THE WEEK AHEAD

March 3 - 7, 2025

US fiscal policy: What investors need to know

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

House Republicans managed to approve a budget resolution this week, but there's still a tricky path ahead. At this point, the resolution only imposes minimums for spending cuts in broad areas, and ceilings on tax cuts, but provides no details. House committees will set to work on filling in those blanks, and the Senate will be seeking further changes. Even so, there are some insights that can be gleaned for financial market participants at this early stage.

First, the legislators didn't reach for tariff revenues to achieve their bottom line results. President Trump has mused about tariffs as a way to finance other tax reductions, but Congress is still focussed on spending offsets. Tariffs might be seen as too unpredictable to be counted on as a 10-year revenue stream.

The Fed's doves, who are still open to modest further interest rate cuts later this year, would be concerned if the bill added a lot of additional fiscal stimulus, which could threaten an inflation upturn. As it stands, the House bill doesn't fully close the door to a resumption of rate cuts later this year, if other policy choices, including tariffs, don't step in to push inflation higher.

The "tax cuts" in the bill aren't fresh stimulus to the economy, but simply maintain existing tax rates that would otherwise climb as Trump's first-term measures expired in 2026. The resolution's $4.5 tn ceiling on tax savings over 10 years appears to leave little if any room for other cuts Trump had proposed for those earning tips, overtime pay, or the for the corporate sector. If most tax rates stay essentially unchanged from current levels, but spending growth is pared back, the net impact could well be somewhat of a drag on growth and inflation in 2026. But that will depend on the timing of when spending cuts kick in, which this framework bill doesn't yet address.

Investors in longer dated Treasuries will be pouring over the numbers for what they imply for bond issuance. On the surface at least, the budget resolution doesn't look that scary. Near-term deficits are projected to be a bit wider than in the last CBO projection, with the 2026 shortfall at $1.97 tn, versus $1.71 tn in the CBO baseline. That baseline assumed that all of Trump's first term tax cuts would be allowed to expire, and even Democrats wanted to retain lower rates for those earning less than $400K, so markets were likely already factoring that cost into account.

Further out, the deficit is projected to remain near $2 tn annually, which would be an improvement over a CBO baseline that had it creeping up to $2.5 tn by 2035 and stuck near 6% of GDP. But we'll hold our cheers for that apparent fiscal prudence. The ability to keep the deficit steady all comes from two assumptions. First, that economic growth will do better than the CBO expects, due to these changes in economic policy, generating an extra half trillion in deficit reduction by 2035. That's a tall task for an economy that is already near full employment, and facing a declining growth rate in the working age population. Second, the cost of the tax cuts is set at a steady $450 bn per year. In reality, the fiscal cost of lower tax rates might indeed average at $450 bn per annum, but would start lower and then grow as nominal GDP expands. So deficits could look lower initially, but still grow over time.

Investors likely realize that already, so the real risk to bond market forecasts lies in the negotiations that will be needed among House and Senate members, to come up with the specific spending cuts needed to achieve anything close to these fiscal projections. The path for deficits under the bill depends on what will be politically challenging cuts to Medicaid and SNAP ("food stamps") which some moderate Republicans oppose, a host of other cuts that are yet to be identified, or finding other areas to trim that were not captured in this House bill.

That said, there are House Republicans who supported this resolution because it proposed minimum spending cuts, and they are going to press for even deeper restraint in the final bill. Given that nearly every one of their votes will be needed to cross the budgetary finish line, and that the fiscal hawks can also throw their weight around over the need to fund the government and avoid a mid-March shutdown, we don't expect the final bill to do much damage to the bond market versus what's already priced in for deficits ahead.

The market is too politically savvy to be counting on a major fiscal tightening anytime soon. If they come up with further spending cuts, the GOP leadership will devote all of that to tax relief, not additional deficit reduction. True fiscal religion will need more voter recognition that you can't run such large deficits forever without running into an excessive squeeze from interest costs.

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 3	-	-	-	-	-	-	-
Tuesday, March 4	-	-	-	-	-	-	-
Wednesday, March 5	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Wednesday, March 5	8:30 AM	LABOUR PRODUCTIVITY Q/Q	(4Q)	(M)	-	-	-0.4%
Thursday, March 6	-	AUCTION: 10-YR CANADAS $6B	-	-	-	-	-
Thursday, March 6	8:30 AM	MERCHANDISE TRADE BALANCE	(Jan)	(H)	$1.3B	-	$0.7B
Thursday, March 6	10:00 AM	IVEY PMI	(Feb)	(L)	-	-	47.1
Friday, March 7	8:30 AM	EMPLOYMENT CHANGE	(Feb)	(H)	10.0K	-	76.0K
Friday, March 7	8:30 AM	UNEMPLOYMENT RATE	(Feb)	(H)	6.7%	-	6.6%
Friday, March 7	8:30 AM	CAPACITY UTILIZATION	(4Q)	(L)	-	-	79.3%

