



Economics

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THE WEEK AHEAD

November 13-17, 2017

Wait to See Plan C, or D

by Avery Shenfeld

You might be tempted to spend the weekend pouring through the details of the US tax system and the Republicans' proposed reforms. Don't waste your time. As President Trump said about health care, who knew that wholesale tax reform could be so complicated? There will be a point at which investors and economists need to get into the weeds of the reforms, but we're going to have to wait to see plan C, or plan D, before it's worth the bother.

We already had Plan A, the House Ways and Means Committee bill, and yesterday marked the unveiling of Plan B, the Senate Republicans' bill. But as anyone who has taken a US civics course would know, neither will become law in their current form. After each gets amended and then, in all likelihood, passed by their respective legislatures, a conference committee from both houses will have to meet and draw up a unified common bill for Congressional approval and Trump signage.

There's still much work to be done in that regard. The Senate bill just meets the requisite test of coming in under \$1.5 trillion in total costs. But in 2027, it entails foregone revenues of \$217 billion. Under Senate rules allowing for passage with only 50 votes, a key requirement given the slim GOP majority, it has to then shrink to a zero impact on the deficit come 2028. The current bill doesn't seem to meet that test. That's one set of amendments still to come.

Trump has said he won't sign a bill that raises taxes on the middle class. For many Americans in that income snack bracket, the House bill does just that. More amendments.

And then there's the real issue of voter appeal. Having been drubbed in 2017 Gubernatorial elections, at least some GOP legislators will feel pressure to ensure that their constituents will see clear wins in their 2018 tax bill. Telling voters who got only minimal or no relief that they will benefit from higher wages after corporate tax cuts take hold, or that maybe they should own a pass-through corporation, might not be persuasive at the ballot box. More amendments are likely needed to keep all the GOP on a united front.

Still, despite all the fine print still to come, we're convinced of two things. First, unlike what we witnessed on health care, the Republican party is sufficiently driven and united on this issue that a tax bill with significant business tax cuts is coming.

And second, with upper income households with high savings rates getting most of the personal tax relief, the bulk of its impacts will be on business capital spending tied to at least a temporary move to immediate expensing. Given the planning lags for large capital projects, that will make it a 2019 story for the economy, by which time, full employment may leave less room for a growth pick-up. No need, then, to rush to bring in major changes to our existing US growth forecast, or Fed projections, for the coming year.

Week Ahead's Market Call

by Avery Shenfeld

In the US, in the two major releases in the week ahead, we're on consensus for CPI but see odds tilted towards a slight disappointment in core retail sales. Although the savings rate is low, the consumer still has reasonable ammunition to be a steady growth driver ahead. Seeing at least our forecast 0.2% reading on core CPI will be important in keeping the Fed on track for a December hike, but we'll also get insights on that front from a crowded calendar of speakers.

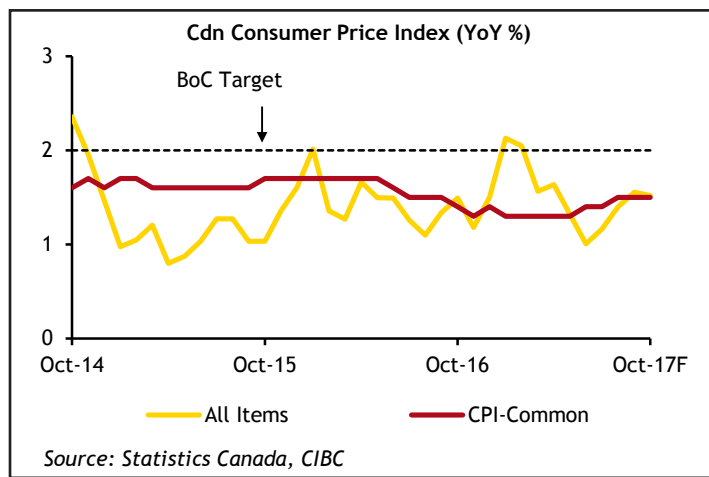
In Canada, we'll get a first look at a new ADP payrolls survey. Even if it "works" as a predictor of the actual StatCan payrolls data, that won't be as helpful in Canada, given that the market puts more weight on the less accurate household survey employment figure. Governor Poloz has dismissed the gap between core CPI and the Bank's 2% target as not very meaningful for policy, so a dip in headline inflation to 1.5%, and a matching common component core, has less import for the timing of a future hike than Q4 growth data ahead.

