

Weekly Bottom Line

May 16, 2025

Highlights

Canada

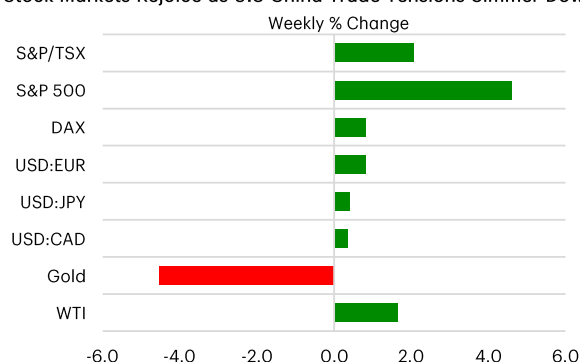
- The Federal government is foregoing its usual spring Budget, but is pushing forward with election promises. The Ontario government expects to run a deeper FY 2025/26 deficit as economic relief clashes with a softening revenue outlook.
- Canada's housing market remained subdued in April as weak consumer confidence weighs on sales activity.
- Inflation updates for April next week will be a key marker for the Bank of Canada's policy decision on June 4th. We expect a print on the softer side before tariff impacts start to embed in prices.

U.S.

- U.S.-China trade tensions were toned down this week, with both countries agreeing to a temporary truce that would see some tariffs on each other's goods come down substantially.
- Following a strong showing in March, retail sales barely grew in April. The details hinted at consumer efforts to get ahead of potential tariff-related price hikes.
- Housing starts managed to eke out some modest growth in April, but the gain was entirely concentrated in the smaller and more volatile multifamily sector.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5920	5660	6144	4983
S&P/TSX Comp.	25885	25358	25897	21517
DAX	23691	23499	23696	17339
FTSE 100	8674	8555	8871	7679
Nikkei	37754	37503	42224	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.43	4.38	4.79	3.62
Canada 10-yr Bond	3.18	3.16	3.76	2.83
Germany 10-yr Bund	2.59	2.56	2.90	2.03
UK 10-yr Gilt	4.65	4.57	4.89	3.76
Japan 10-yr Bond	1.46	1.37	1.59	0.79
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.72	0.72	0.74	0.69
Euro (USD per EUR)	1.12	1.13	1.15	1.02
Pound (USD per GBP)	1.33	1.33	1.34	1.22
Yen (JPY per USD)	146.0	145.4	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	62.1	61.0	83.9	57.1
Natural Gas (\$US/MMBtu)	3.20	3.21	9.33	1.22
Copper (\$US/met. tonne)	9616.7	9494.7	10800.8	8571.4
Gold (\$US/troy oz.)	3174.3	3325.0	3431.8	2293.8

Stock Markets Rejoice as U.S-China Trade Tensions Simmer Down



Note: Data as of 11:03 AM ET, Friday, May 16, 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)	2.75%
European Central Bank (Refi Rate)	2.40%
Bank of England (Repo Rate)	4.25%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – Budgets, And Lack Thereof

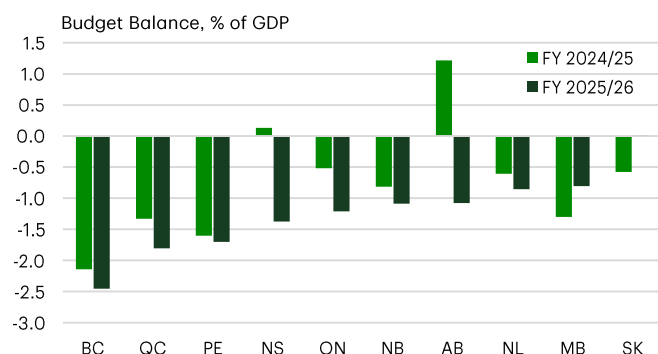
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Canadian governments were in the spotlight this week amid a relatively light calendar for Canadian economic data. Volatility in Canadian financial markets also scaled back this week, mostly taking cues from developments south of the border. Canadian yields finished the week roughly flat, the TSX rallied by 1.5%, and the Loonie dipped three-tenths of a cent to 0.716 cents/USD.

