

Weekly Bottom Line

February 7, 2025

Highlights

Canada

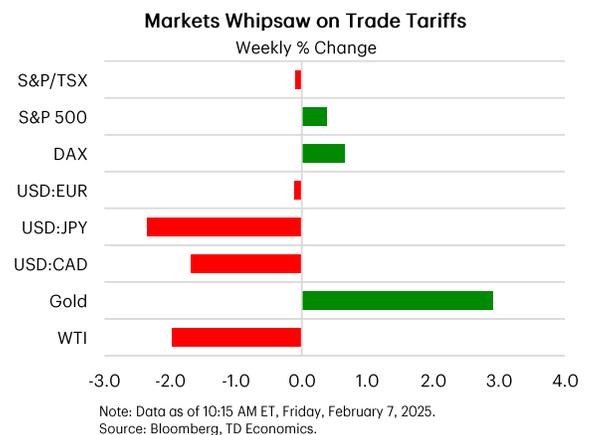
- President Trump kept most Canadians glued to their TVs/socials this week, announcing tariffs to take effect February 1st, before quickly delaying them for 30 days following a big market selloff and further measures at the border from Canada.
- Canadian trade data came in quite positive in December as firms appear to be frontrunning potential tariffs. Exports for the fourth quarter of 2024 are now tracking double digit growth.
- The job market continues to hum along, with a gain of 76k net new jobs in January. That marks three straight months of above-trend job growth.

U.S.

- Tariffs on Canada and Mexico have been put on hold for one month, but a 10% tariff was imposed on imports from China.
- Companies have ramped up inventories ahead of tariffs, leading to a sharp increase in the trade deficit in December. Activity has eased off in the services sector, but continued to reaccelerate in manufacturing.
- Hiring has slowed in January, however, the labor market remains solid overall. Significant upward revisions to the fourth quarter figures suggest that job growth was stronger at the end of last year than previously thought.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6063	6041	6119	4953
S&P/TSX Comp.	25515	25533	25808	20585
DAX	21878	21732	21902	16881
FTSE 100	8700	8674	8727	7512
Nikkei	38787	39572	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.50	4.54	4.79	3.62
Canada 10-yr Bond	3.07	3.07	3.87	2.87
Germany 10-yr Bund	2.40	2.46	2.69	2.03
UK 10-yr Gilt	4.50	4.54	4.89	3.76
Japan 10-yr Bond	1.30	1.25	1.30	0.69
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.70	0.69	0.74	0.69
Euro (USD per EUR)	1.04	1.04	1.12	1.02
Pound (USD per GBP)	1.24	1.24	1.34	1.22
Yen (JPY per USD)	151.5	155.2	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	71.1	72.5	86.9	65.8
Natural Gas (\$US/MMBtu)	3.31	2.92	9.33	1.22
Copper (\$US/met. tonne)	9155.4	8928.5	10800.8	8065.0
Gold (\$US/troy oz.)	2879.8	2798.4	2879.8	1992.3

*As of 10:15 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.25 - 4.50%
Bank of Canada (Overnight Rate)	3.00%
European Central Bank (Refi Rate)	2.90%
Bank of England (Repo Rate)	4.50%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – Tariffs On, Tariff Off, Tariffs On?

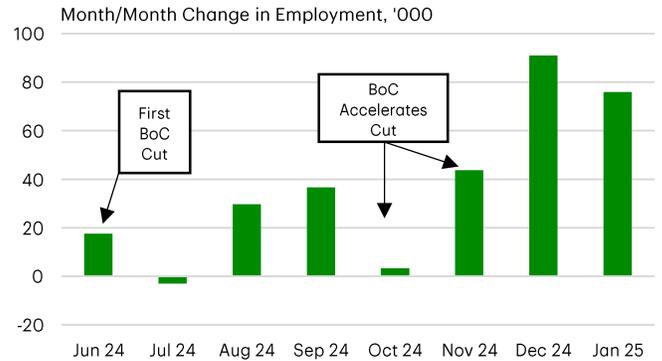
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It feels like the longest week ever for Canadians. Many of us with sleepy eyes last weekend were sorting out the impact of Trump’s tariffs and what they would mean for an economy that has been on weak footing for the last two years (see [here](#) for our initial take). Then the reprieve of a 30-day delay came on Monday, creating a whipsaw effect in Canadian financial markets. Economic data this week was also headline grabbing. Trade data showed that Canada’s export dependence on the U.S. increased through the end of last year (Chart 1), while employment growth gave a glimpse of what could have been/may still be a solid growth trajectory for 2025 (Chart 2).

