



The Week Ahead

October 10-14, 2005

Table with 6 columns: Jeffrey Rubin, Avery Shenfeld, Benjamin Tal, Peter Buchanan, Warren Lovely, Leslie Preston. Includes contact numbers for each analyst.

Real Estate Soft Landing Will Not Be Gentle

The hottest dinner table conversation in Canada these days is, of course, real estate. Bubble or no bubble? Most economists keep reassuring nervous households that this time things are different and the fundamentals of the housing market are much healthier than they were 15 years ago.

Never before have we seen the housing market contributing so much to overall economic growth. Consider the following facts: Direct investment in real estate as a share of GDP is approaching the 1989 level; Refinancing activity is at a record-high with 60% of all Canadian mortgages negotiated over the past two years—saving households roughly 10% of the annual carrying cost of a home;

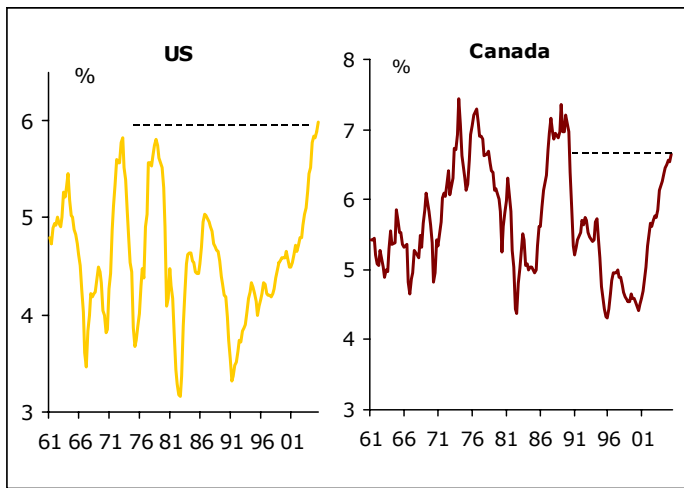
last year and \$25 billion over the past three years; Each home purchased last year generated almost \$25,000 in extra spending (that is beyond the actual cost of the house); Construction spending is now at a record-high of \$30 billion with 50% of homeowners taking on home renovations in the past two years; Employment in the construction sector rose by 4.7% since the beginning of the year—six times the rate seen in the economy as a whole.

We estimate that these indirect spin-off benefits from the booming housing market have added well over half a percentage point to overall GDP growth in the past 12 months. The problem is that a leveling off in the housing market means that these benefits will not be available in 2006. That the housing market operates at a record-level makes nice newspaper headlines, but it has little economic significance. In economics almost everything is determined at the margin. What counts is the change in activity, not the level. And here there are many reasons to believe that the housing market is in the early stages of leveling off.

While this does not mean that the housing market is "correcting", it means that the widely expected soft landing in real estate activity will eliminate a significant chunk of economic growth. All of the sudden the economy will not be operating so close to capacity, as feared by the Bank of Canada.

Benjamin Tal, Senior Economist

Residential Investment as a Share of GDP



## Week Ahead's Market Call

**In the US**, the real side data will continue to be muddled by the effect of the recent hurricanes, and consequently of limited value in assessing the economy's true underlying health. Market's will be paying close attention to the core in Friday's CPI given the hawkish recent musings of some FOMC members. Tuesday's minutes could throw light on the Fed's take on the economy net of the storms. Investors will have the chance to hear from the maestro himself on that subject on Wednesday.

**In Canada**, eyes will be trained on the Thursday's trade balance in a holiday-shortened week. Signs that the surplus is still running at a lofty monthly level of around \$6 billion should repair some of the damage inflicted on the loonie by the past week's sell-off in the energy sector. Market's will also be firming-up their expectation for the Bank ahead of the following Tuesday's rate-setting. A rebound in manufacturing shipments in August should also set the economy on course for around 3% growth in Q3.

