

# Weekly Bottom Line

May 9, 2025

## Highlights

### Canada

- Canadian monthly employment data are notoriously volatile, but the trend since January has been toward softer job creation and a rising unemployment rate.
- Data show an increased share of Canadian goods heading to the U.S. in March were traded under the CUSMA agreement, avoiding tariffs.
- Softening growth and some positive developments on trade limit the upside risk to inflation, opening the door for the Bank of Canada to cut its policy rate.

### U.S.

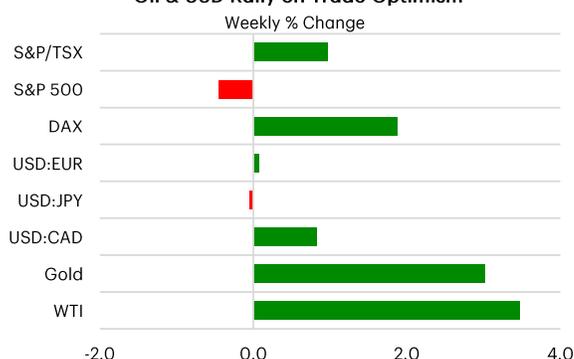
- The U.S. announced a trade deal with the U.K. to reduce several product-specific tariffs, although the 10% reciprocal tariff faced by the U.K. remained in place.
- Formal trade negotiations with China are expected to begin this weekend in Switzerland, as the third largest trading partner of the U.S. remains subject to 145% tariffs.
- The Federal Reserve left interest rates unchanged for the third time this year. Chair Powell noted that it would take time to discern the effects of tariffs on the economy.

### This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	5659	5687	6144	4983
S&P/TSX Comp.	25298	25032	25808	21517
DAX	23489	23087	23489	17339
FTSE 100	8553	8596	8871	7679
Nikkei	37503	36831	42224	31137
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	4.35	4.31	4.79	3.62
Canada 10-yr Bond	3.15	3.18	3.76	2.83
Germany 10-yr Bund	2.55	2.53	2.90	2.03
UK 10-yr Gilt	4.56	4.51	4.89	3.76
Japan 10-yr Bond	1.37	1.26	1.59	0.79
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.72	0.72	0.74	0.69
Euro (USD per EUR)	1.13	1.13	1.15	1.02
Pound (USD per GBP)	1.33	1.33	1.34	1.22
Yen (JPY per USD)	145.0	145.0	161.7	140.6
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	60.4	58.3	83.9	57.1
Natural Gas (\$US/MMBtu)	3.22	3.10	9.33	1.22
Copper (\$US/met. tonne)	9477.3	9385.7	10800.8	8571.4
Gold (\$US/troy oz.)	3340.0	3240.5	3431.8	2293.8

\*As of 10:50 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

### Oil & USD Rally on Trade Optimism



Note: Data as of 10:33 AM ET, Friday, May 9, 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)	2.40%
Bank of England (Repo Rate)	4.25%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

# Canada – Mr. Carney Goes to Washington

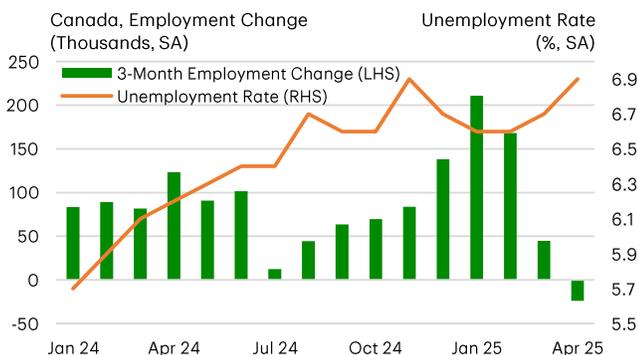
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After winning the election last week, Prime Minister Carney travelled to Washington to meet President Trump. The bar was relatively low heading into the meeting, so it was notable for simply being unremarkable. The timing was appropriate though, as March trade data showcased the key economic issue facing the incoming Canadian government – how to diversify trade when there is a superpower next door.

Trade discussions with our southern neighbour are likely to take time and involve renegotiating parts of the CUSMA trade agreement signed in 2018. On the agreement, policymakers were likely keenly aware of President Trump calling it “great for all countries”, before noting that it can be renegotiated or terminated. For the outlook, as long as the uncertainty about tariffs and trade agreements persists, it will hang like a cloud over the economy.

