

Focus

Feature Article

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The Swan Song Remains the Same



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Markets revved back up their enthusiasm around potential interest rate relief from the Federal Reserve in the wake of Jay Powell's hotly anticipated Jackson Hole sermon. Heading into the event, investors had turned somewhat cautious after last week's concerning round of U.S. inflation results for July and some earlier guarded remarks by Fed officials. Meantime, a new front opened up on the assault on Fed board members, with Governor Cook cordially invited to resign by the Administration. Amid all these moving parts, the market is back to looking at a strong chance of a rate cut at the September 17 FOMC meeting, albeit still not a lock—there is, after all, almost a full month of data to go (see Scott's Thought). In what was a meaty speech in Wyoming, arguably the key message was found in these two sentences:

*"Our policy rate is now 100 basis points closer to neutral than it was a year ago, and the stability of the unemployment rate and other labor market measures allows us to proceed carefully as we consider changes to our policy stance. Nonetheless, with policy in restrictive territory, the baseline outlook and **the shifting balance of risks may warrant adjusting our policy stance.**"*

The rate cut opening helped the equity market break out of a mini slide, which had seen the S&P 500 dip for five consecutive days, with notable softness in tech. The market's near-unabated rise since April promptly resumed post-Jackson, taking the index to a new record high. Meantime, the U.S. dollar pulled back in the wake of Powell's remarks, although it has been quietly firming after a six-month bludgeoning in the first half of the year. It had risen to a three-month high against the Canadian dollar above \$1.39 (or below 72 cents(US)) just prior to the speech.

On this week's economic front, the handful of releases largely confirmed that the U.S. housing market was stabilizing at low levels of activity. While starts and sales both perked up somewhat in July, forward-looking indicators remained soft—permits, mortgage applications, and the NAHB Index. The factory sector sent off mixed signals, with regional Fed surveys dropping in August, but S&P's Global PMI reporting its best month for manufacturing in three years. But, with Powell acutely focused on the job market, perhaps the most intriguing indicator was the back-up in weekly jobless claims to 235,000. More striking was the further rise in continuing claims, which are now at their highest level since early 2018 (aside from that nastiness in 2020/21).

The mildly dovish words from Wyoming weren't the only breaking news on Friday morning, as it was reported that **Canada would be removing a long list of retaliatory tariffs on U.S. goods**. Basically, the only items still facing Canadian tariffs will be metals and some autos. This followed a day after the first conversation between PM Carney and President Trump in weeks and is an important step. The direct implications for the Canadian economy are that it will: a) take some pressure off specific CPI items (e.g., groceries, sporting equipment), which could help shave core inflation back below 3%, and b) further cut into expected tariff revenues. Recall that the Liberal election platform had been based on annual tariff revenues of \$20 billion; we are now looking at a fraction of that amount, introducing yet more pressure on the fiscal outlook.

Our longstanding view has been that the inflation threat from the trade war was a tad overblown, for Canada and for the U.S., albeit for different reasons. For the States, its

unrivalled market power means that the Administration is not fully offside for asserting that companies will ultimately eat some of the tariffs. For Canada, the two big drivers of potential trade war inflation have vapourized—the retaliatory tariffs, which weren’t that fierce to begin with, have been further declawed; and, the Canadian dollar is 3%-to-4% stronger than when the trade war first erupted, not weaker, even with its recent sag.

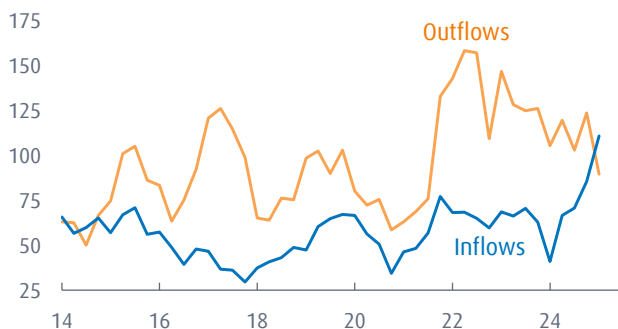
The back-down on Canadian retaliation should thus fully quiet the talk of trade-war led inflation, alongside this week’s tempered CPI reading for July. The latter revealed that the three-month core inflation trend eased to 2.4%, its first trip below 3% since last fall. This **opens the door to further rate cuts by the Bank of Canada**. While a move in September remains a bit of a long shot—markets peg the odds at about 1 in 3—a move in October is seen as likely, and there could be more to come. We continue to lean to the low side, calling for a total of three cuts by next spring, which would take rates just a touch below the low end of neutral. But given the more benign trade-related inflation risks and a softening job market, we believe that below neutral would ultimately be entirely appropriate.

The major economic indicator on the Canadian calendar next week will be **quarterly GDP on Aug 29** (i.e., Friday of a long weekend, the last workday of what most consider to be summer... nice). It’s expected to show about a 1% annualized drop in Q2, as exports were walloped (-25% a.r.) by both a reversal from the Q1 tariff front-running, but also amid all the deep trade uncertainty/chaos in the wake of Liberation Day early in the quarter. But we’ll also be closely watching the monthlies; and specifically, the early estimate for July GDP, to see how Q3 is shaping up. We suspect the economy will flatten out in Q3, just averting a so-called technical recession.

But we would **also highlight the quarterly balance of payments**, which will be released a day earlier. A significant widening in the current account deficit to more than 2% of GDP (or above \$70 billion annualized) from near balance in Q1 will hog the headlines. But **keep an eye on the capital side of the BOP**. Many have noted the sudden drop in portfolio flows in the first half, which has seen heavy net selling of Canadian equities and a drying up of inflows to fixed-income.

