

Weekly Bottom Line

August 15, 2025

Highlights

Canada

- After last week's downbeat employment report, market watchers wait for an update on inflation next Tuesday.
- Data out this week suggest the housing market's freeze is starting to thaw.
- The push (tariffs and trade) and pull (excess supply) on consumer prices is the focus in the coming months, with July's inflation report hopefully providing a solid glimpse of what might be to come.

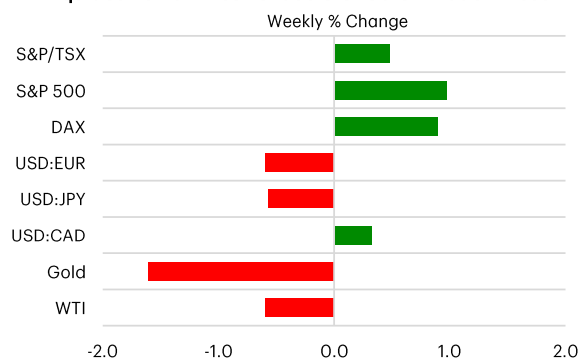
U.S.

- Inflation pressures rose in July, with core CPI rising above 3% for the first time since February. Meanwhile the uptick in PPI suggests a shift to higher tariff passthrough by companies.
- Retail sales recorded healthy growth in July despite growing price pressures.
- The S&P 500 hit a double-digit year-to-date return after rising 1% on the week, which would mark the third consecutive annual double digit return if unconceded by year-end.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6454	6389	6469	4983
S&P/TSX Comp.	27899	27759	27993	22507
DAX	24367	24163	24550	18183
FTSE 100	9144	9096	9177	7679
Nikkei	43378	41820	43378	31137
Fixed Income Yields				
U.S. 10-yr Treasury	4.30	4.28	4.79	3.62
Canada 10-yr Bond	3.44	3.38	3.60	2.83
Germany 10-yr Bund	2.78	2.69	2.90	2.03
UK 10-yr Gilt	4.68	4.60	4.89	3.76
Japan 10-yr Bond	1.57	1.49	1.61	0.82
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.72	0.73	0.74	0.69
Euro (USD per EUR)	1.17	1.16	1.18	1.02
Pound (USD per GBP)	1.36	1.35	1.37	1.22
Yen (JPY per USD)	147.0	147.7	158.4	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	63.6	63.9	80.0	57.1
Natural Gas (\$US/MMBtu)	2.78	3.03	9.33	1.22
Copper (\$US/met. tonne)	9677.3	9692.5	10219.3	8571.4
Gold (\$US/troy oz.)	3342.8	3397.8	3432.3	2456.8

*As of 11:23 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion. Source: Bloomberg.

Equities Remain Resilient as U.S. Core Inflation Rises



Note: Data as of 11:26 AM ET, Friday, August 15, 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 – The Week Between Labour and Inflation

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With an employment report in the rearview and an update on inflation due next Tuesday this was a quiet week for Canadian economic data. In terms of news, China updated tariffs on Canada's canola, the Bank of Canada's Summary of Deliberations doubled down on the wait-and-see approach, and we got a bit of good news from the housing market. With consumer and producer price inflation south of the border garnering attention this week, it's worth taking stock of where things stand and what're we're looking for from the CPI report next week.

First things first, an update from the housing market. After some glimmers of hope in late 2024, the market was broadsided by tariff threats and the resulting economic uncertainty earlier this winter. Data out this week suggest this year's freeze might just be starting to thaw. Sales rose again in July, with strength in Ontario showing that pent-up demand might be starting to soak up some of the ample supply on the market. That said, a signal that the housing market might be finding bottom is not the same as one that it is rising again. A gradual recovery remains our base case, with the associated impacts on housing costs, and inflation.

