

## Economics

## THE WEEK AHEAD

September 1 - 5, 2025

## What's behind door number one?

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

Canada seems poised to play "Let's Make a Deal!" with the US, if we can read the tea leaves from recent events. To get talks back in gear, Canada's retaliatory tariffs were dropped in sectors where Canadian exports have been given duty-free US access for CUSMA (aka USMCA) compliant goods. Indeed, meetings between cabinet-level officials from the two countries have resumed. Ottawa is no longer seeking a fully free-trade deal that is a non-starter with Trump, and the US is no longer as bogged down in talks with other major trading partners.

Carney's team didn't have to rush into a poor bargain, noting that we already have the lowest average tariff on our exports to the US. That's true, but in the industries still hit by very elevated tariffs (autos, steel, aluminum, and lumber) Canadian plants are much more dependant on the US market than the same sectors in Europe or Asia. Where else can GM sell a large Chevy pickup truck? Moreover, since the required 2026 CUSMA renewal isn't guaranteed, there's a cloud of uncertainty hanging over other exporters that will impede their capital spending plans.

To draw the analogy to the game show, are we going to find a new car, a tariff free car, behind door number one? Unlikely. The White House seems committed to retaining high tariffs to promote a reshoring of that industry towards more US production. In all likelihood, that will be slow to materialize, inflationary for consumers, and, if Canada's retaliatory tariffs remain on US vehicles (but not on those from Europe or Asia), will lead to a bigger reduction in US production by cutting into its share of the Canadian market.

The best judge of what might be on the table is to look at the offers that the US has made to other trading partners. On autos, some countries have bargained down to a 15% tariff rate. Canada's isn't really that much above that, sitting at 25% of the non-US content in finished Canadian vehicles, but we might press for 15% with the US-content carve out.

On steel and aluminum, the EU and Japan got a loose pledge for further talks but no immediate relief from a 50% US tariff. Remarks from Treasury Secretary Bessent suggest that Canada has an opening for a quota of tariff-free, or perhaps lower tariff

aluminum exports, helped by pressure from US automakers. Steel might not be as easy given Trump's in-person pledges to American workers in that sector, and perhaps more room to supplant imports than in aluminum. Lumber tariffs could be a much longer and tougher road judged by past episodes of US protectionism.

If there's a catch, it's that Canada doesn't have much left to offer in terms of reducing barriers on US exports in exchange, and there really isn't a huge southbound flow of fentanyl to interdict. Canada has a shopping list for military procurement, and has been kicking tires on alternatives to US fighter jets, perhaps to make that purchase a bargaining chip in these talks. But we doubt that Carney would agree to a major government funded investment in US industry, akin to the one that the US is pressing Japan to accept. Trump's demand for \$61 billion as our share of the "Golden Dome" cost is also a non-starter.

Still, we might well see the ink on something that could be called a "deal" before the next Bank of Canada rate setting date, and if so, it will factor into their decision making. The best possible deal behind door number one would be better than what's behind door number two, which would be no relief at all from any of the sectoral tariffs, or door number three, a breakdown in relations that blocks talks on CUSMA or adds to sectoral tariffs elsewhere.

But even if a deal is reached, we're not out of the woods. If relief for steel and lumber producers isn't forthcoming, auto tariffs lead to a slow bleed in Canada's market share as mandates for new models tilt towards American plants, and uncertainty lingers over CUSMA, even door number one might not be good enough to preclude some interest rate relief.

