

Weekly Bottom Line

January 10, 2025

Highlights

Canada

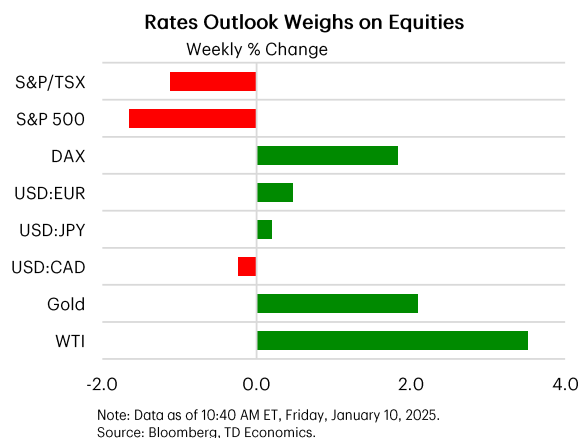
- Canada's job market ended 2024 on a high note. The economy added the most jobs in almost two years, while a decrease in the unemployment rate and robust gains in hours worked support economic strength into 2025.
- Trade data is moving into focus as Trump leans on the U.S. trade deficit with Canada as a motivation for implementing his tariff plan.
- The Bank of Canada is still expected to deliver a 25 bps cut on January 29th, but the likelihood is falling on the back of economic and political developments.

U.S.

- U.S. Treasury yields have jumped yet again, after another payrolls report topped expectations.
- If the economy can manage this level of interest rates without losing much momentum, the need for additional rate cuts becomes an open question.
- The Trump administration is set to take over on January 20th, with tariffs top-of-mind.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5841	5942	6090	4739
S&P/TSX Comp.	24796	25074	25692	20585
DAX	20271	19906	20426	16432
FTSE 100	8260	8224	8446	7446
Nikkei	39190	39895	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.74	4.60	4.74	3.62
Canada 10-yr Bond	3.42	3.23	3.87	2.87
Germany 10-yr Bund	2.58	2.43	2.69	2.03
UK 10-yr Gilt	4.83	4.59	4.83	3.75
Japan 10-yr Bond	1.20	1.10	1.20	0.57
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.69	0.69	0.75	0.69
Euro (USD per EUR)	1.03	1.03	1.12	1.03
Pound (USD per GBP)	1.22	1.24	1.34	1.22
Yen (JPY per USD)	157.6	157.3	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	76.9	74.0	86.9	65.8
Natural Gas (\$US/MMBtu)	3.94	3.40	13.20	1.22
Copper (\$US/met. tonne)	8971.6	8768.0	10800.8	8065.0
Gold (\$US/troy oz.)	2694.4	2640.2	2787.6	1992.3

*As of 10:43 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.25 - 4.50%
Bank of Canada (Overnight Rate)	3.25%
European Central Bank (Refi Rate)	3.15%
Bank of England (Repo Rate)	4.75%
Bank of Japan (Overnight Rate)	0.25%

Source: Bloomberg.

Canada – No More Holidays for the Bank of Canada

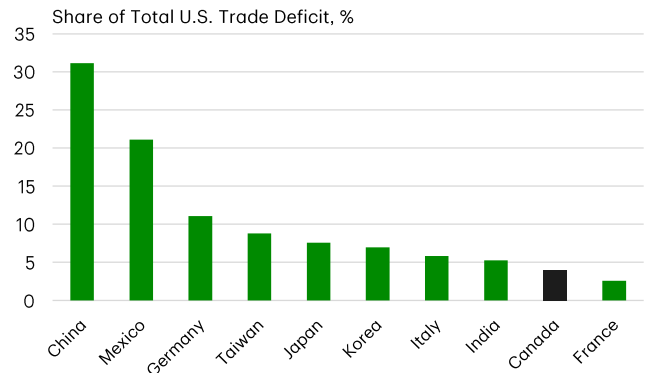
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The main event looming over Canada’s economy is Donald Trump’s impending inauguration on January 20th. Trump’s tariff-focused agenda has kept anxiety rising north of the border, particularly in the wake of Prime Minister Trudeau’s recent resignation announcement. Political developments have overshadowed domestic data flow, but key updates this week on the labour market and the state of trade may help inform the Bank of Canada’s (BoC’s) next policy decision at the end of January. On the financial side, the Canada 10-year government bond yield jumped 10 basis points (bps) on the week, while the Loonie stayed roughly flat, after depreciating by around 7% since September.

