TD Economics

Weekly Bottom Line

June 6, 2025

Highlights

Canada

- The Bank of Canada held its policy rate at 2.75% for the second consecutive meeting, citing a “softer but not sharply weaker” economy and firmer-than-expected core inflation.
- But signs of real-side weakness are mounting. Merchandise trade cratered in April, with both imports and exports declining.
- May employment was essentially flat while the unemployment rate rose to 7.0% – its highest level since 2016, outside of the pandemic.

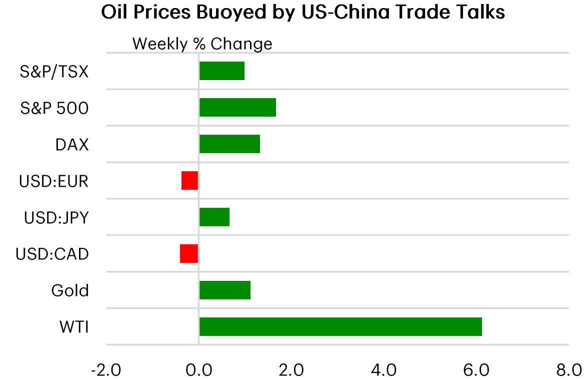
U.S.

- After swelling in the previous three months, the trade deficit narrowed by 55% as pre-emptive inventory building ahead of tariffs appears to have run its course.
- Front-loading behaviour by consumers is also normalizing, with vehicle sales falling 9.3% month-over-month in May.
- Despite the large swings in other data, the labour market’s performance remained steady-as-she-goes. The economy added 139k new jobs in May, only a touch lower than 144k average over the past 12 months.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6011	5912	6144	4983
S&P/TSX Comp.	26437	26175	26437	21517
DAX	24314	23997	24324	17339
FTSE 100	8830	8772	8871	7679
Nikkei	37742	37965	42224	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.48	4.40	4.79	3.62
Canada 10-yr Bond	3.33	3.20	3.61	2.83
Germany 10-yr Bund	2.57	2.50	2.90	2.03
UK 10-yr Gilt	4.65	4.65	4.89	3.76
Japan 10-yr Bond	1.46	1.50	1.59	0.79
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.73	0.73	0.74	0.69
Euro (USD per EUR)	1.14	1.13	1.15	1.02
Pound (USD per GBP)	1.35	1.35	1.36	1.22
Yen (JPY per USD)	145.0	144.0	161.7	140.6
Commodity Spot Prices**				
Crude Oil ($US/bbl)	64.6	60.8	83.9	57.1
Natural Gas ($US/MMBtu)	2.86	2.81	9.33	1.22
Copper ($US/met. tonne)	9832.7	9548.1	10091.5	8571.4
Gold ($US/troy oz.)	3328.2	3289.3	3431.8	2293.8

*As of 11:08 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 Prices Buoyed by US-China Trade Talks



Note: Data as of 11:07 AM ET, Friday, June 6, 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)	2.15%
Bank of England (Repo Rate)	4.25%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

Canada – The Bank of Canada Holds as Trade Craters and Jobs Falter

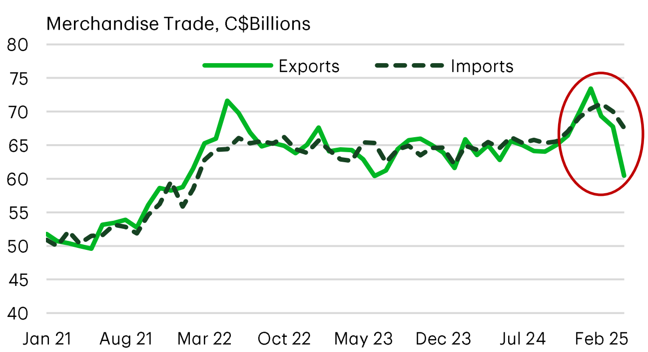
Maria Solovieva, CFA, Economist
416-380-1195

This week, the Bank of Canada held its policy rate at 2.75% for the second consecutive meeting, citing a "softer but not sharply weaker" economy and firmer-than-expected core inflation. The Canadian dollar climbed past 73 cents U.S., but lost steam following Friday's jobs report. Longer term yields were little changed at first, with markets interpreting the hold as marginally hawkish, but had edged higher at the time of writing.

