CIBC

Economics

Avery Shenfeld
(416) 594-7356
avery.shenfeld@cibc.ca

Benjamin Tal
(416) 956-3698
benjamin.tal@cibc.ca

Andrew Grantham
(416) 956-3219
andrew.grantham@cibc.ca

Royce Mendes
(416) 594-7354
royce.mendes@cibc.ca

Nick Exarhos
(416) 956-6527
nick.exarhos@cibc.ca

http://economics.cibccm.com

THE WEEK AHEAD

March 27-31, 2017

The Competitiveness Challenge

by Avery Shenfeld

As we write, the Obamacare repeal process is facing headwinds in the House and the even tougher hurdle of Senate approval. We're surprised at how closely Canadian clients are tracking this legislative labyrinth. It's not due to any stake in US insurers. Instead, it's because equity markets are wrongly viewing the healthcare bill as a harbinger for Trump's ability to push through other pro-business legislation.

Healthcare, as Trump claimed to be the first to discover, is "complicated." The health bill's troubles exposed a fundamental conflict within the GOP. Conservatives want government's role even more dramatically scaled back, while more moderate Republicans don't.

But there's no such schism when it comes to the two agenda items behind the equity market's post-election enthusiasm: taxes and regulatory policies. Deregulation is at the heart and soul of the GOP. Upper income taxpayers will get a break, if not in the healthcare bill, then in the tax reform process.

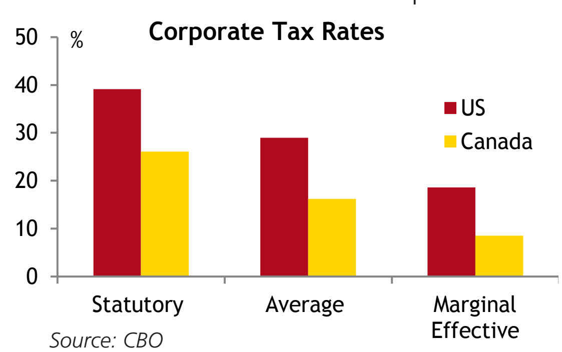
On corporate tax cuts, the challenge will be how to deliver them without blowing up the deficit, particularly if the "Border Adjustment Tax (BAT)" is rejected by the Senate, as seems likely. The art of the deal will likely mean a compromise on the magnitude of the rate reductions.

As long as a BAT is rejected, the US corporate tax agenda is a challenge for Canada, but not an insurmountable one. It's a case of losing an edge that Canada now holds, rather than being put at a major disadvantage.

Statutory rates aren't the whole story due to differences in tax preferences and other features of the system. A 2017 CBO study showed that Canada's average and marginal effective corporate tax burdens are miles below those stateside, including state and provincial taxes (Chart). If Trump is unable to cut the US statutory federal rate to 20% in the absence of a BAT, our edge will diminish, but not disappear.

Still, the US is lightening up on environmental regulations, including those touching on the energy sector, in a way that will open up a cost advantage vs Canada. Lower US income taxes on highly skilled workers, who typically are upper-income earners, will make it tougher for Canada to retain the talent needed in the innovative industries Ottawa wants to promote.

At the end of the day, a floating exchange rate is the ultimate equalizer, as the Canadian dollar will, over time, move to a level that keeps trade imbalances from reaching unsustainable levels. It's not a happy outcome if we end up needing an even cheaper loonie to keep ourselves employed, since that also implies we are poorer when we buy imports or shop abroad. Better to keep an eye on policy choices here to ensure that we're not too far out of step.



