

Economics

THE WEEK AHEAD

February 10 - 14, 2025

Watch the other House, not the White one

by Avery Shenfeld avery.shenfeld@cibc.com

It's been hard for market participants to take their eyes off the White House, for obvious reasons. But it's that other House, further down Pennsylvania Avenue, that bears watching in the next few days. That's true for anyone concerned about deficits, taxes, tariffs, renewable energy, and just about everything that impacts the dollars and cents in the US budget.

The Republican members of the House appear to be closing in on a budget resolution that we could get clues on as early as today, with additional details possible by Tuesday. The centerpiece of that bill will be making permanent, or at least extending, the tax cuts passed in Trump's first term that are due to expire. That much is clear, but everything else is still up in the air at this point.

For the bill to sail through Congress, and not be subject to a Democratic filibuster in the Senate, it needs to proceed under a reconciliation process that has two key constraints: only items impacting the budget balance can be included, and it has to leave the 10-year deficit outlook unchanged overall. The full cost of extending the tax cuts, and perhaps some of the additional tax cuts pledged in the Trump campaign, has to be offset by spending cuts or fresh revenue increases.

That's at a minimum. There are hardliners in the GOP's Freedom Caucus who want to use the need to increase the debt ceiling in the coming weeks to push for actual fiscal restraint that would reduce the projected deficit path. They're in the minority within their party, but have the votes necessary to block any bill that doesn't have votes on the Democratic side of the aisle. These are the same people who dumped their leader in the House, and who therefore can lean on the current House Majority Leader, Mike Johnson, until the debt ceiling has been lifted.

The risk is that those who breathed a sigh of relief on Monday, when the US gave Mexico and Canada a 30-day reprieve from a 25% tariff, have reason to worry that at least a 10% tariff could be back again in short order. The \$1.9 trillion in 10-year revenues that a 10% levy on all US imports would reap is the juiciest single measure on a 50 page leaked memo that was circulated among Republicans, listing all of the items under consideration

(Table). That's the kind of tariff that will be tough for Canadian diplomacy, or retaliatory measures, to battle against, because once enacted, the US will be relying on its revenue stream as part of its fiscal calculations.

There are hundreds of other cuts or tax hikes still under consideration that could obviate the need for tariffs. But among the 10 largest, a "border adjustment tax" involves major reforms that don't seem to be getting much talk these days. Others, like cuts to health care or eliminating interest deductions for mortgages, might draw even more public flack than tariffs.

So while there are many Republicans who don't favour tariffs, and others whose states are large beneficiaries of the IRA provisions for renewable power, the risks are that those items end up being part of the reconciliation bill. If that's the case, the first announcement that tariffs are headed Canada's way will come from the House, not the White House.

Table: Republican Cost Saving Budget Proposals

Items	Amount (Billions)
10 Percent Tariff	1,900
Border Adjustment Tax	1,200
Repeal SALT Deduction	1,000
Eliminate the Home Mortgage Interest Deduction	1,000
Medicaid Per Capita Caps	900
Repeal Green Energy Tax Credits	796
Require School Attendance for SSI Benefits	640
Cuts to Obamacare	561
Repeal parts of IRA	405
Lower Medicaid Matching Rate Floor	387
Total of top 10 cost saving proposals	8,789

Source: Republican Party memo published by Politico

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 10	10:30 AM	Release: Market Participants Survey	-	-	-	-	-
Tuesday, February 11	-	AUCTION: 3-M BILLS \$13.4B, 6-M BILLS \$4.8B, 1-YR BILLS \$4.8B	-	-	-	-	-
Tuesday, February 11	8:30 AM	BUILDING PERMITS M/M	(Dec)	(M)	-	2.0%	-5.9%
Wednesday, February 12	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Thursday, February 13	-	AUCTION: 5-YR CANADAS \$6B	-	-	-	-	-
Friday, February 14	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Dec)	(M)	0.6%	0.7%	0.8%
Friday, February 14	8:30 AM	WHOLESALE SALES EX-PETROLEUM M/M	(Dec)	(M)	0.1%	-	-0.2%
Friday, February 14	10:30 AM	Release: Senior Loan Officer Survey	-	-	-	-	-