Chart 1
Canadian FDI: Finally Directed Inward

Canada (C\$ blns : 4-qtr m.s.)
Foreign Direct Investment



Sources: BMO Economics, Haver Analytics, Statistics Canada

However, the counterpoint has been **a dramatic turnabout in foreign direct investment**. Following 11 consecutive years of outflows—and sometimes large net outflows—FDI has turned the corner. In the past four quarters (to Q1) there was a net FDI inflow of \$21 billion, compared with a \$65 billion net outflow in the four quarters to 2024Q1 (Chart 1). This sudden turnabout reflects both a big pick-up in the amount of investment flowing into Canada from abroad (to its best level since pre-GFC days), but also a notable slowdown in Canadian companies investing outside of the country. This positive reversal has kept the Canadian dollar from weakening even further over the past year, even as the current account has swelled and portfolio investment flows have turned heavily outward.

Waiting for the August Data



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Jay Powell's speech at Jackson Hole opened the door to a September rate cut, noting that *"the shifting balance of risks may warrant adjusting our policy stance."* Stagflation-lite continues to be our near-term U.S. forecast, but **will the labour market slowdown or inflation spike be the bigger problem for the Fed in 2026?** It remains a debatable question.

While a few FOMC voters have probably already made up their minds on a September rate cut, a majority are still likely awaiting the August employment and inflation reports before making their final decision. Beyond September's meeting, most FOMC members won't be able to venture more than a guess on the pace of further cuts. **We continue to forecast a September cut** from the Fed but think it's a closer call than the fed funds futures market is letting on. Futures were pricing in a nearly 90% chance of a September cut in the wake of Powell's speech and more than 50% chance of another cut in October. **Our baseline forecast still has two quarter-point rate cuts by the end of the year.**

On one hand, we have downbeat **labour market** reports. Layoffs appear to be picking up again while rising continuing claims show hiring remains subdued. The second week of August also happens to be the survey week for the payroll report, so the deterioration in claims could foreshadow another bad month of jobs numbers.

Still, the drop in labour demand may not be as alarming as it appears at first blush, since **labour supply is also declining** due to tougher immigration policies. The BEA estimates that U.S. population growth has already been halved from recent peaks, falling to just 0.58% y/y in June from near 1.0% last year. The BLS reports labour force growth from a year ago has slipped by 1.38 million people since January. In other words, **fewer net new jobs are needed to keep the unemployment rate steady.** An Economic Letter by the San Francisco Federal Reserve published in July 2024 estimates that the long-run breakeven employment growth rate could be as low as 70-90k jobs per month. Unfortunately, it is difficult to know with certainty, in a given month, how many net new jobs will be sufficient to keep the unemployment rate steady—and the first signs of trouble will likely be an increasing jobless rate.

On the other hand, solid retail sales and elevated core consumer and PPI inflation data for July hint at **continued economic resilience.** We marked up our estimate of Q3 real consumer spending to 1.3% annualized from 0.9% based on strong core retail sales in July and a sizeable upward revision for June. As a result, Q3 real GDP growth was marked up to 1.3% a.r. from 1.1%.

Juggling monetary policy at an inflection point for the economy is always tricky, but doubly so when dealing with a supply shock that could push inflation further away from the Fed's 2.0% goal while the labour market is sputtering. Triply so, with the Administration putting political pressure on Jay Powell to immediately lower interest rates, threatening to remove Fed Governor Lisa Cook, and risking the independence of the Federal Reserve itself. By sticking closely to the dual mandate and objectively weighing the labour market and inflation data, the Fed may yet successfully navigate these treacherous monetary policy and political waters. However, if a September rate cut is seen as a political concession to the Executive branch, it could easily backfire both economically and in financial markets.

Canadian Inflation: Easy Does It



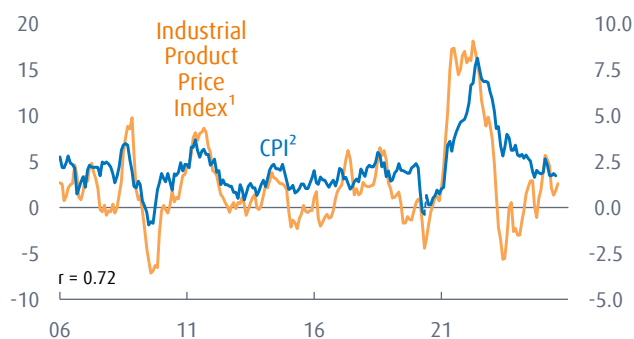
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The July CPI report suggests underlying inflation is slowly easing in Canada but holding **above the 2% target**. The three-month rise in various ‘core’ measures is running almost half a percentage point above the target. This partly reflects past rent increases and counter-tariffs on some imported U.S. goods. Consequently, the CPI report alone is unlikely to convince the Bank of Canada that policy needs to ease further.

But the CPI tells us where inflation is, not where it’s going. For that, we need more **forward-looking indicators**, such as:

Chart 1 Producers Flagging Less Inflation

Canada (y/y % chng)



¹ (lhs : advanced 1 month); ² (rhs)

Sources: BMO Economics, Haver Analytics, Statistics Canada

Producer prices: Though jumping 0.7% in July, industrial product prices are up a moderate 2.6% y/y. Among consumer items, food and electronic products are materially higher than a year ago, but clothing and energy costs are lower. If historical patterns hold, producer price gains should not prevent some further decline in CPI inflation (*Chart 1*). Moreover, their future path hinges on commodity and import prices, which are well behaved.

Commodity prices: The BoC’s commodity price index is down 1.5% y/y to mid-August, with cheaper energy countering higher agriculture, forestry, and metals prices. BMO Economics expects resource prices to track sideways in the year ahead, exerting little inflation pressure.

Import prices: Canadian import prices have fallen four straight months to June, by 3.4%, and are up just 0.7% y/y. Recent declines have been broad-based, spanning most consumer items such as food, clothing, and furnishings. U.S. exporters might be cutting prices to soften the impact of retaliatory tariffs, while other exporters may be discounting to sell goods that were previously earmarked for the U.S. The exchange rate will also influence import costs. While the trade-weighted loonie is down 1.7% y/y to mid-August, we expect it to rise modestly against the U.S. dollar in the year ahead, thereby dampening import costs.

Home prices: The house-only portion of the new home price index fell for a fifth straight month in July and is down 2.0% y/y. This points to a further retreat in CPI homeowners’ replacement costs, which have already fallen modestly in the past year.

