



**Economics  
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*"...for the vast majority of the emerging world, this one needs only a return to normalcy in the developed world for the crisis to pass."*

## The Recession's Innocent Bystanders

by Avery Shenfeld

Emerging markets were historically seen as shaky players that could put the world's financial system at risk. Today, the tables have been turned, as a shaky world financial system has put emerging markets at risk, many of them innocent bystanders in a much larger crisis.

A microcosm of this phenomenon was brought to my attention as I had the honour of participating as a panelist in the type of multipartite planning session that only a small country could pull off. There, in one modest sized conference room, sat the Prime Minister, Central Bank Governor, Finance Minister and the major business, finance and union leaders of Barbados. It's domestic banking system is solid, its currency comfortably stable under a peg to the dollar, but the key government and private sector players well understood what was coming.

Tourism and related property development are the key cyclical drivers, but would UK residents battered by a weak pound and falling property prices keep coming? Would Americans with huge stock market losses cut vacation plans short. Early signs are that's just what's happening. Fiscal stimulus, in the form of infrastructure spending, seemed like a reasonable option to keep employment levels up during a tourism recession, but financing a deficit could be very expensive given soaring emerging market spreads. Help might have to come from international agencies with better access to capital.

Such stories are now being played out worldwide, some with even more downside. Countries with banking and corporate institutions that had borrowed heavily in dollars are finding it tough to refinance, or to pay down dollar debt by selling their own currency without sparking a massive depreciation. Foreign capital inflows are slowing in response to the deleveraging that is bringing money home. In Eastern Europe, Asia and Latin America, the global slowdown is beginning to bite.

But unlike past crises centred on developing economy deficiencies, for the vast majority of the emerging world, this one needs only a return to normalcy in the developed world for the crisis to pass. South America will look a lot stronger when a global recovery brings life back to commodities. Eastern Europe hasn't permanently damaged its edge as a production centre for wealthy countries to its west. Asian banks largely stayed clear of the worst investment excesses. Russia has more of a domestic financial system mess to mop up, but longer term, its energy assets will leave it in good stead.

In the meantime, some help is on the way. The Fed has moved to relieve dollar funding pressures for banks in Brazil, Mexico, Singapore and South Korea. The IMF is stepping up for Hungary and Pakistan, but likely doesn't have enough funding to complete the job elsewhere. Developed world governments will be throwing big bucks around to stimulate at home, but may also now be called upon to finance rescue efforts abroad.

<http://research.cibcwm.com/res/Eco/EcoResearch.html>



# Week Ahead Calendar And Forecast

CANADA		UNITED STATES	
	CIBC World Markets	CIBC World Markets	Prior
Monday November 3			
Tuesday November 4			
Wednesday November 5			
Thursday November 6			
Friday November 7			
<b>AUCTION: 3-M BILLS \$27B, 6-M BILLS \$27B</b> NEW VEHICLE SALES (Oct) (M) 12.0M 12.5M 10:00 AM ISM - MANUFACTURING (Oct) (H) 40.0 43.5 CONSTRUCTION SPENDING M/M (Sep) (M) -0.8% 0.0% Speaker(s): 3:45 AM Jeffrey Lacker (Richmond)			
<b>AUCTION: 4-WEEK BILLS \$27B (prev)</b> 10:00 AM FACTORY ORDERS M/M (Sep) (M) 1.0% -1.0% -4.0% 5:00 PM ABC CONSUMER CONFIDENCE Nov-02 (L) -49.0 Speaker(s): 10:45 AM Richard W. Fisher (Dallas)			
<b>SWITCH (Jun '15 - Jun '33) - \$300MM, REPLACE: Jun-1-2019</b> 7:00 AM MBA-APPLICATIONS Oct-31 (L) 16.8% 8:15 AM ADP EMPLOYMENT CHANGE (Oct) (H) -90K -8K 10:00 AM ISM - NON-MANUFACTURING (Oct) (L) 48.0 50.2 ICSC CHAIN STORE SALES Y/Y (Oct) (H) 1.0%			
8:30 AM BUILDING PERMITS M/M (Sep) (L) -13.5% 10:00 AM IVEY PMI (Oct) (L) 61.0 Speaker(s): 7:00 PM Kevin M. Warsh (Governor)			
7:00 AM EMPLOYMENT CHANGE (Oct) (H) 0 UNEMPLOYMENT RATE (Oct) (H) 6.2% 6.1% AVERAGE HOURLY EARNINGS M/M 6.2% AVERAGE WEEKLY HOURS 33.6 MANUFACTURING PAYROLLS 33.6 NON-FARM PAYROLLS -200K UNEMPLOYMENT RATE 6.2% AVERAGE HOURLY EARNINGS M/M 0.2% AVERAGE WEEKLY HOURS 33.6 MANUFACTURING PAYROLLS -62K 10:00 AM WHOLESALE INVENTORIES M/M (Sep) (L) 0.4% 0.8% PENDING HOME SALES M/M (Sep) (M) -3.5% 7.4% 3:00 PM CONSUMER CREDIT (Sep) (L) 0.0B -7.9B Speaker(s): 12:00 PM Dennis P. Lockhart (Atlanta)			

