THE WEEK AHEAD

January 13 - 17, 2025

Gonna hurt you more than it hurts me

by **Avery Shenfeld** avery.shenfeld@cibc.com

Canada is taking steps to gird itself for the battle against a looming tariff threat from the US, and a list of potential retaliatory tariffs on US products is being assembled as a part of that effort. But both history and facts on the ground suggest that, on their own, Canadian tariffs won't mean much, and such talk isn't making much of an impact on the President-elect thus far.

For the same reason that virtually all card-carrying economists believe that tariffs will be a negative for the US economy on balance, Canada's retaliatory tariffs will hurt our own economy. There's no Canadian orange juice industry to benefit from tariffs on Florida juice. Care for a freshly squeezed apple juice with your breakfast? So, we're inflicting pain on our consumers, or businesses using US inputs, to inflict pain on US exporters.

The problem is that Trump likely understands that, in a bilateral tariff war, this is gonna hurt us more than it hurts him. Yes, we're an important export market for many US industries. But as a share of GDP, only one US state is more dependent on exports to Canada than the least-US-dependant Canadian province (Chart).

Canada will be a better position if the US imposes tariffs on all its imports, and our retaliatory tariffs are part of a joint effort to impede US exports to Canada, Mexico, Europe, and Asia. That would hit politically-sensitive US sectors like agriculture. But even then, the US is less export-dependant than smaller economies.

Where the US really gets hurt is in the fact that in many goods, American consumers and importers of intermediate goods will simply have to pay more for what they can't produce at home, or will be reallocating labour from export-sectors where America has competitive advantages to sectors where it is weaker, a point that seems to have been lost in the mind of US trade hawks. What helped Canada escape steel and aluminum tariffs in Trump's first term were complaints from American industries that used imported metal as an input, but that only became evident to US policymakers after tariffs were in place.

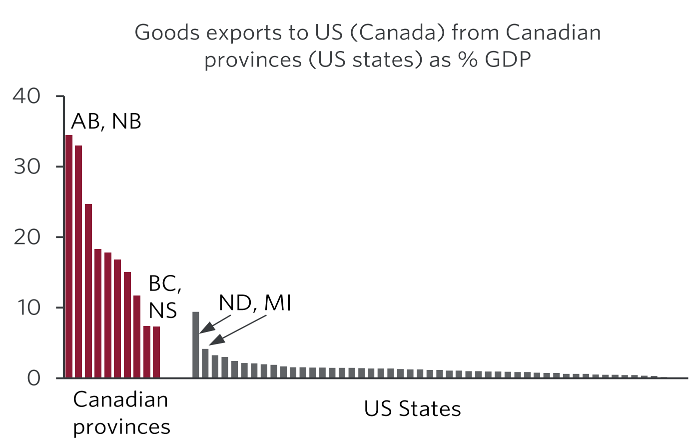
If the threat of retaliatory tariffs is insufficient, what other weapons can we bring to the battle? Trump's first terms suggests that the carrot, rather than the stick, might work better. China bought some time by agreeing to a big shopping list for purchases of US goods, although it never lived up to that pledge. Canada agreed to allow more American dairy products into our market, and to increase North American content in autos than what was required under NAFTA. We could now create our own shopping list of US defence equipment, subway cars, aircraft and so on where we have government purchases coming up, allowing the Trump team to trumpet a win.

Alternatively, we could raise a stick that goes beyond retaliatory tariffs, leveraging what's likely to be a unified Canadian public that will be angered as they see growth stall and the Canadian dollar tumble. Boycotts of prominent US brands, and travel choices that favour the Caribbean or Mexico over Florida or California, could well erupt on their own, and we might be joined by Europeans and others in that trend.

Ultimately, a flexible exchange rate is our 'weapon' of last resort, one that preserves some of our export market share. America will continue to see foreign inflows into the US dollar to finance its large budget deficit, or to buy into US private assets. In a trade war, it will end up with a rising US dollar as imports slow, which in the end leaves it with a trade deficit that offsets its capital account surplus. The balance of payments has to in fact balance. Interest rate cuts to boost domestic demand in Canada and Europe will also give the US dollar a push.

As a part of that, a weaker Canadian dollar will make our workers and other inputs cheaper in US dollar terms, allowing our exporters to absorb some of the tariff hit. But that too is going to hurt us, because we'll be paying more for whatever orange juice or Florida trips we can still afford to buy.