Market rents: National asking rents across all property types tracked by Rentals.ca fell 3.6% y/y in July, led by cheaper apartment rates in Vancouver (-9.6%), Calgary (-9.3%), and Toronto (-4.6%). A saturated condo market, notably in Toronto, should continue to pressure rents lower. This should suppress CPI rent growth, which has been trending down from a 9.0% y/y peak in May 2024 but surprisingly ticked up to 5.1% y/y in July. The still-elevated pace is adding 0.4 ppts to annual CPI inflation.

The rundown: Calm resource and import prices and sagging shelter costs, alongside a weakening jobs market and moderating wage growth, point to underlying inflation drifting back to the 2% target. The federal government’s recent move to drop most of the retaliatory duties on U.S. goods will also trim inflation—and help pry open the door for further rate cuts.

U.S. and EU Trade Deal: Still Needs Sign Off



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Finally! An official joint statement between the U.S. and the EU on their trade deal was released this week. You remember the deal: the one that was announced with great fanfare on July 28. One can imagine the stress that EC President Ursula von der Leyen and EU trade chief Maros Sefcovic were under, particularly as President Trump in the prior week was giving the chances of a deal 50-50 odds. And, the EU's letter from the U.S. had a 30% tariff listed, which was far higher than the 10% that Brussels had hoped for. (A 50% tariff was also threatened in May, if there was no deal by July 9.) Ursula von der Leyen assured European Parliament that *"Europe must show strength"* when the negotiations start; but, judging by the statement, one wonders where the strength was.

The framework for *"reciprocal, fair and balanced trade"* starts with a **15% U.S. tariff on most imports from the EU**, which include future tariffs on pharmaceuticals, lumber, and semiconductors. In return, for starters, the **EU will axe any tariffs it has on all U.S. industrial goods** and give *"preferential market access"* to U.S. seafood and all sorts of agricultural goods, such as dairy and pork. Once the EU does that, then the 27.5% U.S. tariff on EU autos and auto parts will be reduced to 15%. Not before. And, the 25% tariff on European pickup trucks (aka the "chicken tax") stays. Brussels also agreed to buy \$40 bln of U.S. AI chips, \$750 bln of U.S. energy products (such as LNG and oil) over a four-year span (to 2028), and lots more defence and military equipment. American standards will also play a large role in this agreement: Europe will *"adopt and maintain"* American tech security requirements to avoid any *"technology leakage to destinations of concern"*; and, both sides will be *"streamlining requirements for sanitary certificates for pork and dairy products."*

How about **steel & aluminum**? Both sides agreed to *"consider"* protecting themselves from *"overcapacity"* and to keep an eye on their supply chains. But looks like the 50% tariff stays.

How about **wine and spirits**? No carve out, to the disappointment of those in France, Italy and Spain.

Failing to see the win-win here for a region that, collectively, is the largest customer of the U.S., accounting for about 20% of its total goods exports. **So what's next?** Get comfy: this agreement needs to be passed by all 27 countries in the EU and, to give a blinding glimpse of the obvious, it won't be an easy process. The agreement may also need to be passed by the European Parliament. In other words, although there is a lot more clarity now, this agreement, as it stands, may not be the end product. That likely holds for the other trade deals as well. Stay tuned.

Mexico: Back from the Brink?



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This week's final read on Q2 GDP confirmed **Mexico's unexpected economic resilience** in the wake of President Trump's tariffs. Real output grew 0.6% q/q, down a tick from the preliminary estimate of 0.7%, but better than the prior quarter's revised 0.3% pace. **It's now looking less likely that the economy will slip into recession** in the near term, and 2025 projections have been steadily ratcheting higher. Still, it's too soon to break out the champagne, as we continue to expect some slowing in the second half of the year. Moreover, even our revised growth forecast of 0.4% is among the weakest expected performances of all major advanced and emerging economies this year.

Manufacturing and services were the key growth drivers in Q2, offsetting a contraction in agricultural activity. Most notably, vehicle production and exports rebounded in June and July after tumbling in April and May. However, auto exports are still down 1.4% year-to-date and production is up only 0.7%, reflecting clear drags from tariffs and subdued domestic demand. And, even though it is primarily due to weaker imports, the continued widening in Mexico's merchandise trade surplus with the U.S. won't go unnoticed by the Trump Administration. Based on customs data, Mexico is currently facing a lower calculated tariff rate than many countries (4.0% in June vs. 2.4% for Canada, but 9.3% for Vietnam and 39.8% for China), but this could rise if a trade deal is not reached by November. Falling crime rates are also worth highlighting given that security remains a primary concern for voters and investors. The government reported a 16% reduction in homicides year-to-date through July, while highway cargo theft was down 23% y/y in June.

On the downside, the decline in workers' remittances in June (-16.2% y/y in US \$ terms) was the steepest since 2012, bringing total remittances down 5.6% in H1. Remittances from the U.S.—which account for over 95% of the total—fell 10.4% y/y in Q2, the first decline in a decade. This is not surprising in view of President Trump's migrant crackdown and the softening U.S. labour market, and flows will likely be further dampened after the 1% tax on U.S. remittances comes into effect in 2026. Meanwhile, domestic job creation also appears to be stalling. Prior to a one-off surge in July (driven by a pilot program adding digital platform/gig workers to the national social security system), the economy had lost 40k formal sector jobs in the first six months of the year. Softer employment and remittance flows will place an increasing strain on household incomes and consumption.

Bottom Line: Mexico's economy has displayed more resiliency to tariffs than originally anticipated given its very high U.S. export dependency (28% of GDP). However, this buoyancy is unlikely to be sustained as trade effects increasingly feed through over the coming quarters, despite Mexico likely maintaining a relative tariff advantage over other top U.S. trade partners. Meanwhile, ongoing trade-related and domestic policy uncertainty will continue to weigh on private investment, while public investment is restricted by fiscal consolidation.



