

## Weekly Bottom Line

August 29, 2025

### Highlights

#### Canada

- Canada's Q2 GDP contracted 1.6% (annualized), laying bare the economics of a trade war.
- Net trade carved a hefty slice out of growth, while business investment also weakened. In contrast, other components of domestic demand held firm, with consumption surprising to the upside.
- Further rate relief from the Bank of Canada cannot be ruled out. We expect two more cuts by year-end, bringing the policy rate closer to lower bound of the Bank's neutral range.

#### U.S.

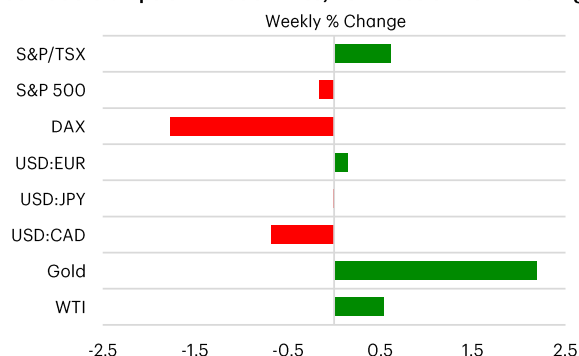
- President Trump is attempting to remove FOMC member Lisa Cook, sparking further concerns of Fed independence.
- Real GDP growth for the second quarter was revised higher to 3.3%, with most of the upward revision stemming from stronger business investment.
- Real consumer spending rose 0.3% m/m in July, thanks to a strong gain in motor vehicle sales & parts. Meanwhile, annual core PCE inflation hit a five-month high of 2.9%.

#### This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	6454	6467	6502	4983
S&P/TSX Comp.	28491	28333	28491	22507
DAX	23941	24363	24550	18266
FTSE 100	9198	9321	9321	7679
Nikkei	42718	42633	43714	31137
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	4.23	4.25	4.79	3.62
Canada 10-yr Bond	3.40	3.44	3.60	2.83
Germany 10-yr Bund	2.72	2.72	2.90	2.03
UK 10-yr Gilt	4.72	4.69	4.89	3.76
Japan 10-yr Bond	1.60	1.63	1.63	0.82
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.73	0.72	0.74	0.69
Euro (USD per EUR)	1.17	1.17	1.18	1.02
Pound (USD per GBP)	1.35	1.35	1.37	1.22
Yen (JPY per USD)	146.9	146.9	158.4	140.6
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	64.1	63.7	80.0	57.1
Natural Gas (\$US/MMBtu)	2.89	2.77	9.33	1.22
Copper (\$US/met. tonne)	9735.2	9718.1	10219.3	8571.4
Gold (\$US/troy oz.)	3445.9	3371.9	3445.9	2492.9

\*As of 11:36 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

#### S&P 500 Slumps on Inflation Miss, TSX Rises on Bank Earnings



Note: Data as of 11:37 AM ET, Friday, August 29, 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)	4.00%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

## Canada – Trade War Economics Laid Bare

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As summer winds down, this week's economic calendar heated up. The headline release was Q2 GDP, offering the first hard look at how Canada's economy coped under the weight of tariffs. The [economy contracted 1.6% \(q/q, annualized\)](#) — in line with both our own tracking and the Bank of Canada's July scenario, but weaker than consensus expectations for a modest 0.7% decline (Chart 1). Markets took the news in stride: equities gained nearly 1%, 10-year yields slipped, and the Canadian dollar inched up toward US\$0.73, even as the greenback strengthened elsewhere.

The numbers laid bare the economics of a trade war. Exports plunged by a whopping 27% in Q2, with autos, machinery, and travel services hit especially hard. Imports also fell, but by less than exports, leaving net trade to carve a hefty eight percentage points off growth. Thursday's international balance of payments release foreshadowed this outcome, reporting a record-low current account deficit of \$21.2 billion (Chart 2).

Business investment provided no relief. Machinery and equipment spending dropped sharply, driving the 10% quarterly decline, though structures spending rebounded thanks to a one-off import tied to an offshore oil project in Newfoundland and Labrador. A brighter spot came from residential investment, which regained some ground after its steep Q1 fall, helped by the recent surge in new home construction.

