Focus

Feature Article

Can U.S. Consumers Cope Without More Fiscal Aid?

Our Thoughts

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Main Event on Q4 Fight Card: Virus versus Vaccine

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The wave of news and events in the past few weeks can be neatly summarized thusly: The near-term outlook has weakened markedly while the medium-term outlook has brightened notably. The next few months will have to run the gauntlet of resurgent virus cases almost everywhere and deepened uncertainty on the U.S. fiscal support outlook. But looking beyond the potentially hard winter, **the substantially positive vaccine results hold out the promise of a return to a new-ish normal**, which may also be the case on the U.S. fiscal front. Financial markets have mostly keyed on the positive vaccine news, although U.S. equities largely fought to a draw this week after reaching record highs across the board on Monday. Still, the MSCI World Index is up roughly 10% just since the start of November, oil prices have made a nice recovery to above $41, and emerging market and commodity currencies have firmed versus a listing U.S. dollar.

Investors are looking across the possibility of a deep valley in coming weeks. The **IMF** weighed in, suggesting that while the global economy has rebounded faster and stronger than most expected, the **momentum is fading** amid rising virus cases and renewed restrictions. There is no debate on that point; the debate is the extent of the fade. The conventional wisdom is that **most economies are now better poised to deal with shutdowns**, and the logic runs like this:

- Any lockdowns won't be as widespread or as lengthy as in the spring.
- Both consumers and businesses are better prepared and better able to adapt to restriction measures. For example, many small businesses have greatly improved their on-line offerings.
- The businesses that are hardest hit by restrictions are already operating far below capacity, and may not weaken much further.
- Consumer confidence won't be shattered by shutdowns and the intense market turmoil seen during the spring.

However, **fiscal policy is not in a position to rapidly ride to the rescue** in many jurisdictions as it did in March. The post-election wrangling in the U.S. casts further doubt on a quick stimulus support package in the lame duck session, even as Congressional leaders are negotiating again. While we believe an agreement will ultimately be reached, likely in the neighbourhood of $1 trillion, it most likely won't be in place for months. (See this week's Special Feature on page 8 for our take on what this means for the U.S. consumer.) Meanwhile, the ballyhooed European Recovery Fund is at risk of being held up by Poland and Hungary. Canada is an outlier, with no fiscal ambiguity as Ottawa is prepared to "*do whatever it takes*" to support the economy in coming months.

What does all of this imply for the outlook? Beyond the fiscal question marks, the other big variable is the degree to which economies are actually locked down, and that's a moving and confusing target everywhere. Based on the measures announced to-date, **we estimate that Canada's Q4 GDP annualized growth rate will be chopped by just under 6 percentage points below where it would have otherwise been**. That's a much, much milder cut than earlier this year, but the chapter is most probably not finished on restriction measures. The hit will probably be more intense in some other countries, as we look for outright declines in GDP for a variety of European

economies—notably France, which is grappling with one of the most serious outbreaks and most serious shutdowns.

Of course, for Canada, there's the small issue that we don't even have the official Q3 GDP data yet (released on December 1). We expect output to snap back at a 47% annual rate in the quarter, but then to fade to around just a 2% pace in Q4. Fair question: How does that square with the comment above that restrictions will cut growth by almost 6 percentage points? Reasonable answer: We had initially assumed that the economy could grow by more than 8% in Q4, given the powerful momentum it carried into the fall season. That upbeat view is now out the window, and we have also cut our assumption for growth in the first quarter of next year to just over 2% as well. These modest figures **assume at least one month of decline** in activity late this year, with a rebound early in 2021. Even with the much more subdued outlook for the turn of the year, we are maintaining our above-consensus call for 2021 GDP growth of 5.5%, in part due to a more upbeat forecast for the back-half of next year.

It's a **roughly similar story for the U.S. outlook**, albeit with somewhat different undercurrents both on the fiscal front and on shutdown measures. We remain more upbeat on the Q4 outlook, with big gains in October industrial output and housing starts supporting our 4% call for the quarter. However, **we have chopped our Q1 call in half to a slim 1.5% clip**, with the possibility of more trims ahead depending on the fate of fiscal support. At the same time, though, we have also ramped up growth later next year, thus keeping the 2021 annual call steady at a 4.0% advance (after this year's expected 3.5% setback).

So, **on balance**, our forecast has seen a shuffling of the deck to more weakness in the near term and more strength in the further out quarters—in line with the opening remark to this piece. And the end result is **almost no change to our annual estimates** for 2020 and 2021. Note that the one financial market that has barely budged on balance since the start of the month—in keeping with our *"no net change in the forecast"*—is the government bond market. While there has been a lot of churning in yields recently, the 10-year Treasury yield is now back within a basis point of its 85 bp level the day before the U.S. election, and two-year yields are unchanged. For Canada, both 2s and 10s are up a modest 2 bps since the start of the month. The key takeaway message is that even amid the fireworks in equities and some other markets on the vaccine news, bonds are weighing that evenly against the clear near-term negative news. From an economist point of view, we simply can't disagree with the more cautious take from the fixed-income market.

There was something almost reassuring from the market's reaction to this week's round of retail sales releases from many key economies. **U.S. retail sales** rose a mild 0.3% in October, and this was seen as a "disappointment", because it fell a couple ticks shy of expectations. **China's sales** were a tad below consensus at up 4.3% y/y, but that was countered by a solid 6.9% y/y rise in industrial production. On the other hand, both **Canada and the U.K. posted mildly better-than-expected retail figures** on Friday, with the latter up 1.2% in October (and +5.8% y/y), while the former was up 1.1% in September (and +4.6% y/y).

But the main point is that all of these figures are back to within a world we have seen before. That is, **they are essentially 'normal' again**. And that goes for a wide variety

of economic indicators, which in many cases had experienced six sigma events in the spring and summer. After seeing post-war highs in joblessness for a few months, job losses (and gains) in the millions, double-digit changes in all kinds of indicators that normally don't even move by 1%, it's almost comforting to see metrics moving by less than a standard deviation again, not to mention single-digit unemployment rates.

