

THE ANGLO-AMERICAN INFLATION TAX

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FORECASTS & DATA

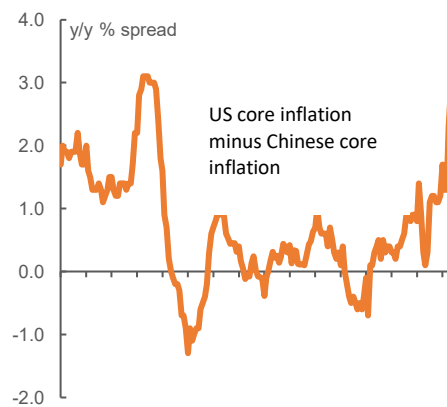
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Next Week's Risk Dashboard

- CPI: US, Canada, UK
- China's economic momentum
- US, UK, Chinese retail sales
- Jobs: UK, Australia
- Last full week of Canadian campaigning

Chart of the Week
The American Inflation Tax


Sources: Scotiabank Economics, NBSoc, US BLS.

The Anglo-American Inflation Tax

The dominant focus over the coming week will be a series of inflation reports particularly skewed toward the Anglo-American economies. There are no central bank decisions on tap, though enjoy the calm before the following week's line-up that will include the Federal Reserve, the Bank of England, the Bank of Japan and eight other regional central banks. This will be the last full week of campaigning before the Canadian election on Monday September 20th as advance voting in person has already begun in addition to what is expected to be a surge of mail-in ballots.

Other macro readings will primarily focus upon US and UK consumers, whether China's slow-down is worsening or abating, the state of job markets in the UK, Australia and China, and North American manufacturing conditions.

AN INFLATION HAT-TRICK

The US consumer price index will be the headline grabber of the week as the last major inflation reading before the following week's FOMC meeting that could advance progress toward tapering bond purchases. Canada, the UK, India and Argentina will also update inflation readings.

United States—The Last One Before the Key September FOMC

Given the pattern to date, one has to think that there may continue to be upside risk to consensus estimates for CPI inflation in Tuesday's update for the month of August. After all, four out of the last five CPI readings have increased by more than expected in month-over-month terms—except for the most recent in July that landed on the screws. The risks into August's figures could be more balanced amid evidence that the Delta variant's rise has sparked a soft patch in several activity readings.

I went with an estimate of 0.4% m/m for seasonally adjusted CPI and an unchanged 5.4% y/y pace. If nothing else changed other than the year-ago reference point then the year-over-year rate would drop back to about 5%. August is usually a mild month for seasonal price increases partly as retailers normally roll out clothing and footwear lines for Fall and Winter. These clearly are not normal times amid extremely tight inventories and supply chain challenges. Therefore, an additional expected gain is tacked on. Gasoline prices should carry little effect on the month-ago rate this time.

The core rate of inflation is estimated to have risen by 0.3% m/m and 4.2% y/y. If these estimates prove to be on the mark, then they could indicate that the yearly rate is plateauing at a high level (chart 1) with the monthly rate's peak behind us but still riding strongly (chart 2).

One thing for certain is that while China's economic growth is slowing, Chinese consumers are getting hit nowhere nearly as hard by the inflation tax as shown in this week's cover chart.

Canada—More Upside than Stateside?

Canada updates CPI for August on Wednesday. I went with a mild gain of 0.2% m/m in the conventionally tracked seasonally unadjusted measure and a 4.1% y/y rate. That would be an acceleration from the prior month's pace of 3.7% y/y. If that happens, then it could be the highest annual rate of inflation since March 2003 around the time of the dot-com episode.

As for drivers, if nothing else changed other than year-ago base effects then the rate would pick up by a couple of tenths to 3.9% y/y compared to the prior month. August has tended to be a light month for seasonal price changes in Canada over recent years and gasoline prices should be a neutral influence on the month-over-month rate of inflation.

