

Weekly Bottom Line

November 29, 2024

Highlights

Canada

- The threat of a 25% tariff on Canadian goods by President-elect Trump earlier this week impacted financial markets – pressuring the loonie lower by about 1.5%. It currently sits at 71 cents U.S.
- If implemented, the tariffs would result in a significant drag on the Canadian economy.
- GDP growth was soft in the third quarter, but the details were much stronger, supporting our call for a small rate cut as opposed to another 50-bps move.

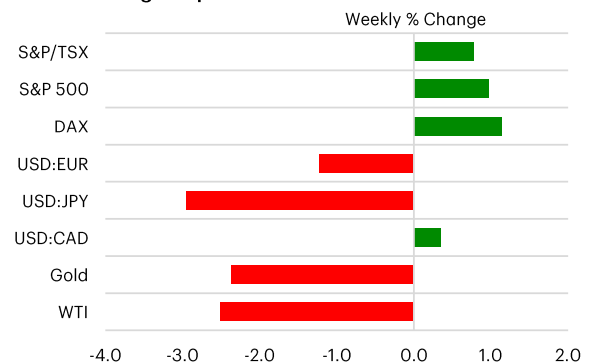
U.S.

- The Federal Reserve's preferred inflation metric, core PCE, accelerated to a six-month high in October.
- The Federal Reserve's minutes from its November meeting showed members broadly favored a gradual return to a more neutral policy stance.
- President-elect Trump announced that he would implement a 25% tariff against Canada and Mexico, and an additional 10% tariff against China on inauguration day.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6027	5969	6027	4549
S&P/TSX Comp.	25642	25444	25642	20234
DAX	19544	19323	19657	16215
FTSE 100	8271	8262	8446	7446
Nikkei	38208	38284	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.21	4.40	4.70	3.62
Canada 10-yr Bond	3.16	3.42	3.87	2.87
Germany 10-yr Bund	2.10	2.24	2.69	1.90
UK 10-yr Gilt	4.26	4.39	4.56	3.44
Japan 10-yr Bond	1.05	1.09	1.10	0.56
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.71	0.72	0.76	0.71
Euro (USD per EUR)	1.06	1.04	1.12	1.04
Pound (USD per GBP)	1.27	1.25	1.34	1.24
Yen (JPY per USD)	150.2	154.8	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	69.5	71.2	86.9	65.8
Natural Gas (\$US/MMBtu)	3.37	2.41	13.20	1.22
Copper (\$US/met. tonne)	8884.4	8848.0	10800.8	8065.0
Gold (\$US/troy oz.)	2652.1	2716.2	2787.6	1979.5

*As of 10:32 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Easing Geopolitical Tensions Boost Sentiment



Note: Data as of 10:31 AM ET, Friday, November 29, 2024.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.50 - 4.75%
Bank of Canada (Overnight Rate)	3.75%
European Central Bank (Refi Rate)	3.40%
Bank of England (Repo Rate)	4.75%
Bank of Japan (Overnight Rate)	0.25%

Source: Bloomberg.

Canada – Scare Tactics

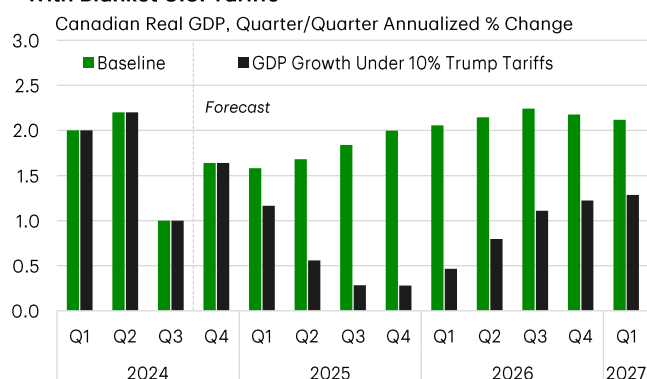
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That didn't take long. This week President-elect Trump surprised markets (and analysts) with the threat of a 25% across-the-board tariff on Canadian and Mexican-made goods, which would be implemented as soon as the incoming administration takes office in January. The clearest impact from this announcement was seen on the Canadian dollar, which dropped about 1 cent (or about 1.5%) on the news, before regaining some of that lost ground over the course of the week. Equities declined and bond yields continued their descent, although the relatively muted response suggests that markets have yet to fully embrace the potential downsides from a Canada/U.S. trade skirmish.