Turning back to U.S. retail sales, let's rewind the clock to a few months ago. Way back in mid-June, the consensus for the May retail report was for a gain of 7.4%—in fact, it came in at a massive +17.7% (since revised up to 18.3%, so the spike was no fluke). The Treasury market saw a back-up of all of 4 bps on 10-year yields that day, on a miss of more than 10 percentage points in a highly important indicator. Hopefully, that 10-point mega-chasm puts the 0.2 micro-miss on the latest sales figure into some kind of perspective. Yet, note that the 10-year yields dipped 4 bps this Tuesday, the day of the retail report. True, a lot of factors are at play on any given day, but it says something that bond yields reacted in a symmetric fashion to these two wildly different retail results.

A Winter of Economic Discontent

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Yes, we're getting closer to an effective, safe and widely-available COVID-19 vaccine. Over the past couple of weeks, news on the **first** criterion has excited even the scientists, let alone the stock market. The **second** criterion seems to be getting satisfied, but longer-term safety assessment, like longer-term efficacy evaluation, does require the passage of time. The **third** criterion remains at the wait-and-see stage. However, even if these three vaccine criteria are adequately addressed, there's the **fourth** issue of whether the public has the confidence to willingly get jabbed. Thus, for the U.S. and global economies, a pandemic-liberating vaccine is not yet as close.

Meanwhile, the virus' second wave continues to surge, with the people-gathering-prone-Thanksgiving and other holidays fast approaching. The seven-day average of new U.S. infections has now topped 165,000 (November 19), doubling in the past 2½ weeks and causing more states and local governments to increase restrictions. **As long as there's no return to widespread lockdowns, the second wave should have less negative influence on the economy than the first wave.** Businesses are now more accustomed to operating under COVID protocols, the weakest firms already closed amid the first wave and business confidence should prove more resilient given the progress towards a vaccine. But there will still be some negative economic impact, with the risks surrounding the near-term outlook skewed decidedly to the downside. A prudent risk management approach to economic policy dictates that if you can't do anything that mitigates the risks, at least don't magnify them.

But, in post-election, now-even-more-partisan Washington, **the politicians' paucity of prudence is in full display**. In 41 days, 13.1 million Americans will lose their federally-funded unemployment insurance benefits, unless Congress extends them in the final 14 scheduled days of its lame-duck session. And, there's an even wider swath of the population potentially impacted by the contemporaneous expiries of federal student loan and mortgage forbearance programs along with the pan-jurisdictional moratoriums on renter evictions. The new Congress and the Administration (Trump's until it's Biden's on January 20) could still address these issues retroactively, but the 2021 political environment could remain as toxic as 2020's. And, even retroactive

resolution might not prevent a permanent scar on consumer confidence from going hungry and homeless, even if just for a few days or weeks.

Enter **Treasury Secretary Mnuchin**, who appeared to play nice with the Fed in the sandbox at the start of the pandemic; now, he wants his ball back before heading home. The CARES Act authorized $500 billion for the Exchange Stabilization Fund (ESF), which is controlled by the Treasury Secretary (how the funds are 'invested') under approval of the President. The Act allowed $46 billion to be direct loans to companies in passenger and cargo air transportation and other businesses vital to national security: the remaining $454 billion was earmarked as capital to support the Fed's lending programs. The latter was in addition to the $40 billion (from the ESF) Mr. Mnuchin gave the Fed before the CARES Act to start setting up the facilities. The Fed has already allocated $205 billion of the total $494 billion to the Commercial Paper Funding Facility, the Corporate Credit Facility, the Main Street Lending Programs, the Municipal Liquidity Facility and the Term Asset-Backed Securities Loan Facility (TALF). Combined, these facilities have the capacity to lend up to $2.05 trillion (an average capital ratio of 10%). As at November 18, however, total lending was a lacklustre $126 billion.

There are **many reasons cited for the low take-up**. For example, the facilities' criteria were considered too stringent by some lenders and borrowers, and the 'announcement effect' of the facilities alone caused credit markets to improve and become relatively more attractive for some companies to tap. However, the facilities remained in place as a backstop to the credit creation process, with the potential to become more accommodative if need be (via relaxing the rules while upping the capital coverage).

These facilities were scheduled to be closed on December 31. Chair Powell and other Fed officials argued that they should be extended, given the pandemic-related risks to the economic outlook. Instead, Mr. Mnuchin has requested that the unused capital and remaining unallocated funds ($455 billion in total) be returned to Congress to be re-appropriated, thus closing the facilities as scheduled. The facilities could be re-opened by the new Treasury Secretary, but Congress would then have to re-authorize their capital funding (good luck with that). The **risks to the near-term economic outlook are rising rapidly**, not only because of the pandemic's second wave, but because of political partisanship and policy imprudence.

Meanwhile, Across the Pacific

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No country has escaped the coronavirus' clutches as it makes its way around the world… again. Every economy has recovered, in varying degrees, but health officials, governments and central banks are still struggling to bring the virus under control and to minimize permanent damage to the economy. So, other also-important areas that require attention, such as **trade**, have been relegated to the side burner. Take the U.S. for instance. The **incoming Biden Administration** is already **under pressure to soften its stance with China**, with the Business Roundtable calling on the president-elect to start "*unwinding the tariffs*", while the Chamber of Commerce added that both the U.S. and China should "*find the political space to pull back tariffs that are currently in place*." But Joe Biden cannot do anything because he is not the president—yet. Besides, the Republicans have not acknowledged the 2-week-old election loss so the transitioning hasn't even begun.

Britain managed to hammer out a trade deal with Japan this summer and now, talks with Canada are in the "*advanced stage*", with hopes for a deal before year-end. While this is good news, Britain has **yet to arrive at a trade arrangement with the EU** after it officially leaves on December 31. The EU is the destination for half of U.K.'s exports, and half of the U.K's imports come from the EU.