Chart 1

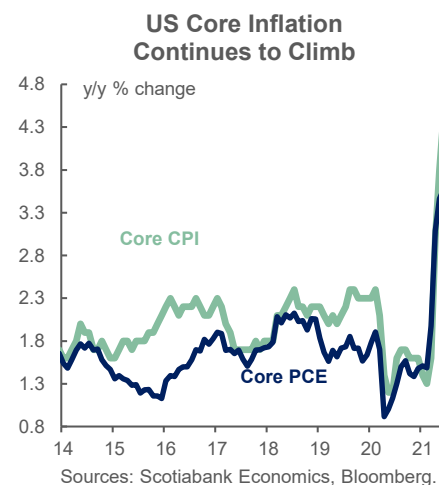
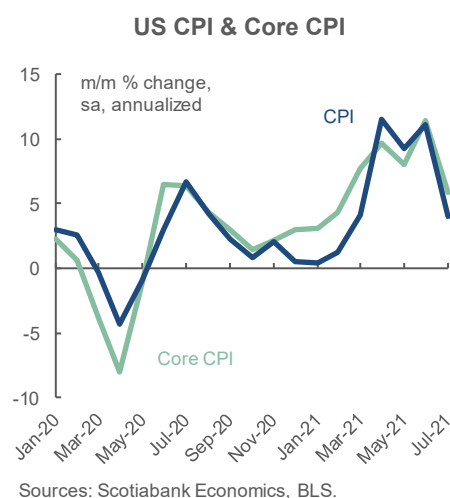


Chart 2



That leaves us with the same dilemma as in the US in terms of guesstimating supply chain and reopening effects. Those effects could be somewhat more material in Canada than the US this time. One reason is that the Delta variant has had a much less pronounced impact on the rise in COVID-19 cases per capita in Canada compared to the US. Another reason is that Canada's reopening effects began later than the US. Further, tentative signs for August indicate an economic rebound is underway from July's soft patch given the significant gain in jobs and the rise in mobility readings as two examples.

As for core inflation, chart 3 shows that the super-acceleration this year has gone well beyond what could have been explained by the mild softening last year. That base effects are hardly the only driver of rising Canadian inflation is further driven home by chart 4.

UK—Dear Chancellor Sunak

UK inflation might get the prize for the sharpest acceleration when August figures arrive on Wednesday. From 2% y/y the prior month, CPI could accelerate by a full percentage point to about 3% y/y in August. A similar jump in the core rate of inflation excluding food and energy is expected from 1.8% y/y in July to approximately 3%.

Base effects will play a role given the dip in the CPI index in August 2020. On its own, the change in the year-ago reference point will lift CPI inflation by about a half percentage point. A reopening effect is also expected that would add an estimated + ½% m/m to prices and hence push the annual rate toward 3%. If it crosses 3% then Bank of England Governor Bailey would have to pen a letter to the Chancellor of the Exchequer Rishi Sunak given the requirement to do so when inflation deviates by more than 1% in either direction from the 2% inflation target. The Governor is likely to rationalize that base effects and transitory reopening effects are driving a temporary overshoot.

GLOBAL CONSUMERS TO DOMINATE THE REST OF THE WEEK'S LINE-UP

The rest of the global macro line-up is going to be fairly light but with much of the focus upon readings out of the US and China.

Is China's economy continuing to lose momentum? The answer to that question could hang prominently over markets this week. China updates retail sales, industrial production, fixed investment and jobless rate figures for August on Tuesday night. Further decelerations are expected across the suite of readings partly because of COVID-19 restrictions that have impacted both consumer spending and supply chains. Readings like rail freight volumes have softened (chart 5) while highway traffic volumes have done likewise in key areas such as around Beijing and have yet to come anywhere close to pre-pandemic levels (chart 6).

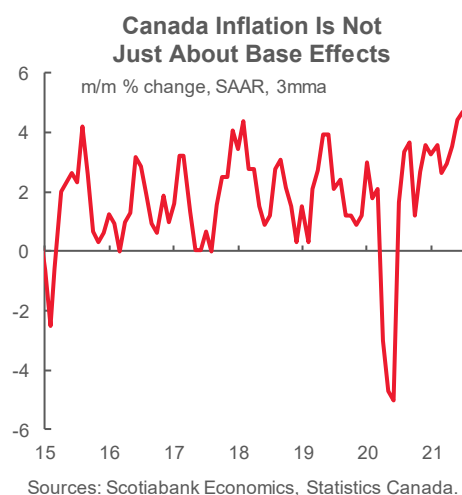
The main US release will be Thursday's retail sales figures for August. A headline drop of over 1% m/m is likely. We already know that the volume of new vehicle sales fell by over 11% m/m and in weighted terms would knock about 1 ¾% off total retail sales assuming no change in vehicle prices. Higher vehicle prices are assumed while gasoline prices were little changed, making the incremental difference focused upon tracking little change in sales ex-autos and gas. Otherwise, US releases will focus upon industrial sector updates including the Empire (Wednesday) and Philly Fed (Thursday) gauges of regional manufacturing sentiment plus industrial production during August (Wednesday). University of Michigan consumer sentiment is hoped to repair some of the decline that occurred in August (Friday).

