

Weekly Bottom Line

April 17, 2025

Highlights

Canada

- The Bank of Canada held the policy rate at 2.75% and, in a break from tradition, refrained from publishing its usual forecast.
- The Monetary Policy Report outlined two illustrative scenarios depending on different U.S. tariff policy paths. Both marked a downgrade from January's projections.
- Economic data released this week showed that the housing market continues to crack, while inflation edged lower.

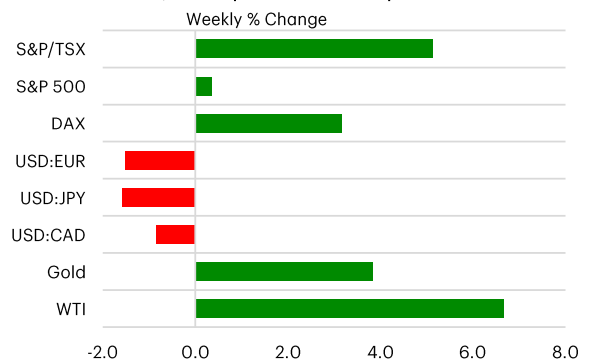
U.S.

- News on the trade front this week included the U.S. administration tightening rules on chips exports to China and promising tariffs on imports on electronics in the near future.
- Retail sales report showed that the prospect of tariff-driven price hikes spurred consumers to go on a pre-emptive shopping spree in March to replace aging vehicles and stock up on materials for home renovations.
- Fed Chair Jerome Powell acknowledged the trade conflict presents a “challenging scenario” for the central bank, but re-iterated that the central bank was “well positioned to wait for greater clarity”.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5270	5268	6144	4967
S&P/TSX Comp.	24103	23015	25808	21517
DAX	21167	20563	23419	17339
FTSE 100	8260	7913	8871	7679
Nikkei	34378	34609	42224	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.29	4.42	4.79	3.62
Canada 10-yr Bond	3.09	3.24	3.87	2.83
Germany 10-yr Bund	2.47	2.58	2.90	2.03
UK 10-yr Gilt	4.56	4.64	4.89	3.76
Japan 10-yr Bond	1.32	1.35	1.59	0.79
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.72	0.72	0.74	0.69
Euro (USD per EUR)	1.14	1.12	1.14	1.02
Pound (USD per GBP)	1.32	1.30	1.34	1.22
Yen (JPY per USD)	142.2	144.5	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	63.4	60.1	83.9	59.6
Natural Gas (\$US/MMBtu)	3.24	3.47	9.33	1.22
Copper (\$US/met. tonne)	9171.3	9003.5	10800.8	8571.4
Gold (\$US/troy oz.)	3286.9	3176.2	3343.1	2286.3

*As of 10:53 AM on Thursday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Wednesday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

U.S. Dollar Down, Gold Up as Markets Adopt a Wait & See Stance



Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.25 - 4.50%
Bank of Canada (Overnight Rate)	2.75%
European Central Bank (Refi Rate)	2.40%
Bank of England (Repo Rate)	4.50%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – Monetary Policy Can't Fix a Trade War, All Eyes on Fiscal Policy

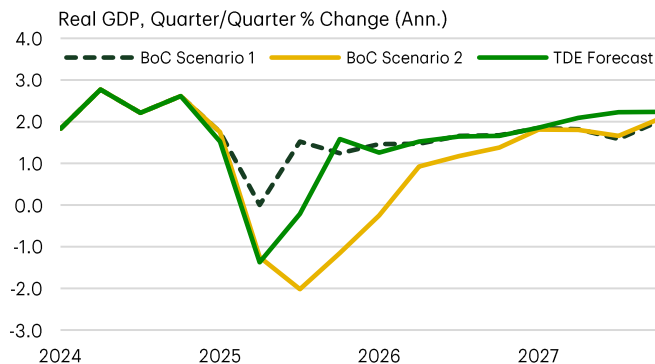
Maria Solovieva, CFA, Economist
416-380-1195

For a short Easter week, there was no shortage of eggs to crack open, but the biggest one was [the Bank of Canada's decision](#) and the accompanying Monetary Policy Report (MPR). After cutting interest rates for the past seven consecutive announcements, the Bank chose to hold the policy rate steady at 2.75%. The Bank pointed out that it had already reduced interest rates 25 basis points in both January and March in the face of tariff uncertainty, but with the path ahead no clearer decided to leave the policy rate unchanged “as we gain more information about both the path forward for US tariffs and their impacts”. The Loonie edged higher on the news, while both bonds and equities posted modest gains.

