Focus

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The Ides of August

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It's somehow appropriate that the leaders of the U.S. and Russia are meeting on this date, as **August 15 is an important day in history**. Most obviously, 80 years ago it marked the **end of World War II** with V-J Day. Just two years later, in 1947, it marked the day of **India's Independence** after 200 years of British rule, and **South Korea was founded** exactly a year after that. And, it's also the day the **Panama Canal opened** in 1914, while the Berlin Wall was constructed in 1961 on the Ides of August (okay, technically, that's August 13). For music buffs, it was the first day of **Woodstock** in 1969, and also the day the **Beatles played Shea Stadium** in 1965 (the start of stadium rock). But for market buffs, it also marked the day of **the "Nixon Shock"** in 1971, when the U.S. officially broke from the gold standard (effectively devaluing the dollar) and then imposed wage & price controls and introduced **a 10% tariff on all imports** for a six-month period. Not that it says anything about tariffs or Alaska, but **Apocalypse Now** was released the same day 8 years later in 1979.

There's a certain symmetry to the fact that we're talking about the Nixon Shock 54 years later, as **each of the three major components of the plan echo today**. Gold prices have been rollicking (and up almost 100-fold since 1971, a tidy return indeed) while **the U.S. dollar** has been on the ropes for most of this year. Of course, **inflation** remains a central concern—more on that later—albeit few are talking about wage/price controls any longer. And, finally, **tariffs** have roared back onto the scene, after pretty much being a sleeping giant from 1971 until late last decade.

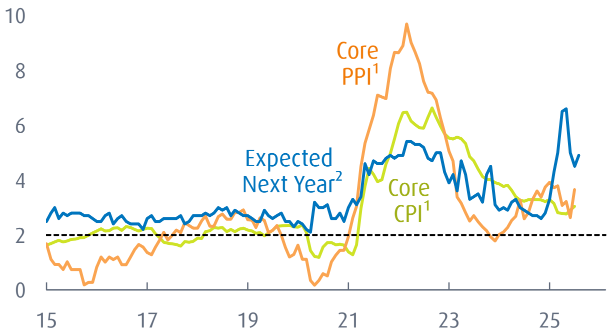
While most of the attention was on Alaska and the streets of Washington this week, the trade story just won't let go. The rolling debate on the impact of tariffs figured prominently in both the moderate July CPI—*nothing to see here folks*—to the meaty PPI just two days later—*tariffs are running amok!* Our bottom-line takeaway is that **there are some signs that tariffs are creeping into prices**, especially at the producer level—how could they not?—**but consumers have been largely spared so far**. Core consumer goods have risen at a mild 1.1% annual rate in the past six months. There is an entire cottage industry trying to figure out why the impact has been so mild to this point, and it likely boils down to these factors (and there are probably more):

1. **Stockpiling** ahead of the well-telegraphed tariff spree. In many cases, those inventories are now being worked down, and the piper will be paid.
2. **Companies are eating some of the tariffs** for now to maintain market share and/or in the faint hope that tariffs will go away. This may be especially the case for exporters from nations where the currency has been quite weak, and profit margins were thus fat (e.g., Japan, where the yen is still 20% weaker than its 10-year average, even with a comeback this year). More generally, U.S. corporate profit margins had been very strong historically heading into this year, so there was some room to manoeuvre.
3. **Exemptions** and finding new suppliers have kept actual tariffs paid well below the headline rate. As an example, the July budget figures from Washington showed a record $28.4 billion in customs receipts. That is a little more than 10.5% of import values from the prior month, compared with 2.7% last year, and versus roughly a 15% headline tariff rate that month.

4. **Delays** and some confusion over precisely what tariffs should be charged. Goods that were already on a ship headed for the U.S. would only face the tariff in place when the product was loaded on board.

Chart 1
Things are Looking Up

Inflation Rate — United States



[1] (y/y % chng); [2] University of Michigan (%)
Sources: BMO Economics, Haver Analytics, BLS , U. of Michigan

The main point is that **none of these constraints are sustainable**, and we are bound to see further pressure on consumer prices in the months to come. Households certainly seem to sense that as the preliminary reading on August inflation expectations from the University of Michigan saw a big back-up on both a 1- and 5-year horizon; the latter popped to 3.9%, almost a point above year-ago levels. However, make no mistake, given that the actual tariff rate paid on imports has already climbed above 10%, it is still remarkable how little of that has worked its way into consumer inflation.

Perhaps the bigger debate is when those price increases inevitably land: will it be a one-time affair, or will it launch a mini-replay of 2021/22? We lean mostly to the former, although it will depend critically on how robust underlying demand is in the year ahead. On that front, this week's signals were mixed, with retail sales holding up well in July, as both headline and control sales rose 0.5% m/m, and the latter up 4.8% y/y. But on the other side, sentiment is soggy and job growth has cooled considerably.

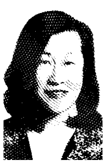
So, **what's the Fed to do?** The market initially ran with the CPI and fully priced in a September cut, with visions of even a 50 bp move dancing in their heads... until the sour PPI and a variety of Fed speakers injected some caution. Now, market pricing is more or less back in sync with our view that the Fed will cut 25 bps in September and then proceed cautiously from there with similar moves about once a quarter until late next year. Of course, life and the economic data are rarely that neat and tidy. That reality seemed to play out for stocks this week, as the S&P 500 raced to a record high on prospects for big rate cuts, before showing some late-week caution on the precise path forward.

Chair Powell may provide a trace of guidance on that front at next Friday's speech at the **KC Fed's annual Jackson Hole confab**. This event may be a little bit more closely watched than usual given the intense pressure on the Chair, and the fact that it will be his last such address. The audience is likely to be unusually sympathetic, concerned both about maintaining Fed independence, but now apparently Wall Street independence as well. This year's theme is: "*Labor Markets in Transition: Demographics, Productivity, and Macroeconomic Policy*." Very apropos, given the brouhaha over the latest jobs report, and the changeover at the BLS, and, yes, one could say that the job market is in "*transition*".