Chart 1: Canadian Economy Shrinks in Q2

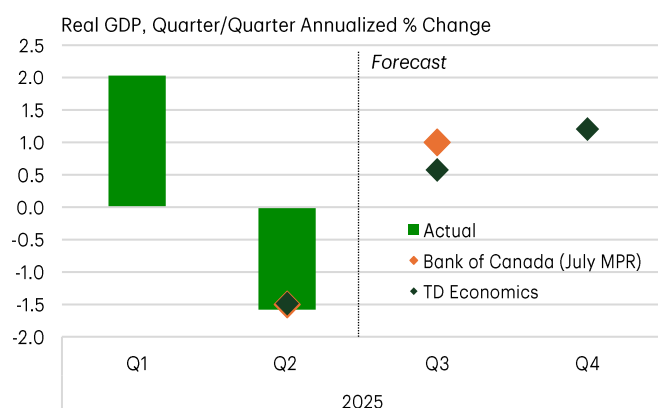
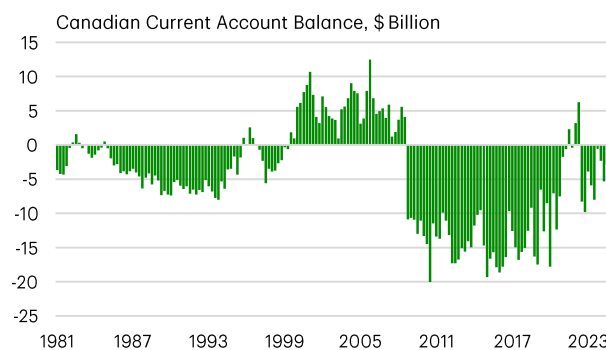


Chart 2: Current Account Deficit Widens to a Record Low Amid Trade Spat



There were more positive signals elsewhere. Inventory accumulation and government spending both contributed positively to domestic demand, which excludes net exports and rose solidly in the second quarter of 2025, following a decline in the first quarter. The real surprise came from households. Personal consumption jumped: durable goods rebounded from their Q1 slump, semi-durables and non-durables posted more modest gains, and services spending recorded its strongest gain since early 2024. Some of this reflected tariff-related front-running, but it also showed consumers' willingness to spend despite a softening job market. Whether this resilience can hold is doubtful: early retail data for July point to cooling momentum, and slower wage growth will weigh on spending in the second half of 2025 ([see our Q&A](#)).

Taken together, the data show an economy caught between trade-driven weakness and surprisingly sturdy domestic demand. The former makes the case for further monetary easing, while the latter could temper how quickly the Bank of Canada moves. With Canada's retaliatory tariffs now lifted and trade talks resuming, uncertainty may begin to ease for businesses. Still, as Governor Macklem reminded in his remarks this week, monetary policy cannot "offset the hit to efficiency from higher tariffs and the reconfiguration of trade." What it can do is cushion the blow. With the the current policy rate still sitting at the midpoint of the Bank's estimated neutral range, the Q2 contraction only strengthens the case for more cuts this year. Markets are now pricing a 55% chance of a cut in September.

## U.S. – President Trump Applies Further Pressure on Fed

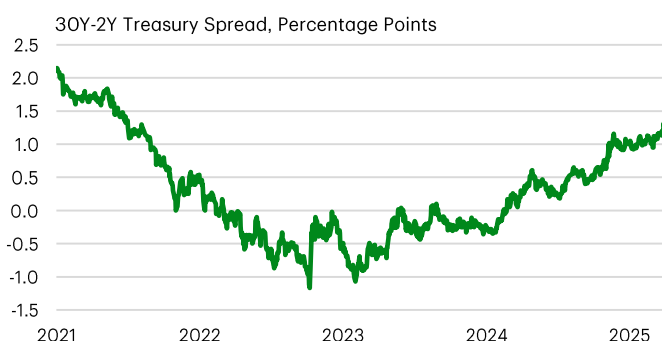
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President Trump continued to pressure Federal Reserve officials this week, this time attempting to fire Governor Lisa Cook for alleged mortgage fraud. The situation remains influx, as Cook is contesting the President's actions in court. But the mere threat of her removal has sparked further concerns of central bank independence, sending shorter-term yields lower. The yield curve steepened on the week, with the 30-to-2-year spread widening to its highest level since early-2022 (Chart 1). Meanwhile, equity markets largely shook off the news, as investors' attention remained squarely focused on this week's earnings reports, including Nvidia and several large retailers. The S&P 500 briefly hit another all-time on Thursday, but retraced on Friday and looks to end the week slightly in the red.