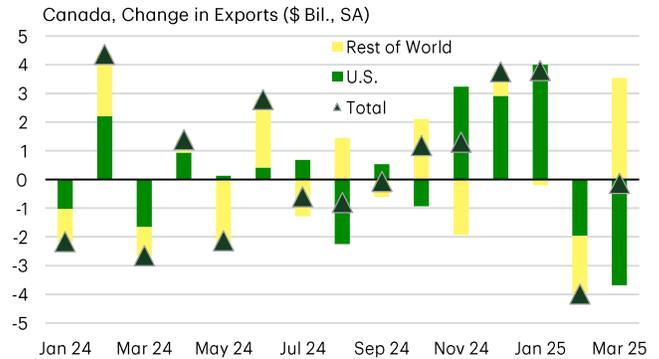
The deceleration is apparent in the labour market. The economy added a modest 7k jobs in April, and those gains were largely thanks to temporary federal election jobs. The private sector has shed jobs for two months in a row. Canadian monthly employment data are notoriously volatile, but the trend has been toward softer job creation since the escalation in trade tensions. As employment growth has petered out, the unemployment rate has steadily crept higher, reaching 6.9% in April. The unemployment rate is now matching its high from November 2024, before a burst of late-year hiring showed some temporary relief for the labour market (Chart 1). Pull the history back further and, excluding the pandemic period, the 6.9% unemployment rate is the highest since January of 2017. It is also apparent that tariffs

Chart 1: Labour Market Turning Quickly in 2025



Source: Statistics Canada, TD Economics.

Chart 2: Canadian Exports Head to Other Markets



Source: Statistics Canada, TD Economics.

are behind the deceleration in the labour market, with trade-exposed sectors behind the recent slowdown in hiring - the manufacturing sector has lost 43k jobs over the past three months.

Looking ahead, the challenges are apparent. Part of the lift to first quarter activity was due to American firms attempting to front-run tariffs by stockpiling imports ahead of the new duties. Canadian exports to the U.S. grew nearly 7% per month between November and January, before falling nearly 10% through March once they were applied. However, two silver linings emerged in the March data. First, the steep decline in exports to the U.S. was offset by a rise in shipments to the rest of the world (Chart 2). Secondly, roughly 50% of Canadian goods heading to the U.S. were CUSMA compliant in March, up from the 38% averaged in 2024 and 40% last March. The increased compliance means avoiding the 25% tariff and reducing the economic impact. Nonetheless, as long as the uncertainty about the trade relationship persists, firms are understandably cautious. With the malaise hanging over the economy its unlikely things will turn a corner soon.

Faced with the prospect of domestic activity continuing to soften, we see the Bank of Canada having an opening to cut its policy rate by 25 basis points in June, bringing it down to 2.5%. The risk of higher inflation remains, but there are a few reasons for optimism that the worst-case scenario won't materialize. First, a greater share of Canadian products have become CUSMA compliant (offsetting the risk of supply chain snarls), retaliatory tariffs have been restrained, and a stronger dollar offset rising cost pressures.

# U.S. – The First of Many?

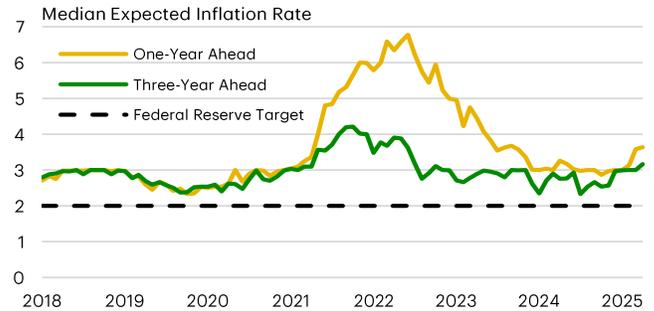
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The first full week of May looked like it may provide a modest respite for financial markets, as economic data releases were limited and the Federal Reserve’s decision on Wednesday was short on surprises. However, this proved to be short-lived as the White House announced a preliminary trade deal with the U.K. on Thursday. The S&P 500 ended the week roughly unchanged at time of writing, while the 10-year U.S. Treasury yield rose 4 basis points to 4.36%.

