

THE WEEK AHEAD

May 19 - 23, 2025

Services, baby, services

by Ali Jaffery ali.jaffery@cibc.com

The new mantra in Ottawa these days is “build, baby, build” and there is growing optimism that Canada is genuinely trying to improve its economic fortunes. Pipelines, resources, infrastructure and housing are top of mind, and for good reason. But there is another important story for Canada that isn’t being talked about that also deserves attention — strengthening our service sector, and the potential to grow our service exports even more.

While manufacturing and energy dominate the headlines, make no mistake about it, Canada is a service economy. What we call the service sector — a mish-mash of knowledge-based industries such as finance, information, professional services, education and health, among others — comprises over 70% of GDP and close to 80% of employment. Growth in the sector has been the steady anchor of the economy, consistently coming in around 2.5% since the financial crisis and providing a buffer from the boom-and-bust nature of global commodity and financial cycles. Even productivity in the service sector has rebounded faster than the goods sector, and is not far from its pre-pandemic pace.

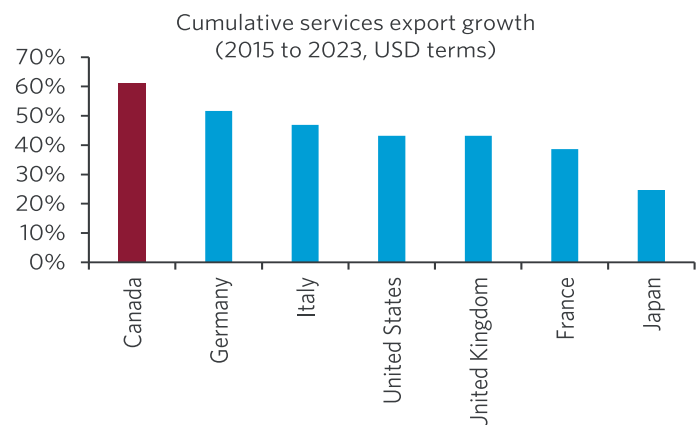
And Canada’s service industries have increasingly gone international as trade in services has quietly gotten much stronger over the past decade. While goods exports remain more important to the overall economy than services exports, the latter have been gaining ground. Since the end of 2015, service exports have grown by 50% compared to an anemic 5% for goods, and have actually been the fastest growing part of GDP over that stretch, although some of that growth is linked to immigration more recently. Much of the success is due to commercial services such as IT, management and consulting, finance and R&D, which has helped push our service trade balance from a deficit of 1.5% of GDP to about neutral now. And compared to our G7 peers, we’ve been outperformers for quite some time (Chart). We’ve also had a bit more success in diversifying our service trade partners, with only half of services exports going to the US, compared to over three-fourths of our goods.

If our goal is to diversify our trade and economy, we may be more effective in finding new and larger trade opportunities for our financial firms and tech companies than traditional manufacturing firms, which have struggled to compete globally long before we faced tariffs. The future of global trade is in

services, not manufacturing. Global trade in goods peaked a decade and a half ago, while services trade has yet to peak. The WTO, the OECD and other trade experts expect that trend to continue with robust demand for intermediate services or service inputs. Our success in these areas suggests that Canada has a growing comparative advantage in IT and financial services. Our decades of resource and power development projects has also given Canada strength in related engineering services.

Of course, any economic reorientation takes time, and the new government is right to prioritize getting a deal with the US and providing relief to tariff-affected sectors. Driving service sector growth is neither easy, nor quick, and generative AI could erode some of our comparative advantage if Canadian companies don’t keep up. But there are things we can do to help make our services trade go from good to great: look to harmonize regulations with other jurisdictions, double-down on high-skilled immigration and most importantly, make getting market access a key pillar of our foreign policy. We can do most of that at the same time as we focus on pipelines, resources, infrastructure and housing, because this is more about strategy than spending new money. As we try to chart this economic comeback, in addition to our resource wealth, let’s recognize what we are also good at: it’s services, baby, services.

Chart: Canada has had the best service export growth in the G7 since 2015



Source: OECD, CIBC

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, May 19	-	Markets Closed (Victoria Day)	-	-	-	-	-
Tuesday, May 20	-	AUCTION: 3-M BILLS \$17.6B, 6-M BILLS \$6.2B, 1-YR BILLS \$6.2B	-	-	-	-	-
Tuesday, May 20	8:30 AM	CPI M/M	(Apr)	(H)	-0.1%	-0.2%	0.3%
Tuesday, May 20	8:30 AM	CPI Y/Y	(Apr)	(H)	1.7%	1.6%	2.3%
Tuesday, May 20	8:30 AM	Consumer Price Index	(Apr)	(M)	-	-	163.5
Tuesday, May 20	8:30 AM	CPI Core- Median Y/Y%	(Apr)	(M)	3.0%	2.9%	2.9%
Tuesday, May 20	8:30 AM	CPI Core- Trim Y/Y%	(Apr)	(M)	2.9%	2.8%	2.8%
Wednesday, May 21	-	AUCTION: 30-YR CANADAS \$3B	-	-	-	-	-
Thursday, May 22	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Apr)	(M)	-	-	0.5%
Thursday, May 22	8:30 AM	RAW MATERIALS M/M	(Apr)	(M)	-	-	-1.0%
Thursday, May 22	3:15 PM	Speaker: Toni Gravelle (Deputy Gov.)	-	-	-	-	-
Friday, May 23	8:30 AM	RETAIL TRADE TOTAL M/M	(Mar)	(H)	0.7%	-0.3%	-0.4%
Friday, May 23	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Mar)	(H)	0.3%	-	0.5%