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

Good News

Retail Sales Volumes +1.5% (June)—but StatCan estimates July nominal sales fell 0.8%

Consumer Prices slowed to +1.7% y/y (July)—but **core prices** still sticky

New Housing Price Index -1.4% y/y (July)—good for inflation picture

Household Mortgage Credit +4.7% y/y (June)

Construction Investment +8.1% y/y (June)

Housing Starts +3.7% to 294,085 a.r. (July)

Global Investors bought a net \$0.7 bln in Canadian securities (June)—highest since January

Existing Home Sales +2.0% to 4.01 mln a.r. (July)

Housing Starts +5.2% to 1.43 mln a.r. (July)

Consumer Prices cool to +3.1% y/y (July)—but still above target

Core Machine Orders +3.0% (June)

Manufacturing PMI +1.0 pt to 49.9 (Aug. P)

Euro Area—Manufacturing PMI +0.7 pts to 50.5 (Aug. P)

U.K.—Services PMI +1.8 pts to 53.6 (Aug. P)

U.K.—GfK Consumer Confidence +2 pts to -17 (Aug.)

Australia—Westpac Consumer Confidence +5.7% (Aug.)

Bad News

Industrial Product Prices +2.6% y/y; **Raw Material Prices** +0.8% y/y (July)—above expected

Building Permits -2.8% to 1.35 mln a.r. (July)

NAHB Housing Market Index -1 pt to 32 (Aug.)

Continuing Claims +30k to 1,972k (Aug. 9 week)

Leading Indicator -0.1% (July)

Exports -2.6% y/y; **Imports** -7.5% y/y (July)

Services PMI -0.9 pts to 52.7 (Aug. P)

Euro Area—Negotiated Wages spike to +4.0% y/y (Q2)

Euro Area—Trade Surplus narrowed meaningfully to €2.8 bln (June)

Euro Area—Services PMI -0.3 pts to 50.7 (Aug. P)

Euro Area—Consumer Confidence -0.8 pts to -15.5 (Aug. P)

Germany—Real GDP revised down to -0.3% q/q (Q2)

France—Retail Sales -1.9% y/y (July)

France—Business Confidence stuck at 96 (Aug.)

U.K.—Consumer Prices picked up to +3.8% y/y (July)—and underlying price pressures stirring

U.K.—Manufacturing PMI -0.7 pts to 47.3 (Aug. P)

Mexico—Real GDP revised down to +0.6% q/q (Q2)

Canada

- PM Carney removes some retaliatory tariffs on U.S. goods
- Households go on a June shopping spree... will it last?
- Conservative Leader Poilievre to return to Parliament following by-election win

United States

- Fed Chair Powell opens the door to a September rate cut amid a weakening job market
- S&P 500 hits record highs, dollar weakens, Treasury yields turn lower
- S&P affirms U.S. 'AA+' credit rating

Japan

- Above-target inflation keeps a September BoJ rate hike on the table

Europe

- U.S., EU finally agree on details of trade agreement
- Germany's economy contracts more than expected in Q2
- Hot U.K. inflation will likely keep the BoE on the sidelines for some time
- Riksbank on hold at 2.00%

Other

- RBNZ cuts 25 bps and signals more to come
- Russia ups attacks on Ukraine following Putin-Trump summit

U.S. Data Quality in the Firing Line

Recent hefty revisions to payrolls and news that, owing to shortages of data collectors, the CPI could be becoming less accurate are casting doubt on the quality of critical U.S. economic data. This is a serious but fixable problem.



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The U.S. employment report for July revealed large downward revisions to payrolls for the previous two months. May's growth was revised down by 125k to 19k and June's was reduced by 133k to 14k. Moreover, with July payrolls reported at just +73k, this was now the weakest three-month tally since the first few months of the pandemic and, before then, the Great Recession. The narrative on the labour market had gone from 'slowing but still sturdy' to 'sluggish' in one fell swoop. This eroded the Administration's confidence in the head of the **Bureau of Labor Statistics** (BLS), Erika McEntarfer, who was fired, with E. J. Antoni announced as her replacement (pending Senate approval).

The monthly employment data are based on the **Current Employment Statistics** (CES) survey, a.k.a. the establishment survey. The CES surveys roughly 631k establishments each month to produce granular estimates of nonfarm employment, hours worked, and earnings of workers on payrolls. It forms the focal point of the monthly **Employment Situation** report issued by the BLS alongside the **Current Population Survey** (CPS), a.k.a. the household survey. The CPS is used to produce estimates of labour force status by demographic characteristics, with the unemployment rate being the most closely watched metric.

As the timeliest official major U.S. macroeconomic indicator (it often precedes the CPI by at least one week), it is the most anticipated release by market watchers and policymakers. And, for that reason, it has historically caused the most volatility in markets. Hence, any potential disruption to the current data offerings or erosion of trust in the official employment numbers would have significant ramifications for markets. Accordingly, the previous heads of the BLS have maintained a strict nonpartisan ethos to avoid any inkling that an administration was attempting to 'cook the books' to make the numbers look more favourable.

The process for putting together the payrolls data involves revisions over the course of three consecutive months as the collection rates from the CES typically climb from around two-thirds of the sample to over 90% (*Chart 1*). Additionally, when the January figures are released each year, the CES data are revised again to align with employment levels captured in the **Quarterly Census of Employment and Wages** (QCEW), which is put together from state and federal unemployment insurance data and covers over 95% of U.S. jobs.

While the recent revisions to the payroll data can be jarring, it's important to place them in the appropriate historical context. Revisions to macroeconomic indicators are common and sometimes large. The 133k revision to June was not outsized compared to the standard error on the month-over-month change in employment from the CES for any given month, which is about 83k.