## 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, September 1    | -        | Markets Closed (Labour Day)              | -     | -        | -       | -         | -       |
| Tuesday, September 2   | -        | -                                        | -     | -        | -       | -         | -       |
| Wednesday, September 3 | -        | AUCTION: 5-YR CANADAS \$5.3B             | -     | -        | -       | -         | -       |
| Wednesday, September 3 | 8:30 AM  | LABOUR PRODUCTIVITY Q/Q                  | (2Q)  | (M)      | -       | -         | 0.2%    |
| Thursday, September 4  | 8:30 AM  | MERCHANDISE TRADE BALANCE                | (Jul) | (H)      | -\$3.0B | -         | -\$5.9B |
| Friday, September 5    | 8:30 AM  | EMPLOYMENT CHANGE                        | (Aug) | (H)      | 10.0K   | -         | -40.8K  |
| Friday, September 5    | 8:30 AM  | UNEMPLOYMENT RATE                        | (Aug) | (H)      | 6.9%    | -         | 6.9%    |
| Friday, September 5    | 10:00 AM | IVEY PMI                                 | (Aug) | (L)      | -       | -         | 55.8    |

## 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, September 1    | -        | Markets Closed (Labor Day)                                  | -        | -        | -        | -         | -        |
| Tuesday, September 2   | -        | AUCTION: 1-YR TREASURIES \$50B                              | -        | -        | -        | -         | -        |
| Tuesday, September 2   | 9:45 AM  | S&P GLOBAL US MANUFACTURING PMI                             | (Aug)    | (L)      | -        | -         | 53.3     |
| Tuesday, September 2   | 10:00 AM | ISM - MANUFACTURING                                         | (Aug)    | (H)      | 49.5     | 48.8      | 48.0     |
| Tuesday, September 2   | 10:00 AM | CONSTRUCTION SPENDING M/M                                   | (Jul)    | (M)      | -        | 0.1%      | -0.4%    |
| Wednesday, September 3 | 7:00 AM  | MBA-APPLICATIONS                                            | (Aug 29) | (L)      | -        | -         | -0.5%    |
| Wednesday, September 3 | 10:00 AM | JOLTS Job Openings                                          | (Jul)    | -        | -        | -         | 7437K    |
| Wednesday, September 3 | 10:00 AM | FACTORY ORDERS M/M                                          | (Jul)    | (M)      | -1.2%    | -1.4%     | -4.8%    |
| Wednesday, September 3 | 10:00 AM | DURABLE GOODS ORDERS M/M                                    | (Jul)    | (H)      | -        | -         | -2.8%    |
| Wednesday, September 3 | 10:00 AM | DURABLE GOODS ORDERS EX-TRANS M/M                           | (Jul)    | (H)      | -        | -         | 1.1%     |
| Wednesday, September 3 | 2:00 PM  | FED'S BEIGE BOOK                                            | -        | -        | -        | -         | -        |
| Wednesday, September 3 | 9:00 AM  | Speaker: Alberto G. Musalem (St Louis) (Non-Voter)          | -        | -        | -        | -         | -        |
| Thursday, September 4  | 8:15 AM  | ADP EMPLOYMENT CHANGE                                       | (Aug)    | (M)      | -        | 60K       | 104K     |
| Thursday, September 4  | 8:30 AM  | INITIAL CLAIMS                                              | (Aug 30) | (M)      | -        | -         | 229K     |
| Thursday, September 4  | 8:30 AM  | CONTINUING CLAIMS                                           | (Aug 23) | (L)      | -        | -         | 1954K    |
| Thursday, September 4  | 8:30 AM  | NON-FARM PRODUCTIVITY                                       | (2Q)     | (M)      | -        | -         | 2.4%     |
| Thursday, September 4  | 8:30 AM  | GOODS & SERVICES TRADE BALANCE                              | (Jul)    | (H)      | -\$77.8B | -\$62.6B  | -\$60.2B |
| Thursday, September 4  | 9:45 AM  | S&P GLOBAL US SERVICES PMI                                  | (Aug)    | (L)      | -        | -         | 55.4     |
| Thursday, September 4  | 9:45 AM  | S&P GLOBAL US COMPOSITE PMI                                 | (Aug)    | (L)      | -        | -         | 55.4     |
| Thursday, September 4  | 10:00 AM | ISM - SERVICES                                              | (Aug)    | (M)      | 50.9     | 50.5      | 50.1     |
| Thursday, September 4  | 11:30 AM | Speaker: John C. Williams (Vice Chairman, New York) (Voter) | -        | -        | -        | -         | -        |
| Thursday, September 4  | 7:00 PM  | Speaker: Austan D. Goolsbee, Chicago (Non-Voter)            | -        | -        | -        | -         | -        |
| Friday, September 5    | 8:30 AM  | NON-FARM PAYROLLS                                           | (Aug)    | (H)      | 65K      | 78K       | 73K      |
| Friday, September 5    | 8:30 AM  | UNEMPLOYMENT RATE                                           | (Aug)    | (H)      | 4.2%     | 4.3%      | 4.2%     |
| Friday, September 5    | 8:30 AM  | AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M                   | (Aug)    | (H)      | 0.3%     | 0.3%      | 0.3%     |
| Friday, September 5    | 8:30 AM  | AVERAGE WEEKLY HOURS ALL EMPLOYEES                          | (Aug)    | (H)      | -        | 34.3      | 34.3     |
| Friday, September 5    | 8:30 AM  | MANUFACTURING PAYROLLS                                      | (Aug)    | (H)      | -        | -         | -11K     |

