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Hey Babe, Take a Walk on the Supply Side

by Avery Shenfeld

When the facts change, so do we. Canada's two-month jobs surge brought forward the likely timing of the first of two Bank of Canada rate hikes for 2018.

Stateside, in the final rush to pass tax reforms, relative to the initial Senate bill, a further $100 bn in fiscal stimulus was shifted into 2018, rather than being delayed until fiscal 2019, and more (if temporary) relief was provided to middle income earners. The result is that our forecasts for US growth in 2018 will be lifted by a few decimal places, with details forthcoming in our January issue of *Forecast*.

Unfortunately, we're not inclined to add anything to our 2019 US growth projections, which continue to look for a sub-2% growth rate. For one, we were already including an assumed set of tax cuts kicking in by then in our prior forecast.

Then there's the likelihood that a larger deficit in 2018 will prompt post-election spending restraint in 2019. That's the message we're hearing from Paul Ryan and others who say it's time to look at entitlement programs. A promised bill on infrastructure spending is nowhere in sight, and might now be at risk as deficits climb. If so, we could offset a lot of the growth lift from tax relief.

Most importantly, there isn't that much room for faster non-inflationary growth at this point in the cycle. The very fact that the Fed is on a tightening path suggests that the central bankers see the output gap closing by 2019. Better growth in 2018 will auger for a marginally faster pace of Fed hikes this year, getting to a neutral 2½% level earlier in 2019 than otherwise. Low core inflation should keep the Fed on hold through Q1, but there would still be plenty of time to squeeze in three hikes over the balance of the year.

Still, we're not going to offset a faster growth rate in 2018 with a lower forecast for 2019. There should be some room for an increase in potential (i.e. non-inflationary) additions to growth if the tax relief takes a walk on the supply side. Americans could opt to work additional hours because of the improved net take-home pay. We would expect to see a bit of that for second income earners in a household, for example. But estimates of those responses have fallen over time as more women have become permanently attached to the labour market.

Similarly, accelerated capital spending to take advantage of a temporary provision to allow immediate expensing would add to the economy's capacity somewhat. But this is still a US economy that generates less cap-ex than in decades past, given its leaning to brainpower over old-style factories.

Add it all up, and the revised tax bill's economic gift wasn't much bigger than we thought, but we'll be opening up its Christmas present a few quarters earlier than previously envisaged. That should help the US$ hold ground after tumbling close to our 2018 targets, but will be less friendly to the 2018 bond market.

Week Ahead Calendar And Forecast

CANADA

Day	Event	Period	Significance	CIBC	Consensus	Prior
Monday January 8	**10:30 AM**					
	BoC Business Outlook and Senior Loan Officer Surveys					
Tuesday January 9	**AUCTION: 3-M BILLS $4.4B, 6-M BILLS $1.8B, 1-YR BILLS $1.8B**					
	CASH MANAGEMENT BUYBACK (Feb'18 - Jun'19) - $0.5B					
	8:15 AM					
	HOUSING STARTS SAAR	(Dec)	(M)	**207K**		251K
Wednesday January 10	**AUCTION: 2-YR CANADAS $3.6B**					
	8:30 AM					
	BUILDING PERMITS M/M	(Nov)	(M)			3.5%
Thursday January 11	**8:30 AM**					
	NEW HOUSING PRICES M/M	(Nov)	(L)			0.1%
Friday January 12						

