Economics

THE WEEK AHEAD

December 2 - 6, 2024

Reading the "T" leaves

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

We're still facing troubling political uncertainties, but we can start to read the early signals from GOP Congressional leaders and Trump appointees on where fiscal and tariff policy is headed as President "T" takes over. On the fiscal side, post-election markets worried about soaring deficit financing needs, and initially pushed up long-term yields. Markets are also anticipating near term fiscal stimulus that will supplant Fed rate cuts at the short end of the curve. The Treasuries market has started to rethink that picture, and we see more to go in that direction.

The Trump election platform would entail much larger budget deficits if fully enacted. But there are reasons to believe that compromises to prevent that are forthcoming. The Treasury Secretary, Scott Bessent, has advocated a 3% deficit-to-GDP target, roughly half of where we currently sit. The incoming White House budget chief, Russ Vought, has described the current path as an "untenable fiscal situation." He called for the adoption of pay-as-you-go processes that in the past helped enforce spending limits on Congress.

Elon Musk and Vivek Ramaswamy, being outside the workings of government or the White House, don't command any real authority over policy. But their appointment to whatever the DOGE turns out to be signals that Trump is sympathetic with the idea that there is room for some serious chopping. Their Wall Street Journal op-ed focused on spending that could be targeted through executive order, bypassing Congress in the process.

For its part, Congress also won't necessarily be rushing to get everything done on the tax cutting side in time to kick in for 2026. The extension of personal tax cuts due to expire in that year will be the top priority, but much of that had bipartisan support, and would have been in market assumptions prior to the election. Moreover, in terms of how the Fed should think about it, it's not fresh stimulus, just the absence of a tax hike that would otherwise have been a new drag on growth.

Many of the Trump campaign's other tax proposals, including exemptions for earnings from tips, overtime hours or social security, were not long-held Republican Party positions, suggesting that they are less likely to achieve the necessary Senate and House votes. That's particularly true for the social security exemption, which by rule cannot be wrapped into a "reconciliation" vote that can pass without the support of 60 Senators. Tax hikes for upper income earners or corporations only have support among Democrats, but some Republicans favour paring back the cost of green energy tax credits.

So we're inclined at this point to downplay the financial market risks associated with much larger budget deficits than we were already facing had Harris won, or the idea that fiscal stimulus will supplant a moderate further easing by the Fed. Where the "T" leaves are still unclear is on a different "T-word": tariffs, which would be both inflationary (particularly if accompanied by mass deportations of lower cost workers) and a drag on growth if retaliatory tariffs are initiated by America's trading partners.

Trump's opening salvo this past week seems to be more about getting Mexico, Canada and China to announce tighter controls over migrants and fentanyl, since the 25% tariff appears to be applicable only if they don't show some resolve. Expect all three governments to make announcements showing that they will do so, or are already acting in that direction. But if that 25% tariff doesn't happen, there's still the campaign threat of a 10% to 20% tariff on all imports to the US.

Cabinet and White House appointees include those who see the tariff threat as a cudgel to force down trade barriers elsewhere rather than a permanent end objective. But there are also "new right" believers, the VP-elect among them, who see tariffs as a way to generate more factory jobs in America and who dismiss concerns over the impacts on efficiency and living costs. Worrisomely, Trump himself appears to be in that camp. To the extent that long rates are pricing-in the tariff threat to inflation, we'll need some clearer tea leaves on that policy front for the next leg of the bond market rally.

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, December 2	-	-	-	-	-	-	-
Tuesday, December 3	-	AUCTION: 3-M BILLS $12.2B, 6-M BILLS $4.4B, 1-YR BILLS $4.4B	-	-	-	-	-
Wednesday, December 4	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(3Q)	(M)	-	-	-0.2%
Thursday, December 5	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Thursday, December 5	8:30 AM	MERCHANDISE TRADE BALANCE	(Oct)	(H)	-$1.0B	-	-$1.3B
Thursday, December 5	10:00 AM	IVEY PMI	(Nov)	(L)	-	-	52.0
Friday, December 6	8:30 AM	EMPLOYMENT CHANGE	(Nov)	(H)	30.0K	-	14.5K
Friday, December 6	8:30 AM	UNEMPLOYMENT RATE	(Nov)	(H)	6.6%	-	6.5%

