THE WEEK AHEAD

June 16 - 20, 2025

The price of progress

by **Ali Jaffery** ali.jaffery@cibc.com and **Ian Pollick** (FICC Strategy)

There is something in the air in Ottawa these days (and no, we don't mean the smell coming from the canal). Things appear to finally be moving, and at warp-speed no less. Premiers, First Nations and the federal government are serving up fist bumps and wish-lists of infrastructure and energy projects. Canada plans to get back into NATO's good books by hitting the 2% benchmark this fiscal year, half a decade ahead of schedule. Apparently there are high-level talks with the US for a trade and security deal, although it's still early innings there. All very good progress.

Progress, of course, needs to be paid for and investors are asking us what the additional $9bn in defense appropriations means for the deficit and borrowing costs. The short answer is that it will likely nudge the deficit higher this year but most of it will come in future years. There are other forces that are more important in determining the balance this year.

Defense spending is a big promise but history tells us that major capital defense spending is often delayed and eventually ends up being over budget. The military is also currently facing capacity constraints, so it will be a major challenge to get all that money out this fiscal year. But it's clear that Ottawa's defense spending is going to rise faster and more aggressively than we all expected. It's no coincidence that this announcement came now, as NATO plans to raise the bar on defense spending higher than 2%. Expect more announcements like this in the future.

The other big factors that will shape the deficit are the state of the economy, what other spending priorities get turfed to the future and the revenues that come from Canada's retaliatory tariffs. We expect the economy will be more subdued than the PBO baseline, implying lower revenue gains. Parliament shuts down for the summer next week, which could leave most of infrastructure and housing measures (excluding the GST cut) until the second half of the fiscal year. Some of those projects will get off the ground, but the overall price tag will likely fall short of the hefty $18bn promised this year.

Tariff revenues too, should come in below the government's target of $20bn. The first set of tariffs were imposed in early and mid-March on $60bn of goods, and increased revenues by about $600mn in the month relative to the prior month. Canada's retaliatory tariffs on US autos came into effect in early April but the government has set out a remission framework and tariffs only apply on the US-content of imported American cars. Not knowing who is getting an exemption and at what amount makes it impossible to estimate the revenues from tariffs, but our working assumption — partly informed on the March data — is the government could raise about half of the target pledged during the campaign.

We think the deficit will range from slightly above 2% of GDP to as high as 3% if military recruitment can get off the ground this year and the budget loads up on accounting charges for infrastructure funds that are actually spent in future years. But bond investors will have to wait until the fall to see how these forces truly shake out, as there could also be important shifts in baseline spending as well. We don't fault the government too much for not rushing out a budget. These are complicated times and it was prudent to focus on the US and trying to get tariff relief before committing to a plan.

But the government shouldn't necessarily assume a warm welcome from the bond market this fall either. Since the European debt crisis, investor sensitivity to debt and deficits has climbed higher, irrespective of a country's outright and relative fiscal space.

In Canada's case, it's certainly true that fiscal risks are far from flashing red and a 3% deficit handle on its own won't alarm investors, but there are forces brewing that could cause borrowing costs to shoot up. Canada had the fastest growing bond supply in the G7 before all of this, and if there is momentum on a deal with the US, combined with a realization that major project spending could be more backloaded, you can start to see reasons why the large premium on Canadian bonds relative to the US could start to narrow, no matter how much brighter the future outlook is. Added to this is the pressure from other countries who are also ramping up deficit-financed defense spending. The global bond market could become crowded, and turn into even more of a buyer's market.

Come fall, Ottawa could do itself and everyone else a favour by providing investors with what they want most: clarity. That means offering a realistic path for future spending, including defense commitments under NATO, and where along the curve any additional issuance is going to come from. If issuance is more proportionate, it will be met with a better response. It's great that things seem to finally be getting done in Canada, but progress has a price that needs to be paid.

