Economics

THE WEEK AHEAD

March 18 - 22, 2024

Why so sad?

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

The battle for the White House is now in high gear, and Americans are being asked that favourite question: are you better off than you were four years ago. Of course, 2020 was the height of the pandemic, so what's really being compared is 2024 versus 2019. Polls showing Trump in the lead, and surveys about economic conditions, suggest many aren't that happy, a sharp contrast with hard data that show incomes and spending sitting higher in real per capita terms, inflation well off its peak, and a strong run of job gains and sub-4% unemployment. Why so sad then?

In part, it's politics and social media. Polls show that Republic voters have a much more negative view of the economy than Democrats, and not because their states are faring worse. Each side hears a very different set of "facts" depending on which websites or news channels they turn to.

It's also an asymmetry in how households think about inflation. Each worker sees their wage gain as entirely driven by merit, and not pushed by broader inflation. So, they judge where they stand against an improbable alternative world in which they would have kept their 5% pay hike, but not have faced the run up in the price level. And inflation is judged by the price level (why are restaurant meals so expensive?) not the rate of change (restaurant prices aren't rising much anymore).

As Larry Summers pointed out in a recent paper, confidence measures also tend to weaken in major economies when interest rates are high, even independently of their impacts on growth. He argues that Americans who happened to buy a house at current mortgage rates would have suffered a much higher inflation rate, if in the US, like Canada, you include mortgage interest in the measure of the cost of living. But for all poll respondents, that would grossly overstate the impact on living costs, for the simple reason that, unlike Canadians, Americans who haven't moved are able to keep the 30-year mortgage that they refinanced when rates were at ultra-low levels in 2020, or back in 2015.

Fewer Americans are moving into different homes, so interest payments, while edging higher, remain at historically low levels as a share of after-tax income. That goes some way to explaining why US retail sales have been much stronger than what we've seen in Canada, where interest payments have surged relative to incomes. But perhaps some Americans are disenchanted by the fact that they've been prevented from their desired home purchase by those high mortgage rates, and that's reflected in the polling.

Financially, Americans as a group are richer, benefiting from record equity prices and rising home valuations. But some of that is tied up in home equity or retirement plans, and such asset holdings are, of course, even less equally distributed than annual incomes. Many Americans without such assets are feeling the pinch, having drawn down their savings, and run up their credit cards, and we are seeing a rise in consumer credit delinquencies. Some were recipients of generous government programs that ended after the pandemic, or are those who are again repaying student loans.

The last few months have seen a deceleration in retail sales. That could be the first signposts of a return to higher savings rates and less borrowing, just what the Fed needs to moderate growth enough to start easing up on interest rates. Admittedly, that comes after a few very boomy quarters for retailers, so it's hard to make too much out of one softer quarter. But low savings rates, high costs for borrowing for durables, and a falling number of vacant jobs might be finally injecting a dose of caution into American spending habits, perhaps enough to tip more current income into savings rather than spending.

If so, those less buoyant surveys are going to line up better with growth, not by showing greater confidence, but by reducing spending and hiring. That's not what the current President wants to see between now and election day. But to the extent that Summers is right about the impact of interest rates on confidence, there might be a side benefit for Joe Biden if the Fed moves enough on rates before November.

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, March 18	-	AUCTION: 2-YR CANADAS $6.5B	-	-	-	-	-
Monday, March 18	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Feb)	(M)	-	-	-0.1%
Monday, March 18	8:30 AM	RAW MATERIALS M/M	(Feb)	(M)	-	-	1.2%
Monday, March 18	9:00 AM	EXISTING HOME SALES M/M	(Feb)	(M)	-	-	3.7%
Tuesday, March 19	8:30 AM	CPI M/M	(Feb)	(H)	0.6%	0.6%	0.0%
Tuesday, March 19	8:30 AM	CPI Y/Y	(Feb)	(H)	3.0%	3.1%	2.9%
Tuesday, March 19	8:30 AM	Consumer Price Index	(Feb)	(M)	-	159.2	158.3
Tuesday, March 19	8:30 AM	CPI Core- Median Y/Y%	(Feb)	(M)	3.3%	3.4%	3.3%
Tuesday, March 19	8:30 AM	CPI Core- Trim Y/Y%	(Feb)	(M)	3.4%	3.5%	3.4%
Tuesday, March 19	-	New Brunswick Budget	-	-	-	-	-
Wednesday, March 20	-	Saskatchewan Budget	-	-	-	-	-
Wednesday, March 20	-	Newfoundland & Labrador Budget	-	-	-	-	-
Wednesday, March 20	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Thursday, March 21	9:50 AM	Speaker: Toni Gravelle (Deputy Gov.)	-	-	-	-	-
Friday, March 22	8:30 AM	RETAIL TRADE TOTAL M/M	(Jan)	(H)	-0.4%	-0.4%	0.9%
Friday, March 22	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Jan)	(H)	-0.6%	-0.5%	0.6%

