Economics

THE WEEK AHEAD

November 1-5, 2021

What's good for the goose

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

Whatever was on the menu for the central bankers at the latest IMF meeting, it seems to have stiffened their resolve to show their anti-inflation fighting credentials. Across much of the developed world, recent days have seen an effort to send a message to markets, one that emphasizes an increasing willingness to tighten policy earlier, and less intention to patiently wait for full employment to be achieved, or for Covid-19 to be more decisively subdued.

Here in Canada, the central bank took pains to maintain their pledge to hold off on a first rate hike until the output gap has closed. But it found a reason to downgrade the economy's potential growth rate. More importantly, it now included the impact of temporary supply chain disruptions and labour mismatches in benchmarking what level of GDP constitutes a zero output gap. An auto plant that's closed in Q2 2022 due to a lack of parts, or a restaurant taking longer to fully staff up, don't apparently count in the measure of the economy's productive capacity, even if these issues will mostly be gone by the end of 2022.

Call us skeptical about these calculations, but we're not going to put our heads in the sand and ignore the real message. The Bank of Canada, like several of its overseas peers, is nervous about losing its hold on inflation expectations while these supply disruptions linger. It's willing to talk tough earlier, pushing up bond yields sooner at the expense of some growth, to signal its resolve and keep workers and businesses from building in expectations of faster wage and price hikes ahead.

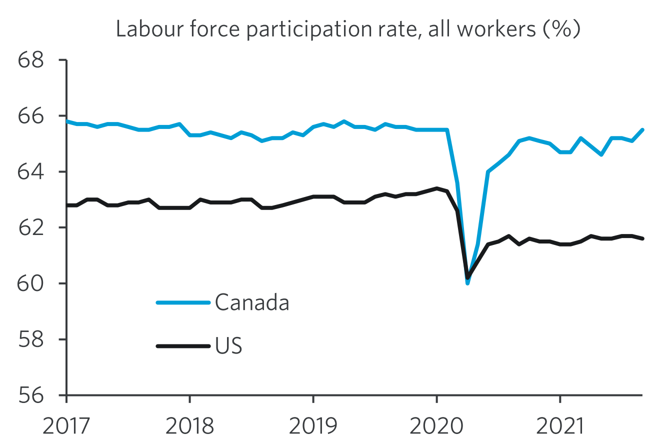
We're moving up all of our Canadian rate forecasts by three months, with a 25 bps hike no later than July, a follow up move by October, and a further 75 bps in 2023. That's not as aggressive as the current market pricing, which implies that the BoC will overdo it in the next couple of years and then be pushed into a 2024 easing. The market ignores that the BoC has a second tool — a move from reinvestment to allowing its sovereign bond holdings to shrink — that it can use to tighten monetary conditions with fewer overnight rate hikes.

But if there's a need to act a bit earlier, isn't what's good for the Canada goose, also good for the American gander? Unlike in Canada, real GDP in the US has eclipsed its pre-pandemic level. The two economies are highly correlated, and if Covid fades away enough to propel a further recovery in services spending, it will show up in both economies. If supply chain issues keep goods prices heated, that will be as true for American shoppers.

If anything, the inflation alarm bells are ringing louder south of the border. The Bank of Canada drew some comfort from the fact that wages were not escalating yet, but we've seen more of that stateside. The US has also suffered a lasting drop in labour force participation that, if not reversed, will add to that pressure.

So what's really mispriced is the relative path for Canadian and US rates. A scenario that has the Bank of Canada hiking five or six times next year would clearly be a strong enough economic backdrop for the Fed to hike much more than priced in. But even if we see only two hikes in Canada as in our base case, the same inflation concerns would be sufficient to get the Fed on a similar course.

Chart: Labour market participation has recovered in Canada but remains weak in the US, pressuring American wages



Source: BLS, Statistics Canada

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, November 1	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Monday, November 1	-	AUCTION: 10-YR CANADAS $4.5B	-	-	-	-	-
Monday, November 1	8:30 AM	LEADING INDICATORS M/M	(Sep)	(L)	-	-	0.3%
Tuesday, November 2	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Tuesday, November 2	8:30 AM	BUILDING PERMITS M/M	(Sep)	(M)	-	-	-2.1%
Wednesday, November 3	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Thursday, November 4	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Thursday, November 4	-	AUCTION: 50-YR CANADAS $1B	-	-	-	-	-
Thursday, November 4	8:30 AM	MERCHANDISE TRADE BALANCE	(Sep)	(H)	$1.4B	-	$1.94B
Friday, November 5	8:30 AM	EMPLOYMENT CHANGE	(Sep)	(H)	20K	-	157.1K
Friday, November 5	8:30 AM	UNEMPLOYMENT RATE	(Sep)	(H)	7.0%	-	6.9%
Friday, November 5	10:00 AM	IVEY PMI	(Oct)	(L)	-	-	70.4