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 10	-	-	-	-	-	-	-
Tuesday, February 11	-	AUCTION: 3-YR TREASURIES \$58B	-	-	-	-	-
Tuesday, February 11	8:50 AM	Speaker: Beth Hammack (Cleveland) (Voter)	-	-	-	-	-
Tuesday, February 11	10:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, February 11	3:30 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Wednesday, February 12	-	AUCTION: 10-YR TREASURIES \$42B	-	-	-	-	-
Wednesday, February 12	7:00 AM	MBA-APPLICATIONS	(Feb 7)	(L)	-	-	2.2%
Wednesday, February 12	8:30 AM	CPI M/M	(Jan)	(H)	0.3%	0.3%	0.4%
Wednesday, February 12	8:30 AM	CPI M/M (core)	(Jan)	(H)	0.3%	0.3%	0.2%
Wednesday, February 12	8:30 AM	CPI Y/Y	(Jan)	(H)	2.9%	2.9%	2.9%
Wednesday, February 12	8:30 AM	CPI Y/Y (core)	(Jan)	(H)	3.2%	3.2%	3.2%
Wednesday, February 12	10:00 AM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Wednesday, February 12	12:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Thursday, February 13	-	AUCTION: 30-YR TREASURIES \$25B	-	-	-	-	-
Thursday, February 13	8:30 AM	INITIAL CLAIMS	(Feb 8)	(M)	-	-	219K
Thursday, February 13	8:30 AM	CONTINUING CLAIMS	(Feb 1)	(L)	-	-	1886K
Thursday, February 13	8:30 AM	PPI M/M	(Jan)	(M)	0.2%	0.2%	0.2%
Thursday, February 13	8:30 AM	PPI M/M (core)	(Jan)	(M)	0.3%	0.3%	0.0%
Thursday, February 13	8:30 AM	PPI Y/Y	(Jan)	(M)	-	3.2%	3.3%
Thursday, February 13	8:30 AM	PPI Y/Y (core)	(Jan)	(M)	-	3.3%	3.5%
Friday, February 14	8:30 AM	RETAIL SALES M/M	(Jan)	(H)	0.1%	0.0%	0.4%
Friday, February 14	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Jan)	(H)	0.3%	0.3%	0.4%
Friday, February 14	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Jan)	(H)	0.3%	0.4%	0.7%
Friday, February 14	8:30 AM	IMPORT PRICE INDEX M/M	(Jan)	(L)	-	0.4%	0.1%
Friday, February 14	8:30 AM	EXPORT PRICE INDEX M/M	(Jan)	(L)	-	0.3%	0.3%
Friday, February 14	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Jan)	(H)	0.3%	0.3%	0.9%
Friday, February 14	9:15 AM	CAPACITY UTILIZATION	(Jan)	(M)	77.8%	77.7%	77.6%
Friday, February 14	10:00 AM	BUSINESS INVENTORIES M/M	(Dec)	(L)	-	0.1%	0.1%

Week Ahead's market call

by Ali Jaffery and Andrew Grantham

In the **US**, we expect a little hotter inflation reading in line with consensus and solid consumer spending to continue next week. Powell will testify this week in the Senate and the House, that will give a closer look at how the Fed and the new administration will get along (or not). Other Fed speakers will tell us what we already know, that they will be holding rates until they see more progress on inflation and have a sense of where we are going on other policy fronts. But most of the headlines will likely be about what the administration is up to with their fast-and-furious start. With Canada and Mexico given a temporary reprieve, perhaps we'll learn more about what Trump has in store for the European Union, or if House Republicans will impose a tariff on all imports in their budget bill.

In **Canada**, it's a quiet data week, but manufacturing and wholesale trade should show that the economy ended 2024 on solid footing. The Bank's Summary of Deliberations could provide more detail as to how policymakers are incorporating trade uncertainty into their decision making process.

There are no major Canadian data releases next week.

Week Ahead's key US number: Consumer price index—January

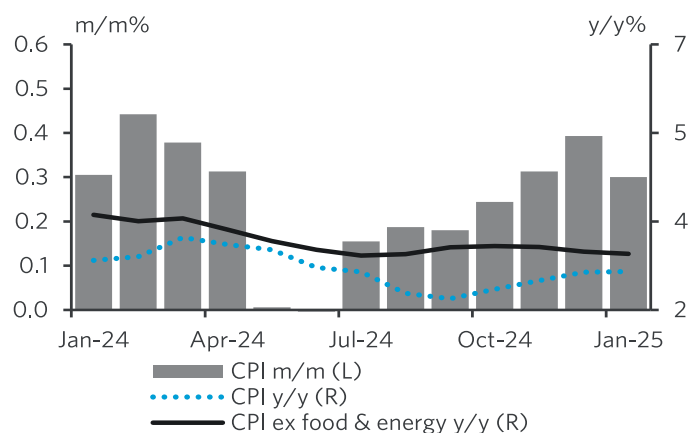
(Wednesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.3	0.3	0.4
Headline CPI (y/y)	2.9	2.9	2.9
Core CPI (m/m)	0.3	0.3	0.2
Core CPI (y/y)	3.2	3.2	3.2

The January CPI report will be the focus next week. Core inflation should come in at 0.3% m/m (0.27%) and the headline measure at 0.3% m/m. We expect price pressures across the basket to look a bit firmer in the month. Used car prices continue to rebound as judged by the Manheim index, solid wage growth and January price re-setting effects could bolster services ex. shelter in the month and our statistical model thinks it time for the shelter component to show some volatility this month after a fairly good recent run.

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

Forecast implications — This 0.3% Core CPI will actually translate to 0.3% in core PCE terms given we expect a pickup in services ex. shelter which has the largest weight in core inflation.

Market implications — Our views are aligned with consensus but markets may worry about January price-resetting being somewhat stronger. However, with the near-term trajectory of the Fed being known, we're not sure this print will generate a lot of action.

Other US Releases: Retail sales—January

(Friday, 8:30 am)

We expect headline retail sales in come in at 0.1% and the control group at 0.3%. The job market looks solid, and is generating strong real labor income gains. Those forces plus a tick up in consumer confidence, driven in large part by supporters of the new administration, should have the consumer off to a decent start to the year.

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