

## Weekly Bottom Line

June 27, 2025

Note: The next issue of the Weekly Bottom Line will be published on Thursday, July 3.

### Highlights

#### Canada

- Headline inflation for the month of May landed in line with expectations of a soft print. Core measures, while still elevated, showed signs of cooling.
- Industry-based GDP contracted in April, with a similar fate expected in May. Tariff-exposed industries are bearing the brunt of the blow.
- Canada committed to the new NATO pledge to spend 5% of GDP on defence by 2035.

#### U.S.

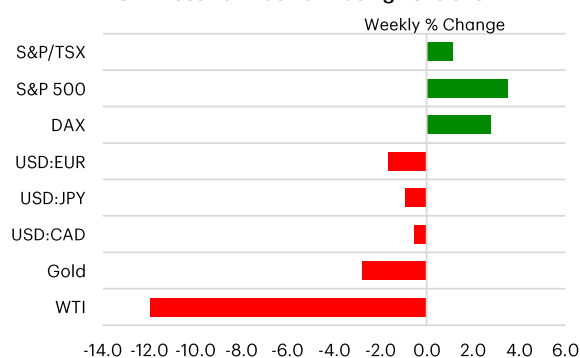
- An abrupt ceasefire between Israel and Iran sent oil prices tumbling, while stock markets rejoiced on the news, with the S&P 500 up roughly 3% on the week at the time of writing.
- The U.S. consumer is showing signs of fatigue with real spending falling 0.3% in May.
- The Fed's preferred inflation gauge, core PCE, ticked up modestly from 2.6% to 2.7% (y/y) in May.

#### This Week in the Markets

|                                     | Current* | Week Ago | 52-Week High | 52-Week Low |
|-------------------------------------|----------|----------|--------------|-------------|
| <b>Stock Market Indexes</b>         |          |          |              |             |
| S&P 500                             | 6176     | 5968     | 6176         | 4983        |
| S&P/TSX Comp.                       | 26791    | 26498    | 26791        | 21876       |
| DAX                                 | 23995    | 23351    | 24324        | 17339       |
| FTSE 100                            | 8784     | 8775     | 8885         | 7679        |
| Nikkei                              | 40151    | 38403    | 42224        | 31137       |
| <b>Fixed Income Yields</b>          |          |          |              |             |
| U.S. 10-yr Treasury                 | 4.28     | 4.38     | 4.79         | 3.62        |
| Canada 10-yr Bond                   | 3.33     | 3.30     | 3.61         | 2.83        |
| Germany 10-yr Bund                  | 2.60     | 2.52     | 2.90         | 2.03        |
| UK 10-yr Gilt                       | 4.51     | 4.54     | 4.89         | 3.76        |
| Japan 10-yr Bond                    | 1.44     | 1.40     | 1.59         | 0.79        |
| <b>Foreign Exchange Cross Rates</b> |          |          |              |             |
| C\$ (USD per CAD)                   | 0.73     | 0.73     | 0.74         | 0.69        |
| Euro (USD per EUR)                  | 1.17     | 1.15     | 1.17         | 1.02        |
| Pound (USD per GBP)                 | 1.37     | 1.35     | 1.37         | 1.22        |
| Yen (JPY per USD)                   | 144.7    | 146.1    | 161.7        | 140.6       |
| <b>Commodity Spot Prices**</b>      |          |          |              |             |
| Crude Oil (\$US/bbl)                | 66.0     | 74.9     | 83.9         | 57.1        |
| Natural Gas (\$US/MMBtu)            | 3.23     | 3.09     | 9.33         | 1.22        |
| Copper (\$US/met. tonne)            | 10219.3  | 9908.5   | 10219.3      | 8571.4      |
| Gold (\$US/troy oz.)                | 3274.0   | 3368.4   | 3432.3       | 2326.8      |

\*As of 11:24 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 Pull Back on Easing Tensions



Note: Data as of 11:23 AM ET, Friday, June 27, 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 – Inflation, GDP Confirm Economic Slowdown