Source: CBO

Week Ahead Calendar And Forecast

CANADA

Day	Event	Period		CIBC	Consensus	Prior
Monday March 27						
Tuesday March 28	**CASH MANAGEMENT BUYBACK (Aug'17 - Sep'18) : $0.5B**					
	QUEBEC BUDGET					
	Speaker: 9:50 AM Stephen S. Poloz (Governor)					
	Speaker: 11:10 AM Stephen S. Poloz (Governor)					
Wednesday March 29	**AUCTION: 2-YR CANADAS $3.9B**					
Thursday March 30	**8:30 AM**					
	INDUSTRIAL PROD. PRICES M/M	(Feb)	(M)			0.5%
	RAW MATERIALS M/M	(Feb)	(M)			1.7%
Friday March 31	**8:30 AM**					
	GDP M/M	(Jan)	(H)	**0.4%**	0.3%	0.3%
	PAYROLL EMPLOYMENT, EARNINGS & HRS					

UNITED STATES

Day	Event	Period		CIBC	Consensus	Prior
Monday March 27	**AUCTION: 3-M BILLS $36B, 6-M BILLS $30B**					
	AUCTION: 2-YR $26B (prev)					
	Speaker: 6:30 PM Rob Kaplan (Dallas, President)					
	Speaker: 1:15 PM Charles L. Evans (Chicago)					
Tuesday March 28	**AUCTION: 4-WEEK BILLS $15B (prev)**					
	AUCTION: 1-YR $20B (prev)					
	AUCTION: 5-YR TREASURIES $24B (prev)					
	8:30 AM					
	ADVANCE GOODS TRADE BALANCE	(Feb)	(M)	**-$66.6B**	-$66.5B	-$68.8B
	WHOLESALE INVENTORIES M/M	(Feb P)	(L)		0.2%	-0.2%
	9:00 AM					
	S&P CASE SHILLER INDEX	(Jan)	(H)			192.6
	S&P CASE SHILLER Y/Y	(Jan)	(H)		5.7%	5.6%
	10:00 AM					
	CONF.BOARD CONSUMER CONFIDENCE	(Mar)	(H)	**112.2**	113.6	114.80
	RICHMOND FED MANUF. INDEX	(Mar)	(M)		15.0	17.0
	Speaker: 4:30 PM Jerome H Powell (Governor)					
	Speaker: 1:00 PM Rob Kaplan (Dallas, President)					
	Speaker: 12:50 PM Janet l. Yellen (Chair)					
	Speaker: 12:45 PM Esther George (Kansas City)					
Wednesday March 29	**AUCTION: 7-YR $28B (prev)**					
	7:00 AM					
	MBA-APPLICATIONS	(Mar 24)	(L)			-2.7%
	10:00 AM					
	PENDING HOME SALES M/M	(Feb)	(M)		2.2%	-2.8%
	Speaker: 1:15 PM John C Williams (San Francisco)					
	Speaker: 11:30 AM Eric Rosengren (Boston)					
	Speaker: 9:20 AM Charles L. Evans (Chicago)					
Thursday March 30	**8:30 AM**					
	INITIAL CLAIMS	(Mar 25)	(M)		245K	258K
	CONTINUING CLAIMS	(Mar 18)	(L)		2040K	2000K
	GDP (annualized)	(Q4 F)	(H)	**1.9%**	2.0%	1.9%
	GDP DEFLATOR (annualized)	(Q4 F)	(H)	**2.0%**	2.0%	2.0%
	Speaker: 11:15 AM John C Williams (San Francisco)					
	Speaker: 11:00 AM Rob Kaplan (Dallas, President)					
	Speaker: 9:45 AM Loretta Mester (Cleveland)					
Friday March 31	**8:30 AM**					
	PCE DEFLATOR Y/Y	(Feb)	(H)	**2.1%**	2.1%	1.9%
	PCE DEFLATOR Y/Y (core)	(Feb)	(H)	**1.7%**	1.7%	1.7%
	PERSONAL INCOME M/M	(Feb)	(H)	**0.4%**	0.4%	0.4%
	PERSONAL SPENDING M/M	(Feb)	(H)	**0.3%**	0.2%	0.2%
	9:45 AM					
	CHICAGO PMI	(Mar)	(M)		56.7	57.40
	10:00 AM					
	MICHIGAN CONSUMER SENTIMENT	(Mar F)	(H)		97.6	97.6
	Speaker: 10:00 AM Neel Kashkari (Minneapolis)					

at 12:50 PM ET on Workforce Development Challenges in Low Income Commputies

Week Ahead's Market Call

by Avery Shenfeld

In the US, Fed speakers will restate their gradualist approach to rate hikes, so anything of interest will come on the topic of the central bank's balance sheet and when it might start to be unwound. We're a bit above the consensus on personal spending for February and there's a risk of an upward revision to January. Core PCE prices should hold at 1.7%, with the Fed not needing anything firmer yet to stay on message.

