Economics

THE WEEK AHEAD

March 28—April 1, 2022

To fiscal policy there is a season

by **Avery Shenfeld** avery.shenfeld@cibc.com

To everything there is a season, wisdom from the bible, or The Byrds if you wish, that applies well to fiscal policy. When times are tough, as they were in 2020, a deficit-boosting fiscal ease can help monetary policy stave off a depression and support a recovery. But when full employment is reached, fiscal stimulus will be counterproductive, forcing a tougher hand in monetary tightening that will offset any growth boost. Moreover, devoting some of the ample revenues realized in a strong economy to reducing the debt/GDP burden will look wise when the next recession comes, and we need elbow room for another fiscal ease.

So with that in mind, what does fiscal policy look like in the US and Canada. Is it easing, and propelling more rate hikes, or tightening, and imposing a drag that will lessen the need for monetary tightening?

In the US, the best measure we can find is that of the Brookings Institution's Hutchinson Centre. It measures the impact of fiscal policy from all levels of government, relative to a base case in which inflation-adjusted government purchases, taxes and transfers were all growing in line with potential GDP. But it allows for the fact that transfers aren't all spent by those receiving them, and importantly, for the likelihood that some of the unusually large transfers sent to households and businesses was likely only spent over the subsequent four or six quarters.

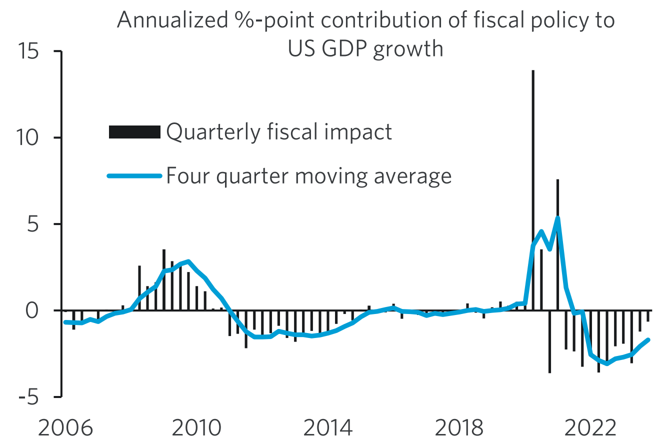
Even including the bipartisan infrastructure bill, the phase out of huge pandemic relief programs means that US fiscal policy is currently contractionary (Chart), and is expected to remain so through 2023 under current legislation. After any recession, jobless benefits fall and are replaced by employment income. But this recovery faces a larger fiscal headwind due to the extraordinary degree to which governments stepped in to help in 2020-21. The passage of surviving parts of the Build Back Better bill might not change that much if they are covered by tax hike offsets. State governments are reaping more tax revenue, and could be beefing up spending, but we don't yet know enough about whether that will be sufficient to tip the balance. From what we know now, fiscal policy should be a factor containing the pace of Fed hikes ahead.

In Canada, we don't have a Brookings Institute doing the hard work for us. And even if we did, at this point in the budget season, we wouldn't yet have answers. Quebec opted to send $500 to many residents, Ontario is renewing license plates for free, but all levels of government are sharply curtailing the special programs devoted to pandemic relief.

That will be true at the federal level as well. For all the talk about pharma care, dental care or a boost to defense spending that might be in the offing, against that are huge cuts to transfer payments and business supports instituted during the pandemic, as well as a tax hike for financial institutions.

As of last fall's update, Ottawa was projecting a 13% drop in program spending in fiscal 2022/23, with the following year's 1% growth rate still representing a significant drop in inflation-adjusted terms relative to potential GDP. As to whether that's still true after the upcoming budget, and in total including the provinces, we'll have to wait and see. But for now at least, it may well be that fiscal policy isn't creating an additional reason for a more aggressive path for the Bank of Canada.

