

THE WEEK AHEAD

June 30 - July 4, 2025

Questioning the narrative

by Andrew Grantham andrew.grantham@cibc.com

Last week, Governor Tiff Macklem outlined the Bank's view of the Canadian labour market, arguing that lags between stronger demand and hiring meant that the labour market didn't "fully recover" last year before tariffs and related uncertainty "stalled momentum". So far this year, employment in sectors less sensitive to US trade has "continued to grow", but there is a concern that if domestic demand remains soft then weakness within the labour market could broaden.

This suggests an expectation that the economy could reaccelerate if progress towards a trade deal is made and fiscal policy loosens, and that further interest rate cuts will depend on signs that labour market weakness is broadening, as well as cooler core inflation readings. While we broadly agree with this narrative, we also wouldn't see the harm in cutting interest rates sooner rather than later to help the economy through this period of uncertainty.

However, some lesser-followed labour market data suggests that we should at least question this baseline narrative, and that a case could be made that recent labour market weakness goes deeper than just this year's trade uncertainty.

The most obvious is the softness seen in Canada's "other" survey of employment (SEPH). Replicating a chart in Governor Macklem's speech breaking down employment based on sensitivity to US exports, it is still true that sectors of the economy with the greatest US exposure have generally seen weaker trends in employment. However, the employment trend in sectors with "limited reliance" on US exports diverges significantly between the Labour Force Survey (LFS) and SEPH data (Chart). More troubling is that the latter has demonstrated a broadly flat trend for almost a year, which obviously predates any trade uncertainty, in part because the SEPH data hasn't been flattened to the same extent by still-strong population growth.

There are also some troubling details within the LFS data itself. While it is true that most of the weakness within the employment count has been due to job losses within the manufacturing sector (down 55K cumulatively over the past four months), this hasn't necessarily been the cause of the increase in unemployment. Indeed, unemployment data by sector suggests an increase of only 11K in manufacturing over the past four months, implying that about 80% of job losers within that area have dropped out of the labour force.

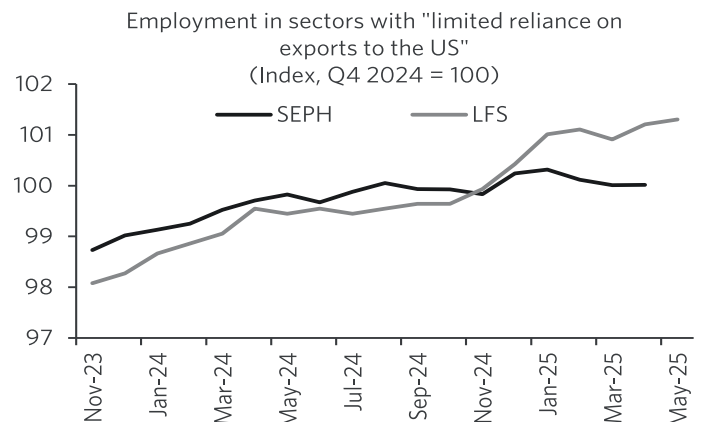
The increase in unemployment is actually being driven by people who were not previously in the labour force, rather than

"job losers". This partly reflects the continued struggle of new graduates, but increasingly it also captures the struggles of people returning to the labour market. The fact that almost two thirds of these individuals are based in Ontario could be a sign of just how weak the labour market is in Canada's largest province, but could also signal a need for households to seek a second income as the generally larger mortgages within the province are renewed at higher rates.

The geographic breakdown of recent labour market weakness also places doubt on the baseline narrative that it is being driven primarily by trade uncertainties. True, Ontario has seen the largest increase in unemployment over the past year, and also is the most sensitive to US tariffs given its steel and auto industries. However, BC has seen the second largest increase in unemployment but in theory should be the least sensitive to US tariffs. What does BC have in common with Ontario? High levels of household debt and a large increase over the past year of individuals who classified as unemployed having recently rejoined the labour market.

Of course, the more you dig into these data, the greater the volatility and the more unreliable the results become. However, there's enough here to at least question the assumption that recent labour market weakness is simply the result of tariffs and related uncertainty. The relevance for investors? It could demonstrate that there's still a need for lower interest rates, even if progress is made towards a new trade deal with the US.