Then there's **fiscal support**. While the **U.K. Treasury** has the BoE's back, it's not the case elsewhere. The **U.S. Treasury** has refused to extend the Fed's emergency credit facilities. And in the EU, while there is broader support, it is a bit more complicated. As a number of European countries are shut down again for a month, threatening the economic recovery, **Hungary and Poland are blocking the passage of the €1.8 trln EU 7-year budget and Recovery Fund**. The countries are protesting the use of the "rule of law" clause, which specifies that funding is conditional on a country's respect for the rule of law.

Nero is certainly fiddling away. Meantime, in the midst of this mess, 12 Asian countries, including China, managed to sign the **Regional Comprehensive Economic Partnership**. Also known as the RCEP, it is a free trade agreement that involves 30% of the global population, and will cut up to 90% of tariffs on imports between all of these countries in the next two decades.

At least something has been accomplished.

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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 ▪ Moody's maintains Canada's Aaa credit rating ▪ More provinces tighten COVID restrictions ▪ Ottawa close to signing trade deal with U.K.	**Retail Sales Volumes** +1.1% (Sep.)—StatsCan estimates October will be flat **Manufacturing Sales Volumes** +2.1% (Sep.) **Manufacturing New Orders** +3.6% (Sep.) **Existing Home Sales** +32.1% y/y (Oct.) **MLS Home Prices** +10.9% y/y (Oct.) **New Housing Prices** +3.9% y/y (Oct.) **Housing Starts** +3.0% to 214,875 a.r. (Oct.) **Global investors** bought a net $4.5 bln of Canadian securities (Sep.) **New Motor Vehicle Sales** +2.4% y/y (Sep.)	**Wholesale Trade Volumes** -0.2% (Sep.) **Consumer Prices** +0.7% y/y (Oct.)
United States ▪ Treasury Secretary Mnuchin moves to end some Fed emergency credit programs at year-end... ▪ ...Fed pushes back urging *"full suite of emergency facilities"* to remain through 2021	**Existing Home Sales** +4.3% to 6.85 mln a.r. (Oct.) **Housing Starts** +4.9% to 1.53 mln a.r.; **Building Permits** unch at 1.55 mln a.r (Oct.) **NAHB Housing Market Index** +5 pts to 90 (Nov.) **Industrial Production** +1.1% (Oct.)—and **Capacity Utilization** +0.8 ppts to 72.8% **Leading Index** +0.7% (Oct.) **Global investors** bought a net $78.2 bln in U.S. securities (Sep.)	**Retail Sales** slowed to +0.3% (Oct.) **Import Prices** -1.0% y/y (Oct.) **Initial Claims** +31k to 742k (Nov. 14 week) **Empire State Manufacturing Survey** -1.3 pts to an ISM-adjusted 51.2; **Philly Fed Index** -1.4 pts to an ISM-adjusted 60.1 (Nov.)
Japan ▪ BoJ Gov. Kuroda says too early to cut ETF holdings	**Real GDP** +5.0% q/q (Q3 P)	**Exports** -0.2% y/y; **Imports** -13.3% y/y (Oct.) **Consumer Prices** -0.4% y/y (Oct.) **Manufacturing PMI** -0.4 pts to 48.3 (Nov. P) **Services PMI** -1.0 pts to 46.7 (Nov. P)
Europe ▪ ECB President Lagarde urges EU leaders to release Recovery Fund *"without delay"* ▪ BoE Gov. Bailey encourages banks to keep *"major commitment"* in recovery support	**U.K.—Consumer Prices** +0.7% y/y (Oct.) **U.K.—Retail Sales (incl. Fuel)** +1.2% (Oct.)	**Euro Area—Consumer Confidence** -2.1 pts to -17.6 (Nov. A) **Italy—Industrial Orders** -6.4% (Sep.) **U.K.—GfK Consumer Confidence** -2 pts to -33 (Nov.)
Other ▪ IMF warns global recovery fading ▪ RECP FTA signed	**China—Industrial Production** +6.9% y/y (Oct.) **China—Retail Sales** +4.3% y/y (Oct.) **China—Fixed Asset Investment** +1.8% y/y (Jan.-to-Oct.) **China—Foreign Direct Investment** +18.3% y/y (Oct.) **Australia—Employment** +178,800 (Oct.)—but **Jobless Rate** +0.1 ppts to 7.0%	

Can U.S. Consumers Cope Without More Fiscal Aid?

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Apart from war-time rebuilding, America's fiscal response to the pandemic was unparalleled, and explains the perky recovery even in the face of renewed restrictions. With households driving the economy, this note focuses on the fiscal impact on personal income and spending—how much the support measures have helped, and how much it will hurt when they expire. We also discuss post-election prospects for more stimulus.

According to the Congressional Budget Office, the four pandemic relief bills passed so far lifted the budget deficit by $2.3 trillion in fiscal 2020 and by $0.6 trillion in 2021 *(Table 1)*. Without this support, the **CBO estimates that U.S. GDP would have been 4.7% lower in 2020**. In other words, the economy would have contracted by more than 8% this year instead of 3.5%, our current tally. Together with forgivable loans to companies via the Paycheck Protection Program (funded at $660 billion), which indirectly helped workers, much of the fiscal aid was in the form of direct payments to households. This included $1,200 in recovery rebate cheques to most taxpayers (and $500 to children), and an expansion, extension and supplementation of UI benefits.