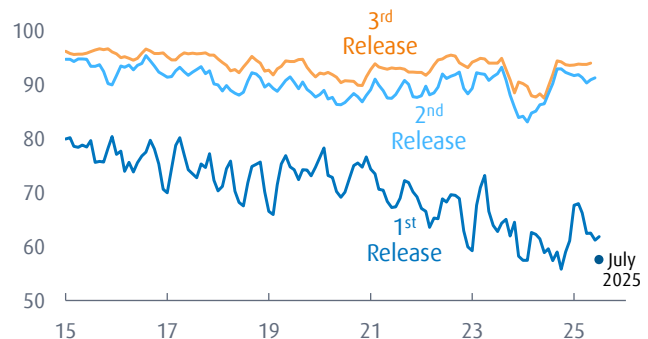
There are **two important contributing factors to the run of larger-than-expected downward revisions to payrolls over the past few years**. First, establishment **survey responses** are increasingly received **late**. Specifically, in recent months, businesses have probably had more pressing issues (e.g., tariffs) than filling out voluntary surveys

Chart 1

If at First You Don't Succeed

United States (% : 3-mnth m.a.)

CES Collection Rates



Sources: BMO Economics, Haver Analytics, BLS

in a timely fashion. So, by the time more CES survey responses arrive by the second and third estimates, the story can change markedly.

The second issue stems from the process that the BLS uses to estimate the net additions to payrolls arising from new business formations. This is referred to as the net **business birth/death adjustment**. Each year, the BLS models how many new jobs it expects to be added based on the difference between entering and exiting businesses (new firms aren't directly captured in the CES). Recently, those adjustments have been exceeding the trend in establishments based on the QCEW data (*Chart 2*). That makes further downward revisions more likely than in periods where the birth/death model was better aligned to the QCEW.

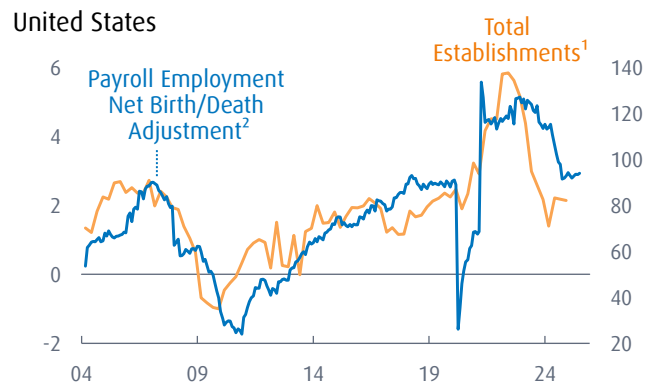
Concerns over BLS data, specifically the Consumer Price Index, had been brewing even before the payroll revision controversy. A shortage of CPI data collectors emerged in the wake of the federal government's hiring freeze that went into effect on January 20, 2025. Apart from normal attrition, it's unclear how many separations arose from the efforts of the Department of Government Efficiency (DOGE). To adjust for the labour constraints, the BLS began collecting less data in some local areas and no data in a few other areas, and, thus, relying on less accurate imputation methods to 'fill in' the missing data.

When a specific price is not available, the price change is imputed via one of three methods. 'Home cell' imputation employs the average price from other stores in the same area. When this is not available, 'different cell' imputation employs the average price from other stores in a broader region. And when even this is not available, 'carry-forward' imputation uses the same price as the previous month. As you move from a direct price quote and sequentially through the three methods, the accuracy of the data suffers. The BLS does not publish how many prices were imputed. But, since 2019, it has published the shares of the methods employed among all imputations. Typically, 'home cell' is about 90%, 'different cell' is 10%, and 'carry-forward' is 0%.

Beginning with the March CPI data, the share of 'different cell' imputation began to rise, hitting 15% (the previous high was 16% in April 2020 at the onset of the pandemic). It nearly doubled to 29% for April and hit 35% for the June data (*Chart 3*). It was 32% in July. The BLS has said that this shift should have "minimal impact on the overall inflation rate" but market participants are a little skeptical. It doesn't help that the consensus forecast for the monthly move in the core CPI has come up short in four of the past five periods, including by as much as 0.2 ppts for March and May.

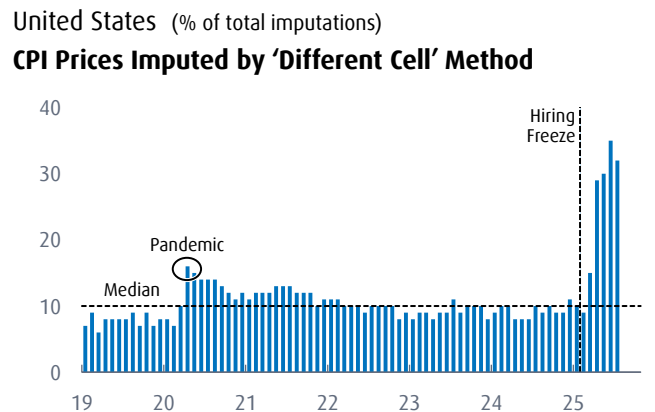
Last month, Reuters conducted a survey of 100 leading policy experts including Nobel laureates, former policymakers, academics from top U.S. universities and economists from major banks, consultancies and think tanks. The survey

Chart 2
No Longer Netting Out



¹ (lhs : y/y % chng); ² (rhs : 000s : 12-mnth m.a.)
Sources: BMO Economics, Haver Analytics, BLS

Chart 3
Fewer Price-of-Bean Counters



Sources: BMO Economics, Haver Analytics, BLS

showed that 41% were ‘very concerned’ about the quality of data, with 48% being ‘slightly concerned’. Some 71% felt that U.S. authorities weren’t treating the issue with sufficient urgency and 63% judged that agencies don’t have adequate resources to produce high-quality data. With social security benefits and several other income benchmarks indexed to CPI, getting it ‘right’ matters to the broader economy.

Stoking these concerns was also the termination of the **Federal Economic Statistics Advisory Committee** (FESAC), effective February 28, 2025. The FESAC had advised the Bureau of Economic Analysis (BEA), the Census Bureau and the BLS on “*statistical methodology and other technical matters related to the collection, tabulation, and analysis of federal economic statistics*”. Even Fed Chair Powell weighed in. During recent congressional testimony, he said: “*I wouldn’t say that I’m concerned about the data today, although there has been a very mild degradation of the scope of the surveys... But I would say the direction of travel is something I’m concerned about.*” Indeed, the response rates for several household and establishment surveys have fallen significantly since 2015 (Chart 4) [1].

