Focus

Feature Article

Omicron-omics 101

Our Thoughts

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New Year, New Policies

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Starting off the first week of 2022, it is safe to say that only a rarified few had circled the FOMC Minutes as the main event. But the scribblings from three weeks earlier landed with a great thud on financial markets, sending a clarion call that **the game had truly changed**. Yes, we have had plenty of warnings in the past month, from Chair Powell's assertion that Omicron heightened, not lowered, inflation risk, to Governor Waller's warning that the March meeting was "live" (which St. Louis President Bullard was only too happy to agree with this week). And, of course, there was the Fed's own projections from the—now infamous—December FOMC meeting, which looked for three rate hikes this year. But the new news in the Minutes was that many members are already openly discussing running down the balance sheet (i.e., quantitative tightening), and with some haste. This clearly signals that **the Fed is now deeply concerned about the inflation backdrop**, shifting from "*transitory*" to trepidation in a matter of weeks.

Doing nothing to soothe those mounting concerns, **oil prices have staged a spectacular recovery** after a brief swoon when the news on Omicron first emerged six weeks ago. After quietly powering higher in the holiday week, WTI rose another 5% this week to around $80, or essentially back to mid-November levels. That's up from as low as $65 a month ago, a fast rebound which will soon reverse any temporary relief in some headline price metrics. (For example, U.S. gasoline prices dipped roughly 3% last month, which will help contain CPI…somewhat. We still expect next week's key CPI to print 7% on the headline rate and a hot 5.3% on core.)

Then there is the **December jobs report**, which felt uncannily similar to the prior month's release. Again, the headline print fell well shy of expectations at 199,000. But, again, that's where the bad news ended, as the report was replete with big upward revisions to earlier months and contained a big gain in the companion household survey (jobs up 651,000). The latter helped chop the unemployment rate yet again to just 3.9%. While the big gap in payroll and household job tallies may raise some eyebrows, note that the latter may just be playing catch-up—for all of 2021, both saw monthly average gains of more than 500,000.

The theme of a tightening job market was reinforced by the **record level of quits** reported earlier in the week (a staggering 4.5 million, or a 3% rate), as well as 10.6 million open jobs (versus now just 6.3 million officially unemployed). As a result, wages continue to simmer. Perhaps the most notable surprise in the jobs data was the piping hot 0.6% rise in **average hourly earnings** last month. While this actually trimmed the yearly pace to 4.7% (from 5.1%), it will provide the Fed with precisely zero comfort. Recent trends in wages are heading due north, with earnings rising at above a 6% clip since the summer.

The double punch of robust wages and a plunging jobless rate kept the flame flickering on bond yields, even with the dud headline payroll rise. As of mid-morning Friday, it was the middle part of the curve that took the heaviest hit this week, with 5-year yields sprinting 24 bps to around 1.5%, while 10s jumped 25 bps to just above 1.75%—rivalling the highs hit last March. The move in yields has mostly been in real rates, not inflation expectations, with the Fed's hawkish vibe leading the charge. **Markets are now pricing in a reasonable chance of a March rate hike, and—while we expect**

them to start a bit later—nothing can be ruled out, given the abrupt pivot by the Fed in recent weeks. We remain comfortable calling for three rate hikes, but readily recognize the risks of more and earlier.

Where does this leave the Bank of Canada? Well, it's **complicated**. On one side, the Bank has been signaling greater concern on the inflation front for longer and was well ahead of all others on winding down QE. But, on the other side, the restrictions on the Canadian economy are much more intense, with both Ontario and Quebec stepping in with aggressive new measures this week to stem the wave of new Omicron infections. While it was partly predictable that Canada would see deeper restrictions, the degree is surprising, prompted by a sudden rise in hospitalization rates in the past week. By some measures, Canada is now facing some of the most intensive restrictions in the world, aside from some locked down cities in China. At the very least, this will skewer activity in January, and could lead to a repeat of last spring when the economy stepped back for a full quarter (GDP fell at a 3.2% a.r. in Q2 following restrictions in Ontario and elsewhere). It's possible this wave of closures is briefer, albeit more widespread.

But complicating matters for the BoC is that it is clear that **the economy had powerful momentum heading into year-end**—and, by extension, could rebound quickly again when this wave of restraints passes. To wit, **employment** easily cruised above modest expectations last month, rising by a sturdy 54,700, powered by a hefty 122,500 jump in full-time positions. Combined with a strong **trade** report for November (overcoming the B.C. floods), it now looks like GDP will easily surpass our prior call of 4.5% in Q4. Sectors less affected by restrictions (e.g., construction and manufacturing) led the way, and even the hospitality sector saw only a small dip in jobs last month. The market tightened further, with the jobless rate dipping a tick to 5.9%, although a back-up in January is expected. As well, in contrast to the U.S., **wages remain mild**, as average hourly pay was up a calm 2.7% y/y. Canada's **participation rate** is back to normal, with the core age group at a record high, helping contain wage pressures.

And then there is housing—and, for Canada, it always seems to come back to housing. Sales remained firm in December in most major cities, and prices continued to rip, in an extremely tight market. For example, the HPI benchmark index soared 31% y/y in the Toronto region, matching the height of the 2016/17 froth, when policymakers stepped in with a suite of measures to cool the market. While many assert that BoC policy should not be aimed at a specific sector like housing, the reality is that soaring home prices will both seep into the official inflation stats as well as keep a blazing fire under inflation expectations. Moreover, the persistent strength in housing is a clear symptom of a bigger theme—**ultra-loose policy has caused widespread asset price inflation**, which has become too much of a good thing. No doubt, the Fed has arrived at the same conclusion (finally) in recent weeks.

