

Weekly Bottom Line

January 31, 2025

Highlights

Canada

- President Trump continues to threaten Canada with a 25% tariff on its U.S. exports as early as Saturday. A prolonged U.S.-Canada trade skirmish could dampen growth significantly and lift inflation.
- The Bank of Canada cut its policy rate by 25 basis points this week, bringing it to 3.0%. A trade battle would likely warrant more rate cuts than we built into our December baseline.
- The November GDP report suggests that Canada's economy performed well in Q4, indicating solid momentum heading into the potential trade shock.

U.S.

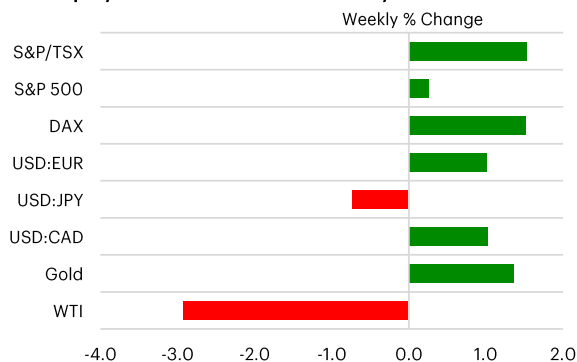
- The U.S. economy ended 2024 on solid footing, expanding at a 2.3% annualized pace. The consumer did the heavy lifting, with spending accelerating in the fourth quarter.
- The Fed's preferred inflation gauge, the core PCE deflator, continued to hover somewhat above target in December, growing at 2.8% year-on-year. But trends over the past few months suggest further cooling ahead.
- Major action may come on the trade policy front as early as this weekend, with President Trump reiterating his intentions to impose tariffs on Canada and Mexico – America's largest trading partners.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6119	6101	6119	4906
S&P/TSX Comp.	25855	25468	25855	20585
DAX	21717	21395	21727	16859
FTSE 100	8676	8502	8676	7512
Nikkei	39572	39932	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.51	4.62	4.79	3.62
Canada 10-yr Bond	3.06	3.28	3.87	2.87
Germany 10-yr Bund	2.46	2.57	2.69	2.03
UK 10-yr Gilt	4.52	4.63	4.89	3.75
Japan 10-yr Bond	1.25	1.23	1.26	0.67
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.69	0.70	0.75	0.69
Euro (USD per EUR)	1.04	1.05	1.12	1.02
Pound (USD per GBP)	1.24	1.25	1.34	1.22
Yen (JPY per USD)	154.9	156.0	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	72.6	74.7	86.9	65.8
Natural Gas (\$US/MMBtu)	3.12	3.84	9.33	1.22
Copper (\$US/met. tonne)	9008.7	9156.3	10800.8	8065.0
Gold (\$US/troy oz.)	2809.3	2770.6	2809.3	1992.3

*As of 11:03 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equity Markets Rebound After Early Week Tech Rout



Note: Data as of 11:05 AM ET, Friday, January 31, 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)	3.00%
European Central Bank (Refi Rate)	2.90%
Bank of England (Repo Rate)	4.75%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – Tariffing

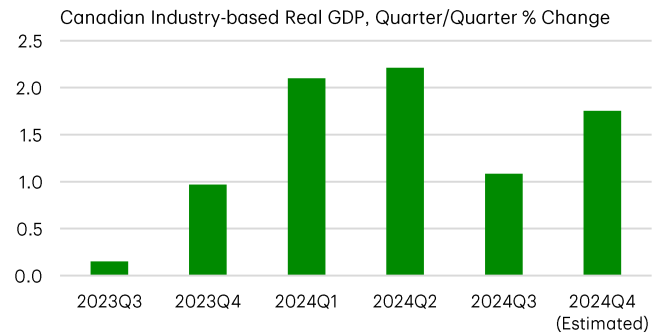
Rishi Sondhi, Economist
416-983-8806

On Thursday President Trump reiterated his threat of a 25% tariff on Canadian imports as early as Saturday. This opens the strong possibility that Canada will retaliate with tariffs of its own, although the dollar amount of U.S. imports targeted by these tariffs isn't yet public news. There is still some time left for lawmakers in both countries to negotiate a deal to avoid this outcome, but it seems increasingly likely that tariffs are imminent. The Canadian dollar sagged a bit on the news but is holding at around 0.69 U.S. cents as of writing. There could be even more downside if the tariffs do indeed hit.

