Economics

THE WEEK AHEAD

March 7-11, 2022

After the hot war, the cold war world

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

A week ago, we laid out some of the short-term economic implications of the tragedy unfolding in Ukraine: more inflation, fresh supply chain disruptions, a dent to US and European growth as consumers face an energy price squeeze, but for an oil exporting county like Canada, likely not that much of hit to growth overall. Canada might actually see some additional spending to support a flow of refugees, given its large Ukrainian diaspora community. Still, that's hardly the end of the story.

One way or another, the current conflict in Ukraine will come to an end. Given the destructive power of today's weaponry, all out army-versus-army wars end much, much sooner than the 100 Years War of Europe's distant past, as there would be little left to fight over long before that.

Russia could still face a protracted war of attrition against an armed and determined populace. But even if the war is short lived, only some of the economic consequences of Putin's shocking gambit are likely to be. Energy prices would partially retreat if Russia isn't cut off from all export markets, and the risk premium built into today's prices fades. Grain prices might soften next year if only this year's harvests are impacted.

But Putin has already gone too far for other countries to kiss and make up with him, even if a cease fire is reached. Barring a regime change in Moscow, Russia will be a pariah state, and that portends a return to some version of a Soviet-era cold war in its relations with other countries. China could be the lone major exception, but it faces some pressure to choose sides.

Germany announced an increase in defense spending, and expect other NATO countries to follow suit to at least some extent. So the technology industry might lose customers in Russia, but defense related tech goods will see larger gains elsewhere.

On the energy front, Europe should have long ago questioned its dependence on Russian gas. Doing so now will entail an expanded use of renewables, efforts at conservation, and could even spark a rethink of Germany's rejection of nuclear power. But longer term, there's also an opportunity for an expansion of non-Russian LNG shipments, and even if those don't come from Canada, the diversion of other LNG flows to Europe could open doors for our sector, if we choose to walk through them.

Russia's oil sector will see headwinds to its production path as it loses partnerships with global oil companies. But the democratic world might also question its willingness to be so reliant on oil exports from a list of countries led by people who's values are so different from those we hold dear, and who sometimes act like that's the case.

First and foremost, given climate concerns, that should promote greater efforts at conservation and electrification. But it might also shift political momentum towards fitting in a bit more growth in North American oil production until technology weans the world off more of its use, while devoting more public funds to limiting or offsetting the greenhouse gas emissions associated with that output. The democratic world's dependence on Russia for certain key metals will also be called into question, and could prompt public support for efforts to expand elsewhere.

More broadly, the cool state of relations between the US and China, the fragility of supply chains during the pandemic, and now the cold war with Russia, add to a broader story in which America is seeking greater self-reliance in tech and health related goods, among other products. That poses a danger for trade-oriented countries like Canada, since it can also lead to a general increase in protectionism of the sort built into the Build Back Better's tax credits for US-assembled electric vehicles. Canada's foreign policymakers, and its business leaders, need to be laser focused on ensuring that North America and Europe pull together economically, not apart, if relations are now more challenged with both Russia and China.

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 7	-	-	-	-	-	-	-
Tuesday, March 8	8:30 AM	MERCHANDISE TRADE BALANCE	(Jan)	(H)	$1.5B	-	-$0.14B
Wednesday, March 9	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Wednesday, March 9	-	AUCTION: 30-YR RRB $300M	-	-	-	-	-
Thursday, March 10	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Thursday, March 10	-	AUCTION: 2-YR CANADAS $3.5B	-	-	-	-	-
Friday, March 11	8:30 AM	CAPACITY UTILIZATION	(Q4)	(L)	-	-	81.4%
Friday, March 11	8:30 AM	EMPLOYMENT CHANGE	(Feb)	(H)	125K	-	-200.1K
Friday, March 11	8:30 AM	UNEMPLOYMENT RATE	(Feb)	(H)	6.3%	-	6.5%