Table 1
Massive Federal Fiscal Support So Far
Deficit Impact — United States ($ blns)

	2020	2021	2020-2030
Paycheck Protection Program and related provisions	616	13	628
Enhanced unemployment compensation	370	71	442
Recovery rebates for individuals	272	20	292
Direct assistance for state and local governments	150	—[1]	150
Other spending provisions	359	218	713
Other revenue provisions	539	253	375
Total	**2,306**	**576**	**2,600**

[1] between zero and $500 mln
Sources: BMO Economics, Congressional Budget Office (Sep. 2020)

The rebate cheques, which were distributed mostly in April, added around $270 billion to 2020 personal income, or 1.4%. The extra UI benefits included a $600 weekly federal top-up to regular state benefits (Federal Pandemic Unemployment Compensation), an expansion of benefits to the self-employed and contract workers (Pandemic Unemployment Assistance or PUA), and a 13-week extension of regular state benefits (Pandemic Emergency Unemployment Compensation or PEUC). Between April and September, the extra UI benefits added more than $360 billion to 2020 income, or 1.8%.

The CBO figures that 1.1 ppts of the 4.7% fiscal lift to GDP this year stemmed from the extra UI support, 0.8 ppts came from the Paycheck Protection Program (mostly by limiting business insolvencies and permanent layoffs), and 0.6 ppts was from the rebate cheques. Increased federal funding for state and local governments, to help cover the costs of combatting the pandemic and minimize job layoffs owing to balanced budget requirements, added 0.5 ppts of support. All remaining spending and revenue provisions added 1.7 ppts, and many indirectly supported workers and households. According to the IMF, the U.S. government ranked second among major economies (after Canada) in providing direct pandemic relief.

The $600 federal U.I. top-up expired on July 31 and the payout was halved to $300 per week via executive action with funding provided by FEMA's Disaster Relief Fund. This contributed to a 2.5% drop in personal income in August. Because of the earlier boost in government transfer payments to individuals, income was still 3.5% higher in September than in February. That's despite the labour market recovering just 52% of the earlier 22 million job losses. While worker compensation fell 2.6% between February and September, transfers to individuals jumped 29%. In dollar terms, the **increase in transfers was three times greater than the decrease in compensation** *(Chart 1)*.

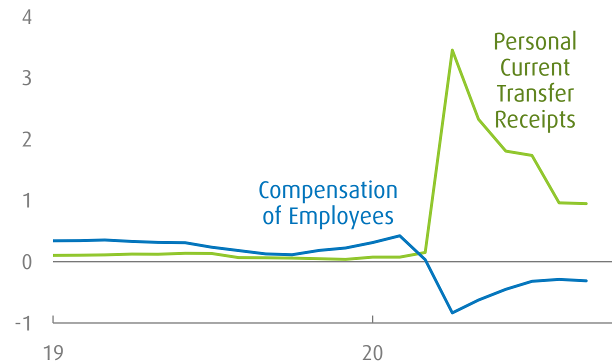
A wide gap between higher income and softer spending—with nominal consumption still down 2% since February after plunging 19% in the spring—has **sent household saving skyward** *(Chart 2)*. Though more than halving since peaking above 33% in April, the 14.3% personal saving rate in September is still about double the pre-pandemic norm. Compared to the flow of saving in February, an extra $1.2 trillion (or more than 6% of GDP) has piled up for households and this figure will continue to rise in the near term, albeit at an ebbing clip. Boosted by still-elevated transfer payments and rebounding small business income, personal income continues to flow faster than outlays, as spending on services remains constrained.

Importantly, it isn't just tax rebates and extra UI payments that have countered the collapse in worker earnings and padded personal saving. As the Fed cut policy rates to near zero and began buying large amounts of debt securities, 30-year mortgage rates tumbled below 3% for the first time and continue to hover near record lows. This caused **mortgage refinancing to surge**. The Mortgage Bankers Association's index hit its highest level in nearly 12 years in March and has stayed elevated *(Chart 3)*.

For many homeowners, **refinancing is freeing up cash flow** that would otherwise be devoted to loan payments and, for others, it is generating lump-sum cash payments. Total cash-out volume was just under $60 billion in Q3, the most in over 13 years *(Chart 4)*. To put this in perspective, at about an annualized $240 billion, cash-out volume represents more than three-quarters of the current $312 billion shortfall in employee compensation from its pre-pandemic peak.

Chart 1
Compensating Factor

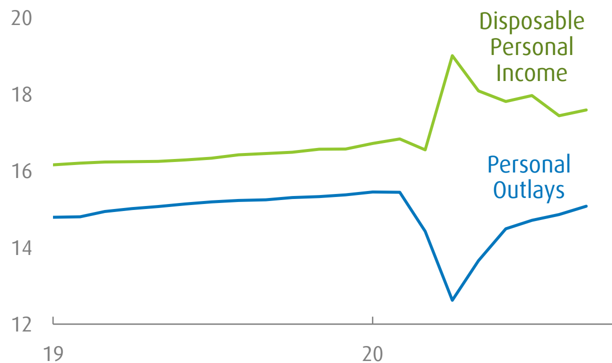
United States (US$ trlns : s.a.a.r. : 7-mnth chng)



Sources: BMO Economics, Haver Analytics

Chart 2
Savings Grace

United States (US$ trlns)

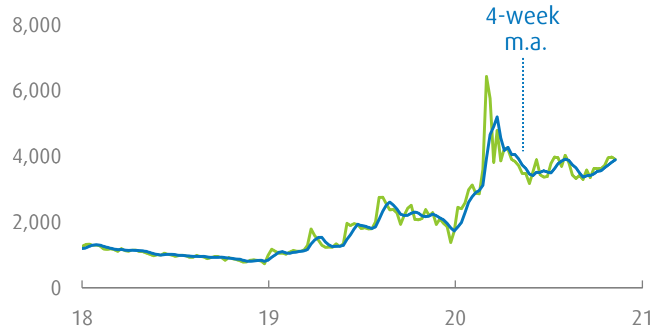


Sources: BMO Economics, Haver Analytics

Chart 3
Refi Frenzy

United States (March 16, 1990 = 100)

