Economics

THE WEEK AHEAD

February 17 - 21, 2025

The surplus the US runs with Canada

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

It's unlikely that the facts about US trade relationships are going to be read by today's oval office resident, but perhaps those surrounding the President can still be influenced by the data. If so, Canadian diplomatic efforts in Washington should be calling attention to the surplus that the US currently runs with Canada — yes, a surplus — and how that ties into the overall shape of America's balance of payments with other countries.

The surplus we're referencing is the flip side of America's trade deficit with Canada, in the so-called financial account. In the past four quarters, Canadians have invested $176 billion more in US assets than the flow from the US into Canada (all figures are in Canadian dollars). About a quarter of that gap is in foreign direct investment, where Canadians have poured nearly $80 bn over four quarters into American projects against a flow about half that size the other way. Some of those are just the sort of ribbon cutting events that Donald Trump likes to trumpet as a sign of America's success, when he can stand for a photo-op with a Japanese or European CEO.

The largest driver of the US surplus on investment flows is in in debt securities, where Canada's net buying of $148 bn in US bonds and money market instruments dwarfs the $64 bn coming northbound into Canada's debt markets. And that, in fact, is part of the broader story on why the US runs a trade deficit with the rest of the world.

The US is fifth on the list of the 10 richest countries in the OECD in terms of per capita income at purchasing power exchange rates. Its rapid growth in the post-pandemic period, outstripping most of its trading partners, has drawn in more imports as its consumers outspent those in other countries. That alone would have pushed its trade deficit wider, a mark of its economic success, not failure.

But some of that growth has come from stimulative fiscal policy, with the US running much larger budget deficits as a share of GDP, and from households' willingness to have a relatively low savings rate. Measured in terms of total net borrowing for the government sector (at all levels), IMF data show that the US ran the largest government financing need in the G-7, at 7.6% of GDP. That compares to Canada at 2% of GDP.

The result leaves the US dependant on capital inflows to finance not only its government sector, but the private capital spending in an economy that has been booming relative to many of its counterparts. Those capital inflows, and the resulting financial account surplus, push the US dollar to a level that, in turn, makes American exports less competitive, and drives an offsetting current account and trade deficit. Remember that the balance of payments has to, in fact, balance. If the US draws in more of the worlds' savings and investment flows, the buying of US dollars for that surplus has to line up with the net selling of US dollars for goods and services trade (and investment income flows).

Instead of tariffs, the US could improve its trade balance by repositioning its economy to draw in less of those investment flows, thereby weakening the greenback. To do that, it might have to tax its citizens more (it has a lower tax burden than most OECD countries), cut government spending, and thereby reduce its need for foreign borrowing. With a less-stimulative fiscal policy, it could have lower interest rates that are less of a magnet for the foreign capital inflows that keep the US dollar elevated, and the weaker greenback would improve its trade balance.

Or it could simply choose to ignore those trade balances, and recognize that to some extent, they are a sign of a successful economy that has its consumers spending a lot on imports, and foreigners eager to invest in US dollar assets, not just to fund the deficit, but as in Canada's case, undertake foreign direct investment in new plants, buildings and hard assets as a way of joining in on America's success. Mr. President, despite the trade gap, America is already pretty great.

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, February 17	-	Markets Closed (Ontario Family Day)	-	-	-	-	-
Monday, February 17	8:15 AM	HOUSING STARTS SAAR	(Jan)	(M)	-	250.0K	231.5K
Monday, February 17	8:30 AM	INT'L. SEC. TRANSACTIONS	(Dec)	(M)	-	-	$16.4B
Tuesday, February 18	8:30 AM	CPI M/M	(Jan)	(H)	0.0%	0.1%	-0.4%
Tuesday, February 18	8:30 AM	CPI Y/Y	(Jan)	(H)	1.8%	1.9%	1.8%
Tuesday, February 18	8:30 AM	Consumer Price Index	(Jan)	(M)	-	-	161.2
Tuesday, February 18	8:30 AM	CPI Core- Median Y/Y%	(Jan)	(M)	2.5%	2.4%	2.4%
Tuesday, February 18	8:30 AM	CPI Core- Trim Y/Y%	(Jan)	(M)	2.6%	2.6%	2.5%
Tuesday, February 18	9:00 AM	EXISTING HOME SALES M/M	(Jan)	(M)	-	-	-5.8%
Wednesday, February 19	-	-	-	-	-	-	-
Thursday, February 20	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Thursday, February 20	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Jan)	(M)	-	-	0.2%
Thursday, February 20	8:30 AM	RAW MATERIALS M/M	(Jan)	(M)	-	-	1.3%
Friday, February 21	8:30 AM	RETAIL TRADE TOTAL M/M	(Dec)	(H)	1.5%	1.6%	0.0%
Friday, February 21	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Dec)	(H)	-	-	-0.7%
Friday, February 21	12:45 AM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-