**Week Ahead’s Key Canadian Number:
Consumer Price Index—September**

(Friday, 8:30 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
CPI m/m NSA	0.2%	na	0.2%
CPI yr/yr	1.5%	na	1.6%
CPI-common	1.5%	na	1.5%



Gasoline prices slipped on the month (-2.3%), the main reason the headline rate of inflation will ease a tick to 1.5% in this week’s release. The rest of the consumer basket likely saw a bit of firming in prices on the month, with ex-food and energy prices registering a slightly stronger—and more trend-like—0.2% SA monthly gain (0.4% NSA).

Food was big negative at the start of the year for the inflation backdrop, but should continue to accelerate in October. The annual rate could reach 1.8%, and should

average 2-2½% through Q4 of this year and Q1 of next as we lap weaker year-ago readings, and as the softening track of the C\$ lifts imported produce prices.

Forecast Implications—Pump prices will weigh down inflation in October, but daily figures we have on hand already suggest that gasoline has been accelerating through November. That’s a plus for the inflation outlook, although the Bank of Canada would still prefer seeing more upward lift to underlying price pressures and wages.

Other Canadian Releases:

Manufacturing Survey—September

(Thursday, 8:30 a.m.)

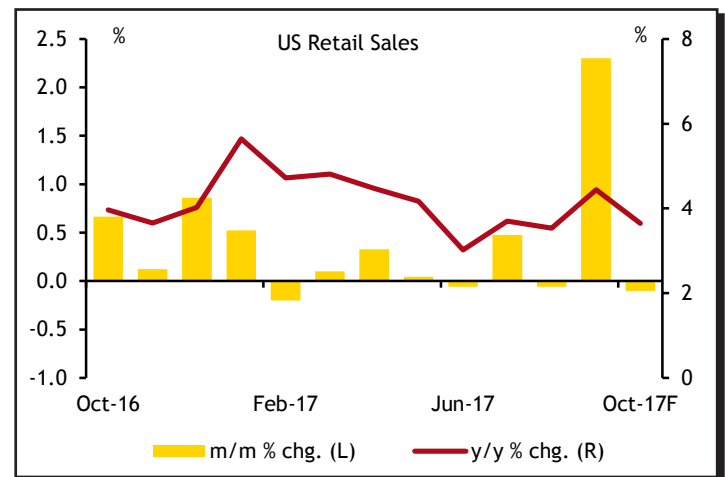
August manufacturing bucked the consensus expectations on the initial industry shipments release, before the monthly GDP report showed significant weakness in the sector’s value added. That could point to a downward revision of the August shipments figure, while further weakness in manufactured exports in September have us waiting for a -1.0% reading for related shipments for September.

Week Ahead's Key US Number:**Retail Sales—October**

(Wednesday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Retail Sales	-0.1%	0.0%	1.6%
Retail Sales – ex auto	0.2%	0.2%	1.0%
Retail Sales – control group	0.3%	0.4%	0.4%



Retail sales likely slipped in October, but not by much. While gasoline prices fell from their prior month's highs, unit auto sales only gave back marginal ground after the hurricane-induced spike in September. That said, more of that tailwind is expected to fade in the months ahead.

Looking through the volatility in headline sales, the control group will see a respectable, but unspectacular gain. Core retail sales already rebounded from the worst of the hurricanes when stores were closed in affected areas. As a result, that stripped down measures should see a very trend-like gain of 0.3% when October data is released.

Forecast Implications—With the headline not giving up much ground after a strong September, quarterly consumption is off to a solid start.

Market Impact—We're a touch below consensus, which could be slightly positive for fixed income and negative for the currency, especially given that CPI data released at the same time won't be cutting the other way.

Other U.S. Releases:**Consumer Price Index—October**

(Wednesday, 8:30 a.m.)

