

## Economics

## THE WEEK AHEAD

February 24 - 28, 2025

## Trump's kryptonite

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

It's a bird...it's a plane...It's Trump. President Trump appears to be unstoppable. Utilizing the might of the US economy, the president is squeezing the White House's far reaching power to the last drop. His main weapon: Section 232 of the Trade Expansion Act of 1962. That section provides the President broad power to adjust imports — including through the use of tariffs — if excessive foreign imports are found to be a threat to US national security. And as we have learned already, it appears that in the eyes of the president, everything under the sun is a potential threat to national security.

Now let's call it as it is. The president has some valid points. He is absolutely right about the border — mostly when it comes to Mexico. He is right about defense spending and he is right about some of China's trade practices. In many cases he is wrong about Canada. But the reality is that we can point out until we are blue in the face that ex energy, the US is actually running a trade surplus with Canada and that the "\$200bn subsidy" figure is totally fiction. That will not help. Logic and data will not work here. But what might soften the president is his kryptonite.

His first and maybe most important vulnerability is the stock market. It's hardly a secret that the president in many occasions defines success by the performance of the stock market. It's not a surprise that Canada and Mexico were granted 30-day extensions on the 25% tariff shortly after the stock market reacted negatively to the news. So the current performance of the stock market is not due to the assessment that tariffs are good for the US economy, but the belief that, at the end of the day, the president will not implement measures that will hurt market sentiment.

Another vulnerability is gasoline prices. If he can help it, the president will not allow gasoline prices to rise materially under his watch. And with no easy substitute for oil coming from

Canada, any tariff on Canadian energy will be immediately translated into higher prices at the pump. We doubt that even a 10% tariff on energy will be imposed.

Inflation is another vulnerability. In almost any campaign speech Trump used inflation as a weapon against the Democrats. And as we have seen this week, the war on inflation is not over. We can debate by how much, but it's clear as day light that the first and most visible impact of broadly based tariffs will be higher US prices. And with inflation struggling to clear the 2% target, any additional price pressures will quickly find their way to inflation expectations and might force the Fed to raise rates — another issue for the president who has yet to see rates that are too low. A potential clash between the White House and the Fed is the last thing the market would like to see (see first vulnerability).

Time is also a consideration. While the cost/benefit outcome of broadly-based tariffs is debatable, what's not debatable is that the cost will be felt much faster than any potential benefit. After all, you cannot impose tariffs on a well-oiled machine that was established on a free trade infrastructure and expect things to change overnight. The president's vulnerability is that by the time of the mid-term elections, the only visible outcome will be the economic disruption of tariffs in terms of inflation, jobs, and output.

Eventually the President will have to act if he wants to maintain any credibility. But his kryptonite will ensure that the upcoming tariffs will be more limited in terms of scope, duration or magnitude than currently feared.

## 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 24	8:15 AM	Speaker: Toni Gravelle (Deputy Gov.)	-	-	-	-	-
Tuesday, February 25	-	AUCTION: 3-M BILLS \$14.6B, 6-M BILLS \$5.2B, 1-YR BILLS \$5.2B	-	-	-	-	-
Wednesday, February 26	-	-	-	-	-	-	-
Thursday, February 27	-	AUCTION: 30-YR CANADAS \$2.5B	-	-	-	-	-
Thursday, February 27	8:30 AM	CURRENT ACCOUNT BAL.	(4Q)	(M)	-	-	-\$3.2B
Thursday, February 27	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Dec)	-	-	-	-56.1K
Friday, February 28	8:30 AM	GDP M/M	(Dec)	(H)	0.3%	-	-0.2%
Friday, February 28	8:30 AM	GDP (annualized)	(4Q)	(H)	1.8%	-	1.0%