In Canada, Québec will be the next province to deliver its budget. Friday's GDP report looks headed for a solid 0.4% gain, positioning Q1 to be in the 3½% range, even if growth tails off in the rest of the quarter. It will be hard for BoC Governor Poloz to ignore that momentum in his Tuesday press conference, but he will counterbalance its hawkish implications by stressing the degree of slack remaining and the risks from potential US policy developments.

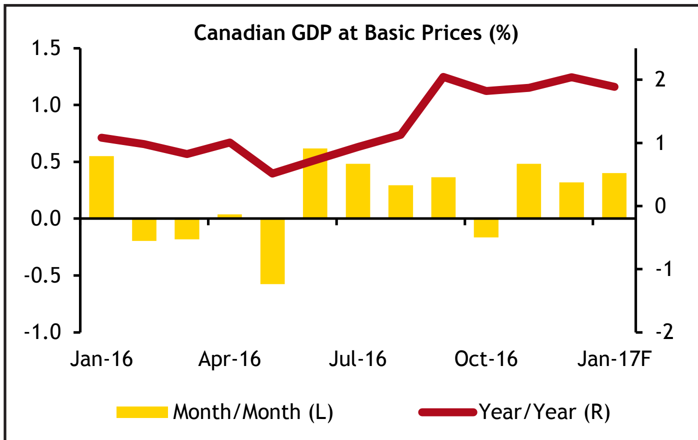
Week Ahead's Key Canadian Number:

Real GDP (at Basic Prices)—January

(Friday, 8:30 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
GDP (m/m)	0.4%	0.3%	0.3%



Source: Statistics Canada, CIBC

The Canadian economy seems to be firing on almost all of its cylinders, and that continued into the start of 2017. Indeed, with the trio of manufacturing, wholesale trade and retail posting strong results, the monthly GDP print is poised for another healthy advance. Look for an acceleration next week to a 0.4% gain in January output.

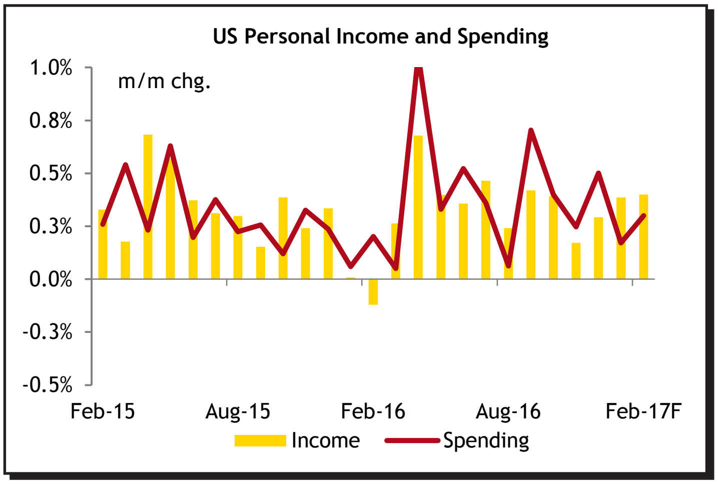
As a result, we're upgrading our quarterly growth outlook to roughly 3½% after a strong January performance, even allowing for more tepid gains over the balance of the quarter.

Forecast Implications—Growth is coming fast and furious recently, and even with a slower pace expected for the back half of the year, we should be on track to close the output gap sometime in early 2018. As a result, there's only so much longer that the Bank of Canada can maintain its overtly dovish tone, without at least acknowledging the recent beats on the economic front.

Week Ahead's Key US Number:
Personal Income & Outlays—February
(Friday, 8:30 a.m.)