Gasoline prices pulled back from their hurricane-related highs, restraining the advance in headline CPI to a cool 0.1%. But, more importantly, core inflation won't look materially different from its recent weak trend. A 0.2% gain will be only marginally ahead of its year-to-date average, and will see the annual rate remain at 1.7%. While that's not enough to hold the Fed's fire in December, the subsequent pace of rate hikes will at least partially hinge on an acceleration in consumer price trends.

Industrial Production—October

(Thursday, 9:15 a.m.)

Both manufacturing and utility production likely bounced back in October, after hurricanes knocked them off course in prior months. That said, rig counts and hours worked in the mining sector suggest that component took a step back during the month. Taken together, the gain of 0.6% will see the index march higher, but oil prices would need to remain at these elevated levels for mining to be a significant contributor moving forward.

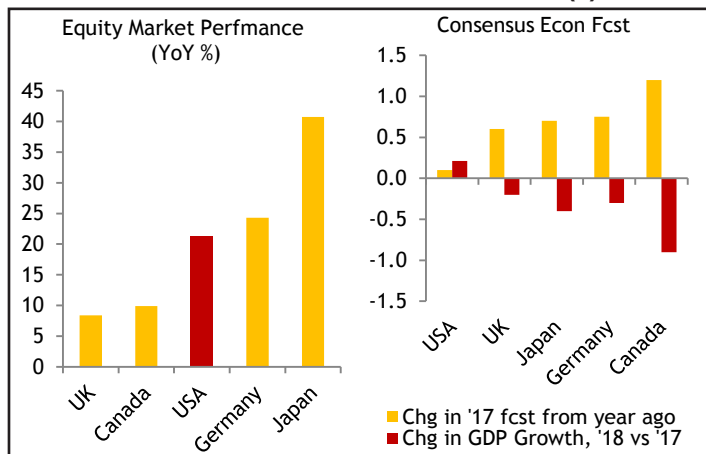
Equity Insights

Nick Exarhos

US Stocks: Middle of the Pack

The S&P has registered *yuuuuggg* returns since Trump's election a year ago, but American stocks aren't the only ones tracking strong annual gains. In fact, compared to other major markets we track, the US index's year-on-year performance is middle of the pack. Although that makes the 20% or so increase somewhat less impressive, it is notable that it has done this against a backdrop of a roughly steady view on the US domestic economy. That speaks to the S&P's global exposure, and it could also be pricing in a more steady outlook for America, while other developed economies look poised to slow next year.

US Equities Didn't Stand Out This Year (L), But Others Face Softer Economic Outlook in 2018 (R)



Source: Bloomberg, CIBC

Canadian Factories Facing Headwinds

We're getting factory data from Statistics Canada next week, and they aren't likely to be pretty (see page 4). Outbound shipments from the sector have sagged almost 14% over the last four months, and the outlook is looking dimmer as optimism for a favourable resolution to NAFTA negotiations fades. We're cautious on the outlook for Canadian equities in the manufacturing space with a focus on exports, given soft current export figures and the NAFTA risks that appear to be mounting.

Manufacturing Exports Slump to 2-Year Lows

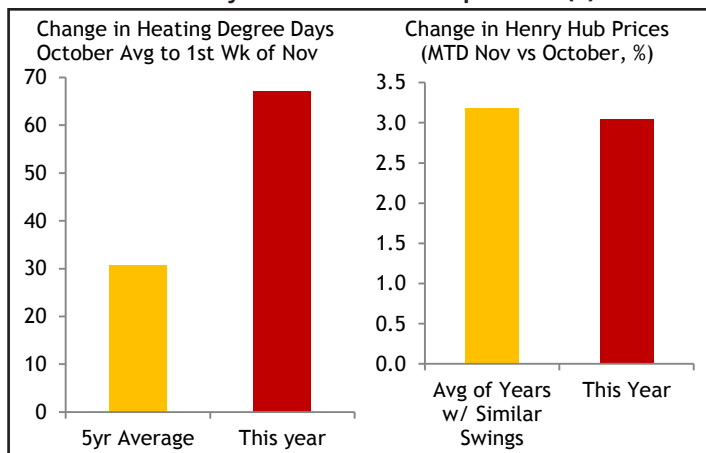


Source: Statistics Canada, CIBC

US Natural Gas Prices Firm, But for How Long?

