Economics

THE WEEK AHEAD

March 10 - 14, 2025

Chicken soup for the economy

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

Bank of Canada Governor Macklem has a point. Monetary policy, and its singular instrument, interest rates, can't be a cure-all for the trade risks that will ail the economy in the months ahead. But like chicken soup for a cold, it couldn't hurt either, and might make some corners of the economy feel a little better.

Make no mistake, the trade war is still very much in play. A one-month reprieve means little, particularly since exporters rushed to get their March shipments across the border ahead of time, leaving less export demand for the coming few weeks.

Even if the 25% "fentanyl" tariffs are dropped in April, and there's been no guarantee of that, they'll be replaced by "reciprocal tariffs" that could still be quite elevated. The White House will be free to calculate Canada's tariff and non-tariff barriers with the same degree of rigor that they applied in their assessment of Canada's role in US fentanyl supply. American officials repeatedly cite high effective tariffs on dairy, the digital services tax, as well as the GST/HST (which isn't a tariff as its applied equally on imports and domestic products in the Canadian market). The President, and his cabinet, seem particularly determined to shift activity in the auto sector out of Canada and Mexico into the US.

Had the country not been plunged into a trade war, there would have been ample reasons for the Bank of Canada to at least pause on its rate cutting path. GDP growth not only surprised to the upside in Q4, but revised Q3 readings looked significantly better. Soft February hiring still left a strong average gain over the past three months. Underlying inflation was still tracking at an acceptable level, but there was certainly time to let the data speak for a while to see if more rate cuts were needed.

That upcoming data might have justified additional rate trimming ahead, if perhaps not the three quarter point cuts we had expected before the GDP surprise, but which we've now retained as our call given the trade uncertainties. We judged the output gap as wider than the BoC's estimates as of mid-2024. The mechanical approach that the Bank applies from quarter to quarter would have dramatically lowered its estimate of that gap to less than 0.5% after the second half GDP burst.

But the growth in demand was accompanied by a long overdue, cyclical pickup in productivity, implying that potential GDP, the economy's non-inflationary speed limit, has also picked up, leaving considerable elbow room for non-inflationary growth. That's more consistent with the still-elevated readings of labour market slack in February.

But now, all of that, and even the strong start to some 2025 data as exporters rushed to beat tariffs, is in the rear view mirror. We don't know how long the trade war will last. But it's clear that actions at the border aren't enough, and that the US President is looking at the full trade relationship with its neighbours.

As a result, without a truce in April, we see Canadian GDP shrinking in Q2 and unemployment rising over the spring to new cyclical highs. Fiscal measures due to be announced shortly could help cushion that blow, but larger programs will likely have to wait until May at the earliest, given the upcoming election.

Yes, amidst that downturn in the economy, there will be one-off bump in inflation, capturing Canada's own tariffs, and rising production costs stateside due to American tariffs on inputs. But in the context of an economic slowdown, rising unemployment, and reduced household spending power, that's much less likely to spark a sustained wage-price spiral. You might pay more for a car, but rents are likely to slump as Canadians' ability-to-pay takes a hit.

The Bank's job is to keep an eye further out on the horizon than a month or two. It can't reopen a shuttered factory with a few rate cuts, but it can support domestic demand as an offset. Indeed, the Governor, while noting that a structural hit to the economy isn't something he can magically fix, did say that the Bank can help smooth the adjustment process. With only one tool at his disposal to "help", that suggests that he's on board with some further interest rate relief. Another quarter point cut next week might be only chicken soup for the economy's soul, but as they say, even if it can't help much, it couldn't hurt.

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 10	-	-	-	-	-	-	-
Tuesday, March 11	-	AUCTION: 3-M BILLS $13.4B, 6-M BILLS $4.8B, 1-YR BILLS $4.8B	-	-	-	-	-
Wednesday, March 12	9:45 AM	BANK OF CANADA RATE ANNOUNCE.	(Mar 12)	(H)	2.75%	2.75%	3.00%
Thursday, March 13	-	AUCTION: 5-YR CANADAS $6B	-	-	-	-	-
Thursday, March 13	8:30 AM	BUILDING PERMITS M/M	(Jan)	(M)	-	-	11.0%
Friday, March 14	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Jan)	(M)	2.0%	2.0%	0.3%
Friday, March 14	8:30 AM	WHOLESALE SALES EX-PETROLEUM M/M	(Jan)	(M)	1.8%	-	-0.2%