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, May 19	10:00 AM	LEADING INDICATORS M/M	(Apr)	(M)	-	-0.8%	-0.7%
Monday, May 19	8:30 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Monday, May 19	8:45 AM	Speaker: Philip N Jefferson (Governor) (Voter) & John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Monday, May 19	1:15 PM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Monday, May 19	1:30 PM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Tuesday, May 20	8:30 AM	PHILADELPHIA FED NON-MANUFACTURING	(May)	(M)	-	-	-42.7
Tuesday, May 20	9:00 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter) & Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Tuesday, May 20	9:30 AM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Tuesday, May 20	1:00 PM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Tuesday, May 20	7:00 PM	Speaker: Beth Hammack (Cleveland) (Voter) & Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Wednesday, May 21	-	AUCTION: 20-YR TREASURIES \$16B	-	-	-	-	-
Wednesday, May 21	7:00 AM	MBA-APPLICATIONS	(May 16)	(L)	-	-	1.1%
Wednesday, May 21	9:15 AM	Speaker: Thomas I. Barkin (Richmond) (Voter) & Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, May 21	2:00 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, May 22	-	AUCTION: 10-YR TIPS \$18B	-	-	-	-	-
Thursday, May 22	8:30 AM	INITIAL CLAIMS	(May 17)	(M)	-	226K	229K
Thursday, May 22	8:30 AM	CONTINUING CLAIMS	(May 10)	(L)	-	-	1881K
Thursday, May 22	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Apr)	(M)	-	-	-0.0
Thursday, May 22	9:45 AM	S&P GLOBAL US SERVICES PMI	(May P)	(L)	-	50.6	50.8
Thursday, May 22	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(May P)	(L)	-	-	50.6
Thursday, May 22	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(May P)	(L)	-	49.8	50.2
Thursday, May 22	10:00 AM	EXISTING HOME SALES SAAR	(Apr)	(M)	-	\$4.2M	\$4.0M
Thursday, May 22	10:00 AM	EXISTING HOME SALES M/M	(Apr)	(M)	-	3.2%	-5.9%
Friday, May 23	10:00 AM	NEW HOME SALES SAAR	(Apr)	(M)	705K	695K	724K
Friday, May 23	10:00 AM	NEW HOME SALES M/M	(Apr)	(M)	2.6%	-4.0%	7.4%

Week Ahead's market call

by Avery Shenfeld

In the **US**, it's a light week for economic data. The budget bill seems to be at risk of coming off the rails, with House Republican fiscal hawks pressing for more spending cuts, but others in the GOP in the House and the Senate looking for larger increase in deductions for state and local taxes, or resisting some of the spending cuts in the House package. The bond market could be sensitive to a bill that significantly increases what are already projected to be wide budget deficits, and the Fed's willingness to cut rates could be impacted if, as in an early House draft, fiscal stimulus is all upfront, and fiscal restraint (via spending cuts) is relegated to well out into the future. There's a parade of Fed speakers in the schedule, but their wait and see message isn't at this point going to be a market mover.

In **Canada**, retail sales will get a lift from a rush of vehicle buying in March, but will look less impressive otherwise. CPI inflation will dive below the 2% target on the end of the consumer portion of the carbon tax in April and lower oil prices, but core measures could move up a tick on a year-on-year basis.

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

(Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	-0.1	-0.2	0.3
CPI (y/y)	1.7	1.6	2.3

The removal of the consumer carbon tax on April 1st will make headline inflation look much less taxing for the Bank of Canada. The resulting slump in gasoline prices, as well as lower home heating costs, should bring a 0.1% decline in NSA CPI in April (-0.4% SA) which would bring the annual rate down to 1.7%. The reduction in energy prices may be partly offset by a reacceleration in food price inflation, linked to pass through from retaliatory tariffs as well as past exchange rate depreciation.

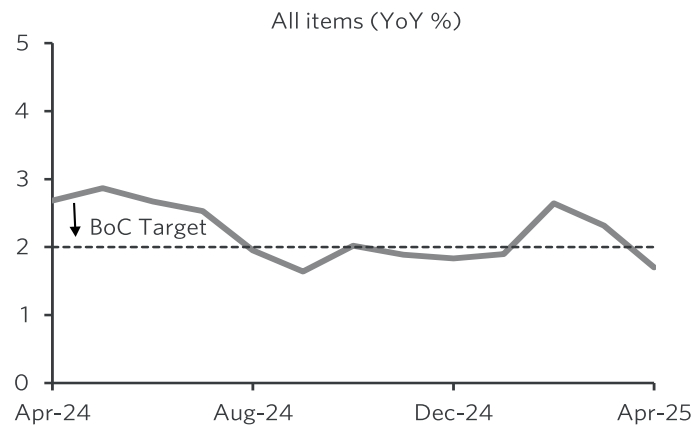
The Bank of Canada's core measures of inflation (Trim, Median and CPI-X) exclude the impact of indirect taxes and so will not be directly impacted by the removal of the carbon tax. Indeed, CPI-Trim and Median may both tick up slightly on a year-over-year basis, largely due to base effects.

Other Canadian releases:
Retail sales—March

(Friday, 8:30 am)

Retail sales are expected to have risen by 0.7% in March, albeit partly driven by the volatile auto sector and ex-auto sales could be up by a less impressive 0.3%. The advance estimate for April may show a decline in sales, partly due to lower gasoline prices but also possibly also consumer wariness due to tariff uncertainty.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — While headline inflation is expected to be below the 2% target purely because of the removal of the consumer carbon tax, some recent better news on the tariff front should also make the Bank of Canada less concerned about inflationary pressures moving forward. That provides room for policymakers to respond to the weakening in the economy (reflected in stalling growth and a rise in unemployment) and cut interest rates by 25bp at the June meeting.

There are no major US data releases next week.

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