BMO Capital Markets Economics | A Weekly Financial Digest

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Focus

Feature Article

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Our Thoughts

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U.S. Economy: A Milestone That Matters

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The calendar of economic indicators was light this week. Veterans Day was on Wednesday and the marquee CPI report doesn't carry the same weight it once did with the Fed now in search of inflation that can "*moderately exceed 2 percent for some time*". (For the record, the headline was 1.2% y/y in October with the core at 1.6%.)

Nevertheless, there was a development that matters profoundly for the economy's near-term prospects. **The seven-day average of new daily COVID-19 infections has officially doubled July's first wave peak.** The case rate topped 150,000 on Friday and consequently, more state and local governments are now expanding or extending their restrictions on business activity. However, **this will dent, but not derail, the economic recovery**.

First, a return to full-scale lockdowns of the kind experienced in March and April, and some European countries currently, is unlikely. Authorities are, instead, focussing on targeted restrictions, for example, on adult-contact-prone gyms, along with reducing operating hours of bars and restaurants or banning their indoor offerings altogether. And, most of these firms hadn't returned to pre-pandemic capacity anyway.

Second, many businesses have become used to operating under COVID protocols (both their own and government-mandated ones) and are more nimble in adapting their operations to changes.

Third, in a Schumpeterian view of the world, the first wave's flood of business closures left a legacy of more potential customers (and revenues) for each surviving firm, thus affording them a better chance of survival amid the second wave.

Finally, business confidence and thus, the willingness to do whatever it takes to survive, remains elevated. This week, the NFIB's Small Business Optimism Index remained at 104.5 in October, despite surging COVID cases and increasing restrictions, sporting the same 'big figure' as the immediate pre-pandemic readings.

Current business confidence is being supported by the **brightening prospects for a significant federal fiscal stimulus package, if only by early next year**. GOP Senate leader McConnell only ruled out a "multi-trillion" package this week, keeping hopes for something as high as around $1 trillion afloat (that could include a re-opened and extra-funded Paycheck Protection Program). Confidence is also being bolstered by brightening prospects for an effective, safe and widely-available vaccine, with Pfizer's announcement this week showing significant progress on the first criterion.

It's unclear whether wider, El Paso-style lockdowns might eventually be required to contain the virus before there's a triple-criterion-satisfying vaccine, particularly with pandemic fatigue setting in and many folks becoming lax on the critical basic stuff like mask wearing, physical distancing and hand washing. Perhaps the laxness could be turned around (over to you, President-elect Biden), which could avoid more onerous and economically harmful remedies in the meantime.

Vaccination Stars

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Equity markets and risk assets rallied sharply this week on word that Pfizer had seen promising test results on a COVID-19 vaccine. Regardless of lingering questions about limited data, safety and distribution hurdles, the market opened Monday to a violent rotation. Some of this week's moves might prove to be temporary reactions, while some might foretell where relative strength will be found when the end of the pandemic really does come into view.

The **equity market** broadly was the big winner, with the S&P 500 jumping almost 4% in early-week trading. But, as the dust settled over the course of the week, the index was tracking up a more pedestrian 1% by early Friday. The real story was the rotation across region, sector and size. At the **country** level, European stocks jumped almost 9% in some areas, reflecting bigger potential economic relief from any vaccine, while the U.S. lagged.

At the **sector** level, the rotation was even clearer, as sectors that have struggled most to come back during the pandemic posted the strongest gains. Notably, U.S. banks rallied almost 10%, and are arguably the most likely to take relief from a vaccine given the vast majority of the economic impact has been on Main Street (and therefore on banks' loan books). Cyclical sectors also rallied, with energy leading the pack, and industrials rising strongly. On the flip side, the COVID leaders—technology and consumer discretionary—abruptly swung to the bottom of the leaderboard and were down modestly despite the good news. The Nasdaq in particular was down more than 1% by early Friday.

By **size**, S&P small caps surged almost 9% at one point, while the biggest components of the index barely budged. Again, this reflects the fact that more economic damage has been inflicted the lower you go on the size scale. Note that the gap between year-over-year performance in large S&P 100 stocks and the small S&P 600 group has been trending at the widest in 21 years.

Outside the equity market, **Treasury yields** backed up meaningfully, with the 10-year jumping about 18 bps to the highest level since March. And, with the shorter end still pinned down by Federal Reserve guidance, the yield curve (on a 10s-minus-2s basis) reached the steepest since 2017 and another bit of reprieve for the banks. **Credit spreads** tightened modestly, while there was shift out of the **U.S. dollar**—the **loonie** briefly cracked the $1.30/USD mark, which has held as resistance for about three years.

As the week played out, the stark reality of surging COVID cases across much of the developed world, including the U.S. and Canada, unwound some of the early-week rotation, as it remains clear that distributing a vaccine (should we get one) could still be a long way off. But, this week's action may well have given us a good preview of what could *eventually* lie ahead…

OPEC+ Still Stuck Between a Rock and a Hard Place

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West Texas Intermediate (WTI) crude received a boost from this past week's news that a potentially effective vaccine against COVID-19 has made significant progress. However, until a vaccine is widely distributed, which will take time, the combination of **OPEC+'s commitment to restrain supply** and the ongoing **global economic recovery** will be the key factors that bolster crude prices. BMO Economics forecasts WTI to average US$45 in 2021, compared to an estimate of $38.5 in 2020.

