

Weekly Bottom Line

August 1, 2025

Highlights

Canada

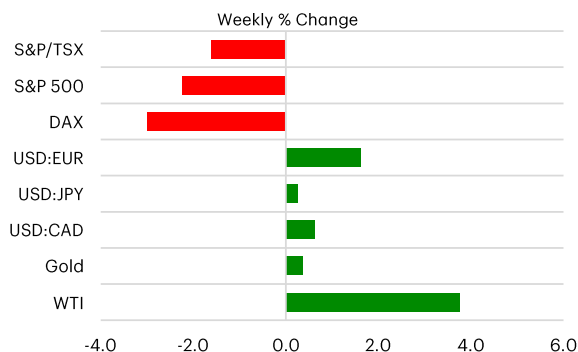
- The Bank of Canada held their policy rate at 2.75% for the third consecutive announcement, citing uncertainty, inflation pressures and economic resilience (outside of trade exposed sectors).
- Monthly, industry-based GDP data released this week implies a flat Q2 print for this measure of GDP. The BoC is projecting a 1.5% contraction in expenditure-based GDP. These two measures of output can diverge by a lot, but the message was that Q2 was weak for the economy.
- President Trump raised the tariff rate on goods not in compliance with the CUSMA trade agreement 10 percentage points to 35%. However, most Canadian exports comply with CUSMA and are therefore tariff free.

U.S.

- The U.S. economy bounced back in Q2 with 3.0% annualized growth, following a contraction in Q1. Smoothing through volatility, growth was 2% through the first half of the year.
- Payrolls added a modest 73k jobs in July, but sharp negative revisions to the prior two months showed that the labor market has been at a near-standstill since April.
- As expected, the Fed held rates steady. Meanwhile, President Trump signed an executive order increasing tariffs on virtually all U.S. trading partners.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6241	6389	6390	4983
S&P/TSX Comp.	27000	27494	27540	21881
DAX	23486	24218	24550	17339
FTSE 100	9056	9120	9138	7679
Nikkei	40800	41456	41826	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.25	4.39	4.79	3.62
Canada 10-yr Bond	3.40	3.53	3.60	2.83
Germany 10-yr Bund	2.67	2.72	2.90	2.03
UK 10-yr Gilt	4.53	4.64	4.89	3.76
Japan 10-yr Bond	1.56	1.61	1.61	0.79
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.73	0.74	0.69
Euro (USD per EUR)	1.16	1.17	1.18	1.02
Pound (USD per GBP)	1.33	1.34	1.37	1.22
Yen (JPY per USD)	148.1	147.7	158.4	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	67.4	65.2	80.1	57.1
Natural Gas (\$US/MMBtu)	2.99	3.10	9.33	1.22
Copper (\$US/met. tonne)	9560.2	9715.8	10219.3	8571.4
Gold (\$US/troy oz.)	3345.0	3337.3	3432.3	2382.9

Weak Jobs Report and Tariffs Weigh on Equities



Note: Data as of 11:12 AM ET, Friday, August 1, 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 – Action Packed

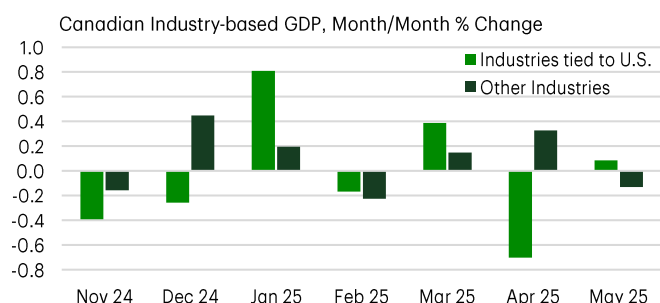
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This week featured plenty of fireworks for investors ahead of the long weekend. Both the U.S. and Canada had central bank decisions, and a Canadian GDP report rolled out. Friday was also the U.S. administration-imposed deadline for a Canada/U.S. trade deal, although no agreement has been struck yet. President Trump followed through with this threat to raise the tariff rate on U.S.-bound Canadian exports that are not compliant with the CUSMA free trade agreement to 35% from 25%. However, with most Canadian exports compliant with the agreement (and therefore entering the U.S. tariff free) perhaps Canada can afford to be a bit more patient to strike the right deal.