UNITED STATES

Day	Event	Period	Significance	CIBC	Consensus	Prior
Monday January 8	**AUCTION: 3-M BILLS $48B (prev) , 6-M BILLS $42B**					
	3:00 PM					
	CONSUMER CREDIT	(Nov)	(L)		$17.8B	$20.5B
	Speaker: 4:00 PM Eric Rosengren (President,Boston)					
	Speaker: 1:35 PM John C Williams (President, San Francisco)					
	Speaker: 12:40 PM Raphael Bostic (President, Atlanta)					
Tuesday January 9	**AUCTION: 4-WEEK BILLS $50B (prev)**					
	AUCTION: 3-YR TREASURIES $24B					
	Speaker: 10:00 AM Neel Kashkari (President, Minneapolis)					
Wednesday January 10	**AUCTION: 10-YR TREASURIES $20B (r)**					
	7:00 AM					
	MBA-APPLICATIONS	(Jan 5)	(L)			0.7%
	8:30 AM					
	IMPORT PRICE INDEX M/M	(Dec)	(L)		0.4%	0.7%
	10:00 AM					
	WHOLESALE INVENTORIES M/M	(Nov)	(L)			0.7%
	Speaker: 1:30 PM James Bullard (President, St Louis)					
	Speaker: 9:00 AM Charles L. Evans (President, Chicago)					
Thursday January 11	**AUCTION: 30-YR TREASURIES $12B (r)**					
	8:30 AM					
	INITIAL CLAIMS	(Jan 6)	(M)		248K	250K
	CONTINUING CLAIMS	(Dec 30)	(L)			1914K
	PPI M/M	(Dec)	(M)	**0.2%**	0.2%	0.4%
	PPI M/M (core)	(Dec)	(M)	**0.2%**	0.2%	0.3%
	PPI Y/Y	(Dec)	(M)	**3.0%**	3.0%	3.1%
	PPI Y/Y (core)	(Dec)	(M)	**2.5%**	2.5%	2.4%
	2:00 PM					
	TREASURY BUDGET	(Dec)	(L)		-$49.0B	-$138.5B
	Speaker: 3:30 PM William C. Dudley (President, New York)					
Friday January 12	**8:30 AM**					
	CPI M/M	(Dec)	(H)	**0.1%**	0.2%	0.4%
	CPI M/M (core)	(Dec)	(H)	**0.2%**	0.2%	0.1%
	CPI Y/Y	(Dec)	(H)	**2.1%**	2.1%	2.2%
	CPI Y/Y (core)	(Dec)	(H)	**1.7%**	1.7%	1.7%
	RETAIL SALES M/M	(Dec)	(H)	**0.2%**	0.4%	0.8%
	RETAIL SALES (X-AUTOS) M/M	(Dec)	(H)	**0.1%**	0.4%	1.0%
	RETAIL SALES CONTROL GROUP M/M	(Dec)	(H)	**0.3%**	0.4%	0.8%
	10:00 AM					
	BUSINESS INVENTORIES M/M	(Nov)	(L)		0.3%	-0.1%
	Speaker: 4:15 PM Eric Rosengren (President,Boston)					

H, M, L = High, Medium or Low Significance **SAAR = Seasonally Adjusted Annual Rate** **Consensus Source: Bloomberg**

Week Ahead's Market Call

by Avery Shenfeld

In the US, it will be a busy week for Fed speakers, but the data won't really heat up until Friday's CPI and retail figures. Core CPI is likely to hold steady at 1.7% even with a 0.2% monthly climb, giving the central bankers time before hiking again. We're not quite as optimistic as consensus on December retail sales, but a 0.3% climb in the "control group" isn't bad after a 0.8% jump the prior month.

In Canada, if the November-December employment surge was real, it should mean that businesses were confident about what lies ahead. That should make for a generally positive Business Outlook Survey on Monday. But watch for colour commentary on what companies are assuming on NAFTA and its risks to capital spending plans, an issue that could see the Bank of Canada pause for longer than the market expects after a January hike. Housing starts are coming off a huge month, so a pull back to our 207K call isn't as dramatic as it looks.

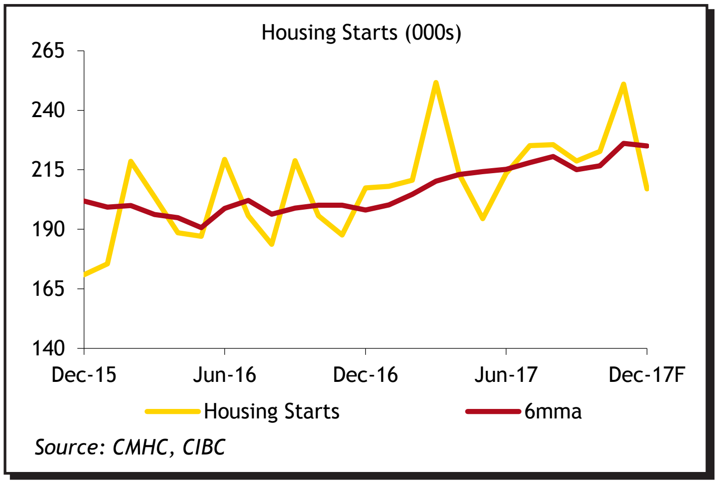
Week Ahead's Key Canadian Number:

