

Economics

THE WEEK AHEAD

April 4-8, 2022

Federal budget: How to cut to the chase

by Avery Shenfeld avery.shenfeld@cibc.com

Canada's federal budget isn't known for its brevity, and voters can blame themselves for that. A frequent complaint often starts with the phrase "there's nothing in this budget for (insert your favourite political cause here)." The result is that there's a tendency to load up budgets with hundreds of small items in support of Aardvarks or Zitherists and everything in between, each of which gets a few paragraphs. But most of these items are attached to very small dollars, and some are to be delivered years into the future.

For investors who want to reach a quick judgement, there are ways to cut to the chase. One handy table, likely called Changes to the Fiscal Outlook Since the Fall 2021 Economic Statement, is key to understanding what's new in the budget that is large enough to matter for the macroeconomy.

But this year, one could easily look at that table and reach the wrong conclusion about the direction of fiscal policy, because it doesn't show what's happening to existing programs that are rolling off. As we noted a week ago, whatever "stimulus" there is in the new measures might be more than offset by the fiscal restraint associated with pandemic related spending that is disappearing. A second key table, the Summary Statement of Transactions, will show what's happening to spending and revenues as a share of GDP. Our expectation is that, on balance, fiscal policy is shifting from a major tailwind during the pandemic to a modest headwind, as it should at this stage of the cycle.

Those thinking about potential personal tax changes and what to do in advance of them can find no better source than CIBC's own Jamie Golombek, whose recent column in the Financial Post laid out the possible measures to watch for. There are two salves for those worried about a big bite coming. First, under the rubric of "A Fairer Tax System", the recent Liberal-NDP agreement only mentioned the previously announced hike on

financial institutions and the creation of a beneficial ownership registry. There was nothing in there on wealth taxes or a capital gains tax hike, although it doesn't rule anything out of course.

Second, the Liberal government's rush to get an additional \$2 bn out the door to provinces in March suggests that there was a healthy pile of additional revenues available relative to the plan in the Fall update. That better starting point for 2022/23 reduces the odds that Ottawa will seek additional revenues for the coming year. Still, even in years in which the total revenue implications of tax changes are modest, there's almost always a long list of changes to specific tax treatments that will matter to some individuals or corporates.

Finally, bond market denizens will need to look at more than the bottom-line deficit, likely to decline from about \$140 bn last year to on the order of \$50 bn. Loans made by the government and differences between budget accruals and actual cash outlays are among many items that can make the net financing trend look somewhat different than that of the budget balance. Add in heavy maturities that have to be refinanced, and our head of FICC Strategy, Ian Pollick, expects gross issuance will drop to about \$200 bn, only about \$50 bn lower than the last fiscal year.

But this year there's an added twist, in that a large portion of the bonds that will mature are currently owned by the Bank of Canada due to QE, and these will be refinanced in the public market. Ian estimates that the net increase in bonds held by the public, after only allowing for maturities of bonds they currently hold, could be on the order of \$105 bn, up from \$34 bn last year when the BoC was a heavy buyer. In sum, a smaller deficit translates into less gross borrowing, but a greater increase in bonds outstanding in the public market, numbers that our teams will also be refining on budget night as we try to cut to the chase.

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, April 4	8:30 AM	BUILDING PERMITS M/M	(Feb)	(M)	-	-	-8.8%
	10:30 AM	Business Outlook Survey and Canadian Survey of Consumer Expectations	-	-	-	-	-
Tuesday, April 5	8:30 AM	MERCHANDISE TRADE BALANCE	(Feb)	(H)	\$3.0B	-	\$2.62B
Wednesday, April 6	-	Government Bond Purchase Program (GBPP): 5YR	-	-	-	-	-
Wednesday, April 6	8:30 AM	IVEY PMI	(Mar)	(L)	-	-	60.6
Thursday, April 7	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Thursday, April 7	-	FEDERAL BUDGET	-	-	-	-	-
Friday, April 8	8:30 AM	EMPLOYMENT CHANGE	(Mar)	(H)	100K	-	336.6K
Friday, April 8	8:30 AM	UNEMPLOYMENT RATE	(Mar)	(H)	5.3%	-	5.5%

