



## Economics

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# THE WEEK AHEAD

February 18-22, 2019

## Welcome to the 1% Club

by Avery Shenfeld

Why are we seeing such ugly economic data of late for both the US and Canada, amidst still shining figures for employment? Welcome to the 1% club. When growth slows to that range, as it likely has in both Q4 and Q1 in Canada, the data end up like the recent weather we've seen: sloppy. The Canadian data are marred by sluggish home sales, soft consumption in Q4, and a dent to oil output in Q1.

In the US, the weak finish to consumer spending in December puts the first quarter behind the eight ball in terms of momentum heading into the quarter. Add in a government shutdown and a drop in January industrial production (albeit one scarred by weather), and you have the makings of a sluggish 1% range for Q1.

Fortunately, employment, particularly in the US where we get timely figures from a payrolls survey, tends to be the best single indicator that an outright downturn has commenced. True, it doesn't lead by much, and the data are vulnerable to subsequent revision. But looking at the data as first released, there were no job gains over 200K in the full year ahead of the prior two recessions.

That's not a foolproof guarantee; we had a strong monthly payrolls report within a half year of the early 1990s recession. But one thing is clear – the start of a recession is marked by a string of job declines, and we haven't seen that in either the US or Canada. That said, growth is now slow enough that

there's reason to feel vulnerable should another shock hit.

Geopolitics has been the source of a lot of noise in confidence, and the Trump administration could deliver mixed news on that front. We seem to be inching towards at least an extended truce if not a full scale deal with China. But the Commerce Department will be giving Trump a report on the auto sector that could form the basis for new tariffs on European and Japanese vehicles.

Spanish elections have raised fresh uncertainty in Europe, but the Brexit situation looks so troubled now that there would seem to be more room for a pleasant surprise.

Being in the 1% club means that it wouldn't take too much to tip the economy over, a reason for central banks to be careful about adding further restraint. The consensus of US economists is still looking for one hike from the Fed this year and then a long pause. A pickup in growth could indeed prompt the central bank to lift rates again, but we would view that as a policy error, and one likely to be reversed in a subsequent ease in 2020.

In Canada, forecasts from major financial institutions range from one to three more Bank of Canada rate hikes this year. But having dipped into the 1% club with rates still under 2%, the real choice will be between hiking once or not at all.



# Week Ahead Calendar And Forecast

CANADA		UNITED STATES	
	Markets Closed (Ontario Family Day)	Markets Closed (President's Day)	
	CIBC	CIBC	CIBC
	Consensus	Consensus	Consensus
	Prior	Prior	Prior
Monday February 18			
Tuesday February 19	CASH MANAGEMENT BUYBACK \$12B BC Budget		NAHB HOUSING INDEX (Feb) (L) 58
Wednesday February 20	AUCTION: 30-Yr Real Return Obligation Bond: \$400M		<p>Speaker: 8:50 PM Loretta Mester (President, Cleveland)</p> <p>7:00 AM MBA- APPLICATIONS (Feb 15) (L) -2.5%</p> <p>2:00 PM Minutes of Jan 30th FOMC Meeting</p> <p>Speaker: 1:30 PM James Bullard (President, St Louis)</p>
Thursday February 21	8:30 AM WHOLESALE TRADE M/M ADP EMPLOYMENT CHANGE (Dec) (M) -0.4%		<p>8:30 AM PHILADELPHIA FED (Feb) (M) 17.0 INITIAL CLAIMS (Feb 16) (M) 234K CONTINUING CLAIMS (Feb 9) (L) 1736K DURABLE GOODS ORDERS M/M (Dec P) (H) 0.7% DURABLE GOODS ORDERS EX-TRANS M/M (Dec P) (H) 0.2%</p> <p>9:45 AM MARKIT US SERVICES PMI (Feb P) (L) 54.2 MARKIT US COMPOSITE PMI (Feb P) (L) 54.4 MARKIT US MANUFACTURING PMI (Feb P) (L) 54.9</p> <p>10:00 AM LEADING INDICATORS M/M (Jan) (M) -0.1% EXISTING HOME SALES SAAR (Jan) (M) 4.99M EXISTING HOME SALES M/M (Jan) (M) -6.4%</p> <p>Speaker: 7:50 AM Raphael Bostic (President, Atlanta)</p>
Friday February 22	8:30 AM RETAIL TRADE TOTAL M/M (Dec) (H) -0.7% RETAIL TRADE EX-AUTO M/M (Dec) (H) 0.0%		
<p>Speaker: 12:50 PM Stephen S. Poloz (Governor)</p>		<p>Speaker: 10:15 AM John Williams (President, New York) Speaker: 12:30 PM Simon Potter (New York) Exec. Vice-President, New York Speaker: 1:30 PM Patrick Harker (President, Philadelphia) Speaker: 1:30 PM James Bullard (President, St Louis) Speaker: 5:30 PM John Williams (President, New York)</p>	
<p>H, M, L = High, Medium or Low Significance</p>		<p>SAAR = Seasonally Adjusted Annual Rate</p>	
		<p>Consensus Source: Bloomberg</p>	

