



Economics

# THE WEEK AHEAD

September 20-24, 2021

## Jay Powell can't build you a car

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

The chairmanship of the US Federal Reserve is one of the most powerful seats at the world's economic policymaking table, but Jay Powell can't build you a car. That sums up a key problem facing the Fed's leadership as it meets in the week ahead: much of what ails the US economy these days isn't easily remedied by either a near zero policy rate or quantitative easing, the two tools at its disposal.

The Fed has used its power, alongside fiscal stimulus, to boost domestic demand during the pandemic. That couldn't help hotels or restaurants at the height of the Covid crisis, but it could create demand for take-out food, consumer goods and housing as an offset.

But we're now at the point where domestic demand has fully recovered to its pre-recession trend, and where some of the troubles lie elsewhere, in trading partners still plagued by the virus, and in supply-side bottlenecks, including those facing car dealers. Low interest rates boost auto demand, but vehicle production is still hampered.

That doesn't mean it's time to raise interest rates, which will slow activity in sectors that can still help make up for downtime at vehicle plants in terms of employment and growth. The right cure for much of the inflation we're seeing isn't to reduce demand, but to get the gears of the global factory system, as well as the world's ports and shipping lanes, operating normally. Getting Covid-19 under better control, through containment measures and higher global vaccination rates, is the only policy that can do that.

Quantitative easing, at least at its current pace, may still have outlived its usefulness. Bond yields are so low that the case for

maintaining the current pace for Fed purchases isn't obvious. Each time the Fed takes bonds off the market in exchange for reserves that pay a floating rate, it shortens the term structure of federal debt held by the public, as those overnight reserves are also a government liability. With that debt now much higher than pre-pandemic, it might be prudent to curtail such term shortening if the economy doesn't need it.

But the market will still see a tapering announcement as a sign of increased confidence in the economic outlook. Given the recent clouds from both Delta and the last payrolls data, the Fed could well decide to wait one more meeting before setting its plans in stone.

That ties into one other power that Jay Powell doesn't have: the ability to predict the course of the pandemic. The Fed's headquarters, and each regional office, are flush with economists, not epidemiologists.

The FOMC will publish its economic outlook, one likely dented a bit in the near term, but full of confidence about both dampened supply-shock pressures on prices, and an improving jobs market, as we move through 2022. It might even bring forward some of the rate hikes that lie further out in the future.

But as we've seen in the last couple of months, it's not only auto production, but overall economic activity, where our fates will be determined by how this pandemic plays out. And we too, not just the FOMC, have to have some humility about how certain we can be about what the future has in store for us on that front.

## 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, Sep 20	-	Government Bond Purchase Program (GBPP): 10-YR	-	-	-	-	-
Monday, Sep 20	-	2021 CANADIAN FEDERAL ELECTION	-	-	-	-	-
Tuesday, Sep 21	-	Government Bond Purchase Program (GBPP): 5-YR	-	-	-	-	-
Tuesday, Sep 21	-	AUCTION: 5-YR CANADAS \$3.5B	-	-	-	-	-
Wednesday, Sep 22	-	Government Bond Purchase Program (GBPP): 2-YR	-	-	-	-	-
Thursday, Sep 23	-	Government Bond Purchase Program (GBPP): 30-YR	-	-	-	-	-
Thursday, Sep 23	-	AUCTION: 50-YR CANADAS \$1B	-	-	-	-	-
Thursday, Sep 23	8:30 AM	RETAIL TRADE TOTAL M/M	(Jul)	(H)	-0.9%	-	4.2%
Thursday, Sep 23	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Jul)	(H)	-1.3%	-	4.7%
Friday, Sep 24	-	-	-	-	-	-	-

