

Weekly Bottom Line

March 14, 2025

Highlights

Canada

- Markets were on edge this week as the U.S. followed through on its 25% tariffs on steel and aluminum imports.
- Trade tensions haven't fully translated into economic data yet. Canadian household wealth rose for the fifth consecutive quarter while debt servicing costs fell to the lowest level since 2022.
- The Bank of Canada cut its policy rate by 25 basis points to 2.75% this week, but Governor Tiff Macklem warned that monetary policy can't fully offset a trade war.

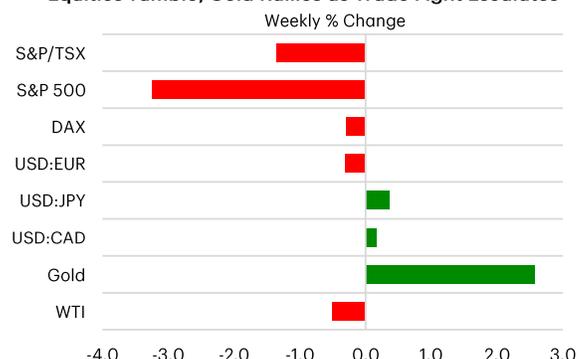
U.S.

- All three major indexes briefly entered correction territory this week as the trade fight continued to escalate. The sentiment has partially recovered by Friday boosted by the news that the government shutdown was averted.
- Consumer and business confidence continued to slide amid high trade uncertainty, while inflation expectations continued to spike.
- Continued policy and inflation uncertainty will keep the Federal Reserve on the sideline at its meeting next week until some time this summer.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5583	5770	6144	4967
S&P/TSX Comp.	24429	24759	25808	21517
DAX	22935	23009	23419	17339
FTSE 100	8614	8680	8871	7723
Nikkei	37053	36887	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.30	4.30	4.79	3.62
Canada 10-yr Bond	3.05	3.03	3.87	2.83
Germany 10-yr Bund	2.90	2.84	2.90	2.03
UK 10-yr Gilt	4.69	4.64	4.89	3.76
Japan 10-yr Bond	1.52	1.52	1.58	0.71
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.69	0.70	0.74	0.69
Euro (USD per EUR)	1.09	1.08	1.12	1.02
Pound (USD per GBP)	1.29	1.29	1.34	1.22
Yen (JPY per USD)	148.5	148.0	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	66.7	67.0	86.9	65.8
Natural Gas (\$US/MMBtu)	4.18	4.23	9.33	1.22
Copper (\$US/met. tonne)	9751.1	9608.6	10800.8	8640.9
Gold (\$US/troy oz.)	2983.6	2909.1	2989.2	2155.9

*As of 10:35 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equities Tumble, Gold Rallies as Trade Fight Escalates



Note: Data as of 10:34 AM ET, Friday, March 14, 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)	2.65%
Bank of England (Repo Rate)	4.50%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – Bank of Canada Cuts But Can’t Fight a Trade War

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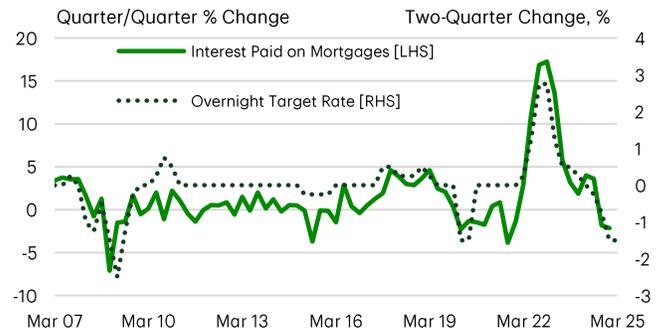
Markets were on edge this week. The S&P/TSX fell about 1.5% for the week and is now down 5% from its January peak. Long-term bond yields initially dipped as recession fears grew amid escalating trade tensions, but rebounded later in the week, closing a few basis points higher. The Canadian dollar remained under pressure, ending the week unchanged at 69 cents U.S.