## Week Ahead's Market Call

by Avery Shenfeld

**In the US,** President's Day will be followed by Federal Reserve week, as the FOMC minutes and speeches by Fed members will lead a calendar short on major data releases. But unless someone shouts "rate cut" it's going to be hard to move the front end much. Durable orders could disappoint the consensus. Keep an eye on news from the China-US trade talks as well.

**In Canada,** two key readings on December's economic performance aren't likely to lift spirits, as we look for a further drop in wholesaling and a light retail report, although ex-auto retailing could still beat a gloomy consensus.

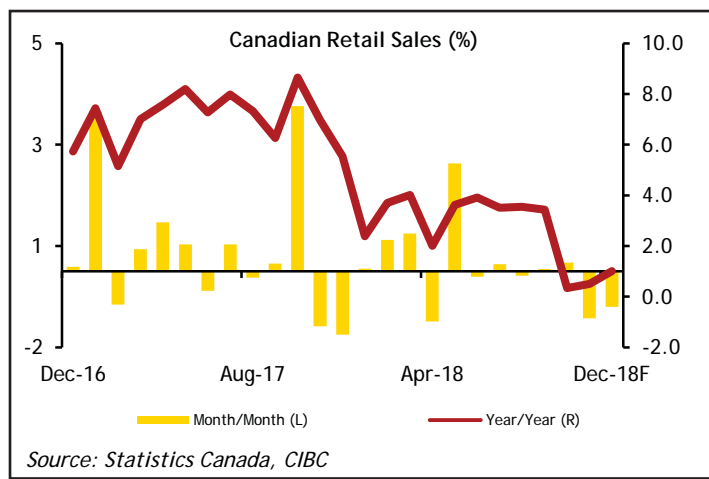
**Week Ahead’s Key Canadian Number:**

**Retail Sales—December**

(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Retail Sales	-0.7%	0.0%	-0.9%
Ex-Autos	0.0%	-0.5%	-0.6%



It’s looking like it wasn’t a very merry holiday season for Canadian retailers. According to industry data, auto sales sunk further in December, continuing the disappointing trend that’s been observed in that sector recently. Even outside of the auto industry though, data could look weak as the effects of lower gasoline prices offset volume and/or price gains in other categories.