On balance, even with the expected short-term plunge in activity around the turn of the year, we suspect that this will not meaningfully affect the timing on potential BoC rate hikes. True, a January hike looks like an extreme long shot (even as the market continues to price in reasonable odds of such), but policymakers could be opening the door for rate rises as soon as that meeting—with the timing ultimately dependent on how soon the current COVID wave crests. **We continue to circle the April meeting for the first rate increase;** then, expect them to move with some haste, especially if it is apparent that activity is rapidly recovering from the current restrictions.

Omicron Mars U.S. Recovery

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It's been just over a month since Omicron struck fear in the hearts of many, portending another wave of consumer anxiety and weaker growth. The good news is that, despite some pullback in consumer spending, the **U.S. economy had a pretty good head of steam in the final quarter of last year, according to the regular monthly indicators**. The bad news is that more timely indicators hint at weakness to come.

The **labour market, notably, continues to make good progress**, at least in filling jobs rather than drawing new bodies into the labour force. Any disappointment from slower job growth in the establishment survey in the last two months of 2021 is more than offset by boffo gains in the household survey, and did not detract from the largest annual increase in nonfarm payrolls (6.4 million) and decrease in the jobless rate (2.8 ppts) on record. While the services and manufacturing ISM measures pulled back in December, their respective levels of 62.0 and 58.7 remain elevated. The composite ISM index averaged above 65 in Q4, the most since at least 1997. Although the U.S. trade deficit has nearly returned to all-time highs, both exports and imports are at new peaks, with sturdy underlying demand at home and abroad overshadowing port logjams and supply disruptions. Of note, rising imports of capital goods and industrial supplies flag solid U.S. business investment.

Alas, despite few new restrictions, **Omicron is making an impact due to event cancellations, employee absenteeism, and self-restrictions** (see the *Feature* article). While the New York Fed's weekly GDP growth tracker indicates little slowing in activity to date, the OECD's measure shows some softness (and a little more in Canada). In fact, other timely indicators point to a slowdown, notably in travel and restaurants. Cancelled flights due to crew illness and quarantines have cut U.S. air travel to roughly 30% below 2019 levels after cruising around 20% in November. This is the flight path prevailing in the last major COVID wave in the summer, though it's well above Canada's flying rate of half of pre-pandemic levels. For indoor dining, the 7-day average of seated diners is now tracking 13% below the 2019 baseline, after nearly normalizing in November. The national figure masks huge regional variations, with New York running at one-half of 2019 levels, while Texas, Florida and Arizona are still feasting as before the pandemic. Seated diners are also tracking above average in the U.K. and Australia, despite surging caseloads, suggesting that COVID anxiety isn't running very high in those countries, either. By contrast, Canadian indoor dining is trending 29% below 2019 levels, and will be put on a stricter diet given bans in the two largest provinces. Mobility data on driving, transit usage, walking, and retail and recreation have pulled back in the U.S. and Canada, in some cases to below levels of the last wave, though partly due to the usual post-holiday retreat.

Omicron is not just damping demand in some industries but also constricting supply. While the ISM survey hinted at an easing in supply constraints for manufacturers, there was less evidence of such in the larger services sector which is struggling with staff shortages. The New York Fed's new **Global Supply Chain Pressure Index**, compiled from data on factory delivery times and order backlogs as well as freight and air cargo charges, shows only tentative signs of moderation from high levels. It's a start, but we won't see meaningful progress on the supply front until Omicron recedes.

The **upshot** is that, while a resilient U.S. economy looks to have ended 2021 on a solid footing with estimated growth of 5.5% annualized in Q4, it faces a shakier start to the new year, depending on the severity and length of the latest COVID wave. While businesses have largely learned to live with the pandemic and governments are reluctant to impose new restrictions, ongoing labour shortages, now made worse by Omicron, will remain an impediment for some time.

Canada: 2021 Out Like a Lion, 2022 In Like a Lamb

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The calendar flipped to 2022, but it feels very much like 2021, with another round of lockdowns and restrictions through much of the country. Hardly the start to the new year many Canadians were looking for. Similar to past waves and lockdowns, there will also be **a notable economic impact**. The last significant round of restrictions came in the spring of 2021, and that saw April GDP fall 1%, followed by a 0.5% decline in May. It's not hard to envision a similar decline in January to what we saw in April. The question is to what extent cancellation of events and such hampered activity in December, and how long these restrictions are going to be kept in place? Employment was solid, but COVID worries really only ramped up in the second half of the month.

Fortunately, Q4 still looks like it's going to be strong, even if December is a question mark. There was solid momentum heading into the final month of the year, with October seeing a chunky 0.8% rise in GDP, while the November flash estimate was +0.3% despite the B.C. floods. Indeed, the latter didn't have a big impact on overall trade flows. Rather exporters/importers found ways around the disruption, sending products through the U.S., resulting in record trade flows (both ways) with our neighbour to the south.

Unfortunately, there's **a strong chance Q1 could see a modest contraction**. The risks are skewed to the downside if the restrictions persist. However, we've seen the economy quickly rebound in past waves, and there's no reason to believe this time is any different. Accordingly, Q2 and Q3 are expected to be solid.

For the Bank of Canada, this wave has the potential to delay the timing of the first rate hike. However, we'll see what the coming inflation data and the Q4 Business Outlook Survey show. Our call for an April start to hikes remains reasonable, as the current wave will hopefully be history by then. The risks of a delayed start have increased, but we can't rule out March either if inflation shocks on the high side.

Key Takeaway: Omicron-driven lockdowns will be temporary, and so will the economic impact. This doesn't change the bigger story for the BoC, but has the potential to delay policy action somewhat.

ECB: Time to Change the Story?

