

## Economics

## THE WEEK AHEAD

July 7 - 11, 2025

## Trump has a point, up to a point

by Avery Shenfeld [avery.shenfeld@cibc.com](mailto:avery.shenfeld@cibc.com)

The President's continued hectoring of his central bank head doesn't look likely to let up anytime soon. His suggestion that US interest rates should be among the world's lowest doesn't have any meaningful support among economists, or for that matter, in fed funds futures pricing by market participants. Economies with rates at rock bottom levels are typically those suffering a decided economic malaise, so the President should be careful about what he wishes for. But Trump does have a point, sort of.

That lies in data that, for the most part, suggest that current interest rates are too high to be sustainable over the medium term while still keeping the American economy growing at potential. A very long pause at these levels would therefore represent a threat to the Fed's full employment target, and downward pressure on inflation.

True, rates have been at this level or higher since the start of 2023, and the economy has held up well. But that was helped by tailwinds tied to outsized wealth gains that fueled a consumption boom, support for consumption from faster immigration growth during Biden's term, and government subsidies for chip plants and renewable power projects.

Assessing whether rates are actually near neutral in the absence of such tailwinds entails taking the temperature of the interest sensitive components of demand. There, for the most part, lies evidence that a policy rate in the mid-4% range is in fact a material drag on growth. Core capital goods orders have held up well, but overall growth in interest sensitive demand for equipment, business construction and homebuilding has been slowing over the past four quarters (Chart). Durable goods consumption could also decelerate as tariffs raise prices in upcoming quarters. As a result, we see the need for a further 100 bps in easing by the end of 2026 to keep the economy in gear, taking the funds rate to the mid-3% range that we see as truly neutral.

So President Trump has a point, up to a point. But so too does Chairman Powell when he reiterates that he sees no reason to act just yet. His view is much easier to articulate: in the here and now, the Fed has the labour market right where

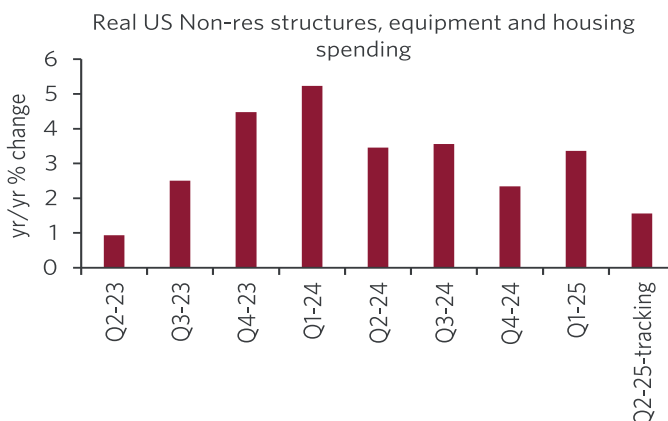
it's supposed to be under its dual mandate, sitting at full employment.

Relative to its 2% core-PCE inflation mandate, the picture is more mixed, still at 2.7% in the past year, but cooler in the last three months. It's what lies ahead that is less clear. The recent cooling has been helped by a deceleration in rent measures that we have long anticipated.

But it's also been flattered by a huge build up in imported goods inventories in Q1 that has delayed, but not permanently forestalled, the impacts of higher tariffs. Goods with shorter inventory-turns are showing some price momentum, but vehicles and clothing on dealer lots and store shelves this spring and summer will be tilted towards items that crossed the border before April's tariff hikes. In some cases, we might not capture tariff impacts until late summer or fall.

Having been burned once by judging supply-side inflation impacts as transient and finding them to be more persistent, the Fed has every reason to wait to see how that tariff fallout plays out. If it takes until Q4 to gain those insights, that's a point in favour of Powell's wait and see strategy. And a 4.1% jobless rate gives him the luxury of doing just that.

**Chart: Slowing growth in interest sensitive demand**



Source: US BEA, Atlanta Fed Nowcast

## 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, July 7	-	-	-	-	-	-	-
Tuesday, July 8	10:00 AM	IVEY PMI	(Jun)	(L)	-	-	48.9
Wednesday, July 9	-	AUCTION: 2-YR CANADAS \$6B	-	-	-	-	-
Thursday, July 10	-	AUCTION: 5-YR CANADAS \$5.3B	-	-	-	-	-
Friday, July 11	8:30 AM	EMPLOYMENT CHANGE	(Jun)	(H)	5.0K	-1.5K	8.8K
Friday, July 11	8:30 AM	UNEMPLOYMENT RATE	(Jun)	(H)	7.1%	7.1%	7.0%
Friday, July 11	8:30 AM	BUILDING PERMITS M/M	(May)	(M)	-	-2.5%	-6.6%