Housing Starts—December

(Tuesday, 8:15 a.m.)

Nick Exarhos (416) 956-6527

	CIBC	Mkt	Prior
Housing Starts SAAR	207K	na	252K



A very mild November gave builders soft ground for their shovels to break into, but December will be a different story. Starts are poised to decelerate significantly from the 252K pace seen the prior month, coming down all the way to 207K. Still, that's in line with the underlying trend in permits, and still signals healthy demand for housing.

Forecast Implications—Residential investment was part of the reason for a rebound in 2017, but with such elevated levels of activity the best we can hope for is new home building to be neutral to growth ahead.

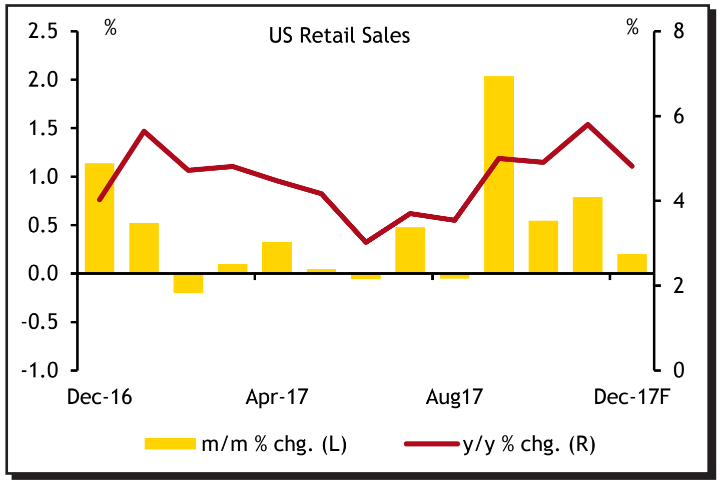
Week Ahead's Key US Number:

Retail Sales—December

(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
Retail Sales	0.2%	0.4%	0.8%
Retail Sales – ex auto	0.1%	0.4%	1.0%
Retail Sales – control group	0.3%	0.4%	0.8%



Media reports suggest this was a cheery holiday season for retailers, but similar 'evidence' indicated that an anemic Black Friday would sink sales in November. The very strong retailing print last month is proof enough that such anecdotes need to be taken with a grain of salt.

A slight rebound in autos, combined with a decline in gasoline prices should be enough to restrain headline growth to a mediocre 0.2%. While the control group should fare slightly better, adverse weather conditions in parts of the northeast could have kept some prospective shoppers from reaching bricks-and-mortar stores. That factor might have also been a headwind to gasoline sales.

Forecast Implications—A deceleration in retail sales growth to end the year is in line with our forecast for slightly cooler consumption readings in Q1. That said, tax cuts and job gains should see household spending post another solid year in 2018.

Market Impact—We're below consensus which should reduce the odds of a near-term Fed rate hike and weaken the dollar.

Other U.S. Releases:

Consumer Price Index—December

(Friday, 8:30 a.m.)

A drop in gasoline prices over the course of the month likely left consumer prices up only 0.1% on a seasonally adjusted basis in December. That will still leave headline inflation running at a decent 2.1%, but that won't be much solace to Fed policymakers. A 0.2% increase on the core measure will see inflation remain at 1.7%, keeping central bankers cautious in the first quarter. However, transitory factors such as last year's decline in telecom prices will fall out of the annual calculation after March, and will see core prices running at a faster annual clip thereafter.