The preliminary trade deal between the U.S. and U.K. (see [here](#)), included a full exemption on Section 232 steel and aluminum tariffs for the U.K., in addition to an annual exemption on automotive tariffs for the first 100k units imported (Chart 1). The market reaction to the agreement was relatively tame, as the 10% baseline reciprocal tariff remained in effect. The President noted that this would likely be the global floor for reciprocal tariffs, and that other nations may see levels above this even after negotiations have concluded. It is unclear whether this would be acceptable to other nations. If they take a harder stance during upcoming negotiations, it could delay a broader resolution to the current state of elevated trade tensions.

The EU also outlined a list of goods this week that would be subject to retaliatory tariffs. The list covers nearly a third of U.S. exports to the region. These tariffs would be levied if negotiations do not result in “a mutually beneficial outcome and the removal of U.S. tariffs”. Chinese officials also called on the U.S. to “be prepared to correct its erroneous actions and cancel its unilateral tariff increases”, ahead of the planned

Chart 2: U.S. Consumer Inflation Expectations Trending Higher



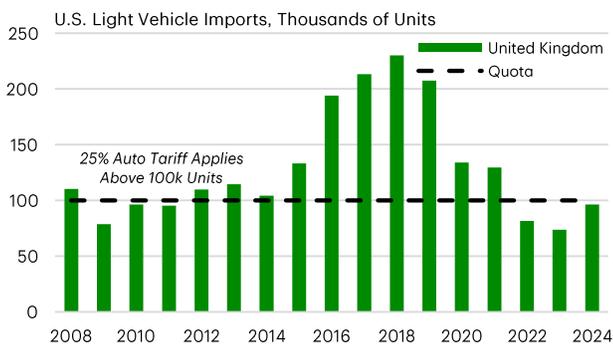
Last Observation: April 2025.  
Source: New York Federal Reserve Bank, TD Economics.

start of formal negotiations with the U.S. this weekend. Early on Friday the President floated the idea of lowering the tariff rate on China to 80%, but no final decision has been made. With less than two months until the 90-day suspension of U.S. reciprocal tariffs expires and dozens of deals yet to be made, time will remain of the essence on the trade front in the weeks ahead.

The Federal Reserve pointed to the clouds hanging over the economic outlook in its rate decision on Wednesday. It was the third meeting in a row where the FOMC left the federal funds rate unchanged. During his press conference, Chair Powell highlighted the likelihood that current trade policies would push the unemployment rate and inflation to deviate from the Fed’s dual mandate. However, he also noted that uncertainty remains elevated with respect to the magnitude of the deviation, meriting caution in monetary policy decisions at this time. With survey-based measures of inflation expectations remaining elevated in April (Chart 2), the Fed’s caution would appear prudent at this time.

Next week, we’ll receive a first look at inflation data for April with the CPI data release, in addition to April retail sales. Although neither is expected to be materially influenced by tariff impacts yet, they will provide a pulse check on consumer and price trends. Also on the docket for next week is the reconciliation bill markup for the House Ways & Means Committee, which could provide insight on the specific tax cut provisions being considered by Congress. Although fiscal policy may not fully offset the influence of tariffs on the economy this year, it could help to prevent a more material slowdown.

Chart 1: U.S. - U.K. Trade Deal Levies 25% Tariff on Auto Import Growth



Source: U.S. International Trade Administration, TD Economics.

