

Weekly Bottom Line

April 4, 2025

Highlights

Canada

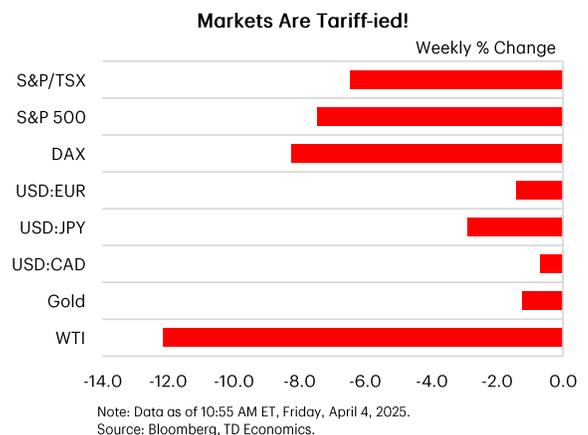
- Canada initially appeared to have dodged tariffs on Trump's Liberation day. But still facing three separate tariff actions, Canada's effective tariff rate is close to 10%.
- Canada's job market is already starting to show some softness, with net job losses and a higher unemployment rate in March.
- The jobs data has shifted market expectations towards an interest rate cut in April. We think further support is needed for Canada's economy.

U.S.

- The U.S. announced sweeping 'reciprocal' tariffs due to go into effect over the next week, with all countries exporting to the U.S. soon to be subject to double digit surcharges.
- The employment report for March showed 228k new jobs added, illustrating robust health in the labor market prior to the recent volatility.
- Federal Reserve officials, including Chair Powell, noted that recent tariffs would add upside risks to inflation.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5173	5581	6144	4967
S&P/TSX Comp.	23216	24759	25808	21517
DAX	20618	22462	23419	17339
FTSE 100	8062	8659	8871	7820
Nikkei	33781	37120	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	3.91	4.25	4.79	3.62
Canada 10-yr Bond	2.81	3.01	3.87	2.81
Germany 10-yr Bund	2.56	2.73	2.90	2.03
UK 10-yr Gilt	4.43	4.69	4.89	3.76
Japan 10-yr Bond	1.22	1.54	1.59	0.79
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.70	0.70	0.74	0.69
Euro (USD per EUR)	1.10	1.08	1.12	1.02
Pound (USD per GBP)	1.29	1.29	1.34	1.22
Yen (JPY per USD)	145.5	149.8	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	61.3	69.4	86.9	61.3
Natural Gas (\$US/MMBtu)	4.21	3.89	9.33	1.22
Copper (\$US/met. tonne)	9319.3	9749.7	10800.8	8640.9
Gold (\$US/troy oz.)	3041.1	3085.1	3134.2	2286.3

*As of 10:58 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)	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 – Trump’s Tariffs Sideswipe Markets

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President Trump’s dreaded “Liberation Day”, saw the President make good on his campaign promise for a 10% universal tariff. Some countries received higher levies based on a bizarre calculation of trade “barriers” based on the size of the goods trade deficit with the U.S., with rates as high as 46% for Vietnam and 20% for the EU. Investor sentiment soured quickly; with many forecasters predicting the levies would tip the U.S. economy into recession. Global equity markets saw their largest one-day drops since 2020 on Thursday, with Toronto’s S&P TSX index dropping 3.8% (Chart 1). We don’t view this as an overreaction. We were not alone in pointing out that the market’s initial euphoria over Trump’s election win seemed to be favouring the economic positives of tax cuts and deregulation, rather than the disruption of upending 80 years of U.S. trade policy.

For Canada, there was some initial relief that we were not hit with any reciprocal tariff (see [commentary](#)). But zooming out, Canada already faces an effective tariff rate around 10%, depending on the degree of USMCA compliance among goods exports. Canada faces three separate 25% import tariffs: the 25% “fentanyl/illegal immigration” tariff, with 10% on energy and potash with a carve out for goods that are USMCA compliant, the 25% steel and aluminum tariff and a 25% tariff on finished vehicle imports. Fortunately, it is estimated that 80-90% of exports can become USMCA compliant, which would take down the effective tariff rate to roughly 4-5%. That is still double the 2% rate pre-Trump.