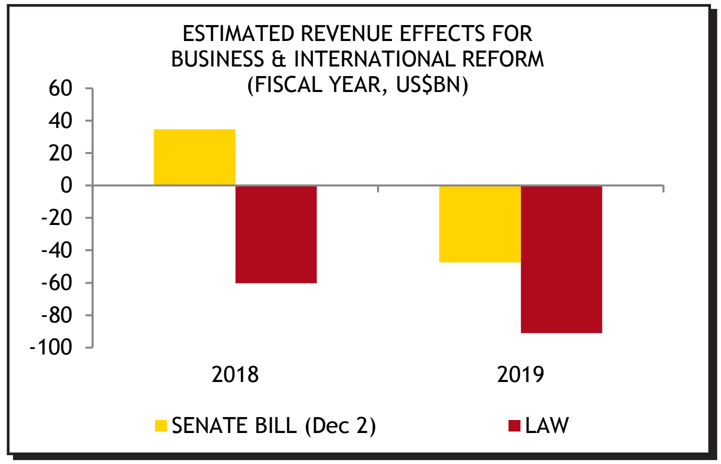
Equity Insights

Nick Exarhos

US Tax Law Bigger than Senate Bill Plan

The lift firms can expect from US tax reform will be larger than what we thought earlier in December. Indeed, our prior analysis on the bill proposed (and passed by) the Senate had skewed the benefits to corporations and individuals toward 2019, while the actual law set to be enacted actually shows a more significant boost to this year. That should underpin moderate gains in equities stateside, even if current valuations bake in much of the benefit of the law's passage. Look for share buybacks to provide some of the momentum in US equities this year.

Lift to Businesses More Substantial Than Original Senate Bill

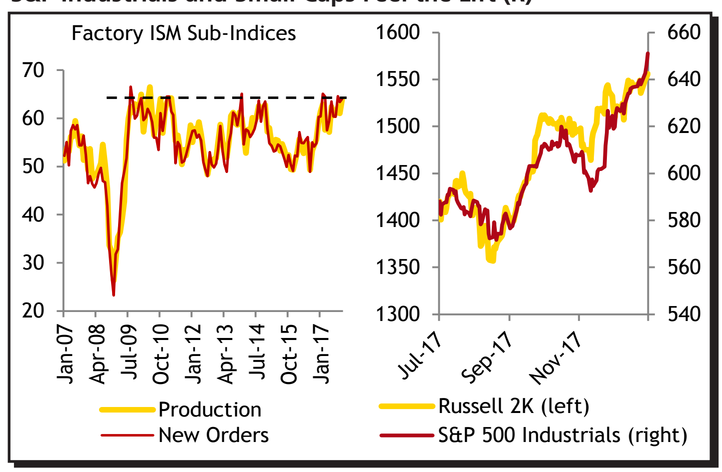


Source: Joint Committee on Taxation

Industrial Fundamentals Strengthening

The refreshed tax code will have a fundamental impact on the industrial sector, where the immediate expensing of capital expenditures will firm demand for capital goods, while stronger US growth will lift domestic demand. Already, the sub-indices on the ISM's factory PMI have reached decade-highs, a positive omen for the sector and for the broader cyclical momentum for the domestic US economy. That's a reason why industrial equities and more domestically focused small cap stocks have moved higher in lockstep over the past three months. These are two areas we like at the start of 2018.

Orders and Production Very Firm For US Factories (L), S&P Industrials and Small Caps Feel the Lift (R)

