Economics

THE WEEK AHEAD

January 6 - 10, 2025

In Canadian politics, do all roads lead to the same place?

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

It was never literally true that all roads led to Rome during that empire's haydays. But in Canadian politics, the question for market participants is whether all roads now lead to the same destination, a Conservative majority government sometime in 2025. Foreign investors not as well versed in parliamentary processes and their Canadian peculiarities have been deluging us with questions about confidence votes, opposition days, prorogation, and other fine points. But history, and current polling, suggests slim odds for the Liberals being in charge when this year ends.

Here's a quick playbook on what happens next. Many Liberal members of parliament now want Trudeau to step aside to install a new leader for the next election. He will likely do so, since he has little room to hang onto his job at this point. The NDP is threatening to join with other parties in a non-confidence vote as early as the end of this month, forcing an election that polls show the Liberals losing badly, and closing parliament might only buy him a few months.

The Liberals could quickly pick a new leader in a caucus vote, but would need a few months to hold a traditional leadership process, and might ask the Governor General to prorogue parliament to buy them that time. There's even a slim chance that the NDP could decide to support the Liberals under a new leader until a fall vote, rather than side with the opposition to force a spring election.

While it's not out of the question, history suggests that a late change in leadership has only rarely rescued a party that is miles behind in the polls. John Turner, Kim Campbell, and Charles Tupper succeeded leaders who had become unpopular with voters, and each served only days in office before being defeated in an election. There is a precedent provincially, as Kathleen Wynne managed to turn an unpopular Ontario Liberal government sitting at only 22% in the polls into a majority government not long after taking over the leadership. But provincial history across Canada, has more cases where a new leader couldn't turn things around for an unpopular party.

Nothing is certain in politics, as who in 2020 would have foreseen Trump's comeback? But what can investors expect if, as polls currently suggest, the Conservatives under Pierre Poilievre win a majority government in 2025? In tone, it's a bit more populist than the Conservative party under Stephen Harper. As is typical, as an opposition party, it has only laid out some elements of its agenda. These include eliminating the carbon tax for consumers, defunding the English-language part of the CBC, eliminating the federal infrastructure bank, ending "corporate welfare", some alternatives for how to get more homes built, a leaning towards smaller government, a lighter regulatory hand on the energy sector, and greater provincial-level decision making on carbon emissions.

Poilievre has criticized the Liberal's recent miss on deficit targets, but bond investors should note that Canada's federal deficit, at 1.6% of GDP this year, isn't the behemoth seen stateside. Since new governments typically give themselves a full term of office to achieve a given deficit target, we're not likely to face a material fiscal drag at the federal level.

Indeed, judging by Poilievre's speeches and videos, it seems more likely that much of what is pared from spending plans would be diverted to tax reductions. The Conservatives have pledged to appoint a committee on tax reform that will be aimed at simplification and lowering rates, and its messaging appears to emphasize cuts to personal income taxes to improve affordability for households. There have been no specific pledges on corporate tax rates or what the fate would be for the yet-to-be-passed Liberal increase in capital gains taxes.

A Trudeau resignation from the Liberal leadership seems to be the most likely outcome in the coming days. After that, the length of the political road ahead could vary, with an election as early as this winter, most likely in the spring, or with small odds in the fall. But however long they are, these roads would appear to end in a common destination if the polls hold up. If markets are paying attention, they should already be factoring in high odds of that outcome, limiting the volatility we might otherwise see on the Canadian political headlines ahead.

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 6	-	-	-	-	-	-	-
Tuesday, January 7	8:30 AM	MERCHANDISE TRADE BALANCE	(Nov)	(H)	-$0.2B	-	-$0.9B
Tuesday, January 7	10:00 AM	IVEY PMI	(Dec)	(L)	-	-	52.3
Wednesday, January 8	-	AUCTION: 2-YR CANADAS $5.5B	-	-	-	-	-
Thursday, January 9	-	AUCTION: 10-YR CANADAS $6B	-	-	-	-	-
Friday, January 10	8:30 AM	EMPLOYMENT CHANGE	(Dec)	(H)	25.0K	-	50.5K
Friday, January 10	8:30 AM	UNEMPLOYMENT RATE	(Dec)	(H)	6.8%	-	6.8%
Friday, January 10	8:30 AM	BUILDING PERMITS M/M	(Nov)	(M)	-	-	-3.1%

