



Economics

THE WEEK AHEAD

August 16-20, 2021

Will Canada go to school?

by Avery Shenfeld avery.shenfeld@cibc.com

School's out for the summer, but there are lessons that Canada can be learning right now, as we look at what's happening in other countries that are a bit ahead of us on two key fronts: the reopening of services, and a Delta-driven upturn in Covid case counts.

On the heels of a middling Q2, Canada's third quarter looks to be an economic barnburner. After lagging behind the US, our high frequency economic reopening measure, which captures the key services impacted by Covid, has been playing catch-up (Chart). That's in line with Canada's hospitality-led employment surge in July.

But take a gander at the recent flattening trend for the US. Is America's more potent upswing in Covid cases and hospitalizations taking its toll due to renewed household caution? Just this week, a major airline reported a slowing in bookings, and a concerned rocker cancelled tour dates.

While that could temporarily soften America's economic ascent, there are some positives for what comes thereafter. Hot spot states that have lagged behind on vaccinations are seeing a pick-up in jobs. Major businesses and institutions are mandating vaccines. New York City opted to do so for some indoor activities, and it's under consideration in Los Angeles. Whether you agree with such measures or not, there's plenty of evidence that they help accelerate vaccinations, which will have obvious economic benefits. Masks might well be fashionable again as another layer of protection.

Canada starts with a higher vaccination rate than the US. But overseas countries with similar coverage haven't escaped large Delta upturns, led by, but not exclusive to, the unvaccinated. Our weather also has us more reliant on indoor activities than parts of the US in the early fall.

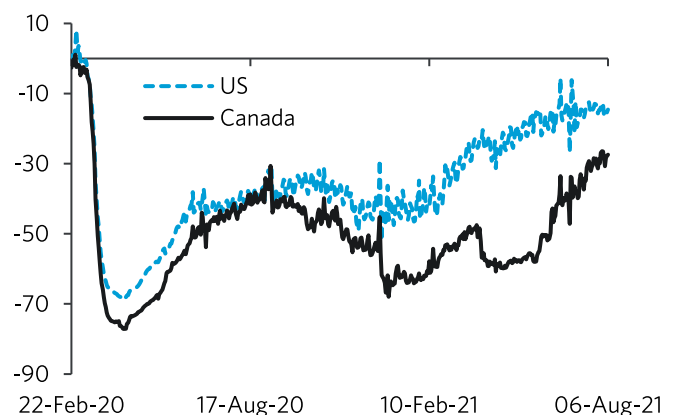
We've already forecast a somewhat slower pace to Canadian Q4 growth relative to Q3, but our current projection still needs the quarter to unfold fairly well. If we go to school on what's

happened elsewhere, there's time to ward off a sharper upturn in Covid, and if necessary, use more surgical approaches to containing it with less damage to economic activity.

According to the experts, steps by schools to protect unvaccinated children will be important in slowing overall transmission, and keeping kids in the classroom frees up many parents to work. With or without government action, businesses and institutions can take steps on their own to improve ventilation, limit the presence of unvaccinated individuals in indoor crowds (Winnipeg Jets fans take note), or require rapid tests for those who are ineligible for vaccines.

Our late start in reopening held Canada back relative to the US in terms of Q2 growth, but it's given us time to sit back, watch the experience elsewhere, and draw the appropriate conclusions. Our forecast assumes that's just what we'll do.