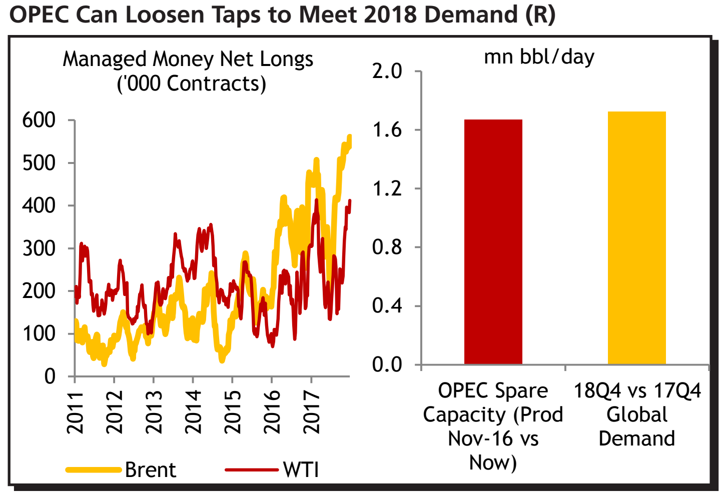


Source: ISM, Bloomberg, CIBC

Crude Prices: Looking Stretched

There are solid reasons for good cheer to reign at the start of this year, but the sentiment on crude prices may have stretched too close to euphoria. True, a firm global backdrop means that current estimates place Q4/Q4 growth in demand at roughly 1.6 mn bbl/day. That's an impressive expected pace, but we still see enough avenues for that demand to be met without reaching new highs on crude prices. Even at these levels, more expensive US production basins become economical, which in itself creates new incentives for cheating amongst OPEC members. Indeed, OPEC could meet the increase in global appetite by allowing production to reach levels that prevailed in late 2016. Look for softer prices on crude this year.

Managed Money Pushes Bullish Positioning to Extremes (L), OPEC Can Loosen Taps to Meet 2018 Demand (R)



Source: CFTC, ICE, IEA, Bloomberg, CIBC

Currency Currents

Andrew Grantham and Royce Mendes

Fool Me Once…

US equity investors have cheered on Republican tax cuts. Fixed income and FX markets not so much. Chalk some of the currency weakness up to external developments, but yields haven't done anything to support the dollar either. Markets continue to imply only two Fed rate hikes in 2018 versus the FOMC's forecast of three. Part of that stems from investors who were better off discounting central bank forecasts in the past. Last year, however, it was the Fed with the better record, with markets underpriced for rate hikes. The risks are certainly skewed that way again. Remember that the latest FOMC projections were also penciled in before the final details of the tax package were hammered out. A more hawkish Fed should slow the pace of additional US dollar weakness as foreign central banks also ease up on their dovish messaging.

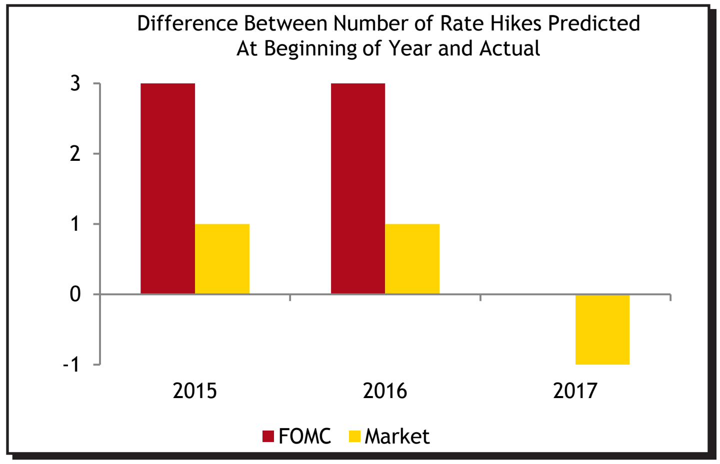
C$: Should We Be Back at 2015 Highs?

WTI oil prices breached the peak seen in early 2015's short-lived recovery this week. And after the blowout December jobs report in Canada, two-year yield spreads with the US are back to where they stood at that point almost three years ago as well. However, while the C$ has strengthened on the data, it's still a little bit below that peak. That doesn't mean it will strengthen further, though. Even with a rate hike now possible in a couple of weeks, the BoC won't be as hawkish regarding future moves as the market now expects. Meanwhile, even though WTI has risen, Western Canada Select, which if anything is more important from a trade perspective, is still well below 2015's level. Both factors justify our expectation for a C$ depreciation in the coming three-six months.