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 6	9:45 AM	S&P GLOBAL US SERVICES PMI	(Dec)	(L)	-	58.5	58.5
Monday, January 6	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Dec)	(L)	-	-	56.6
Monday, January 6	10:00 AM	FACTORY ORDERS M/M	(Nov)	(M)	-0.3%	-0.3%	0.2%
Monday, January 6	10:00 AM	DURABLE GOODS ORDERS M/M	(Nov)	(H)	-	-0.3%	-1.1%
Monday, January 6	10:00 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(Nov)	(H)	-	0.3%	-0.1%
Monday, January 6	9:15 AM	Speaker: Lisa D Cook (Governor) (Voter)	-	-	-	-	-
Tuesday, January 7	-	AUCTION: 3-YR TREASURIES $58B	-	-	-	-	-
Tuesday, January 7	8:30 AM	GOODS & SERVICES TRADE BALANCE	(Nov)	(H)	-$76.0B	-$78.2B	-$73.8B
Tuesday, January 7	10:00 AM	JOLTS Job Openings	(Nov)	-	7800K	7700K	7744K
Tuesday, January 7	10:00 AM	ISM - SERVICES	(Dec)	(M)	52.5	53.0	52.1
Tuesday, January 7	8:00 AM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Wednesday, January 8	-	AUCTION: 10-YR TREASURIES $39B	-	-	-	-	-
Wednesday, January 8	7:00 AM	MBA-APPLICATIONS	(Jan 3)	(L)	-	-	-
Wednesday, January 8	8:15 AM	ADP EMPLOYMENT CHANGE	(Dec)	(M)	-	130K	146K
Wednesday, January 8	2:00 PM	FOMC Meeting Minutes	(Dec 18)	-	-	-	-
Wednesday, January 8	3:00 PM	CONSUMER CREDIT	(Nov)	(L)	-	$9.1B	$19.2B
Wednesday, January 8	8:30 AM	Speaker: Christopher J. Waller (Governor) (Voter)	-	-	-	-	-
Thursday, January 9	-	AUCTION: 30-YR TREASURIES $22B	-	-	-	-	-
Thursday, January 9	8:30 AM	INITIAL CLAIMS	(Jan 4)	(M)	-	-	211K
Thursday, January 9	8:30 AM	CONTINUING CLAIMS	(Dec 28)	(L)	-	-	1844K
Thursday, January 9	9:00 AM	Speaker: Patrick Harker (Philadelphia) (Non-Voter)	-	-	-	-	-
Thursday, January 9	12:40 PM	Speaker: Thomas I. Barkin (Richmond) (Voter)	-	-	-	-	-
Thursday, January 9	1:30 PM	Speaker: Jeffrey Schmid (Kansas City)	-	-	-	-	-
Thursday, January 9	1:35 PM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Friday, January 10	8:30 AM	NON-FARM PAYROLLS	(Dec)	(H)	150K	153K	227K
Friday, January 10	8:30 AM	UNEMPLOYMENT RATE	(Dec)	(H)	4.3%	4.2%	4.2%
Friday, January 10	8:30 AM	AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Dec)	(H)	0.3%	0.3%	0.4%
Friday, January 10	8:30 AM	AVERAGE WEEKLY HOURS ALL EMPLOYEES	(Dec)	(H)	-	34.3	34.3
Friday, January 10	8:30 AM	MANUFACTURING PAYROLLS	(Dec)	(H)	-	-	22K
Friday, January 10	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Jan P)	(H)	-	-	74.0

Week Ahead's market call

by Avery Shenfeld

In the **US**, a middling jobs number and an uptick in the unemployment rate will underscore why we still see the Fed cutting once a quarter in 2025. We're a bit more confident than the Fed that inflation will decelerate sufficiently in 2025 to allow monetary policy to ease. But that projection is, of course, conditional on where fiscal and trade policy head, which neither we, nor the FOMC, can be too confident about. Since the Fed tends to shy away from getting too into the political weeds, both the minutes of the December meeting, and upcoming speeches will emphasize ambiguous inflation data, and still healthy Q4 growth readings, as a reason why they are moving away from a cut at every meeting. We now see a pause in January, which will conveniently give the FOMC time to hear from the Trump administration on other matters before taking the next step.

In **Canada**, slowing immigration will start to mean that the employment gain needed to sustain a given unemployment rate will also be easing off. That might prevent a further uptick in the jobless rate in Friday's labour force data, while still leaving a lot of economic slack in place. That will still provide ample reason for the Bank of Canada to continue to nudge rates lower, although with the overnight target no longer so lofty, moving in quarter point increments will now be appropriate. Issues at Canadian ports could hit imports more than exports, allowing the trade deficit to narrow in the week ahead's readings. We're watching for a statement from Prime Minister Trudeau, who has been mulling over his future as party leader while off on vacation, and facing increasing pressure from his own caucus to step aside.