Chart: Employment in less trade-sensitive sectors looks much weaker in payrolls employment than the Labour Force Survey



Source: Statistics Canada, Bank of Canada, CIBC

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, June 30	-	AUCTION: 3-M BILLS \$13.4B, 6-M BILLS \$4.8B, 1-YR - BILLS \$4.8B	-	-	-	-	-
Tuesday, July 1	-	Markets Closed (Canada Day)	-	-	-	-	-
Wednesday, July 2	-	AUCTION: 10-YR CANADAS \$5.3B	-	-	-	-	-
Thursday, July 3	8:30 AM	MERCHANDISE TRADE BALANCE	(May)	(H)	-\$5.9B	-\$6.1B	-\$7.1B
Friday, July 4	-	-	-	-	-	-	-

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, June 30	9:45 AM	CHICAGO PMI	(Jun)	(M)	-	43.0	40.5
Monday, June 30	10:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Monday, June 30	1:00 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Tuesday, July 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jun)	(L)	-	52.0	52.0
Tuesday, July 1	10:00 AM	ISM - MANUFACTURING	(Jun)	(H)	48.5	48.8	48.5
Tuesday, July 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Jun)	(M)	-	-0.1%	-0.4%
Tuesday, July 1	10:00 AM	JOLTS Job Openings	(May)	-	7200K	-	7391K
Tuesday, July 1	9:30 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Wednesday, July 2	7:00 AM	MBA-APPLICATIONS	(Jun 27)	(L)	-	-	1.1%
Wednesday, July 2	8:15 AM	ADP EMPLOYMENT CHANGE	(Jun)	(M)	-	110K	37K
Thursday, July 3	8:30 AM	INITIAL CLAIMS	(Jun 28)	(M)	-	-	236K
Thursday, July 3	8:30 AM	CONTINUING CLAIMS	(Jun 21)	(L)	-	-	1974K
Thursday, July 3	8:30 AM	GOODS & SERVICES TRADE BALANCE	(May)	(H)	-\$68.0B	-	-\$61.6B
Thursday, July 3	8:30 AM	NON-FARM PAYROLLS	(Jun)	(H)	125K	120K	139K
Thursday, July 3	8:30 AM	UNEMPLOYMENT RATE	(Jun)	(H)	4.3%	4.3%	4.2%
Thursday, July 3	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Jun)	(H)	0.3%	0.3%	0.4%
Thursday, July 3	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Jun)	(H)	-	34.3	34.3
Thursday, July 3	8:30 AM	MANUFACTURING PAYROLLS	(Jun)	(H)	-	-	-8K
Thursday, July 3	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jun)	(L)	-	-	53.1
Thursday, July 3	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jun)	(L)	-	-	52.8
Thursday, July 3	10:00 AM	FACTORY ORDERS M/M	(May)	(M)	7.8%	7.8%	-3.7%
Thursday, July 3	10:00 AM	ISM - SERVICES	(Jun)	(M)	50.5	50.8	49.9
Thursday, July 3	10:00 AM	DURABLE GOODS ORDERS M/M	(May)	(H)	-	-	16.4%
Thursday, July 3	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(May)	(H)	-	-	0.5%
Thursday, July 3	11:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Friday, July 4	-	Markets Closed (Independence Day)	-	-	-	-	-

Week Ahead's market call

by Ali Jaffery and Katherine Judge

In the **US**, the June payroll report is the key data highlight, but the President's deadline for the tax bill is also approaching next week. Several thorny issues remain unresolved in the bill, making it a race against time to finalize it. As the dust settles, the impact on the deficit is likely to be larger, especially with the Senate parliamentarian (a non-partisan arbiter) raising challenges to some of the major proposed spending cuts. The market will fluctuate with news surrounding the bill but will likely refocus on economic data as Middle East tensions have waned. We are slightly above consensus on payroll employment gains but anticipate a rise in the jobless rate. This could lead the market to price in a bit more for July, although September remains the preferred timeline for a potential lift-off. Fed speakers, including Chair Powell, will provide their perspectives on the rate path, primarily before the payroll report, which is scheduled for release on Thursday. Note that markets will be closed on Friday in observance of the July 4th holiday.

In **Canada**, it's a quiet week for economic data, with the trade deficit expected to narrow but remain elevated as a result of tariffs, with the massive drop off in exports in April contributing to the decline expected for Q2 GDP.

