

Economics

THE WEEK AHEAD

January 27 - 31, 2025

Green shoots and storm clouds

by Andrew Grantham andrew.grantham@cibc.com

Having already cut interest rates to the top of its estimated neutral range, the Bank of Canada is now able to fine tune, and in next week's decision policymakers will be balancing some better economic signposts against heightened threats to the outlook ahead. We think that the green shoots of an economic acceleration are small enough, and the storm clouds from potential tariffs dark enough, to justify a further 25bp interest rate cut.

In terms of the improving economic data, the tallest of the green shoots came in the form of December's labour force release. However, there's plenty of reason to question whether it was, in fact, as good as the headline suggested. As well as the normal volatility in this release, at the moment the population data within the LFS is lagging the deceleration seen within the quarterly count, even after today's revisions (Chart). If population growth was really much slower, the gain in employment may have been a less impressive 40K or so.

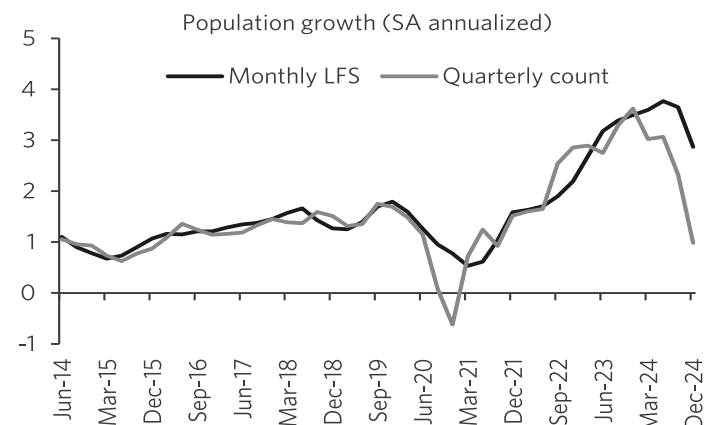
True, adjusting for population growth would still leave the tick down in unemployment rate and rise in employment ratio intact. But these were small moves relative to the general weakening trends seen in the past two years, and both rates are still worse than when the BoC produced its October Monetary Policy Report. Moreover, the Bank's own surveys of businesses and consumers, as well as Statistics Canada's other (SEPH) employment data, all point to continued weakness in the labour market.

Elsewhere, we have also seen some green shoots of improvement in retail sales volumes and housing sales, which suggests that past interest rate cuts are starting to help growth. However, in per capita terms the level of activity remains quite low, suggesting plenty of room for further growth before we should start worrying too much about inflationary pressures. While the CPI-Trim and Median measures of core inflation remain modestly above 2% on a year-over-year basis, the Bank's old CPI-X continues to trend below 2%. On average, the various measures of inflation tracked by policymakers are back in-line with its target.

So even before adding President Trump's trade threats into the mix, a case could be made for further policy easing. The potential for Canadian exports to be hit with tariffs, maybe as early as February 1st, should only strengthen the case. While tariffs, and likely retaliatory actions, would boost the price level in the near term, our analysis suggests that the impact on activity (adding to the slack already present within the economy) would be great enough to be disinflationary over the medium term without additional policy support. That was also the sentiment shared by the Bank of Canada in its 2019 research conducted during President Trump's first term. The only reason for the word "should" in the earlier sentence is because we can't be 100% sure policymakers still agree with that sentiment, until seeing updated research.

Overall, the most interesting part of next week's policy decision and MPR could be the Bank's discussion of how severe a trade storm would be, and any hints given as to how policymakers will fight it. For the here and now, the green shoots showing up in the economic data need to grow further, with the help of a further 25bp cut to the overnight rate.

Chart: Canada's Labour Force Survey is overstating recent population growth



Source: Statistics Canada, CIBC

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 27	-	-	-	-	-	-	-
Tuesday, January 28	-	AUCTION: 3-M BILLS \$13.4B, 6-M BILLS \$4.8B, 1-YR BILLS \$4.8B	-	-	-	-	-
Wednesday, January 29	9:45 AM	BANK OF CANADA RATE ANNOUNCE.	(Jan 29)	(H)	3.00%	3.00%	3.25%
Thursday, January 30	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Nov)	-	-	-	-21.1K
Friday, January 31	8:30 AM	GDP M/M	(Nov)	(H)	0.0%	-	0.3%