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, March 18	10:00 AM	NAHB HOUSING INDEX	(Mar)	(L)	-	48.0	48.0
Tuesday, March 19	-	AUCTION: 1-YR TREASURIES $46B	-	-	-	-	-
Tuesday, March 19	-	AUCTION: 20-YR TREASURIES $13B	-	-	-	-	-
Tuesday, March 19	8:30 AM	BUILDING PERMITS SAAR	(Feb)	(H)	1500K	1500K	1489K
Tuesday, March 19	8:30 AM	HOUSING STARTS SAAR	(Feb)	(M)	1450K	1430K	1331K
Tuesday, March 19	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Jan)	(L)	-	-	$160.2B
Wednesday, March 20	7:00 AM	MBA-APPLICATIONS	(Mar 15)	(L)	-	-	7.1%
Wednesday, March 20	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Mar 20)	(H)	5.50%	5.50%	5.50%
Wednesday, March 20	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Mar 20)	(H)	5.25%	5.25%	5.25%
Wednesday, March 20	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, March 21	-	AUCTION: 10-YR TIPS $16B	-	-	-	-	-
Thursday, March 21	8:30 AM	INITIAL CLAIMS	(Mar 16)	(M)	-	-	209K
Thursday, March 21	8:30 AM	CONTINUING CLAIMS	(Mar 9)	(L)	-	-	1811K
Thursday, March 21	8:30 AM	CURRENT ACCOUNT BALANCE	(4Q)	(L)	-	-$209.0B	-$200.3B
Thursday, March 21	9:45 AM	S&P GLOBAL US SERVICES PMI	(Mar P)	(L)	-	52.0	52.3
Thursday, March 21	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Mar P)	(L)	-	-	52.5
Thursday, March 21	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Mar P)	(L)	-	51.8	52.2
Thursday, March 21	10:00 AM	LEADING INDICATORS M/M	(Feb)	(M)	-	-0.2%	-0.4%
Thursday, March 21	10:00 AM	EXISTING HOME SALES SAAR	(Feb)	(M)	-	3.9M	4.0M
Thursday, March 21	10:00 AM	EXISTING HOME SALES M/M	(Feb)	(M)	-	-2.0%	3.1%
Friday, March 22	4:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, it's going to be all eyes on the Fed, with no material economic news on the schedule. The funds rate will be left unchanged, and Powell ought to avoid giving any definitive signal on when the first cuts will arrive. We'll concede that recent data on inflation hasn't been friendly to our forecast for 100 bps of cuts in the latter half of the year, and we'll need to see some softening in jobs, wages and underlying inflation in the coming months to stick with that view. While it's a close call, with some risk of a more hawkish turn to only 50 bps of easing, we see the Fed just hanging on to its median projection for three cuts in 2024, and the median call for 2025 also looks likely to be little changed, with the individual dots still widely dispersed. Median forecasts for growth, inflation and unemployment for this year could shift by a decimal place or two here and there, which won't be material. If so, the biggest change could be in the "long term" outlook for rates, typically viewed as the Fed's assessment of where neutral will lie. With the economy showing resilience to rates above 5%, the long-term projection will likely move higher, with 2.75% or even 3% now looking like more plausible outcomes. On the data front, housing starts could rebound from a weather-related dip, but residential investment is still set to be a drag on Q1 GDP.

In **Canada**, other than in autos, where improvements in supply are facilitating sales and deliveries of new models, retail sales look to have been soft in January. But the focus will be on the CPI. A 0.3% seasonally adjusted rise in prices excluding food/energy will still translate into a hotter looking 0.6% rise in the unadjusted measure for the total CPI that, for whatever reason, is the headline figure for Canadian inflation. The two "preferred" core measures (trim and median) for 12-month inflation have a chance to hold steady after dipping in the prior month, but we're also keeping an eye on CPIX, which excludes mortgage interest and other volatile components, and has been a bit softer of late. Note that in his press conference, the Governor said that the central bank is not just looking at trim and median, but a broader range of underlying inflation metrics such as those that exclude certain items.

