

Weekly Bottom Line

February 28, 2025

Highlights

Canada

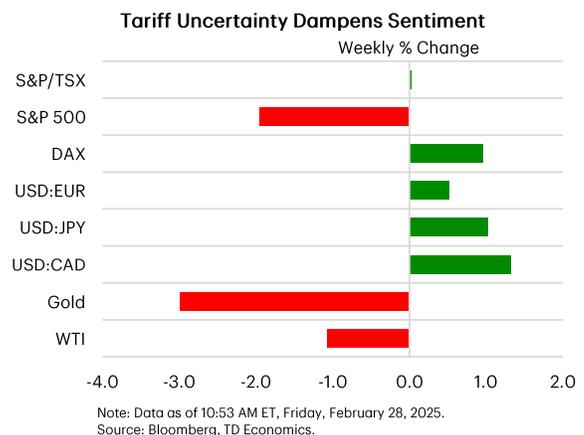
- President Trump signalled that broad-based tariffs on Canadian exports will come into effect on March 4th. The wait is on to see if they are indeed implemented.
- If enacted, these tariffs would hit just when the economy is on the mend. Canada's economy advanced at a healthy 2.6% annualized rate in Q4, bolstered by consumer spending.
- Although markets currently judge it as a near 50/50 proposition, we think the Bank of Canada will cut their policy rate on March 12th.

U.S.

- The Fed's preferred inflation metric, core PCE, rose 2.6% year-on-year in January, in-line with expectations and continuing to converge with the Fed's 2% target.
- The Conference Board's Consumer Confidence Index showed a material decline in February, as tariffs weighed on sentiment and boosted inflation expectations.
- The President announced an additional 10% tariff on China set to take effect on March 4th, in concert with the previously announced 25% tariffs against Canada and Mexico.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5898	6013	6144	4967
S&P/TSX Comp.	25169	25147	25808	21364
DAX	22496	22288	22845	17339
FTSE 100	8797	8659	8807	7630
Nikkei	37156	38777	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.25	4.43	4.79	3.62
Canada 10-yr Bond	2.94	3.11	3.87	2.87
Germany 10-yr Bund	2.40	2.47	2.69	2.03
UK 10-yr Gilt	4.48	4.57	4.89	3.76
Japan 10-yr Bond	1.38	1.43	1.45	0.71
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.69	0.70	0.74	0.69
Euro (USD per EUR)	1.04	1.05	1.12	1.02
Pound (USD per GBP)	1.26	1.26	1.34	1.22
Yen (JPY per USD)	150.8	149.3	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	69.7	70.4	86.9	65.8
Natural Gas (\$US/MMBtu)	3.91	4.44	9.33	1.22
Copper (\$US/met. tonne)	9381.3	9518.8	10800.8	8400.8
Gold (\$US/troy oz.)	2849.1	2936.1	2951.7	2044.3

*As of 10:54 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.25 - 4.50%
Bank of Canada (Overnight Rate)	3.00%
European Central Bank (Refi Rate)	2.90%
Bank of England (Repo Rate)	4.50%
Bank of Japan (Overnight Rate)	0.50%

Source: Bloomberg.

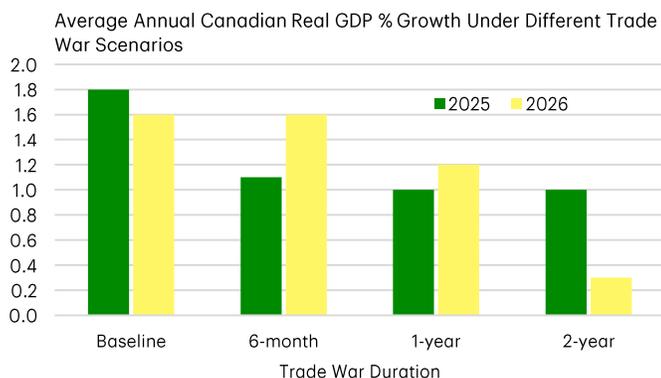
Canada – Deadline 2.0

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Markets were in a dour mood this week, directly related to President Trump's repeated threat of broad-based tariffs to begin next Tuesday, March 4th. There was a bit of "will he, won't he", with respect to these threats. The signal from the Oval Office on Monday appeared to indicate that they'll proceed. This message got muddled on Wednesday during a U.S. cabinet meeting, where it seemed as though they could be punted for another month. Unfortunately, Canadians got concerning clarification from President Trump on Thursday that they are indeed set to be enacted next week. The Canadian dollar was down over one cent USD in the week (as of writing). Meanwhile, the Canadian 10-year yield was lower by around 20 bps to 3%.

