Economics

THE WEEK AHEAD

November 8-12, 2021

Out of the frying "pan", into what?

by Avery Shenfeld avery.shenfeld@cibc.com

Great news: we're in the beginning of the end for the Covid-19 pandemic, at least for highly vaccinated countries. That fact alone is responsible for the progress we're seeing in today's North American jobs tallies. But the not so great news is that we'll drop the "pan" and add the "en", as the experts warn that Covid-19 will remain an endemic disease for the foreseeable future.

That's not really surprising, given that smallpox is the only ailment we've fully eradicated with vaccines. But what does that say about Covid's implications for growth and inflation, during the transition from "pan" to "en" and beyond.

What's already clear is that this transition period is one in which countries that want to protect economic growth while keeping hospitals from boiling over need both high vaccination rates and a suite of other control measures in place for a while longer. Cases are marching higher in many high-vaccination European countries, and are stuck at elevated levels in the UK, after dropping most public health measures.

It's early days in our cold weather, indoor-focused season, but we may have started an upward creep in Canada. So while we've dropped capacity limits at Canucks games in Vancouver, greenlighted dancing and karaoke in Montreal clubs, and are even talking about removing vaccine mandates this winter for restaurants in Toronto, what's happening abroad is a warning sign about taking that one step too far, too soon.

Keeping some of the least disruptive control measures in place looks like an economic bargain compared to sterner measures that would have to be introduced if we again overrun hospital capacity. These include air filters, higher quality masks, vaccine mandates and capacity limits for indoor activities. That will stand in the way of a full recovery in service sector demand. But jurisdictions that dropped these tools haven't yet been able to keep Covid under control, and may end up taking two steps back for each step they took forward.

Until more countries have high vaccination rates, we'll also have to live with the Faustian bargain of keeping monetary stimulus in place to counter the drag on exports, goods production and tourism, in exchange for tolerating the inflationary push from disrupted supply chains. But current trends suggest a brighter future once "pan" turns to "en" in most countries, a process that looks to be the story for the latter half of 2022 given current trends.

We should be able to achieve much higher global vaccination rates by then for adults, and will hopefully have vaccinated children in most advanced countries. Third vaccine doses appear helpful in cutting down on case counts, reducing outbreaks among the frail or unvaccinated.

Treatments in pill form are showing promise in keeping cases from transitioning from mild to severe. If so, barring a vaccine resistant variant, the forecast from US epidemiologist Trevor Bedford, who predicted that the endemic phase will still entail 40,000-100,000 American Covid deaths annually, could be too pessimistic.

Cutting that in half would be enough to turn Covid-19 into what some of the early pandemic deniers wrongly thought it would be in the pre-vaccine period: an ailment with a fatality count similar to CDC estimates for the annual flu season, and like the flu, largely a risk for the frail and elderly.

That doesn't make it non-consequential, since the flu is a serious matter. Canada will have to add to hospital capacity to deal with the combination of a flu and Covid season, and we should probably keep ventilation measures in place to limit the transmission of both ailments. But it will turn Covid-19 into a disease that we can mostly ignore in our economic projections.

While we're a few more quarters away from an endemic state globally, easing Covid case counts should help dampen the goods inflation pressures we're seeing from disruptions to the world's extractive, manufacturing and shipping sectors. But at the same time, a more complete recovery in services consumption and trade will have both the Fed and the Bank of Canada hiking rates in the second half of 2022 and beyond, as an endemic Covid-19 will no longer be a barrier to returning rates to neutral levels (a bit above 2%) in subsequent years.

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 8	-	-	-	-	-	-	-
Tuesday, November 9	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Tuesday, November 9	-	AUCTION: 3-M BILLS $8.6B, 6-M BILLS $3.2B, 1-YR BILLS $3.2B	-	-	-	-	-
Wednesday, November 10	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Wednesday, November 10	-	AUCTION: 5-YR CANADAS $4.5B	-	-	-	-	-
Thursday, November 11	-	Bond Market Closed (Remembrance Day)	-	-	-	-	-
Friday, November 12	10:30 AM	BoC Senior Loan Officer Surveys	-	-	-	-	-

