Economics

THE WEEK AHEAD

November 14-18, 2022

A break in the other Great Wall

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

Although it was dwarfed by the news on US CPI, financial markets had a smaller "risk-on" moment in the past week on talk that the other Great Wall of China, the one that goes up around regions with viral outbreaks as part of a zero-COVID policy, is going to come down. But we'd caution investors about being carried along for the ride if we continue to hear such chatter.

For one, this week's "news" was largely proven false, and whenever one is dealing with a less transparent political system, very few decision makers will really be able to speak with authority. As of now, statements from those more powerful bodies have affirmed that the zero-COVID policy remains in place, at least in broad strokes.

Even if the policy is relaxed, just how much good news would that be for financial markets? True, relaxing COVID-19 restrictions would initially enhance global supply, dampening inflation in some manufactured goods. We say initially, because if the virus then spread rapidly through the population, we'd have production delays due to worker absenteeism. A much smaller share of China's population has had the virus to this point, and some see the zero-COVID policy as a response to fears that the vaccines it deployed will prove less effective in preventing severe illness.

On the inflation front, a reopening in China could put upward pressure on gasoline and other global commodities at a time when that's just what central banks around the world don't want to see. So the impacts on global inflation are ambiguous. Should they balance out to greater price pressures overall, that would just add to the dose of rate hikes coming in North America and Europe. China's demand gains would then squeeze out demand in other countries.

As noted, COVID might hurt supply through worker absenteeism, but it's also true that its prevalence could also stand in the way of a vigorous domestic demand rebound in China. A populace schooled for two years on the importance of avoiding COVID like the plague, might not decide to party like its 2019 should public health restrictions be dropped, and the viral presence increase.

There is also a long list of other challenges facing the Chinese economy that suggest that its ability to drive a global economic pick-up will be constrained. For one, central bank tightening will mean that China's external markets will be slower or in recession in 2023. Global companies are clearly getting more wary about allocating any new production to that country given geopolitical strains with major developed countries. Challenges in trade relations were a factor that saw China rely excessively on the property sector for economic growth, which didn't turn out to be sustainable.

The demographics of an aging population, coupled with the typical deceleration in productivity gains that all developing countries see once they've already moved a larger share of their workforce into the modern economy, mean that China's potential growth rate at full employment isn't what it used to be.

Make no mistake. China is still a large economic player, and it could be one of the few countries to post faster growth in 2023 than this year, if it is able to relax its COVID restraints while maintaining a reasonable degree of control over the virus. But moves in that direction need to be seen as more of an ambiguous story for financial markets, rather than as a clear reason for a "risk-on" party.

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 14	10:30 AM	BoC Senior Loan Officer Surveys	-	-	-	-	-
Monday, November 14	8:45 AM	BoC's Conference on Diversity and Inclusion in Economics, Finance, and Central Banking	-	-	-	-	-
Tuesday, November 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Sep)	(M)	-0.5%	-	-2.0%
Tuesday, November 15	8:30 AM	WHOLESALE TRADE M/M	(Sep)	(M)	-	-	1.4%
Tuesday, November 15	9:00 AM	EXISTING HOME SALES M/M	(Oct)	(M)	-	-	-3.9%
Wednesday, November 16	8:15 AM	HOUSING STARTS SAAR	(Oct)	(M)	270.0K	-	299.6K
Wednesday, November 16	8:30 AM	CPI M/M	(Oct)	(H)	1.0%	-	0.1%
Wednesday, November 16	8:30 AM	CPI Y/Y	(Oct)	(H)	7.2%	-	6.9%
Wednesday, November 16	8:30 AM	CPI Core- Common Y/Y%	(Oct)	(M)	-	-	6.0%
Wednesday, November 16	8:30 AM	CPI Core- Median Y/Y%	(Oct)	(M)	-	-	4.7%
Wednesday, November 16	8:30 AM	CPI Core- Trim Y/Y%	(Oct)	(M)	-	-	5.2%
Thursday, November 17	-	AUCTION: 3-YR CANADAS	-	-	-	-	-
Friday, November 18	8:30 AM	INT'L. SEC. TRANSACTIONS	(Sep)	(M)	-	-	$22.01B
Friday, November 18	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Oct)	(M)	-	-	0.1%
Friday, November 18	8:30 AM	RAW MATERIALS M/M	(Oct)	(M)	-	-	-3.2%

