

Weekly Bottom Line

July 3, 2025

Highlights

Canada

- This Canada Day week brought renewed trade drama, as the federal government dropped the Digital Services Tax, helping ease tensions and restart negotiations with the U.S.
- Relief was limited in May's trade data. While the merchandise trade balance improved modestly, it remains weak, reinforcing our forecast for a Q2 GDP contraction.
- Next week's jobs report will offer another perspective into how deep the economic damage from tariffs runs. We expect enough evidence to support further Bank of Canada cuts in the third quarter.

U.S.

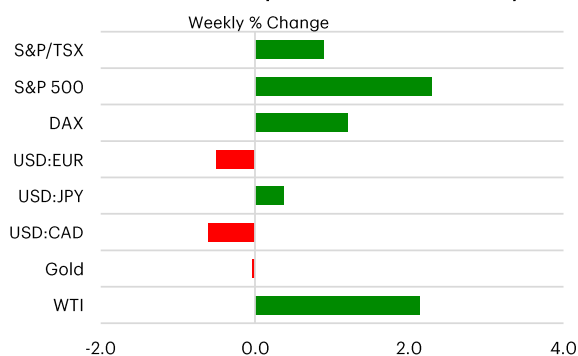
- Auto sales declined for the third consecutive month in June, as purchases continued to pull back following the pre-tariff rush to buy.
- Both manufacturing and non-manufacturing ISM sentiment indexes improved in June, but remained at low levels amid lingering trade uncertainty. Hiring intentions remained subdued, and prices stayed elevated.
- The labor market continued to add jobs in June. Payrolls rose by 147k—well-above the 110k consensus—but gains were heavily concentrated in state & local government and healthcare & social assistance.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6283	6141	6283	4983
S&P/TSX Comp.	26991	26752	26991	21881
DAX	23902	23649	24324	17339
FTSE 100	8817	8736	8885	7679
Nikkei	39786	39585	42224	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.33	4.24	4.79	3.62
Canada 10-yr Bond	3.37	3.34	3.61	2.83
Germany 10-yr Bund	2.62	2.57	2.90	2.03
UK 10-yr Gilt	4.54	4.47	4.89	3.76
Japan 10-yr Bond	1.44	1.42	1.59	0.79
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.73	0.74	0.69
Euro (USD per EUR)	1.18	1.17	1.18	1.02
Pound (USD per GBP)	1.37	1.37	1.37	1.22
Yen (JPY per USD)	144.9	144.4	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	66.8	65.2	83.9	57.1
Natural Gas (\$US/MMBtu)	3.11	3.23	9.33	1.22
Copper (\$US/met. tonne)	10109.2	10219.3	10219.3	8571.4
Gold (\$US/troy oz.)	3327.7	3327.9	3432.3	2356.2

*As of 11:49 AM on Thursday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Wednesday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Markets Rise on Trade Optimism and Solid U.S. Payrolls



Note: Data as of 11:50 AM ET, Thursday, July 3, 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 – Trade Moves Back into the Spotlight

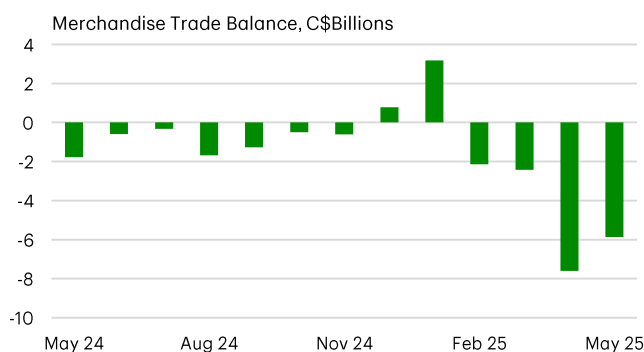
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This Canada Day week may have been light on data, but surely didn't lack the drama. It began with the federal government's eleventh-hour decision to cancel the Digital Services Tax (DST), originally set to take effect on Monday, and to rescind the legislation once Parliament resumes. The move thawed tensions with the Trump administration. Markets responded positively, with the S&P/TSX Index resuming its climb and ending the week up almost 1%. The Canadian dollar also popped on the news but has since edged back.

The DST might have served as a future bargaining chip, but its withdrawal was a no-brainer. The tax – retroactive to January 2022 – was projected to raise \$7.2 billion, but scrapping it adds less than two-tenths of a percentage point to the debt-to-GDP ratio, a negligible shift in the grand scheme. For trade talks, however, it was a thorn that had to be removed. Moreover, the DST risked backfiring on domestic firms and consumers. Tech giants were almost certain to pass on the cost, and some – like Amazon – may have already implemented Canada-specific surcharges.

