	10:00 AM	ISM - MANUFACTURING	(Jun)	(H)	48.0	49.2	48.7
Monday, July 1	10:00 AM	CONSTRUCTION SPENDING M/M	(May)	(M)	-	0.3%	-0.1%
Tuesday, July 2	10:00 AM	JOLTS Job Openings	(May)	-	7900K	-	8059K
Tuesday, July 2	9:30 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Wednesday, July 3	7:00 AM	MBA-APPLICATIONS	(Jun 28)	(L)	-	-	0.8%
Wednesday, July 3	8:15 AM	ADP EMPLOYMENT CHANGE	(Jun)	(M)	-	163K	152K
Wednesday, July 3	8:30 AM	GOODS & SERVICES TRADE BALANCE	(May)	(H)	-$73.0B	-$72.2B	-$74.6B
Wednesday, July 3	8:30 AM	INITIAL CLAIMS	(Jun 29)	(M)	-	-	233K
Wednesday, July 3	8:30 AM	CONTINUING CLAIMS	(Jun 22)	(L)	-	-	1839K
Wednesday, July 3	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jun)	(L)	-	-	55.1
Wednesday, July 3	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jun)	(L)	-	-	54.6
Wednesday, July 3	10:00 AM	FACTORY ORDERS M/M	(May)	(M)	0.3%	0.3%	0.7%
Wednesday, July 3	10:00 AM	ISM - SERVICES	(Jun)	(M)	52.0	52.5	53.8
Wednesday, July 3	10:00 AM	DURABLE GOODS ORDERS M/M	(May)	(H)	-	-	0.1%
Wednesday, July 3	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(May)	(H)	-	-	-0.1%
Wednesday, July 3	2:00 PM	FOMC Meeting Minutes	(Jun 12)	-	-	-	-
Wednesday, July 3	7:00 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, July 4	-	Markets Closed (Independence Day)	-	-	-	-	-
Friday, July 5	8:30 AM	NON-FARM PAYROLLS	(Jun)	(H)	230K	188K	272K
Friday, July 5	8:30 AM	UNEMPLOYMENT RATE	(Jun)	(H)	4.0%	4.0%	4.0%
Friday, July 5	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Jun)	(H)	0.3%	0.3%	0.4%
Friday, July 5	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Jun)	(H)	-	34.3	34.3
Friday, July 5	8:30 AM	MANUFACTURING PAYROLLS	(Jun)	(H)	-	10K	8K
Friday, July 5	5:40 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, the jobs data will as usual take top billing in the first week of the new month. Betting on the "over" has generally paid off in recent months, and we expect hiring in non-cyclical sectors to once again help the payrolls count top expectations. But that could be offset by a cooler month for hourly earnings gains. While the JOLTS data have now normalized and are therefore less likely to see further big drops in job vacancies in the coming week's report, the current combination of vacancies and a 4% jobless rate no longer looks like a tight labour market by the past cycle's standards, and with less room to keep raising prices, employers will be increasingly reluctant to dangle big wage offers. Politics will also be in the spotlight, as pundits speculate on the fallout from the Trump/Biden debate, and the implications for 2025 economic policy.

In **Canada**, we can't be too sure about what Statistics Canada will assume about the monthly population growth, but suspect that job growth will still trail the increase in the size of the labour force, nudging the unemployment rate up another tick. In level terms, real GDP for Q2 has been tracking fairly close to the Bank of Canada's April forecast, but the surge in population has meant that labour market stack is still growing, helping make the case for additional rate cuts.

Week Ahead's key Canadian number: Employment—June

(Friday, 8:30 am)

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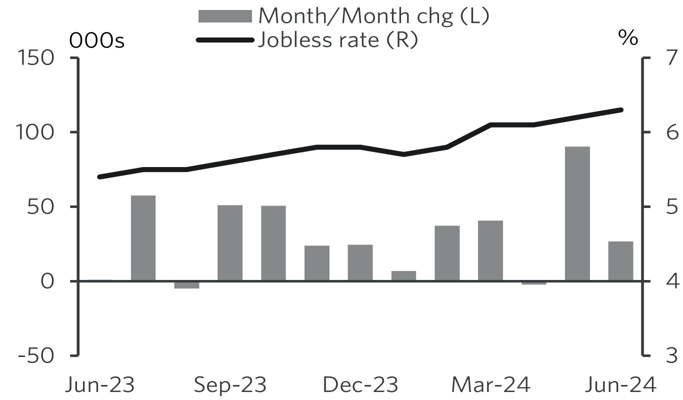
Variable	CIBC	Mkt	Prior
Employment change	20.0K	25.0K	26.7K
Unemployment rate	6.3%	6.3%	6.2%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Employment has continued to rise at a solid pace throughout most of this year, although these results appear to have been flattered by the Labour Force Survey's population count playing catch-up with the quarterly count. Generally softer employment readings within the SEPH survey, as well as a decline in job vacancies, paint a weaker picture of the Canadian labour market.