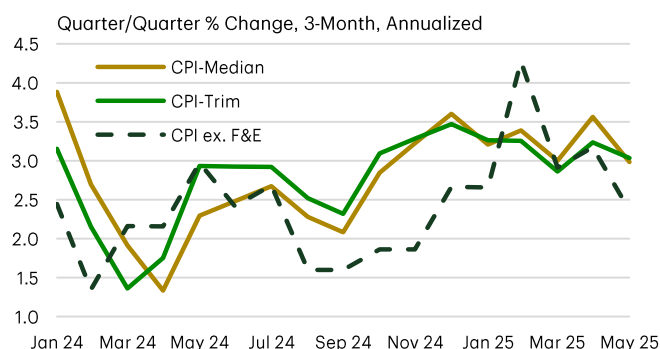
Marc Ercolao, Economist  
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This week we received the first of two inflation updates that the Bank of Canada (BoC) will use to guide their policy decision on July 30. May's headline inflation came in at a 1.7% year-on-year (y/y), meeting consensus expectations. Recent soft readings have been tamped down by the end of the consumer carbon tax, something we expect to linger for the coming months. Total inflation has averaged right at the BoC's 2% target for the better part of the last year, with areas like shelter inflation starting to see some reprieve.

Core inflation on the other hand has run warmer, though underlying price pressures eased up a bit in May. Case in point, the BoC's preferred core (CPI-trim and CPI-median) and the traditional core (ex-food and energy) measures all moved lower on a three-month annualized basis (Chart 1). One data point doesn't make a trend, but it helps the narrative that inflation is showing some containment. Our view remains that a softening economic growth backdrop over the next two quarters should help keep a lid on inflationary pressures.

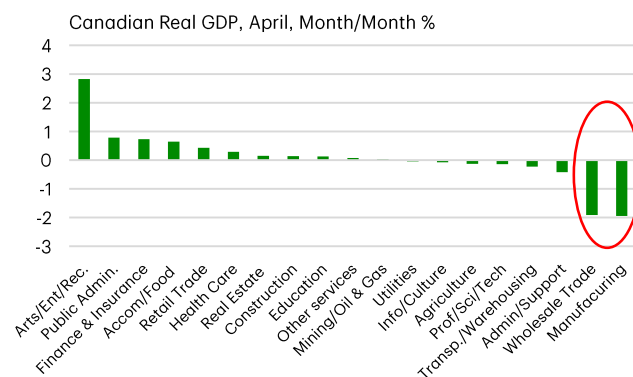
This view was reinforced after April's GDP report showed the impact of tariffs on the economy becoming increasingly clear. Canadian real GDP fell short of Statistics Canada's advance guidance, falling by -0.1% month-on-month versus an expected uptick in activity. Tariff-exposed sectors disproportionately felt the pinch (Chart 2), with industries like manufacturing and wholesale trade registering their largest monthly declines in roughly four years and two years, respectively.

**Chart 1: Canadian Core Inflation Edges Lower in May**



Source: Statistics Canada, TD Economics.

**Chart 2: Tariff-Exposed Industries Weighed Down in April**



Source: Statistics Canada, TD Economics.

Advanced estimates for May signal another contraction in economic growth. May's trade data are due next week and will be under heavy scrutiny after exports cratered by almost 20% the month prior. A further contraction in shipments would all but confirm a weak second quarter of growth.

Now it's about how the BoC views the balance of risks around growth and inflation. Markets expect the BoC to keep rates steady next month, though data over the past two weeks has the probability of a cut creeping closer to a coinflip. Based on the Bank's recent messaging around inflation risk, they'll likely need to see core prices ease further next month to entertain a rate cut at the next meeting. With Canada's labour market showing cracks, consumers reigning in spending, and the housing market visibly strained, we think the BoC has headroom to cut the policy rate two more times this year.

Elsewhere, Canada's defense spending is expected to ratchet higher as Prime Minister Carney signed the country on to NATO's 5% of GDP spending commitment by 2035. The target is split into a 3.5% goal on "hard" defense outlays and 1.5% on defense-related infrastructure. On the latter, PM Carney noted that planned infrastructure and emergency preparedness spending will count towards the 1.5% goal. Nonetheless, a gap of \$40-50 billion on annual spending exists – even after the additional ~\$9 billion announced to reach the prior 2% target by end of the fiscal year.

