

Weekly Bottom Line

January 17, 2025

Highlights

Canada

- Donald Trump will be inaugurated on Monday, and Canadians are bracing for the economic threats in recent weeks to turn into action through a flurry of executive orders.
- Canada is economically tied to the U.S., with \$1.9 billion in daily goods and services exported to its southern neighbour. That amounts to over 20% of GDP.
- While we aren't expecting the worst-case scenario on tariffs, even a tapered down set of tariffs could be enough to send temporary shockwaves through the economy and financial markets.

U.S.

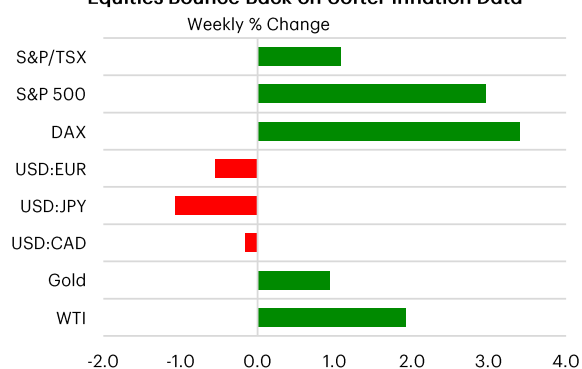
- December's CPI report brought some modestly positive news on inflation. The headline CPI came in as expected and even better core inflation had a softer month after a string of hot readings.
- Retail sales also saw a solid gain in December. While consumers reduced spending at restaurants and bars, it's likely they were just busy shopping.
- Fed officials continued to emphasize that the economy remains solid and that the central bank can afford to be patient with further interest rate cuts.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6004	5827	6090	4781
S&P/TSX Comp.	25049	24768	25692	20585
DAX	20895	20215	20895	16555
FTSE 100	8511	8248	8511	7459
Nikkei	38451	39190	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.61	4.76	4.79	3.62
Canada 10-yr Bond	3.32	3.44	3.87	2.87
Germany 10-yr Bund	2.53	2.60	2.69	2.03
UK 10-yr Gilt	4.65	4.84	4.89	3.75
Japan 10-yr Bond	1.20	1.20	1.26	0.65
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.69	0.69	0.75	0.69
Euro (USD per EUR)	1.03	1.02	1.12	1.02
Pound (USD per GBP)	1.22	1.22	1.34	1.22
Yen (JPY per USD)	156.2	157.7	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	77.9	76.6	86.9	65.8
Natural Gas (\$US/MMBtu)	4.31	4.12	4.40	1.22
Copper (\$US/met. tonne)	9123.1	8991.9	10800.8	8065.0
Gold (\$US/troy oz.)	2716.3	2689.8	2787.6	1992.3

*As of 11:20 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equities Bounce Back on Softer Inflation Data



Note: Data as of 10:57 AM ET, Friday, January 17, 2025. Source: Bloomberg, TD Economics.

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 – Ready or Not, Here He Comes

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Donald Trump will be inaugurated on Monday, and Canadians are bracing for the economic threats in recent weeks to turn into action through a flurry of executive orders. While we aren't expecting the worst-case scenario, even a tapered down set of tariffs could be enough to send temporary shockwaves through the economy and financial markets. To assess the magnitude of this threat, here are the areas of economic growth and jobs most at risk on Trump's return to the White House.

Three-quarters of Canadian exports head south of the border. This amounts to \$1.9 billion in daily goods and services exports, meaning that exports to the U.S. account for over 20% of Canada's GDP. Breaking it down by sector, energy is by far the largest contributor in dollar terms, making up more than a quarter of total exports. However, non-energy exports are also highly vulnerable. As shown in Chart 1, sectors ranging from motor vehicles to forestry have more than 80% of their production destined for the U.S. An estimated 46k companies in Canada depend on exporting to the U.S., supporting around 2 million jobs (nearly 10% of total employment).

Geographically, the risk is widespread. All provinces have exposure to U.S. tariffs, ranging from B.C. lumber to Quebec metals to Nova Scotia live animal exports. However, Ontario tops the list in terms of total dollars due to its diversified industries being deeply integrated with its southern neighbour. Motor vehicle and parts manufacturing may get most of the attention, but Ontario is also home to significant production of machinery, base metals, chemicals, and even

food/beverage. While many of these goods are a part of well-established integrated supply chains, it won't assuage fears, as nearly a million jobs in the province are tied to U.S. trade. Alberta is another key province to flag given its energy concentration. There's speculation that Trump may give Canadian oil a "carve out" from tariffs to prevent rising gasoline prices for American consumers, but still, there are over 300k jobs in Alberta tied to exports.

