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THE WEEK AHEAD

September 18-22, 2017

No, Hurricanes Aren't Good for the Economy

by Avery Shenfeld

Those with common sense and no economics training will be left scratching their heads by the title of this commentary. Who would even think that two massive storms, Harvey and Irma, will be an economic win? Some economic analysts, that's who, and it's because of the less than perfect way we measure economic well-being.

Real GDP growth, which captures all the headlines, measures changes in the after-inflation value of goods and services produced in a given period of time. US third-quarter results will take a major hit from all the lost hours of work and missing output in the affected states.

But then Q4 GDP growth will get a lift, mostly by being compared to the artificially depressed base in the prior quarter. As long as there are no equivalent disruptions, hours worked and output will rebound. That of course just gets us back to trend, but economists will point to the additional GDP growth in Q4 and into 2018 from all the spending on reconstruction.

That's true, but misleading. First the money spent on reconstruction is not manna from heaven. Some will come from insurers' pockets, and will show up in the national income accounts as a drop in corporate profits (while not reducing the GDP attributed to the insurance industry). Some will come from the government. And the rest will be paid for by households and businesses that lacked full coverage.

What's missing in most accounts of the boost to future growth are the downward pressures on where that same money might otherwise have been spent. Americans paying for a new roof might have to forgo a lot of nights at the movies. Governments might fund relief spending from subsequent cuts to other programs. Insurers could end up increasing rates, draining future household spending power, and will initially have less to pay out to shareholders.

The largest missing tally is the destruction in wealth from the assets destroyed by the storm. GDP adds the value of the rebuilt house, but doesn't ever subtract the value of the house that was left in ruins. Think of it this way. It's going to take billions of dollars' worth of materials and labour to just get back what we've lost in the storm. Think of the assets we would have had if those same resources had been devoted to new infrastructure, rather than merely rebuilding what we had, or the consumer goods and services we could have bought instead.

Canada's economy could to some extent benefit from America's weather misfortunes. Building material and auto exports will get a lift, and refiners got a temporary boost to gasoline prices. Canadian snowbirds who might have flown down to Florida will hold off for a while, spending more of their money at home. And perhaps, by providing neighbourly help in restoring power, we'll win a few much needed brownie points in Washington.

Week Ahead Calendar And Forecast

CANADA

Day	Event	Period	Significance	CIBC	Consensus	Prior
Monday September 18	**8:30 AM**					
	INT'L. SEC. TRANSACTIONS	(Jul)	(M)			-$0.9B
	Speaker: 2:30 PM Timothy Lane (Deputy Gov.)					
Tuesday September 19	**AUCTION: 3-M BILLS $5.0B, 6-M BILLS $2.0B, 1-YR BILLS $2.0B**					
	CASH MANAGEMENT BUYBACK (Nov'17 - Mar'19) - $0.5B					
	8:30 AM					
	MANUFACTURING SHIPMENTS M/M	(Jul)	(M)	**-3.0%**	-0.7%	-1.8%
Wednesday September 20						
Thursday September 21	**AUCTION: 2-YR CANADAS $3.9B**					
	8:30 AM					
	WHOLESALE TRADE M/M	(Jul)	(M)	**-0.7%**		-0.5%
Friday September 22	**8:30 AM**					
	RETAIL TRADE TOTAL M/M	(Jul)	(H)	**-0.5%**	0.3%	0.1%
	RETAIL TRADE EX-AUTO M/M	(Jul)	(H)	**-0.4%**	0.5%	0.7%
	CPI M/M	(Aug)	(H)	**0.2%**	0.2%	0.0%
	CPI Y/Y	(Aug)	(H)	**1.5%**	1.5%	1.2%
	CPI Core- Common Y/Y%	(Aug)	(M)	**1.5%**	N/A	1.4%
	CPI Core- Median Y/Y%	(Aug)	(M)			1.7%
	CPI Core- Trim Y/Y%	(Aug)	(M)			1.3%

