

Weekly Bottom Line

May 2, 2025

Highlights

Canada

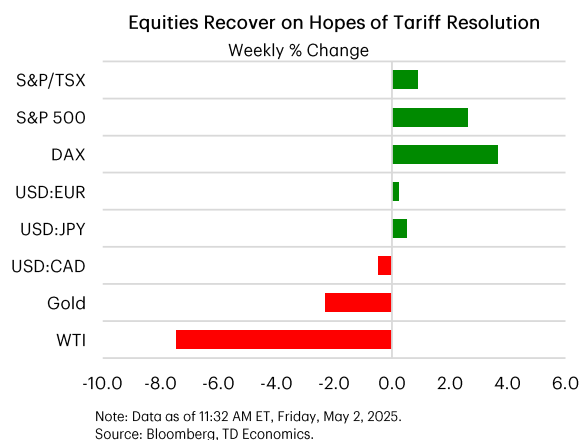
- The 2025 Federal Election outcome has potential to shape Canada's economic path. Carney's agenda both ambitious and expansive, decisively sidelining fiscal restraint.
- The latest GDP data reflects weather-related softness, with a decline in February and only modest growth in March's flash estimate. We expect Q1 growth to come in close to our forecast, followed by a trade-related contraction in Q2.
- Having avoided direct attention from Washington in the days before the election, Canada remains subject to tariffs, so rebuilding a mutual understanding on trade remains a top priority for Carney's first 100 days.

U.S.

- The U.S. administration is scheduled to change another tariff rule tonight, ending the so-called de minimis provision which has exempted small packages from most duties in the past.
- U.S. GDP contracted in the first quarter of 2025, ending a long streak of expansion. The contraction was mostly owed to a surge in imports, as consumers and businesses tried to get ahead of tariffs.
- The U.S. payrolls report for April came in stronger than expected, revealing little impact to the job market from tariffs so far.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5674	5525	6144	4983
S&P/TSX Comp.	24936	24711	25808	21517
DAX	23061	22242	23419	17339
FTSE 100	8614	8415	8871	7679
Nikkei	36831	35706	42224	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.31	4.24	4.79	3.62
Canada 10-yr Bond	3.18	3.18	3.76	2.83
Germany 10-yr Bund	2.52	2.47	2.90	2.03
UK 10-yr Gilt	4.49	4.48	4.89	3.76
Japan 10-yr Bond	1.26	1.34	1.59	0.79
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.72	0.74	0.69
Euro (USD per EUR)	1.14	1.14	1.15	1.02
Pound (USD per GBP)	1.33	1.33	1.34	1.22
Yen (JPY per USD)	144.2	143.7	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	58.6	63.0	83.9	58.2
Natural Gas (\$US/MMBtu)	3.08	2.71	9.33	1.22
Copper (\$US/met. tonne)	9239.9	9376.4	10800.8	8571.4
Gold (\$US/troy oz.)	3255.4	3319.7	3424.0	2293.8

*As of 11:21 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)	2.40%
Bank of England (Repo Rate)	4.50%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – Carney's First 100 Days

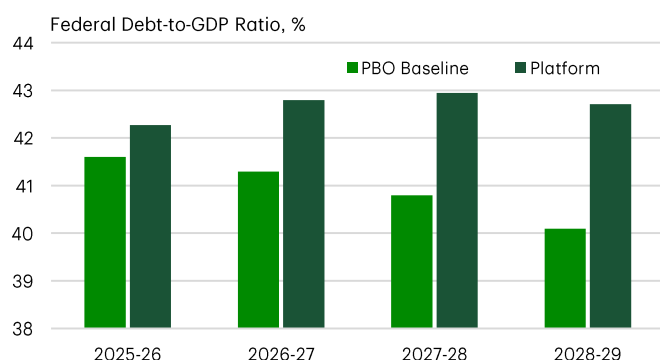
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Few events truly have the potential to shape a country's economic path, and [2025 Federal Election](#) provides a major opportunity to do just that. True to form, Canadian markets met the results with characteristic composure. The Canadian dollar dipped slightly right after the vote, but quickly recovered. Equity and bond markets were more attuned to global developments, with equities edging higher and yields slipping modestly on the week.