On the federal government side, Prime Minister Mark Carney and his new cabinet hit the ground running, signing a symbolic order to prioritize their promised income tax cut by July 1st. This measure is part of a much larger Liberal election platform that includes \$130 billion in new spending measures over the next four years (see [analysis](#)). By the government's own preliminary tally, the spending will drive the projected budget deficit and debt burden higher in the near-term. That said, the government announced that they will forgo publishing an official federal budget this year. This means we'll need to wait until the Fall Economic Statement, usually tabled between October and December, to understand the exact impacts on the country's bottom line.

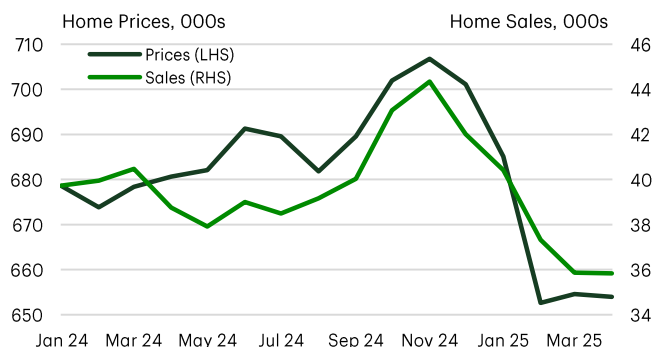
Meanwhile, Ontario released its FY 2025/26 Budget, officially wrapping up the provincial budget season. New measures related to tariff relief and broader economic support, combined with a contraction in near-term revenues, are expected to put the province's books into a \$14.6 billion deficit for the fiscal year (see [analysis](#)). Relative to the size of the economy, Ontario's projected deficit is in line with those reported by most provinces across the nation (Chart 1). Ontario and Manitoba also signed a

Chart 1: Provinces Coast-to-Coast Are Expecting to Run Moderately Deep Deficits



Source: Government Budgets, TD Economics.

Chart 2: Canadian Housing Markets Being Pressured Lower by Economic Uncertainty



Source: CREA, TD Economics.

Memorandum of Understanding (MOU) supporting the removal of barriers to trade between their two provinces.

Shifting to the hard economic data, Canada's housing markets continue to show signs of weakness (Chart 2). Existing home sales in April failed to generate any traction as economic uncertainty likely kept buyers on the sidelines despite lower interest rates. With the data we have on hand, we're tracking another decline in Canadian home sales in Q2 following a sizeable first quarter contraction. The weakness is expected to be temporary. Ample pent-up demand exists and we expect it to start funneling back into markets by the fourth quarter as there is more certainty on the trade front, and homebuyers regain confidence and clarity. Elsewhere, housing starts bounced back in a meaningful way in April after steep declines in the two months prior, though they continue to soften on a trend basis. Ontario, in particular, stands out as construction responds to the past declines in demand.

On tap next week is April's update on inflation. The print could show stable and easing price growth as the elimination of the consumer carbon tax has pushed energy prices significantly lower. Past this, we expect tariff impacts may start nudging inflation back towards 3% starting in May/June. The Bank of Canada (BoC) is waiting in the wings to make their next policy decision on June 4th and the economic evidence is increasingly painting a picture of a slowing Canadian economy. From our lens, the current situation gives the BoC room to deliver another quarter-point cut to the policy rate at the June announcement.

U.S. – Trade Tensions with China Simmer Down

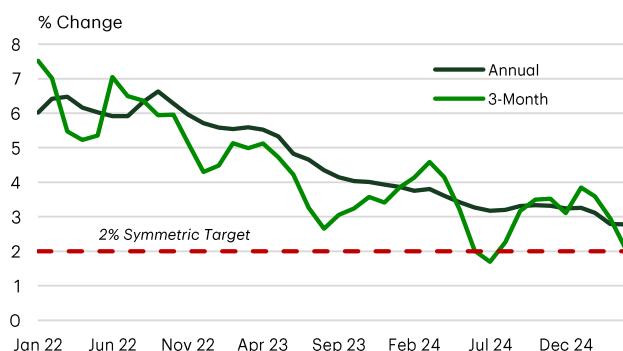
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Following the U.K. trade deal signed last week, the U.S. de-escalated its tariff fight with another key trade partner this week – China. Stock markets rejoiced on the news with the S&P 500 up almost 5% this week.