## Week Ahead's Market Call

by Avery Shenfeld

**In the US,** we could break new ground in the payrolls report with the first 200,000 loss in jobs for this recession. That shouldn't really raise eyebrows, as every recession has months like that, and worse. A 6.2% unemployment rate will merely be the next way station en route to 7% and beyond. The ISM index for manufacturing will likely join the gloom, despite an aircraft-laden boost to factory orders in September.

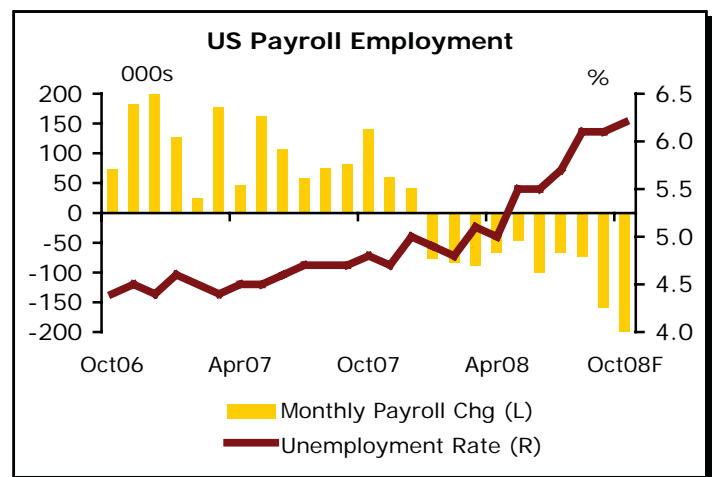
**In Canada,** private sector employment will likely show a large drop, after what looked like a statistical quirk in a large September hiring gain. But the labour force survey coincided with the election week, and running the vote entails tens of thousands of temporary public sector jobs. That could yield a misleading headline showing a flat jobs reading, but markets will quickly see through the distortion.

**Week Ahead’s Key Canadian Number:  
Labour Force Survey—October**

(Friday, 7:00 a.m.)

Krishen Rangasamy (416) 956-3219

	CIBC WM	Mkt	Prior
Employment	0K	-10K	107K
Unemployment Rate	6.2%	6.2%	6.1%



September’s extraordinary increase in net job additions evidently came as a shock to anybody who has been following the economy. But as we often caution, the Labour Force Survey is just that, i.e a survey with confidence intervals so wide that almost anything is possible. October’s jobs report will get a huge lift from a temporary jump in elections-related employment, but this would have been countered by the negative sentiment surrounding the economy which likely limited the private sector’s intake. Sectors like construction and manufacturing are clearly not booming and will, sooner or later, start handing out their share of pink slips. Overall we’re calling for no jobs growth in the month, with an uptick in the unemployment rate.