Canadian jobs data for December capped off the year with a roar. An employment gain of just over 90k was the highest print since January 2023 (Chart 1). Meanwhile, the unemployment rate retreated by a tenth of a percentage point (ppt)—in line with our view and against the consensus view for a slight uptick—reversing some of November’s labour-force fueled jump. Hours worked also saw their biggest jump since July-2023, providing some evidence of decent economic activity to close out the year. We maintain the view that Canada’s labour market is relatively healthy under the hood despite the overall souring sentiment on Canada’s economy.

On the trade side, November data showed Canada tallied a ninth-consecutive trade deficit. The nation’s trade balance with the U.S. has recently come into focus, as perceived trade imbalances are serving as a ra-

Chart 2: Canada's Trade Surplus with the U.S. is Modest Compared to Other Trading Partners

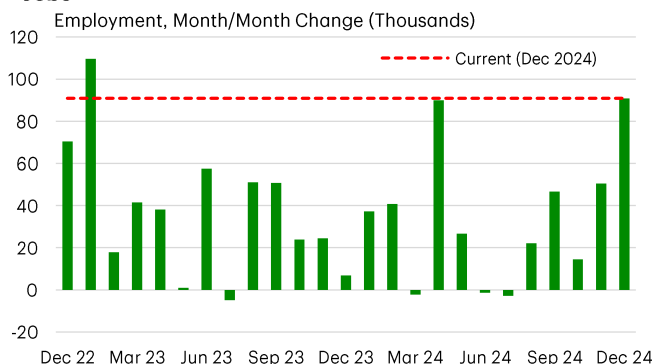


Source: Census Bureau, TD Economics.

tionale for Trump’s tariff plans. Trump has argued that “the U.S. can no longer suffer the massive trade deficits that Canada needs to stay afloat”— but we think this view is misguided. True, Canada’s goods trade surplus with the U.S. in 2024 is tracking about 3.2% of Canadian GDP. But looked at from the U.S. side of the ledger, it only equates to a small deficit of -0.2% of U.S. GDP. What’s more, the U.S. trade deficit with Canada, when stacked against other major trading partners, is comparatively small (Chart 2). It’s also worth noting that stripping energy exports out of the equation leaves the U.S. with a healthy trade surplus with Canada. If anything, Canada’s energy-heavy relationship with the U.S. highlights their importance in energy security between the two nations.

The BoC certainly has their work cut out for them. The economy has started to respond to the cumulative 175 bps in cuts that have been delivered so far, though downside risks are mounting. The downside to the economy could be greatly exacerbated should Trump move forward with broad tariffs. Consensus expectations are for the BoC to lower the policy rate by 25 bps in January, though it’s a less likely outcome after today’s healthy employment report. Upcoming data on inflation and the BoC’s Business Outlook Survey will be key data inputs into their decision. The goal for the BoC now is to follow a rate path supportive enough to balance the downside risks to growth while keeping inflation steady around its 2% target.

Chart 1: Canada's Labour Market Continues to Churn Out Jobs



Source: Statistics Canada, TD Economics.

U.S. – Little Sign of Slowing Down

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U.S. Treasury yields have jumped yet again, after another payrolls report topped expectations, buoyed by healthy economic momentum through to the end of the year. For policymakers looking to fine tune the path of policy rates through 2025, the data confirm their suspicions of an economy that continues to charge ahead, despite elevated interest rates.

All eyes were on December's labor market report and boy did it deliver. A whopping 256k new jobs added, almost 100k more than consensus expectations. The household survey also showed gains, pushing the unemployment rate back down to 4.1%. This isn't far off from the 4.2% median expected to close out 2024 in the FOMC's last set of projections, but it does confirm that the unemployment rate has been virtually unchanged since June of 2024 (Chart 1). Put another way, after rising from a low of 3.4% in April 2023 to 4.2% in July 2024, the unemployment rate has been steady over the past five months despite still elevated interest rates. If the economy can manage this level of interest rates without losing much momentum, the need for additional rate cuts becomes an open question.

