Economics

THE WEEK AHEAD

July 20 - 24, 2026

The illusion of strength

by **Benjamin Tal** benjamin.tal@cibc.com

What do you do when you do not know what to do? You don't take chances. That is essentially the approach the Bank of Canada took this week. Attention now turns to the Federal Reserve and its dual mandate.

The American inflation story is still unfolding, but there are several reasons to believe that much of the recent overshoot may prove temporary, whether driven by energy prices, tariff-related cost pressures, or AI-linked inflationary effects.

During the second half of the year, and assuming some sort of a resolution to the conflict with Iran, the Fed is likely to shift its focus from inflation toward the second part of its mandate: full employment. There is little doubt that the U.S. economy has been resilient. But resilience should not be mistaken for strength. Beneath the surface, the foundations of that resilience appear narrower and more fragile than the market may assume when pricing in a fed hike by year-end.

The issue is not that the U.S. economy is weak in absolute terms. Rather, its perceived strength is increasingly reliant on a limited set of supports: consumers benefiting from rising asset prices, and an AI investment cycle concentrated among a small number of very large firms. That leaves the expansion more vulnerable than it appears.

One of the clearest signs of this fragility is the changing composition of consumer spending. A disproportionate share now comes from the wealth effect linked to surging equity valuations. The extent to which that wealth effect is concentrated among high income/wealthy households is a topic of hot debate, but given that the wealth distribution is hardly normal, it's reasonable to assume that the positive wealth effect is more dominate among top earners. That concentration matters. It means aggregate consumption can remain firm even while a large share of households feel financially stretched. In other words, the economy is not simply consumer-led; it is increasingly being led by consumers supported by asset prices.

A second concern is business investment. Much of the optimism surrounding the U.S. economy rests on the surge in AI-related spending. But when a small number of firms account for an outsized share of capital expenditure, earnings growth, and market leadership, the economy can appear stronger than it truly is across the broader business landscape.

Beyond the narrowly-based growth, there are also clear signs of weakness ahead:

Tax relief from the One Big Beautiful Bill helped to offset higher energy prices through May, but elevated energy costs are now beginning to erode those benefits.

Inventory levels are likely to soften. Disruptions linked to the closure of the Strait of Hormuz led firms to build precautionary inventories in the first half of the year. But with oil prices now lower and supply chains holding up reasonably well, firms are likely to run down inventories in the second half, weighing on new orders.

Granted the soft 57,000 rise in payrolls in June was partly influenced by seasonal adjustment issues linked to the leisure and hospitality sector, but a broad range of surveys suggest that labor demand is cooling again amid still-high borrowing costs for small businesses, elevated energy prices, and the broader adoption of AI as firms seek to reduce labor costs. In addition, the continued decline in payroll survey response rates points to the risk of further downward revisions to initial estimates.

No surprise then that average hourly earnings rose at just a 2.9% annualized pace in the three months to June relative to the prior three months. that is the slowest rate since November 2020. Weak hiring, and low job market mobility are likely to keep wage growth subdued through the second half of the year.

Fiscal policy is likely to provide little meaningful support to growth in 2027.

Bottom line: The U.S. economy may still be expanding, and corporate balance sheets remain healthy and might get even healthier due to tariff rebates. But the exceptionally narrow base of growth, combined with growing signs of weakness ahead, suggest that the Fed will be reluctant to take any chances and will hold fire in the second half of the year.

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, July 20	8:30 AM	CPI M/M	(Jun)	(H)	-0.2%	-0.2%	1.0%
Monday, July 20	8:30 AM	CPI Y/Y	(Jun)	(H)	2.9%	3.0%	3.2%
Monday, July 20	8:30 AM	CONSUMER PRICE INDEX	(Jun)	(M)	-	169.3	169.6
Monday, July 20	8:30 AM	CPI Core- Median Y/Y%	(Jun)	(M)	2.1%	-	2.1%
Monday, July 20	8:30 AM	CPI Core- Trim Y/Y%	(Jun)	(M)	2.0%	-	2.0%
Tuesday, July 21	-	-	-	-	-	-	-
Wednesday, July 22	-	AUCTION: 10-YR CANADAS $5B	-	-	-	-	-
Thursday, July 23	8:30 AM	RETAIL TRADE TOTAL M/M	(May)	(H)	1.0%	1.0%	0.5%
Thursday, July 23	8:30 AM	RETAIL TRADE EX-AUTO M/M	(May)	(H)	-	-	0.1%
Friday, July 24	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Jun)	(M)	-	-	1.2%
Friday, July 24	8:30 AM	RAW MATERIALS M/M	(Jun)	(M)	-	-	0.7%

