Economics

Avery Shenfeld
(416) 594-7356
avery.shenfeld@cibc.com

Benjamin Tal
(416) 956-3698
benjamin.tal@cibc.com

Andrew Grantham
(416) 956-3219
andrew.grantham@cibc.com

Royce Mendes
(416) 594-7354
royce.mendes@cibc.com

Katherine Judge
(416) 956-6527
katherine.judge@cibc.com

Taylor Rochwerg
(416) 594-7355
taylor.rochwerg@cibc.com

http://economics.cibccm.com

The Economics Bookie

by Avery Shenfeld

In times like these, we can't give an outlook presentation without someone asking what seems like a simple question: what odds would you put on a recession in the next two years? But we're not in the business of taking bets on economic outcomes, and nor is there a market for GDP growth futures.

Fundamentally, it's not clear that the question has real meaning. If the answer is 20%, are we saying that if we were to replay 2019-20 five times, in one of those there would be a recession? That's not the way time works, other than in some sci-fi movies.

Or is it saying that the last ten times the economy looked like it now does, two of them led to recessions? But economic situations are like snowflakes, no two are exactly the same. We can't look back at periods in which China was in a trade war and Canadians had this much debt.

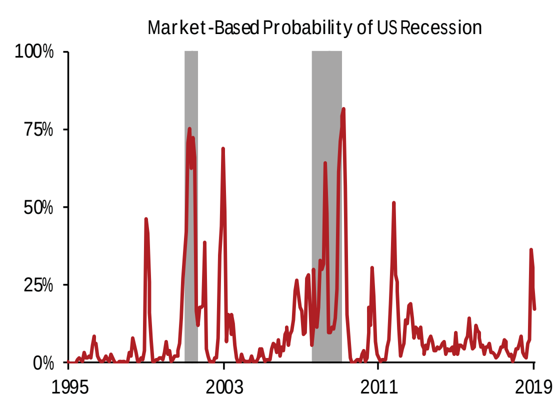
There are however a few ways to think about this issue. First, for investors, its important to know what is built into the markets' expectations. That's a key starting point for coming to your own view over whether what's priced in is too optimistic or too gloomy, and if so, what asset classes might be too rich or cheap.

On that score, we looked at three purely market measures that correlate with recessions: the slope of the yield curve (between two year US Treasuries and three month bills), the 6-month change in the S&P 500, and the 10-year corporate spread, all lagged six months.

For now, despite all the headlines about curve inversions, its clear that taken as a whole, markets are not assuming a recession is coming within a half year or so (Chart). Equities have done too well, and corporate spreads are too narrow, to capture that sort of worry. So escaping the clutches of recession won't in itself be bullish for stocks. That's particularly true since the bond market is pricing in some Fed rate cuts that would be of benefit to interest-sensitive equities.

The other way to think about recession odds is to look at the factors that could tip us into one, and score those probabilities. The recent news on some of those fronts has been encouraging. Central banks in the US, Europe and Canada are talking less hawkishly, and Chinese monetary policy is easing through a lower reserve ratio. That takes out one recession trigger – an excessive tightening in borrowing conditions.

China and the US are supposedly making some progress on trade talks. The Brexit deadline could be pushed off, giving more room to come to a better outcome. So if you can actually define a quantitative measure for a recession probability, whatever the odds were a couple of months ago, they're likely lower today. Just not as low as we would like.



Week Ahead Calendar And Forecast

CANADA

Day	Event	Period	Sig.	CIBC	Consensus	Prior
Monday April 8	**8:15 AM**					
	HOUSING STARTS SAAR	(Mar)	(M)	**198K**	194K	173K
	8:30 AM					
	BUILDING PERMITS M/M	(Feb)	(M)			-5.5%
Tuesday April 9	**CASH MANAGEMENT BUYBACK (Aug'19 - Sep'20) - $0.5B**					
Wednesday April 10	**AUCTION: 2-YR CANADAS $3B**					
Thursday April 11	**8:30 AM**					
	NEW HOUSING PRICES M/M	(Feb)	(L)			-0.1%
	ONTARIO BUDGET					
Friday April 12						

