Economics

THE WEEK AHEAD

October 11-15, 2021

Some crude remarks on Canada

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

Spikes in the price of crude oil and gasoline are not all alike, at least in terms of their implications for Canada. The OPEC shocks of the 1970s sent us into a period of stagflation, with no consolation for a country that at the time was a net oil importer. In contrast, high oil prices in more recent decades, as the country grew to be a net exporter of crude, have on balance lifted Canadian growth. So how does what we're seeing now measure up?

The climb in both crude oil and natural gas prices will boost inflation as it did in the 1970s, but will also lift Canada's terms of trade, the prices of our exports relative to imports. That's the good kind of inflation, since it raises nominal GDP growth, incomes, and importantly in these fiscally-challenged times, government revenues.

But the boost to oil industry profits isn't yet generating as much of a lift to employment and capital spending. In prior decades, it was the launch of new projects that gave the greatest economic boost, rather than just the operations at existing facilities. But one spur for global oil prices is that, these days, capital isn't as quick to flow into new projects to expand supply when prices rise.

In Canada, environmental regulatory processes are a factor, along with heavy fixed costs for new oil sands projects that mean that the green light for expansion requires confidence about longer term prices. In the US, shale projects that proved to be less able to deliver adequate returns have investors wary, and the Biden administration is clearly less friendly to the sector than its predecessor. Globally, some major oil companies are repositioning themselves towards green energy. ESG objectives may also be keeping some investor money off the table.

For Canadian consumers, it's notable that although crude oil prices are still miles below prior peaks, we're already hovering very near record levels for gasoline prices. Remember, crude is only one input, albeit the most important one, in the costs of producing and delivering gasoline, and those other costs will have risen with overall inflation in labour and other inputs. The loonie has also not risen as sharply this time, keeping crude a bit more costly in C$ terms.

We're also paying a carbon tax, designed to incent Canadians to pare back fossil fuel use, but remember that the funds raised are rebated back to the public at large. The system penalizes consumers who are more profligate in their fuel purchases, while rewarding others.

Oddly, we see some strong advocates for the fight against climate change, including President Biden, urging OPEC to produce more oil and make gasoline cheaper again. If we're serious about transitioning to a less-carbon-intensive economy, some pain at the pump isn't a bad thing. In Canada, even if, as we expect, OPEC+ countries deliver more output if demand holds up, helping to ease the price crunch, drivers can't look ahead to sustained relief in gasoline prices, since we'll have to ramp up carbon taxes as a part of getting us to use transit, buy electric vehicles or ride our bicycles.

The jump in fuel prices would ordinarily bring another economic threat: a sharper or earlier climb in interest rates. Governor Macklem made clear this week that he sees the recent inflation upturn as likely to persist for longer than he had expected, and gasoline prices will be part of that story. But he's also prepared to sit this inflation spike out, viewing the slack in the economy as a sufficient cushion against it spreading into a more persistent run-up in inflation expectation or wages. Even after today's jobs report, total hours worked in the economy are still 1½% below where they were pre-pandemic, and wage inflation doesn't look threatening. That should be enough to have the Bank of Canada look past price hike for gas and other goods, and wait for full employment to be attained late next year.

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, October 11	-	Markets Closed (Thanksgiving)	-	-	-	-	-
Tuesday, October 12	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Tuesday, October 12	-	AUCTION: 3-M BILLS $8.6B, 6-M BILLS $3.2B, 1-YR BILLS $3.2B	-	-	-	-	-
Wednesday, October 13	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Wednesday, October 13	-	AUCTION: 5-YR CANADAS $4.5B	-	-	-	-	-
Thursday, October 14	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Thursday, October 14	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Aug)	(M)	0.5%	0.3%	-1.5%
Friday, October 15	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Friday, October 15	8:30 AM	WHOLESALE TRADE M/M	(Aug)	(M)	0.5%	0.5%	-2.1%
Friday, October 15	9:00 AM	EXISTING HOME SALES M/M	(Sep)	(M)	-	-	-0.5%