Amid this swirling uncertainty, the Bank of Canada (BoC) cut its policy rate by 25 basis points this week, bringing it to 3.0%. This reflected the Bank's desire to soak up excess supply in the economy. It also made sense from a risk management perspective given the potential for a significant trade shock. Because of the uncertainty on the level and extent of any imposed tariffs, the Bank's accompanying economic forecast didn't explicitly build them in. In this "optimistic" scenario, GDP was seen as expanding by 1.8% both in 2025 and 2026. Inflation, meanwhile, was seen as hitting 2.1% by 2025 Q4, capping off what was a solid outlook. Alas, this goldilocks outcome is now under heavy threat, and may end up being a reminder of what could have been.

Ultimately, the damage to the Canadian economy from this skirmish will be determined by how long it lasts. To get a sense of potential impacts, it's helpful to highlight

Chart 2: Economy on Firm Footing With Potential Trade Shock Looming



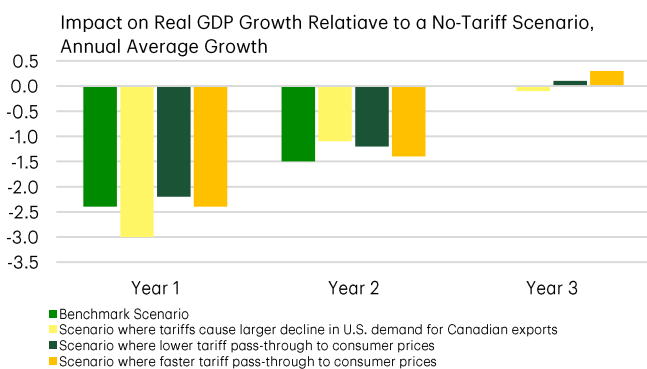
Source: Statistics Canada, TD Economics.

a BoC study accompanying its interest rate decision which analyzed 25% across-the-board tariffs permanently applied by the U.S. on all its trading partners, with Canada retaliating with 25% tariffs of its own. In this scenario, GDP growth was about 2 percentage points (ppts) lower than a no-tariff situation and inflation was about 0.3 ppts higher, on average, in the first two years (Chart 1). This implies that 2025 GDP growth would flip from being firmly positive, to slightly negative, using the Bank's baseline forecast.

The Bank didn't have to wait long for fresh news on the state of the economy. This morning's GDP report showed a 0.2% monthly decline in November. However, GDP looks to have picked up by the same amount in December, according to Statcan's preliminary estimate. All told, these dynamics suggest that 2024 Q4 growth was firm at around 2% (Chart 2). At least the economy had decent momentum heading into this potentially damaging trade skirmish.

How will monetary policy respond in this backdrop? According to the BoC, the answer is complicated by the fact that tariffs will negatively impact growth and lift inflation. At a minimum, tariffs would cause a one-time increase in price levels, with a potential to morph into a more sustained problem if inflation expectations are impacted. Our initial thought is that a prolonged trade battle would bolster the case for the Bank's policy rate fall by more than what we'd imbedded in our December projection.

Chart 1: Canada's Economy Would be Damaged by U.S. Tariffs, According to BoC Analysis



Source: Bank of Canada, TD Economics.

U.S. – Stock Market Rowdy, Economy Steady

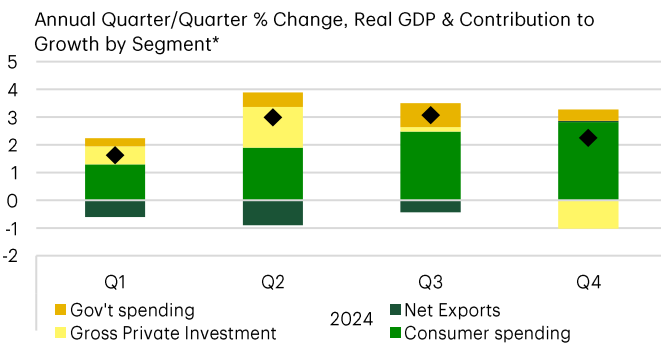
Admir Kolaj, Economist
416-944-6318

The last week of January began on a soft note for stock markets. As it became apparent that a low-cost Chinese artificial intelligence start-up (DeepSeek) could threaten the dominance of American rivals, the valuations of several large tech firms took a hit, weighing on major indexes. Some recovery ensued later in the week, with the S&P 500 and tech-heavy NASDAQ nearly erasing the losses from last week’s close (at the time of writing). In contrast to the rowdiness of the stock market, signals out of the economy continued to point to steadiness.

The first read on fourth quarter GDP showed that the U.S. economy ended last year on a solid footing as it grew at 2.3% quarter-on-quarter annualized. The consumer did the heavy lifting, offsetting a notable drag from gross fixed private investment (Chart 1). Goods spending carried the torch once again, propelled forward by a double-digit increase in durable goods, but services also notched a mild acceleration. Meanwhile, within the softness of the broad private investment category, residential investment was a bright spot for a change, lifted by a double-digit gain in housing starts last quarter. Looking at the big picture, the fact that the economy essentially sustained 2023’s pace through 2024, despite the still elevated interest rate environment, is an impressive accomplishment.