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, January 27	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Monday, January 27	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Monday, January 27	8:30 AM	CHICAGO FED NAT.ACTIVITY INDEX	(Dec)	(M)	-	-	-0.1
Monday, January 27	10:00 AM	NEW HOME SALES SAAR	(Dec)	(M)	685K	670K	664K
Monday, January 27	10:00 AM	NEW HOME SALES M/M	(Dec)	(M)	3.2%	6.2%	5.9%
Monday, January 27	10:00 AM	BUILDING PERMITS SAAR	(Dec)	(H)	-	-	1483K
Tuesday, January 28	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Tuesday, January 28	-	AUCTION: 2-YR FRN \$30B	-	-	-	-	-
Tuesday, January 28	8:30 AM	DURABLE GOODS ORDERS M/M	(Dec P)	(H)	0.6%	0.8%	-1.2%
Tuesday, January 28	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Dec P)	(H)	0.3%	0.4%	-0.2%
Tuesday, January 28	9:00 AM	HOUSE PRICE INDEX M/M	(Nov)	(M)	-	-	0.4%
Tuesday, January 28	9:00 AM	S&P CORELOGIC CS Y/Y	(Nov)	(H)	-	-	4.2%
Tuesday, January 28	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Jan)	(H)	105.3	105.6	104.7
Tuesday, January 28	10:00 AM	RICHMOND FED MANUF. INDEX	(Jan)	(M)	-	-	-10
Wednesday, January 29	7:00 AM	MBA-APPLICATIONS	(Jan 24)	(L)	-	-	0.1%
Wednesday, January 29	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Dec)	(M)	-\$105.0B	-\$105.5B	-\$102.9B
Wednesday, January 29	8:30 AM	WHOLESALE INVENTORIES M/M	(Dec P)	(L)	-	-	-0.2%
Wednesday, January 29	8:30 AM	RETAIL INVENTORIES M/M	(Dec)	(H)	-	-	0.3%
Wednesday, January 29	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Jan 29)	(H)	4.50%	4.50%	4.50%
Wednesday, January 29	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Jan 29)	(H)	4.25%	4.25%	4.25%
Thursday, January 30	8:30 AM	INITIAL CLAIMS	(Jan 25)	(M)	-	-	223K
Thursday, January 30	8:30 AM	CONTINUING CLAIMS	(Jan 18)	(L)	-	-	1899K
Thursday, January 30	8:30 AM	GDP (annualized)	(4Q A)	(H)	2.8%	2.6%	3.1%
Thursday, January 30	8:30 AM	GDP DEFLATOR (annualized)	(4Q A)	(H)	2.6%	2.5%	1.9%
Thursday, January 30	10:00 AM	PENDING HOME SALES M/M	(Dec)	(M)	-	-1.0%	2.2%
Friday, January 31	8:30 AM	EMPLOYMENT COST INDEX	(4Q)	(M)	0.8%	1.0%	0.8%
Friday, January 31	8:30 AM	PCE DEFLATOR Y/Y	(Dec)	(H)	2.5%	2.5%	2.4%
Friday, January 31	8:30 AM	PCE DEFLATOR Y/Y (core)	(Dec)	(H)	2.8%	2.8%	2.8%
Friday, January 31	8:30 AM	PERSONAL INCOME M/M	(Dec)	(H)	0.5%	0.4%	0.3%
Friday, January 31	8:30 AM	PERSONAL SPENDING M/M	(Dec)	(H)	0.6%	0.5%	0.4%
Friday, January 31	9:45 AM	CHICAGO PMI	(Jan)	(M)	-	39.7	36.9
Friday, January 31	8:30 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-

Week Ahead's market call

by Ali Jaffery and Andrew Grantham

In the **US**, it will be a busy week with the FOMC and a raft of major data. The President will also be sure to keep everyone on their toes with a Saturday February 1st deadline for tariffs on Mexico and Canada. Our views are slightly above consensus on GDP, below on wage growth and in line on inflation. We don't see the Fed altering its message too much as it stands pat, waiting for more evidence of inflation progress and some more clarity on where administration is going to steer fiscal and trade policy this year.

In **Canada**, the Bank is widely expected to cut interest rates by a further 25bp, and discussion within the MPR and press conference will be key in judging how policymakers are weighing some better economic data against the threats posed by US President Trump and his proposed tariffs. GDP data are likely to show a solid end to the year, with the initial view of Q4 growth expected to be very close to the BoC's October MPR forecast of 2%.