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 14	6:30 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, November 15	8:30 AM	PPI M/M	(Oct)	(M)	-	0.5%	0.4%
Tuesday, November 15	8:30 AM	PPI M/M (core)	(Oct)	(M)	-	0.4%	0.3%
Tuesday, November 15	8:30 AM	PPI Y/Y	(Oct)	(M)	-	8.4%	8.5%
Tuesday, November 15	8:30 AM	PPI Y/Y (core)	(Oct)	(M)	-	7.2%	7.2%
Tuesday, November 15	8:30 AM	NEW YORK FED (EMPIRE)	(Nov)	(M)	-	-5.0	-9.1
Tuesday, November 15	9:00 AM	Speaker: Patrick Harker (Philadelphia) (Non-Voter)	-	-	-	-	-
Wednesday, November 16	-	20-YR AUCTION	-	-	-	-	-
Wednesday, November 16	7:00 AM	MBA-APPLICATIONS	(Nov 11)	(L)	-	-	-0.1%
Wednesday, November 16	8:30 AM	RETAIL SALES M/M	(Oct)	(H)	1.3%	0.9%	0.0%
Wednesday, November 16	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Oct)	(H)	0.3%	0.6%	0.1%
Wednesday, November 16	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Oct)	(H)	0.1%	0.3%	0.4%
Wednesday, November 16	8:30 AM	IMPORT PRICE INDEX M/M	(Oct)	(L)	-	-0.5%	-1.2%
Wednesday, November 16	8:30 AM	EXPORT PRICE INDEX M/M	(Oct)	(L)	-	-0.5%	-0.8%
Wednesday, November 16	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Oct)	(H)	0.2%	0.0%	0.4%
Wednesday, November 16	9:15 AM	CAPACITY UTILIZATION	(Oct)	(M)	80.5%	80.4%	80.3%
Wednesday, November 16	10:00 AM	BUSINESS INVENTORIES M/M	(Sep)	(L)	-	0.5%	0.8%
Wednesday, November 16	10:00 AM	NAHB HOUSING INDEX	(Nov)	(L)	-	36	38
Wednesday, November 16	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Sep)	(L)	-	-	$197.9B
Wednesday, November 16	9:50 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, November 17	-	AUCTION: 10-YR TIPS	-	-	-	-	-
Thursday, November 17	8:30 AM	INITIAL CLAIMS	(Nov 12)	(M)	-	-	-
Thursday, November 17	8:30 AM	CONTINUING CLAIMS	(Nov 5)	(L)	-	-	-
Thursday, November 17	8:30 AM	HOUSING STARTS SAAR	(Oct)	(M)	1410K	1425K	1439K
Thursday, November 17	8:30 AM	BUILDING PERMITS SAAR	(Oct)	(H)	1500K	1520K	1564K
Thursday, November 17	8:30 AM	PHILADELPHIA FED	(Nov)	(M)	-	-5.0	-8.7
Thursday, November 17	8:00 AM	Speaker: James Bullard (St Louis) (Voter)	-	-	-	-	-
Thursday, November 17	9:40 AM	Speaker: Loretta Mester (Cleveland) (Voter)	-	-	-	-	-
Thursday, November 17	10:40 AM	Speaker: Philip N Jefferson (Governor) (Voter), Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Thursday, November 17	1:45 PM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Friday, November 18	10:00 AM	EXISTING HOME SALES SAAR	(Oct)	(M)	-	4.38M	4.71M
Friday, November 18	10:00 AM	EXISTING HOME SALES M/M	(Oct)	(M)	-	-7.0%	-1.5%
Friday, November 18	10:00 AM	LEADING INDICATORS M/M	(Oct)	(M)	-	-0.4%	-0.4%

Week Ahead's market call

by Avery Shenfeld

In the **US**, vehicle availability has held back auto sales, and the week ahead's report on retailing could get a big boost as some of that pent up demand was realized. But we see the "control group" of sales posting a weak result, particularly in real terms. Housing starts aren't likely to ease much, but keep an eye on the trend for permits, where weak homebuilders sentiment is likely to first show up.

In **Canada**, we're going to see a detour from the path towards slower inflation, as a bump in gasoline prices pushes the headline rate higher this month, and possibly for one more month ahead. Crude oil prices aren't really going anywhere, however, and if that continues we'll get a nice downward tug on inflation as we move further in 2023. To some extent, markets are a bit premature in hoping for a broader disinflation just yet, because we'll need to get into more of the slowing impacts of interest rate hikes before that really shows up, which again will be a 2023 story. Manufacturing shipments look headed for a dip in the other key release, and the Bank of Canada will be eyeing its Loan Officers survey for signs on how its tightening cycle is impacting credit markets.

