

Economics

THE WEEK AHEAD

September 27-October 1, 2021

China's "Love it or List it" moment

by Andrew Grantham andrew.grantham@cibc.com

The struggles of a large Chinese property developer have brought back concerns surrounding the Chinese economy and its reliance on real estate. Speculation is rife that maybe this is China's "Volker moment", where policymakers stifle growth in order to achieve success on another agenda item (in this case taming excess debt and housing speculation rather than runaway inflation). Others have speculated that this is China's "Lehman moment" in which a major company is allowed to collapse, resulting in unintended consequences elsewhere.

While there's no certainty, our base case is that this plays out more like an episode of the property show "Love it or List it?". Cracks in the foundation and a number of other problems are revealed. But, when the dust settles, we will end up falling back in love with the Chinese economy again, even if we can't get everything on our current wish list.

It's no secret that residential real estate makes an outsized contribution to the Chinese economy. Indeed, at just over 10%, and more by some counts, its GDP share is well above that seen in the US before the financial crisis (6.5%), and not far from the peak seen in Spain (12.5%) during that same period. Housing accounts for a much larger proportion of household assets than in the US, making for a larger potential wealth effect on consumer spending from a decline in prices.

However, this reliance on housing hasn't sprung up overnight, and in the not too distant past we've seen the ability of authorities to quell some excesses in the housing market without crippling the broader economy. In 2014, for example, home sales and prices both fell following big gains in the prior year but, by official records at least, GDP growth only slowed from 7.8% to 7.4%.

It's true that there are key differences between the current situation and that of 2014. The company in question is much larger than those that experienced difficulties during that earlier period. However, with most of its debt limited to domestic creditors and the PBoC willing to support financial markets as a whole, Beijing might still have the tools needed to contain

widespread contagion. Authorities in China do, though, seem keener to stamp out excesses in terms of debt and leverage as it relates to housing this time around. And, having set a low bar for its growth target this year, they are clearly willing to risk some slowdown to the economy as a whole. "Some" is the key word there, as a collapse wouldn't be welcome.

What the current concern surrounding housing has done, however, is make people realize that the underlying growth rate in China is weaker than had been assumed. Residential real estate accounted for a record one third of growth in Chinese GDP last year. Exports of goods have also been a big driver, something that too will ease as the global consumer returns to more services-orientated spending patterns. Once we've knocked down the wall of housing, and peeled back the paint of goods exports, we are left looking at the weak foundations of a sluggish pace in retail sales and a services PMI that recently dived back below 50.

The realization that Chinese growth isn't as strong as it may have previously appeared has fairly obvious implications for Canada. Changes in sentiment surrounding China play out in commodity markets, albeit more so for copper and iron ore than oil. While China's share of Canadian exports isn't huge in aggregate, for certain provinces it is. Some, such as grain producer Saskatchewan and energy/seafood exporter Newfoundland & Labrador have sent a sizeable share of exports to China for some time. However, for other parts of the country, such as Nova Scotia and Quebec, China has become an important source of export growth only in the past decade. Chinese tourism was also a big driver of growth in coastal areas of the country before the pandemic, and could be slower than expected to return if the Chinese economy isn't as strong.

From a financial market standpoint, there will be bumps in the road as issues with specific companies play out. But, longer-term, the key question investors will need to ask themselves is "how much GDP growth will it take for you to love the Chinese economy again?".

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, Sep 27	-	Government Bond Purchase Program (GBPP): 10YR	-	-	-	-	-
Monday, Sep 27	-	AUCTION: 10-YR CANADAS \$	-	-	-	-	-
Tuesday, Sep 28	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Tuesday, Sep 28	-	AUCTION: 3-M BILLS \$8B, 6-M BILLS \$3B, 1-YR BILLS \$3B	-	-	-	-	-
Tuesday, Sep 28	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Jul)	-	-	-	-
Wednesday, Sep 29	-	Government Bond Purchase Program (GBPP): 30YR	-	-	-	-	-
Wednesday, Sep 29	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Aug)	(M)	-	-	-0.4%
Wednesday, Sep 29	8:30 AM	RAW MATERIALS M/M	(Aug)	(M)	-	-	2.2%
Thursday, Sep 30	-	Equity markets to remain open (National Day for Truth and Reconciliation)	-	-	-	-	-
Friday, Oct 1	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Friday, Oct 1	8:30 AM	LEADING INDICATORS M/M	(Aug)	(L)	-	-	1.0%
Friday, Oct 1	8:30 AM	GDP M/M	(Jul)	(H)	-0.1%	-	0.7%