Andrew Grantham (416) 956-3219

	CIBC	Mkt	Prior
Personal Income (m/m)	0.4%	0.4%	0.4%
Personal Spending (m/m)	0.3%	0.2%	0.2%
Core PCE Price Index (y/y)	1.7%	1.7%	1.7%



Continued strong employment growth and a pick-up in average earnings likely led to a solid 0.4% gain in personal incomes in February. There's a risk that January's spending will be revised higher, in line with an upward revision to the control group for retail sales. However, February's deceleration in retail sales suggests that once again not all of that extra income was spent that month. The only reason why we expect outlays to have advanced slightly faster than in the previous month is a pick-up in services, which were unusually weak in January.

Headline inflation only edged up in February, after surging in January, and as a result real spending should have been up during the month. Recent CPI data have shown a slowing in medical services inflation, and with that area having a larger weight in the PCE figures, it's unlikely that core inflation on this metric will get closer to the Fed's 2% goal in February.

Forecast Implications—Core PCE inflation remaining a little below the 2% target was one of the reasons Neel Kashkari cited for dissenting against March's rate hike, and the lack of upward move will guarantee a slow approach to further increases. While consumer spending appears to have decelerated to below a 2% pace in Q1, strong income growth and an increase in savings are positive indicators for a reacceleration ahead.

Market Impact—We are a little above consensus forecasts for consumer spending, but that's unlikely to be a big market mover. Any shift up or down in core PCE inflation will have the largest impact on Fed rate hike expectations.

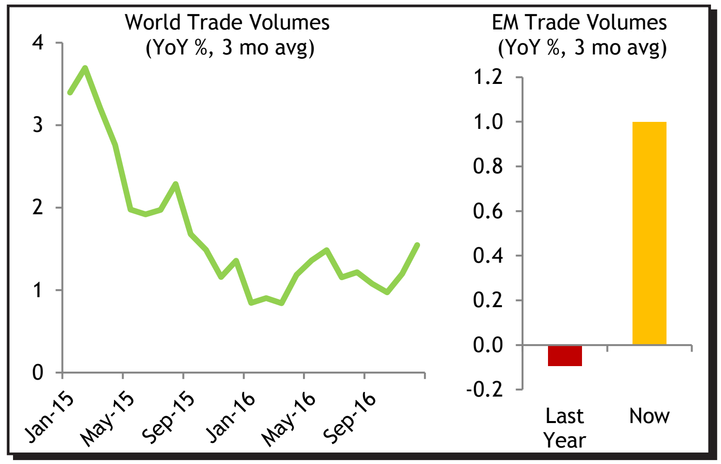
Equity Insights

Nick Exarhos

Global Trade: On Firmer Footing

This year is a better year for global growth, and it looks like there's a bit more room for a further acceleration. Worldwide trade volumes are tracking historically modest growth rates, but are still pointing in the right direction. Even if we don't see much more headway in resources ahead, a firming in global trade, primarily driven by better demand from emerging markets, suggests that commodities don't face a broad correction through the first half. What's more, non-energy exports are now in a better position to take advantage of a cheaper C$, a plus for other industrial names on the TSX.

Global Trade Volumes Gaining (Some) Traction (L), With EMs No Longer Significant Drag (R)

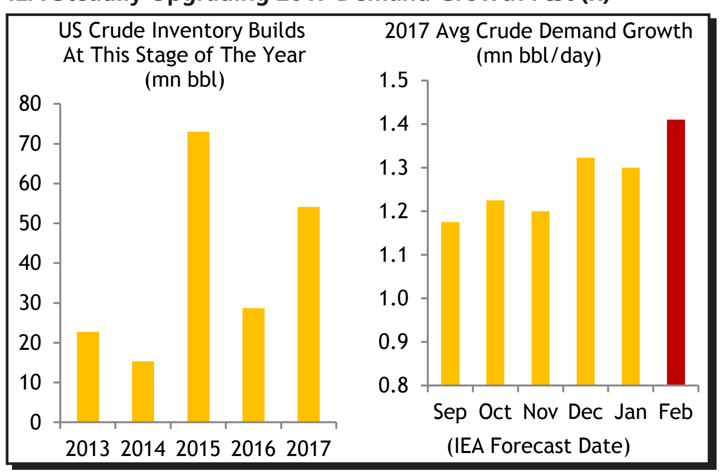


Source: CPB, CIBC

Demand Growth to the Rescue for Crude?

