

Economics

THE WEEK AHEAD

February 3 - 7, 2025

Retaliation 101

by Avery Shenfeld avery.shenfeld@cibc.com

It's still anyone's guess what, if anything, February 1st will reveal about US tariffs on Canada and Mexico. An announcement of some sort now seems likely, since President Trump might feel that he's boxed himself into that date. But it could range from simply restating, with a bit more detail, a threat to impose a tariff at some future date if actions on the border aren't taken, to a narrowly-applied immediate tariff on certain goods, all the way to the imposition of a 25% duty on all imports from those countries with a threat to hike that rate down the road. With contradictory statements coming this past week from the incoming Commerce Secretary, unnamed officials quoted in the media, and the President himself, your guess is as good as mine.

What's also still to be unveiled is Canada's retaliatory response should tariffs be imposed. On this side of the border, political leaders haven't been speaking with a unified voice. But there are some basic principals that should be followed, all of which are based on what the objective should be: impose maximal and visible pain on US business and political leaders with influence in Washington, while trying to minimize self-inflicted wounds on Canada's economy.

Since retaliatory tariffs add to inflation, and the Bank of Canada seems concerned that will limit its ability to boost domestic growth with interest rate cuts, tariff revenues should be offset by an equivalent or perhaps even greater cut to GST revenues, through a reduction in the rate on some or all products. That way, the one-time lift to import prices, designed to discourage consumers from buying made-in-the-USA goods, would be offset by price declines across a broad range of goods and services. In short, deliver fiscal stimulus in a way that directly counters one of the key negatives from retaliatory tariffs, their impact on Canadians' purchasing power.

That should encourage the BoC to look past any blip in inflation and focus on supporting economic growth with further interest rate cuts. In an upcoming report, we find that the downward pressure on inflation from weaker economic growth and increased slack could offset a one-time lift to prices from tariffs and a weaker Canadian dollar, if one looks out beyond the first few quarters.

In addition to tariffs, Canadians should be mobilized to sharply reduce spending on US goods and travel. There will likely be enough resentment over the damage from US trade policy to Canada's economy to engender such a response, spurred by an effective marketing campaign and social media. Canadians would actually save money by opting for Caribbean or Mexican beaches over Florida's, or our own ski resorts over Colorado's, given the strong US dollar. Doug Ford's suggestion to pull American wine and booze off the shelf won't raise the CPI, and will cause no real hardship given the available substitutes from Canada and overseas, and ought to be followed by other provincial liquor authorities.

Cutting off our oil exports, as some have suggested, would be self-defeating, in effect chopping our exports to zero in that commodity in response to a tariff that we fear will only reduce our exports. Yes, Americans would notice, but if tariffs are applied to oil, they will already see a lift to prices at the gas pump. An ad campaign to call attention to any uptick in gasoline prices might help raise awareness in Trump's base.

Importantly, alongside retaliation, we'll need diplomacy. Visits to the Oval Office, or a Trump golf resort, would appear to be less than fruitful. The facts on trade don't seem to resonate much with the President, and little progress seems to have been made in changing his tune since the Prime Minister's trek to Mar-a-Lago. If anything, the rhetoric has grown harsher, turning a dispute over border or trade issues into a plot to use economic pain to push Canada into joining the American union.

Relative to speaking to the man at the top, engagement with key cabinet members and Republican Congressional leaders holds more promise. The divisions within his team of cabinet appointees and advisors that we've seen on this issue, even in the past week, suggest that there are voices in the White House who understand why trade restraints aren't a winner for Americans. We need these voices to win out against others in the MAGA camp who are true protectionists. And perhaps there's still time, as the clock ticks down to February 1, to stay the President's hand.

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, February 3	-	-	-	-	-	-	-
Tuesday, February 4	-	-	-	-	-	-	-
Wednesday, February 5	-	AUCTION: 2-YR CANADAS \$5.5B	-	-	-	-	-
Wednesday, February 5	8:30 AM	MERCHANDISE TRADE BALANCE	(Dec)	(H)	\$0.3B	-	-\$0.3B
Thursday, February 6	-	AUCTION: 10-YR CANADAS \$6.0B	-	-	-	-	-
Thursday, February 6	10:00 AM	IVEY PMI	(Jan)	(L)	-	-	54.7
Friday, February 7	8:30 AM	EMPLOYMENT CHANGE	(Jan)	(H)	20.0K	-	91.0K
Friday, February 7	8:30 AM	UNEMPLOYMENT RATE	(Jan)	(H)	6.8%	-	6.7%