When (and if) a U.S.-Canada trade deal does materialize, the hope is it removes some of the uncertainty hanging over the heads of businesses and households. The Canadian economy is clearly suffering from this uncertainty, along with the direct impact of the tariffs on export costs (see [report](#)). However, this week's GDP report did offer a reprieve from this narrative, with some industries closely tied to the U.S., such as manufacturing, seeing some bounce back after a rough April (Chart 1). Overall, however, GDP dipped 0.1% month-on-month (m/m), weighed on by mining, oil and gas.

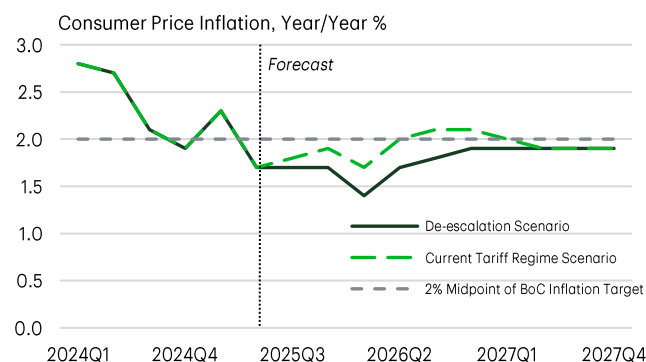
The economy appears to have had a better month in June, with Statcan's preliminary estimate flagging a 0.1% (m/m) gain. With this estimate in hand, industry-based GDP was flat in the second quarter. While weak, this would imply a better showing than the 1.5% annualized contraction that the Bank of Canada (BoC) expected in their latest Monetary Policy Report (released accompanying their interest rate decision this week). However, the output measure that the Bank forecasts is expenditure-based GDP. This is different than the monthly, industry-based data released this week. And, the expenditure-based measure of Canadian output has, at times, been much weaker than the industry-based one. Notably, both measures should drive home the message that Q2 was soft for the economy.

Chart 1: U.S.-tied Industries Gain a Little Ground in May



Source: Statistics Canada, TD Economics. Industries tied to the U.S. include manufacturing, mining/oil/gas extraction, agriculture, wholesale trade, transportation/warehousing, professional/scientific/technical services, information/culture, arts/entertainment/recreation.

Chart 2: Inflation Remains Contained in Bank of Canada's Scenarios



Source: Statistics Canada, TD Economics

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Despite the Bank's expectation that Canada's economy contracted in the second quarter, it held the policy rate unchanged at 2.75% this week. The Bank cited pressures on core inflation, and resilience in parts of the economy not directly tied to the trade war as reasons to wait and see. Instead of a baseline forecast, policymakers opted to (again) present a scenario-based analysis of what could happen under different tariff assumptions, including the current tariff regime, and scenarios where the trade war is escalated or de-escalated. From our view, a plausible outcome for the economy could fall between the current tariff and escalation scenarios, both of which see inflation contained while GDP recovers (Chart 2). Against this backdrop, we think the BoC has room for additional easing to help support a recovery, especially given excess supply in the economy, and a policy rate only at the midpoint of what the BoC considers neutral. The BoC itself noted the potential for additional easing in the statement accompanying its decision, conditional on inflation being contained.