## 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, July 7	-	-	-	-	-	-	-
Tuesday, July 8	-	AUCTION: 1-YR TREASURIES \$50B	-	-	-	-	-
Tuesday, July 8	-	AUCTION: 3-YR TREASURIES \$58B	-	-	-	-	-
Tuesday, July 8	8:30 AM	CONSUMER CREDIT	(May)	(L)	-	\$10.5B	\$17.9B
Wednesday, July 9	-	AUCTION: 10-YR TREASURIES \$39B	-	-	-	-	-
Wednesday, July 9	7:00 AM	MBA-APPLICATIONS	(Jul 4)	(L)	-	-	2.7%
Wednesday, July 9	8:30 AM	WHOLESALE INVENTORIES M/M	(May)	(L)	-	-0.3%	-0.3%
Wednesday, July 9	2:00 PM	FOMC Meeting Minutes	(Jun 18)	-	-	-	-
Thursday, July 10	-	AUCTION: 30-YR TREASURIES \$22B	-	-	-	-	-
Thursday, July 10	8:30 AM	INITIAL CLAIMS	(Jul 5)	(M)	-	-	233K
Thursday, July 10	8:30 AM	CONTINUING CLAIMS	(Jun 28)	(L)	-	-	1964K
Thursday, July 10	9:00 AM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Thursday, July 10	2:30 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Friday, July 11	2:00 PM	FED BUDGET BALANCE	(Jun)	(L)	-	-\$40.0B	-\$316.0B

## Week Ahead's market call

by Avery Shenfeld

In the **US**, it's a light week for data ahead, but there are still some things to watch. The White House could decide to start the process of sending letters out to trading partners informing them of where their tariffs will stand. The trend could be to keep the current baseline tariff of 10% in most cases, in addition to the sectorial tariffs on autos, steel/aluminum, and down the road on pharma, semiconductors and copper. Canada and Mexico won't be among those receiving such a letter, having escaped the broad reciprocal tariffs back in April, and the US might opt to continue discussions with larger trading partners like Japan and the EU beyond the July 9 deadline. The FOMC members seem somewhat divided on the timetable for a resumption of rate cuts, which could be reflected in the minutes of the last meeting.

In **Canada**, employment is the only major data release, and we're expecting a continuation of the recent trend, with lacklustre job gains and yet another uptick in the unemployment rate. While a 4.1% jobless rate gives the US Fed the luxury of waiting for full clarity on tariffs and their inflation impacts before easing again on rates, the steady drumbeat of higher unemployment in Canada makes an extended pause on rates much less easy for its central bank to justify. That said, there's still one more CPI report before the next rate decision, and a potential trade deal with the US that would moderate the existing tariffs, either of which could delay our projected 25 bp easing in July.

Week Ahead’s key Canadian number:  
Labour force survey—June

(Friday, 8:30 am)

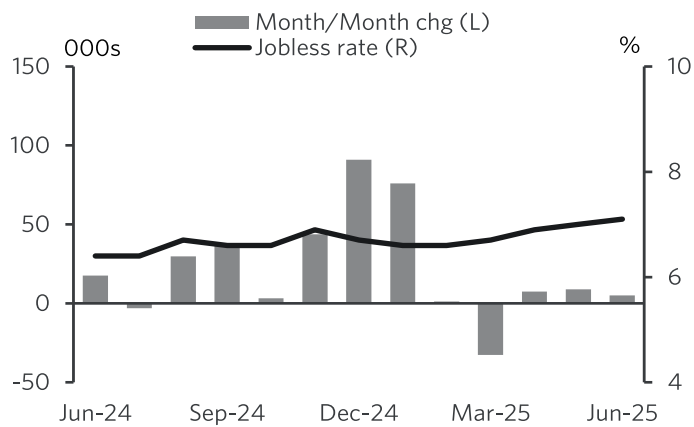
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Variable	CIBC	Mkt	Prior
Employment (m/m)	5.0K	-1.5K	8.8K
Unemployment rate	7.1%	7.1%	7.0%

Further job cuts in the manufacturing sector are likely to weigh on the overall employment count again in June, although that should be broadly offset by hiring within the services sector. With more Canadians choosing to travel locally this summer rather than in the US, it’s possible that hiring within the accommodation & food services sector saw a partial rebound from a broad downtrend it has been on since the start of the year.

A 5K increase in overall employment wouldn’t be enough to prevent a modest increase in the unemployment rate, provided that participation remains unchanged.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications —** The continued drift higher in unemployment rate should help convince the Bank of Canada that further interest rate cuts are needed to help the ailing economy. Those rate reductions alongside further progress on tariffs should help stabilize the labour market late this year and help a gradual decline in unemployment rate starting during 2026.

**There are no major US data releases next week.**

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