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, June 16	8:15 AM	HOUSING STARTS SAAR	(May)	(M)	230.0K	255.0K	278.6K
Monday, June 16	9:00 AM	EXISTING HOME SALES M/M	(May)	(M)	-	-	-0.1%
Tuesday, June 17	-	AUCTION: 3-M BILLS $14B, 6-M BILLS $5B, 1-YR BILLS $5B	-	-	-	-	-
Tuesday, June 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Apr)	(M)	-	-	-$4.2B
Tuesday, June 17	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Wednesday, June 18	11:30 AM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-
Thursday, June 19	-	-	-	-	-	-	-
Friday, June 20	8:30 AM	RETAIL TRADE TOTAL M/M	(Apr)	(H)	0.5%	0.4%	0.8%
Friday, June 20	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(May)	(M)	-	-	-0.8%
Friday, June 20	8:30 AM	RAW MATERIALS M/M	(May)	(M)	-	-	-3.0%

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, June 16	-	AUCTION: 20-YR TREASURIES $13B	-	-	-	-	-
Monday, June 16	8:30 AM	NEW YORK FED (EMPIRE)	(Jun)	(M)	-	-7.0	-9.2
Tuesday, June 17	-	AUCTION: 5-YR TIPS $23B	-	-	-	-	-
Tuesday, June 17	8:30 AM	RETAIL SALES M/M	(May)	(H)	-0.5%	-0.7%	0.1%
Tuesday, June 17	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(May)	(H)	0.2%	0.2%	0.2%
Tuesday, June 17	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(May)	(H)	0.4%	0.3%	-0.2%
Tuesday, June 17	8:30 AM	IMPORT PRICE INDEX M/M	(May)	(L)	-	-0.3%	0.1%
Tuesday, June 17	8:30 AM	EXPORT PRICE INDEX M/M	(May)	(L)	-	-0.2%	0.1%
Tuesday, June 17	9:15 AM	INDUSTRIAL PRODUCTION M/M	(May)	(H)	-0.1%	0.0%	0.0%
Tuesday, June 17	9:15 AM	CAPACITY UTILIZATION	(May)	(M)	77.6%	77.7%	77.7%
Tuesday, June 17	10:00 AM	BUSINESS INVENTORIES M/M	(Apr)	(L)	-	0.0%	0.1%
Tuesday, June 17	10:00 AM	NAHB HOUSING INDEX	(Jun)	(L)	-	36.0	34.0
Wednesday, June 18	7:00 AM	MBA-APPLICATIONS	(Jun 13)	(L)	-	-	12.5%
Wednesday, June 18	8:30 AM	HOUSING STARTS SAAR	(May)	(M)	1350K	1360K	1361K
Wednesday, June 18	8:30 AM	BUILDING PERMITS SAAR	(May P)	(H)	1450K	1430K	1422K
Wednesday, June 18	8:30 AM	INITIAL CLAIMS	(Jun 14)				248K
Wednesday, June 18	8:30 AM	CONTINUING CLAIMS	(Jun)				1956K
Wednesday, June 18	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Jun 18)	(H)	4.50%	4.50%	4.50%
Wednesday, June 18	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Jun 18)	(H)	4.25%	4.25%	4.25%
Wednesday, June 18	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Apr)	(L)	-	-	$161.8B
Thursday, June 19	-	-	-	-	-	-	-
Friday, June 20	8:30 AM	PHILADELPHIA FED - BUSINESS OUTLOOK	(Jun)	(M)	-	0	-4
Friday, June 20	10:00 AM	LEADING INDICATORS M/M	(May)	(M)	-	-0.1%	-1.0%

Week Ahead's market call

by Ali Jaffery and Katherine Judge

In the **US**, the Fed decision and retail sales will be the key economic events. We're slightly more optimistic on retail sales than the consensus and Powell will yet again not have much to say, giving the standard line that it's too early to judge what will happen. Most of the attention, however, will be on Middle East conflict and what it means for energy markets and possibly further global shipping disruptions. The House and Senate are under pressure to get the major tax bill done before Independence Day and we expect to hear more about what shape the bill is in this week.

In **Canada**, political developments will likely garner more attention than the data calendar, with the G7 summit taking place early in the week. The advance estimate for retail sales in April implied a solid start to the quarter for consumption, as consumers apparently extended tariff front-running efforts, but we expect a deterioration in the May advance estimate as that effect fades and a weak labour market weighs. Homebuilding likely cooled following a surge in the prior month, and in line with subdued home sales.

