

Weekly Bottom Line

February 21, 2025

Highlights

Canada

- Headline inflation for the month of January rose to 1.9% year-on-year, while price pressures built in core inflation measures.
- Canadian retail sales surged in December, registering its largest monthly gain in nearly three years. Spending fatigue likely set-in in January.
- Tariff-related uncertainties may be trickling into housing markets as existing home sales took a step back in January.

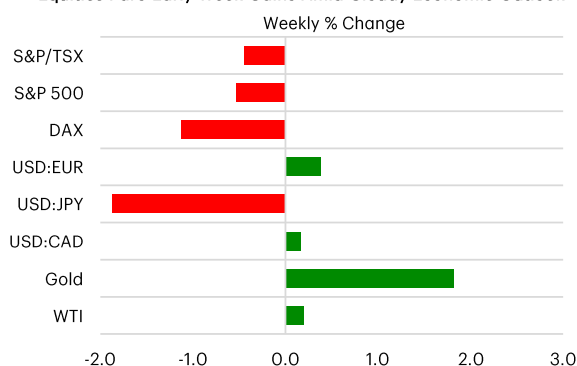
U.S.

- Fed Speakers this week emphasized the need for a data-dependent approach to policy decisions.
- As a result, next week's inflation data in the Personal Income and Outlays Report for January will be closely watched.
- From our lens, the Fed is likely to remain on pause until the second quarter of [this year](#), delivering two cuts by year-end, as healthy economic activity supports the labor market and price growth.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6087	6115	6144	4967
S&P/TSX Comp.	25363	25483	25808	21244
DAX	22248	22513	22845	17339
FTSE 100	8660	8732	8807	7625
Nikkei	38777	39149	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.45	4.48	4.79	3.62
Canada 10-yr Bond	3.15	3.11	3.87	2.87
Germany 10-yr Bund	2.46	2.43	2.69	2.03
UK 10-yr Gilt	4.57	4.50	4.89	3.76
Japan 10-yr Bond	1.43	1.36	1.45	0.69
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.70	0.71	0.74	0.69
Euro (USD per EUR)	1.05	1.05	1.12	1.02
Pound (USD per GBP)	1.26	1.26	1.34	1.22
Yen (JPY per USD)	149.4	152.3	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	71.0	70.7	86.9	65.8
Natural Gas (\$US/MMBtu)	5.62	4.60	9.33	1.22
Copper (\$US/met. tonne)	9532.1	9490.4	10800.8	8354.8
Gold (\$US/troy oz.)	2932.7	2882.5	2939.0	2024.4

*As of 11:26 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 Pare Early-Week Gains Amid Cloudy Economic Outlook



Note: Data as of 11:30 AM ET, Friday, February 21, 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)	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.

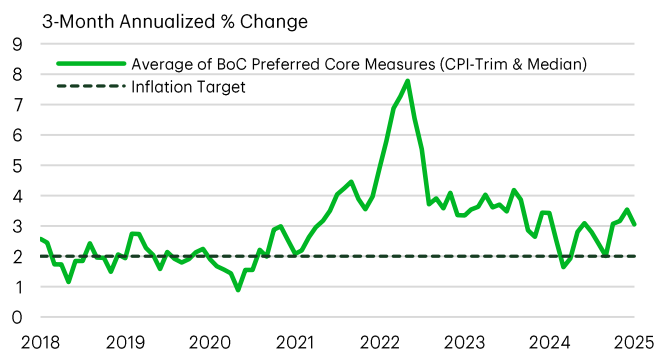
Canada – Inflation and (Hockey) Elation

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Canada, the spotlight is yours. Team Canada trumped the Americans in a hard-fought hockey game worthy of an applause for both teams. Hockey scores weren't the only thing on the ticker as Canadian economic data was headlined by a warm inflation print and complemented by a very upbeat consumer spending report. Elsewhere, momentum in home sales halted in January, a relative weak spot amid the broader strength in other data. Taken together, markets have pared back the probability of a 25 basis point (bp) cut at the next Bank of Canada (BoC) rate announcement on March 12th to around 25%. That said, much will happen between now and then, including the outcome of President Trump's plan to move forward with his threatened 25% tariffs (10% on energy) on Canadian imports.