Crude's taken it on the chin, with a doubling in rig counts stateside leaving investors questioning whether OPEC's efforts to rebalance the market are in vain. We're taking a more sanguine view. True, crude inventories in the US are still rising. However, the physical crude market would have just reached a net deficit position over the last month or so, and more constructive trends in product inventories (gasoline, distillates) bodes well for oil demand. Indeed, the IEA's estimate for global demand growth for crude in 2017 continues to edge higher, with February's forecast tracking 1.4 mn bbl/day. We still believe in the oil plateau at around $60/bbl in the longer term, but steady (and firm) demand growth should ensure a floor for prices not far from current levels.

Inventories Build at a Smart Pace (L); IEA Steadily Upgrading 2017 Demand Growth Fcst (R)

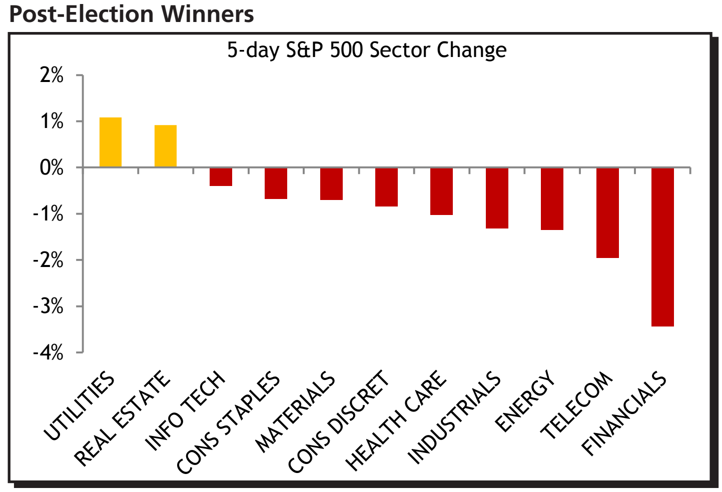


Source: Bloomberg, IEA, CIBC

Trump Trade Unwind Post Fed

Investors scaled back their bets that Trump's election victory would power the almighty "reflation trade". Indeed, with a general back-up in yields post-Fed hike, we've seen sectors that performed best in the aftermath of the stunning Trump win—i.e. financials, healthcare—become some of the biggest losers. We're still looking for modest returns from equities in the weeks ahead, with some appetite toward industrially linked names that still have more fundamental—rather than policy—support.

Sector Shifts in the Past Week Away from Post-Election Winners



Source: Bloomberg, CIBC

Currency Currents

Andrew Grantham

Top Marks For Bottom of the Class

In the Bank of Canada's first communication of the year, January's MPR, it cited concern that the C$ had appreciated against currencies other than the greenback. That was seen as "exacerbating ongoing competitiveness challenges and muting the outlook for exports". So it's welcome news for the Governor that the loonie is bottom of the class of major currencies, year-to-date. However, much of that underperformance recently could be put down to the pull-back in oil prices, particularly relative to other currencies. Maintaining the underperformance later in the year as oil prices edge back toward $55/bbl could require the Bank to stick with a dovish tilt despite the improving economic data.

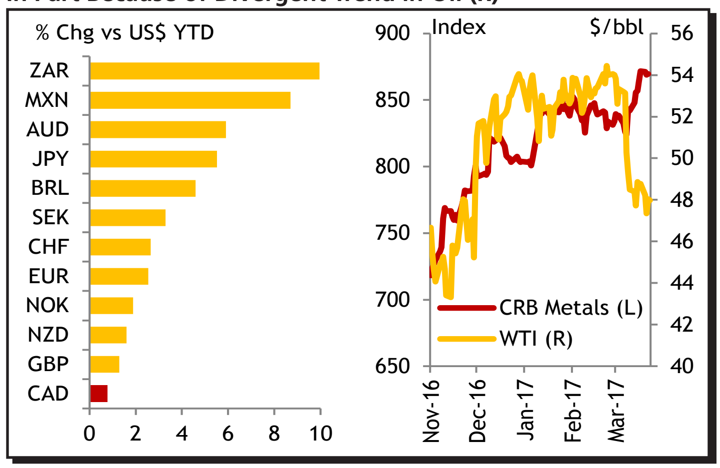
US Current Account—A Short-Term Reprieve