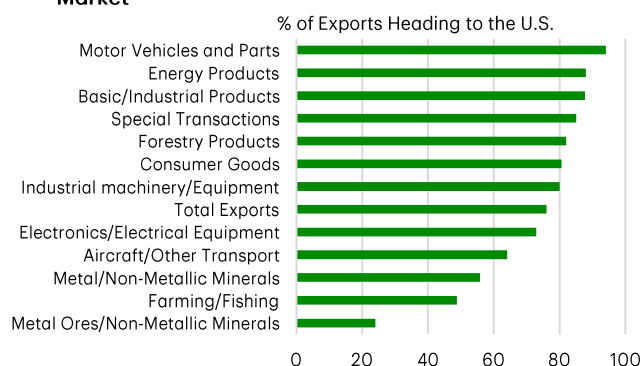
What President Trump ultimately implements is highly uncertain. Our baseline assumption is that Canada avoids blanket tariffs and instead faces temporary sector-specific threats as leverage for broader negotiations. However, we must also prepare for a worst-case scenario: a blanket 25% tariff with Canadian retaliation. Such an outcome would almost certainly push the Canadian economy into recession, driving the unemployment rate above 8%. However, some of the downside would be mitigated by government action, with discussions well underway on support to affected businesses and consumers. The Bank of Canada would also create a cushion by accelerating rate cuts, as would an inevitably weaker currency. A larger interest rate gap with the U.S. and the nature of this risk could cause the Loonie to test the historical low of 62 U.S. cents. This would also provide a cushion for Canadian exporters.

This is the playing field for Canada. The country faced similar risks in 2016, when Trump defied economic logic by igniting a trade war with China and imposing tariffs on specific Canadian exports. While fears were running high and many forecasters slashed their GDP outlooks, the economic impact was less severe than anticipated, as Trump's goal was to secure a deal.

This time, Canadian officials must be strategic. Short-term supports may be necessary to assist industries and workers, but the government cannot miss acting on long-term opportunities. This crisis creates a burning platform that could enable bold action to build out Canada's competitive advantages, such as reducing regulatory barriers/red tape, and improve tax competitiveness to incent business investment.

As the old Churchill saying goes: "Never let a good crisis go to waste".

Chart 1: Canadian Sectors Tied to the U.S.
Market



Source: Statistics Canada, TD Economics.

U.S. – The U.S. Economy Sails into Trump’s Presidency at Cruising Speed

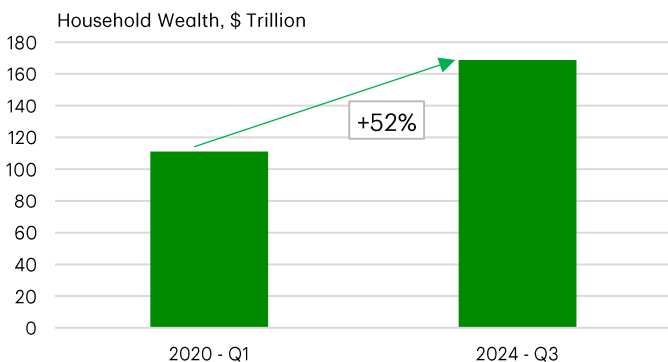
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This week was the final “quiet period” before a storm of headlines and announcements from the White House next week, following Trump’s inauguration. The incoming president inherits a robust economy, with this week’s data confirming that momentum remained strong through the end of last year.

Building on last week’s unexpectedly strong job gains, the retail sales report added more good news, signaling strong consumer spending over the holiday season. Retail sales rose by 0.6% in December, following a 0.9% gain in November. The “control group”—which excludes volatile categories like gasoline, autos, and building supplies—showed even stronger growth at 0.7%. Growth was broad-based, with especially strong spending on discretionary items like furniture, clothing, and sporting goods.

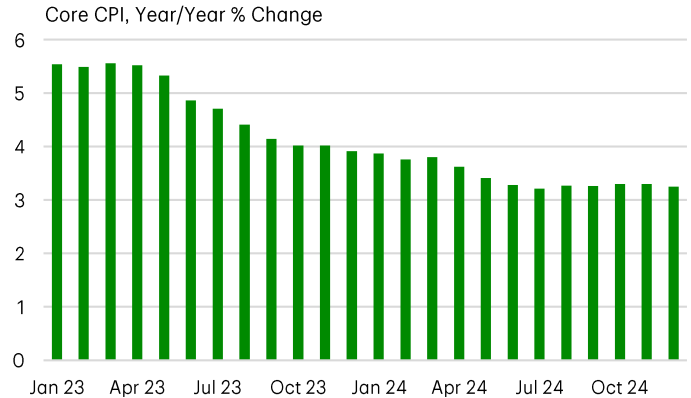
Anecdotal evidence from the Fed’s Beige Book, released this week, confirmed robust consumer spending at year-end, noting that “consumer spending has moved up moderately, with most districts reporting strong holiday sales that exceeded expectations.” This suggests that consumers ended 2024 on a high note, and it’s easy to see why. The labor market remained strong, continuing to add jobs at a good clip, while inflation has subsided (particularly in the goods category), and household wealth remains elevated (Chart 1). Even with recent volatility in the equity market, the S&P 500 is still up some 25% from a year ago. All in all, we expect inflation-adjusted consumer spending to rise somewhere in 3%-3.5% range for the fourth quarter,

Chart 1: Households’ Balance Sheets Are In Good Shape



Source: Federal Reserve Board, TD Economics.