Peter Buchanan

## Week Ahead Calendar

Day	Time Release	CIBC WM	Consensus*	Prior
<b>CANADA</b>				
Mon	Thanksgiving Day Holiday (markets closed)			
Tue	8:15 Housing Starts - Sep	210K	220K	201K
Thu	8:30 Merchandise Trade Balance - Aug	\$5.8B	\$6.0B	\$5.8B
Fri	8:30 Manufacturing Shipments - Aug	1.2%	1.0%	-1.4%
Fri	8:30 Motor Vehicle Sales - Aug	-6.0%	-	7.3%
<b>UNITED STATES</b>				
Mon	Columbus Day Holiday (bond market closed)			
Tue	14:00 FOMC Minutes			
Wed	8:30 Greenspan speaks on economic flexibility in Washington DC			
Thu	8:30 Goods & Services Balance - Aug	-\$60.1B	-\$59.4B	-\$57.9B
Fri	8:30 Retail Sales - Sep	0.1%	0.4%	-2.1%
	- Ex Autos	0.5%	0.7%	1.0%
Fri	8:30 Consumer Price Index - Sep	1.0%	0.9%	0.5%
	- Ex Food & Energy	0.2%	0.2%	0.1%
Fri	9:15 Industrial Production - Sep	-0.1%	-0.5%	0.1%
	9:15 Capacity Utilization - Sep	79.7%	79.4%	79.8%
Fri	9:45 Michigan Sentiment - Oct (p)	78.0	80.0	76.9
Fri	10:00 Business Inventories - Sep	-	0.1%	-0.5%

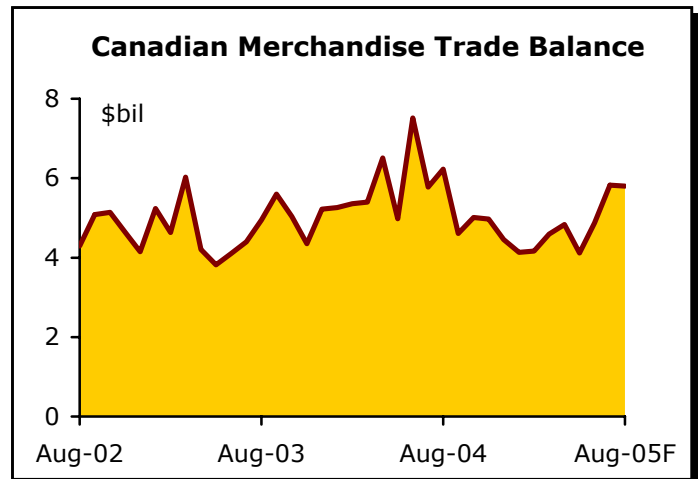
\* Source: Reuters (Canada) & Bloomberg (US)

**Week Ahead’s Key Canadian Number:  
Merchandise Trade Balance—August**

(Thursday, 8:30 a.m.)

Leslie Preston (416) 956-3219

	CIBC WM	Mkt	Prior
Trade Surplus	\$5.8B	\$6.0B	\$5.8B



The August trade surplus should highlight the increasingly disparate times facing the Canadian economy. Energy exports should continue to boom as crude oil prices reached new highs, but auto sector exports look vulnerable in the face of a post-incentive drop-off in US vehicle sales, producing a smaller export gain than in recent months. Overall we see August’s trade surplus essentially holding steady at \$5.8B, as a rebound in imports from a weak July just offsets the energy-driven export gain.

**Forecast Implications** — Rising energy prices will continue to buoy these nominal trade results, with net oil and gas exports accounting for an ever-increasing

share of the monthly trade balance. Canada’s real trade surplus, however, remains a shadow of its former self, and net trade will be hard pressed to aid Canada’s expansion late this year and into 2006, as high energy prices present a brake on global demand. Friday’s factory shipments report is more critical when it comes to gauging the strength of August GDP.

**Market Impact** — Representing the difference between two volatile series, the trade balance can offer up its share of surprises. And while our call is on the low side of expectations, it shouldn’t hit the petro-loonie too hard, given the continued health expected in energy-sector exports.

