

## Weekly Bottom Line

July 3, 2025

### Highlights

#### Canada

- This Canada Day week brought renewed trade drama, as the federal government dropped the Digital Services Tax, helping ease tensions and restart negotiations with the U.S.
- Relief was limited in May's trade data. While the merchandise trade balance improved modestly, it remains weak, reinforcing our forecast for a Q2 GDP contraction.
- Next week's jobs report will offer another perspective into how deep the economic damage from tariffs runs. We expect enough evidence to support further Bank of Canada cuts in the third quarter.

#### U.S.

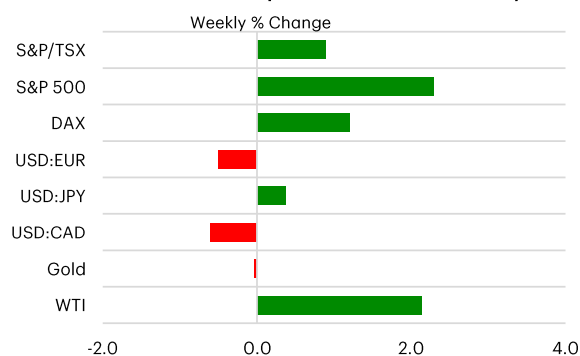
- Auto sales declined for the third consecutive month in June, as purchases continued to pull back following the pre-tariff rush to buy.
- Both manufacturing and non-manufacturing ISM sentiment indexes improved in June, but remained at low levels amid lingering trade uncertainty. Hiring intentions remained subdued, and prices stayed elevated.
- The labor market continued to add jobs in June. Payrolls rose by 147k—well-above the 110k consensus—but gains were heavily concentrated in state & local government and healthcare & social assistance.

#### This Week in the Markets

|                                     | Current* | Week Ago | 52-Week High | 52-Week Low |
|-------------------------------------|----------|----------|--------------|-------------|
| <b>Stock Market Indexes</b>         |          |          |              |             |
| S&P 500                             | 6283     | 6141     | 6283         | 4983        |
| S&P/TSX Comp.                       | 26991    | 26752    | 26991        | 21881       |
| DAX                                 | 23902    | 23649    | 24324        | 17339       |
| FTSE 100                            | 8817     | 8736     | 8885         | 7679        |
| Nikkei                              | 39786    | 39585    | 42224        | 31137       |
| <b>Fixed Income Yields</b>          |          |          |              |             |
| U.S. 10-yr Treasury                 | 4.33     | 4.24     | 4.79         | 3.62        |
| Canada 10-yr Bond                   | 3.37     | 3.34     | 3.61         | 2.83        |
| Germany 10-yr Bund                  | 2.62     | 2.57     | 2.90         | 2.03        |
| UK 10-yr Gilt                       | 4.54     | 4.47     | 4.89         | 3.76        |
| Japan 10-yr Bond                    | 1.44     | 1.42     | 1.59         | 0.79        |
| <b>Foreign Exchange Cross Rates</b> |          |          |              |             |
| C\$ (USD per CAD)                   | 0.74     | 0.73     | 0.74         | 0.69        |
| Euro (USD per EUR)                  | 1.18     | 1.17     | 1.18         | 1.02        |
| Pound (USD per GBP)                 | 1.37     | 1.37     | 1.37         | 1.22        |
| Yen (JPY per USD)                   | 144.9    | 144.4    | 161.7        | 140.6       |
| <b>Commodity Spot Prices**</b>      |          |          |              |             |
| Crude Oil (\$US/bbl)                | 66.8     | 65.2     | 83.9         | 57.1        |
| Natural Gas (\$US/MMBtu)            | 3.11     | 3.23     | 9.33         | 1.22        |
| Copper (\$US/met. tonne)            | 10109.2  | 10219.3  | 10219.3      | 8571.4      |
| Gold (\$US/troy oz.)                | 3327.7   | 3327.9   | 3432.3       | 2356.2      |

\*As of 11:49 AM on Thursday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Wednesday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

#### Markets Rise on Trade Optimism and Solid U.S. Payrolls



Note: Data as of 11:50 AM ET, Thursday, July 3, 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 – Trade Moves Back into the Spotlight