Mortgage Applications for Refinancing



Sources: BMO Economics, Haver Analytics, Mortgage Bankers Association

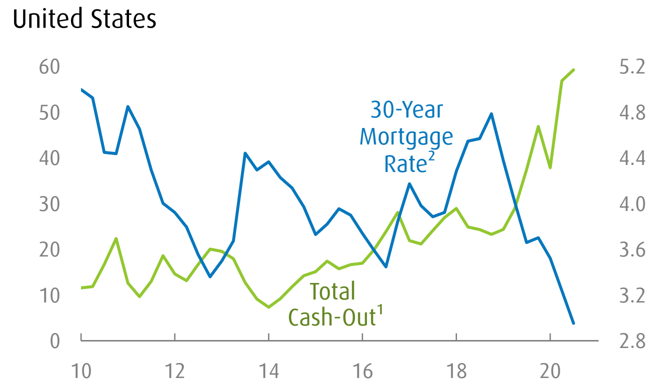
However, only homeowners benefit from the refinancing lift to income. Renters incurred much of the loss in compensation, though they are currently protected against eviction under federal, state or local laws until year-end. Many homeowners are taking advantage of the CARES Act's forbearance program, which also expires at year-end.

Still, it should be noted that the **average credit (FICO) score has increased** as income-support programs allowed borrowers to stay current on payments, and forbearance measures (also including the CARES Act's program for student loans) did not tarnish credit ratings. Credit card debt also dropped sharply, as this is where some rebate cheques were put to work. According to the New York Fed, households used a third (35%) of the rebates to reduce debt, while 29% was spent and 36% was saved.

Turning to what this means for consumer spending, note that, despite a 2.5% decline in personal income in August owing to the $300 reduction in weekly supplemental UI payments, spending actually rose 1.0% that month. The saving flow absorbed the hit to income, and still ran above its pre-pandemic pace. **Funding for the $300 supplemental payment ran out in October**, likely resulting in a modest decline in personal income. However, consumer spending still looks to have risen last month. Of course, it helps that steady job growth has cut the ranks of those collecting some form of UI benefits (20 million in late October versus 28 million in late July).

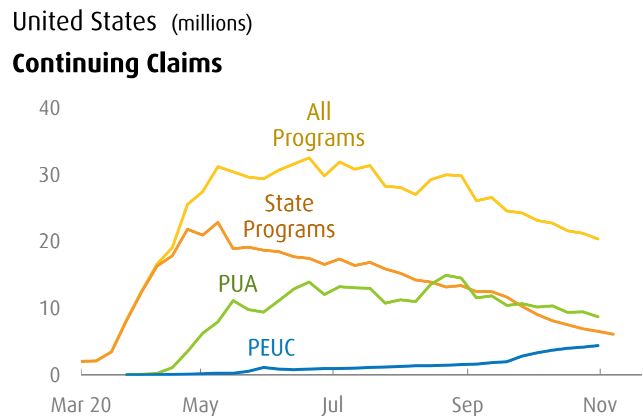
Importantly, excess saving is primed to also absorb the December 26 **expiry of the PUA and PEUC programs**. As of October 31, some 13 million persons relied on these programs *(Chart 5)*. Assuming the number of recipients falls to about 12 million at year-end, it should result in a smaller drag on personal income (of less than $200 billion annualized) than the hit caused by either of the two top-up reductions.

Chart 4
Cashing Out



[1] (lhs : $ blns); [2] (rhs : %)
Sources: BMO Economics, Haver Analytics, Freddie Mac

Chart 5
Extended Help



Sources: BMO Economics, Haver Analytics

While excess saving affords a thick cushion of support against expiring government transfers, this is cold comfort for the millions of households with little or no savings who are about to exhaust UI benefits. Many worked in industries hammered by the pandemic. Moreover, the expiry of eviction moratoriums, along with mortgage and student loan forbearance, will likely lead to higher defaults, magnifying the hit to spending. Some extension of these programs is likely needed to avoid putting the recovery on a rocky footing now that the pandemic has caught a second wind.

The seven-day average of new COVID-19 infections has topped 165,000 as of November 19, causing more state and local governments to renew restrictions on business

activity, albeit in a targeted fashion. If there is no return to widespread lockdowns, the fact that businesses are more accustomed to operating under COVID protocols and that the weakest firms have already succumbed to the first wave suggests a less negative impact on the economy this time around. And, even business confidence should prove more resilient with major progress being made towards an effective, safe and widely-distributed vaccine.

Nevertheless, a re-opened and extra-funded **Paycheck Protection Program** (PPP) will likely be required to keep the potential second wave of job layoffs and business closures to a minimum. Many businesses are still facing a sharp decline in sales, and previous PPP loan proceeds have already been used to pay wages and other costs to fulfill forgiveness requirements. The PPP closed on August 8 after backing 5.2 million loans worth $525 billion, and the undisbursed $134 billion of funds went back into Treasury's coffers.

More direct **federal support for state and local governments is also needed** to keep schools open (critical to keeping people in the labour force) and to cover higher healthcare expenses at a time when financial resources are depleted by the first wave—and major cutbacks are required to balance budgets. For states, the Wall Street Journal calls this the "*biggest cash crisis since the Great Depression*". There have already been bipartisan appeals for $500 billion from the National Governors Association and $250 billion from The United States Conference of Mayors.

While direct income support for households was a key feature of the first wave's relief bills, we judge indirect support via measures designed to further assist small businesses and municipal governments will likely be key measures in the second wave's relief package. Assuming Congress remains divided after the January 5 run-offs in two senate seats in Georgia, **our working assumption is a stimulus deal worth up to $1.0 trillion, or about 5% of GDP**. If the Democrats end up controlling the Senate, we could easily see double this figure.

