

Economics

THE WEEK AHEAD

November 29-December 3, 2021

What's nu on the Covid-19 front?

by Avery Shenfeld avery.shenfeld@cibc.com

Since early 2020, we've had the same answer to that perennial client question about what's the greatest risk to your forecast: Covid. So when that story takes a twist or a turn, we feel obligated to help our clients stay on top of it.

What's new on the Covid front these days is a new variant, B.1.1.529, first identified in southern Africa but not necessarily originating there, which is expected to be dubbed "nu" in the Greek letter system for naming variants of concern. What distinguishes nu, and makes it newsworthy, is that it has more mutations than prior variants, and ones that alter its spike protein. That has raised concerns that it will be better able to break through the immunity afforded by vaccines, since they are designed to target that part of the virus.

Some countries are already barring flights from Africa, but it may well be that this variant is already brewing elsewhere. What isn't clear is whether vaccines or antibody treatments can still defend against severe outcomes, which would be key to whether it can set us back on our physical and economic healing path.

That path has already hit a bump in the road, with the data from Europe, and to some extent on this side of the Atlantic, creating concerns about the next few months. The wave seen on the European continent, following shortly on the heels of UK experience, shows that vaccination rates are in many areas still too low to drop other public health safeguards and contain the disease.

Premature declarations of victory in countries like Austria and Germany are helping to generate waves of illness. That could bring back sterner health measures that might be more disruptive to economic activity than those that were abandoned. It raises some concerns that in many parts of the US, where masks aren't in wide use and vaccine requirements are little enforced, we're not out of the woods.

In sharply dropping cases among thrice vaccinated elderly in the UK, the evidence is growing that "fully vaccinated" may well

be redefined as having three doses, not two (or for the J&J shot, two rather than one). The UK results are also in line with Israeli experience, and as these countries were early in rolling out two doses, they are leading indicators of where the rest of the world has to head. If so, we'll have a longer vaccine calendar ahead than we thought, particularly if we opt to wait a few months for doses better targeted at nu.

The weather also seems to count, as seen in recent upturns in Covid cases in parts of Canada, and in the gap between rising cases in the US Midwest versus the South. Cases are escalating not only because cooler weather shifts restaurant dining and other activities indoors, but also, according to some experts, because dry air from heating systems makes us more vulnerable. We knew that other respiratory infections peak in the winter, so this isn't that surprising. Covid-19 also seems to like the cool dry air of hockey arenas, or is it where players go after the game that has the NHL struggling with high numbers of breakthrough infections?

Setting aside a horror show in which "nu" spreads rapidly and is uncontrolled by vaccination, how does all this impact our outlook? The need for continued public health measures, and for third doses, will mean a longer wait to end the remaining dent to services activity, but also a longer wait to heal the inflation and goods production shortfalls tied to Covid-related worker absenteeism. We've raised our US Q4 GDP forecast by about 1½%, to a bit over 5%, in the wake of solid data for the early part of that quarter, but also pared back our Q1 outlook a bit to allow for some Covid-related headwinds. That leaves our 2022 forecast for 4.2% US GDP growth unchanged.

Our Canadian growth outlook, for 4.0% GDP growth in 2022, is also somewhat less optimistic than the Bank of Canada's most recent projection, in part to allow for these same near term headwinds. But even so, what's new, or nu, on the Covid front hasn't yet deterred us from calling for a fully employed Canadian and US economy in the latter half of 2022.

