Economics

THE WEEK AHEAD

January 20 - 24, 2025

In praise of the Fed

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

The financial commentariat has started to point fingers at the easing the Fed has done to date, but to twist Marc Anthony's famed speech, we come to praise Caeser, not to bury him in criticism. Jay Powell is almost certain to be replaced when his term as Chair ends in 2026, but we'd argue that his track record thus far is better than many seem to think.

The central bank might indeed end up having to change course if the incoming administration piles on the inflationary impacts of fresh fiscal stimulus with larger deficits, higher tariffs, and a tighter labour supply due to deportations. But Powell and his team can't be faulted for not prejudging the election result.

We still don't have a clear reading on these policy fronts from Trump's White House. While a flood of executive orders is on tap in the week ahead, that might not give us all the answers we need. Remember that Congress has a lot to say about where fiscal policy heads on balance, including both tax and spending measures. Trump might declare the national emergency he needs to impose broad-based tariffs, but could opt to defer the details on the rates and scope of such levies.

Should tariffs come in at, say, 10% on all non-China imports and 60% on China, that might still only add a few decimal places to the CPI outlook if the US dollar appreciates in response. Similarly, tax measures needn't add much to current inflationary momentum if they are merely extensions of the current rates that were set to expire, or if new reductions are offset by spending restraint. But since we're in the fine tuning stages of this easing cycle, a few decimal places here or there could be the difference between easing the further 100 bps we had in our forecast, or not at all. Neither we, nor the Fed can at this point be too confident about any call.

The Fed has steered a judicious policy course that leaves them the luxury of pausing for several months while they wait for further clarity from the Trump administration. The economy exited 2024 growing at nearly a 3% clip, so it can certainly wait for any further easing without risking a stall. Nor will inflation irrevocably run amok while the Fed stands pat. Inflation expectations are still reasonably well-grounded, and excluding shelter measures that lag more current readings on rent, core PCE doesn't look as far from the target. Real rates are still high by historical standards, particularly after the recent back up in long-term rates, and the drag from that lies ahead.

As for the blame game over 2021-23 inflation, remember that the US was hardly alone in seeing a post-pandemic CPI spike. Relative to other major economies in the Americas and Europe, Americans have seen about the same inflation performance, much better real GDP growth, a stronger financial market, and a quicker return to full employment.

With hindsight, one can make the case that allowing a one-time jump in the price level may have been the right choice for America's central bankers among some not too pleasant alternatives in the wake of the COVID-19 shock. Goods prices were doomed to soar on the combination of disruptions to supply chains, including China's COVID shutdown, the spike in energy and grain prices on the onset of the Ukraine war, and a temporary shift in demand from services (movies, gyms) to goods (TVs, Pelotons).

To keep overall inflation bottled up would have required an offsetting tumble in relative services prices tied to persistent weakness in the economy. Instead, relative prices were reset by letting goods inflation run hotter, which allowed the Fed to avoid a much deeper and protracted deviation from its other goal, full employment. Because medium term inflation expectations were well-grounded, and supply pressures eased before too much damage was done, we seem to have escaped the lasting run-up in inflation seen after the 1970s oil shocks were accommodated by the central bank at that time. For that, Jay Powell and the Fed's team deserve our praise, even if getting to this point involved some pain from inflation, and from the interest rate hikes that we needed to quell it.

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, January 20	10:30 AM	Release: Business Outlook Survey & Canadian Survey of Customer Expectations	-	-	-	-	-
Tuesday, January 21	8:30 AM	CPI M/M	(Dec)	(H)	-0.3%	-0.7%	0.0%
Tuesday, January 21	8:30 AM	CPI Y/Y	(Dec)	(H)	2.0%	1.8%	1.9%
Tuesday, January 21	8:30 AM	Consumer Price Index	(Dec)	(M)	-	-	161.8
Tuesday, January 21	8:30 AM	CPI Core- Median Y/Y%	(Dec)	(M)	2.5%	2.5%	2.6%
Tuesday, January 21	8:30 AM	CPI Core- Trim Y/Y%	(Dec)	(M)	2.6%	2.5%	2.7%
Wednesday, January 22	8:30 AM	INDUSTRIAL PROD. PRICES M/M	(Dec)	(M)	-	-	0.6%
Wednesday, January 22	8:30 AM	RAW MATERIALS M/M	(Dec)	(M)	-	-	-0.5%
Thursday, January 23	-	AUCTION: 30-YR CANADAS $2.5B	-	-	-	-	-
Thursday, January 23	8:30 AM	RETAIL TRADE TOTAL M/M	(Nov)	(H)	0.2%	0.1%	0.6%
Thursday, January 23	8:30 AM	RETAIL TRADE EX-AUTO M/M	(Nov)	(H)	-	-	0.1%
Friday, January 24	-	-	-	-	-	-	-