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, December 2	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Nov)	(L)	-	48.8	48.8
Monday, December 2	10:00 AM	ISM - MANUFACTURING	(Nov)	(H)	47.5	47.6	46.5
Monday, December 2	10:00 AM	CONSTRUCTION SPENDING M/M	(Oct)	(M)	-	0.2%	0.1%
Monday, December 2	3:15 PM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Monday, December 2	4:30 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Tuesday, December 3	10:00 AM	JOLTS Job Openings	(Oct)	-	7480K	7510K	7443K
Tuesday, December 3	12:35 PM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Tuesday, December 3	3:45 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Wednesday, December 4	7:00 AM	MBA-APPLICATIONS	(Nov 29)	(L)	-	-	6.3%
Wednesday, December 4	8:15 AM	ADP EMPLOYMENT CHANGE	(Nov)	(M)	-	165K	233K
Wednesday, December 4	9:45 AM	S&P GLOBAL US SERVICES PMI	(Nov)	(L)	-	-	57.0
Wednesday, December 4	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Nov)	(L)	-	-	55.3
Wednesday, December 4	10:00 AM	FACTORY ORDERS M/M	(Oct)	(M)	0.5%	0.3%	-0.5%
Wednesday, December 4	10:00 AM	ISM - SERVICES	(Nov)	(M)	55.8	55.5	56.0
Wednesday, December 4	10:00 AM	DURABLE GOODS ORDERS M/M	(Oct)	(H)	-	-	0.2%
Wednesday, December 4	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Oct)	(H)	-	-	0.1%
Wednesday, December 4	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, December 4	8:45 AM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Wednesday, December 4	1:45 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, December 5	8:30 AM	INITIAL CLAIMS	(Nov 30)	(M)	-	-	213K
Thursday, December 5	8:30 AM	CONTINUING CLAIMS	(Nov 23)	(L)	-	-	1907K
Thursday, December 5	8:30 AM	INTERNATIONAL TRADE BALANCE	(Oct)	(M)	-$75.2B	-$75.0B	-$84.4B
Friday, December 6	8:30 AM	NON-FARM PAYROLLS	(Nov)	(H)	250K	200K	12K
Friday, December 6	8:30 AM	UNEMPLOYMENT RATE	(Nov)	(H)	4.2%	4.2%	4.1%
Friday, December 6	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Nov)	(H)	0.3%	0.3%	0.4%
Friday, December 6	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Nov)	(H)	-	34.3	34.3
Friday, December 6	8:30 AM	MANUFACTURING PAYROLLS	(Nov)	(H)	-	30K	-46K
Friday, December 6	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Dec P)	(H)	-	73.0	71.8
Friday, December 6	3:00 PM	CONSUMER CREDIT	(Oct)	(L)	-	$10B	$6B
Friday, December 6	9:15 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Friday, December 6	10:30 AM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Friday, December 6	12:00 PM	Speaker: Hammack (Cleveland) (Voter)	-	-	-	-	-
Friday, December 6	1:00 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, it's back to work after the Thanksgiving break, and the count of those workers will be the key economic release. We're looking for a reasonably solid 250K payrolls gain, but the household survey might not be strong enough to prevent an uptick in the jobless rate to 4.2%. If wage gains are also moderate, that could still sufficient to keep the Fed on course for a quarter point cut in December, even if their language about further cuts remains quite guarded. ISM manufacturing rounds out the data, and we expect a slightly better reading based on what we've seen in regional indexes. We typically also get some early readings on post-Thanksgiving holiday sales.

In **Canada**, the employment data could be the tie breaker for the Bank of Canada's 25 or 50 decision on the size of the following week's rate cut. We expect a repeat of what's become a common feature of these data, with a job gain that would have been acceptable in the past now being insufficient to keep up with labour force growth, resulting in a one tick rise in the jobless rate. That, and soft readings for September and October monthly GDP growth, would seem to be sufficient reason to deliver another half point cut to get rates to the top end of the BoC's estimate of the neutral range.

