THE WEEK AHEAD

March 17 - 21, 2025

Canada's election: What's in it for markets?

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

With the cabinet sworn in today, a Canadian election call is in the offing for the next week or two. Other than the polls, what should investors be watching for in terms of implications for markets as we go through what now looks like a closely contested battle?

Judging by client inquiries, the fiscal policy response to a potential trade-war shock will be top of mind. The more that Ottawa doles out to households and businesses, the less the Bank of Canada will need to stimulate through additional rate cuts. The financing of that larger deficit could also limit the room for longer rates to rally, even if the central bank surprises with a more aggressive trimming of the policy rate.

Don't count on the party brand names to necessarily reflect how the election result will impact the scale of net fiscal stimulus. Historically, looking over past leaders, "Liberals" haven't always been liberal with spending, and Conservatives haven't always been small-c conservatives when it comes to budget deficits.

In the absence of the trade shock, Pierre Poilievre had positioned the Conservatives on the side of smaller government, but also supported a lower tax burden that would reduce the impact of spending cuts on the budget balance. Mark Carney has already dropped both the consumer carbon tax and a planned capital gains tax hike from the Liberal platform, and appeared to be moving his party closer to the political centre in suggesting a trimming of government operating spending growth.

But should a trade war recession hit, history suggests that either party would step up with deficit-financed fiscal stimulus. After an initial hesitation, that was true of the Conservatives under Harper during the global financial crisis recession, and for the Liberals when COVID hit. While the deep COVID downturn engendered a massive response, a more typical recession would see a cyclically-adjusted deficit increase of about 1½% of GDP in year one, including both federal and provincial actions, with additional stimulus at a similar scale to support the recovery over the following couple of years.

In addition to any federal campaign pledges, we'll be paying heed to upcoming provincial budgets in Ontario and Quebec. These two provinces are heavily targeted by US tariffs on manufactured goods, and could opt to announce their own fiscal support. Both provinces might hold back a bit in those budgets, given the uncertain path ahead for US trade policy.

For the same reason, at the federal level, we might not learn much about fiscal stimulus in the early weeks of the campaign. Candidates will instead emphasize how they would try to end the trade war or retaliate against US measures. But in early April, we'll hear from the White House on where Canada will stand after the current one-month pause on most tariffs expires. If the news isn't favourable, we could then see the Liberals and Conservatives bring out more details on how they would respond with fiscal measures to cushion the blow.

For equities, those measures will also have implications. To what extent will the stimulus be directed at affected businesses, versus supporting laid off workers or at stimulating domestic demand for goods or housing? Both parties had competing strategies to promote homebuilding, but the Liberals have moved away from a plan to mail out one-time cheques to households. Equity markets will also be eyeing campaign details on environmental and energy-sector matters, given their importance to major elements of the TSX.

If this looks like a protracted step towards US protectionism, the other policy focus will be on longer term measures to diversify economic activity away from sectors most dependant on American demand. That could include support for accelerated development of mineral resources that can be shipped overseas, LNG facilities, or technology-related services that reach global markets. We'll no doubt hear from all parties on these issues, and they would have implications for equities in related sectors.

As for the polls, our international readers need to be reminded of the significant differences in how popular vote shares might translate into seats. If the election remains close, there's a need to think about how the NDP and the Bloc are faring, and which of the other two parties they might support in parliament should neither the Liberals nor the Conservatives gain a majority. We'll be tuned in to all of this, and will be available to our clients to help them stay up to speed.

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, March 17	8:15 AM	HOUSING STARTS SAAR	(Feb)	(M)	235.0K	248.8K	239.7K
Monday, March 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Jan)	(M)	-	-	$14.4B
Monday, March 17	9:00 AM	EXISTING HOME SALES M/M	(Feb)	(M)	-	-	-3.3%
Tuesday, March 18	8:30 AM	CPI M/M	(Feb)	(H)	0.5%	0.6%	0.1%
Tuesday, March 18	8:30 AM	CPI Y/Y	(Feb)	(H)	2.1%	2.2%	1.9%
Tuesday, March 18	8:30 AM	Consumer Price Index	(Feb)	(M)	-	-	161.3
Tuesday, March 18	8:30 AM	CPI Core- Median Y/Y%	(Feb)	(M)	2.7%	-	2.7%
Tuesday, March 18	8:30 AM	CPI Core- Trim Y/Y%	(Feb)	(M)	2.7%	-	2.7%
Wednesday, March 19	-	-	-	-	-	-	-
Thursday, March 20	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Feb)	(M)	-	-	1.6%
Thursday, March 20	8:30 AM	RAW MATERIALS M/M	(Feb)	(M)	-	-	3.7%
Thursday, March 20	1:05 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Friday, March 21	8:30 AM	RETAIL TRADE TOTAL M/M	(Jan)	(H)	-0.5%	-0.4%	2.5%
Friday, March 21	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Jan)	(H)	-	-	2.7%