Chart: US faces fiscal drag through 2023



Source: Hutchins Center Fiscal Impact Measure

Week Ahead Calendar And Forecast—Canada

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

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, March 28	-	-	-	-	-	-	-
Tuesday, March 29	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Tuesday, March 29	-	AUCTION: 3-M BILLS $8.6B, 6-M BILLS $3.2B, 1-YR BILLS $3.2B	-	-	-	-	-
Tuesday, March 29	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Jan)	-	-	-	122.2K
Wednesday, March 30	-	-	-	-	-	-	-
Thursday, March 31	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Thursday, March 31	-	AUCTION: 30-YR CANADAS $135M	-	-	-	-	-
Thursday, March 31	8:30 AM	GDP M/M	(Jan)	(H)	0.2%	0.2%	0.0%
Friday, April 1	-	-	-	-	-	-	-

Week Ahead Calendar And Forecast—United States

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

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, March 28	-	AUCTION: 2-YR TREASURIES $50B	-	-	-	-	-
Monday, March 28	-	AUCTION: 5-YR TREASURIES $51B	-	-	-	-	-
Monday, March 28	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Feb)	(M)	-$106.5B	-$106.0B	-$107.6B
Monday, March 28	8:30 AM	WHOLESALE INVENTORIES M/M	(Feb P)	(L)	-	1.20%	0.80%
Monday, March 28	8:30 AM	RETAIL INVENTORIES M/M	(Feb)	(H)	-	1.20%	1.90%
Tuesday, March 29	-	AUCTION: 7-YR TREASURIES $47B	-	-	-	-	-
Tuesday, March 29	9:00 AM	HOUSE PRICE INDEX M/M	(Jan)	(M)	-	1.30%	1.20%
Tuesday, March 29	9:00 AM	S&P CORELOGIC CS Y/Y	(Jan)	(H)	-	18.65%	18.56%
Tuesday, March 29	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Mar)	(H)	107.5	107.3	110.5
Tuesday, March 29	10:00 AM	JOLTS Job Openings	(Feb)	-	-	11000K	11263K
Tuesday, March 29	10:45 AM	Speaker: Patrick Harker (President, Philadelphia) (Non-Voter)	-	-	-	-	-
Tuesday, March 29	9:30 PM	Speaker: Raphael W. Bostic (President, Atlanta)	-	-	-	-	-
Wednesday, March 30	7:00 AM	MBA-APPLICATIONS	(Mar 25)	(L)	-	-	-8.10%
Wednesday, March 30	8:15 AM	ADP EMPLOYMENT CHANGE	(Mar)	(M)	-	438K	475K
Wednesday, March 30	8:30 AM	GDP (annualized)	(4Q T)	(H)	7.0%	7.1%	7.0%
Wednesday, March 30	8:30 AM	GDP DEFLATOR (annualized)	(4Q T)	(H)	-	7.1%	7.1%
Wednesday, March 30	9:15 AM	Speaker: Thomas I. Barkin (President, Richmond)	-	-	-	-	-
Thursday, March 31	8:30 AM	INITIAL CLAIMS	(Mar 26)	(M)	-	200K	187K
Thursday, March 31	8:30 AM	CONTINUING CLAIMS	(Mar 19)	(L)	-	-	1350K
Thursday, March 31	8:30 AM	PCE DEFLATOR Y/Y	(Feb)	(H)	6.5%	6.4%	6.1%
Thursday, March 31	8:30 AM	PCE DEFLATOR Y/Y (core)	(Feb)	(H)	5.5%	5.5%	5.2%
Thursday, March 31	8:30 AM	PERSONAL INCOME M/M	(Feb)	(H)	0.5%	0.5%	0.0%
Thursday, March 31	8:30 AM	PERSONAL SPENDING M/M	(Feb)	(H)	0.6%	0.5%	2.1%
Thursday, March 31	9:45 AM	CHICAGO PMI	(Mar)	(M)	-	56.8	56.3
Thursday, March 31	9:00 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, April 1	8:30 AM	NON-FARM PAYROLLS	(Mar)	(H)	490K	475K	678K
Friday, April 1	8:30 AM	UNEMPLOYMENT RATE	(Mar)	(H)	3.7%	3.7%	3.8%
Friday, April 1	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Mar)	(H)	0.3%	0.4%	0.0%
Friday, April 1	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Mar)	(H)	-	34.7	34.7
Friday, April 1	8:30 AM	MANUFACTURING PAYROLLS	(Mar)	(H)	-	30K	36K
Friday, April 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Mar F)	(L)	-	-	58.5
Friday, April 1	10:00 AM	ISM - MANUFACTURING	(Mar)	(H)	59.3	58.3	58.6
Friday, April 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Feb)	(M)	-	1.0%	1.3%
Friday, April 1	-	NEW VEHICLE SALES	(Mar)	(M)	-	14.05M	14.07M