There are ways to turn the ‘direction of travel’ around and improve data quality. Ending the hiring freeze for, and rehabilitating the budgets of the statistical agencies would be a quick fix. The adage ‘you get what you pay for’ can apply, partly, to data quality. In real terms, the BLS’ budget hasn’t risen in over two decades despite immense growth in the labour market and consumer product landscape over the same period.

Another is to make survey responses mandatory. The Census Bureau’s American Community Survey (ACS) and the decennial census are both mandatory at the federal level, but the CES is not. (Note that some states make CES survey responses mandatory.)

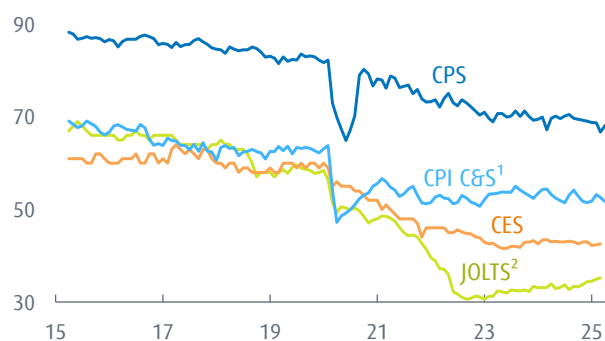
Employing more technology and big data are also ways to turn things around. For the CPI, the BLS is already using big data, with ‘one firm’ (the name is not published owing to confidentiality) providing the BLS “*with a large volume of price data*” on apparel and household goods instead of them having in-house data collectors gather them via store visits. However, with about 100,000 price quotes collected per month on commodities and services, approximately two-thirds is still collected by personal visits. The BLS was already looking at expanding its ‘alternative data’ (anything not collected in person), such as corporate-supplied data, secondary source data (third-party datasets), along with web scraping and establishment-provided application programming interfaces (APIs). We reckon these efforts have been given extra impetus.

Bottom Line: Recent revisions aside, data from the BLS remain the gold standard for producing market-relevant macroeconomic data. Equipping the agency with the necessary tools and resources to continue to produce high-quality data should be a priority for the current and future administrations.

Chart 4

A Sign of the Survey Times

BLS Survey Response Rates — United States (%)



¹ Consumer Price Index—Commodities & Services; ² Job Openings and Labor Turnover Survey
Sources: BMO Economics, Haver Analytics, BLS

[1] For the CES, the *response rate* is measured as the number of establishments responding to the survey compared to the number of eligible establishments based on the universe of UI-covered businesses (including those that no longer respond). *Collection rates* for the CES, however, exclude establishments from the denominator if they are nonresponders. [↗]

Economic Forecast Summary for August 22, 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	1.9 ↑	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	266 ↑	247	240	232	225	225	245	255 ↑	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	2.60 ↓	2.35	2.10	1.95	1.95	1.95	4.37	2.60	2.00
10-year Bond	3.12	3.21	3.45 ↑	3.40 ↑	3.35	3.30	3.25 ↓	3.25	3.34	3.30	3.30
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-149	-173	-169	-164 ↑	-166 ↑	-158 ↑	-133 ↑	-107	-53	-164	-141 ↑
10-year	-133	-115	-87 ↓	-83 ↓	-81 ↓	-79 ↓	-77 ↓	-76 ↓	-87	-105 ↓	-78 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-0.5	3.0	1.3 ↑	1.0	1.6	1.6	1.8	1.7	2.8	1.7 ↑	1.6 ↑
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	1.35	1.39 ↑	1.38	1.40	1.41	1.41	1.42	1.37	1.38 ↑	1.41
Current Account Balance (\$trlns : a.r.)	-1.80	-1.10	-1.09 ↑	-1.11 ↑	-1.11 ↑	-1.12 ↑	-1.13 ↑	-1.14 ↑	-1.19	-1.28	-1.12 ↑
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	3.75 ↓	3.50 ↓	3.25 ↓	3.00	5.18	4.25	3.40
10-year Note	4.45	4.36	4.30 ↑	4.20 ↑	4.15	4.10	4.05	4.00	4.21	4.35 ↑	4.05
EXCHANGE RATES (average for the quarter)											
US¢/C\$	69.7	72.3	72.8	73.7	74.2	74.5	74.7	74.9	73.0	72.1	74.6
C\$/US\$	1.43	1.38	1.37	1.36	1.35	1.34	1.34	1.33	1.37	1.39	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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Current Account Balance

Thursday, 8:30 am

Q2 (e) **-\$18.3 bln (-\$73.2 bln a.r.)**Consensus *-\$18.7 bln (-\$74.9 bln a.r.)*Q1 **-\$2.1 bln (-\$8.5 bln a.r.)**

Canada's **current account** deficit looks to widen to \$18.3 bln (\$73.2 bln a.r.) in the second quarter, driven by what will likely be a much deeper shortfall in goods trade as global tariffs (and related uncertainty) kicked in. The services trade deficit also widened due to smaller surpluses in commercial and transportation services. We estimate the current account deficit to weigh in at 2.3% of GDP—the largest in five years—with the latter released the following day. While the Q2 figures could mark a nadir (depending on how Canada-U.S. trade negotiations go), we expect deep current account deficits to persist as long as tariff uncertainty continues. — S.K.

Real GDP

Friday, 8:30 am

Q2 (e) **-1.0% a.r.**Consensus *-0.5% a.r.*Q1 **+2.2% a.r.**

Chain Prices

+1.1% a.r.*n.a.***+2.5% a.r.**

The Canadian economy likely contracted in Q2, with **real GDP** expected to decline 1% annualized. Global tariff uncertainty peaked in the quarter, weighing on net exports and business investment. Consumer spending held up, driven by a rebound in services while durables also bounced back (partly due to front-loading on pre-tariff inventory). The housing market continued its uneven pattern, with activity a touch lower albeit with significant regional variations. Recall, the flash estimate for Q2 called for real GDP to be essentially flat, but that masks some differences in output by industry vs. spending. In times of big swings in net exports, we're likely to see a significant gap between the two measures that can help explain most of the difference between the flat flash estimate and our negative forecast.