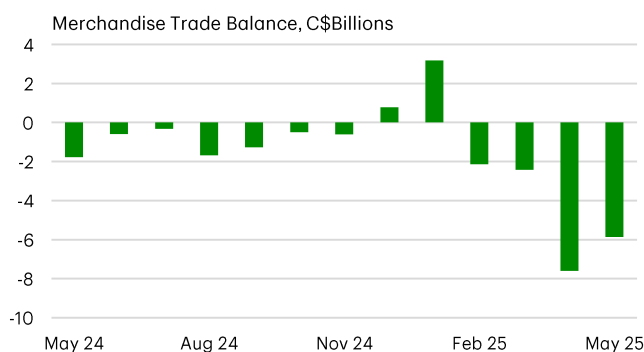
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This Canada Day week may have been light on data, but surely didn't lack the drama. It began with the federal government's eleventh-hour decision to cancel the Digital Services Tax (DST), originally set to take effect on Monday, and to rescind the legislation once Parliament resumes. The move thawed tensions with the Trump administration. Markets responded positively, with the S&P/TSX Index resuming its climb and ending the week up almost 1%. The Canadian dollar also popped on the news but has since edged back.

The DST might have served as a future bargaining chip, but its withdrawal was a no-brainer. The tax – retroactive to January 2022 – was projected to raise \$7.2 billion, but scrapping it adds less than two-tenths of a percentage point to the debt-to-GDP ratio, a negligible shift in the grand scheme. For trade talks, however, it was a thorn that had to be removed. Moreover, the DST risked backfiring on domestic firms and consumers. Tech giants were almost certain to pass on the cost, and some – like Amazon – may have already implemented Canada-specific surcharges.

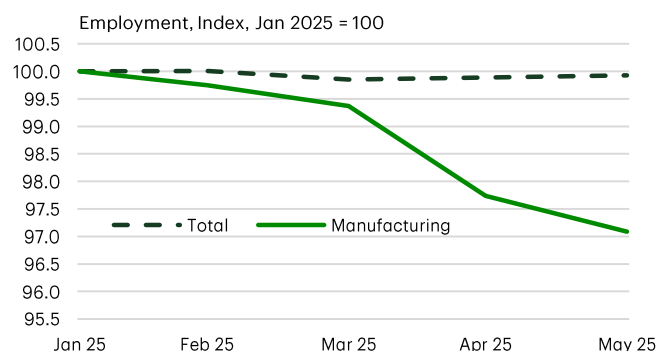
The decision is widely seen as a compromise to restore momentum in trade negotiations with the U.S. and ease tensions between the two nations, with a goal of reaching a trade deal by July 21st. But signs of relief were scant in the [May trade data](#). The merchandise trade balance improved modestly, with exports rebounding slightly and imports falling for the fourth consecutive month. As a result, the deficit narrowed to \$5.9 billion from \$7.1 billion in April (Chart 1). This net

**Chart 1: Canada's Trade Deficit Narrows on Modest Exports Gains**



Source: Statistics Canada, TD Economics.

**Chart 2: Tariffs Have Already Shaken Canadian Manufacturing Sector**



Source: Statistics Canada, TD Economics.

trade component is expected to subtract substantially from GDP in the second quarter, reinforcing [our view of a Q2 contraction](#).

From an industry perspective, the rebound in exports was driven by higher sales of metal and non-metallic mineral products, particularly shipments of unwrought gold to the UK. Exports of consumer goods also made a notable contribution. On the import side, the weakness was concentrated in metals and mineral products, as well as in passenger cars and light trucks, imports of which fell to their lowest level in over two years.

Meanwhile, Canada's merchandise trade surplus with the U.S. widened slightly, as imports declined more than exports. Gains in sales to non-U.S. markets were encouraging and have helped cushion the blow in recent months, but not enough to fully offset the drop with our largest trading partner.

The damage from fraying trade relations will continue unfolding. Next week's jobs report will offer another perspective into how deep that damage runs. So far, total employment has moved sideways rather than down, but under the surface, cracks are evident. Employment in trade-intensive sectors like manufacturing is down nearly 3% since January (Chart 2). Should this weakness spread, the Bank of Canada is likely to respond – with two additional rate cuts before the end of Q3.