Our US natural gas forecast has been steady as she goes: a bit under three bucks. But after a warm October, November has brought with it some more seasonably cold temperatures. The swing—in terms of cooling degree-days—is more than double what's been seen over the past five years. And for prices, we looked a bit further back, and the response has been essentially in line with past experiences when we've seen similar swings in temperatures. As a result, we see this as a temporary blip and not a game changer, with our slightly bearish view still standing.

Colder Weather Comes in November (L), But Henry Prices Move in Similar Way to Past Decade's Experience (R)



Source: Bloomberg, CIBC

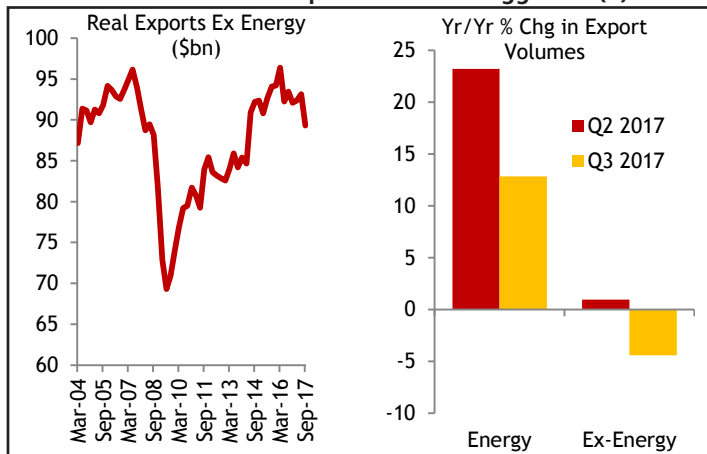
Currency Currents

Andrew Grantham and Royce Mendes

Reality Bites For Cdn Exports

Last week's trade figures appeared to be overshadowed by another robust gain in employment. They shouldn't have been, though. One of the reasons the BoC sounded optimistic earlier in the year was a perceived "widespread" gain in exports. We didn't agree then that the gains in exports were widespread, and we definitely don't now. Ex-energy volumes fell sharply in the third quarter, and are now down on a year-over-year basis as well. Against that backdrop we still see scope for the BoC to be on hold longer than the consensus forecast now expects and for the C\$ to depreciate against the greenback.

Ex-Energy Export Volumes Starting to Fall (L), Meaning Export Growth Still Not as "Widespread" as BoC Suggested (R)

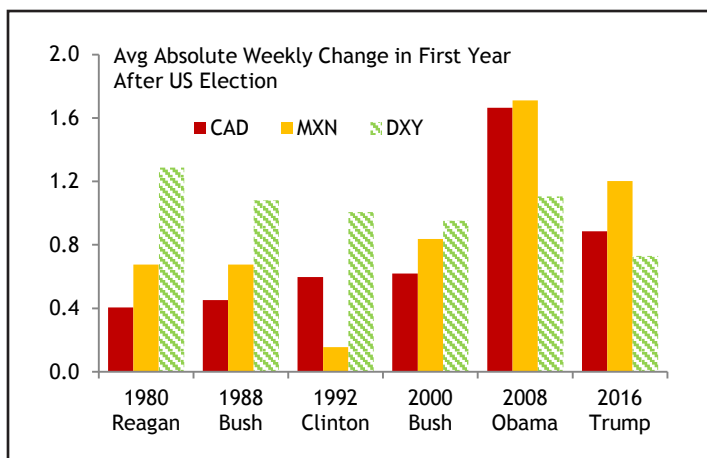


Source: Bank of Canada, CIBC

One Year on And...

It's been a year since the idea of a President Trump became a reality. In that year, after some ups and downs, the US\$ index and the peso are now marginally weaker and C\$ is modestly stronger than before the election. That's strange given current NAFTA rhetoric. But some of the uncertainty can be seen in the volatility of the currencies versus the US\$ in the past twelve months. Excluding the first year under Obama, which coincided with the financial crisis, CAD and MXN have shown more volatility than the US\$ compared to other first years under new US Presidents. Given the lack of progress on NAFTA, that volatility could continue.