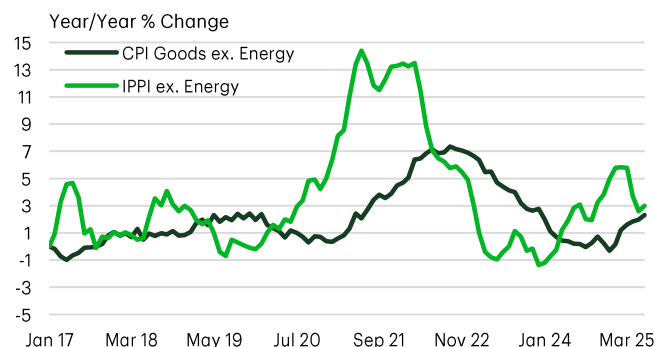
In particular, one key component we're looking to is rent inflation. CMHC's mid-year rental report cited the ongoing churn of tenants vacating rent controlled units that are then relisted at current market rates, contributing to propping up the month-on-month gains in average rents. This helps explain, in part, the

Chart 1: Cooling Rent Inflation Should Provide CPI Relief



Source: Statistics Canada, TD Economics. Last Observation: June 2025

Chart 2: Last Fall's Producer Price Rise Continues to Filter Through in Canada



Source: Statistics Canada, TD Economics.
Last Observation: IPPI - July 2025, CPI - June 2025

still elevated readings in the CPI shelter component (Chart 1). That said, with supply on the market rising, falling asking rents should continue to exert influence on the metric, and as less of the rental stock is left to reset, help it continue moderating in the coming months. Beyond rents, we will also be looking for signs that inflation in cyclically sensitive services (excluding shelter) slowed in July.

These factors ultimately lead to the most important question, "What are we going to see from tariffed goods?" The Canadian government has imposed tariffs on a wide swath of imports from the U.S., and a run-up in producer prices last fall (Chart 2) suggests some degree of margin compression that firms could be looking to recoup. So, we're going to be looking for evidence that higher prices are being passed on by firms, rather than absorbed.

There are, of course, complicating factors. The BoC's monetary policy report noted past depreciation of the Canadian dollar as another factor in the current price gains, but given the recent rally vis-à-vis the U.S. dollar, and our outlook, a firmer currency should act as somewhat of a salve against faster inflation. Further complicating things is the chance that firms could opt to raise prices as their tariff-exposed competitors are forced to pass on higher costs. The push (tariffs and trade) and pull (excess supply) on consumer prices is the focus in the coming months for the BoC. For those of us watching, July's inflation read will hopefully provide a solid glimpse of what might be to come.

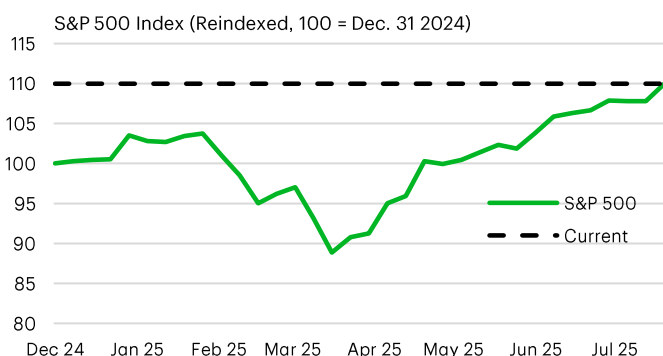
U.S. – Price Pressure Firms in July, Equity Markets Undeterred

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It has been one week since the full complement of reciprocal tariff policies went into effect. Those tariffs will not have an influence on the economic data for a few months, but the tariffs that prevailed through the first half of the year continued to show up in the July inflation readings released this week. This included the CPI and PPI, both of which showed signs of rising price pressures that are expected to trend higher over the coming months with the new tranche of tariffs now in effect. Largely undeterred, equity markets continued to probe record highs, with the S&P 500 rising 1.0% on the week and notching a double digit return year-to-date (Chart 1).