Bottom Line: Expected further fiscal aid **underpins our outlook for 4% GDP growth in 2021**, assuming the second wave doesn't trigger a tsunami of restrictions. Consumer spending will still downshift in coming months, as a new fiscal deal could be seriously delayed. However, the slowing will stem more from waning pent-up demand and lingering virus anxiety than from the end of income-support programs. Past relief measures have effectively boosted aggregate saving, giving consumers some backbone. This means that **even if Congress remains gridlocked and no further relief bill is passed, the recovery will be dented but likely not derailed**.

Economic Forecast Summary for November 20, 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	2.5 ↓	8.0 ↑	7.5 ↑	4.0 ↓	1.7	-5.6	5.5
Consumer Price Index (y/y % chng)	1.8	0.0	0.3	0.6 ↑	0.8 ↑	2.1 ↑	1.7 ↑	1.6 ↓	1.9	0.7	1.5 ↑
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	238	212 ↑	210	206	202	202	209	212	205
Current Account Balance ($blns : a.r.)	-52.9	-34.5	-40.8	-39.8	-41.5	-41.8	-41.7	-42.9	-47.0	-42.0	-42.0
Interest Rates (average for the quarter : %)											
Overnight Rate	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.50	0.25
3-month Treasury Bill	1.29	0.22	0.16	0.10	0.10	0.10	0.10	0.10	1.65	0.45	0.10
10-year Bond	1.20	0.59	0.55	0.70	0.85	0.90	1.00	1.05	1.59	0.75	0.95
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	16	8	5	-1	-1	-1	-1	-1	-45	7	-1
10-year	-18	-10	-10	-20	-20	-18	-17	-16	-56	-14	-18
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-5.0	-31.4	33.1	4.0	1.5 ↓	4.8 ↑	4.3 ↑	3.3	2.2	-3.5	4.0
Consumer Price Index (y/y % chng)	2.1	0.4	1.3	1.1	1.3	2.6	1.9	2.0	1.8	1.2	2.0
Unemployment Rate (percent)	3.8	13.0	8.8	6.8	6.6 ↑	6.2 ↑	5.8	5.5	3.7	8.1	6.0
Housing Starts (mlns : a.r.)	1.48	1.08	1.44	1.50 ↑	1.38 ↑	1.34	1.35 ↑	1.35	1.30	1.38 ↑	1.36 ↑
Current Account Balance ($blns : a.r.)	-446	-682	-833	-858	-861 ↑	-881 ↑	-893 ↑	-903 ↑	-480	-705	-885 ↑
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

There are no key events for this coming week.

United States

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Durable Goods Orders

Wednesday, 8:30 am

		Ex. Trans.
Oct. (e)	**-1.5%**	**+0.7%**
Consensus	*+1.0%*	*+0.4%*
Sep.	+1.9%	+0.9%

Nondef. Cap. Goods ex. Air

Oct. (e)	**+0.7%**
Consensus	*+0.7%*
Sep.	+1.0%

Headline **durable goods orders** should drop 1.5% in October as aircraft and parts orders exhibit a negative sign for the fifth time in the past eight months. Boeing booked no new aircraft in October, also the fifth time this year, with 37 order cancellations. The pandemic-reduced global demand for new aircraft has compounded the company's 737 MAX problems, but at least the FAA ungrounded the plane on November 18. Excluding the transportation sector, we look for orders to advance 0.7%, the smallest move in the past six months of recovery, as businesses became more cautious about capex and inventory-building amid the surge in COVID cases. Core capital goods orders should also post their slowest growth in the past six months.

New Home Sales

Wednesday, 10:00 am

Oct. (e)	**994k a.r. (+3.6%)**
Consensus	*973k a.r. (+1.4%)*
Sep.	959k a.r. (-3.5%)

We look for **new home sales** to increase 3.6% to 994,000 in October, fully reversing the prior month's setback and matching the highest level in almost 14 years. Giving a sense of just how active the new home segment is these days, the NAHB Housing Market Index hit sequential record highs in both October and November (the survey started in 1985), as homebuilders experienced back-to-back record traffic of prospective buyers and interest to purchase presently or in the next six months. The new home sector is being bolstered by two factors. First, fuelled by record low mortgage rates, the pandemic has boosted demand for larger living spaces (WFH's legacy), with a preference for less density and, thus, for single-family units over multi-family dwellings and for homes in the suburbs, exurbs and rural areas over urban properties. Second, existing homes for sale were running at record lows in October (as far back as 1982 for single-family units), turning buyers to the new home side.

Personal Spending and Income

Wednesday, 10:00 am

	Personal Spending	Personal Income
Oct. (e)	**+0.3%**	**-0.3%**
Consensus	*+0.4%*	*+0.1%*
Sep.	+1.4%	+0.9%

Core PCE Price Index

Oct. (e)	**unch**	**+1.4% y/y**
Consensus	*unch*	*+1.4% y/y*
Sep.	+0.2%	+1.5% y/y

Early seasonal discounting didn't inspire shoppers to deck the malls in October, likely due to rising virus anxiety. Slower retail sales suggest **personal spending** rose 0.3% after five months of brisk gains. Real spending could still advance more than 5% annualized in Q4 (after rebounding 41% in Q3), but it will likely downshift in the months ahead amid waning pent-up demand (how many Peleton bikes do you need?) and surging COVID-19 cases. Also weighing on spending in October was a likely 0.3% decline in **personal income**, as disaster relief funding for the $300 weekly UI benefit top-up petered out, more than offsetting a solid increase in work hours and a mild advance in wages. The personal saving rate should hold near 14%, or double pre-virus levels, providing ongoing support to spending. To avoid large crowds on Black Friday, many stores slashed prices in October, resulting in a flat core CPI. Look for the same in the **PCE price measure**, especially since lower medical care costs will weigh more heavily. This should trim the annual core deflator to 1.4%. The Fed is a long way from reaching its 2% target, let alone temporarily breaching it as desired.