Week Ahead's market call

by Avery Shenfeld

In the **US**, our forecasts sit a touch above the consensus for some of the key readings in the week ahead, including employment, the factory ISM, and personal spending. The last two of these might not be as good as they'll look at first glance. Elevated prices will make the spending numbers seem weak in real terms. Supply chain difficulties (more tied to Chinese Covid shutdowns than to the war in Ukraine) could lift the supplier-delivery indicator, and the ISM index treats increased delays as a sign of strong demand, rather than the disruption to output that it is today. Consumer confidence is weakening as Americans fear that their incomes are falling behind price increases. But as long as the jobs figures are solid, markets are likely to retain the view that the Fed will want to do a 50 bp hike at its next meeting.

In **Canada**, if January GDP matches our 0.2% forecast, that's not bad given the Covid wave hit services hard that month, and we expect a significant acceleration in the flash reading for February. Markets don't tend to pay much attention to the very lagged payrolls data, as these are for back in January, and the following week we'll get the March household survey employment figures. But they include one of the wage measures that the Bank of Canada tracks, and as it accelerated in Q4, it's worth a look to see how much that carried over into January.

Week Ahead's key Canadian number: GDP—January

(Thursday, 8:30 am)

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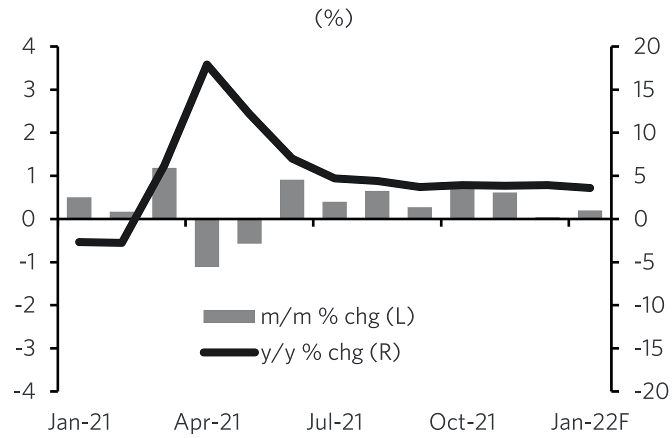
Variable (%)	CIBC	Mkt	Prior
GDP m/m (Jan)	0.2	0.2	0.0

Chart: Canadian GDP at basic prices (%)



Source: Statistics Canada, Haver Analytics, CIBC

Canada's economy in January was a mix of the good, the bad and the ugly. Ugly jobs numbers centred on an Omicron hit to high touch services, although restaurants, having not seen the usual December holiday dinners, didn't quite suffer as large a seasonally adjusted drop in January revenues as we might have expected. There was bad news for manufacturing and exports with a drop in real volumes. But retailing had a banner month, and wholesale trade also managed to advance. That could have been enough to allow GDP to grow by 0.2%, matching Statistics Canada's earlier flash estimate.

This release will also include the flash estimate for February, which should register considerably firmer growth even though retailing retreated, given that employment registered a stellar gain that month. A relaxation of public health rules benefited services activities. Protests that closed some border crossings seem to have ended early enough in the month to have avoided any serious dent in GDP, as evidenced by a strong month for manufacturing.