Nonetheless, **the path to higher prices is unlikely to be straightforward** as both global oil demand and supply are still facing uncertainty. Demand, in the near-term, is likely to remain bumpy given that a number of countries are experiencing a **second wave** of COVID-19 cases. Moreover, the latest outbreaks have taken place in the **West** (Europe and North America), which account for around 40% of total global demand. Demand has returned to pre-pandemic levels in **China**, but it can't single-handedly offset losses in the West despite accounting for nearly 15% of worldwide demand. The picture also remains challenging when viewed from a product perspective as demand for **gasoline** and **jet fuel** is still down roughly 10% and 40%, respectively, from pre-pandemic levels. Nevertheless, the IEA's latest projections have global oil demand averaging 97.1 mb/d in 2021, compared to an estimate of 91.3 mb/d in 2020 and 100 mb/d in 2019. During the height of the lockdowns, which impacted around four billion people, global oil demand plunged 16.2% y/y to 83.2 mb/d in 2020Q2. OPEC has a similar forecast at 96.3 mb/d in 2021, compared to an estimate of 90 mb/d in 2020.

The onus of balancing the oil market over the near-term will remain squarely on the shoulders of OPEC+ to limit supply. Its current production cut target stands at 7.7 mb/d—equivalent to a decline of 7.7% y/y versus last year's global supply average of 100.5 mb/d—but this may only last until the end of 2020. OPEC+ has already indicated it will subsequently lower its target to 5.8 mb/d until April 2022. Having badly misread the tea leaves in early March, when OPEC+ failed to renew production cuts and entered into a price war, we doubt it will make a similar mistake. Both **Saudi Arabia** and **Russia** are highly incentivized to maintain cuts as a means of raising prices to support their national budgets, which have deteriorated in the wake of the pandemic and are expected to remain mired in deficit for the foreseeable future.

Saudi Arabia recently signaled that keeping the current production cut schedule would be ill-advised given the rise in COVID-19 cases and the unexpected return of Libyan oil production. **Libya** has increased output from almost zero in August to 1.0 mb/d. Meanwhile, there is also a risk that **Iranian** production could re-enter the market if President-elect Biden were to ease sanctions (production has nearly halved since 2017). These developments have led to speculation that OPEC+ may postpone changing the production target cut to April or June 2021, when the cartel next meets at the end of November.

Bottom Line: It's been an incredibly tough year for crude oil producers and they will continue to face many longer-term challenges that will extend beyond the pandemic (e.g., climate change, electric vehicles, etc.) We think OPEC+ clearly understands these challenges, which means it will have no choice but to significantly restrain supply in the next few years despite posturing between Russia and Saudi Arabia.

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

	Good News	Bad News
Canada ▪ BoC Senior Loan Officer Survey shows lending conditions easing	**Industrial Product Prices** unch (Oct. P)	**Province of Quebec** projects a $12.3 bln deficit (FY20/21)
United States ▪ Joe Biden elected 46th President following tight race; President Trump yet to concede ▪ Stocks rally on vaccine hopes ▪ Fed Chair Powell: "*Economy continuing on solid path*" but challenging months ahead	**Job Openings** climbed to 6,436k (Sep.) **Initial Claims** -48k to 709k (Nov. 7 week) **NFIB Small Business Optimism Index** steady at 104.0 (Oct.)	**Consumer Prices** unch; **Producer Prices** +0.3% (Oct.) **Budget Deficit** widened to $284.1 bln (Oct.) **U of M Consumer Sentiment** -4.8 pts to 77.0 (Nov. P)
Japan ▪ JPY briefly strengthens to 103.5/dollar	**Bank Lending Ex-Trusts** +5.9% y/y (Oct.) **Tertiary Industry Index** +1.8% (Sep.) **Current Account Surplus** grew to ¥1.7 trln (Sep.)	**Machine Tool Orders** -5.9% y/y (Oct. P) **Core Machine Orders** -4.4% (Sep.)
Europe ▪ ECB President Lagarde looks at PEPP and TLTROs as main tools in next move	**Euro Area—Trade Surplus** widened to €24.0 bln (Sep.) **Germany—Trade Surplus** widened to €17.8 bln (Sep.) **France—Industrial Production** +1.4% (Sep.) **U.K.—Real GDP** +15.5% q/q (Q3 P) **U.K.—Average Weekly Earnings (Ex. Bonus)** +1.9% y/y (3 mths to Sep.) **U.K.—Industrial Production** +0.5% (Sep.)	**Euro Area—Industrial Production** -0.4% (Sep.) **Germany—ZEW Survey** -17.1 pts to 39.0 (Nov.) **Italy—Industrial Production** -5.6% (Sep.) **U.K.—Monthly GDP** slowed to +1.1% (Sep.)—and **Index of Services** +1.0% **U.K.—Employment** -164,000; **Jobless Rate** +0.3 ppts to 4.8% (3 mths to Sep.) **U.K.—Trade Deficit** widened to £9.3 bln (Sep.)
Other ▪ RBNZ, Mexico on hold	**China—Exports** +11.4% y/y; **Imports** +4.7% y/y (Oct.) **China—Aggregate Yuan Financing** climbed to 1.4 trln (Oct.)—but **New Yuan Loans** slowed to 0.7 trln **China—M2 Money Supply** +10.5% y/y (Oct.) **China—Foreign Reserves** $3.1 trln (Oct.) **Australia—Business Confidence** +9 pts to 5 (Oct.)	**China—Consumer Prices** slowed to +0.5% y/y; **Producer Prices** -2.1% y/y (Oct.)