FOMC Minutes for November 4-5
Wednesday, 2:00 pm

The FOMC made no meaningful changes to its policy statement on November 5. Apart from some tiny tweaks to the current economic assessment (mostly tenses), the statement was identical to September's announcement. This outcome was widely expected given the major changes made at the October meeting—in putting the new monetary policy framework into practice—and against the background of the election. In the press conference, Chair Powell acknowledged the current rise in coronavirus cases and mentioned that the asset purchase program was discussed. Despite being a 'placeholder' meeting announcement until the next one on December 16, the Minutes could still provide some insight into how readily the Fed is willing to react to a surging second wave and whether extending weighted average maturity (WAM) is the game plan for asset purchases as soon as next month.

Financial Markets Update for November 20, 2020

		Nov 20 [1]	Nov 13	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	0.11	0.11	0	2	-155
	United States	0.06	0.08	-2	-3	-148
	Japan	-0.11	-0.11	-1	-2	0
	Eurozone	-0.53	-0.51	-1	-2	-15
	United Kingdom	0.05	0.05	0	1	-74
	Australia	0.03	0.02	1	-3	-88
2-Year Bonds	Canada	0.27	0.27	0	3	-143
	United States	0.16	0.18	-2	0	-141
10-Year Bonds	Canada	0.68	0.73	-5	4	-102
	United States	0.84	0.90	-5	0	-108
	Japan	0.02	0.02	0	-2	4
	Germany	-0.59	-0.55	-4	-1	-40
	United Kingdom	0.30	0.34	-3	2	-51
	Australia	0.86	0.88	-2	1	-51
Risk Indicators	VIX	22.8	23.1	-0.3 pts	-4.8 pts	9.0 pts
	TED Spread	14	14	1	1	-22
	Inv. Grade CDS Spread [2]	54	54	0	-3	9
	High Yield CDS Spread [2]	332	344	-12	-42	52
					(percent change)	
Currencies	US¢/C$	76.58	76.12	0.6	0.5	-0.5
	C$/US$	1.306	1.314	—	—	—
	¥/US$	103.83	104.63	-0.8	-0.8	-4.4
	US$/€	1.1859	1.1834	0.2	0.0	5.8
	US$/£	1.328	1.319	0.7	1.9	0.2
	US¢/A$	73.14	72.70	0.6	2.5	4.2
Commodities	CRB Futures Index	155.50	151.86	2.4	3.2	-16.3
	Oil (generic contract)	41.75	40.13	4.0	4.8	-31.6
	Natural Gas (generic contract)	2.66	3.00	-11.3	-10.5	21.4
	Gold (spot price)	1,874.21	1,889.20	-0.8	-1.5	23.5
Equities	S&P/TSX Composite	16,928	16,676	1.5	3.8	-0.8
	S&P 500	3,573	3,585	-0.3	3.1	10.6
	Nasdaq	11,921	11,829	0.8	3.2	32.9
	Dow Jones Industrial	29,346	29,480	-0.5	3.6	2.8
	Nikkei	25,527	25,386	0.6	8.6	7.9
	Frankfurt DAX	13,120	13,077	0.3	3.8	-1.0
	London FT100	6,343	6,316	0.4	8.2	-15.9
	France CAC40	5,489	5,380	2.0	11.8	-8.2
	S&P ASX 200	6,539	6,405	2.1	6.0	-2.2

[1] = as of 11:00 am *[2] = One day delay*

	Monday November 23	Tuesday November 24	Wednesday November 25	Thursday November 26	Friday November 27
Japan	**Markets Closed**	**Department Store Sales** **Oct.** Sep. -33.6% y/y		**Machine Tool Orders** **Oct. F (e) -5.9% y/y** Sep. -15.0% y/y	
Euro Area	**EURO AREA** **Manufacturing PMI** **Nov. P (e) 53.2** Oct. 54.8 **Services PMI** **Nov. P (e) 42.0** Oct. 46.9 **Composite PMI** **Nov. P (e) 45.6** Oct. 50.0	**GERMANY** **Real GDP** **Q3 F (e) +8.2% -4.3% y/y** Q3 P +8.2% -4.3% y/y Q2 -9.7% -11.3% y/y **ifo Business Climate** **Nov. (e) 90.3** Oct. 92.7 **FRANCE** **Business Confidence** **Nov. (e) 84** Oct. 90 **Consumer Confidence** **Nov. (e) 92** Oct. 94		**EURO AREA** **M3 Money Supply** **Oct. (e) +10.4% y/y** Sep. +10.4% y/y **GERMANY** **GfK Consumer Confidence** **Dec. (e) -5.0** Nov. -3.1	**EURO AREA** **Economic Confidence** **Nov. (e) 86.5** Oct. 90.9 **Consumer Confidence** **Nov. F (e) -17.6** Oct. -15.5 **FRANCE** **Real GDP** **Q3 F (e) +18.2% -4.3% y/y** Q3 P +18.2% -4.3% y/y Q2 -13.7% -18.9% y/y **Consumer Price Index** **Nov. P (e) +0.1% unch y/y** Oct. unch +0.1% y/y **Consumer Spending** **Oct. (e) +4.1% +1.4% y/y** Sep. -5.1% -1.3% y/y **ITALY** **Consumer Confidence** **Nov. (e) 99.0** Oct. 102.0
U.K.	**Manufacturing PMI** **Nov. P (e) 50.5** Oct. 53.7 **Services PMI** **Nov. P (e) 43.0** Oct. 51.4 **Composite PMI** **Nov. P (e) 42.5** Oct. 52.1				
Other				**MEXICO** **Real GDP** **Q3 F (e) +12.0% -8.6% y/y** Q2 -17.1% -18.7% y/y	**INDIA** **Real GDP** **Q3 (e) -8.5% y/y** Q2 -23.9% y/y

D = date approximate

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

North American Calendar — November 23–November 27

Canada

Monday November 23
- 8:30 am — **Wholesale Trade**
  - **Oct. A (e)**: **unch**
  - Sep.: +0.9%
- 2:00 pm — **BoC Deputy Gov. Gravelle speaks on "Assessment of risks to the stability of the Canadian financial system, including risks stemming from the COVID-19 pandemic" to Autorité des marchés financiers (videoconference)**
- BoC Buyback: 30-year sector

