

# THE WEEK AHEAD

June 2 - 6, 2025

## Another shoe to drop?

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

Current interest rates are an evident drag on US sectors like housing and business investment. But to ease up on those brakes, the Fed will want to await further clarity on two key fronts. On tariffs, if not overturned, this week's court ruling likely eliminated the worst case scenario of extremely high and broad tariffs, thereby dampening the downside risks to growth, but would leave sectoral tariffs in place and options for others. And there could be another shoe to drop, from fiscal policy, that could still stand in the way of an easing this year.

The budget bill may be big and beautiful in some eyes, but it's still a work in progress. The Senate could do more than just fiddle at the margins, but for now, the House package is what we've got. If it's close to the final bill, it could add a bit of further pressure on the Fed to delay any additional interest rate relief, particularly if the economic drag from tariffs is scaled back.

Primary (ex-interest) deficits in the wake of this bill will be \$2.8 trillion higher over the next decade than in the CBO baseline, according to the Penn Wharton model. Most economists would judge that as imprudent given America's ever-rising debt-to-GDP track and its near-full-employment position. The 10-year projection would look even worse if not for the fact that some of the new tax breaks are assumed to end after 2028. Historical precedent would put high odds on these measures being subsequently extended.

But at the same time, the bill isn't actually adding that much fiscal stimulus to growth. True, it adds \$614 bn to primary deficits in fiscal 2026, or roughly 2% of GDP. But just over half that cost is merely preventing the tax increase that would come if the TCJA tax cuts approved a decade ago had been allowed to expire. That's not fresh stimulus to year on year growth.

Through last minute amendments that moved up the timetable for spending cuts, the final version of the House bill reduced the scale of near-term stimulus. But it still left a one-time bump up in deficits from new measures of just under 1% of GDP in fiscal 2026, after which the fiscal impulse will fade given that the level change in the deficit versus the baseline shrinks after next year. The multiplier impacts on growth will be smaller than they would be in a deep recession, and the tax cuts benefit

higher income earners who save more of their gains, while the bill pares back transfers to low income households that spend every dime.

Reflecting such considerations, the Penn Wharton model estimates that the level of GDP in 2034 will be only 0.4% higher as a result of its passage, and that's tied to an increase in both hours worked and the capital stock that would increase the economy's non-inflationary potential. But the stimulus is largely upfront, as the out years have more of the spending cuts.

So whether the Fed will see enough of a slowdown to justify even one rate cut this year could come down to where tariffs land, when there is clarity on that, and what changes the Senate is able to negotiate in the final fiscal package. While tariff revenues will reduce the upward pressure on the deficit, they are still a negative for growth, by acting as a tax on businesses using imported inputs and on consumers. That's particularly true for lower income households who benefit less from income tax cuts, and who spend more of their income on tariffed goods than upper-income Americans, who have higher saving rates and a greater share of consumption on services.

But some fiscal hawks were counting on tariff revenues that aren't counted in the budget bill to contain overall deficits. If this week's court ruling dials down tariffs, a few GOP Senators will press for changes in the bill to pare back tax deductions for state/local taxes, or for additional spending cuts. But there appear to be more who would lean towards pushing back against cuts to Medicaid or renewable energy credits, which would increase deficits and the net fiscal stimulus. So we could end up with a bit more net stimulus that would delay Fed rate relief.

Like the Fed, we are still awaiting the final settings for tariffs, the economic slowing from the trade war show up in the data, and for a final budget bill. Since the tariff outcome could now take longer to resolve amidst legal uncertainties we could end up getting only one 25 bp cut this year, perhaps in Q4, rather than the two cuts we had projected.

## 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 2	-	-	-	-	-	-	-
Tuesday, June 3	-	AUCTION: 3-M BILLS \$9.4B, 6-M BILLS \$6.2B, 1-YR BILLS \$6.2B	-	-	-	-	-
Wednesday, June 4	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(1Q)	(M)	-	-	0.6%
Wednesday, June 4	9:45 AM	BANK OF CANADA RATE ANNOUNCE.	(Jun 4)	(H)	2.75%	-	2.75%
Thursday, June 5	-	AUCTION: 5-YR CANADAS \$5.3B	-	-	-	-	-
Thursday, June 5	8:30 AM	MERCHANDISE TRADE BALANCE	(Apr)	(H)	-\$1.5B	-	-\$0.5B
Thursday, June 5	10:00 AM	IVEY PMI	(May)	(L)	-	-	47.9
Thursday, June 5	12:35 PM	Speaker: Sharon Kozicki (Deputy Gov.)	-	-	-	-	-
Friday, June 6	8:30 AM	EMPLOYMENT CHANGE	(May)	(H)	-15.0K	-	7.4K
Friday, June 6	8:30 AM	UNEMPLOYMENT RATE	(May)	(H)	7.0%	-	6.9%