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

(Tuesday, 8:30 am)

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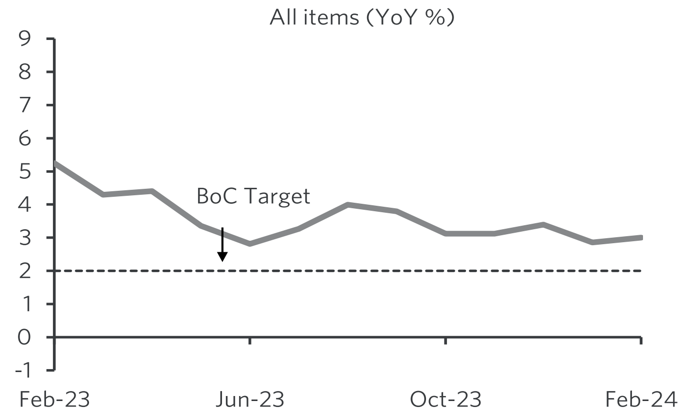
Variable (%)	CIBC	Mkt	Prior
CPI m/m (NSA)	0.6	0.6	0.0
CPI yr/yr	3.0	3.1	2.9

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Higher prices at the pump in February likely helped push headline CPI up a tick to 3.0% y/y, reflecting a 0.6% NSA monthly increase. That would also include an acceleration in ex. food/energy prices to 0.3% m/m SA, as some volatile segments that showed large declines in January (clothing, airfares) could have seen a turnaround in February, adding to increases in shelter prices. Looking beyond the volatility, however, price increases likely weren't any more broad based, reflecting soft consumer demand, and we therefore expect 12-month CPI trim and median to both be unchanged.

Forecast implications — This will be the last inflation print that the BoC receives before its April announcement and forecast update. Even at that meeting, policymakers will say that they need a bit more time to gather evidence that price increases are becoming less widespread and more narrowly focused in shelter before cutting.

Other Canadian releases: Retail sales—January

(Friday, 8:30 am)

The advance estimate for January retail sales suggested a drop of 0.4% m/m, something that will partly reflect lower prices for goods, in combination with weak demand. Excluding sales of autos, which should have been helped by supply chain normalization, sales likely declined by 0.6%. These figures will look worse in per-capita terms, as consumers are becoming more cautious given imminent mortgage renewals and the climb in the unemployment rate.

Week Ahead's key US number: Housing starts—February

(Tuesday, 8:30 am)

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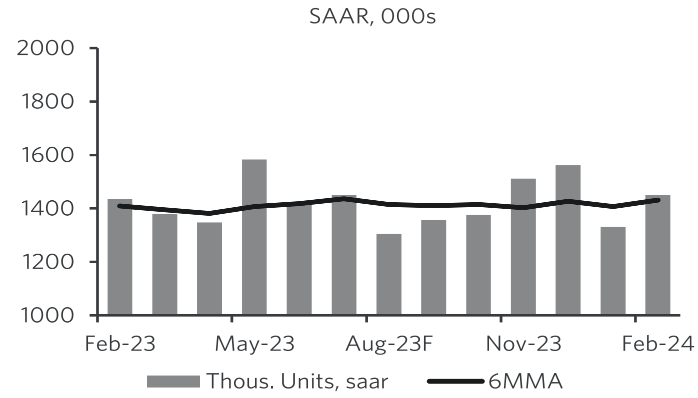
Variable	CIBC	Mkt	Prior
Housing starts	1450K	1430K	1331K
Building permits	1500K	1500K	1489K

Chart: US Housing starts



Source: Census Bureau, Haver Analytics, CIBC

We expect housing starts to rebound after a steep drop in January, which was likely caused by bad weather. Starts should rise to 1450K in February, a bit below the average level in November and December. Housing permits will come in at 1500K. Restrictive monetary policy has depressed housing activity materially over the past year but that has not fully curtailed price pressures in the housing sector. Higher rates have crimped the supply of housing by reducing affordability and raising builders' cost of capital, keeping house prices and rental rates for single family homes elevated.

Forecast implications — Housing starts feed into residential investment, which bottomed out in the second half of 2023, after over two years of decline, as mortgage rates came down. However, mortgage rates perked up in February and should impact construction in March. That, combined with the weather-induced dip in January, should cause residential investment to contract by a 2% annualized pace in 24Q1.

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