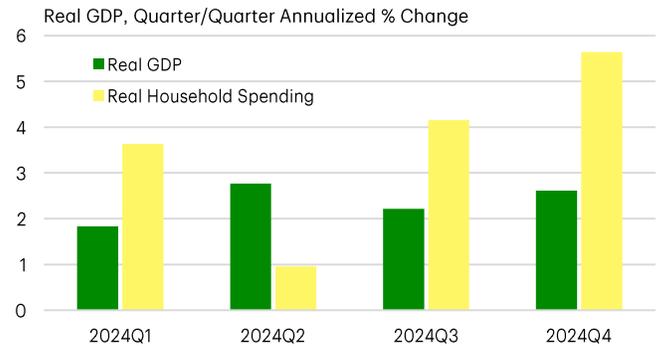
Of course, we've done this dance before. Just a few weeks ago, U.S. tariffs were paused at the 11th hour after negotiations between President Trump and Prime Minister Trudeau. So, it remains to be seen if March 4th will mark the beginning of a harmful trade war, or if cooler heads will prevail again. When forecasting the potential damage to the Canadian economy, the one unknown is how long punitive 25% tariffs would be in effect. Our latest [Q&A](#) presents economic growth outcomes that could unfold depending on how long U.S. tariffs (and reciprocal ones from Canada), are in place. A two-year trade war would hamper growth well into 2026, whereas as a six-month duration could see growth rebounding smartly next year, although both scenarios would see deteriorating conditions in 2025 (Chart 1).

Chart 1: U.S. Tariffs Would Spell Trouble for Canada



Source: Statistics Canada, TD Economics. Note that scenarios exclude Canadian fiscal supports

Chart 2: Lower Rates Helping Households Bolster Canada's Economy



Source: Statistics Canada, TD Economics.

Although there's never an ideal time for a trade war, high tariffs would thump the Canadian economy just as it's on the mend. Indeed, job growth has been robust for three straight months in the Labour Force Survey (LFS), and even this week's payroll jobs report (which had been lagging its LFS counterpart) showed an increase in employment in December. What's more, investment intentions in the capital and repair expenditures survey pointed to an above-trend 6% gain in non-residential spending by Canadian companies and governments in 2025 (see [commentary](#)). However, this result comes with the huge caveat that it only partially captured tariff threats, which really ramped up after the survey's cut-off date. And, in the marquee release of the week, Canadian real GDP jumped 2.6% annualized in the fourth quarter. Details of the report were favourable as well, with lower interest rates, government stimulus measures, and decent income growth propelling a huge gain in consumer spending (Chart 2).

In the wake of the robust GDP data, markets pared back their expectations of a rate cut by the Bank of Canada on March 12th. However, markets are still placing about a 50% chance that a cut will take place. We think the Bank will cut their policy rate next month, even with what is a solidly improving current economic backdrop. In our view, it's prudent from a risk-management perspective to insulate against downside growth risks by cutting the policy rate again. Of course, if a Canada-U.S. trade war does start next week, this would virtually lock in another cut next month. And now, we wait.

U.S. – Angst Builds with Tariff Threats

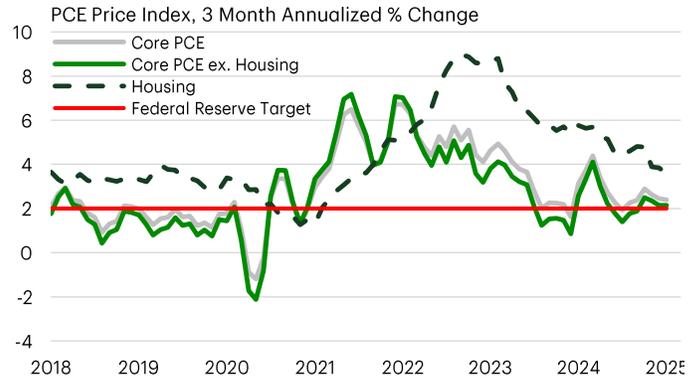
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The final week of February included an update on the health of the American consumer, and the Federal Reserve’s preferred inflation metric. Meanwhile, financial markets remained cautious as the prospect for broad-based tariffs to go into effect next week against the nation’s three largest trading partners kept sentiment subdued. As of the time of writing, the S&P 500 was down 2.3% on the week, while the 10-year Treasury yield fell nearly 20 basis-points to 4.24%.