UNITED STATES

Day	Event	Period	Sig.	CIBC	Consensus	Prior
Monday April 8	**AUCTION: 3-M BILLS $45B, 6-M BILLS $39B**					
	10:00 AM					
	FACTORY ORDERS M/M	(Feb)	(M)	**-0.5%**	-0.5%	0.1%
Tuesday April 9	**AUCTION: 3-YR $38B**					
	Speaker: 6:45 PM Richard Clarida (Vice Chairman)					
Wednesday April 10	**AUCTION: 10-YR $24B**					
	7:00 AM					
	MBA-APPLICATIONS	(Apr 5)	(L)			18.6%
	8:30 PM					
	CPI M/M	(Mar)	(H)	**0.4%**	0.3%	0.2%
	CPI M/M (core)	(Mar)	(H)	**0.2%**	0.2%	0.1%
	CPI Y/Y	(Mar)	(H)	**1.9%**	1.8%	1.5%
	CPI Y/Y (core)	(Mar)	(H)	**2.1%**	2.1%	2.1%
	2:00 PM					
	TREASURY BUDGET	(Mar)	(L)			-$234.0B
	2:00 PM					
	Minutes of Mar 20th FOMC Meeting					
Thursday April 11	**30-YR AUCTION: $16B**					
	8:30 AM					
	INITIAL CLAIMS	(Apr 6)	(M)			202K
	CONTINUING CLAIMS	(Mar 30)	(L)			1717K
	PPI M/M	(Mar)	(M)		0.3%	0.1%
	PPI M/M (core)	(Mar)	(M)		0.2%	0.1%
	PPI Y/Y	(Mar)	(M)			1.9%
	PPI Y/Y (core)	(Mar)	(M)			2.5%
	Speaker: 9:30 AM Richard Clarida (Vice Chairman)					
	Speaker: 9:40 AM James Bullard (President, St Louis)					
	Speaker: 11:50 AM Randal K. Quarles (Governor)					
	Speaker: 2:00 PM Neel Kashkari (President, Minneapolis)					
	Speaker: 4:00 PM Michelle Bowman (Governor)					
Friday April 12	**8:30 AM**					
	IMPORT PRICE INDEX M/M	(Mar)	(L)		0.4%	0.6%
	EXPORT PRICE INDEX M/M	(Mar)	(L)			0.6%
	10:00 AM					
	MICHIGAN CONSUMER SENTIMENT	(Apr P)	(H)		98.0	98.4

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

Week Ahead's Market Call

by Avery Shenfeld

In the US, inflation data would be taking centre stage if not for the fact that core measures aren't moving much these days. While we are a tick above consensus for the headline figure, with core CPI likely to stay put at 2.1%, it's not likely to mean much for markets. The Fed Vice Chair Richard Clarida has two speaking engagements, and we view him as the economic thought leader at the central bank these days, so stay tuned.

In Canada, the largest province, Ontario, will deliver what promises to be a deficit cutting budget that focused on spending restraint. Housing starts delayed by adverse weather in February could help spark a rebound in the March tally. Otherwise, it's a quiet week ahead for economic news.

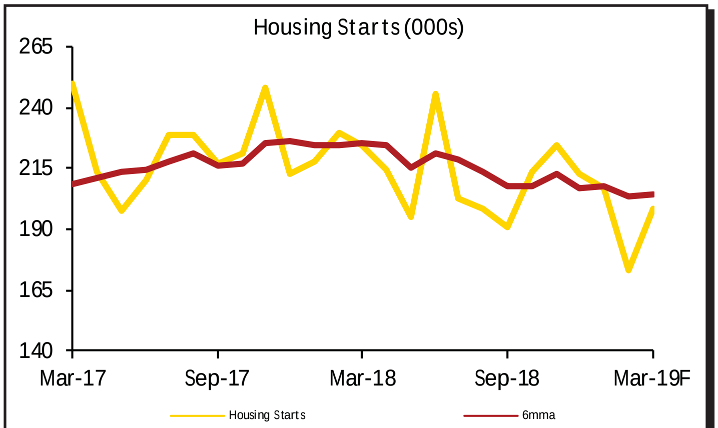
Week Ahead's Key Canadian Number:

Housing Starts—March

(Monday, 8:15 a.m.)