Autos V-eer Around COVID-19

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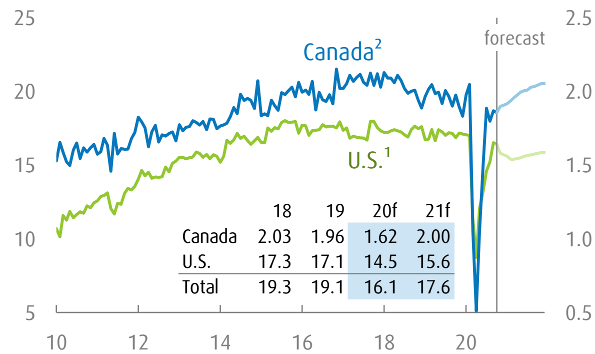
Early in the year, the outlook for the global auto industry looked dire. Dealerships were temporarily shuttered and production was halted as the global pandemic caused the shortest and steepest post-war recession on record. Still, vehicle sales have managed to chart a V-shaped recovery. **Light vehicle sales in Canada and the U.S. should be down 15.7% (*Chart 1*) this year, much better than the most severe scenarios** but vastly different from the pre-pandemic forecast of a 3.7% drop. **The resilience of consumer durables, chief among them vehicles, has been a welcome surprise.** In the United States, sales volumes are likely to drop 15.2% this year. In Canada, more stringent public health restrictions left a bigger hole to climb out of and, accordingly, vehicle purchases are likely to decline 17.4%.

Chart 1
Light Vehicle Sales

(mlns of units : s.a.a.r.)



Sources: BMO Economics, Haver Analytics *[1] (lhs); [2] (rhs)*

Zooming out on the year, however, the auto industry has managed to steer clear of more severe economic damage. While the momentum built up over the last several months could take a hit amid surging COVID-19 cases in both countries, we see sales accelerating in 2021. **Robust fiscal and monetary support in Canada will likely propel light vehicle purchases to 2 million units in 2021**. The biggest drag on sales in Canada, household debt, has also been shelved for now, as interest rates are unlikely to lift off until after 2023, keeping debt-service ratios lower. **We see the year ahead for the U.S. with more caution, with sales reaching 15.6 million units**. The expiry of the CARES Act income-support programs could slow sales growth to start 2021, and attractive interest rates for vehicle financing will be counterbalanced by slow population growth and waning consumer confidence as coronavirus infections continue to rise more sharply than in Canada. With the potential for a vaccine seeing wider distribution by 2021Q2, we could see U.S. fleet sales recover more quickly, which could add as many as 1 million units. The other upside to a vaccine is that with data from TomTom suggesting urban traffic congestion remains well-below 2019 averages, a decrease in work-from-home trends would tend to increase vehicle use for commuting in 2021, providing further support to the sector.

The Great Accelerator

Rather than upending the industry, the pandemic has instead accelerated many existing trends this year. Particularly, consumer preferences for light trucks, zero emission vehicles (ZEVs), and online purchases all sped up this year.

In the U.S., sales were cushioned in 2020 by the disparities in the labour demand shock. Household income among new vehicle buyers was around $100,000 this year, meaning that these households were more insulated from job losses than lower income workers. In fact, data from Opportunity Insights suggest that higher-wage workers (greater than $60,000 per year) have already seen their employment levels return to pre-pandemic levels. And for workers that were initially affected by the pandemic, significant fiscal support programs in the U.S. (and also Canada) more than made up for losses to personal income. These income trends contributed to the movement toward higher-priced vehicles (light trucks), which are tracking to a new high of 75% of purchases this year (*Chart 2*). Coming out of the Great Recession, by comparison, light trucks comprised only 48% of unit sales.

Canada is even further ahead of the U.S. when it comes to a shift toward light trucks over conventional passenger cars. This year is gearing up to see light trucks comprise more than 79% of unit sales (*Chart 3*). Similar to the U.S., a decade ago, the same share stood at 50% in Canada. Higher vehicle prices coming out of this recession are already helping automakers post a faster recovery thanks to fatter margins, which are supportive for future business investment—the likes of which we are already seeing.

Another puzzle in 2020 has been the strength of ZEV sales. With small production runs and pricier components, they tend to be more expensive than similar conventional vehicles. And yet, as vehicle purchases collapsed in the spring, the Tesla Model 3 became the best-selling vehicle in the U.K. Part of the momentum for ZEVs can be attributed to the most popular electric vehicle maker, Tesla, already having a predominantly online retail presence. And the other major factor is that with high pricepoints, they tend to cater to households who were better shielded from the global recession.

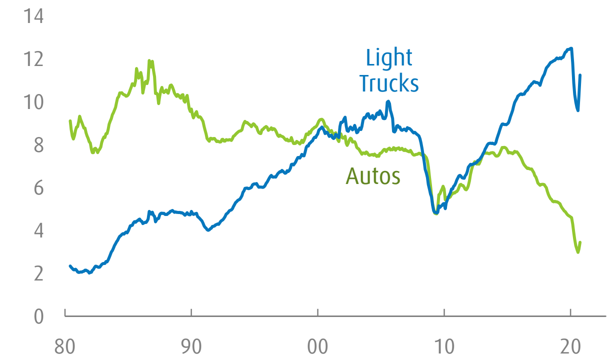
In Canada, we're seeing an acceleration of ZEV sales (*Chart 4*). ZEVs reached 3.5% of new vehicle registrations (21,288 units) in the first half of 2020, after hitting 2.7% in 2019. While they still represent a small minority of vehicle purchases, they continue to gain market share even in Ontario—reaching 1.4% of new registrations so far this year despite the province canceling the green vehicle incentive program back in 2018. With two of the "Big Three" automakers committed to making ZEVs in the country in the years ahead, consumer demand will likely improve for the segment as economies of scale lead to more affordable prices. **Research suggests that 80% of global electric vehicles are purchased in the region they are made** [1]. And Canada has room to grow as electric vehicles made up only 0.4% of production in 2018 compared to 3.1% in the U.S.