UNITED STATES

Day	Event	Period	Significance	CIBC	Consensus	Prior
Monday September 18	**AUCTION: 3-M BILLS $39B, 6-M BILLS $33B**					
	10:00 AM					
	NAHB HOUSING INDEX	(Sep)	(L)		67	68
	10:00 PM					
	NET CAPITAL INFLOWS (TICS)	(Jul)	(L)		N/A	$34.4B
Tuesday September 19	**AUCTION: 4-WEEK BILLS $20B (prev)**					
	8:30 AM					
	HOUSING STARTS SAAR	(Aug)	(M)	**1170K**	1175K	1155K
	BUILDING PERMITS SAAR	(Aug)	(H)	**1220K**	1220K	1230K
	CURRENT ACCOUNT	(Q2)	(L)	**-$115.1B**	-$112.4B	-$116.8B
	IMPORT PRICE INDEX M/M	(Aug)	(L)		0.4%	0.1%
Wednesday September 20	**7:00 AM**					
	MBA-APPLICATIONS	(Sep 15)	(L)			9.9%
	10:00 AM					
	EXISTING HOME SALES SAAR	(Aug)	(M)	**5.49M**	5.46M	5.44M
	EXISTING HOME SALES M/M	(Aug)	(M)	**0.9%**	0.4%	-1.3%
	2:00 PM					
	FOMC RATE DECISION (UPPER BOUND)	(Sep)	(H)	**1.25%**	1.25%	1.25%
	FOMC RATE DECISION (LOWER BOUND)	(Sep)	(H)	**1.00%**	1.00%	1.00%
	Speaker: 2:30 PM Janet l. Yellen (Chair)					
Thursday September 21	**8:30 AM**					
	INITIAL CLAIMS	(Sep 16)	(M)		300K	284K
	CONTINUING CLAIMS	(Sep 9)	(L)		N/A	1944K
	PHILADELPHIA FED	(Sep)	(M)		16.6	18.9
	10:00 AM					
	LEADING INDICATORS M/M	(Aug)	(M)		0.2%	0.3%
Friday September 22	**9:45 AM**					
	MARKIT US SERVICES PMI	(Sep)	(L)		55.7	56.0
	MARKIT US COMPOSITE PMI	(Sep)	(L)		N/A	55.3
	MARKIT US MANUFACTURING PMI	(Sep)	(L)		53.0	52.8
	Speaker: 1:30 PM Rob Kaplan (Dallas, President)					
	Speaker: 9:30 AM Esther George (Kansas City)					
	Speaker: 6:00 AM John C Williams (San Francisco)					

H, M, L = High, Medium or Low Significance **SAAR = Seasonally Adjusted Annual Rate** **Consensus Source: Bloomberg**

Week Ahead's Market Call

by Andrew Grantham

In the **US**, data will take a back seat with the Fed taking the wheel for markets. An announcement regarding the start of a balance sheet unwind has been well telegraphed and will begin very gradually. As such, any indication within the statement of lessening concern regarding inflation, supporting expectations for a December rate hike, will be more important for markets.

In **Canada**, a busy week starts with the first chance for the BoC to clarify its message regarding future rate hikes, with Deputy Governor Timothy Lane speaking on Canada's international trade position on Monday. Given some recent weakness in monthly trade data, that could have a somewhat dovish tone. That soft trade data bodes poorly for manufacturing shipments in July, while we are also expecting disappointments in retail and wholesale trade. Three poor July data releases should also see markets push back expectations for BoC hikes. The one positive piece of news could come from August's CPI, which is expected to accelerate not just on the headline but also core measures.

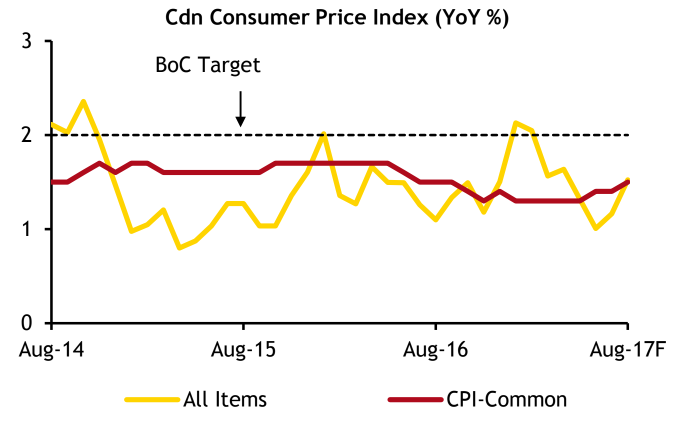
Week Ahead's Key Canadian Number:

