

Focus

Feature Article

Balancing Act

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This U.S. Expansion Still Has Some Gas in the Tank



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The **resilience of the U.S. economy continues to be impressive** despite huge headwinds from rising tariffs and economic uncertainty. No doubt a growth and labour market slowdown is underway, but whether it will require a series of consecutive Federal Reserve interest rate cuts this year to head off a much deeper downturn remains an open question. **Second quarter GDP growth** was even stronger than first reported, increasing at a solid 3.3% annualized rate, three tenths higher than the first estimate. Even more interesting were the primary drivers of that upward revision: big upgrades to business investment and consumer spending. Non-residential fixed investment was revised up to 5.7% a.r. from 1.9% on a robust 7.4% increase in equipment spending and 12.8% increase in intellectual property investment. The consumer held up better than first reported, increasing their spending at a respectable 1.6% annualized rate (vs. a 1.4% initial estimate). In short, real private domestic demand (consumer spending plus business investment) increased at a solid 1.9% a.r. pace in the second quarter, unchanged from Q1 and a much more comfortable reading than the 1.2% pace recorded during the initial estimate.

The **personal income and spending report** for July revealed a surge in big-ticket spending that shows higher-income households still have a willingness and ability to spend. In turn, that suggests some resilience to the tariff shock as long as the labour market doesn't crater. It certainly helps that U.S. equities are hitting new record highs and household net worth continues to swell. Durable goods spending jumped 27.6% a.r. as consumers snapped up motor vehicles in a rush to beat tariff driven-price increases and an end of September expiration of the government's EV tax incentives.

Assuming almost no growth in real personal spending for August and September, given the expected acceleration in tariffed goods inflation, we still have **real consumer spending** increasing at a moderate 1.5% annualized pace in Q3, given the strong start in July. The better-than-expected durable goods orders report for July reduced our estimate of the Q3 drag on business investment too, keeping **real domestic demand on a firm growth path** in the third quarter.

The less-closely-watched trade report may be the lone wrinkle in this sanguine Q3 growth outlook. The advanced trade figures for July reported a 7.1% surge in goods imports that could signal more deterioration in the Q3 balance, subtracting from GDP growth. Still, this might be just another reflection of **resilient domestic demand**.

So, what does all this mean for the upcoming **August Employment report**? Unfortunately, we don't expect major tells that would green-light a bigger rate cut from the Fed than the 25 bps already priced into the fed funds futures market. Payroll growth is expected to remain subdued at a similar pace to July, at around 75k jobs. We will be looking for a few signs of additional labour market softening around the edges. The unemployment rate could creep a bit higher to 4.3%, average weekly hours could move down a tick to 34.2 hours, and average hourly earnings growth from a year ago is expected to moderate to 3.7% from 3.9% in July.

Bottom Line: The U.S. economy still has some gas in the tank, but will it be able to go the last mile?

Why Is U.S. Business Investment So Strong?



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One of the biggest economic surprises this year is the **resilience of American business investment in the face of a trade war**. Unlike households, which pulled back in the first half, businesses ramped up spending. True, the double-digit jump in nonresidential investment in Q1 largely owed to tariff front-running, as imports also surged. But less easily explained is that investment growth remained strong in Q2, with a 5.7% annualized advance implying little payback. Investment would have been even stronger if not for a big drop in structures spending in the volatile resource sector. In fact, business spending on industrial machinery, transportation equipment, and software all sped up last quarter. A 26% annualized surge in software demand—the fastest in 22 years and unrelated to tariff front-loading—added 0.6 ppts to GDP growth.

Moreover, this **strength likely continued in the summer**. In July, factories ordered more machinery, computers, and metal products, lifting nondefense capital goods orders (excluding aircraft) a solid 1.1%. Likewise, nondefense capital goods shipments, which the BEA uses to estimate quarterly business equipment spending, jumped 3.3%. As well, capital goods imports picked up. Importantly, all this occurred despite increased tariffs and trade tensions last month.