## Week Ahead's market call

by Avery Shenfeld

In the **US**, workers are front and center, with a Labor Day holiday to kick off the week, and news on how they are faring in the job market to close the week. Tight border controls and accelerating deportations have significantly lowered the bar for how many payrolls jobs we'll need to keep the unemployment rate from rising. So we could get a slightly below-consensus and unimpressive payrolls count, at the same time as the jobless rate continues to hug a lean 4.2%. The factory ISM is likely to stay below 50, but keep an eye on the prices-paid component for tariff impacts. Fed speakers might not want to sound too decisive ahead of the jobs data, but we'll also look for clues in the Beige Book on regional conditions as of late summer.

In **Canada**, the jobs data could be key to cementing our call for a Bank of Canada rate cut in September. The population count used in the LFS is decelerating but likely still overstating the actual numbers, and that creates an upward bias in the monthly employment change. But the softness in the monthly GDP trend suggests hiring will remain cool enough to keep the jobless rate at an elevated 6.9%, enough slack to justify a further easing. The trade deficit in Q2 ballooned on the combined hit from tariffs and an outsized rush to export goods to the US in Q1 ahead of even broader feared tariffs, and the start of some restocking stateside could help narrow the trade gap somewhat in Q3, and in the July data due in the coming week.

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

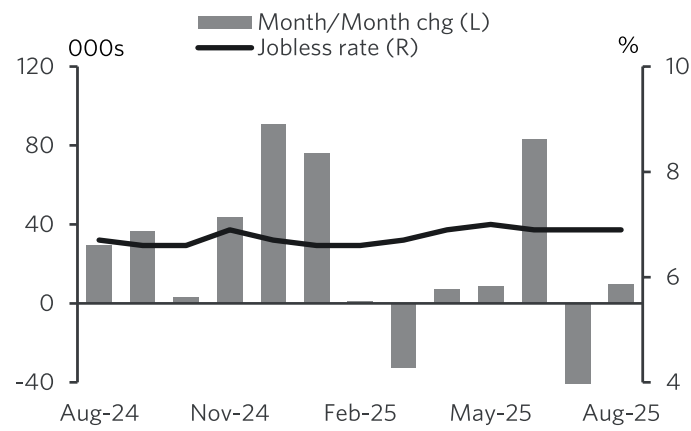
(Friday, 8:30 am)

Andrew Grantham [andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

| Variable          | CIBC  | Mkt | Prior  |
|-------------------|-------|-----|--------|
| Employment (m/m)  | 10.0K | -   | -40.8K |
| Unemployment rate | 6.9%  | -   | 6.9%   |