President Trump kept most Canadians glued to their TVs/socials on Saturday, announcing a 25% tariff on Canadian exports (10% on energy) to take effect Tuesday, February 1st. With Canadian retaliation announced, financial markets went into panic on Monday. Government of Canada yields collapsed by nearly 20 bps and the Loonie reached a low of 67.5 U.S. cents. Although the President postponed tariffs, Monday’s reaction gave everyone a view into what could be in store for Canadian markets should a trade war come to pass. In the meantime, yields have recovered their lost ground, while the Canadian dollar is hovering close to 70 U.S. cents.

Canadian trade data came in quite positive in December as firms appear to be front running tariffs. Exports for the fourth quarter of 2024 are tracking double

Chart 2: Canada's Labour Market Surging



Source: Statcan, TD Economics.

digit growth, a big rebound from the negative growth seen over much of last year. High demand for energy and metals from the U.S. led the gain, as the trade surplus with the U.S. clocked in at over \$100 billion for the year. This overall figure could be used as fodder for President Trump to validate his claims that trade with Canada is ‘unfair’, even though the trade surplus would become a deficit when energy is excluded.

In any other week, Friday’s labour market report would have been the focus. But trade risks have bumped it to runner up. Yet, the jobs market continues to hum along. Today’s gain of 76k net new jobs in January marks three straight months of above trend job growth. Importantly, the unemployment rate dipped to 6.6%, as population growth ebbs. While the labour market has been a pillar of strength for the Canadian economy, the outlook has become precarious. We have been expecting the unemployment rate to decline over this year, but our tariff scenario analysis shows that it could quickly rise to 7%, if not higher, should tensions persist.

Canada has entered a period of great uncertainty. Tariff threats have cast a shadow over the economic outlook. Market pricing for the Bank of Canada has started to move towards a greater likelihood of another cut come March. The Bank has highlighted the growing downside risks, perhaps signaling a greater willingness to take out more insurance should risks become reality.

Chart 1: Canadian Trade with the U.S. Rises Ahead of Tariffs



Source: Statcan, TD Economics.

U.S. – Canada-Mexico Tariffs on Hold

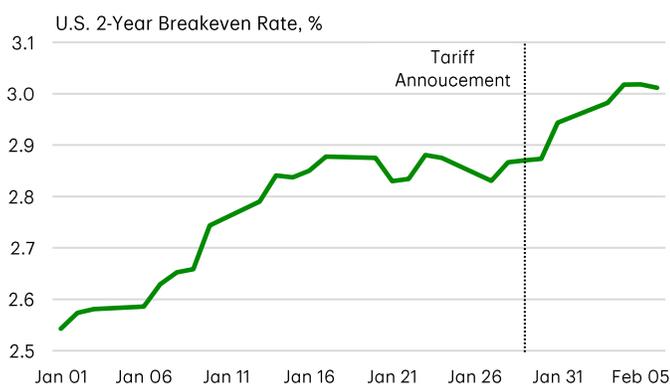
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This week was anything but boring. On Monday, an 11th-hour deal was reached to delay tariffs on Canada and Mexico for a month. However, while Canada and Mexico were spared, China was not, as an additional 10% tariff was imposed on all imports from the country.

The prospect of tariffs being imposed on North America in a month, or in April when the review of current trade policies is completed, looms large. Financial markets have largely recovered from their initial knee-jerk reaction to the tariff announcement, with the S&P 500 paring back losses by the end of the week. However, inflation expectations over the next two years have risen (Chart 1) while bond yields have declined. This points to investors' concerns that tariffs will accelerate inflation and slow economic growth.