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, March 3	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Feb)	(L)	-	-	51.6
Monday, March 3	10:00 AM	ISM - MANUFACTURING	(Feb)	(H)	50.8	50.5	50.9
Monday, March 3	10:00 AM	CONSTRUCTION SPENDING M/M	(Jan)	(M)	-	-0.1%	0.5%
Monday, March 3	12:35 PM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Tuesday, March 4	2:20 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Wednesday, March 5	7:00 AM	MBA-APPLICATIONS	(Feb 28)	(L)	-	-	-1.2%
Wednesday, March 5	8:15 AM	ADP EMPLOYMENT CHANGE	(Feb)	(M)	-	148K	183K
Wednesday, March 5	9:45 AM	S&P GLOBAL US SERVICES PMI	(Feb)	(L)	-	-	49.7
Wednesday, March 5	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Feb)	(L)	-	-	50.4
Wednesday, March 5	10:00 AM	FACTORY ORDERS M/M	(Jan)	(M)	1.4%	1.4%	-0.9%
Wednesday, March 5	10:00 AM	DURABLE GOODS ORDERS M/M	(Jan)	(H)	-	-	3.1%
Wednesday, March 5	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Jan)	(H)	-	-	0.0%
Wednesday, March 5	10:00 AM	ISM - SERVICES	(Feb)	(M)	52.5	53.0	52.8
Wednesday, March 5	2:00 PM	FED'S BEIGE BOOK	-	-	-	-	-
Thursday, March 6	8:30 AM	INITIAL CLAIMS	(Mar 1)	(M)	-	-	242K
Thursday, March 6	8:30 AM	CONTINUING CLAIMS	(Feb 22)	(L)	-	-	1862K
Thursday, March 6	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Jan)	(H)	-$100.0B	-$91.3B	-$98.4B
Thursday, March 6	8:30 AM	NON-FARM PRODUCTIVITY	(4Q)	(M)	1.2%	1.2%	1.2%
Thursday, March 6	10:00 AM	WHOLESALE INVENTORIES M/M	(Jan)	(L)	-	-	0.7%
Thursday, March 6	3:30 PM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Thursday, March 6	7:00 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Friday, March 7	8:30 AM	NON-FARM PAYROLLS	(Feb)	(H)	130K	158K	143K
Friday, March 7	8:30 AM	UNEMPLOYMENT RATE	(Feb)	(H)	4.1%	4.0%	4.0%
Friday, March 7	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Feb)	(H)	0.4%	0.3%	0.5%
Friday, March 7	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Feb)	(H)	-	34.2	34.1
Friday, March 7	8:30 AM	MANUFACTURING PAYROLLS	(Feb)	(H)	-	5K	3K
Friday, March 7	3:00 PM	CONSUMER CREDIT	(Jan)	(L)	-	-	$40.8B
Friday, March 7	10:15 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Friday, March 7	10:45 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Friday, March 7	12:20 PM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Friday, March 7	12:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Friday, March 7	1:00 PM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Ali Jaffery and Katherine Judge

In the **US**, the focus will be on the President yet again and whether tariffs on Canada and Mexico are actually going to be applied. The President said they would earlier this week, but he also said the same thing in early February only to reverse course the next day. With a raft of reports coming in April that could provide him more legal and political cover — not to mention, more time for American firms and border agents to prepare for tariffs — so there still might be hope for yet another delay. Beyond the tariffs, we expect a weaker payroll report than the consensus with more bad weather in February, creeping tariff uncertainty and a government hiring freeze showing up in the data. Powell will cap off the week with what should be a well-timed speech on Friday afternoon.

In **Canada**, the clock is ticking down to the end of the tariff reprieve period, and all eyes will be on Trump on March 4th to see if he follows through with imposing a broad tariff on Canadian goods. The employment data on Friday could show some of the first signs of tariff uncertainty in the labour market, with a sharp slowdown in hiring and an increase in the unemployment rate expected. But if the tariff pause is extended, the BoC may opt to leave the overnight unchanged in March given the strength in GDP in late 2024 and early 2025.