While there's nothing inherently meaningful about a 100-day milestone, it remains a popular benchmark and this government's first 100 days will be scrutinized intensely. Having won a fourth consecutive mandate, the Liberal party has no time to celebrate. Its agenda is both ambitious and expansive, spanning, infrastructure, defence, housing and more. The total price tag stands at C\$130 billion in new spending, decisively sidelining fiscal restraint. The plan pushes the federal debt-to-GDP ratio from 42% to roughly 43% over the next three years, with a modest decline thereafter (Chart 1).

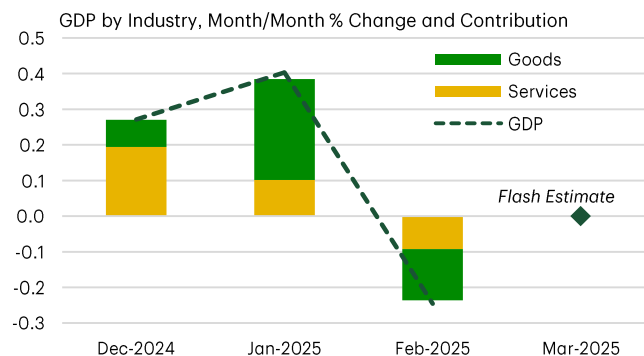
While many of these initiatives align with the proposals from rival parties and may be relatively easy to negotiate, the timing of their roll-out is hard to pin down. Once the Cabinet is formed, the government will recall Parliament and present a Speech from the Throne – its formal confidence test – before introducing the budget. That puts Carney's government on a tight schedule, with the House set to adjourn for the summer season from June 20th to September 8th, unless recalled. Accordingly, the updated budget needs to focus on the most urgent economic challenges. Our forecast incorporates about 1% of GDP in additional outlays aimed at supporting the economy through the ongoing trade disruptions.

Chart 1: New Economic Realities Push Fiscal Restrain to the Sidelines



Source: Parliamentary Budget Office, Liberal Party of Canada, TD Economics.

Chart 2: Monthly GDP Shows Tepid Q1 Growth, Weak Momentum Into Q2



Source: Statistics Canada, TD Economics.

The latest [GDP data](#) highlights some softness. February's GDP by industry declined 0.2%, while the flash estimate for March shows a modest 0.1% gain (Chart 2). But so far, this weakness was mostly weather, not trade-related. In fact, manufacturing posted a solid increase, with businesses likely advancing shipments ahead of tariff-related cost increases.

Meanwhile, the housing-related industries are proving to be the early warning signal of the impact of trade measures and uncertainty. Construction activity fell for the first time in four months and real estate, while rental and leasing activities posted the largest decline since April 2022. This reversal comes just as the sector had regained some modest traction, buoyed by the falling cost of borrowing. The [GTA condo market](#), in particular, saw the sharpest slowdown. Accounting for this slowdown on the industrial level, we expect Q1 growth to land in line with our forecast of around 1.5%.

Still the strain of trade uncertainty will be increasingly felt in the Canadian economy's bones and we expect Q2 to reflect that with a contraction. Canada remains subject to tariffs on steel & aluminum, all non-USMCA-compliant imports and non-U.S. built cars and trucks. A formal renegotiation of USMCA appears unlikely in the immediate term, with the White House signalling a preference to first engage with Asian countries. This could give Carney space to consult across political and business lines. Still, rebuilding a mutual understanding on trade with Washington remains a top priority – one that would have to return to the table within the first 100 days.

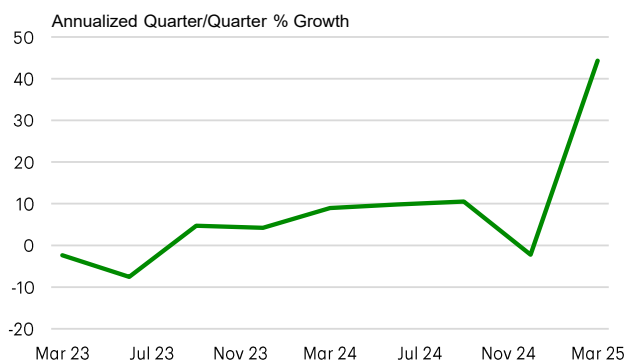
U.S. – Another Week, Another New Tariff

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The U.S. economy has been showing resilience to tariffs so far, but will be increasingly pressure tested going forward under the weight of multiple tracks of tariffs. Tariffs, especially the very high 145 percent levy on imports from China, are about to start hitting even more goods; tonight is the deadline for the so-called de minimis provision to end. Under de minimis rules, small packages of \$800 or less imported from China to the U.S. are exempt from tariffs. This provision has meant that e-commerce retailers that sell clothing and other goods online directly to U.S. consumers were able to do so without being affected by tariffs. Over 1.25 billion shipments entered the U.S. in 2024 under the de minimis provision, and its end will mean price increases for a wide swath of consumers. Some of the most affected companies, such as Temu and Shein, have already indicated some changes to their operations because of the change to de minimis rules; these changes could include price increases for customers, shifting some of the sourcing for U.S. sales away from China, and as a consequence possibly seeing their U.S. business shrink. These measures are set to occur as progress on removing tariffs remains elusive, though we did see indications of a willingness to negotiate from both China and the EU late this week.

