



Economics

# THE WEEK AHEAD

September 13-17, 2021

## Horseshoes and Canadian elections

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

They say that close only counts in horseshoes, but it counts in Canadian elections as well. When the polls are neck and neck between the two parties that have historically governed the country, it's not just about how close they are to each other, but what's happening to the third and fourth ranked parties, in a way that many who aren't used to the ins and outs of a parliamentary system could easily miss.

Much of the attention has been focused on the platforms laid out by the Liberals and Conservatives, the two parties that are at this point vying for the lead. We won't review them in detail here because they've been so well documented elsewhere, including on each party's campaign website.

We would caution that it might be misguided to think that either platform will become law. That's not just because we are seeing polls pointing to no party winning a majority of seats, since that was true last time, and the Liberals did end up passing a lot of their agenda items. After that election, the Liberals needed the support of only one of the Conservatives, NDP or Bloc Québécois to pass a bill.

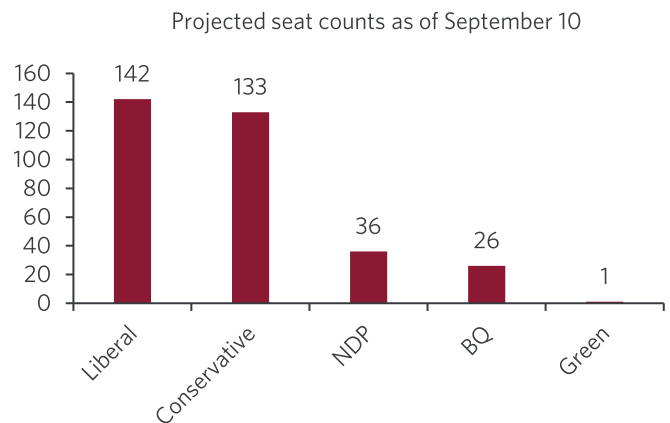
Projections from CBC's poll tracker again have neither the Liberals nor Conservatives positioned for a majority, with the former in a slight lead in seat counts. But in those projections, the Liberal's lead would be too narrow to be able to pass a bill with only the help of the Bloc. The NDP have enough of a lead over the Bloc at this point that they might be decisive in determining who forms a government.

That could end up giving the NDP more sway than they had during the prior government. So it's worth at least a look at the NDP platform to judge what some of their top priorities might be, and where they intersect or contrast with other parties, particularly the Liberals who are most likely to benefit from their support.

Should the Bloc improve on its current projected standing or one of the two leading parties creep higher, it might be an alternative source of legislative support for either the Liberals or Conservatives that could make its leader the kingmaker. This past week, Yves-Francois Blanchet had both positive and negative things to say about each of the Liberals and the Conservatives. The Bloquiste agenda stresses federal funding for provincial priorities like health care and the elderly, a "hands off" stance from Ottawa on various matters pertaining to culture and identity, and progress on climate change.

The polls to watch are the ones out early next week, which will capture any momentum shifts coming from the two national leaders' debates. But there's one more thing to think about in an election in which being close will count: whether voter turnout during a pandemic will play into how well these polling data translate into results at the ballot box. We'll have to wait a while longer for that answer.