The strong probability that the Fed will begin cutting rates again next month has revived the **possibility of Bank of Canada cuts**. This week's Summary of Deliberations from the latest meeting revealed a clear spilt in the Council on where rates are headed next. While some believe more is needed, most striking was the plain language that others believe that the Bank has already done enough, especially given the lags involved in monetary policy. We would counter that there are also long lags to the historic shift in Canada's trade relationship with the U.S., and there could be much tougher news to come. Moreover, with China now piling on with aggressive tariffs on canola (essentially a blockade) and lumber being hit with a ratcheting up of U.S. duties, it's far too early to be counting the final costs of the trade battles.

This space continues to believe that policy will ultimately need to do more to support the economy in the year ahead, although—yes—it may take time for the Bank to grow comfortable on the inflation front. **Canada's headline event next week** is the **July CPI** on Tuesday; lower gasoline prices may trim the headline rate a bit further below 2%, but we suspect that cores will stay sticky around 3%, giving the Bank little breathing room just yet. On a final note, while the Bank sees the trade war as a shock to aggregate supply, which they can't really fight, we would assert that with retaliation fairly light (and perhaps poised to back off somewhat), the skewering of major export markets is much more of a demand shock, where easier policies—both fiscal and monetary—will indeed need to play a supporting role.

Global Economy Still Standing



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Not that we're keeping track but… we're keeping track. Despite all the hoopla that erupted earlier this year around trade wars and tariffs, **the global economy continues to motor along**. Yes, the pace has slowed and there are signs of weakness, particularly in China, but fears of recession have not been realized.

The **first quarter** was strong (for most), as companies were busy front-loading, or moving ahead of the trade war by getting their hands on everything they could get from Country X or Country Y before those imports were hit by big tariffs. That helped exports, but weighed on imports. Think of the 0.5% annualized contraction in the U.S., and the 38% a.r. surge in imports. Then, along came the **second quarter**. Some of that activity was reversed but not fully. The U.K. saw a 3% jump in Q1, then rose at half that pace in Q2, although even that 1.4% increase was better than expectations. In Japan, the Q1 contraction was erased, and Q2 real GDP growth nearly doubled Q1's pace. France and Spain saw some solid effort put into Q2, while Germany and Italy contracted. Still, we continue to see year-over-year growth.

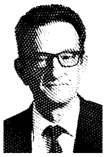
Table 1
Real GDP — 2025Q2

	(q/q % chng. : ann.)			(y/y % chng)	
1	United States	+3.0	1	United States	+2.0
2	United Kingdom	+1.4	2	Canada	+1.4[1]
3	France	+1.2	3	Japan	+1.3
4	Japan	+1.0	4	United Kingdom	+1.2
5	Italy	−0.3	5	France	+0.7
6	Germany	−0.4	6	Italy	+0.4
7	Canada	−1.0[1]	7	Germany	+0.4

Sources: BMO Economics, national agencies [1] *BMO Economics estimate*

What happens next is anyone's guess. The "final" tariffs are now in place (15% for most, 50% for others, and Canada, Mexico and China are in wait-and-see mode). We could very well see GDP declines in the second half, but it is doubtful. So, while it is good news that worst-case scenarios were not realized, tariffs are here to stay.

How Will the Fed Mark the Inaugural Rate Cut Anniversary?



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On September 18, 2024, the FOMC surprised with a 50-bp inaugural rate cut, which was followed by two consecutive quarter-point moves for a total of 100 bps by year-end. It has been crickets since on the rate reduction front. The OIS market is currently pricing in more than 80% odds of a 25-bp move on September 17, with some buzz about marking the one-year anniversary of the first action with a matching 50-bp rate cut. To get some insight here, let's do a quick comparison of the critical data.

The **unemployment rate** was 4.2% in August 2024 and a 4.2% average over three months, which is exactly where it stands currently (July). In terms of labour market slack, conditions have moved sideways. But 11 months ago, conditions were deteriorating noticeably. Indeed, the Sahm Rule was being triggered. The three-month average (using unemployment and labour force figures directly) was at least 0.5 ppts above its low over the preceding 12 months during the July-September 2024 interval. This was not interpreted as a recession signal (breaking the Sahm Rule's perfect record as a recession predictor), but it was taken as an indication of the degree to which the labour market had weakened.

And by August 2024, the deceleration in **household employment** growth (on a year-over-year basis) had dipped its toe in negative territory. Negative yearly job growth rates had historically only occurred during, or in the aftermath of, recessions. Again, this wasn't taken as a recession signal, just a weakness indicator, particularly since payroll employment growth was still 1.2% y/y. Interestingly, since January's change to the household survey's methodology, this job metric has contracted on net over the six latest months. As for the monthly changes in **payroll employment**, they had slipped below the 100k mark in each of the three months before the September 2024 Fed confab, which is what has happened during the latest three months.

On the **inflation** front, the core CPI was up 3.2% y/y in August 2024 with the three- and six-month metrics running at 1.9% and 2.6% annualized rates respectively, a clear cooling trend. In July 2025, the core index was 3.1% y/y (clearly sticky) with the three- and six-month trends at 2.8% and 2.4% annualized, suggesting a bit of warming.

The core PCEPI rose 2.7% y/y in July 2024 (the latest data for the September meeting) with the three- and six-month measures running at 1.9% and 2.6% annualized rates respectively (again, a clear cooling trend). In June 2025, this core index was 2.8% y/y (again, clearly sticky), with the three- and six-month metrics at 2.6% and 3.2% annualized, which is a more mixed pattern.

Meanwhile, the upside risks surrounding inflation prospects have mounted owing to tariffs. We are already seeing a smattering of pressures in select consumer items and further up the production pipeline (via producer prices).

Bottom Line: The recent slowdown in job growth and elevated labour market slack make the case for a rate cut next month. But the hefty upside risks surrounding an already-sticky inflation profile advise against celebrating the one-year anniversary of rate cuts in more than a restrained fashion.

Producer Price Pop Complicates the Outlook

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We always knew the next few quarters were not going to be easy for businesses, consumers, or markets. You can probably throw economic forecasters into the mix too. Economists have been sounding the warning for months that a tariff shock was coming and likely to be stagflationary. Yet, months passed, and people started asking, "Where's the beef?"

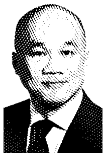
Trade policy uncertainty eased, small business confidence jumped, and attention shifted to the OBBBA. Markets largely ignored the latest machinations on trade policy, choosing the glass half-full view that tariffs could have been worse and the pass-through to consumers wouldn't be so bad. The July CPI report, despite an uptick in services, saw an encouraging drop in energy prices and much better-behaved goods inflation that appeared to support that view. Core goods inflation rose just 0.2% or 2.5% a.r. in July, not far above its long-term trend. In short, July CPI gave the Fed room to look past possible tariff-induced inflation and start focusing on labour market support. Then the July producer price and import price reports landed with a thud. The shockingly 'hot' figures cloud the outlook for consumer inflation and interest rates.

