



Economics

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

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

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

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

Katherine Judge
(416) 956-6527
katherine.judge@cibc.com

<http://economics.cibccm.com>

THE WEEK AHEAD

July 27-31, 2020

The US as the VW Economy

by Avery Shenfeld

With the recovery well underway, we're often asked about the shape of the path we expect real GDP or employment to trace out. Is it a "U", a "V", some other letter? The incoming data increasingly suggest that the US might end up being the VW economy, with no relation, of course, to a certain German carmaker.

Initially, the US tracked what looked like a "V" shaped cycle, diving from February to April, then surging back from April to June. Retail sales fully recovered, for example, although that could be misleading, given that May/June benefited from purchases that were blocked in March or April. It's unlikely that the underlying run rate for retailing is quite as strong. Employment didn't recoup as much of the lost ground, but was on a steep climb.

Q2 GDP will still capture the down-leg of the cycle. Since April output was so low, even with the economy growing in May/June, the quarterly volume of output was still down sharply from Q1. We've pencilled in a 36% annualized decline. But by the same token, June's GDP was so far above the Q2 average, that Q3 (i.e., the July-Aug-Sept average) will have an easy time registering a solid annualized gain.

Some of the monthly data, however, looks at risk of tracing out a disappointing "W", dropping from February to April, climbing to June, but giving back some of those gains in the July-to-September period. Early signs are that the upsurge in Covid-19 infections is weighing on economic activity, and that could get worse if state officials are pushed into more aggressive shut-downs to avoid overrunning hospital capacity. Even if we escape outright declines, markets for risky

assets could be disappointed if we see only minimal monthly gains in employment and other indicators in upcoming months.

This isn't just a US story. Second waves of the virus are now evident in Japan, Hong Kong, and Israel, and others like Spain are showing concerning upturns. The message is that to constrain the virus, in addition to masks, you have to maintain some limits on economic activity. For a true "V" — an economy that steadily regains ground — it looks like we'll need that other "V", a vaccine.

Markets are pinning a lot on rapid progress towards that goal, and some candidates might well be "available" early next year. But assuming two shots are needed per person, we'll then need more than 650 million doses to cover just the US. Remember that the FDA criteria only require that vaccines yield a 50% or greater reduction in infections, and some Americans seem likely to refuse to participate. We might be waiting many quarters for vaccinations to reach the levels needed for Covid-19 to gradually disappear in the populace, and then still have a long road to rebuild the capacity in restaurants, bars and other service businesses shuttered during the crisis.

As an aside, Canada has ordered the syringes and equipment needed to vaccinate its population. But unlike the US, we've heard nothing on whether the country has secured a place at the front of the line for the vaccines furthest along the testing stage. So even if we've avoided the "W" by containing infections, are we going to be as early to see the true "V"? Or is Canada looking like a Nike swoosh, with a steep drop, but a longer if steadier path back?

Week Ahead's Market Call

by Avery Shenfeld

In the **US**, the Fed doesn't have an obvious card to play at this point, with the next policy tool in the hands of the Senate, which will continue to work on the next stimulus bill. On the data front, we expect to start to see a divergence between June (good numbers for consumer spending and durable orders) and July (not so good figures for consumer confidence, and perhaps, jobless claims). Q2 GDP was a train wreck because of the deep trough in April, but that's water under the bridge at this point.

In **Canada**, May GDP started the long road back from February-April's unprecedented dive, with our call being a bit firmer than the early consensus. Otherwise, it's a light week for data on this side of the border.

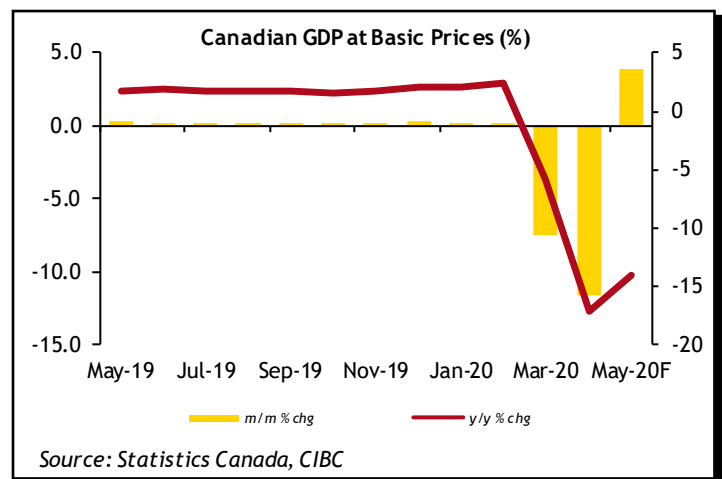
Week Ahead’s Key Canadian Number:

GDP—May

(Friday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
GDP m/m	3.9%	N/A	-11.6%



The advance estimates from Statistics Canada for a number of data points haven’t been all that far off from the actual release. So we’re not going to quibble too much with the 3% May GDP gain suggested by the agency. Our forecast is slightly above that number because of the large advances in some of the monthly industry readings. But Statistics Canada had access to detailed data across more categories even if it was preliminary, so we’re not going to stick our necks out too much.