Andrew Grantham (416) 956-3219

	CIBC	Mkt	Prior
Housing Starts	198K	194K	173K



Source: CMHC, CIBC

Housing starts fell sharply in February, although we doubt that was a sign of a complete crumbling in sentiment among homebuilders. Colder weather relative to seasonal norms could have prevented ground being broken on some projects, and these figures often display greater volatility during the winter months. Add in the upturn in recent building permit figures, and we could be in for a rebound in terms of housing starts. We expect a 198K pace, well above the rate seen last month although still slightly below the six-month average.

Forecast Implications - Housing starts are unlikely to reach the heights seen throughout much of 2017 and 2018, making residential construction a negative for GDP. However, strong population growth will still underpin a relatively robust pace of building activity, even if the rise in interest rates seen in the last couple of years results in an even greater leaning towards condos and rental units rather than single family homes.

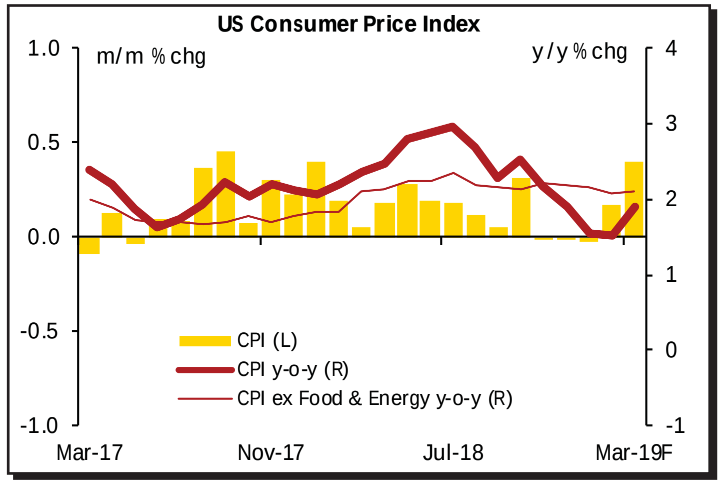
Week Ahead's Key US Number:

CPI — March

(Wednesday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
Headline CPI m/m	0.4%	0.3%	0.2%
Headline CPI y/y	1.9%	1.8%	1.5%
Core CPI m/m	0.2%	0.2%	0.1%
Core CPI y/y	2.1%	2.1%	2.1%



With the fall in gasoline prices that started in the summer of 2018 now in the rear view mirror, headline inflation should have gotten a sizeable boost in March. A rise to 1.9% will be the hottest inflation reading seen since December, but a stabilization in the price of oil should restrain further upside momentum in price pressures in the coming months.

After a surprisingly soft February driven by a fall in auto prices and medical goods, core price pressures should have advanced by a trend-like 0.2% in March. That will leave core inflation at an underwhelming 2.1%.

Forecast Implications - With the link between higher wages and inflation more subdued now relative to previous economic cycles, the Fed should remain comfortably on the sidelines this year. Indeed, core PCE price pressures should have remained a few ticks below the Fed's 2% target in March.

Market Impact - We are a touch above consensus on headline price pressures, but we would need to see a surprise in core inflation for markets to take much note.

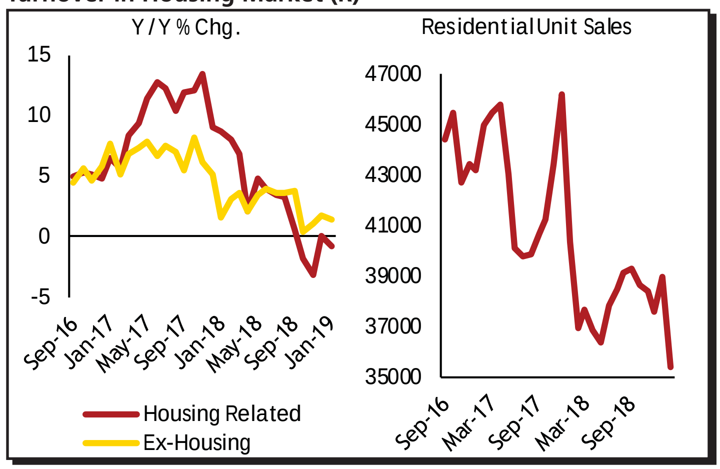
Equity Insights

Katherine Judge and Taylor Rochwerg

Canadian Retailers Feel Housing Market Woes

Total retail sales in Canada have cooled along with higher interest rates and the added negative impact of the B20 provisions on housing market activity continues to dent sales of housing-related goods. Growth in furniture, appliance and building material sales has been in negative territory since November 2018, compared to other retail sales components that are experiencing a milder slowdown. Lower turnover in the resale market, which plummeted in February, is largely to blame. And as the effects of past-interest rate hikes continue to materialize in the economy and job growth slows, housing-exposed retailers will likely remain under pressure.