## 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, Sep 20	10:00 AM	NAHB HOUSING INDEX	(Sep)	(L)	-	74	75
Tuesday, Sep 21	-	20-YR AUCTION: \$24B	-	-	-	-	-
Tuesday, Sep 21	8:30 AM	CURRENT ACCOUNT BALANCE	(Q2)	(L)	-	-	-\$195.7B
Tuesday, Sep 21	8:30 AM	HOUSING STARTS SAAR	(Aug)	(M)	1520K	1550K	1534K
Tuesday, Sep 21	8:30 AM	BUILDING PERMITS SAAR	(Aug)	(H)	1610K	1595K	1630K
Wednesday, Sep 22	-	AUCTION: 2-YR FRN \$26B	-	-	-	-	-
Wednesday, Sep 22	7:00 AM	MBA-APPLICATIONS	(Sep 17)	(L)	-	-	0.3%
Wednesday, Sep 22	10:00 AM	EXISTING HOME SALES SAAR	(Aug)	(M)	-	5.85M	5.99M
Wednesday, Sep 22	10:00 AM	EXISTING HOME SALES M/M	(Aug)	(M)	-	-2.3%	2.0%
Wednesday, Sep 22	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Sep 22)	(H)	0.25%	0.25%	0.25%
Wednesday, Sep 22	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Sep 22)	(H)	0.00%	0.00%	0.00%
Wednesday, Sep 22	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, Sep 23	-	AUCTION: 10-YR TIPS \$14B	-	-	-	-	-
Thursday, Sep 23	8:30 AM	INITIAL CLAIMS	(Sep 18)	(M)	-	315K	332K
Thursday, Sep 23	8:30 AM	CONTINUING CLAIMS	(Sep 11)	(L)	-	-	2665K
Thursday, Sep 23	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Aug)	(M)	-	0.50	0.53
Thursday, Sep 23	9:45 AM	MARKIT US SERVICES PMI	(Sep P)	(L)	-	55.0	55.1
Thursday, Sep 23	9:45 AM	MARKIT US COMPOSITE PMI	(Sep P)	(L)	-	-	55.4
Thursday, Sep 23	9:45 AM	MARKIT US MANUFACTURING PMI	(Sep P)	(L)	-	61.0	61.1
Thursday, Sep 23	10:00 AM	LEADING INDICATORS M/M	(Aug)	(M)	-	0.5%	0.9%
Friday, Sep 24	10:00 AM	NEW HOME SALES SAAR	(Aug)	(M)	720K	709K	708K
Friday, Sep 24	10:00 AM	NEW HOME SALES M/M	(Aug)	(M)	-	0.1%	1.0%
Friday, Sep 24	8:45 AM	Speaker: Loretta Mester (President, Cleveland) (Non-Voter)	-	-	-	-	-
Friday, Sep 24	10:00 AM	Jerome H Powell (Chairman) (Voter), Richard Clarida (Governor) (Voter), Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Friday, Sep 24	10:05 AM	Esther George (President, Kansas City) (Non-Voter)	-	-	-	-	-

## Week Ahead's market call

by Avery Shenfeld

In the **US**, the FOMC will maintain an optimistic take on what lies beyond a somewhat dented near term picture. But there could be just enough uncertainty tied to the Delta variant, and doubts in the wake of the last payrolls data, to push off the tapering announcement until the next meeting. A close alternative would see the Fed press ahead with a formal warning of tapering before the end of the year, but leave it conditional on seeing further job and activity gains in upcoming reports. The week's data will center on housing, with none of the reports likely to be market movers.

In **Canada**, the Federal election on Monday likely has more at stake for individual sectors of the equity market than it does on the fixed income or FX side. Neither of the two leading parties is pledging a big early dose of fiscal restraint. But there are differences in tax and regulatory proposals that markets will assess in terms of equity valuations. Retail sales had a huge gain in June, and while we still expect a bit of a pullback in July as Canadians opened their wallets to restaurants and other high touch services that month, we're looking for a smaller dent than what StatsCan reported in its "flash" estimate a month ago. August may have been a decent month for non-auto retailers, helped by back to school purchases, and the fact that Canada's Delta wave didn't really heat up until late in that month.