The so-called “golden era” promised by President Trump is giving way to a “period of transition”, marked by heightened market volatility as trade policies shift. On Wednesday, the U.S. administration imposed 25% tariffs on Canadian steel and aluminum imports.

While [steel and aluminum exports](#) make up only about 6% of Canada’s total merchandise exports, the regional impact is more significant. Quebec produces most of Canada’s aluminum exports, while Ontario supplies the bulk of its steel exports to the U.S. (Chart 1). In response, Canada implemented new counter-tariffs on Thursday, adding to the \$30 billion in U.S. imports already subject to duties as of last week.

So far, tough trade rhetoric hasn’t fully translated into economic data. This week’s report on [Canadian household balance sheet](#) showed that wealth increased for the fifth consecutive quarter, supported by gains in financial and real estate assets. Importantly, households’ debt service ratio fell to its lowest level since 2022, reflecting the cumulative impact Bank of Canada rate

Chart 2: Households Are Finally Getting Relief from Interest Rate Cuts



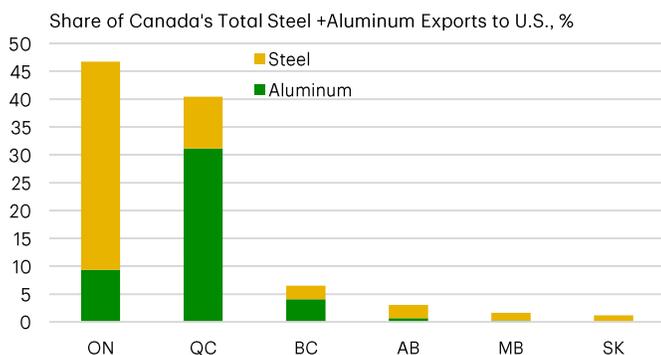
Source: Bank of Canada, Statistics Canada, TD Economics.

cuts, which are now translating into lower aggregate interest payments (Chart 2). In turn, this should provide households with some financial relief, potentially supporting consumer spending.

However, uncertainty is weighing on sentiment. Preliminary results from the Bank of Canada’s business and consumer surveys suggest households are becoming more cautious with spending, while businesses – particularly in the manufacturing sector – are revising down their sales outlooks. Our latest TD debit and credit card spending data, set for release on March 17th, indicate that consumers are shifting toward precautionary savings and are cutting back on discretionary purchases. Still, given a solid hand-off into 2025, we anticipate one more quarter of above-trend growth in Q1 2025.

Beyond that, the outlook becomes murkier. The Bank of Canada [cut its policy rate by 25 basis points](#) to 2.75% this week, but Governor Tiff Macklem warned of “a new crisis” where “monetary policy cannot offset the impacts of a trade war”. This is because sustained tariffs risk lifting inflation, threatening the BoC’s hard-won 2% target. This limits how far the BoC can cut rates to support demand. As long as the pressure on tariffs remains in place, the BoC should keep its dovish bias, and we expect two more quarter-point cuts to take the overnight rate to 2.25% by June. Although markets are currently pricing in only a 50% chance of a cut next month.

Chart 1: Ontario and Quebec Face Higher Exposure to Steel and Aluminum Tariffs



Source: Statistics Canada, TD Economics.

U.S. – Markets Tumble as Continued Trade Fights Reignite Recession Concerns

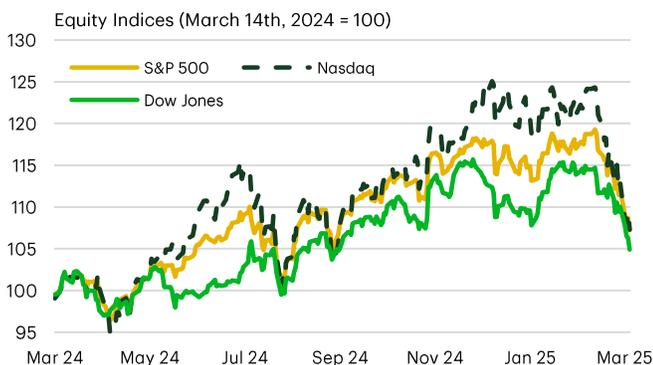
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This has been another one of those “everything, everywhere, all at once” weeks. Investors were caught between a rock and a hard place, forced to navigate both a trade dispute and the threat of a potential government shutdown. Trade risks remain a major concern, reigniting fears of a recession and intensifying the selloff in financial markets. All three major indexes briefly entered correction territory, before retracting a bit on Friday as Senate Democrats appear to back the Republican’s stopgap spending bill that will keep the government funded through September 30th (Chart 1).

