

Economics

THE WEEK AHEAD

November 22-26, 2021

The climate *is* the business climateby Avery Shenfeld avery.shenfeld@cibc.com

In the space of two weeks, the message was unmistakable. The business climate of the country is now inexorably tied to the climate itself. That will include how the world attempts to meet what we agreed to in Glasgow on combating climate change, but also how we will cope with the impacts of the climate change that we have failed to prevent.

The Glasgow meeting itself was seen as a cup half empty, cup half full event. Even so, it still saw considerable progress on many fronts (carbon trading, methane emissions, etc.,) and had Canada agree to a hard cap and future reductions in our energy sector's greenhouse gas emissions.

But Canada also got a lesson in how, with potentially trillions in expenditures involved in reconfiguring the world's power, energy, industrial and transportation sectors, governments are going to try to capture those dollars for their own corporate players. The Biden administration continues to press ahead with a bill that would restrict a generous credit for buyers of electric vehicles to those made in the US.

Such vehicles could one day represent virtually the entire auto sector, so an incentive to locate production stateside is a head-on assault on the Canada-US-Mexico trade pact. America's infrastructure program, some of which is directed at climate change initiatives, also has Buy America provisions. On the plus side, some see the establishment of a global carbon trading system as a way for Canada to earn credits that could help finance energy sector efforts at carbon capture.

The other message this week was that with climate change not stopped in its tracks, there's a booming market ahead for the adaptations needed to protect citizens and the economy from its hazards, and to make the required adjustments in weather-sensitive sectors like agriculture.

No single weather event can be directly attributable to climate change. But this past week's disastrous flooding in B.C., like the province's record heat wave and destructive fires just months

ago, have the hallmarks of a shifting climate. A study by the Insurance Bureau of Canada found that, over the period from 1983 to 2019, four of the five years with the largest inflation-adjusted insurable losses from natural disasters took place since 2011. A similar rising trend has been seen in costs borne by governments for weather-related disaster relief.

We've been flooded with questions about how much of a dent the BC flood will mean for the economy, and while its too soon to get a quantitative handle on that, it will certainly be large enough to be material for near term GDP data.

To prevent such costs from escalating, public and private infrastructure assets will have to be hardened or relocated. A UN analysis suggests that emerging market countries, many of which are particularly vulnerable to weather events, will have to spend hundreds of billions of dollars per annum to fend off climate change impacts. Foreign aid will have to be part of that plan in the poorest of countries.

Here at home, a study by the Federation of Canadian Municipalities estimated that, just to deal with public infrastructure adaptation, cities will need to spend over \$5 billion per annum, or about a quarter of a percent of GDP. Stateside, the US House just approved \$105 bn towards such projects as a part of the \$2 tn package.

While these are costs to be borne by taxpayers, along with the private spending needed to combat climate change, such projects also represent a business opportunity, both at home and abroad. Canada is the base for world class engineering firms, and manufacturers for some of the industrial materials and supplies involved in infrastructure projects. Automotive and other equipment industries that will be adjusting to climate change policies are also major export sectors. If the climate is now a key part of the business climate, we'll need to ensure that trade barriers don't shut us out from what will be a lucrative global market.

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, November 22	-	AUCTION: 3-YR CANADAS \$3B	-	-	-	-	-
Tuesday, November 23	-	AUCTION: 3-M BILLS \$8B, 6-M BILLS \$3B, 1-YR BILLS \$3B	-	-	-	-	-
Tuesday, November 23	1:00 PM	Speaker: 1:00 PM Paul Beaudry (Deputy Gov.)	-	-	-	-	-
Wednesday, November 24	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Wednesday, November 24	-	AUCTION: 30-YR CANADAS \$2B	-	-	-	-	-
Thursday, November 25	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Thursday, November 25	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Sep)	-	-	-	-
Friday, November 26	-	-	-	-	-	-	-