Chart 1
Not Artificial Growth

United States (y/y % chng)

Real Business Investment in Information Processing Equipment and Software



Sources: BMO Economics, Haver Analytics, BEA

Why so strong? For one, **businesses are spending vast sums to develop and adopt AI**. Investment in IT equipment and software surged 15.2% in the past year—seven times faster than real GDP (*Chart 1*). Four corporate giants alone (Meta, Amazon, Alphabet, and Microsoft) plan to spend about \$320 billion this year on AI technologies and data centres, up from \$230 billion last year. Total spending on data centres, largely to support AI systems, is up 28% year-over-year to June and looks to surpass spending on office buildings. Tech firms also plan to spend hundreds of billions of dollars on microchip production and AI-related infrastructure.

But it's not just about AI. **Other drivers of U.S. business investment** include:

- Tariffs (yes, tariffs), which are likely spurring some reshoring of manufacturing, thereby boosting investment spending despite the uncertainty.
- The federal government's business-friendly policies, including lighter regulation and accelerated depreciation allowances on investments.
- Strong corporate earnings growth, reflecting decent productivity gains and relatively resilient (albeit slower) consumer spending.
- Robust foreign direct investment in the U.S.

The upshot is that U.S. business investment is not only exceeding low expectations this year but vastly surpassing them—and might continue to do so, especially if trade policies stabilize. Given the sector's meaningful 14% share of GDP, this **implies some upside for growth** in the second half of the year.

Trade War Takes a Toll on the Canadian Economy



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The **Canadian economy contracted 1.6% annualized in Q2**, deeper than expected, but just a tick below the BoC's -1.5% projection. The **trade war took a huge toll on net exports** in the quarter, with that category slashing 8.1 ppts from growth, the second most on record (only the pandemic was worse). That was driven by a 26.8% a.r. dive in exports, while imports slipped a lesser 5.1%. The uncertain backdrop also weighed heavily on business investment, with machinery & equipment spending plunging 32.6% a.r., the fourth-largest decline on record.

It wasn't all bad news, as the rest of the domestic economy was firmer. **Household spending rebounded**, up 4.5% a.r., while government spending/investment added notably to growth as well. Residential investment was also firm at +6.3%. Final domestic demand rose 3.5%, reflecting the resilience and perhaps Canadians' bias to buy/travel domestically. However, income growth was up just 0.7% a.r., pulling the savings rate down 1 ppt to 5.0%, which could hamper consumers' ability to continue their spending ways.

While Q2 was soft, **June GDP** was arguably more disappointing at -0.1% m/m, two ticks below consensus. Manufacturing was the surprise, falling 1.5%. Services were mixed, with gains in wholesale and retail offsetting some broader weakness. The **July flash** was +0.1% (on the firmer side of things given some of the soft data thus far), but the June figure makes it clear that the final print can be quite different.

For the **Bank of Canada**, there's **nothing here screaming for a September cut**, though it will certainly keep the chatter around further easing intact. The Bank had Q2 GDP at -1.5%, so the miss was minor. And, the strength in domestic demand highlights the economy's resilience. One negative is that Q3 is tracking softer than their +1% estimate (closer to +0.5%), but it's still very early, and things can change materially.

Key Takeaway: It should come as no surprise that the Canadian economy struggled in Q2 as tariffs ramped up. However, the domestic strength is somewhat comforting, although the sustainability of that momentum is an open question. Arguably, the economy is evolving largely in line with the BoC's July MPR forecast. Policymakers opted to stay on hold then, so this report likely doesn't push them any closer to cutting in September, with the LFS and CPI still to come.

Rate Decisions Based on... Everything?



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It is all about inflation... for the most part.

That's the case for the **Bank of Japan**, as it eyes an inflation rate that remains stuck above 2%. And, if its capital city is still seeing it, chances are the rest of the country is as well. Tokyo's CPI **inflation** rate, a leading indicator for nationwide inflation, slowed 0.3 ppts to 2.6% y/y in August, while core CPI, which excludes fresh food, eased to a 2.5% y/y pace. This is encouraging, but the slower increases were mainly due to lower utility costs, as the government extended its power subsidies. Excluding fresh food & energy, core-core CPI eased only a smidgen, rising 3.0% y/y, still firmly above target and likely too hot for the Bank's comfort. Policymakers also need to look at the broader economy to judge its ability to handle higher rates. The reports that were out this week were mixed. The **jobless rate** fell 0.2 ppts to a 5½-year low of 2.3%; **consumer confidence** edged up; but **retail sales** dropped 1.6%, as higher inflation is hurting real wage growth. That is another reason why earlier this month, the National Personnel Authority recommended a 3.6% base-pay increase for public employees this year—the largest hike in 34 years.

