

Weekly Bottom Line

June 27, 2025

Note: The next issue of the Weekly Bottom Line will be published on Thursday, July 3.

Highlights

Canada

- Headline inflation for the month of May landed in line with expectations of a soft print. Core measures, while still elevated, showed signs of cooling.
- Industry-based GDP contracted in April, with a similar fate expected in May. Tariff-exposed industries are bearing the brunt of the blow.
- Canada committed to the new NATO pledge to spend 5% of GDP on defence by 2035.

U.S.

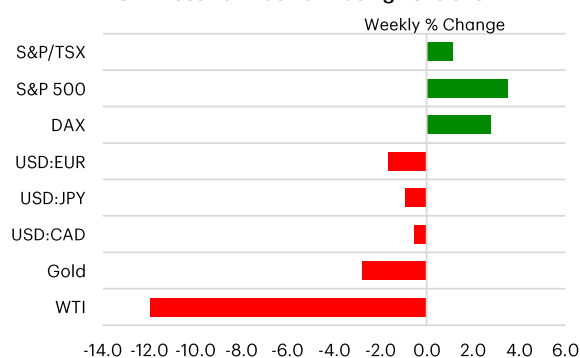
- An abrupt ceasefire between Israel and Iran sent oil prices tumbling, while stock markets rejoiced on the news, with the S&P 500 up roughly 3% on the week at the time of writing.
- The U.S. consumer is showing signs of fatigue with real spending falling 0.3% in May.
- The Fed's preferred inflation gauge, core PCE, ticked up modestly from 2.6% to 2.7% (y/y) in May.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6176	5968	6176	4983
S&P/TSX Comp.	26791	26498	26791	21876
DAX	23995	23351	24324	17339
FTSE 100	8784	8775	8885	7679
Nikkei	40151	38403	42224	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.28	4.38	4.79	3.62
Canada 10-yr Bond	3.33	3.30	3.61	2.83
Germany 10-yr Bund	2.60	2.52	2.90	2.03
UK 10-yr Gilt	4.51	4.54	4.89	3.76
Japan 10-yr Bond	1.44	1.40	1.59	0.79
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.73	0.74	0.69
Euro (USD per EUR)	1.17	1.15	1.17	1.02
Pound (USD per GBP)	1.37	1.35	1.37	1.22
Yen (JPY per USD)	144.7	146.1	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	66.0	74.9	83.9	57.1
Natural Gas (\$US/MMBtu)	3.23	3.09	9.33	1.22
Copper (\$US/met. tonne)	10219.3	9908.5	10219.3	8571.4
Gold (\$US/troy oz.)	3274.0	3368.4	3432.3	2326.8

*As of 11:24 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Oil Prices Pull Back on Easing Tensions



Note: Data as of 11:23 AM ET, Friday, June 27, 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)	2.15%
Bank of England (Repo Rate)	4.25%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – Inflation, GDP Confirm Economic Slowdown

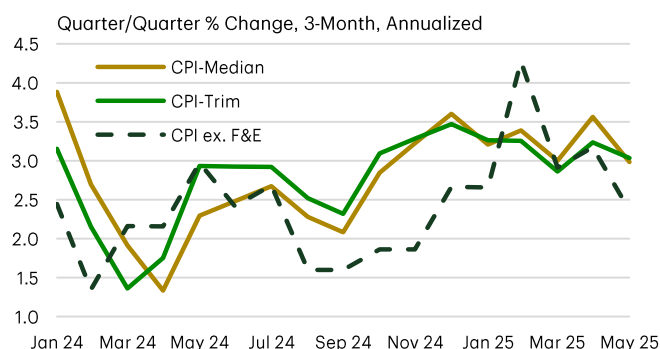
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This week we received the first of two inflation updates that the Bank of Canada (BoC) will use to guide their policy decision on July 30. May's headline inflation came in at a 1.7% year-on-year (y/y), meeting consensus expectations. Recent soft readings have been tamped down by the end of the consumer carbon tax, something we expect to linger for the coming months. Total inflation has averaged right at the BoC's 2% target for the better part of the last year, with areas like shelter inflation starting to see some reprieve.