Decline in Housing-Related Retail Trade (L), Reflects Low Turnover in Housing Market (R)

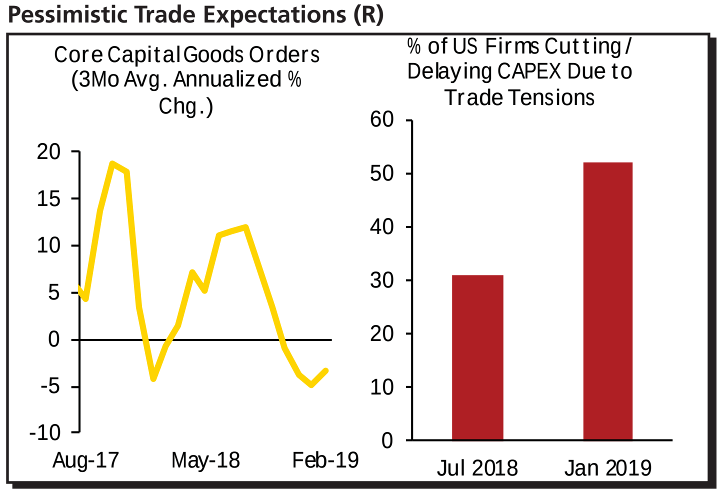


Source: Haver Analytics, CIBC

US Firms Overly Negative on Trade Prospects

Business investment stateside perked back up again at the end of 2018, helped by progress on trade talks. Headway on the China-US trade front more recently has also been a factor in preventing US industrial stock gains from deteriorating, even as forward-looking business investment indicators have soured. Still, US businesses could be too pessimistic on trade prospects. The share of US firms reporting that they plan to delay or cut capital expenditures due to trade tensions has risen notably since mid-2018. If there's progress on trade talks, and still-solid domestic demand in the US, business investment could pick back up again in H2 2019.

Investment Indicator Downswing (L) Could Reflect Overly Pessimistic Trade Expectations (R)

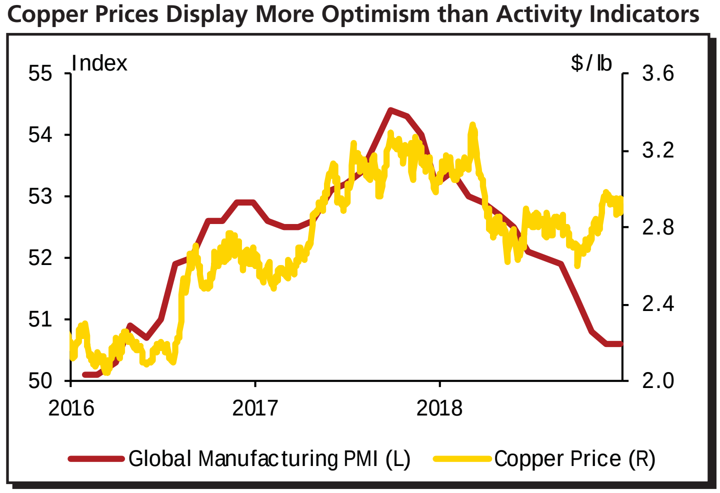


Source: Atlanta Fed, Haver Analytics, CIBC

Global Growth Revival Hopes Lift Copper Prices

If only on one PMI reading, the Chinese factory sector appears to be on more solid footing after a bumpy 2018 that was dented by trade tensions, and investors may have taken that as a signal of what's to come globally. The price of copper, which closely tracks global manufacturing activity, has already seen a healthy dose of optimism injected into it, even as measures of manufacturing activity outside of China remain subdued. So if there is a global growth upswing in the cards for H2 2019, the benefits might be greater for downstream industrial equities.