This threat isn't to be taken lightly in our view. In a prior report, we analyzed a scenario where a 10% U.S. tariff was slapped on all Canadian exports, with in-kind retaliation by Canada (see [here](#)). We found that Canada's economic growth would slow to a crawl, inflation would see a boost, and the loonie would tumble under 70 cents US (Chart 1). Obviously, a tariff rate more-than-double the one used in the analysis would exacerbate these already severe outcomes. All provinces would take a hit through weaker exports, although some (like Alberta, New Brunswick, and Ontario) would likely feel it more than others given their tight trade linkages with nearby states. Others, like PEI and Saskatchewan could see a larger inflation boost through Canadian tariff retaliation, given their relatively high concentration of U.S. content.

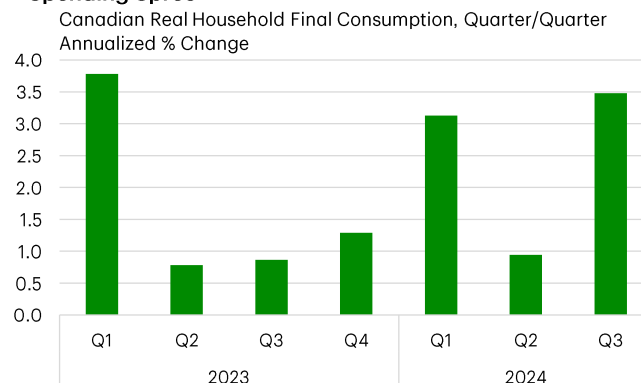
Fortunately, there's at least one reason to be hopeful that this is a negotiating tactic. Namely, U.S. economic

Chart 1: Canada's Economy Would Stagnate (or Worse) With Blanket U.S. Tariffs



Source: Statistics Canada, TD Economics.

Chart 2: Canadian Households Go on a Third Quarter Spending Spree



Source: Statistics Canada, TD Economics.

growth would suffer (see our latest [Quarterly Q&A](#) for a detailed analysis), given the deep interconnectedness of industries such as energy and autos between the U.S. and Canada. A trade clash between the two countries would deliver not only economic damage, but political pain for the U.S. This backdrop would also be negative for stock markets, which Trump has shown a sensitivity to in the past.

We've yet to incorporate these threats into our baseline view, but we'll be watching. So will the Bank of Canada, which stands ready to incorporate whatever policies eventually do flow from the incoming U.S. administration, according to Deputy Governor Mendes this week. In the here-and-now, the Bank has an interest rate decision on December 11th and will be using the hard economic data to guide its actions.

Since the Bank's October decision, we've seen a steady flow of hawkish data - like the recent back up in core inflation and a retail sales report that showed solid spending momentum heading into the final quarter of the year. This morning's third quarter GDP report was another important piece of the puzzle before the December decision, and the data offered mixed messages. On the one hand, overall GDP growth was modest, and soft monthly showings in September and October will make the BoC's call for a Q4 growth acceleration to 2% more difficult to achieve. On the other hand, domestic demand was solid, fueled by healthy gains in both goods and services consumption. Given this, a 25-bps cut (versus a larger 50 bps move) seems the more likely outcome next month.

U.S. – Turkey with a Side of Trade Uncertainty

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The Thanksgiving holiday-shortened week came with several important updates on the economy, including a pulse check on the American consumer and the Fed's preferred inflation metric. An additional layer of uncertainty was also introduced into the mix as President-elect Trump announced that he would implement tariffs on the nation's three largest trading partners on the first day of his presidency. Financial markets were largely unperturbed by this news, as the S&P 500 rose 1.0% on the week, while the ten-year Treasury yield fell 20 basis-points (bps) as of the time of writing.

Financial markets are likely discounting the possibility of these tariffs actually being implemented, as a blanket tariff of at least 25% on roughly \$1.3 trillion in annual U.S. goods imports would have broadly negative implications for the U.S. economy (see Question 1 [here](#)). Tariffs would also likely apply upward pressure to domestic inflation, chipping away at real income growth and complicating the ability of the Federal Reserve to normalize interest rates over the coming year. Whether these tariffs enter into force in two months' time is unknown, but uncertainty related to foreign trade policy is likely to remain elevated under the incoming administration.

