Economics

THE WEEK AHEAD

August 30-September 3, 2021

Not all trillions are alike

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

We made sizeable revisions to our US forecast to account for the stimulus package delivered in the opening weeks of the Biden administration, which came close on the heels of a huge Trump stimulus bill.

So why have we been largely silent about the trillions now bundled into two separate proposals moving through Congress? In part, because the larger $3.5 tn package is no sure thing. Among Democrats, Senator Sinema is opposed to it, and Senator Manchin has said he might vote yes on this initial bill to keep the discussions going, but would oppose the actual appropriations needed to spend money at that scale.

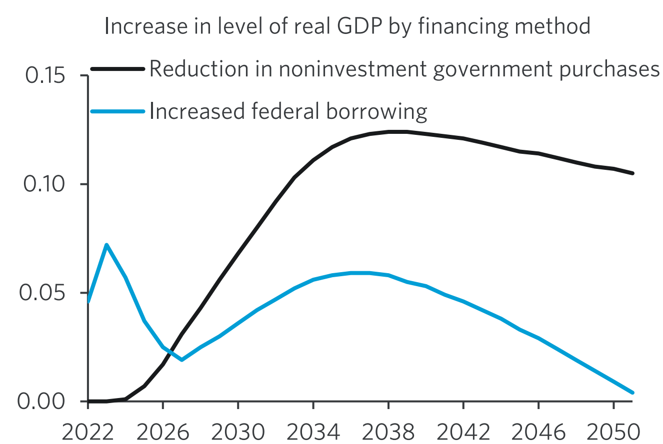
Passage might then depend on paring back the spending, and coming up with much more of a clear revenue offset, in the form of higher tax rates. That makes that $3.5 trillion deal much less of a net fiscal stimulus than a reallocation of activity within the economy. It has provisions that could be transformative for sectors of the economy and on climate change. But we'll await more details on which tax and spending programs actually get through to reach any judgement on it.

The bipartisan infrastructure bill, which adds some $550 bn in new spending on traditional hard infrastructure, has a much cleaner route to passage, as long as left-leaning House Democrats don't make it hostage to the approval of the $3.5 tn deal. But while a half trillion seems like a big number, it's not when stretched out over several years, as infrastructure spending inevitably is. And like the larger bill, there are revenue offsets, so the net stimulus is roughly $260 billion over 10-years.

And that, my friends, is a drop in a bucket for an economy as large as that of the US. The Congressional Budget Office modelled the impact of a similar $0.5 trillion infrastructure lift, with or without offsetting spending cuts elsewhere. In either case, we're talking small decimal places to the level of GDP in any given year (Chart).

The good news is that there's still lots of fiscal stimulus to support the coming year's growth. The roughly $3 trillion from the earlier Trump/Biden packages has been largely doled out, but a sizeable portion remains to be spent by the households, businesses and local governments that received it. When we get through this next, and hopefully final major Covid wave, those trillions will be a key driver in our 2022 outlook.

Chart: Minimal impact of $500bn in US infrastructure spending



Source: CBO

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Significance

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Significance	CIBC	Consensus	Prior
Monday, August 30	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Monday, August 30	8:30 AM	CURRENT ACCOUNT BAL.	(Q2)	(M)	$0.5B	-	$1.2B
Tuesday, August 31	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Tuesday, August 31	-	AUCTION: 3-M BILLS $8B, 6-M BILLS $3B, 1-YR BILLS $3B	-	-	-	-	-
Tuesday, August 31	8:30 AM	GDP M/M	(Jun)	(H)	0.7%	-	-0.3%
Tuesday, August 31	8:30 AM	GDP (annualized)	(Q2)	(H)	2.5%	-	5.6%
Wednesday, Sep 1	-	AUCTION: 30-YR Real Return Bond (RRB): $0.3B	-	-	-	-	-
Wednesday, Sep 1	8:30 AM	LEADING INDICATORS M/M	(Jul)	(L)	-	-	1.6%
Thursday, Sep 2	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Thursday, Sep 2	-	AUCTION: 10-YR CANADAS $5B	-	-	-	-	-
Thursday, Sep 2	8:30 AM	MERCHANDISE TRADE BALANCE	(Jul)	(H)	$1.2B	-	$3.2B
Thursday, Sep 2	8:30 AM	BUILDING PERMITS M/M	(Jul)	(M)	-	-	6.9%
Friday, Sep 3	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(Q2)	(M)	-	-	-1.7%