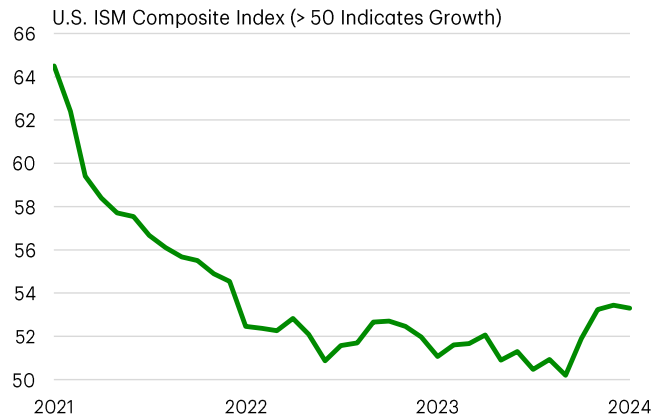
The remarkable resilience of the labor market was noted by a series of Fed speakers this week. Their assessments of how restrictive interest rates currently are varied, but all advocated for a measured approach to setting policy in the coming months. In fact, comments by Governors Bowman and Cook both used some version of the word "cautious" on the pace of further interest rate cuts. Based on today's

Chart 1: U.S. Labor Market Stabilized in Late-2024



Source: Bureau of Labor Statistics, TD Economics. Last Observation: Dec. 2024

Chart 2. ISM Surveys Suggest Growth Accelerated



Source: ISM, TD Economics. Last Observation: Dec. 2024

data, markets have pushed out expectations for the sole cut of 2025 to the back half of the year, implying that the pace of rate cuts could be nearing a virtual stand-still.

Adding to the uncertainty is the prospect of renewed inflationary forces. The Trump administration is set to take over on January 20th, with tariffs top-of-mind. How these could pass-through to the economy will depend on their structure and how trade partners retaliate. However, the ISM services survey already showed a large jump in its input price index as firms looked to pre-empt any possible trade action. Layer on a healthy domestic economy, and we could see firms more willing to pass on additional costs than prior to the pandemic.

With policymakers committed to a data-dependent approach to setting rates, the focus shifts to next week's CPI and retail sales reports. The information for December thus far suggests that the U.S. economy has shrugged off the 4.5% policy rate, and we could see some upside surprise. Survey measures from the ISM showed a notable uptick in growth to close the year (Chart 2), while the three-month average of job gains rose from 113k in August to 170k in December.

As 2025 gets underway, if things keep going like this, the balance of risks now suggests that the Fed may not have much more to do.

Exhibits

Recent Key Economic Indicators: Jan 6 - 10, 2025

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 06	S&P Global US Services PMI	Dec	Index	56.8	58.5
Jan 06	S&P Global US Composite PMI	Dec	Index	55.4	56.6
Jan 06	Factory Orders	Nov	M/M % Chg.	-0.4	0.5
Jan 06	Factory Orders Ex Trans	Nov	M/M % Chg.	0.2	0.2
Jan 06	Durable Goods Orders	Nov	M/M % Chg.	-1.2	-1.1
Jan 06	Cap Goods Orders Nondef Ex Air	Nov	M/M % Chg.	0.4	0.7
Jan 07	Trade Balance	Nov	Blns	-78.2	-73.6
Jan 07	ISM Services Index	Dec	Index	54.1	52.1
Jan 08	ADP Employment Change	Dec	Thsd	122.0	146.0
Jan 09	Initial Jobless Claims	Jan 04	Thsd	201.0	211.0
Jan 09	Wholesale Trade Sales	Nov	M/M % Chg.	0.6	-0.3
Jan 10	Average Hourly Earnings	Dec	M/M % Chg.	0.3	0.4
Jan 10	Change in Nonfarm Payrolls	Dec	Thsd	256.00	212.00
Jan 10	Unemployment Rate	Dec	%	4.1	4.2
Canada					
Jan 07	Int'l Merchandise Trade	Nov	Blns	-0.3	-0.5
Jan 10	Net Change in Employment	Dec	Thsd	90.9	50.5
Jan 10	Unemployment Rate	Dec	%	6.7	6.8
International					
Jan 07	EZ Consumer Price Index Estimate	Dec	Y/Y % Chg.	2.4	2.2
Jan 07	EZ Unemployment Rate	Nov	%	6.3	6.3
Jan 08	CH Consumer Price Index	Dec	Y/Y % Chg.	0.1	0.2
Jan 09	EZ Retail Sales	Nov	Y/Y % Chg.	1.2	2.1