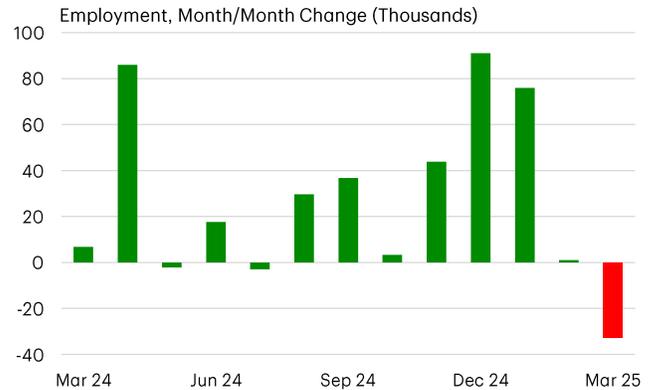
The current projected rate is only slightly lower than the 12.5% we assumed in our recent [Quarterly Economic](#)

Chart 1: Canada's Equity Market Tanks on Trump Tariff Announcement



Note: As of 10:30 AM, Friday April 4, 2025. Source: Bloomberg, TD Economics.

Chart 2: Canada's Labour Market Sheds Jobs in March



Source: Statistics Canada, TD Economics.

Forecast. If those tariffs remain in place for six months, Canada’s economy slips into a shallow recession.

Canada’s job data for March reinforced a softer economic message. The labour market shed positions for the first time in more than three years (Chart 2), taking the unemployment rate higher by one tenth to 6.7%. There weren’t many silver linings in the report either. Job losses were in full-time positions in the private sector, and across most demographic groups. The share of people unemployed long-term also rose, and wage pressures eased. The job market may not be flashing red warning signs yet, but it is certainly yellow, and has softened significantly relative to the early post-pandemic period.

Looking at trends by sector, the losses in March were largest in the services sector, led by wholesale and retail trade (-29k; -1.0%), and information, culture and recreation (-20k; -2.4%). Although manufacturing (-7k; -0.4%) and construction (-4k; -0.2%) also saw job losses. Given the layoffs already announced in the auto sector this week, more are likely to come.

The Bank of Canada’s next interest rate announcement is on April 16th, and decision makers will still get to digest the BoC’s Business Outlook Survey and the March inflation report before then. Market odds of a rate cut increased sharply in the wake of the jobs data, to becoming the consensus view. We have argued that the Bank should cut rates further to support Canada’s economy in the face of the tariff threat, despite the risk of slightly higher inflation in the short run.

U.S. – A Return to Turbulent Times

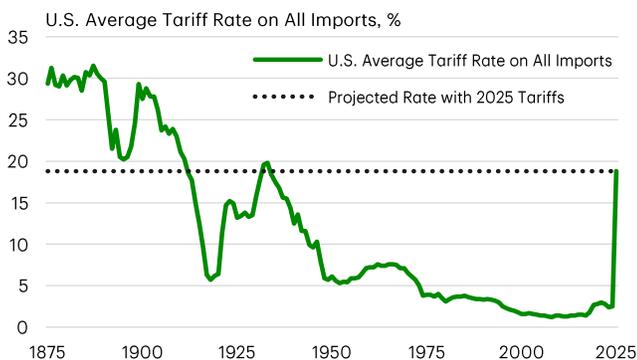
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We kicked off the second quarter this week with what has likely been the most anticipated day of the year so far. On its so-named 'Day of Liberation', the administration announced broad-based tariffs set to go into effect over the coming week. Equity markets and U.S. Treasury yields fell sharply over the following days on concerns over the economic impact of the policies. As of the time of writing, the S&P 500 is down 7.4% on the week, while the U.S. Treasury 10-year yield fell 33 basis-points (bps) to 3.93%.