Tuesday November 24
- 8:30 am — **Manufacturing Sales**
  - **Oct. A (e)**: **-0.5%**
  - Sep.: +1.5%
- 12:45 pm — **BoC Senior Deputy Gov. Wilkins moderates a videoconference panel on "New Policy Frameworks for a Lower-for-Longer World" for the IMF**
- 10:30 am — 3-, 6- & 12-month bill auction $15.0 bln (new cash $0.4 bln)
- BoC Buyback: 2-year sector

Wednesday November 25
- BoC Buyback: 10-year sector

Thursday November 26
- 8:30 am — **Survey of Employment, Payrolls, and Hours (Sep.)**
- 2- & 3-year bond, 30-year real return bond auction announcements

Friday November 27
- **Ottawa's Budget Balance** [D]
  - **Sep. '20**
  - Sep. '19: -$0.6 bln
- BoC Buyback: 5-year sector

United States

Monday November 23
- 8:30 am — **Chicago Fed National Activity Index**
  - **Oct.**
  - Sep.: +0.27
- 9:45 am — **Markit PMIs (Nov. P)**
- Fed Speakers: San Francisco's Daly (2:00 pm); Chicago's Evans (3:00 pm)
- 11:30 am — 26-week bill auction $51 bln
- 1:00 pm — 13-week bill auction $54 bln
- 11:30 pm — 2-year note auction $56 bln
- 1:00 pm — 5-year note auction $57 bln

Sat. Nov. 21 – Sun. Nov. 22
- **G20 Leaders' Summit Teleconference**

Tuesday November 24
- 9:00 am — **S&P Case-Shiller Home Price Index (20 city)**
  - **Sep. (e)**: **+0.5%**, **+4.6% y/y**
  - *Consensus*: *+0.4%*, *+4.5% y/y*
  - Aug.: +0.5%, +5.2% y/y
- 9:00 am — **FHFA House Price Index**
  - **Sep. (e)**: **+0.4%**, **+7.5% y/y**
  - *Consensus*: *+0.4%*, *+7.5% y/y*
  - Aug.: +1.5%, +8.0% y/y
- 10:00 am — **Conf. Board Consumer Confidence Index**
  - **Nov. (e)**: **98.0** [C]
  - Oct.: 100.9
- 10:00 am — **Richmond Fed Manufacturing Index**
  - **Nov. (e)**: **21** [C]
  - Oct.: 29
- Fed Speakers: St. Louis' Bullard (8:00 am, 11:00 am); New York's Williams (noon); Vice chair Clarida (12:45 pm)
- 11:00 am — 4- & 8-week bill auction announcements
- 11:30 am — 118-day cash management bill auction $30 bln
- 11:30 am — 41-day cash management bill auction $30 bln
- 1:00 pm — 7-year note auction $56 bln
- 1:00 pm — 2[R]-year FRN auction $24 bln

Wednesday November 25
- 7:00 am — **MBA Mortgage Apps**
  - **Nov. 20**
  - Nov. 13: -0.3%
- 8:30 am — **Initial Claims**
  - **Nov. 21 (e)**: **700k (-42k)**
  - *Consensus*: *733k (-9k)*
  - Nov. 14: 742k (+31k)
- 8:30 am — **Continuing Claims**
  - **Nov. 14**
  - Nov. 7: 6,372k (-429k)
- 8:30 am — **Real GDP** / **GDP Deflator**
  - **Q3 P (e)**: **+33.5% a.r.** / **+3.6% a.r.**
  - *Consensus*: *+33.1% a.r.* / *+3.6% a.r.*
  - Q3 A: +33.1% a.r. / +3.6% a.r.
  - Q2: -31.4% a.r. / -1.8% a.r.
- 8:30 am — **Pre-Tax Corporate Profits**
  - **Q3 P (e)**: **-14.7% y/y**
  - Q2: -19.3% y/y
- 8:30 am — **Goods Trade Deficit**
  - **Oct. A (e)**: **$80.0 bln** [C]
  - Sep.: $79.4 bln
- 8:30 am — **Wholesale/Retail Inventory (Oct. A)**
- 8:30 am — **Durable Goods Orders** / **Ex. Transport**
  - **Oct. (e)**: **-1.5%** / **+0.7%**
  - *Consensus*: *+1.0%* / *+0.4%*
  - Sep.: +1.9% / +0.9%
- 8:30 am — **Nondef. Cap. Goods ex. Air**
  - **Oct. (e)**: **+0.7%**
  - *Consensus*: *+0.7%*
  - Sep.: +1.0%
- 10:00 am — **New Home Sales**
  - **Oct. (e)**: **994k a.r. (+3.6%)**
  - *Consensus*: *973k a.r. (+1.4%)*
  - Sep.: 959k a.r. (-3.5%)
- 10:00 am — **Pers. Spending** / **Pers. Income**
  - **Oct. (e)**: **+0.3%** / **-0.3%**
  - *Consensus*: *+0.4%* / *+0.1%*
  - Sep.: +1.4% / +0.9%
- 10:00 am — **Core PCE Price Index**
  - **Oct. (e)**: **unch**, **+1.4% y/y**
  - *Consensus*: *unch*, *+1.4% y/y*
  - Sep.: +0.2%, +1.5% y/y
- 10:00 am — **U. of Mich. Consumer Sentiment**
  - **Nov. F (e)**: **77.0** [C]
  - Nov. P: 77.0
  - Oct.: 81.8
- 2:00 pm — **FOMC Minutes for Nov. 4-5**
- 11:00 am — 13-, 26- & 52-week bill auction announcements
- 11:30 am — 4- & 8-week bill auctions

Thursday November 26
- **Thanksgiving Day (markets closed)**

Friday November 27

[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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