## 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 24	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Monday, February 24	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Jan)	(M)	-	-	0.2
Tuesday, February 25	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Tuesday, February 25	8:30 AM	PHILADELPHIA FED - NON-MANUFACTURING	(Feb)	(M)	-	-	-9.1
Tuesday, February 25	9:00 AM	HOUSE PRICE INDEX M/M	(Dec)	(M)	-	-	0.3%
Tuesday, February 25	9:00 AM	S&P CORELOGIC CS Y/Y	(Dec)	(H)	-	-	4.3%
Tuesday, February 25	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Feb)	(H)	103.5	103.0	104.1
Tuesday, February 25	10:00 AM	RICHMOND FED MANUF. INDEX	(Feb)	(M)	-	-	-4
Tuesday, February 25	4:20 AM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Tuesday, February 25	11:45 AM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Tuesday, February 25	1:00 PM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Wednesday, February 26	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Wednesday, February 26	-	AUCTION: 2-YR FRN \$28B	-	-	-	-	-
Wednesday, February 26	7:00 AM	MBA-APPLICATIONS	(Feb 21)	(L)	-	-	-6.6%
Wednesday, February 26	10:00 AM	NEW HOME SALES SAAR	(Jan)	(M)	-	678K	698K
Wednesday, February 26	10:00 AM	NEW HOME SALES M/M	(Jan)	(M)	-	-2.9%	3.6%
Wednesday, February 26	10:00 AM	BUILDING PERMITS SAAR	(Jan)	(H)	-	-	1483K
Wednesday, February 26	8:30 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Wednesday, February 26	12:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Thursday, February 27	8:30 AM	INITIAL CLAIMS	(Feb 22)	(M)	-	-	219K
Thursday, February 27	8:30 AM	CONTINUING CLAIMS	(Feb 15)	(L)	-	-	1869K
Thursday, February 27	8:30 AM	GDP (annualized)	(4Q S)	(H)	2.3%	2.3%	2.3%
Thursday, February 27	8:30 AM	GDP DEFLATOR (annualized)	(4Q S)	(H)	-	-	2.2%
Thursday, February 27	8:30 AM	DURABLE GOODS ORDERS M/M	(Jan P)	(H)	1.5%	1.8%	-2.2%
Thursday, February 27	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jan P)	(H)	0.4%	0.4%	0.3%
Thursday, February 27	10:00 AM	PENDING HOME SALES M/M	(Jan)	(M)	-	-1.2%	-5.5%
Thursday, February 27	9:15 AM	Speaker: Jeffrey Schmid (Kansas City)	-	-	-	-	-
Thursday, February 27	10:00 AM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Thursday, February 27	11:45 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Thursday, February 27	1:15 PM	Speaker: Beth Hammack (Cleveland) (Voter)	-	-	-	-	-
Thursday, February 27	3:15 PM	Speaker: Patrick Harker (Philadelphia) (Non-Voter)	-	-	-	-	-
Friday, February 27	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Jan)	(M)	-	-\$114.8B	-\$122.0B
Friday, February 27	8:30 AM	RETAIL INVENTORIES M/M	(Jan)	(H)	-	-	-0.3%
Friday, February 27	8:30 AM	PCE DEFLATOR Y/Y	(Jan)	(H)	2.5%	2.5%	2.6%
Friday, February 27	8:30 AM	PCE DEFLATOR Y/Y (core)	(Jan)	(H)	2.7%	2.6%	2.8%
Friday, February 27	8:30 AM	PERSONAL INCOME M/M	(Jan)	(H)	0.3%	0.3%	0.4%
Friday, February 27	8:30 AM	PERSONAL SPENDING M/M	(Jan)	(H)	0.3%	0.2%	0.7%
Friday, February 27	8:30 AM	WHOLESALE INVENTORIES M/M	(Jan P)	(L)	-	-	-0.5%
Friday, February 27	9:45 AM	CHICAGO PMI	(Feb)	(M)	-	-	39.5
Friday, February 27	10:15 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-

## Week Ahead's market call

by Ali Jaffery and Katherine Judge

In the **US**, we expect a sizzling core PCE report and soft consumer spending. That will only bolster bets for the Fed to remain patient and we expect that to be the main message of the parade of Fed speakers next week. But attention is also going to be on administration's "Art of the Deal" tactics as we get closer to the 30 day reprieve given to Canada and Mexico by week end.

In **Canada**, all eyes will be on the GDP data, with the fourth quarter set to show an acceleration on a boost to activity from the housing market, solid consumption tied to the GST holiday, and growth in exports helped by tariff front running. Even though the January advanced data will likely show a healthy start to the year, we expect momentum to fade over the first quarter as tariff uncertainty weighs, which should leave the Bank of Canada on a path towards an overnight rate of 2.25%.

