Economics

THE WEEK AHEAD

May 26 - 30, 2025

Skate to where the puck is going to be

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

To borrow from a famed hockey player, optimal monetary policy entails skating to where the puck is going to be, not to where it is. Core inflation measures in Canada would suggest that the Bank of Canada should be holding steady on rates in June, with April ex-energy measures coming in on the high side. That may well be the Bank's decision in two weeks, but it would based on where the puck is now. In terms of where it's headed, the coming week's GDP news will shed much more light, given the weight that the central bank rightly assigns to economic slack, the so-called "output gap," in steering turns in inflation.

The Bank's estimated -1% to 0% range for the output gap in Q1, the degree to which real GDP diverges from its non-inflationary ceiling, looks implausibly narrow, particularly for where we are sitting as of April. If you're going to insist on a 1% range due to measurement challenges, then having zero as one end of the band should be ruled out by what we can see in the labour market. A jobless rate of 6.9% is roughly a percentage point above "full employment", and surely those Canadians who could be put back to work would be associated with some additional economic output. That's particularly true since we're losing jobs in some high productivity sectors like vehicle assembly. A more reasonable band for the current output gap would have it centred on something closer to the Bank's -1% end point.

Then there's the issue of where that gap is headed. The coming week's GDP print should be revealing on that front. In opting to pause on rates in April, the Bank was likely counting on defending against a further increase in economic slack as activity got a lift from the considerable dose of rate cutting it's already delivered.

Before broadening due to positive multiplier impacts, that response to lower rates has to start in the interest-sensitive components of demand. While that was in evidence in the back half of 2024, the composition of growth in Q1 could show that's simply no longer the case. Over the quarter, real retail sales barely grew, and household credit growth lost momentum. Housing starts were off 14% annualized in Q1 from the prior quarter. Existing home sales have been on a declining trend since the start of the year, and as of April were down nearly 10% from a year earlier. So while housing and consumption were getting some fuel from lower interest rates last year, in the face of weakening confidence and a struggling job market, we'll need even lower rates to reinvigorate shopping and home buying.

That would also seem likely for where leveraged business spending is headed after Q1. One leading indicator, the value of non-residential building permits in Q1, was at its weakest seasonally adjusted level since Q4 2023. The Bank's business outlook survey also showed a sharp drop in the balance of opinion on growth ahead for business investment in machinery and equipment. Although conventional energy projects might see more of an open door from the current government, soft oil prices are a headwind for that part of the sector.

As for Q2, we'll get our first look at the momentum early in the quarter in the monthly GDP figures for March and the advance estimate for April. The employment data, showing a drop in March, and further decline in April if the part-time, one-month jobs tied to running the election are stripped out, would be consistent with related weakness in GDP. While April advance retail sales looked healthy, we've yet to see the monthly figures for sectors like manufacturing and wholesaling where tariffs will bite. Enough weakness there could still position Q2 for an outright drop in GDP, and a further widening in the output gap.

To skate to where the puck is going on inflation, the Bank of Canada should be looking at signs of a widening output gap that would give it the green light to cut interest rates sooner rather than later. But at this point, Governor Macklem seems to be reluctant to do much forward looking, and the Bank is therefore more focused on the data at hand. So if we don't get enough weakness in key components of Q1 GDP and in the March/ April monthly figures, we'll have to push back our prior call for a June rate cut into the summer when, we expect, it will be more apparent that the puck is headed into Canada's defensive zone.

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, May 26	-	-	-	-	-	-	-
Tuesday, May 27	-	-	-	-	-	-	-
Wednesday, May 28	-	AUCTION: 10-YR CANADAS $5.3B	-	-	-	-	-
Thursday, May 29	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Mar)	-	-	-	-49.0K
Thursday, May 29	8:30 AM	CURRENT ACCOUNT BAL.	(1Q)	(M)	-$3.0B	-	-$5.0B
Friday, May 30	8:30 AM	GDP M/M	(Mar)	(H)	0.1%	-	-0.2%
Friday, May 30	8:30 AM	GDP (annualized)	(1Q)	(H)	1.5%	-	2.6%