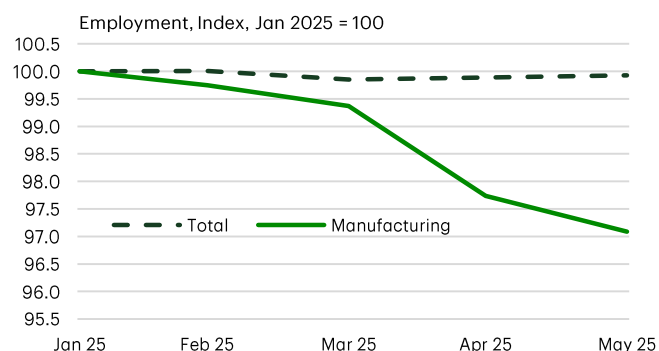
The decision is widely seen as a compromise to restore momentum in trade negotiations with the U.S. and ease tensions between the two nations, with a goal of reaching a trade deal by July 21st. But signs of relief were scant in the [May trade data](#). The merchandise trade balance improved modestly, with exports rebounding slightly and imports falling for the fourth consecutive month. As a result, the deficit narrowed to \$5.9 billion from \$7.1 billion in April (Chart 1). This net

Chart 1: Canada's Trade Deficit Narrows on Modest Exports Gains



Source: Statistics Canada, TD Economics.

Chart 2: Tariffs Have Already Shaken Canadian Manufacturing Sector



Source: Statistics Canada, TD Economics.

trade component is expected to subtract substantially from GDP in the second quarter, reinforcing [our view of a Q2 contraction](#).

From an industry perspective, the rebound in exports was driven by higher sales of metal and non-metallic mineral products, particularly shipments of unwrought gold to the UK. Exports of consumer goods also made a notable contribution. On the import side, the weakness was concentrated in metals and mineral products, as well as in passenger cars and light trucks, imports of which fell to their lowest level in over two years.

Meanwhile, Canada's merchandise trade surplus with the U.S. widened slightly, as imports declined more than exports. Gains in sales to non-U.S. markets were encouraging and have helped cushion the blow in recent months, but not enough to fully offset the drop with our largest trading partner.

The damage from fraying trade relations will continue unfolding. Next week's jobs report will offer another perspective into how deep that damage runs. So far, total employment has moved sideways rather than down, but under the surface, cracks are evident. Employment in trade-intensive sectors like manufacturing is down nearly 3% since January (Chart 2). Should this weakness spread, the Bank of Canada is likely to respond – with two additional rate cuts before the end of Q3.

U.S. – Signs of Waning Economic Resilience

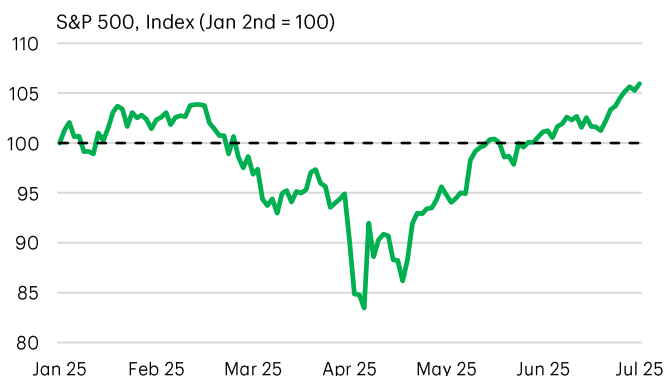
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Monday marked the end of a volatile quarter in financial markets. After a 25% peak-to-trough decline from February to April, the S&P 500 has fully recovered, reaching new record highs (Chart 1). The 90-day pause on “Liberation Day” tariffs, a tentative truce with China, signs of economic resilience, and limited tariff pass-through to consumer prices thus far have helped to fuel the recovery.

However, uncertainty looms with the pause on the “Liberation Day” tariffs set to expire next week. President Trump has signalled a firm stance on the July 9th deadline, and recently threatened higher tariffs on Japanese imports. Lingering uncertainty on Section 232 tariffs — affecting lumber, copper, pharmaceuticals, and critical minerals — will further complicate matters. Trump recently halted trade talks with Canada, before resuming them when Canada canceled its Digital Service Tax. President Trump did announce a framework trade deal with Vietnam on social media. The U.S. will impose 20% tariffs on imports from the Vietnam and a 40% levy on any goods that are “transshipped” via this country in order to prevent Chinese goods from entering the U.S. via backdoor routes. So far, the UK and Vietnam are the only countries to get deals ahead of the deadline.

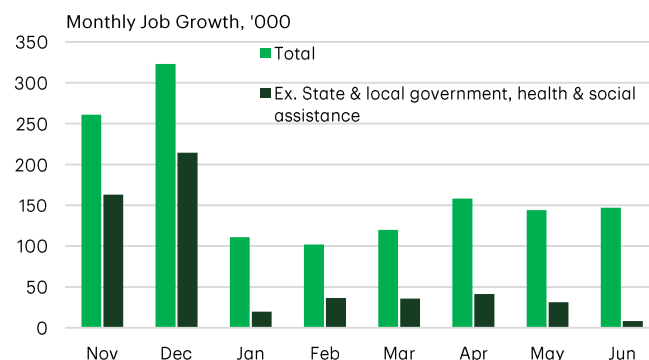
Domestically, the U.S. economy has shown resilience, but recent data revisions suggest it may not be as robust as initially believed. Q1 consumer spending growth was downgraded to 0.5% annualized, down from 1.2%. Spending is tracking weaker than [forecast for the second quarter](#). Consumer spending slowed in April and declined in May, with much of the softness stemming from

Chart 1: Equity Markets Make a Full Comeback



Source: S&P, Haver Analytics, TD Economics.