**Forecast Implications** — All economic indicators but one are suggesting that Canada is teetering at the edge of recession. The Labour Force Survey will, sooner rather than later, fall in line with the others and reflect the weakening Canadian economic fundamentals. As a result we’re expecting several months of anemic jobs growth in Canada, with the unemployment rate creeping up steadily. The labour market should improve over the second half of next year if, as we expect, the US and global economies recover.

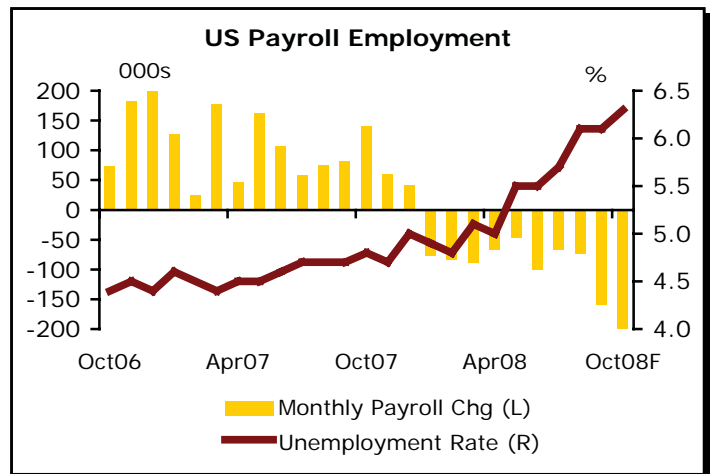
**Market Impact** — Markets will net out the public sector jobs gain and zero in on a big drop in the private sector. If anyone’s paying attention to economic news these days, that would be bearish for the C\$ and bullish for fixed income.

**Week Ahead’s Key US Number:  
Non-Farm Payrolls—October**

(Friday, 8:30 a.m.)

Meny Grauman (416) 956-6527

	CIBC WM	Mkt	Prior
Non-Farm Payrolls (chg)	-200K	-180K	-159K
Unemployment Rate	6.2%	6.2%	6.1%
Avg. Hourly Earnings (m/m)	0.2%	0.2%	0.2%



With weekly initial jobless claims spiking well above 450K during the latest BLS reference period, look for October’s monthly payroll decline to be the largest this year. A portion of this drop should be related to temporary factors like a major machinist union strike, but much of it is simply a reflection of a rapidly weakening US economy. The United States is in recession, and if history is any guide then future job losses can only be expected to intensify as we head into 2009. Unlike the establishment survey, the household figures are not impacted by weather related job losses, and so we only expect a 0.1%-pt gain in the unemployment rate despite the plunge in payrolls.

**Forecast Implications** — During the first half of 2008 weak economic numbers were concentrated in the labour and housing markets, but a 3.1% annualized drop in personal consumption during the third-quarter is evidence that the pain is spreading. This development signals that job losses are not just poised to persist into next year, but also to intensify. Along with this, the unemployment rate should also head significantly higher before peaking above 7% in the first half of 2009.

**Market Impact** — After nine consecutive months of job losses investors will not be shocked to see another triple digit slide in payrolls. Our nonfarm payroll call is a little worse than consensus, but not enough to move a market that is already braced for a whole lot of bad news.