Chart: Canada more exposed to trade with US



Source: Statistics Canada, BEA, CIBC

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, January 13	-	-	-	-	-	-	-
Tuesday, January 14	-	AUCTION: 3-M BILLS $13.4B, 6-M BILLS $4.8B, 1-YR BILLS $4.8B	-	-	-	-	-
Wednesday, January 15	-	AUCTION: 5-YR CANADAS $6B	-	-	-	-	-
Wednesday, January 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Nov)	(M)	0.5%	0.5%	2.1%
Wednesday, January 15	8:30 AM	WHOLESALE SALES EX-PETROLEUM M/M	(Nov)	(M)	-0.7%	-	1.0%
Wednesday, January 15	9:00 AM	EXISTING HOME SALES M/M	(Dec)	(M)	-	-	2.8%
Thursday, January 16	8:30 AM	HOUSING STARTS SAAR	(Dec)	(M)	270.0K	250.0K	262.4K
Thursday, January 16	12:45 PM	Speaker: Toni Gravelle (Deputy Gov.)	-	-	-	-	-
Friday, January 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Nov)	(M)	-	-	$21.6B

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, January 13	2:00 PM	TREASURY BUDGET	(Dec)	(L)	-	-	-$366.8B
Tuesday, January 14	8:30 AM	PPI M/M	(Dec)	(M)	0.3%	0.3%	0.4%
Tuesday, January 14	8:30 AM	PPI M/M (core)	(Dec)	(M)	0.2%	0.2%	0.2%
Tuesday, January 14	8:30 AM	PPI Y/Y	(Dec)	(M)	-	-	3.0%
Tuesday, January 14	8:30 AM	PPI Y/Y (core)	(Dec)	(M)	-	-	3.4%
Tuesday, January 14	10:00 AM	Speaker: Jeffrey Schmid (Kansas City)	-	-	-	-	-
Tuesday, January 14	3:05 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Wednesday, January 15	7:00 AM	MBA-APPLICATIONS	(Jan 10)	(L)	-	-	-3.7%
Wednesday, January 15	8:30 AM	CPI M/M	(Dec)	(H)	0.3%	-	0.3%
Wednesday, January 15	8:30 AM	CPI M/M (core)	(Dec)	(H)	0.2%	-	0.3%
Wednesday, January 15	8:30 AM	CPI Y/Y	(Dec)	(H)	2.9%	-	2.7%
Wednesday, January 15	8:30 AM	CPI Y/Y (core)	(Dec)	(H)	3.3%	-	3.3%
Wednesday, January 15	8:30 AM	NEW YORK FED (EMPIRE)	(Jan)	(M)	-	-2.0	0.2
Wednesday, January 15	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, January 15	9:20 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Wednesday, January 15	10:00 AM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Wednesday, January 15	11:00 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter) & Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Wednesday, January 15	12:00 PM	Economic Forecast Forum	-	-	-	-	-
Thursday, January 16	8:30 AM	INITIAL CLAIMS	(Jan 11)	(M)	-	-	201K
Thursday, January 16	8:30 AM	CONTINUING CLAIMS	(Jan 4)	(L)	-	-	1867K
Thursday, January 16	8:30 AM	RETAIL SALES M/M	(Dec)	(H)	0.4%	0.5%	0.7%
Thursday, January 16	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Dec)	(H)	0.3%	0.5%	0.2%
Thursday, January 16	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Dec)	(H)	0.3%	0.3%	0.4%
Thursday, January 16	8:30 AM	IMPORT PRICE INDEX M/M	(Dec)	(L)	-	-	0.1%
Thursday, January 16	8:30 AM	EXPORT PRICE INDEX M/M	(Dec)	(L)	-	-	0.0%
Thursday, January 16	10:00 AM	BUSINESS INVENTORIES M/M	(Nov)	(L)	-	0.1%	0.1%
Thursday, January 16	10:00 AM	NAHB HOUSING INDEX	(Jan)	(L)	-	-	46.0
Friday, January 17	8:30 AM	HOUSING STARTS SAAR	(Dec)	(M)	1341K	1315K	1289K
Friday, January 17	8:30 AM	BUILDING PERMITS SAAR	(Dec P)	(H)	1500K	1458K	1493K
Friday, January 17	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Dec)	(H)	0.5%	0.3%	-0.1%
Friday, January 17	9:15 AM	CAPACITY UTILIZATION	(Dec)	(M)	77.3%	77.0%	76.8%
Friday, January 17	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Nov)	(L)	-	-	$152.3B

Week Ahead's market call

by Avery Shenfeld

In the **US**, those concerned about sticky inflation could get a bit of relief if core CPI comes in with only a 0.2% monthly gain. But we still expect Fed speakers to be cautious in terms of signaling how much easing lies ahead, given that they aren't yet in any position to pin down where fiscal and trade policy are headed. The resiliency of US employment and growth data certainly gives monetary policymakers time to stand pat until they get greater clarity on tax and spending policies and tariffs, making a January pause an easy decision. Retail sales should be OK if not spectacular, and slowing population growth might be starting to take a bit of shine off those numbers. Housing starts are running well below medium term requirements, but looking at where 30-year mortgages now stand, we could continue to see a sideways trend for homebuilding until the fiscal scare hitting long Treasuries begins to abate.

In **Canada**, it's a light week for market moving data overall, with the focus now on politics in Ottawa and Washington. Deputy Governor Gravelle is likely to use his time at the podium to update markets on the bank's balance sheet, quantitative tightening, and issues relating to the functioning of the overnight market. We will still look for any insights on the Bank's macro thinking in the wake of better jobs data in December, somewhat disappointing Q4 growth figures, and of course, the tariff threat, but our suspicion is that the macro picture is now more of a work in progress at the BoC rather than something its prepared to fully unveil.