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, February 3	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jan)	(L)	-	50.1	50.1
Monday, February 3	10:00 AM	ISM - MANUFACTURING	(Jan)	(H)	-	49.3	49.2
Monday, February 3	10:00 AM	CONSTRUCTION SPENDING M/M	(Dec)	(M)	-	0.2%	0.0%
Monday, February 3	12:30 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Monday, February 3	6:30 PM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Tuesday, February 4	10:00 AM	JOLTS Job Openings	(Dec)	-	-	-	8098K
Tuesday, February 4	10:00 AM	FACTORY ORDERS M/M	(Dec)	(M)	0.5%	0.5%	-0.4%
Tuesday, February 4	10:00 AM	DURABLE GOODS ORDERS M/M	(Dec)	(H)	-	-	-2.2%
Tuesday, February 4	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Dec)	(H)	-	-	0.3%
Tuesday, February 4	11:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Tuesday, February 4	2:00 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Tuesday, February 4	7:30 PM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Wednesday, February 5	7:00 AM	MBA-APPLICATIONS	(Jan 31)	(L)	-	-	-2.0%
Wednesday, February 5	8:15 AM	ADP EMPLOYMENT CHANGE	(Jan)	(M)	-	153K	122K
Wednesday, February 5	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Dec)	(M)	-	-\$80.4B	-\$78.2B
Wednesday, February 5	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jan)	(L)	-	-	52.8
Wednesday, February 5	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jan)	(L)	-	-	52.4
Wednesday, February 5	10:00 AM	ISM - SERVICES	(Jan)	(M)	-	54.5	54.0
Wednesday, February 5	9:00 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Wednesday, February 5	1:00 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Wednesday, February 5	3:00 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, February 5	7:30 PM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Thursday, February 6	8:30 AM	INITIAL CLAIMS	(Feb 1)	(M)	-	-	207K
Thursday, February 6	8:30 AM	CONTINUING CLAIMS	(Jan 25)	(L)	-	-	1858K
Thursday, February 6	8:30 AM	NON-FARM PRODUCTIVITY	(4Q P)	(M)	-	1.9%	2.2%
Thursday, February 6	2:30 PM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Friday, February 7	8:30 AM	NON-FARM PAYROLLS	(Jan)	(H)	185K	150K	256K
Friday, February 7	8:30 AM	UNEMPLOYMENT RATE	(Jan)	(H)	4.1%	4.1%	4.1%
Friday, February 7	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Jan)	(H)	0.3%	0.3%	0.3%
Friday, February 7	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Jan)	(H)	-	34.3	34.3
Friday, February 7	8:30 AM	MANUFACTURING PAYROLLS	(Jan)	(H)	-	5K	-13K
Friday, February 7	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Feb P)	(H)	-	-	71.1
Friday, February 7	10:00 AM	WHOLESALE INVENTORIES M/M	(Dec)	(L)	-	-	-0.5%
Friday, February 7	3:00 PM	CONSUMER CREDIT	(Dec)	(L)	-	\$12.5B	-\$7.5B
Friday, February 7	9:25 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Friday, February 7	12:00 PM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, another healthy jobs report will be in line with market expectations for a patient Federal Reserve. We still see real interest rates, and long term mortgage rates, as too high to be consistent with sustaining full employment over the medium term, but respectable growth for now will give the Fed reason to bide its time, awaiting more insights into fiscal and trade policies. The factory ISM will garner a bit of support from sentiment gains following the election. And of course there are no slow days for news out of Washington, with an announcement on tariffs on Mexico, Canada and perhaps China a possibility over the weekend.

In **Canada**, developments on US trade policy have the greatest potential to move markets in the week ahead, with the Canadian dollar set to weaken or rebound depending on whether tariffs are, or aren't, imposed on February 1st. We're not offering our guess, because we have little conviction on our ability to anticipate what the President will actually do at this point. On the data front, employment gains in the household survey (LFS) have looked suspiciously high relative to the SEPH (payrolls) data, and that may be reflecting an overstatement of Q4 population gains as the LFS catches up to earlier immigration numbers, and fails to fully pick up the slowing there. We're expecting a deceleration in hiring and a return to a 6.8% jobless rate. But we also look for wage gains to cool, with January being an important month in that series given the share of workers who have pay resets at the start of the year. Exports could show a lift from oil as well as US purchases ahead of threatened tariffs.

