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CAPEX Will Not Save the Day – Not Today or Tomorrow

by Benjamin Tal

The Bank of Canada hasn't given up on corporate Canada yet, but made it clear that it can no longer wait for Canada's CEOs to save the day. Mr. Poloz is now admitting that the big rotation from housing and consumption to exports and investment is not happening yet. That vacuum of economic leadership is what's behind the Bank's dramatic downgrade of its 2019 growth projection. After all, it's rare that the Bank's official forecast is so much lower than the consensus held by the market. Still, despite the pessimism, deep down, the Bank is still hoping that capital spending will return and lift the economy to heights that justify further rate hikes.

But a quick glance at the situation south of the border might convince the Governor that that's nothing more than wishful thinking. On the surface, capex in the US appears to be strong compared to 2017 and 2016. But relative to its long-term trajectory, current capital spending is... OK.

But OK is not good enough. Not when corporate America is facing near ideal conditions to increase spending. Trump's tax cut significantly contributed to lifting profitability. Gross profit rose by a cumulative 11% in the past two years, but after-tax profits rose twice as fast. Consequently, cash flow has risen by a dazzling 32% in 2018 - the strongest showing in 70 years. As a share of assets, cash flow now stands at 2% - a record-high and double the rate seen in the beginning of the decade. Add to it the massive borrowing undertaken by corporate America over the past two years and you would expect CAPEX to be more than OK.

But that cash is not being used to boost investment. In 2010, CAPEX accounted for 50% of corporate assets. Today, it accounts for less than 35%. In today's environment, the vast majority of cash flow contributes to payouts (dividends/buybacks) and M&A. It seems that American executives are willing to do almost anything else with their mountain of cash…except investing.

The question is why? And there is no shortage of excuses. Maybe technology-focused investment means more productivity per dollar spent? Maybe the opposite is happening, and at the margin, the return on innovation is diminishing? Maybe there are not enough opportunities to make money given demographically-induced slowing in potential growth? Maybe it's all about increased concentration of economic power in the hands of relatively few corporations, that reduces the need/motivation to invest. Or it might be simply short-term thinking, where quick fixes aimed at boosting share prices dominate corporate decisions. And in all likelihood, it's a combination of all of the above.

None of those factors are temporary in nature. They will continue to dominate cash flow allocation and keep capex at bay. And with US corporate profit expectations for 2019 being downgraded on a daily basis, it's reasonable to suggest that growth in US capex has already reached its peak for this cycle.

The message to Mr. Poloz is clear: CAPEX is not just late, it might not show up at all.

Week Ahead Calendar And Forecast

CANADA

Day	Event	Period	Significance	CIBC	Consensus	Prior
Monday April 29						
Tuesday April 30	**AUCTION: 3-M BILLS $6.8B, 6-M BILLS $2.6B, 1-YR BILLS $2.6B**					
	CASH MANAGEMENT BUYBACK (Aug'19 - Sep'20) - $0.5B					
	8:30 AM					
	GDP M/M	(Feb)	(H)	**0.1%**	0.0%	0.3%
	INDUSTRIAL PROD. PRICES M/M	(Mar)	(M)			0.3%
	RAW MATERIALS M/M	(Mar)	(M)			4.6%
Wednesday May 1	**8:30 AM**					
	LEADING INDICATORS M/M	(Mar)	(L)			0.0%
Thursday May 2	**AUCTION: 2-YR CANADAS $3B**					
Friday May 3						