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, Sep 27	-	AUCTION: 2-YR TREASURIES \$60B	-	-	-	-	-
Monday, Sep 27	-	AUCTION: 5-YR TREASURIES \$61B	-	-	-	-	-
Monday, Sep 27	8:30 AM	DURABLE GOODS ORDERS M/M	(Aug P)	(H)	0.7%	0.6%	-0.1%
Monday, Sep 27	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Aug P)	(H)	0.6%	0.5%	0.8%
Monday, Sep 27	8:00 AM	Speaker: Charles L. Evans (President, Chicago) (Voter)	-	-	-	-	-
Monday, Sep 27	9:00 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Monday, Sep 27	12:00 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Monday, Sep 27	12:50 PM	Speaker: Lael S Brainard (Governor) (Voter)	-	-	-	-	-
Tuesday, Sep 28	-	AUCTION: 7-YR TREASURIES \$62B	-	-	-	-	-
Tuesday, Sep 28	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Aug)	(M)	-\$86.7B	-\$87.0B	-\$86.4B
Tuesday, Sep 28	8:30 AM	WHOLESALE INVENTORIES M/M	(Aug P)	(L)	-	-	0.6%
Tuesday, Sep 28	8:30 AM	RETAIL INVENTORIES M/M	(Aug)	(H)	-	-	0.4%
Tuesday, Sep 28	9:00 AM	HOUSE PRICE INDEX M/M	(Jul)	(M)	-	1.5%	1.6%
Tuesday, Sep 28	9:00 AM	S&P CORELOGIC CS Y/Y	(Jul)	(H)	-	20.1%	19.1%
Tuesday, Sep 28	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Sep)	(H)	114.5	114.2	113.8
Tuesday, Sep 28	10:00 AM	RICHMOND FED MANUF. INDEX	(Sep)	(M)	-	-	9
Tuesday, Sep 28	9:00 AM	Speaker: Charles L. Evans (President, Chicago) (Voter)	-	-	-	-	-
Tuesday, Sep 28	10:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, Sep 28	1:40 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Tuesday, Sep 28	3:00 PM	Speaker: Raphael W. Bostic (President, Atlanta) (Voter)	-	-	-	-	-
Tuesday, Sep 28	7:00 PM	Speaker: James Bullard (President, St Louis) (Non-Voter)	-	-	-	-	-
Wednesday, Sep 29	7:00 AM	MBA-APPLICATIONS	(Sep 24)	(L)	-	-	4.9%
Wednesday, Sep 29	10:00 AM	PENDING HOME SALES M/M	(Aug)	(M)	-	1.0%	-1.8%
Wednesday, Sep 29	11:45 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Wednesday, Sep 29	2:00 PM	Speaker: Raphael W. Bostic (President, Atlanta) (Voter)	-	-	-	-	-
Thursday, Sep 30	8:30 AM	INITIAL CLAIMS	(Sep 25)	(M)	-	320K	351K
Thursday, Sep 30	8:30 AM	CONTINUING CLAIMS	(Sep 18)	(L)	-	-	2845K
Thursday, Sep 30	8:30 AM	GDP (annualized)	(Q2 T)	(H)	6.6%	6.7%	6.6%
Thursday, Sep 30	8:30 AM	GDP DEFLATOR (annualized)	(Q2 T)	(H)	-	6.1%	6.1%
Thursday, Sep 30	9:45 AM	CHICAGO PMI	(Sep)	(M)	-	65.0	66.8
Thursday, Sep 30	10:00 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, Sep 30	11:00 AM	Speaker: Raphael W. Bostic (President, Atlanta) (Voter)	-	-	-	-	-
Thursday, Sep 30	12:30 PM	Speaker: Charles L. Evans (President, Chicago) (Voter)	-	-	-	-	-
Thursday, Sep 30	1:05 PM	Speaker: James Bullard (President, St Louis) (Non-Voter)	-	-	-	-	-
Thursday, Sep 30	3:30 PM	Speaker: Patrick Harker (President, Philadelphia)	-	-	-	-	-
Friday, Oct 1	8:30 AM	PCE DEFLATOR Y/Y	(Aug)	(H)	4.2%	4.2%	4.2%
Friday, Oct 1	8:30 AM	PCE DEFLATOR Y/Y (core)	(Aug)	(H)	3.5%	3.6%	3.6%
Friday, Oct 1	8:30 AM	PERSONAL INCOME M/M	(Aug)	(H)	0.4%	0.2%	1.1%
Friday, Oct 1	8:30 AM	PERSONAL SPENDING M/M	(Aug)	(H)	0.5%	0.7%	0.3%
Friday, Oct 1	9:45 AM	MARKIT US MANUFACTURING PMI	(Sep F)	(L)	-	-	60.5
Friday, Oct 1	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Sep F)	(H)	-	71.0	71.0
Friday, Oct 1	10:00 AM	ISM - MANUFACTURING	(Sep)	(H)	59.4	59.5	59.9
Friday, Oct 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Aug)	(M)	-	0.3%	0.3%
Friday, Oct 1	-	NEW VEHICLE SALES	(Sep)	(M)	-	13.35M	13.06M
Friday, Oct 1	11:00 AM	Speaker: Patrick Harker (President, Philadelphia)	-	-	-	-	-
Friday, Oct 1	1:00 PM	Speaker: Loretta Mester (President, Cleveland) (Non-Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, the Democrats will likely strip out the debt ceiling increase from a bill to continue to fund the government, avoiding a shutdown on October 1st. That will still leave the clock ticking on getting the debt ceiling increase in the next couple of weeks, but we expect that to be rolled into a scaled down budget bill passed by Democratic Senators alone through the reconciliation process. The ongoing supply chain issues are the major source of risks to numbers related to the goods sector, including durable orders, exports, and the ISM. We're a bit below consensus on August personal spending, but see the PCE price indexes (total and core) fairly steady on a year-over-year basis. A flurry of Fed speakers will highlight where any divisions lie on either the start or pace of tapering, but we still expect the November FOMC to announce its launch, barring a really ugly payrolls report.