April's trade data provided very clear evidence of how the U.S. tariffs are affecting Canadian trade. Merchandise trade cratered, with both imports and exports down – but exports more sharply, which will create a notable drag from net trade in the second quarter (Chart 1). Unsurprisingly, the biggest hit came from auto exports, which are now cooling after several months of gains as companies front-loaded shipments. Motor vehicle and parts imports also fell, signalling weaker domestic demand. Beyond autos, trade in consumer goods and industrial machinery & equipment also slumped, shrinking Canada's merchandise trade surplus with the United States to its lowest level since end-2020. Trade with non-U.S. partners rose, but not enough to offset the losses. Given the trade's heavy weight in GDP, we expect net exports to push Canada's economy into contraction in the second quarter.

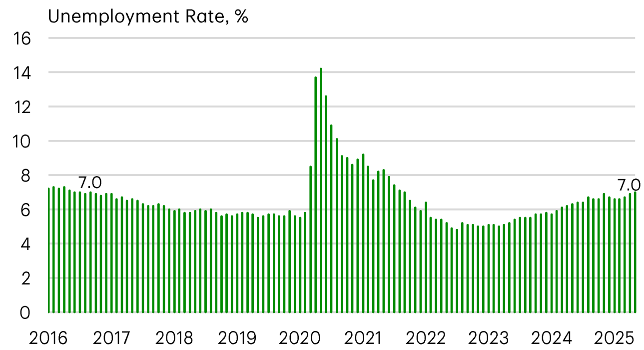
If the trade report set the melancholy tone, the jobs report drove it home. May employment was essentially flat, with a gain just under 9k. Since U.S. tariffs were first imposed in March, employment is down 16k – a stark reversal from more than a 100k gain in the preceding three months, when optimism due to lower interest rates grew. Manufacturing employment has been particularly hit, marking a fourth consecutive monthly decline, with cumulative losses now amounting to 55k. The unemployment rate rose to 7.0% – the highest since 2016, excluding the pandemic (Chart 2). Since February, the rate has climbed 0.4 percentage points and we expect it to continue rising into the second half of the year, weighing further on real activity.

Chart 1: Canada's Trade Craters in April as Exports Drop Sharply



Source: Statistics Canada, TD Economics.

Chart 2: Excluding Pandemic, Canada's Unemployment Rate Hits Highest Level Since 2016



Source: Statistics Canada, TD Economics.

Arguably, the case for easing existed even before Wednesday's decision, especially when factoring in collapsing sentiment indicators, which in Canada tend to lead real activity. So why didn't the Bank cut? The wrinkle is inflation. While headline CPI eased in April thanks to lower oil prices and elimination of the carbon tax, the Bank's preferred core measures ticked above 3.0%. With tariff-driven price pressures looming, policymakers appear unwilling to risk reigniting inflation or de-anchoring expectations. Indeed, one-year-ahead inflation expectations jumped a full percentage point, while longer-term measures edged up modestly.

This week's trade and employment data provided more evidence of the very real weakness unfolding in the economy. We expect the Bank will eventually be convinced that further interest rate cuts are needed, with two more cuts likely this year.