UNITED STATES

Day	Event	Period	Significance	CIBC	Consensus	Prior
Monday April 29	**AUCTION: 3-M BILLS $39B, 6-M BILLS $36B**					
	8:30 AM					
	PCE DEFLATOR Y/Y	(Mar)	(H)	**1.6%**	1.7%	1.4%
	PCE DEFLATOR Y/Y (core)	(Mar)	(H)	**1.6%**	1.7%	1.8%
	PERSONAL INCOME M/M	(Mar)	(H)	**0.4%**	0.4%	0.2%
	PERSONAL SPENDING M/M	(Mar)	(H)	**0.7%**	0.7%	0.1%
Tuesday April 30	**9:00 AM**					
	S&P CORELOGIC CS INDEX	(Feb)	(H)			212.4
	S&P CORELOGIC CS Y/Y	(Feb)	(H)			3.6%
	9:45 AM					
	CHICAGO PMI	(Apr)	(M)		59	58.7
	10:00 AM					
	PENDING HOME SALES M/M	(Mar)	(M)		1.0%	-1.0%
Wednesday May 1	**7:00 AM**					
	MBA-APPLICATIONS	(Apr 26)	(L)			-7.3%
	8:15 AM					
	ADP EMPLOYMENT CHANGE	(Apr)	(M)		180K	129K
	9:45 AM					
	MARKIT US MANUFACTURING PMI	(Apr F)	(L)			52.4
	10:00 AM					
	ISM - MANUFACTURING	(Apr)	(H)	**54.8**	55	55.3
	CONSTRUCTION SPENDING M/M	(Mar)	(M)		0.2%	1.0%
	2:00 PM					
	FOMC Rate Decision			**2.4%**	2.375%	2.375%
	NEW VEHICLE SALES	(Apr)	(M)		17.0M	17.5M
	Speaker: 2:30 PM Jerome H Powell (Chairman)					
Thursday May 2	**8:30 AM**					
	INITIAL CLAIMS	(Apr 27)	(M)			230K
	CONTINUING CLAIMS	(Apr 20)	(L)			1655K
	10:00 AM					
	FACTORY ORDERS M/M	(Mar)	(M)	**1.4%**	1.0%	-0.5%
Friday May 3	**8:30 AM**					
	ADVANCE GOODS TRADE BALANCE	(Mar)	(M)	**-$73.6B**	-$74.0B	-$70.9B
	WHOLESALE INVENTORIES M/M	(Mar P)	(L)			0.2%
	NON-FARM PAYROLLS	(Apr)	(H)	**208K**	181K	196K
	UNEMPLOYMENT RATE	(Apr)	(H)	**3.8%**	3.8%	3.8%
	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Apr)	(H)	**0.3%**	0.3%	0.1%
	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Apr)	(H)		34.5	34.5
	MANUFACTURING PAYROLLS	(Apr)	(H)		15K	-6K
	9:45 AM					
	MARKIT US SERVICES PMI	(Apr F)	(L)			52.9
	MARKIT US COMPOSITE PMI	(Apr F)	(L)			52.8
	10:00 AM					
	ISM - NON-MANUFACTURING	(Apr)	(M)	**57.5**	57.2	56.1
	Speaker: 10:15 AM Charles L. Evans (Chicago)					
	Speaker: 11:30 AM Richard Clarida (Vice Chairman)					
	Speaker: 1:45 PM John Williams (President, New York)					
	Speaker: 3:00 PM Michelle Bowman (Governor)					
	Speaker: 7:45 PM James Bullard (President, St Louis), Daly, Kaplan and Mester					

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

Week Ahead's Market Call

by Andrew Gratham

In the US, despite strong GDP growth in the first quarter, markets chose to focus on slightly softer inflation readings and a weak composition of growth, sending bond yields lower. The Fed may look to push back a little on current market pricing for an interest rate cut, as they leave rates unchanged next week. A solid payrolls gain come Friday, accompanied by a re-acceleration in wage growth following a soft March, could also see investors pare back expectations of a rate cut. While core PCE will admittedly fall further below 2% in March, that cat had been let out of the bag already within the Q1 GDP release.

In Canada, we expect February GDP will come in slightly above the consensus forecast at 0.1%, leaving those output figures tracking around 1% annualized for the quarter. However, there has been a bigger divergence recently between tracking forecasts from the monthly production figures and data on the expenditure side of GDP.

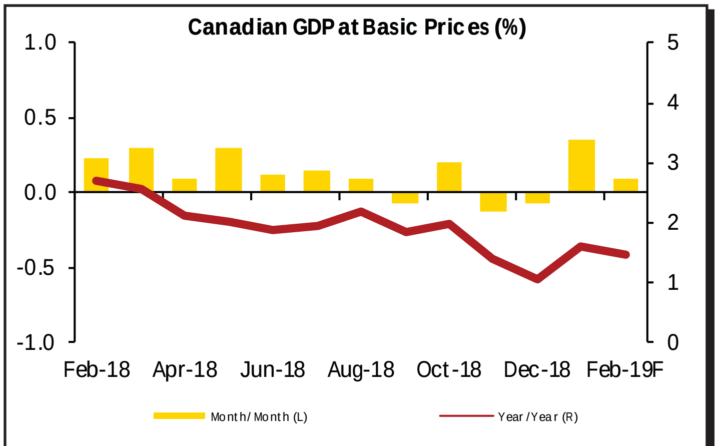
Week Ahead's Key Canadian Number:

GDP—February

(Tuesday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
GDP m/m	0.1%	N/A	0.3%



Source: Statistics Canada, CIBC

The Canadian economy launched a home run in January, with monthly GDP posting a strong 0.3% advance. But, data flow has cooled off since then. The big winner in January, construction, likely erased much of the prior month's gains, as inclement weather led to tough building conditions. Possibly also related to the weather, unit home sales fell off a cliff, leaving real estate services as another potential source of pain.