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, November 29	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Monday, November 29	-	AUCTION: 10-YR CANADAS \$4B	-	-	-	-	-
Monday, November 29	8:30 AM	CURRENT ACCOUNT BAL.	(Q3)	(M)	\$4.0B	\$4.4B	\$3.58B
Monday, November 29	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Oct)	(M)	-	-	1.0%
Monday, November 29	8:30 AM	RAW MATERIALS M/M	(Oct)	(M)	-	-	2.5%
Tuesday, November 30	8:30 AM	GDP M/M	(Sep)	(H)	0.2%	0.1%	0.4%
Tuesday, November 30	8:30 AM	GDP (annualized)	(Q3)	(H)	3.0%	3.0%-	-1.1%
Wednesday, December 1	-	AUCTION: 30-YR RRB CANADAS \$0.4B	-	-	-	-	-
Wednesday, December 1	8:30 AM	LEADING INDICATORS M/M	(Oct)	(L)	-	-	0.7%
Wednesday, December 1	8:30 AM	BUILDING PERMITS M/M	(Oct)	(M)	-	-	4.3%
Thursday, December 2	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Friday, December 3	8:30 AM	EMPLOYMENT CHANGE	(Nov)	(H)	10.0K	40K	31.2K
Friday, December 3	8:30 AM	UNEMPLOYMENT RATE	(Nov)	(H)	6.8%	6.6%	6.7%
Friday, December 3	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(Q3)	(M)	-	0.2%	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, November 29	10:00 AM	PENDING HOME SALES M/M	(Oct)	(M)	-	0.7%	-2.3%
Monday, November 29	3:00 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Monday, November 29	3:05 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Monday, November 29	3:15 PM	Speaker: Naureen Hassan (First VP, New York)	-	-	-	-	-
Monday, November 29	5:05 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Tuesday, November 30	-	AUCTION: 1-YR TREASURIES \$34B	-	-	-	-	-
Tuesday, November 30	9:00 AM	HOUSE PRICE INDEX M/M	(Sep)	(M)	-	1.2%	1.0%
Tuesday, November 30	9:00 AM	S&P CORELOGIC CS Y/Y	(Sep)	(H)	-	-	19.7%
Tuesday, November 30	9:45 AM	CHICAGO PMI	(Nov)	(M)	-	67.0	68.4
Tuesday, November 30	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Nov)	(H)	109.5	110.7	113.8
Tuesday, November 30	10:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, November 30	10:30 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, November 30	1:00 PM	Speaker: PM Richard Clarida (Governor) (Voter)	-	-	-	-	-
Wednesday, December 1	7:00 AM	MBA-APPLICATIONS	(Nov 26)	(L)	-	-	1.8%
Wednesday, December 1	8:15 AM	ADP EMPLOYMENT CHANGE	(Nov)	(M)	-	515K	571K
Wednesday, December 1	9:45 AM	MARKIT US MANUFACTURING PMI	(Nov F)	(L)	-	-	59.1
Wednesday, December 1	10:00 AM	ISM - MANUFACTURING	(Nov)	(H)	61.6	61.0	60.8
Wednesday, December 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Oct)	(M)	-	0.4%	-0.5%
Wednesday, December 1	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, December 1	-	NEW VEHICLE SALES	(Nov)	(M)	-	13.20M	12.99M
Wednesday, December 1	10:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, December 2	8:30 AM	INITIAL CLAIMS	(Nov 27)	(M)	-	255K	199K
Thursday, December 2	8:30 AM	CONTINUING CLAIMS	(Nov 20)	(L)	-	-	2049K
Thursday, December 2	8:30 AM	Speaker: Raphael W. Bostic (President, Atlanta) (Voter)	-	-	-	-	-
Thursday, December 2	11:00 AM	Speaker: Randal Keith Quarles (Governor) (Voter)	-	-	-	-	-
Thursday, December 2	11:30 AM	Speaker: Raphael W. Bostic (President, Atlanta) (Voter)	-	-	-	-	-
Thursday, December 2	11:30 AM	Speaker: Mary C. Daly (President, San Francisco) (Voter)	-	-	-	-	-
Thursday, December 2	11:30 AM	Speaker: Thomas I. Barkin (President, Richmond) (Voter)	-	-	-	-	-
Friday, December 3	8:30 AM	NON-FARM PAYROLLS	(Nov)	(H)	550K	525K	531K
Friday, December 3	8:30 AM	UNEMPLOYMENT RATE	(Nov)	(H)	4.5%	4.5%	4.6%
Friday, December 3	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Nov)	(H)	0.4%	0.4%	0.4%
Friday, December 3	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Nov)	(H)	-	34.7	34.7
Friday, December 3	8:30 AM	MANUFACTURING PAYROLLS	(Nov)	(H)	-	45K	60K
Friday, December 3	9:45 AM	MARKIT US SERVICES PMI	(Nov F)	(L)	-	-	57.0
Friday, December 3	9:45 AM	MARKIT US COMPOSITE PMI	(Nov F)	(L)	-	-	56.5
Friday, December 3	10:00 AM	ISM - SERVICES	(Nov)	(M)	64.5	65.0	66.7
Friday, December 3	10:00 AM	FACTORY ORDERS M/M	(Oct)	(M)	0.3%	0.5%	0.2%
Friday, December 3	9:15 AM	Speaker: James Bullard (President, St Louis) (Non-Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're looking for somewhat above consensus readings for the factory ISM and payrolls, although we're only in line on the unemployment rate. Within the ISM index, keep an eye on both the supplier delivery and prices paid indicators for colour on whether supply chain issues are easing or getting even worse. And of course, we'll be monitoring developments on the new Covid variant.