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, November 22	-	AUCTION: 2-YR TREASURIES \$58B	-	-	-	-	-
Monday, November 22	-	AUCTION: 5-YR TREASURIES \$59B	-	-	-	-	-
Monday, November 22	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Oct)	(M)	-	-	-0.13
Monday, November 22	10:00 AM	EXISTING HOME SALES SAAR	(Oct)	(M)	-	6.20M	6.29M
Monday, November 22	10:00 AM	EXISTING HOME SALES M/M	(Oct)	(M)	-	-1.4%	7.0%
Tuesday, November 23	-	AUCTION: 2-YR FRN \$24B	-	-	-	-	-
Tuesday, November 23	-	AUCTION: 7-YR TREASURIES \$59B	-	-	-	-	-
Tuesday, November 23	8:30 AM	MARKIT US MANUFACTURING PMI	(Nov P)	(L)	-	58.7	58.4
Tuesday, November 23	8:30 AM	MARKIT US SERVICES PMI	(Nov P)	(L)	-	59.0	58.7
Tuesday, November 23	8:30 AM	MARKIT US COMPOSITE PMI	(Nov P)	(L)	-	-	57.6
Tuesday, November 23	10:00 AM	RICHMOND FED MANUF. INDEX	(Nov)	(M)	-	10	12
Wednesday, November 24	7:00 AM	MBA-APPLICATIONS	(Nov 19)	(L)	-	-	-2.8%
Wednesday, November 24	8:30 AM	INITIAL CLAIMS	(Nov 20)	(M)	-	255K	268K
Wednesday, November 24	8:30 AM	CONTINUING CLAIMS	(Nov 13)	(L)	-	-	2080K
Wednesday, November 24	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Oct)	(M)	-\$95.6B	-\$94.9B	-\$96.3B
Wednesday, November 24	8:30 AM	WHOLESALE INVENTORIES M/M	(Oct P)	(L)	-	-	1.4%
Wednesday, November 24	8:30 AM	RETAIL INVENTORIES M/M	(Oct)	(H)	-	-	-0.2%
Wednesday, November 24	8:30 AM	GDP (annualized)	(Q3 S)	(H)	2.1%	2.2%	2.0%
Wednesday, November 24	8:30 AM	GDP DEFLATOR (annualized)	(Q3 S)	(H)	-	5.7%	5.7%
Wednesday, November 24	8:30 AM	DURABLE GOODS ORDERS M/M	(Oct P)	(H)	-0.4%	0.2%	-0.3%
Wednesday, November 24	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Oct P)	(H)	0.0%	0.5%	0.5%
Wednesday, November 24	10:00 AM	PCE DEFLATOR Y/Y	(Oct)	(H)	5.1%	5.1%	4.4%
Wednesday, November 24	10:00 AM	PCE DEFLATOR Y/Y (core)	(Oct)	(H)	4.1%	4.1%	3.6%
Wednesday, November 24	10:00 AM	PERSONAL INCOME M/M	(Oct)	(H)	-0.1%	0.2%	-1.0%
Wednesday, November 24	10:00 AM	PERSONAL SPENDING M/M	(Oct)	(H)	1.0%	0.9%	0.6%
Wednesday, November 24	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Nov F)	(H)	-	66.8	-
Wednesday, November 24	10:00 AM	NEW HOME SALES SAAR	(Oct)	(M)	820K	794K	800K
Wednesday, November 24	10:00 AM	NEW HOME SALES M/M	(Oct)	(M)	-	-0.8%	14.0%
Wednesday, November 24	2:00 PM	FOMC Meeting Minutes	(Nov 3)	-	-	-	-
Thursday, November 25	-	Markets Closed (Thanksgiving Day)	-	-	-	-	-
Friday, November 26	-	-	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, a holiday shortened week will also be fairly light on the data front. We're a bit below consensus for durables orders, in line with expectation for the PCE price index, and look for inflation to have boosted nominal gains in personal spending. The Fed minutes can't be very revealing at this point, since the decision on tapering is behind us, and there won't yet have been much chatter the timing for the first rate hike. But we'll be eyeing the discussion on inflation to see how many FOMC members are wavering in their views on whether this is all just transitory.