Week Ahead's key Canadian number: Labour force survey—January

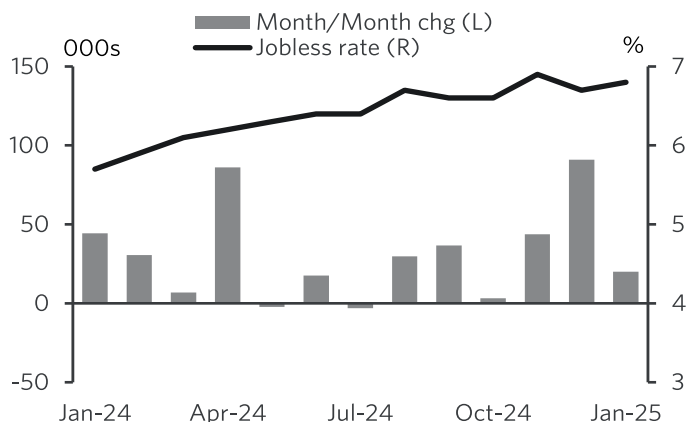
(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment (m/m)	20.0K	-	91.0K
Unemployment rate	6.8%	-	6.7%

Employment growth has been strong recently, according to this LFS survey at least. However, we aren't convinced, with lagged strong population growth likely flattering the job count and other evidence (including the SEPH data and the BoC's outlook surveys) pointing to weaker trends. Because of that we expect employment growth to have decelerated notably in January, and crucially by enough to bring a tick back up in the jobless rate. Historic revisions partly smoothed out the deceleration in wage growth seen in recent months, but we still see a gradual easing trend and expect that to have continued in January.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — As population growth slows and interest rate cuts continue to spur demand in the economy, the unemployment rate should stabilize and then start to decline in the second half of the year. However, the impact of tariffs, if they are imposed, would of course disrupt that positive projection.

Other Canadian releases: Merchandise trade—December

(Wednesday, 8:30 am)

Oil exports appear to have been positive again, and US advance trade data provided some evidence of companies front-running possible tariffs, with imports surging in some areas. That could suggest a positive impact on Canadian exports in other areas as well, and as a result we project a modest surplus of +\$0.3bn in December.

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

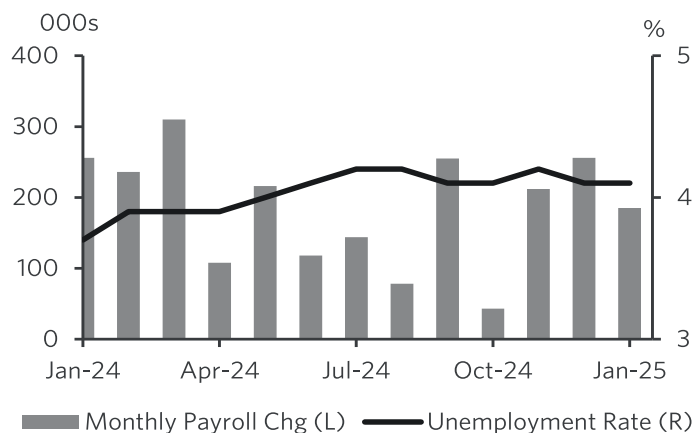
(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment (m/m)	185K	150K	256K
Unemployment rate	4.1%	4.1%	4.1%
Avg hourly earnings (m/m)	0.3%	0.3%	0.3%

The labor market should start the year on a strong note, posting 185K payroll job gains in January. Most of that will come from private services, which look like they are experiencing a cyclical pickup. That will more than offset weakness in the goods sector and softer government hiring. The administration has wasted no time in trying to slow unwanted program spending and to entice workers to leave. Federal spending freezes will mean less money for states, pushing down state and local government hiring gradually too. In the household survey, the jobless rate should remain unchanged at 4.1% and wage growth steady at 0.3%. We're not expecting the wildfire impact to show up meaningfully in the data given initial claims indicated a fairly modest pick up through the first few weeks of January in California and no major sign in the national data.

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Forecast implications — A solid start for the labor market will only reinforce the Fed's "wait-and-see" attitude. Their eyes are on what Trump will actually do and inflation now that the risk of a fast cooling job market is less pressing now.

Market impact — The early consensus view on payrolls is 150K as of writing. If our view materializes, the market would be even more convinced of a prolonged hold.

Other US Releases: ISM Manufacturing—January

(Monday, 10:00 am)

We expect the ISM Manufacturing survey to improve slightly in January to 49.5 from 49.2. Regional surveys were mixed in the month and the S&P manufacturing index showed a modest improvement. Enthusiasm for future fiscal policy and regulatory reform could be outweighing trade worries.

JOLTS Job Openings—December

(Tuesday, 10:00 am)

Job openings should rise to 8200 in December, as indicated by private job postings on major job tracking sites. That will push the vacancy to unemployment ratio up one notch to 1.2 after resting at 1.1 for the past five months, a clear signal that the labor market is enjoying a modest upswing.

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