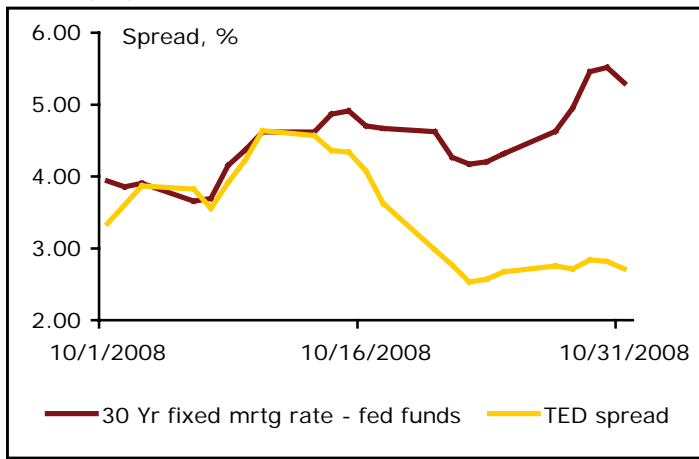
## Equity Insights

Meny Grauman

### Rate Cuts Not Doing Much for Homeowners

A combined 100 bps in Federal Reserve easing, along with a host of other important policy measures, has managed to provide some relief for US inter-bank lending rates since the beginning of October. Unfortunately, this good news has not spread to the mortgage market. While the TED spread has narrowed by over 60 bps since the end of September, the spread between the 30-year fixed mortgage rate and the Fed funds rate has actually climbed by over 130 bps. September's home sales data came in better than expected, leading some people to suggest that the housing market was turning. Unfortunately without lower home financing costs it will take longer to clear out the excess inventory clogging up the market, and provide relief to homebuilding and related materials stocks.

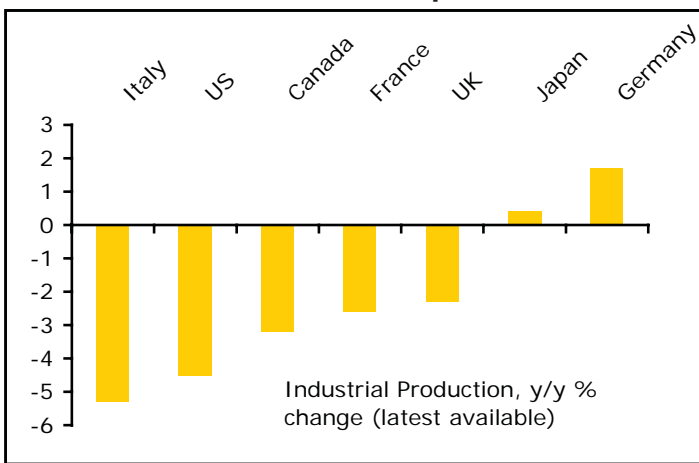
### Mortgage Spread Fails to Narrow



### A World of Pain

Fears of a global economic slowdown have weighed on financial markets in general, but have been particularly hard on industrial metals in particular. According to one broad measure, prices for commodities such as zinc and nickel are down 50% since they peaked early this year. Some of these losses were driven by speculation rather than hard data, but recent industrial production numbers from a host of countries around the world shows that global industrial activity is not just slowing, but in many cases contracting. In fact, five out of the seven G7 nations are now showing significant 12-month declines in industrial production, with Germany and Japan the only holdouts.

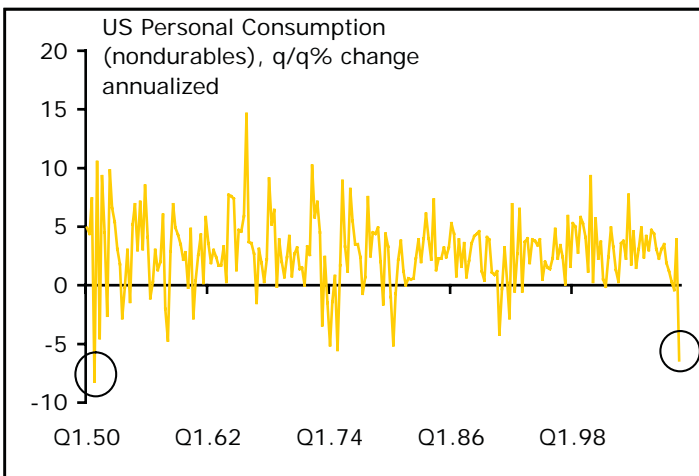
### Broad-Based Industrial Slump



### US Consumers Break Some Bleak Records in Q3

Despite a slightly better than consensus 3<sup>rd</sup> quarter real GDP print in the US, the real surprise was consumer spending, which came in even weaker than most economists had predicted. Just how bad this number was though requires a little bit of historical context. After all, it's not just that consumer spending contracted for the first time since the first quarter of 1991, but we have also not seen a bigger decline since the 1980s. As expected, the majority of the weakness did come from motor vehicles, but more significantly, spending on non-durables was also very weak, contracting the most since the 1950s. Current US consumer performance is the worst in decades, and there is still significant downside risk to equities with any direct exposure to American shoppers.