The U.S., by comparison, saw ZEV sales dip through September of this year to 1.7% of total light vehicle sales,

Chart 2

U.S. Light Vehicle Sales by Segment

(mlns of units : s.a.a.r. : 6-mnth m.a.)

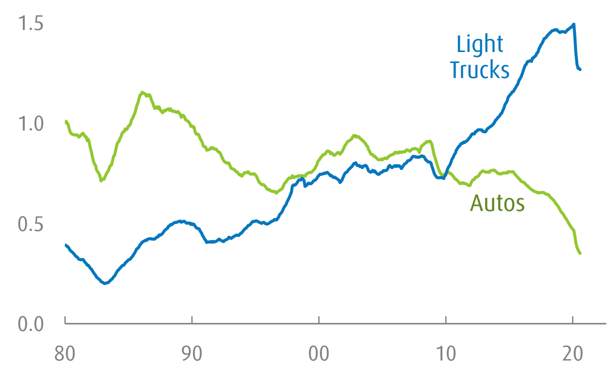


Sources: BMO Economics, Haver Analytics, Autodata

Chart 3

Canada Light Vehicle Sales by Segment

(mlns of units : s.a. : 12-mnth m.s.)



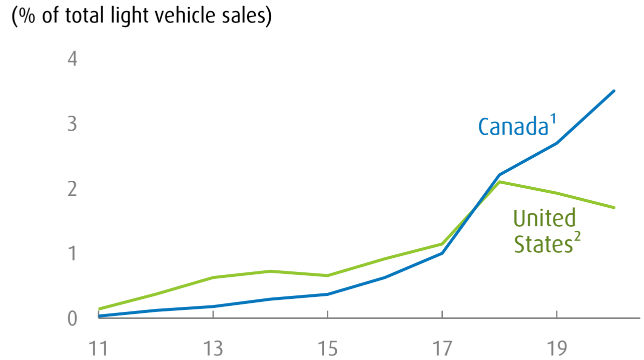
Sources: BMO Economics, Haver Analytics, Statistics Canada but most of the drop can be attributed to the falling demand for plug-in hybrid electric vehicles compared to battery electric. With GM's new battery facility in Ohio running ahead of schedule, we could see ramped-up ZEV production earlier than expected, providing a future surge in sales.

Canadian Production Gets a Boost

At the start of the year, Canada's vehicle production future looked bleak. GM appeared set to wind down much of its assembly in the country. That presented risks of weakening agglomeration economies across Ontario in supporting industries. FCA also announced its intention to shutter its third-shift in Windsor, cutting a further 1,500 jobs. Canadian vehicle production had long been of similar proportion to domestic demand at around 2 million units (*Chart 5*). However, with both GM and FCA originally set to reduce their presence in Ontario, the auto sector was expected to contract having suffered closures each equivalent to around 7% of production in two years.

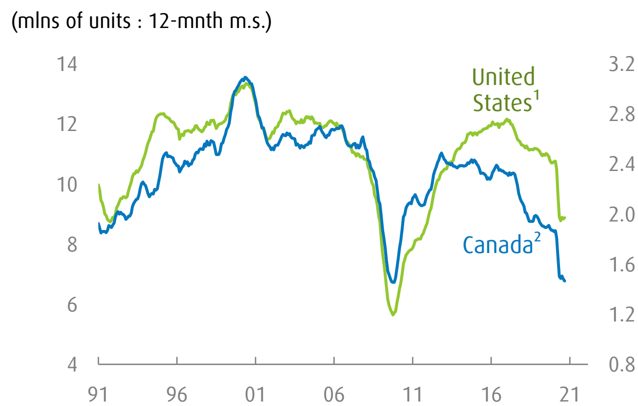
Fast-forward to November, and now each of the "Big Three" have announced at least $1.3 billion of investments in their operations in Canada. With these investments, auto sector employment will grow for the first time in years. And compared to past labour deals, each deal represents investment in growing vehicle segments rather than conventional passenger vehicles, which had long been a weakness in FCA's presence in the country. That's a big deal with auto and parts production representing 9% of manufacturing.

Chart 4
ZEV Sales



1 new vehicle registrations, 2020 = first half of year; 2 2020 = Jan.–Sep.
Sources: BMO Economics, Haver Analytics, Statistics Canada, U.S. Department of Energy, Arbonne National Laboratory

Chart 5
Light Vehicle Production



Sources: BMO Economics, Haver Analytics, Automotive News 1 (lhs); 2 (rhs)

Bottom Line: A year that started out with the potential for severe economic repercussions for the auto sector has avoided the worst case scenarios and is headed for a brighter 2021, assuming the pandemic is brought under control.

Endnotes:

[1] Sharpe, B. et al. (2020, April). Power Play: Canada's Role in the Electric Vehicle Transition. https://theicct.org/sites/default/files/publications/Canada-Power-Play-ZEV-04012020.pdf [^]