Forecast implications — A 0.2% gain in January, a month in which we had originally looked for an outright decline, and a stronger flash reading for the advance in February, would tilt us toward an upward revision to our Q1 GDP estimate. The second quarter is a mixed picture. Another Covid wave seems to be brewing, and gasoline prices will dent consumers' spending power. Export sectors could see winners in some resource products, but supply chain issues and slower global growth look to impede non-resource exporters.

Market impact — The market response will likely key on just how strong the flash estimate for February looks. But there's a lot of hawkishness already priced-in for the Bank of Canada at this point, and we expect more weight to be put on the employment data due the following week.

Week Ahead's key US number: Employment situation—March

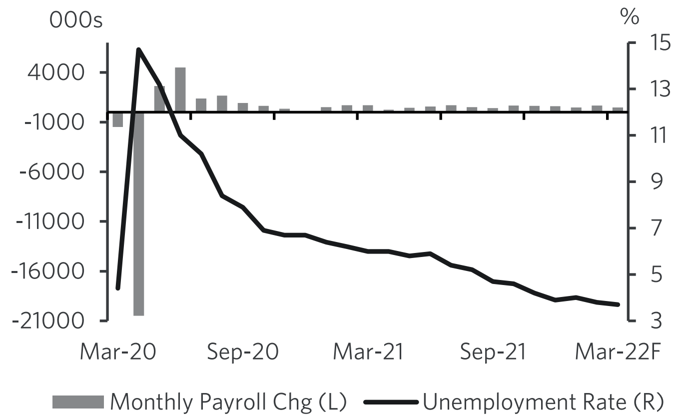
(Friday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable	CIBC	Mkt	Prior
Employment (m/m)	490K	475K	678K
Unemployment rate	3.7%	3.7%	3.8%
Avg hourly earnings (m/m)	0.3%	0.4%	0.0%

The fall in jobless claims continued in the US in March as services activity ramped up with the tapering off of new Covid cases. Employers likely added 490K to headcounts, with gains being concentrated in private services that were adversely impacted by the pandemic. Indeed, the leisure and hospitality sector is still short 1.5mn employees relative to pre-pandemic levels, while the job openings rate remained elevated in that industry even during the Omicron wave. Higher wages were likely on offer in an attempt to overcome the ongoing labor shortage, but with hiring likely skewed towards lower paying positions within already lower value-added sectors, aggregate wages could have shown an only moderate 0.3% advance.

Chart: US Payroll employment



Source: BLS, Haver Analytics, CIBC

Forecast implications — Another strong month of hiring would add to the urgency for further Fed tightening, with a 50bps hike likely in store at the next FOMC.

Market impact — We're close enought to the consensus forecast to imply little market impact.

Other US Releases: Advance international trade in goods—February

(Monday, 8:30 am)

The advance international trade deficit in goods in the US could have narrowed in February, from a record wide level. That would reflect a sharp rise in export prices relative to import prices, and the global easing in Omicron cases could have supported shipments of US goods. Still, the need for US businesses to replenish slim inventories of goods will support imports, leaving the overall advanced goods trade deficit only modestly slimmer at $106.5bn. Looking ahead, China's Covid lockdown will weigh on imports.

Personal income and spending—February

(Thursday, 8:30 am)

With Omicron cases fading in February, indicators of services activity showed improvement, including TSA airport screenings and restaurant traffic. The start of the shift in spending towards services likely supported a 0.6% gain in total spending, which implies a contraction in real terms as prices rose strongly in February. Indeed, the Fed's targeted prices measure, PCE prices, likely accelerated to 6.5% y/y, while core PCE prices could have reached 5.5% y/y. Incomes likely rebounded following the end of the Child Tax Credit payments in January, growing by 0.5%, and implying that excess savings were drawn down a bit.

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