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 7	8:30 AM	CONSUMER CREDIT	(Jan)	(L)	-	$24.00B	$18.89B
Tuesday, March 8	-	AUCTION: 3-YR TREASURIES $48B	-	-	-	-	-
Tuesday, March 8	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Jan)	(H)	-$87.1B	-$87.1B	-$80.7B
Wednesday, March 9	-	10-YR AUCTION: $34B	-	-	-	-	-
Wednesday, March 9	7:00 AM	MBA-APPLICATIONS	(Mar 4)	(L)	-	-	-0.7%
Wednesday, March 9	10:00 AM	JOLTS Job Openings	(Jan)	-	-	10968K	10925K
Thursday, March 10	-	30-YR AUCTION: $20B	-	-	-	-	-
Thursday, March 10	8:30 AM	INITIAL CLAIMS	(Mar 5)	(M)	-	220K	215K
Thursday, March 10	8:30 AM	CONTINUING CLAIMS	(Feb 26)	(L)	-	-	1476K
Thursday, March 10	8:30 AM	CPI M/M	(Feb)	(H)	0.7%	0.8%	0.6%
Thursday, March 10	8:30 AM	CPI M/M (core)	(Feb)	(H)	0.5%	0.5%	0.6%
Thursday, March 10	8:30 AM	CPI Y/Y	(Feb)	(H)	7.8%	7.9%	7.5%
Thursday, March 10	8:30 AM	CPI Y/Y (core)	(Feb)	(H)	6.4%	6.4%	6.0%
Thursday, March 10	2:00 PM	TREASURY BUDGET	(Feb)	-	-	-	$118.7B
Friday, March 11	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Mar P)	(H)	-	62.5	62.8

Week Ahead's market call

by Avery Shenfeld

In the **US**, and for that matter, just about everywhere else, news from Ukraine is likely to continue to take prominence over economic data in steering market sentiment in the coming week. We'll see another big jump in the 12-month pace for core CPI for February, and of course, lying in wait for March will be another big step up for energy prices. Remember, however, that the scale of Fed rate hikes will be more closely tied to what it takes to moderate US growth sufficiently to rein in inflation by 2023 than to just how high the CPI peaks this year. Powell isn't going to aim at causing a recession in order to "help" Americans deal with costlier oil and gasoline. Trade data are also on tap, with another large deficit likely, but the FX market not focused much on the trade fundamentals these days.

In **Canada**, its likely to take a couple of months to recoup the jobs decline suffered in a retightening of public health restraints on services in January, but that likely still implies a hefty bounce back in the February report, shaving a couple of ticks off of January's elevated jobless rate. The goods trade balance likely tipped back into the black in January, and energy, grains and materials prices hikes will mean that there's more to come on that front in the next few months.

Week Ahead's key Canadian number: Labour force survey—February

(Friday, 8:30 am)

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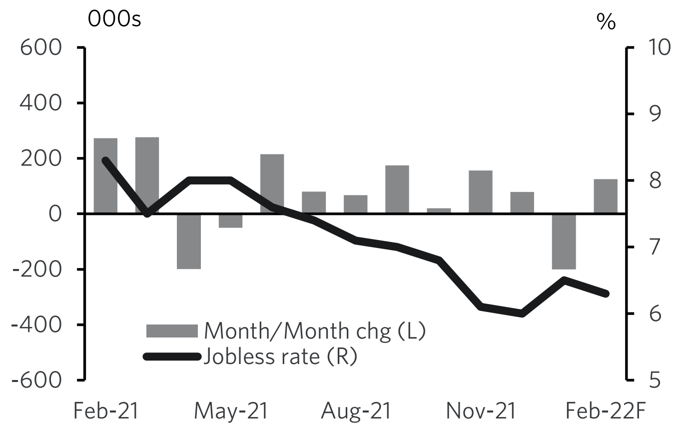
Variable	CIBC	Mkt	Prior
Employment (m/m)	125K	-	-200.1K
Unemployment rate	6.3%	-	6.5%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Provincial economies had started to reopen by the beginning of February, which should have spurred a rebound in employment particularly within service industries. However, with capacity limits still in place in some populous provinces and not lifted until after the mid-month survey period, a full recovery back to December levels may have to wait until next month. Disruptions in supply chains due to recent protests may have also had a temporary negative impact on employment within the manufacturing sector.