Chart: Polls project no 170 seat majority



Source: CBC News poll tracker

## 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, Sep 13	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Tuesday, Sep 14	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Tuesday, Sep 14	-	AUCTION: 3-M BILLS \$8B, 6-M BILLS \$,3B 1-YR BILLS \$3B	-	-	-	-	-
Tuesday, Sep 14	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Jul)	(M)	-1.2%	-	2.1%
Wednesday, Sep 15	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Wednesday, Sep 15	-	AUCTION: 2-YR CANADAS \$4B	-	-	-	-	-
Wednesday, Sep 15	8:30 AM	CPI M/M	(Aug)	(H)	0.0%	-	0.6%
Wednesday, Sep 15	8:30 AM	CPI Y/Y	(Aug)	(H)	3.9%	-	3.7%
Wednesday, Sep 15	8:30 AM	CPI Core- Common Y/Y%	(Aug)	(M)	1.7%	-	1.7%
Wednesday, Sep 15	8:30 AM	CPI Core- Median Y/Y%	(Aug)	(M)	-	-	2.6%
Wednesday, Sep 15	8:30 AM	CPI Core- Trim Y/Y%	(Aug)	(M)	-	-	3.1%
Wednesday, Sep 15	9:00 AM	EXISTING HOME SALES M/M	(Aug)	(M)	-	-	-3.5%
Thursday, Sep 16	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Thursday, Sep 16	-	AUCTION: 30-YR CANADAS \$3B	-	-	-	-	-
Thursday, Sep 16	8:15 AM	HOUSING STARTS SAAR	(Aug)	(M)	245K	-	272.2K
Thursday, Sep 16	8:30 AM	ADP EMPLOYMENT CHANGE	(Aug)	-	-	-	-
Thursday, Sep 16	8:30 AM	WHOLESALE TRADE M/M	(Jul)	(M)	-2.0%	-	-0.8%
Thursday, Sep 16	8:30 AM	INT'L. SEC. TRANSACTIONS	(Jul)	(M)	-	-	\$19.7B
Friday, Sep 17	-	-	-	-	-	-	-

## 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, Sep 13	2:00 PM	TREASURY BUDGET	(Aug)	(L)	-	-	-\$200B
Tuesday, Sep 14	8:30 AM	CPI M/M	(Aug)	(H)	0.4%	0.4%	0.5%
Tuesday, Sep 14	8:30 AM	CPI M/M (core)	(Aug)	(H)	0.3%	0.3%	0.3%
Tuesday, Sep 14	8:30 AM	CPI Y/Y	(Aug)	(H)	5.4%	5.3%	5.4%
Tuesday, Sep 14	8:30 AM	CPI Y/Y (core)	(Aug)	(H)	4.2%	4.3%	4.3%
Wednesday, Sep 15	7:00 AM	MBA-APPLICATIONS	(Sep 10)	(L)	-	-	-1.9%
Wednesday, Sep 15	8:30 AM	NEW YORK FED (EMPIRE)	(Sep)	(M)	-	17.2	18.3
Wednesday, Sep 15	8:30 AM	IMPORT PRICE INDEX M/M	(Aug)	(L)	-	0.3%	0.3%
Wednesday, Sep 15	8:30 AM	EXPORT PRICE INDEX M/M	(Aug)	(L)	-	0.4%	1.3%
Wednesday, Sep 15	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Aug)	(H)	0.6%	0.4%	0.9%
Wednesday, Sep 15	9:15 AM	CAPACITY UTILIZATION	(Aug)	(M)	76.5%	76.3%	76.1%
Thursday, Sep 16	8:30 AM	INITIAL CLAIMS	(Sep 11)	(M)	-	320K	310K
Thursday, Sep 16	8:30 AM	CONTINUING CLAIMS	(Sep 4)	(L)	-	-	2783K
Thursday, Sep 16	8:30 AM	RETAIL SALES M/M	(Aug)	(H)	-0.6%	-0.8%	-1.1%
Thursday, Sep 16	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Aug)	(H)	0.3%	-0.3%	-0.7%
Thursday, Sep 16	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Aug)	(H)	0.1%	-0.2%	-1.0%
Thursday, Sep 16	8:30 AM	PHILADELPHIA FED	(Sep)	(M)	-	19.0	19.4
Thursday, Sep 16	10:00 AM	BUSINESS INVENTORIES M/M	(Jul)	(L)	-	0.5%	0.8%
Thursday, Sep 16	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Jul)	(L)	-	-	\$110.9B
Friday, Sep 17	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Sep P)	(H)	-	72.0	70.3

## Week Ahead's market call

by Avery Shenfeld

In the **US**, look for both headline and core CPI measures to remain close to the prior month's pace, a reminder that "temporary" inflation pressures won't vanish overnight. Retail sales will be severely dented by a major drop in auto sales, but a lot of that could be tied to the lack of available vehicles rather than consumer attitudes. That suggests that we might do a bit better than consensus on ex-auto sales, perhaps helped by back to school purchases for students who really are going to those schools this fall. Weekly jobless claims are worth a look, as they've been telling a counter story to other indicators pointing to a slowing.