Investors received a sobering dose of reality with the 0.9% pop in producer prices for July—far larger than forecast and the biggest monthly increase since March 2022. For those that need a refresher on what consumer inflation was like back in March 2022, CPI inflation was running at a torrid 13% annualized pace and was 8.5% y/y with the pandemic price shock near its peak. Let's pray history doesn't repeat itself. So, what were **the top takeaways from the July U.S. inflation reports**? First: not much tariff-driven goods inflation evident at the consumer level yet, though the inflation talk could be giving cover to services businesses to further raise prices. The problem is the service sector is a much bigger share of the economy. At the same time, wholesalers are shoulder-deep in broad inflation pressures that could soon reach consumers.

Nearly all categories of producer prices saw sizeable monthly increases in July. Volatile trade services prices jumped 2.0% last month, responsible for around half the increase in final demand services prices. Trade services are basically the mark-up wholesalers earn from re-selling goods. The implication is that distributors are already passing on tariff-induced cost increases upstream and perhaps benefitting from inventory or pricing adjustments downstream. PPI final demand food prices jumped 1.4%, the biggest monthly increase since February. PPI finished goods prices increased a hot 0.47% last month, its largest monthly increase since January and second consecutive month above 0.4%. Unfortunately, the widespread jump in producer prices across all categories last month suggest much of the tariff impact on consumer prices still lies ahead of us. And so, **we revised our forecast for Q3 CPI and core CPI inflation** to a respective 3.4% and 4.0% annualized. This puts headline Q4/Q4 CPI and core CPI inflation at a broiling 3.1% and 3.4%, respectively, by the end of the year.

While a September rate cut is still our baseline forecast, it is no longer a sure thing. Some FOMC voters will clearly argue for another cautious hold, given the uncertain outlook and near-term risks to both sides of the dual mandate. From a risk management standpoint, Jay Powell may still lean toward higher inflation being the bigger threat, given the unemployment rate is still near full-employment levels. July's inflation reports remind us that the tariff-driven inflation threat is real and imminent.

China: Is This Payback Time?



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After a solid first half of the year, July's weaker-than-expected batch of data shows that **China's economy is not home free**. Taking a step back, the downturn in some economic indicators was not too surprising (e.g., retail sales, unemployment rate), but in other cases the deterioration was more concerning (fixed asset investment, housing market). Let's take a closer look at these developments.

The slowdown in **retail sales** growth to +3.7% y/y (vs. expectations of +4.6%, and +4.8% in June) was clearly in the pipeline given funds for the trade-in subsidy program for an array of consumer goods were reportedly depleting quite rapidly. The National Bureau of Statistics also noted that extreme weather likely played a role, particularly in construction and industrial production (+5.7% y/y vs. expectations of +5.9%). And since I experienced that heat firsthand during my vacation there last month, I can buy that explanation. That said, it's clear that China's authorities knew this slowdown was coming as it had just unveiled an interest rate subsidy program for both consumers and businesses (e.g., 1.0 ppt subsidy on bank loans). Separately, the rise in the urban **unemployment** rate to 5.2% (vs. 5.0% in June), was reportedly due to difficulties of new university graduates finding jobs. Note that China's jobless rate is not adjusted for seasonality and we do not put a lot of stock in official employment data.

The more surprising release was the downturn in **fixed asset investment**, which slipped to +1.6% y/y in the year-to-date (vs. expectations of +2.7%). This indicator often falls under the radar but raised some alarm bells this month. Our calculation of the data in monthly terms (via interpolation) suggests that fixed asset investment fell a hefty 5.6% y/y in July, following a 1.7% decline in June. Moreover, manufacturing investment declined an estimated 1.6% y/y (vs. +2.5% in June and +8.1% in December). The downturn in this vital segment could be interpreted two ways: (1) the trade war is hurting business confidence and spending, or, (2) the government's 'anti-involution' campaign to reduce cut-throat competition/overproduction is bearing fruit. We gravitate to the former as investment in the automotive industry—currently experiencing some of the most extreme price wars—remains robust (+18.7% y/y in July). And frankly speaking, cutting downstream capacity in the new high-technology sectors will not be easy given the government's long-running focus on *"new quality productive forces"*.

Otherwise, the latest batch of **real estate** data confirms earlier concerns that the beleaguered housing market may be on the verge of experiencing a double dip. Again, our calculations show real estate development fell a hefty 16.8% y/y in July (vs. -13.7% in June). Meanwhile, the sale of new floor space fell 8.1% y/y and slid 14% y/y in value terms. This difference means that both new and existing housing prices are still contracting. All told, this is bad news as the extended housing downturn will continue undermining the economy via two critical channels: (1) lower residential investment, which impacts numerous upstream and downstream sectors, and, (2) negative wealth effects due to lower housing prices (weaker discretionary spending).

Key Takeaway: The latest downturn in economic activity has provided Beijing a timely reminder that it needs to continue to shore up the domestic economy, especially against the backdrop of President Trump's unpredictable trade war. Thus, we are likely to hear more calls for greater policy support, specifically for the real estate sector.