With labour force participation likely to rise again alongside the reopening of service industries and decline in Omicron cases from their January peak, the unemployment rate is expected to fall fairly modestly to 6.3%, from 6.5% in the prior month. Due to continued, and relatively strong, growth in the working age population, a recovery in the unemployment rate back to its December 2021 level could take a couple more months.

Forecast implications — The reopening of services after the Omicron wave will give a nice boost to employment but, as we have seen time and time again over the course of the pandemic, will likely have a more moderate impact on GDP growth.

Other Canadian releases: Merchandise trade balance—January

(Tuesday, 8:30 am)

The trade balance dipped slightly back into deficit in December, but should have returned to a solid surplus position in January. Energy prices rebounded during the month, and have of course continued to move higher since. Moreover, US trade data suggested a decline in their exports of autos (potentially Canadian imports), but a continued increase in imports (potentially exports from Canada). The $1.5bn surplus we forecast would be broadly in line with the average seen between July and November last year.

Week Ahead's key US number: Consumer price index—February

(Thursday, 8:30 am)

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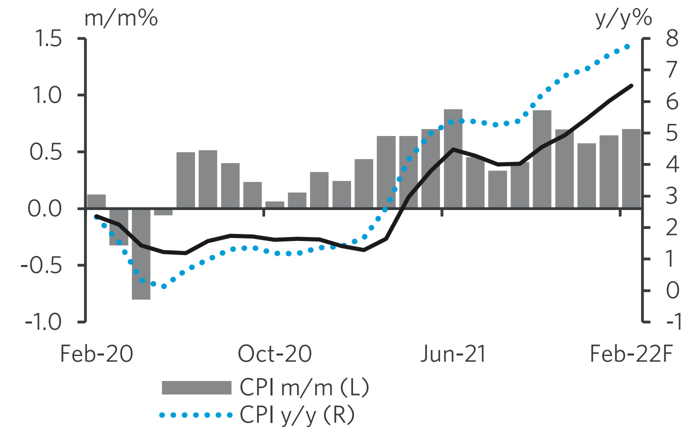
Consumer price index (%)	CIBC	Mkt	Prior
Headline CPI m/m	0.7	0.8	0.6
Headline CPI (y/y)	7.8	7.9	7.5
Core CPI m/m	0.5	0.5	0.6
Core CPI y/y	6.4	6.4	6.0

Chart: US Consumer price index



Source: BLS, Haver Analytics, CIBC

Inflation is set to accelerate further in the US in February as higher energy prices combined with rising labor costs, and strong demand in core categories, will likely leave total inflation at 7.8%. The expected acceleration in core inflation to 6.4% will be magnified by a weak year-ago base reading, while its largest component, shelter, is set to gain momentum as leases continue to reset alongside the return of activity to cities. A normalization in behavior as Omicron faded could have also supported core service prices for transportation, as airport screenings rose.

Forecast implications — The jump in energy prices on the war in Ukraine will leave inflation elevated for longer than thought, while fresh supply bottlenecks in sectors that rely on Russian suppliers will add to the upwards pressure. However, the price indices will be lapping some strong year-ago readings over the next few months that could offset some of those forces and inflation is therefore likely to decelerate over the second quarter, assuming that supply disruptions don't become more widespread.

Market impact — We are in line with the consensus on the core measure, and a tick below on the headline. With Powell already suggesting that a 25bps hike was imminent at the March FOMC, market reaction should be limited.

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