

THE WEEK AHEAD

September 15 - 19, 2025

The BoC and the Fed: Same road, different journeys

by Ali Jaffery ali.jaffery@cibc.com

Next Wednesday, the Bank of Canada and the Fed will both deliver interest rate relief after what history will judge to be a relatively brief pause. A single rate cut isn't enough to meaningfully affect economic outcomes these days, so we expect to hear dovish talk aimed at solidifying expectations for another cut in October, as both central banks regain confidence in adopting a forward-looking approach. For the Fed, it wouldn't surprise us if one or two Governors dissent for a bigger cut — perhaps more to raise their profiles with the White House than to shift policy.

Although the market isn't convinced, we see a stronger case for rate cuts in Canada than in the US. The American economy is just starting to show some signs of slack, whereas Canada has moved deeper into slack conditions throughout the year, with a real-time output gap closer to -1.5%, just a few threads above recession. That growing slack has helped push some measures of wage growth below inflation already. "Buy Canadian" sentiment has given consumer spending a lift, but with winter travel in Canada less attractive, that boost will fade.

Enough dust has also settled to allow Governor Macklem to focus on what lies ahead and be less data-dependent. Unfortunately, that outlook isn't particularly encouraging. The global economy is slowing, as is the US, and a sweeping trade deal does not seem to be on the horizon for Canada. Despite the press conferences and major announcements, a big fiscal boost to change Canada's fortunes in the next few quarters is also unlikely. Even if the approval process is speeded up, getting the shovels in the ground for major projects will take time and have that work appear in the data.

For the BoC, with slack sticking around for a while, the inflation outlook looks less concerning. Moreover, some of the forces that previously pushed underlying inflation higher are now reversing. The CAD has settled in a range not far from where it was before trade worries surfaced, and counter-tariffs are gone. While pricier US imports could spill over into Canadian inflation, there is a reasonable case for the BoC to "look through" such price rises. Research presented at Jackson Hole underscores that anchored inflation expectations and inflation-fighting credibility allow policy makers to weather temporary bouts of inflation, and prevent higher inflation from becoming entrenched (Nakamura et al, 2025). Markets and businesses understand that if things really get out of hand, the central bank

will act to restore price stability, and so they ultimately make decisions roughly consistent with 2% inflation. With headline inflation near target and businesses' inflation expectations steady, Canada appears to be passing that test.

Those in the Fed cheering on rate cuts are leaning on similar arguments, but the case for Fed cuts is weaker on those grounds. For one, PCE inflation hasn't returned to target sustainably in the post-pandemic period, and it's not clear that after a one-time price level shock starting from above 2% inflation that we land back on 2% when it's all said and done. Also, the White House is now attacking the Fed more often than fantasy football managers surf the waiver wire after week 1. That does not inspire confidence in the Fed's future inflation-fighting chops.

It's true that America's job market is on a cooling trajectory, but it's not flashing red like in Canada. A 4.3% jobless rate is only a shade above the Fed's own estimate of the long-term unemployment rate, and the step down in payrolls reflects slowing demand, but also slower population growth. The cooling in the job market hasn't extended to worker pay, as the Fed's preferred measure of wage growth has actually re-accelerated close to 4%, raising the risk of a feedback loop between wages and prices. At the end of the day, the most persuasive economic argument for the Fed to cut rates now is to bring rates closer to neutral, but the inflation outlook and the bending-but-not-breaking state of the economy would suggest doing so gradually. It's difficult to justify consecutive rate cuts without factoring in politics.

The real challenge for the US will be when rates get to neutral territory, likely around 3.5%. At least on economic grounds, stubborn inflation should be a major stumbling block to bringing rates into an accommodative zone, even if the job market falters further. Canada, on the other hand, likely should have already been headed towards accommodative policy some time ago and the debate up north could soon be about how low they need to go. So while the Bank of Canada and the Fed may appear to be traveling the same road next week when rates come down, their journeys — shaped by differing economic landscapes and destinations — remain very different.