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Indications of stronger growth and a move toward price stability are ***good news*** *for the economy.*

	Good News	Bad News
Canada ▪ China slaps 76% tariffs on Canadian canola exports ▪ Minutes show that BoC was split on cutting rates	**Wholesale Trade Volumes** +0.6% (June) **New Motor Vehicle Sales** +6.2% y/y (June) **Existing Home Sales** +3.8% y/y (July)—fourth straight month of improvement	**Manufacturing Sales Volumes** unch (June)—but **New Orders** +6.0% **Building Permits** -9.0% (June) **MLS Home Price Index** -3.4% y/y (July)
United States ▪ Elevated PPI inflation quiets speculation of 50 bp Fed cut in September	**Retail Sales** +0.5% (July)—and upward revisions **NFIB Small Business Confidence Index** +1.7 pts to 100.3 (July) **Continuing Claims** fell to 1,953k (Aug. 2 week) **Business Inventories** +0.2% (June) **Empire State Manufacturing Survey** +6.4 pts to 11.9 (Aug.)—but -0.4 pts to an **ISM-adjusted** 54.3	**Core Consumer Prices** +0.3% (July)—or +3.1% y/y **Core Producer Prices +**0.9% (July) —or +3.7% y/y **Import Prices** +0.4% (July) **Budget Deficit** grew to $291 bln (July) **U of M Consumer Sentiment Index** -3.1 pts to 58.6 (Aug. P)—first downshift since April 2025 **Industrial Production** fell 0.1% (July)
China ▪ Pres. Trump extends tariff talks for 90 days (until around November 12)	**Consumer Prices** flat y/y (July)—slightly better than expected	**Retail Sales** braked to 3.7% y/y (July) **Jobless Rate** rose 0.2 ppts to 5.2% (July) **Industrial Production** +5.7% y/y (July)—slowest increase since Nov. 2024 **Producer Prices** -3.6% y/y (July)—34th month in a row of deflation **New Yuan Loans** fell to 12.9 trln (Jan.-to-July) —first monthly contraction in two decades **Fixed Asset Investment** slowed to +1.6% y/y (YTD)
Japan ▪ Nikkei reaches record high ▪ Strong GDP growth encourages potential BoJ rate hike	**Real GDP** rose 0.3% q/q (Q2) **Machine Tool Orders** +3.6% y/y (July P)	
Europe ▪ More reasons for BoE to move to the sidelines ▪ Norges Bank stays on hold but hints at future cuts	**Euro Area—Real GDP** +0.1% q/q (Q2 S) **U.K.—Real GDP** +0.3% q/q (Q2 P)—and +0.4% in June alone **U.K.—Employment** +238k (3 mths to June) —**Jobless Rate** steady at 4.7% **U.K.—Private Sector Average Weekly Earnings Ex. Bonuses** slowed to +4.8% y/y (3 mths to June)	**Euro Area—Industrial Production** -1.3% (June) **Germany—ZEW Survey** -18.0 pts to a 3-month low of 34.7 (Aug.) **U.K.—Trade Deficit** widened to €22.2 bln (June) **U.K.—Payrolls** -8k (July)
Other ▪ RBA cuts cash rate 25 bps and signals *"a couple more cuts"* ▪ S&P upgraded India's credit rating from BBB- to BBB	**Australia—NAB Business Confidence** +2 pts to 7 (July) **Australia—Employment** +24,500k (July)—**jobless rate** declined to 4.2%	**Australia—Wage Price Index** +0.8% q/q (Q2)

The 411 on 232s

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The Administration has ramped up its use of Section 232 'national security' tariffs with many new investigations underway. Amid the legal uncertainty surrounding IEEPA tariffs, '232s' appear destined to endure and expand.

After hearing oral arguments on July 31, the U.S. Court of Appeals is deliberating its ruling on **whether tariffs imposed under the International Emergency Economic Powers Act (IEEPA) are legal**. The decision will likely be appealed to the Supreme Court. One of the arguments against IEEPA tariffs is that Congress has constitutional authority over taxes and duties, and it delegates some of this authority to the President only under specific legislation (*Table 1*). And IEEPA is not one of them.

Indeed, the original ruling by the U.S. Court of International Trade (which was appealed) indicated that **Section 122** of the Trade Act of 1974, and not IEEPA, was the suitable remedy for large persistent trade deficits. Section 122 gives authority to impose tariffs of up to 15% for up to 150 days (and Congress could extend them). In the August 1 re-introduction of country-specific, IEEPA-justified reciprocal tariffs, note that 43 of the 69 affected jurisdictions faced a duty of 15% or less, with the 'baseline' global tariff still at 10%. These are all potentially justifiable under Section 122. Meanwhile, the other tariff workhorse for the Administration has been the '232s'.

Section 232 of the Trade Expansion Act of 1962 gives authority to impose tariffs once it's determined that imports of certain goods are occurring *"in such quantities"* or *"under such circumstances"* that they *"threaten to impair the national security"*. This determination is made via an investigation by the Bureau of Industry and Security (BIS), which is part of the U.S. Department of Commerce. Once an investigation has been started, the BIS has up to 270 days to prepare a report with recommendations for the President. Given the national security concerns, the reports are not immediately made public, but they are eventually published (often redacted). Once a report is delivered, and there's a positive determination (that imports threaten national security), the President has 90 days to decide whether to concur and whether to take action. And then 15 days to implement the action, within a 30-day window to inform Congress.

Table 1
President's Tariff Arsenal

Trade Act of 1974	
Section 122	• Address balance of payments problems, country-specific (tariffs up to 15% for 150 days, Congress can extend)
Section 201	• Safeguard measure, industry-specific (e.g., used in 2018 to impose tariffs on washing machines and solar panels)
Section 301	• Address unfair trade practices, country-specific (reviewed every 4 years; e.g., used in 2018 to impose broad-based tariffs on China)
Trade Expansion Act of 1962	
Section 232	• National security measure, industry-specific
Tariff Act of 1930 (Smoot-Hawley)	
Section 338	• Address discrimination against U.S. products, country-specific (tariffs up to 50%)

Sources: BMO Economics, U.S. Congress

Note that **national security extends beyond national defence**. The BIS' Section 232 Investigation Program Guide states that *"the term 'national security' can be interpreted more broadly to include the general security and welfare of certain industries, beyond those necessary to satisfy national defense requirements, which are critical to the minimum operations of the economy and government."* The criteria are:

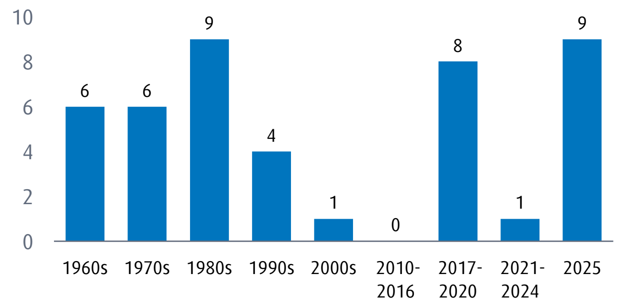
- *"requirements of the defense and essential civilian sectors;*
- *"growth requirements of domestic industries to meet national defense requirements;*