### Historic Weakness in US Consumption



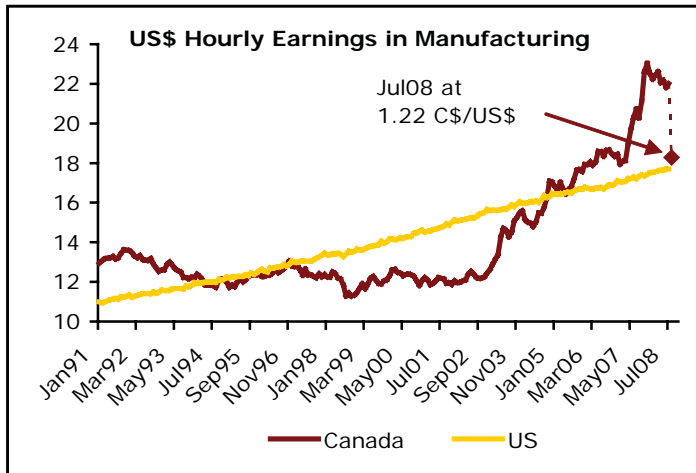
## Currency Currents

Avery Shenfeld and Krishen Rangasamy

### How Much of a Reprieve?

Just how happy are Canadian manufacturers with the sudden weakening in the Canadian dollar? On the surface, the loonie's dive appears to have dramatically unwound nearly all of the wage gap with American firms. But there are factors that make this reprieve much less helpful. Many exporters had already hedged their US\$ sales back into many fewer Canadian dollars than today's spot rate would give them. Extending forwards further out at today's rates makes sense, but uses up what might now be precious credit room. And the reason for the C\$'s dive, a global slowdown that saw a flight to the greenback and a dive in resource prices, aren't exactly good news for sales volumes, even if margins are now better.

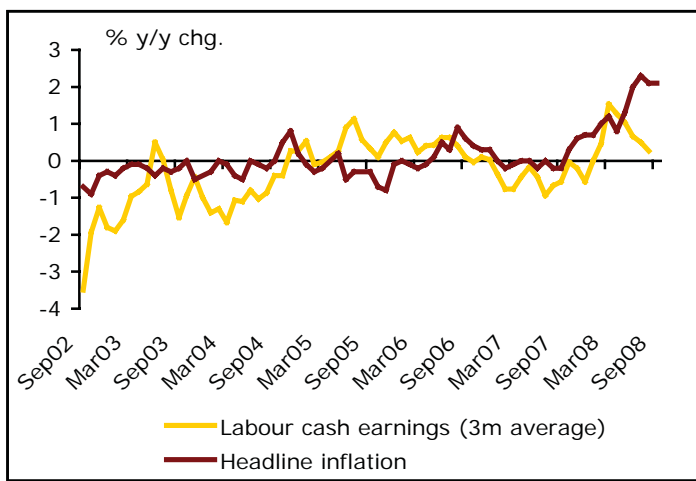
### Loonie Move Restored Wage Parity



### Relief for Japanese Consumers Ahead

Japan had long hoped to get out of deflation, but the way that ultimately took place was actually quite damaging. Instead of a broad based upturn in both wages and prices, the inflation hit largely in imported energy and food costs, opening up a huge gap between prices and worker's buying power. The good news is that relief is just 'round the corner. The strong yen and weaker energy prices will turn CPI inflation sharply lower, opening up room for consumer spending. That and the latest fiscal package, could help revive domestic spending during what will be a tough period for exporters.