*Eastern Standard Time. Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: January 13 - 17, 2025

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 14	6:00	NFIB Small Business Optimism	Dec	Index	100.5	101.7
Jan 14	8:30	PPI Final Demand	Dec	M/M % Chg.	0.3	0.4
Jan 14	8:30	PPI Ex Food and Energy	Dec	M/M % Chg.	0.2	0.2
Jan 14	10:00	<i>Fed's Schmid Gives Remarks in Kansas City</i>				
Jan 14	15:05	<i>Fed's Williams Gives Opening Remarks</i>				
Jan 15	8:30	Empire Manufacturing	Jan	Index	-2.0	0.2
Jan 15	8:30	Consumer Price Index	Dec	M/M % Chg.	0.3	0.3
Jan 15	8:30	Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	0.3
Jan 15	8:30	Consumer Price Index	Dec	Y/Y % Chg.	2.9	2.7
Jan 15	8:30	Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	3.3	3.3
Jan 15	9:20	<i>Fed's Barkin Speaks in Annapolis</i>				
Jan 15	10:00	<i>Fed's Kashkari Participates in Q&A</i>				
Jan 15	11:00	<i>Fed's Williams Gives Keynote Remarks</i>				
Jan 15	12:00	<i>Fed's Goolsbee Speaks at Midwest Economic Forecast Forum</i>				
Jan 16	8:30	Retail Sales Advance	Dec	M/M % Chg.	0.5	0.7
Jan 16	8:30	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	0.4	0.2
Jan 16	8:30	Initial Jobless Claims	Jan 11	Thsd	-	201.0
Jan 16	10:00	Business Inventories	Nov	M/M % Chg.	0.1	0.1
Jan 16	10:00	NAHB Housing Market Index	Jan	Index	-	46.0
Jan 17	8:30	Housing Starts	Dec	Thsd	1315.00	1289.00
Jan 17	8:30	Building Permits	Dec	Thsd	1458.0	1493.0
Jan 17	9:15	Industrial Production	Dec	M/M % Chg.	0.3	-0.1
Jan 17	9:15	Capacity Utilization	Dec	%	77.0	76.8
Jan 17	9:15	Manufacturing (SIC) Production	Dec	M/M % Chg.	0.4	0.2
Canada						
Jan 15	8:30	Manufacturing Sales	Nov	M/M % Chg.	0.5	2.1
Jan 15	9:00	Existing Home Sales	Dec	Mlns	-	2.8
Jan 16	8:30	Housing Starts	Dec	Thsd	250.0	262.4
Jan 16	12:45	<i>BoC Governor Toni Gravelle gives balance sheet update</i>				
International						
Jan 15	2:00	UK Consumer Price Index	Dec	Y/Y % Chg.	2.7	2.6
Jan 16	2:00	UK Gross Domestic ProductQ	Nov	Q/Q % Chg.	0.0	0.1
Jan 16	21:00	CH Retail Sales	Dec	Y/Y % Chg.	3.5	3.0
Jan 16	21:00	CH Surveyed Jobless Rate	Dec	%	5.0	5.0
Jan 17	2:00	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	3.3	0.1
Jan 17	5:00	EZ Consumer Price Index	Dec	Y/Y % Chg.	2.4	2.4

*Eastern Standard Time. Source: Bloomberg, TD Economics.

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