Economic Forecast Summary for November 13, 2020

		2020				2021				Annual		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	2021
CANADA												
Real GDP	(q/q % chng : a.r.)	-8.2	-38.7	47.0	2.3	4.2	6.5	6.0	5.0	1.7	-5.6	5.5
Consumer Price Index	(y/y % chng)	1.8	0.0	0.3	0.3	0.6	1.9	1.6	1.7	1.9	0.7	1.4
Unemployment Rate	(percent)	6.3	13.0	10.0	8.7	7.9	7.7	7.4	7.1	5.7	9.5	7.5
Housing Starts	(000s : a.r.)	209	191	239	210	210	206	202	202	209	212	205
Current Account Balance	($blns : a.r.)	-52.9	-34.5	-40.8	-39.8	-41.5	-41.8	-41.7	-42.9	-47.0	-42.0	-42.0
Interest Rates		(average for the quarter : %)										
Overnight Rate		1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.50	0.25
3-month Treasury Bill		1.29	0.22	0.16	0.10	0.10	0.10	0.10	0.10	1.65	0.45	0.10
10-year Bond		1.20	0.59	0.55	0.70 ↑	0.85 ↑	0.90 ↑	1.00 ↑	1.05 ↑	1.59	0.75	0.95 ↑
Canada-U.S. Interest Rate Spreads		(average for the quarter : bps)										
90-day		16	8	5	-1 ↓	-1 ↓	-1 ↓	-1 ↓	-1 ↓	-45	7	-1 ↓
10-year		-18	-10	-10	-20 ↓	-20 ↓	-18 ↓	-17 ↓	-16 ↓	-56	-14	-18 ↓
UNITED STATES												
Real GDP	(q/q % chng : a.r.)	-5.0	-31.4	33.1	4.0	2.8	4.0	3.7	3.3	2.2	-3.5	4.0
Consumer Price Index	(y/y % chng)	2.1	0.4	1.3	1.1 ↓	1.3	2.6 ↓	1.9 ↓	2.0	1.8	1.2	2.0
Unemployment Rate	(percent)	3.8	13.0	8.8	6.8	6.4	6.1	5.8	5.5	3.7	8.1	6.0
Housing Starts	(mlns : a.r.)	1.48	1.08	1.43	1.41	1.34	1.34	1.34	1.35	1.30	1.35	1.34
Current Account Balance	($blns : a.r.)	-446	-682	-833	-858	-875	-883	-895	-905	-480	-705	-890
Interest Rates		(average for the quarter : %)										
Fed Funds Target Rate		1.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	2.13	0.38	0.13
3-month Treasury Bill		1.13	0.14	0.11	0.10	0.10	0.10	0.10	0.10	2.10	0.35	0.10
10-year Note		1.38	0.69	0.65	0.90 ↑	1.05 ↑	1.10 ↑	1.15 ↑	1.25 ↑	2.14	0.90	1.15 ↑
EXCHANGE RATES		(average for the quarter)										
US¢/C$		74.4	72.2	75.1	76.3 ↑	77.0 ↑	77.2 ↑	77.3 ↑	77.5 ↑	75.4	74.5 ↑	77.2 ↑
C$/US$		1.34	1.39	1.33	1.31 ↓	1.30 ↓	1.30 ↓	1.29 ↓	1.29 ↓	1.33	1.34 ↓	1.29 ↓
¥/US$		109	108	106	105	105	106	106	107	109	107	106
US$/Euro		1.10	1.10	1.17	1.18 ↑	1.19 ↑	1.20 ↑	1.21 ↑	1.22 ↑	1.12	1.14 ↑	1.20 ↑
US$/£		1.28	1.24	1.29	1.30 ↑	1.31 ↑	1.31	1.32	1.33	1.28	1.28	1.32 ↑

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

Canada

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Existing Home Sales

Monday, 9:00 am (expected)

	Existing Home Sales	Average Prices
Oct. (e)	**+29.0% y/y**	**+15.0% y/y**
Sep.	+45.6% y/y	+17.5% y/y

MLS Home Price Index	
Oct. (e)	**+10.0% y/y**
Sep.	+10.3% y/y

Home sales continued their strong run into the fall, and are expected to be up nearly 30% y/y in October. While that would be a small pullback from the prior month, the level of sales remains exceptionally high and would mark the best October on record. Every major city from coast to coast saw sales rise at least 20% y/y, and prices are up double-digits in most cities outside of Alberta. Note that sales in Edmonton and Calgary were both up over 20%, while prices rose single digits and even the MLS HPI looks to be positive for both for the first time in about 18 months. Nationwide, **average prices** look to be up 15% y/y, while the quality-adjusted MLS HPI is expected to be about steady at +10% y/y, just off the prior month's 3-year high. Our call for sales would put them up 8% YTD, suggesting that the pent-up demand has been spent. Thus far, record-low rates and demand for space have been strong enough to maintain the record monthly pace.

Consumer Price Index

Wednesday, 8:30 am

Oct. (e)	**+0.2% (+0.2% sa)**	**+0.4% y/y**
Sep.	-0.1%	+0.5% y/y

Core CPI Measures (Sep.)	
CPI Core - Trim	+1.8% y/y
CPI Core - Median	+1.9% y/y
CPI Core - Common	+1.5% y/y

Canadian consumer prices look to rise modestly in October, due in large part to seasonal strength in a number of sectors. Gasoline prices fell about 1%, which will provide some offset, while food prices look to drop for a third straight month. The most interesting development on the inflation front has been the divergence between Canadian and U.S. headline CPI through the summer. Canadian inflation has slowed sharply, with the CPI index falling 0.3% from July to September, while the U.S. index rose nearly 1% over the same period. That's more or less the largest spread in just over 25 years. With U.S. CPI flat in October, and our call for a modest increase in Canada, that gap is expected to narrow a bit. Given the stronger pace a year ago, our call for a 0.2% m/m rise in prices will still cut headline inflation a tick to +0.4% y/y.

The Bank of Canada's **core CPI** measures have been much more resilient than expected, perking up modestly after an initial sharp deceleration to start the year. An average of the three core metrics has printed 1.6% or 1.7% for six straight months and October is likely to continue that trend. Price pressures remain muted with a wide output gap and a number of industries struggling with COVID restrictions. With no sign of that changing anytime soon, look for underlying inflation to remain below target for some time.