Forecasting the monthly LFS figures is never easy, but following wild swings in the prior two months it appears even more difficult than ever. We believe that the 3 and 6-month averages (+17K and +5K respectively) tell us more about the underlying momentum in the labour market at the moment. In other words, employment is rising, but only gradually and not by enough to keep up with population growth. That would also be broadly consistent with the sluggish trend of the SEPH employment report over the past year. Our forecast for a 10K increase in August is in line with this muted underlying trend, and would see the unemployment rate remain at 6.9% assuming continued weakness in participation.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications** — While GDP growth is expected to rebound in Q3, this will be largely driven by an improvement in productivity as manufacturing production and exports finds a firmer footing following Q2's slump. A still sluggish labour market, limiting household income growth, will weigh on consumer spending and we continue to expect that interest rate cuts will be needed to spur growth and bring the unemployment rate down in 2026.

## Other Canadian releases: Merchandise trade balance—July

(Thursday, 8:30 am)

The weakness in trade during Q2 wasn't just driven by the imposition of US tariffs, but was also a reflection of previous front-loading activity and a large one-off import that impacted June's data. As some of those factors faded in July, and given a modest increase in oil export volumes to the US during the month, we forecast a narrowing of Canada's goods trade deficit to -\$3bn, roughly half the -\$5.9bn shortfall recorded in June.

# Week Ahead's key US number: Employment situation—August

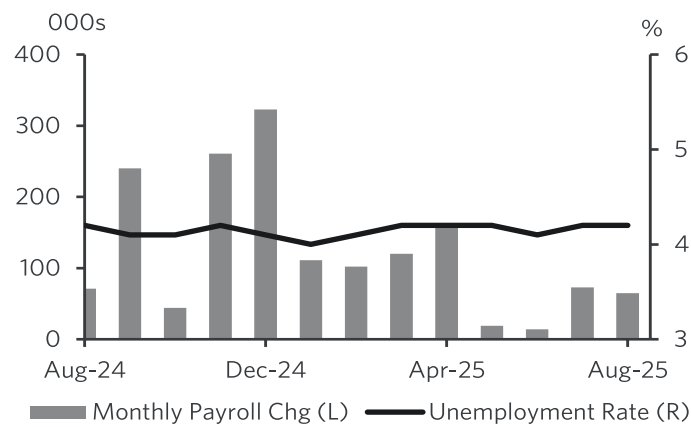
(Friday, 8:30 am)

Katherine Judge [katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

| Variable                  | CIBC | Mkt  | Prior |
|---------------------------|------|------|-------|
| Employment (m/m)          | 65K  | 78K  | 73K   |
| Unemployment rate         | 4.2% | 4.3% | 4.2%  |
| Avg hourly earnings (m/m) | 0.3% | 0.3% | 0.3%  |

A shrinking labor supply pool from deportations in the US means that payrolls gains are on a slower trajectory. And our forecast for a 65K increase in headcounts in August includes weak hiring in the industries that rely the most on unauthorized workers — construction and leisure/hospitality. Manufacturing payrolls could have also remained soft due to the impact of tariffs on production costs. With the labor force shrinking, that would prevent a rise in the unemployment rate, which we expect will be steady at 4.2%. Wage gains likely continued at a 0.3% pace, with an increase in hours worked still resulting in healthy aggregate labor income growth.

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

**Forecast implications** — With the unemployment rate unchanged and labor income holding up, the labor market isn't in need of an urgent rate cut at this point especially given the upside to inflation from tariffs. But if the unemployment rate stays at 4.2%, a Fed cut in September would be an early move aimed as much at politics as at economics.

**Market implications** — We are below the consensus on payrolls and below on the unemployment rate, with the latter factor potentially reducing the market's odds of a September cut.

## Contacts:

Avery Shenfeld  
[avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

Benjamin Tal  
[benjamin.tal@cibc.com](mailto:benjamin.tal@cibc.com)

Andrew Grantham  
[andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

Ali Jaffery  
[ali.jaffery@cibc.com](mailto:ali.jaffery@cibc.com)

Katherine Judge  
[katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

CIBC Capital Markets  
PO Box 500  
161 Bay Street, Brookfield Place  
Toronto, Canada, M5J 2S8  
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