

THE WEEK AHEAD

August 19 - 23, 2024

What's up with Canadian wage inflation?

by Avery Shenfeld avery.shenfeld@cibc.com

A softer labour market and reduced pricing power should have businesses being less generous with wage offers. That's of some importance to the inflation outlook, and it's what we're seeing in the US. But what's up with wage inflation in Canada? The short answer is, we don't really know.

There are good reasons to downplay the recent uptick in the wage measure from the monthly Labour Force Survey. Those surveyed are assumed to know the wages or salaries (weekly, monthly or annual) and normal working hours of their family members. Respondents are in the survey for six months, but are only asked about their wages rate once if there's been no job change. The year-on-year wage inflation measure compares one group of people to a different sample a year earlier, and are impacted by changes in the mix of jobs out there.

How accurate is this approach? Well, Statistics Canada itself doesn't publish a standard error for the estimate, as it does for employment, and only opted to add the wage question in 1997. The US BLS doesn't even bother to ask about wages in its household survey.

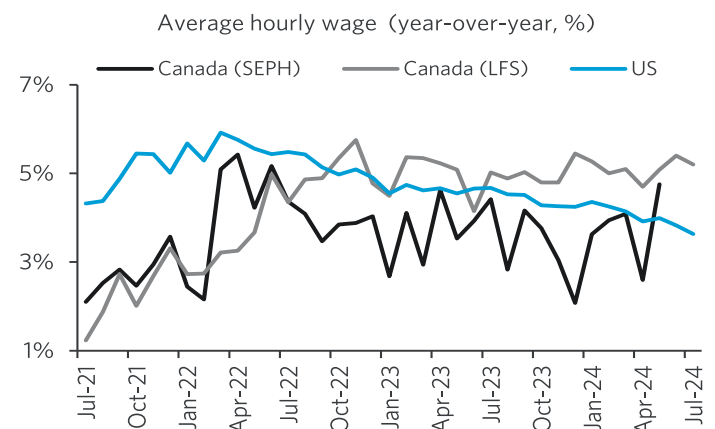
The US relies on data obtained from employers. Canada's payrolls (SEPH) data track business tax reports on worker headcounts and total pay. But the hours worked estimates are from a survey of 15,000 establishments, while the BLS tracks nearly 700,000 worksites. The tax data will include back pay and other one-time payments that might not be part of a regular wage. The SEPH report prints a measure that controls for changes in the mix of employment across industries, but not occupations. In contrast, American economists can also follow the Atlanta Fed wage tracker, which measures year-on-year wage changes for a given pool of individuals.

One way to assess how much noise there is in the data is to look at the path for year-on-year changes. Most workers have their wages set once a year, filtering in at different times, so year-on-year changes should look fairly smooth. That's what we see in the US average hourly earnings series, but not in the Canadian measures (Chart). In just the last month, the SEPH data went from a 2.6% year-on-year change to 4.8%. The SEPH figures have also run miles below the LFS data in the past year although there are some definitional differences.

Two other compensation measures are only available quarterly, so we've yet to see even Q2 data. One makes use of national accounts labour income data, the other uses the compensation measure from the unit labour cost report. Both still have question marks surrounding the measure of total hours worked, and averages are impacted by changes in the mix of activities across low and high paid sectors. One encouraging sign is that unit labour costs did decelerate in Q1, and we'll be watching to see if that continued in the spring.

So what do these issues imply for the direction for inflation and interest rates ahead? On its part, the Bank of Canada seems willing to look past a recent upward blip in some of the wage measures. Their tone implies that we're seeing the tail end of catch-up wage hikes, and a cooler pace is in store for 2025, as respondents to the Business Outlook survey suggested. And whatever is happening to wages, the week ahead's data should show a steady deceleration in the CPI, where the remaining inflation is now highly concentrated in rents and mortgage payments, rather than in labour-intensive services or goods. Still, it would be nice to be less in the dark about what's happening to wages in Canada on a month-to-month basis.

Chart: Canadian wage measures more choppy



Source: Statistics Canada, Bureau of Labor Statistics, 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, August 19	10:30 AM	Release: Senior Loan Officer Survey	-	-	-	-	-
Tuesday, August 20	8:30 AM	CPI M/M	(Jul)	(H)	0.4%	0.3%	-0.1%
Tuesday, August 20	8:30 AM	CPI Y/Y	(Jul)	(H)	2.5%	2.4%	2.7%
Tuesday, August 20	8:30 AM	Consumer Price Index	(Jul)	(M)	-	161.9	161.4
Tuesday, August 20	8:30 AM	CPI Core- Median Y/Y%	(Jul)	(M)	2.5%	2.5%	2.6%
Tuesday, August 20	8:30 AM	CPI Core- Trim Y/Y%	(Jul)	(M)	2.8%	2.8%	2.9%
Wednesday, August 21	-	AUCTION: 10-YR CANADAS \$5B	-	-	-	-	-
Wednesday, August 21	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Jul)	(M)	-	-	0.0%
Wednesday, August 21	8:30 AM	RAW MATERIALS M/M	(Jul)	(M)	-	-	-1.4%
Thursday, August 22	-	-	-	-	-	-	-
Friday, August 23	8:30 AM	RETAIL TRADE TOTAL M/M	(Jun)	(H)	-0.3%	-0.3%	-0.8%
Friday, August 23	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Jun)	(H)	0.2%	-0.4%	-1.3%