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Significance

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Significance	CIBC	Consensus	Prior
Monday, Aug 30	10:00 AM	PENDING HOME SALES M/M	(Jul)	(M)	-	0.3%	-1.9%
Tuesday, Aug 31	9:00 AM	HOUSE PRICE INDEX M/M	(Jun)	(M)	-	1.9%	1.7%
Tuesday, Aug 31	9:00 AM	S&P CORELOGIC CS Y/Y	(Jun)	(H)	-	-	17.0%
Tuesday, Aug 31	9:45 AM	CHICAGO PMI	(Aug)	(M)	-	68.0	73.4
Tuesday, Aug 31	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Aug)	(H)	123.0	123.0	129.1
Wednesday, Sep 1	7:00 AM	MBA-APPLICATIONS	(Aug 27)	(L)	-	-	1.6%
Wednesday, Sep 1	8:15 AM	ADP EMPLOYMENT CHANGE	(Aug)	(M)	-	650K	330K
Wednesday, Sep 1	9:45 AM	MARKIT US MANUFACTURING PMI	(Aug F)	(L)	-	61.2	61.2
Wednesday, Sep 1	10:00 AM	ISM - MANUFACTURING	(Aug)	(H)	57.8	58.6	59.5
Wednesday, Sep 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Jul)	(M)	-	0.2%	0.1%
Wednesday, Sep 1	-	NEW VEHICLE SALES	(Aug)	(M)	-	15.00M	14.75M
Wednesday, Sep 1	12:00 PM	Speaker: Raphael W. Bostic (President, Atlanta) (Voter)	-	-	-	-	-
Thursday, Sep 2	8:30 AM	INITIAL CLAIMS	(Aug 28)	(M)	-	349K	353K
Thursday, Sep 2	8:30 AM	CONTINUING CLAIMS	(Aug 21)	(L)	-	-	2862K
Thursday, Sep 2	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Jul)	(H)	-$70.0B	-$74.5B	-$75.7B
Thursday, Sep 2	8:30 AM	NON-FARM PRODUCTIVITY	(Q2 F)	(M)	-	2.4%	2.3%
Thursday, Sep 2	10:00 AM	FACTORY ORDERS M/M	(Jul)	(M)	0.2%	0.4%	1.5%
Thursday, Sep 2	1:00 PM	Speaker: Raphael W. Bostic (President, Atlanta) (Voter)	-	-	-	-	-
Friday, Sep 3	8:30 AM	NON-FARM PAYROLLS	(Aug)	(H)	900K	750K	943K
Friday, Sep 3	8:30 AM	UNEMPLOYMENT RATE	(Aug)	(H)	5.2%	5.2%-	5.4%
	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Aug)	(H)	0.3%	0.3%	0.4%
Friday, Sep 3	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Aug)	(H)	-	34.8	34.8
Friday, Sep 3	8:30 AM	MANUFACTURING PAYROLLS	(Aug)	(H)	-	35K	27K
Friday, Sep 3	9:45 AM	MARKIT US SERVICES PMI	(Aug F)	(L)	-	55.2	55.2
Friday, Sep 3	9:45 AM	MARKIT US COMPOSITE PMI	(Aug F)	(L)	-	-	55.4
Friday, Sep 3	10:00 AM	ISM - SERVICES	(Aug)	(M)	63.0	62.0	64.1

Week Ahead's market call

by Avery Shenfeld

In the **US**, judging by the plethora of unfilled jobs and the downtrend in jobless claims, hiring could be a bit brisker than consensus expectations for August, as employers continued their recruitment efforts, even with economic growth showing some signs of a near-term deceleration. Wage gains within sectors aren't as moderate as they will appear in average earnings, since hiring is now tilted to lower end services jobs. We're looking for only a bit of a cooling in the ISM indicators, expecting more of the deceleration in services to be apparent when we get the subsequent month's figures.

In **Canada**, the trade balance is likely to narrow from an elevated prior month, but the attention will be on monthly and quarterly GDP reports. It looks like 2021 will be a year in which odd numbered quarters see growth spurts, while these data for Q2, and likely further ahead for Q4, show notable moderations. Just the fact that Q2 ended on a solid note helps set us up for that stronger Q3, and there was more where that came from in July as we got a lift from reopening services during the summer's trough in Covid-19.

Week Ahead's key Canadian number: GDP—June and Q2

(Tuesday, 8:30 am)

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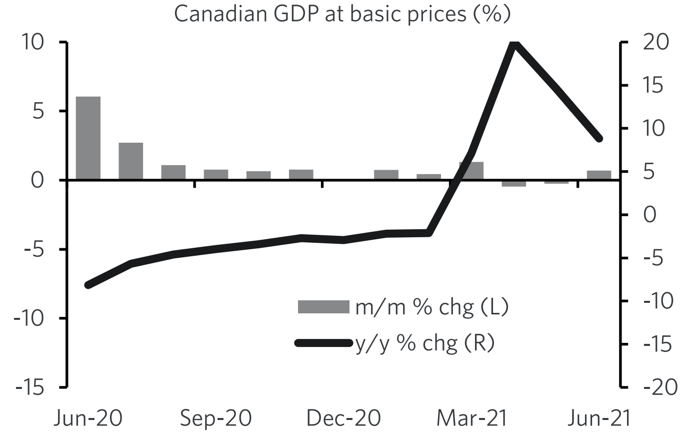
Variable (%)	CIBC	Mkt	Prior
GDP Dec (m/m)	0.7%	-	-0.3%
GDP Q2 (q/q SAAR)	2.5%	-	5.6%

Chart: Canadian GDP



Source: Statistics Canada, Haver Analytics, CIBC

Even the harsh restrictions during the third wave couldn't hold back Canada's economy. From April to June, GDP looks likely to have advanced at a 2 ½% annualized pace. The housing market was again a star performer, with both construction and resales propelling the economy forward despite necessary lockdowns in many parts of the country. Import data suggests that businesses were making up for lost time, buying more machinery and equipment during the period too. While spending on services was clearly held back in the second quarter, it would seem like households were able to find ways to make other purchases. As a result, consumption should also have been able to post a modest growth rate. That said, look for the savings rate to have remained elevated as incomes continued to easily outpace spending.