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The **ECB's dovish stance** is really looking out of place these days, particularly with **Euro Area inflation** unexpectedly picking up speed and hitting a record-high 5% in December. Not only is the central bank refusing to even entertain the idea of higher rates, it is still buying bonds after the PEPP ends in March. (Italy, which has enjoyed a rare year of calm, may need some support as it is about to get a little more volatile if Mario Draghi walks away from the PM role.) Everywhere else in the world, inflation is on the up and up, boosted by supply shortages and strong consumer demand, and the Euro Area is no different. The ECB expects inflation to remain above its 2% target again this year, but it needs to drop meaningfully to reach its 3.2% forecast, up from 2.6% in 2021. **Chief Economist Philip Lane** (one of the doves) quickly spoke to the media following December's brow-raising inflation figure, and repeated again the well-known narrative: that it expects inflation will come down this year. But, "*it's going to be above where we want it to be in the long term*". He also urged markets not to compare the 2020-to-2022 period to the past. While that makes sense, it is becoming more and more difficult to ignore such price pressures. Higher prices will eat into household savings which have been supporting economic growth. At a minimum, the tone needs to change (even just acknowledging greater upside inflation risks) or the ECB will have another problem on its hands: defending its credibility.

Recap

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Indications of stronger growth and a move toward price stability are ***good news*** *for the economy.*

Canada

- Court rules against tariffs on U.S. dairy products under USMCA

Good News

- **Employment** +54,700 (Dec.)
- **Jobless Rate** -0.1 ppts to 5.9% (Dec.)
- **Average Hourly Wages** +2.7% y/y (Dec.)
- **Merchandise Trade Surplus** widens to $3.1 bln (Nov.)—biggest since 2008
- **Building Permits** +6.8% (Nov.)

Bad News

- **Auto Sales** -4.5% y/y (Dec.)
- **New Home Prices** +11.7% y/y (Dec.)
- **Industrial Product Prices** +18.1% y/y; **Raw Materials Prices** +36.2% y/y (Nov.)
- **Manufacturing PMI** -0.7 pts to 56.5 (Dec.)
- **Ivey PMI** -16.2 pts to 45.0 (Dec.)

United States

- Fed Minutes: rate hikes could come "*sooner or at a faster pace*" than earlier expected
- Stocks falter from record highs
- Bonds sell off to start the year

Good News

- **Nonfarm Payrolls** +199,000 (Dec.)—but below expected
- **Jobless Rate** -0.3 ppts to 3.9% (Dec.)
- **Construction Spending** +0.4% (Nov.)
- **Factory Orders** +1.6% (Nov.)
- **Wholesale Inventories** +1.2%; **Retail Inventories** +2.0% (Nov. P)

Bad News

- **Average Hourly Earnings** +0.6% (Dec.)
- **ISM Manufacturing PMI** -2.4 pts to 58.7; **ISM Services PMI** -7.1 pts to 62.0 (Dec.)
- **Auto Sales** fell to 12.44 mln a.r. (Dec.)
- **Goods & Services Trade Deficit** widened to $80.2 bln (Nov.)
- **Job Openings** fell to 10,562k (Nov.)
- **Initial Claims** +7k to 207k (Jan. 1 week)
- **S&P Case-Shiller Home Prices** +18.4% y/y; **FHFA Home Prices** +17.4% y/y (Oct.)
- **Pending Home Sales** -2.2% (Nov.)

China

- Activity at largest port disrupted following tighter COVID restrictions

Good News

- **Manufacturing PMI** +0.2 pts to 50.3; **Non-manufacturing PMI** +0.4 pts to 52.7 (Dec.)
- **Caixin Manufacturing PMI** +1.0 pts to 50.9; **Services PMI** +1.0 pts to 53.1 (Dec.)
- **Foreign Reserves** $3.25 trln (Dec.)

Japan

- Yen weakest in five years

Good News

- **Retail Sales** +1.2% (Nov.)
- **Industrial Production** +7.2% (Nov. P)

Bad News

- **Household Spending** -1.3% y/y (Nov.)
- **Jobless Rate** +0.1 ppts to 2.8% (Nov.)
- **Consumer Confidence** -0.1 pts to 39.1 (Dec.)

Europe

- WHO dismisses concerns of new variant detected in France as cases surge

Good News

- **Euro Area—Retail Sales** +1.0% (Nov.)
- **Euro Area—Adjusted Private Sector Credit** +3.7% y/y (Nov.)
- **Germany—Retail Sales** +0.6% (Nov.)
- **Germany—Unemployment** -23,000 (Dec.)—and **Jobless Rate** -0.1 ppts to 5.2%
- **Germany—Factory Orders** +3.7% (Nov.)
- **France—Consumer Spending** +0.8% (Nov.)
- **France—Consumer Confidence** +2 pts to 100 (Dec.)

Bad News

- **Euro Area—Consumer Prices** +5.0% y/y (Dec. P)
- **Euro Area—Producer Prices** +23.7% y/y (Nov.)
- **Euro Area—Economic Confidence** -2.3 pts to 115.3 (Dec.)
- **Germany—Industrial Production** -0.2% (Nov.)
- **Germany—Trade Surplus** narrowed to €10.9 bln (Nov.)
- **France—Industrial Production** -0.4% (Nov.)
- **France—Trade Deficit** widened to €9.7 bln (Nov.)
- **U.K.—Construction PMI** -1.2 pts to 54.3 (Dec.)

Omicron-omics 101

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The highly contagious Omicron variant is causing COVID-19 infections to skyrocket on both sides of the Canada-U.S. border, trajectories that are already having negative economic consequences. Below, we put these consequences and their likely continued accumulation during the days and weeks ahead into some context.