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, March 17	8:30 AM	RETAIL SALES M/M	(Feb)	(H)	0.7%	0.7%	-0.9%
Monday, March 17	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Feb)	(H)	0.3%	0.4%	-0.4%
Monday, March 17	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Feb)	(H)	0.2%	0.3%	-0.8%
Monday, March 17	8:30 AM	NEW YORK FED (EMPIRE)	(Mar)	(M)	-	-2.0	5.7
Monday, March 17	10:00 AM	BUSINESS INVENTORIES M/M	(Jan)	(L)	-	0.3%	-0.2%
Monday, March 17	10:00 AM	NAHB HOUSING INDEX	(Mar)	(L)	-	42.0	42.0
Tuesday, March 18	-	AUCTION: 1-YR TREASURIES $48B	-	-	-	-	-
Tuesday, March 18	-	AUCTION: 20-YR TREASURIES $13B	-	-	-	-	-
Tuesday, March 18	8:30 AM	HOUSING STARTS SAAR	(Feb)	(M)	1400K	1380K	1366K
Tuesday, March 18	8:30 AM	BUILDING PERMITS SAAR	(Feb P)	(H)	1450K	1450K	1473K
Tuesday, March 18	8:30 AM	IMPORT PRICE INDEX M/M	(Feb)	(L)	-	-0.1%	0.3%
Tuesday, March 18	8:30 AM	EXPORT PRICE INDEX M/M	(Feb)	(L)	-	-0.1%	1.3%
Tuesday, March 18	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Feb)	(H)	0.3%	0.2%	0.5%
Tuesday, March 18	9:15 AM	CAPACITY UTILIZATION	(Feb)	(M)	77.8%	77.8%	77.8%
Wednesday, March 19	7:00 AM	MBA-APPLICATIONS	(Mar 14)	(L)	-	-	11.2%
Wednesday, March 19	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Mar 19)	(H)	4.50%	4.50%	4.50%
Wednesday, March 19	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Mar 19)	(H)	4.25%	4.25%	4.25%
Wednesday, March 19	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Jan)	(L)	-	-	$72.0B
Thursday, March 20	-	AUCTION: 10-YR TIPS $18B	-	-	-	-	-
Thursday, March 20	8:30 AM	INITIAL CLAIMS	(Mar 15)	(M)	-	-	220K
Thursday, March 20	8:30 AM	CONTINUING CLAIMS	(Mar 8)	(L)	-	-	1870K
Thursday, March 20	8:30 AM	CURRENT ACCOUNT BALANCE	(4Q)	(L)	-	-$338.0B	-$310.9B
Thursday, March 20	8:30 AM	PHILADELPHIA FED BUSINESS OUTLOOK	(Mar)	(M)	-	12.0	18.1
Thursday, March 20	10:00 AM	LEADING INDICATORS M/M	(Feb)	(M)	-	-0.2%	-0.3%
Thursday, March 20	10:00 AM	EXISTING HOME SALES SAAR	(Feb)	(M)	-	3.9M	4.1M
Thursday, March 20	10:00 AM	EXISTING HOME SALES M/M	(Feb)	(M)	-	-3.7%	-4.9%
Friday, March 21	9:05 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, the Fed will throw cold water on recession fears, pointing to still-solid labour market indicators, and judging the softening in first quarter consumption as the usual volatility after some strong gains. Look for it to stick to its view that there could still be room for a couple of cuts later this year, but emphasizing the need to stay on hold until there's greater clarity on trade and fiscal policy, and their implications for growth and inflation. Retail sales will get a lift from autos in what would otherwise be a modest month.

In **Canada**, an election call could be pushed back another week as the new PM is apparently headed to Europe, and might want to put the finishing touches on campaign preparations. The CPI will see a bit of upward pressure in both the week ahead's reading, and the following month, as the GST-holiday came to an end, but the two core measures exclude sales taxes and should therefore not be impacted. Retail sales data will also show the impact of that sales tax change, having shot up in December, but then cooling over January, and likely in February.