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, May 26	-	Markets Closed (Memorial Day)	-	-	-	-	-
Tuesday, May 27	-	AUCTION: 2-YR TREASURIES $69B	-	-	-	-	-
Tuesday, May 27	8:30 AM	DURABLE GOODS ORDERS M/M	(Apr P)	(H)	-5.0%	-8.2%	7.5%
Tuesday, May 27	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Apr P)	(H)	0.2%	0.0%	-0.4%
Tuesday, May 27	9:00 AM	HOUSE PRICE INDEX M/M	(Mar)	(M)	-	-	0.1%
Tuesday, May 27	9:00 AM	S&P CORELOGIC CS Y/Y	(Mar)	(H)	-	-	4.5%
Tuesday, May 27	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(May)	(H)	90	87	86
Tuesday, May 27	4:00 AM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Tuesday, May 27	8:00 PM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Wednesday, May 28	-	AUCTION: 5-YR TREASURIES $70B	-	-	-	-	-
Wednesday, May 28	-	AUCTION: 2-YR FRN $28B	-	-	-	-	-
Wednesday, May 28	7:00 AM	MBA-APPLICATIONS	(May 23)	(L)	-	-	-5.1%
Wednesday, May 28	10:00 AM	RICHMOND FED MANUF. INDEX	(May)	(M)	-	-	-13
Wednesday, May 28	2:00 PM	FOMC Meeting Minutes	(May 7)	-	-	-	-
Wednesday, May 28	4:00 AM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Thursday, May 29	-	AUCTION: 7-YR TREASURIES $44B	-	-	-	-	-
Thursday, May 29	8:30 AM	INITIAL CLAIMS	(May 24)	(M)	-	-	227K
Thursday, May 29	8:30 AM	CONTINUING CLAIMS	(May 17)	(L)	-	-	1903K
Thursday, May 29	8:30 AM	GDP (annualized)	(1Q S)	(H)	0.0%	-0.3%	-0.3%
Thursday, May 29	8:30 AM	GDP DEFLATOR (annualized)	(1Q S)	(H)	-	-	3.7%
Thursday, May 29	10:00 AM	PENDING HOME SALES M/M	(Apr)	(M)	-	-	6.1%
Thursday, May 29	8:30 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Thursday, May 29	10:40 AM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Thursday, May 29	2:00 PM	Speaker: Kugler (Governor, voter)	-	-	-	-	-
Thursday, May 29	4:00 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-
Thursday, May 29	8:25 PM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Friday, May 30	8:30 AM	PCE DEFLATOR Y/Y	(Apr)	(H)	2.1%	2.2%	2.3%
Friday, May 30	8:30 AM	PCE DEFLATOR Y/Y (core)	(Apr)	(H)	2.5%	2.6%	2.6%
Friday, May 30	8:30 AM	PERSONAL INCOME M/M	(Apr)	(H)	0.2%	0.3%	0.5%
Friday, May 30	8:30 AM	PERSONAL SPENDING M/M	(Apr)	(H)	0.1%	0.2%	0.7%
Friday, May 30	8:30 AM	ADVANCE GOODS TRADE BALANCE	(Apr)	(M)	-$115.0B	-$140.0B	-$163.2B
Friday, May 30	8:30 AM	WHOLESALE INVENTORIES M/M	(Apr P)	(L)	-	-	0.4%
Friday, May 30	8:30 AM	RETAIL INVENTORIES M/M	(Apr)	(H)	-	-	-0.1%
Friday, May 30	9:45 AM	CHICAGO PMI	(May)	(M)	-	45.0	44.6
Friday, May 30	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(May)	(H)	-	50.8	50.8
Friday, May 30	7:30 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, the key data will be mostly on the soft side, with tame readings for personal consumption and for PCE core and headline prices in April. Most of the goods on the shelf had arrived ahead of the tariff imposition that month. The market is likely to be more focused on fiscal matters, as the Senate looks to add its wish list to the House bill. While there are some fiscal hawks in that chamber who want tougher action on spending, other Republican Senators are aiming to weaken Medicare work requirements or make some of the new tax cuts permanent, both of which could add to bond market worries over deficits ahead.

In **Canada**, the Throne speech will set out the government's priorities for the upcoming session, but we don't expect any material divergences from what was included in the PM's press conference on May 2nd, and reiterated in his mandate letter to his cabinet this past week. Expectations for the GDP data could shift based on data on manufacturing and wholesaling, but we'll need to see fading momentum in interest sensitive demand in Q1, and a drop in monthly GDP for April that points to a negative growth rate for Q2, to keep any real hopes for a June rate cut alive in the wake of the recent uptick in core inflation measures.

Week Ahead's key Canadian number: Gross domestic product—March & Q1

(Friday, 8:30 am)

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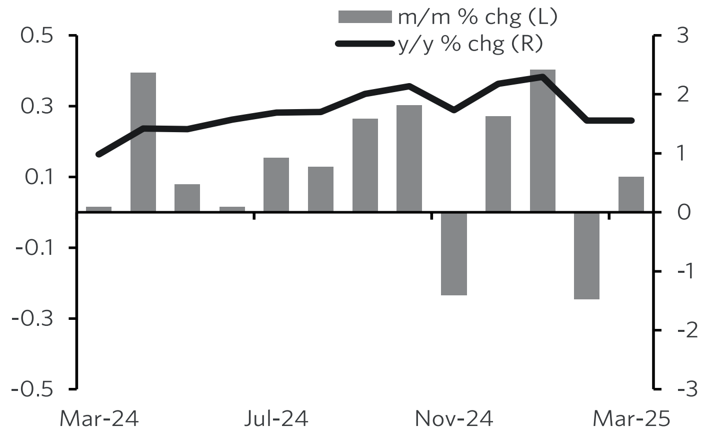
Variable (%)	CIBC	Mkt	Prior
GDP (m/m)	0.1	-	-0.2
GDP Q1 (annualized)	1.5	-	2.6