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, September 15	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Jul)	(M)	1.7%	1.8%	0.3%
Monday, September 15	8:30 AM	WHOLESALE SALES EX-PETROLEUM M/M	(Jul)	(M)	1.2%	1.3%	0.7%
Monday, September 15	9:00 AM	EXISTING HOME SALES M/M	(Aug)	(M)	-	-	3.8%
Tuesday, September 16	8:15 AM	HOUSING STARTS SAAR	(Aug)	(M)	275.0K	273.2K	294.1K
Tuesday, September 16	8:30 AM	CPI M/M	(Aug)	(H)	0.0%	0.1%	0.3%
Tuesday, September 16	8:30 AM	CPI Y/Y	(Aug)	(H)	1.9%	2.0%	1.7%
Tuesday, September 16	8:30 AM	Consumer Price Index	(Aug)	(M)	-	-	164.9
Tuesday, September 16	8:30 AM	CPI Core- Median Y/Y%	(Aug)	(M)	3.1%	3.1%	3.1%
Tuesday, September 16	8:30 AM	CPI Core- Trim Y/Y%	(Aug)	(M)	3.0%	3.0%	3.0%
Wednesday, September 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Jul)	(M)	-	-	\$0.7B
Wednesday, September 17	9:45 AM	BANK OF CANADA RATE ANNOUNCE.	(Sep 17)	(H)	2.50%	2.50%	2.75%
Thursday, September 18	-	-	-	-	-	-	-
Friday, September 19	8:30 AM	RETAIL TRADE TOTAL M/M	(Jul)	(H)	-0.9%	0.0%	1.5%
Friday, September 19	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Jul)	(H)	-0.7%	-	1.9%

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, September 15	8:30 AM	NEW YORK FED (EMPIRE)	(Sep)	(M)	-	4.3	11.9
Tuesday, September 16	-	AUCTION: 20-YR TREASURIES \$13B	-	-	-	-	-
Tuesday, September 16	8:30 AM	RETAIL SALES M/M	(Aug)	(H)	0.3%	0.2%	0.5%
Tuesday, September 16	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Aug)	(H)	0.5%	0.4%	0.3%
Tuesday, September 16	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Aug)	(H)	0.4%	0.3%	0.5%
Tuesday, September 16	8:30 AM	IMPORT PRICE INDEX M/M	(Aug)	(L)	-	-0.3%	0.4%
Tuesday, September 16	8:30 AM	EXPORT PRICE INDEX M/M	(Aug)	(L)	-	0.1%	0.1%
Tuesday, September 16	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Aug)	(H)	0.1%	0.0%	-0.1%
Tuesday, September 16	9:15 AM	CAPACITY UTILIZATION	(Aug)	(M)	77.5%	77.4%	77.5%
Tuesday, September 16	10:00 AM	BUSINESS INVENTORIES M/M	(Jul)	(L)	-	0.2%	0.2%
Tuesday, September 16	10:00 AM	NAHB HOUSING INDEX	(Sep)	(L)	-	33	32
Wednesday, September 17	7:00 AM	MBA-APPLICATIONS	(Sep 12)	(L)	-	-	9.2%
Wednesday, September 17	8:30 AM	HOUSING STARTS SAAR	(Aug)	(M)	1400K	1370K	1428K
Wednesday, September 17	8:30 AM	BUILDING PERMITS SAAR	(Aug P)	(H)	1400K	1370K	1362K
Wednesday, September 17	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Sep 17)	(H)	4.25%	4.25%	4.50%
Wednesday, September 17	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Sep 17)	(H)	4.00%	4.00%	4.25%
Thursday, September 18	-	AUCTION: 10-YR TIPS \$19B	-	-	-	-	-
Thursday, September 18	8:30 AM	INITIAL CLAIMS	(Sep 13)	(M)	-	-	263K
Thursday, September 18	8:30 AM	CONTINUING CLAIMS	(Sep 6)	(L)	-	-	1939K
Thursday, September 18	8:30 AM	PHILADELPHIA FED BUSINESS OUTLOOK	(Sep)	(M)	-	3.0	-0.3
Thursday, September 18	10:00 AM	LEADING INDICATORS M/M	(Aug)	(M)	-	-0.1%	-0.1%
Thursday, September 18	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Jul)	(L)	-	-	150.8B
Friday, September 19	-	-	-	-	-	-	-

Week Ahead's market call

by Ali Jaffery and Andrew Grantham

In the **US**, the first Fed rate cut will be the main event, and markets will be focused on the latest version of the SEP. We don't expect many changes in the Fed's forecast for this year, with the median voter calling for one more cut after the September ease. The core inflation projection by year-end should stay around 3% and the jobless rate at 4.5%. The biggest changes will likely be in the 2026 forecast, as they bring forward more rate cuts, bringing the Fed back to neutral a year earlier. The long-run dot will also likely be unchanged, but the dots may start converging to the middle. Beyond the Fed, retail sales should show a consumer that isn't throwing in the towel, as we're a bit above consensus, and industrial production is expected to continue moving sideways.