Core inflation on the other hand has run warmer, though underlying price pressures eased up a bit in May. Case in point, the BoC's preferred core (CPI-trim and CPI-median) and the traditional core (ex-food and energy) measures all moved lower on a three-month annualized basis (Chart 1). One data point doesn't make a trend, but it helps the narrative that inflation is showing some containment. Our view remains that a softening economic growth backdrop over the next two quarters should help keep a lid on inflationary pressures.

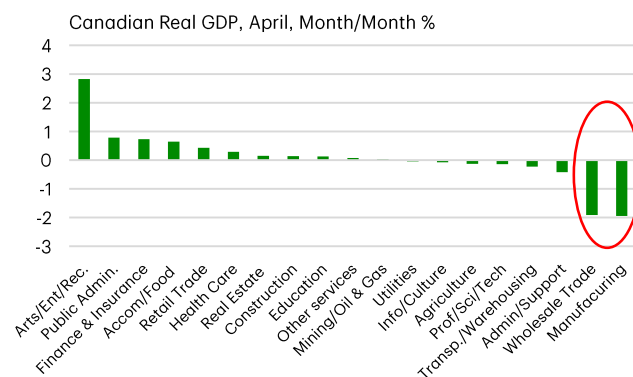
This view was reinforced after April's GDP report showed the impact of tariffs on the economy becoming increasingly clear. Canadian real GDP fell short of Statistics Canada's advance guidance, falling by -0.1% month-on-month versus an expected uptick in activity. Tariff-exposed sectors disproportionately felt the pinch (Chart 2), with industries like manufacturing and wholesale trade registering their largest monthly declines in roughly four years and two years, respectively.

Chart 1: Canadian Core Inflation Edges Lower in May



Source: Statistics Canada, TD Economics.

Chart 2: Tariff-Exposed Industries Weighed Down in April



Source: Statistics Canada, TD Economics.

Advanced estimates for May signal another contraction in economic growth. May's trade data are due next week and will be under heavy scrutiny after exports cratered by almost 20% the month prior. A further contraction in shipments would all but confirm a weak second quarter of growth.

Now it's about how the BoC views the balance of risks around growth and inflation. Markets expect the BoC to keep rates steady next month, though data over the past two weeks has the probability of a cut creeping closer to a coinflip. Based on the Bank's recent messaging around inflation risk, they'll likely need to see core prices ease further next month to entertain a rate cut at the next meeting. With Canada's labour market showing cracks, consumers reigning in spending, and the housing market visibly strained, we think the BoC has headroom to cut the policy rate two more times this year.

Elsewhere, Canada's defense spending is expected to ratchet higher as Prime Minister Carney signed the country on to NATO's 5% of GDP spending commitment by 2035. The target is split into a 3.5% goal on "hard" defense outlays and 1.5% on defense-related infrastructure. On the latter, PM Carney noted that planned infrastructure and emergency preparedness spending will count towards the 1.5% goal. Nonetheless, a gap of \$40-50 billion on annual spending exists – even after the additional ~\$9 billion announced to reach the prior 2% target by end of the fiscal year.

U.S. – Some Calm After the Storm

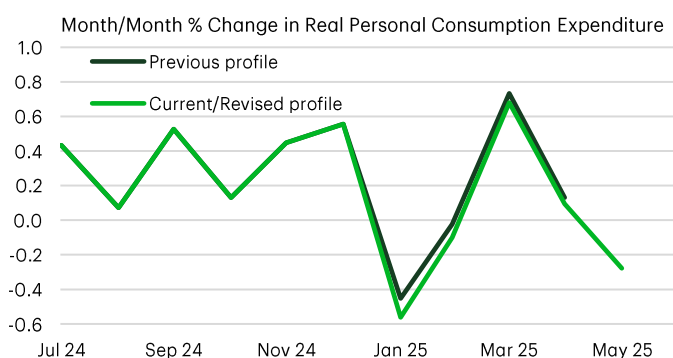
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Geopolitical developments continued to grab headlines this week. However, the world breathed a sigh of relief when Pres. Trump announced a ceasefire between Israel and Iran on Monday. Oil prices fell sharply on the news, while equity markets rallied. This was followed by what appeared to be a successful NATO summit, where most members agreed to increase defense spending targets to 5% of GDP by 2035. Some good news also trickled in on the trade front, with China pledging to approve applications for rare-earth exports to the U.S. – a development that could pave the way for more fruitful trade negotiations. These developments appeared to overshadow more muted developments on the home front.

