Economics

THE WEEK AHEAD

December 13-17, 2021

Someday, we'll be together

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

If you're feeling blue about fresh warnings to keep holiday gatherings small in the face of the latest wave of Covid-19, or are cancelling plans to fly to your relatives, you could download the last hit song by the Supremes, "Someday, We'll Be Together." Because even though Diana Ross never did get back together with her backup singers, we know that even absent vaccines, all pandemics eventually burn themselves out.

The 1918 flu pandemic petered out after two years, with no help from vaccines. The SARS-Cov2 virus is still mutating, but epidemiologists still expect that prior infection or vaccination will provide some protection against severe cases. At some point, most likely further into 2022, new variants will confront a global population with enough prior infections or vaccine protection to give our herd imunity from severe cases. Covid-19 won't vanish, but it could be around in small enough numbers that we ignore its risks.

That's something to keep in mind as the US Fed sits down in the week ahead for what promises to be a bit more eventful meeting than some. It's been highly telegraphed that the central bankers will opt to speed up their planned tapering, in order to be ready to hike rates by spring should that prove necessary.

Of course, the timing of that rate hike will depend on whether either the current delta wave or a prospective omicron surge have petered out enough to keep the service sector in gear, and allow people to be together more often. But there does seem to be a seasonality to Covid waves (witness how it is escalating as wintery weather hits the Midwest and Northeast), and should omicron prove troublesome, customized boosters could start to take care of that this spring. That suggests that the market's expectation for a first hike before mid-year, and a total of 75 basis points of tightening in 2022, looks quite reasonable.

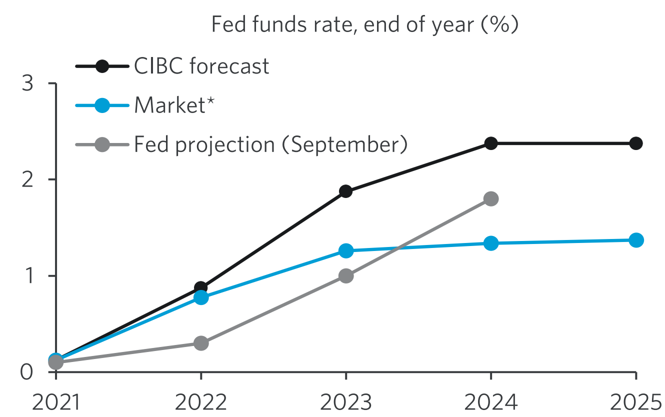
But its further out where both the market, and the existing "dot plot" projections from FOMC members, seem to miss the point that in the years ahead, odds are we'll be together. We'll have cast off our Covid-related fears about travelling, crowded bars, and other aspects of services consumption, and rushed back to work at all those now-vacant jobs as concerns about catching the virus on the job are set aside.

That would remove the last major impediment to economic activity in the US and its key export markets, and therefore, the last reason for monetary policy to be at stimulative settings. Yet check out the market's pricing for the overnight rate beyond 2022. It implies rates will stall out near 1½%, far below the neutral rate, as if the pandemic will keep us apart, or some new drag will emerge. The Fed's median outlook has a reasonable view that the long-term neutral rate is near 2.5%, but we don't get much above 1% in the next two years.

Surely, that's going to change, and perhaps significantly, in the projections due this coming week. It would be hard to foresee the Fed's logic in deciding that it needed to speed up the timetable for the first hike, but at the same point feel that rates could still be so stimulative all the way through 2023, and to some extent through 2024.

An announcement of a faster tapering won't move the bond market on its own. But keep an eye on the "dots". If they move up significantly, that could have the bond market begin to rethink its dovish view on rates beyond 2022.

Chart: Fed and market forecasts for US policy rates are below CIBC's after 2022.