Still, there are signs that the economy posted at least a slight advance. Retailing and wholesaling data both suggest gains, even if the third industry sales report on manufacturing didn't look pretty. Moreover, payrolls data showed another month of robust hiring, reinforcing the Labour Force Survey numbers, and further suggesting that output likely rose at least modestly on the month.

Forecast Implications — The Bank of Canada has penciled in a very weak growth reading for the first quarter. But, according to the production numbers at least, Q1 should sail past those downbeat expectations. However, taking into account that the expenditure readings in the National Accounts may not reflect all of the strength in production, or that there could be a downward revision to January GDP, growth for the quarter could undershoot what simple tracking forecasts using only the production numbers would suggest.

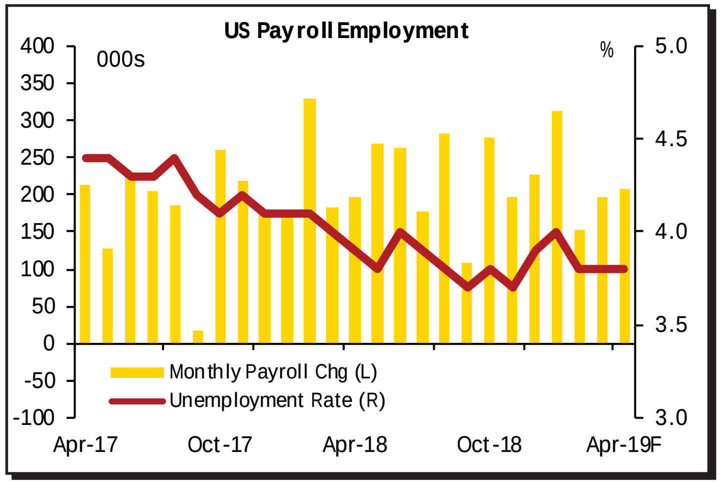
Week Ahead's Key US Number:

Employment Situation — April

(Friday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
Employment (change)	208K	185K	196K
Unemployment rate	3.8%	3.8%	3.8%
Avg. Hourly Earnings (%)	0.3%	0.3%	0.1%



Hiring bounced back in March following a weather-induced slowdown in job creation in the previous month. However, a slight uptick in participation in April could have supported another solid gain of around 200K jobs on the month which would still represent a slight deceleration in hiring on a trend basis, in line with an economy approaching full employment.

That would leave the unemployment rate at 3.8%, the lowest reading we foresee for the US labor market ahead. With the negative impact on wages from lower-wage workers being added back into the labor pool in March evaporating, April should have seen a trend-like 0.3% advance, leaving annual wage growth a tick hotter at 3.3%.

Forecast Implications — While higher wages amidst falling interest rate expectations will provide leverage for solid consumer spending ahead, growth in wages does not appear to be translating into higher inflation, leaving the Fed firmly on the sidelines for 2019.

Market Impact — We are above consensus on payrolls which should support the greenback and see yields rise.

Other U.S. Releases:

ISM Manufacturing – April

(Wednesday, 10:00 am)

The ISM manufacturing index has been on a downward trajectory since the summer of 2018, while manufacturing production has made little progress since then. Although regional manufacturing indices suggest that a pullback could be in the cards for April, the level of pessimism already reflected in the index could limit that fall. A 54.8 reading for April would suggest that US factory activity is still experiencing a reasonable expansion.

Advanced Goods Trade Balance – March

(Friday, 8:30 am)

The narrowing in the goods trade balance in February was driven by a rise in exports, with civilian aircraft accounting for the bulk of the increase, a volatile category that is likely to give up strength in March. Export prices advanced only marginally more than import prices, providing a small buffer that should still see the goods trade balance delve into deeper negative territory, reaching -$73.6bn. Still, a stabilization in global growth in the months ahead should help support exports.

