



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

<http://economics.cibccm.com>

THE WEEK AHEAD

January 18-22, 2021

Action, Inaction: A Week in Washington

by Avery Shenfeld

The ink was barely dry on the economic outlook we released early Thursday morning, to use a phrase that seems archaic in this world of e-documents, when a flurry of announcements in Washington threatened to make it out of date. President-Elect Biden looked like an action hero in a sweeping proposal for spending across a broad range of fronts. In contrast, but also leaning towards stimulus, Jay Powell looked like a man of inaction as he quashed talk from Fed regional presidents that had markets thinking about early moves on tapering, or further out, policy rates.

Although markets registered a reaction in lifting the inflation component within Treasury yields, not all of this was in fact news to us. We had already built in some additional spending on vaccine distribution and a further \$1,400 in stimulus payments to qualifying households. Prospects for other measures in the Biden agenda are far from certain, given that Republicans will still hold 50 Senate seats. But we'll concede some upside risks to our US growth and inflation forecasts should more get through Congress than we assumed.

Further out, while Biden wants a large scale infrastructure bill, history suggests that the actual spending bump would be no sooner than late 2022, and he's going to couple it with some tax measures that will lean the other way in terms of growth. That package deal would face difficulties in the Senate. In our forecast, the economy will already have closed its output gap by late 2022, meaning that additional fiscal stimulus would at that point be counterbalanced by more monetary restraint in 2023.

That brings us to Jay Powell. He underscored that the Fed would be patient in deciding when to pare back on bond purchases or hike rates. But that doesn't really tell us much. The Fed could end up tapering purchases before year end, without knowing enough about the recovery or stimulus bills to want to leak that intention out now, while a pandemic still ravages the economy. Saying that rate hikes won't be "any time soon," in Powell's words, would still fit in our forecast for hikes in 2023, after a year of 2½% inflation in 2022 and an acceleration early in 2023, as opposed to the Fed's 2024 assumption.

Not hiking "any time soon", and even raising more talk of a potential trimming in overnight rates, will be the theme from the Bank of Canada next Wednesday. To quell the risks of a further drag from an appreciating exchange rate, the Bank needs to convince markets that it can be even more patient than the Fed.

Although we haven't seen as much of an undershoot versus its inflation targets as in the US, rate hike expectations for Canada could still be softened if the BoC talked more vocally about adopting "average inflation targeting (AIT)". It's one option under consideration for the reset of its framework at the start of 2022, but it's likely too early to expect Governor Macklem to signal anything on that front next week.

Week Ahead's Market Call

by Avery Shenfeld

In the **US**, a holiday-shortened trading week will hopefully see the inauguration go off without any security incidents. Strong permits data in recent months have left some headroom for a further climb in housing starts, but markets will also be eyeing the weekly jobless claims figures to see if there's an extension to the recent upturn, flagging what looks to be some damage to the job market from spiking coronavirus cases.

In **Canada**, odds of a 10-15 bp rate cut are probably higher than the market has priced in, given that the Governor has mentioned such a move as a possible tool in its arsenal. But our base case is for a stand-pat announcement on both rates and the \$4 bn/week pace for QE purchases. There will be some repetition of the BoC's concerns over the near term outlook, with the Bank's projections set to show a decline in Q1, and the risks to exports from an appreciating exchange rate. While highlighting an economic acceleration after mass vaccination starts in the spring, as well as a more pessimistic view than ours on the economy's non-inflationary potential, the overriding message will be that stimulus will be warranted for a considerable period ahead. On the data front, we're not expecting much if any move in 12-month CPI measures, but are looking for a softening in figures on housing starts, headline retail sales and manufacturing.

Week Ahead's Key Canadian Number:**Consumer Price Index—November**

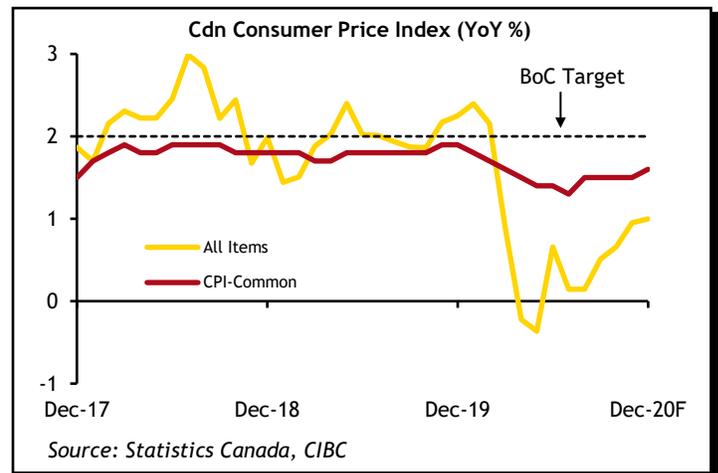
(Wednesday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
CPI m/m (NSA)	0.3%	N/A	0.1%
CPI yr/yr	1.0%	N/A	1.0%
CPI-common	1.6%	N/A	1.5%

Many of the factors driving inflation higher recently aren't the type that will garner much attention from the Bank of Canada. Gasoline prices rose 4% in December alone, as global oil prices continued to recover lost ground, but that's always something central bankers look through. The temporary methodologies adopted to deal with unavailable services such as travel tours and some airfares will also show up as a strong contributor to the pace of total inflation in the data for December, as it did in the prior month's release. But, again, that's temporary and not really a measure of underlying price pressures.