At the same time, all the back and forth with the U.S. **trade deal** must be weighing on business confidence. Although the broad strokes of the deal were released back on July 23, with Japan receiving a 15% tariff, there is still confusion about the details—and the details matter. Japan's top trade negotiator cancelled his trip to D.C. this week because there was a disagreement about some key issues, likely around autos. The 15% tariff was supposed to include autos (down from 25%) and in return for that lower tariff, Japan would be investing \$550 bln in America. Who decides where that money would go is not clear. In any event, the trade deal is still a large source of uncertainty, but at least there is a deal, which eases some of the downside growth risks. **We are sticking with our September rate hike call.**

Then there is the **European Central Bank**. It is still considering what to do with rates and, judging by the Minutes from the July meeting, there are plenty of differing opinions among policymakers. (See? It is not just the FOMC!) Although "*most*" saw inflation risks as being "*broadly balanced*" during the July meeting, "*several*" saw risks as being tilted to the downside, while "*a few*" felt they were tilted to the upside. Yes, it appears that all bases have been covered. And, the hawkish-leaning types have spoken up, including Finland's Olli Rehn, who said that the economy "*has been showing resilience and inflation is for now within the target*", so the ECB can take a step back and "*reflect on the next steps*". Even the Bundesbank's Joachim Nagel, as he presides over a still-struggling economy, declared "*I don't see many arguments that we should do more here on rates.*" Plus, the secret sources who speak up anonymously stress that more weakness on the economy needs to be seen to prompt a September cut. Indeed, after what we've seen on the data front over the past couple of weeks, **we now look for the ECB to hold off until December for its final rate cut.**

Is China Still Exporting Deflation?



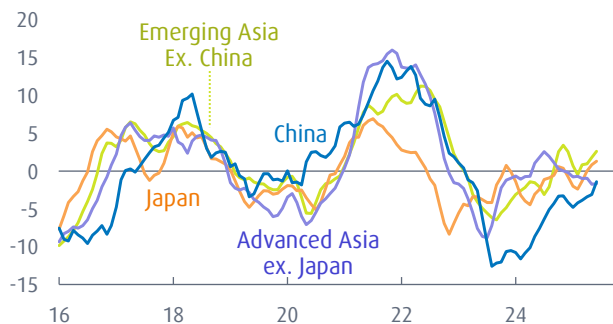
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Well, the answer is yes but, more importantly, such **pressure appears to be easing**. This assessment probably comes as a surprise to many, including ourselves. One might have naturally concluded that President Trump's trade war, which has led to much higher tariffs on China, would have resulted in the opposite effect (i.e., greater downward pressure on Chinese export prices). The rationale here is three-fold: (1) China's economy is still battling deflation, highlighted by July's 3.6% y/y decline in producer prices, (2) Chinese manufacturers shipping to the U.S. are likely facing pressure from buyers to share some of the higher tariff burden, and (3) an increasing amount of Chinese goods are being redirected to other countries at lower prices. Even if some of these latter goods ultimately end up in America, this process would surely lead to greater discounting given the additional cost of rerouting via a third country.

Chart 1 Manufacturing Momentum

(US\$-terms : y/y % chng : 3-mnth m.a.)

Export Prices



Sources: BMO Economics, CBP Netherlands Bureau for Economic Policy Analysis

In reality, the latest World Trade Monitor published by the Netherlands Bureau for Economic Policy Analysis (CPB) shows that China's export prices (unit value in U.S. dollar terms) rose 0.6% y/y in June (or -1.4% y/y in three-month moving average terms) [1]. Moreover, the accompanying chart shows that **export prices across the Asia-Pacific region have been trending upwards** of late and, rather interestingly, have historically moved in unison for the most part. The notable exception are prices of the Advanced Asian economies but that is largely due to a persistent decline in South Korean export prices (-3.7% y/y in July). Otherwise, the most recent period where China's export prices really deviated from its neighbours was in late 2023/early 2024, when its economy was struggling after it reopened from COVID.