## U.S. – Some Calm After the Storm

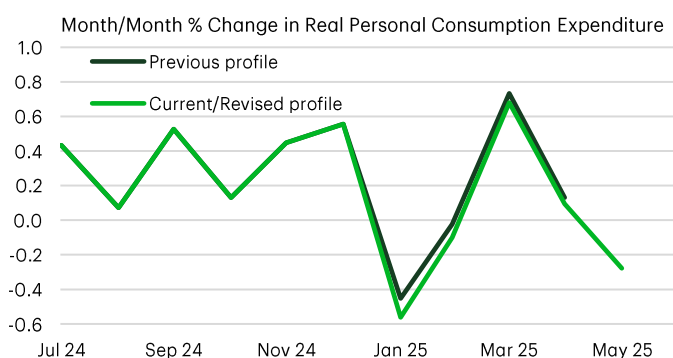
Admir Kolaj, Economist  
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Geopolitical developments continued to grab headlines this week. However, the world breathed a sigh of relief when Pres. Trump announced a ceasefire between Israel and Iran on Monday. Oil prices fell sharply on the news, while equity markets rallied. This was followed by what appeared to be a successful NATO summit, where most members agreed to increase defense spending targets to 5% of GDP by 2035. Some good news also trickled in on the trade front, with China pledging to approve applications for rare-earth exports to the U.S. – a development that could pave the way for more fruitful trade negotiations. These developments appeared to overshadow more muted developments on the home front.

The passage of the ‘One, Big, Beautiful Bill Act’ hit a snag in the Senate, ahead of Thursday’s vote. The Senate parliamentarian reportedly ruled out several major measures in the legislation, most notably provisions related to Medicaid cuts – complicating the GOP’s math on spending cuts. It remains unclear if the bill will pass by the Republican’s self-imposed deadline of July 4th.

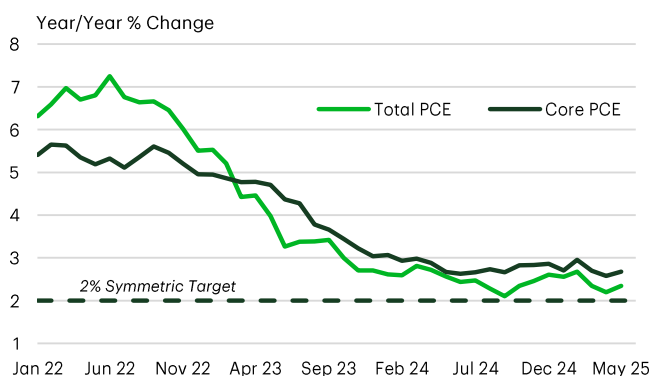
On the data front, the highlight of the week was the May release of personal income and spending. Personal income fell by 0.4% month-on-month (m/m), owing to a sharp pullback in transfer payments. Importantly, compensation to employees – nearly two-third of income – rose by a healthy 0.4% m/m. However, there were definite signs of waning consumer resilience. Goods spending fell 0.8% m/m, while services were flat on the month, with total spending down 0.3% on the month (Chart 1). Part of the softening in services

**Chart 1: U.S. Consumer Spending Fell in May, Q1 Revised Lower**



Source: BEA, TD Economics.

**Chart 2: U.S. PCE Inflation Ticks Up in May**



Source: Bureau of Labor Statistics, TD Economics.

spending was telegraphed earlier in the week in the third release of Q1 GDP, where it was revised to just a 0.6% gain (previously 1.7%), implying less momentum heading into Q2.

So far, the tariff impacts on inflation have remained relatively contained. While core PCE inflation – the Fed’s preferred gauge – heated up a touch in May, the monthly gain was due to relatively equal contributions from goods and services prices, pushing the year-on-year to 2.7% (Chart 2). Over the coming months, tariff impacts are expected to intensify, though the extent of price passthrough remains uncertain. Driving this point home, Chair Powell maintained a cautionary stance during his semiannual testimony to Congress this week, stating that he expects policymakers to stay on hold until they have a better handle on the impact tariffs will have on prices. This came in contrast to other Fed speakers, including Governor Waller and Bowman, who both noted that they support a July rate cut.