# CANADIAN RELEASE AND EVENT DATES October/November 2005



CIBC  
World Markets

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3	4	5 <b>INTERNATIONAL RESERVES</b> 8:15 AM M \$BN CHANGE LEVEL JUL -1.595 33.3 AUG 0.969 34.3 SEP -0.690 33.6	6 <b>BUILDING PERMITS</b> 8:30 AM (RES) (NON-RES) JUN 0.3 2.1 JUL 1.1 -7.7 AUG -1.4 32.0  <b>IVEY PURCHASING MANAGERS' INDEX</b> 10:00 AM	7 <b>LABOUR FORCE SURVEY</b> 7:00 AM EMPLOY UNEMP HRLY (HOUSE) RATE EARN M Y % Y JUL 0.0 1.2 6.8 3.1 AUG 0.2 1.5 6.8 3.5 SEP 0.0 1.2 6.7 3.8  <b>Bank of Canada Business Outlook Survey</b>
10  <b>THANKSGIVING DAY (HOLIDAY) MARKETS CLOSED</b>	11 <b>HOUSING STARTS</b> 8:15 AM TOTAL 000's (AR) SINGLES JUL 242.6 90 AUG 201.0 85 SEP	12	13 <b>MERCHANDISE TRADE</b> 8:30 AM \$MN 12 MO. M BALANCE JUN 4,874 57,759 JUL 5,822 57,808 AUG	14 <b>SURVEY OF MANUFACTURING</b> 8:30 AM SHIPMENTS M Y JUN 0.7 1.2 JUL -1.4 -1.3 AUG  <b>CAR &amp; TRUCK SALES</b> 8:30 AM 000's (AR) TOTAL DOM.BUILT CAR SALES JUN 1,702 594 JUL 1,827 600 AUG  <b>WAGE SETTLEMENTS</b> 10:00 AM (%) PVT. PUB. TOT. JUN 2.5 2.7 2.7 JUL 2.9 2.8 2.8 AUG
17	18 <b>INT'L TRANSACTIONS IN SECURITIES C\$BN</b> 8:30 AM NET NET NET NET BONDS MONEY STOCKS TOTAL MARKET JUN -1.5 -0.4 -0.4 -2.4 JUL 0.2 0.4 2.7 3.3 AUG  <b>LEADING INDICATOR</b> 8:30 AM <b>Bank of Canada Interest Rate Announcement</b>	19 <b>WHOLESALE TRADE</b> 8:30 AM	20 <b>Bank of Canada Monetary Policy Report</b>	21 <b>RETAIL TRADE</b> 8:30 AM (Current\$) M Y JUN 1.3 7.0 JUL 1.5 7.9 AUG
24	25 <b>CONSUMER PRICE INDEX</b> 7:00 AM M (NSA) Y JUL 0.2 2.0 AUG 0.4 2.6 SEP	26	27 <b>BUSINESS CONDITIONS SURVEY</b> 8:30 AM	28 <b>INDUSTRIAL PRICES</b> 8:30 AM M (NSA) Y JUL -0.4 -0.3 AUG 0.3 -0.4 SEP  <b>MONEY SUPPLY M-2</b> M Y JUL -0.9 4.0 AUG 0.1 4.0 SEP
31 <b>GDP AT BASIC PRICES</b> 8:30 AM (1997\$) INDUST. PROD. GDP M M JUN 0.3 -0.2 JUL 0.2 0.3 AUG	1	2	3 <b>INTERNATIONAL RESERVES</b> 8:15 AM M \$BN CHANGE LEVEL AUG 0.969 34.3 SEP -0.690 33.6 OCT	4 <b>LABOUR FORCE SURVEY</b> 7:00 AM EMPLOY UNEMP HRLY (HOUSE) RATE EARN M Y % Y AUG 0.2 1.5 6.8 3.5 SEP 0.0 1.2 6.7 3.5 OCT  <b>IVEY PURCHASING MANAGERS' INDEX</b> 10:00 AM

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets. Dates are subject to change. Sources for historical data: Statistics Canada, CMHC, Human Resources Development Canada and the Bank of Canada.