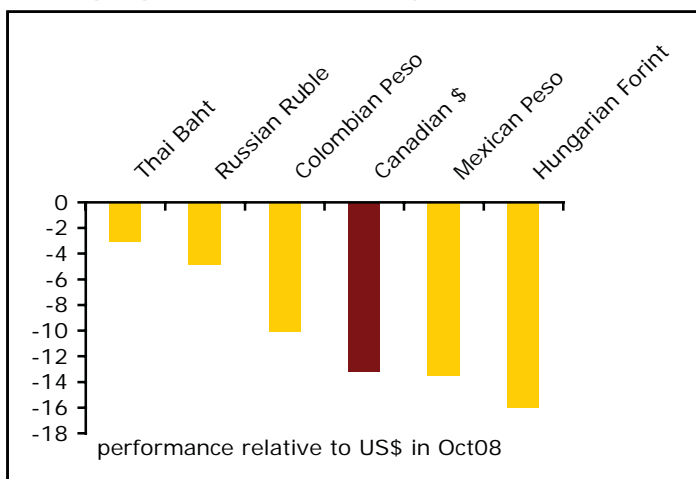
### Japanese Wages and Prices



### An Emerging Market Currency Crisis?

A dive in some emerging market currencies in recent weeks has jogged memories of earlier crises for Mexico's peso, Brazil's real, Thailand's baht and others. But there's a different flavour to the past month's developments. It's not that emerging markets were signalled out for punishment, but simply a worldwide rush to take borrowed money back to dollars and yen. The C\$ fell as much as the Mexican peso, for example. Still, countries that had relied on foreign capital inflows will find it tougher sledding in today's risk-fearing environment.

### Emerging Markets Not Singled Out



# CANADIAN RELEASE AND EVENT DATES October/November 2008



**CIBC**  
World Markets

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
27	28	29	30	31
			<b>INDUSTRIAL PRICES</b> 8:30 AM M (NSA) Y JUL 0.9 7.5 AUG -0.1 8.5 SEP -1.2 8.0	<b>GDP BY INDUSTRY</b> 8:30 AM (2002\$) IND.PROD. GDP M M JUN 0.0 -0.2 JUL 0.7 1.9 AUG -0.3 -0.8
3	4	5	6	7
		<b>INTERNATIONAL RESERVES</b> 8:15 AM \$BN \$BN CHANGE LEVEL AUG -0.065 42.6 SEP 0.386 43.0 OCT	<b>BUILDING PERMITS (\$)</b> 8:30 AM M M (RES) (NON-RES) JUL 4.0 0.6 AUG -9.3 -19.3 SEP  <b>IVEY PURCHASING MANAGERS' INDEX</b> 10:00 AM	<b>LABOUR FORCE SURVEY</b> 7:00 AM AVG EMPLOY UNEMP HRLY (HOUSE) RATE EARN M Y % Y AUG 0.1 1.3 6.1 3.3 SEP 0.6 1.6 6.1 4.3 OCT  <b>IVEY PURCHASING MANAGERS' INDEX</b> 10:00 AM
10	11	12	13	14
<b>HOUSING STARTS</b> 8:15 AM 000's (AR) TOTAL SINGLES AUG 217 76 SEP 218 70 OCT  <b>NEW HOUSING PRICE INDEX</b> 8:30 AM	REMEMBRANCE DAY (HOLIDAY) (Bond & Money Markets Closed)		<b>MERCHANDISE TRADE</b> 8:30 AM \$MN 12 MO. BALANCE JUL 4,198 49,306 AUG 5,801 51,190 SEP	<b>SURVEY OF MANUFACTURING</b> 8:30 AM SHIPMENTS M Y JUL 2.7 5.8 AUG -3.7 3.9 SEP  <b>CAR &amp; TRUCK SALES</b> 8:30 AM 000's (AR) TOTAL DOM.BUILT CAR SALES JUL 1,694 586 AUG 1,655 546 SEP  <b>WAGE SETTLEMENTS</b> 10:00 AM (%) PVT. PUB. TOT. JUL 2.8 3.7 3.3 AUG 2.7 5.2 4.6 SEP
17	18	19	20	21
		<b>INT'L TRANSACTIONS IN SECURITIES C\$BN</b> 8:30 AM NET NET NET NET BONDS MONEY STOCKS TOT MARKET JUL -3.6 0.8 -2.7 -5.5 AUG 3.7 0.1 -4.5 -0.7 SEP  <b>LEADING INDICATOR</b> 8:30 AM	<b>QUARTERLY FINANCIAL STATISTICS</b> 8:30 AM  <b>WHOLESALE TRADE</b> 8:30 AM	<b>CONSUMER PRICE INDEX</b> 7:00 AM M (NSA) Y AUG -0.2 3.5 SEP 0.1 3.4 OCT
22	23	24	25	26
			<b>RETAIL TRADE</b> 8:30 AM (Current\$) M Y JUL 0.1 4.9 AUG -0.3 4.1 SEP	