Monthly Real GDP

July A

June (e) **+0.2%**Consensus *+0.2%*May **-0.1%**

Note that the Bank of Canada's July projections included a hefty baseline contraction of 1.5% a.r. in real GDP, so it will be tough for the data to surprise to the downside. Given the Bank's pessimistic outlook, the further softness required to prompt a September rate cut is more likely to come from the timelier jobs data.

Among the monthly GDP figures, we're expecting a 0.2% expansion for **June**, a tenth above StatCan's flash estimate. Wholesale and retail sales volumes were solid, while manufacturing sales were flat. Hours worked were higher and home sales rose for the third straight month. We'll also be watching the flash estimate for July for an early read on whether the uptick in June held up to start Q3, especially since hours worked stepped back. We are forecasting the economy to be little changed in that quarter (0.0% a.r.), marking an improvement from Q2's contraction but still narrowly avoiding a recession given ongoing trade uncertainty. — S.K.

United States



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Durable Goods Orders

Tuesday, 9:00 am

	Durable Orders	Core Orders
July (e)	-4.0%	+0.2%
Consensus	<i>-4.0%</i>	<i>+0.3%</i>
June	-9.4%	-0.8%

Durable goods orders are expected to drop in July after a 9.4% nosedive in the prior month. Volatile transportation equipment likely took a hit as Boeing bookings were grounded due to safety concerns. Meanwhile, the **control measure of core shipments** (incl. aircraft)—an input for GDP—looks to falter for a third straight month. Amid a slowing economy and squeezed margins, we're expecting firms to cut capital spending in Q3 after robust gains at the start of the year. — P.T.

Key for Next Week

Personal Income & Spending

Friday, 8:30 am

	Personal Spending	Personal Income
July (e)	+0.5%	+0.4%
Consensus	+0.5%	+0.4%
June	+0.3%	+0.3%

Core PCE Price Index

July (e)	+0.3%	+2.9% y/y
Consensus	+0.3%	+2.9% y/y
June	+0.3%	+2.8% y/y

We are expecting a solid pace of personal income and spending growth for July. Tariff uncertainty has eased somewhat since April and full tariff pass-through has yet to occur. Higher-income households appear to be accelerating goods purchases, especially on autos, furniture, and appliances, to beat tariff-driven price hikes.

Personal income is expected to increase 0.4% in July following a moderate 0.3% rise in June. Details from the July Employment Report showed a 0.3% increase in average hourly earnings, as well as average weekly hours, pointing to a pick-up in personal income. On the spending side, consumers showed more signs of resilience in July. We expect a robust 0.5% increase in **personal spending**, which would be the best monthly performance since March. Retail sales increased 0.5% in July as spending on motor vehicles and furniture accelerated.

We expect mixed PCE inflation data, in line with the July CPI results. We forecast overall **PCE prices** increased 0.21% m/m with the year-on-year rate holding at 2.6%. The **core deflator**, the Fed's preferred measure of consumer inflation, likely increased at a firmer 0.29% pace, pushing the year-on-year rate up to 2.9% from 2.8% in June. Unfortunately, core inflation is stuck well above the Fed's 2.0% target and likely to move further away as tariff pass-through and consumer spending growth continue. The Fed will await the August employment and inflation reports before making a final decision on whether to cut interest rates in September. — S.A.

Financial Markets Update for August 22, 2025

		Aug 22 ¹	Aug 15	Week Ago	4 Weeks Ago	Dec 31, 2024
		(basis point change)				
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	-1	-51
	United States	4.19	4.21	-3	-16	-13
	Japan	0.42	0.40	2	1	21
	Australia	3.56	3.61	-5	-15	-84
2-Year Bonds	Canada	2.68	2.71	-3	-13	-25
	United States	3.68	3.75	-8	-25	-57
10-Year Bonds	Canada	3.43	3.45	-3	-10	20
	United States	4.25	4.32	-6	-14	-32
	Japan	1.62	1.57	5	2	53
	Germany	2.72	2.79	-7	0	36
	United Kingdom	4.69	4.70	-1	5	12
	Australia	4.31	4.23	8	-3	-5
Risk Indicators	VIX	14.4	15.1	-0.7 pts	-0.5 pts	-2.9 pts
	Inv. Grade CDS Spread ²	51	50	2	2	2
	High Yield CDS Spread ²	328	318	10	15	16
		(percent change)				
Currencies	US¢/C\$	72.25	72.36	-0.2	-1.0	3.9
	C\$/US\$	1.384	1.382	—	—	—
	¥/US\$	146.76	147.19	-0.3	-0.6	-6.6
	US\$/€	1.1716	1.1703	0.1	-0.2	13.2
	US\$/£	1.353	1.355	-0.2	0.7	8.1
	US¢/A\$	64.87	65.07	-0.3	-1.2	4.8
Commodities	CRB Futures Index	298.42	295.54	1.0	-1.3	0.6
	Oil (generic contract)	63.49	61.98	2.4	-2.6	-11.5
	Natural Gas (generic contract)	2.72	2.92	-6.7	-12.5	-25.1
	Gold (spot price)	3,368.98	3,336.19	1.0	0.9	28.4
Equities	S&P/TSX Composite	28,374	27,905	1.7	3.2	14.7
	S&P 500	6,478	6,450	0.4	1.4	10.1
	Nasdaq	21,497	21,623	-0.6	1.8	11.3
	Dow Jones Industrial	45,723	44,946	1.7	1.8	7.5
	Nikkei	42,633	43,378	-1.7	2.8	6.9
	Frankfurt DAX	24,371	24,359	0.0	0.6	22.4
	London FT100	9,328	9,139	2.1	2.3	14.1
	France CAC40	7,978	7,923	0.7	1.8	8.1
S&P ASX 200	8,967	8,939	0.3	3.5	9.9	