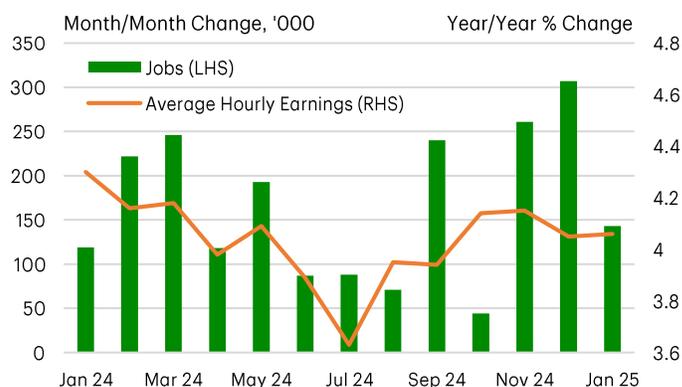
Businesses' uncertainty about the looming tariffs were reflected in the trade data. The U.S. trade deficit widened sharply in December – the largest one-month increase since the early 1990s. Imports surged as companies rushed to ramp up inventories ahead of potential tariffs. Last month's sharp increase in the trade deficit is likely temporary, but trade policy uncertainty will continue to affect trade flows throughout the year. Uncertainty about tariffs also clouds the outlook in the manufacturing sector, particularly in industries such as auto manufacturing ([report](#)). Even though the [ISM manufacturing](#) index has continued to improve in January, rising for the third consecutive month and finally moving into expansionary territory, supply chain disruptions could dent the sector's nascent progress.

Chart 1: Two-Year Inflation Expectations Move Higher



Source: Bloomberg, TD Economics.

Chart 2: U.S. Labor Market Ends 2024 on a High Note



Source: BLS, TD Economics.

Activity in the [services sector](#) continued to expand robustly in January, although it dialed back a notch. The services sector is less exposed to trade than manufacturing, but it is not immune. The prices paid sub-component remains elevated, and any supply chain disruptions and higher input prices could reignite inflationary pressure.

Additional inflationary impetus could also come from the labor market. Today's employment report showed that the U.S. economy added [143k jobs](#) in January. This is considerably less than December's tally (+305k), but still a solid outturn, particularly when combined with a slight decline in the unemployment rate and an uptick in wage growth. Moreover, wildfires in Los Angeles and a cold weather spell nationwide could have also weighed on employment, suggesting a bounce-back next month could be in the cards. Lastly, revisions through the fourth quarter were notably higher, adding an extra 101k jobs to the previously reported figures and suggesting that hiring momentum was even stronger at the end of last year than previously thought (Chart 2).

With inflation progress having stalled in recent months, wage growth showing staying power and heightened uncertainties on how far the new administration will go on its policies, the Fed is likely to remain more cautious. Next week's inflation report will likely show that the Fed's patience is justified, as inflation remains persistently above the Fed's 2% target.