Consumer Price Index—August

(Friday, 8:30 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
CPI m/m NSA	0.2%	0.2%	0.0%
CPI yr/yr	1.5%	1.5%	1.2%
CPI-common	1.5%	N/A	1.4%



Source: Statistics Canada, CIBC

Inflation is still going to be tracking under the Bank of Canada's desired target, but August should see the headline—and the new common component measure—edge higher. Firmer gasoline prices will be part of the story (+3.0% mom in July), but underlying inflation pressures are starting to percolate—a bit.

Ex-food and energy prices should register a 0.2% SA monthly gain, pushing the annual rate to 1.6%. Progress made in narrowing economic slack through the first half of the year is a reason we see this more selective measure gaining a few more ticks from here to the beginning of 2018. The Bank of Canada's new preferred measures should also turn from their current levels going forward, with August's reading on the common component likely to register 1.5%.

Forecast Implications—Although the inflation outlook remains positive ahead, some of the forces depressing price pressures have proven to be more persistent than previously anticipated, and have been global in nature. As a result, still relatively tame CPI readings likely preclude too aggressive a tightening path for the BoC from here, especially with growth also poised to slow in the quarter ahead.

Other Canadian Releases:

Manufacturing Survey—July

(Tuesday, 8:30 a.m.)

Tuesday's factory report is going to be ugly. Manufactured exports have been down roughly 10% over the past two months, with only part of that weakness reflected in June's slide. Look for a 3% drop next week, a first negative data point for the first month of the third quarter—where we expect growth to cool dramatically from Q2's blistering pace. Wholesale trade due out Tuesday is also likely to see some slippage, with sales there poised to see a 0.7% decline.

Retail Trade—July

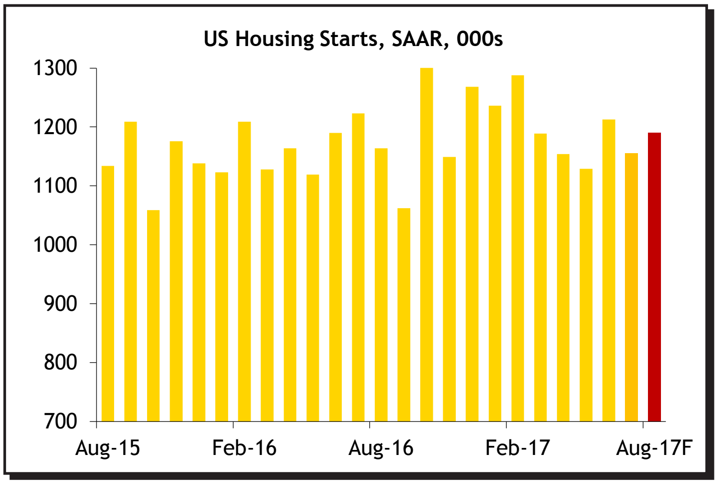
(Friday, 8:30 am)

Consumers are doing well—but they shouldn't be doing *this* well. Retail sales are tracking an annual growth rate above 6%. That's likely too hot of a pace, even with the recovery in the labour market supporting the health of the Canadian consumer. Look for headline sales to slip by 0.5%, with the ex-autos figures coming in at a -0.4% reading. Three-for-three in terms of soft growth readings for July will throw cold water on those expecting three-for-three rate moves from the Bank of Canada when it comes to its October meeting.

Week Ahead's Key US Number:
Housing Starts—August
(Tuesday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Housing Starts	1170K	1175K	1155K



Housing starts have cooled down in recent months, but likely edged up in August. Building permits have generally remained healthy this year and the ongoing low rate environment should support further growth in building activity. The only fly in the ointment could come from hurricane Harvey, which may have depressed construction over the final days of August. As a result, the advance might not be as large as previously expected.