## Exhibits

Recent Key Economic Indicators: May 05 - 09, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
May 5	S&P Global US Services PMI	Apr	Index	50.8	51.4
May 5	S&P Global US Composite PMI	Apr	Index	50.6	51.2
May 5	ISM Services	Apr	Index	51.6	50.8
May 6	Trade Balance	Mar	Blns	-140.5	-123.2
May 7	FOMC Rate Decision (Upper Bound)	May 7	%	4.50	4.50
May 8	Unit Labor Costs	Q1	Q/Q % Chg.	5.7	2.0
May 8	Initial Jobless Claims	May 3	Thsd	228.0	241.0
May 8	Wholesale Trade Sales	Mar	M/M % Chg.	0.6	2.0
May 8	NY Fed 1-Yr Inflation Expectations	Apr	%	3.63	3.58
<b>Canada</b>					
May 6	Int'l Merchandise Trade	Mar	Blns	-0.5	-1.4
May 6	Ivey Purchasing Managers Index SA	Apr	Index	47.9	51.3
May 9	Net Change in Employment	Apr	Thsd	7.4	-32.6
May 9	Unemployment Rate	Apr	%	6.9	6.7
<b>International</b>					
May 6	JN Jibun Bank Japan PMI Services	Apr	Index	52.4	52.2
May 7	EZ Retail Sales	Mar	Y/Y % Chg.	1.5	1.9
May 8	UK Bank of England Bank Rate	May 8	%	4.25	4.50
May 9	CH Consumer Price Index	Apr	Y/Y % Chg.	-	-0.1

Source: Bloomberg, TD Economics.

## Upcoming Economic Releases and Events: May 12 - 16, 2025

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
May 12	10:25	<i>Fed's Kugler Speaks on Economic Outlook</i>				
May 14	5:15	<i>Fed's Waller Speaks on Central Bank Research</i>				
May 14	9:10	<i>Fed's Jefferson Speaks on Economic Outlook</i>				
May 14	17:40	<i>Fed's Daly Speaks in Fireside Chat at the California Bankers Association Annual Conference</i>				
May 13	6:00	NFIB Small Business Optimism	Apr	Index	95.0	97.4
May 13	8:30	Consumer Price Index	Apr	M/M % Chg.	0.3	-0.1
May 13	8:30	Consumer Price Index	Apr	Y/Y % Chg.	2.4	2.4
May 13	8:30	Consumer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.3	0.1
May 13	8:30	Consumer Price Index Ex Food and Energy	Apr	Y/Y % Chg.	2.8	2.8
May 15	8:30	Empire Manufacturing	May	Index	-8.0	-8.1
May 15	8:30	Initial Jobless Claims	May 10	Thsd	233.0	228.0
May 15	8:30	Retail Sales Advance	Apr	M/M % Chg.	0.0	1.5
May 15	8:30	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	0.4	0.9
May 15	8:30	PPI Final Demand	Apr	M/M % Chg.	0.3	-0.4
May 15	8:30	PPI Ex Food and Energy	Apr	M/M % Chg.	0.3	-0.1
May 15	8:40	<i>Fed's Powell Speaks on Framework Review</i>				
May 15	9:15	Capacity Utilization	Apr	%	77.9	77.8
May 15	9:15	Industrial Production	Apr	M/M % Chg.	0.2	-0.3
May 15	9:15	Manufacturing (SIC) Production	Apr	M/M % Chg.	-0.3	0.3
May 15	10:00	Business Inventories	Mar	M/M % Chg.	0.2	0.2
May 15	10:00	NAHB Housing Market Index	May	Index	40.0	40.0
May 16	8:30	Building Permits	Apr	Thsd	1450.0	1467.0
May 16	8:30	Housing Starts	Apr	Thsd	1370.0	1324.0
5/15/2025- 5/16/2025		<i>2nd Thomas Laubach Research Conference</i>				
<b>Canada</b>						
May 15	8:15	Housing Starts	Apr	Thsd	235.0	214.2
May 15	8:30	Manufacturing Sales	Mar	M/M % Chg.	-1.9	0.2
May 15	8:30	Wholesale Sales ex Petroleum	Mar	M/M % Chg.	-	0.3
May 15	9:00	Existing Home Sales	Apr	M/M % Chg.	-	-4.8
May 16	10:30	<i>Release: Senior Loan Officer Survey</i>				
<b>International</b>						
May 13	2:00	UK ILO Unemployment Rate (3 Mths.)	Mar	%	4.5	4.4
May 15	2:00	UK Gross Domestic Product	1Q	Y/Y % Chg.	1.2	1.5
May 15	5:00	EZ Gross Domestic Product SA	1Q	Q/Q % Chg.	0.4	0.4
May 15	5:00	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	1.2	1.2
May 15	5:00	EZ Employment	1Q	Y/Y % Chg.	-	0.7
May 15	19:50	JN Gross Domestic Product SA (Annualized)	1Q	Q/Q % Chg.	-0.7	2.2

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

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