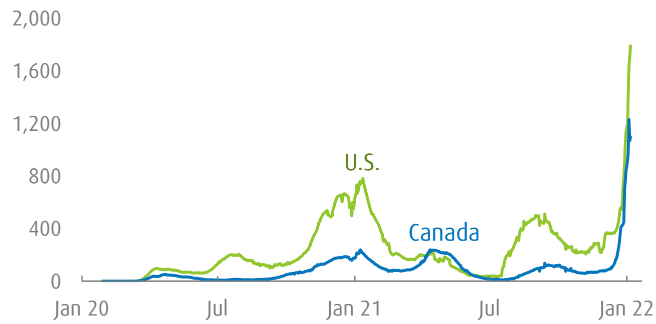
For the week ended January 6, reported new daily cases averaged around 41,000 in Canada, sitting more than five times above the previous twin peaks in January and April of last year (*Chart 1*). New daily U.S. infections averaged around 592,000, more than double the pandemic's previous peak in January 2021. (Note that testing was not as readily available in prior episodes, exaggerating these comparisons.) Although it's uncertain when reported case trends might crest (it could already be occurring in Canada owing to the 'circuit-breaker' effect of increased restrictions), actual infection rates are higher. Many jurisdictions are hitting their testing limits and self-administered rapid test results are typically not included in official figures.

Chart 1

Omicron Rocketing

(new cases per mln : 7-day m.a. : as of January 6, 2022)

COVID-19 Infection Rate



Sources: BMO Economics, Haver Analytics, Johns Hopkins University

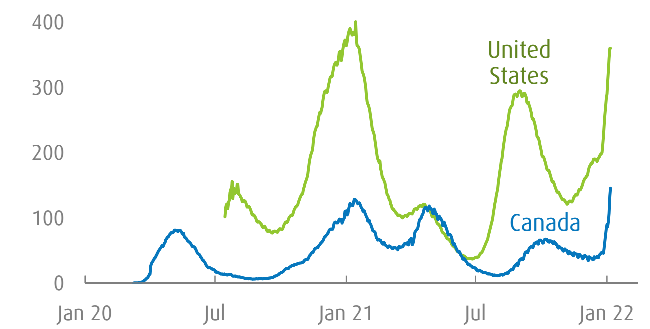
Once again, the key concern for authorities is the present and potential strains on health care systems. Compared to previous variants, Omicron seems to result in lower incidences of severe illness necessitating hospitalization, partly or entirely thanks to vaccines and natural immunity. But it also appears to be much more transmissible, including among the vaccinated, causing a tsunami of 'mild' cases. Nevertheless, the sheer volume of new cases is still causing the number of hospitalizations to head sharply higher on both sides of the border (*Chart 2*). Canada has already surpassed its prior peak and the U.S. is fast approaching its own. It's also uncertain when these might crest. (These data do not disaggregate between admissions due to COVID and those owing to other reasons but also turn out to have the virus, something health authorities are very interested in as they assess the severity of Omicron.)

Chart 2

Hospitalizations Not So Healthy

(per mln : as of January 6, 2022)

Hospitalizations with COVID-19



Sources: BMO Economics, Our World in Data

In response to Omicron, provincial governments have been increasingly re-introducing restrictions such as limiting customer capacities and requiring some businesses to close, with commensurate negative impacts on Canadian economic performance. The ultimate impact will depend on whether restrictions are increased from current levels and how long they last. As an example, the multi-month run of onerous restrictions surrounding the wave peak in April 2021 contributed to real GDP contracting a combined 1.5% in April and May and for the entire quarter (-3.2% annualized).

Meanwhile, despite relatively higher and also surging rates of COVID-19 infections and hospitalizations south of the border, most state and local governments have not re-introduced restrictions. However, we wouldn't be surprised if some states or cities did so in at least a minor manner, particularly those jurisdictions with higher population and urban densities. Nevertheless, even in the absence of major restrictions, the U.S. economy is still being impacted by Omicron in other ways, and so too is the Canadian economy.

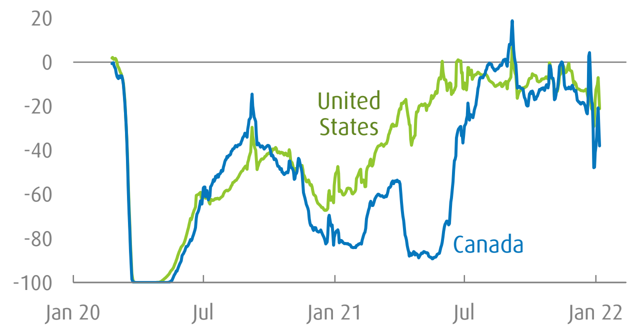
As last summer started, essentially all meaningful restrictions had been lifted across America. Amid the pandemic wave that peaked in September, some consumers responded by imposing self-restrictions; for example, by opting not to dine out or fly. Reservations through OpenTable's platform slipped through the late summer and early autumn (*Chart 3*). And, a similar ebbing pattern is evident in the TSA's passenger traffic figures (*Chart 4*). In turn (and alongside reduced UI benefits), real consumer spending on food services and accommodations contracted in both August and October, with growth in outlays on transportation services grinding to a halt by November. In the wake of Omicron and after the holidays, there are early indications of renewed self-restrictions.

Meanwhile, the massive wave of 'mild' Omicron cases is creating another potential major problem for the Canadian and U.S. economies: absenteeism. Employees are increasingly not showing up for work because they have contracted Omicron, or have been in close contact with someone who was infected, and are now quarantining. For example, both Canadian and U.S. airlines are already plagued by pared availability of full flight crews, resulting in significant cancellations.