* *implied rates from OIS forwards curve*

Source: Bloomberg, Federal Reserve, CIBC

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, December 13	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Monday, December 13	-	AUCTION: 2-YR CANADAS $3.5B	-	-	-	-	-
Tuesday, December 14	-	-	-	-	-	-	-
Wednesday, December 15	8:15 AM	HOUSING STARTS SAAR	(Nov)	(M)	230K	-	236.6K
Wednesday, December 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Oct)	(M)	4.1%	-	-3.0%
Wednesday, December 15	8:30 AM	CPI M/M	(Nov)	(H)	0.4%	-	0.7%
Wednesday, December 15	8:30 AM	CPI Y/Y	(Nov)	(H)	4.9%	-	4.7%
Wednesday, December 15	8:30 AM	CPI Core- Common Y/Y%	(Nov)	(M)	1.9%	-	1.8%
Wednesday, December 15	8:30 AM	CPI Core- Median Y/Y%	(Nov)	(M)	-	-	2.9%
Wednesday, December 15	8:30 AM	CPI Core- Trim Y/Y%	(Nov)	(M)	-	-	3.3%
Wednesday, December 15	9:00 AM	EXISTING HOME SALES M/M	(Nov)	(M)	-	-	8.6%
Wednesday, December 15	2:00 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Thursday, December 16	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Thursday, December 16	-	AUCTION: 30-YR CANADAS $2B	-	-	-	-	-
Thursday, December 16	8:30 AM	WHOLESALE TRADE M/M	(Oct)	(M)	1.4%	-	1.0%
Thursday, December 16	8:30 AM	ADP EMPLOYMENT CHANGE	(Nov)	-	-	-	-
Friday, December 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Oct)	(M)	-	-	$20.2B

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, December 13	-	-	-	-	-	-	-
Tuesday, December 14	8:30 AM	PPI M/M	(Nov)	(M)	0.5%	0.5%	0.6%
Tuesday, December 14	8:30 AM	PPI M/M (core)	(Nov)	(M)	0.4%	0.4%	0.4%
Tuesday, December 14	8:30 AM	PPI Y/Y	(Nov)	(M)	-	9.2%	8.6%
Tuesday, December 14	8:30 AM	PPI Y/Y (core)	(Nov)	(M)	-	6.8%	6.8%
Wednesday, December 15	7:00 AM	MBA-APPLICATIONS	(Dec 10)	(L)	-	-	2.0%
Wednesday, December 15	8:30 AM	NEW YORK FED (EMPIRE)	(Dec)	(M)	-	25.5	30.9
Wednesday, December 15	8:30 AM	RETAIL SALES M/M	(Nov)	(H)	0.6%	0.8%	1.7%
Wednesday, December 15	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Nov)	(H)	0.8%	0.9%	1.7%
Wednesday, December 15	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Nov)	(H)	0.5%	0.8%	1.6%
Wednesday, December 15	8:30 AM	IMPORT PRICE INDEX M/M	(Nov)	(L)	-	0.8%	1.2%
Wednesday, December 15	8:30 AM	EXPORT PRICE INDEX M/M	(Nov)	(L)	-	0.4%	1.5%
Wednesday, December 15	10:00 AM	BUSINESS INVENTORIES M/M	(Oct)	(L)	-	1.0%	0.7%
Wednesday, December 15	10:00 AM	NAHB HOUSING INDEX	(Dec)	(L)	-	84.0	83.0
Wednesday, December 15	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Dec 15)	(H)	0.25%	0.25%	0.25%
Wednesday, December 15	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Dec 15)	(H)	0.00%	0.00%	0.00%
Wednesday, December 15	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Oct)	(L)	-	-	$26.3B
Wednesday, December 15	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, December 16	8:30 AM	INITIAL CLAIMS	(Dec 11)	(M)	-	199K	184K
Thursday, December 16	8:30 AM	CONTINUING CLAIMS	(Dec 4)	(L)	-	-	1992K
Thursday, December 16	8:30 AM	HOUSING STARTS SAAR	(Nov)	(M)	1550K	1570K	1520K
Thursday, December 16	8:30 AM	BUILDING PERMITS SAAR	(Nov)	(H)	1620K	1660K	1653K
Thursday, December 16	8:30 AM	PHILADELPHIA FED	(Dec)	(M)	-	30	39
Thursday, December 16	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Nov)	(H)	0.8%	0.7%	1.6%
Thursday, December 16	9:15 AM	CAPACITY UTILIZATION	(Nov)	(M)	77.1%	76.8%	76.4%
Thursday, December 16	9:45 AM	MARKIT US MANUFACTURING PMI	(Dec)	(L)	-	58.5	58.3
Thursday, December 16	9:45 AM	MARKIT US COMPOSITE PMI	(Dec)	(L)	-	-	57.2
Thursday, December 16	9:45 AM	MARKIT US SERVICES PMI	(Dec)	(L)	-	-	58.0
Friday, December 17	-	-	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, there won't be a bond market taper tantrum from the now widely expected Fed move to accelerate the timetable to wind up net bond purchases under its QE program. So the focus could fall on the "dot" forecast, and how much the median forecast for rates moves up for 2022-23, since the last projection seems unrealistically dovish in view of the Fed's rush to get QE done with. Retail sales for November will be flattered by inflation, and might not represent that much of a gain in real terms, although that comes after a huge October surge.