## Week Ahead's key Canadian number: Gross domestic product—December

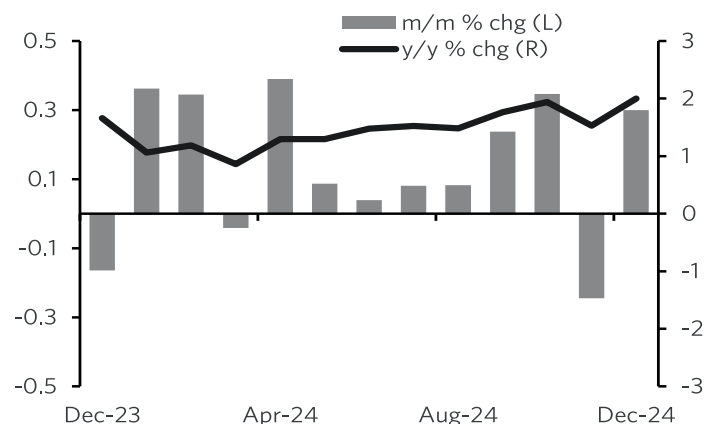
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.3	-	-0.2
GDP Q4 (annualized)	1.8	-	1.0

December GDP will likely come in a tick above the advance estimate at 0.3% m/m, with the upside surprises in the retail sales and trade data received since then more than offsetting the downside in manufacturing and wholesale trade. That would leave the expenditure data tracking a roughly 1.8% annualized gain for the fourth quarter, in line with the Bank of Canada's latest MPR forecast. That would be a notable acceleration from the 1.0% pace seen in the third quarter, as housing market activity picked up along with lower interest rates, and consumption was supported by the GST holiday. Net trade also

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

flipped to a growth contributor, likely helped by tariff front-running on the export side.

**Forecast implications** — The advance estimate for January GDP will likely show a healthy advance, implied by the constructive employment report, and helped by a rebound from the postal strike. However, we look for growth in Q1 to slow to around 1% annualized on rising tariff uncertainty, in contrast to the BoC's 2% forecast. And with the economy still operating with slack, we look for the overnight rate to reach a trough of 2.25%.

## Week Ahead's key US number: Personal income & outlays—January

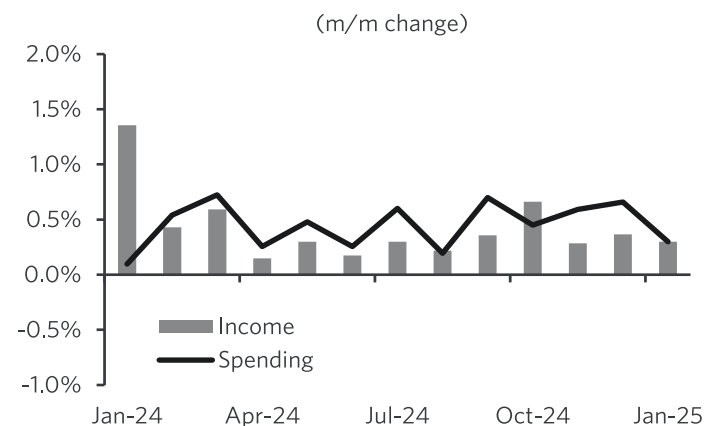
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.3	0.3	0.4
Personal spending (m/m)	0.3	0.2	0.7
Core PCE price index (y/y)	2.7	2.6	2.8

All eyes will be on the PCE data next week. We expect headline and core PCE price index to both come in hot at 0.4% m/m on the back of the CPI report earlier this month. Consumption growth in inflation-adjusted terms will come in at -0.1% m/m — the first pullback in spending since April of last year. Personal income growth should rise by 0.3%. Price prices in January likely reflect a mix of forces — some residual seasonality and start-of-the-year price resetting, and possibly businesses expecting higher prices from tariffs and bracing for higher cost increases. The Fed will take time to assess and is clearly positioned for an extended hold.

Chart: US personal income and spending



Source: BEA, Haver Analytics, CIBC

**Forecast implications** — In a no-tariff scenario, we expect the Fed to be hold for the first half of this year.

**Market implications** — We are above consensus on inflation and expect the market to modestly pare back Fed cut expectations next Friday.

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