Chart 3
Eating Away at Full Dining Recovery

(% chng from 2019 baseline : 7-day m.a. : as of January 6, 2022)

Seated Diners in Restaurants

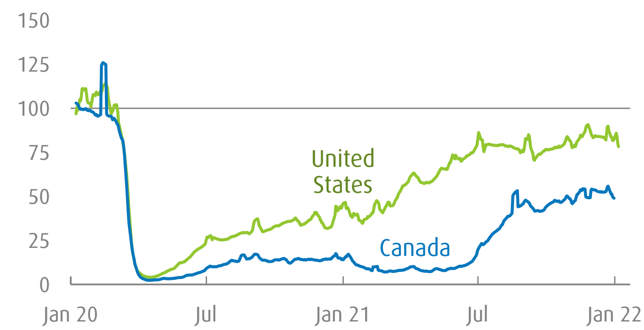


Sources: BMO Economics, Haver Analytics, OpenTable

Chart 4
Flying Swatted

(% of 2019 : 7-day m.a. : as of January 6, 2022)

Air Traveller Throughput



Sources: BMO Economics, CATSA, TSA

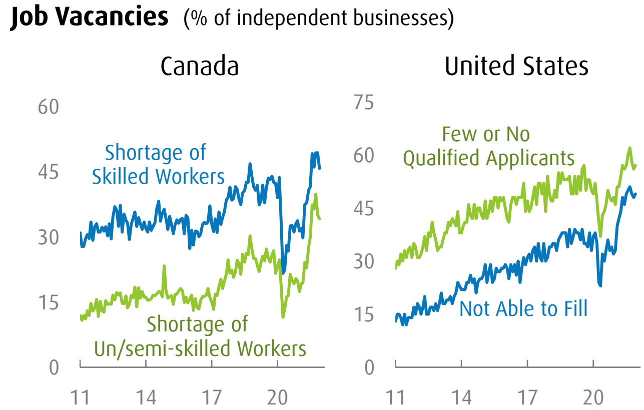
The shorter five-day quarantine period now recommended by the CDC and several provinces for non-symptomatic cases (and no quarantining for those exposed to an infected person but who are fully vaccinated and non-symptomatic) should shorten these specific absences. However, the sheer volume of new infections (lots of at least five-day absences) and a commensurate increase in symptomatic persons (with their longer quarantines) will likely lead to more widespread labour availability issues in the days and weeks ahead.

This comes at a time when businesses are already struggling to hire and retain employees. The CFIB's share of respondents reporting labour shortages as a limiting factor to growth is near all-time highs, as is the share of respondents to the NFIB's small business survey reporting few or no qualified applicants for job openings (*Chart 5*). Apart from record or near-record high job openings on both sides of the border, U.S. businesses are also contending with record-high quits rates (we suspect Canadian firms are facing elevated levels as well). Now, worker absences will be adding to this production-restraining mix.

Elsewhere, the rebound in the U.S. participation rate will probably be constrained by Omicron's surge (*Chart 6*). Apart from increased early retirements and other factors, the lacklustre recovery in the part rate reflects prior employed or unemployed persons dropping out of the labour force because of the pandemic, with reasons such as childcare issues or health and safety concerns often cited. In December, some 1.1 million persons were in this camp, accounting for around 30% of the 'missing' labour force. Although this number has been trending down since it was first reported in May 2020 (at 9.7 million), recent waves of the virus have either temporarily reversed the downtrend or caused it to stall.

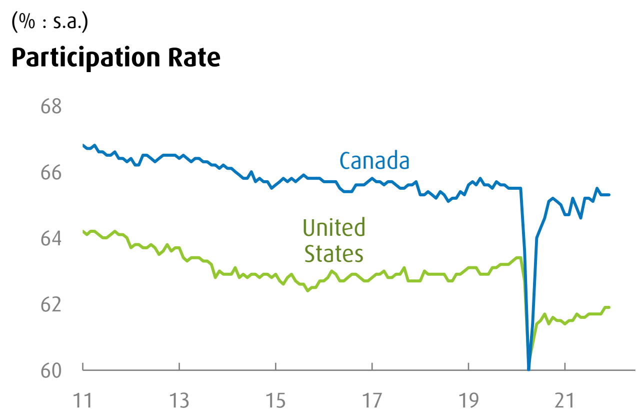
On balance, the tsunami of Omicron cases is going to at least temporarily exacerbate lingering supply bottlenecks. In the Minutes from the December 14-15 FOMC meeting (released this week), participants noted that *"more prolonged global supply-side frictions, which could be exacerbated by the emergence of the Omicron variant"* posed downside risk to economic activity and upside risk to inflation. COVID cases are now 4½ times higher than at the time of the meeting, suggesting both risks have risen profoundly in the Fed's eyes. The extent to which these risks are realized will depend on how long new Omicron infections remain elevated and whether this highly contagious virus spreads to other critical regions in global supply chains.

Chart 5
Hard Work Finding Workers



Sources: BMO Economics, Haver Analytics, CFIB, NFIB

Chart 6
Part Rate Recoveries Part Ways



Sources: BMO Economics, Haver Analytics

Omicron's negative economic effects—restrictions, virus-related absenteeism, exacerbated labour shortages and other supply bottlenecks—form a huge headwind for the Canadian and U.S. economies. We're not expecting much growth on either side of the border to start the year (Q1) with 1.5% annualized in the U.S. and a flat reading for Canada (with the net risk of another negative result). Canadian GDP is now expected to recover all the ground lost during the recession by Q2, a full year after the U.S. did so. However, for both economies, the common sectors most negatively impacted by the onset of the pandemic and its subsequent waves have been (1) accommodation and food services, (2) arts, entertainment and recreation, (3) other (personal) services, and (4) transportation and warehousing (only the former). And, these industries are still among the most vulnerable to the latest virus wave. Tack on an extended 'K-shaped' recovery/expansion to the list of Omicron's economic effects.