We noted earlier in the year that the US's sizeable current account deficit would put a cap on how much the greenback strengthens as the Fed raises rates. And even though the US current account unexpectedly improved in Q4, concerns still remain. The improvement was driven solely by a big jump in the surplus for primary income, which just offset a larger goods trade deficit. However, the surplus in primary income is only a quarter of the size of the deficit in goods trade, so it's very unlikely that it will continue to offset any further deterioration on the trade front. We see many major currencies, particularly the euro due to the region's large current account surplus, ending the year stronger against the US$.

Sterling Starting to Stir on Inflation

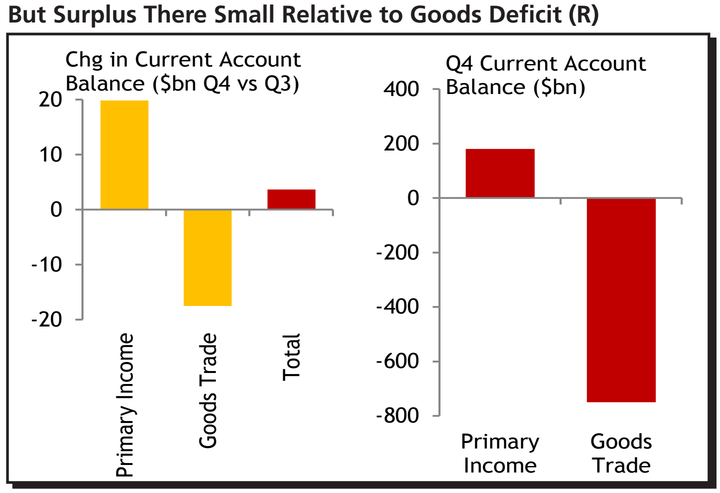
A bigger than expected surge in UK inflation saw sterling gain against the US$, with some speculation that price pressures could dramatically overshoot the BoE's forecasts and lead to more dissenters in favour of a rate hike. However, while it's likely inflation will peak above the MPC's previous 2.8%, more extreme forecasts of a rise towards 4% are also probably off the mark. Those are based around comparisons with the 2010/11 experience, after sterling plunged during the recession. However, inflation was also boosted in that period by changes in sales tax (VAT), and excluding that impact the peak would have been about 1½% lower. Provided inflation doesn't rise much above 3%, expect interest rates to remain on hold for a prolonged period and sterling to underperform other currencies vs the US$ this year.

C$ Underperforming Other Majors Year-to-Date (L), In Part Because of Divergent Trend in Oil (R)



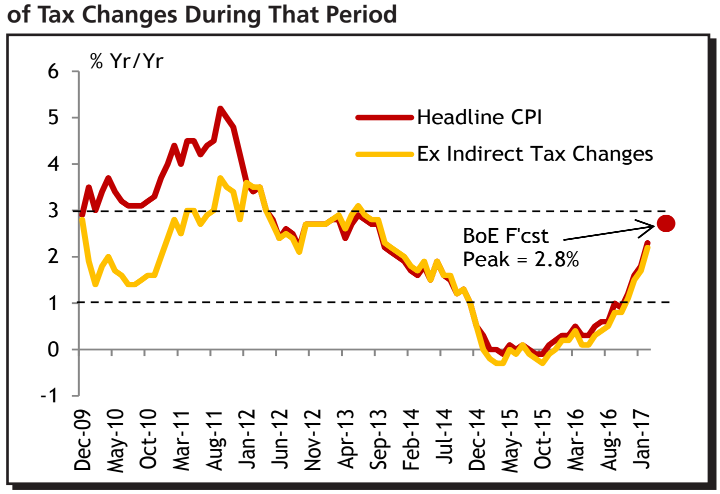
Source: Bloomberg, CRB, CIBC

Small Surprise Improvement Driven By Primary Income (L), But Surplus There Small Relative to Goods Deficit (R)



