



Economics

THE WEEK AHEAD

July 12-16, 2021

Can I hand in my first term essay?

by Avery Shenfeld avery.shenfeld@cibc.com

The folks at the Bank of Canada might feel like a student who wrote a pretty good essay in the first semester, and wishes that she could hand in the same one this term. In the coming week, the Bank will have to drum up a new Monetary Policy Report, but for various reasons, it will want to downplay any changes it has to make to the one it used in the spring term.

Governor Macklem's team has no reason to put a different spin on the growth outlook, even if the third Covid wave has Q2 looking to come in a shade under its last projection. The Bank will point to good progress on vaccines and the reopening of services in June as reason enough to make no downgrades to the overall outlook for 2021-22. But a forecast upgrade wouldn't be warranted, with the global outlook clouded by the Delta variant.

Given that its forward guidance —no hikes until the output gap is closed— is tied to that GDP path, handing in the same growth projection also means no change in its pledge to keep rates on hold until the latter half of 2022. Not to say that the Bank pays attention to elections, but the government will also be happy if its central bank avoids rattling Canadians about earlier rate hikes, if a September election is in the offing.

There will have to be an upgrade to this year's inflation forecast to make room for now-higher oil prices. But to avoid sending a more hawkish signal that could rattle markets, the emphasis will be on a little-changed 2022 projection. Special boxes in the report could be aimed at shedding further light on recent inflation developments. The Bank puts a lot of weight on the output gap and labour market slack as determinants of the medium term inflation outlook, and despite June's hiring binge, there are still more than a half a million jobs to be gained to get back to the pre-pandemic employment rate.

As for tapering, the Bank of Canada would also prefer to tie the next step there to things it's already written about. If it uses this meeting to pare back purchases by a further \$1 bn per week as seems likely, the spin will be that this is nothing more than a continuation of the path it was already on. The script it's already released entails a steady reduction in asset purchases until it reaches the point at which, in the Government of Canada market, it's merely reinvesting its maturities and coupons.

Keeping markets calm during that process will be enhanced by underplaying the newsworthiness of each step. Indeed, we wouldn't rule out a further tapering being announced intermeeting, or as we've already seen, having occasional undershoots in its purchases at individual auctions.

A no-news announcement will be in contrast to the set up for the FOMC meeting in September. If the Fed uses that meeting to pre-announce a tapering to start at the beginning of 2022, it will be almost impossible for that to avoid creating some waves in the bond and FX markets, which will inevitably spill over into the Canadian curve. Similarly, any increases in the FOMC's inflation outlook will be seen as meaningful, because its forward guidance is now more tied to core PCE, and even a modest upgrade to the 2022 core outlook would meet the test for the overshoot its looking for as a reason to hike earlier.

So even if, as we expect, the Bank of Canada's summer term paper sounds a lot like the spring edition, that might only give our bond and currency markets a relatively short rest. If US payrolls growth holds up and inflation doesn't look quite so transitory, the FOMC's September essay will be more of a complete rewrite of what it handed in earlier in the year.

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, July 12	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Tuesday, July 13	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Wednesday, July 14	8:30 AM	MANUFACTURING SHIPMENTS M/M	(May)	(M)	1.0%	-	-2.1%
Wednesday, July 14	10:00 AM	BANK OF CANADA RATE DECISION	(Jul 14)	(H)	0.25%	0.25%	0.25%
Wednesday, July 14	11:00 AM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Thursday, July 15	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Thursday, July 15	-	AUCTION: 2-YR CANADAS \$5B	-	-	-	-	-
Thursday, July 15	8:30 AM	ADP EMPLOYMENT CHANGE	(Jun)	-	-	-	-
Thursday, July 15	9:00 AM	EXISTING HOME SALES M/M	(Jun)	(M)	-	-	-7.4%
Friday, April 16	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Friday, April 16	8:15 AM	HOUSING STARTS SAAR	(Jun)	(M)	260.0K	-	275.9K
Friday, April 16	8:30 AM	INT'L. SEC. TRANSACTIONS	(May)	(M)	-	-	\$9.95B
Friday, April 16	8:30 AM	WHOLESALE TRADE M/M	(May)	(M)	1.1%	-	0.4%