In a break from tradition, the Bank didn't lay its usual forecast egg. Instead, it offered two illustrative scenarios that explore different paths for U.S. tariff policy. This isn't the first time the Bank has skipped publishing point forecasts. Five years ago, during the early days of the pandemic, it omitted its usual projection tables and instead offered illustrative scenarios, with outcomes tied to how quickly the virus would recede. This time, the outlook hinges on trade policy. Scenario 1 assumes limited tariffs, weaker growth, and inflation sticking close to 2%. Scenario 2 involves a full-blown year-long trade war, resulting in a recession in both Canada and the U.S. and inflation rising to 3% by 2026. [Our own forecast](#), which assumes tariffs remain in place for six months, lands roughly in the middle (Chart 1).

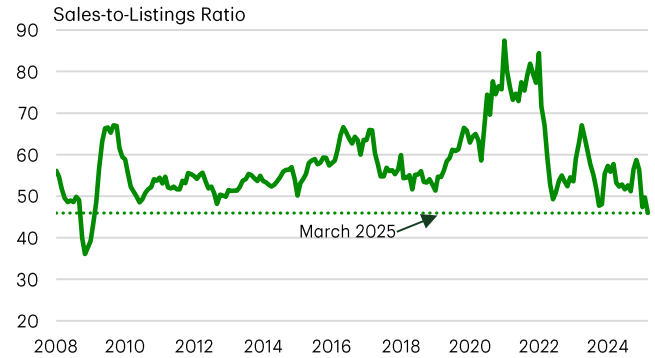
Either way, both scenarios mark a downgrade from January's MPR. And the Bank acknowledged that the real economy is already softening. The labour market

Chart 1: TD Economics Forecast Lands Between the Bank's Two Tariff Scenarios



Source: Statistics Canada and Bank of Canada calculations and estimates, TD Economics.

Chart 2: Canadian Housing Market Hits Weakest Point Since February 2009



Source: Canadian Real Estate Association, TD Economics. Last observation: March 2025

has weakened, and consumer and business recession expectations have risen. Now [the housing market](#) has cracked: a combination of weaker sales and rising listings pushed the national sales-to-new listings ratio down to 45.9% in March — a buyer's market and the lowest level since February 2009 (Chart 2).

On the inflation front, the Bank expects “tariffs and supply chain disruptions to push up some prices”, but this will depend on the evolution of tariffs and how quick businesses are to pass on costs. [March CPI](#) offered some relief, with cheaper gas and travel tour prices easing year-over-year inflation, despite upward pressure from the full reinstatement of the GST/HST. The Bank now expects inflation to dip further in Q2, due to the elimination of the consumer carbon tax and lower global oil prices. In both scenarios, tariff-related inflation is expected to peak next year. From an inflation risk perspective, the Bank sees a fairly balanced outlook, with potential supply chain disruptions and higher inflation expectations on the upside, and a weaker-than-expected economy and financial stress on the downside.

Still, it's fair to ask: why pause rate cuts now, when inflation is relatively under control and its risks balanced, while growth clearly tilting lower? We think the answer lies in policy uncertainty. The Bank is waiting for more clarity on what tariffs look like and the fiscal policy response—something that won't arrive until after the election on April 28th. As the Bank has pointed out, monetary policy cannot offset the impacts of a trade war, nor can it resolve policy uncertainty. The Bank doesn't want to count its chickens before they hatch and for now, caution is the name of the game.

U.S. – Tariffs Create A “Challenging Scenario” For The Fed

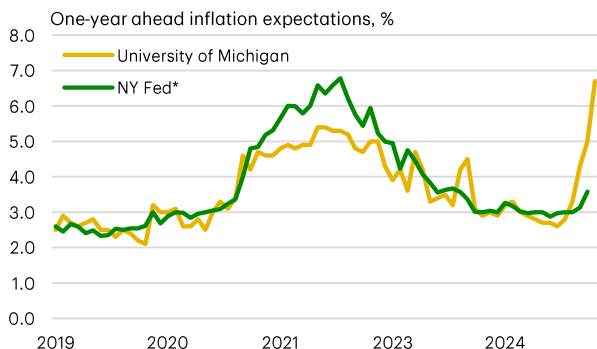
Ksenia Bushmeneva, Economist
416-308-7392

Trade policy developments remained in sharp focus during this holiday-shortened week. Markets continued to be whipsawed by what have become near-daily updates on the trade front. Investors breathed a sigh of relief after news broke that some electronics imports from China would be exempt from the 145% tariff, and instead only face the smaller 20% IEEPA tariffs. However, the relief was short lived as both President Trump and Commerce Secretary Lutnick noted that these products will fall in scope under the broader Section 232 review of semiconductors, which is likely to be announced over the coming weeks/months. In blow to the tech industry and advanced manufacturing, the U.S. tightened the rules on exports of chips to China, produced by Nvidia and ADM.