Turning to the economic data calendar, the Bureau of Economic Analysis released its second estimate of [Q2 real GDP](#). Relative to the first release, economic growth was revised higher by 0.3 percentage points to 3.3%. While net trade remained a major source of growth, a good chunk of the upward revision came from stronger business investment, specifically in categories that are likely tied to AI investments. In fact, spending on 'computers & other peripheral equipment' and 'software' accounted for all the growth in business investment through the first half of 2025.

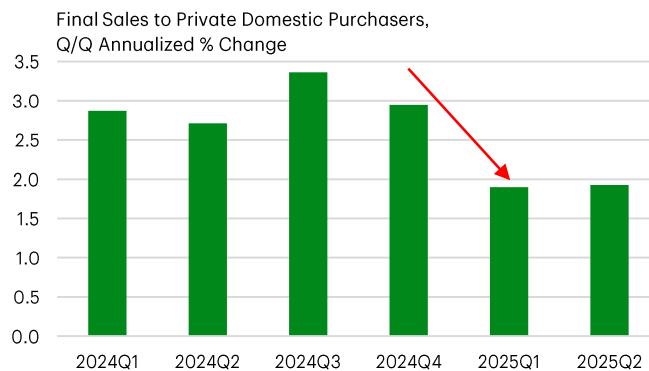
Final sales to private domestic purchasers – the best gauge of underlying domestic demand – was raised from 1.2% to 1.9% and is now on-par with Q1's rate of expansion. While this marks a deceleration from H2-2024 (Chart 2), it suggests the narrative of ongoing economic resilience hasn't completely fizzled out amid ongoing trade uncertainty.

**Chart 1: Treasury Curve Has Steepened to Highest Level Since 2022**



Source: Federal Reserve Board, TD Economics.

**Chart 2: Domestic Spending Has Cooled in 2025**



Source: Bureau of Economic Analysis, TD Economics.

This point was further underscored in the Gross Domestic Income (GDI) figures, which accompany the second estimate of GDP and serve as an alternative measure of economic output. Real GDI rose a healthy 4.8% in Q2 – up from a flat reading in Q1. Corporate profits rose 7% annualized, despite elevated cost pressures from tariffs, while household income also continued to expand at a +5% clip.

Despite the healthy gains in income, households have become increasingly selective in their spending. Real PCE rose 0.3% month/month in July, with most of the gains coming from an increase in durable goods. Vehicle sales had a heavy hand in the uptick, as consumers appear to be pulling forward purchases to get ahead of tariff price increases which will likely materialize later this year once OEMs roll over to 2026 models. But it's the discretionary services spending that remains weak, a theme that has played out through most of this year and something that's unlikely to change until households have more certainty about the economic outlook.

With inflationary pressures heating up, this is unlikely to come anytime soon. Core PCE inflation rose 0.3% m/m, pushing the year-ago measures to 2.9% – a five-month high. Hotter services inflation was the major driver in last month's uptick, something that is likely to further embolden Fed hawks. This puts next week's employment report sharply in focus. Consensus currently expects payrolls to add 75k jobs in August. A stronger reading could push back on the odds for a September rate cut, which is currently 90% priced in.