## Week Ahead's key Canadian number: Retail sales—July

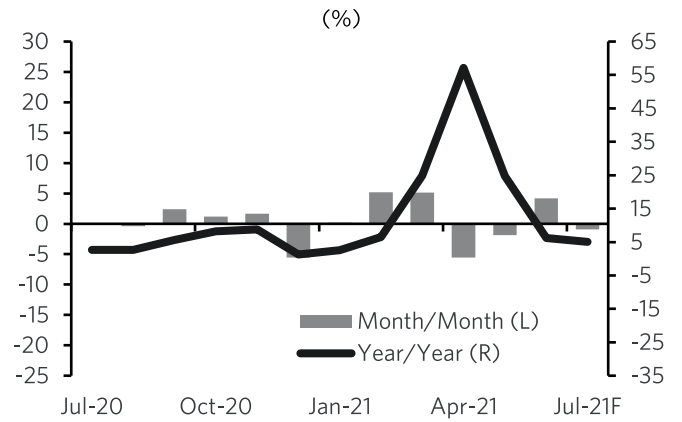
(Thursday, 8:30 am)

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Retail sales (%)	CIBC	Mkt	Prior
Retail sales	-0.9%	-	4.2%
Ex-autos	-1.3%	-	4.7%

Retail sales look to have suffered in July from a redirection in spending towards reopening services. Statistics Canada's flash estimate showed a decline in headline sales of 1.7%, but we're projecting a more modest 0.9% trimming. Auto sales appear to have held their ground, as did gasoline sales. As a result, it seems like the slowing was focused in core sales, which appears to have been the most vulnerable to the substitution in spending. Still, even with the slowdown in July, headline retail sales would have been running at more than 7% above their pre-pandemic level.

Chart: Canadian retail sales



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications** — Given that the slowdown in retail sales was likely just caused by households spending more on services which became available again, it's less concerning than the declines in activity in other sectors of the economy in July. Moreover, with the weather cooling down and virus cases increasing, we might see a return to more spending on goods and less on services again this fall.

## Week Ahead's key US number: Housing starts—August

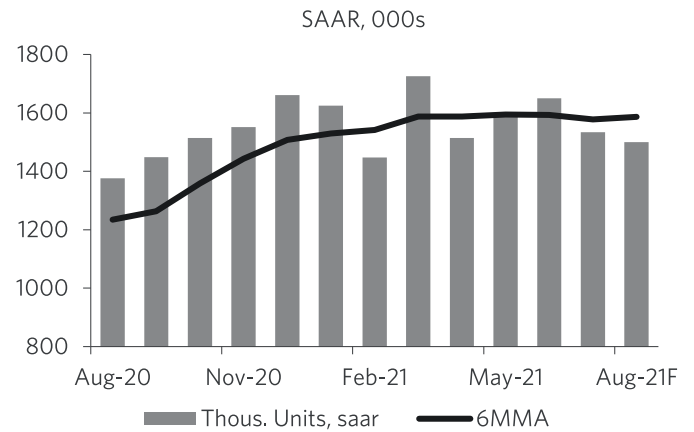
(Tuesday, 8:30 am)

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Variable (K)	CIBC	Mkt	Prior
Housing starts	1520K	-	1534K
Building permits	1610K	-	1630K

Homebuilding was likely hampered by flooding related to Hurricane Ida in the US in August, causing the pace of housing starts to ease off to 1520K despite the excess of building permits that exists. While homebuilder confidence continues to be held back by supply shortages and elevated construction and land costs, purchase intentions for homes have trended higher since July as measured by the MBA's index. That suggests that low rates are providing somewhat of an offset to the rapid climb in home prices, consistent with the turnaround in existing home sales and the trough seen in new home sales. Building permit issuance could have therefore remained healthy at 1610K.

Chart: US housing starts



Source: Census Bureau, Haver Analytics, CIBC

**Forecast Implications** — While the near-term homebuilding outlook is clouded by weather challenges and supply issues, we expect US housing starts to accelerate into 2022, given previous undersupply in the pre-Covid market, as well as trends in household formations. While mortgage rates are set to rise, we've trimmed our bond market forecast a bit and we are entering 2022 with lower rates than we previously thought, another factor that supported our recent upgrade to our housing starts outlook for next year.

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