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, August 19	10:00 AM	LEADING INDICATORS M/M	(Jul)	(M)	-	-0.3%	-0.2%
Monday, August 19	9:15 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Tuesday, August 20	8:30 AM	PHILADELPHIA FED - NON-MANUFACTURING	(Aug)	(M)	-	-	-19.1
Tuesday, August 20	1:35 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Tuesday, August 20	2:45 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Wednesday, August 21	-	AUCTION: 20-YR TREASURIES \$16B	-	-	-	-	-
Wednesday, August 21	7:00 AM	MBA-APPLICATIONS	(Aug 16)	(L)	-	-	16.8%
Wednesday, August 21	2:00 PM	FOMC Meeting Minutes	(Jul 31)	-	-	-	-
Thursday, August 22	-	AUCTION: 30-YR TIPS \$8B	-	-	-	-	-
Thursday, August 22	8:30 AM	INITIAL CLAIMS	(Aug 17)	(M)	-	-	227K
Thursday, August 22	8:30 AM	CONTINUING CLAIMS	(Aug 10)	(L)	-	-	1864K
Thursday, August 22	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Jul)	(M)	-	-	0.1
Thursday, August 22	9:45 AM	S&P GLOBAL US SERVICES PMI	(Aug P)	(L)	-	-	55.0
Thursday, August 22	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Aug P)	(L)	-	-	54.3
Thursday, August 22	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Aug P)	(L)	-	-	49.6
Thursday, August 22	10:00 AM	EXISTING HOME SALES SAAR	(Jul)	(M)	-	3.9M	3.9M
Thursday, August 22	10:00 AM	EXISTING HOME SALES M/M	(Jul)	(M)	-	0.3%	-5.4%
Friday, August 23	10:00 AM	NEW HOME SALES SAAR	(Jul)	(M)	648K	631K	617K
Friday, August 23	10:00 AM	NEW HOME SALES M/M	(Jul)	(M)	5.0%	2.3%	-0.6%
Friday, August 23	10:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, it's a light week for data, but a busy week for Fed chatter. While Powell had stressed the unanimity of FOMC views in his post-meeting press conference, we'd be surprised if the minutes didn't have a reference to "some" members worried about missing the Fed's full-employment mandate. That said, remember that the meeting came before the soft payrolls report. So for a more up-to-date take, markets will have to look to scheduled remarks from a quartet of FOMC voting members this week, including the Chairman's Jackson Hole speech.

In **Canada**, although we're a tick above consensus for the headline CPI, that won't be material if the core measures show moderate 0.2% monthly gains. That will still have the inflation picture moving in the right direction for successive eases by the Bank of Canada at its three remaining decision dates. Retail sales look to be driving on a bouncy road due to a software glitch that delayed some auto detailer sales in June but likely shifted them to July. So the ex-auto retail numbers could look better in June than the headline retail sales report (or the consensus), but the advance reading for July will be flattered by that auto sales rebound.

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

(Tuesday, 8:30 am)

Andrew Grantham andrew.grantham@cibc.com

Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.4	0.3	-0.1
CPI (y/y)	2.5	2.4	2.7

A modest rise in gasoline prices will mean a slightly firmer monthly change in headline CPI during July. We expect a 0.4% increase in prices on the month, which would translate into a 0.3% gain in seasonally adjusted terms (the strongest since March). However, despite this firm monthly gain, the annual pace of inflation is still likely to slow as a larger increase in gasoline prices a year ago drops out of the calculation.

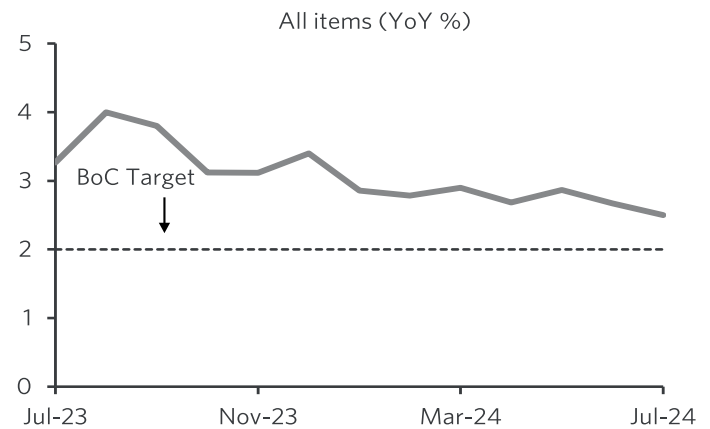
We expect core measures of inflation (trim, median and seasonally adjusted ex food/energy) to show more modest 0.2% gains on the month. Even though July's interest rate cut came toward the end of the month, and the drop in bond yields was largely an August story, the monthly increase in mortgage interest costs should still continue to ease. Inventory build up and still weak consumer spending should continue to keep goods prices in check.

Other Canadian releases: Retail sales—June

(Friday, 8:30 am)

Headline retail sales likely fell by 0.3% in June, in line with the advance estimate. However, with auto sales likely to have seen a decline due to a temporary software issue, and lower gasoline prices weighing on the nominal figure, some of the detail could be stronger than the headline. Ex-auto sales are expected to have risen by a most 0.2%, with ex-auto and gasoline up 0.5%. The advance estimate for July could appear fairly strong at first glance, but would be flattered slightly by a rebound in auto sales and gasoline prices.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Concerns regarding downside risks to growth, particularly in the US, are gaining greater prominence in monetary policy decision making than monthly wiggles in inflation. Even though our forecast for July CPI is slightly above the early consensus, it would still be consistent with an easing trajectory and a further interest rate cut from the Bank of Canada at its September meeting.

There are no major US data releases next week.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
[Bloomberg @ CIBC](#)

economics.cibccm.com

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Canadian Investment Regulatory Organization, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2024 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.