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, July 20	8:30 AM	LEADING INDICATORS M/M	(Jun)	(M)	-	-0.1%	0.1%
Tuesday, July 21	8:30 AM	PHILADELPHIA FED BUSINESS OUTLOOK	(Jul)	(M)	-	-	-25.8
Wednesday, July 22	-	AUCTION: 20-YR TREASURIES $13B	-	-	-	-	-
Wednesday, July 22	7:00 AM	MBA-APPLICATIONS	(Jul 17)	(L)	-	-	-2.7%
Thursday, July 23	-	AUCTION: 10-YR TIPS $21B	-	-	-	-	-
Thursday, July 23	8:30 AM	INITIAL CLAIMS	(Jul 18)	(M)	-	214K	208K
Thursday, July 23	8:30 AM	CONTINUING CLAIMS	(Jul 11)	(L)	-	-	1805K
Thursday, July 23	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Jun)	(M)	-	-	-0.1
Friday, July 24	9:45 AM	S&P GLOBAL US SERVICES PMI	(Jul P)	(L)	51.0	-	51.2
Friday, July 24	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Jul P)	(L)	51.6	-	51.9
Friday, July 24	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Jul P)	(L)	53.5	54.4	53.9
Friday, July 24	10:00 AM	NEW HOME SALES SAAR	(Jun)	(M)	610K	615K	580K
Friday, July 24	10:00 AM	NEW HOME SALES M/M	(Jun)	(M)	-	4.6%	-7.3%

Week Ahead's market call

by Helen Lao and Katherine Judge

In the **US**, we are one week away from the FOMC meeting so no Fed speak during this black out. It's a light week of data ahead with just PMI and new home sales.

In **Canada**, relief at the pump will drive a deceleration in headline inflation in June. Airfares are set to rise, reflecting the lagged impact of higher fuel costs, and categories tied to the FIFA World Cup are also set to increase temporarily, however, the average of CPI-trim and median should remain around 2%. The 1.0% gain expected for May retail sales will largely be the result of higher pump prices, which will have left less money for spending on discretionary items in that month. The June advance estimate should swing in the other direction on account of lower gasoline prices.

Week Ahead's key Canadian number: Consumer price index—June

(Monday, 8:30 am)

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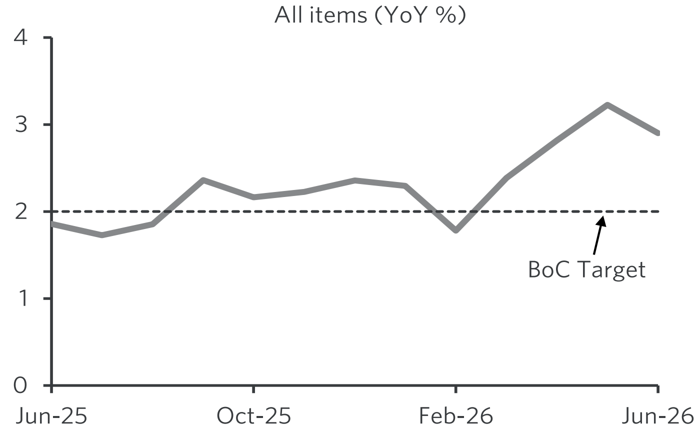
Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	-0.2	-0.2	1.0
CPI (y/y)	2.9	3.0	3.2

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Headline inflation should ease in June as gasoline prices fell off their peaks. The -0.2% monthly change in prices (0.0% SA) that we expect largely reflects the decline in pump prices, and would see the annual rate ease to 2.9%. However, excluding the energy component, price pressures may actually look a little firmer than in the prior month. Increases in airfares will continue to show up in the CPI data as flights are taken, meanwhile prices for hotels and spectator sports could start to show a temporary FIFA World Cup related spike. Exclusionary measures of core inflation could rise by 0.3% on the month as a result, although CPI-Trim and Median may be slightly tamer and should hold onto year-over-year rates near 2%.

Forecast implications — While core measures of inflation may look a little stronger in June, that would be largely due to temporary factors such as past fuel-related increases in airfares and the FIFA World Cup. We would expect core inflation to ease again later in the year, limiting any pressure on the Bank of Canada to raise interest rates.

Other Canadian releases: Retail sales—May

(Thursday, 8:30 am)

Retail sales likely rose by 1.0% in May, although given the rise in gasoline prices during the month in volume terms the gain will look less impressive. More discretionary areas of spending could have struggled after what was a generally positive first quarter. The advance estimate for June could show a decline in spending, albeit largely driven by the decline in gasoline prices seen during that month.

There are no major US data releases next week.

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