EZ Outperformance to Keep Euro on Positive Track

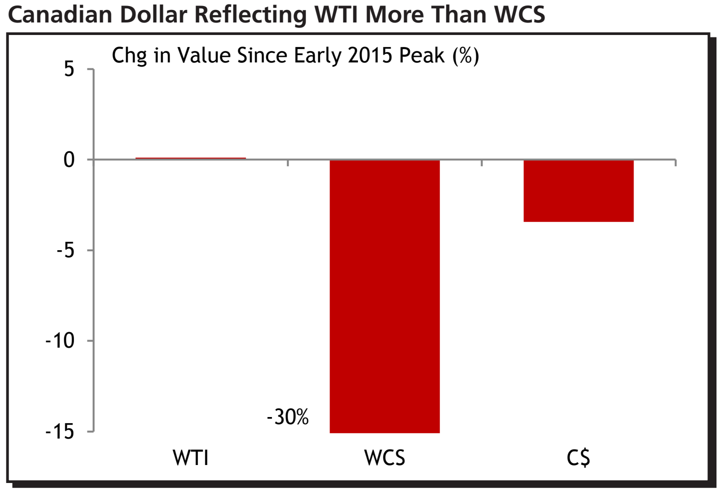
Global PMI readings suggest that growth continued to strengthen in most advanced economies towards the end of 2017. However, one area stands head and shoulders above the others—the Eurozone. Its manufacturing index isn't just near record highs, its lead over the global composite keeps rising. So even though we expect that the US$ will be a bit stronger now in 2018 than we were previously expecting, thanks to the impact of the tax bill, the euro should still remain an outperformer and also appreciate against sterling.

FOMC May Have Finally Calibrated Forecasts



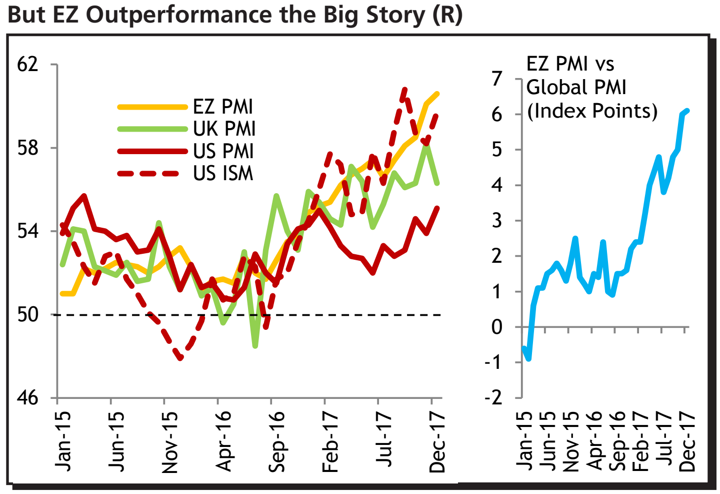
Source: FRB, Bloomberg, CIBC

Canadian Dollar Reflecting WTI More Than WCS



Source: Bloomberg, CIBC

Manufacturing PMI's Rising in a Number of Countries (L), But EZ Outperformance the Big Story (R)



Source: Markit, ISM, CIBC

CANADIAN RELEASE AND EVENT DATES
January/February 2018

MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY

Monday 1

NEW YEAR'S DAY (HOLIDAY) (Markets Closed)

Tuesday 2

Wednesday 3

Thursday 4

INTERNATIONAL RESERVES

8:15 AM	$BN CHANGE	$BN LEVEL
OCT	-0.952	83.4
NOV	3.418	86.8
DEC	-0.180	86.6

INDUSTRIAL PRICES

8:30 AM	M (NSA)	Y
SEP	-0.4	1.4
OCT	1.1	1.7
NOV	1.4	2.7

Friday 5

MERCHANDISE TRADE

8:30 AM	$MN	12 MO. BALANCE
SEP	-3,293	-16,717
OCT	-1,551	-16,865
NOV	-2,540	-20,545

LABOUR FORCE SURVEY

8:30 AM	EMPLOY (HSHOLD) M	Y	UNEMP RATE %	AVG HRLY EARN Y
OCT	0.2	1.7	6.3	2.4
NOV	0.4	2.1	5.9	2.7
DEC	0.1	2.3	5.7	2.9

IVEY PURCHASING MANAGERS' INDEX
10:00 AM

Monday 8

Bank of Canada Business Outlook Survey

Tuesday 9

HOUSING STARTS

8:15 AM 000's (AR)	TOTAL	SINGLES
OCT	223	56
NOV	252	60
DEC		

Wednesday 10

BUILDING PERMITS ($)