The market selloff intensified following comments from Fed Chair Jerome Powell, who acknowledged the trade conflict presents a “challenging scenario” for the central bank. With tariffs likely to push prices higher while slowing economic growth, the Fed faces a tough choice: maintain elevated interest rates to support price stability or cut rates to support the labor market. Powell offered no clear guidance. However, recent communications from Fed officials suggest rising inflation expectations and steeper-than-expected tariffs have the FOMC more concerned about long-term inflation risks and willing to tolerate some economic softening (Chart 1).

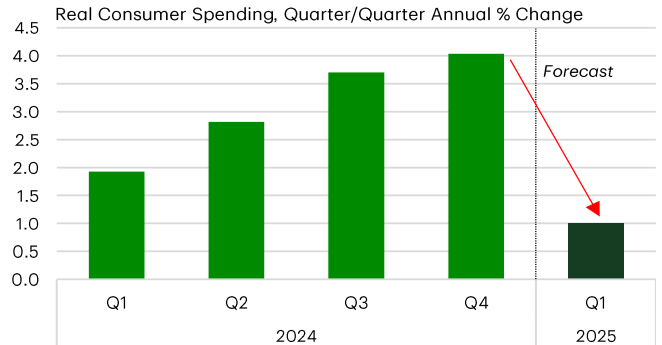
Anticipation of higher prices may already be influencing consumer behavior. Wednesday’s retail sales [report](#) showed that the prospect of tariff-driven price hikes

Chart 1: Consumers' Inflation Expectations Increase



Source: NY Fed, University of Michigan, TD Economics (*NY Fed data ends in March 2025, while UofM data ends in April).

Chart 2: Consumer Spending to Slow Sharply in Q1



Source: Bureau of Economic Analysis, TD Economics.

spurred a pre-emptive shopping spree in March. Retail sales jumped 1.4%, as consumers rushed to dealerships and stores to replace aging vehicles and stock up on home renovation materials. Sales of vehicles and auto parts, as well as building materials and equipment, saw strong gains. A pull-forward in demand was also evident in electronics and sporting goods.

Some of this behavior may carry over into April, spurred by the intensifying trade dispute with China. However, we expect it to mark a final burst before consumers begin tightening their purse strings as the price impacts from tariffs are passed onto the consumer and erode household purchasing power. Based on the rates announced to date, we estimate the average household will face an increase in living costs of approximately \$3,600 per year. Tax cuts could provide some offset. If President Trump’s promised tax cuts are fully implemented, we estimate that it would lift household’s income by around \$2,700. This is \$900 short of offsetting the tax hike from tariffs, leaving the average household worse off ([report](#)).

A hit to household wealth, higher goods prices and rising unemployment down the road rate will put the brakes on spending. A notable slowdown is likely to show up in Q1, with consumer spending expected to expand by just 1% (annualized) – down sharply from 4.0% in Q4 of 2024. A further softening in Q2 is looking increasingly likely (Chart 2). Without the backing of strong consumer spending, the U.S. economic engine could sputter this year. While we still believe a recession can be avoided, risks to the outlook are increasingly tilted to the downside.

