

Economics

THE WEEK AHEAD

July 6 - 10, 2026

Is AI inflation, dare we say it, transitory?

by Avery Shenfeld avery.shenfeld@cibc.com

It's now patently obvious that the AI buildout isn't yet dampening US inflation through business labour cost savings. Whatever is being achieved on that front has been swamped by price pressures coming from its boost to aggregate demand, and related pressures on supply chains.

That's showing up in everything from trucking fees bid up by those moving goods for data centres, prices for materials used in those projects, memory chip inflation hitting personal computers, and through its impact on economic activity overall, a tight labour market. Anecdotally, corporates unleashing AI tools for their employees have seen mixed results, with some reaping time savings, others having those benefits outweighed by escalating token costs.

AI inflation has forced a mindset shift at the Fed, or at least for its new Chair. Only last year, Kevin Warsh was citing disinflationary, AI-related productivity gains as a door opener for rate cuts, akin to what Alan Greenspan attributed to the computer/internet era. If the Fed ends up hiking rates this year, the AI spending boom will be one of the culprits. But, perhaps as early as the latter half of 2027, the AI story could well be pulling in the opposite direction, towards cooling inflation and interest rate cuts, and there's a scenario for that outcome whether the AI optimists or skeptics are proven to be right.

For the AI optimists, another year of AI implementation should expect to bear fruit in terms of the disinflation from labour cost savings in the business sector. At that point, corporate America should have a better understanding of where token costs are exceeded by productivity benefits, and will be directing their AI usage into such areas. Layoffs or reduced hiring for positions made redundant by AI should free up some slack in the labour market, putting downward pressure on wage inflation.

Moreover, while not declining, if AI companies are going to be rewarded in their own bottom lines, as the bulls assume, the growth rate of project spending on data centres and power plants should at least be decelerating. Chip prices could stay elevated, but might not be pressing ever higher. And we may already be seeing a shift in the mix of such spending towards

the imported stuff inside those facilities, rather than the domestic demand generated in their construction, reducing the squeeze on American economic capacity.

If those skeptical about generative AI are right, there's a wholly different path to cooling inflation and lower interest rates. Should AI tools prove unable to generate sufficient business cost savings, we'll see the corporate world at least reaping some savings on tokens that they will cut back on.

But the larger impacts would come if financial markets rethink the flood of debt and equity capital backing the AI spending boom. That could start to pare budgets for such projects, reducing their contribution to aggregate demand and easing supply chain pressures. Moreover, any negative spillover into equity valuations from AI disappointments would dampen wealth-driven gains in consumption, and if severe enough, could end up being another reason for the Fed to step in and ease financial conditions.

What's not as clear cut is when either of these bull or bear stories for AI, and their moderating impacts on inflation and interest rates, will actually show up. The timetable for AI to reveal itself as more of a hit or a disappointment in business applications is at this point highly uncertain.

Financial markets could remain receptive to a further acceleration in AI-related project spending for yet another year or two if the ultimate return on investment thesis still seems bright enough. The hyperscalers, racing to stay in front of the pack, could opt to tack on yet more project spending if that's the case, maintaining the pressure on supply chains.

So while there's a solid case for AI inflation to prove transitory, and for the Fed to bet on that outcome, it might not be able to sit back and do nothing if core inflation stays too hot in the interim. As a result, our call for no hikes this year is still dependent on what we see in upcoming growth and inflation data, even if AI inflation indeed proves transitory, and lets the Fed reverse any AI-driven rate hikes down the road.

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, July 6 | 10:30 AM | BUSINESS OUTLOOK SURVEY | (2Q) | (M) | - | - | -0.4 |
| Monday, July 6 | 11:30 AM | Release: Canadian Survey of Consumer Expectations | - | - | - | - | - |
| Tuesday, July 7 | 8:30 AM | MERCHANDISE TRADE BALANCE | (May) | (H) | \$2.5B | \$2.4B | \$2.7B |
| Tuesday, July 7 | 10:00 AM | IVEY PMI | (Jun) | (L) | - | - | 58.2 |
| Wednesday, July 8 | - | AUCTION: 2-YR CANADAS \$5.5B | - | - | - | - | - |
| Thursday, July 9 | - | - | - | - | - | - | - |
| Friday, July 10 | 8:30 AM | EMPLOYMENT CHANGE | (Jun) | (H) | 20.0K | 10.0K | 87.8K |
| Friday, July 10 | 8:30 AM | UNEMPLOYMENT RATE | (Jun) | (H) | 6.6% | 6.6% | 6.6% |
| Friday, July 10 | 8:30 AM | BUILDING PERMITS M/M | (May) | (M) | - | 0.4% | -7.6% |