- *"quantity, quality, and availability of imports;*
- *"impact of foreign competition on the economic welfare of the essential domestic industry;*
- *"the displacement of any domestic products causing substantial unemployment, decrease in revenues of government, loss of investment or specialized skills and productive capacity; and*
- *"other factors relevant to the unique circumstances of the specific case."*

Before 2017, there had been 26 individual investigations initiated since the legislation was enacted (*Chart 1*). Since the first report in 1963, nine had positive determinations, 16 had negative determinations, and one investigation was terminated. Among the positive determinations, petroleum imports generally, or from specific countries (Iran, Libya), were the subject of eight separate investigations over the 54-year interval. These resulted in either license and other fees being imposed (3), embargos (2), or no action being taken (3). Imports of machine tools were the subject of the other investigation which resulted in voluntary export restraints. Note that **before 2017, only non-tariff barriers were employed** as remedies when action was taken. And investigations on the same subject were repeated over time, even those with negative determinations, such as the case for manganese and chromium. This was the inaugural investigation in 1963 and it subsequently went 0-for-3.

Chart 1
A Busy BIS

United States (number of investigations)
Section 232 Investigations Initiated



Sources: BMO Economics, Bureau of Industry and Security, Congressional Research Services

Beginning in 2017 in the first Trump Administration, Section 232 investigations started to emphasize the broader definition of national security (and all the above criteria). For the interval ending in 2020, eight investigations were started: seven resulted in a positive determination and one was terminated (*Table 2*). Tariffs were imposed for the first time as an outcome of a 232 investigation, on steel and aluminum. (These were eventually removed for many countries/regions during both the Trump and Biden Administrations.) For the rest, the actions were administrative (no tariff or non-tariff barriers) e.g., working groups to monitor the situation. No actions on transformers and components along with vanadium occurred before President Trump's first term ended.

President Biden's actions in the case of the two 'leftover' investigations were also administrative. From 2021 to 2024, only one new Section 232 investigation was initiated. This resulted in a positive determination in the case of neodymium-iron-boron permanent magnets. Again, the action was administrative.

On his second Inauguration Day, this year, President Trump signed the **America First Trade Policy Memorandum**. It ordered that *"the Secretary of Commerce, in consultation with the Secretary of Defense and the heads of any other relevant agencies, shall conduct a **full economic and security review** of the United States' industrial and manufacturing base to assess whether it is necessary to initiate investigations to adjust imports that threaten the national security of the United States".*

On February 10, the President announced that tariffs on steel and aluminum would be re-imposed effective March 12. On March 26, he announced new tariffs on automobiles effective April 3 (parts followed within a month). In both cases, **the original investigations from the first Trump Administration were dusted off**. Based on 2017 data, the following tariff levels were recommended (among other measures): steel 24%, aluminum 7.7%, and autos and parts 25%. At the time, steel and aluminum were rounded up to 25% and 10%, respectively. The Administration opted not to tariff autos and parts ahead of the USMCA's new higher (and rising) regional value content requirement. In the **USMCA**, future Section 232 tariffs on autos and parts would exclude Canada and Mexico under certain conditions, and both countries would get time to negotiate tariff-rate quotas for future 232s. The current Administration has not honoured these parts of the USMCA.

One wonders whether the conclusions drawn from 2017 data would be confirmed by fresher figures. Pre-2017, multiple investigations occurred on the same subject. This time, aluminum was set at 25%, the same as steel, and both were later boosted to 50%. Autos and parts were set at the original 25%, excluding USMCA-compliant parts and the U.S. content in USMCA-compliant vehicles.

Table 2

Section 232 Investigations since 2017

United States

	Initiated	Report published
Initiated during President Trump's first term		
Steel	Apr. 19, 2017	Jan. 11, 2018
Aluminum	Apr. 26, 2017	Jan. 17, 2018
Automobiles & parts	May 23, 2018	Feb. 17, 2019
Uranium ore & products	July 18, 2018	Apr. 14, 2019
Titanium sponge	Mar. 4, 2019	Nov. 29, 2019
Transformers & components	May 11, 2020	Oct. 15, 2020
Vanadium	May 28, 2020	Feb. 22, 2021
Initiated during President Biden's term		
Neodymium iron boron (NdFeB) permanent magnets	Sep. 21, 2021	Sep. 21, 2022
Initiated during President Trump's second term		
Copper	Mar. 10, 2025	pending
Timber & lumber	Mar. 10, 2025	pending
Semiconductors & semiconductor manufacturing equipment	Apr. 1, 2025	pending
Pharmaceuticals & pharmaceutical ingredients	Apr. 1, 2025	pending
Medium & heavy-duty trucks, parts	Apr. 22, 2025	pending
Processed critical minerals & derivative products	Apr. 22, 2025	pending
Commercial aircraft & jet engines	May 1, 2025	pending
Polysilicon & its derivatives	July 1, 2025	pending
Unmanned aircraft systems (drones) & parts, components	July 1, 2025	pending

Sources: BMO Economics, Bureau of Industry and Security

And the BIS has been busy as **nine new Section 232 investigations have been initiated** (*Table 2 again*). The first of them, on copper, resulted in a report to the President on June 30. The investigation looked at copper imports in all forms (ores, concentrates, refined copper, alloys, scrap copper, and derivatives). According to the July 30 proclamation, the report concluded that *"copper is being imported into the United States in such quantities and under such circumstances to threaten to impair the national security"*. It recommended a universal 30% tariff on semi-finished copper products and copper-intensive derivative products, among other measures (tariff recommendations for other copper forms are unknown). The President opted for 50%.

We await announcements on the other ongoing investigations. The President has talked about a 100% tariff on semiconductors and a potential 'eventual' duty on pharmaceuticals as high as 250%.

Meanwhile, the **trade deals** with Japan and the EU rolled back the 25% Section 232 tariffs on automobiles and parts to the deal's universal 15% levy. The 50% tariffs on steel and aluminum remained. The U.K.'s deal reduced duties on autos to 10% (up to a quota) and kept the metals' tariff at 25% instead of 50%, with the prospect of being reduced to the 0%-to-10% range.

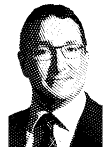
The fact that Section 232 tariffs are being set both well above and below their prescribed rates show that they are being employed as trade negotiation levers as much as national security levies. Regardless of the legal fate of IEEPA-justified duties, the tariff parade appears poised to persist, partly paced by 232s.