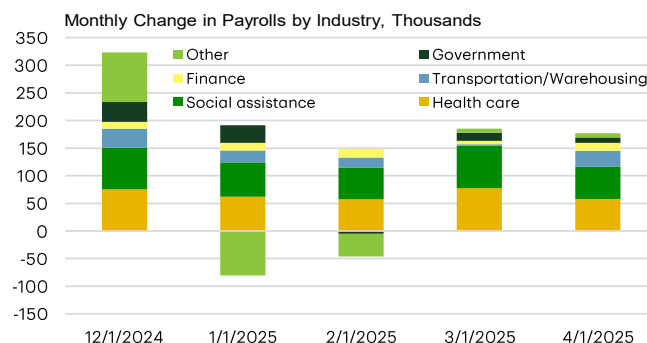
We long expected that roll-out of U.S. tariffs would create distortions in the data, notably the natural response of many U.S. businesses and consumers to get ahead of the higher levies. This week's advance estimate of U.S. GDP growth for the first quarter of 2025 confirmed our expectation – U.S. GDP shrank in the quarter, weighed down heavily by a massive surge in imports ahead of tariffs being put in place, much of the import surge seemingly for companies to stockpile inventories. Inflation

Chart 1: U.S. Imports Surged in the First Quarter



Source: BEA, Haver Analytics, TD Economics.

Chart 2: April Payrolls Showed Little Change from March



Source: BLS, Haver Analytics, TD Economics.

was also up for the quarter, but March showed some slowing from earlier in the year. Recent inflation readings are still above the Federal Reserve's target, however, so we expect this mild softening to be received with great caution.

The vast majority of tariffs were put in place after April 2, so all of this data is just a warm-up, so to speak. Most of this 1st-quarter data is warped by expectations of tariffs in the future, rather than being an indication of underlying trends. The real question of how economic activity is holding up is going to come through the data after April 2. This morning's jobs report for April, the first such data, was surprisingly resilient, and the unemployment rate remained unchanged at a fairly low 4.2 percent. We also saw April data for vehicle sales this morning come in strong, in part because dealers still have inventory that predates the auto tariffs. But that is still two points of hard data showing that activity did not take a big hit in April.

This week leaves us back in wait-and-see mode, as we have still seen very little data since tariffs were put in place. The economy has to pass through another deadline for tariffs to kick in tonight, and those will also take some time to filter through the economy. The Federal Reserve is set to meet next week, and we expect the central bank is still searching for more clarity on the outlook before contemplating rate cuts. Futures markets had been holding out hope for a June cut, but after today's jobs report, odds have been dialed back to around 40%. However, given the expectation that a weaker economy will ultimately trump higher inflation as the Fed's number one concern, investors are still anticipating between 3-4 cuts by year-end.