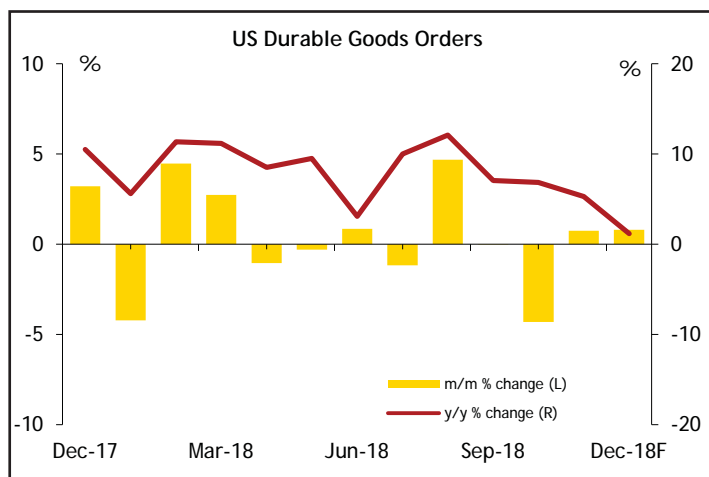
The drag from fewer car sales will likely also mean real retail trade will post a negative print for the third consecutive month, and make it eight monthly declines for 2018, the first year that’s happened since 2008.

**Forecast Implications** — Household spending is clearly slowing, and won’t be providing the same type of contributions to GDP growth as in past years. As a result, we’re now looking for less than 1% real GDP growth in the final quarter of 2018.

**Week Ahead’s Key US Number:**  
**Durable Goods Orders —December**  
 (Thursday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
Durable Goods Orders m/m	0.8%	1.7%	0.7%
Ex. transportation m/m	0.1%	0.2%	-0.4%



Core capital goods orders have failed to advance since the late summer months, an indication that any bump in investment from tax reform is long gone. Moreover, capital goods imports have failed to make material gains recently, reinforcing the notion that softer domestic demand is holding business investment back. Machinery equipment orders could have risen in line with mining production, suggesting that ex-transportation orders were 0.1% higher on the month. Robust aircraft orders could have supported a 0.8% advance in headline durable orders.

**Forecast Implications** — A deterioration in global business conditions has weighed on producer confidence in the US, and in combination with slower domestic demand, should keep a lid on investment through 2019.

**Market Impact** — We are below consensus which would be negative for the USD and see yields fall.

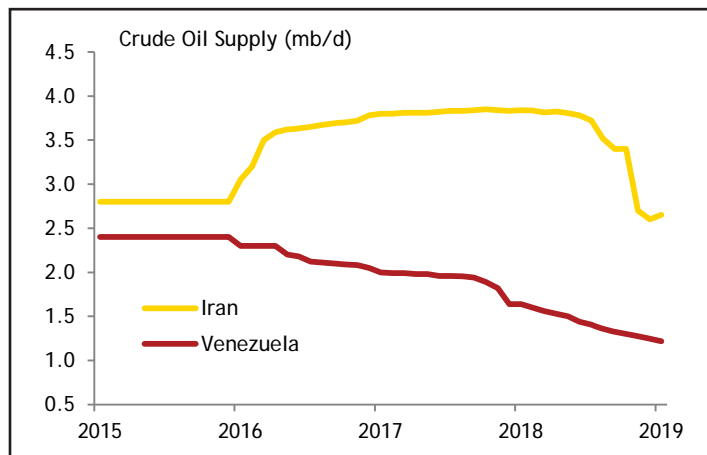
## Equity Insights

Katherine Judge and Avery Shenfeld

### If Maduro Runs for the Hills

Two politically risky corners of the oil sector face potential turning points, in opposing directions. The market's focus has been on tumbling Venezuelan production, first from a political and economic mess of Chavez and Maduro, and now from US sanctions. But as the vice tightens on the flow of oil money, Maduro might opt to flee, and oil markets would start to price in a medium term rebuild in Venezuela's oil patch. In the near term, for global oil benchmarks, that could be offset if the US trades the removal of sanctions on Venezuela for the re-imposition of tighter shackles on Iran. That might not be an even trade for Canada, since Venezuelan heavy crude is a more direct competitor for WCS oil than the lighter grades exported from Iran.