In **Canada**, we're keeping an eye on the squeeze on hospital capacity in western provinces, as we'll need to see a levelling off soon if further public health restrictions are to be avoided. (See our recent research piece on how that differs versus the US.) Canada's payrolls series doesn't get as much attention as its household survey (LFS) employment measures, since it comes out with a lag, but we'll see if it confirms or conflicts with the LFS strength. This record will also provide insights on job vacancy trends. July GDP should do better than the original flash estimate, but might show a small decline despite a good contribution from consumers, while the flash estimate for August should show material gains.

Week Ahead's key Canadian number: GDP—July

(Friday, 8:30 am)

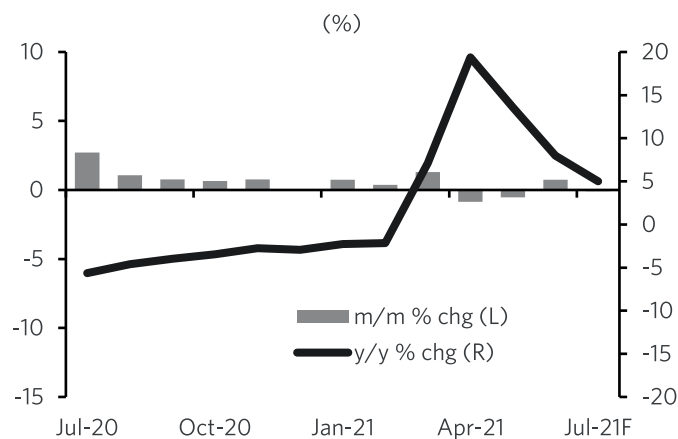
Royce Mendes royce.mendes@cibc.com

GDP (%)	CIBC	Mkt	Prior
GDP m/m (July)	-0.1%	-	0.7%

Restaurant and bar patios were rocking again in July according to Statistics Canada data, and that likely came alongside an increase in activity at a number of other non-essential services. The strong acceleration in services spending combined with a more modest-than-anticipated pullback in retail sales reinforces our view that household consumption will be the driving force for the economy in the third quarter.