In **Canada**, there are no major data releases, but we'll be getting further insights on how much disruption there will be from the BC floods and their hit to transportation and pipeline networks. Canada's payrolls data, due on Thursday, gets little market attention as it lags behind the household survey (LFS) data, but it has earnings data that are part of the Bank of Canada's composite measure for wage inflation, clearly an important topic these days.

There are no major Canadian data releases next week.

Week Ahead's key US number: Personal income and outlays—October

(Wednesday, 10:00 am)

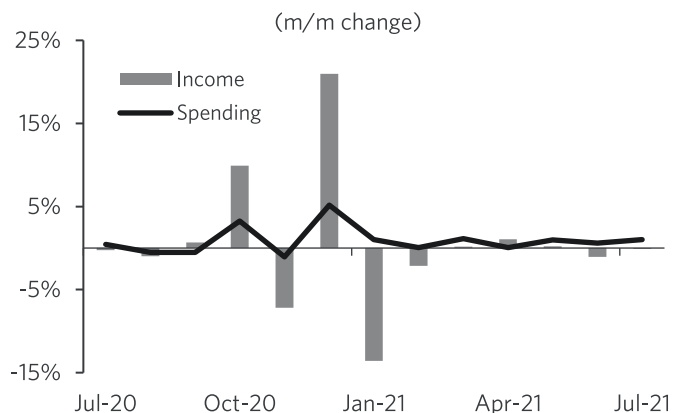
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Personal income and outlay (%)	CIBC	Mkt	Prior
Personal income (m/m)	-0.1	0.2	-1.0
Personal spending (m/m)	1.0	0.9	0.6
Core PCE price index (y/y)	4.1	4.1	3.6

Spending likely accelerated to 1.0% in October as an early start to the holiday shopping season boosted spending on goods, while services spending could have been supported by the deceleration in new Covid cases for most of the month. However, incomes likely fell by a further 0.1%, reflecting the timing of the end of expanded unemployment benefits, with October being the first full month without those measures in place.

Price pressures likely heated up, with total PCE price inflation rising to 5.1% y/y, and core PCE prices accelerating to 4.1% y/y, or 2.8% annualized from pre-pandemic levels.

Chart: US Personal income and spending



Source: BEA, Haver Analytics, CIBC

Forecast implications — While spending on goods looks to be off to a solid start in the fourth quarter, the outlook for services spending has deteriorated along with the recent acceleration in new Covid cases. Although core PCE price inflation is likely to reach the highest level seen since early 1991, the level of excess savings suggests that consumers are less price sensitive than in normal economic times, and incomes are poised to rise in November with the distortion related to the end of unemployment benefits fading away.

Market impact — We are above the consensus on the spending figure but below on incomes. A mix result that could see no market reaction.

Other US Releases: Durable goods orders—October

(Wednesday, 8:30 am)

Durable goods orders likely contracted by 0.4% in October as supply chain issues continued to weigh on the transportation equipment sector, while the pop in defense orders from the prior month likely reversed. Excluding transportation, new orders could have been flat as the ISM's new orders sub-index plunged. While capital goods orders should be supported by a cyclical improvement in demand as capacity utilization in the industrial sector continues to improve, orders for non-auto consumer durables have less room for continued growth after outsized gains during the pandemic.

Advanced goods trade balance—October

(Wednesday, 8:30 am)

The goods trade deficit reached a record wide level in September as exports were stifled by supply chain issues and a weak global growth backdrop, in addition to Hurricane Ida. Import prices rebounded in October, and US demand for foreign goods to replenish inventories remained strong. At the same time, production of industrial supplies impacted by Hurricane Ida was limited, suggesting that exports didn't make up all of the lost ground from September. The deficit should have therefore remained wide at -\$95.6bn.

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