Economic Forecast Summary for August 15, 2025

	2025				2026				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025	2026
CANADA											
Real GDP (q/q % chng : a.r.)	2.2	-1.0	0.0	1.5	1.9	1.8	1.8	2.1	1.6	1.3	1.4
Consumer Price Index (y/y % chng)	2.3	1.8	1.9	1.8	1.6	2.0	2.1	2.3	2.4	2.0	2.0
Unemployment Rate (percent)	6.6	6.9	7.0	7.3	7.2	7.1	6.9	6.7	6.4	7.0	7.0
Housing Starts (000s : a.r.)	223	283	248	247	240	232	225	225	245	250	230
Current Account Balance ($blns : a.r.)	-8.5	-73.2	-67.7	-66.4	-63.8	-60.6	-57.5	-54.3	-14.1	-54.0	-59.0
Interest Rates (average for the quarter : %)											
Overnight Rate	2.92	2.75	2.67	2.42	2.17	2.00	2.00	2.00	4.48	2.69	2.04
3-month Treasury Bill	2.85	2.63	2.65	2.35	2.10	1.95	1.95	1.95	4.37	2.60	2.00
10-year Bond	3.12	3.21	3.40	3.35	3.35	3.30	3.30	3.25	3.34	3.30	3.30
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-149	-173	-169	-165	-167	-159	-134	-107	-53	-164	-142
10-year	-133	-115	-86	-81	-79	-77	-75	-75	-87	-104	-77
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-0.5	3.0	1.1	1.0	1.6	1.6	1.8	1.7	2.8	1.6	1.5
Consumer Price Index (y/y % chng)	2.7	2.5	3.0 ↓	3.1 ↓	2.7 ↓	2.9 ↓	2.7	2.5	3.0	2.8 ↓	2.7 ↓
Unemployment Rate (percent)	4.1	4.2	4.3	4.5	4.6	4.6	4.6	4.6	4.0	4.3	4.6
Housing Starts (mlns : a.r.)	1.40	1.33	1.34	1.38	1.40	1.41	1.41	1.42	1.37	1.36	1.41
Current Account Balance ($trlns : a.r.)	-1.80	-1.10	-1.10	-1.12	-1.13	-1.14	-1.14	-1.15	-1.19	-1.28	-1.14
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	4.38	4.38	4.29	4.04	3.79	3.54	3.29	3.04	5.15	4.27	3.42
3-month Treasury Bill	4.34	4.37	4.30	4.00	3.80	3.55	3.30	3.00	5.18	4.25	3.40
10-year Note	4.45	4.36	4.25	4.15	4.15	4.10	4.05	4.00	4.21	4.30	4.05
EXCHANGE RATES (average for the quarter)											
US¢/C$	69.7	72.3	73.2	73.9	74.2	74.5	74.7	74.9	73.0	72.3	74.6
C$/US$	1.43	1.38	1.37	1.35	1.35	1.34	1.34	1.33	1.37	1.38	1.34
¥/US$	152	144	147	144	143	142	142	141	151	147	142
US$/Euro	1.05	1.13	1.16	1.18	1.18	1.19	1.19	1.20	1.08	1.13	1.19
US$/£	1.26	1.34	1.34	1.36	1.36	1.37	1.37	1.38	1.28	1.32	1.37

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

Canada



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Consumer Price Index

Tuesday, 8:30 am

July (e)	**+0.3% (+0.2% s.a.)**	**+1.7% y/y**
Consensus	*+0.4%*	*+1.8% y/y*
June	+0.1%	+1.9% y/y

CPI Core (% y/y)

	Trim	**Median**	**ex. F&E**
July (e)	**+3.1**	**+3.1**	**+2.6**
June	+3.0	+3.1	+2.6

Expect more of the same from Canadian **inflation** in July. Headline CPI looks to rise 0.3%, a touch below last year's increase, trimming inflation to +1.7% y/y. Shelter, once the main focus for CPI-watchers, is expected to remain tame for a sixth straight month. Airfares, hotels and travel tours will drive seasonal upward pressure, while energy prices were mixed with gasoline falling modestly and fuel oil rising.

Core inflation looks to come in around +0.2%, which would keep the yearly rates steady around 3% or perhaps lift them a tick. The breadth of inflation improved slightly in June, but remained inconsistent with inflation trending back to the 2% target. The BoC needs to see at least a couple of months (and probably three) of decelerating inflation before further rate cuts are on the table. — B.R.

Retail Sales

Friday, 8:30 am

		Ex. Autos
June (e)	**+1.0%**	**+1.1%**
Consensus	*+1.1%*	*+0.9%*
May	-1.1%	-0.2%

Canadian **retail sales** have been choppy, with decreases in three of the past six months (average monthly change of just +0.2% over that period) amid prolonged trade uncertainty. Indeed, we expect spending to retrace part of May's 1.1% decline. We're forecasting a 1.0% gain in June, a bit weaker than StatCan's flash estimate. Softness in gas prices and auto sales will weigh on the headline (leaving sales ex-autos a touch firmer), while an uptick in goods prices points to a smaller increase in sales volumes. We'll be watching the July flash estimate to see how much of the June recovery carried into the start of the third quarter, especially given ongoing slack in the labour market. — S.K.

United States

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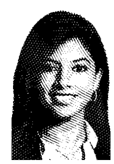

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Housing Starts

Tuesday, 8:30 am

July (e)	**1.30 mln a.r. (-2.0%)**
Consensus	*1.29 mln a.r. (-2.4%)*
June	1.32 mln a.r. (+4.6%)

Building Permits

July (e)	**1.39 mln a.r. (-0.4%)**
Consensus	*1.39 mln a.r. (-0.4%)*
June	1.39 mln a.r. (-0.1%)

Housing starts are expected to wilt 2.0% in July, holding near five-year lows. Homebuilding activity continues to face heavy headwinds amid high input prices, elevated borrowing costs, and tariffs now also adding to the mix. Meanwhile, building permits, a good proxy for future construction, look to edge down 0.4%. The gauge has been unable to gain any traction over the last 2½ years. Overall, we anticipate residential construction to remain under pressure for some time, with headwinds expected to pick up as lumber duties land and Section 232 tariffs are likely announced later this year. — P.T.