Canada will update a couple of housing readings and manufacturing conditions. Advance guidance for manufacturing shipments points to a decline of 1.2% m/m during July (Tuesday). Housing starts during August arrive on Thursday and little change is likely given tracking of building permit volumes. Wednesday's existing home sales during August could make it five in a row for the string of declines since March.

Chart 3



Chart 4



European markets face otherwise light releases focused upon UK job and claims figures for July and August and then Friday's UK retail sales that are expected to rebound from the disappointing July tally.

Australia updates jobs for the month of August on Wednesday evening (eastern time). Lockdowns and other restrictions around the rise in COVID-19 cases are expected to drive what could be the largest job loss since the early days of the pandemic.

Asia-Pacific markets will also take down Kiwi GDP during Q2 that will likely be treated as stale in light of the lockdowns that returned in Q3, as well as Indian CPI inflation that is expected to be little changed around 5.6% for August (Monday).

Chart 5

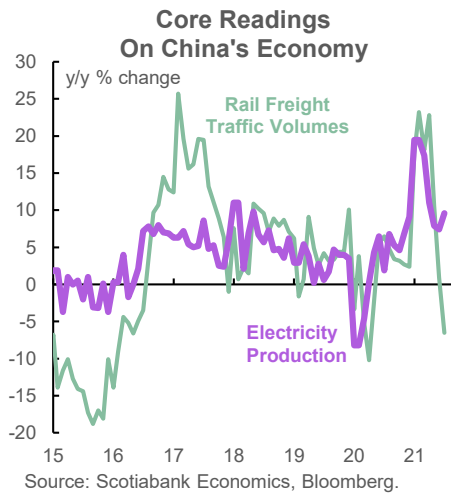
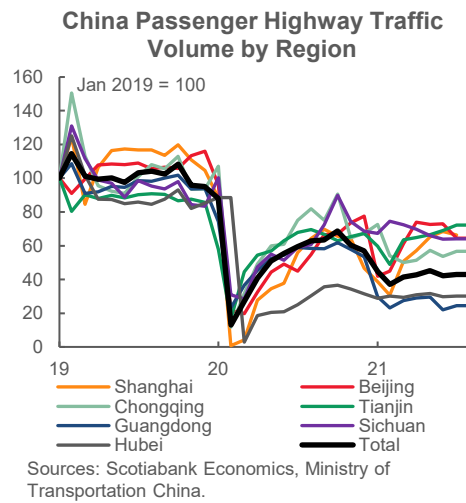