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

(Tuesday, 8:30 am)

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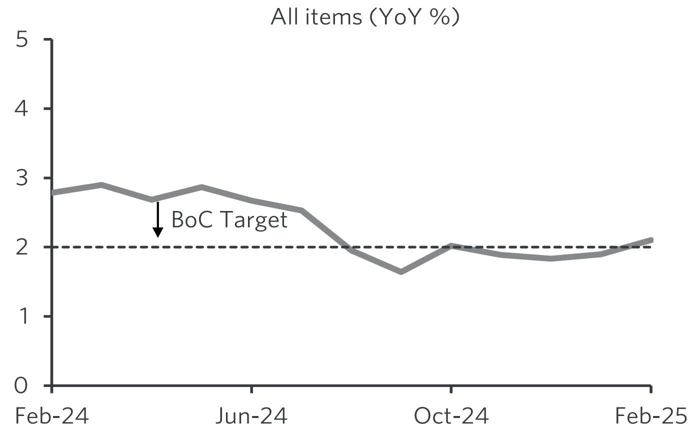
Variable (%)	CIBC	Mkt	Prior
CPI m/m (NSA)	0.5	0.6	0.1
CPI yr/yr	2.1	2.2	1.9

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

With the GST holiday ending mid-month, the downward impact that was having on headline CPI is expected to partly fade in February. A rise in prices at restaurants and for children's toys, among other items, will bring a 0.5% unadjusted increase in prices (+0.3% SA) compared with the prior month, and see the annual inflation rate accelerate to 2.1%. Little change in gasoline prices during the month, bringing a deceleration in the year-over-year rate in that category, will limit the acceleration in headline inflation.

The Bank of Canada's core measures of inflation (including the old CPI-X) are calculated using series that exclude the impact of indirect taxes and as a result weren't negatively impacted by the GST holiday in prior months. CPI-trim and median are expected to hold steady at 2.7%, with CPI-X ticking up to 2.2% due to base effects.

Forecast implications — Inflation will accelerate in the quarters ahead as the impact of tariffs and retaliatory actions leads to higher prices in some areas. Retaliatory tariffs on US food will likely show up in inflation quite quickly, while tariffs on other goods may take longer. However, the weakening we expect in the Canadian economy as a result of tariffs should result in lower inflationary pressures again later this year and into 2026.

Other Canadian releases: Retail sales—January

(Friday, 8:30 am)

After surging in December as the GST holiday came into effect, retail sales appear to have pulled back somewhat in January with a 0.5% decline. The advance data for February is likely to show a further decline, with the GST holiday ending and also potentially some household caution due to tariffs uncertainty.

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

(Monday, 8:30 am)

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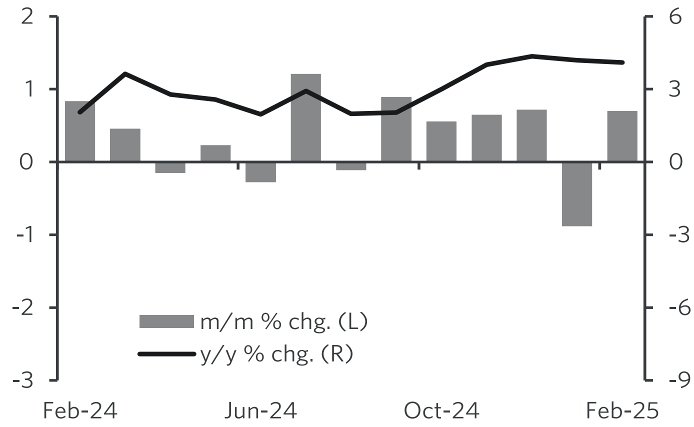
Variable (%)	CIBC	Mkt	Prior
Retail sales m/m	0.7	0.7	-0.9
Retail sales - ex-auto	0.3	0.4	-0.4
Retail sales - control group	0.2	0.3	-0.8

Chart: US retail sales



Source: Census Bureau, Haver Analytics, CIBC

With recession worries creeping higher, markets will be zeroing in on the February retail sales report to see if the American consumer pulled back at all. We expect headline retail sales growth of 0.7% m/m will assuage investors. However, most of that growth will likely be due to a sharp rebound in car sales in the month. Outside of autos, spending should be soft as indicated by high frequency credit card data that points to slower discretionary spending in the month. This soft patch for the consumer likely has more to do with bad weather and a pullback from the roaring pace of spending in Q4, where inflation-adjusted consumption growth surged by 4% annualized pace. Policy uncertainty did not hit fever pitch until late in February. We expect precautionary saving behavior to show up more gradually in Q2 if there is no trade resolution after early April.

Forecast implications — We're forecasting soft growth in Q1 due to a slower pace of consumption growth and the front-loading of imports. Our GDP tracking currently sits at +0.7%.

Market implications — A strong headline number should calm markets, assuming there isn't more bad news coming from the White House over the weekend.

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