

Weekly Bottom Line

March 21, 2025

Highlights

Canada

- Canadian economic data are giving a glimpse of what could be in store for the rest of 2025, with weak consumer activity and higher inflation at the forefront.
- Housing sales dropped by the largest amount since the Bank of Canada (BoC) started its aggressive rate hiking cycle in 2022. Retail sales also plunged as consumers pulled back on auto purchases.
- Inflation reared its ugly head again, as the end of the GST/HST holiday lifted headline CPI above the BoC's 2% target.

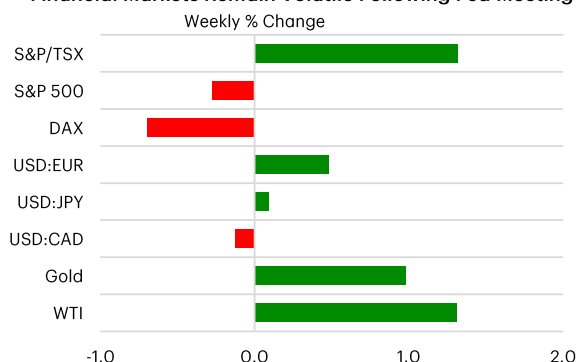
U.S.

- The FOMC held the policy rate steady at a target range of 4.25%-4.5% for the second consecutive meeting. But, committed to slowing the pace of balance sheet runoff of its U.S. Treasury holdings.
- Revised economic projections showed a small downgrade to the FOMC's growth outlook, but a near-term upgrade to inflation. The median forecast still expects 50bps of rate cuts by year-end.
- February data out this week were mixed. Retail sales underwhelmed, while housing data rebounded from January's weather induced slide.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5629	5639	6144	4967
S&P/TSX Comp.	24895	24553	25808	21517
DAX	22853	22987	23419	17339
FTSE 100	8649	8632	8871	7820
Nikkei	37677	37053	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.23	4.31	4.79	3.62
Canada 10-yr Bond	3.00	3.07	3.87	2.83
Germany 10-yr Bund	2.77	2.88	2.90	2.03
UK 10-yr Gilt	4.70	4.67	4.89	3.76
Japan 10-yr Bond	1.52	1.52	1.58	0.71
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.70	0.70	0.74	0.69
Euro (USD per EUR)	1.08	1.09	1.12	1.02
Pound (USD per GBP)	1.29	1.29	1.34	1.22
Yen (JPY per USD)	148.9	148.6	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	68.2	67.2	86.9	65.8
Natural Gas (\$US/MMBtu)	4.23	3.89	9.33	1.22
Copper (\$US/met. tonne)	9885.4	9731.9	10800.8	8640.9
Gold (\$US/troy oz.)	3016.4	2984.2	3047.8	2165.4

*As of 11:17 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Financial Markets Remain Volatile Following Fed Meeting



Note: Data as of 11:39 AM ET, Friday, March 21, 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.

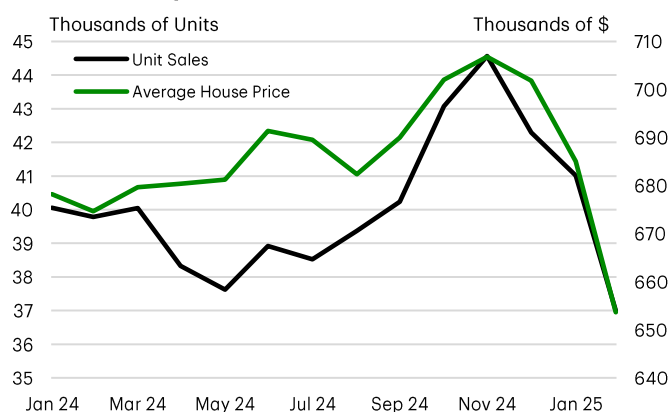
Canada – Inflation Gets Hot While Real Estate Cools

James Orlando, CFA, Director
416-413-3180

Canadian economic data are giving a glimpse of what could be in store for the rest of 2025. The housing market has cooled dramatically as buyers moved to the sidelines amidst heightened uncertainty. Weak retail sales numbers have followed suit. At the same time, inflation surged higher, and it's not just the end of the GST/HST holiday. Financial market volatility remains at the forefront, with equities struggling to bounce off the floor, and bond markets meekly pulling forward the re-start of Fed rate cuts.