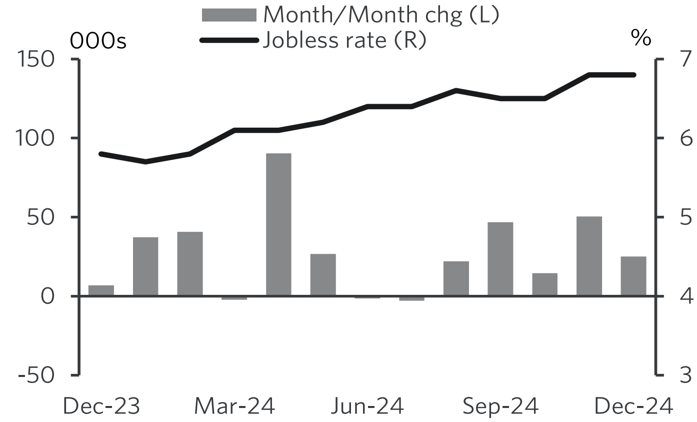
Week Ahead's key Canadian number: Employment—December

(Friday, 8:30 am)

Andrew Grantham andrew.grantham@cibc.com

Variable	CIBC	Mkt	Prior
Employment change	25.0K	-	50.5K
Unemployment rate	6.8%	-	6.8%

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Employment growth likely moderated in December, albeit partly because we may also see a more noticeable slowing in population growth. That slower population growth would be more in line with what has already shown up in the quarterly demographic count, and would mean that a 25K gain in employment should be enough to keep the jobless rate unchanged. Wage growth is expected to hold broadly steady, following a sharp deceleration seen in the prior month.

Forecast implications — The combination of slower population growth and a pick up in labour demand should bring a stabilization in the unemployment rate early in 2025 and then a decline as the year progresses. However, we suspect that there is more labour market slack than the headline unemployment rate suggests, which should give us plenty of room before staff shortages and wage pressures become an issue again.

Other Canadian releases: Merchandise trade—November

(Tuesday, 8:30 am)

While oil prices were on average slightly lower in November, a pick up in volumes should have more than compensated. Labour disputes at a few ports could have negatively impacted both exports and imports, with evidence from 2023 suggesting that imports could have seen a bigger decline. Both of those factors are expected to lead to a narrowing in the trade deficit, from $0.9bn to $0.2bn.

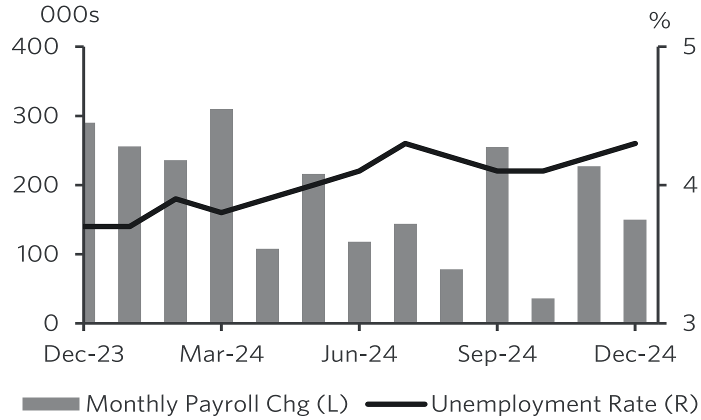
Week Ahead's key US number: Employment situation—December

(Friday, 8:30 am)

Ali Jaffery ali.jaffery@cibc.com

Variable	CIBC	Mkt	Prior
Employment (m/m)	150K	153K	227K
Unemployment rate	4.3%	4.2%	4.2%
Avg hourly earnings (m/m)	0.3%	0.3%	0.4%

Chart: US payroll employment



Source: BLS, Haver Analytics, CIBC

The 2025 data calendar will get started with the December jobs report, and with the noise from hurricanes and the Boeing strike mostly behind us, employment growth should settle into a slow but steady pace. We expect 150K jobs gained in the month, with most of that coming from acyclical sectors (healthcare and government) again, and private cyclical employment continuing to look weak. The soft pace of hiring should result in the unemployment rate nudging up to 4.3%, and wage growth will likely edge down to 0.3%.

Forecast implications — Despite the job market continuing its cooling trend, the Fed will be taking a more careful approach to monetary policy setting with inflation looking hotter in Q4 and the risk of price pressures building due to the incoming administration's proposed policies. We expect the FOMC to reduce the fed funds rate by 25bps once every quarter in 2025.

Market impact — The hawkish tilt of the Fed's forecast has the market pricing in the next rate cut by about the middle of the year, and be increasingly sensitive to inflation prints again. An on-consensus job report shouldn't generate wild swings next week.

Other US Releases: JOLTS Job Openings—November

(Tuesday, 10:00 am)

We expect job openings to rise slightly in November to 7800 and the openings to unemployment ratio to stay at 1.1 based on data from private job posting sites. The labour market was a bit firmer in November and we expect the JOLTS data to paint that picture, consistent with other indicators.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
Bloomberg @ CIBC

economics.cibccm.com