Forecast Implications—We still see housing starts rising in the quarters ahead, but hurricane affected areas could see starts running at a cooler pace than previously expected in the months to come, before rebuilding efforts commence.

Market Impact—We're close to consensus, so we don't expect much market reaction.

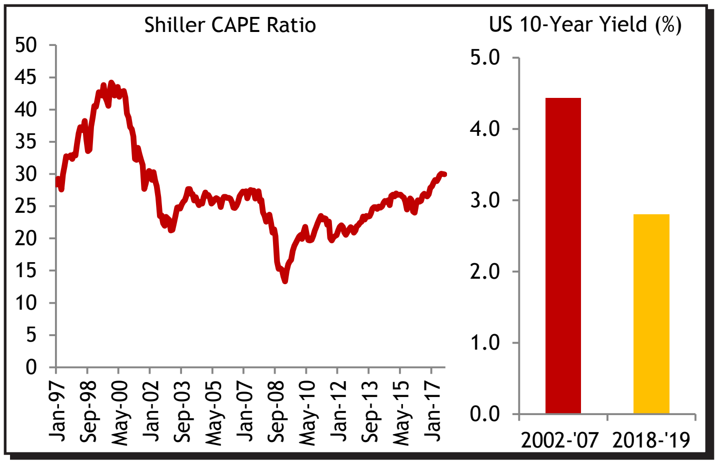
Equity Insights

Avery Shenfeld and Nick Exarhos

We've Been Here Before

US stocks aren't cheap by most metrics, but calling a top isn't an easy game either. Shiller's CAPE ratio, which looks at prices relative to inflation-adjusted 10-year trailing earnings, has historically had a good fit with subsequent 10-year rates of return. A high CAPE is typically corrected not by a surge in earnings, but by a softer trend for stock prices. But today's CAPE ratio is roughly equivalent to the level that managed to persist from 2002-2007, and back then, competing yields on bonds were a lot higher. It took a recession to sink that market, not a spontaneous mass realization that stocks were too expensive.

US CAPE Edges Higher (L), But Bond Yields Lower This Cycle (R)

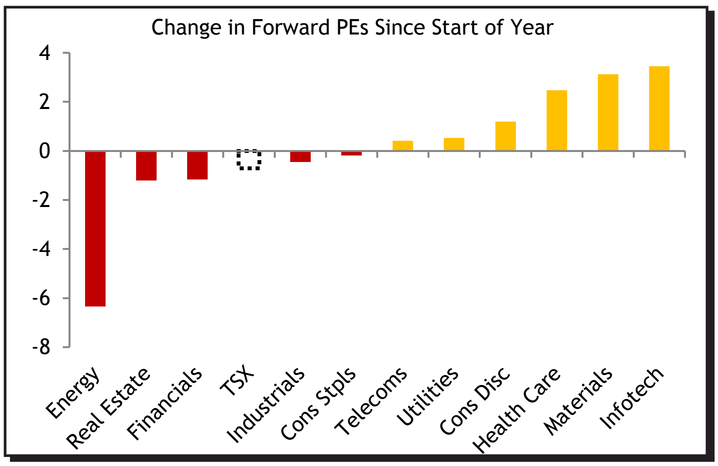


Source: Shiller, CIBC

TSX Multiples: A Sector Story

Using a different measure, the one-year forward PE multiple, valuations on the TSX composite would appear to have cheapened up since the start of the year. But at the sector level, everything other than energy and financials has gotten more expensive. Energy stocks might be cheap at these levels if crude prices make a bit of further headway in 2018/19. And financials appear to reflect undue pessimism over Canadian credit quality with markets focused on the risks of higher rates to borrowers, but less attentive to the potential for improvements in banks' lending margins.