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, July 6 | 9:45 AM | S&P GLOBAL US SERVICES PMI | (Jun) | (L) | - | 51.3 | 51.3 |
| Monday, July 6 | 9:45 AM | S&P GLOBAL US COMPOSITE PMI | (Jun) | (L) | - | - | 52.2 |
| Monday, July 6 | 10:00 AM | ISM - SERVICES | (Jun) | (M) | 54.0 | 54.1 | 54.5 |
| Monday, July 6 | 11:00 AM | Speaker: Christopher J. Waller (Governor) (Voter) | - | - | - | - | - |
| Tuesday, July 7 | - | AUCTION: 1-YR TREASURIES \$52B | - | - | - | - | - |
| Tuesday, July 7 | - | AUCTION: 3-YR TREASURIES \$58B | - | - | - | - | - |
| Tuesday, July 7 | 8:30 AM | GOODS & SERVICES TRADE BALANCE | (May) | (H) | -\$78.0B | -\$78.7B | -\$55.9B |
| Wednesday, July 8 | - | AUCTION: 10-YR TREASURIES \$39B | - | - | - | - | - |
| Wednesday, July 8 | 7:00 AM | MBA-APPLICATIONS | (Jul 3) | (L) | - | - | 0.0% |
| Wednesday, July 8 | 10:00 AM | WHOLESALE INVENTORIES M/M | (May) | (L) | - | 0.3% | 0.3% |
| Wednesday, July 8 | 2:00 PM | FOMC Meeting Minutes | (Jun 17) | - | - | - | - |
| Wednesday, July 8 | 3:00 PM | CONSUMER CREDIT | (May) | (L) | - | \$17.5B | \$20.7B |
| Thursday, July 9 | - | AUCTION: 30-YR TREASURIES \$22B | - | - | - | - | - |
| Thursday, July 9 | 8:30 AM | INITIAL CLAIMS | (Jul 4) | (M) | - | 218K | 215K |
| Thursday, July 9 | 8:30 AM | CONTINUING CLAIMS | (Jun 27) | (L) | - | 1815K | 1814K |
| Thursday, July 9 | 10:00 AM | EXISTING HOME SALES SAAR | (Jun) | (M) | - | 4.2M | 4.2M |
| Thursday, July 9 | 10:00 AM | EXISTING HOME SALES M/M | (Jun) | (M) | - | 0.9% | 3.2% |
| Thursday, July 9 | 10:00 AM | Speaker: John C. Williams (Vice Chairman, New York) (Voter) | - | - | - | - | - |
| Thursday, July 9 | 1:30 PM | Speaker: 1:30 PM Lorie K. Logan (Dallas) (Voter) | - | - | - | - | - |
| Friday, July 10 | - | - | - | - | - | - | - |

Week Ahead's market call

by Avery Shenfeld

In the **US**, it's a light week for data ahead, since the next key indicators for markets, the two inflation reports (CPI and PCE prices) aren't yet due. While Warsh is shunning forward guidance, we'll have three FOMC members scheduled with an opportunity to signal their views.

In **Canada**, employment growth could top market expectations on hiring for the census and the World Cup, but market reactions will depend on what we see in job gains excluding public admin and hospitality/entertainment.

Week Ahead's key Canadian number: Labour force survey—June

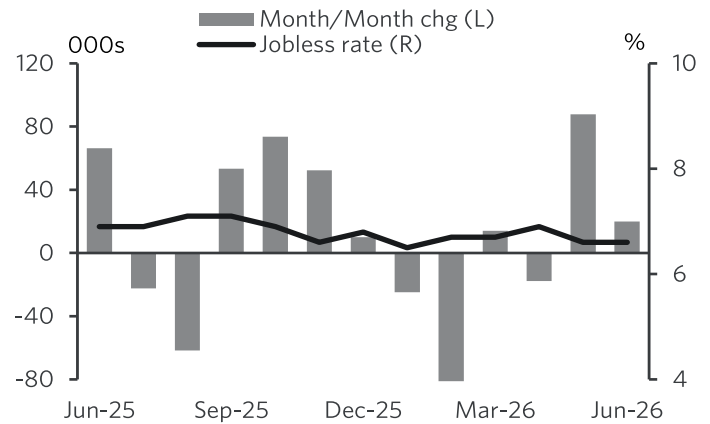
(Friday, 8:30 am)

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| Variable | CIBC | Mkt | Prior |
|-------------------|-------|-------|-------|
| Employment change | 20.0K | 10.0K | 87.8K |
| Unemployment rate | 6.6% | 6.6% | 6.6% |

The Canadian labour market came back to life in May, posting a 88K gain. However, with that increase not fully offsetting the losses recorded earlier in the year, it doesn't mean that June's figures couldn't show a further increase. Indeed, with census hiring likely to be boosting the public administration headcount, and with FIFA World Cup games potentially supporting work in leisure & recreation and food services, we expect a further 20K advance in employment during June. With some of those jobs likely to be filled by people re-entering the labour market (bringing a slight increase in participation), the unemployment rate would hold steady at 6.6%.

Chart: Canadian employment



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — The labour force survey is notoriously volatile, with results during the early part of the year likely weaker than the underlying trend and May's figure largely offsetting that. However, June's figure may be a little stronger than the underlying trend, with FIFA World Cup and census hiring flattering the figures. Because of that we see employment growth slowing again in the second half of the year and a further, more sustainable, decline in the unemployment rate not arriving until 2027.

Other Canadian releases: Merchandise trade balance—May

(Tuesday, 8:30 am)

Energy exports won't be a big driver of overall growth this month, with prices and volumes little changed relative to the prior month. However, increased imports within the US advance trade data, including for the auto industry, suggest other sectors could drive a further rise in Canadian exports. That would offset an expected rise in imports, and leave the trade surplus at \$2.5bn, largely unchanged from the prior month.

There are no major US data releases next week.

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