Economic Forecast Summary for January 7, 2022

	2021				2022				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021	2022
CANADA											
Real GDP (q/q % chng : a.r.)	4.9	-3.2	5.4	4.5	0.0	8.0	7.0	4.5	-5.2	4.5	4.0
Consumer Price Index (y/y % chng)	1.4	3.3	4.1	4.6	4.5	3.9	3.1	2.6	0.7	3.3	3.5
Unemployment Rate (percent)	8.4	8.0	7.1	6.2	6.4 ↑	5.6 ↓	5.5 ↓	5.5	9.6	7.4	5.7
Housing Starts (000s : a.r.)	306	280	262	272	258 ↑	257 ↑	247 ↑	240 ↑	219	280	250 ↑
Current Account Balance ($blns : a.r.)	6.6	5.5	5.5	4.4	4.1	3.0	-1.7	-5.4	-39.4	5.5	0.0
Interest Rates					(average for the quarter : %)						
Overnight Rate	0.25	0.25	0.25	0.25	0.25	0.58	1.00	1.25	0.50	0.25	0.77
3-month Treasury Bill	0.08	0.11	0.16	0.10	0.20 ↑	0.45 ↑	0.90 ↑	1.15 ↑	0.44	0.11	0.65 ↑
10-year Bond	1.13	1.49	1.24	1.58	1.60	1.70 ↓	1.80 ↓	1.90 ↓	0.75	1.36	1.75 ↓
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	3	8	11	5	10 ↑	35 ↑	52 ↑	52 ↑	7	7	37 ↑
10-year	-19	-10	-9	4	-9 ↓	-9 ↓	-10 ↓	-10 ↓	-14	-8	-10 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	6.3	6.7	2.3	5.5	1.5	4.5	3.5	2.5	-3.4	5.6	3.5
Consumer Price Index (y/y % chng)	1.9	4.8	5.3	6.8	7.0	5.5	4.6	3.2	1.2	4.7	5.1
Unemployment Rate (percent)	6.2	5.9	5.1	4.2	3.8 ↓	3.6 ↓	3.5 ↓	3.4 ↓	8.1	5.4	3.6 ↓
Housing Starts (mlns : a.r.)	1.60	1.59	1.56	1.60	1.61	1.63	1.64	1.65	1.40	1.59	1.63
Current Account Balance ($blns : a.r.)	-758	-793	-859	-889 ↑	-905 ↑	-940 ↑	-960 ↑	-973 ↑	-616	-825 ↑	-945 ↑
Interest Rates					(average for the quarter : %)						
Fed Funds Target Rate	0.13	0.13	0.13	0.13	0.13	0.21	0.46	0.71	0.38	0.13	0.38
3-month Treasury Bill	0.05	0.03	0.05	0.05	0.10 ↑	0.10	0.35	0.60	0.37	0.04	0.30
10-year Note	1.32	1.59	1.33	1.54	1.70 ↑	1.80 ↑	1.90 ↑	2.00 ↑	0.89	1.44	1.85 ↑
EXCHANGE RATES					(average for the quarter)						
US¢/C$	79.0	81.4	79.4	79.4	78.6 ↓	79.3 ↓	80.0 ↓	80.7 ↓	74.6	79.8	79.7 ↓
C$/US$	1.27	1.23	1.26	1.26	1.27	1.26	1.25	1.24	1.34	1.25	1.26 ↑
¥/US$	106	109	110	114	114 ↑	113	113	113	107	110	113
US$/Euro	1.21	1.21	1.18	1.14	1.13	1.12	1.11	1.10	1.14	1.18	1.11
US$/£	1.38	1.40	1.38	1.35	1.33	1.32	1.31	1.30	1.28	1.38	1.31

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

Canada

There are no key releases for the coming week.

United States

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Consumer Prices

Wednesday, 8:30 am

Dec. (e)	**+0.4%**	**+7.0% y/y**
Consensus	*+0.4%*	*+7.0% y/y*
Nov.	+0.8%	+6.8% y/y

CPI ex. Food & Energy

Dec. (e)	**+0.5%**	**+5.3% y/y**
Consensus	*+0.5%*	*+5.3% y/y*
Nov.	+0.5%	+4.9% y/y

Slipping gasoline prices will help **consumer prices** moderate in December after big spikes the prior two months, though a further ratcheting of used car prices, meaty food costs, and rising rents should still drive a 0.4% advance. Core prices could rise 0.5%, as per the prior month. The yearly headline rate looks to hit 7.0% and the core rate 5.3%, numbers last seen in 1982 and 1991, respectively. The year-ago comparisons become friendlier next month, but we are well beyond the stage where base effects are driving the annual inflation rate. In fact, both the 3-month and 6-month core rates are comfortably above the current 4.9% annual figure. The December CPI report will only heighten the hawkish talk coming out of the Fed. It's hard to believe that the core rate started 2021 at 1.4%, and looks to end the year about 4 percentage points higher. You need to go back to 1974 to see a jump of that size.

Beige Book

Wednesday, 2:00 pm

The **Beige Book**, prepared for the January FOMC meeting, will provide a good snapshot of the economy at the end of 2021. Recall that December's regional survey tilted more positive as "*activity grew at a modest to moderate pace in most Federal Reserve Districts*". Still, while demand remained sturdy, growth was constrained by supply chain disruptions, which supported the Fed's call to quicken the taper pace. On inflation, price hikes were broad-based, but now with some inputs becoming more widely available (i.e., semiconductors) we could see anecdotes of price pressures downshifting from a "*moderate to robust pace*". Although the emergence of the Omicron variant will push leisure and hospitality activity lower, the overall assessment of the economy is expected to stay positive.

Retail Sales

Friday, 8:30 am

		Ex. Autos
Dec. (e)	**unch**	**+0.1%**
Consensus	*unch*	*+0.2%*
Nov.	+0.3%	+0.3%

	Ex. Autos/Gas
Dec. (e)	**+0.2%**
Nov.	+0.2%

Reversing new auto sales (for the seventh time in eight months due to chip shortages) and a pullback in gasoline prices will clip **retail sales** at the end of the holiday season. Both factors, along with surging COVID cases and pulled-forward holiday spending (amid feared shortages) should keep total sales unchanged in the month, or up slightly excluding autos. Given the strong start to the quarter, consumer spending growth could still have a 5-handle in Q4, but it will downshift quickly in Q1 as travel delays, event cancellations, and consumer anxiety mount due to Omicron and because over 30 million families will lose the expanded child tax benefit.