Chart: Reopening indicator, % change since 2019



Source: Google mobility indices for retail and recreation, workplaces, public transit; OpenTable reservations; airport traffic from the US Transportation Security Administration and Canadian Air Transport Security Authority; CIBC

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, August 16	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Monday, August 16	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Jun)	(M)	1.9%	-	-0.6%
Monday, August 16	8:30 AM	WHOLESALE TRADE M/M	(Jun)	(M)	-2.0%	-	0.5%
Monday, August 16	9:00 AM	EXISTING HOME SALES M/M	(Jul)	(M)	-	-	-8.4%
Monday, August 16	10:30 AM	BoC Senior Loan Officer Surveys	-	-	-	-	-
Tuesday, August 17	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Tuesday, August 17	-	AUCTION: 3-M BILLS \$9.2B, 6-M BILLS \$3.4B, 1-YR BILLS \$3.4B	-	-	-	-	-
Tuesday, August 17	8:15 AM	HOUSING STARTS SAAR	(Jul)	(M)	270K	275K	282.1K
Tuesday, August 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Jun)	(M)	-	-	\$20.79B
Wednesday, August 18	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Wednesday, August 18	8:30 AM	CPI M/M	(Jul)	(H)	0.4%	0.3%	0.3%
Wednesday, August 18	8:30 AM	CPI Y/Y	(Jul)	(H)	3.5%	3.4%	3.1%
Wednesday, August 18	8:30 AM	CPI Core- Common Y/Y%	(Jul)	(M)	1.8%	1.8%	1.7%
Wednesday, August 18	8:30 AM	CPI Core- Median Y/Y%	(Jul)	(M)	-	-	2.4%
Wednesday, August 18	8:30 AM	CPI Core- Trim Y/Y%	(Jul)	(M)	-	-	2.6%
Thursday, August 19	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Thursday, August 19	-	AUCTION: 2-YR CANADAS \$4B	-	-	-	-	-
Friday, August 20	8:30 AM	RETAIL TRADE TOTAL M/M	(Jun)	(H)	4.4%	5.0%	-2.1%
Friday, August 20	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Jun)	(H)	4.9%	4.9%	-2.0%

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, August 16	8:30 AM	NEW YORK FED (EMPIRE)	(Aug)	(M)	-	26.3	43
Monday, August 16	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Jun)	(L)	-	-	-\$30.2B
Tuesday, August 17	-	CASH MGMT. 42-DAY \$20B	-	-	-	-	-
Tuesday, August 17	-	CASH MGMT. 57-DAY \$50B	-	-	-	-	-
Tuesday, August 17	8:30 AM	RETAIL SALES M/M	(Jul)	(H)	-0.4%	-0.3%	0.6%
Tuesday, August 17	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Jul)	(H)	-0.1%	0.2%	1.3%
Tuesday, August 17	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Jul)	(H)	-0.5%	-0.3%	1.1%
Tuesday, August 17	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Jul)	(H)	0.4%	0.5%	0.4%
Tuesday, August 17	9:15 AM	CAPACITY UTILIZATION	(Jul)	(M)	75.8%	75.7%	75.4%
Tuesday, August 17	10:00 AM	BUSINESS INVENTORIES M/M	(Jun)	(L)	-	0.8%	0.5%
Tuesday, August 17	10:00 AM	NAHB HOUSING INDEX	(Aug)	(L)	-	80	80
Tuesday, August 17	1:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Wednesday, August 18	-	20-YR AUCTION: \$27B	-	-	-	-	-
Wednesday, August 18	7:00 AM	MBA-APPLICATIONS	(Aug 13)	(L)	-	-	2.8%
Wednesday, August 18	8:30 AM	HOUSING STARTS SAAR	(Jul)	(M)	1590K	1605K	1643K
Wednesday, August 18	8:30 AM	BUILDING PERMITS SAAR	(Jul)	(H)	1590K	1610K	1594K
Wednesday, August 18	2:00 PM	FOMC Meeting Minutes	(Jul 28)	-	-	-	-
Thursday, August 19	-	AUCTION: 30-YR TIPS \$8B	-	-	-	-	-
Thursday, August 19	8:30 AM	INITIAL CLAIMS	(Aug 14)	(M)	-	-	375K
Thursday, August 19	8:30 AM	CONTINUING CLAIMS	(Aug 7)	(L)	-	-	2866K
Thursday, August 19	8:30 AM	PHILADELPHIA FED	(Aug)	(M)	-	24.2	21.9
Thursday, August 19	10:00 AM	LEADING INDICATORS M/M	(Jul)	(M)	-	0.8%	0.7%
Friday, August 20	-	-	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, we've already heard so many post-FOMC speeches that neither the minutes nor another set of remarks from Powell can add much colour this week. We're a bit below consensus on both housing starts and retail sales, with the latter coming off levels miles above where the pre-pandemic trend would have put them, and households shifting more of their buying to services over the course of the summer.