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, November 1	8:30 AM	ISM - MANUFACTURING	(Oct)	(H)	61.1	60.3	61.1
Monday, November 1	8:30 AM	CONSTRUCTION SPENDING M/M	(Sep)	(M)	-	0.5%	0.0%
Monday, November 1	10:45 AM	MARKIT US MANUFACTURING PMI	(Oct F)	(L)	-	59.2	59.2
Tuesday, November 2	-	AUCTION: 1-YR TREASURIES $34B (prior)	-	-	-	-	-
Tuesday, November 2	-	NEW VEHICLE SALES	(Oct)	(M)	-	12.50M	12.18M
Wednesday, November 3	7:00 AM	MBA-APPLICATIONS	(Oct 29)	(L)	-	-	0.3%
Wednesday, November 3	8:15 AM	ADP EMPLOYMENT CHANGE	(Oct)	(M)	-	400K	568K
Wednesday, November 3	10:00 AM	ISM - SERVICES	(Oct)	(M)	62.5	61.9	61.9
Wednesday, November 3	10:00 AM	FACTORY ORDERS M/M	(Sep)	(M)	0.3%	0.1%	1.2%
Wednesday, November 3	10:45 AM	MARKIT US SERVICES PMI	(Oct F)	(L)	-	58.2	58.2
Wednesday, November 3	10:45 AM	MARKIT US COMPOSITE PMI	(Oct F)	(L)	-	-	57.3
Wednesday, November 3	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Nov 3)	(H)	0.25%	0.25%	0.25%
Wednesday, November 3	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Nov 3)	(H)	0.00%	0.00%	0.00%
Wednesday, November 3	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, November 4	8:30 AM	INITIAL CLAIMS	(Oct 30)	(M)	-	-	281K
Thursday, November 4	8:30 AM	CONTINUING CLAIMS	(Oct 23)	(L)	-	-	2243K
Thursday, November 4	8:30 AM	NON-FARM PRODUCTIVITY	(Q3 P)	(M)	-1.6%	-1.3%	2.1%
Thursday, November 4	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Sep)	(H)	-$82.2B	-$74.8B	-$73.3B
Friday, November 5	8;30 AM	NON-FARM PAYROLLS	(Oct)	(H)	485K	400K	194K
Friday, November 5	8;30 AM	UNEMPLOYMENT RATE	(Oct)	(H)	4.7%	4.7%	4.8%
Friday, November 5	8;30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Oct)	(H)	0.4%	0.4%	0.6%
Friday, November 5	8;30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Oct)	(H)	-	34.8	34.8
Friday, November 5	8;30 AM	MANUFACTURING PAYROLLS	(Oct)	(H)	-	32K	26K
Friday, November 5	3:00 PM	CONSUMER CREDIT	(Sep)	(L)	-	$16.05B	$14.379B

Week Ahead's market call

by Avery Shenfeld

In the **US**, Powell might not have the votes to be an all out hawk, or the nerve to deliver a very stern message on rates before his reappointment is a lock. But giving the green light to start tapering now, and doing so on a tight timetable, would be a clear signal that the Fed wants to get that out of the way in time for a couple of rate hikes in the latter half of next year. Friday's jobs data should be supportive for that, since although the recent GDP pace isn't that impressive, there's a backlog of openings still in the process of being filled. The factory ISM will actually be helped by supplier delivery delays which is a component of its aggregate measure, but some other details could be driven a bit softer by those same issues. We don't put out a point forecast for vehicle sales, but the limited availability of dealer inventories suggests that risks are tilted below the consensus forecast.

In **Canada**, job growth has been so brisk relative to GDP gains that we're overdue for some hiring softness ahead, but we're still looking for only a marginal uptick in the unemployment rate in Friday's report. Markets will be keeping an eye on wages, which have thus far not shown any meaningful acceleration. But we caution that the wage series in this LFS report is the one that the Bank of Canada rightly puts the least weight on in assessing pay trends in its "wage common" series, as it shows excessive volatility even on a year-on-year basis, which suggests it has a lot of statistical noise. Canada should maintain a fairly healthy goods trade surplus in data out in the coming week, helped by elevated commodity prices.

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

(Friday, 8:30 am)

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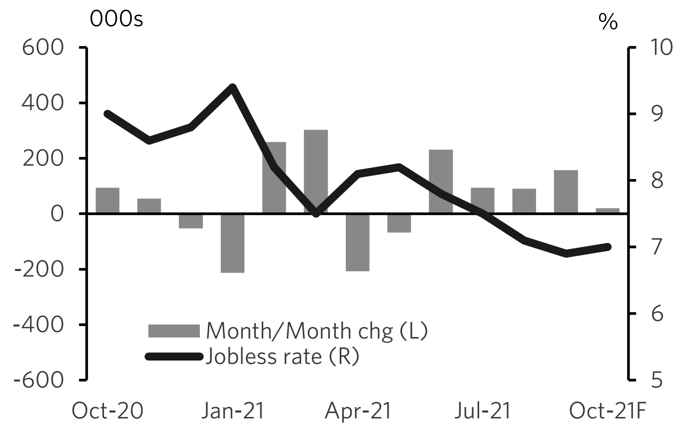
Labour force survey	CIBC	Mkt	Prior
Employment (m/m)	20K	-	157K
Unemployment rate	7.0%	-	6.9%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