Tariff threats continued to dominate headlines this week, with the administration’s 25% steel and aluminum tariffs coming into effect on Wednesday, prompting retaliation from Canada, the E.U. and China. The E.U. imposed tariffs on \$26 billion of U.S. imports, while Canada imposed a 25% tariff on \$30 billion worth of U.S. goods. In addition, China announced a 15% tariff on some key American farm products, such as pork, chicken, and soybeans, following the U.S.’s decision to raise the tariff rate on all Chinese imports by an additional 10% on March 4th – bringing the effective tariff rate on China to around 30%.

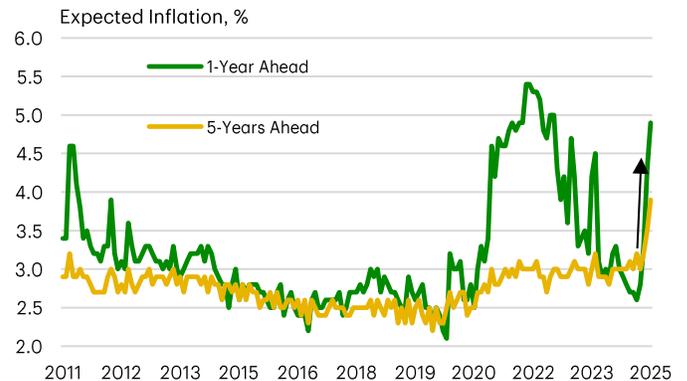
The recent ratcheting up of trade tensions has fueled concerns that tariffs could weigh more meaningfully on growth this year and put further upward pressure on inflation. This week’s [CPI report](#) showed that inflationary pressures eased in February, with headline inflation slowing to 2.8% year-over-year down from 3% in January. While welcome, this reprieve may be short-lived as the latest numbers would have only captured the initial 10% tariff on China that came into effect on February 4th.

Chart 1: Equities Tumble Into Correction Territory



Source: Bloomberg, TD Economics. Last Observation: March 13th, 2025.

Chart 2: Households Are “Tariffed” of Inflation



Source: University of Michigan, TD Economics.

[Business surveys](#) indicate that inflation expectations and pricing intentions have risen, suggesting that price pressures are building in the supply chain. If tariffs remain in place, companies will eventually need to raise prices or absorb higher costs themselves. Some smaller businesses have already started raising prices. This week’s [NFIB Small Business Confidence Survey](#) showed a 10-point jump in the share of businesses increasing average selling prices.

Household confidence has also been weakening rapidly, driven not only by the recent stock market sell-off but also by expectations of higher inflation in the months ahead. Indeed, the March reading of University of Michigan’s survey of consumer confidence shows that after declines in the prior two months, consumer confidence continued to nosedive this March – falling to the lowest level since November 2022. Year-ahead inflation expectations surged from 4.3% last month to 4.9% in March, marking the highest reading since November 2022 (Chart 2).

Given the current storm of uncertainty, the Federal Reserve is likely to remain on hold at its next meeting next week. With inflation expectations becoming more unhinged, we expect the Fed to remain on the sidelines until some time this summer, at which point slowing economic growth will likely prompt the need for additional support in the form of lower interest rates.