Indeed, looking at data from the Labour Force Survey, which is admittedly not a great guide but is all we have, suggests that categories such as mining, oil and gas, transportation and warehousing, and office-related industries might have been weak enough to offset a big chunk of the strength seen in retailing, wholesaling and manufacturing.

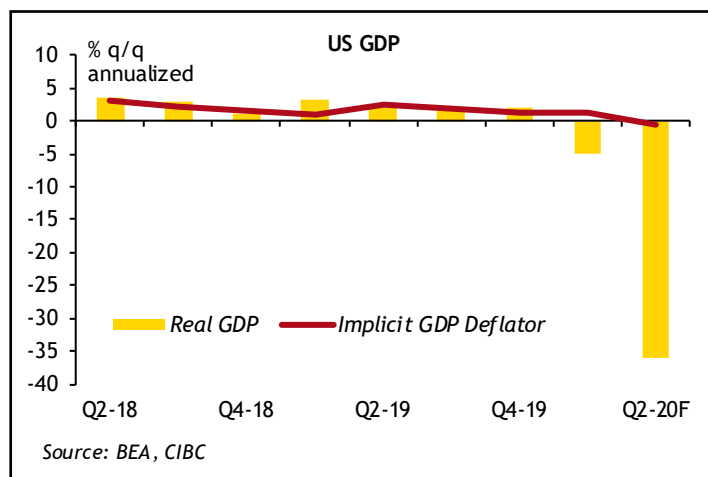
Forecast Implications — The most informative data will be the advance estimates of June and Q2 GDP which we expect to be released alongside the numbers for May. Look for June to show a nice pop in growth, but that will still leave Q2 with a 42% annualized decline. As with the employment numbers, the June GDP reading might represent the high-water mark in terms of growth. We expect to see a slowing from there, as pent-up demand is satisfied and public health restrictions prevent some sectors from fully joining in the parade.

Week Ahead's Key US Number:**Real GDP—Q2 (Advance)**

(Thursday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
GDP q/q annualized	-35.9%	-32.8%	-5.0%
GDP Deflator	-0.5%	0.1%	1.4%



The economic shutdown appears to have resulted in a catastrophic 35.9% annualized drop in US GDP in the second quarter. The largest component of the economy, consumption, will have been the main contributor to the drop, compounding sharp declines in business investment, exports, and residential investment.

Although activity picked up in May and June as states started to reopen and hiring resumed, it clearly hasn't bounced back as quickly as it shutdown, as consumers became especially cautious towards the latter part of June as virus cases surged. Moreover, some industries will need social distancing to remain in place until a vaccine is available.

Forecast Implications—Even with the tightening of social distancing restrictions in July along with the resurgence of the virus, the third quarter should see growth, owing to a solid handoff from June. However, monthly readings in July and August will likely reveal that the recovery stalled. Further targeted government support and better control over Covid infections will likely be needed to ensure that the recovery isn't derailed.

Market Impact—Markets are already expecting a dismal GDP report and will likely remain more concerned with the climb in virus case counts and geopolitical tensions.

Other U.S. Releases:**Durable Goods Orders—June**

(Monday 8:30 am)

Durable goods order appear to have made further progress in June, but even a 6.5% gain would leave them 16% below where they stood prior to the pandemic. Excluding transportation, orders appear to have advanced by a more modest 3.9%, but the core components didn't fall as much during the lockdown, so that would leave that group only 3% below January levels. It continues to look like business investment will be one of the slowest components of GDP to rebound given the scale of excess capacity prevalent in the industrial sector, and the protracted recovery expected in demand.

Advance Goods Trade—June

(Wednesday 8:30 am)

With auto production accelerating again in June, higher imports of vehicles and parts could have been one factor behind a \$1.6 bn widening in the goods trade deficit to \$75.9bn. Moreover, the continued re-opening of states could have resulted in higher imports of consumer products. But with the US economy slipping back into tighter social distancing measures in many jurisdictions in July, two-way trade could have deteriorated.