Weekly Changes in CAD and MXN Have Been Higher Than in First Year Under Most Prior Presidents

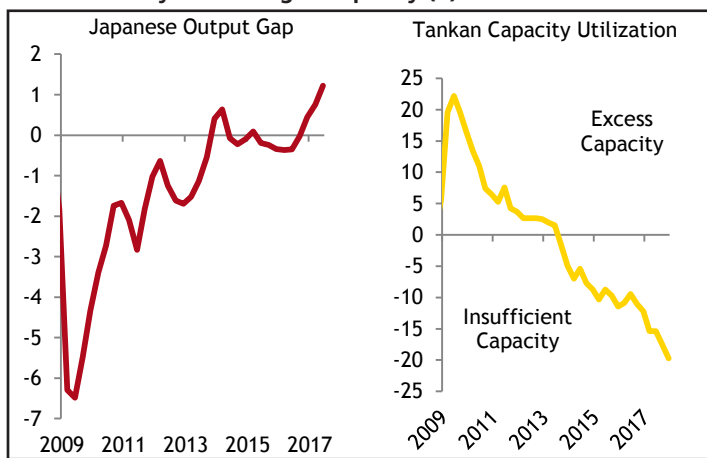


Source: Bloomberg, CIBC

Yen Could Help Alleviate Trump Trade Concerns

In the midst of his long-awaited Asia trip, President Trump found time to take a quick swipe at Japan. According to Trump, trade with Japan is currently not free and open, and he plans to do something about that. Japan is already on the US Treasury's monitoring list of potential currency manipulators, having a large trade surplus with the US and a sizable current account surplus relative to GDP. Relief, however, could be on the way. With the BoJ now estimating that the economy has a negative output gap and respondents to the Tankan survey suggesting that capacity is tight, we expect inflation pressures to perk up in 2018. Any shortening in expectations for when BoJ stimulus will end should boost the yen, which could alleviate some of Trump's ire.

BoJ Estimates Output Gap is Closed (L), Tankan Survey Shows Tight Capacity (R)



Source: Bank of Japan, CIBC

CANADIAN RELEASE AND EVENT DATES November/December 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
6	7	HOUSING STARTS 8 8:15 AM 000's (AR) TOTAL SINGLES AUG 226 62 SEP 219 68 OCT 223 56 BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) JUL -2.1 -4.0 AUG -2.5 -9.5 SEP -1.7 13.9	9	NEW HOUSING PRICE INDEX 8:30 AM
13 REMEMBRANCE DAY (HOLIDAY) (Bond Market Closed)	14	15 Bank of Canada Dep. Governor Wilkins speaks in NYC at 6:45 PM ET	SURVEY OF MANUFACTURING 16 8:30 AM SHIPMENTS M Y JUL -2.6 3.7 AUG 1.6 4.3 SEP INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET JUL 23.8 -1.5 1.6 24.0 AUG 8.2 1.5 0.2 9.8 SEP	17 CPI 8:30 AM M Y AUG 0.1 1.4 SEP 0.2 1.6 OCT
20	21 WHOLESALE TRADE 8:30 AM	22	RETAIL TRADE 23 8:30 AM (Current\$) M Y JUL 0.4 7.7 AUG -0.3 6.9 SEP	24 QUARTERLY FINANCIAL STATISTICS 8:30 AM
27	28 INDUSTRIAL PRICES 8:30 AM M (NSA) Y AUG 0.4 2.3 SEP -0.3 1.5 OCT Bank of Canada Governor Poloz & Sr. Dep. Gov. Wilkins speak at 11:15 AM ET	29	30 BALANCE OF INT'L PAYMENTS 8:30 AM CURR. ACCT. BAL. \$BN(QR) \$BN(AR) 17:Q1 -12.9 -51.7 17:Q2 -16.3 -65.3 17:Q3 PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	1 NATIONAL ACCTS 8:30 AM REAL PRICE GDP DEFLATOR %ch AR %ch AR 17:Q1 3.7 3.9 17:Q2 4.5 -1.4 17:Q3 GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M JUL 0.0 -0.5 AUG -0.1 -0.9 SEP LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y SEP 0.1 1.8 6.2 2.2 OCT 0.2 1.7 6.3 2.4 NOV
4	5 INTERNATIONAL RESERVES 8:15 AM \$BN \$BN CHANGE LEVEL SEP -0.764 84.3 OCT -0.952 83.4 NOV MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE AUG -3,181 -17,876 SEP -3,180 -16,799 OCT	6 LABOUR PRODUCTIVITY 8:30 AM Bank of Canada Interest Rate Announcement	7 HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES SEP 219 68 OCT 223 56 NOV BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) AUG -2.5 -9.5 SEP -1.7 13.9 OCT	8 CAPACITY UTILIZATION 8:30 AM LEVEL (%) TOTAL MANUF. 17:Q1 83.2 83.5 17:Q2 85.0 84.2 17:Q2