Chart 6



Key Indicators for week of September 13 – 17
NORTH AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	09/13	14:00	Treasury Budget (US\$ bn)	Aug	--	--	-302.1
CA	09/14	08:30	Manufacturing Shipments (m/m)	Jul	-1.2	--	2.1
US	09/14	08:30	CPI (m/m)	Aug	0.4	0.4	0.5
US	09/14	08:30	CPI (y/y)	Aug	5.4	--	5.4
US	09/14	08:30	CPI (index)	Aug	--	--	273.0
US	09/14	08:30	CPI ex. Food & Energy (m/m)	Aug	0.3	0.3	0.3
US	09/14	08:30	CPI ex. Food & Energy (y/y)	Aug	4.2	--	4.3
US	09/15	07:00	MBA Mortgage Applications (w/w)	Sep 10	--	--	-2.4
CA	09/15	08:30	Core CPI - Common (y/y)	Aug	--	--	1.7
CA	09/15	08:30	Core CPI - Median (y/y)	Aug	--	--	2.6
CA	09/15	08:30	Core CPI - Trim (y/y)	Aug	--	--	3.1
CA	09/15	08:30	CPI, All items (m/m)	Aug	0.2	--	0.6
CA	09/15	08:30	CPI, All items (y/y)	Aug	4.1	--	3.7
CA	09/15	08:30	CPI, All items (index)	Aug	--	--	142.3
US	09/15	08:30	Empire State Manufacturing Index	Sep	--	--	18.3
US	09/15	08:30	Export Prices (m/m)	Aug	--	--	1.3
US	09/15	08:30	Import Prices (m/m)	Aug	--	0.3	0.3
CA	09/15	09:00	Existing Home Sales (m/m)	Aug	--	--	-3.5
US	09/15	09:15	Capacity Utilization (%)	Aug	--	76.5	76.1
US	09/15	09:15	Industrial Production (m/m)	Aug	0.5	0.6	0.9
CA	09/16	08:15	Housing Starts (000s a.r.)	Aug	--	--	272.2
CA	09/16	08:30	International Securities Transactions (C\$ bn)	Jul	--	--	19.7
CA	09/16	08:30	Wholesale Trade (m/m)	Jul	-2.0	--	-0.8
US	09/16	08:30	Philadelphia Fed Index	Sep	--	--	19.4
US	09/16	08:30	Retail Sales (m/m)	Aug	-1.2	-0.6	-1.1
US	09/16	08:30	Retail Sales ex. Autos (m/m)	Aug	-0.4	-0.2	-0.4
US	09/09	08:30	Initial Jobless Claims (000s)	Sep 11	330	345	340
US	09/09	08:30	Continuing Claims (000s)	4-Sep	2800	2,808	2,748
US	09/16	10:00	Business Inventories (m/m)	Jul	--	--	0.8
US	09/16	16:00	Total Net TIC Flows (US\$ bn)	Jul	--	--	31.5
US	09/16	16:00	Net Long-term TIC Flows (US\$ bn)	Jul	--	--	110.9
US	09/17	10:00	U. of Michigan Consumer Sentiment	Sep P	72.0	--	70.3

EUROPE

Country	Date	Time	Indicator	Period	Consensus	Latest
IT	09/13	04:00	Unemployment Rate (%)	2Q	--	10.5
UK	09/14	02:00	Average Weekly Earnings (3-month, y/y)	Jul	--	8.8
UK	09/14	02:00	Employment Change (3M/3M, 000s)	Jul	--	95.0
UK	09/14	02:00	Jobless Claims Change (000s)	Aug	--	-7.8
UK	09/14	02:00	ILO Unemployment Rate (%)	Jul	--	4.7
SP	09/14	03:00	CPI (m/m)	Aug F	--	0.4
SP	09/14	03:00	CPI (y/y)	Aug F	--	3.3
SP	09/14	03:00	CPI - EU Harmonized (m/m)	Aug F	--	0.4
SP	09/14	03:00	CPI - EU Harmonized (y/y)	Aug F	--	3.3
UK	09/15	02:00	CPI (m/m)	Aug	--	0.0
UK	09/15	02:00	CPI (y/y)	Aug	--	2.0
UK	09/15	02:00	RPI (m/m)	Aug	--	0.5
UK	09/15	02:00	RPI (y/y)	Aug	--	3.8
FR	09/15	02:45	CPI (m/m)	Aug F	--	0.6
FR	09/15	02:45	CPI (y/y)	Aug F	--	1.9
FR	09/15	02:45	CPI - EU Harmonized (m/m)	Aug F	--	0.7
FR	09/15	02:45	CPI - EU Harmonized (y/y)	Aug F	--	2.4
IT	09/15	04:00	CPI - EU Harmonized (y/y)	Aug F	--	2.6
EC	09/15	05:00	Industrial Production (m/m)	Jul	--	-0.3
EC	09/15	05:00	Industrial Production (y/y)	Jul	--	9.7
EC	09/15	05:00	Labour Costs (y/y)	2Q	--	1.5
EC	09/16	05:00	Trade Balance (€ mn)	Jul	--	18.1

Forecasts at time of publication.
 Sources: Bloomberg, Scotiabank Economics.