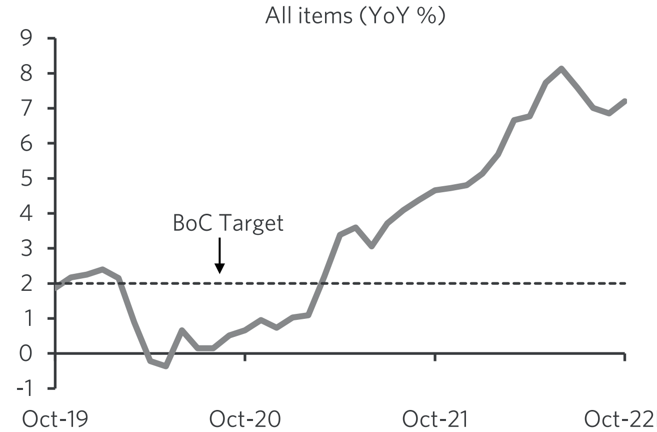
Week Ahead's key Canadian number: Consumer price index—October

(Wednesday, 8:30 am)

Andrew Grantham andrew.grantham@cibc.com

Variable	CIBC	Mkt	Prior
CPI NSA (m/m)	1.0%	-	0.1%
CPI (y/y)	7.2%	-	6.9%

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Just when we thought inflation was decelerating, a pop back up in gasoline prices likely drove a re-acceleration in October. The increase in pump prices this October contrasts with a decline during the same month of last year, and this is the main reason why our 7.2% y/y forecast for headline CPI this month reflects an acceleration from the 6.9% seen in September. Monthly increases in food and ex food/energy prices also likely remained above the pace that would be consistent with a 2% inflation target, but the annual rates for those categories would be little changed relative to September.

Forecast implications — Unless gasoline prices start to turn back down again, headline inflation could well accelerate further in November as well. However, after that inflation should start to decelerate again, with that move becoming more obvious in mid-2023 when some of the largest monthly price increases this year start to fall out of the annual calculation. The impact of recent interest rate hikes on demand and domestically driven price pressures (ex-housing) should also be felt in earnest by then.

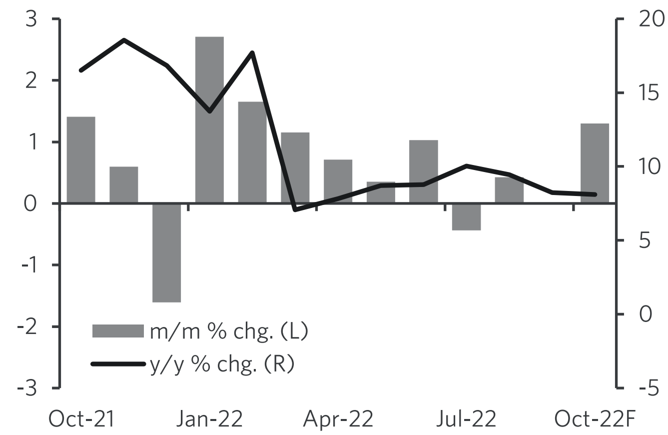
Week Ahead's key US number: Retail sales—October

(Wednesday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable (m/m)	CIBC	Mkt	Prior
Retail sales	1.3%	0.9%	0.0%
- ex auto	0.3%	0.6%	0.1%
- control group	0.1%	0.3%	0.4%

Chart: US retail sales



Source: Census Bureau, Haver Analytics, CIBC

A surge in car sales as supply chain issues continued to fade, along with higher gasoline prices, will be behind a likely solid 1.3% rise in total retail sales in the US in October. That would also include higher demand for dining out, as restaurant reservations rose, which could have masked weakness in sales of building materials, tied to the deterioration in the housing market. Higher spending on services, combined with the rise in gasoline prices, could have squeezed consumption in discretionary goods categories, resulting in a tepid 0.1% increase in the control group of sales (ex. autos, gasoline, restaurants, and building materials).

Forecast implications — These figures will clearly be lower in volume terms, with a likely contraction in the control group. However, goods consumption still remains well above where its pre-pandemic trendline implies it should be, suggesting a further softening in sales ahead. Apart from autos, inventories relative to the pace of sales for retailers are at or above pre-pandemic levels across sub-sectors, suggesting that the excesses in goods sectors are slowly dissolving.

Market impact — We are above the consensus on the headline, and below on the control group, which could cancel out and result in little market reaction.

Other US Releases: Industrial production—October

(Wednesday, 9:15 am)

Hours worked continued to rise in manufacturing in October, while employers added to headcounts, suggesting that the ongoing alleviation of supply chain issues is supporting factory activity in some sub-sectors. Although oil rig counts also increased, weaker demand for goods outside of autos could have limited growth in total industrial production to 0.2% in October.

Housing starts—October

(Thursday, 8:30 am)

All signs point to an eventual retreat in homebuilding in the US, as homebuilder confidence continued on a sharp downward trajectory, mortgage rates reached fresh multi-decade highs, and home purchase intentions deteriorated. However, it's possible that a rebound in the volatile multi-family segment after a drop in the prior month could have limited the overall decline expected in total housing starts to 1410K.

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

Karyne Charbonneau
613 552-1341
karyne.charbonneau@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.

© 2022 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..