In **Canada**, we expect to see disappointments on two fronts. If Q3 GDP matches our 3% forecast, it would be more than 2% annualized below the Bank of Canada's last outlook. That said, we caution that quarterly GDP has had some big surprises in both directions during the Covid period, in terms of gaps to what monthly GDP reports had been signalling, which reduces our confidence in our own projection. Employment has run atypically strong relative to the path of GDP in recent months, so we lean towards a lighter gain in November. Both sets of data could have markets pricing somewhat of a later start to Canadian rate hikes in 2022.

Week Ahead's key Canadian number: Gross domestic product—Sep and Q3

(Tuesday, 8:30 am)

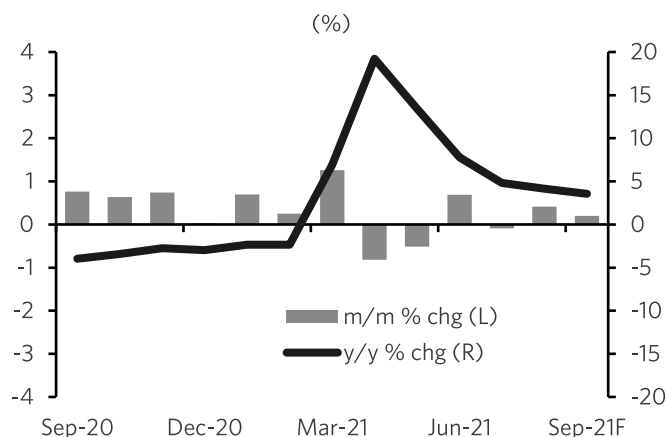
Royce Mendes royce.mendes@cibc.com

Variable (%)	CIBC	Mkt	Prior
GDP m/m (Sep)	0.2	0.1	0.4
GDP q/q SAAR (Q3)	3.0	3.0	-1.1

In terms of GDP, what goes up only sometimes actually comes back down. But that will be the case for the residential investment component in next week's reading on Q3 expenditures. Despite still being at elevated levels, both real estate and construction activity cooled from the torrid pace seen earlier in the year. That will provide a drag on overall GDP growth during the quarter. Other areas of the economy, such as household spending and business fixed investment likely benefited from the broadening out of vaccine availability and the falling numbers of new Covid cases. However, that likely still won't be enough to see overall GDP growth match the Bank of Canada's above-5% forecast for the quarter.

Moreover, even our lower quarterly GDP call relies on the final month of the quarter showing up slightly better than Statistics

Chart: Canadian GDP (%)



Source: Statistics Canada, Haver Analytics, CIBC

Canada's flash estimate, as well as some divergence between the monthly production data and the quarterly expenditure numbers. We're looking for momentum to have picked back up in the October flash reading. However, any gains there will likely be reversed in the following month's data, given the hit to economic activity from the flooding out West.

Forecast implications — Some of the growth that didn't occur in the third quarter was likely only delayed until Q4. That said, the flooding in British Columbia adds a new challenge for the current trimester, adding further evidence that GDP is likely to underwhelm the Bank of Canada's forecast for the second half of 2021.