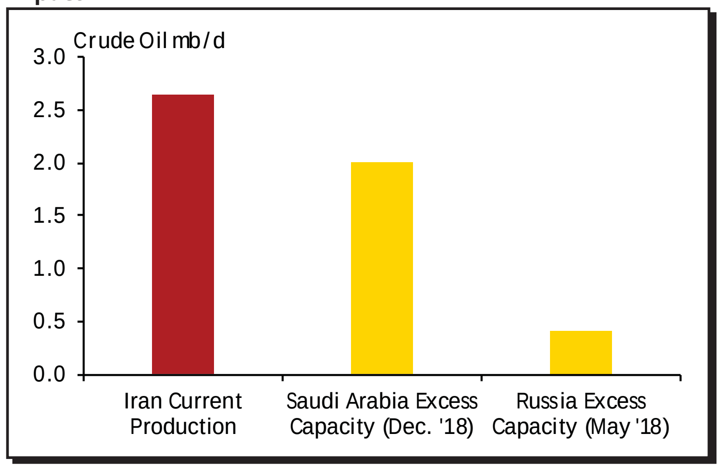
Equity Insights

Katherine Judge and Avery Shenfeld

Oil Price Upside Limited by Spare Capacity

Oil prices have gotten a lift from President Trump's plan to thwart global Iranian oil purchases by expanding the breadth of sanctions to eliminate waivers. While that has sent crude benchmarks up to levels not seen since late 2018, the impact could be capped ahead given spare capacity available in other markets. A higher price of oil, on top of pressure from Trump, could work to induce a climb in production in Saudi Arabia, where excess capacity is roughly three-quarters of Iranian production. Add to that a potential ramp up by Russia in addition to a possible acceleration in US drilling, and the dissipation of Iranian supply likely represents little further upside for oil prices.

Excess Capacity Could Blunt Iranian Oil Supply Dissipation Impact

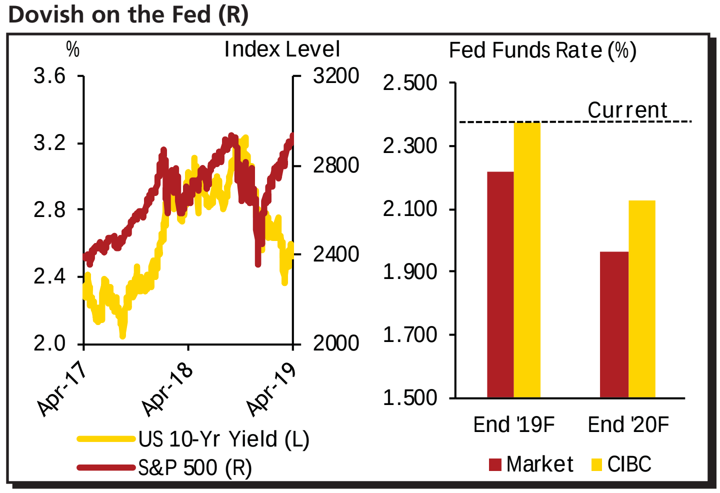


Source: Petro-Logistics, Aramco, IEA, CIBC

Divergence Between US Stocks and Yields Spells Correction Ahead

The correlation between stock returns and bond yields in the US has deteriorated this year, with the S&P 500 reaching a fresh high this week while US 10-year Treasury yields have fallen by just under 20bps. However, that reflects starkly dovish investor sentiment towards the Federal Reserve. The market is pricing in just under two full interest rate cuts by the end of 2020. Investors are therefore setting themselves up for disappointment, with next week's FOMC announcement unlikely to provide any sign of an imminent rate cut, a negative for US stocks.