The tariffs announced by President Trump this week included a baseline 10% tariff on nearly every country that the U.S. trades with, scheduled to go into effect on April 5th, with varied upward revisions subsequently applied to 60 countries on April 9th. The latest tariffs will bring the effective tariff rate charged by the U.S. to its highest level in nearly a century (Chart 1). The countries likely to be the most impacted include China (which now faces a total stacked tariff rate of over 54%), the European Union (20%), and Vietnam (46%), although the effects, like the policy, are expected to be widespread. China has already announced that it will retaliate in equal force while the EU is preparing countermeasures. Some hope remains that negotiations can lead to the removal or some reduction of the tariffs before their full impact is felt, but for the time being it appears that we are witnessing the start of a trade war unlike any seen in generations.

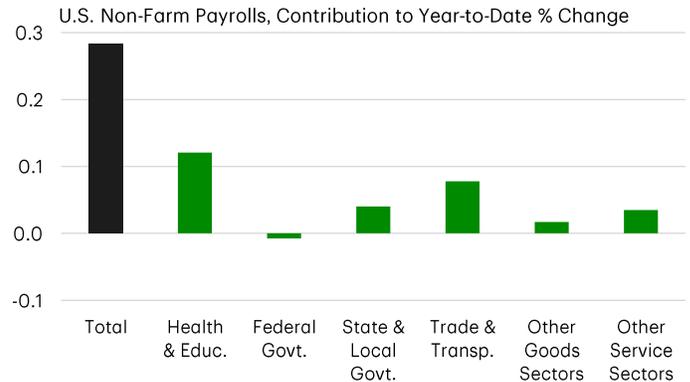
Even before the most recent tariffs were announced, we were already starting to see some softening in the economic data. The ISM manufacturing and services purchasing manager indexes for March both showed a slowdown in demand and hiring activity, with business

Chart 1: U.S. Tariffs Soon to Be Near Highest Level in a Century



Source: Tax Foundation, TD Economics.

Chart 2: U.S. Job Growth Concentrated in Non-Cyclical & Trade Sectors



Source: U.S. Bureau of Labor Statistics, TD Economics.

sentiment weakening on trade uncertainty. However, we have also seen consumers and businesses attempt to front-load purchases in advance of tariffs, with March vehicle sales hitting a four-year high and imports remaining more than 20% above year-ago levels through February.

This behavior helped to keep the labor market healthy on aggregate in March, as 228k new jobs were added. Non-cyclical sectors, like health and education, as well as trade-exposed sectors contributed the lion's share of the employment gains (Chart 2). While this was undoubtedly a solid report on the health of the labor market, we are likely to see some slowing in hiring over the coming months as trade policy uncertainty further weighs on business and consumer sentiment and tariffs begin to influence economic activity.

The next Federal Reserve meeting is still roughly a month away, but the views of Fed officials have likely become more consequential amid elevated uncertainty. During a presentation on Friday, Chair Powell noted that while the impact of tariffs remains uncertain, tariffs were likely to weigh on growth and raise inflation. As of the time of writing, markets are pricing in an 80% chance for 100bps in rate cuts by year-end. Next week's CPI data release and the March FOMC meeting minutes will be parsed closely for further hints of the future direction of monetary policy as the administration's 'reciprocal' tariffs are scheduled to come into effect. Assuming no changes occur between now and then, we will be entering a structurally different reality for global trade and finance.