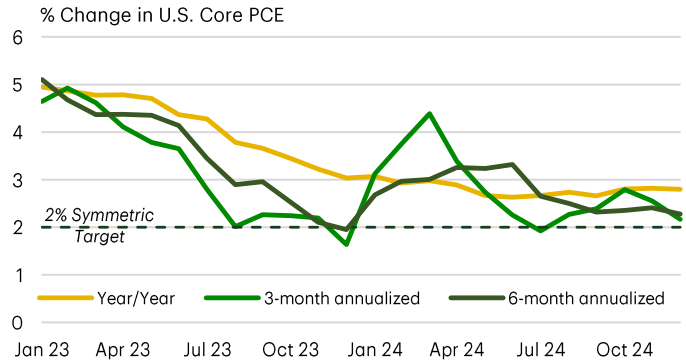
Friday morning’s monthly PCE report provided some more detail with respect to consumption and inflation trends at the turn of the year. The handoff to the start of 2025 is solid, as real spending growth remained robust in December, growing at nearly 5% annualized. This, as strength in services helped offset some cooldown in goods spending

Chart 1: U.S. Consumer Continues to do the Heavy Lifting



*Diamonds represent real GDP growth, stacked bars represent contributions to growth. Source: Census Bureau, TD Economics.

Chart 2: Fed's Preferred Inflation Gauge, Core PCE, Continues to Run Somewhat Above Target



Source: BEA, TD Economics.

from the double-digit gain in the month prior. Additionally, the Fed’s preferred inflation gauge – core PCE – held at 2.8% in year-on-year terms. The fact that the 3-month and 6-month annualized rate of change in core PCE inflation gravitated lower toward the target, was a welcome development (Chart 2).

With inflation still somewhat elevated (though appearing to head in the right direction) and the economy remaining on solid footing, the Fed can afford to take a cautious approach to further loosening monetary policy. The FOMC left the policy rate unchanged at this week’s meeting – a move that was widely anticipated. Fed Chair Powell acknowledged that “we don’t need to be in a hurry to adjust our policy stance”, while nodding to the uncertainties and the risks related to major policy changes out of Washington, such as on trade policy. Powell reiterated a wait-and-see approach, stating that they’d need any new policy changes to be articulated first, before assessing their impacts on the economy.

Major action on the trade front may come as early as this weekend, with President Trump reiterating his intention to impose 25% tariffs on Mexico and Canada on February 1st. There’s still a possibility that cooler heads will prevail, as President Trump’s top pick for commerce secretary suggested that tariffs could be avoided if swift action was taken on the border issues. Still, the deadline is fast approaching and any trade skirmishes with its neighbors will be problematic – the two countries are America’s largest trading partners and are deeply integrated in supply chains.

Exhibits

Recent Key Economic Indicators: Jan 27 - 31, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 27	Building Permits	Dec	Thsd	1482.0	1483.0
Jan 28	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	0.5	0.9
Jan 28	Durable Goods Orders	Dec	M/M % Chg.	-2.2	-2.0
Jan 28	S&P CoreLogic CS 20-City NSA	Nov	Y/Y % Chg.	4.3	4.2
Jan 28	S&P CoreLogic CS US HPI NSA	Nov	Y/Y % Chg.	3.8	3.6
Jan 28	Conf. Board Consumer Confidence	Jan	Index	104.1	109.5
Jan 29	Advance Goods Trade Balance	Dec	Blns	-122.1	-103.5
Jan 29	FOMC Rate Decision (Upper Bound)	Jan 29	%	4.50	4.50
Jan 30	Gross Domestic Product (Annualized)	Q4	Q/Q % Chg.	2.3	3.1
Jan 30	Personal Consumption	Q4	Q/Q % Chg.	4.2	3.7
Jan 30	Initial Jobless Claims	Jan 25	Thsd	207.0	223.0
Jan 30	Pending Home Sales	Dec	M/M % Chg.	-5.5	1.6
Jan 31	Core PCE Price Index	Dec	Y/Y % Chg.	2.8	2.8
Jan 31	Core PCE Price Index	Dec	M/M % Chg.	0.2	0.1
Jan 31	PCE Price Index	Dec	Y/Y % Chg.	2.6	2.4
Jan 31	PCE Price Index	Dec	M/M % Chg.	0.3	0.1
Jan 31	Personal Income	Dec	M/M % Chg.	0.4	0.3
Jan 31	Real Personal Spending	Dec	M/M % Chg.	0.4	0.5
Canada					
Jan 29	Bank of Canada Rate Decision	Jan 29	%	3.00	3.25
Jan 30	CFIB Business Barometer	Jan	Index	54.6	56.5
Jan 30	Payroll Employment Change (SEPH)	Nov	Thsd	-56.1	-10.6
Jan 31	Gross Domestic Product	Nov	M/M % Chg.	-0.2	0.3
International					
Jan 30	EZ Gross Domestic Product SA	Q4	Y/Y % Chg.	0.9	0.9
Jan 30	EZ Unemployment Rate	Dec	%	6.3	6.2
Jan 30	MX Gross Domestic Product NSA	Q4	Y/Y % Chg.	0.6	1.6
Jan 30	EZ ECB Main Refinancing Rate	Jan 30	%	2.90	3.15
Jan 30	JN Jobless Rate	Dec	%	2.4	2.5
Jan 30	JN Tokyo Consumer Price Index	Jan	Y/Y % Chg.	3.4	3.1
Jan 30	JN Retail Sales	Dec	Y/Y % Chg.	3.7	2.8