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, July 12	-	AUCTION: 3-YR \$58B	-	-	-	-	-
Monday, July 12	-	AUCTION: 10-YR \$38B	-	-	-	-	-
Monday, July 12	12:00 PM	Neel Kashkari (President, Minneapolis)	-	-	-	-	-
Tuesday, July 13	-	AUCTION: 1-YR \$34B	-	-	-	-	-
Tuesday, July 13	-	30-YR AUCTION: \$24B	-	-	-	-	-
Tuesday, July 13	8:30 AM	CPI M/M	(Jun)	(H)	0.4%	0.5%	0.6%
Tuesday, July 13	8:30 AM	CPI M/M (core)	(Jun)	(H)	0.4%	0.4%	0.7%
Tuesday, July 13	8:30 AM	CPI Y/Y	(Jun)	(H)	4.9%	4.9%	5.0%
Tuesday, July 13	8:30 AM	CPI Y/Y (core)	(Jun)	(H)	4.0%	4.0%	3.8%
Tuesday, July 13	2:00 PM	TREASURY BUDGET	(Jun)	(L)	-	-	-\$132.0B
Wednesday, July 14	7:00 AM	MBA-APPLICATIONS	(Jul 9)	(L)	-	-	-1.8%
Wednesday, July 14	8:30 AM	PPI M/M	(Jun)	(M)	-	0.5%	0.8%
Wednesday, July 14	8:30 AM	PPI M/M (core)	(Jun)	(M)	-	0.4%	0.7%
Wednesday, July 14	8:30 AM	PPI Y/Y	(Jun)	(M)	-	6.8%	6.6%
Wednesday, July 14	8:30 AM	PPI Y/Y (core)	(Jun)	(M)	-	-	4.8%
Wednesday, July 14	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, July 14	12:00 PM	Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Wednesday, July 14	1:30 PM	Neel Kashkari (President, Minneapolis)	-	-	-	-	-
Thursday, July 15	8:30 AM	INITIAL CLAIMS	(Jul 10)	(M)	-	350K	373K
Thursday, July 15	8:30 AM	CONTINUING CLAIMS	(Jul 3)	(L)	-	3325K	3339K
Thursday, July 15	8:30 AM	NEW YORK FED (EMPIRE)	(Jul)	(M)	-	19.0	17.4
Thursday, July 15	8:30 AM	IMPORT PRICE INDEX M/M	(Jun)	(L)	-	1.1%	1.1%
Thursday, July 15	8:30 AM	EXPORT PRICE INDEX M/M	(Jun)	(L)	-	1.3%	2.2%
Thursday, July 15	8:30 AM	PHILADELPHIA FED	(Jul)	(M)	-	27.5	30.7
Thursday, July 15	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Jun)	(H)	0.9%	0.6%	0.8%
Thursday, July 15	9:15 AM	CAPACITY UTILIZATION	(Jun)	(M)	75.9%	75.6%	75.2%
Thursday, July 15	11:00 AM	Speaker: Charles L. Evans (President, Chicago) (Voter)	-	-	-	-	-
Thursday, July 15	9:30 AM	Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, July 15	11:00 AM	Charles L. Evans (President, Chicago)	-	-	-	-	-
Friday, July 16	8:30 AM	RETAIL SALES M/M	(Jun)	(H)	-0.9%	-0.6%	-1.3%
Friday, July 16	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Jun)	(H)	0.0%	0.3%	-0.7%
Friday, July 16	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Jun)	(H)	-0.5%	0.6%	-0.7%
Friday, July 16	10:00 AM	BUSINESS INVENTORIES M/M	(May)	(L)	-	0.4%	-0.2%
Friday, July 16	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jul P)	(H)	-	86.5	85.5
Friday, July 16	4:00 PM	NET CAPITAL INFLOWS (TICS)	(May)	(L)	-	-	\$100.7B
Friday, July 16	9:00 AM	John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, April retail sales were so far above their trend that despite a drop in May, there's room for a further dip in June while still leaving a very solid second quarter gain. While restaurants are part of this report, other services not included in retailing likely captured a larger share of the consumer wallet. We're largely in line with the consensus on the CPI, where core prices continue to see some pressure from supply bottlenecks on some items, and a further recovery from sub-par pandemic period prices in others. We see June getting a solid GDP contribution from the industrial sector, with our call for IP looking firmer than the consensus.

In **Canada**, we don't expect to see any market waves arising from the Bank of Canada's announcement or Governor Macklem's remarks, even with a further tapering of bond purchases likely to be unveiled (see Cover). Factory shipments should recoup some lost ground, while housing starts will continue to run at a lofty level, even if they slip somewhat from the prior month.