In **Canada**, the trade data suggested a bit of an easing in supply chain disruptions in October, which should help drive solid monthly gains for manufacturing shipments and wholesale trade. CPI inflation might just manage to stay below 5%, but after seeing much higher numbers stateside, the elevated level in Canada won't raise many eyebrows. While we continue to provide a projection for the common component core measure, it appears to have temporarily lost its utility as an indicator of the underlying inflation trend given the way its constructed and the nature of this pandemic period's price pressures.

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

(Wednesday, 8:30 am)

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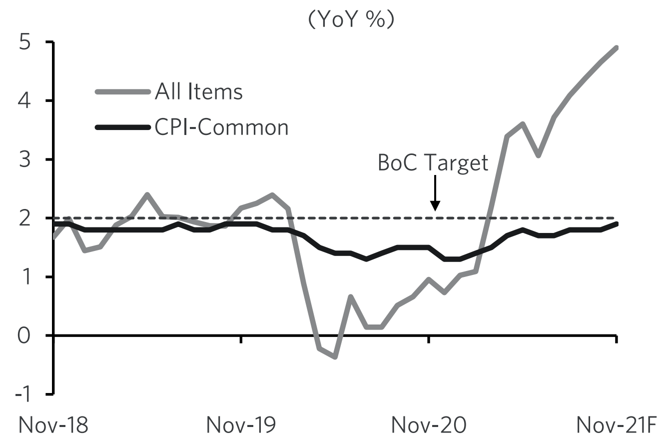
Consumer price index (%)g	CIBC	Mkt	Prior
CPI NSA (m/m)	0.4	-	0.7
CPI (y/y)	4.9	-	4.7
CPI-common (y/y)	1.9	-	1.8

Chart: Canadian Consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

The headlines next week will rightly point out that inflation in November reached its fastest annual pace in 30 years. Reports out of British Columbia suggest that prices for consumer goods have been increasing in the aftermath of the devastating floods. Given the implications for supply chains across the country, the disaster could have raised prices for a host of imported goods. Prior supply chain disruptions resulting from Covid also likely translated into fewer Black Friday and Cyber Monday discounts. While some of that will be offset by the decline in fuel costs, the rate of inflation is still likely to have accelerated.

But that's where prices have been, not where they're going. The latest Covid scare has seen energy prices remain low in December, and there have been some early indications that supply chain disruptions in certain sectors have been easing. So while inflation will likely remain elevated heading into next year, come the end of the first quarter the year-over-year change looks set to decelerate, assuming these trends remain.