In **Canada**, headline inflation could raise a few eyebrows by closing in on nearly 4% year-on-year, but our preferred core measure, the common component, will continue to tell a much less scary story. Both manufacturing and wholesaling data will be clouded by supply chain disruption issues, thereby understating demand conditions in the goods sector.

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

(Wednesday, 8:30 am)

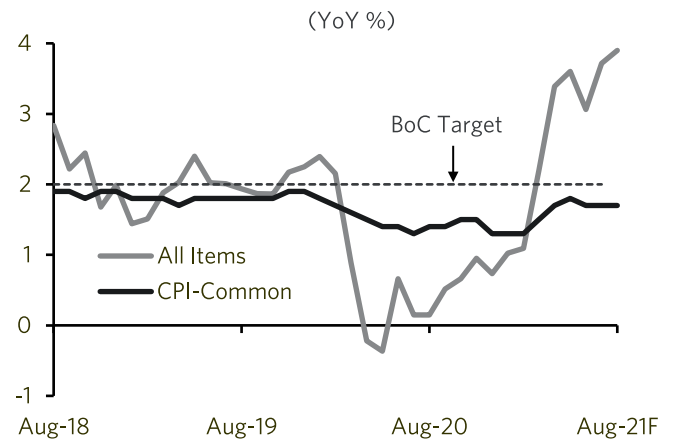
Royce Mendes [royce.mendes@cibc.com](mailto:royce.mendes@cibc.com)

Consumer price index (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.0	-	0.6
CPI (y/y)	3.9	-	3.7
CPI-common (y/y)	1.7	-	1.7

August is typically a weak month for price pressures. So the fact that we're forecasting no change in the index shouldn't be taken as a sign that we see inflation pressures having already abated. While some of the increase in Alberta's electricity prices likely reversed and gasoline prices fell for the first time since last year, global supply chain issues and surging demand for reopening services in Canada look to have pushed non-energy prices higher again. As a result, we see the annual rate of inflation actually accelerating to 3.9%.

However, with the Bank of Canada's core common component indicator still running below 2%, there's evidence that the

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

current inflation is factor specific rather than broad based. That isn't the type of inflation that the Bank of Canada can depress without damaging the recovery. Moreover, the recent upswing in inflation is only really making up for last year's weakness, with the price level no higher than it would have been if inflation had simply run at 2% since the pandemic began.

**Forecast Implications** — We see August as the peak month for the annual rate of inflation. Assuming there is at least some easing in strained supply chains and gasoline prices continue to gradually decline, inflation should retreat back towards 3% in the coming months.

## Other Canadian releases: Housing starts—August

(Thursday, 8:15 am)

Building permits continue to suggest strong interest in new home construction, but a cooling in other areas of the housing market combined with a dearth of workers probably means that the pace of housing starts continued to decelerate in August. Indeed, home sales looked sleepy compared to the raging pace earlier this year. Moreover, the record low ratio of workers in residential construction to dwellings under construction suggests that there's little scope to continue breaking ground on new projects at such a fast clip. As a result, we're forecasting housing starts to clock in at 245K. While that's still elevated, it would be the slowest pace since last year.

## Week Ahead's key US number: Retail sales—August

(Thursday, 8:30 am)

Katherine Judge [katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

Retail sales (m/m %)	CIBC	Mkt	Prior
Retail sales	-0.6	-0.8	-1.1
- ex auto	0.3	-0.3	-0.7
- control group	0.1	-0.2	-1.0

A large drop in auto sales as suggested by the unit sales data implies a further retreat in total US retail sales in August, by 0.6%. The drop in vehicle sales reflects a lack of inventory as production bottlenecks have stifled supply for dealerships. Moreover, restaurant reservations softened as consumers become more cautious amidst the spread of the Delta variant, which will have also limited progress in total sales.