## 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 2	8:30 AM	S&P GLOBAL US MANUFACTURING PMI	(May)	(L)	-	52.2	52.3
Monday, June 2	10:00 AM	ISM - MANUFACTURING	(May)	(H)	49.0	49.2	48.7
Monday, June 2	10:00 AM	CONSTRUCTION SPENDING M/M	(Apr)	(M)	-	0.4%	-0.5%
Monday, June 2	10:15 AM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Monday, June 2	12:45 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Monday, June 2	1:00 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Tuesday, June 3	10:00 AM	FACTORY ORDERS M/M	(Apr)	(M)	-	-3.1%	3.4%
Tuesday, June 3	10:00 AM	DURABLE GOODS ORDERS M/M	(Apr)	(H)	-	-	-6.3%
Tuesday, June 3	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Apr)	(H)	-	-	0.2%
Tuesday, June 3	10:00 AM	JOLTS Job Openings	(Apr)	-	7000K	7100K	7192K
Tuesday, June 3	12:45 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Tuesday, June 3	1:00 PM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Tuesday, June 3	3:30 PM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Wednesday, June 4	7:00 AM	MBA-APPLICATIONS	(May 30)	(L)	-	-	-1.2%
Wednesday, June 4	8:15 AM	ADP EMPLOYMENT CHANGE	(May)	(M)	-	110K	62K
Wednesday, June 4	9:45 AM	S&P GLOBAL US SERVICES PMI	(May)	(L)	-	-	52.3
Wednesday, June 4	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(May)	(L)	-	-	52.1
Wednesday, June 4	10:00 AM	ISM - SERVICES	(May)	(M)	52.5	52.0	51.6
Wednesday, June 4	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Wednesday, June 4	8:30 AM	Speaker: Raphael W. Bostic (Atlanta) (Voter) & Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Thursday, June 5	8:30 AM	INITIAL CLAIMS	(May 31)	(M)	-	-	240K
Thursday, June 5	8:30 AM	CONTINUING CLAIMS	(May 24)	(L)	-	-	1919K
Thursday, June 5	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Apr)	(H)	-\$120.0B	-\$117.3B	-\$140.5B
Thursday, June 5	8:30 AM	NON-FARM PRODUCTIVITY	(1Q F)	(M)	-0.8%	-0.8%	-0.8%
Thursday, June 5	12:00 PM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Thursday, June 5	2:00 PM	Speaker: Patrick Harker (Philadelphia) (Non-Voter)	-	-	-	-	-
Friday, June 6	8:30 AM	NON-FARM PAYROLLS	(May)	(H)	125K	130K	177K
Friday, June 6	8:30 AM	UNEMPLOYMENT RATE	(May)	(H)	4.2%	4.2%	4.2%
Friday, June 6	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(May)	(H)	0.2%	0.3%	0.2%
Friday, June 6	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(May)	(H)	-	34.3	34.3
Friday, June 6	8:30 AM	MANUFACTURING PAYROLLS	(May)	(H)	-	-5K	-1K
Friday, June 6	3:00 PM	CONSUMER CREDIT	(Apr)	(L)	-	-	\$10.2B

## Week Ahead's market call

by Avery Shenfeld

In the **US**, a moderation in job gains in May should still leave the labour market close enough to full employment to give the Fed plenty of time to ponder its next move. Surveys like the ISM typically capture a mix of actual data and sentiment, and a lightening trend for tariffs could nudge the latest reading from manufacturers up a bit. Markets will also be eying the legal twists and turns on tariffs, but are to some extent less sensitive to developments in trade policy that investors recognize could be reversed in short order.

In **Canada**, a forward-looking central bank should be looking past recent momentum in core inflation, and could readily justify a rate cut this month. GDP was only inching higher in March and April, and a widening output gap is even more apparent in ugly numbers from both the LFS (household survey) and payrolls (SEPH) reports in the last couple of months. May's LFS data seems likely to extend that. But while we would argue that a cut would be the right step, odds are that the Bank of Canada won't deliver one just yet, having signaled that it's less willing to be forward looking amidst considerable uncertainty over the outlook. So we look for a pause next week, but one accompanied by a message that leaves the door open for rate relief ahead. Unless a sudden peace breaks out in the trade war, by the July meeting, the Bank should have sufficient clarity to actually publish an economic forecast, having not done so in April, and a wider output gap should green light a quarter point cut then and in September.

Week Ahead's key Canadian number:  
Labour force survey—May

(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment change	-15.0K	-	7.4K
Unemployment rate	7.0%	-	6.9%

While employment edged higher in April, that was largely the result of temporary hiring in the public sector related to the Federal election. As those jobs are lost in May, overall employment could well decline. As well as the expected drop in public admin, look for continued weakness in tariff-impacted areas such as manufacturing and transportation & warehousing. Those drops may be partially offset by job gains in some services sectors less exposed to trade uncertainties, although even within these areas we expect increases to be modest.