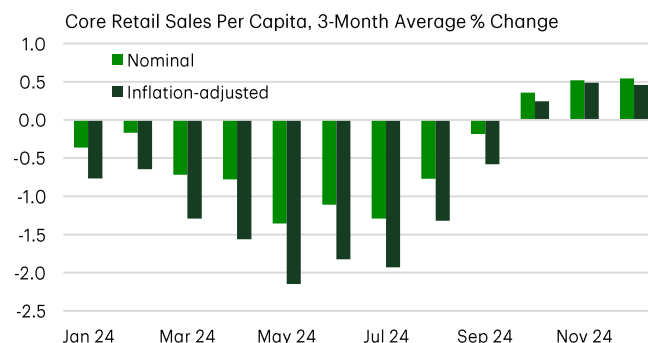
Inflation for the month of January edged up to 1.9% year-on-year (y/y), with rising energy prices making the biggest contribution to headline growth. Price growth was partially offset by the GST/HST holiday, while food price inflation found some respite, falling for the first time in nearly eight years. Headline inflation has stabilized around the Bank's 2% target, though near-term risks are tilted to the upside as the end to the tax break will lead to higher inflation in coming months. The Bank's preferred core inflation measure ticked up to 2.7% y/y and has hovered above 3% on a 3-month annualized basis for the past several months (Chart 1), something coming into greater focus as the BoC deliberates its next move.

Chart 1: Pressure Building in Canadian Core Inflation Measures



Source: Statistics Canada, TD Economics.

Chart 2: Canadian Retail Spending Capped Off 2024 With Notable Strength



Source: Statistics Canada, TD Economics.

The cumulative 200 bps in interest rate easing since mid-2024, combined with the GST/HST tax break supported a 2.5% m/m surge in December retail spending, the largest increase in almost three years. Inflation-adjusted spending has strengthened over the past few months (Chart 2), supporting our call for an above-trend reading for Q4-2024 GDP growth. Even as spending momentum slows in the first quarter, the consumer is expected to be a pillar of strength for overall growth in 2025. That said, tariff uncertainty could stymie consumption progress to the extent that U.S. policy negatively affects Canada's job market and wages.

Housing was the only dull point this week, as existing home sales slipped by 3% m/m in January. This was coupled with a surge in new listings that popped by the largest seasonally adjusted amount on record, pulling markets to the lower end of balanced market conditions. Tariff uncertainty may have weighed on buyer sentiment towards the end of January, but easing price pressures and further interest rate cuts should maintain a solid foundation for the housing market in coming quarters.

So where to from here? Our recently released [Q&A](#) discusses how the BoC may react to trade war scenarios. To take out insurance against escalating trade tensions, we think the BoC will prioritize the downside risk to growth and front-load interest rate cuts over the first half of the year, bringing the policy rate to 2.25%, the lower end of the Bank's neutral range estimates.

U.S. – Data Dependent Decisions

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In the absence of major economic data, equities and Treasury yields were a smidge below where they started the week after reacting to a flash PMI release on Friday that suggested shrinking activity in the services sector in February (Chart 1). That said, the focus is on next week, when the second update of fourth quarter GDP and January's Personal Income and Outlays report will give a fresh look at economic momentum and the first look at the Fed's preferred inflation metric for 2025. Fed speakers provided some insights this week on why the data-dependent approach is key when looking to understand how inflation will evolve in a still-healthy economy.

At the start of the week Board member Christopher Waller gave a speech in Sydney with a title that left very little ambiguity, "Disinflation Progress Uneven but Still on Track. Rate Cuts on Track as Well." The speech clearly outlined his views, including that monetary policy is restrictive and "putting downward pressure on inflation", while economic momentum is holding up. Vice Chair Jefferson spoke later in the week, reaffirming the view that the economy and labor market are on solid footing, and the need to maintain a data dependent approach. Dr. Jefferson focused on the strength of household balance sheets and how they are supporting consumer spending. The key was that while they are generally in good position, households with lower- and middle-incomes "have less of a buffer of liquid assets than they did before the pandemic" and keeping an eye on balance sheet developments will help "inform forecasts of overall economic activity".