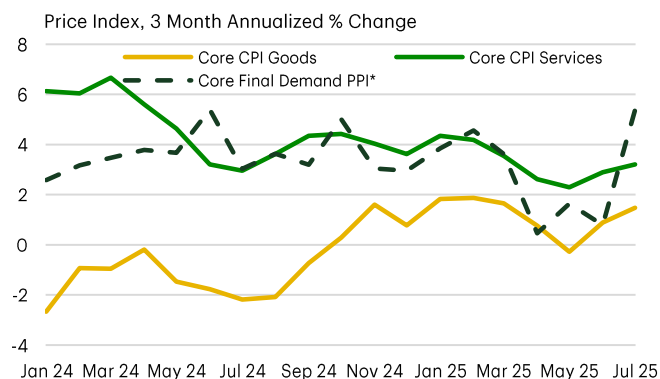
The first inflation report we received on Tuesday showed consumer price growth accelerating in July, with the annual percentage change in core CPI rising above 3% for the first time since February. This was driven by stronger core goods prices, largely related to higher tariff passthrough, while core services inflation also trended higher (Chart 2). Producer prices, which we received on Thursday and measure the prices charged by U.S. businesses, also began to trend notably higher in July with the monthly change hitting a 3-year high. This likely suggests that businesses are shifting to pass on more of the higher costs associated with tariffs to consumers after largely absorbing the costs in the first half of the year. Moving forward, with the effective U.S. tariff rate nearly 10 percentage-points higher after last week's reciprocal tariffs came into force, inflationary pressures are expected to remain elevated through the second half of the year.

Chart 1: U.S. Equities Notch Double Digit Year-to-Date Gain



Last Observation: August 15th, 2025. Source: Standard & Poor's, TD Economics.

Chart 2: U.S. Inflation Pressures Growing



Note: *Core Final Demand PPI is ex. food & energy. Source: U.S. Bureau of Labor Statistics, TD Economics.

The Federal Reserve has been acutely attuned to these developments, with the central bank remaining on hold since the start of the year. Although a few Federal Reserve officials have advocated for rate reductions, the balance of the FOMC continues to voice caution regarding the uncertainty surrounding the outlook for inflation and the economy. The officials we heard from this week, including regional Fed presidents Schmid (Kansas City) and Goolsbee (Chicago) who are voting members of the FOMC this year, noted that caution was still warranted. Market pricing fluctuated this week, but currently has 90% odds for a rate cut in September. The annual Jackson Hole Symposium next week will be watched closely after this week's inflation reports for any signs on the leanings of officials in the run-up to the next Federal Reserve decision in one month.

On a more positive note, retail spending appeared to remain healthy in July, growing 0.5% month-on-month. However, July also had Amazon's multi-day Prime day event which tends to boost sales activity. A non-outsized reading could suggest that consumption is beginning to slow in line with the downward revisions to the labor market recorded in the second quarter. This is part of the reason why Federal Reserve officials have continued to advocate for caution, noting that it will take time to properly assess the state of the U.S. economy amid the fog of various shifts in trade policy.

Next week, we'll receive the FOMC meeting minutes for July as well as the July reading for PCE inflation which should help formulate expectations for September's Fed meeting. With trade policy uncertainty waning gradually, the attention of markets will shift back towards the Fed.