**Week Ahead’s Key US Number:  
Consumer Price Index—September**

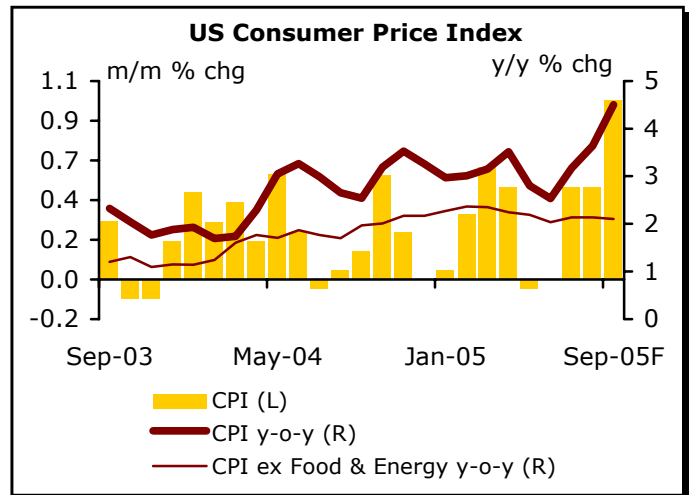
(Friday, 8:30 a.m.)

Leslie Preston (416) 956-3219

	CIBC WM	Mkt	Prior
CPI	1.0%	0.9%	0.5%
Ex food & energy	0.2%	0.2%	0.1%

September’s consumer price index will feel the full impact of Hurricane Katrina’s energy price spike, which should drive a 1% increase in CPI on the month. That is the largest one-month price spike in over 23 years, and pushes the annual inflation rate to 4½%, a pace not seen since the early 90s, and a serious hit to consumers’ purchasing power.

Fortunately, aside from energy, pricing power remains fairly dormant elsewhere in the economy. After five months of 0.1% or lower increases in core CPI, we expect a 0.2% in September, after typical inflationary categories like medical care and education come off a couple of unusually soft months. September’s increase would leave annual core inflation running at 2.1%, still showing little evidence that higher energy prices are spilling over to the broader economy.



**Forecast Implications** — Energy prices may have come off their immediate post-Katrina highs, but are still miles ahead of year-ago levels, and should keep inflation running close to 4% in the months ahead. That poses a serious threat to household budgets in an economy where wage increases are characterized as merely “modest” by the Fed, even more so as we head into the home-heating season. The resulting dent in spending on other goods will keep the “sale” signs up at the malls, helping to contain core inflation readings.

**Market Impact** — A scary headline inflation reading should come as no surprise to markets aware of the hurricane aftermath.

**Other US Releases:**

**Retail Sales—September**

(Friday, 8:30 a.m.)

With the full effect of Hurricane Katrina hitting in September, and a drop in auto sales already reported, retail sales look to eke out only a 0.1% gain, or 0.5% excluding autos. Even so, markets should look past September’s retail sales report and the one-time effects of the hurricane. Far more important will be sales as we head into the key holiday season. At that point it will become clearer whether after emptying their wallets to fill up the tanks and cover higher debt-servicing costs, the American consumer has any change left for new clothes or iPods.

**Goods & Services Balance—August**

(Thursday, 8:30 a.m.)

Continued growth in exports won’t be enough to overcome the swelling of imports by costly oil. We expect oil-price-driven growth in imports to push the trade deficit back out to \$60 bn, near record territory. That will be a reminder to US dollar bulls of the weak trade fundamentals behind the greenback.