## Exhibits

Recent Key Economic Indicators: Aug 25 - 29, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Aug 25	Building Permits	Jul	Thsd	1362.0	1354.0
Aug 25	New Home Sales	Jul	Thsd	652.0	656.0
Aug 26	Durable Goods Orders	Jul	M/M % Chg.	-2.8	-9.4
Aug 26	Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	1.1	-0.6
Aug 26	S&P CoreLogic CS 20-City NSA	Jun	Y/Y % Chg.	2.1	2.8
Aug 26	S&P CoreLogic CS US HPI NSA	Jun	Y/Y % Chg.	1.9	2.3
Aug 26	Conf. Board Consumer Confidence	Aug	Index	97.4	98.7
Aug 28	Initial Jobless Claims	Aug 23	Thsd	229.0	234.0
Aug 28	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	3.3	3.0
Aug 28	Personal Consumption	2Q	Q/Q % Chg.	1.6	1.4
Aug 29	Personal Income	Jul	M/M % Chg.	0.4	0.3
Aug 29	Real Personal Spending	Jul	M/M % Chg.	0.3	0.1
Aug 29	Advance Goods Trade Balance	Jul	Blns	-103.6	-84.9
Canada					
Aug 28	Payroll Employment Change - SEPH	Jun	Thsd	-32.9	18.5
Aug 29	Quarterly Gross Domestic Product Annualized	2Q	Q/Q % Chg.	-1.6	2.0
Aug 29	Gross Domestic Product	Jun	M/M % Chg.	-0.1	-0.1
International					
Aug 28	JN Jobless Rate	Jul	%	2.3	2.5
Aug 28	JN Tokyo Consumer Price Index	Aug	Y/Y % Chg.	2.6	2.9
Aug 28	JN Retail Sales	Jul	Y/Y % Chg.	0.3	1.9
Aug 29	IN Gross Domestic Product	2Q	Y/Y % Chg.	7.8	7.4

\*Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sep 1 - 5, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 02	9:45	S&P Global US Manufacturing PMI	Aug	Index	-	53.3
Sep 02	10:00	ISM Manufacturing	Aug	Index	48.8	48.0
Sep 03	9:00	<i>Fed's Musalem Speaks on Economy and Policy at Peterson</i>				
Sep 03	10:00	Factory Orders	Jul	M/M % Chg.	-1.4	-4.8
Sep 03	10:00	Factory Orders Ex Trans	Jul	M/M % Chg.	-	0.4
Sep 03	10:00	Durable Goods Orders	Jul	M/M % Chg.	-	-2.8
Sep 03	10:00	Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	-	1.1
Sep 03	14:00	<i>Fed Releases Beige Book</i>				
Sep 03	14:00	Wards Total Vehicle Sales	Aug	Mlns	16.0	16.4
Sep 04	8:15	ADP Employment Change	Aug	Thsd	60.0	104.0
Sep 04	8:30	Unit Labor Costs	2Q	Q/Q % Chg.	-	1.6
Sep 04	8:30	Initial Jobless Claims	Aug 30	Thsd	-	229.0
Sep 04	8:30	Trade Balance	Jul	Blns	-62.6	-60.2
Sep 04	9:45	S&P Global US Services PMI	Aug	Index	-	55.4
Sep 04	9:45	S&P Global US Composite PMI	Aug	Index	-	55.4
Sep 04	10:00	ISM Services Index	Aug	Index	50.5	50.1
Sep 04	11:30	<i>Fed's Williams Speaks on Economic Outlook and Monetary Policy</i>				
Sep 04	19:00	<i>Fed's Goolsbee Appears in a Moderated Q&amp;A</i>				
Sep 05	8:30	Change in Nonfarm Payrolls	Aug	Thsd	78.0	73.0
Sep 05	8:30	Average Hourly Earnings	Aug	M/M % Chg.	0.3	0.3
Sep 05	8:30	Unemployment Rate	Aug	%	4.3	4.2
Canada						
Sep 02	9:30	S&P Global Canada Manufacturing PMI	Aug	Index	-	46.1
Sep 04	8:30	Int'l Merchandise Trade	Jul	Blns	-	-5.9
Sep 05	8:30	Net Change in Employment	Aug	Thsd	-	-40.8
Sep 05	8:30	Unemployment Rate	Aug	%	-	6.9
International						
Sep 01	5:00	EZ Unemployment Rate	Jul	%	6.2	6.2
Sep 02	5:00	EZ Consumer Price Index Estimate	Aug	Y/Y % Chg.	2.0	2.0
Sep 02	8:00	BZ Gross Domestic Product	2Q	Q/Q % Chg.	0.3	1.4
Sep 04	5:00	EZ Retail Sales	Jul	Y/Y % Chg.	2.4	3.1
Sep 05	2:00	UK Retail Sales Ex Auto Fuel	Jul	Y/Y % Chg.	1.2	1.8
Sep 05	5:00	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	1.4	1.4
Sep 05	5:00	EZ Employment	2Q	Y/Y % Chg.	-	0.7

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

## Disclaimer

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