Cheaper TSX? Not in All Sectors

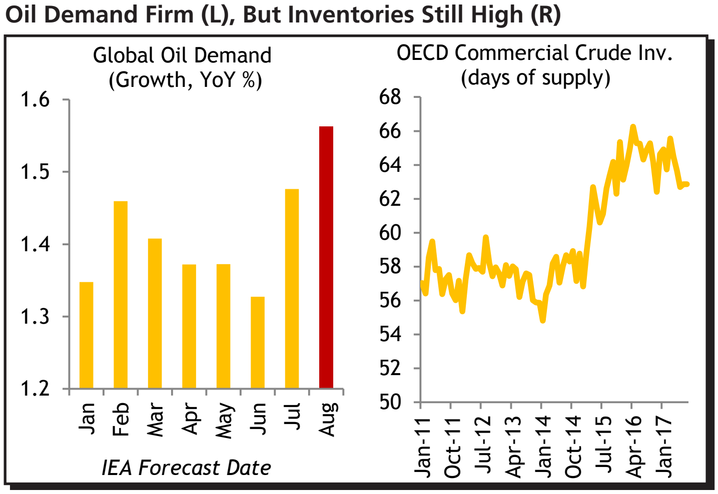


Source: Bloomberg, CIBC

Upgraded Oil Growth? We'll Need It

The best news for crude in August was a significant upgrade in the IEA tracking for global demand, with 2017 now projected to see a more than 1.5% gain. Impressive, but less so since some of that reflects the boost coming from softer prices than had been expected earlier in the year, as well has a stronger year for global GDP. Moreover, we'll need every bit of it to make any headway on prices, given that progress in draining excess inventories has been slower than we earlier hoped.

Oil Demand Firm (L), But Inventories Still High (R)



Source: IEA, CIBC

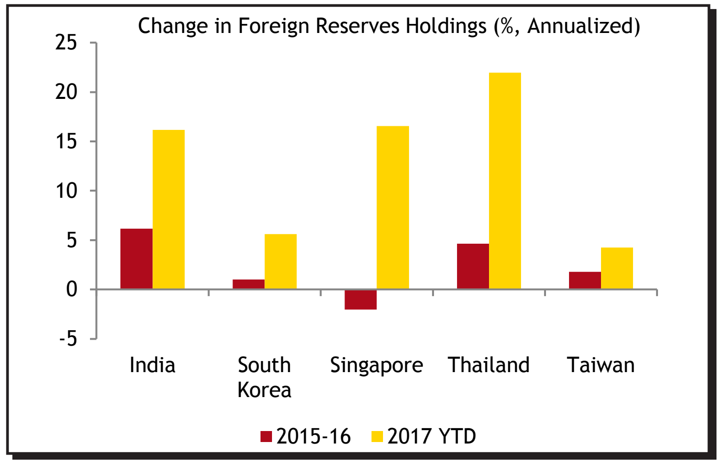
Currency Currents

Andrew Grantham and Royce Mendes

USD Gets Some Foreign Support

Dollar bulls have had a rough ride in 2017, but things could actually have been worse. The greenback's depreciation was softened by Asian central bank purchases. So far this year, China, India, Korea, Singapore and Taiwan have all tried to combat the dollar's weakness by increasing the pace of foreign reserve accumulation, in some cases substantially. The intervention shows how significant a headwind currency strength is to exports in those countries. It also supports our view that further US dollar depreciation against Asian currencies will be gradual, especially if a Fed rate hike occurs before year-end.