Equity Movements Diverge From 10-Year Yield (L), Markets Too Dovish on the Fed (R)

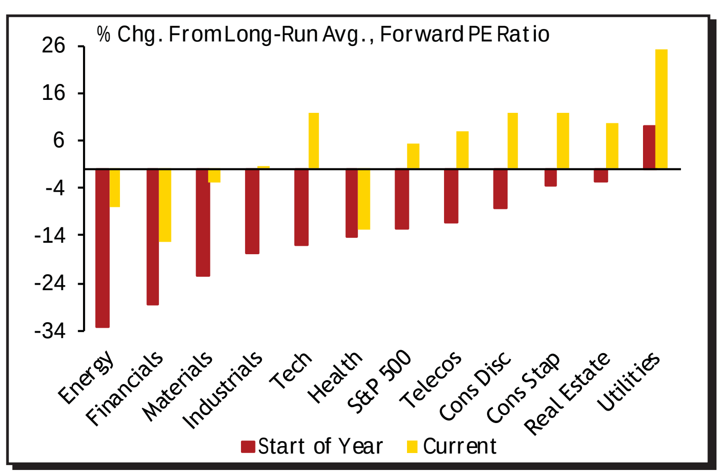


Source: Bloomberg, CIBC

Pockets of Value in US Equities

After a rough end to 2018 for stocks, early corporate earnings reports are offering a mixed picture of 2019. While they have been positive enough to send the S&P 500 to a record high for the first time in 2019 earlier in the week, a select few sectors may still have upside potential ahead. Sectors that are more exposed to commodity prices, including energy and materials, still look relatively cheap based on their forward PE ratios, which remain below their long-run averages. That's in contrast to more domestic-oriented consumer and real estate stocks, with the latter also benefitting from reduced interest rate expectations. Finding value in US equities may therefore be limited to a few sectors as a result, with a stabilization in global growth a catalyst for strength.

A Select Few S&P 500 Sectors Still Look Attractive



Source: Bloomberg, CIBC

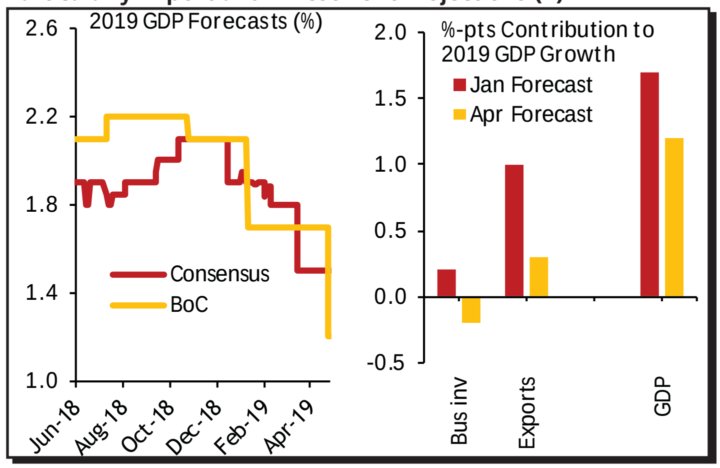
Currency Currents

Andrew Grantham

BoC: Won't Get Fooled Again?

The Bank of Canada did more than tip its hat to the weaker growth rate seen in Q4, as it slashed its 2019 GDP forecast half a percent to a below-consensus 1.2%. We'll get a better idea as to whether such a large cut in the forecast was warranted with the release of February monthly GDP next week. However, maybe the Bank of Canada didn't want to get fooled again to the downside, particularly in areas such as exports and business investment that they've previously put a great deal of faith in driving growth going forward. With such a low bar now set, growth in the first half of the year could beat these forecasts, which would see markets pare back expectations of a rate cut and drive a mini-rally in the C$.

Bank of Canada Makes Dramatic Cut to 2019 forecast (L), Particularly Export and Investment Projections (R)

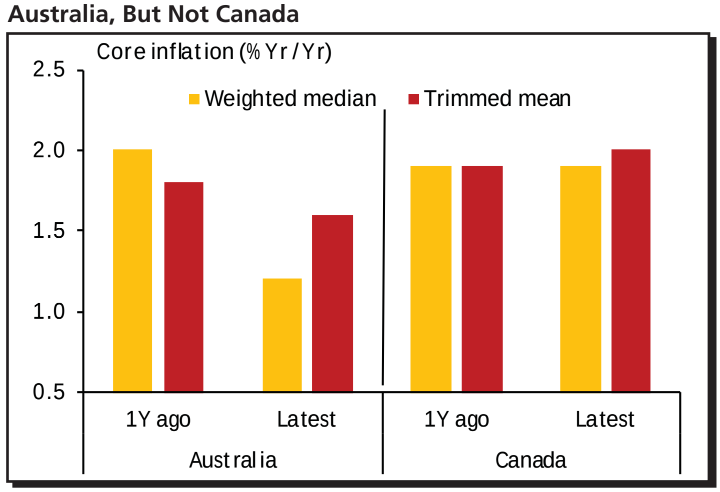


Source: Bank of Canada, Bloomberg, CIBC

An Inflating (or Not) Problem For the RBA

The BoC has some problems to think about at the moment, but inflation ain't one. That's in contrast to the RBA, with inflation indicators this last week coming in not just well below expectations but also well below its 2-3% target range. That's only added fuel to the rate-cut speculation fire. However, with markets now fully pricing in one cut from the RBA and almost one more, it's possible that the worst may be over for the Aussie dollar, particularly given recent signs of improvement within the Chinese economy.