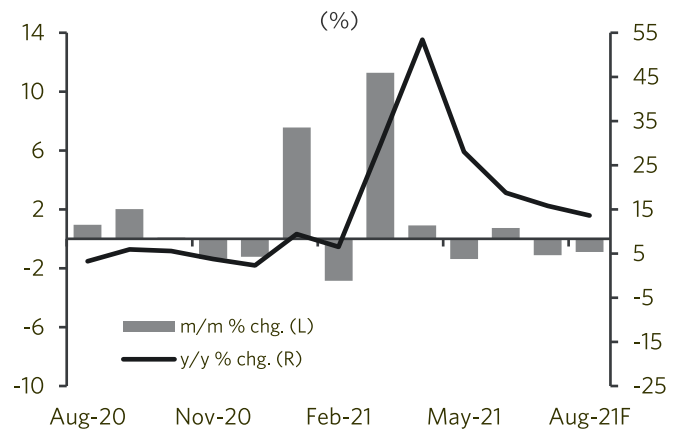
Things could have looked better in other spending categories, however, as preparation for the back-to-school season could have supported sales of clothing and electronics. The control group of sales (ex. autos, restaurants, gasoline, and building materials) therefore likely eked out a 0.1% advance, which would still be a negative in volume terms.

## Other US Releases: Consumer price index—August

(Tuesday, 8:30 am)

A rise in gasoline prices in August combined with upwards pressure on food prices likely resulted in total CPI advancing by 0.4% on the month. That would have left the annual rate of inflation unchanged at 5.4%. Excluding energy and food prices, core prices could have advanced by 0.3% on the month as supply chain bottlenecks and previous wage increases could have translated through to consumer prices, leaving annual core inflation a tick weaker at 4.2%. One downside risk is a drop in used car prices potentially being more significant than suggested by industry sources. Given the softening underway in service sectors as a result of the Delta wave, it's likely that inflation in that area eases off over the rest of the year, causing core inflation to decelerate along the way.

Chart: US retail sales



Source: Census Bureau, Haver Analytics, CIBC

**Forecast Implications**—Consumer spending likely weakened in August, but most of that will show up in a deterioration in services spending amidst the Delta wave. With control group spending still likely 18% above pre-pandemic levels in August, goods demand is expected to wane ahead, although a temporary pullback in services activity could postpone that deterioration.

**Market Impact**—We are more optimistic than the consensus which could see the USD rise alongside bond yields.

## Industrial production—August

(Wednesday, 9:15 am)

Hours worked climbed in the manufacturing sector in August, while the ISM's production index rose and supply chain bottlenecks faded for some businesses according to the survey. Combined with a rise in mining activity as suggested by the increase in rig counts, total industrial production likely rose by 0.6% in August, leading capacity utilization to surpass its pre-pandemic level at 76.5%. However, Hurricane Ida has since brought a large fraction of oil production in the Gulf of Mexico to a standstill, while Louisiana is still struggling to regain power in many areas. The Delta variant has also hampered production in some key input markets abroad, suggesting a pullback in industrial production in September is likely.

## Contacts:

Avery Shenfeld  
[416 594-7356](tel:4165947356)  
[avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

Benjamin Tal  
[416 956-3698](tel:4169563698)  
[benjamin.tal@cibc.com](mailto:benjamin.tal@cibc.com)

Andrew Grantham  
[416 956-3219](tel:4169563219)  
[andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

Royce Mendes  
[416 594-7354](tel:4165947354)  
[royce.mendes@cibc.com](mailto:royce.mendes@cibc.com)

Katherine Judge  
[416 956-6527](tel:4169566527)  
[katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

CIBC Capital Markets  
PO Box 500  
161 Bay Street, Brookfield Place  
Toronto, Canada, M5J 2S8  
[Bloomberg @ CIBC](#)

[economics.cibccm.com](http://economics.cibccm.com)

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