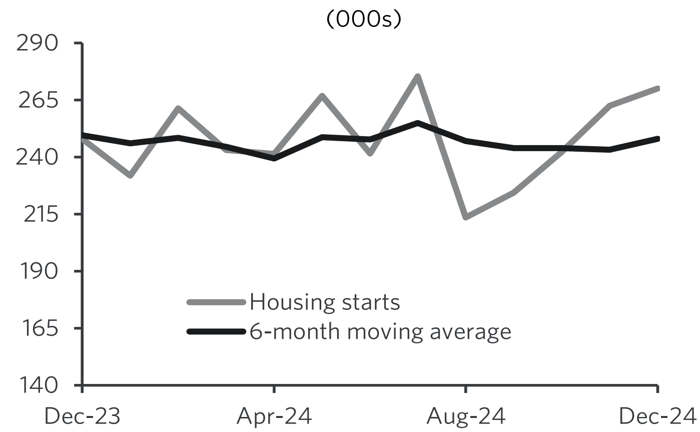
Week Ahead's key Canadian number: Housing starts—December

(Thursday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable	CIBC	Mkt	Prior
Housing starts SAAR	270.0K	250.0K	262.4K

Chart: Canadian housing starts



Source: CMHC, Haver Analytics, CIBC

Homebuilding is starting to respond to lower interest rates, with the pace increasing in the last few months. Activity could have risen further in December, as suggested by a pickup in permits in recent months, and helped by mild winter weather conditions. However, a further acceleration in building is being prevented by weakness in the multi-family market, with the 270K saar pace expected in December still below pandemic-era peaks and too slow to make a meaningful dent in the shortfall of housing supply.

Forecast implications — Lower interest rates will continue to entice buyers and builders into the market, and we expect housing starts to rise by 7% in 2025. 2026 will likely see a faster increase as the condo market is likely to have turned around by then.

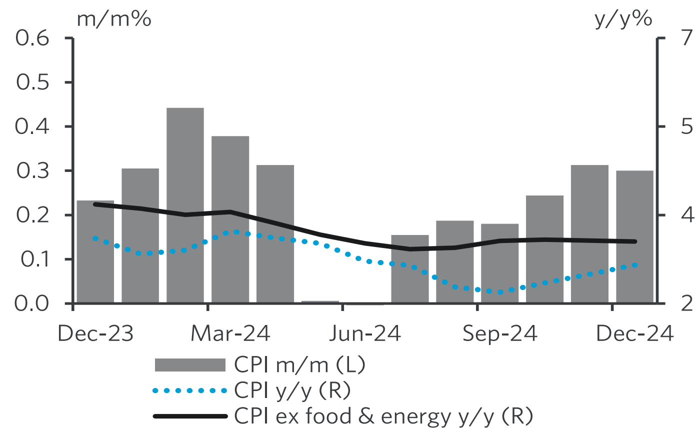
Week Ahead's key US number: Consumer price index—December

(Wednesday, 8:30 am)

Ali Jaffery ali.jaffery@cibc.com

Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.3	0.3	0.3
Headline CPI (y/y)	2.9	2.9	2.7
Core CPI (m/m)	0.2	0.2	0.3
Core CPI (y/y)	3.3	3.3	3.3

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

All eyes will be on CPI next week. Headline should come in at 0.3% and we expect core to tick down a notch to 0.2% giving the Fed a bit of comfort that inflation progress hasn't completely stalled. The main forces behind the improvement in core will be a tamer print for used cars — which has been pushing up price pressures lately — and more gradual disinflation in shelter costs. While the FOMC has not been pleased with the inflation data during most of the fall and clearly worries about inflation risks due to potential changes in trade policy, it hasn't been all bad news. The November inflation prints were all very good (CPI, PCE and PPI) and the distribution of recent inflation readings has actually sharply improved over the past two months. The share of PCE components growing between 2-3% annualized is back within pre-pandemic norms.

Forecast implications — Even a very good December print won't be enough to get the Fed off the sidelines. At least another month of progress and more clarity on the trade policy front will be needed for the FOMC to have the confidence to continue easing. We expect the Fed will be on hold this month.

Market implications — Our views are aligned with consensus and we don't expect the market to overreact to this print with everyone aligned on a skip for January for the Fed.

Other US Releases: Retail sales—December

(Thursday, 8:30 am)

We expect the control group of retail sales to moderate but remain solid with growth of 0.3% m/m and the headline advanced reading should be 0.4% based on high-frequency credit card spending. A solid labor market, strong wealth gains and a spendthrift attitude of millennial consumers have underpinned the strong growth of US consumption.

Industrial production—December

(Friday, 9:15 am)

We expect the industrial production growth to rebound in December at 0.5% m/m. The manufacturing sector continues recover from hurricanes and the Boeing strike which ended in early November.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

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

economics.cibccm.com