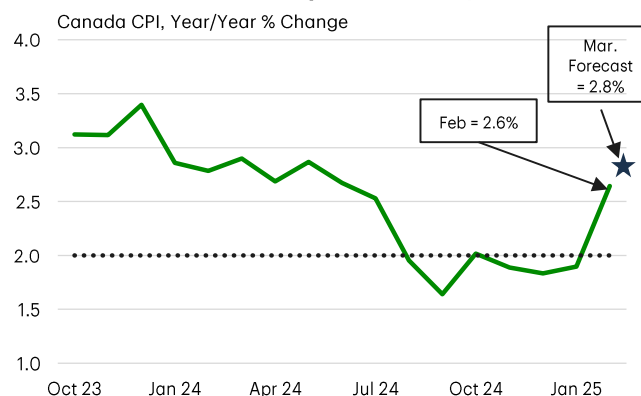
This week's real estate reports were the first hard data points (not sentiment) that reflect the impact of Trump tariffs on consumer behaviour. Existing home sales dropped a whopping 10% month-on-month (m/m) in February (Chart 1). That is the largest decline since the BoC started its rapid rate hiking cycle in the spring of 2022. There were winter storms that may have had an impact, but the decline was clear across the country (not just where storms hit). And this is with the Bank of Canada (BoC) continuing to cut its policy rate and employment/wage growth unabated. From our view, this reflects growing uncertainty amongst buyers, who logically may want to hold off on any big financial commitments. Builders got the signal and they too pulled back on housing starts for condos and single-family homes. Retail sales numbers for January also reflected hesitancy, falling 1.1% m/m in volume terms. It is still early days, but the impact of trade tariffs appears to be quickly permeating through consumer demand.

Chart 1: Housing Sales and Prices Continue to Tumble



Source: CREA, TD Economics.

Chart 2: Inflation Moves Higher in February



Source: Bank of Canada, Statistics Canada, TD Economics. Last Observation: Feb. 2025.

Trade tariffs will also have an impact on consumer prices. For much of the last few months, inflation was stable, even reaching below the BoC's 2% target. Part of this was the government's sales tax holiday, which artificially pulled down inflation. This holiday ended in mid-February and lifted February's CPI inflation reading to 2.6% year-on-year, from 1.9% y/y in January (Chart 2). We think inflation will continue to rise in March, reflecting a full month of consumers paying taxes when they buy wine at the liquor store and eat at restaurants. Is higher inflation a sign of things to come for Canadians?

There will be a lot of moving parts in the inflation readings through spring. Tariffs are already in place for steel and aluminum, lifting the cost for intermediate goods on the margin over the coming months (beer cans for example). If more tariffs come into effect in early April alongside the increase of Canada's retaliatory tariffs on \$185 billion of U.S. goods, a host of consumer items will see significant price increases (cars/home appliances/etc). In the trade war of 2018, CPI rose by around half a percentage point (ppt) when Canada retaliated against U.S. tariffs on steel and aluminum. A bigger trade war this time around would have over a 1 ppt impact on Canadian CPI. Luckily, the cancellation of the consumer carbon tax will provide an offset. Gasoline prices should drop by about 20 cents on April 1st (not an April fool's day joke). Other energy product prices will also come down, which would actually keep inflation stable in April even if Trump follows through on tariffs. But that would only be a reprieve should this full-blown trade war take hold. Please take a look at our [Quarterly Economic Forecast](#) published this week.

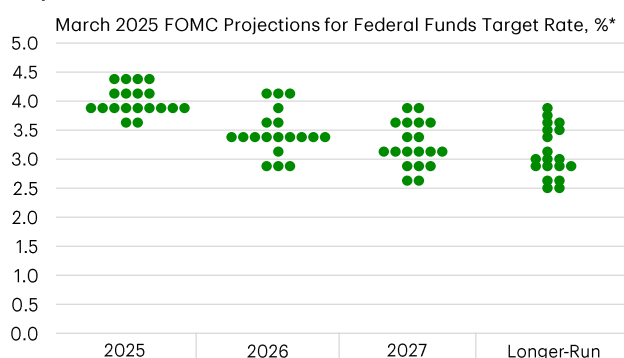
U.S. – Uncertainty Clouding the Outlook

Thomas Feltmate, Director & Senior Economist
416-944-5730

With no new tariff announcements, trade tensions were temporarily moved to the backburner this week, allowing investors to shift the focus to the economic data calendar. February data readings out this week were mixed. Retail sales underwhelmed expectations, but both housing starts, and existing home sales largely recovered from January's weather induced slide. Meanwhile, the Federal Reserve held the policy rate steady at a target range of 4.25%-4.5% but signaled an intention to slow the pace of balance sheet runoff for U.S. Treasury holdings starting in April. While investors were braced for a more downbeat messaging on the outlook, the Fed's statement and Chair Powell's press conference struck a more balanced tone. This helped to temporarily soothe unnerved financial markets, but growth fears re-emerged by late-week, fueling a further sell-off. At time of writing, the S&P 500 was down 0.5%, while term yields traded lower by about 10bps, with the 10-year Treasury currently sitting at 4.22%.