Retail Sales

Friday, 8:30 am

		Ex. Autos
Sep. (e)	**+0.2%**	**+0.1%**
Aug.	+0.4%	+0.5%

Retail sales were likely little changed in September, in line with StatsCan's preliminary estimate. Spending on goods has led the economic rebound, as services remain broadly restricted. Unit auto sales were higher from a year ago in the month for the first time since February, providing a lift to the headline. In addition, given the different world we're living in, back-to-school sales might have been a bit firmer as some parents stocked up with the appropriate supplies. Even with flattish sales, that would still leave activity up over 3% y/y… not bad. With goods prices essentially flat as well, retail volumes also look to be little changed.

United States

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Retail Sales
Tuesday, 8:30 am

		Ex. Autos
Oct. (e)	**+0.4%**	**+0.5%**
Consensus	*+0.5%*	*+0.6%*
Sep.	+1.9%	+1.5%

	Ex. Autos/Gas
Oct. (e)	**+0.6%**
Consensus	*+0.7%*
Sep.	+1.5%

Retail sales probably rose 0.4% in October, the smallest move in the past seven months of recovery, partly reflecting modestly slower vehicle sales volumes (0.5% ex-autos) and slightly lower gasoline prices (0.6% ex-autos & gas). Overall spending in the month was dampened by two major forces. First, federal top-ups on unemployment insurance payments ended, after running at $300 per week during August and September (and $600 per week since April). However, this was partly offset by pared personal savings. Second, the weekly average of new daily COVID-19 infections soared as October unfolded, from above 42k at the beginning of the month to more than 78k at the end—a near doubling. In the wake, more states and local governments increased restrictions on restaurants and bars, which make up more than 10% of total retail sales. The soaring COVID case rate likely also sapped consumers' spending enthusiasm more broadly.

Industrial Production
Tuesday, 9:15 am

		Capacity Utilization
Oct. (e)	**+0.7%**	**72.0%**
Consensus	*+1.0%*	*72.3%*
Sep.	-0.6%	71.5%

Industrial production likely increased 0.7% in October, completely recuperating September's drop, but still 6.4% below its pre-pandemic peak. The move was paced by factory output, reflecting the sector's strong 1.0% gain in aggregate hours and increase in the ISM's manufacturing production index. Meanwhile, a mild rise in average crude oil output probably greased a comparable move in mining production, with warmer temperatures resulting is less heating demand and utilities output. Such a rise in total production should lift the capacity utilization rate 0.5 points to 72.0%, still well below the long-run median of just over 80%.

Housing Starts
Wednesday, 8:30 am

Oct. (e)	**1.47 mln a.r. (+3.7%)**
Consensus	*1.46 mln a.r. (+2.8%)*
Sep.	1.42 mln a.r. (+1.9%)

Building Permits

Oct. (e)	**1.57 mln a.r. (+1.5%)**
Consensus	*1.57 mln a.r. (+1.6%)*
Sep.	1.55 mln a.r. (+4.7%)

Existing Home Sales
Thursday, 10:00 am

Oct. (e)	**6.48 mln a.r. (-0.9%)**
Consensus	*6.45 mln a.r. (-1.5%)*
Sep.	6.54 mln a.r. (+9.4%)

The pandemic has prodded housing demand, aided by record-low mortgage rates, with a preference for larger and/or single-family dwellings situated in less-densely populated areas (suburban, exurban and rural addresses over urban ones). After soaring 9.4% in September to 6.54 million, the highest in more than 14 years, we look for **existing home sales** to take a bit of a breather in October. With both pending home sales and new mortgage applications slipping in the month, sales of existing homes should slip 0.9% to 6.48 million, still the second highest in more than 14 years.

Meanwhile, strong housing demand has gobbled available supply. Seasonally-adjusted existing homes for sale hit a record-low in September, as far back as 1982 for single-family properties. This, in turn, has stoked activity in the new home segment and, thus, home construction. We look for single-family **housing starts** to post their sixth consecutive increase in October, up 2.0% to 1.13 million, which will be the highest in more than 13 years. Total starts should also rise 3.7% to 1.47 million, benefiting from a rebound in the volatile, but less boosted by the pandemic, multi-family segment. The latter posted a double-digit percentage drop in starts in each of the past two months.

Financial Markets Update for November 13, 2020

		Nov 13 [1]	Nov 6	Week Ago	4 Weeks Ago (basis point change)	Dec 31, 2019
Canadian Money Market	Call Money	0.25	0.25	0	0	-150
	Prime Rate	2.45	2.45	0	0	-150
U.S. Money Market	Fed Funds (effective)	0.25	0.25	0	0	-150
	Prime Rate	3.25	3.25	0	0	-150
3-Month Rates	Canada	0.10	0.09	1	1	-156
	United States	0.09	0.09	0	0	-145
	Japan	-0.11	-0.10	-1	-2	0
	Eurozone	-0.51	-0.51	0	-1	-13
	United Kingdom	0.05	0.04	0	0	-75
	Australia	0.03	0.02	1	-5	-88
2-Year Bonds	Canada	0.27	0.25	1	4	-143
	United States	0.17	0.15	2	3	-140
10-Year Bonds	Canada	0.72	0.64	8	15	-98
	United States	0.89	0.82	7	14	-103
	Japan	0.03	0.02	1	1	5
	Germany	-0.55	-0.62	7	7	-36
	United Kingdom	0.34	0.27	7	16	-48
	Australia	0.88	0.75	13	16	-49
Risk Indicators	VIX	23.8	24.9	-1.1 pts	-3.6 pts	10.0 pts
	TED Spread	13	12	1	1	-23
	Inv. Grade CDS Spread [2]	55	53	2	-1	9
	High Yield CDS Spread [2]	345	362	-17	-24	65
					(percent change)	
Currencies	US¢/C$	76.06	76.63	-0.7	0.3	-1.2
	C$/US$	1.315	1.305	—	—	—
	¥/US$	104.70	103.35	1.3	-0.7	-3.6
	US$/€	1.1824	1.1874	-0.4	0.9	5.4
	US$/£	1.316	1.316	0.0	1.9	-0.8
	US¢/A$	72.45	72.58	-0.2	2.3	3.2
Commodities	CRB Futures Index	152.28	147.70	3.1	0.5	-18.0
	Oil (generic contract)	40.32	37.14	8.6	-1.4	-34.0
	Natural Gas (generic contract)	3.04	2.89	5.2	9.5	38.7
	Gold (spot price)	1,889.82	1,951.35	-3.2	-0.5	24.6
Equities	S&P/TSX Composite	16,731	16,283	2.8	1.8	-1.9
	S&P 500	3,561	3,509	1.5	2.2	10.2
	Nasdaq	11,774	11,895	-1.0	0.9	31.2
	Dow Jones Industrial	29,271	28,323	3.3	2.3	2.6
	Nikkei	25,386	24,325	4.4	8.4	7.3
	Frankfurt DAX	13,094	12,480	4.9	1.4	-1.2
	London FT100	6,328	5,910	7.1	6.9	-16.1
	France CAC40	5,384	4,961	8.5	9.1	-9.9
	S&P ASX 200	6,405	6,190	3.5	3.7	-4.2