Core inflation Measures Moving Further From Target in Australia, But Not Canada

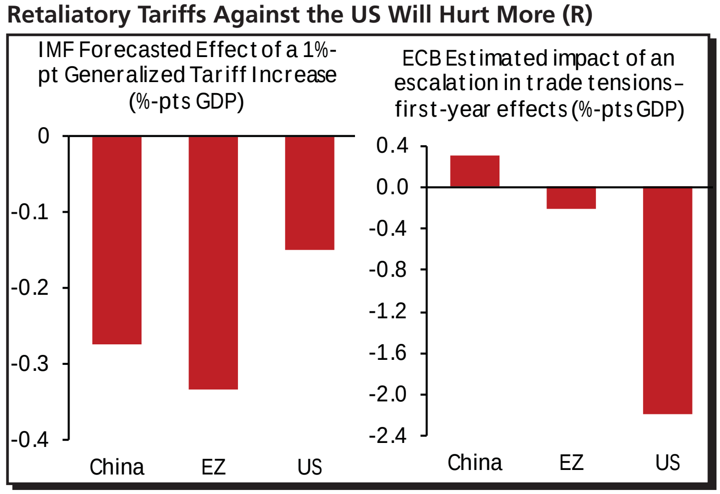


Source: RBA, BoC, CIBC

ECB Weighs in on Trade War Impact

A few weeks ago in its forecast update, the IMF suggested that EZ growth was at greater risk than China or the US from increased tariffs due to its reliance on trade. And given the recent concerns regarding US-EZ trade, uncertainty on that front has been one factor weighing on the single currency. The ECB weighed in this week with a much different conclusion, suggesting that if the US escalated tariffs they would lose out the most as other countries would not just retaliate but would seek alternatives for US products. Hopefully we won't get an opportunity to find out who is right in reality, and we get a reduction of trade uncertainty that would be positive for the euro.

IMF See EZ Suffering Most From Global Tariffs (L), ECB Says Retaliatory Tariffs Against the US Will Hurt More (R)



Source: IMF, ECB, CIBC

CANADIAN RELEASE AND EVENT DATES
April/May 2019

MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY

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	GDP M	(2002$) IND.PROD. M
DEC	-0.1	-0.9
JAN	0.3	0.1
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

Monday 6

Tuesday 7

IVEY PURCHASING MANAGERS' INDEX
10:00 AM

Wednesday 8

HOUSING STARTS

8:15 AM	000's (AR) TOTAL	SINGLES
FEB	166	38
MAR	193	42
APR		

Thursday 9

MERCHANDISE TRADE

8:30 AM	$MN	12 MO. BALANCE
JAN	-3086	-23,138
FEB	-2895	-23,661
MAR		

NEW HOUSING PRICE INDEX
8:30 AM

Friday 10

LABOUR FORCE SURVEY

8:30 AM	EMPLOY (HSHOLD) M	Y	UNEMP RATE %	AVG HRLY EARN Y
FEB	0.4	1.8	5.8	1.8
MAR	0.3	2.0	5.8	2.2
APR				

BUILDING PERMITS ($)