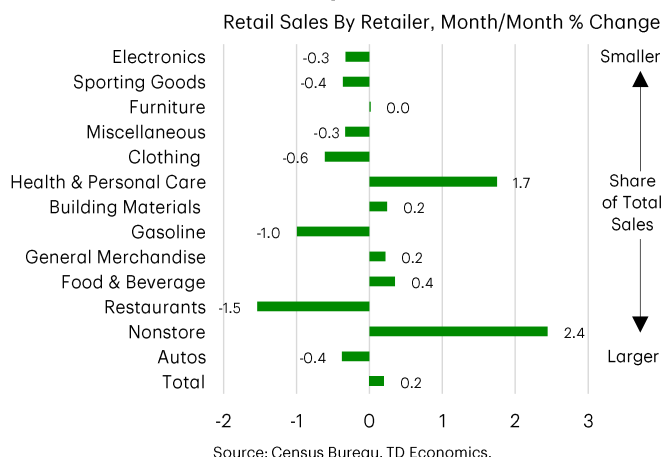
The Fed's statement included updated economic projections from FOMC members. The median GDP forecast was revised lower over the forecast, with a below-trend pace of economic growth expected in 2025 (1.7% from 2.1%), before steadying at 1.8% in 2026 (previously 2.0%) and 2027 (previously 1.9%). The unemployment rate was nudged higher by a tick this year to 4.4% but remained unchanged at 4.3% in 2026 and 2027. Core PCE inflation was also revised higher for 2025 (2.8% from 2.5%), which Chair Powell largely attributed to tariff impacts. Importantly, the revised "dot plot" still showed two 25bps rate cuts for this year. But a closer inspection of the dots shows that committee members see the balance of risks

Chart 1: FOMC's Median Projection Shows Two Rate Cuts By Year-End



*Midpoint of Target Range. Source: Federal Reserve Board, TD Economics.

Chart 2: U.S. Retail Spending Underwhelms in February



skewed towards fewer cuts, as eight officials now expect one or no cuts this year (up from four in December) (Chart 1).

During the press conference, Chair Powell characterized the economy as "strong", but emphasized that any point forecasts remain "highly uncertain" in light of recent policy changes under the new administration. When asked about the recent pullback in business and consumer sentiment measures, Powell reiterated that the "hard data" are still showing an economy that is "solid". He also downplayed the recent jump in inflation expectations shown in the University of Michigan survey, characterizing it as an outlier relative to most other measures.

But this week's retail sales data suggests otherwise. Retail sales rose by just 0.2% m/m in February, after declining 1.2% in January. Only 5 of the 13 major categories (Chart 2) saw gains last month while revisions to January showed an even weaker pace of retail spending than previously reported. Moreover, spending at bars & restaurants – the only services-based metric included in the retail report – plunged by 1.5% or the largest monthly pullback in two-years. This bears close watching, as discretionary services spending has been a key driver underpinning the strength of the consumer in past years.

For now, the Fed appears comfortable to sit tight and wait for more clarity on both the policy and data front. This will not come from any one policy announcement or data reading, suggesting policymakers will remain on the sidelines for at least another few months before making their next move.