The passage of the ‘One, Big, Beautiful Bill Act’ hit a snag in the Senate, ahead of Thursday’s vote. The Senate parliamentarian reportedly ruled out several major measures in the legislation, most notably provisions related to Medicaid cuts – complicating the GOP’s math on spending cuts. It remains unclear if the bill will pass by the Republican’s self-imposed deadline of July 4th.

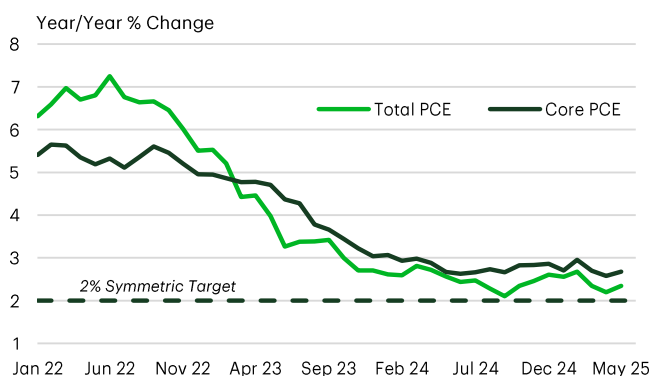
On the data front, the highlight of the week was the May release of personal income and spending. Personal income fell by 0.4% month-on-month (m/m), owing to a sharp pullback in transfer payments. Importantly, compensation to employees – nearly two-third of income – rose by a healthy 0.4% m/m. However, there were definite signs of waning consumer resilience. Goods spending fell 0.8% m/m, while services were flat on the month, with total spending down 0.3% on the month (Chart 1). Part of the softening in services

Chart 1: U.S. Consumer Spending Fell in May, Q1 Revised Lower



Source: BEA, TD Economics.

Chart 2: U.S. PCE Inflation Ticks Up in May



Source: Bureau of Labor Statistics, TD Economics.

spending was telegraphed earlier in the week in the third release of Q1 GDP, where it was revised to just a 0.6% gain (previously 1.7%), implying less momentum heading into Q2.

So far, the tariff impacts on inflation have remained relatively contained. While core PCE inflation – the Fed’s preferred gauge – heated up a touch in May, the monthly gain was due to relatively equal contributions from goods and services prices, pushing the year-on-year to 2.7% (Chart 2). Over the coming months, tariff impacts are expected to intensify, though the extent of price passthrough remains uncertain. Driving this point home, Chair Powell maintained a cautionary stance during his semiannual testimony to Congress this week, stating that he expects policymakers to stay on hold until they have a better handle on the impact tariffs will have on prices. This came in contrast to other Fed speakers, including Governor Waller and Bowman, who both noted that they support a July rate cut.

The growing divide among policymakers’ is shaped by differences in the expected passthrough from tariffs and underlying labor market conditions. Waller is of the view that the tariffs won’t significantly boost inflation and that because of monetary policy’s long and variable lags, the Fed should proactively cut rates to head off potential downside risks to the labor market. However, Powell and others are of the view that the labor market remains in a good spot and need to see more definitive signs of softening before pushing ahead with rate cuts. This puts next week’s employment report in the spotlight.