Week Ahead's key Canadian number: Housing starts—June

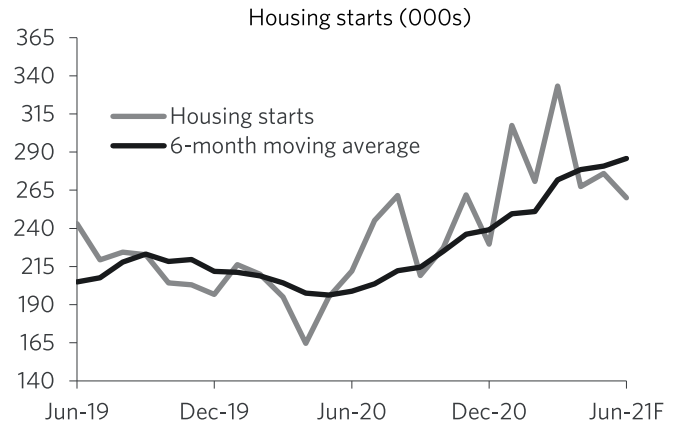
(Friday, 8:15 am)

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Variable	CIBC	Mkt	Prior
Housing starts (SAAR)	260K	-	276K

Housing starts were on fire early in 2021. While they've cooled off somewhat in recent months, there's still scope for them to remain well above the pre-pandemic average given the ongoing strength in building permits. That said, capacity constraints in the construction sector and a slight softening in the housing market, particularly in the suburbs, might keep the pace of starts from reaccelerating back above 300K.

Chart: Canadian housing starts



Source: Statistics Canada, Haver Analytics, CIBC

Forecast Implications — The continuing construction of houses started in Q1 means that residential investment will again represent an elevated share of the economy in the second quarter. The slight slowdown in starts more recently from the torrid pace earlier in the year suggests that, while it will still be a larger share of the economy than pre-Covid, it could be a negative contributor to growth in Q3.

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

(Friday, 8:30 am)

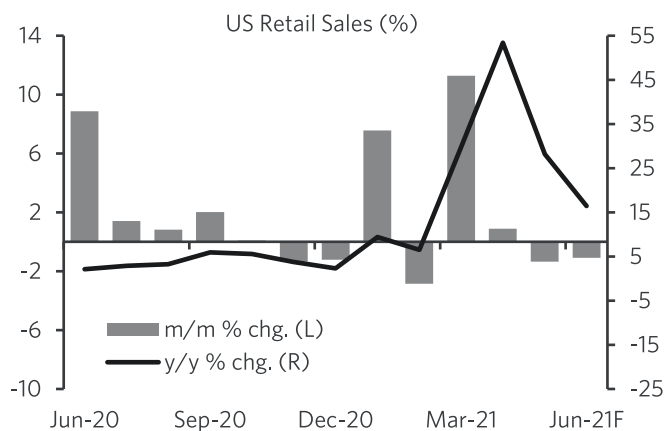
Katherine Judge katherine.judge@cibc.com

Variable	CIBC	Mkt	Prior
Retail sales (monthly change, %)	-0.9	-0.6	-1.3
• ex auto (%)	0.0	0.3	-0.7
• control group (%)	-0.5	0.6	-0.7

Total retail sales cooled down in May following a stimulus-fueled surge in spending in March, and June likely saw further declines as sales could have continued to come back down to pre-pandemic trends. The expected headline drop of 0.9% will include a large decline in auto sales, in line with the earlier released unit sales data, although stripping that component out would leave sales flat, as restaurant and gasoline receipts likely rose.

Still, the control group of sales which excludes autos, restaurants, gasoline, and building materials, likely contracted by 0.5% as categories that have been elevated throughout the pandemic started to come back down as spending shifts away from goods and towards services that are reopening.

Chart: US Retail sales



Source: Census Bureau, Haver Analytics, CIBC

Forecast Implications—Waning spending on goods is expected to be more than offset by an acceleration in spending on services ahead to lead the economic recovery over the rest of the year. As the control group looks to have been 18% above pre-pandemic levels as of June, further drops in categories that benefitted during the pandemic are likely in store ahead.

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

Other US Releases: CPI—June

(Tuesday, 8:30 am)

June likely saw continued strong gains in monthly price pressures as supply disruptions in product and labor markets combined with solid demand, and an advance in gasoline prices. Both total CPI and the ex. food and energy measure likely advanced by 0.4% m/m, leaving total inflation at 4.9% y/y, and core inflation at 4.0% y/y. Those readings are being amplified by base effects, as well as the recovery in service prices in areas that plummeted at the beginning of the pandemic. While some of those transitory factors should start to fade ahead, higher wages as well as an elimination of economic slack this year will be enough to keep inflation running above the 2½% mark through 2022.

Industrial Production—June

(Thursday, 9:15 am)

Warmer than normal temperatures and a continued recovery in the mining sector likely drove a 0.9% gain in industrial production in June, leaving total production just a touch below pre-pandemic levels. The auto sector started to bounce back from disruptions caused by the global chip shortage in May, and likely made further progress in June. However, the drop in hours worked in manufacturing suggests an only muted contribution from the overall manufacturing sector at best. That still implies growth in the industrial sector of 7% annualized over the second quarter, double the first quarter's pace.

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