# U.S. RELEASE AND EVENT DATES October/November 2005



CIBC  
World Markets

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY																														
<p>3</p> <p><b>ISM MANUFACTURING SURVEY (Formerly NAPM)</b></p> <p>10:00 AM COMP. PRICES INDEX INDEX</p> <p>JUL 56.6 48.5</p> <p>AUG 53.6 62.5</p> <p>SEP 59.4 78.0</p> <p><b>DOMESTIC AUTO SALES</b></p>	<p>4</p> <p><b>FACTORY ORDERS</b></p> <p>10:00 AM M Y</p> <p>JUN 0.9 9.8</p> <p>JUL -2.5 5.7</p> <p>AUG 2.5 7.5</p> <p><b>TREASURY BUDGET</b></p> <p>2:00 PM</p> <p><b>BOT (9:00) REDBOOK (10:40)</b></p>	<p>5</p> <p><b>ISM NON-MFG SURVEY</b></p> <p>10:00 AM</p>	<p>6</p> <p><b>INITIAL JOBLESS CLAIMS (8:30)</b></p>	<p><b>EMPLOYMENT SITUATION</b> 7</p> <p>8:30 AM</p> <table> <tr> <td>NON-FARM</td> <td>CIV UNEMP</td> <td>AVG HRLY EARN</td> </tr> <tr> <td>PAYROLL</td> <td>RATE</td> <td>Y</td> </tr> <tr> <td>(000s) M</td> <td>%</td> <td></td> </tr> <tr> <td>JUL 277</td> <td>5.0</td> <td>2.8</td> </tr> <tr> <td>AUG 211</td> <td>4.9</td> <td>2.6</td> </tr> <tr> <td>SEP -35</td> <td>5.1</td> <td>2.6</td> </tr> </table> <p><b>WHOLESALE TRADE</b></p> <p>10:00 AM</p> <p><b>CONSUMER CREDIT</b></p> <p>3:00PM</p>	NON-FARM	CIV UNEMP	AVG HRLY EARN	PAYROLL	RATE	Y	(000s) M	%		JUL 277	5.0	2.8	AUG 211	4.9	2.6	SEP -35	5.1	2.6												
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<p>17</p> <p><b>5-YEAR NOTE SETTLEMENT</b></p>	<p>18</p> <p><b>PRODUCER PRICE INDEX</b></p> <p>8:30 AM M (SA) Y (NSA)</p> <p>JUL 1.0 4.6</p> <p>AUG 0.6 5.1</p> <p>SEP</p> <p><b>NET CAPITAL INFLOWS TICS</b></p> <p>9:00 AM</p> <p><b>BOT (9:00) REDBOOK (10:40)</b></p>	<p>19</p> <p><b>HOUSING STARTS</b></p> <p>8:30 AM MIL (AR) M</p> <p>JUL 2.035 -1.5</p> <p>AUG 2.009 -1.3</p> <p>SEP</p> <p><b>Beige Book</b></p>	<p>20</p> <p><b>LEADING INDICATOR</b></p> <p>10:00 AM</p> <p><b>PHILADELPHIA FED INDEX</b></p> <p>12:00 PM</p> <p><b>INITIAL JOBLESS CLAIMS (8:30)</b></p>	<p>21</p>																														
<p>24</p> <p><b>2-YEAR NOTE ANNOUNCEMENT</b></p>	<p>25</p> <p><b>CONSUMER CONFIDENCE</b></p> <p>10:00 AM</p> <p><b>EXISTING HOME SALES</b></p> <p>10:00 AM</p> <p><b>BOT (9:00) REDBOOK (10:40)</b></p>	<p>26</p> <p><b>2-YEAR NOTE AUCTION</b></p>	<p>27</p> <p><b>DURABLE GOODS ORDERS</b></p> <p>8:30 AM M Y</p> <p>JUL -5.3 4.7</p> <p>AUG 3.4 7.9</p> <p>SEP</p> <p><b>NEW HOME SALES</b></p> <p>10:00 AM</p> <p><b>INITIAL JOBLESS CLAIMS (8:30)</b></p>	<p>28</p> <p>8:30 AM</p> <table> <tr> <td>GDP (AR)</td> <td>REAL GDP</td> <td>IMPLICIT DEF LATOR</td> </tr> <tr> <td>05:Q1(F)</td> <td>3.8</td> <td>3.0</td> </tr> <tr> <td>05:Q2(F)</td> <td>3.3</td> <td>2.6</td> </tr> <tr> <td>05:Q3(P)</td> <td></td> <td></td> </tr> </table> <p><b>EMPLOYMENT COST INDEX</b></p> <p>8:30 AM</p> <table> <tr> <td>TOTAL WAGES &amp; SALARY</td> <td>BEN.</td> </tr> <tr> <td>05:Q1 0.7</td> <td>0.6 1.2</td> </tr> <tr> <td>05:Q2 0.7</td> <td>0.6 0.8</td> </tr> <tr> <td>05:Q3</td> <td></td> </tr> </table> <p><b>MICHIGAN SENTIMENT (F)</b></p> <p>9:45 AM</p>	GDP (AR)	REAL GDP	IMPLICIT DEF LATOR	05:Q1(F)	3.8	3.0	05:Q2(F)	3.3	2.6	05:Q3(P)			TOTAL WAGES & SALARY	BEN.	05:Q1 0.7	0.6 1.2	05:Q2 0.7	0.6 0.8	05:Q3											
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## Currency Currents