Exhibits

Recent Key Economic Indicators: Mar 10 - 14, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Mar 10	NY Fed 1-Yr Inflation Expectations	Feb	%	3.1	3.00
Mar 11	NFIB Small Business Optimism	Feb	Index	100.7	102.8
Mar 11	Job Openings	Jan	Mlns	7.7	7.5
Mar 12	Consumer Price Index	Feb	M/M % Chg.	0.2	0.5
Mar 12	Consumer Price Index	Feb	Y/Y % Chg.	2.8	3.0
Mar 12	Consumer Price Index Ex Food and Energy	Feb	M/M % Chg.	0.2	0.4
Mar 12	Consumer Price Index Ex Food and Energy	Feb	Y/Y % Chg.	3.1	3.3
Mar 13	Initial Jobless Claims	Mar 8	Thsd	220.0	222.0
Mar 13	PPI Ex Food and Energy	Feb	M/M % Chg.	-0.1	0.5
Mar 13	PPI Final Demand	Feb	M/M % Chg.	0.0	0.6
Canada					
Mar 12	Bank of Canada Rate Decision	Mar 12	%	2.75	3.00
Mar 14	Manufacturing Sales	Jan	M/M % Chg.	1.7	0.5
Mar 14	Wholesale Sales ex Petroleum	Jan	M/M % Chg.	1.2	0.3
International					
Mar 10	JN Gross Domestic Product SA (Annualized)	Q4	Q/Q % Chg.	2.2	2.8
Mar 14	UK Monthly Gross Domestic Product	Jan	3M/3M % Chg.	0.2	0.1

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

Upcoming Economic Releases and Events: March 17 - 21, 2025

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 17	8:30	Empire Manufacturing	Mar	Index	-2.0	5.7
Mar 17	8:30	Retail Sales Advance	Feb	M/M % Chg.	0.7	-0.9
Mar 17	8:30	Retail Sales Ex Auto and Gas	Feb	M/M % Chg.	0.5	-0.5
Mar 17	10:00	Business Inventories	Jan	M/M % Chg.	0.3	-0.2
Mar 17	10:00	NAHB Housing Market Index	Mar	Index	42.0	42.0
Mar 18	8:30	Housing Starts	Feb	Thsd	1380.0	1366.0
Mar 18	8:30	Building Permits	Feb	Thsd	1450.0	1473.0
Mar 18	9:15	Industrial Production	Feb	M/M % Chg.	0.2	0.5
Mar 18	9:15	Capacity Utilization	Feb	%	77.8	77.8
Mar 18	9:15	Manufacturing (SIC) Production	Feb	M/M % Chg.	0.1	-0.1
Mar 19	14:00	FOMC Rate Decision (Upper Bound)	Mar 19	%	4.50	4.50
Mar 20	8:30	Initial Jobless Claims	Mar 15	Thsd	-	220.0
Mar 20	10:00	Existing Home Sales	Feb	Mlns	3.9	4.1
Mar 21	9:05	<i>Fed's Williams Speaks in Bahamas</i>				
Canada						
Mar 17	8:15	Housing Starts	Feb	Thsd	248.8	239.7
Mar 17	9:00	Existing Home Sales	Feb	Mlns	-	-3.3
Mar 18	8:30	Consumer Price Index NSA	Feb	M/M % Chg.	0.6	0.1
Mar 18	8:30	Consumer Price Index	Feb	Y/Y % Chg.	2.2	1.9
Mar 20	8:30	Industrial Product Price	Feb	M/M % Chg.	-	1.6
Mar 20	10:30	<i>BoC Governor Tiff Macklem Speaks in Calgary</i>				
Mar 21	8:30	Retail Sales	Jan	Y/Y % Chg.	-0.4	2.5
Mar 21	8:30	Retail Sales Ex Auto	Jan	M/M % Chg.	-	2.7
International						
Mar 19	6:00	EZ Consumer Price Index	Feb	Y/Y % Chg.	2.4	2.4
Mar 20	3:00	UK ILO Unemployment Rate	Jan	Q/Q % Chg.	4.4	4.4
Mar 20	8:00	UK Bank of England Bank Rate	Mar 20	%	4.5	4.5
Mar 20	19:30	JN Natl Consumer Price Index	Feb	Y/Y % Chg.	3.5	4.0

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

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