One area that could catch the eyes of monetary policymakers is the continued rise in homeowners' replacement costs, which are being driven by surging



prices for new homes. However, much like in November, that will likely be largely offset in the shelter component of CPI by a further drop in mortgage interest costs, as more homeowners financed home purchases or refinanced at lower rates.

Forecast Implications — Temporary factors and volatile items will drive the consumer price index higher in 2021. As a result, inflation will likely exceed the 2% target this year. However, after stripping those factors out, the pace of price gains will fall short of the Bank of Canada's goals, leaving the central bank on the sidelines until the economy is further healed and is generating more sustainable price increases.

Retail Sales — November

(Friday, 8:30 am)

Look for retail sales to have edged lower in November on the back of weakness in auto sales. Despite the increase in prices, there's also scope for gasoline sales to have dipped further as Canadians eschewed even more outings in the face of rising COVID cases during the month. That said, a slightly earlier start to holiday shopping, to ensure packages were delivered in time, coupled with purchases tilted more heavily towards goods likely made for a healthy gain in the ex-auto and gas reading. Keep in mind that this release does not include many of the large online retailers which likely captured even more of the early holiday sales. Given what seems to have occurred in the US, the flash estimate of total retail sales for December could, however, show a material drop.

Housing Starts — December

(Monday, 8:15 am)

Homebuilding in Canada bounced back from the early pandemic pain with ferocity, and there doesn't seem to be much of a hangover in store for the early months of 2021. While the pace of housing starts likely decelerated from the 246K seen in November to something closer to 210K in December, that's still ahead of the average seen in the years leading up to COVID-19. We expect to see a pullback in the volatile multi-unit category, which drove the gains in the prior month. But building permits suggest that there aren't plans to slow down much further any time soon. Last year will go down as the fastest year for housing starts since 2017. The pace of new home construction joined with resales and renovation activity to make Canada's housing market one of the most resilient sectors during the pandemic, despite concerns that it was on shaky ground heading into the crisis.

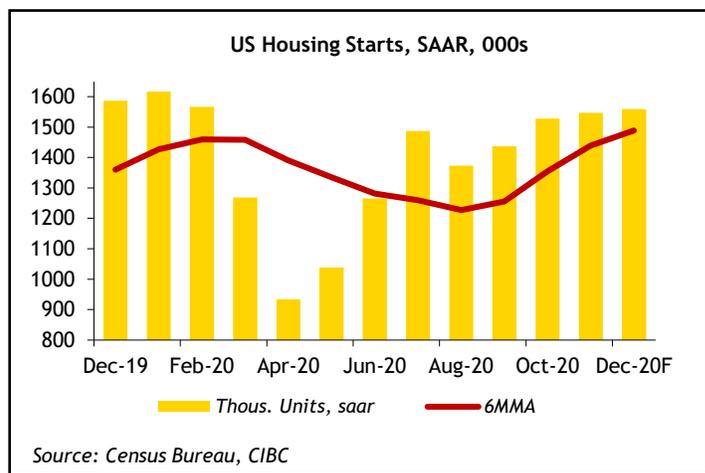
Week Ahead’s Key US Number:

Housing Starts—December

(Thursday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
Housing Starts	1560K	1560K	1547K
Building Permits	1570K	1600K	1635K



Building permits continued to outpace housing starts in November, a sign that December could see an acceleration in homebuilding to a 1560K pace. The strength in permits has been overwhelmingly concentrated in the single-family segment of the market, where permits are 22% above year-ago levels. Homebuilder confidence was sitting at its second highest level on record in December according to the NAHB’s index, another piece of evidence suggesting that activity remained solid during the unseasonably mild final month of 2020.

Forecast Implications — With months of supply of homes available still close to a record low, housing starts could gain momentum in the coming months. However, with longer-term interest rates expected to climb over the course of the year, demand growth could slow in the second half of 2021.