Week Ahead's key Canadian number: Labour force survey—November

(Friday, 8:30 am)

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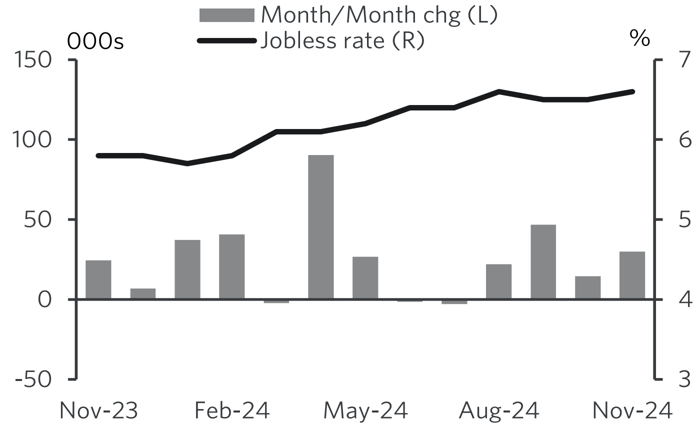
Variable	CIBC	Mkt	Prior
Employment (m/m)	30.0K	-	14.5K
Unemployment rate	6.6%	-	6.5%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Employment growth may have accelerated slightly in November, with indications of improving household spending likely to have driven hiring in consumer-facing services. However, even though population growth has started to slow, the 30K increase we expect in headcount would still be below the population count and result in a tick up in the unemployment rate as long as participation remains unchanged. Annual hourly wage growth is likely to decelerate, albeit mainly due to base effects with a large monthly gain a year ago dropping out of the calculation.

Forecast implications — Continued moderate employment growth, while population increases are softening, should bring better balance within the labour market in the months ahead. The unemployment rate should level off and begin to come down in 2025 if trade risks fade and GDP growth accelerates as we expect.

Other Canadian releases: Merchandise trade balance—October

(Thursday, 8:30 am)

While oil prices stabilized in October, the volume of trade between Canada and the US fell in this area. Elsewhere, however, US trade data suggest that Canadian exports for autos may fare better than imports, which appear to have fallen sharply. These moving pieces could broadly cancel out and leave the trade deficit little changed at $1.0bn.

Week Ahead's key US number: Employment situation—November

(Friday, 8:30 am)

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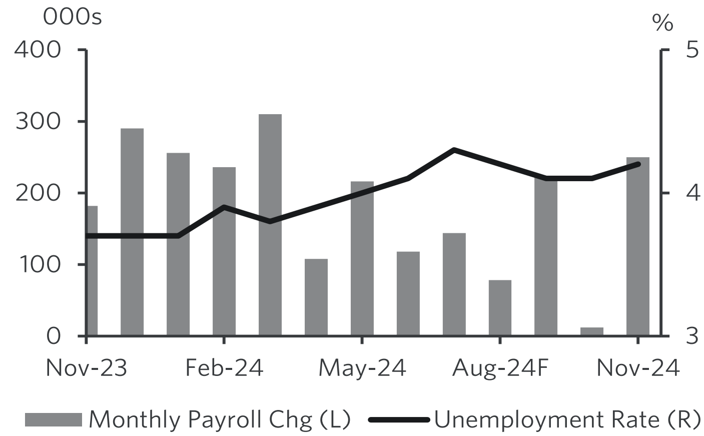
Variable	CIBC	Mkt	Prior
Employment (m/m)	250K	200K	12K
Unemployment rate	4.2%	4.2%	4.1%
Avg hourly earnings (m/m)	0.3%	0.3%	0.4%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

US employment is set to rebound in November, as hurricane and strike impacts fade. Headcounts likely increased by 250K, but that would leave the two-month average a little below the six-month trend pace. Hiring in the household survey will also rebound, but that series has looked sluggish in comparison to the payroll surveys this year, and a rise in participation would still leave the unemployment rate a tick higher at 4.2%.

Forecast implications — Looking through the volatility caused by one-off events shows that the government and healthcare sectors have accounted for almost three quarters of hiring over the last six months, while cyclical sectors have continued to wane. That leaves room for the Fed to trim rates by another quarter point in December, as real interest rates remain well above neutral.

Market impact — We're a little above the consensus expectation, but any negative revisions to prior months, which have become a staple in recent releases, could mitigate the upside.

Other US Releases: ISM Manufacturing—November

(Monday, 10:00 am)

Regional Fed PMIs, particularly the Empire State index which showed a large jump, imply an increase to 47.5 for the ISM's manufacturing index. The increase could be tied to a jump in orders as firms front-run expected tariffs, as was seen in the Empire State release, and optimism on resilient demand.

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