CANADIAN RELEASE AND EVENT DATES July/August 2020



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
20	21 RETAIL TRADE 8:30 AM (Current\$) M Y MAR -10.2 -8.9 APR -25.0 -31.2 MAY 18.7 -18.4 NEW HOUSING PRICE INDEX 8:30 AM	22 8:30 AM CPI M Y APR -0.7 -0.2 MAY 0.3 -0.4 JUN 0.8 0.7	23	24
27	28	29	30 PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	31 GDP BY INDUSTRY 31 8:30 AM (2002\$) GDP IND.PROD. M M MAR -7.5 -6.2 APR -11.6 -16.1 MAY INDUSTRIAL PRICES 8:30 AM M (NSA) Y APR -2.3 -6.0 MAY 1.2 -4.9 JUN BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) APR -11.5 -21.9 MAY 18.7 22.9 JUN
3 CIVIC HOLIDAY (Markets Closed)	4	5 MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE APR -4,266 -19,138 MAY -677 -19,942 JUN	6	7 LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y MAY 1.8 -13.5 13.7 9.9 JUN 5.8 -8.5 12.3 6.8 JUL IVEY PURCHASING MANAGERS' INDEX 10:00 AM
10	11 HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES MAY 196 44 JUN 212 42 JUL	12	13	14 SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y APR -27.9 -37.2 MAY 10.7 -31.6 JUN
17 INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET APR 46.9 7.0 -4.9 49.0 MAY 25.0 7.4 -10.0 22.4 JUN	18	19 WHOLESALE TRADE 8:30 AM 8:30 AM CPI M Y MAY 0.3 -0.4 JUN 0.8 0.7 JUL	20 ADP EMPLOYMENT SURVEY 8:30 AM	21 RETAIL TRADE 8:30 AM (Current\$) M Y APR -26.4 -32.5 MAY JUN

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 July/August 2020



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
20	21	22	23	24
		EXISTING HOME SALES 10:00 AM	LEADING INDICATOR 10:00 AM	NEW HOME SALES 10:00 AM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	
27	28	29	30	31
DURABLE GOODS ORDERS 8:30 AM M Y APR -18.1 -30.1 MAY 15.8 -17.9 JUN	S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM	ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM FOMC Rate Decision Fed Chair Powell speaks @ 2:30 PM ET	GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 19:Q4 2.1 1.3 20:Q1 (F) -5.0 1.4 20:Q2 (Adv)	PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR APR 10.8 -12.6 32.2 MAY -4.2 8.2 23.2 JUN ECI 8:30 AM WAGES & TOTAL SALARY BEN. 19:Q4 0.7 0.7 0.6 20:Q1 0.8 0.9 0.4 20:Q2 CHICAGO PMI 9:45 AM MICHIGAN SENTIMENT (F) 10:00 AM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	
3	4	5	6	7
ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX MAY 43.1 40.8 JUN 52.6 51.3 JUL LIGHT VEHICLES SALES MIL (AR) Y MAY 12.343 -29.0 JUN 13.046 -24.1 JUL	FACTORY ORDERS 10:00 AM M(SA) Y(NSA) APR -13.5 -22.3 MAY 8.0 -15.8 JUN	ADP SURVEY 8:15 AM GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT APR -71.8 22.1 -49.8 MAY -76.1 21.5 -54.6 JUN ISM NON-MFG SURVEY 10:00 AM		EMPLOY. SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN MAY 2699 13.3 6.6 JUN 4800 11.1 5.4 JUL WHOLESALE TRADE 10:00 PM CONSUMER CREDIT 3:00PM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	
10	11	12	13	14
	PPI 8:30 AM M (SA) Y (SA) MAY 0.4 -0.8 JUN -0.2 -0.8 JUL	CPI 8:30 AM M(SA) Y (NSA) MAY -0.1 0.1 JUN 0.6 0.6 JUL TREASURY BUDGET 2:00 PM		RETAIL SALES 8:30 AM M Y MAY 18.2 -5.6 JUN 7.5 1.1 JUL NON-FARM PRODUCTIVITY 8:30 AM Q/Q (AR) Y/Y 19:Q4 1.2 1.8 20:Q1 -0.9 0.7 20:Q2(Prelim) CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y MAY 65.1 1.4 -15.3 JUN 68.6 5.4 -10.8 JUL BUSINESS INVENTORIES 10:00 AM MICHIGAN SENTIMENT (P) 10:00 AM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	
17	18	19	20	21
NET CAPITAL INFLOWS TICS 4:00 PM	HOUSING STARTS 8:30 AM Mn. M/M MAY 0.908 8.2 JUN 0.881 17.3 JUL	FOMC Minutes	PHILADELPHIA FED INDEX 8:30 PM LEADING INDICATOR 10:00 AM	EXISTING HOME SALES 10:00 AM
	<i>BOT (9:00) REDBOOK (8:55)</i>		<i>INITIAL JOBLESS CLAIMS (8:30)</i>	

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.

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MI") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2020 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.