8:30 AM	M (RES)	M (NON-RES)
SEP	-1.2	16.0
OCT	2.3	5.5
NOV		

Thursday 11

NEW HOUSING PRICE INDEX
8:30 AM

Friday 12

Monday 15

Tuesday 16

Wednesday 17

Bank of Canada Interest Rate Announcement

Bank of Canada Monetary Policy Report

Bank of Canada Governor Poloz speaks

Thursday 18

Friday 19

INT'L TRANSACTIONS IN SECURITIES C$BN, NET

8:30 AM	BONDS	MONEY MARKET	STOCKS	TOT
SEP	18.7	-6.0	3.9	16.7
OCT	27.9	-8.8	1.7	20.8
NOV				

SURVEY OF MANUFACTURING

8:30 AM SHIPMENTS	M	Y
SEP	0.4	4.5
OCT	-0.4	4.3
NOV		

Monday 22

WHOLESALE TRADE
8:30 AM

Tuesday 23

Wednesday 24

Thursday 25

PAYROLL EMPLOYMENT, EARNINGS & HOURS
8:30 AM

RETAIL TRADE

8:30 AM (Current$)	M	Y
AUG0	0.0	7.3
SEP	0.2	6.5
OCT	1.5	6.7

Friday 26

CPI

8:30 AM	M	Y
SEP	0.2	1.6
OCT	0.1	1.4
NOV	0.3	2.1

Monday 29

Tuesday 30

Wednesday 31

GDP BY INDUSTRY

8:30 AM (2002$)	GDP M	IND.PROD. M
SEP	0.2	0.6
OCT	0.0	-0.5
NOV		

INDUSTRIAL PRICES

8:30 AM	M (NSA)	Y
OCT	1.1	1.7
NOV	1.4	2.7
DEC		

Thursday 1

Friday 2

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
January/February 2018

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 **NEW YEAR'S DAY (HOLIDAY) (Markets Closed)**	2 *2, 5-, 7-Yr NOTE SETTLEMENT* *BOT (9:00) REDBOOK (8:55)*	3 **ISM MFG SURVEY** 10:00 AM COMP. INDEX / PRICES INDEX OCT 58.7 68.5 NOV 58.2 65.5 DEC 59.7 69.0 **FOMC Minutes** **LIGHT VEHICLES** SALES MIL (AR) / Y OCT 18,007 1.1 NOV 17,403 -0.9 DEC 17,765 -1.6	4 **ADP SURVEY** 8:15 AM *3, 10-Yr NOTE ANNOUNCEMENT* *30-Yr BOND ANNOUNCEMENT* *INITIAL JOBLESS CLAIMS (8:30)*	5 **EMPLOY. SITUATION** 8:30 AM NON-FARM PAYROLL / CIV UNEMP RATE / AVG HRLY EARN OCT 211 4.1 2.2 NOV 252 4.1 2.3 DEC 148 4.1 2.3 **GOODS & SERV. BALANCE (BOP) $B** 8:30 AM GDS / SERV / TOT SEP -65.2 20.4 -44.9 OCT -69.2 20.3 -48.9 NOV -70.9 20.4 -50.5 **FACTORY ORDERS** 10:00 AM M(SA) / Y(NSA) SEP 1.7 7.3 OCT 0.4 4.2 NOV 1.3 8.0 **ISM NON-MFG SURVEY** 10:00 AM