### US Sanctions Causing Oil Shortfall

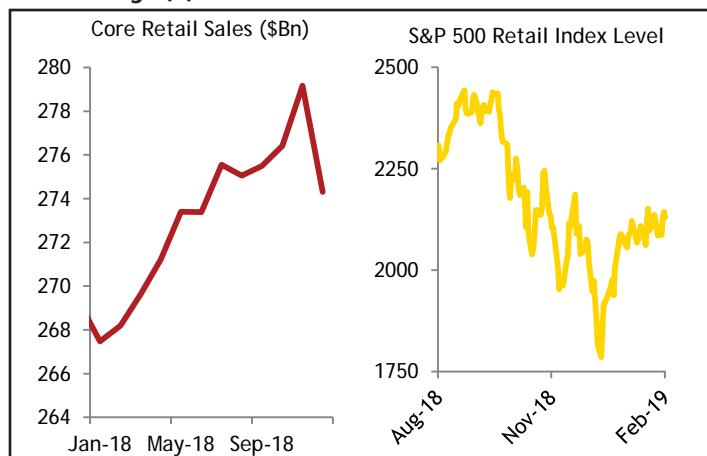


Source: EIA, CIBC

### Retail Stocks Unscathed Following Dismal Sales Report for December

Retail sales may have posted a concerning decline in December, recording their worst performance since the 2001 recession. However, it was just a normal day for investors eyeing retail stocks, which didn't budge on the negative news. Investors appear to be banking on momentum in payrolls and affirming in average wage gains to sustain retail performance ahead.

### Retail Sales Plummeted in December (L) But Retailer Stocks Didn't Budge (R)

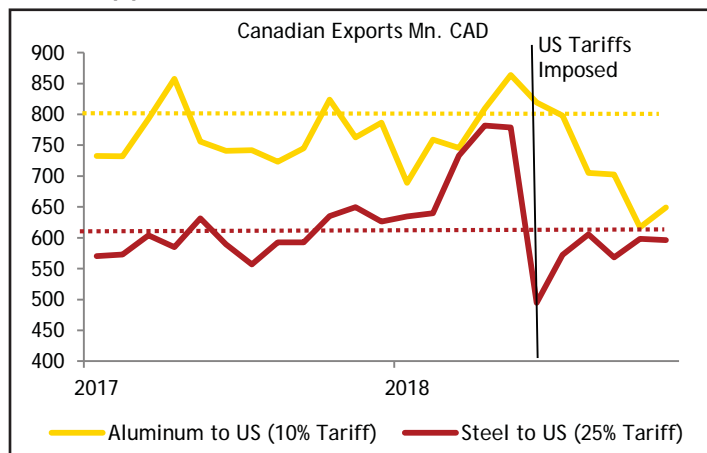


Source: Statistics Canada, Bloomberg, CIBC

### Steel and Aluminum Tariffs: Nothing to See Here

Canadian steel and aluminum producers have both seen softness in exports since US tariffs were imposed, and are obviously cheering on Senators pressing for their removal as a condition of ratifying the USMCA deal. Some of the decline in nominal exports reflected a rush to ship ahead of the tariff imposition. But underlying metals prices have also been weakening in the face of greater pessimism over global growth. A resolution of the stickier China-US trade dispute would be helpful on that front, and would likely bring upside for related equities. A full China-US deal is likely a tougher hurdle than getting relief on Canadian metals tariffs, although we are at least hopeful that Trump and Xi will agree not to escalate tariffs further while talks stretch on this year.