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, October 11	-	Treasury Markets Closed (Columbus Day)	-	-	-	-	-
Monday, October 11	-	Bond Market Closed (Columbus Day)	-	-	-	-	-
Monday, October 11	6:00 PM	Speaker: Charles L. Evans (President, Chicago) (Voter)	-	-	-	-	-
Tuesday, October 12	-	AUCTION: 3-YR TREASURIES $58B	-	-	-	-	-
Tuesday, October 12	-	10-YR AUCTION: $38B	-	-	-	-	-
Tuesday, October 12	10:00 AM	JOLTS Job Openings	(Aug)	-	-	10925K	10934K
Tuesday, October 12	12:30 PM	Speaker: Raphael W. Bostic (President, Atlanta) (Voter)	-	-	-	-	-
Wednesday, October 13	-	30-YR AUCTION: $24B	-	-	-	-	-
Wednesday, October 13	7:00 AM	MBA-APPLICATIONS	(Oct 8)	(L)	-	-	-6.9%
Wednesday, October 13	8:30 AM	CPI M/M	(Sep)	(H)	0.3%	0.3%	0.3%
Wednesday, October 13	8:30 AM	CPI M/M (core)	(Sep)	(H)	0.2%	0.2%	0.1%
Wednesday, October 13	8:30 AM	CPI Y/Y	(Sep)	(H)	5.3%	5.3%	5.3%
Wednesday, October 13	8:30 AM	CPI Y/Y (core)	(Sep)	(H)	4.0%	4.1%	4.0%
Wednesday, October 13	2:00 PM	FOMC Meeting Minutes	(Sep 22)	-	-	-	-
Wednesday, October 13	4:30 PM	Speaker: Lael S Brainard (Governor) (Voter)	-	-	-	-	-
Wednesday, October 13	8:00 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Thursday, October 14	8:30 AM	INITIAL CLAIMS	(Oct 9)	(M)	-	328K	326K
Thursday, October 14	8:30 AM	CONTINUING CLAIMS	(Oct 2)	(L)	-	-	2714K
Thursday, October 14	8:30 AM	PPI M/M	(Sep)	(M)	0.6%	0.6%	0.7%
Thursday, October 14	8:30 AM	PPI M/M (core)	(Sep)	(M)	0.5%	0.5%	0.6%
Thursday, October 14	8:30 AM	PPI Y/Y	(Sep)	(M)	-	8.8%	8.3%
Thursday, October 14	8:30 AM	PPI Y/Y (core)	(Sep)	(M)	-	7.1%	6.7%
Thursday, October 14	10:00 AM	Speaker: Raphael W. Bostic (President, Atlanta) (Voter)	-	-	-	-	-
Thursday, October 14	12:00 PM	Speaker: Lorie K. Logan (Executive VP, New York)	-	-	-	-	-
Thursday, October 14	1:00 PM	Speaker: Thomas I. Barkin (President, Richmond) (Voter)	-	-	-	-	-
Thursday, October 14	6:00 PM	Speaker: Patrick Harker (President, Philadelphia)	-	-	-	-	-
Friday, October 15	8:30 AM	RETAIL SALES M/M	(Sep)	(H)	-0.3%	-0.3%	0.7%
Friday, October 15	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Sep)	(H)	0.2%	0.5%	1.8%
Friday, October 15	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Sep)	(H)	0.3%	0.4%	2.5%
Friday, October 15	8:30 AM	NEW YORK FED (EMPIRE)	(Oct)	(M)	-	25.0	34.3
Friday, October 15	8:30 AM	IMPORT PRICE INDEX M/M	(Sep)	(L)	-	0.6%	-0.3%
Friday, October 15	8:30 AM	EXPORT PRICE INDEX M/M	(Sep)	(L)	-	0.5%	0.4%
Friday, October 15	10:00 AM	BUSINESS INVENTORIES M/M	(Aug)	(L)	-	0.7%	0.5%
Friday, October 15	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Oct P)	(H)	-	73.5	72.8
Friday, October 15	12:20 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-