Exhibits

Recent Key Economic Indicators: Mar 17 - 21, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Mar 17	Empire Manufacturing	Mar	Index	-20.0	5.7
Mar 17	Retail Sales Advance	Feb	M/M % Chg.	0.2	-1.2
Mar 17	Retail Sales Ex Auto and Gas	Feb	M/M % Chg.	0.5	-0.8
Mar 17	Business Inventories	Jan	M/M % Chg.	0.3	-0.2
Mar 17	NAHB Housing Market Index	Mar	Index	39.0	42.0
Mar 18	Housing Starts	Feb	Thsd	1501.0	1350.0
Mar 18	Building Permits	Feb	Thsd	1456.0	1473.0
Mar 18	Industrial Production	Feb	M/M % Chg.	0.7	0.3
Mar 18	Capacity Utilization	Feb	%	78.2	77.7
Mar 18	Manufacturing (SIC) Production	Feb	M/M % Chg.	0.9	0.1
Mar 19	FOMC Rate Decision (Upper Bound)	Mar 19	%	4.50	4.50
Mar 20	Initial Jobless Claims	Mar 15	Thsd	223.0	220.0
Mar 20	Existing Home Sales	Feb	Mlns	4.3	4.1
Canada					
Mar 17	Housing Starts	Feb	Thsd	229.0	239.3
Mar 17	Existing Home Sales	Feb	Mlns	-9.8	-3.3
Mar 18	Consumer Price Index NSA	Feb	M/M % Chg.	1.1	0.1
Mar 18	Consumer Price Index	Feb	Y/Y % Chg.	2.6	1.9
Mar 20	Industrial Product Price	Feb	M/M % Chg.	0.4	1.4
Mar 21	Retail Sales	Jan	Y/Y % Chg.	-0.6	2.6
Mar 21	Retail Sales Ex Auto	Jan	M/M % Chg.	0.2	2.9
International					
Mar 19	EZ Consumer Price Index	Feb	Y/Y % Chg.	2.3	2.4
Mar 20	UK Bank of England Bank Rate	Mar 20	%	4.5	4.5
Mar 20	JN Natl Consumer Price Index	Feb	Y/Y % Chg.	3.7	4.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Mar 24 - 28, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 24	9:45	S&P Global US Composite PMI	Mar	Index	-	51.6
Mar 24	9:45	S&P Global US Manufacturing PMI	Mar	Index	51.7	52.7
Mar 24	9:45	S&P Global US Services PMI	Mar	Index	50.9	51.0
Mar 24	13:45	<i>Fed's Bostic on Bloomberg TV</i>				
Mar 24	15:10	<i>Fed's Barr Speaks on Small Business Lending</i>				
Mar 25	8:00	Building Permits	Feb	Thsd	-	1456.0
Mar 25	8:40	<i>Fed's Kugler Gives Speech on Economy, Entrepreneurship</i>				
Mar 25	9:00	S&P CoreLogic CS 20-City NSA	Jan	Y/Y % Chg.	-	4.5
Mar 25	9:00	S&P CoreLogic CS US HPI NSA	Jan	Y/Y % Chg.	-	3.9
Mar 25	9:05	<i>Fed's Williams Gives Opening Remarks</i>				
Mar 25	10:00	Conf. Board Consumer Confidence	Mar	Index	94.0	98.3
Mar 26	8:30	Cap Goods Orders Nondef Ex Air	Feb	M/M % Chg.	0.2	0.8
Mar 26	8:30	Durable Goods Orders	Feb	M/M % Chg.	-1.0	3.2
Mar 26	10:00	<i>Fed's Kashkari Hosts Fed Listens, conversation</i>				
Mar 26	13:10	<i>Fed's Musalem Speaks on Economy, Monetary Policy</i>				
Mar 27	8:30	Advance Goods Trade Balance	Feb	Blns	-135.0	-155.6
Mar 27	8:30	Gross Domestic Product (Annualized)	Q4	Q/Q % Chg.	2.4	2.3
Mar 27	8:30	Personal Consumption	Q4	Q/Q % Chg.	4.2	4.2
Mar 27	8:30	Initial Jobless Claims	Mar 22	Thsd	225.0	223.0
Mar 27	10:00	Pending Home Sales	Feb	M/M % Chg.	-	-4.6
Mar 27	16:30	<i>Fed's Barkin Gives Speech, Q&A</i>				
Mar 28	8:30	PCE Price Index	Feb	M/M % Chg.	0.3	0.3
Mar 28	8:30	PCE Price Index	Feb	Y/Y % Chg.	2.5	2.5
Mar 28	8:30	Core PCE Price Index	Feb	M/M % Chg.	0.3	0.3
Mar 28	8:30	Core PCE Price Index	Feb	Y/Y % Chg.	2.7	2.6
Mar 28	8:30	Personal Income	Feb	M/M % Chg.	0.4	0.9
Mar 28	8:30	Real Personal Spending	Feb	M/M % Chg.	-	-0.5
Mar 28	12:15	<i>Fed's Barr Gives Speech on Banking Policy</i>				
Mar 28	15:30	<i>Fed's Bostic Moderates Panel on Housing Finance</i>				
Canada						
Mar 26	13:30	<i>BoC Releases Summary of Deliberations</i>				
Mar 27	8:30	Payroll Employment Change (SEPH)	Jan	Thsd	-	25.3
Mar 28	8:30	Gross Domestic Product	Jan	M/M % Chg.	0.3	0.2
International						
Mar 26	3:00	UK Consumer Price Index	Feb	Y/Y % Chg.	2.9	3.0
Mar 27	19:30	JN Tokyo Consumer Price Index	Mar	Y/Y % Chg.	2.8	2.8
Mar 28	3:00	UK Gross Domestic Product	Q4	Y/Y % Chg.	1.4	1.4
Mar 28	3:00	UK Retail Sales Ex Auto Fuel	Feb	Y/Y % Chg.	0.4	1.2

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

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