

Economics

THE WEEK AHEAD

September 29 - October 3, 2025

Fiscal Physics

by Avery Shenfeld avery.shenfeld@cibc.com

Those of us who last took physics in high school might still remember the odd chestnut or two, including an equation we needed for the midterm: force equals mass times acceleration. With Canada's federal budget now just over a month away, we're getting questions about just how much force that document will exert on Canada's economy and the bond market in the year ahead. That fiscal physics is similarly tied to more than just mass of the deficit in billions of dollars. It will also depend on how much it's accelerating from the prior year, and how quickly government is able to accelerate the ramp up in capital spending that will be its central focus.

With Ottawa still putting the finishing touches on its document as we write, estimates for the headline deficit are by necessity still only rough guidelines at this point. The Parliamentary Budget Office put the 2025/26 deficit, including measures announced up to early September, at \$68.5 bn, up from \$51.7 bn last year. Our own tally, has it at close to \$80bn. There's lots of mass in those numbers, but the acceleration is actually quite tepid as a share of GDP.

Our estimate would be around 2.5% of GDP, versus 1.7% the prior year, or less than a percentage point of GDP. Given that much of that erosion is due to a weaker economy and its impact on revenues, it doesn't imply a significant lift to economic growth in the year ending March 31, 2026. That boost is likely to be a bit larger if we look out over the next six quarters to the end of 2026, but likely not in excess of 1% of GDP. That's a good reason for the Bank of Canada to dole out another rate cut in October, and take interest rates a step further into stimulative territory. With unemployment over 7%, we need that helping hand from monetary policy at this point.

Still, there's a lot of uncertainty on either side of any projection for fiscal forces in the 2026 calendar year forecast. For one, the timing of actual capital expenditures, and their economic lift, could end up differing from what's in the November 4th budget. Justin Trudeau's 2016 budget, for example, unveiled a major infrastructure program with \$14 bn in Phase 1 funds intended to be spent in the first two years. But a subsequent review by the

PBO found that only half of those funds went out the door in that timeframe.

Ottawa has listed some projects it wants to get off the ground quite soon, but some of these were already on the verge of starting up, and would have been included in base case economic forecasts. The shiny new projects that will be more dependent on federal assistance will take longer to get into gear.

Moreover, we need to be mindful of the fact that this will be a belated 2025/26 budget, and not the budget for 2026/27 that could add or subtract fiscal stimulus. Having a second look at fiscal policy only four or five months later might not be a bad thing. While Ottawa maybe planning for only minor adjustments in the spring, a midcourse correction could well be in order if we get a lift from resolving the uncertainties over the Canada-US-Mexico trade deal, or a second shock if that deal looks headed for the scrap heap.

For the bond market, and the rating agencies, the fiscal erosion is of course of some concern, but just how much should we worry? Add in the aggregate provincial deficit, and you're a bit over a 4% of GDP in red ink for the two levels of government. While there will be a lot of angst from deficit hawks, Canada still looks to be one of the best of a bad lot, particularly on a cyclically adjusted basis, since the deficit should improve as the economy recovers from the trade shock.

By comparison, the US federal deficit, in an economy much closer to full employment, is running at roughly 6% of GDP. Indeed, the spillover from Treasury yields kept elevated by heavy US government borrowing has been as meaningful an influence on Canadian longer-term bond yields as what we get from Ottawa's own borrowing program. The American deficit might not be accelerating, but it's carrying a lot of mass in terms of its weight in fixed income markets.

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 29	-	-	-	-	-	-	-
Tuesday, September 30	-	Bond Market closed (National Day for Truth and Reconciliation)	-	-	-	-	-
Wednesday, October 1	-	AUCTION: 5-YR CANADAS \$	-	-	-	-	-
Wednesday, October 1	1:30 PM	Publication: Summary of Deliberations	-	-	-	-	-
Wednesday, October 1	2:05 PM	Speaker: Carolyn Rogers (Sr. Deputy Gov.)	-	-	-	-	-
Thursday, October 2	1:40 PM	Speaker: Rhys R. Mendes (Deputy Gov.)	-	-	-	-	-
Friday, October 3	-	-	-	-	-	-	-