Week Ahead’s market call

by Avery Shenfeld

In the **US**, a flurry of Fed speeches will give us a better read on November’s decision over tapering, which is admittedly now a closer call after a couple of months of less spectacular job gains. Given that data, those speeches are probably more relevant than the Fed minutes from the prior meeting, where we know the leaning was strongly in favour of tapering very soon. We’re not expecting any relief on the CPI inflation front just yet, as the stories of supply disruptions keep piling up. Those disruptions will also have an impact on retail sales by depressing the autos component, although we still expect to see a bit of growth elsewhere, if muted by the fact that the prior month recorded an outsized gain in the “control group.”

In **Canada**, a holiday-shortened week will also be short on data. Reports from manufacturing and wholesaling will be clouded by ongoing supply chain issues, but we expect to see both sectors recover some lost ground. Markets will likely be taking their cue from other developments, with the Bank of Canada’s policy and forecast announcement not due until the following week.

There are no major Canadian data releases next week.

Week Ahead's key US number: Retail sales—September

(Friday, 8:30 am)

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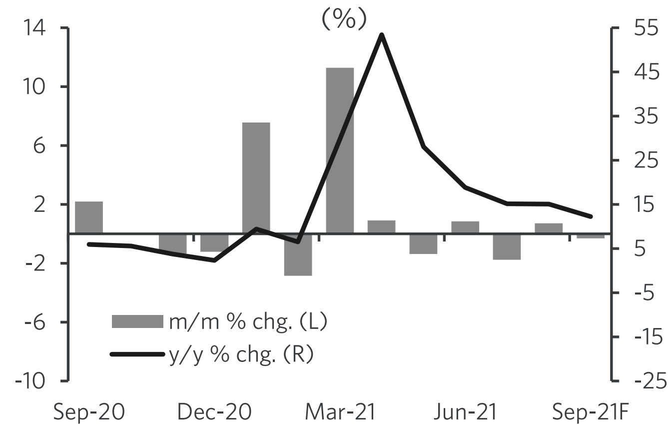
Retail sales (m/m %)	CIBC	Mkt	Prior
Retail sales	-0.3	-0.3	0.7
– ex auto	0.2	0.5	1.8
– control group	0.3	0.4	2.5

Chart: US Retail sales



Source: Census Bureau, Haver Analytics, CIBC

Limited inventories held back unit sales of autos again in September. Combined with little improvement in restaurant traffic as the Delta variant continued to spread, total retail sales likely retreated by 0.3% during the month.

Mobility data for retail and recreation locations dropped off, and August's surge in online sales isn't likely to have been repeated given that it owed largely to a change in the seasonal pattern of an annual sale. The control group of sales is therefore poised to decelerate to 0.3%. With ample excess savings to draw from and a gain in labor income, the end of expanded unemployment benefits likely had a muted impact on spending in September.

Forecast implications — Real spending on goods looks to have contracted over the third quarter as supply chain issues weighed. However, a stronger showing from services at the start of the quarter should outweigh that in the total consumption calculation. With supply chain issues proving more persistent than expected, spending on goods in the final quarter of the year is at risk at a time when services activity is also being negatively impacted by the Delta variant.

Market impact — We are slightly more pessimistic than the consensus on the control group but not by enough to see a sustained market reaction.

Other US Releases: CPI—September

(Wednesday, 8:30 am)

Higher gasoline prices should have boosted total CPI in September adding to pressures from supply chain bottlenecks in core goods categories, and likely resulting in a 0.3% monthly rise in prices to leave annual inflation unchanged at 5.3%. In core categories, the push and pull between a surge in used car prices amid other supply chain bottlenecks, against a likely drop in Delta-impacted service prices, could have resulted in a 0.2% monthly gain in core CPI. That would leave annual core inflation steady at 4.0% and implies some upside for core PCE inflation, the Fed's preferred measure. With supply chain issues worsening, it's possible that inflation could stay elevated for longer ahead even with the downside potential in Delta-impacted service prices.

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