Copper Prices Display More Optimism than Activity Indicators



Source: Bloomberg, CIBC

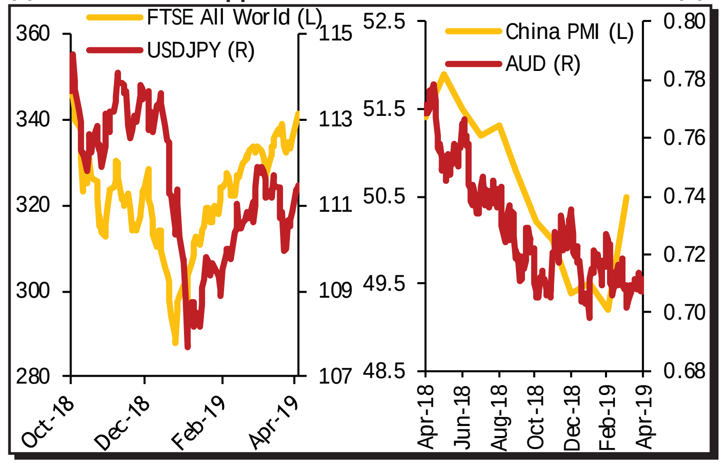
Currency Currents

Andrew Grantham

FX Rewards From Improved Risk Sentiment?

Global growth and risk sentiment is starting to improve a little, particularly after the pick-up in China's PMI earlier this week, however this doesn't appear to have played out as strongly in FX markets. That could create some short-term opportunities particularly if sentiment continues to rise. Relative to the pick-up in global equities, the yen hasn't weakened back to its end 2018 levels. Meanwhile, the Aussie dollar hasn't responded much to the apparent re-acceleration in Chinese growth.

Yen Still Stronger than End-2018 Even as Equities Rebounded (L), Aussie Hasn't Appreciated on Better Chinese Indicators (R)



Source: Bloomberg, CIBC

The Wider Risk From Canada-China Trade Relations

Last week we looked at the potential impact on trade from China's canola bans on major Canadian exporters. While we don't expect trade tensions to widen, it's worth reminding ourselves how important China has become for Canadian trade more generally just in case other sectors do become impacted. While still low at 5% of the current export basket, China has represented 15% of all growth in Canadian exports since 2007 and all of the diversification of trade away from the US. As such, if trade tensions do heat up, the Canadian dollar would track a weaker course and put some pressure on our call for a near-term (but short-lived) appreciation.

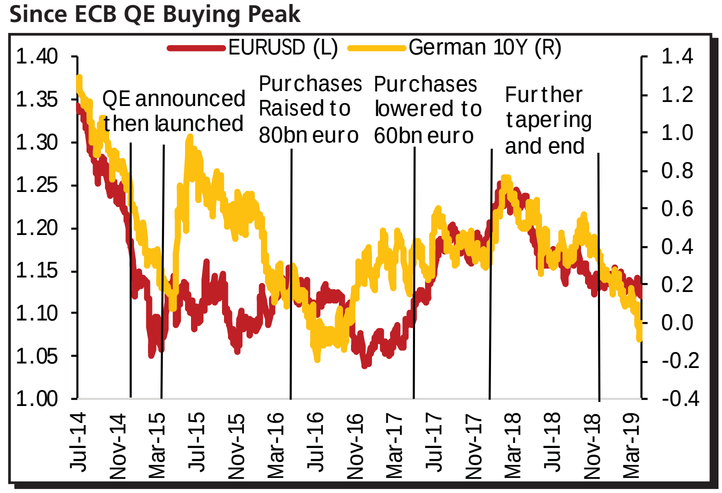
Diversification of Cdn Trade Away From US Taken up By China (L), Making China a Key Source of Export Growth Since 2007 (R)

Source: Statistics Canada, CIBC

Traders Placing Early Bets on More ECB QE?

The German 10 year bond yield and the euro have been trading close to rates not seen since the height of ECB QE purchases between April 2016 and March 2017. Yet while admittedly the economic data haven't looked good recently, they aren't as yet pointing to something weak enough to warrant the re-starting of asset purchases. As such, even just a stabilization of growth at these lower levels would see such bets being pared and lead to a modest appreciation of the euro.