[1] = as of 10:30 am *[2] = One day delay*

	Monday November 16	Tuesday November 17	Wednesday November 18	Thursday November 19	Friday November 20
Japan	**Real GDP** **Q3 P (e)** **+4.4%** **-5.8% y/y** Q2 -7.9% -10.1% y/y **Industrial Production** **Sep. F (e)** **+4.0%** **-9.0% y/y** Aug. +1.0% -13.8% y/y		**Trade Surplus** **Oct. '20 (e)** **¥308.9 bln** Oct. '19 ¥11.2 bln		**CPI** / **Core CPI** **Oct. (e)** **-0.4% y/y** **-0.7% y/y** Sep. unch y/y -0.3% y/y **CPI ex. Food & Energy** **Oct. (e)** **-0.3% y/y** Sep. unch y/y **Manufacturing PMI** **Nov. P** Oct. 48.7 **Services PMI** **Nov. P** Oct. 47.7 **Composite PMI** **Nov. P** Oct. 48.0
Euro Area	**ITALY** **Consumer Price Index** **Oct. F (e)** **+0.6%** **-0.6% y/y** Sep. +0.9% -1.0% y/y		**EURO AREA** **Consumer Price Index** **Oct. F (e)** **+0.2%** **-0.3% y/y** Sep. +0.1% -0.3% y/y **Core CPI** **Oct. F (e)** **+0.2% y/y** Sep. +0.2% y/y	**EURO AREA** **ECB President Lagarde speaks at Parliament hearing**	**EURO AREA** **Consumer Confidence** **Nov. A (e)** **-17.7** Oct. -15.5 **ITALY** **Industrial Orders** **Sep.** Aug. +15.1% +6.1% y/y
U.K.	**Rightmove House Prices** **Nov.** Oct. +1.1% +5.5% y/y		**Consumer Price Index** **Oct. (e)** **-0.1%** **+0.5% y/y** Sep. +0.4% +0.5% y/y **Core CPI** **Oct. (e)** **+1.3% y/y** Sep. +1.3% y/y		**GfK Consumer Confidence** **Nov. (e)** **-34** Oct. -31 **Retail Sales (incl. Fuel)** **Oct. (e)** **-0.4%** **+4.0% y/y** Sep. +1.5% +4.7% y/y
Other	**CHINA** **Retail Sales** **Oct. (e)** **+5.0% y/y** Sep. +3.3% y/y **Industrial Production** **Oct. (e)** **+6.7% y/y** Sep. +6.9% y/y **Fixed Asset Investment (YTD)** **Oct. (e)** **+1.6% y/y** Sep. +0.8% y/y **Foreign Direct Investment** [D] **Oct.** Sep. +25.1% y/y	**AUSTRALIA** **RBA Minutes from Nov. 3 meeting**		**AUSTRALIA** **Employment** **Oct. (e)** **-30,000** Sep. -29,500 **Jobless Rate** **Oct. (e)** **7.1%** Sep. 6.9%	

[D] = date approximate

Upcoming Policy Meetings | Bank of England: Dec. 17, Feb. 4, Mar. 18 | European Central Bank: Dec. 10, Jan. 21, Mar. 11

Monday November 16

Canada

8:30 am		**Mfg. Sales**	**Mfg. New Orders**
Sep. (e)		**+1.5%**	**+3.0%**
Aug.		-2.0%	-3.4%
8:30 am		**New Motor Vehicle Sales**[D]	
Sep. (e)		**+2.0% y/y**	
Aug.		-7.8% y/y	
9:00 am		**Existing Home Sales**[D]	**Average Prices**
Oct. (e)		**+29.0% y/y**	**+15.0% y/y**
Sep.		+45.6% y/y	+17.5% y/y
9:00 am		**MLS Home Price Index**[D]	
Oct. (e)		**+10.0% y/y**	
Sep.		+10.3% y/y	

Noon — 2-year bond auction $5.0 bln

BoC Buyback: 2-year sector

United States

8:30 am	**Empire State Manufacturing Survey**	
Nov. (e)	**14.0**[C]	
Oct.	10.5	

Fed Speaker: Vice Chair Clarida (2:00 pm)