Week Ahead's key Canadian number: Retail sales—April

(Friday, 8:30 am)

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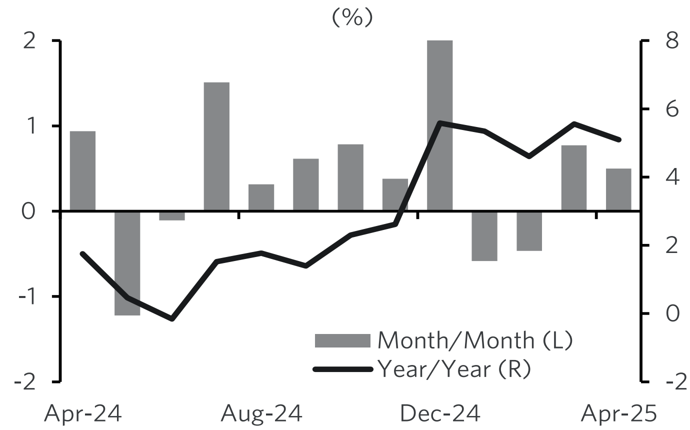
Variable (%)	CIBC	Mkt	Prior
Retail sales (m/m)	0.5	0.4	0.8

Chart: Canadian retail sales



Source: Statistics Canada, Haver Analytics, CIBC

The advance estimate of retail sales for April suggested a 0.5% increase, which could have been boosted by further tariff front-running efforts as some consumers looked to buy ahead of expected price increases. Moreover, the decrease in Canadians taking day trips to the US for shopping would have left more money for domestic spending. The retail sales data don't include indirect tax effects and therefore won't be biased down by the removal of the consumer carbon tax. Core goods prices were flat on the month and that implies a solid start to the quarter for real spending.

Forecast implications — We don't expect the strength in retail sales to last, as the rise in the unemployment rate and front-loaded spending means that consumption will slow as the quarter progresses, with that downwards pressure on demand expected to ultimately offset tariff passthrough in the CPI. We therefore look for a weakening in the May advance retail sales estimate, which will add to the case for a BoC cut in July.

Other Canadian releases: Housing starts—May

(Monday, 8:15 am)

Homebuilding jumped by 30% m/m in April, following a weak period that coincided with poor weather. But the easing in building permit issuance in April, which coincides with weak home sales activity, suggests that starts could have slowed to a 230k saar pace in April. Housing starts will pickup again in H2 as the BoC continues to cut interest rates, but there is still an overhang of completed and vacant condo units on the market, which will delay the rebound in building.

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

(Tuesday, 8:30 am)

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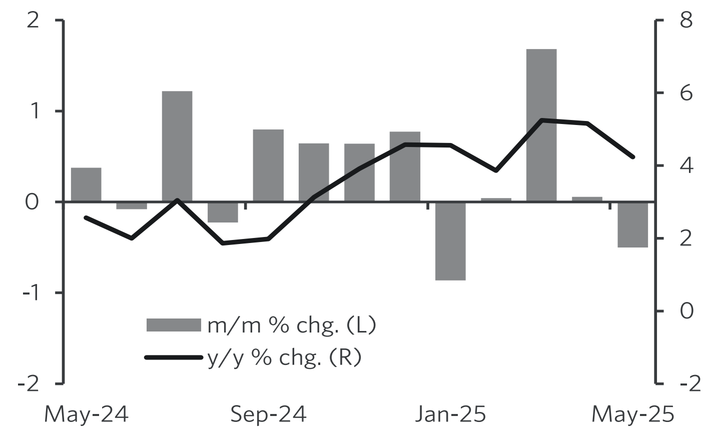
Variable (m/m, %)	CIBC	Mkt	Prior
Retail sales	-0.5	-0.7	0.1
Retail sales - ex auto	0.2	0.2	0.2
Retail sales - control group	0.4	0.3	-0.2

Chart: US retail sales



Source: Census Bureau, Haver Analytics, CIBC

The health of the consumer in May will be the data focus next week, and high frequency credit card data suggests that retail control group looks solid in the month. We expect spending in the control category to rise by 0.4% in the month but the headline figure should come in weak at -0.5% due to the drop in gas prices and weak growth in auto sales. Part of the strength in the control group could reflect some tariff front-running as retailers are trying to get out pre-tariffed inventories. The CPI data told us that prices didn't jump for consumer goods much in the month.

Forecast implications — We expect consumption growth to come in a bit below 2% in Q2 and GDP to rise to 3%, the latter flattered by a drop in imports and inventories. It's best to average out Q1 and Q2 to have a better signal of where growth is, and the message is clear: the US economy is no longer flying sky high.

Market implications — We are slightly more optimistic than consensus, but the market is focused on geopolitics in the Middle East, the tax bill and tariff news.

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