The U.S. and China announced a temporary truce, which would see both nations significantly reduce their tariffs for 90 days, effective May 14th. U.S. tariffs on China would drop from 145% to 30%, while Chinese tariffs on U.S. goods would fall from 125% to 10%. China also agreed to ease its critical minerals export restrictions. This development marks a major step in the right direction. Still, it is early days in negotiations and there's potential for trade tensions to flare up again should an agreement prove elusive. Additionally, some of the damage is already done, with elevated tariffs that were kept on for several weeks already disrupting trade patterns and setting the stage for potential price hikes ahead. Recognizing these risks, at a speech this week Fed Chair Powell noted that “we may be entering a period of more frequent, and potentially more persistent, supply shocks – a difficult challenge for the economy and for central banks”.

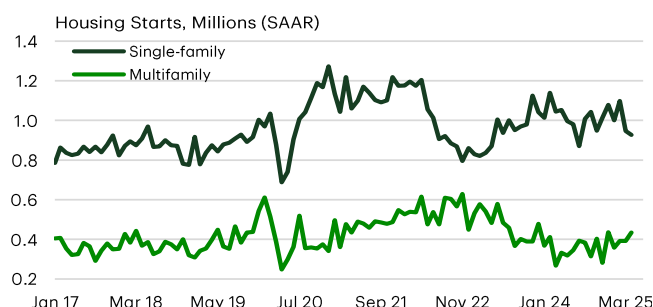
Up until April, inflation appeared to be moving in the right direction. Helped by a reduction in energy prices, total CPI inflation eased to 2.3% year-on-year (y/y) in April – the lowest level since 2021. Meanwhile, core CPI held steady at 2.8% y/y, but managed to trend lower on a 3-month annualized basis (Chart 1). Still, this trend is unlikely to last. Citing pressure from tariffs, Walmart announced plans to start passing on tariff costs as

Chart 1: Progress on Inflation Continued in April



Source: Bureau of Labor Statistics, TD Economics.

Chart 2: Single-family Starts Continue to Trend Lower, Multifamily Starts Help Lift Up Overall Tally



Source: BEA, TD Economics.

early as this month. Other retailers are likely to follow, and consumers will soon start to feel the heat.

With respect to the consumer, following a strong finish to the first quarter, retail sales grew only modestly in April. Sales at motor vehicle and parts dealers edged lower (albeit from an elevated level), while sales at gasoline stations fell more noticeably in part due to lower gas prices. Despite this, a decent showing in a few other categories, including bars and restaurants, and building material stores helped provide some counterbalance.

Pulling back the lens, last month's retail spending data provided further evidence that consumers continued to front-run the tariffs by pulling forward purchases of some big ticket items. Meanwhile, ongoing gains in discretionary spending suggest that the consumer is managing to hold its own for now, despite downbeat sentiment. Housing starts also managed to eke out some modest growth in April (up 1.6% on the month), but under the hood, the details were mixed. Starts in the larger single-family sector continued to trend lower, with last month's increase entirely stemming from gains in the smaller and more volatile multifamily segment (Chart 2).

All told, the de-escalation in the trade fight with China marks an important step in the right direction, and there could be more on the way, with President Trump today hinting at the potential for further de-escalation with other countries over the next 2-3 weeks. Still, this does not rule out additional flareups, and we are far from being out of the woods.