## U.S. – Signs of Waning Economic Resilience

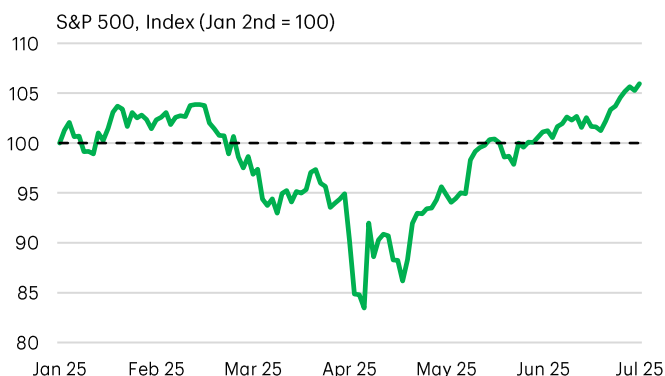
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Monday marked the end of a volatile quarter in financial markets. After a 25% peak-to-trough decline from February to April, the S&P 500 has fully recovered, reaching new record highs (Chart 1). The 90-day pause on “Liberation Day” tariffs, a tentative truce with China, signs of economic resilience, and limited tariff pass-through to consumer prices thus far have helped to fuel the recovery.

However, uncertainty looms with the pause on the “Liberation Day” tariffs set to expire next week. President Trump has signalled a firm stance on the July 9th deadline, and recently threatened higher tariffs on Japanese imports. Lingering uncertainty on Section 232 tariffs — affecting lumber, copper, pharmaceuticals, and critical minerals — will further complicate matters. Trump recently halted trade talks with Canada, before resuming them when Canada canceled its Digital Service Tax. President Trump did announce a framework trade deal with Vietnam on social media. The U.S. will impose 20% tariffs on imports from the Vietnam and a 40% levy on any goods that are “transshipped” via this country in order to prevent Chinese goods from entering the U.S. via backdoor routes. So far, the UK and Vietnam are the only countries to get deals ahead of the deadline.

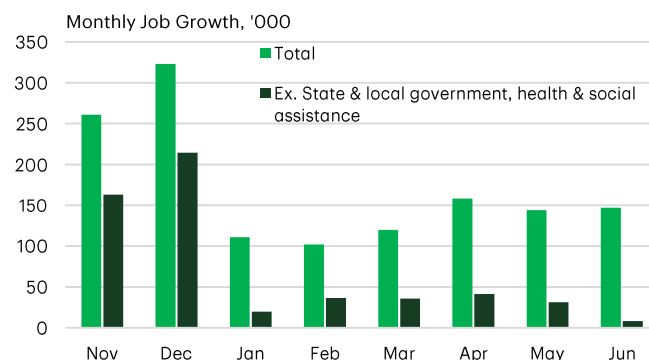
Domestically, the U.S. economy has shown resilience, but recent data revisions suggest it may not be as robust as initially believed. Q1 consumer spending growth was downgraded to 0.5% annualized, down from 1.2%. Spending is tracking weaker than [forecast for the second quarter](#). Consumer spending slowed in April and declined in May, with much of the softness stemming from

Chart 1: Equity Markets Make a Full Comeback



Source: S&P, Haver Analytics, TD Economics.

Chart 2: U.S. Job Growth Lacks Breadth



Source: BLS, TD Economics.

goods, which saw front-loaded demand ahead of tariffs. [Auto sales](#) declined for the third straight month in June, adding downside risk to activity. Services spending has also been lackluster, rising just 0.1% in April and remaining flat in May.

The labor market has been a relative bright spot, but is also showing signs of strain. Slowing immigration and weak population growth may be encouraging employers to hold onto workers, limiting layoffs — the unemployment rate remained little changed. June [payrolls](#) rose by 147k—above the 110k consensus—but gains were heavily concentrated in state and local government (+74k) and healthcare & social assistance (+60k). Excluding these two non-cyclical sectors, employment was nearly flat, suggesting continued private-sector hesitation (Chart 2).

ISM survey data also points to modest economic activity. Both the [manufacturing](#) and [services](#) indices improved slightly in June, but remained at low levels. Manufacturing remained in contraction, while services returned to expansion after a brief dip in May. Price pressures persisted in both sectors, especially for manufacturers, where input costs continue to rise. Employment subcomponents fell further into contraction, signaling reluctance to expand payrolls.

Overall, this week's data is unlikely to shift the Fed from its patient stance. Activity is softening, but not collapsing. We share the market's view that the Fed will likely keep monitoring inflation developments before making any policy moves, with September remaining the most likely decision point.

