TD Economics

TD Credit and Debit Card Spend Report

Consumers Temper Optimism as Trade Tensions Escalate

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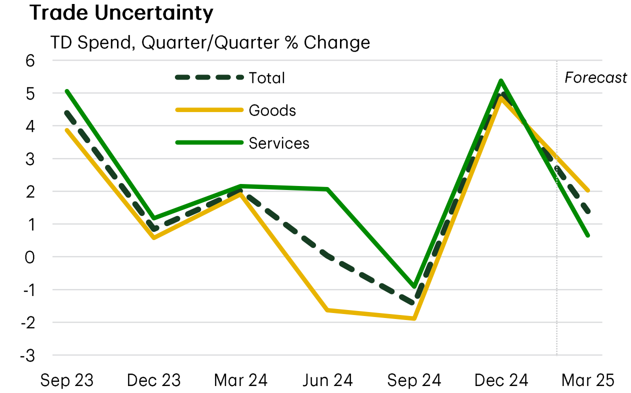
Highlights

- TD debit and credit card spending data signal a slowdown, as consumers temper their end-of-2024 optimism amid escalating trade tensions.
- Both goods and services spending weakened in early 2025, with no meaningful signs of resilience in key categories.
- Given the solid hand-off, we still expect above-trend household spending growth in Q1, followed by stagnation or even a mild contraction in Q2 — a trend that could extend into the second half of 2025.

The latest TD debit and credit card spending data indicate a slowdown, as consumers temper their end-of-2024 optimism amid escalating trade tensions. On a year-over-year (NSA) basis, spending growth slowed to 5.2% in February and 5.9% in January, down from 7.2% in December.

On a seasonally adjusted basis, total spending rose 0.6% m/m in February, following a 1.1% m/m decline in January. Both goods and services spending contracted in January, led by services. By lowering prices, the GST/HST tax holiday cut into nominal spending on restaurants and groceries in January and early February. But even after adjusting for price changes, spending remained weak. Both categories rebounded in February, but only slightly, with gains in line with overall spending. As a result, TD spend growth has slowed to about one-third of its Q4 2024 pace (Chart 1).

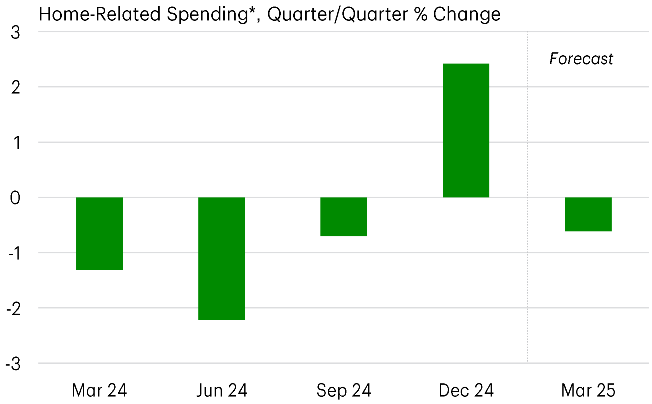
Chart 1: Consumers Scale Back Spending in Q1 2025 Amid Trade Uncertainty



Source: TD Economics.

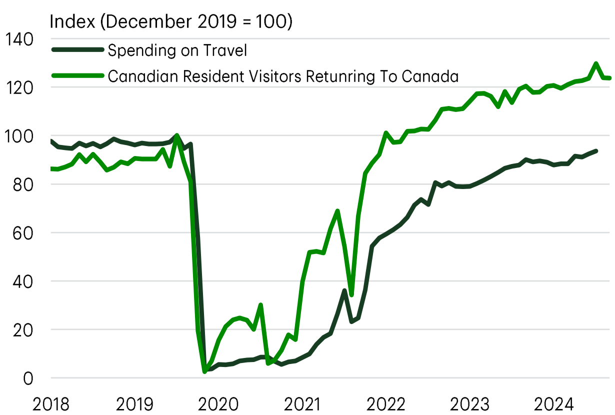
We believe the primary driver of this slowdown is the ongoing trade war. Consumer confidence has taken a notable hit, with the Consumer Confidence Index plunging 12.1 points in February. Meanwhile, preliminary results from the Bank of Canada's consumer expectations survey suggest households are

Chart 2: Home-Related Purchases Return to Contraction



*Includes spending at furniture, home, electronics centers, and building materials stores.
Source: TD Economics.

Chart 3: International Travel Likely to Stall in 2025



Source: Statistics Canada, TD Economics.

becoming more cautious, citing concerns about job security and their financial health. In response, we are lowering our forecast for real personal consumption expenditures to mid-2% annualized growth in Q1 2025, down from our earlier, more optimistic outlook.

Indeed, there are no meaningful signs of resilience in key spending categories. As already noted, while grocery spending picked up in February, this likely reflects a rebound from January's tax-driven dip rather than underlying strength. Spending on furniture and home electronics, which had surged in late 2024 amid looser financial conditions and a housing market rebound, contracted in early 2025 (Chart 2). While winter storms may have played a role, tariff-related uncertainty appears to be the bigger drag. Home sales data reinforce this point—January's sales and preliminary February numbers show weakness concentrated in the days after Trump's inauguration, reflecting rising trade policy uncertainty.

On the services side, restaurant spending failed to display much forward momentum once removing the distortionary impacts of the sales tax reprieve on activity. While higher-frequency data showed a mild uptick in restaurant activity around weekends in January, it was followed by a larger than usual pull-back during the rest of the week, failing to meaningfully lift aggregate spending. Meanwhile, travel spending was a notable weak spot, down 1.2% on the quarter. Media reports suggest increased cancellations of U.S. trips, though the current softness likely reflects broader sentiment shifts rather than just canceled vacations. With overall travel demand weakening and Canadians increasingly opting for domestic destinations, international travel is unlikely to return to pre-pandemic levels this year (Chart 3).

A few categories showed relative strength in early 2025. Non-store retailers and general merchandise stores performed better within goods, while transportation services (couriers, taxis, etc.) held up, likely benefiting from weather-related effects.

Bottom line

The latest credit and debit card data for January and February suggest that consumers are adjusting their spending intentions in response to trade tensions, likely shifting toward higher precautionary savings and less discretionary spending. Given the solid hand-off into 2025, we continue to expect an additional quarter of above-trend spending growth in Q1-25. But by Q2-25, spending is likely to stagnate or even contract — a trend that could extend into the second half of 2025.