



Economics

# THE WEEK AHEAD

September 6-10, 2021

## The debt ceiling that cried wolf

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

Once again, it's crunch time for the US budgetary process. Once again, we're hearing threats of a government shutdown or a default on Treasury debt.

The logjam is tied up in the need for a fractured Congress to agree on two separate items. The first is the legislation that authorizes the government to spend money in the new fiscal year, which begins October 1st, without which it has to largely shut down.

The second is a deal to raise the debt ceiling, which is required to have room for even last year's spending pace, given that it's heavily deficit financed. Without that vote, at some point in the next couple of months, Washington would be barred from issuing new debt, and would have to slash its payments drastically, thereby failing to meet at least some of its legal obligations.

On the spending bill, those in Washington who were around during the Clinton administration will remember that a Republican decision to force an extended shutdown led to a political blowback against the GOP. Since then, spending bills have been approved right at the deadline, or after a very brief disruption.

But in some cases, the two houses have been unable to pass a set of new appropriations bills, and have instead resorted to a stop-gap "continuing resolution", under which spending was frozen at prior year levels. That's a risk this time, since the appropriations and tax hikes needed for the \$3.5 tn package sought by the Democratic leadership face an uphill battle in the Senate, and time is running out. Operating under a continuing resolution would impose a belt tightening on federal spending relative to what we've been assuming, and cut into growth in upcoming quarters.

As for the threat to deny the debt ceiling hike, that seems like a case of the boy who cried wolf. A scary default is coming, and then it isn't, again and again over the years. Republicans can vote against it as a block, and force the Democrats to take all the "blame" by rolling it into the reconciliation process where it can pass the Senate with fifty votes. Democrats can play chicken long enough to put it in a separate vote in October that will need ten GOP Senators to sign on. Either way, one side will back down to avoid a catastrophe.

We're reminded that, in the fable of the boy who cried wolf, after many false cries for help, the boy is indeed confronted by an actual wolf. One day, Congress might stumble its way to missing the final deadline for a debt ceiling extension.

The Treasury needn't then miss payments to bond holders. It could default on payments of social security, pay to its workers, or other equally troubling options. But even a single day of such havoc would no doubt have legislators scurrying to their seats to fix their mess.

So if you hold US Treasury debt, you can sleep comfortably knowing that the wolf of a real bond default is highly unlikely. If there's a worry, it's that the government has to operate for any material length of time under a continuing resolution, tightening fiscal policy at a time when the economy still needs support. To avoid that, Democrats will have to pare their \$3.5 tn package to bring on board two of their own in the Senate who are leaning against it.

## Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Significance

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Significance	CIBC	Consensus	Prior
Monday, Sep 6	-	Markets Closed (Labour Day)	-	-	-	-	-
Tuesday, Sep 7	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Tuesday, Sep 7	-	AUCTION: 3-M BILLS \$, 6-M BILLS \$, 1-YR BILLS \$	-	-	-	-	-
Wednesday, Sep 8	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Wednesday, Sep 8	10:00 AM	BANK OF CANADA RATE ANNOUNCE.	(Sep 8)	(H)	0.25%	0.25%	0.25%
Wednesday, Sep 8	10:00 AM	IVEY PMI	(Aug)	-	-	-	56.4
Thursday, Sep 9	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Thursday, Sep 9	12:00 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Friday, Sep 10	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Friday, Sep 10	8:30 AM	EMPLOYMENT CHANGE	(Aug)	(H)	50K	-	94.0K
Friday, Sep 10	8:30 AM	UNEMPLOYMENT RATE	(Aug)	(H)	7.3%	-	7.5%
Friday, Sep 10	8:30 AM	CAPACITY UTILIZATION	(Q2)	(L)	-	-	81.7%

## Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Significance

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Significance	CIBC	Consensus	Prior
Monday, Sep 6	-	Markets Closed (Labor Day)	-	-	-	-	-
Tuesday, Sep 7	-	AUCTION: 1-YR TREASURIES \$34B	-	-	-	-	-
Tuesday, Sep 7	-	AUCTION: 3-YR TREASURIES \$58B	-	-	-	-	-
Wednesday, Sep 8	-	10-YR AUCTION: \$38B	-	-	-	-	-
Wednesday, Sep 8	7:00 AM	MBA-APPLICATIONS	(Sep 3)	(L)	-	-	-2.4%
Wednesday, Sep 8	10:00 AM	JOLTS Job Openings	(Jul)	-	-	10000K	10073K
Wednesday, Sep 8	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, Sep 8	3:00 PM	CONSUMER CREDIT	(Jul)	(L)	-	\$28.3B	\$37.69B
Wednesday, Sep 8	1:10 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Wednesday, Sep 8	6:00 PM	Speaker: Robert Kaplan (President, Dallas)	-	-	-	-	-
Thursday, Sep 9	-	30-YR AUCTION: \$24B	-	-	-	-	-
Thursday, Sep 9	8:30 AM	INITIAL CLAIMS	(Sep 4)	(M)	-	343K	340K
Thursday, Sep 9	8:30 AM	CONTINUING CLAIMS	(Aug 28)	(L)	-	-	2748K
Thursday, Sep 9	11:05 AM	Speaker: Mary C. Daly (President, San Francisco) (Voter)	-	-	-	-	-
Thursday, Sep 9	1:00 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Friday, Sep 10	8:30 AM	PPI M/M	(Aug)	(M)	0.5%	0.6%	1.0%
Friday, Sep 10	8:30 AM	PPI M/M (core)	(Aug)	(M)	0.5%	0.6%	1.0%
Friday, Sep 10	8:30 AM	PPI Y/Y	(Aug)	(M)	-	8.3%	7.8%
Friday, Sep 10	8:30 AM	PPI Y/Y (core)	(Aug)	(M)	-	6.6%	6.2%
Friday, Sep 10	10:00 AM	WHOLESALE INVENTORIES M/M	(Jul F)	(L)	-	0.6%	0.6%
Friday, Sep 10	9:00 AM	Speaker: Loretta Mester (President, Cleveland) (Non-Voter)	-	-	-	-	-

## Week Ahead's market call

by Avery Shenfeld

In the **US**, keep an eye on Washington for progress, or the lack thereof, on a fiscal deal. Several Fed speakers will have a chance to opine on the outlook in light of the latest payrolls disappoint, and we'll look for any hints that it will affect their views on tapering. Otherwise, it's a light week for economic news, with nothing on the calendar that is likely to move markets.

In **Canada**, a desire to stay out of the limelight during a close election, and the need for a forecast revision in its October MPR, could tip the Bank of Canada into delaying its next tapering announcement to October. That said, the fact that Macklem's speech on Thursday is titled "QE and the Reinvestment Phase" leaves open the possibility of a tapering announcement in the week ahead. That won't really surprise markets at this point, and nor, of course, will the decision to keep the overnight rate on hold. The BoC will have to comment on some of the recent GDP disappointments, while no doubt remaining optimistic on the medium term picture, and sticking to the view that the inflation uptick will be temporary. Friday's job data should remain reasonably robust, as the Delta variant upsurge in August was less dramatic than seen stateside and services activity was therefore less impacted.

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

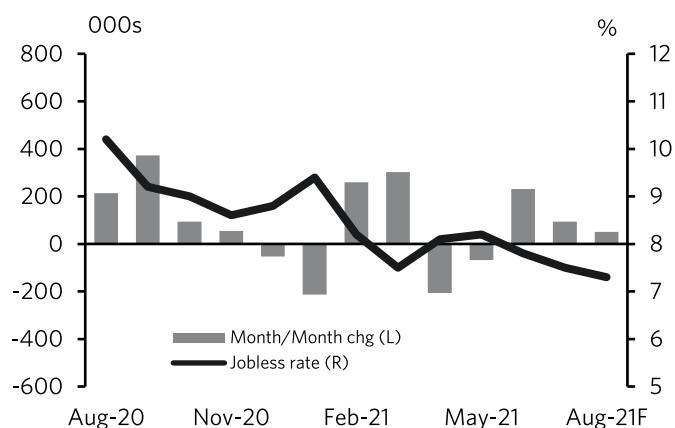
(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment (m/m)	50K	-	94K
Unemployment rate	7.3%	-	7.5%

Despite hundreds of thousands of jobs being created in the prior two months, it's possible that hiring kept rolling in August. As of July, high contact services sectors were still operating below the levels of employment they were last summer. With vaccinations allowing for the return of Canada's baseball team and other events in August, there seems to be room to see employment in those sectors rise further in next week's report. While activity in other industries such as construction, manufacturing and wholesaling has slowed this summer, hiring had already fallen previously in those categories.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast Implications** — Canada didn't see the same rise in Covid cases in August as the US. As a result, the economic toll of the fourth wave will likely be delayed a few months north of the border.

There are no major US data releases next week.

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