Asian Central Banks Have Increased FX Reserves

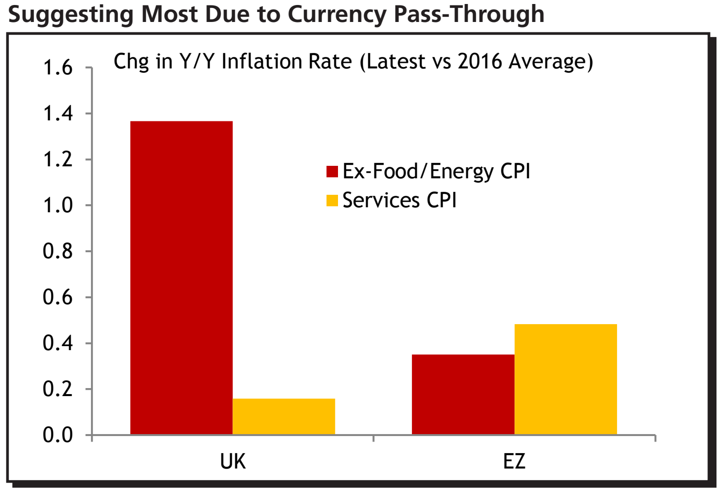


Source: Bloomberg, CIBC

Sterling Stirs; EURGBP Shouldn't be Shaken For Long

The British pound was given a boost this week from higher than expected inflation figures and a more hawkish tone from the Bank of England. However, we would be wary of extrapolating that appreciation of sterling, particularly against the euro. Most of the increase in UK inflation, even ex-food and energy, appears to be linked to import inflation thanks to the prior weakening of the currency. Domestically driven services inflation is generally the same as where it was last year, showing no signs of slack been reduced. In contrast, services inflation has risen more than ex-food/energy in Europe. That, combined with previous false-starts by the BoE, still have us believing the ECB will reduce stimulus (taper QE) before the MPC hikes rates. That should see EURGBP rise again before year-end.

UK Ex-Food/Energy Inflation Has Strengthened, But Not Services Suggesting Most Due to Currency Pass-Through

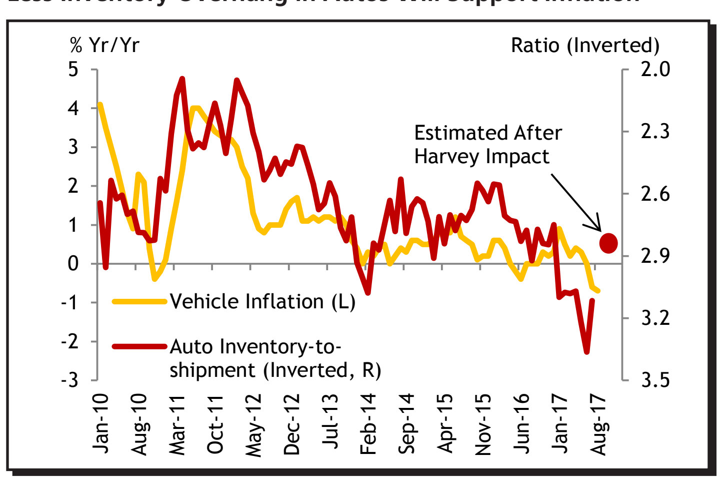


Source: ONS, Eurostat, CIBC

US Inflation Could Get Another Boost From Harvey

This week's inflation data in the US were certainly flattered by the temporary impact of Hurricane Harvey on energy prices and, by extension, transportation services. However, there could be another lift to inflation coming as well. Prices of motor vehicles have weakened since the start of the year, in large part thanks to a large overhang in inventory. However, some of that inventory was washed away by the storm waters, while demand in upcoming months will be higher as households look to replace whatever was lost. As discussed on the cover, that doesn't mean the Hurricane was good for the US economy. However, it could certainly support inflation numbers and by extension the US$.