Exhibits

Recent Key Economic Indicators: Mar 31 - Apr 04, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 1	S&P Global US Manufacturing PMI	Mar	Index	50.2	49.8
Apr 1	ISM Manufacturing	Mar	Index	49.0	50.3
Apr 1	Job Openings	Feb	Mlns	7.57	7.76
Apr 1	Wards Total Vehicle Sales	Mar	Mlns	17.7	16.0
Apr 2	ADP Employment Change	Mar	Thsd	155.0	84.0
Apr 2	Cap Goods Orders Nondef Ex Air	Feb	M/M % Chg.	-0.2	-0.3
Apr 2	Durable Goods Orders	Feb	M/M % Chg.	1.0	0.9
Apr 2	Factory Orders	Feb	M/M % Chg.	0.6	1.8
Apr 2	Factory Orders Ex Trans	Feb	M/M % Chg.	0.4	0.3
Apr 3	Initial Jobless Claims	Mar 29	Thsd	219.0	225.0
Apr 3	Trade Balance	Feb	Blns	-122.70	-130.70
Apr 3	S&P Global US Composite PMI	Mar	Index	53.5	53.5
Apr 3	S&P Global US Services PMI	Mar	Index	54.4	54.3
Apr 3	ISM Services	Mar	Index	50.8	53.5
Apr 4	Average Hourly Earnings	Mar	M/M % Chg.	0.3	0.2
Apr 4	Change in Nonfarm Payrolls	Mar	Thsd	228.0	117.0
Apr 4	Unemployment Rate	Mar	%	4.2	4.1
Canada					
Apr 3	Int'l Merchandise Trade	Feb	Blns	-1.52	3.13
Apr 4	Net Change in Employment	Mar	Thsd	-32.6	1.1
Apr 4	Unemployment Rate	Mar	%	6.7	6.6
International					
Mar 31	JN Jobless Rate	Feb	%	2.4	2.5
Mar 31	JN Jibun Bank Japan PMI Mfg	Mar	Index	48.4	48.3
Mar 31	CH Caixin China PMI Mfg	Mar	Index	51.2	50.8
Apr 1	EZ Consumer Price Index Estimate	Mar	Y/Y % Chg.	2.2	2.3
Apr 1	EZ Unemployment Rate	Feb	%	6.1	6.2
Apr 2	JN Jibun Bank Japan PMI Services	Mar	Index	50.0	49.5

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

Upcoming Economic Releases and Events: April 07 - 11, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Apr 07	10:30	<i>Fed's Kugler Speaks on Inflation Dynamics, Phillips Curve</i>				
Apr 08	6:00	NFIB Small Business Optimism	Mar	Index	-	100.7
Apr 08	14:00	<i>Fed's Daly Speaks in Discussion on Economic Outlook</i>				
Apr 09	10:00	Wholesale Trade Sales	Feb	M/M % Chg.	-	-1.3
Apr 09	11:00	<i>Fed's Barkin Speaks to Economic Club of Washington DC</i>				
Apr 09	14:00	FOMC Meeting Minutes	Mar 19		-	-
Apr 10	8:30	Consumer Price Index	Mar	M/M % Chg.	0.1	0.2
Apr 10	8:30	Consumer Price Index Ex Food and Energy	Mar	M/M % Chg.	0.3	0.2
Apr 10	8:30	Consumer Price Index	Mar	Y/Y % Chg.	2.6	2.8
Apr 10	8:30	Consumer Price Index Ex Food and Energy	Mar	Y/Y % Chg.	3.0	3.1
Apr 10	8:30	Initial Jobless Claims	Apr 05	Thsd	-	219.0
Apr 10	9:30	<i>Fed's Logan Gives Welcome Remarks</i>				
Apr 10	12:00	<i>Fed's Goolsbee Speaks at Economic Club of NY</i>				
Apr 10	12:30	<i>Fed's Harker Speaks on Fintech</i>				
Apr 11	8:30	PPI Final Demand	Mar	M/M % Chg.	0.2	0.0
Apr 11	8:30	PPI Ex Food and Energy	Mar	M/M % Chg.	0.3	-0.1
Apr 11	10:00	<i>Fed's Musalem Speaks on US Economy, Policy</i>				
Apr 11	11:00	<i>Fed's Williams Speaks on Outlook, Monetary Policy</i>				
Canada						
Apr 07	10:30	BoC Business Outlook Future Sales	1Q	Q/Q % Chg.	-	31.0
Apr 07	10:30	BoC Overall Business Outlook Survey	1Q	Q/Q % Chg.	-	-1.2
International						
Apr 07	5:00	EZ Retail Sales	Feb	Y/Y % Chg.	1.9	1.5
Apr 09	21:30	CH Consumer Price Index	Mar	Y/Y % Chg.	0.1	-0.7
Apr 11	2:00	UK Gross Domestic Product	Feb	Q/Q % Chg.	0.4	0.2

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

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