The growing divide among policymakers’ is shaped by differences in the expected passthrough from tariffs and underlying labor market conditions. Waller is of the view that the tariffs won’t significantly boost inflation and that because of monetary policy’s long and variable lags, the Fed should proactively cut rates to head off potential downside risks to the labor market. However, Powell and others are of the view that the labor market remains in a good spot and need to see more definitive signs of softening before pushing ahead with rate cuts. This puts next week’s employment report in the spotlight.

## Exhibits

| Recent Key Economic Indicators: June 23 - 27, 2025 |                                     |                 |            |         |        |
|--|-------------------------------------|-----------------|------------|---------|--------|
| Release Date                                       | Economic Indicator/Event            | Data for Period | Units      | Current | Prior  |
| United States                                      |                                     |                 |            |         |        |
| Jun 23   | S&P Global US Composite PMI         | Jun             | Index      | 52.8    | 53.0   |
| Jun 23   | S&P Global US Manufacturing PMI     | Jun             | Index      | 52.0    | 52.0   |
| Jun 23   | S&P Global US Services PMI          | Jun             | Index      | 53.1    | 53.7   |
| Jun 23   | Existing Home Sales                 | May             | Mlns       | 3.95    | 4.00   |
| Jun 24   | S&P CoreLogic CS 20-City NSA        | Apr             | Y/Y % Chg. | 3.4     | 4.1    |
| Jun 24   | S&P CoreLogic CS US HPI NSA         | Apr             | Y/Y % Chg. | 2.7     | 3.4    |
| Jun 24   | Conf. Board Consumer Confidence     | Jun             | Index      | 93.0    | 98.4   |
| Jun 25   | Building Permits                    | May             | Thsd       | 1394.0  | 1393.0 |
| Jun 26   | Advance Goods Trade Balance         | May             | Blns       | -96.6   | -87.0  |
| Jun 26   | Cap Goods Orders Nondef Ex Air      | May             | M/M % Chg. | 1.7     | -1.4   |
| Jun 26   | Durable Goods Orders                | May             | M/M % Chg. | 16.4    | -6.6   |
| Jun 26   | Gross Domestic Product (Annualized) | 1Q              | Q/Q % Chg. | -0.5    | -0.2   |
| Jun 26   | Initial Jobless Claims              | Jun 21          | Thsd       | 236.0   | 246.0  |
| Jun 26   | Personal Consumption                | 1Q              | Q/Q % Chg. | 0.5     | 1.2    |
| Jun 26   | Pending Home Sales                  | May             | M/M % Chg. | 1.8     | -6.3   |
| Jun 27   | Personal Income                     | May             | M/M % Chg. | -0.4    | 0.7    |
| Jun 27   | Real Personal Spending              | May             | M/M % Chg. | -0.3    | 0.1    |
| Canada   |                                     |                 |            |         |        |
| Jun 24   | Consumer Price Index                | May             | Y/Y % Chg. | 1.7     | 1.7    |
| Jun 24   | Consumer Price Index NSA            | May             | M/M % Chg. | 0.6     | -0.1   |
| Jun 24   | CPI-Median                          | May             | Y/Y % Chg. | 3.0     | 3.1    |
| Jun 24   | CPI-Trim                            | May             | Y/Y % Chg. | 3.0     | 3.1    |
| Jun 26   | Payroll Employment Change (SEPH)    | Apr             | Thsd       | -6.2    | -20.9  |
| Jun 27   | Gross Domestic Product              | Apr             | M/M % Chg. | -0.1    | 0.2    |
| International                                      |                                     |                 |            |         |        |
| Jun 26   | JN Jobless Rate                     | May             | %          | 2.5     | 2.5    |
| Jun 26   | JN Tokyo Consumer Price Index       | Jun             | Y/Y % Chg. | 3.1     | 3.4    |
| Jun 26   | JN Retail Sales                     | May             | Y/Y % Chg. | 2.2     | 3.5    |