Chart 1: Services Sector Flash PMI Data Slip In February

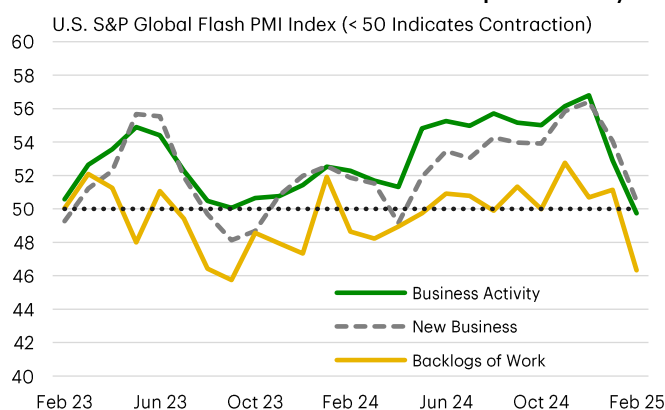
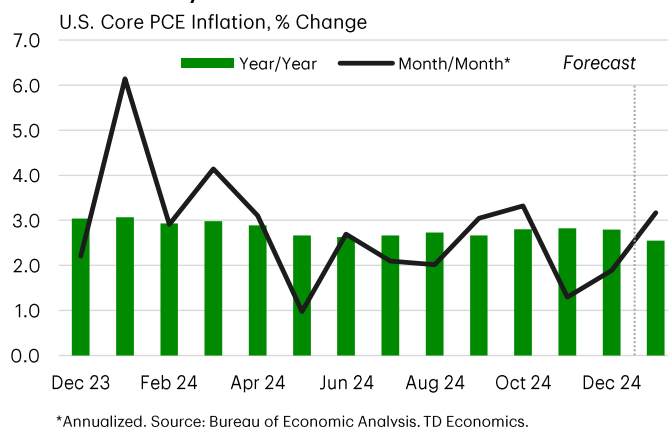


Chart 2: Annual Core Inflation Expected to Take a Step Back in January



One interesting concept to monitor was Dr. Waller's acknowledgement that progress on cooling inflation in the early part of the year has been notably slow in past years. This could be attributable to "residual seasonality" – the idea that the price adjustments that usually come in the early part of the year are now bigger than they were typically and are showing up in the seasonally adjusted data that should have accounted for them. This is an interesting wrinkle, and Dr. Waller cited research that price pressures have tended to be greater in the first half of the year relative to the second in 16 of the past 22 years. The expectation then would be that even with stronger-than-expected inflation in the early part of the year, this effect should fade into the latter part of 2025, as it did in 2024.

With speakers emphasizing the data-dependent approach, the focus will then be on the Personal Income and Outlays report on next Friday. The spending figures could be noisy, as cold weather and large fires in Los Angeles likely disrupted economic activity, so the focus will be on what happens with inflation. Current expectations are for the core PCE price index (the Fed's preferred inflation gauge) to clock in at around 0.2%-0.3% month-on-month in January (2.6% year-on-year, Chart 2), but as Dr. Waller suggested even an upside surprise could be due to some residual seasonality. From our lens, the Fed is likely to remain on pause until the second quarter of [this year](#), delivering two cuts by year-end, as healthy economic activity supports the labor market and price growth.

Exhibits

Recent Key Economic Indicators: Feb 17 - 21, 2025					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 18	Empire Manufacturing	Feb	Index	5.7	-12.6
Feb 18	NAHB Housing Market Index	Feb	Index	42.0	47.0
Feb 19	Housing Starts	Jan	Thsd	1366.0	1515.0
Feb 19	Building Permits	Jan	Thsd	1483.0	1482.0
Feb 20	Initial Jobless Claims	Feb 15	Thsd	219.00	214.0
Feb 21	S&P Global US Manufacturing PMI	Feb	Index	51.6	51.2
Feb 21	S&P Global US Services PMI	Feb	Index	49.7	52.9
Feb 21	S&P Global US Composite PMI	Feb	Index	50.4	52.7
Feb 21	Existing Home Sales	Jan	Mlns	4.08	4.29
Canada					
Feb 17	Housing Starts	Jan	Thsd	239.7	232.5
Feb 18	Consumer Price Index NSA	Jan	M/M % Chg.	0.1	-0.4
Feb 18	Consumer Price Index	Jan	Y/Y % Chg.	1.9	1.8
Feb 18	CPI-Median	Jan	Y/Y % Chg.	2.7	2.6
Feb 18	CPI-Trim	Jan	Y/Y % Chg.	2.7	2.5
Feb 18	Existing Home Sales	Jan	M/M % Chg.	-3.3	-5.8
Feb 20	Industrial Product Price	Jan	M/M % Chg.	1.6	0.4
Feb 21	Retail Sales	Dec	M/M % Chg.	2.5	0.2
Feb 21	Retail Sales Ex Auto	Dec	M/M % Chg.	2.7	-0.7
International					
Feb 18	UK ILO Unemployment Rate (3 Mths.)	Dec	%	4.4	4.4
Feb 19	UK Consumer Price Index	Jan	Y/Y % Chg.	3.0	2.5
Feb 20	JN National Consumer Price Index	Jan	Y/Y % Chg.	4.0	3.6
Feb 20	JN Jibun Bank Japan PMI Mfg	Feb	Index	48.9	48.7
Feb 20	JN Jibun Bank Japan PMI Services	Feb	Index	53.1	53.0
Feb 21	UK Retail Sales Ex Auto Fuel	Jan	Y/Y % Chg.	1.2	2.1
Feb 21	MX Gross Domestic Product NSA	4Q	Y/Y % Chg.	0.5	0.6