U.S. – Job Growth Shows Resilience, But More Volatility Elsewhere

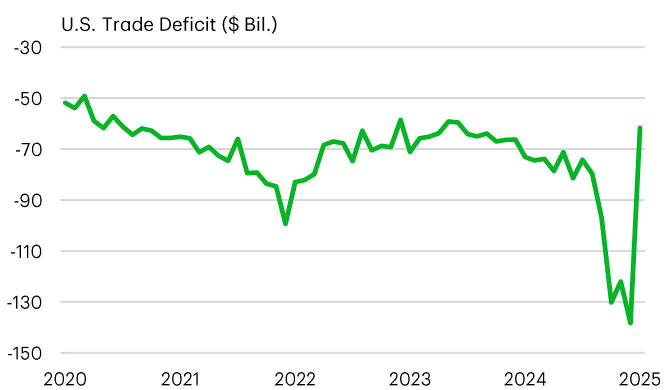
Ksenia Bushmeneva, Economist
416-308-7392

The impact of tariffs continues to distort the economic data, contributing to significant volatility—a trend that was evident this week. Trade flows are a prime example. The trade deficit swelled to an all-time high over the past three months as companies rushed to stockpile goods ahead of anticipated tariffs. However, this pre-emptive inventory build-up now appears to have run its course. April's trade data showed the deficit narrowed by 55%, as imports of consumer goods and industrial supplies declined to pre-tariff levels (Chart 1).

Consumer spending patterns also appear to be normalizing. Overall spending growth moderated in April, with a slight decline in spending on goods. New vehicles—a major category—are showing signs of stabilization following the pre-emptive shopping sprees seen in March and April. This week's data suggests that this front-loading behavior has ended, with vehicle sales falling 9.3% month-over-month in May.

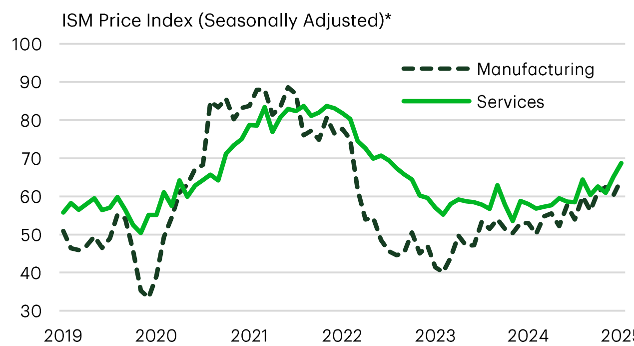
Looking ahead, car prices are likely to rise as automakers and dealers pass on at least part of the higher costs to consumers, which will weigh on sales. As noted in our recent report, if tariffs remain in place for the full year, we expect auto sales to decline by 4.0% on a Q4-over-Q4 basis. Financing costs also remain elevated. According to data from Edmunds, the average financing rate on new cars in May was 7.3%—0.7 percentage points higher than in December. A reprieve seems unlikely in the near term, as persistent trade and fiscal policy uncertainty, coupled with a still-resilient labor market, are expected to keep the Federal Reserve on hold. Interest rate futures currently price in just 20 basis points of policy easing by September and only two quarter-point cuts by year-end.

Chart 1: Trade Deficit Srinks in April



Source: U.S. Census Bureau, TD Economics.

Chart 2: U.S. Price Pressures Building Up



*Values over 50 represent an increase.
Source: Institute for Supply Management, TD Economics.

Indeed, today's payroll report showed that the labor market remained resilient in May. The U.S. economy added 139,000 jobs, slightly above the consensus forecast of 125,000. Smoothing through the monthly volatility, job growth averaged 135,000 over the past three months—just slightly below the 144,000 average over the past year. The unemployment rate remained low, holding steady at 4.2%, while wages continued to rise.

Overall, the large swings in data since the start of the year have made it challenging to assess the underlying health of the U.S. economy. Hard data indicators such as employment and inflation remain resilient. In contrast, soft indicators—including the Beige Book and ISM indexes—suggest the economy is beginning to feel the effects of trade uncertainty. Both the manufacturing and services ISM indexes are now in contractionary territory, while the price subcomponents of both have been trending higher, indicating rising inflationary pressures (Chart 2). This week's Beige Book also noted that economic activity has declined slightly since the previous report, and that contacts expect prices and costs to rise at a faster pace going forward. Layoffs were mentioned 15 times, up from 10 in March and 6 in January. We continue to expect policy uncertainty to exact a toll on the real economy, but rate cuts are looking further away.