Exhibits

Recent Key Economic Indicators: Apr 14 - 18, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 14	NY Fed 1-Yr Inflation Expectations	Mar	%	3.6	3.1
Apr 15	Empire Manufacturing	Apr	Index	-8.1	-20.0
Apr 16	Retail Sales Advance	Mar	M/M % Chg.	1.4	0.2
Apr 16	Retail Sales Ex Auto and Gas	Mar	M/M % Chg.	0.8	0.8
Apr 16	Capacity Utilization	Mar	%	77.8	78.2
Apr 16	Industrial Production	Mar	M/M % Chg.	-0.3	0.8
Apr 16	Manufacturing (SIC) Production	Mar	M/M % Chg.	0.3	1.0
Apr 16	Business Inventories	Feb	M/M % Chg.	0.2	0.3
Apr 16	NAHB Housing Market Index	Apr	Index	40.0	39.0
Apr 17	Building Permits	Mar	Thsd	1482.0	1459.0
Apr 17	Housing Starts	Mar	Thsd	1324.0	1494.0
Apr 17	Initial Jobless Claims	Apr 12	Thsd	215.0	224.0
Canada					
Apr 14	Wholesale Sales ex Petroleum	Feb	M/M % Chg.	0.3	1.4
Apr 15	Housing Starts	Mar	Thsd	214.2	221.4
Apr 15	Consumer Price Index	Mar	Y/Y % Chg.	2.3	2.6
Apr 15	Consumer Price Index NSA	Mar	M/M % Chg.	0.3	1.1
Apr 15	CPI-Median	Mar	Y/Y % Chg.	2.9	2.9
Apr 15	CPI-Trim	Mar	Y/Y % Chg.	2.8	2.9
Apr 15	Manufacturing Sales	Feb	M/M % Chg.	0.2	1.6
Apr 15	Existing Home Sales	Mar	M/M % Chg.	-4.8	-9.8
Apr 16	Bank of Canada Rate Decision	Apr 16	%	2.75	2.75
Apr 17	CFIB Business Barometer	Apr	Index	34.8	25.5
International					
Apr 15	UK ILO Unemployment Rate (3 Mths.)	Feb	%	4.4	4.4
Apr 15	CH Gross Domestic Product	Q1	Y/Y % Chg.	5.4	5.4
Apr 15	CH Retail Sales	Mar	Y/Y % Chg.	5.9	-
Apr 15	CH Surveyed Jobless Rate	Mar	%	5.2	5.4
Apr 16	UK Consumer Price Index	Mar	Y/Y % Chg.	2.6	2.8
Apr 16	EZ Consumer Price Index	Mar	Y/Y % Chg.	2.2	2.2
Apr 17	EZ ECB Main Refinancing Rate	Apr 17	%	2.40	2.65
Apr 17	JN National Consumer Price Index	Mar	Y/Y % Chg.	-	3.7

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Apr 21 - 25, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Apr 21	8:30	<i>Fed's Goolsbee Appears on CNBC</i>				
Apr 22	9:00	<i>Fed's Jefferson Speaks at Economic Mobility Summit</i>				
Apr 22	9:30	<i>Fed's Harker Speaks at Economic Mobility Summit</i>				
Apr 22	14:00	<i>Fed's Kashkari Speaks in Moderated Discussion</i>				
Apr 23	9:00	<i>Fed's Goolsbee Gives Opening Remarks</i>				
Apr 23	9:30	<i>Fed's Musalem, Waller Give Opening Remarks</i>				
Apr 23	9:45	S&P Global US Composite PMI	Apr	Index	-	53.5
Apr 23	9:45	S&P Global US Manufacturing PMI	Apr	Index	49.3	50.2
Apr 23	9:45	S&P Global US Services PMI	Apr	Index	53.0	54.4
Apr 23		Building Permits	Mar	Thsd	-	1482.0
Apr 23	18:30	<i>Fed's Hammack Speaks on Balance Sheet</i>				
Apr 24	8:30	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	0.2	-0.2
Apr 24	8:30	Durable Goods Orders	Mar	M/M % Chg.	1.5	1.0
Apr 24	8:30	Initial Jobless Claims	Apr 19	Thsd	-	215.0
Apr 24	10:00	Existing Home Sales	Mar	Mlns	4.13	4.26
Apr 24	17:00	<i>Fed's Kashkari Speaks in Moderated Discussion</i>				
Canada						
Apr 22	8:30	Industrial Product Price	Mar	M/M % Chg.	-	0.4
Apr 24	8:30	Payroll Employment Change (SEPH)	Feb	Thsd	-	26.8
Apr 25	8:30	Retail Sales	Feb	M/M % Chg.	-	-0.6
Apr 25	8:30	Retail Sales Ex Auto	Feb	M/M % Chg.	-	0.2
International						
Apr 22	20:30	JN Jibun Bank Japan PMI Mfg	Apr	Index	-	48.4
Apr 22	20:30	JN Jibun Bank Japan PMI Services	Apr	Index	-	50.0
Apr 24	19:30	JN Tokyo Consumer Price Index	Apr	Y/Y % Chg.	3.3	2.9
Apr 25	2:00	UK Retail Sales Ex Auto Fuel	Mar	Y/Y % Chg.	2.0	2.2

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

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