German Bond Yields and Euro At or Near Levels Not Seen Since ECB QE Buying Peak



Source: ECB, Bloomberg, CIBC

CANADIAN RELEASE AND EVENT DATES
April/May 2019

MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY

Monday 1
Bank of Canada Governor Poloz speaks at 3:10 PM ET

Tuesday 2

Wednesday 3

Thursday 4
IVEY PURCHASING MANAGERS' INDEX
10:00 AM

Friday 5
LABOUR FORCE SURVEY
8:30 AM

	EMPLOY (HSHOLD) M	EMPLOY (HSHOLD) Y	UNEMP RATE %	AVG HRLY EARN Y
JAN	0.0	1.1	5.6	1.5
FEB	0.4	1.8	5.8	1.8
MAR	0.3	2.0	5.8	2.2

Monday 8
HOUSING STARTS
8:15 AM 000's (AR)

	TOTAL	SINGLES
JAN	206	45
FEB	173	39
MAR		

BUILDING PERMITS ($)
8:30 AM

	M (RES)	M (NON-RES)
DEC	3.8	10.5
JAN	1.6	-15.8
FEB		

Tuesday 9

Wednesday 10

Thursday 11
NEW HOUSING PRICE INDEX
8:30 AM

ONTARIO BUDGET

Friday 12

Monday 15
Bank of Canada Business Outlook Survey

Tuesday 16
SURVEY OF MANUFACTURING
8:30 AM SHIPMENTS

	M	Y
DEC	-1.1	1.0
JAN	1.0	4.4
FEB		

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

	BONDS	MONEY MARKET	STOCKS	TOT
DEC	-24.9	-0.8	5.2	-20.5
JAN	14.3	5.1	9.0	28.4
FEB				

Wednesday 17
CPI
8:30 AM

	M	Y
JAN	0.1	1.4
FEB	0.7	1.5
MAR		

MERCHANDISE TRADE
8:30 AM

	$MN	12 MO. BALANCE
DEC	-4823	-23,570
JAN	-4246	-25,583
FEB		

Thursday 18
RETAIL TRADE
8:30 AM (Current$)

	M	Y
DEC	-0.3	1.5
JAN	0.5	1.1
FEB		

ADP EMPLOYMENT SURVEY
8:30 AM

Friday 19
GOOD FRIDAY (HOLIDAY) (Markets Closed)

Monday 22

Tuesday 23
WHOLESALE TRADE
8:30 AM

Wednesday 24
Bank of Canada Interest Rate Announcement

Bank of Canada Monetary Policy Report

Thursday 25
PAYROLL EMPLOYMENT, EARNINGS & HOURS
8:30 AM

Friday 26

Monday 29

Tuesday 30
GDP BY INDUSTRY
8:30 AM (2002$)