Exhibits

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
Recent Key Economic Indicators: June 02 - 06, 2025						
United States						
Jun 02		S&P Global US Manufacturing PMI	May	Index	52.0	52.3
Jun 02		ISM Manufacturing	May	Index	48.5	48.7
Jun 03		Factory Orders	Apr	M/M % Chg.	-3.7	3.4
Jun 03		Factory Orders Ex Trans	Apr	M/M % Chg.	-0.5	-0.5
Jun 03		Durable Goods Orders	Apr	M/M % Chg.	-6.3	-6.3
Jun 03		Cap Goods Orders Nondef Ex Air	Apr	M/M % Chg.	-1.5	-1.3
Jun 03		Wards Total Vehicle Sales	May	Mlns	15.7	17.3
Jun 04		ADP Employment Change	May	Thsd	37.0	60.0
Jun 04		S&P Global US Services PMI	May	Index	53.7	52.3
Jun 04		S&P Global US Composite PMI	May	Index	53.0	52.1
Jun 04		ISM Services Index	May	Index	49.0	51.6
Jun 05		Trade Balance	Apr	Blns	-61.6	-138.3
Jun 05		Unit Labor Costs	1Q	Q/Q % Chg.	6.6	5.7
Jun 05		Initial Jobless Claims	May 31	Thsd	247.0	239.0
Jun 06		Change in Nonfarm Payrolls	May	Thsd	139.0	147.0
Jun 06		Unemployment Rate	May	%	4.2	4.2
Jun 06		Average Hourly Earnings	May	M/M % Chg.	0.4	0.2
Canada						
Jun 02		S&P Global Canada Manufacturing PMI	May	Index	46.1	45.3
Jun 04		Bank of Canada Rate Decision	Jun 04	%	2.75	2.75
Jun 05		Int'l Merchandise Trade	Apr	Blns	-7.1	-2.3
Jun 06		Net Change in Employment	May	Thsd	8.8	7.4
Jun 06		Unemployment Rate	May	%	7.0	6.9
International						
Jun 02	CH	Caixin China PMI Mfg	May	Index	48.3	50.4
Jun 03	EZ	Consumer Price Index Estimate	May	Y/Y % Chg.	1.9	2.2
Jun 03	EZ	Unemployment Rate	Apr	%	6.2	6.3
Jun 05	EZ	ECB Main Refinancing Rate	Jun 05	%	2.15	2.40
Jun 06	EZ	Retail Sales	Apr	Y/Y % Chg.	2.3	1.9
Jun 06	EZ	Gross Domestic Product SA	1Q	Y/Y % Chg.	1.5	1.2
Jun 06	EZ	Employment	1Q	Y/Y % Chg.	0.7	0.8

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jun 09 - 13, 2025							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Jun 09	10:00		Wholesale Trade Sales	Apr	M/M % Chg.	0.3	0.6
Jun 10	6:00		NFIB Small Business Optimism	May	Index	95.9	95.8
Jun 11	8:30		Consumer Price Index	May	M/M % Chg.	0.2	0.2
Jun 11	8:30		Consumer Price Index Ex Food and Energy	May	M/M % Chg.	0.3	0.2
Jun 11	8:30		Consumer Price Index	May	Y/Y % Chg.	2.5	2.3
Jun 11	8:30		Consumer Price Index Ex Food and Energy	May	Y/Y % Chg.	2.9	2.8
Jun 12	8:30		PPI Final Demand	May	M/M % Chg.	0.2	-0.5
Jun 12	8:30		PPI Ex Food and Energy	May	M/M % Chg.	0.3	-0.4
Jun 12	8:30		Initial Jobless Claims	Jun 07	Thsd	-	247.0
Canada							
Jun 13	8:30		Manufacturing Sales	Apr	M/M % Chg.	-	247.0
International							
Jun 10	2:00	UK	ILO Unemployment Rate	Apr	Q/Q % Chg.	4.6	4.5
Jun 12	2:00	UK	Gross Domestic Product	Apr	Q/Q % Chg.	0.7	0.7

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

Disclaimer