Week Ahead's key Canadian number:
Merchandise trade—May

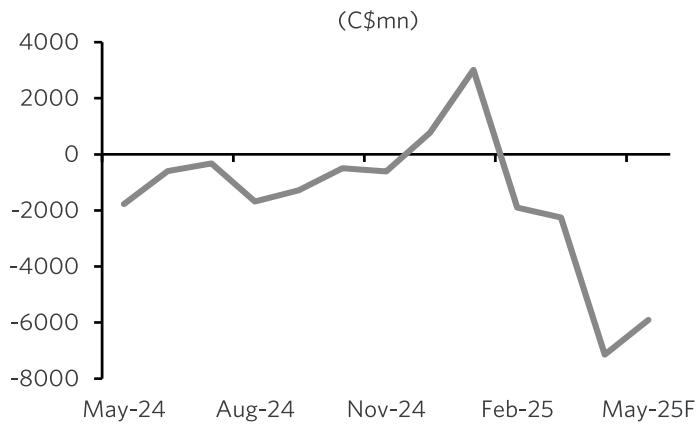
(Thursday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Trade balance	-\$5.9B	-\$6.1B	-\$7.1B

After Canada’s trade deficit ballooned to a record high level in April, May could have seen a narrowing to \$5.9bn. That would include a rebound in energy exports following a temporary oil pipeline closure in April, with higher volumes only partially offset by lower crude prices in May. The US advance trade data showed a rebound in auto imports, which would have included parts shipped from Canada that ultimately escaped tariffs if compliant with USMCA rules of origin. On the import side, waning domestic demand likely limited imports of consumer and capital goods, while the continued appreciation in the Canadian dollar would have dampened the trade figures in C\$ terms.

Chart: Canadian trade balance



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — The monstrous decline in exports in April still means that net trade will be a sizable drag on growth in the second quarter. We expect exports to remain under pressure in Q3 due to sectoral tariffs and the pulling forward of demand into Q1, and until there is material progress on removing auto and steel/aluminum tariffs.

Week Ahead's key US number: Employment situation—June

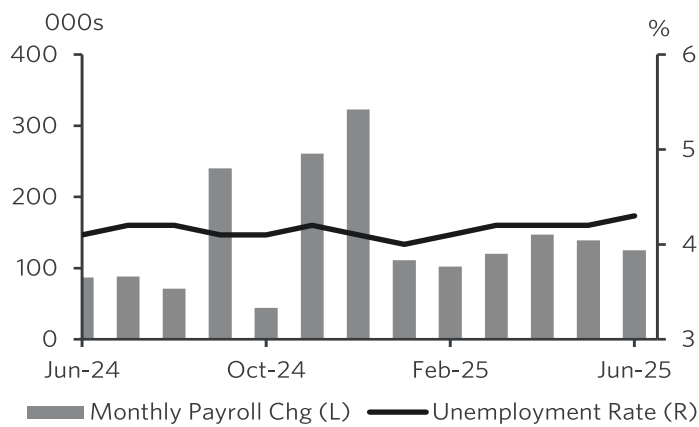
(Thursday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment (m/m)	125K	120K	139K
Unemployment rate	4.3%	4.3%	4.2%
Avg hourly earnings (m/m)	0.3%	0.3%	0.4%

We expect payrolls to come in at 125K, and the unemployment rate to edge up to 4.3% in June. Initial claims increased during the month, although employment sub-indices in the PMI data indicated modest improvements. We expect some cyclical sectors, such as leisure and hospitality, to slow, while healthcare hiring is likely to remain a stabilizing force in the job market. Hiring in trade-sensitive sectors is expected to remain weak, and the federal government will likely continue reducing jobs during the month. Overall, the US job market appears to be losing momentum.

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Forecast implications — Dovish members of the FOMC have been publicly aligning their “dots” recently, and a soft payroll report, combined with weaker consumption trends, could lead the market to increase expectations for an earlier Fed rate cut this year. We still expect core inflation to remain elevated, and the Fed is likely to want to ensure inflationary pressures are fully under control before cutting rates later this year.

Market impact — We are close to consensus on payrolls. The market is switched back on to the data now with the Middle East conflict appearing less of a concern.

Other US Releases: ISM Manufacturing—June

(Tuesday, 10:00 am)

Regional manufacturing surveys point to sentiment at about the same levels as in May — hence, we don’t expect the headline ISM manufacturing index in June to move, with an unchanged 48.5 reading.

JOLTS Job Openings—May

(Tuesday, 10:00 am)

Private job tracking sites suggest job openings fell in May. We expect openings to come in at 7200 and the vacancy-to-unemployment ratio to stay at 1.0.

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