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**CIBC**  
 World Markets

# U.S. RELEASE AND EVENT DATES October/November 2008

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
27	28	29	30	31
<b>NEW HOME SALES</b> 10:00 AM	<b>S&amp;P/CASE-SHILLER HOUSE PRICE INDEX</b> 9:00 AM  <b>CONSUMER CONFIDENCE</b> 10:00 AM  <b>FOMC Meeting Begins</b>  <i>2-YEAR NOTE AUCTION</i>  <i>BOT (9:00) REDBOOK (10:40)</i>	<b>DURABLE GOODS ORDERS</b> 8:30 AM M Y JUL 0.7 -4.9 AUG -5.5 -5.8 SEP 0.8 -3.6  <b>FOMC Rate Decision</b>	<b>GDP</b> 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 08:Q1(F) 0.9 2.6 08:Q2(F) 2.8 1.3 08:Q3(A) -0.3 4.1  <i>5-YEAR NOTE AUCTION</i>  <i>INITIAL JOBLESS CLAIMS (8:30)</i>	<b>PERS. INCOME &amp; OUTLAYS</b> 31 8:30 AM SAVING INCOME CONS RATE M M AR JUL -0.8 0.0 1.8 AUG 0.4 0.0 0.8 SEP 0.2 -0.3 1.3  <b>EMPLOYMENT COST INDEX</b> 8:30 AM WAGES & TOTAL SALARY BEN. 08:Q1 0.7 0.8 0.6 08:Q2 0.7 0.7 0.6 08:Q3 0.7 0.7 0.6  <b>CHICAGO PMI</b> 9:45 AM <i>2-, 5-Yr NOTE SETTLEMENT</i> <b>MICHIGAN SENTIMENT (F)</b> 10:00 AM
<b>ISM MFG SURVEY</b> 3 10:00 AM COMP. PRICES INDEX INDEX AUG 49.9 77.0 SEP 43.5 53.5 OCT  <b>LIGHT VEHICLES SALES MIL (AR) Y</b> AUG 13.694 -15.6 SEP 12.462 -22.7 OCT	<b>FACTORY ORDERS</b> 10:00 AM M Y JUL 0.7 4.7 AUG -4.0 4.2 SEP  <b>US Federal Election</b>  <i>BOT (9:00) REDBOOK (10:40)</i>	<b>ADP SURVEY</b> 5 8:15 AM  <b>ISM NON-MFG SURVEY</b> 10:00 AM  <i>10-, 30-Yr NOTE ANNOUNCEMENT</i>	<b>NON-FARM PRODUCTIVITY</b> 6 8:30 AM Q/Q (AR) Y/Y 08:Q1 (R) 2.6 3.3 08:Q2 (R) 4.3 3.4 08:Q3 (P)  <i>INITIAL JOBLESS CLAIMS (8:30)</i>	<b>EMPLOY. SITUATION</b> 7 8:30 AM NON-CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN (000s) M % Y AUG -73 6.1 3.6 SEP -159 6.1 3.4 OCT  <b>CONSUMER CREDIT</b> 3:00PM
10	11	12	13	14