The Canadian labour market shone during the summer, but likely cooled as autumn arrived. A decline in public admin jobs, which had been flattered by the Federal election in the prior month, is likely to be a big part of the story. However, some areas of the country, such as Alberta, Saskatchewan and New Brunswick, were still struggling with surges in virus-related hospitalizations which could have impacted hiring. Offsetting that, other areas of the country were continuing to reopen spectator sports and other larger scale recreational activities, which are sectors where employment remained well below pre-pandemic levels in September.

With population growth having accelerated again over recent months, in line with the pick up in immigration, the modest reading we expect for employment could see the jobless rate tick up (assuming unchanged participation). With the proportion of multiple job holders and aggregate hours remaining well below pre-pandemic norms, labour market slack remains more widespread than the headline unemployment rate suggests.

Forecast implications — Labour market progress will be slower from here, and the ending of pandemic-related support measures just after the survey week causes uncertainty for the months ahead. The winding down of the wage subsidy could negatively impact the job count, however the scaling down of income support could encourage workers to take on additional hours, particularly in sectors where job vacancy rates have been high, and see a rebound in self-employment.

Market impact — If employment fails to keep up with population growth as we expect, the unemployment rate would tick up slightly. That would have investors scaling back expectations for early Bank of Canada hikes, weighing on the C$ and supporting fixed income.

Other Canadian releases: Merchandise trade—September

(Thursday, 8:30 am)

Advance data for the US suggested that two-way trade was down again in the auto sector. However, in a reversal of the prior month, imports (potential exports from Canada) were down by more than exports. If mirrored in the Canadian data, greater weakness in exports rather than imports would act to narrow the overall trade surplus. Acting to offset that, higher commodity prices will continue to boost the nominal value of exports. Adding it up, we expect that the trade surplus narrowed from $1.9bn to $1.4bn.

Week Ahead's key US number: Employment situation—October

(Friday, 8:30 am)

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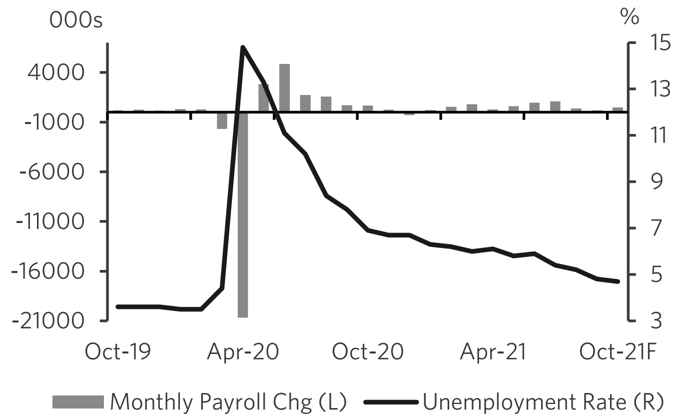
Variable	CIBC	Mkt	Prior
Employment (m/m)	485K	400K	194K
Unemployment rate	4.7%	4.7%	4.8%
Avg hourly earnings (m/m)	0.4%	0.4%	0.6%

Chart: US Payroll employment



Source: BLS, Haver Analytics, CIBC

The downward trajectory in continuing jobless claims steepened into the October payrolls reference period, while high-frequency service activity indicators improved towards the end of the month. Combined with a likely climb in education sector payrolls, which remained puzzlingly low in September despite the return of in-person classrooms, that suggests that 485K jobs were likely created in the US in October.

Those job gains will have been facilitated by an increase in participation as Delta cases decelerated, while those who lost expanded unemployment benefits in September could have also helped to fill job vacancies. That increase in participation would limit the drop in the unemployment rate, which likely fell by a tick to 4.7%. With businesses offering higher wages to recruit and fill job openings, wages likely rose by 0.4%.

Forecast implications — High-frequency indicators of services showed improvement into late October, suggesting continued solid employment gains ahead. While this print would still leave 4.5mn fewer Americans employed than prior to the pandemic, the deceleration in Delta cases, along with recruitment efforts and higher wages amidst the end of expanded unemployment benefits, should help boost participation and fill job vacancies ahead.

Market impact — We're above the consensus forecast which could support the greenback and see yields rise.

Other US Releases: ISM manufacturing—October

(Monday, 10:00 am)

The ISM's manufacturing index was likely steady in October, consistent with moves in regional purchasing manager indices that sent mixed signals. Production in sectors impacted by Hurricane Ida could have started to recover, but that could have been offset by production challenges in sectors dealing with supply chain bottlenecks. Likely remaining at 61.1, the ISM's index would still imply that a wide breadth of manufacturing firms are seeing growth, which will be supported by a cyclical improvement in demand ahead.

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