Source: Bloomberg, TD Economics.

| Upcoming Economic Releases and Events: Jun 30- Jul 04, 2025 |       |  |                 |            |                    |             |
|---|-------|--|-----------------|------------|--------------------|-------------|
| Release Date  | Time* | Economic Indicator/Event                                       | Data for Period | Units      | Consensus Forecast | Last Period |
| United States   |       |  |                 |            |                    |             |
| Jun 30  | 10:00 | <i>Fed's Bostic Speaks on the Economic Outlook</i>             |                 |            |                    |             |
| Jun 30  | 13:00 | <i>Fed's Goolsbee Speaks in a Moderated Discussion</i>         |                 |            |                    |             |
| Jul 01  | 9:45  | S&P Global US Manufacturing PMI                                | Jun             | Index      | 52.0               | 52.0        |
| Jul 01  | 09:30 | <i>Powell Participates in Panel with Lagarde, Bailey, Ueda</i> |                 |            |                    |             |
| Jul 01  | 10:00 | ISM Manufacturing  | Jun             | Index      | 48.8               | 48.5        |
| Jul 01  | 17:00 | Wards Total Vehicle Sales                                      | Jun             | Mlns       | 15.5               | 15.7        |
| Jul 02  | 8:15  | ADP Employment Change  | Jun             | Thsd       | 110.0              | 37.0        |
| Jul 03  | 8:30  | Trade Balance  | May             | Blns       | -69.8              | -61.6       |
| Jul 03  | 8:30  | Change in Nonfarm Payrolls                                     | Jun             | Thsd       | 120.0              | 139.0       |
| Jul 03  | 8:30  | Unemployment Rate  | Jun             | %          | 4.3                | 4.2         |
| Jul 03  | 8:30  | Average Hourly Earnings  | Jun             | M/M % Chg. | 0.3                | 0.4         |
| Jul 03  | 8:30  | Initial Jobless Claims   | Jun 28          | Thsd       | -                  | 236.0       |
| Jul 03  | 9:45  | S&P Global US Services PMI                                     | Jun             | Index      | -                  | 53.1        |
| Jul 03  | 9:45  | S&P Global US Composite PMI                                    | Jun             | Index      | -                  | 52.8        |
| Jul 03  | 10:00 | Factory Orders   | May             | M/M % Chg. | 7.8                | -3.7        |
| Jul 03  | 10:00 | Factory Orders Ex Trans  | May             | M/M % Chg. | -                  | -0.5        |
| Jul 03  | 10:00 | ISM Services Index   | Jun             | Index      | 50.8               | 49.9        |
| Jul 03  | 10:00 | Durable Goods Orders   | May             | M/M % Chg. | -                  | 16.4        |
| Jul 03  | 10:00 | Cap Goods Orders Nondef Ex Air                                 | May             | M/M % Chg. | -                  | 1.7         |
| Jul 03  | 11:00 | <i>Fed's Bostic Gives Speech on Monetary Policy</i>            |                 |            |                    |             |
| Canada  |       |  |                 |            |                    |             |
| Jul 02  | 9:30  | S&P Global Canada Manufacturing PMI                            | Jun             | Index      | -                  | 46.1        |
| Jul 03  | 8:30  | Int'l Merchandise Trade  | May             | Blns       | -6.1               | -7.1        |
| International   |       |  |                 |            |                    |             |
| Jun 30  | 2:00  | UK Gross Domestic Product                                      | 1Q              | M/M % Chg. | 1.3                | 1.3         |
| Jun 30  | 21:45 | CH Caixin China PMI Mfg  | Jun             | Index      | 49.3               | 48.3        |
| Jul 01  | 5:00  | EC Consumer Price Index Estimate                               | Jun             | Y/Y % Chg. | 2.0                | -           |
| Jul 02  | 5:00  | EC Unemployment Rate   | May             | %          | 6.2                | 6.2         |

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

## Disclaimer

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