11:30 am — 13- & 26-week bill auctions $105 bln

Tuesday November 17

Canada

8:15 am	**Housing Starts**	
Oct. (e)	**220,000 a.r. (+5.3%)**	
Sep.	208,980 a.r. (-20.1%)	
8:30 am	**Wholesale Trade**	
Sep. (e)	**+0.4%**	
Aug.	+0.3%	
8:30 am	**Int'l Securities Transactions**	
	Inflows	**Outflows**
Sep.		
Aug.	$15.5 bln	$5.7 bln

2:00 pm — **BoC Governor Macklem speaks on "Sustainable Finance and the Transition to a Low-Carbon Economy" at the Public Policy Forum videoconference**

United States

8:30 am	**Retail Sales**	**Ex. Autos**
Oct. (e)	**+0.4%**	**+0.5%**
Consensus	*+0.5%*	*+0.6%*
Sep.	+1.9%	+1.5%
8:30 am	**Retail Sales ex. Autos/Gas**	
Oct. (e)	**+0.6%**	
Consensus	*+0.7%*	
Sep.	+1.5%	
8:30 am	**Import Prices**	
Oct. (e)	**unch**[C]	**-0.7% y/y**
Sep.	+0.3%	-1.1% y/y
9:15 am	**Industrial Production**	**Capacity Utilization**
Oct. (e)	**+0.7%**	**72.0%**
Consensus	*+1.0%*	*72.3%*
Sep.	-0.6%	71.5%
10:00 am	**NAHB Housing Market Index**	
Nov. (e)	**85**	
Consensus	*85*	
Oct.	85	
10:00 am	**Business Inventories**	
Sep. (e)	**+0.6%**	
Consensus	*+0.5%*	
Aug.	+0.3%	
11:00 am	**NY Fed Household Debt & Credit Report (Q3)**	
4:00 pm	**Net TIC Flows**	
	Total	**Long Term**
Sep.		
Aug.	+$86.3 bln	+$27.8 bln

Fed Speakers: Atlanta's Bostic, San Francisco's Daly, Minneapolis' Kashkari, Boston's Rosengren (3:00 pm)

11:00 am — 4- & 8-week bill auction announcements

11:30 am — 119-day CMB $30 bln

11:30 am — 42-day CMB $30 bln

Wednesday November 18

Canada

8:15 am — **BoC Senior Deputy Governor Wilkins joins a panel on "Women's Leadership Driving an Inclusive Recovery" at the Women's Forum Global Meeting videoconference**

8:30 am	**Consumer Price Index**		
Oct. (e)	**+0.2%**	**+0.4% y/y**	
	(+0.2% sa)		
Sep.	-0.1%	+0.5% y/y	
8:30 am	**CPI Core (% y/y)**		
	Trim	**Median**	**Common**
Oct.			
Sep.	+1.8%	+1.9%	+1.5%

BoC Buyback: 30-year sector

United States

7:00 am	**MBA Mortgage Apps**
Nov. 13	
Nov. 6	-0.5%
8:30 am	**Housing Starts**
Oct. (e)	**1.47 mln a.r. (+3.7%)**
Consensus	*1.46 mln a.r. (+2.8%)*
Sep.	1.42 mln a.r. (+1.9%)
8:30 am	**Building Permits**
Oct. (e)	**1.57 mln a.r. (+1.5%)**
Consensus	*1.57 mln a.r. (+1.6%)*
Sep.	1.55 mln a.r. (+4.7%)
10:00 am	**Quarterly Services Survey (Q3 A)**

Fed Speakers: New York's Williams (12:15 pm); St. Louis' Bullard (1:20 pm); Dallas' Kaplan (6:00 pm); Atlanta's Bostic (7:00 pm)

1:00 pm — 20-year bond auction $27 bln

Thursday November 19

Canada

8:30 am	**ADP National Employment Report**
Oct.	
Sep.	-240,837

BoC Buyback: 10-year sector

United States

8:30 am	**Initial Claims**
Nov. 14 (e)	**718k (+9k)**
Consensus	*710k (+1k)*
Nov. 7	709k (-48k)
8:30 am	**Continuing Claims**
Nov. 7	
Oct. 31	6,786k (-436k)
8:30 am	**Philadelphia Fed Index**
Nov. (e)	**22.0**[C]
Oct.	32.3
10:00 am	**Existing Home Sales**
Oct. (e)	**6.48 mln a.r. (-0.9%)**
Consensus	*6.45 mln a.r. (-1.5%)*
Sep.	6.54 mln a.r. (+9.4%)
10:00 am	**Leading Indicator**
Oct. (e)	**+0.7%**[C]
Sep.	+0.7%
11:00 am	**Kansas City Fed Manufacturing Activity**
Nov.	
Oct.	13

11:00 am — 13- & 26-week bill, 2-, 5- & 7-year note, 2[R]-year FRN auction announcements

11:30 am — 4- & 8-week bill auctions

1:00 pm — 10[R]-year TIPS auction $12 bln

Friday November 20

Canada

8:30 am	**Retail Sales**	**Ex. Autos**
Sep. (e)	**+0.2%**	**+0.1%**
Aug.	+0.4%	+0.5%
8:30 am	**New Housing Price Index**	
Oct. (e)	**+0.5%**	**+3.6% y/y**
Sep.	+1.2%	+3.2% y/y

BoC Buyback: 5-year sector

United States

Fed Speakers: Dallas' Kaplan (8:30 am); Kansas City's George (1:30 pm)

Sat. Nov. 21 – Sun. Nov. 22

G20 Leaders' Summit Teleconference

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

Upcoming Policy Meetings | Bank of Canada: Dec. 9, Jan. 20, Mar. 10 | FOMC: Dec. 15-16, Jan. 26-27, Mar. 16-17

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