Exhibits

Recent Key Economic Indicators: February 03 - 07, 2025					
Release	Economic Indicator/Event	Data for	Units	Current	Prior
United States					
Feb 03	S&P Global US Manufacturing PMI	Jan	Index	51.2	50.1
Feb 03	ISM Manufacturing	Jan	Index	50.9	49.2
Feb 03	Wards Total Vehicle Sales	Jan	Mlns	15.6	16.8
Feb 04	Factory Orders	Dec	M/M % Chg.	-0.9	-0.8
Feb 04	Factory Orders Ex Trans	Dec	M/M % Chg.	0.3	0.2
Feb 04	Durable Goods Orders	Dec	M/M % Chg.	-2.2	-2.2
Feb 04	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	0.4	0.5
Feb 05	ADP Employment Change	Jan	Thsd	183.0	176.0
Feb 05	Trade Balance	Dec	Blns	-98.4	-78.9
Feb 05	S&P Global US Services PMI	Jan	Index	52.9	52.8
Feb 05	S&P Global US Composite PMI	Jan	Index	52.7	52.4
Feb 05	ISM Services Index	Jan	Index	52.8	54.0
Feb 06	Unit Labor Costs	4Q	Q/Q % Chg.	3.0	0.5
Feb 06	Initial Jobless Claims	Feb 01	Thsd	219.0	208.0
Feb 07	Change in Nonfarm Payrolls	Jan	Thsd	143.0	307.0
Feb 07	Unemployment Rate	Jan	%	4.0	4.1
Feb 07	Average Hourly Earnings	Jan	M/M % Chg.	0.5	0.3
Feb 07	Wholesale Trade Sales	Dec	M/M % Chg.	1.0	0.9
Canada					
Feb 03	S&P Global Canada Manufacturing PMI	Jan	Index	51.6	50.8
Feb 05	Int'l Merchandise Trade	Dec	Blns	0.71	-0.99
Feb 07	Net Change in Employment	Jan	Thsd	76.0	91.0
Feb 07	Unemployment Rate	Jan	%	6.6	6.7
International					
Feb 03	EZ Consumer Price Index Estimate	Jan	Y/Y % Chg.	2.5	2.4
Feb 06	EZ Retail Sales	Dec	Y/Y % Chg.	1.9	1.6
Feb 06	UK Bank of England Bank Rate	Feb 06	%	4.50	4.75

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: February 10 - 14, 2025						
Release	Time*	Economic Indicator/Event	Data for	Units	Consensus	Last
United States						
Feb 11	6:00	NFIB Small Business Optimism	Jan	Index	104.7	105.1
Feb 11	8:50	<i>Fed's Hammack Speaks on Economic Outlook</i>				
Feb 11	15:30	<i>Fed's Williams Gives Keynote Remarks</i>				
Feb 12	8:30	Consumer Price Index	Jan	M/M % Chg.	0.3	0.4
Feb 12	8:30	Consumer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.3	0.2
Feb 12	8:30	Consumer Price Index	Jan	Y/Y % Chg.	2.9	2.9
Feb 12	8:30	Consumer Price Index Ex Food and Energy	Jan	Y/Y % Chg.	3.1	3.2
Feb 12	10:00	<i>Fed's Powell Testifies to House Financial Services</i>				
Feb 12	12:00	<i>Fed's Bostic Speaks on Economic Outlook</i>				
Feb 13	8:30	PPI Final Demand	Jan	M/M % Chg.	0.2	0.2
Feb 13	8:30	PPI Ex Food and Energy	Jan	M/M % Chg.	0.3	0.0
Feb 13	8:30	Initial Jobless Claims	Feb 08	Thsd	-	219.0
Feb 14	8:30	Retail Sales Advance	Jan	M/M % Chg.	0.0	0.4
Feb 14	8:30	Retail Sales Ex Auto and Gas	Jan	M/M % Chg.	-	0.3
Feb 14	9:15	Industrial Production	Jan	M/M % Chg.	0.3	0.9
Feb 14	9:15	Capacity Utilization	Jan	%	77.7	77.6
Feb 14	9:15	Manufacturing (SIC) Production	Jan	M/M % Chg.	0.2	0.6
Feb 14	10:00	Business Inventories	Dec	M/M % Chg.	0.1	0.1
Canada						
Feb 11	10:30	<i>Bank of Canada releases Market Participants Survey</i>				
Feb 12	13:30	<i>Bank of Canada releases Summary of Deliberations</i>				
Feb 14	8:30	Manufacturing Sales	Dec	M/M % Chg.	0.7	0.8
Feb 14	10:30	<i>Bank of Canada releases Senior Loan Officer Survey</i>				
International						
Feb 13	2:00	UK Gross Domestic Product	4Q	M/M % Chg.	-	0.9
Feb 14	5:00	EZ Gross Domestic Product SA	4Q	Y/Y % Chg.	0.9	0.9
Feb 14	5:00	EZ Employment	4Q	Y/Y % Chg.	-	1.0

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

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