Forecast implications — The last Monetary Policy Report set a high bar for inflation in Q4, and our forecast for November is still consistent with those numbers. We still see the Bank of Canada on track for a rate hike in April, assuming the latest wave of Covid has abated by then.

Other Canadian releases: Housing starts—November

(Wednesday, 8:15 am)

Building permits have continued to hold up at elevated levels despite the slowdown in actual housing starts, suggesting there remains ample demand to build. That being said, labour and supply shortages have created a wedge between permits and starts recently. Moreover, the floods in British Columbia likely halted building in some areas of the province in November. As a result, we're forecasting a slight deceleration in starts to 230K.

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

(Wednesday, 8:30 am)

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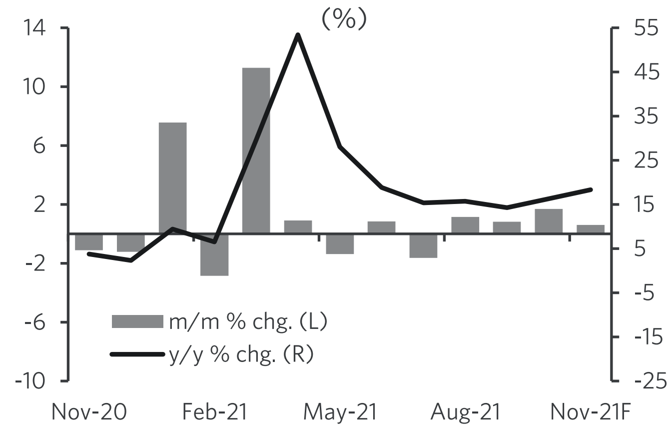
Retail sales (m/m %)	CIBC	Mkt	Prior
Retail sales	0.6	0.8	1.7
– ex auto	0.8	0.9	1.7
– control group	0.5	0.8	1.6

Chart: US Retail sales



Source: Census Bureau, Haver Analytics, CIBC

US consumers spent slightly less on Black Friday and Cyber Monday this year relative to last year, owing partly to retailers offering holiday sales earlier than normal this year, in an attempt to mitigate shipping delays and supply chain disruptions. With some holiday shopping pulled forward into October, November is poised for a deceleration in spending, compounded by softness in vehicle sales as suggested by the earlier released unit sales data. Restaurant traffic was also down in line with the acceleration in Delta variant cases, leaving spending on gasoline as a partial offset, as prices at the pump rose. All told, total retail sales likely decelerated to 0.6%, with the control group (ex. autos, gasoline, restaurants, and building materials) slowing to 0.5%.

Forecast implications — With some of the expected gain reflecting outsized price increases, November will look more modest in volume terms. However, the strong start to the quarter still implies an acceleration in consumer spending in Q4 even if momentum tapers off further in December, reflecting the impact of Covid on services spending at a time when goods spending will be saturated by earlier holiday shopping.

Market impact — We are less optimistic on the control group than the consensus, which could cause the greenback and yields to fall.

Other US Releases: Housing starts—November

(Thursday, 8:30 am)

Homebuilding has been hampered by material and labor shortages, as well as a lack of lot availability, things that builders reported extended into November. Despite the overhang of building permits, homebuilding therefore likely only accelerated to a 1550K pace in November. Strong demand likely still supported building permit issuance of 1620K, leaving ample room for a pickup in homebuilding over 2022 when we expect supply constraints to start to ease.

Industrial production—November

(Thursday, 9:15 am)

Industrial production rebounded from Hurricane Ida impacts in October, and November looks to have been another strong month, as hours worked in manufacturing and mining rose sharply. Industrial production likely grew by 0.8%, leaving capacity utilization further above its pre-pandemic level at 77.1%. While that's a positive sign for Q4 growth and CapEx ahead, supply chain concerns have been renewed on the emergence of the omicron variant, which could limit production in the coming months.

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