Source: BEA, CIBC

UK Inflation Comparisons With 2011 Need to Take Account of Tax Changes During That Period



Source: ONS, CIBC

CANADIAN RELEASE AND EVENT DATES
March/April 2017

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
20 **WHOLESALE TRADE** 8:30 AM	21 **RETAIL TRADE** 8:30 AM (Current$) M Y NOV 0.2 2.8 DEC -0.4 4.3 JAN 2.2 4.5	22	23	24 **CPI** 8:30 AM M Y DEC -0.2 1.5 JAN 0.9 2.1 FEB 0.2 2.0
27	28 **Bank of Canada Governor Poloz speaks at 9:50 AM ET and holds press conference at 11:10 AM ET** **Québec Budget**	29	30 **INDUSTRIAL PRICES** 8:30 AM M (NSA) Y DEC 0.3 2.3 JAN 0.4 2.3 FEB	31 **GDP BY INDUSTRY** 8:30 AM (2002$) GDP IND.PROD. M M NOV 0.5 1.3 DEC 0.3 0.4 JAN **PAYROLL EMPLOYMENT, EARNINGS & HOURS** 8:30 AM
3 **Bank of Canada Business Outlook Survey**	4 **MERCHANDISE TRADE** 8:30 AM $MN 12 MO. BALANCE DEC 448 -25,910 JAN 807 -24,099 FEB	5 **INTERNATIONAL RESERVES** 8:15 AM $BN CHANGE $BN LEVEL JAN 2.065 84.8 FEB -2.692 82.1 MAR	6 **BUILDING PERMITS ($)** 8:30 AM M (RES) M (NON-RES) DEC -1.4 -10.3 JAN 2.7 11.2 FEB **Newfoundland and Labrador Budget**	7 **LABOUR FORCE SURVEY** 8:30 AM EMPLOY (HSHOLD) M / UNEMP RATE Y / % / AVG HRLY EARN Y JAN 0.3 1.5 6.8 1.0 FEB 0.1 1.6 6.6 1.1 MAR **IVEY PURCHASING MANAGERS' INDEX** 10:00 AM
10 **HOUSING STARTS** 8:15 AM 000's (AR) TOTAL SINGLES JAN 209 64 FEB 210 72 MAR	11 **Manitoba Budget**	12 **Bank of Canada Interest Rate Announcement** **Bank of Canada Monetary Policy Report** **Bank of Canada Gov. Poloz/Sr Dep Gov. Wilkins speak @ 11:15 AM ET**	13 **SURVEY OF MANUFACTURING** 8:30 AM SHIPMENTS M Y DEC 2.1 4.2 JAN 0.6 2.7 FEB **NEW HOUSING PRICE INDEX** 8:30 AM	14
17	18 **INT'L TRANSACTIONS IN SECURITIES C$BN, NET** 8:30 AM BONDS MONEY MARKET STOCKS TOT DEC 2.3 -1.8 9.7 10.2 JAN 10.0 -2.7 -1.0 6.2 FEB **Bank of Canada Sr Deputy Governor Wilkins speaks at 12:45 ET**	19	20	21 **CPI** 8:30 AM M Y JAN 0.9 2.1 FEB 0.2 2.0 MAR

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
March/April 2017

Monday 20

Tuesday 21

CURR. ACCOUNT BAL.
8:30 AM

BOT (9:00) REDBOOK (8:55)

Wednesday 22

EXISTING HOME SALES
10:00 AM

Thursday 23

NEW HOME SALES
10:00 AM

INITIAL JOBLESS CLAIMS (8:30)

Friday 24

DURABLE GOODS ORDERS

8:30 AM	M	Y
DEC	-0.9	1.3
JAN	2.3	-0.1
FEB	1.7	5.0

Monday 27

2-Yr NOTE AUCTION

Tuesday 28

ADV. TRADE IN INTERNATIONAL GOODS
8:30 AM

S&P/CASE-SHILLER HOUSE PRICE INDEX
9:00 AM

CONSUMER CONFIDENCE
10:00 AM

Fed Chair Yellen speaks at 12:50 PM ET on workforce development challenges in low-income communities

5-Yr NOTE AUCTION

BOT (9:00) REDBOOK (8:55)

Wednesday 29

7-Yr NOTE AUCTION

Thursday 30

CORPORATE PROFITS
8:30 AM

GDP

8:30 AM (AR)	REAL GDP	IMPLICIT DEFLATOR
16:Q3(F)	3.5	1.4
16:Q4(P)	1.9	2.0
16:Q4(F)		

INITIAL JOBLESS CLAIMS (8:30)

Friday 31

PERS. INC & OUT.