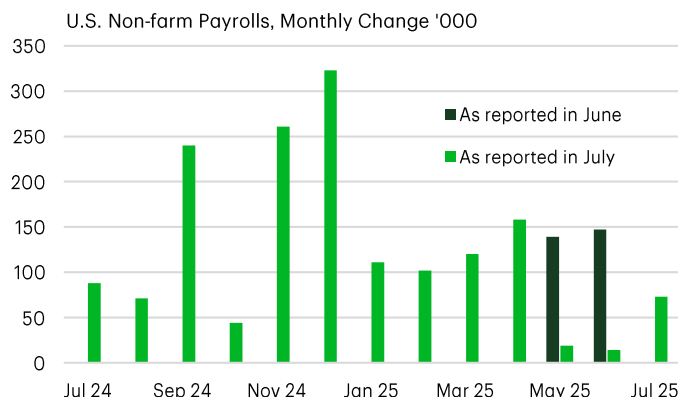
Some weeks are quiet, and some weeks it's everything, everywhere, all at once. This past week the U.S. economic calendar was already full, with a flurry of last-minute trade announcements and new tariffs added on top. Equity markets declined on Friday, following the tariffs announcement and a weak jobs report.

Consumer spending remained modest at 1.4% annualized. That is up from Q1's weak 0.5% pace, but compared to last year, spending has clearly slowed amid rising uncertainty. [Monthly data](#) showed a soft end to the quarter, with real spending up just 0.1% in June following a 0.2% decline in May. Services spending has stayed sluggish for three straight months.

Consumer spending is likely to stay weak through the second half of the year. Core goods prices are rising again (Chart 1), and inflation pressures are expected to build, particularly considering the latest tariff an-

Date	Durable goods (PCE)	Core goods (CPI)
2023-01-01	0.5	1.5
2023-04-01	0.5	2.0
2023-07-01	0.5	2.0
2023-10-01	-0.5	1.5
2023-12-31	-1.8	0.0
2024-03-01	-2.0	0.0
2024-06-01	-2.2	-0.2
2024-09-01	-2.0	-0.5
2024-12-31	-3.0	-1.8
2025-03-01	-2.5	-1.8
2025-06-01	-2.0	-1.2
2025-09-01	-1.8	-0.8
2025-12-31	-1.0	-0.2
2026-03-01	-0.5	0.0
2026-06-01	0.0	0.2
2026-09-01	0.5	0.5
2026-12-31	1.0	0.8

Chart 2: Job Growth Slows Sharply



nouncements. The 10% universal tariff remains in place for countries with the trade deficit with the U.S., but countries with a trade surplus now face rates of 15% or more. Tariffs on non-USMCA compliant imports from Canada have been raised from 25% to 35%. Mexico got a 90-day extension, while a deal with China remains pending ahead of an August 12th deadline.

On top of rising prices, the labor market is expected to weaken. Indeed, Friday's [payroll report](#) was a reminder of how if things seem too good to be true, they usually are. After substantial downward revisions to the prior months' numbers, job growth has slowed more sharply than previously reported. Payrolls were virtually flat in May and June, and only rebounded modestly in July (Chart 2). At the current pace, job growth will not be enough to prevent the unemployment rate from increasing, leaving consumer fundamentals more fragile.

While this week's FOMC meeting was largely as expected with the FOMC leaving rates steady, changes are in the air. Two of the board members – Bowman and Waller – dissented in support of a rate cut. It increasingly looks like they will be joined by others in September. Stability in the labor market has been a major factor keeping the Fed on the sidelines through this year. But with that narrative now shattered, the prospect of a September cut is looking increasingly likely. Following this morning's release, Fed futures have priced in an 80% probability of a September cut, up from the near coin toss priced prior to this morning's release.