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 November/December 2017



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
6	7	8	9	10
	CONSUMER CREDIT 3:00 PM 3-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)	10-Yr NOTE AUCTION	WHOLESALE TRADE 10:00 AM 30-Yr BOND AUCTION INITIAL JOBLESS CLAIMS (8:30)	MICHIGAN SENTIMENT (P) 10:00 AM TREASURY BUDGET 2:00 PM
13	14	15	16	17
	PPI 8:30 AM M (SA) Y (NSA) AUG 0.2 2.4 SEP 0.5 2.5 OCT	CPI 8:30 AM M(SA) Y (NSA) AUG 1.9 5.1 SEP 2.2 5.2 OCT RETAIL SALES 8:30 AM M Y AUG -0.1 3.5 SEP 1.6 4.4 OCT BUSINESS INVENTORIES 10:00 AM NET CAPITAL INFLOWS TICS 4:00 PM 3, 10-Yr NOTE SETTLEMENT 30-Yr BOND SETTLEMENT BOT (9:00) REDBOOK (8:55)	PHILADELPHIA FED INDEX 8:30 AM CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y AUG 75.8 -0.7 1.2 SEP 76.0 0.3 1.6 OCT INITIAL JOBLESS CLAIMS (8:30)	HOUSING STARTS 8:30 AM Mn. M/M AUG 1.183 -0.2 SEP 1.127 -4.7 OCT
20	21	22	23	24
	EXISTING HOME SALES 10:00 AM BOT (9:00) REDBOOK (8:55)	DURABLE GOODS ORDERS 8:30 AM M Y AUG 2.0 5.5 SEP 2.2 8.3 OCT MICHIGAN SENTIMENT (F) 10:00 AM FOMC Minutes 2-,5-,7-Yr NOTE ANNOUNCE. INITIAL JOBLESS CLAIMS (8:30)	THANKSGIVING DAY (HOLIDAY) (Markets Closed)	
27	28	29	30	1
	ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM CONSUMER CONFIDENCE 10:00 AM 2-,5-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55)	GDP 8:30 AM (AR) REAL IMPLICIT GDP DEF LATOR 17:Q2(F) 1.0 3.1 17:Q3(A) 2.1 3.3 17:Q3(P) 2, 5-, 7-Yr NOTE SETTLEMENT	PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR AUG 0.2 0.4 3.6 SEP 0.4 1.0 3.1 OCT CHICAGO PMI 9:45 AM INITIAL JOBLESS CLAIMS (8:30)	ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX SEP 60.8 71.5 OCT 58.7 68.5 NOV LIGHT VEHICLES SALES MIL (AR) Y SEP 18,470 4.6 OCT 17,998 1.1 NOV
4	5	6	7	8
FACTORY ORDERS 10:00 AM M(SA) Y(NSA) AUG 1.2 5.8 SEP 1.4 7.0 OCT	GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT AUG -64.8 22.0 -42.8 SEP 65.4 21.9 -43.5 OCT ISM NON-MFG SURVEY 10:00 AM BOT (9:00) REDBOOK (8:55)	ADP SURVEY 8:15 AM	CONSUMER CREDIT 3:00 PM 3, 10-Yr NOTE ANNOUNCE. 30-Yr BOND ANNOUNCE. INITIAL JOBLESS CLAIMS (8:30)	EMPLOY. SITUATION 8:30 AM NON-CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN SEP 18 4.2 2.5 OCT 261 4.1 2.3 NOV MICHIGAN SENTIMENT (P) 10:00 AM WHOLESALE TRADE 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.

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