	<b>VETERAN'S DAY (HOLIDAY)</b> (Bond Market Closed)  <i>BOT (9:00) REDBOOK (10:40)</i>	<b>10-Yr NOTE AUCTION</b>	<b>GOODS &amp; SERVICES BALANCE (BOP) \$B</b> 8:30 AM GDS SERV TOT JUL -74.1 12.8 -61.3 AUG -70.9 11.8 -59.1 SEP  <b>TREASURY BUDGET</b> 2:00 PM <i>30-Yr (r) NOTE AUCTION</i>  <b>MONEY SUPPLY M-2</b> 4:30 PM M Y JUL 0.5 6.2 AUG -0.1 5.3 SEP  <i>INITIAL JOBLESS CLAIMS (8:30)</i>	<b>RETAIL SALES</b> 8:30 AM M Y AUG -0.4 1.5 SEP -1.2 -1.0 OCT  <b>Chair. Bernanke speaks in Frankfurt on monetary policy @ 9:00 AM ET</b>  <b>MICHIGAN SENTIMENT (P)</b> 10:00 AM  <b>BUSINESS INVENTORIES</b> 10:00 AM
17	18	19	20	21
<b>CAPACITY UTIL/IND. PROD.</b> 9:15 AM LEV M Y AUG 78.7 -1.0 -1.4 SEP 76.4 -2.8 -4.5 OCT  <i>10-, 30-Yr (r) NOTE SETTLEMENT</i>	<b>PRODUCER PRICE INDEX</b> 8:30 AM M (SA) Y (NSA) AUG -0.9 9.6 SEP 0.1 8.7 OCT  <b>NET CAPITAL INFLOWS TICS</b> 9:00 AM  <i>BOT (9:00) REDBOOK (10:40)</i>	<b>CONSUMER PRICE INDEX</b> 8:30 AM M (SA) Y (NSA) AUG -0.1 5.4 SEP 0.0 4.9 OCT  <b>HOUSING STARTS</b> 8:30 AM MIL (AR) M AUG 0.872 -8.1 SEP 0.817 -6.3 OCT  <b>FOMC Minutes</b>	<b>LEADING INDICATOR</b> 10:00 AM  <b>PHILADELPHIA FED INDEX</b> 10:00 PM  <i>2-, 5-Yr NOTE ANNOUNCEMENT</i>  <i>INITIAL JOBLESS CLAIMS (8:30)</i>	
24	25	26	27	28
<b>EXISTING HOME SALES</b> 10:00 AM	<b>GDP</b> 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 08:Q2(F) 2.8 1.3 08:Q3(A) 08:Q3(P)  <b>CORPORATE PROFITS</b> 8:30 AM  <b>S&amp;P/CASE-SHILLER HOUSE PRICE INDEX</b> 9:00 AM  <b>CONSUMER CONFIDENCE</b> 10:00 AM  <i>BOT (9:00) REDBOOK (10:40)</i>	<b>DURABLE GOODS ORDERS</b> 8:30 AM M Y AUG -5.5 -5.8 SEP 0.8 -3.6 OCT  <b>PERS. INCOME &amp; OUTLAYS</b> 8:30 AM SAVING INCOME CONS RATE M M AR AUG 0.4 0.0 0.8 SEP 0.2 -0.3 1.3 OCT  <b>CHICAGO PMI</b> 9:45 AM <b>NEW HOME SALES</b> 10:00 AM  <b>MICHIGAN SENTIMENT (F)</b> 10:00 AM	<b>THANKSGIVING DAY (HOLIDAY)</b> (Markets Closed)	<i>INITIAL JOBLESS CLAIMS (8:30)</i>

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