

Economics

THE WEEK AHEAD

July 15 - 19, 2024

Trump cards

by Avery Shenfeld avery.shenfeld@cibc.com

There's a long road from the week ahead's Republican convention to the first Tuesday in November, but if the polls stand pat, Donald Trump would have a good chance of coming out on top. If you're looking for clues on what that might mean for investors, the GOP campaign showed some of its cards this week, as the Republicans released their draft election platform, in a document that was crafted to be fully aligned with the MAGA wing of the party.

There are no fewer than 13 references to "trade" or "tariffs" in that short document, and overall, a protectionist bent, particularly on trade with China. In addition to pledges to reduce imports from that country, Republicans are committed to "baseline tariffs on foreign-made goods", a phrase that points to a wider list of targets, with a claim that tariff increases can finance other tax cuts. Goods critical to American security must be "made in the USA"; there's no reference to "friendshoring" or a US-Mexico-Canada (USMCA) deal there.

But there are some glimmers of hope for those concerned about an all-out trade war that could boost inflation while denting global growth. There's a plan to negotiate "fair and reciprocal trade deals." That leaves scope for trading partners to reach agreements that aren't as damaging to two-way trade. And importantly for the USMCA deal, the platform gives Trump credit for "renegotiating failed trade agreements" in his first term. Should there be a second term, the effort to secure the extension of the USMCA will include reminding Trump that the current deal was his achievement.

A second broad theme would entail a roll-back of efforts to reduce fossil fuel use and contain greenhouse gas emissions. That includes, for example, a promise to cancel electric vehicle and other mandates. Here too, however, there is a narrow window through which some current policies might be sustained. The emphasis in the document is on unleashing the oil and gas sector, but also on lowering costs. Some renewable power projects can help achieve such savings, although large tariffs on related equipment would be an issue there. The platform says it will cancel the "Green New Deal", rather than citing the "Inflation Reduction Act" itself. It also speaks

positively about nuclear energy, which could also have a role in reducing carbon emissions.

In addition to the oil and gas sector, Trump, like Biden, favours protecting US automakers from Chinese EV imports. In terms of potential winners, the platform backs the continuation of the lower-tax environment on the corporate sector, favours a lighter hand on regulatory policy, and supports building a bigger military with "cutting edge technology". The health care sector will want to keep an eye on what approach will be taken to meet the promise to generate savings for Americans on healthcare and prescription drugs.

Finally, in terms of overall fiscal policy, those in the bond market with concerns about US fiscal deficits won't find much to cheer about in the platform. Trump's team has pushed aside the wing of the Republican party that had argued for cuts in either medicare and social security, and the platform promises that not even a penny will be trimmed from these programs. In the past, looking to eliminate "wasteful federal spending" outside these major entitlements hasn't achieved much, and Congressional Democrats and Republicans tend to resist major defense spending cuts. That will make it difficult to offset the deficit implications from the platform's pledge to not only extend the tax cuts Trump enacted in his first term, but also cover revenue hits tied to references to pursuing "additional tax cuts", tax credits for family caregivers and home buyers.

That's not to say that a Democratic administration, or the Democrats in Congress, are very likely to offer up much in the way of fiscal restraint. They would need to gain a lot of seats to pass significant tax hikes on corporations or upper income Americans that Republicans will reject, and we don't expect that their platform will advocate significant spending restraints. The best that bond bulls can hope for is that fiscal stimulus doesn't accelerate from what's already been seen to date, which should be enough to open the door for Fed cuts as inflation fades, and thereby support lower rates across the curve.