## Exhibits

| Recent Key Economic Indicators: June 30 - July 04, 2025 |                                     |                 |            |         |       |
|---|-------------------------------------|-----------------|------------|---------|-------|
| Release Date  | Economic Indicator/Event            | Data for Period | Units      | Current | Prior |
| United States   |                                     |                 |            |         |       |
| Jul 01  | S&P Global US Manufacturing PMI     | Jun             | Index      | 52.9    | 52.0  |
| Jul 01  | ISM Manufacturing                   | Jun             | Index      | 49.0    | 48.5  |
| Jul 01  | Wards Total Vehicle Sales           | Jun             | MIns       | 15.3    | 15.7  |
| Jul 02  | ADP Employment Change               | Jun             | Thsd       | -33.0   | 29.0  |
| Jul 03  | Trade Balance                       | May             | BIns       | -71.5   | -60.3 |
| Jul 03  | Change in Nonfarm Payrolls          | Jun             | Thsd       | 147.0   | 144.0 |
| Jul 03  | Unemployment Rate                   | Jun             | %          | 4.1     | 4.2   |
| Jul 03  | Average Hourly Earnings             | Jun             | M/M % Chg. | 0.2     | 0.4   |
| Jul 03  | Initial Jobless Claims              | Jun 28          | Thsd       | 233.0   | 237.0 |
| Jul 03  | S&P Global US Services PMI          | Jun             | Index      | 52.9    | 53.1  |
| Jul 03  | S&P Global US Composite PMI         | Jun             | Index      | 52.9    | 52.8  |
| Jul 03  | Factory Orders                      | May             | M/M % Chg. | 8.2     | -3.9  |
| Jul 03  | Factory Orders Ex Trans             | May             | M/M % Chg. | 0.2     | -0.6  |
| Jul 03  | ISM Services Index                  | Jun             | Index      | 50.8    | 49.9  |
| Jul 03  | Durable Goods Orders                | May             | M/M % Chg. | 16.4    | 16.4  |
| Jul 03  | Cap Goods Orders Nondef Ex Air      | May             | M/M % Chg. | 1.7     | 1.7   |
| Canada  |                                     |                 |            |         |       |
| Jul 02  | S&P Global Canada Manufacturing PMI | Jun             | Index      | 45.6    | 46.1  |
| Jul 03  | Int'l Merchandise Trade             | May             | BIns       | -5.9    | -7.6  |
| International   |                                     |                 |            |         |       |
| Jun 30  | UK Gross Domestic Product           | 1Q              | Y/Y % Chg. | 1.3     | 1.3   |
| Jun 30  | CH Caixin China PMI Mfg             | Jun             | Index      | 50.4    | 48.3  |
| Jul 01  | EZ Consumer Price Index Estimate    | Jun             | Y/Y % Chg. | 2.0     | 1.9   |
| Jul 02  | EZ Unemployment Rate                | May             | %          | 6.3     | 6.2   |

Source: Bloomberg, TD Economics.

| Upcoming Economic Releases and Events: Jul 07 - 11, 2025 |       |   |                 |            |                    |             |
|--|-------|---|-----------------|------------|--------------------|-------------|
| Release Date   | Time* | Economic Indicator/Event                                      | Data for Period | Units      | Consensus Forecast | Last Period |
| United States  |       |   |                 |            |                    |             |
| Jul 08   | 6:00  | NFIB Small Business Optimism                                  | Jun             | Index      | 97.9               | 98.8        |
| Jul 09   | 10:00 | Wholesale Trade Sales   | May             | M/M % Chg. | 0.2                | 0.1         |
| Jul 09   | 14:00 | FOMC Meeting Minutes  | Jun 18          |            |                    |             |
| Jul 10   | 8:30  | Initial Jobless Claims  | Jul 05          | Thsd       | -                  | 233.0       |
| Jul 10   | 9:00  | <i>Fed's Musalem Speaks on US Economy and Monetary Policy</i> |                 |            |                    |             |
| Jul 10   | 14:30 | <i>Fed's Daly Speaks on US Economic Outlook</i>               |                 |            |                    |             |
| Canada   |       |   |                 |            |                    |             |
| Jul 11   | 8:30  | Net Change in Employment                                      | Jun             | Thsd       | -                  | 8.8         |
| Jul 11   | 8:30  | Unemployment Rate   | Jun             | %          | -                  | 7.0         |
| International  |       |   |                 |            |                    |             |
| Jul 07   | 5:00  | EZ Retail Sales   | May             | Y/Y % Chg. | 1.4                | 2.3         |
| Jul 08   | 21:30 | CH Consumer Price Index                                       | Jun             | Y/Y % Chg. | 0.0                | -0.1        |
| Jul 11   | 2:00  | UK Gross Domestic Product                                     | May             | Q/Q % Chg. | -                  | 0.7         |
| *Eastern Standard Time. Source: Bloomberg, TD Economics. |       |   |                 |            |                    |             |

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