On the inflation front, price pressures appeared to rise in October, as the annual change in the Fed's preferred price index, core PCE, hit a six-month high. The acceleration was driven by a broad-based uptick in non-housing services inflation (Chart 1). We don't expect this to be a sustained deviation from the disinflation trend, with our baseline forecast for core PCE

Chart 1: Core Services Ex. Housing Keeping a Floor Under Inflation

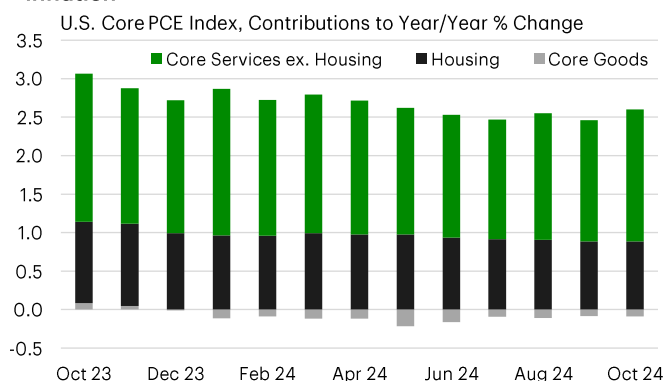
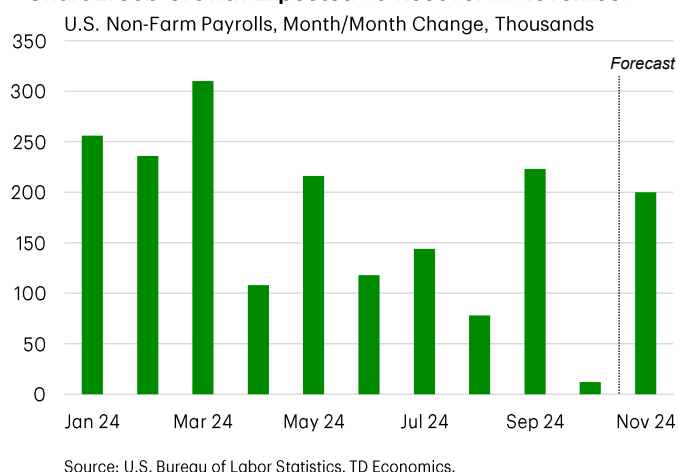


Chart 2: Job Growth Expected To Recover in November



returning to the Federal Reserve's 2% target by the second half of next year.

Elevated price growth last month still worked to take a bite out of real personal consumption expenditures (PCE) growth, as it decelerated relative to the prior month. Slower consumption growth was also in part driven by an uptick in the household savings rate for the first time in nine-months. Hurricane Milton's impact on the southeast may have distorted the month's data but spending is likely to pick up this month on the back of holiday shopping and Black Friday deals. In the fourth quarter we expect real PCE growth to decelerate relative to the prior quarter's strong reading but remain healthy overall.

Cumulatively, the economy remains on a solid footing, which when combined with sticky inflation and elevated trade uncertainties supports the current patient approach adopted by the Federal Reserve over the past few months. The FOMC November meeting minutes released this week reiterated this sentiment, noting that a gradual normalization of monetary policy continues to be warranted by present economic conditions. Next week's employment report will offer an important update for the Fed, with consensus expectations calling for 200k new jobs to be created after Hurricane Milton and the Boeing strike weighed on the prior month's reading (Chart 2). Incoming data will continue to drive the Fed's decisions moving forward, with market expectations currently pointing towards another 25bps cut in December.