The impact of tariff threats on consumer confidence has partially contributed to the negative sentiment in financial markets over the past week. Last Friday, the University of Michigan consumer sentiment index fell to its lowest level in 15 months, and this was followed by the Conference Board Consumer Confidence Index dropping sharply this week to an eight-month low. The Conference Board’s survey also noted that mentions of trade and tariffs had risen to a level last seen in 2019. While we saw real personal consumption expenditures fall 0.5% month-on-month in January in data released this week, severe weather undoubtedly played a role.

At the same time, consumer surveys have also begun to show signs of rising inflation expectations (Chart 1), which could present a risk for the Federal Reserve’s mission to return inflation to their 2% target. Core PCE inflation, the Fed’s preferred metric, rose 2.6% year-on-year in January. Looking at the three-month annualized percentage change, momentum has continued to trend favorably (Chart 2) with both the housing

Chart 2: U.S. Inflation Trending Within Range of Pre-Pandemic Level

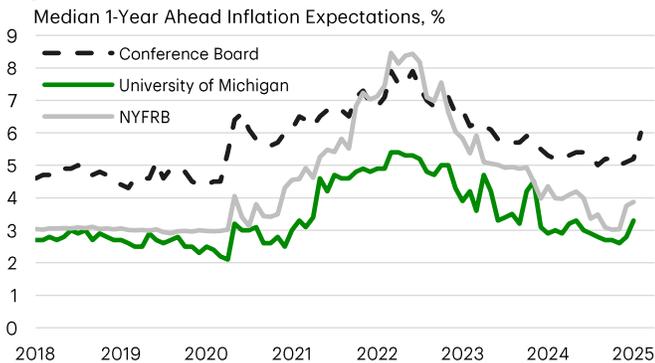


Source: U.S. Bureau of Economic Analysis, TD Economics. Last Observation: Jan 2025.

and excluding housing subcategories within range of pre-pandemic levels. However, these metrics remain slightly elevated on aggregate, which supports the Federal Reserve’s holding pattern. This, combined with rising inflation expectations, is also likely why several of the Federal Reserve officials we heard from this week favored a patient approach to future monetary policy adjustments, particularly amid elevated uncertainty. Market pricing has the Fed returning to rate cuts in June, with one additional rate cut before year end – in line with the median FOMC official projection from December.

Looking ahead to next week, there will be plenty to keep markets on their toes. First up will be the potential for the 25% tariffs on Canada and Mexico, plus the new additional 10% tariff on China announced this week, to be implemented next Tuesday. If an eleventh-hour resolution cannot be achieved again, then significant trade disruptions would likely follow. President Trump will also be delivering his State of the Union address on Tuesday, which may include new policy considerations. Lastly, we’ll round out the week with the employment report for February on Friday, which will be the last employment report released prior to the Fed’s next meeting in mid-March. Consensus expectations currently call for 158k new jobs to have been created this month, which would likely be viewed positively by the Federal Reserve. All-in-all, there will be plenty of information released next week to guide expectations in the months ahead.

Chart 1: U.S. Consumer Inflation Expectations are Rising Again



Source: New York Federal Reserve Bank, University of Michigan, Conference Board, TD Economics.

Exhibits

Recent Key Economic Indicators: Feb 24 - 28, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 25	Conf. Board Consumer Confidence	Feb	Index	98.3	105.3
Feb 25	S&P CoreLogic CS 20-City NSA	Dec	Y/Y % Chg.	4.5	4.4
Feb 25	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	3.9	3.7
Feb 26	Building Permits	Jan	Thsd	1473.0	1483.0
Feb 27	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.8	0.2
Feb 27	Durable Goods Orders	Jan	M/M % Chg.	3.1	-1.8
Feb 27	Gross Domestic Product (Annualized)	Q4	Q/Q % Chg.	2.3	2.3
Feb 27	Initial Jobless Claims	Feb 22	Thsd	242.0	220.0
Feb 27	Pending Home Sales	Jan	M/M % Chg.	-4.6	-4.1
Feb 27	Personal Consumption	Q4	Q/Q % Chg.	4.2	4.2
Feb 28	Advance Goods Trade Balance	Jan	Blns	-153.30	-122.00
Feb 28	Core PCE Price Index	Jan	M/M % Chg.	0.3	0.2
Feb 28	Core PCE Price Index	Jan	Y/Y % Chg.	2.6	2.9
Feb 28	PCE Price Index	Jan	M/M % Chg.	0.3	0.3
Feb 28	PCE Price Index	Jan	Y/Y % Chg.	2.5	2.6
Feb 28	Personal Income	Jan	M/M % Chg.	0.9	0.4
Feb 28	Real Personal Spending	Jan	M/M % Chg.	-0.5	0.5
Canada					
Feb 27	CFIB Business Barometer	Feb	Index	49.5	54.5
Feb 27	Payroll Employment Change (SEPH)	Dec	Thsd	25.3	-14.5
Feb 28	Gross Domestic Product	Dec	M/M % Chg.	0.2	-0.2
Feb 28	Gross Domestic Product (Annualized)	Q4	Q/Q % Chg.	2.6	2.2
International					
Feb 24	EZ Consumer Price Index	Jan	Y/Y % Chg.	2.5	2.4
Feb 27	JN Retail Sales	Jan	Y/Y % Chg.	3.9	3.5
Feb 27	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	2.9	3.4