Chart 2: U.S. Job Growth Lacks Breadth



Source: BLS, TD Economics.

goods, which saw front-loaded demand ahead of tariffs. [Auto sales](#) declined for the third straight month in June, adding downside risk to activity. Services spending has also been lackluster, rising just 0.1% in April and remaining flat in May.

The labor market has been a relative bright spot, but is also showing signs of strain. Slowing immigration and weak population growth may be encouraging employers to hold onto workers, limiting layoffs — the unemployment rate remained little changed. June [payrolls](#) rose by 147k—above the 110k consensus—but gains were heavily concentrated in state and local government (+74k) and healthcare & social assistance (+60k). Excluding these two non-cyclical sectors, employment was nearly flat, suggesting continued private-sector hesitation (Chart 2).

ISM survey data also points to modest economic activity. Both the [manufacturing](#) and [services](#) indices improved slightly in June, but remained at low levels. Manufacturing remained in contraction, while services returned to expansion after a brief dip in May. Price pressures persisted in both sectors, especially for manufacturers, where input costs continue to rise. Employment subcomponents fell further into contraction, signaling reluctance to expand payrolls.

Overall, this week's data is unlikely to shift the Fed from its patient stance. Activity is softening, but not collapsing. We share the market's view that the Fed will likely keep monitoring inflation developments before making any policy moves, with September remaining the most likely decision point.

Exhibits

Recent Key Economic Indicators: June 30 - July 04, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jul 01	S&P Global US Manufacturing PMI	Jun	Index	52.9	52.0
Jul 01	ISM Manufacturing	Jun	Index	49.0	48.5
Jul 01	Wards Total Vehicle Sales	Jun	MIns	15.3	15.7
Jul 02	ADP Employment Change	Jun	Thsd	-33.0	29.0
Jul 03	Trade Balance	May	BIns	-71.5	-60.3
Jul 03	Change in Nonfarm Payrolls	Jun	Thsd	147.0	144.0
Jul 03	Unemployment Rate	Jun	%	4.1	4.2
Jul 03	Average Hourly Earnings	Jun	M/M % Chg.	0.2	0.4
Jul 03	Initial Jobless Claims	Jun 28	Thsd	233.0	237.0
Jul 03	S&P Global US Services PMI	Jun	Index	52.9	53.1
Jul 03	S&P Global US Composite PMI	Jun	Index	52.9	52.8
Jul 03	Factory Orders	May	M/M % Chg.	8.2	-3.9
Jul 03	Factory Orders Ex Trans	May	M/M % Chg.	0.2	-0.6
Jul 03	ISM Services Index	Jun	Index	50.8	49.9
Jul 03	Durable Goods Orders	May	M/M % Chg.	16.4	16.4
Jul 03	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	1.7	1.7
Canada					
Jul 02	S&P Global Canada Manufacturing PMI	Jun	Index	45.6	46.1
Jul 03	Int'l Merchandise Trade	May	BIns	-5.9	-7.6
International					
Jun 30	UK Gross Domestic Product	1Q	Y/Y % Chg.	1.3	1.3
Jun 30	CH Caixin China PMI Mfg	Jun	Index	50.4	48.3
Jul 01	EZ Consumer Price Index Estimate	Jun	Y/Y % Chg.	2.0	1.9
Jul 02	EZ Unemployment Rate	May	%	6.3	6.2

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jul 07 - 11, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jul 08	6:00	NFIB Small Business Optimism	Jun	Index	97.9	98.8
Jul 09	10:00	Wholesale Trade Sales	May	M/M % Chg.	0.2	0.1
Jul 09	14:00	FOMC Meeting Minutes	Jun 18			
Jul 10	8:30	Initial Jobless Claims	Jul 05	Thsd	-	233.0
Jul 10	9:00	<i>Fed's Musalem Speaks on US Economy and Monetary Policy</i>				
Jul 10	14:30	<i>Fed's Daly Speaks on US Economic Outlook</i>				
Canada						
Jul 11	8:30	Net Change in Employment	Jun	Thsd	-	8.8
Jul 11	8:30	Unemployment Rate	Jun	%	-	7.0
International						
Jul 07	5:00	EZ Retail Sales	May	Y/Y % Chg.	1.4	2.3
Jul 08	21:30	CH Consumer Price Index	Jun	Y/Y % Chg.	0.0	-0.1
Jul 11	2:00	UK Gross Domestic Product	May	Q/Q % Chg.	-	0.7
*Eastern Standard Time. Source: Bloomberg, TD Economics.						

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