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 29	10:00 AM	PENDING HOME SALES M/M	(Aug)	(M)	-	0.1%	-0.4%
Monday, September 29	7:30 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Monday, September 29	6:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Tuesday, September 30	-	AUCTION: 1-YR TREASURIES \$85B	-	-	-	-	-
Tuesday, September 30	9:00 AM	HOUSE PRICE INDEX M/M	(Jul)	(M)	-	-	-0.2%
Tuesday, September 30	9:00 AM	S&P CORELOGIC CS Y/Y	(Jul)	(H)	-	-	2.1%
Tuesday, September 30	9:45 AM	CHICAGO PMI	(Sep)	(M)	-	-	41.5
Tuesday, September 30	10:00 AM	JOLTS Job Openings	(Aug)	-	7050K	7100K	7181K
Tuesday, September 30	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Sep)	(H)	97.0	95.8	97.4
Tuesday, September 30	6:00 AM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Tuesday, September 30	1:30 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Tuesday, September 30	8:30 PM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Wednesday, October 1	7:00 AM	MBA-APPLICATIONS	(Sep 26)	(L)	-	-	0.6%
Wednesday, October 1	8:15 AM	ADP EMPLOYMENT CHANGE	(Sep)	(M)	-	50K	54K
Wednesday, October 1	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Sep)	(L)	-	-	52.0
Wednesday, October 1	10:00 AM	ISM - MANUFACTURING	(Sep)	(H)	48.8	49.2	48.7
Wednesday, October 1	10:00 AM	CONSTRUCTION SPENDING M/M	(Aug)	(M)	-	-0.1%	-0.1%
Thursday, October 2	8:30 AM	INITIAL CLAIMS	(Sep 27)	(M)	-	-	218K
Thursday, October 2	8:30 AM	CONTINUING CLAIMS	(Sep 20)	(L)	-	-	1926K
Thursday, October 2	10:00 AM	FACTORY ORDERS M/M	(Aug)	(M)	-	0.1%	-1.3%
Thursday, October 2	10:00 AM	DURABLE GOODS ORDERS M/M	(Aug)	(H)	-	-	2.9%
Thursday, October 2	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Aug)	(H)	-	-	0.4%
Thursday, October 2	10:30 AM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Friday, October 3	8:30 AM	NON-FARM PAYROLLS	(Sep)	(H)	45K	50K	22K
Friday, October 3	8:30 AM	UNEMPLOYMENT RATE	(Sep)	(H)	4.3%	4.3%	4.3%
Friday, October 3	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Sep)	(H)	0.2%	0.3%	0.3%
Friday, October 3	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Sep)	(H)	-	34.2	34.2
Friday, October 3	8:30 AM	MANUFACTURING PAYROLLS	(Sep)	(H)	-	-10K	12K
Friday, October 3	9:45 AM	S&P GLOBAL US SERVICES PMI	(Sep)	(L)	-	-	53.9
Friday, October 3	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Sep)	(L)	-	-	53.6
Friday, October 3	10:00 AM	ISM - SERVICES	(Sep)	(M)	52.2	52.0	52.0
Friday, October 3	6:05 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, October 3	1:40 PM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, non-farm payrolls will be the key data release if a potential government shutdown doesn't stand in its way. Congress has to agree to fund the government by the October 1st start of the new fiscal year, and as we write, we're still at an impasse on that front. Our payrolls forecast of 45K net new jobs looks low, but not relative to the new normal for population growth, and could leave the jobless rate at 4.3%. That's likely still soft enough to keep the Fed on track for an October rate cut, but we're still seeing enough growth in the economy, and enough inflation pressure, to make a December pause look more likely than not. Other reports this week, including the ISM factory index and consumer confidence, don't seem likely to make much market noise.

In **Canada**, there are no data releases of note, so we'll be looking over the Bank of Canada's summary of its last meeting's deliberations, as well as couple of BoC speeches, for any clues on what comes next. Given that Macklem chose to keep his cards close to his chest at his post-rate-cut press conference, we're not expecting any news that would alter our forecast for a follow-up cut in October. Q3 GDP is tracking reasonably close to the Bank's projection, and we doubt that the Governing Council was thinking of only one isolated quarter point cut when they moved in September.

There are no major Canadian data releases next week.

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

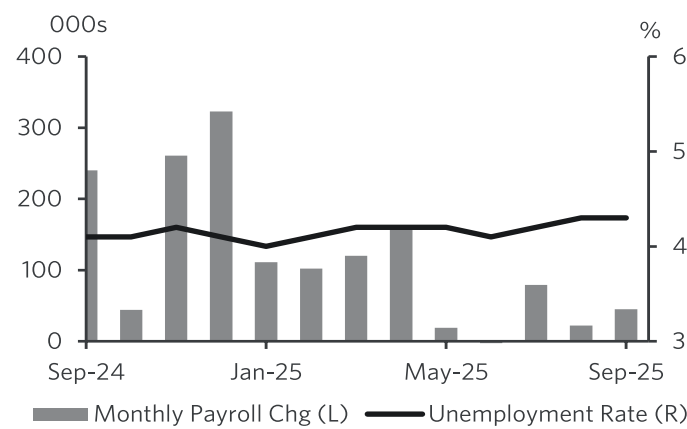
(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment (m/m)	45K	50K	22K
Unemployment rate	4.3%	4.3%	4.3%
Avg hourly earnings (m/m)	0.2%	0.3%	0.3%

We expect next Friday's payroll report to provide more evidence that the US job market has moved down a few pegs. The unemployment rate should remain at 4.3%, and payroll job gains will come in 45K in the month. Wage growth should also cool to 0.2% m/m and average hours worked will stay at their lower pace. Most of the job gains should once again come from health care, but we expect less of a drag from government and modest, but positive growth in private services employment as the American consumer continues to keep underlying demand in good shape.

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Forecast implications — This report should solidify a second straight rate cut by the Fed in October, as most FOMC members want to provide some insurance in the event the job market deteriorates rapidly. But we continue to believe the inflation problem is going to be bigger than the labor market problems, and the Fed won't be able to cut straight to neutral without skips.

Market impact — We are close to consensus on payrolls, tracking a little below on job growth but in line on the unemployment rate. It feels like only very clear Fed speak can change the market's view at this point.

Other US Releases: ISM Manufacturing—September

(Wednesday, 10:00 am)

Regional manufacturing surveys point to sentiment at about the same levels as in August — hence, we don't expect the headline ISM manufacturing index in September to move much, with a one tick increase to 48.8 reading.

JOLTS Job Openings—August

(Tuesday, 10:00 am)

Private job tracking sites suggest job openings actually picked up in August (although they point to a decline in September). We expect openings to come remain close to where they were in July amidst the conflicting signals, coming in at 7150 and the vacancy-to-unemployment ratio to stay at 1.0 in August.

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