In **Canada**, as Meatloaf once sang (for the baby boomers who remember him), two out of three ain't bad, and that's what we expect from the monthly growth indicators for June, with solid gains for retailing and factories but a dip in wholesaling. We'll get some flash estimates for July, but some of the growth that month will lie elsewhere, in discretionary services. (Remember that in Canada, restaurants aren't reported with the retail data). CPI inflation hasn't quite rocketed to as lofty a level as in the US. We're expecting our favoured core indicator, the common component CPI, to nudge up to 1.8%, as core inflation is better contained north of the border. July housing starts are also on tap, where we're looking for only a modest downtick. The federal election gets underway, so watch for platform announcements from the Liberals and Conservatives, with the NDP having already released one this past week. This campaign might be more of interest to equities, since on the key bond market variable, the federal deficit, the two leading parties aren't likely to differ widely.

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

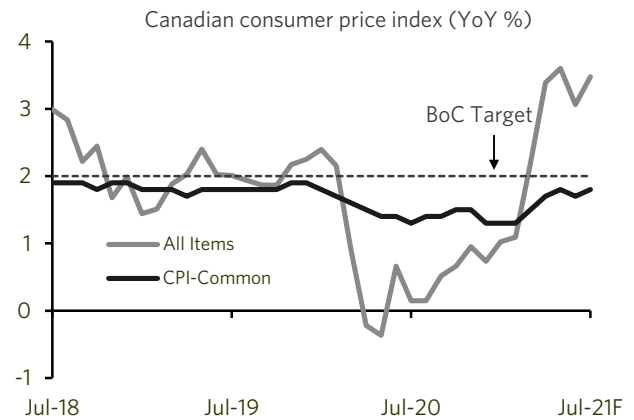
(Wednesday, 8:30 am)

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Consumer price index	CIBC	Mkt	Prior
CPI NSA (m/m)	0.4%	0.3%	0.3%
CPI (y/y)	3.5%	3.4%	3.1%
CPI-common (y/y)	1.8%	1.8%	1.7%

What went down is going back up in the case of Canadian inflation. Gasoline prices were up again in July, and we're expecting that some of the surprisingly weak categories of the index in June, such as clothing and footwear, bounced back to post strong price increases too. Together with base effects, which will see a flat print fall out of the annual calculation, these factors likely saw the rate of inflation reaccelerate to 3.5% in July. That said, much of this above-target inflation is being driven by a few select categories which look transitory. Indeed, the Bank of Canada's core common component indicator of inflation will still be sitting below the 2% inflation target when the data is released.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast Implications — The Bank of Canada has fewer reasons to fret about the recent spate of above-target inflation than the Fed, and that's even after accounting for the fact that Canadian CPI doesn't capture used car prices. Inflationary pressures simply haven't been as acute north of the border, with the level of the price index not as far above what it would have been if prices had grown at a 2% annual pace since prior to the pandemic.

Other Canadian releases: Housing starts—July

(Tuesday, 8:15 am)

Looking at building permits alone, you'd think that the Canadian housing market was still on fire. But a host of other indicators suggest that the torrid pace of housing activity has cooled off. As a result, we expect that housing starts moderated further in July from the peaks seen earlier in 2021. Demand seems to have cooled off somewhat and constraints on construction activity have also shown up in the form of labour and material supply issues. That said, the 270K pace of housing starts that we expect would still represent significantly more projects breaking ground than pre-pandemic. As a result, while we anticipate that residential investment will contribute less to GDP this quarter, the level of activity will still be elevated compared to what it was pre-Covid.