Exhibits

Recent Key Economic Indicators: Aug 11 - 15, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Aug 12	NFIB Small Business Optimism	Jul	Index	100.3	98.6
Aug 12	Consumer Price Index	Jul	M/M % Chg.	0.2	0.3
Aug 12	Consumer Price Index Ex Food and Energy	Jul	M/M % Chg.	0.3	0.2
Aug 12	Consumer Price Index	Jul	Y/Y % Chg.	2.7	2.7
Aug 12	Consumer Price Index Ex Food and Energy	Jul	Y/Y % Chg.	3.1	2.9
Aug 14	PPI Final Demand	Jul	M/M % Chg.	0.9	0.0
Aug 14	PPI Ex Food and Energy	Jul	M/M % Chg.	0.9	0.0
Aug 14	Initial Jobless Claims	Aug 09	Thsd	224.0	227.0
Aug 15	Retail Sales Advance	Jul	M/M % Chg.	0.5	0.9
Aug 15	Empire Manufacturing	Aug	Index	11.9	5.5
Aug 15	Retail Sales Ex Auto and Gas	Jul	M/M % Chg.	0.2	0.8
Aug 15	Industrial Production	Jul	M/M % Chg.	-0.1	0.4
Aug 15	Manufacturing (SIC) Production	Jul	M/M % Chg.	0.0	0.3
Aug 15	Capacity Utilization	Jul	%	77.5	77.7
Aug 15	Business Inventories	Jun	M/M % Chg.	0.2	0.0
Canada					
Aug 15	Manufacturing Sales	Jun	M/M % Chg.	0.3	-1.5
Aug 15	Existing Home Sales	Jul	Mlns	3.8	2.8
International					
Aug 12	UK ILO Unemployment Rate	Jun	Q/Q % Chg.	4.7	4.7
Aug 14	UK Gross Domestic Product	2Q	Y/Y % Chg.	1.2	1.3
Aug 14	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	1.4	1.4
Aug 14	EZ Employment	2Q	Y/Y % Chg.	0.7	0.7
Aug 14	JN Gross Domestic Product Annualized SA	2Q	Q/Q % Chg.	1.0	0.6
Aug 14	CH Retail Sales	Jul	Y/Y % Chg.	3.7	4.8
Aug 14	CH Surveyed Jobless Rate	Jul	%	5.2	5.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Aug 18 - 22, 2025						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Aug 18	10:00	NAHB Housing Market Index	Aug	Index	34.0	33.0
Aug 19	8:30	Housing Starts	Jul	Thsd	1290.0	1321.0
Aug 19	8:30	Building Permits	Jul	Thsd	1390.0	1393.0
Aug 20	11:00	<i>Fed's Waller Speaks at Wyoming Blockchain Symposium</i>				
Aug 20	14:00	FOMC Meeting Minutes	Jul 30		-	-
Aug 20	15:00	<i>Fed's Bostic in Moderated Conversation on Economic Outlook</i>				
Aug 21	8:30	Initial Jobless Claims	Aug 16	Thsd	-	224.0
Aug 21	9:45	S&P Global US Manufacturing PMI	Aug	Index	-	49.8
Aug 21	9:45	S&P Global US Services PMI	Aug	Index	-	55.7
Aug 21	9:45	S&P Global US Composite PMI	Aug	Index	-	55.1
Aug 21	10:00	Existing Home Sales	Jul	Mlns	3.9	3.9
Aug 22	10:00	<i>Fed's Powell Speaks on Economic Outlook at Jackson Hole</i>				
Canada						
Aug 18	8:15	Housing Starts	Jul	Thsd	258.7	283.7
Aug 19	8:30	Consumer Price Index NSA	Jul	M/M % Chg.	0.4	0.1
Aug 19	8:30	Consumer Price Index	Jul	Y/Y % Chg.	1.8	1.9
Aug 21	7:00	CFIB Business Barometer	Aug	Index	-	50.9
Aug 21	8:30	Industrial Product Price	Jul	M/M % Chg.	-	0.4
Aug 22	8:30	Retail Sales	Jun	M/M % Chg.	1.5	-1.1
Aug 22	8:30	Retail Sales Ex Auto	Jun	M/M % Chg.	1.1	-0.2
Aug 22	10:30	<i>BoC Releases Senior Loan Officer Survey</i>				
International						
Aug 20	2:00	UK Consumer Price Index	Jul	Y/Y % Chg.	-	3.6
Aug 20	5:00	EZ Consumer Price Index	Jul	Y/Y % Chg.	-	2.0
Aug 21	19:30	JN Natl Consumer Price Index	Jul	Y/Y % Chg.	3.1	3.3
Aug 22	2:00	UK Retail Sales Ex Auto Fuel	Jul	Y/Y % Chg.	-	1.8

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

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