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 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(May)	(M)	0.2%	0.2%	1.1%
Monday, July 15	8:30 AM	WHOLESALE SALES EX PETROLEUM M/M	(May)	(M)	-0.9%	-	2.4%
Monday, July 15	10:30 AM	BUSINESS OUTLOOK SURVEY	(2Q)	(L)	-	-	-2.4
Tuesday, July 16	-	AUCTION: 3-M BILLS \$11.6B, 6-M BILLS \$4.2B, 1-YR BILLS \$4.2B	-	-	-	-	-
Tuesday, July 16	8:15 AM	HOUSING STARTS SAAR	(Jun)	(M)	245.0K	258.6K	264.5K
Tuesday, July 16	8:30 AM	CPI M/M	(Jun)	(H)	0.1%	0.1%	0.6%
Tuesday, July 16	8:30 AM	CPI Y/Y	(Jun)	(H)	2.8%	2.8%	2.9%
Tuesday, July 16	8:30 AM	Consumer Price Index	(Jun)	(M)	-	-	161.5
Tuesday, July 16	8:30 AM	CPI Core- Median Y/Y%	(Jun)	(M)	2.7%	-	2.8%
Tuesday, July 16	8:30 AM	CPI Core- Trim Y/Y%	(Jun)	(M)	2.8%	-	2.9%
Wednesday, July 17	-	AUCTION: 2-YR CANADAS \$5B	-	-	-	-	-
Wednesday, July 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(May)	(M)	-	-	\$41.2B
Thursday, July 18	-	-	-	-	-	-	-
Friday, July 19	8:30 AM	RETAIL TRADE TOTAL M/M	(May)	(H)	-0.6%	-0.2%	0.7%
Friday, July 19	8:30 AM	RETAIL TRADE EX-AUTO M/M	(May)	(H)	-0.7%	-	1.8%
Friday, July 19	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Jun)	(M)	-	-	0.0%
Friday, July 19	8:30 AM	RAW MATERIALS M/M	(Jun)	(M)	-	-	-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, July 15	8:30 AM	NEW YORK FED (EMPIRE)	(Jul)	(M)	-	-8.0	-6.0
Monday, July 15	12:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Monday, July 15	4:35 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Tuesday, July 16	8:30 AM	RETAIL SALES M/M	(Jun)	(H)	-0.5%	-0.2%	0.1%
Tuesday, July 16	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Jun)	(H)	-0.2%	0.1%	-0.1%
Tuesday, July 16	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Jun)	(H)	0.2%	0.2%	0.4%
Tuesday, July 16	8:30 AM	IMPORT PRICE INDEX M/M	(Jun)	(L)	-	-	-0.4%
Tuesday, July 16	8:30 AM	EXPORT PRICE INDEX M/M	(Jun)	(L)	-	-	-0.6%
Tuesday, July 16	10:00 AM	BUSINESS INVENTORIES M/M	(May)	(L)	-	0.3%	0.3%
Tuesday, July 16	10:00 AM	NAHB HOUSING INDEX	(Jul)	(L)	-	43.0	43.0
Tuesday, July 16	2:45 PM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Wednesday, July 17	-	AUCTION: 20-YR TREASURIES \$13B	-	-	-	-	-
Wednesday, July 17	7:00 AM	MBA-APPLICATIONS	(Jul 12)	(L)	-	-	-0.2%
Wednesday, July 17	8:30 AM	HOUSING STARTS SAAR	(Jun)	(M)	1350K	1300K	1277K
Wednesday, July 17	8:30 AM	BUILDING PERMITS SAAR	(Jun)	(H)	1450K	1395K	1399K
Wednesday, July 17	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Jun)	(H)	0.3%	0.3%	0.7%
Wednesday, July 17	9:15 AM	CAPACITY UTILIZATION	(Jun)	(M)	78.5%	78.5%	78.2%
Wednesday, July 17	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, July 17	9:00 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Wednesday, July 17	9:35 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Thursday, July 18	-	AUCTION: 10-YR TIPS \$19B	-	-	-	-	-
Thursday, July 18	8:30 AM	INITIAL CLAIMS	(Jul 13)	(M)	-	-	222K
Thursday, July 18	8:30 AM	CONTINUING CLAIMS	(Jul 6)	(L)	-	-	1852K
Thursday, July 18	10:00 AM	LEADING INDICATORS M/M	(Jun)	(M)	-	-0.3%	-0.5%
Thursday, July 18	4:00 PM	NET CAPITAL INFLOWS (TICS)	(May)	(L)	-	-	\$123.1B
Thursday, July 18	1:45 PM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Thursday, July 18	6:05 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Thursday, July 18	7:45 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Friday, July 19	10:40 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, July 19	1:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, several consumer goods companies are reporting a less-ebullient demand picture, and we could see evidence of that in June retail sales, which were also held back by a software issue for car dealers. If ex-auto sales are also disappointing, it would be another piece of mounting evidence that the Fed should be giving serious consideration towards a July rate cut, even if odds are that they've already talked themselves into an unnecessary wait until September. Otherwise, it's not a big week on the economic calendar, leaving equity markets paying more attention to earnings calls. The Republican convention gets underway, and we profile some of the market implications of their platform in our cover story this week.

In **Canada**, the weakening job market gives the Bank of Canada ample reason to cut rates in July, and on the growth front, retail data are likely to look sluggish. But the Bank will pay close heed to two key data releases this week in terms of their news on inflation. Topping that list is the June CPI, where a cooling back to 0.2% increases in the two core measures would make the May results look more like a one-off blip higher. While we're not big fans of the BOS survey due to its small and varying list of respondents, the central bank will take some comfort if business outlooks for wages, costs and prices don't pick up or even ease off further, after cooling in the prior survey. An improvement in business or consumer outlooks for growth wouldn't stand in the way of a rate cut, since that can include the benefits of anticipated rate cuts ahead.