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Mar 3 - 7, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 3	9:45	S&P Global US Manufacturing PMI	Feb	Index	-	51.6
Mar 3	10:00	ISM Manufacturing	Feb	Index	50.5	50.9
Mar 3	17:00	Wards Total Vehicle Sales	Feb	Mlns	15.90	15.60
Mar 3	18:00	<i>Fed's Musalem Speaks on Economy, Policy</i>				
Mar 4	19:00	<i>Fed's Williams Speaks at Bloomberg Invest Forum</i>				
Mar 5	8:15	ADP Employment Change	Feb	Thsd	148.0	183.0
Mar 5	9:45	S&P Global US Composite PMI	Feb	Index	-	50.4
Mar 5	9:45	S&P Global US Services PMI	Feb	Index	-	49.7
Mar 5	10:00	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	-	0.8
Mar 5	10:00	Durable Goods Orders	Jan	M/M % Chg.	-	3.1
Mar 5	10:00	Factory Orders	Jan	M/M % Chg.	1.4	-0.9
Mar 5	10:00	Factory Orders Ex Trans	Jan	M/M % Chg.	-	0.3
Mar 5	10:00	ISM Services	Feb	Index	53.0	52.8
Mar 5	14:00	<i>Federal Reserve Releases Beige Book</i>				
Mar 6	8:30	Initial Jobless Claims	Mar 1	Thsd	-	242.0
Mar 6	8:30	Trade Balance	Jan	Blns	-91.30	-98.40
Mar 6	8:30	Unit Labor Costs	Q4	Q/Q % Chg.	3.0	3.0
Mar 6	10:00	Wholesale Trade Sales	Jan	M/M % Chg.	-	1.0
Mar 6	18:00	<i>Fed's Waller Speaks on the Economic Outlook</i>				
Mar 7	8:30	Average Hourly Earnings	Feb	M/M % Chg.	0.3	0.5
Mar 7	8:30	Change in Nonfarm Payrolls	Feb	Thsd	158.0	143.0
Mar 7	8:30	Unemployment Rate	Feb	%	4.0	4.0
Mar 6	18:00	<i>Fed's Bostic Speaks on Economy, Birmingham</i>				
Mar 7	19:00	<i>Fed's Bowman Speaks on Policy Transmission</i>				
Mar 7	20:00	<i>Fed's Williams Speaks on Panel on Policy Transmission</i>				
Mar 7	21:00	<i>Fed's Kugler Speaks on Rebalancing Labor Markets</i>				
Mar 7	22:00	<i>Fed's Powell Speaks on the Economic Outlook</i>				
Mar 7	23:00	<i>Fed's Kugler Appears on Panel Discussion</i>				
Canada						
Mar 06	8:30	Int'l Merchandise Trade	Jan	Blns	-	0.71
Mar 06	10:00	Ivey Purchasing Managers Index SA	Feb	Index	-	47.1
Mar 07	8:30	Net Change in Employment	Feb	Thsd	-	76.0
Mar 07	8:30	Unemployment Rate	Feb	%	-	6.6
International						
Mar 3	5:00	EZ Consumer Price Index Estimate	Feb	Y/Y % Chg.	2.3	2.5
Mar 3	18:30	JN Jobless Rate	Jan	%	2.4	2.4
Mar 4	5:00	EZ Unemployment Rate	Jan	%	6.3	6.3
Mar 4	19:30	JN Jibun Bank Japan PMI Services	Feb	Index	-	53.1
Mar 6	5:00	EZ Retail Sales	Jan	Y/Y % Chg.	1.9	1.9
Mar 6	8:15	EZ ECB Main Refinancing Rate	Mar 6	%	2.65	2.90
Mar 7	5:00	EZ Employment	Q4	Y/Y % Chg.	-	0.6
Mar 7	5:00	EZ Gross Domestic Product SA	Q4	Y/Y % Chg.	0.9	0.9

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

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