### Aluminum Exports Lower Since Tariffs Enacted (L), Due to Price Declines (R)



Source: Bloomberg, CIBC

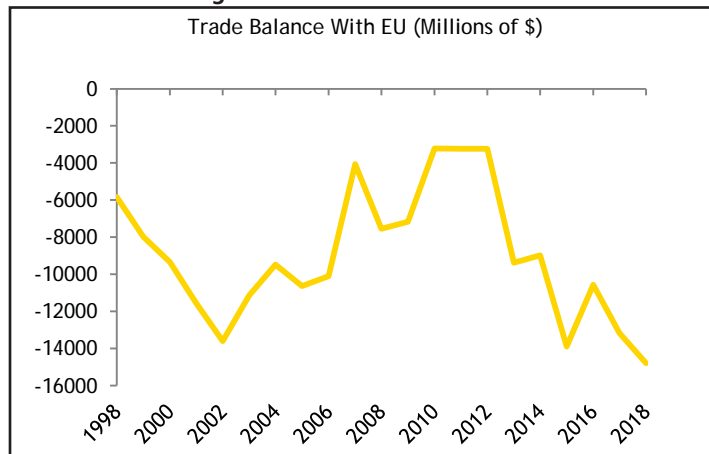
## Currency Currents

Andrew Grantham and Royce Mendes

### CETA No Silver Bullet on Trade

We often get asked whether signing new trade deals with economies other than the US can help solve Canada's gaping current account deficit. While CETA, the trade pact with the EU implemented in September 2017, has seen both exports and imports to and from the area increase since inception, the bilateral trade balance has actually deteriorated. Another trade deal signed with Asian and Pacific economies is still too new to draw any concrete conclusions, but it's not expected to change the overall picture of Canadian trade much either. Canada's woes will likely fall at the feet of the loonie, which will have to weaken in the years ahead to drive a competitiveness renaissance north of the border.

Canada's Trade Balance with the EU has Deteriorated Further Since CETA Was Signed

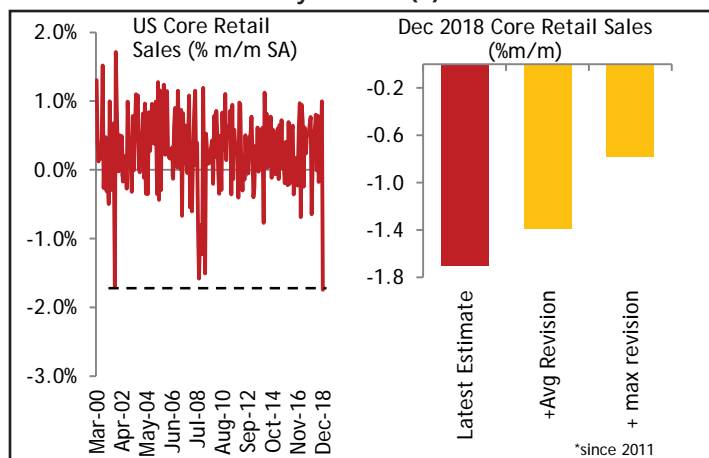


Source: Haver Analytics, CIBC

### Should the US\$ Have Shrugged Off Retail Plunge?

While bond yields remained lower, the US\$ quickly recovered the ground it lost immediately after December's ugly retail sales report. It's true that we should never read too much into just one bad number, particularly in the highly revised advance retail print, but even if we add the largest revision seen in recent years it would still be a disappointing result. And with our expectations that the US economy will slow this year, as others such as the EZ begin to see a stabilization in growth rates, data disappointments could become more common in the US and dollar investors should certainly take note.

Core Sales Plunge Weakest Since Early 2000's (L), Would Still Look Weak Even if Heavily Revised (R)