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, February 17	-	Markets Closed (President's Day)	-	-	-	-	-
Monday, February 17	9:30 AM	Speaker: Patrick Harker (Philadelphia) (Non-Voter)	-	-	-	-	-
Monday, Febraury 17	10:20 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Monday, February 17	6:00 PM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Tuesday, February 18	-	AUCTION: 1-YR TREASURIES $48B	-	-	-	-	-
Tuesday, February 18	8:30 AM	NEW YORK FED (EMPIRE)	(Feb)	(M)	-	-1.0	-12.6
Tuesday, February 18	10:00 AM	NAHB HOUSING INDEX	(Feb)	(L)	-	47.0	47.0
Tuesday, February 18	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Dec)	(L)	-	-	$79.0B
Tuesday, February 18	10:20 AM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Tuesday, February 18	1:00 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Wednesday, February 19	-	AUCTION: 20-YR TREASURIES $16B	-	-	-	-	-
Wednesday, February 19	7:00 AM	MBA-APPLICATIONS	(Feb 14)	(L)	-	-	2.3%
Wednesday, February 19	8:30 AM	HOUSING STARTS SAAR	(Jan)	(M)	1424K	1394K	1499K
Wednesday, February 19	8:30 AM	BUILDING PERMITS SAAR	(Jan P)	(H)	1445K	1448K	1482K
Wednesday, February 19	2:00 PM	FOMC Meeting Minutes	(Jan 29)	-	-	-	-
Wednesday, February 19	5:00 PM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-
Thursday, February 20	8:30 AM	INITIAL CLAIMS	(Feb 15)	(M)	-	-	213K
Thursday, February 20	8:30 AM	CONTINUING CLAIMS	(Feb 8)	(L)	-	-	1850K
Thursday, February 20	10:00 AM	LEADING INDICATORS M/M	(Jan)	(M)	-	0.0%	-0.1%
Thursday, February 20	9:45 AM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Thursday, February 20	12:05 PM	Speaker: Alberto G. Musalem (St Louis) (Non-Voter)	-	-	-	-	-
Thursday, February 20	2:30 PM	Speaker: Michael S Barr (Governor) (Voter)	-	-	-	-	-
Thursday, February 20	5:00 PM	Speaker: Adriana D. Kugler (Governor) (Voter)	-	-	-	-	-
Friday, February 21	9:45 AM	S&P GLOBAL US SERVICES PMI	(Feb P)	(L)	-	-	52.9
Friday, February 21	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Feb P)	(L)	-	-	52.7
Friday, February 21	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Feb P)	(L)	-	-	51.2
Friday, February 21	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Feb)	(H)	-	-	67.8
Friday, February 21	10:00 AM	EXISTING HOME SALES SAAR	(Jan)	(M)	-	4.2M	4.2M
Friday, February 21	10:00 AM	EXISTING HOME SALES M/M	(Jan)	(M)	-	-2.1%	2.2%
Friday, February 21	11:30 AM	Speaker: Philip N Jefferson (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, a light week for economic data will keep eyes focused elsewhere. The President referenced a potential announcement of automotive tariffs, although we don't have a date for that. There will be a long list of Fed policymakers taking the stage, but they'll be singing from the same song sheet as Powell did this past week, emphasizing that they're on hold awaiting both economic data and policy decisions on other fronts (tariffs, budgetary matters) that could impact inflation ahead.

In **Canada**, the second month of the GST holiday will distort the CPI readings downward for January, as the December print only picked up a part of impact given that it started in the middle of that month. But it's important to remember that the two core measures don't include sales tax impacts, and could actually look firmer if retailers didn't pass on all of the sales tax savings by adding to their pre-tax prices. The GST break also gave a lift to retail sales in December, but that month's bump may be tough to build on in the early readings for January. At this point, trade policy, rather than inflation or Q1 GDP data, is what Canadian markets are keeping a close eye on.

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

(Tuesday, 8:30 am)

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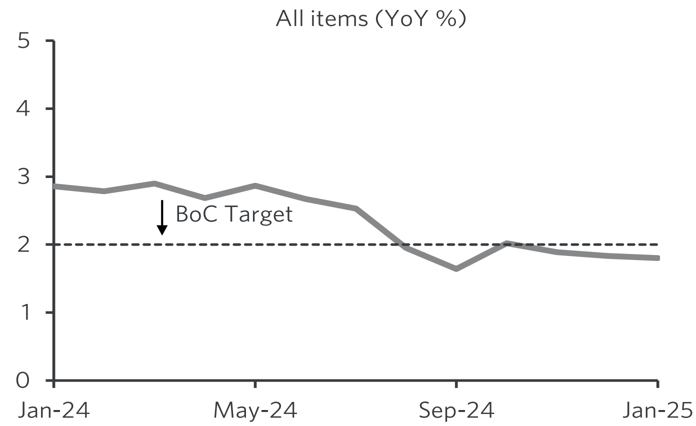
Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	0.0	0.1	-0.4
CPI (y/y)	1.8	1.9	1.8

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

The GST holiday will continue to impact headline CPI data in January, as that marked the only full month this will be in effect. As such we expect to see some further weakness in food prices, and declines for children's clothing and toys. The flat reading that we forecast for the headline unadjusted change in prices during January would likely have been a 0.4% increase were it not for the GST impact. Gasoline prices were up on the month and likely one of the main causes of inflationary pressure.

The Bank of Canada's Trim and Median gauges of inflation, as well as the old CPI-X, exclude the impact of indirect taxation such as GST and as a result shouldn't be as volatile as the headline measure. Actually, it is possible that if the GST reduction wasn't passed on fully to consumers, trim, median and CPI-X may be printing stronger monthly readings than they otherwise would have. We forecast a slight acceleration in both trim and median on a year-over-year basis, mainly due to base effects.

Forecast implications — All measures of inflation are within the Bank's 1-3% bound at the moment, with some a little below and some a bit above the midpoint. This means policymakers can, for now at least, focus more on tariff uncertainty and the downside risks to GDP growth rather than the monthly wiggles in inflation.

Other Canadian releases: Retail sales—December

(Friday, 8:30 am)

Retail sales likely posted a healthy 1.5% advance in December, more or less in line with the advance estimate and helped by the GST holiday that started mid-month. As sales are measured before tax, this figure is unlikely to look even more impressive in real terms. For January, we expect only a modest advance, with consumers keeping up an elevated level of spending during the tax holiday without stretching much further than in December.

There are no major US data releases next week.

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