Less Inventory Overhang in Autos Will Support Inflation



Source: Wards, BLS, Haver, CIBC

CANADIAN RELEASE AND EVENT DATES
September/October 2017

MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY

11

HOUSING STARTS

8:15 AM	000's (AR) TOTAL	SINGLES
JUN	213	67
JUL	222	64
AUG	223	62

12

13

14

CANADA'S INTERNATIONAL INVESTMENT POSITION
8:30 AM

NEW HOUSING PRICE INDEX
8:30 AM

15

18

INT'L TRANSACTIONS IN SECURITIES C$BN, NET
8:30 AM

	BONDS	MONEY MARKET	STOCKS	TOT
MAY	20.8	1.4	7.2	29.4
JUN	-2.6	-0.1	1.7	-0.9
JUL				

19

SURVEY OF MANUFACTURING

8:30 AM	SHIPMENTS M	Y
MAY	1.3	9.4
JUN	-1.8	6.2
JUL		

20

21

WHOLESALE TRADE
8:30 AM

22

CPI

8:30 AM	M	Y
JUN	-0.1	1.0
JUL	0.0	1.2
AUG		

RETAIL TRADE

8:30 AM	(Current$) M	Y
MAY	0.5	7.3
JUN	0.1	7.3
JUL		

25

26

Nova Scotia Provincial Budget

27

Bank of Canada Governor Poloz speaks in Newfoundland & Labrador @ 11:45 AM ET

Press Conference @ 12:55 PM ET

28

PAYROLL EMPLOYMENT, EARNINGS & HOURS
8:30 AM

29

GDP BY INDUSTRY

8:30 AM	(2002$) GDP M	IND.PROD. M
MAY	0.6	2.4
JUN	0.3	0.0
JUL		

INDUSTRIAL PRICES

8:30 AM	M (NSA)	Y
JUN	-1.1	3.1
JUL	-1.5	1.3
AUG		

2

3

4

INTERNATIONAL RESERVES

8:15 AM	$BN CHANGE	$BN LEVEL
JUL	0.322	84.9
AUG	0.155	85.1
SEP		

5

MERCHANDISE TRADE

8:30 AM	$MN	12 MO. BALANCE
JUN	-3,764	-16,083
JUL	-3,040	-16,948
AUG		

6

LABOUR FORCE SURVEY
8:30 AM

	EMPLOY (HSHOLD) M	Y	UNEMP RATE %	AVG HRLY EARN Y
JUL	0.1	2.1	6.3	1.2
AUG	0.1	2.1	6.2	1.7
SEP				

9

THANKSGIVING DAY (HOLIDAY) (MarketS Closed)

10

HOUSING STARTS

8:15 AM	000's (AR) TOTAL	SINGLES
JUN	213	67
JUL	222	64
AUG	223	62

BUILDING PERMITS ($)

8:30 AM	M (RES)	M (NON-RES)
JUN	0.5	11.6
JUL	-2.2	-5.7
AUG		

11

12

NEW HOUSING PRICE INDEX
8:30 AM

13

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets Inc. Dates are subject to change. Sources for historical data: Statistics Canada, CMHC, Human Resources Development Canada and the Bank of Canada.

U.S. RELEASE AND EVENT DATES
September/October 2017

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY

11 (Monday)
3-Yr NOTE AUCTION

12 (Tuesday)
10-Yr NOTE AUCTION
BOT (9:00) REDBOOK (8:55)

13 (Wednesday)
PPI

8:30 AM	M (SA)	Y (NSA)
JUN	0.1	2.0
JUL	-0.1	2.0
AUG	0.2	2.4

TREASURY BUDGET
2:00 PM

30-Yr BOND AUCTION

14 (Thursday)
CPI

8:30 AM	M(SA)	Y (NSA)
JUN	1.6	3.7
JUL	1.7	4.2
AUG	1.9	5.1

INITIAL JOBLESS CLAIMS (8:30)

15 (Friday)
RETAIL SALES

8:30 AM	M	Y
JUN	-0.1	3.0
JUL	0.3	3.5
AUG	-0.2	3.2

CAPACITY UTIL/IND. PROD.

9:15 AM	LEV	M	Y
JUN	76.7	0.2	2.1
JUL	76.9	0.4	2.4
AUG	76.1	-0.9	1.6

BUSINESS INVENTORIES
10:00 AM

MICHIGAN SENTIMENT (P)
10:00 AM

3, 10-Yr NOTE SETTLEMENT
30-Yr BOND SETTLEMENT

18 (Monday)
NET CAPITAL INFLOWS TICS
4:00 PM

19 (Tuesday)
HOUSING STARTS

8:30 AM	Mn.	M/M
JUN	1.213	7.4
JUL	1.155	-4.8
AUG		

CURRENT ACCOUNT BAL.
8:30 AM

BOT (9:00) REDBOOK (8:55)

20 (Wednesday)
EXISTING HOME SALES
10:00 AM

FOMC Rate Decision

Fed Chair Yellen speaks @ 2:30 PM ET

21 (Thursday)
PHILADELPHIA FED INDEX
8:30 AM

LEADING INDICATOR
10:00 AM

2-. 5-. 7-Yr NOTE ANNOUNCE.
INITIAL JOBLESS CLAIMS (8:30)