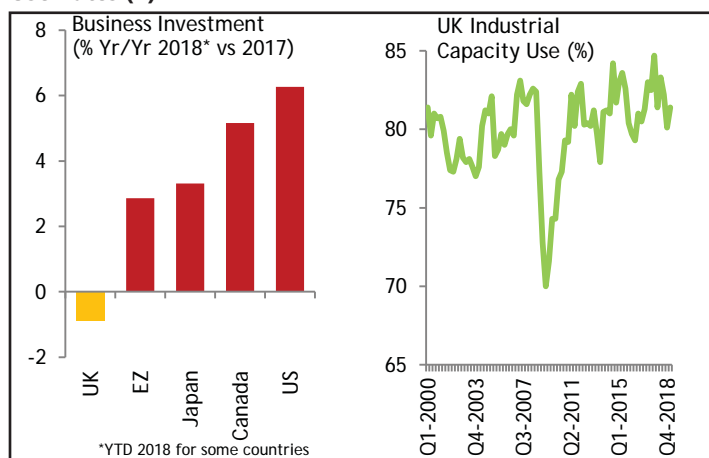


Source: Census Bureau, CIBC

### UK: 2018 Results are In, and Not Pretty

Latest GDP figures showed the UK economy slowing in the final quarter of 2018, and finishing on a poor month as well which raises concern regarding momentum heading into Q1. Clearly the uncertainty surrounding UK-EU trade relations come March 29th are weighing on the economy, most evidently in business investment which fell during 2018 as a whole in contrast to increases in other countries/regions. While high capacity use rates would typically suggest investment will accelerate, that certainly won't happen until uncertainty is lifted, if at all. There's the potential for UK growth to accelerate if a smooth Brexit is somehow engineered, but uncertainty will continue to weigh on both sterling and the economy in general until the political landscape becomes clearer.

Business Investment Falls in the UK (L), Despite High Capacity Use Rates (R)



Source: National Statistics Agencies, Bloomberg, CIBC

# CANADIAN RELEASE AND EVENT DATES February/March 2019



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11	12	13	14	15
			<b>NEW HOUSING PRICE INDEX</b> 8:30 AM <b>SURVEY OF MANUFACTURING SHIPMENTS</b> 8:30 AM M Y OCT -0.1 7.8 NOV -1.4 2.7 DEC	<b>INT'L TRANSACTIONS IN SECURITIES C\$BN, NET</b> 8:30 AM BONDS MONEY STOCKS TOT MARKET OCT 4.4 -2.2 1.8 4.0 NOV DEC
18	19	20	21	22
<b>ONTARIO FAMILY DAY (HOLIDAY)</b> (Markets Closed)	<b>BC BUDGET</b>		<b>ADP EMPLOYMENT SURVEY</b> 8:30 AM <b>WHOLESALE TRADE</b> 8:30 AM <b>Bank of Canada Governor Poloz speaks in Montreal at 12:50 PM ET</b>	<b>RETAIL TRADE</b> 8:30 AM (Current\$) M Y OCT 0.2 0.3 NOV -0.9 0.5 DEC
25	26	27	28	01
	<b>QUARTERLY FINANCIAL STATISTICS</b> 8:30 AM	<b>CPI</b> 8:30 AM M Y NOV -0.4 1.7 DEC -0.1 2.0 JAN <b>PAYROLL EMPLOYMENT, EARNINGS &amp; HOURS</b> 8:30 AM	<b>BALANCE OF INT'L PAYMENTS</b> 8:30 AM CURR. ACCT. BAL. \$BN(QR) \$BN(AR) 18:Q2 -16.7 -66.7 18:Q3 -10.3 -41.4 18:Q4 <b>INDUSTRIAL PRICES</b> 8:30 AM M (NSA) Y NOV -0.8 2.8 DEC -0.7 2.2 JAN	<b>GDP BY INDUSTRY (2002\$)</b> 8:30 AM GDP IND.PROD. M M OCT 0.3 0.6 NOV -0.1 -0.2 DEC <b>NATIONAL ACCTS</b> 8:30 AM REAL PRICE GDP DEFLATOR %ch AR %ch AR 18:Q2 2.9 1.5 18:Q3 2.0 3.0 18:Q4
4	5	6	7	8
		<b>MERCHANDISE TRADE</b> 8:30 AM \$MN 12 MO. BALANCE NOV -2060 -21,762 DEC JAN <b>LABOUR PRODUCTIVITY</b> 8:30 AM <b>IVEY PURCHASING MANAGERS' INDEX</b> 10:00 AM <b>Bank of Canada Interest Rate Announcement</b>	<b>BUILDING PERMITS (\$)</b> 8:30 AM M M (RES) (NON-RES) NOV -2.3 9.8 DEC 4.2 8.9 JAN <b>MANITOBA BUDGET</b> <b>Bank of Canada Dep. Governor Patterson speaks in Hamilton on Economic Progress Report @ 12:45 PM ET</b>	<b>HOUSING STARTS</b> 8:15 AM 000's (AR) TOTAL SINGLES NOV 224 51 DEC 213 50 JAN <b>CAPACITY UTILIZATION</b> 8:30 AM LEVEL (%) TOTAL MANUF. 18:Q2 84.1 81.7 18:Q3 82.6 78.8 18:Q4 <b>LABOUR FORCE SURVEY</b> 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y DEC 0.0 0.9 0.0 1.5 JAN 0.4 1.8 5.8 1.8 FEB
11	12	13	14	15
		<b>CANADA'S INTERNATIONAL INVESTMENT POSITION</b> 8:30 AM	<b>NEW HOUSING PRICE INDEX</b> 8:30 AM	<b>SURVEY OF MANUFACTURING SHIPMENTS</b> 8:30 AM M Y NOV -1.4 2.7 DEC JAN