FOMC Minutes from July 29-30 meeting

Wednesday, 2:00 pm

The Fed left policy rates unchanged on July 30 for the fifth consecutive confab over the past seven months. The statement's economic assessment was slightly more downbeat, in line with the data on the ground. The risk assessment didn't refer to uncertainty as having *"diminished"*, with the August 1 tariff announcements looming. And, Governors Bowman and Waller dissented in favour of a quarter-point rate cut. The vote was 9-to-2, with Governor Kugler absent and not voting. (Two days later, Kugler announced her resignation.) In the press conference, Chair Powell said: "*We see our current policy stance as appropriate to guard against inflation risks. We are also attentive to risks on the employment side of our mandate. In coming months, we will receive a good amount of data that will help inform our assessment of the balance of risks and the appropriate setting of the federal funds rate.*" For Bowman and Waller, they perceived the data as having already tipped the balance of risks to the slower growth side. We'll be scouring the **Minutes** for clues to what it would take to convince others. — M.G.

Existing Home Sales
Thursday, 10:00 am

July (e)	**3.90 mln a.r. (-0.8%)**
Consensus	*3.90 mln a.r. (-0.8%)*
June	3.93 mln a.r. (-2.7%)

Existing home sales look to falter yet again, after dropping below the 4 mln mark in June for the first time in 9 months. Activity remains subdued as the housing market faces intense headwinds. Although the U.S. economy is generally holding up, rate-sensitive sectors—like housing—remain under pressure. Market conditions are likely to stay soft until prices come down and/or mortgage rates drop (still holding above 6.5%). — P.T.

Jackson Hole Economic Policy Symposium
August 21–23

Global central bankers will gather in **Jackson Hole**, Wyoming to discuss all things economics. The theme of this year's confab is: "*Labour Markets in Transition: Demographics, Productivity, and Macroeconomic Policy*" with **Chair Powell's highly anticipated speech,** on Friday morning, garnering all the attention. So far, the Fed is the only G10 central bank to remain on hold this year. With markets pricing in a quarter-point cut for September, and some even expecting a bigger move, the Fed chief will use this platform to appropriately set forward guidance and outline his views on inflation and the labour market. Although price stability is far from being restored, the job picture is now dimmer than previously thought. As such, we anticipate Chair Powell will leave a September rate cut on the table, but he will likely push back firmly against a 50-bp move. — P.T.

Financial Markets Update for August 15, 2025

		Aug 15 [1]	Aug 8	Week Ago	4 Weeks Ago (basis point change)	Dec 31, 2024
Canadian Money Market	Call Money	2.75	2.75	0	0	-50
	Prime Rate	4.95	4.95	0	0	-50
U.S. Money Market	Fed Funds (effective)	4.50	4.50	0	0	0
	Prime Rate	7.50	7.50	0	0	0
3-Month Rates	Canada	2.65	2.64	1	-2	-51
	United States	4.20	4.24	-3	-12	-11
	Japan	0.40	0.40	0	2	19
	Australia	3.61	3.66	-5	-7	-79
2-Year Bonds	Canada	2.70	2.66	4	-11	-23
	United States	3.72	3.76	-4	-15	-52
10-Year Bonds	Canada	3.44	3.38	6	-13	22
	United States	4.30	4.28	2	-12	-27
	Japan	1.57	1.49	8	3	48
	Germany	2.78	2.69	9	9	42
	United Kingdom	4.68	4.60	8	1	12
	Australia	4.23	4.25	-2	-11	-13
Risk Indicators	VIX	14.8	15.2	-0.4 pts	-1.6 pts	-2.6 pts
	Inv. Grade CDS Spread [2]	50	51	-1	-1	0
	High Yield CDS Spread [2]	319	325	-6	2	7
					(percent change)	
Currencies	US¢/C$	72.45	72.68	-0.3	-0.6	4.2
	C$/US$	1.380	1.376	—	—	—
	¥/US$	146.92	147.74	-0.6	-1.3	-6.5
	US$/€	1.1711	1.1641	0.6	0.7	13.1
	US$/£	1.357	1.345	0.9	1.1	8.4
	US¢/A$	65.20	65.22	0.0	0.2	5.4
Commodities	CRB Futures Index	295.09	294.07	0.3	-3.6	-0.5
	Oil (generic contract)	63.57	63.88	-0.5	-5.6	-11.4
	Natural Gas (generic contract)	2.96	2.99	-1.0	-16.9	-18.5
	Gold (spot price)	3,343.55	3,397.75	-1.6	-0.2	27.4
Equities	S&P/TSX Composite	27,908	27,759	0.5	2.2	12.9
	S&P 500	6,453	6,389	1.0	2.5	9.7
	Nasdaq	21,636	21,450	0.9	3.5	12.0
	Dow Jones Industrial	44,968	44,176	1.8	1.4	5.7
	Nikkei	43,378	41,820	3.7	8.9	8.7
	Frankfurt DAX	24,374	24,163	0.9	0.3	22.4
	London FT100	9,146	9,096	0.6	1.7	11.9
	France CAC40	7,924	7,743	2.3	1.3	7.4
	S&P ASX 200	8,939	8,807	1.5	2.1	9.6