While we expect a further 20K gain in jobs within the June LFS report, that would once again be below the pace of population growth and would see the unemployment rate creep up to 6.3%. Wage growth for permanent workers will continue to look strong, but this series has previously been viewed as the least reliable wage measure by the Bank of Canada.

Forecast implications — While interest rates have started to come down, more rate reductions will be needed before growth reaccelerates and the unemployment rate stabilizes. That should happen towards the end of the year, although the peak in the jobless rate could be a little higher than we previously anticipated.

Other Canadian releases: Merchandise trade—May

(Wednesday, 8:30 am)

Oil prices were lower on the month, but an improvement in volumes and higher natural gas prices may have blunted the impact on the trade balance. Earlier released US data suggests that two-way trade in the auto sector may have dropped off again after jumping sharply in April. We expect the trade deficit in goods to be little changed at $1.2bn.

Week Ahead's key US number: Employment situation—June

(Friday, 8:30 am)

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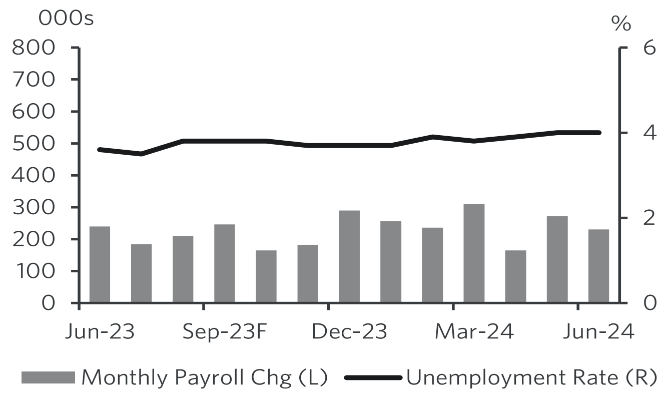
Variable	CIBC	Mkt	Prior
Employment (m/m)	230K	188K	272K
Unemployment rate	4.0%	4.0%	4.0%
Avg hourly earnings (m/m)	0.3%	0.3%	0.4%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

We expect job gains to moderate in June to a still very solid pace of 230K in the month, above the current census of 195K. Going back to June of 2022, consensus forecasts have underpredicted the first release of payrolls about 80% of the time and by an average margin of around 70K. The surge in immigration, better captured by the establishment survey, and the catch-up in acyclical sectors like healthcare and government has continually surprised forecasters. While both trends seem like they will run out of steam this year, we expect them to keep job gains comfortably above 200K once again in June. The unemployment rate and participation rate will remain unchanged in the month at 4.0% and 62.5% respectively, and wage gains should edge down to 0.3% in the month.

Forecast implications — A marginal slowdown in employment and wage growth should mean a bit less spending power for consumers, leading to a slightly slower pace of consumption.

Market impact — Outside of payroll strength, which has a lot to do with population and catch-up in health and government, the remaining labor market surveys point to a labor market close balance. The market is mostly primed on the payroll number, and could risk overreacting to another above consensus print.

Other US Releases: ISM Manufacturing—June

(Monday, 10:00 am)

ISM Manufacturing should move back into slight contractionary territory, given the weakness seen in other regional manufacturing surveys. The hard data is still about there with US IP manufacturing sitting at flat growth in year-over-year terms. Until rates come down and global growth picks up, manufacturing should remain soft.

JOLTS Job Openings—May

(Tuesday, 10:00 am)

We expect job openings to tick down further to 7900 and the openings to unemployment ratio to stay at 1.2, consistent with other labor market openings indicators. That is signaling labor demand is softening and further declines in the closely watched openings to unemployment ratio, could come from rising unemployment as well.

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