Week Ahead's key Canadian number: Gross domestic product—November

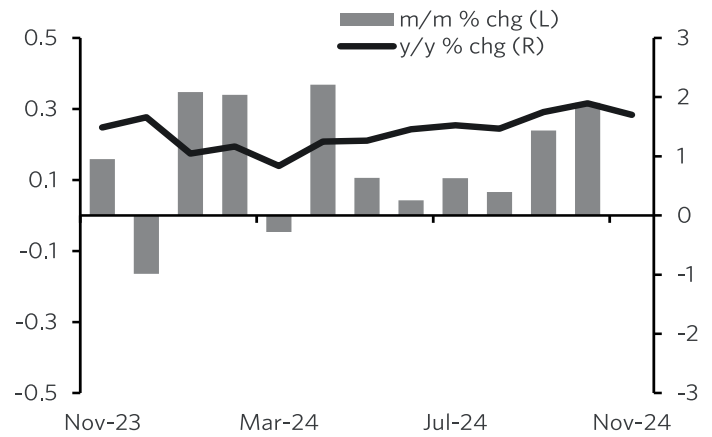
(Friday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.0	-	0.3

Following solid growth in the prior two months, activity appeared to stall again in November with drags expected from retail and mining, oil & gas. However, a flat print would still be better than the advance reading (-0.1%), and solid growth is expected to have returned in December. That return to growth in the final month of the year will be partly helped by boosts to retail sales and likely restaurants from the GST holiday that came into effect mid-month.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — If November GDP isn't quite as bad as the advance estimate, and is followed by a solid advance in December, growth in Q4 could match or slightly exceed the Bank of Canada's October MPR forecast. However, with growth ahead threatened by potential tariffs, and with the unemployment rate remaining elevated, there remains scope for further interest rate reductions.

Week Ahead's key US number: Gross domestic product—4Q (Advanced)

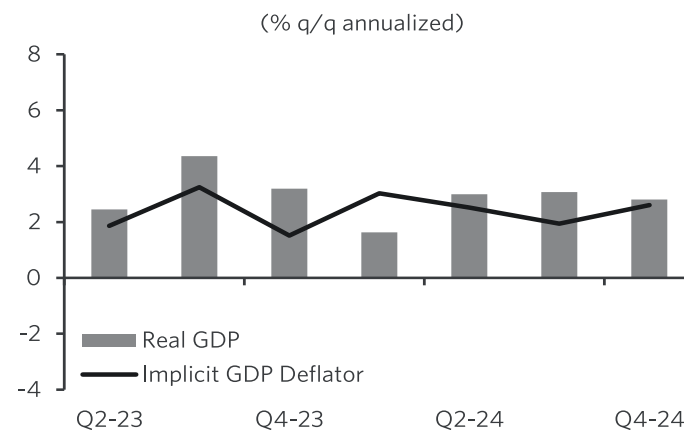
(Thursday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
GDP q/q annualized	2.8	2.6	3.1
GDP deflator	2.6	2.5	1.9

GDP will be the main focus of what is a major data week. We expect growth to come in at 2.8% in Q4, and essentially stay at the 3% average pace over the past two years. The Atlanta Fed and NY Fed nowcasts are currently sitting at 3.0% and 2.6% respectively. Yet again, the story is all about the consumer. Consumption growth will clock in around 3% in the quarter, with another very strong quarter for goods spending. However, investment and government spending are expected to run a bit softer in this quarter.

Chart: US GDP



Source: BEA, Haver Analytics, CIBC

Forecast implications — The hand-off to 25Q1 will be solid and we are beginning our nowcast at 2.3% for next quarter.

Market impact — GDP shouldn't generate a major reaction given nowcasts have consistently been around 3% for some time and most of the source detail on consumption is well known. The near-term outlook for the Fed is also clear and markets are more focused on inflation prints. The PCE data will generate the most interest.

Other US Releases: Personal income & outlays—December

(Friday, 8:30 am)

We expect core PCE to come in at 0.2% m/m in December and headline a notch higher. There have been some bumps in the road but underlying inflation is the US is in a good place, between 2.2% to 2.5% in our view.

Employment cost index—4Q

(Friday, 8:30 am)

Perhaps the most closely watched data this week inside the Fed will be the ECI. They have a good idea about GDP and inflation but very little about their preferred wage series (which adjusts for compositional biases). We think wage growth will come in at 0.8%, the same pace it came in last quarter indicating wages are still on a cooling trend.

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