Exhibits

Recent Key Economic Indicators: June 23 - 27, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jun 23	S&P Global US Composite PMI	Jun	Index	52.8	53.0
Jun 23	S&P Global US Manufacturing PMI	Jun	Index	52.0	52.0
Jun 23	S&P Global US Services PMI	Jun	Index	53.1	53.7
Jun 23	Existing Home Sales	May	Mlns	3.95	4.00
Jun 24	S&P CoreLogic CS 20-City NSA	Apr	Y/Y % Chg.	3.4	4.1
Jun 24	S&P CoreLogic CS US HPI NSA	Apr	Y/Y % Chg.	2.7	3.4
Jun 24	Conf. Board Consumer Confidence	Jun	Index	93.0	98.4
Jun 25	Building Permits	May	Thsd	1394.0	1393.0
Jun 26	Advance Goods Trade Balance	May	Blns	-96.6	-87.0
Jun 26	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	1.7	-1.4
Jun 26	Durable Goods Orders	May	M/M % Chg.	16.4	-6.6
Jun 26	Gross Domestic Product (Annualized)	1Q	Q/Q % Chg.	-0.5	-0.2
Jun 26	Initial Jobless Claims	Jun 21	Thsd	236.0	246.0
Jun 26	Personal Consumption	1Q	Q/Q % Chg.	0.5	1.2
Jun 26	Pending Home Sales	May	M/M % Chg.	1.8	-6.3
Jun 27	Personal Income	May	M/M % Chg.	-0.4	0.7
Jun 27	Real Personal Spending	May	M/M % Chg.	-0.3	0.1
Canada					
Jun 24	Consumer Price Index	May	Y/Y % Chg.	1.7	1.7
Jun 24	Consumer Price Index NSA	May	M/M % Chg.	0.6	-0.1
Jun 24	CPI-Median	May	Y/Y % Chg.	3.0	3.1
Jun 24	CPI-Trim	May	Y/Y % Chg.	3.0	3.1
Jun 26	Payroll Employment Change (SEPH)	Apr	Thsd	-6.2	-20.9
Jun 27	Gross Domestic Product	Apr	M/M % Chg.	-0.1	0.2
International					
Jun 26	JN Jobless Rate	May	%	2.5	2.5
Jun 26	JN Tokyo Consumer Price Index	Jun	Y/Y % Chg.	3.1	3.4
Jun 26	JN Retail Sales	May	Y/Y % Chg.	2.2	3.5

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jun 30- Jul 04, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jun 30	10:00	<i>Fed's Bostic Speaks on the Economic Outlook</i>				
Jun 30	13:00	<i>Fed's Goolsbee Speaks in a Moderated Discussion</i>				
Jul 01	9:45	S&P Global US Manufacturing PMI	Jun	Index	52.0	52.0
Jul 01	09:30	<i>Powell Participates in Panel with Lagarde, Bailey, Ueda</i>				
Jul 01	10:00	ISM Manufacturing	Jun	Index	48.8	48.5
Jul 01	17:00	Wards Total Vehicle Sales	Jun	Mlns	15.5	15.7
Jul 02	8:15	ADP Employment Change	Jun	Thsd	110.0	37.0
Jul 03	8:30	Trade Balance	May	Blns	-69.8	-61.6
Jul 03	8:30	Change in Nonfarm Payrolls	Jun	Thsd	120.0	139.0
Jul 03	8:30	Unemployment Rate	Jun	%	4.3	4.2
Jul 03	8:30	Average Hourly Earnings	Jun	M/M % Chg.	0.3	0.4
Jul 03	8:30	Initial Jobless Claims	Jun 28	Thsd	-	236.0
Jul 03	9:45	S&P Global US Services PMI	Jun	Index	-	53.1
Jul 03	9:45	S&P Global US Composite PMI	Jun	Index	-	52.8
Jul 03	10:00	Factory Orders	May	M/M % Chg.	7.8	-3.7
Jul 03	10:00	Factory Orders Ex Trans	May	M/M % Chg.	-	-0.5
Jul 03	10:00	ISM Services Index	Jun	Index	50.8	49.9
Jul 03	10:00	Durable Goods Orders	May	M/M % Chg.	-	16.4
Jul 03	10:00	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	-	1.7
Jul 03	11:00	<i>Fed's Bostic Gives Speech on Monetary Policy</i>				
Canada						
Jul 02	9:30	S&P Global Canada Manufacturing PMI	Jun	Index	-	46.1
Jul 03	8:30	Int'l Merchandise Trade	May	Blns	-6.1	-7.1
International						
Jun 30	2:00	UK Gross Domestic Product	1Q	M/M % Chg.	1.3	1.3
Jun 30	21:45	CH Caixin China PMI Mfg	Jun	Index	49.3	48.3
Jul 01	5:00	EC Consumer Price Index Estimate	Jun	Y/Y % Chg.	2.0	-
Jul 02	5:00	EC Unemployment Rate	May	%	6.2	6.2

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

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