Industrial Production

Friday, 9:15 am

		Capacity Utilization
Dec. (e)	**+0.2%**	**76.9%**
Consensus	*+0.3%*	*77.0%*
Nov.	+0.5%	76.8%

Industrial production likely climbed 0.2% in December, after gaining 0.5% in the prior month. Despite capacity constraints that prevailed through much of last year, manufacturing output remained a bright spot, likely ending 2021 near three-year highs. Meanwhile, motor vehicles and parts—a big component of factory output—could gain for a third straight month given lean inventories. That would end the year with some progress in rebalancing supply and demand, though auto output remains well below pre-pandemic trends. Mining looks to climb amid greater energy production, while volatile utilities could rebound, after slipping in the prior month on milder weather. Capacity utilization should rise further to 76.9%, the highest since September 2019.

Financial Markets Update for January 7, 2022

		Jan 7 [1]	Dec 31	Week Ago	4 Weeks Ago	Dec 31, 2021
					(basis point change)	
Canadian Money Market	Call Money	0.25	0.25	0	0	0
	Prime Rate	2.45	2.45	0	0	0
U.S. Money Market	Fed Funds (effective)	0.25	0.25	0	0	0
	Prime Rate	3.25	3.25	0	0	0
3-Month Rates	Canada	0.20	0.16	4	20	4
	United States	0.09	0.03	6	4	6
	Japan	-0.10	-0.13	3	2	3
	United Kingdom	0.37	0.26	11	29	11
	Australia	0.07	0.07	0	1	0
2-Year Bonds	Canada	1.08	0.95	14	12	14
	United States	0.88	0.73	14	22	14
10-Year Bonds	Canada	1.72	1.42	29	25	29
	United States	1.76	1.51	25	28	25
	Japan	0.13	0.07	7	8	7
	Germany	-0.05	-0.18	13	30	13
	United Kingdom	1.16	0.97	19	42	19
	Australia	1.86	1.67	19	22	19
Risk Indicators	VIX	19.8	17.2	2.5 pts	1.1 pts	2.5 pts
	Inv. Grade CDS Spread [2]	52	49	2	-2	2
	High Yield CDS Spread [2]	302	293	9	-5	9
					(percent change)	
Currencies	US¢/C$	78.90	79.13	-0.3	0.4	-0.3
	C$/US$	1.268	1.264	—	—	—
	¥/US$	115.72	115.08	0.6	2.0	0.6
	US$/€	1.1344	1.1370	-0.2	0.3	-0.2
	US$/£	1.357	1.353	0.3	2.2	0.3
	US¢/A$	71.66	72.63	-1.3	-0.1	-1.3
Commodities	CRB Futures Index	236.75	232.37	1.9	4.8	1.9
	Oil (generic contract)	79.26	75.21	5.4	10.6	5.4
	Natural Gas (generic contract)	3.89	3.73	4.3	-0.9	4.3
	Gold (spot price)	1,790.65	1,829.20	-2.1	0.4	-2.1
Equities	S&P/TSX Composite	21,052	21,223	-0.8	0.8	-0.8
	S&P 500	4,686	4,766	-1.7	-0.5	-1.7
	Nasdaq	15,012	15,645	-4.0	-4.0	-4.0
	Dow Jones Industrial	36,188	36,338	-0.4	0.6	-0.4
	Nikkei	28,479	28,792	-1.1	0.1	-1.1
	Frankfurt DAX	15,915	15,885	0.2	1.9	0.2
	London FT100	7,469	7,385	1.1	2.4	1.1
	France CAC40	7,201	7,153	0.7	3.0	0.7
	S&P ASX 200	7,453	7,445	0.1	1.4	0.1

[1] = as of 10:35 am *[2] = One day delay*

Global Calendar — January 10–January 14

	Monday January 10	Tuesday January 11	Wednesday January 12	Thursday January 13	Friday January 14
China	**Aggregate Yuan Financing** [D] **Dec. (e) 2.4 trln** Nov. 2.6 trln **New Yuan Loans** [D] **Dec. (e) 1.2 trln** Nov. 1.3 trln **M2 Money Supply** [D] **Dec. (e) +8.6% y/y** Nov. +8.5% y/y		**CPI PPI** **Dec. (e) +1.7% y/y +11.3% y/y** Nov. +2.3% y/y +12.9% y/y	**Trade Surplus** [D] **in USD in CNY** **Dec. (e) 73.0 bln 450.9 bln** Nov. 71.7 bln 460.7 bln	
Japan	**Markets closed**		**Current Account Surplus** **Nov. '21 (e) ¥0.6 trln** Nov. '20 ¥1.7 trln **Bank Lending ex. Trusts** **Dec.** Nov. +0.5% y/y	**Machine Tool Orders** **Dec. P** Nov. +64.0% y/y	
Euro Area	**EURO AREA** **Jobless Rate** **Nov. (e) 7.2%** Oct. 7.3% **ITALY** **Jobless Rate** **Nov. (e) 9.3%** Oct. 9.4%	**ITALY** **Retail Sales** **Nov. (e) +0.5% +10.6% y/y** Oct. +0.1% +3.7% y/y	**EURO AREA** **Industrial Production** **Nov. (e) +0.5% +0.8% y/y** Oct. +1.1% +3.3% y/y	**EURO AREA** **ECB Economic Bulletin** **ITALY** **Industrial Production** **Nov. (e) +0.5% +3.7% y/y** Oct. -0.6% +2.0% y/y	**EURO AREA** **Trade Surplus** **Nov. (e) €1.5 bln** Oct. €2.4 bln **FRANCE** **Consumer Price Index** **Dec. F (e) +0.2% +3.4% y/y** Nov. +0.4% +3.4% y/y
U.K.					**Monthly GDP 3m/3m** **Nov. (e) +0.4% +0.8%** Oct. +0.1% +0.9% **Services Index 3m/3m** **Nov. (e) +0.5% +1.1%** Oct. +0.4% +1.1% **Industrial Production** **Nov. (e) +0.2% +0.6% y/y** Oct. -0.6% +1.4% y/y **Manufacturing Production** **Nov. (e) +0.2% -0.3% y/y** Oct. unch +1.3% y/y **Trade Deficit Non-EU** **Nov. (e) £14.2 bln n.a.** Oct. £13.9 bln £8.6 bln
Other	**AUSTRALIA** **Building Approvals** **Nov. (e) +3.0%** Oct. -12.9%	**AUSTRALIA** **Trade Surplus** **Nov. (e) A$10.7 bln** Oct. A$11.2 bln **Retail Sales** **Nov. (e) +3.8%** Oct. +4.9%			