All this begs the question whether China's (or, for that matter, the broader Asia-Pacific region's) export prices will continue to head upwards? Frankly, it's hard to predict as we wonder whether the boost to prices has simply been a temporary by-product of front-loading of imports by U.S. companies to get ahead of the tariffs. And as mentioned above, we still think pressure on Chinese manufacturers to cut prices on shipments to America is unlikely to relent. On the flip side, there are a couple factors that lead us to believe that Chinese export prices could gain some further traction. Beijing's 'anti-involution' campaign, aimed at reducing cut-throat competition/overproduction, could begin to bear greater fruit over time. However, we do not view this campaign as a magic pill as it's not easy to tackle excessive capacity in downstream industries given concerns over unemployment. A perhaps more critical factor that could lead to broader trade-driven inflation is **greater fragmentation of global supply chains** as a result of the U.S. trade war.

Key Takeaway: It's still early, but there is a rising risk that China's days of exporting deflation may be coming to an end.

[1] Note we have decided to rely on the CPB's calculations for cross-country comparison purposes though they are backdated slightly. Otherwise, China's National Bureau of Statistics data has moved roughly in line with CPB data of late as it has export prices falling 2.0% y/y or 0.9% y/y in 3-mma terms in July. [2]



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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

- Net exports slashed GDP
- Trade talks resumed in D.C., but will take time to work out
- BoC Governor Macklem reaffirms 2% inflation target is not up for review

United States

- Economy still holding up as we enter Q3... but plenty of hurdles ahead
- Digital taxes are back on the Administration's radar
- De minimis exemption ends
- Legal sector busy in D.C.

China

- President Trump threatens 200% tariffs "or something" if China does not give the U.S. rare earth magnets

Japan

- Details of U.S. trade deal still need to be ironed out

Europe

- ECB officials play down September rate cut...
- ...Latest German CPI supports hold
- Switzerland 'sweetens' its trade deal with the U.S.
- Political turmoil in France and the Netherlands

Other

- RBA Minutes dovish; NZ PM criticizes RBNZ
- U.S. tariff on India now at 50%

Manufacturing Sales +1.8% (July A)

Wholesale Trade +1.3% (July A)

Job Vacancy Rate +0.1 ppts to 2.8% (June)

Real GDP revised higher to +3.3% a.r. (Q2)

Real Personal Spending +0.3% (July)

Wages & Salaries +0.6% (July)

Core Durable Goods Orders +1.1%; **Core Shipments** +3.3% (July)

Business Inventories +0.2% (July A)

S&P CoreLogic Case-Shiller House Price Index -0.3%; **FHFA House Price Index** -0.3% (June)

Continuing Claims -7k to 1,954k (Aug. 16 week)

Industrial Profits -1.5% y/y (July)—an improvement, but still -1.7% YTD

Jobless Rate -0.2 ppts to a 5½-year low of 2.3% (July)

Consumer Confidence +1.2 pts to 34.9 (Aug.)

Germany—ifo Business Climate +0.4 pts to 89.0 (Aug.)

Germany—Unemployment -9,000 (Aug.)
—**jobless rate** holds at 6.3%

India—Real GDP +7.8% y/y (Q2)

Real GDP shrank 1.6% a.r. (Q2)

Real GDP -0.1% (June)—but July estimate +0.1%

Current Account Deficit hit a record \$84.6 bln a.r. (Q2)

Ottawa's budget deficit widens to \$3.3 bln (Apr.-to-June)

New Home Sales -0.6% to 6.52 mln a.r. (July)

Pending Home Sales -0.4% (July)

Goods Trade Deficit grew to \$103.6 bln (July A)
—imports surged 7.1%

Conference Board's Consumer Confidence Index -1.3 pts to a 2-mth low of 97.4 (Aug.)

U of M's consumer sentiment revised down to 58.2 (Aug. F)

Tokyo Core Core CPI +3.0% y/y (Aug.)