[1] = as of 11:25 am *[2] = One day delay*

	Monday August 18	Tuesday August 19	Wednesday August 20	Thursday August 21	Friday August 22
Japan			**Trade Balance** **July '25 (e) +¥215.0 bln** July '24 -¥628.3 bln **Core Machine Orders** **June (e) -0.6% +4.6% y/y** May -0.6% +4.4% y/y	**Manufacturing PMI** **Services** **Aug. P** July 48.9 53.6 **Composite PMI** **Aug. P** July 51.6 **Machine Tool Orders** **July F (e) +3.6% y/y** June -0.5% y/y	**CPI** **Core CPI** **July (e) +3.1% y/y +3.0% y/y** June +3.3% y/y +3.3% y/y **CPI ex. Food & Energy** **July (e) +3.4% y/y** June +3.4% y/y
Europe	**EURO AREA** **Trade Surplus** **June** May €16.2 bln		**EURO AREA** **Consumer Price Index** **July F (e) unch +2.0% y/y** June +0.3% +2.0% y/y **Core CPI** **Services** **July F (e) +2.3% y/y +3.1% y/y** June +2.3% y/y +3.3% y/y **UNITED KINGDOM** **Consumer Price Index** **July (e) unch +3.7% y/y** June +0.3% +3.6% y/y **Core CPI** **Services** **July (e) +3.7% y/y +4.8% y/y** June +3.7% y/y +4.7% y/y	**EURO AREA** **Manufacturing PMI** **Services** **Aug. P (e) 49.5 50.8** July 49.8 51.0 **Composite PMI** **Aug. P (e) 50.6** July 50.9 **Consumer Confidence** **Aug. P (e) -14.9** July -14.7 **UNITED KINGDOM** **Manufacturing PMI** **Services** **Aug. P (e) 48.3 52.0** July 48.0 51.8 **Composite PMI** **Aug. P (e) 51.7** July 51.5	**EURO AREA** **Negotiated Wages** **Q2** Q1 +2.5% y/y **GERMANY** **Real GDP** **Q2 F (e) -0.1% +0.4% y/y** Q1 +0.3% +0.3% y/y **FRANCE** **Business Confidence** **Aug. (e) 97** July 96 **Retail Sales** **July** June -1.1% y/y **UNITED KINGDOM** **GfK Consumer Confidence** **Aug. (e) -19** July -19 **Retail Sales (ex. Fuel)** **July (e) +0.4% +1.1% y/y** June +0.6% +1.8% y/y
Other		**AUSTRALIA** **Westpac Consumer Confidence** **Aug.** July +0.6%	**NEW ZEALAND** RBNZ Monetary Policy Meeting		**MEXICO** **Real GDP** **Q2 F (e) +0.7% +0.1% y/y** Q1 +0.2% +0.8% y/y

D = date approximate

Upcoming Policy Meetings | Bank of England: Sep. 18, Nov. 6, Dec. 18 | European Central Bank: Sep. 11, Oct. 30, Dec. 18

Canada

Monday August 18

8:15 am — Housing Starts

July (e)	**280,000 a.r. (-1.3%)**
Consensus	*272,500 a.r. (-4.0%)*
June	283,734 a.r. (+0.4%)

8:30 am — Household Credit / Mortgage Credit

	Household Credit	Mortgage Credit
June		
May	+4.5% y/y	+4.7% y/y

8:30 am — Int'l Securities Transactions

	Inflows	Outflows
June		
May	-$2.8 bln	$13.4 bln

Tuesday August 19

8:30 am — Consumer Price Index

July (e)	**+0.3% (+0.2% s.a.)**	**+1.7% y/y**
Consensus	*+0.4%*	*+1.8% y/y*
June	+0.1%	+1.9% y/y

8:30 am — CPI Core (% y/y)

	Trim	Median	ex. F&E
July (e)	**+3.1**	**+3.1**	**+2.6**
June	+3.0	+3.1	+2.6

8:30 am — Construction Investment

June		
May	-2.2%	+6.0% y/y

11:15 am — Cash management bond buybacks $0.5 bln

Wednesday August 20

8:30 am — New Housing Price Index

July (e)	**-0.2%**	**-1.5% y/y**
June	-0.2%	-1.0% y/y

Noon — 5-year bond auction $5.25 bln

Thursday August 21

8:30 am — Industrial Product Price Index / Raw Materials Price Index

	Industrial Product Price Index	Raw Materials Price Index
July (e)	**+0.1%**	**-1.0%**
June	+0.4%	+2.7%

2-, 10-year bond auction announcements

Friday August 22

8:30 am — Retail Sales / Ex. Autos

	Retail Sales	Ex. Autos
June (e)	**+1.0%**	**+1.1%**
Consensus	*+1.1%*	*+0.9%*
May	-1.1%	-0.2%

10:30 am — BoC Senior Loan Officer Survey (Q2)

United States

Monday August 18

10:00 am — NAHB Housing Market Index

Aug. (e)	**34**
Consensus	*34*
July	33

11:30 am — 13- & 26-week bill auctions $155 bln

Tuesday August 19

8:30 am — Housing Starts

July (e)	**1.30 mln a.r. (-2.0%)**
Consensus	*1.29 mln a.r. (-2.4%)*
June	1.32 mln a.r. (+4.6%)

8:30 am — Building Permits

July (e)	**1.39 mln a.r. (-0.4%)**
Consensus	*1.39 mln a.r. (-0.4%)*
June	1.39 mln a.r. (-0.1%)

Fed Speaker: Vice Chair for Supervision Bowman (2:10 pm)

11:00 am — 4-, 8- & 17-week bill auction announcements

11:30 am — 6-week bill auction $85 bln

Wednesday August 20

7:00 am — MBA Mortgage Applications / 30-year FRM

	MBA Mortgage Applications	30-year FRM
Aug. 15		
Aug. 8	+10.9%	6.67%

2:00 pm — FOMC Minutes from July 29-30 meeting

Fed Speakers: Governor Waller (11:00 am); Atlanta's Bostic (3:00 pm)

11:30 am — 17-week bill auction

1:00 pm — 20-year bond auction $16 bln

Thursday August 21

8:30 am — Initial Claims

Aug. 16 (e)	**226k (+2k)**
Aug. 9	224k (-3k)

8:30 am — Continuing Claims

Aug. 9	
Aug. 2	1,953k (-15k)

9:45 am — S&P Global PMIs

	Mfg.	Services
Aug. P (e)	**49.5**	**54.9**
July	49.8	55.7

10:00 am — Quarterly Services Survey (Q2 A)

10:00 am — Leading Indicator

July (e)	**-0.1%**
Consensus	*-0.1%*
June	-0.3%

10:00 am — Existing Home Sales

July (e)	**3.90 mln a.r. (-0.8%)**
Consensus	*3.90 mln a.r. (-0.8%)*
June	3.93 mln a.r. (-2.7%)

Fed Speaker: Atlanta's Bostic (7:30 am)

Jackson Hole Economic Policy Symposium (Aug. 21-23)

11:00 am — 6-, 13- & 26- week bill, 2-, 5- & 7-year note, 2[R]-year FRN auction announcements

11:30 am — 4- & 8-week bill auctions

1:00 pm — 30[R]-year TIPS auction $8 bln

Friday August 22

10:00 am — Fed Chair Powell speaks on the Economic Outlook and Framework Review at the Jackson Hole Symposium

[C] = consensus; [D] = date approximate; [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Sep. 17, Oct. 29, Dec. 10 | FOMC: Sep. 16-17, Oct. 28-29, Dec. 9-10

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