Retail sales —June

(Friday, 8:30 am)

The reopening of the economy in June had Canadians flocking back into bricks-and-mortar stores. As a result, retail sales look to have surged 4.4% in June. Sales ex-autos and gas likely rose even more than that, as spending that had been directed to online sellers not captured in the retailing report returned to physical locations that are counted. Car dealerships and gas stations also gained ground, but less so. That's likely because both were open during the third wave and few, if any, of their sales were able to migrate towards those ecommerce sites not tallied by Statistics Canada in this report. We expect another decent gain in July, although services will see more of a lift during the month.

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

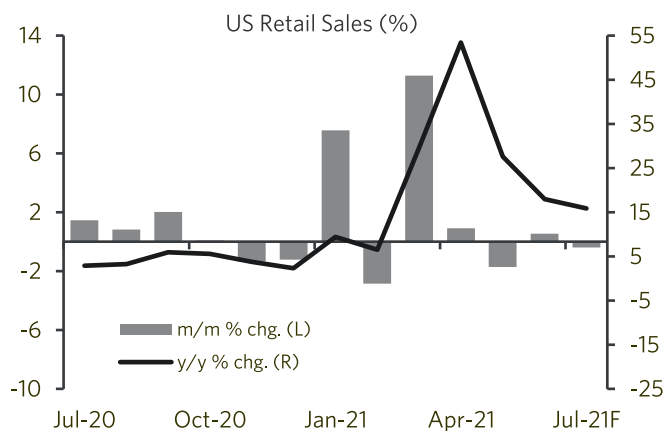
(Tuesday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Retail sales (monthly change, %)	-0.4	-0.3	0.6
▪ ex auto (%)	-0.1	0.2	1.3
▪ control group (%)	-0.5	-0.3	1.1

US retail sales likely eased off in July as a swing in spending towards services could have curtailed demand for goods. That's behind the expected 0.5% drop in the control group of sales, which excludes restaurants, autos, gasoline, and building materials, and feeds more directly into ex-autos goods consumption in GDP. Adding those categories back in, total retail sales likely dropped by 0.4% as a decline in auto sales as suggested by the unit sales data likely offset most of the gains expected for restaurants and gasoline. Google's retail and recreation mobility index lost some ground in July, another sign that goods spending could have been lackluster despite labor market progress.

Chart: US Retail sales



Source: Census Bureau, Haver Analytics, CIBC

Forecast Implications— With the control group of sales expected to be still 18% above pre-pandemic levels in July, spending on goods is likely to continue to wane ahead. However, that will be more than offset by a climb in spending on services during the third quarter, supported by labor income gains and excess savings accumulated from past fiscal stimulus.

Market Impact—We are more pessimistic than the consensus which could see the USD fall alongside bond yields.

Other US Releases: Industrial production—July

(Tuesday, 9:15 am)

Hours worked climbed in manufacturing in July as supply chain bottlenecks dissipated in some industries according to the ISM's index. Combined with a rise in mining activity as suggested by the increase in rig counts, total industrial production likely rose by 0.4%, bringing capacity utilization up to 75.8%. With China imposing new restrictions on activity recently, any relief from supply chain bottlenecks could prove temporary. Indeed, reports suggest that the semiconductor shortage impacting the auto sector got worse in July.

Housing starts—July

(Wednesday, 8:30 am)

Building permit issuance has cooled for three months in a row and homebuilder confidence has also fallen. While that suggests a drop in the pace of housing starts in July, to 1590K, the slowdown will have been limited by the overhang of permits that exists. Building permit issuance likely held steady, near 1590K. With many potential buyers sidelined by the escalation in home prices, and permit issuance slowing lately, growth in residential investment in the third quarter is expected to be lackluster.

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