Key Indicators for week of September 13 – 17

EUROPE (continued from previous page)

Country	Date	Time	Indicator	Period	Consensus	Latest
UK	09/17	02:00	Retail Sales ex. Auto Fuel (m/m)	Aug	--	-2.4
UK	09/17	02:00	Retail Sales with Auto Fuel (m/m)	Aug	--	-2.5
EC	09/17	04:00	Current Account (€ bn)	Jul	--	21.8
IT	09/17	04:30	Current Account (€ mn)	Jul	--	3500.3
EC	09/17	05:00	CPI (m/m)	Aug F	--	0.4
EC	09/17	05:00	CPI (y/y)	Aug F	--	3.0
EC	09/17	05:00	Euro zone Core CPI Estimate (y/y)	Aug F	--	1.6

ASIA-PACIFIC

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
HK	09/13	04:30	Industrial Production (y/y)	2Q	--	--	2.6
IN	09/13	08:00	CPI (y/y)	Aug	5.7	--	5.59
AU	09/13	21:30	House Price Index (y/y)	2Q	--	--	7.5
JN	09/14	00:30	Capacity Utilization (m/m)	Jul	--	--	6.2
JN	09/14	00:30	Industrial Production (y/y)	Jul F	--	--	11.6
IN	09/14	02:30	Monthly Wholesale Prices (y/y)	Aug	--	--	11.2
SK	09/14	19:00	Unemployment Rate (%)	Aug	--	--	3.3
JN	09/14	19:50	Machine Orders (m/m)	Jul	--	--	-1.5
CH	09/14	22:00	Fixed Asset Investment YTD (y/y)	Aug	9.5	9.3	10.3
CH	09/14	22:00	Industrial Production (y/y)	Aug	6.2	6.0	6.4
CH	09/14	22:00	Retail Sales (y/y)	Aug	7.5	7.2	8.5
PH	09/14	TBD	Overseas Remittances (y/y)	Jul	--	--	7.0
ID	09/15	00:00	Exports (y/y)	Aug	--	--	29.3
ID	09/15	00:00	Imports (y/y)	Aug	--	--	44.4
ID	09/15	00:00	Trade Balance (US\$ mn)	Aug	--	--	1324.0
JN	09/15	00:30	Tertiary Industry Index (m/m)	Jul	--	--	2.3
IN	09/15	07:30	Exports (y/y)	Aug	--	--	49.9
IN	09/15	07:30	Imports (y/y)	Aug	--	--	63.0
NZ	09/15	18:45	GDP (y/y)	2Q	--	--	2.4
JN	09/15	19:50	Merchandise Trade Balance (¥ bn)	Aug	--	--	439.4
JN	09/15	19:50	Adjusted Merchandise Trade Balance (¥ bn)	Aug	--	--	52.7
JN	09/15	19:50	Merchandise Trade Exports (y/y)	Aug	--	--	37.0
JN	09/15	19:50	Merchandise Trade Imports (y/y)	Aug	--	--	28.5
AU	09/15	21:30	Employment (000s)	Aug	--	--	2.2
AU	09/15	21:30	Unemployment Rate (%)	Aug	--	--	4.6
HK	09/16	04:30	Unemployment Rate (%)	Aug	--	--	5.0
NZ	09/16	18:30	Business NZ PMI	Aug	--	--	62.6
SI	09/16	20:30	Exports (y/y)	Aug	--	--	12.7
JN	09/17	TBD	Nationwide Department Store Sales (y/y)	Aug	--	--	4.2

LATIN AMERICA

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
BZ	09/15	08:00	Economic Activity Index SA (m/m)	Jul	--	--	1.1
BZ	09/15	08:00	Economic Activity Index NSA (y/y)	Jul	--	--	9.1
CO	09/15	11:00	Retail Sales (y/y)	Jul	--	--	24.7
PE	09/15	11:00	Unemployment Rate (%)	Aug	--	--	9.4
PE	09/15	TBD	Economic Activity Index NSA (y/y)	Jul	--	--	23.5
CO	09/17	11:00	Trade Balance (US\$ mn)	Jul	--	--	-1559.0

Forecasts at time of publication.
 Sources: Bloomberg, Scotiabank Economics.

Global Auctions for week September 13 – 17**NORTH AMERICA**

No Scheduled Auctions.