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

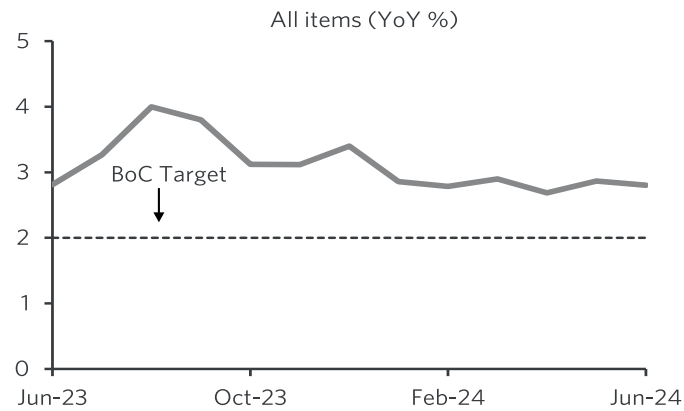
(Tuesday, 8:30 am)

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Variable	CIBC	Mkt	Prior
CPI NSA m/m	0.1	0.1	0.6
CPI y/r	2.8	2.8	2.9

Monthly price levels were likely only slightly higher in June in non-seasonally adjusted terms, leaving the annual pace of the headline CPI a tick lower at 2.8%. That would still leave the Q2 average pace a hair below what the latest MPR projected for inflation during the quarter. However, the Bank of Canada will be more concerned with their preferred core measures, CPI-trim and median, which we expect will both show a 0.2% m/m SA advance, leaving the annual paces a tick lower at 2.8% and 2.7%, respectively.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Our expectation for the BoC’s preferred measures to settle back down closer to a 2%-annualized monthly pace of inflation, combined with the increase in the unemployment rate and the weak demand backdrop, should give policymakers confidence to cut rates again in July. In Q3, the headline CPI index should drop off sharply on base effects, with inflation likely averaging 2.3% y/y in the quarter. Core measures will likely come down at a more measured pace, as mortgage interest costs ease off and demand remains soft.

Other Canadian releases: Retail sales—May

(Friday, 8:30 am)

The advance estimate for retail sales suggested a 0.6% decline in May, and while that will partly reflect lower gasoline prices during the month, it still suggests a moderate negative in volume terms. The advance estimate for June will also look weak, but that will include a one-off negative impact from a widespread software outage that impacted car dealership transactions for part of that month. Still, the broad trend in real retail sales is lacklustre, with per-capita volumes sitting well-below year ago levels, highlighting the need for lower interest rates.

Week Ahead's key US number:
Retail sales—June

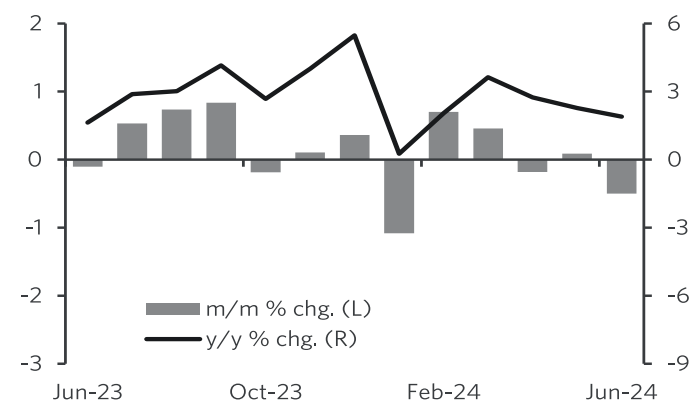
(Tuesday, 8:30 am)

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Variable (m/m %)	CIBC	Mkt	Prior
Retail sales	-0.5	-0.2	0.1
Retail sales - ex auto	-0.2	0.1	-0.1
Retail sales - control group	0.2	0.2	0.4

We expect US retail sales to slow in June, with the control group of retail sales increasing by 0.2% m/m, after a 0.4% reading in May. The headline advanced number should look very weak due to a decline in gasoline prices and slower car sales, as we expect a contraction of 0.5% in the month. A software glitch is artificially pushing down the car sales numbers in the month. But even abstracting from volatility in autos, the outlook for spending does not look strong as the consumer has shown a lot of fatigue. In the last GDP release, consumption growth in 24Q1 was substantially revised down by a full percentage point from the advanced release to the final release reading of 1.5%. A slowing labor market and the large pull-forward of demand for consumer durables last year are clearly acting as headwinds that will keep spending tame.

Chart: US retail sales (%)



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — Slower retail sales and the drop in auto sales have our consumption tracking down to 1.5% in 24Q2. Our GDP nowcast is also in the range of 1.6% to 1.8%, below our last posted forecast of 2.4%. We will update our posted forecasts after the release of retail sales.

Other US Releases:
Industrial production—June

(Wednesday, 9:15 am)

Industrial production should rise by 0.3% supported by utilities, as hotter than normal June temperatures likely had Americans running their air conditioners longer. That should offset a softer manufacturing reading, as PMI data point to a softer outturn in the month in that sector.

Housing starts—June

(Wednesday, 8:30 am)

We expect housing starts and permits to pick up in June after the weakness in May, but the overall level of starts should remain soft at 1350K in the month and permits at 1450K.

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