22 (Friday)

25 (Monday)

26 (Tuesday)
S&P/CASE-SHILLER HOUSE PRICE INDEX
9:00 AM

CONSUMER CONFIDENCE
10:00 AM

NEW HOME SALES
10:00 AM

Fed Chair Yellen speaks @11:50 AM ET

2-Yr NOTE AUCTION
BOT (9:00) REDBOOK (8:55)

27 (Wednesday)
DURABLE GOODS ORDERS

8:30 AM	M	Y
JUN	6.4	16.2
JUL	-6.8	4.6
AUG		

5-Yr NOTE AUCTION

28 (Thursday)
GDP

8:30 AM (AR)	REAL GDP	IMPLICIT DEFLATOR
17:Q2(A)	2.6	1.0
17:Q2(P)	3.0	1.0
17:Q2(F)		

ADV. TRADE IN INTERNATIONAL GOODS
8:30 AM

CORPORATE PROFITS
8:30 AM

7-Yr NOTE AUCTION
INITIAL JOBLESS CLAIMS (8:30)

29 (Friday)
PERS. INC & OUT.

8:30 AM	INCOME M	CONS M	SAVING RATE AR
JUN	0.0	0.2	3.6
JUL	0.4	0.3	3.5
AUG			

CHICAGO PMI
9:45 AM

MICHIGAN SENTIMENT (F)
10:00 AM

2 (Monday)
ISM MFG SURVEY

10:00 AM	COMP. INDEX	PRICES INDEX
JUL	56.3	62.0
AUG	58.8	62.0
SEP		

2, 5-, 7-Yr NOTE SETTLEMENT

3 (Tuesday)
LIGHT VEHICLES

	SALES MIL (AR)	Y
JUL	16.699	-5.9
AUG	16,034	-6.4
SEP		

BOT (9:00) REDBOOK (8:55)

4 (Wednesday)
ADP SURVEY
8:15 AM

ISM NON-MFG SURVEY
10:00 AM

Fed Chair Yellen speaks @ 2:15 PM ET

5 (Thursday)
GOODS & SERV. BALANCE (BOP) $B

8:30 AM	GDS	SERV	TOT
JUN	-65.4	21.8	-43.5
JUL	-65.3	21.6	-43.7
AUG			

FACTORY ORDERS

10:00 AM	M(SA)	Y(NSA)
JUN	3.2	10.0
JUL	-3.3	4.9
AUG		

3, 10-Yr NOTE ANNOUNCEMENT
30-Yr BOND ANNOUNCEMENT
INITIAL JOBLESS CLAIMS (8:30)

6 (Friday)
EMPLOY. SITUATION

8:30 AM	NON-FARM PAYROLL	CIV UNEMP RATE	AVG HRLY EARN
JUL	189	4.3	2.3
AUG	156	4.4	2.3
SEP			

WHOLESALE TRADE
10:00 AM

CONSUMER CREDIT
3:00 PM

9 (Monday)
COLUMBUS DAY (HOLIDAY) (Treasury Markets Closed)

10 (Tuesday)
BOT (9:00) REDBOOK (8:55)

11 (Wednesday)
FOMC Minutes

3, 10-Yr NOTE AUCTION

12 (Thursday)
PPI

8:30 AM	M (SA)	Y (NSA)
JUL	-0.1	2.0
AUG	0.2	2.4
SEP		

TREASURY BUDGET
2:00 PM

30-Yr BOND AUCTION

INITIAL JOBLESS CLAIMS (8:30)

13 (Friday)
CPI

8:30 AM	M(SA)	Y (NSA)
JUL	1.7	4.2
AUG	1.9	5.1
SEP		

RETAIL SALES

8:30 AM	M	Y
JUL	0.3	3.5
AUG	-0.2	3.2
SEP		

BUSINESS INVENTORIES
10:00 AM

MICHIGAN SENTIMENT (P)
10:00 AM

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