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

Upcoming Economic Releases and Events: February 03 - 07, 2025						
Release	Time*	Economic Indicator/Event	Data for	Units	Consen	Last
United States						
Feb 03	9:45	S&P Global US Manufacturing PMI	Jan	Index	50.1	50.1
Feb 03	10:00	ISM Manufacturing	Jan	Index	49.3	49.2
Feb 03	13:30	Wards Total Vehicle Sales	Jan	Mlns	16.2	16.8
Feb 03	12:30	<i>Fed's Bostic Speaks on Economic Outlook</i>				
Feb 04	10:00	Factory Orders	Dec	M/M % Chg.	0.5	-0.4
Feb 04	10:00	Factory Orders Ex Trans	Dec	M/M % Chg.	-	0.2
Feb 04	10:00	Durable Goods Orders	Dec	M/M % Chg.	-	-2.2
Feb 04	10:00	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	-	0.5
Feb 04	11:00	<i>Fed's Bostic Speaks in Moderated Conversation on Housing</i>				
Feb 04	14:00	<i>Fed's Daly Speaks in Moderated Panel</i>				
Feb 04	19:30	<i>Fed's Jefferson Speaks on Economic Outlook, Policy</i>				
Feb 05	8:15	ADP Employment Change	Jan	Thsd	153.0	122.0
Feb 05	8:30	Trade Balance	Dec	Blns	-80.4	-78.2
Feb 05	9:45	S&P Global US Services PMI	Jan	Index	-	52.8
Feb 05	9:45	S&P Global US Composite PMI	Jan	Index	-	52.4
Feb 05	10:00	ISM Services Index	Jan	Index	54.5	54.0
Feb 05	15:00	<i>Fed's Bowman Gives Update on Economy, Bank Regulation</i>				
Feb 06	8:30	Unit Labor Costs	4Q	Q/Q % Chg.	3.4	0.8
Feb 06	8:30	Initial Jobless Claims	Feb 01	Thsd	-	207.0
Feb 06	14:30	<i>Fed's Waller Speaks on Future of Payments</i>				
Feb 06	17:10	<i>Fed's Logan Speaks on Future Challenges for Monetary Policy</i>				
Feb 07	8:30	Change in Nonfarm Payrolls	Jan	Thsd	150.0	256.0
Feb 07	8:30	Unemployment Rate	Jan	%	4.1	4.1
Feb 07	8:30	Average Hourly Earnings	Jan	M/M % Chg.	0.3	0.3
Jan 00	0:00	<i>Fed's Bowman Gives Update on Economy, Bank Regulation</i>				
Feb 07	10:00	Wholesale Trade Sales	Dec	M/M % Chg.	-	0.6
Feb 07	12:00	<i>Fed's Kugler Speaks on Entrepreneurship, Productivity</i>				
Canada						
Feb 03	9:30	S&P Global Canada Manufacturing PMI	Jan	Index	-	52.2
Feb 05	8:30	Int'l Merchandise Trade	Dec	Blns	0.2	-0.3
Feb 06	17:00	<i>BoC Governor, Tiff Macklem Joins Panel at BIS Conference</i>				
Feb 07	8:30	Net Change in Employment	Jan	Thsd	22.9	91.0
Feb 07	8:30	Unemployment Rate	Jan	%	6.8	6.7
International						
Feb 03	5:00	EZ Consumer Price Index Estimate	Jan	Y/Y % Chg.	2.4	2.4
Feb 06	5:00	EZ Retail Sales	Dec	Y/Y % Chg.	1.9	1.2
Feb 06	7:00	UK Bank of England Bank Rate	Feb 06	%	4.5	4.8

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

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.