8:30 AM	M (RES)	M (NON-RES)
JAN	1.6	-17.2
FEB	-8.5	-0.5
MAR		

Monday 13

Tuesday 14

Wednesday 15

CPI

8:30 AM	M	Y
FEB	0.7	1.5
MAR	0.7	1.9
APR		

Thursday 16

INT'L TRANSACTIONS IN SECURITIES C$BN, NET

8:30 AM	BONDS	MONEY MARKET	STOCKS	TOT
JAN	14.3	5.1	9.2	28.6
FEB	6.5	-1.0	6.6	12.0
MAR				

SURVEY OF MANUFACTURING

8:30 AM	SHIPMENTS M	Y
JAN	0.8	3.8
FEB	-0.2	0.9
MAR		

ADP EMPLOYMENT SURVEY
8:30 AM

Friday 17

Monday 20

Tuesday 21

Wednesday 22

RETAIL TRADE

8:30 AM	(Current$) M	Y
JAN	-0.4	0.9
FEB	0.8	1.8
MAR		

Thursday 23

WHOLESALE TRADE
8:30 AM

Friday 24

QUARTERLY FINANCIAL STATISTICS
8:30 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: 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
22 **EXISTING HOME SALES** 10:00 AM	23 **NEW HOME SALES** 10:00 AM *2-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	24 *5-Yr NOTE AUCTION*	25 **DURABLE GOODS ORDERS** 8:30 AM M Y JAN 0.1 8.1 FEB -1.1 2.3 MAR 2.7 2.3 *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 1.7 19:Q1(A) 3.2 0.9 **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 0.2 MAR	30 **ECI** 8:30 AM TOTAL WAGES & SALARY BEN. 18:Q3 0.8 0.9 0.4 18:Q4 0.7 0.6 0.7 19:Q1 **S&P/CASE-SHILLER HOUSE PRICE INDEX** 9:00 AM **CHICAGO PMI** 9:45 AM **CONSUMER CONFIDENCE** 10:00 AM *2, 5, 7-Yr NOTE SETTLEMENT* *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 **NON-FARM PRODUCTIVITY** 8:30 AM Q/Q (AR) Y/Y 18:Q3 (F) 1.8 1.2 18:Q4 (F) 1.9 1.8 19:Q1 (P) **FACTORY ORDERS** 10:00 AM M(SA) Y(NSA) JAN 0.0 4.1 FEB -0.5 1.5 MAR *INITIAL JOBLESS CLAIMS (8:30)*	3 **EMPLOY. SITUATION** 8:30 AM NON-FARM PAYROLL CIV UNEMP RATE AVG HRLY EARN FEB 33 3.8 3.5 MAR 196 3.8 3.3 APR **ADV. TRADE IN INTERNATIONAL GOODS** 8:30 AM **ISM NON-MFG SURVEY** 10:00 AM
6	7 **CONSUMER CREDIT** 3:00PM *BOT (9:00) REDBOOK (8:55)*	8 *10-Yr NOTE AUCTION*	9 **PPI** 8:30 AM M (SA) Y (NSA) FEB 0.1 1.8 MAR 0.6 2.2 APR **GOODS & SERV. BALANCE (BOP) $B** 8:30 AM GDS SERV TOT JAN -73.2 22.1 -51.1 FEB -72.0 22.6 -49.4 MAR **WHOLESALE TRADE** 10:00 AM *30-Yr BOND AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	10 **CPI** 8:30 AM M(SA) Y (NSA) FEB 0.2 1.5 MAR 0.4 1.9 APR **TREASURY BUDGET** 2:00 PM
13	14 *BOT (9:00) REDBOOK (8:55)*	15 **RETAIL SALES** 8:30 AM M Y FEB -0.2 2.2 MAR 1.6 3.6 APR **CAPACITY UTIL/IND. PROD.** 9:15 AM LEV M Y FEB 79.0 0.1 3.5 MAR 78.8 -0.1 2.7 APR **BUSINESS INVENTORIES** 10:00 AM **NET CAPITAL INFLOWS TICS** 4:00 PM *3, 10-Yr NOTE SETTLEMENT* *30-Yr BOND SETTLEMENT*	16 **HOUSING STARTS** 8:30 AM Mn. M/M FEB 1.162 -8.7 MAR APR **PHILADELPHIA FED INDEX** 8:30 PM *INITIAL JOBLESS CLAIMS (8:30)*	17 **LEADING INDICATOR** 10:00 AM **MICHIGAN SENTIMENT (P)** 10:00 AM
20	21 **EXISTING HOME SALES** 10:00 AM *BOT (9:00) REDBOOK (8:55)*	22 **FOMC Minutes**	23 **NEW HOME SALES** 10:00 AM *INITIAL JOBLESS CLAIMS (8:30)* *2, 5, 7-Yr NOTE ANNOUNCEMENT*	24 **DURABLE GOODS ORDERS** 8:30 AM M Y FEB -1.1 2.3 MAR 2.7 2.3 APR

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.