Exhibits

Recent Key Economic Indicators: Apr 28 - May 02, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 29	Advance Goods Trade Balance	Mar	Blns	-162.0	-147.8
Apr 29	S&P CoreLogic CS 20-City NSA	Feb	Y/Y % Chg.	4.5	4.7
Apr 29	S&P CoreLogic CS US HPI NSA	Feb	Y/Y % Chg.	3.9	4.1
Apr 29	Job Openings	Mar	Mlns	7.19	7.48
Apr 29	Conf. Board Consumer Confidence	Apr	Index	86.0	93.9
Apr 30	ADP Employment Change	Apr	Thsd	62.0	147.0
Apr 30	Gross Domestic Product (Annualized)	Q1	Q/Q % Chg.	-0.3	2.4
Apr 30	Personal Consumption	Q1	Q/Q % Chg.	1.8	4.0
Apr 30	Personal Income	Mar	M/M % Chg.	0.5	0.7
Apr 30	Real Personal Spending	Mar	M/M % Chg.	0.7	0.1
Apr 30	Pending Home Sales	Mar	M/M % Chg.	6.1	2.1
May 1	Initial Jobless Claims	Apr 26	Thsd	241.0	223.0
May 1	S&P Global US Manufacturing PMI	Apr	Index	50.2	50.7
May 1	ISM Manufacturing	Apr	Index	48.7	49.0
May 1	Wards Total Vehicle Sales	Apr	Mlns	17.3	17.8
May 2	Change in Nonfarm Payrolls	Apr	Thsd	177.0	185.0
May 2	Unemployment Rate	Apr	%	4.2	4.2
May 2	Average Hourly Earnings	Apr	M/M % Chg.	0.2	0.3
May 2	Factory Orders	Mar	M/M % Chg.	4.3	0.5
May 2	Factory Orders Ex Trans	Mar	M/M % Chg.	-0.2	0.3
May 2	Durable Goods Orders	Mar	M/M % Chg.	9.2	9.2
May 2	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	0.1	0.1
Canada					
Apr 30	Gross Domestic Product	Feb	M/M % Chg.	-0.2	0.4
International					
Apr 29	JN Retail Sales	Mar	Y/Y % Chg.	3.1	1.3
Apr 29	CH Manufacturing PMI	Apr	Index	49.0	50.5
Apr 29	CH Caixin China PMI Mfg	Apr	Index	50.4	51.2
Apr 30	MX Gross Domestic Product NSA	Q1	Y/Y % Chg.	0.8	0.5
Apr 30	EZ Gross Domestic Product SA	Q1	Q/Q % Chg.	0.4	0.2
Apr 30	EZ Gross Domestic Product SA	Q1	Y/Y % Chg.	1.2	1.2
Apr 30	JN Jibun Bank Japan PMI Mfg	Apr	Index	48.7	48.5
May 1	JN Jobless Rate	Mar	%	2.5	2.4
May 2	EZ Consumer Price Index Estimate	Apr	Y/Y % Chg.	2.2	2.2
May 2	EZ Unemployment Rate	Mar	%	6.2	6.2

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 05 - 09, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 5	9:45	S&P Global US Services PMI	Apr	Index	51.4	51.4
May 5	9:45	S&P Global US Composite PMI	Apr	Index	-	51.2
May 5	10:00	ISM Services	Apr	Index	50.2	50.8
May 6	8:30	Trade Balance	Mar	Blns	-122.0	-122.7
May 7	14:00	FOMC Rate Decision (Upper Bound)	May 7	%	4.50	4.50
May 8	8:30	Unit Labor Costs	Q1	Q/Q % Chg.	5.4	2.2
May 8	8:30	Initial Jobless Claims	May 3	Thsd	-	-
May 8	10:00	Wholesale Trade Sales	Mar	M/M % Chg.	-	2.4
May 8	11:00	NY Fed 1-Yr Inflation Expectations	Apr	%	-	3.6
May 9	6:15	<i>Fed's Williams Gives Keynote Address in Reykjavik</i>				
May 9	8:00	<i>Fed's Kugler Gives Keynote Address in Reykjavik</i>				
May 9	10:00	<i>Fed's Goolsbee Gives Remarks at Fed Listens Event</i>				
May 9	10:40	<i>Fed's Barr Gives Keynote Address in Reykjavik</i>				
May 9	11:30	<i>Fed's Williams, Waller on Panel at Hoover</i>				
May 9	19:45	<i>Fed's Musalem, Hammack, Bowman on Panel at Hoover</i>				
Apr 26 - May 8		<i>Fed's External Communications Blackout</i>				
Canada						
May 6	8:30	Int'l Merchandise Trade	Mar	Blns	-	-1.5
May 6	10:00	Ivey Purchasing Managers Index SA	Apr	Index	-	51.3
May 8	10:00	<i>Financial Stability Report</i>				
May 8	10:00	<i>Financial System Survey</i>				
May 9	8:30	Net Change in Employment	Apr	Thsd	25.0	-32.6
May 9	8:30	Unemployment Rate	Apr	%	6.7	6.7
International						
May 6	20:30	JN Jibun Bank Japan PMI Services	Apr	Index	-	52.2
May 7	5:00	EZ Retail Sales	Mar	Y/Y % Chg.	1.6	2.3
May 8	7:00	UK Bank of England Bank Rate	May 8	%	4.25	4.50
May 9	21:30	CH Consumer Price Index	Apr	Y/Y % Chg.	-	-0.1

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

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