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Canadian GDP growth likely slowed to a 1.5% annualized pace in Q1, thanks partly to uncertainty regarding US trade. While exports surged early in the quarter on efforts to front-run tariffs, some of this could have represented a redistribution of current inventory rather than new production. Business investment was likely soft due to the more uncertain trade outlook, and this uncertainty could have been a factor behind slower consumer spending and residential investment growth as well.

However, monthly data are likely to show that momentum towards the end of the quarter was weak, and we suspect April's advance estimate could show a further worsening. March GDP may have ticked up by 0.1%, but that follows a 0.2% decline in February. Weakness in manufacturing and transport categories as tariffs took effect could result in a further modest decline in April's advance estimate.

Forecast implications — If the advance estimate for April points to a renewed decline in GDP as we expect, that would leave early tracking forecasts for Q2 pointing to a contraction. That would be weaker than the Bank of Canada's less pessimistic "scenario 1" forecast in the April MPR, and could prompt a 25bp cut at the June meeting despite higher-than-expected inflation. Without that weakness in April GDP, we will likely be pushing our call for a June cut later into the year.

Other Canadian releases: Current account balance—Q1

(Thursday, 8:30 am)

A return to surplus for goods trade, driven by efforts to front-run threatened US tariffs, combined with a smaller deficit in services are likely to bring a slimmer current account deficit for Q1. We expect a $3bn deficit, compared to the $5bn shortfall seen in Q4 2024.

Week Ahead's key US number: Personal income & outlays—April

(Friday, 8:30 am)

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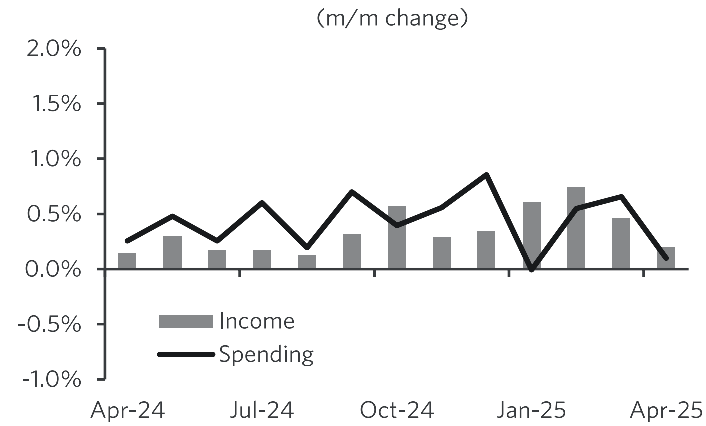
Variable (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.2	0.3	0.5
Personal spending (m/m)	0.1	0.2	0.7
Core PCE price index (y/y)	2.5	2.6	2.6

Chart: US personal income and spending



Source: BEA, Haver Analytics, CIBC

The most important data this week will be the April personal income and spending report. Price pressures will be subdued, with the headline and core PCE price index coming in at 0.1% m/m, considering the soft CPI and PPI reports in the month. Consumption growth in inflation-adjusted terms should be about flat, with consumer spending on goods contracting and services cooling in the month after a big gain in March. Personal income growth should rise by 0.2% and the saving rate will stay unchanged at 3.9%. Just because we didn't see much in April and tariff rates will pulled down in May doesn't mean the other shoe won't drop. It will take some time for the trade shock to ripple through the US economy, but growth is on slowing trend and prices will gradually tick higher. The good news, however is that the Fed has a great starting point with PCE inflation essentially back at target and a solid job market.

Forecast implications — Average effective tariff rates of 15% are a more modest stagflationary shock for the US economy, which combined with negative shock from tight immigration policy, keeps the path open for the Fed to bring rates down to prevent the job market from loosening too much. But the "big beautiful bill" is a new emerging hurdle for the Fed.

Market implications — We are slightly below consensus on core inflation but the market has turned its attention to Senate and the future of the Administration's budget bill.

Other US Releases: Durable goods orders—April

(Tuesday, 8:30 am)

Durable goods ex. transportation should be solid in April with a gain of 0.2% m/m. Manufacturing sentiment data wasn't in terrible shape and the front-loading of imports and build up of inventories in Q1 means there are still goods that need to be sold and shipped.

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