Exhibits

Recent Key Economic Indicators: May 12 - 16, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
May 13	NFIB Small Business Optimism	Apr	Index	95.8	97.4
May 13	Consumer Price Index	Apr	M/M % Chg.	0.2	-0.1
May 13	Consumer Price Index	Apr	Y/Y % Chg.	2.3	2.4
May 13	Consumer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.2	0.1
May 13	Consumer Price Index Ex Food and Energy	Apr	Y/Y % Chg.	2.8	2.8
May 15	Empire Manufacturing	May	Index	-9.2	-8.1
May 15	Initial Jobless Claims	May 10	Thsd	229.0	229.0
May 15	Retail Sales Advance	Apr	M/M % Chg.	0.1	1.7
May 15	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	0.2	1.1
May 15	PPI Final Demand	Apr	M/M % Chg.	-0.5	0.0
May 15	PPI Ex Food and Energy	Apr	M/M % Chg.	-0.4	0.4
May 15	Capacity Utilization	Apr	%	77.7	77.8
May 15	Industrial Production	Apr	M/M % Chg.	0.0	-0.3
May 15	Manufacturing (SIC) Production	Apr	M/M % Chg.	-0.4	0.4
May 15	Business Inventories	Mar	M/M % Chg.	0.1	0.2
May 15	NAHB Housing Market Index	May	Index	34.0	40.0
May 16	Building Permits	Apr	Thsd	1412.0	1481.0
May 16	Housing Starts	Apr	Thsd	1361.0	1339.0
Canada					
May 15	Housing Starts	Apr	Thsd	278.6	214.2
May 15	Manufacturing Sales	Mar	M/M % Chg.	-1.4	-0.2
May 15	Wholesale Sales ex Petroleum	Mar	M/M % Chg.	0.2	1.0
May 15	Existing Home Sales	Apr	M/M % Chg.	-0.1	-4.8
International					
May 13	UK ILO Unemployment Rate (3 Mths.)	Mar	%	4.5	4.4
May 15	UK Gross Domestic Product	1Q	Y/Y % Chg.	1.3	1.5
May 15	EZ Gross Domestic Product SA	1Q	Q/Q % Chg.	0.3	0.4
May 15	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	1.2	1.2
May 15	EZ Employment	1Q	Y/Y % Chg.	0.8	0.8
May 15	JN Gross Domestic Product SA (Annualized)	1Q	Q/Q % Chg.	-0.7	2.4

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 19 - 23, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 19	8:30	Federal Reserve Bank of Atlanta's 2024 Financial Markets Conference				
May 19	8:45	Fed's Jefferson Gives Keynote, Bostic Moderates				
May 19	13:15	Fed's Williams Speaks in Moderated Discussion				
May 19	14:45	Fed's Kashkari Participates in Q&A				
May 20	9:30	Fed's Barkin Gives Speech at Richmond Fed Conference				
May 20	13:00	Fed's Collins Hosts Fed Listens Event in New Hampshire				
May 20	17:00	Fed's Musalem Speaks on Economy, Policy				
May 21	12:15	Fed's Hammack, Daly Give Keynote, Bostic Moderates				
May 22	8:30	Initial Jobless Claims	May 17	Thsd	226.0	229.0
May 22	9:45	S&P Global US Manufacturing PMI	May	Index	49.8	50.2
May 22	9:45	S&P Global US Services PMI	May	Index	50.6	50.8
May 22	9:45	S&P Global US Composite PMI	May	Index	-	50.6
May 22	10:00	Existing Home Sales	Apr	Mlns	4.2	4.0
May 22	14:00	Fed's Barkin, Bowman Participate in Fed Listens				
May 23	10:00	New Home Sales	Apr	Thsd	695.0	724.0
May 23	10:00	Building Permits	Apr	Thsd	-	1412.0
May 23	12:00	Fed's Williams Gives Keynote Remarks				
Canada						
May 20	8:30	Consumer Price Index NSA	Apr	M/M % Chg.	0.5	0.3
May 20	8:30	Consumer Price Index	Apr	Y/Y % Chg.	2.3	2.3
May 22	7:00	CFIB Business Barometer	May	Index	-	34.8
May 22	8:30	Industrial Product Price	Apr	M/M % Chg.	-	0.5
May 22	15:15	BoC Deputy Governor, Toni Gravelle Sits on Panel at Columbia University				
May 23	8:30	Retail Sales	Mar	Y/Y % Chg.	-0.3	-0.4
May 23	8:30	Retail Sales Ex Auto	Mar	M/M % Chg.	-	0.5
International						
May 19	5:00	EZ Consumer Price Index	Apr	Y/Y % Chg.	2.2	2.2
May 21	2:00	UK Consumer Price Index	Apr	Y/Y % Chg.	3.3	2.6
May 21	20:30	JN Jibun Bank Japan PMI Mfg	May	Index	-	48.7
May 22	19:30	JN Natl Consumer Price Index	Apr	Y/Y % Chg.	3.6	3.6
May 23	2:00	UK Retail Sales Ex Auto Fuel	Apr	Y/Y % Chg.	4.4	3.3
*Eastern Standard Time. Source: Bloomberg, TD Economics.						

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