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets Inc. Dates are subject to change. Sources for historical data: Statistics Canada, CMHC, Human Resources Development Canada and the Bank of Canada.



# U.S. RELEASE AND EVENT DATES February/March 2019



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11	12	13	14	15
	<b>TREASURY BUDGET</b> 2:00 PM  <i>BOT (9:00) REDBOOK (8:55)</i>	<b>CPI</b> 8:30 AM M(SA) Y (NSA) NOV 0.0 2.2 DEC -0.1 1.9 JAN 0.0 1.6	<b>PPI</b> 8:30 AM M (SA) Y (NSA) NOV 0.1 2.6 DEC -0.1 2.5 JAN -0.1 2.0  <b>RETAIL SALES</b> 8:30 AM M Y OCT 1.0 4.6 NOV 0.1 4.1 DEC -1.2 2.3  <b>BUSINESS INVENTORIES</b> 10:00 AM  <i>INITIAL JOBLESS CLAIMS (8:30)</i>	<b>CAPACITY UTIL/IND. PROD.</b> 9:15 AM LEV M Y NOV 78.6 0.4 4.1 DEC 78.7 0.3 3.9 JAN  <b>MICHIGAN SENTIMENT (P)</b> 10:00 AM  <b>NET CAPITAL INFLOWS TICS</b> 4:00 PM  <i>3, 10-Yr NOTE SETTLEMENT</i> <i>30-Yr BOND SETTLEMENT</i>
18	19	20	21	22
<b>PRESIDENT'S DAY (HOLIDAY)</b> (Markets Closed)		<b>FOMC Minutes</b>  <i>BOT (9:00) REDBOOK (8:55)</i>	<b>DURABLE GOODS ORDERS</b> 8:30 AM M Y OCT -4.3 6.8 NOV 0.8 5.3 DEC  <b>PHILADELPHIA FED INDEX</b> 8:30 PM  <b>CHICAGO PMI</b> 9:45 AM  <b>EXISTING HOME SALES</b> 10:00 AM  <b>LEADING INDICATOR</b> 10:00 AM  <i>INITIAL JOBLESS CLAIMS (8:30)</i> <i>2, 5, 7-Yr NOTE ANNOUNCEMENT</i>	
25	26	27	28	01
<b>WHOLESALE TRADE</b> 10:00 AM  <b>2-Yr NOTE AUCTION</b> <b>5-Yr NOTE AUCTION</b>	<b>HOUSING STARTS</b> 8:30 AM Mn. M/M OCT 1.217 -1.6 NOV 1.256 3.2 DEC  <b>S&amp;P/CASE-SHILLER HOUSE PRICE INDEX</b> 9:00 AM  <b>CONSUMER CONFIDENCE</b> 10:00 AM  <b>Fed Chair Powell speaks @ 2:30 PM ET</b>  <b>7-Yr NOTE AUCTION</b> <i>BOT (9:00) REDBOOK (8:55)</i>	<b>ADV. TRADE IN INTERNATIONAL GOODS</b> 8:30 AM  <b>FACTORY ORDERS</b> 10:00 AM M(SA) Y(NSA) OCT -2.1 6.8 NOV -0.6 4.1 DEC  <b>Fed Chair Powell speaks @ 2:30 PM ET</b>	<b>GDP</b> 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 18:Q2(F) 4.2 3.0 18:Q3(F) 3.4 1.8 18:Q4(P)  <b>CHICAGO PMI</b> 9:45 AM  <b>2, 5, 7-Yr NOTE SETTLEMENT</b> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	<b>PERS. INC &amp; OUT.