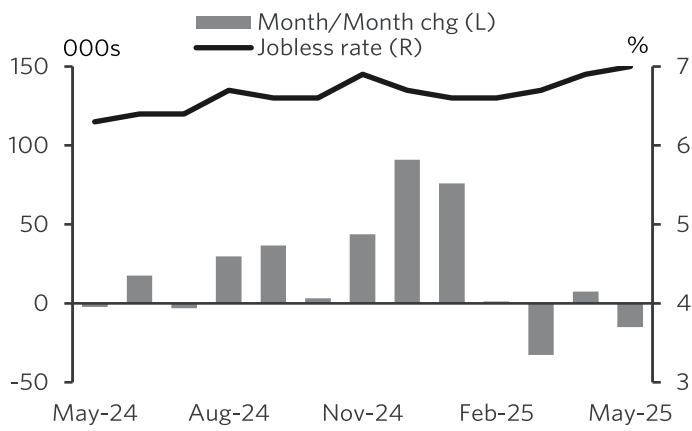
The 15K drop in employment we predict would typically bring a two-tick increase in the unemployment rate. However, it is possible that some election-related jobs were undertaken by people not previously participating in the workforce, which could explain the uptick in the participation rate last month. Assuming this ticks down again, we are forecasting only a tick up in the jobless rate to 7.0%.

Other Canadian releases:  
Merchandise trade—April

(Thursday, 8:30 am)

Canada's trade deficit managed to narrow in March, thanks to greater exports to non-US markets. While that trend may have continued in April, we expect that the start of US tariffs , combined with lower oil exports, will see the deficit widen again to \$1.5bn.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications —** While we have heard some positive news on the tariff front recently, sector-specific tariffs on items such as steel, aluminum and autos remain in place and a headwind for Canadian growth and employment prospects. We continue to expect that the unemployment rate will drift higher in the coming months, before stabilizing later in the year and declining in 2026 on the assumption of further tariff reductions and interest rate cuts.

Week Ahead’s key US number:  
Employment situation—May

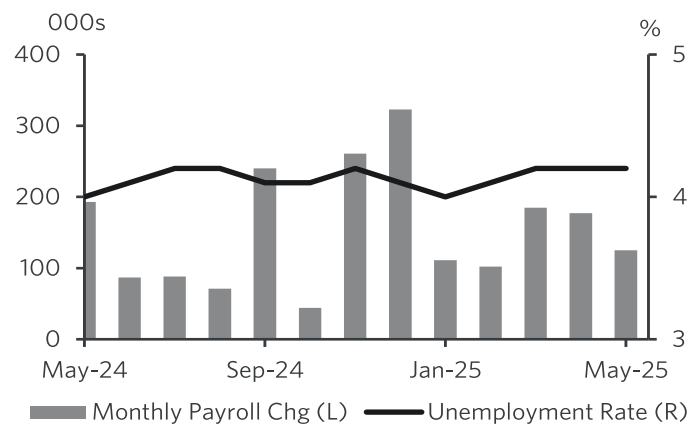
(Friday, 8:30 am)

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Variable	CIBC	Mkt	Prior
Employment (m/m)	125K	130K	177K
Unemployment rate	4.2%	4.2%	4.2%
Avg hourly earnings (m/m)	0.2%	0.3%	0.2%

We expect payrolls to come in at 125K and the unemployment rate to remain at 4.2% in May. Initial claims and the employment sub-indices in the PMI data suggest softer hiring in the month, but not at levels that should be worrying. Despite tariffs being dialed down in the month, the general level of economic uncertainty was high, with consumer and business sentiment fairly weak in the month which should translate into modest hiring. Some sectors that benefitted from front-loading, like transportation and warehousing should see hiring cool in the month given, imports have normalized somewhat. We also expect net job losses in federal employment to continue in the month.

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

**Forecast implications** — The near-term data doesn’t matter as much to the Fed and with the economy and the job market still in a good place, they have luxury to wait. We don’t expect the Fed to ease until late this year when trade policy is more settled.

**Market impact** — We are close to consensus on payrolls. The data flow has taken a back seat to the fiscal bill and the legal challenges to the tariffs, and this could be a quiet payroll day.

Other US Releases:  
ISM Manufacturing—May

(Monday, 10:00 am)

Regional manufacturing surveys point to continued weak sentiment but slightly better than April, which adds up given global tariffs were dialed down in May after the US-China détente. We expect the headline ISM index to remain in contractionary territory but to rise slightly to 49.

JOLTS Job Openings—April

(Tuesday, 10:00 am)

Private job tracking sites point to job openings falling further in April. We expect openings to come in at 7000 and the vacancy-to-unemployment ratio to stay at 1.0.

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