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

Upcoming Economic Releases and Events: February 24 - 28, 2025

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 25	4:20	<i>Fed's Logan Speaks at Balance Sheet Conference</i>				
Feb 25	9:00	S&P CoreLogic CS 20-City NSA	Dec	Y/Y % Chg.	-	4.3
Feb 25	9:00	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	-	3.8
Feb 25	10:00	Conf. Board Consumer Confidence	Feb	Index	103.2	104.1
Feb 25	11:45	<i>Fed's Barr Gives Remarks on Financial Stability With Q&A</i>				
Feb 25	13:00	<i>Fed's Barkin Speaks on Inflation</i>				
Feb 26	8:30	<i>Fed's Barkin Repeats Speech on Inflation</i>				
Feb 26	10:00	New Home Sales	Jan	Thsd	678.0	698.0
Feb 26	12:00	<i>Fed's Bostic Speaks on Economic Outlook, Housing</i>				
Feb 26	17:00	Building Permits	Jan	Thsd	-	1483.0
Feb 27	8:30	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.3	2.3
Feb 27	8:30	Personal Consumption	4Q	Q/Q % Chg.	4.1	4.2
Feb 27	8:30	Durable Goods Orders	Jan	M/M % Chg.	2.2	-2.2
Feb 27	8:30	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.5	0.4
Feb 27	8:30	Initial Jobless Claims	Feb 22	Thsd	-	219.0
Feb 27	9:15	<i>Fed's Schmid Gives Remarks at USDA Event</i>				
Feb 27	10:00	<i>Fed's Barr Speaks on Novel Activity Supervision</i>				
Feb 27	11:45	<i>Fed's Bowman Speaks on Community Banking</i>				
Feb 27	13:15	<i>Fed's Hammack Gives Keynote Speech at Conference</i>				
Feb 27	15:15	<i>Fed's Harker Gives Speech on Economic Outlook</i>				
Feb 27	16:00	<i>Fed's Barkin Repeats Speech on Inflation</i>				
Feb 28	8:30	Advance Goods Trade Balance	Jan	Blns	-114.8	-122.0
Feb 28	8:30	Personal Income	Jan	M/M % Chg.	0.3	0.4
Feb 28	8:30	Real Personal Spending	Jan	M/M % Chg.	-0.1	0.4
Feb 28	22:15	<i>Fed's Goolsbee Speaks in Moderated Q&A</i>				
Canada						
Feb 24	8:15	<i>BoC Deputy Governor, Toni Gravelle Participates in Panel at BoE Conference</i>				
Feb 27	7:00	CFIB Business Barometer	Feb	Index	-	54.6
Feb 27	8:30	Payroll Employment Change - SEPH	Dec	Thsd	-	-56.1
Feb 28	8:30	Quarterly Gross Domestic Product Annualized	4Q	Q/Q % Chg.	-	1.0
Feb 28	8:30	Gross Domestic Product	Dec	M/M % Chg.	-	-0.2
International						
Feb 24	5:00	EZ Consumer Price Index	Jan	Y/Y % Chg.	2.5	2.5
Feb 27	18:30	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	3.2	3.4
Feb 27	18:50	JN Retail Sales	Jan	Y/Y % Chg.	3.9	3.5
Feb 28	5:30	IN Gross Domestic Product	4Q	M/M % Chg.	6.2	5.4
Feb 28	20:30	CH Manufacturing PMI	Feb	Index	50.0	49.1

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

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