[D] = date approximate

Upcoming Policy Meetings | Bank of England: Feb. 3, Mar. 17, May 5 | European Central Bank: Feb. 3, Mar. 10, Apr. 14

North American Calendar — January 10–January 14

Canada

Monday January 10

Tuesday January 11

Wednesday January 12

- Noon — 5-year bond auction $4.0 bln
- BoC Buyback: 5-year sector

Thursday January 13

- Noon — 2-year bond auction $3.5 bln
- 3-year bond auction announcement
- BoC Buyback: 2-year sector

Friday January 14

United States

Saturday, January 8

Fed Speaker: Atlanta's Bostic (12:15 pm)

Monday January 10

10:00 am	**Wholesale Inventories**	
Nov. F (e)	**+1.2%**	
Oct.	+2.5%	

- 11:00 am — 4- & 8-week bill auction announcements
- 11:30 am — 13- & 26-week bill auctions $111 bln

Tuesday January 11

6:00 am	**NFIB Small Business Economic Trends Survey**	
Dec. (e)	**98.5** [C]	
Nov.	98.4	

- **10:00 am — Senate Banking Committee conducts chair nomination hearing for Fed Chair Powell**
- Fed Speakers: Cleveland's Mester (9:12 am); Kansas City's George (9:30 am); St. Louis' Bullard (4:00 pm)
- 1:00 pm — 3-year note auction $52 bln

Wednesday January 12

7:00 am	**MBA Mortgage Apps**	
Jan. 7		
Dec. 31	-5.6%	
8:30 am	**Consumer Prices**	
Dec. (e)	**+0.4%**	**+7.0% y/y**
Consensus	*+0.4%*	*+7.0% y/y*
Nov.	+0.8%	+6.8% y/y
8:30 am	**CPI ex. Food & Energy**	
Dec. (e)	**+0.5%**	**+5.3% y/y**
Consensus	*+0.5%*	*+5.3% y/y*
Nov.	+0.5%	+4.9% y/y
2:00 pm	**Budget Balance**	
Dec. '21		
Dec. '20	-$143.6 bln	

- **2:00 pm — Beige Book**
- 1:00 pm — 10[R]-year note auction $36 bln

Thursday January 13

8:30 am	**Initial Claims**	
Jan. 8 (e)	**208k (+1k)** [C]	
Jan.1	207k (+7k)	
8:30 am	**Continuing Claims**	
Jan.1		
Dec. 25	1,754k (+36k)	
8:30 am	**PPI Final Demand**	
Dec. (e)	**+0.5%**	**+9.8% y/y**
Consensus	*+0.4%*	*+9.7% y/y*
Nov.	+0.8%	+9.6% y/y
8:30 am	**PPI Final Demand ex. F&E**	
Dec. (e)	**+0.6%**	**+8.1% y/y**
Consensus	*+0.4%*	*+8.0% y/y*
Nov.	+0.7%	+7.7% y/y

- **10:00 am — Senate Banking Committee conducts vice chair nomination hearing for Governor Brainard**
- Fed Speakers: Richmond's Barkin (noon); Chicago's Evans (2 @1:00 pm)
- 11:00 am — 13- & 26-week bill, 20[R]-year bond, 10-year TIPS auction announcements
- 11:30 am — 4- & 8-week bill auctions
- 1:00 pm — 30[R]-year bond auction $22 bln

Friday January 14

8:30 am	**Retail Sales**	**Ex. Autos**
Dec. (e)	**unch**	**+0.1%**
Consensus	*unch*	*+0.2%*
Nov.	+0.3%	+0.3%
8:30 am	**Retail Sales ex. Autos/Gas**	
Dec. (e)	**+0.2%**	
Nov.	+0.2%	
8:30 am	**Import Prices**	
Dec. (e)	**+0.4%**	**+11.1% y/y**
Consensus	*+0.2%*	*+10.8% y/y*
Nov.	+0.7%	+11.7% y/y
9:15 am	**Industrial Production**	**Capacity Utilization**
Dec. (e)	**+0.2%**	**76.9%**
Consensus	*+0.3%*	*77.0%*
Nov.	+0.5%	76.8%
10:00 am	**Business Inventories**	
Nov. (e)	**+1.2%**	
Consensus	*+1.0%*	
Oct.	+1.3%	
10:00 am	**University of Michigan Consumer Sentiment**	
Jan. P (e)	**70.0** [C]	
Dec.	70.6	

- Fed Speaker: New York's Williams (11:00 am)

[C] = consensus   [D] = date approximate   [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Jan. 26, Mar. 2, Apr. 13 | FOMC: Jan. 25-26, Mar. 15-16, May 3-4

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