8:30 AM	INCOME M	CONS M	SAVING RATE AR
DEC	0.3	0.5	5.4
JAN	0.4	0.2	5.5
FEB			

MICHIGAN SENTIMENT (F)
10:00 AM

CHICAGO PMI
9:45 AM

2, 5, 7-Yr NOTE SETTLEMENT

Monday 3

ISM MFG SURVEY

10:00 AM	COMP. INDEX	PRICES INDEX
JAN	56.0	69.0
FEB	57.7	68.0
MAR		

Tuesday 4

GOODS & SERV. BALANCE (BOP) $B

8:30 AM	GDS	SERV	TOT
DEC	-65.7	21.4	-44.3
JAN	-69.7	21.2	-48.5
FEB			

FACTORY ORDERS

10:00 AM	M(SA)	Y(NSA)
DEC	1.3	3.6
JAN	1.2	3.8
FEB		

LIGHT VEHICLES

	SALES MIL (AR)	Y
JAN	17.482	-1.6
FEB	17.465	-0.7
MAR		

BOT (9:00) REDBOOK (8:55)

Wednesday 5

ADP SURVEY
8:15 AM

ISM NON-MFG SURVEY
10:00 AM

FOMC Minutes

Thursday 6

3, 10-Yr NOTE ANNOUNCEMENT

30-Yr BOND ANNOUNCEMENT

INITIAL JOBLESS CLAIMS (8:30)

Friday 7

EMPLOY. SITUATION

8:30 AM	NON-FARM PAYROLL (000s) M	CIV UNEMP RATE %	AVG HRLY EARN Y
JAN	238	4.8	2.3
FEB	235	4.7	2.5
MAR			

CONSUMER CREDIT
3:00PM

Monday 10

Tuesday 11

3-Yr NOTE AUCTION

BOT (9:00) REDBOOK (8:55)

Wednesday 12

TREASURY BUDGET
2:00 PM

10-Yr NOTE AUCTION

Thursday 13

PPI

8:30 AM	M (SA)	Y (NSA)
JAN	0.6	1.7
FEB	0.3	2.2
MAR		

30-Yr BOND AUCTION

INITIAL JOBLESS CLAIMS (8:30)

Friday 14

GOOD FRIDAY (HOLIDAY) (Stock Market Closed)

CPI

8:30 AM	M(SA)	Y (NSA)
JAN	2.5	1.9
FEB	2.8	2.2
MAR		

RETAIL SALES

8:30 AM	M	Y
JAN	0.6	6.0
FEB	0.1	5.7
MAR		

MICHIGAN SENTIMENT (P)
10:00 AM

BUSINESS INVENTORIES
10:00 AM

Monday 17

NET CAPITAL INFLOWS TICS
4:00 PM

3, 10-Yr NOTE SETTLEMENT

30-Yr BOND SETTLEMENT

Tuesday 18

HOUSING STARTS

8:30 AM	Mn.	M/M
JAN	1.251	-1.9
FEB	1.288	3.0
MAR		

CAPACITY UTIL/ IND. PROD.

9:15 AM	LEV	M	Y
JAN	75.3	-0.3	0.1
FEB			
MAR			

BOT (9:00) REDBOOK (8:55)

Wednesday 19

Beige Book

Thursday 20

PHILADELPHIA FED INDEX
8:30 PM

LEADING INDICATOR
10:00 AM

2, 5-, 7-Yr NOTE ANNOUNCEMENT

INITIAL JOBLESS CLAIMS (8:30)

Friday 21

EXISTING HOME SALES
10:00 AM

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: U.S. Department of Commerce, U.S. Department of Labor and U.S. Federal Reserve Board.