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, January 20	-	Markets Closed (Martin Luther King Jr. Day)	-	-	-	-	-
Tuesday, January 21	-	AUCTION: 1-YR TREASURIES $48B	-	-	-	-	-
Tuesday, January 21	8:30 AM	PHILADELPHIA FED - NON-MANUFACTURING	(Jan)	(M)	-	-	-3.4
Wednesday, January 22	-	AUCTION: 20-YR TREASURIES $13B	-	-	-	-	-
Wednesady, January 22	7:00 AM	MBA-APPLICATIONS	(Jan 17)	(L)	-	-	33.3%
Wednesday, January 22	10:00 AM	LEADING INDICATORS M/M	(Dec)	(M)	-	-0.1%	0.3%
Thursday, January 23	-	AUCTION: 10-YR TIPS $20B	-	-	-	-	-
Thursday, January 23	8:30 AM	INITIAL CLAIMS	(Jan 18)	(M)	-	-	217K
Thursday, January 23	8:30 AM	CONTINUING CLAIMS	(Jan 11)	(L)	-	-	1859K
Friday, January 24	8:30 AM	S&P GLOBAL US SERVICES PMI	(Jan P)	(L)	-	-	56.8
Friday, January 24	8:30 AM	S&P GLOBAL US COMPOSITE PMI	(Jan P)	(L)	-	-	55.4
Friday, January 24	8:30 AM	S&P GLOBAL US MANUFACTURING PMI	(Jan P)	(L)	-	-	49.4
Friday, January 24	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jan)	(H)	-	-	73.2
Friday, January 24	10:00 AM	EXISTING HOME SALES SAAR	(Dec)	(M)	-	4.2M	4.2M
Friday, January 24	10:00 AM	EXISTING HOME SALES M/M	(Dec)	(M)	-	1.2%	4.8%

Week Ahead's market call

by Avery Shenfeld

In the **US**, we'll be pouring over a flood of executive orders that could start as early as Day 1 of the new administration. On tariffs, we could see anything from merely an authorization to set tariffs by declaring an "economic emergency," which seems to require no evidence of actual malaise, to a full list of applicable duties. Measures relating to deportations, the border, birthright citizenship, oil drilling, tailpipe emissions limits, and civil service job protection are also on tap, and the fate of your teens' favourite video app. All of that will be plenty of fodder for markets in a week lacking major economic releases.

In **Canada**, the CPI consensus is clouded by forecasters' varying interpretations on how much of the GST holiday impact will show up in the December reading rather than being deferred into January. But the central bank will look through that dip and the rebound in February/March, and the underlying core trend is likely to stay sufficiently contained. Retail sales could also be impacted by that GST measure, as some activity may have been shifted out of November into December. But the big story for Canadian financial markets will be what, if anything, we learn about US tariffs, and the Canadian federal government's retaliatory response if Trump imposes such levies in his first week. We'll also take a look at the Business Outlook Survey for insights into respondents' views on the magnitude of the tariff threat.

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

(Tuesday, 8:30 am)

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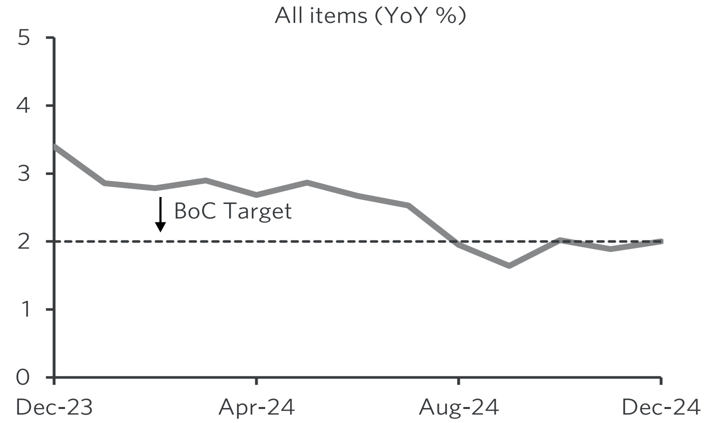
Variable (%)	CIBC	Mkt	Prior
CPI NSA (m/m)	-0.3	-0.7	0.0
CPI (y/y)	2.0	1.8	1.9

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

Headline inflation likely stayed around the 2% target in December, with the temporary GST holiday on certain items that started mid-month expected to have a greater impact on the January print. That's because, with the exception of some food items and gasoline, prices in the CPI are generally collected during the first two weeks of the month. The marginal tick-up in the year-over-year headline pace simply reflects base effects in gasoline prices, which won't impact core measures. Indeed, we see CPI-trim and median easing slightly to 0.2% m/m and 2.6% and 2.5% respectively year-over-year.

Forecast implications — Inflation will decelerate quite sharply in January as the GST reduction is fully incorporated, but will accelerate back in March assuming it is reinstated as planned in mid-February. Through the volatility though, inflation is back at the 2% target which should allow policymakers room to respond to downside risks to growth in the form of potential US tariffs.

Other Canadian releases: Retail sales—November

(Thursday, 8:30 am)

Retail sales likely edged up 0.2% in November, although that would be mainly driven by auto sales and higher prices during the month. Core sales will look weak, albeit partly because some households may have delayed purchases until the GST holiday period started in December. Because of that the advance estimate for December could look stronger, even in nominal terms.

There are no major US data releases next week.

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