Other Canadian releases: Current account balance—Q3

(Monday, 8:30 am)

Canada's current account was being pushed by opposing forces in the third quarter, but the net result of a \$4.0bn surplus looks even better than the surplus in the second quarter. Supporting the balance was a surge in the volume of commodity exports, particularly energy and metals. While import volumes were weak, the prices of inbound goods shipments were strong across the board, providing a bit of an offset. A resurgence in cross border travel and commercial services imports also pushed the services balance further into deficit. That said, the combination of higher import prices and the services deficit still wasn't enough to hold back an improvement in the current account balance in Q3.

Labour force survey—November

(Friday, 8:30 am)

The Canadian economy had been in the midst of a strong run of job gains, but in October the momentum appeared to be stalling. Measures of high-contact services activity are suggesting that progress towards pre-Covid levels has plateaued in recent months, after a strong summer. That already translated weakness in accommodation and food services employment in October. If that trend continued and infected retailers this month, there's scope for an even lighter gain in employment in the November data. That's particularly true given that the flooding in British Columbia would have affected the province during the survey week. As a result, we're only penciling in an addition of 10K jobs for the month, which would likely see the unemployment rate rise at least a tick to 6.8%.

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

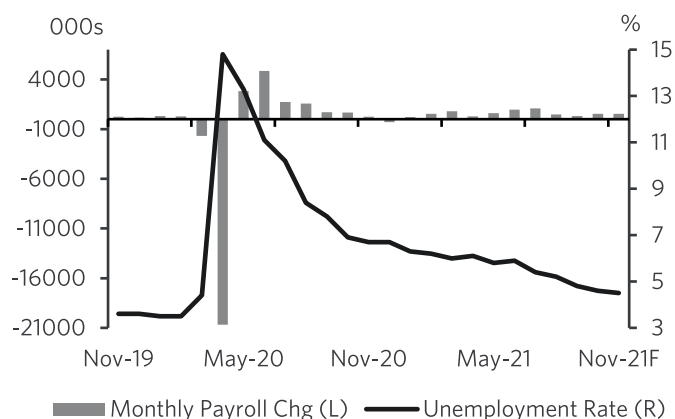
(Friday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable	CIBC	Mkt	Prior
Employment (m/m)	550K	525K	531K
Unemployment rate	4.5%	4.5%	4.6%
Avg hourly earnings (m/m)	0.4%	0.4%	0.4%

With job vacancies still close to record highs, the US labor market likely created 550K jobs in October. Gauges of mobility at retail and recreation venues showed slight progress through the mid-November reference week, as did restaurant reservations, while jobless claims fell further, suggesting a contribution to hiring from private services. But with no immediate catalyst for a material rebound in participation, that would still leave millions of positions open, something that likely continued to lead to generous wage increases from employers attempting to attract workers. The unemployment rate likely fell by a tick, to 4.5%, leaving it a few ticks below the Fed's projection for the end of the year, and only 0.7%-pts away from its end of 2022 projection.

Chart: US Payroll employment



Source: BLS, Haver Analytics, CIBC

Forecast implications — With Covid cases accelerating in recent days, presenting a barrier to the improvement in participation and demand for services, the labor market's progress could slow temporarily in the months ahead. However, by mid-2022, assuming a still-favourable Covid trend, the labor market should reach full employment, allowing the Fed to raise rates in September of that year.

Market impact — We likely aren't far enough above the consensus to see a sustained market reaction.

Other US Releases: ISM manufacturing—November

(Wednesday, 10:00 am)

The ISM's manufacturing index likely rose to 61.6 in November, as production in sectors impacted by Hurricane Ida continued to recover. That's also in line with moves in regional indices. Supply chain issues remained at the forefront, something that should have also supported the index. While the headline print would imply a wide breadth of manufacturers are seeing growth, that should become more apparent in 2022 as supply chain issues abate alongside a cyclical improvement in demand.

Contacts:

Avery Shenfeld
416 594-7356
avery.shenfeld@cibc.com

Benjamin Tal
416 956-3698
benjamin.tal@cibc.com

Andrew Grantham
416 956-3219
andrew.grantham@cibc.com

Royce Mendes
416 594-7354
royce.mendes@cibc.com

Katherine Judge
416 956-6527
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 Investment Industry Regulatory Organization of Canada, 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.

© 2021 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.