Chart 2: Inflationary Pressure Slowly Receding



Source: Bureau of Labor Statistics, TD Economics.

roughly in line with the previous quarter. Homebuilding activity also ended 2024 on a high note, breaking a three-month streak of declining housing starts.

This week’s CPI report provided a bit of good news on the inflation front, alleviating some concerns that had flared in recent months. Core CPI (excluding food and energy) increased by 0.2% from the previous month, and the 12-month inflation rate edged down to 3.2%, after holding at 3.3% for three consecutive months (Chart 2). However, this is unlikely to affect the Fed’s decision at its next meeting on January 29th. For one, CPI is not the Fed’s preferred inflation gauge; that’s the core PCE deflator, and the December PCE data won’t be available before the Fed’s next rate decision. Additionally, there’s nothing in the recent data that would prompt the Fed to change course, especially with inflation risks from Trump’s economic policies.

Fed speakers this week reiterated that the economy is performing well. FOMC member Barkin noted, “you keep seeing good numbers on retail sales, unemployment, and the like... Demand is good, solid, fine.” While the FOMC member Williams stated that the monetary policy is in “a very good position”, and the Fed “can take the time to analyze the incoming data”. Given the potential policy shifts under the new administration, the Fed will have plenty to assess in the coming months.

Exhibits

Recent Key Economic Indicators: Jan 13 - 17, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 14	NFIB Small Business Optimism	Dec	Index	105.1	101.7
Jan 14	PPI Final Demand	Dec	M/M % Chg.	0.2	0.4
Jan 14	PPI Ex Food and Energy	Dec	M/M % Chg.	0.0	0.2
Jan 15	Empire Manufacturing	Jan	Index	-12.6	2.1
Jan 15	Consumer Price Index	Dec	M/M % Chg.	0.4	0.3
Jan 15	Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	0.3
Jan 15	Consumer Price Index	Dec	Y/Y % Chg.	2.9	2.7
Jan 15	Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	3.2	3.3
Jan 16	Retail Sales Advance	Dec	M/M % Chg.	0.4	0.8
Jan 16	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	0.3	0.2
Jan 16	Initial Jobless Claims	Jan 11	Thsd	217.0	203.0
Jan 16	Business Inventories	Nov	M/M % Chg.	0.1	0.0
Jan 16	NAHB Housing Market Index	Jan	Index	47.0	46.0
Jan 17	Housing Starts	Dec	Thsd	1499.00	1294.00
Jan 17	Building Permits	Dec	Thsd	1483.0	1493.0
Jan 17	Industrial Production	Dec	M/M % Chg.	0.9	0.2
Jan 17	Capacity Utilization	Dec	%	77.6	77.0
Jan 17	Manufacturing (SIC) Production	Dec	M/M % Chg.	0.6	0.4
Canada					
Jan 15	Manufacturing Sales	Nov	M/M % Chg.	0.8	2.1
Jan 15	Existing Home Sales	Dec	MIns	-5.8	2.8
Jan 16	Housing Starts	Dec	Thsd	231.5	267.1
International					
Jan 15	UK Consumer Price Index	Dec	Y/Y % Chg.	2.5	2.6
Jan 16	UK Gross Domestic Product	Nov	Q/Q % Chg.	0.0	0.0
Jan 16	CH Retail Sales	Dec	Y/Y % Chg.	3.7	3.0
Jan 16	CH Surveyed Jobless Rate	Dec	%	5.1	5.0
Jan 17	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	2.9	-0.5
Jan 17	EZ Consumer Price Index	Dec	Y/Y % Chg.	2.4	2.4

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

Upcoming Economic Releases and Events: January 20 - 24, 2025

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 23	8:30	Initial Jobless Claims	Jan 18	Thsd	-	217.0
Jan 24	9:45	S&P Global US Manufacturing PMI	Jan	Index	-	49.4
Jan 24	9:45	S&P Global US Services PMI	Jan	Index	-	56.8
Jan 24	9:45	S&P Global US Composite PMI	Jan	Index	-	55.4
Jan 24	10:00	Existing Home Sales	Dec	Mlns	4.2	4.2
Canada						
Jan 20	10:30	BoC Business Outlook Future Sales	4Q	Q/Q % Chg.	-	13.0
Jan 20	10:30	BoC Overall Business Outlook Survey	4Q	Q/Q % Chg.	-	-2.3
Jan 21	8:30	Consumer Price Index NSA	Dec	M/M % Chg.	-0.7	0.0
Jan 21	8:30	Consumer Price Index	Dec	Y/Y % Chg.	1.8	1.9
Jan 22	8:30	Industrial Product Price	Dec	M/M % Chg.	-	0.6
Jan 23	8:30	Retail Sales	Nov	M/M % Chg.	0.1	0.6
Jan 23	8:30	Retail Sales Ex Auto	Nov	M/M % Chg.	-	0.1
International						
Jan 21	2:00	UK ILO Unemployment Rate	Nov	Q/Q % Chg.	4.4	4.3
Jan 23	18:30	JN Natl Consumer Price Index	Dec	Y/Y % Chg.	3.4	2.9
Jan 23	19:30	JN Jibun Bank Japan PMI Mfg	Jan	Index	-	49.6

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

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