Peter Buchanan (416) 594-7354

### Bank Will Tighten Again but Factory Toll Constrains Further Moves

Easing energy prices and the hawkish *fed-speak* weighed on the C\$ early in the week. The Bank, taking its cue from the jobless rate decline rather than September's weak job count, is still likely to tighten at its October 18<sup>th</sup> rate-setting. While the C\$ could thus benefit in the near term from more hawkish talk from the Bank and a rebound in energy prices after an exaggerated sell-off, we think rates are now close to their cyclical highs. An end to the tightening cycle before year-end, as the increasingly uncompetitive factory sector sheds still more jobs, caps the C\$ upside.

### ECB Unlikely to Act On Hawkish Policy Bent

ECB President Trichet's hawkish comments, better-looking economic figures and progress towards resolving Germany's political standoff helped the euro rack up its largest one-day gain against the dollar in over 18 months. September's faster 2.5% year-on-year all-in inflation rate confirms that inflation continues to run well above the ECB's 2% target. Although the worst may now be over, the best that can be expected for the battered euro is a gradual climb back. The consumer holds the keys for a sustained Eurozone upturn. But with unemployment high in its biggest economies, clearer improvement will be needed on that front for the ECB to act on its tightening threat.

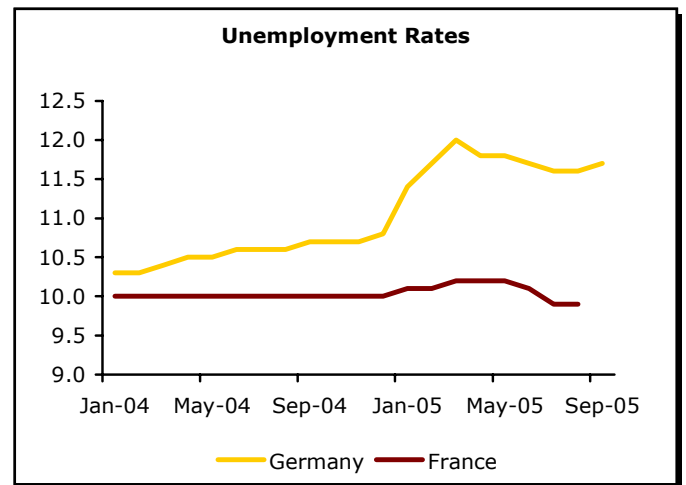
### Rate Cut Speculation Hurts Sterling

Sterling failed to match the euro's gains, measure for measure, as weak data buttressed expectations of a further 25-bps rate cut at the Monetary Policy Committee's November meeting. The decline reported on Thursday in August manufacturing activity suggests the UK factory sector is still paying a price for earlier competitively damaging currency strength. The latest GDP revisions also paint a less robust picture of the economy's recent health. We continue to see good chances of a Q4 rate cut although concerns about inflation, running at 8-year highs, could lead the Bank of England to defer action until early 2006.

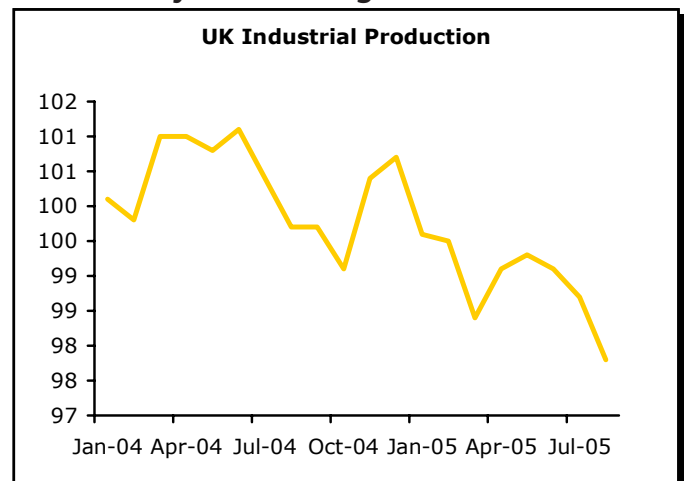
### Cdn Factory Job Losses Continue



### Soft Consumer Fundamentals in Eurozone



### UK Industry Contracting



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