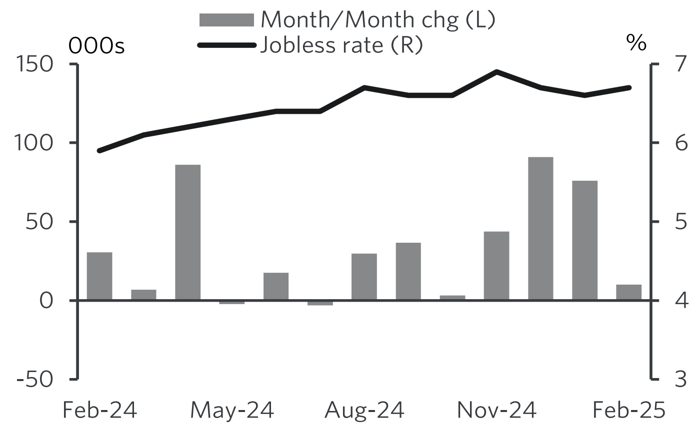
Week Ahead's key Canadian number: Labour force survey—February

(Friday, 8:30 am)

Katherine Judge katherine.judge@cibc.com

Variable	CIBC	Mkt	Prior
Employment (m/m)	10.0K	-	76.0K
Unemployment rate	6.7%	-	6.6%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Tariff uncertainty could have held back hiring plans in February, resulting in a modest 10K jobs being created and the unemployment rate ticking up to 6.7%. That would likely include layoffs in sectors that are more exposed to tariffs, including manufacturing, following a surge in hiring in the prior month. That would be in line with the deterioration in business confidence seen in the CFIB survey during the month, and the end of the GST holiday mid-month could have put pressure on retail trade and restaurant headcounts.

Forecast implications — If the tariff pause is extended, the BoC is likely to leave rates unchanged in March as other activity readings on GDP and housing have looked better, and core inflation has surprised to the upside, while the weakness has been isolated to areas impacted by tariffs which may not end up being implemented.

Other Canadian releases: Merchandise trade—January

(Thursday, 8:30 am)

Tariff front-running could have continued to support exports in January, while imports of capital goods could have waned due to tariff uncertainty holding back business investment. With oil prices averaging higher, and a weaker Canadian dollar also boosting trade in C$ terms, the international goods trade deficit surplus could have increased to $1.3bn.

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

(Friday, 8:30 am)

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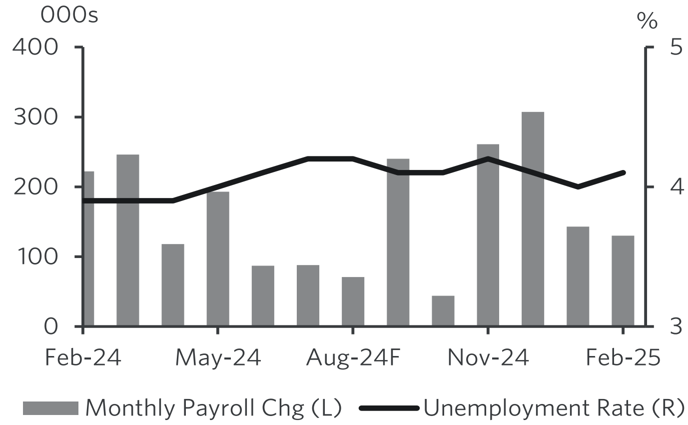
Variable	CIBC	Mkt	Prior
Employment (m/m)	130K	158K	143K
Unemployment rate	4.1%	4.0%	4.0%
Avg hourly earnings (m/m)	0.4%	0.3%	0.5%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

Winter snow storms, tariff uncertainty and slower government hiring are the key themes we expect to see in the February payroll report. We are forecasting a softer pace of job gains in February at 130K, with the majority of that coming from healthcare. Trade uncertainty picking up will likely mean little hiring in manufacturing and major winter storms in the Northeast that preceded the survey reference week weigh on hiring in cyclical services sectors. 75K federal public workers did accept early resignation offers in early February according to the Office of Personnel Management, and thousands more probationary employees also lost their jobs, but we're not so sure all of those losses will show in February. Many of them could stay on the payroll until their severance is paid out, which could last several more months. But we nonetheless expect federal hiring flows to be much softer in the month. Wage growth will tick down to 0.4% m/m and in the household survey, the unemployment rate should tick up a notch to 4.1%.

Forecast implications — Sticky inflation and a low unemployment rate means the Fed can afford to be less concerned about a moderation in payroll gains for now. The underlying trend in the labor market is cooler than it was a year ago, but it is still healthy right now.

Market impact — We are below consensus on payrolls but the market knows the Fed is on the sidelines this year as they wait-and-see what is to come from the White House.

Other US Releases: ISM Manufacturing—February

(Monday, 10:00 am)

Regional manufacturing surveys showed mixed results, and hence we expect ISM to remain about unchanged in the month at 50.8, staying in expansionary territory in February.

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