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
8 **CONSUMER CREDIT** 3:00 PM	9 *3-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	10 *10-Yr NOTE AUCTION*	11 **PPI** 8:30 AM M (SA) / Y (NSA) OCT 0.4 2.7 NOV 0.3 3.0 DEC **TREASURY BUDGET** 2:00 PM *30-Yr BOND AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	12 **RETAIL SALES** 8:30 AM M / Y OCT 0.5 4.9 NOV 0.8 5.8 DEC **CPI** 8:30 AM M(SA) / Y (NSA) OCT 2.0 4.5 NOV 2.2 4.3 DEC **BUSINESS INVENTORIES** 10:00 AM

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
15 **MARTIN LUTHER KING JR. DAY (HOLIDAY) (Markets Closed)**	16 *3, 10-Yr NOTE SETTLEMENT* *30-Yr BOND SETTLEMENT*	17 **CAPACITY UTIL/IND. PROD.** 9:15 AM LEV / M / Y OCT 77.0 1.2 2.8 NOV 77.1 0.2 3.4 DEC **Beige Book** **NET CAPITAL INFLOWS TICS** 4:00 PM *BOT (9:00) REDBOOK (8:55)*	18 **HOUSING STARTS** 8:30 AM Mn. / M/M OCT 1.256 8.4 NOV 1.297 3.3 DEC **PHILADELPHIA FED INDEX** 8:30 PM *2, 5-, 7-Yr NOTE ANNOUNCE.* *INITIAL JOBLESS CLAIMS (8:30)*	19 **MICHIGAN SENTIMENT (P)** 10:00 AM

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
22	23 *2-Yr NOTE AUCTION* *BOT (9:00) REDBOOK (8:55)*	24 **EXISTING HOME SALES** 10:00 AM *5-Yr NOTE AUCTION*	25 **ADV. TRADE IN INTERNATIONAL GOODS** 8:30 AM **LEADING INDICATOR** 10:00 AM **NEW HOME SALES** 10:00 AM *7-Yr NOTE AUCTION* *INITIAL JOBLESS CLAIMS (8:30)*	26 **GDP** 8:30 AM (AR) REAL GDP / IMPLICIT DEFLATOR 17:Q2(F) 3.1 1.0 17:Q3(P) 2.1 3.3 17:Q3(F) 3.2 2.1 **DURABLE GOODS ORDERS** 8:30 AM M / Y SEP 2.4 8.6 OCT -0.4 1.9 NOV 1.3 8.2

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
29 **PERS. INC & OUT.** 8:30 AM INCOME M / CONS M / SAVING RATE AR OCT 0.4 0.2 3.2 NOV 0.3 0.6 2.9 DEC	30 **S&P/CASE-SHILLER HOUSE PRICE INDEX** 9:00 AM **CONSUMER CONFIDENCE** 10:00 AM *BOT (9:00) REDBOOK (8:55)*	31 **ADP SURVEY** 8:15 AM **ECI** 8:30 AM TOTAL / WAGES & SALARY / BEN. 17:Q2 0.5 0.5 0.6 17:Q3 0.7 0.7 0.8 17:Q4 **CHICAGO PMI** 9:45 AM **FOMC Rate Decision**	1 **NON-FARM PRODUCTIVITY** 8:30 AM Q/Q (AR) / Y/Y 17:Q2 (F) 1.5 1.3 17:Q3 (F) 3.0 1.5 17:Q4 (P) **ISM MFG SURVEY** 10:00 AM COMP. INDEX / PRICES INDEX NOV 58.2 65.5 DEC 59.7 69.0 JAN **LIGHT VEHICLES** SALES MIL (AR) / Y NOV 17,403 -0.9 DEC 17,765 -1.6 JAN *INITIAL JOBLESS CLAIMS (8:30)*	2 **EMPLOY. SITUATION** 8:30 AM NON-FARM PAYROLL / CIV UNEMP RATE / AVG HRLY EARN NOV 252 4.1 2.3 DEC 148 4.1 2.3 JAN **FACTORY ORDERS** 10:00 AM M(SA) / Y(NSA) OCT 0.4 4.2 NOV 1.3 8.0 DEC **MICHIGAN SENTIMENT (F)** 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.

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