It's true that other parts of the economy were still plagued by Covid related challenges during the month, namely supply chain bottlenecks. Moreover, Canada's housing market seemed to cool off this summer from its prior red hot pace, with both resales and construction activity falling further in July from their peaks. However, with new Covid cases at low levels and vaccination rates making Canadians feel more comfortable leaving their homes, the rebound in services activity likely almost offset the weakness in other areas in July, a better showing than the 0.4% decline according to Statistics Canada's flash estimate.

Chart: Canadian GDP at basic prices (%)



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — If we're right, the outperformance in July versus the flash estimate set the economy up well to reach our forecasted 4.5% annualized GDP growth rate for Q3. That said, it requires the economy to have had a stronger showing in August. Keep an eye on the flash estimate for that month, which we expect to show a return to growth as the economy continued to benefit from the lull in the virus.

Week Ahead's key US number: Personal income & outlays—August

(Friday, 8:30 am)

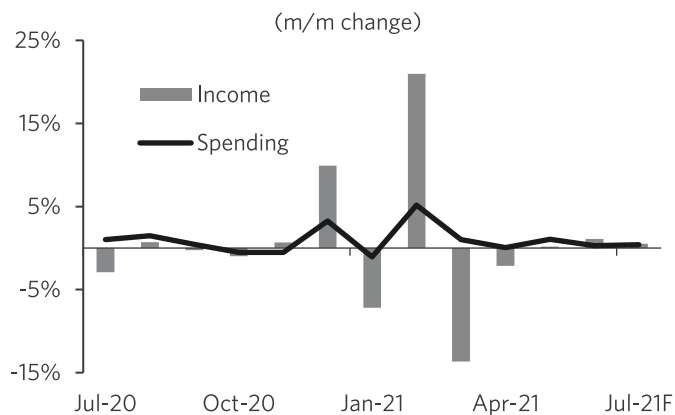
Katherine Judge katherine.judge@cibc.com

Personal income and outlays (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.4	0.2	1.1
Personal spending (m/m)	0.5	0.7	0.3
Core PCE price index (y/y)	3.5	3.6	3.6

Spending looks to have swung back towards goods in August as suggested by the retail sales data, while Delta concerns weighed on restaurant traffic and air travel. Together, that suggests growth in consumer spending of 0.5%. Incomes could have risen by 0.4%, reflecting labor income gains.

Price pressures look to have remained steady in annual terms, with total PCE inflation likely running at 4.2%, while core PCE price inflation could have fallen by a tick while remaining well above the 2% target, at 3.5%.

Chart: US Personal Income and Spending



Source: BEA, Haver Analytics, CIBC

Forecast implications — It's likely that inflationary pressures continue to ease off temporarily ahead as service sector activity remains limited by the Delta variant, which will also limit household spending on services. Incomes are also set to get dented by the end of expanded unemployment benefits early in September. However, households are sitting on ample excess cash to drive a rebound in service sector spending once the Delta wave subsides.

Market impact — We are below the consensus on the spending figure, which could put downwards pressure on the USD and bond yields.

Other US Releases: Durable Goods Orders—August

(Monday, 8:30 am)

With capacity utilization in the manufacturing sector now above its pre-pandemic level, durable goods orders could have been supported by a cyclical improvement in demand for capital goods in August. That would account for the expected 0.6% growth in ex.-transportation orders, while a rebound in transportation orders could have also supported an expected 0.7% gain in total orders. While growth in capital goods orders would be a positive sign for business investment in equipment ahead, the delivery of such goods is threatened by supply chain issues.

ISM Manufacturing—September

(Friday, 10:00 am)

Hurricane Ida and the related supply chain issues could have caused the ISM's manufacturing index to fall slightly in September, as many chemical and petroleum product factories in Louisiana were offline for part of the month. Still, strength in orders could have provided an offset, with the expected reading of 59.4 still representing broad-based positive sentiment amongst manufacturers.

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