¹ = as of 11:50 am ² = One day delay

	Monday August 25	Tuesday August 26	Wednesday August 27	Thursday August 28	Friday August 29
China			Industrial Profits July June -4.3% y/y		
				Friday August 29	
Japan				Jobless Rate July (e) 2.5% June 2.5%	Retail Sales July -0.1% +1.6% y/y June +0.9% +1.9% y/y
				Tokyo CPI Aug. (e) +2.6% y/y July +2.9% y/y	Core CPI +2.6% y/y +2.9% y/y
Europe	GERMANY Ifo Business Climate Aug. (e) 88.8 July 88.6	FRANCE Consumer Confidence Aug. (e) 89 July 89	GERMANY GfK Consumer Confidence Sep. (e) -21.4 Aug. -21.5	Thursday August 28	
	UNITED KINGDOM Markets closed			EURO AREA Adjusted Private Sector Credit July June +3.0% y/y	ITALY Consumer Confidence Aug. (e) 96.5 July 97.2
				Economic Confidence Aug. (e) 96.0 July 95.8	Consumer -15.5 -14.7
				ECB Minutes from July 24 meeting	
				Friday August 29	
				EURO AREA ECB 3 Year CPI Expectations July (e) +2.4% y/y June +2.4% y/y	FRANCE Consumer Price Index Aug. P (e) +0.6% +0.9% y/y July +0.3% +0.9% y/y
				GERMANY Retail Sales July (e) -0.3% +2.6% y/y June +1.0% +2.4% y/y	Consumer Spending July June +0.6% +0.9% y/y
				Unemployment Aug. (e) +10,000 July +2,000	Real GDP Q2 F (e) +0.3% +0.7% y/y Q1 +0.1% +0.6% y/y
				Consumer Price Index Aug. P (e) unch +2.0% y/y July +0.4% +1.8% y/y	ITALY Consumer Price Index Aug. P (e) -0.1% +1.8% y/y July -1.0% +1.7% y/y
					Real GDP Q2 F (e) -0.1% +0.4% y/y Q1 +0.3% +0.7% y/y
Other		AUSTRALIA RBA Minutes from Aug. 12 meeting	AUSTRALIA Consumer Price Index July (e) +2.3% y/y June +1.9% y/y		INDIA Real GDP Q2 (e) +6.6% y/y Q1 +7.4% 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

North American Calendar — August 25–August 29

	Monday August 25	Tuesday August 26	Wednesday August 27	Thursday August 28	Friday August 29
Canada		8:30 am Manufacturing Sales July A June +0.3% 8:30 am Wholesale Trade July A June +0.7% 2:30 pm BoC Governor Macklem speaks at the Bank of Mexico's 100th Anniversary Seminar 10:30 am 3-, 6- & 12-month bill auction \$30.0 bln (new cash -\$0.1 bln)	Noon 10-year bond auction \$5.25 bln	8:30 am Current Account Balance Q2 (e) -\$18.3 bln (-\$73.2 bln a.r.) Consensus -\$18.7 bln (-\$74.9 bln a.r.) Q1 -\$2.1 bln (-\$8.5 bln a.r.) 8:30 am Payroll Survey: Job Vacancy Rate June May 2.7% Noon 2-year bond auction \$6.0 bln 5-year bond auction announcement	8:30 am Real GDP Chain Prices Q2 (e) -1.0% a.r. +1.1% a.r. Consensus -0.5% a.r. n.a. Q1 +2.2% a.r. +2.5% a.r. 8:30 am Monthly Real GDP July A June (e) +0.2% Consensus +0.2% May -0.1% Ottawa's Budget Balance^o June '25 +\$0.9 bln June '24 +\$0.9 bln
	United States	8:30 am Chicago Fed National Activity Index July June -0.10 10:00 am New Home Sales July (e) 623,000 a.r. (-0.6%) Consensus 635,000 a.r. (+1.3%) June 627,000 a.r. (+0.6%) 10:30 am Dallas Fed Mfg. Activity Aug. (e) -3.0 July 0.9 Fed Speakers: Dallas' Logan (3:15 pm); New York's Williams (7:15 pm) 11:30 am 13- & 26-week bill auctions \$155 bln	8:30 am Durable Orders July (e) -4.0% Consensus -4.0% June -9.4% Core Orders July (e) +0.2% Consensus +0.3% June -0.8% 9:00 am S&P CoreLogic Case-Shiller Home Price Index (20 city) June (e) -0.2% Consensus -0.1% May -0.3% 9:00 am FHFA House Price Index June (e) -0.1% Consensus unch May -0.2% 10:00 am Conference Board Consumer Confidence Aug. (e) 96.5 Consensus 96.2 July 97.2 10:00 am Richmond Fed Mfg. Index Aug. (e) -10 July -20 Fed Speaker: Richmond's Barkin (8:30 am) 11:00 am 4-, 8- & 17-week bill auction announcements 11:30 am 6-week bill auction \$85 bln 1:00 pm 2-year note auction \$69 bln	7:00 am MBA Mortgage Applications 30-year FRM Aug. 22 Aug. 15 -1.4% 6.68% Fed Speaker: Richmond's Barkin (12:45 pm) 11:30 am 2 nd -year FRN auction \$28 bln 11:30 am 17-week bill auction 1:00 pm 5-year note auction \$70 bln	8:30 am Initial Claims Aug. 23 (e) 229k (-6k) Aug. 16 235k (+11k) 8:30 am Continuing Claims Aug. 16 Aug. 9 1,972k (+30k) 8:30 am Real GDP Q2 S (e) +3.1% a.r. Consensus +3.1% a.r. Q2 A +3.0% a.r. Q1 -0.5% a.r. 10:00 am Pending Home Sales July (e) +0.3% Consensus -0.2% June -0.8% 11:00 am Kansas City Fed Manufacturing Activity Aug. (e) -1 July 1 Fed Speaker: Governor Waller (6:00 pm) 11:00 am 6-, 13-, 26- & 52-week bill auction announcements 11:30 am 4- & 8-week bill auctions 1:00 pm 7-year note auction \$44 bln

^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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