</b> 8:30 AM SAVING INCOME CONS RATE M M AR OCT 0.5 0.8 6.1 NOV 0.2 0.4 6.0 DEC  <b>ISM MFG SURVEY</b> 10:00 AM COMP. PRICES INDEX INDEX DEC 54.1 54.9 JAN FEB  <b>LIGHT VEHICLES SALES MIL (AR)</b> Y DEC JAN FEB  <b>MICHIGAN SENTIMENT (F)</b> 10:00 AM
4	5	6	7	8
	<b>NEW HOME SALES</b> 8:30 AM  <b>ISM NON-MFG SURVEY</b> 10:00 AM  <b>TREASURY BUDGET</b> 2:00 PM  <i>BOT (9:00) REDBOOK (8:55)</i>	<b>ADP SURVEY</b> 8:15 AM  <b>GOODS &amp; SERV. BALANCE (BOP) \$B</b> 8:30 AM GDS SERV TOT OCT -78.3 22.6 -55.7 NOV -71.6 22.3 -49.3 DEC  <b>FACTORY ORDERS</b> 10:00 AM M(SA) Y(NSA) NOV -0.6 4.1 DEC JAN  <b>Beige Book</b>	<b>NON-FARM PRODUCTIVITY</b> 8:30 AM Q/Q (AR) Y/Y 18:Q2 (F) 3.0 1.3 18:Q3 (F) 2.2 1.3 18:Q4 (F)  <b>CONSUMER CREDIT</b> 3:00PM  <b>3, 10-Yr NOTE ANNOUNCEMENT</b> <b>30-Yr BOND ANNOUNCEMENT</b> <i>INITIAL JOBLESS CLAIMS (8:30)</i>	<b>EMPLOY. SITUATION</b> 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN DEC 222 3.9 3.5 JAN 304 4.0 3.4 FEB  <b>WHOLESALE TRADE</b> 10:00 PM
11	12	13	14	15
<b>BUSINESS INVENTORIES</b> 10:00 AM  <b>3-Yr NOTE AUCTION</b>	<b>CPI</b> 8:30 AM M(SA) Y (NSA) DEC -0.1 1.9 JAN 0.0 1.6 FEB  <b>10-Yr NOTE AUCTION</b> <i>BOT (9:00) REDBOOK (8:55)</i>	<b>PPI</b> 8:30 AM M (SA) Y (NSA) DEC -0.1 2.5 JAN -0.1 2.0 FEB	<b>RETAIL SALES</b> 8:30 AM M Y NOV 0.1 4.1 DEC -1.2 2.3 JAN  <b>BUSINESS INVENTORIES</b> 10:00 AM  <b>INITIAL JOBLESS CLAIMS (8:30)</b>	<b>CAPACITY UTIL/IND. PROD.</b> 9:15 AM LEV M Y DEC 78.7 0.3 3.9 JAN FEB  <b>MICHIGAN SENTIMENT (P)</b> 10:00 AM  <b>NET CAPITAL INFLOWS TICS</b> 4:00 PM  <b>3, 10-Yr NOTE SETTLEMENT</b> <b>30-Yr BOND SETTLEMENT</b>

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