Retail Sales -1.6% (July)

Industrial Production -1.6% (July P)

Euro Area—ECB 3-year CPI Expectations +2.5% y/y (July)—first pickup since early this year

Euro Area—Private Sector Credit slowed to +2.8% y/y (July)

Germany—Retail Sales -1.5% (July)

Germany—Consumer Prices +2.1% y/y (Aug. P)

France—Consumer Spending -0.3% (July)

Euro Area—Economic Confidence -0.5 pts to 95.2 (Aug.); **Germany—GfK Consumer**

Confidence -1.9 pts to -23.6 (Sep.); **France—Consumer Confidence** -1 pt to 87; **Italy—Consumer Confidence** -1 pts to 96.2 (Aug.)

Australia—Trimmed Mean Consumer Price Index accelerated to 2.7% y/y (July)

Balancing Act

Digging into the trade war's impact on Canada's current account.



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The trade war has had a material impact on the Canadian economy. That can be best illustrated by looking at the sharp deterioration in the current account, the broadest measure of trade. **Canada's current account performance has swung notably over the past two decades**, shifting from perennial surpluses in the years ahead of the GFC, to persistent deficits in the 12+ years heading into the pandemic. After a few quarters of flirting with a surplus in 2021/2022, the current account has moved consistently back into the red. The surge in U.S. tariffs pushed the shortfall to 2.7% of GDP in Q2, the widest since the pandemic, but not far from the average over the decade to 2020. While we're likely to see some rebound as activity adjusts to the new economic environment, **Canada might be dealing with a deficit for some time.**

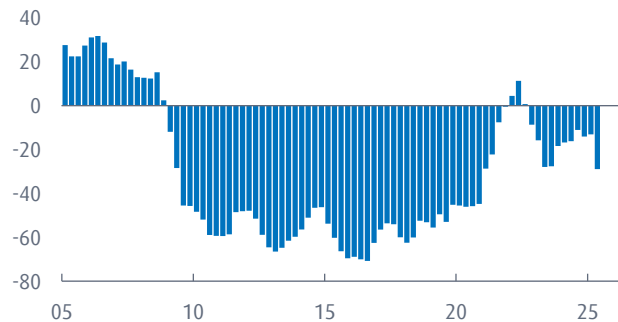
The Trade Story

Weakness in the current account has been driven by a deterioration in its largest component, **goods trade**. Goods trade was in deficit for the better part of the decade before the pandemic, until stronger energy and other commodity prices allowed it to swing into surplus for roughly a year. More recently, these flows have been at the front lines of trade tensions with the United States. In the second quarter, goods exports plunged 42.9% a.r.—a pace only seen in the pandemic and GFC—amid broad-based declines. Imports also fell, but at -15% a.r., the drop wasn't enough to stop the shortfall from widening (*Chart 1*). Given the lack of a U.S.-Canada trade deal, we expect goods exports to remain under pressure in the coming quarters—and possibly beyond, if USMCA negotiations result in added uncertainty. Efforts to diversify to other markets will help soften the hit, but it will be difficult to fully offset the loss of U.S.-bound shipments given that they are the lion's share of Canada's exports.

Services trade has been a bright spot sustaining most of its post-pandemic improvement, sitting at a modest deficit of \$2.5 bln in the four quarters to Q2 (*Chart 2*). While surpluses in transportation services have shrunk in recent quarters, and government services remain in deficit, the travel and commercial surpluses have held up [1]. Looser travel restrictions in the United States and other parts of the world drove an earlier recovery in exports (vs. imports). More recently, the balance has been supported by a shift in Canadian travel away from the U.S. (with some of those trips diverted to domestic locations), weighing on imports. The travel

Chart 1
Back in the Red Era

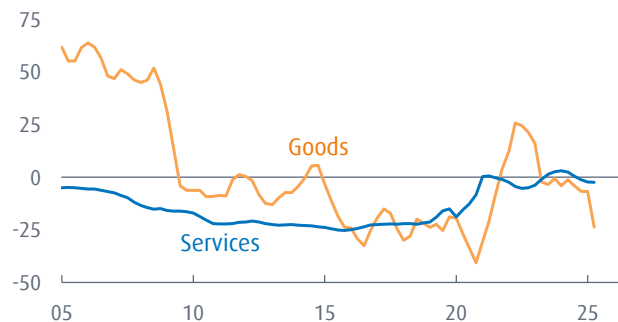
Canada (C\$ blns : s.a. : 4-qtr m.s.)
Current Account Balance