Exhibits

Recent Key Economic Indicators: Jul 28 - Aug 01, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jul 29	Advance Goods Trade Balance	Jun	Blns	-86.0	-96.4
Jul 29	S&P CoreLogic CS 20-City NSA	May	Y/Y % Chg.	2.8	3.4
Jul 29	S&P CoreLogic CS US HPI NSA	May	Y/Y % Chg.	2.3	2.7
Jul 29	Conf. Board Consumer Confidence	Jul	Index	97.2	95.2
Jul 30	ADP Employment Change	Jul	Thsd	104.0	-23.0
Jul 30	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	3.0	-0.5
Jul 30	Personal Consumption	2Q	Q/Q % Chg.	1.4	0.5
Jul 30	FOMC Rate Decision (Upper Bound)	Jul 30	%	4.50	4.50
Jul 31	Personal Income	Jun	M/M % Chg.	0.3	-0.4
Jul 31	Real Personal Spending	Jun	M/M % Chg.	0.1	-0.2
Jul 31	Employment Cost Index	2Q	Index	0.9	0.9
Jul 31	Initial Jobless Claims	Jul 26	Thsd	218.0	217.0
Aug 01	Change in Nonfarm Payrolls	Jul	Thsd	73.0	14.0
Aug 01	Average Hourly Earnings	Jul	M/M % Chg.	0.3	0.2
Aug 01	Unemployment Rate	Jul	%	4.2	4.1
Aug 01	S&P Global US Manufacturing PMI	Jul	Index	49.8	49.5
Aug 01	ISM Manufacturing	Jul	Index	48.0	49.0
Canada					
Jul 30	Bank of Canada Rate Decision	Jul 30	%	2.75	2.75
Jul 31	Payroll Employment Change - SEPH	May	Thsd	15.3	-6.2
Jul 31	Gross Domestic Product	May	M/M % Chg.	-0.1	-0.1
Aug 01	S&P Global Canada Manufacturing PMI	Jul	Index	46.1	45.6
International					
Jul 30	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	1.4	1.5
Jul 30	JN Retail Sales	Jun	Y/Y % Chg.	2.0	1.9
Jul 30	CH Manufacturing PMI	Jul	Index	49.3	49.7
Jul 31	EZ Unemployment Rate	Jun	%	6.2	6.2
Jul 31	JN Jobless Rate	Jun	%	2.5	2.5
Aug 01	EZ Consumer Price Index Estimate	Jul	Y/Y % Chg.	2.0	2.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Aug 04 - 08, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Aug 04	10:00	Factory Orders	Jun	M/M % Chg.	-0.1	0.1
Aug 04	10:00	Factory Orders Ex Trans	Jun	M/M % Chg.	0.0	0.2
Aug 04	10:00	Durable Goods Orders	Jun	M/M % Chg.	-0.1	-9.3
Aug 04	10:00	Cap Goods Orders Nondef Ex Air	Jun	M/M % Chg.	-	0.0
Aug 05	8:30	Trade Balance	Jun	Blns	-62.0	-71.5
Aug 05	9:45	S&P Global US Services PMI	Jul	Index	-	55.2
Aug 05	9:45	S&P Global US Composite PMI	Jul	Index	-	54.6
Aug 05	10:00	ISM Services Index	Jul	Index	51.5	50.8
Aug 06	14:00	Fed's Cook and Collins Participate in Panel Event				
Aug 07	8:30	Unit Labor Costs	2Q	Q/Q % Chg.	1.5	6.6
Aug 07	8:30	Initial Jobless Claims	Aug 02	Thsd	223.0	218.0
Aug 07	10:00	Fed's Bostic Speaks on Monetary Policy				
Aug 07	10:00	Wholesale Trade Sales	Jun	M/M % Chg.	-	-0.3
Aug 08	10:20	Fed's Musalem Speaks on Banking and Credit				
Canada						
Aug 05	8:30	Int'l Merchandise Trade	Jun	Blns	-5.9	-5.9
Aug 08	8:30	Net Change in Employment	Jul	Thsd	15.0	83.1
Aug 08	8:30	Unemployment Rate	Jul	%	7.0	6.9
International						
Aug 06	5:00	EZ Retail Sales	Jun	Y/Y % Chg.	2.5	1.8
Aug 07	7:00	UK Bank of England Bank Rate	Aug 07	%	4.0	4.3
Aug 08	21:30	CH Consumer Price Index	Jul	Y/Y % Chg.	-0.1	0.1
*Eastern Standard Time. Source: Bloomberg, TD Economics.						

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