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, April 4	8:30 AM	FACTORY ORDERS M/M	(Feb)	(M)	-0.5%	-0.6%	1.4%
Tuesday, April 5	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Feb)	(H)	-\$88.2B	-\$88.6B	-\$89.7B
Tuesday, April 5	9:45 AM	S&P GLOBAL US SERVICES PMI	(Mar F)	(L)	-	58.9	58.9
Tuesday, April 5	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Mar F)	(L)	-	-	58.5
Tuesday, April 5	10:00 AM	ISM - SERVICES	(Mar)	(M)	59.9	58.6	56.5
Tuesday, April 5	10:05 AM	Speaker: Lael S Brainard (Governor) (Voter)	-	-	-	-	-
Wednesday, April 6	7:00 AM	MBA-APPLICATIONS	(Apr 1)	(L)	-	-	-6.8%
Wednesday, April 6	2:00 PM	FOMC Meeting Minutes	(Mar 16)	-	-	-	-
Wednesday, April 6	9:30 AM	Speaker: Patrick Harker (President, Philadelphia) (Non-Voter)	-	-	-	-	-
Thursday, April 7	8:30 AM	INITIAL CLAIMS	(Apr 2)	(M)	-	-	202K
Thursday, April 7	8:30 AM	CONTINUING CLAIMS	(Mar 26)	(L)	-	-	1307K
Thursday, April 7	3:00 PM	CONSUMER CREDIT	(Feb)	(L)	-	\$16.85B	\$6.84B
Thursday, April 7	9:00 AM	Speaker: James Bullard (President, St Louis) (Voter)	-	-	-	-	-
Thursday, April 7	2:00 PM	Speaker: Raphael W. Bostic (President, Atlanta)	-	-	-	-	-
Friday, April 8	8:30 AM	WHOLESALE INVENTORIES M/M	(Feb F)	(L)	-	-	2.1%

Week Ahead's market call

by Avery Shenfeld

In the **US**, a light week for economic indicators will likely mean that other news, including developments in Ukraine, will take on greater weight in steering market sentiment. The Fed's uber-hawk, James Bullard, will make the case for moving rates up in greater increments, but the market is already with him on that idea.

In **Canada**, we previewed some items to watch in the Federal budget in our cover story this week. The Bank of Canada seems to put too much weight on its Business Outlook Survey to our tastes, given that only a third of the respondents are large businesses with any economic clout, and its forecasting prowess seems to apply only to the current quarter. But it will surely show healthy growth and trends in wages and prices that are too hot for the BoC's liking. The jobs data on Friday could end up cementing the case for a 50 bp move in April, since even at less than a third of March's stellar pace, hiring could be brisk enough to shave a further two ticks off the jobless rate.

Week Ahead's key Canadian number: Labour force survey—March

(Friday, 8:30 am)

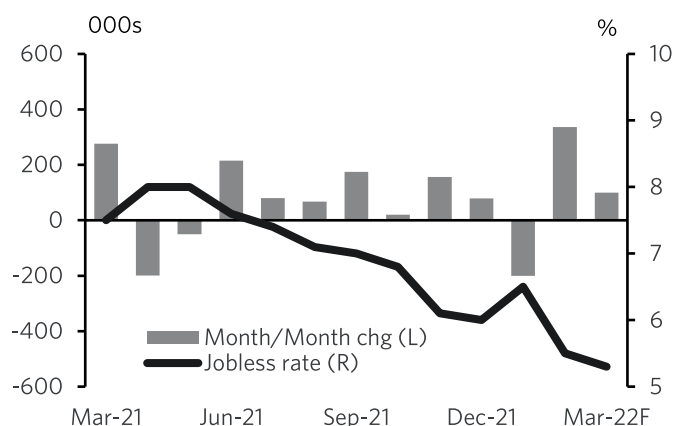
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Variable	CIBC	Mkt	Prior
Employment (m/m)	100K	-	337K
Unemployment rate	5.3%	-	5.5%

Continued reopenings across the country likely contributed to another solid gain in employment during March, building on the remarkable surge seen in the prior month. Our forecast for a 100K gain would be predominantly concentrated in services such as accommodation & food, which even after February's gain was still 200K jobs short of its pre-pandemic level. Of course, with the jobless rate already at a near-historic low of 5.5% in the prior month, and expected to dip further in March, worker availability will remain an issue for many firms in that sector.

The low unemployment rate should also correspond with wage inflation accelerating further, even with monthly job gains concentrated in low-paying services sectors. However,

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

provincially, only Quebec is at a record low unemployment rate and seeing the corresponding surge in wage pressure you would expect to see from such a tight labour market. As such, there may still be room for further job gains and declines in unemployment rates in other parts for the country.

Forecast implications — The Canadian labour market is tightening, but there are areas of the country that could see further job gains and declines in unemployment without sparking strong wage inflation. Although renewed lockdowns are unlikely, the pick-up in Covid-19 case numbers seen recently could put a limit on demand for certain services, and the hiring needs of companies operating in the those areas ahead.

Other Canadian releases: Merchandise trade—February

(Tuesday, 8:30 am)

Canada's trade surplus will have been bolstered by higher energy prices in February, with an even larger boost from that area coming in March. Bridge closures and protests during the month could have impacted two-way trade, particularly the Ambassador bridge closure and its impact on the auto industry. Advance data from the US suggests that Canadian exports of autos and parts could have seen a greater weakening than imports during the month. That will partly offset the improvement in energy prices within the overall trade surplus, which we estimate will be \$3.0bn in February.

There are no major US data releases next week.

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