	GDP M	IND.PROD. M
DEC	-0.1	-0.8
JAN	0.3	0.6
FEB		

INDUSTRIAL PRICES
8:30 AM

	M (NSA)	Y
JAN	-0.3	1.0
FEB	0.3	1.2
MAR		

Wednesday 1
QUARTERLY FINANCIAL STATISTICS
8:30 AM

Thursday 2

Friday 3

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
April/May 2019

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 **RETAIL SALES** 8:30 AM M Y DEC -1.6 1.6 JAN 0.7 2.8 FEB -0.2 2.2 **ISM MFG SURVEY** 10:00 AM COMP. INDEX PRICES INDEX JAN 56.6 49.6 FEB 54.2 49.4 MAR 55.3 54.3 **BUSINESS INVENTORIES** 10:00 AM *2, 5, 7-Yr NOTE SETTLEMENT*	2 **DURABLE GOODS ORDERS** 8:30 AM M Y DEC -1.6 1.6 JAN 0.7 2.8 FEB -0.2 2.2 **LIGHT VEHICLES** 8:30 PM SALES MIL (AR) Y JAN 16.7 -2.6 FEB 16.5 -2.3 MAR 17.5 1.4 *BOT (9:00) REDBOOK (8:55)*	3 **ADP SURVEY** 8:15 AM **ISM NON-MFG SURVEY** 10:00 AM	4 *3, 10-Yr NOTE ANNOUNCEMENT* *30-Yr BOND ANNOUNCEMENT* *INITIAL JOBLESS CLAIMS (8:30)*	5 **EMPLOY. SITUATION** 8:30 AM NON-FARM PAYROLL / CIV UNEMP RATE / AVG HRLY EARN JAN 312 4.0 3.4 FEB 152 3.8 3.5 MAR 175 3.8 3.3 **CONSUMER CREDIT** 3:00PM
8 **FACTORY ORDERS** 10:00 AM M(SA) Y(NSA) DEC 0.1 2.4 JAN 0.1 4.2 FEB	9 *3-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	10 **CPI** 8:30 AM M(SA) Y (NSA) JAN 0.0 1.6 FEB 0.2 1.5 MAR **TREASURY BUDGET** 2:00 PM **FOMC Minutes** *10-Yr NOTE AUCTION*	11 **PPI** 8:30 AM M (SA) Y (NSA) JAN -0.1 2.0 FEB 0.1 1.8 MAR *INITIAL JOBLESS CLAIMS (8:30)* *5-Yr NOTE AUCTION* *30-Yr BOND AUCTION*	12 **MICHIGAN SENTIMENT (P)** 10:00 AM
15 **NET CAPITAL INFLOWS TICS** 4:00 PM *3, 10-Yr NOTE SETTLEMENT*	16 **CAPACITY UTIL / IND. PROD.** 9:15 AM LEV M Y JAN 78.3 -0.4 0.0 FEB 78.2 0.1 0.0 MAR *BOT (9:00) REDBOOK (8:55)*	17 **GOODS & SERV. BALANCE (BOP) $B** 8:30 AM GDS SERV TOT DEC -81.5 21.6 -59.9 JAN -73.3 22.1 -51.2 FEB **WHOLESALE TRADE** 10:00 AM **Beige Book**	18 **PHILADELPHIA FED INDEX** 8:30 AM **RETAIL SALES** 8:30 AM M Y JAN 0.7 2.8 FEB -0.2 2.2 MAR **LEADING INDICATOR** 10:00 AM **BUSINESS INVENTORIES** 10:00 AM *INITIAL JOBLESS CLAIMS (8:30)* *2, 5, 7-Yr NOTE ANNOUNCEMENT*	19 **HOUSING STARTS** 8:30 AM Mn. M/M JAN 1.273 11.7 FEB 1.162 -8.7 MAR **GOOD FRIDAY (HOLIDAY) (Markets Closed)**
22 **EXISTING HOME SALES** 10:00 AM	23 **NEW HOME SALES** 10:00 AM *BOT (9:00) REDBOOK (8:55)* *2-Yr NOTE AUCTION*	24 *5-Yr NOTE AUCTION*	25 **DURABLE GOODS ORDERS** 8:30 AM M Y JAN 0.4 8.4 FEB MAR *7-Yr NOTE AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	26 **GDP** 8:30 AM (AR) REAL GDP / IMPLICIT DEFLATOR 18:Q3(A) 3.4 1.8 18:Q4(A) 2.2 1.8 19:Q1(F) **MICHIGAN SENTIMENT (F)** 10:00 AM
29 **PERS. INC & OUT.** 8:30 AM INCOME M / CONS M / SAVING RATE AR JAN -0.1 0.1 7.5 FEB MAR	30 **S&P / CASE-SHILLER HOUSE PRICE INDEX** 9:00 AM **CHICAGO PMI** 9:45 AM **CONSUMER CONFIDENCE** 10:00 AM *BOT (9:00) REDBOOK (8:55)*	1 **ADP SURVEY** 8:15 AM **ISM MFG SURVEY** 10:00 AM COMP. INDEX PRICES INDEX FEB 54.2 49.4 MAR 55.3 54.3 APR **LIGHT VEHICLES** 8:30 PM SALES MIL (AR) Y FEB 16.5 -2.3 MAR 17.5 1.4 APR **FOMC Rate Decision** **Fed Chair Powell speaks @ 2:30 PM ET** *3, 10-Yr NOTE ANNOUNCEMENT* *30-Yr BOND ANNOUNCEMENT*	2 **FACTORY ORDERS** 10:00 AM M(SA) Y(NSA) JAN 0.1 4.2 FEB MAR *INITIAL JOBLESS CLAIMS (8:30)*	3 **EMPLOY. SITUATION** 8:30 AM NON-FARM PAYROLL / CIV UNEMP RATE / AVG HRLY EARN FEB 152 3.8 3.5 MAR 175 3.8 3.3 APR **ADV. TRADE IN INTERNATIONAL GOODS** 8:30 AM **ISM NON-MFG SURVEY** 10:00 AM

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: U.S. Department of Commerce, U.S. Department of Labor and U.S. Federal Reserve Board.