CANADIAN RELEASE AND EVENT DATES January/February 2021



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11 Bank of Canada Business Outlook Survey & Canadian Survey of Consumer Expectations	12	13	14	15
18 HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES OCT 215 58 NOV 246 55 DEC INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET SEP 0.9 -0.4 4.2 4.7 OCT 6.7 -0.4 0.6 6.9 NOV	19 SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y SEP 2.2 -5.9 OCT 0.3 -5.2 NOV WHOLESALE TRADE 8:30 AM	20 CPI 8:30 AM M Y OCT 0.4 0.7 NOV 0.1 1.0 DEC Bank of Canada Interest Rate Announcement & Monetary Policy Report Bank of Canada Governor Macklem speak at 11:15 AM ET	21 ADP EMPLOYMENT SURVEY 8:30 AM	22 RETAIL TRADE 8:30 AM (Current\$) M Y SEP 1.9 5.6 OCT 0.4 7.5 NOV
25	26	27	28 PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) OCT -4.6 -26.8 NOV 10.0 19.5 DEC	29 GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M SEP 0.8 1.5 OCT 0.4 -0.4 NOV INDUSTRIAL PRICES 8:30 AM M (NSA) Y OCT -0.3 0.7 NOV -0.6 0.0 DEC
1	2	3	4	5 MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE OCT -3,728 -30,513 NOV -3,340 -33,724 DEC LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y NOV 0.3 -2.5 8.5 4.8 DEC -0.3 -3.0 8.6 5.4 JAN IVEY PURCHASING MANAGERS' INDEX 10:00 AM
8	9	10	11	12 WHOLESALE TRADE 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 January/February 2021



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11	12	13	14	15
		CPI 8:30 AM M(SA) Y (NSA) OCT 0.0 1.2 NOV 0.2 1.2 DEC 0.4 1.4 TREASURY BUDGET 2:00 PM Beige Book	Fed Chair Powell speaks @ 12:30 PM ET	RETAIL SALES 8:30 AM M Y OCT -0.1 5.4 NOV -1.4 3.7 DEC -0.7 2.9 PPI 8:30 AM M (SA) Y (SA) OCT 0.3 0.5 NOV 0.1 0.7 DEC 0.3 0.8 CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y OCT 73.0 1.0 -5.0 NOV 73.4 0.5 -5.4 DEC 74.5 1.6 -3.6 BUSINESS INVENTORIES 10:00 AM MICHIGAN SENTIMENT (P) 10:00 AM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	
18	19	20	21	22
MARTIN LUTHER KING JR. DAY (HOLIDAY) (Markets Closed)	NET CAPITAL INFLOWS TICS 4:00 PM		HOUSING STARTS 8:30 AM Mn. M/M OCT 1.528 6.3 NOV 1.547 1.2 DEC PHILADELPHIA FED INDEX 8:30 PM	EXISTING HOME SALES 10:00 AM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	
25	26	27	28	29
	S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM	DURABLE GOODS ORDERS 8:30 AM M Y OCT 1.8 0.2 NOV 0.9 3.8 DEC FOMC Rate Decision Fed Chair Powell speaks @ 2:30 PM ET	ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 20:Q2 -31.4 -1.8 20:Q3 33.4 3.5 20:Q4(adv.) NEW HOME SALES 10:00 AM LEADING INDICATOR 10:00 AM <i>INITIAL JOBLESS CLAIMS (8:30)</i>	ECI 8:30 AM WAGES & BEN. TOTAL SALARY 20:Q2 0.5 0.4 0.8 20:Q3 0.5 0.4 0.6 20:Q4 PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR OCT -0.6 0.3 13.6 NOV -1.1 -0.4 12.9 DEC CHICAGO PMI 9:45 AM MICHIGAN SENTIMENT (F) 10:00 AM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	
1	2	3	4	5
ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX NOV 57.5 65.4 DEC 60.7 77.6 JAN	LIGHT VEHICLES SALES MIL (AR) Y NOV 15.636 -7.9 DEC 16.271 -3.2 NOV	ADP SURVEY 8:15 AM ISM NON-MFG SURVEY 10:00 AM	NON-FARM PRODUCTIVITY 8:30 AM Q/Q (AR) Y/Y 20:Q2 10.6 2.9 20:Q3 4.6 4.0 20:Q4(P) FACTORY ORDERS 10:00 AM M(SA) Y(NSA) OCT 1.3 -2.5 NOV 1.0 -0.4 DEC <i>INITIAL JOBLESS CLAIMS (8:30)</i>	EMPLOY. SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN NOV 336 6.7 4.5 DEC -140 6.7 5.2 JAN GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT OCT -81.4 18.2 -63.1 NOV -86.4 18.2 -68.1 DEC CONSUMER CREDIT 3:00PM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	
8	9	10	11	12
		CPI 8:30 AM M(SA) Y (NSA) NOV 0.2 1.2 DEC 0.4 1.4 JAN WHOLESALE TRADE 10:00 PM TREASURY BUDGET 2:00 PM		MICHIGAN SENTIMENT (P) 10:00 AM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	

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