While the details of the national accounts will be useful in understanding how the economy responded to the last Covid wave, the most important information will be Statistics Canada's flash estimate of July GDP. The June estimate suggested a 0.7% advance. While the early reports on retailing, wholesaling and manufacturing all revealed declines in activity in July, the growth in previously unavailable services activity looks to have easily offset those contractions. Across the country provinces were reopening economies, so we've penciled in just under 1% growth for the month driven by those services.

Forecast implications — A strong handoff from June and a solid beginning to the quarter in July should set the stage for a barnburner Q3 for GDP. That said, with the fourth wave now here, it seems likely that growth this fall and winter will be more subdued than previously anticipated.

Other Canadian releases:

Current account balance—Q2

(Monday, 8:30 am)

For the first time in years, Canada's current account moved back into surplus territory in Q1, and it seems like there's a chance it remained there in the second quarter. Despite a weak showing for real exports during the period, nominal outbound shipments rose on the back of higher prices, particularly for energy products. As a result, the nominal goods trade balance was firmly in surplus territory. That said, services imports showed more signs of life, leaving a services trade deficit that almost offset the goods surplus. Taken together and along with other items, the overall current account balance likely still eked out a slight $0.5bn surplus in Q2.

Merchandise trade balance—July

(Thursday, 8:30 am)

The massive trade surplus seen in June wasn't likely repeated in July, but the overall balance seems to have easily remained above water. Rising energy prices look to have offset a slight pullback in crude oil export volumes. Higher natural gas prices also helped. That said, looking at the US trade data, it seems like imports of motor vehicles and parts might have picked up. The weakening Canadian dollar in July also would have made imports more expensive before affecting exports to the same extent. As a result, we expect the trade surplus to have been more than sliced in half in July at $1.2bn.

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

(Friday, 8:30 am)

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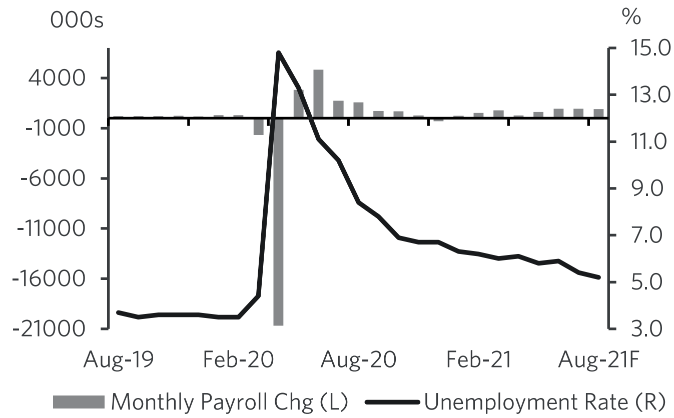
Variable	CIBC	Mkt	Prior
Employment (m/m)	900K	750K	943K
Unemployment rate	5.2%	5.2%	5.4%
Avg hourly earnings (m/m)	0.3%	0.3%	0.4%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Hiring looks to have continued at a brisk pace in August, as signalled by a further drop in jobless claims. Higher wages and recruitment efforts likely fuelled a net gain of 900K jobs. Job gains will again have been concentrated in services that have reopened, while state and local governments could have increased headcounts further, making use of recently received federal funds. The lofty gain in jobs could cause the unemployment rate to fall to 5.2% even as participation in the labor force looks set to have increased. Wage gains could have decelerated to 0.3%, still a strong print which would reflect the ongoing labor shortage.

Forecast implications — Even our projected gain in jobs would leave almost 5mn fewer Americans employed than prior to the pandemic. Unemployment benefit top-ups are in place in many larger states until early September and Covid fears remain, both holding back participation. Moreover, the spread of the Delta variant risks stretching out the recovery in service sectors.

Market impact — We're above the consensus which could be supportive for the USD and bond yields.

Other US Releases: ISM Manufacturing—July

(Wednesday, 10:00 am)

Regional manufacturing PMIs suggest a drop in the ISM's manufacturing index in August, to 57.8. Many respondents in regional surveys reported a deterioration in business conditions, while supply chain bottlenecks persisted. At 57.8, the ISM's index would still remain in healthy territory, however, suggesting that a wide breadth of firms are experiencing growth.

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