EUROPE

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
NE	09/14	04:00	Netherlands to Sell Bonds
IT	09/14	05:00	Italy to Sell Bonds
GE	09/14	05:30	Germany to Sell EUR 5 Bln 2023 Bonds
DE	09/15	04:30	Denmark to Sell Bonds
SP	09/16	04:30	Spain to Sell Bonds
FR	09/16	04:50	France to Sell Bonds
IR	09/16	05:00	Ireland to Sell Bills
IC	09/17	07:30	Iceland to Sell Bonds

ASIA-PACIFIC

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
CH	09/14	23:00	China Plans to Sell 1-Yr Upsize Bond
CH	09/14	23:00	China Plans to Sell 10-Yr Upsize Bond
JN	09/15	23:35	Japan to Sell 20-Year Bonds
CH	09/16	23:00	China Plans to Sell 30-Yr Upsize Bond

LATIN AMERICA

No Scheduled Auctions.

Events for week of September 13 – 17**NORTH AMERICA**

No Scheduled Events.

EUROPE

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
EC	09/15	11:00	ECB's Lane Speaks at Webinar
FI	09/16	16:00	ECB's Rehn Speaks at Bank of Finland Press Conference
PO	09/17		Portugal Sovereign Debt to be rated by Moody's
SP	09/17		Spain Sovereign Debt to be rated by S&P

ASIA-PACIFIC

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Event</u>
AU	09/13/21-09/14/21		RBA's Lowe Speech in Sydney
AU	09/15	21:30	RBA FX Transactions Government
AU	09/15	21:30	RBA FX Transactions Market
AU	09/15	21:30	RBA FX Transactions Other

LATIN AMERICA

No Scheduled Events.

Global Central Bank Watch

NORTH AMERICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Canada – Overnight Target Rate	0.25	October 27, 2021	0.25	0.25
Federal Reserve – Federal Funds Target Rate	0.25	September 22, 2021	0.25	0.25
Banco de México – Overnight Rate	4.50	September 30, 2021	5.00	5.00

EUROPE

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
European Central Bank – Refinancing Rate	0.00	October 28, 2021	0.00	0.00
European Central Bank – Marginal Lending Facility Rate	0.25	October 28, 2021	0.25	0.25
European Central Bank – Deposit Facility Rate	-0.50	October 28, 2021	-0.50	-0.50
Bank of England – Bank Rate	0.10	September 23, 2021	0.10	0.10
Swiss National Bank – Libor Target Rate	-0.75	TBA	-0.75	-0.75
Central Bank of Russia – One-Week Auction Rate	6.75	October 22, 2021	7.00	7.00
Sweden Riksbank – Repo Rate	0.00	September 21, 2021	0.00	0.00
Norges Bank – Deposit Rate	0.00	September 23, 2021	0.25	0.50
Central Bank of Turkey – Benchmark Repo Rate	19.00	September 23, 2021	19.00	19.00

ASIA PACIFIC

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Bank of Japan – Policy Rate	-0.10	September 22, 2021	-0.10	-0.10
Reserve Bank of Australia – Cash Target Rate	0.10	October 4, 2021	0.10	0.10
Reserve Bank of New Zealand – Cash Rate	0.25	October 5, 2021	0.50	0.75
People's Bank of China – 1-Year Loan Prime Rate	3.85	September 21, 2021	3.85	3.85
Reserve Bank of India – Repo Rate	4.00	October 8, 2021	4.00	4.00
Bank of Korea – Bank Rate	0.75	October 12, 2021	1.00	1.00
Bank of Thailand – Repo Rate	0.50	September 29, 2021	0.50	0.50
Bank Negara Malaysia – Overnight Policy Rate	1.75	November 3, 2021	1.75	1.75
Bank Indonesia – 7-Day Reverse Repo Rate	3.50	September 21, 2021	3.50	3.50
Central Bank of Philippines – Overnight Borrowing Rate	2.00	September 23, 2021	2.00	2.00

LATIN AMERICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
Banco Central do Brasil – Selic Rate	5.25	September 22, 2021	6.00	6.25
Banco Central de Chile – Overnight Rate	1.50	October 13, 2021	2.00	2.00
Banco de la República de Colombia – Lending Rate	1.75	September 30, 2021	2.00	2.00
Banco Central de Reserva del Perú – Reference Rate	1.00	October 7, 2021	1.25	1.00

AFRICA

<u>Rate</u>	<u>Current Rate</u>	<u>Next Meeting</u>	<u>Scotia's Forecasts</u>	<u>Consensus Forecasts</u>
South African Reserve Bank – Repo Rate	3.50	September 23, 2021	3.50	3.50

Forecasts at time of publication.
 Sources: Bloomberg, Scotiabank Economics.

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