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 10	-	-	-	-	-	-	-
Tuesday, March 11	-	AUCTION: 3-YR TREASURIES $58B	-	-	-	-	-
Tuesday, March 11	10:00 AM	JOLTS Job Openings	(Jan)	-	7400K	-	7600K
Wednesday, March 12	-	AUCTION: 10-YR TREASURIES $39B	-	-	-	-	-
Wednesday, March 12	7:00 AM	MBA-APPLICATIONS	(Mar 7)	(L)	-	-	20.4%
Wednesday, March 12	8:30 AM	CPI M/M	(Feb)	(H)	0.3%	0.3%	0.5%
Wednesday, March 12	8:30 AM	CPI M/M (core)	(Feb)	(H)	0.3%	0.3%	0.4%
Wednesday, March 12	8:30 AM	CPI Y/Y	(Feb)	(H)	2.9%	2.9%	3.0%
Wednesday, March 12	8:30 AM	CPI Y/Y (core)	(Feb)	(H)	3.2%	3.2%	3.3%
Thursday, March 13	-	AUCTION: 30-YR TREASURIES $22B	-	-	-	-	-
Thursday, March 13	8:30 AM	INITIAL CLAIMS	(Mar 8)	(M)	-	-	221K
Thursday, March 13	8:30 AM	CONTINUING CLAIMS	(Mar 1)	(L)	-	-	1897K
Thursday, March 13	8:30 AM	PPI M/M	(Feb)	(M)	0.2%	0.3%	0.4%
Thursday, March 13	8:30 AM	PPI M/M (core)	(Feb)	(M)	0.3%	0.3%	0.3%
Thursday, March 13	8:30 AM	PPI Y/Y	(Feb)	(M)	-	-	3.5%
Thursday, March 13	8:30 AM	PPI Y/Y (core)	(Feb)	(M)	-	-	3.6%
Friday, March 14	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Mar P)	(H)	-	63.9	64.7

Week Ahead's market call

by Avery Shenfeld

In the **US**, a 0.3% on both headline and core CPI will be uneventful for markets, and continues the general pattern in which inflation isn't horrible, but isn't yet as mild as the Fed wants it to be. The February data won't yet pick up anything from tariffs on Chinese products, since goods on the retail shelves that month would have been ordered and brought into the country ahead of the February levies. Job openings looks likely to slip a bit, but again, not enough to register a market response.

In **Canada**, as stronger economic data rolled in over the last couple of months, we maintained what had become a non-consensus forecast for a quarter point rate cut by the BoC in March, lacking confidence that the trade war threat would simply disappear. And as that risk has become apparent, markets and consensus forecasts are mostly on board with the same view. We don't expect the Bank to provide much in the way of forward guidance, as it doesn't have a crystal ball on where trade policy is headed, and this announcement doesn't come with a new economic forecast. Manufacturing shipments data will look deceptively strong, as firms rushed to get goods to US customers before tariffs kicked in.

There are no major Canadian data releases next week.

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

(Wednesday, 8:30 am)

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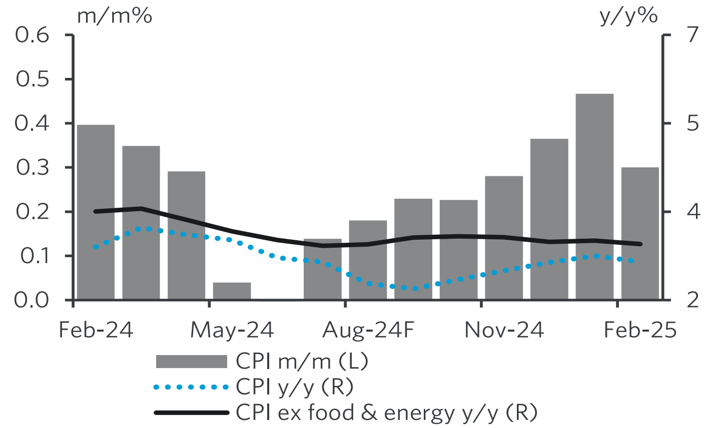
Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.3	0.3	0.5
Headline CPI (y/y)	2.9	2.9	3.0
Core CPI (m/m)	0.3	0.3	0.4
Core CPI (y/y)	3.2	3.2	3.3

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

February CPI should come in at 0.3% m/m for both core and headline — an improvement from the sizzling January report. We expect core goods prices should move higher on account of continued uptick in car prices, but services inflation should moderate in both housing and non-housing components. We don't expect a major imprint of tariffs in February given the China tariffs were applied in the beginning of the month with little warning but all the trade talk likely pushed up future expected inflation. The Richmond Fed survey of CFOs has showed short-term inflation expectations of firms were already stuck at 3% over the past year, and a trade war America's main trade partners will only push that higher, risking future price stickiness. The Fed has a tough job ahead, having to balance between underlying inflation edging back up to 3% and growing downside risks to the job market.

Forecast implications — The Fed will be on hold until there is at least some clarity on what trade policy has in store and how the next several inflation prints look like.

Market implications — Our views are aligned with consensus but the market is now more focused on a slowdown in growth and the labor market.

Other US Releases: JOLTS Jobs Opening—January

(Tuesday, 10:00 am)

Job openings edged down to 7400 in January, as indicated by private job postings on major job tracking sites. That will keep the vacancy to unemployment ratio at 1.1 for the seventh straight month.

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