Exhibits

Recent Key Economic Indicators: Nov 25 - 29, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Nov 26	S&P CoreLogic CS 20-City NSA	Sep	Y/Y % Chg.	4.6	5.2
Nov 26	S&P CoreLogic CS US HPI NSA	Sep	Y/Y % Chg.	3.9	4.3
Nov 26	Conf. Board Consumer Confidence	Nov	Index	111.7	109.6
Nov 26	FOMC Meeting Minutes	Nov 07			
Nov 27	Gross Domestic Product (Annualized)	Q3	Q/Q % Chg.	2.8	2.8
Nov 27	Personal Consumption	Q3	Q/Q % Chg.	3.5	3.7
Nov 27	Advance Goods Trade Balance	Oct	Blns	-99.1	-108.7
Nov 27	Durable Goods Orders	Oct	M/M % Chg.	0.2	-0.4
Nov 27	Cap Goods Orders Nondef Ex Air	Oct	M/M % Chg.	-0.2	0.3
Nov 27	Initial Jobless Claims	Nov 23	Thsd	213.0	215.0
Nov 27	Personal Income	Oct	M/M % Chg.	0.6	0.3
Nov 27	Real Personal Spending	Oct	M/M % Chg.	0.1	0.5
Nov 27	PCE Price Index	Oct	Y/Y % Chg.	2.3	2.1
Nov 27	Core PCE Price Index	Oct	Y/Y % Chg.	2.8	2.7
Nov 27	Pending Home Sales	Oct	M/M % Chg.	2.0	7.5
Canada					
Nov 28	CFIB Business Barometer	Nov	Index	59.7	55.8
Nov 28	Payroll Employment Change (SEPH)	Sep	Thsd	-57.4	16.9
Nov 29	Gross Domestic Product (Annualized)	Q3	Q/Q % Chg.	1.0	2.2
International					
Nov 28	JN Jobless Rate	Oct	%	2.5	2.4
Nov 28	JN Tokyo Consumer Price Index	Nov	Y/Y % Chg.	2.6	1.8
Nov 28	JN Retail Sales	Oct	Y/Y % Chg.	1.6	0.7
Nov 29	EZ Consumer Price Index Estimate	Nov	Y/Y % Chg.	2.3	2.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Dec 02 - 06, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Dec 2	9:45	S&P Global US Manufacturing PMI	Nov	Index	48.8	48.8
Dec 2	10:00	ISM Manufacturing	Nov	Index	47.6	46.5
Dec 2	15:15	<i>Fed's Waller Gives Keynote at Fed Framework Conference</i>				
Dec 2	16:30	<i>Fed's Williams Gives Keynote Remarks</i>				
Dec 3	17:00	Wards Total Vehicle Sales	Nov	Mlns	16.00	16.04
Dec 3	10:00	Job Openings	Oct	Mlns	7.51	7.44
Dec 3	12:35	<i>Fed's Kugler Gives Speech on Labor Market, Policy</i>				
Dec 3	15:45	<i>Fed's Goolsbee Gives Closing Remarks</i>				
Dec 4	8:15	ADP Employment Change	Nov	Thsd	165.0	233.0
Dec 4	08:45	<i>Fed's Musalem Speaks on US Economy, Policy</i>				
Dec 4	9:45	S&P Global US Composite PMI	Nov	Index	-	55.3
Dec 4	9:45	S&P Global US Services PMI	Nov	Index	-	57.0
Dec 4	10:00	Cap Goods Orders Nondef Ex Air	Oct	M/M % Chg.	-	-0.2
Dec 4	10:00	Durable Goods Orders	Oct	M/M % Chg.	-	0.2
Dec 4	10:00	Factory Orders	Oct	M/M % Chg.	0.3	-0.5
Dec 4	10:00	Factory Orders Ex Trans	Oct	M/M % Chg.	-	0.1
Dec 4	10:00	ISM Services	Nov	Index	55.5	56.0
Dec 4	13:45	<i>Fed's Powell Speaks in Moderated Discussion</i>				
Dec 4	14:00	<i>Federal Reserve Releases Beige Book</i>				
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Dec 5	8:30	Initial Jobless Claims	Nov 30	Thsd	-	213.0
Dec 5	8:30	Trade Balance	Oct	Blns	-75.0	-84.4
Dec 6	8:30	Average Hourly Earnings	Nov	M/M % Chg.	0.3	0.4
Dec 6	8:30	Change in Nonfarm Payrolls	Nov	Thsd	200.0	12.0
Dec 6	8:30	Unemployment Rate	Nov	%	4.2	4.1
Dec 6	09:15	<i>Fed's Bowman Speaks to Missouri Bankers Association</i>				
Dec 6	10:30	<i>Fed's Goolsbee Participates in Fireside Chat</i>				
Dec 6	12:00	<i>Fed's Hammack Speaks on the US Economy</i>				
Dec 6	13:00	<i>Fed's Daly Speaks in Moderated Conversation</i>				
Canada						
Dec 5	8:30	Int'l Merchandise Trade	Oct	Blns	-	-1.26
Dec 5	10:00	Ivey Purchasing Managers Index SA	Nov	Index	-	52.0
Dec 6	8:30	Net Change in Employment	Nov	Thsd	-	14.5
Dec 6	8:30	Unemployment Rate	Nov	%	-	6.5
International						
Dec 2	5:00	EZ Unemployment Rate	Oct	%	6.3	6.3
Dec 3	7:00	BZ Gross Domestic Product	Q3	Y/Y % Chg.	3.9	3.3
Dec 3	19:30	JN Jibun Bank Japan PMI Services	Nov	Index	-	50.2
Dec 5	5:00	EZ Retail Sales	Oct	Y/Y % Chg.	1.7	2.9
Dec 6	5:00	EZ Employment	Q3	Y/Y % Chg.	-	1.0
Dec 6	5:00	EZ Gross Domestic Product SA	Q3	Y/Y % Chg.	0.9	0.9

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

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