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 8	-	AUCTION: 3-YR TREASURIES $56B	-	-	-	-	-
Monday, November 8	9:00 AM	Speaker: Richard Clarida (Governor) (Voter)	-	-	-	-	-
Monday, November 8	10:30 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Monday, November 8	12:00 PM	Speaker: Patrick Harker (President, Philadelphia)	-	-	-	-	-
Monday, November 8	12:00 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Monday, November 8	1:50 PM	Speaker: Charles L. Evans (President, Chicago) (Voter)	-	-	-	-	-
Tuesday, November 9	-	AUCTION: 10-YR TREASURIES $39B	-	-	-	-	-
Tuesday, November 9	8:30 AM	PPI M/M	(Oct)	(M)	0.5%	0.6%	0.5%
Tuesday, November 9	8:30 AM	PPI M/M (core)	(Oct)	(M)	0.4%	0.5%	0.2%
Tuesday, November 9	8:30 AM	PPI Y/Y	(Oct)	(M)	-	8.6%	8.6%
Tuesday, November 9	8:30 AM	PPI Y/Y (core)	(Oct)	(M)	-	6.8%	6.8%
Tuesday, November 9	9:00 AM	Speaker: James Bullard (President, St Louis) (Non-Voter)	-	-	-	-	-
Tuesday, November 9	9:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, November 9	11:35 AM	Speaker: Mary C. Daly (President, San Francisco) (Voter)	-	-	-	-	-
Tuesday, November 9	1:30 PM	Speaker: Neel Kashkari (President, Minneapolis)	-	-	-	-	-
Wednesday, November 10	-	30-YR AUCTION: $25B	-	-	-	-	-
Wednesday, November 10	7:00 AM	MBA-APPLICATIONS	(Nov 5)	(L)	-	-	-3.3%
Wednesday, November 10	8:30 AM	INITIAL CLAIMS	(Nov 6)	(M)	-	265K	269K
Wednesday, November 10	8:30 AM	CONTINUING CLAIMS	(Oct 30)	(L)	-	-	2105K
Wednesday, November 10	8:30 AM	CPI M/M	(Oct)	(H)	0.5%	0.6%	0.4%
Wednesday, November 10	8:30 AM	CPI M/M (core)	(Oct)	(H)	0.3%	0.4%	0.2%
Wednesday, November 10	8:30 AM	CPI Y/Y	(Oct)	(H)	5.8%	5.8%	5.4%
Wednesday, November 10	8:30 AM	CPI Y/Y (core)	(Oct)	(H)	4.3%	4.3%	4.0%
Wednesday, November 10	10:00 AM	WHOLESALE INVENTORIES M/M	(Sep F)	(L)	-	1.1%	1.1%
Wednesday, November 10	2:00 PM	TREASURY BUDGET	(Oct)	(L)	-	-	-$61.5B
Thursday, November 11	-	Treasury Markets Closed (Veteran's Day)	-	-	-	-	-
Friday, November 12	10:00 AM	JOLTS Job Openings	(Sep)	-	-	-	10439K
Friday, November 12	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Nov P)	(H)	-	72.3	71.7
Friday, November 12	12:10 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, although we're a tick below the early consensus on both PPI and CPI, that's hardly indicative of any real relief on the inflation front. Both core and headline measures will continue to run well above the Fed's desired pace on both a month-to-month and 12-month basis. Fed speakers could add some further colour to what was said in the past week's statement, but the twists and turns we're seeing from central bankers' messaging globally reflects their considerable uncertainty on just how much of the current inflation pressures could impact post-pandemic inflation rates, and therefore how soon they need to step in to cool growth with higher rates. For now, given those uncertainties, expect Fed speakers to leave themselves a wide berth in terms of the range of options they will have once the tapering phase ends at mid-year.

In **Canada**, with nothing of note on the economic calendar, earnings releases and US data will be in focus for the week ahead. We're also keeping a close eye on Covid case counts as colder weather settles in, seeing some signs of an upturn in central provinces that could, if it continues, push back the timing of a more complete recovery in services spending.

There are no major Canadian data releases next week.

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

(Wednesday, 8:30 am)

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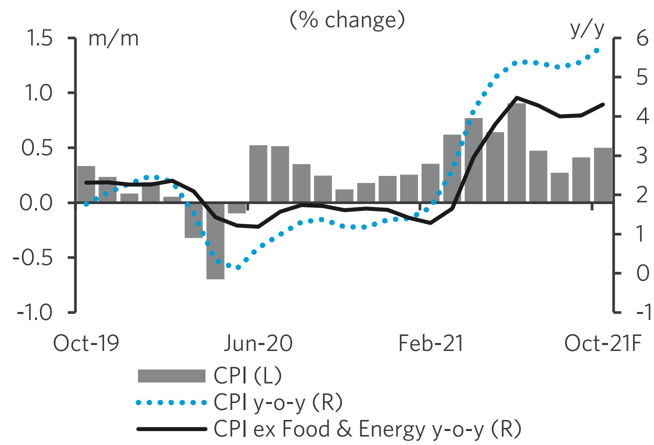
Consumer price index (%)	CIBC	Mkt	Prior
Headline CPI m/m	0.5%	0.6%	0.4%
Headline CPI (y/y)	5.8%	5.8%	5.4%
Core CPI m/m	0.3%	0.4%	0.2%
Core CPI y/y	4.3%	4.3%	4.0%

Chart: US Consumer price index



Source: BLS, Haver Analytics, CIBC

With no evidence of supply constraints abating in October, price pressures likely heated up. Total inflation will have received a lift from energy prices, causing it to accelerate to 5.8%. Stripping out food and energy, core price categories also likely showed strong momentum as supply chain bottlenecks and higher input costs continued to put upwards pressure on core goods prices, while Delta-impacted core service prices could have stopped falling as activity indicators improved towards the end of the month. Strong wage gains lately could have also been a contributor, causing core inflation to accelerate to 4.3%.

Forecast implications — While supply chain constraints will only boost inflation temporarily, along with rebounds in Delta-impacted service prices, upwards pressure from cyclical forces in 2022 as the labor market tightens will keep inflation above target and require two Fed rate hikes in the second half of the year.

Market impact — We are slightly below the consensus, but not by enough to have markets give any sigh of relief over the inflation threat to interest rates.

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