In **Canada**, the central bank is expected to restart interest rate cuts with a 25bp move, and keep the door open to further reductions. We suspect that the CPI data released the day before the meeting would need to surprise significantly to the upside to prevent such a move, which seems unlikely given recent weakness in the labour market and the recent run of fairly muted core inflation readings. Indicators for July growth will be mixed, with manufacturing and wholesale pointing to increases but retail sales slipping back following a strong June.

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

(Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.0	0.1	0.3
CPI (yr/yr)	1.9	2.0	1.7

Inflation likely heated up slightly in August, albeit not by enough to prevent the Bank of Canada restarting interest rate cuts the next day. The expected acceleration in headline inflation, to 1.9% y/y from 1.7%, will be driven largely by base effects, with the 0.0% monthly reading (0.2% SA) looking very unthreatening.

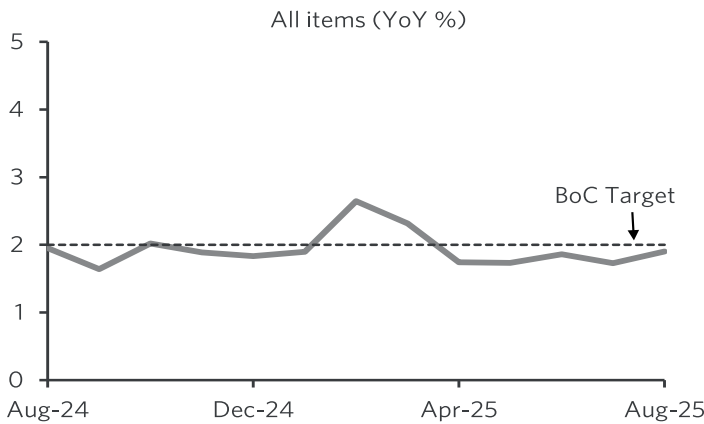
Rent inflation is expected to decelerate, bringing the series a little more in line with figures showing declining asking rents. However, air transportation inflation could look stronger, as prices return closer to seasonal norms following a summer that saw more staycations rather than vacations. Core measures of prices (CPI-X, Trim and Median) are expected to post 0.2% m/m increases, which will keep their year-over-year rates broadly stable.

Other Canadian releases: Retail sales—July

(Friday, 8:30 am)

Retail sales likely fell by 0.9% in July, partly unwinding the strong advance in the prior month, with clothing sales expected to return to earth following a sharp gain in June.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Even though we don't expect core measures of inflation to decelerate further in August, the recent trend is subdued enough for the Bank of Canada to respond to the recent labour market weakness and restart interest rate cuts. Core measures of inflation should see a step lower next month, and possibly also in October, as they pick up lower prices for goods imported from the US as retaliatory tariffs were largely lifted.

Week Ahead’s key US number:
Retail sales—August

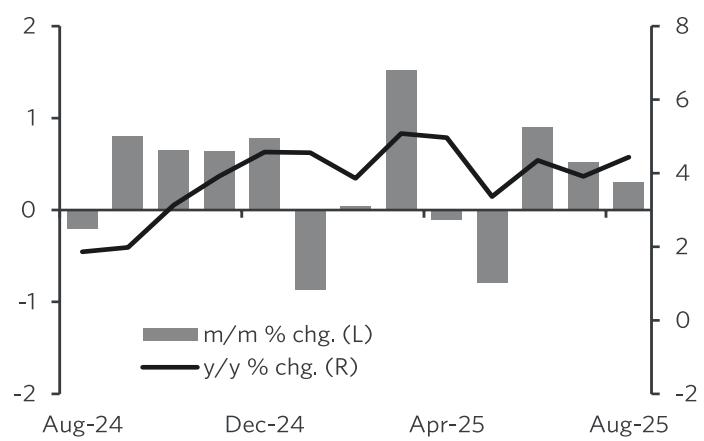
(Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Retail sales (m/m)	0.3	0.2	0.5
Retail sales - ex-auto	0.5	0.4	0.3
Retail sales - control group	0.4	0.3	0.5

A range of high-frequency data, including credit card spending, airline bookings, and restaurant reservations, suggests the consumer perked up again in August. So we expect a healthy retail sales report, with headline sales growing by 0.3% in the month, and the control group that feeds into GDP to rise by 0.4%. Although job gains have slowed sharply, Americans’ spending power has not, with measures of wage growth still close to 4%, alongside steady gains in house and equity prices. The wealthiest Americans make up a rising share of aggregate consumption, and research from the Boston Fed points to low levels of debt as supporting their higher consumption. The cooling in the job market is unlikely to have touched these consumers.

Chart: US retail sales



Source: Census Bureau, Haver Analytics, CIBC

Forecast implications — Our retail sales forecast is consistent with consumption growth and GDP growth around 2% in the third quarter.

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