Sources: BMO Economics, Haver Analytics, Statistics Canada

Chart 2
Not So 'Goods' News

Canada (C\$ blns : s.a. : 4-qtr m.s.)
Current Account Balance



Sources: BMO Economics, Haver Analytics, Statistics Canada

services balance will likely be buoyed by this trend as long as relations with the U.S. remain strained (Chart 3). That said, the size of the services account—roughly one-quarter the size of goods trade—means that any support from the sector will be too small to offset the deterioration on the goods side.

Who Pays For it?

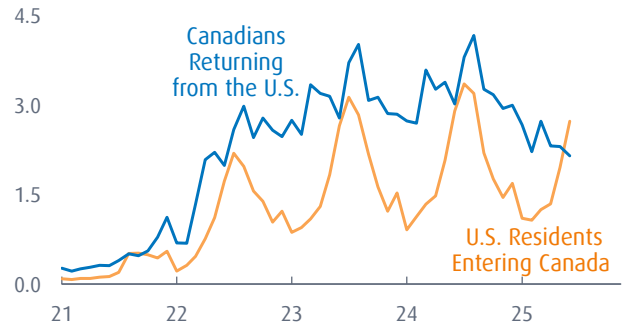
The current account deficit must be financed through the capital or financial accounts [2]. The main sources of funds are portfolio inflows and foreign direct investment (FDI) into Canada. Net **portfolio flows** (into securities) have turned negative year-to-date following a strong inflow in 2024, pushing the four-quarter moving sum down to just \$79.5 bln (Chart 4). Foreign investors are wary of Canada’s cloudy economic outlook, driving net selling of equities, while there’s been more interest to own fixed income. Meantime, net **FDI** flows have improved in recent quarters (Chart 4). FDI is a proxy for the attractiveness of doing business in Canada, and was consistently negative since 2014 (more Canadian investment abroad than inbound foreign investment). The story started to flip over the past year with the four quarters to Q1 seeing a net inflow of \$23.1 bln, the highest since 2008. There was a modest outflow in Q2, but the trend is still more positive than the consistent outflows over the past decade.

The Loonie Effect

The current account balance is traditionally viewed as a long-term driver of **currency valuation**. However, that’s not always the case, as currencies are valued on a relative basis. Indeed, while Canada had a current account deficit for most of the past 15 years, the U.S. has either been deeper in the red (1995-2008, 2020-present) or about in line (2009-2019). **The ability of Canada to fund the shortfall through financial flows** (largely FDI or portfolio investment) **is a material driver of the Canadian dollar**. For example, post-GFC, Canada saw massive portfolio inflows and the currency surged to its strongest level in decades even as the current account deficit widened to 15-year extremes. Conversely, in the aftermath of the 2014 oil price correction, foreign interest to invest in Canadian energy assets dried up (and even reversed), while a lack of government policy changes did little to entice global businesses to come to Canada. Accordingly, the Canadian dollar has trended mostly weaker over the past decade even as the current account shortfall has narrowed. Interestingly, the C\$’s

Chart 3
Homeward Bound

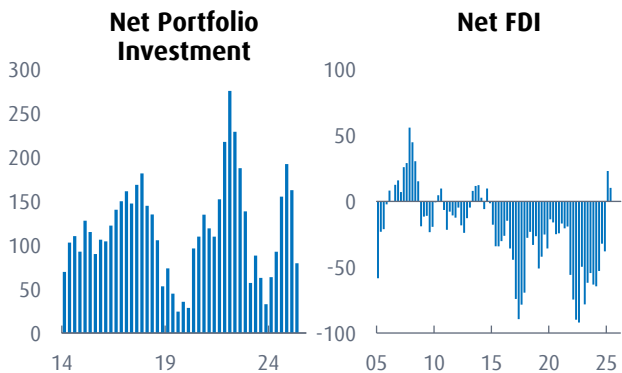
Canada (mlns of people)
Cross-Border Travel



Sources: BMO Economics, Haver Analytics, Statistics Canada

Chart 4
Tracking Financial Flows

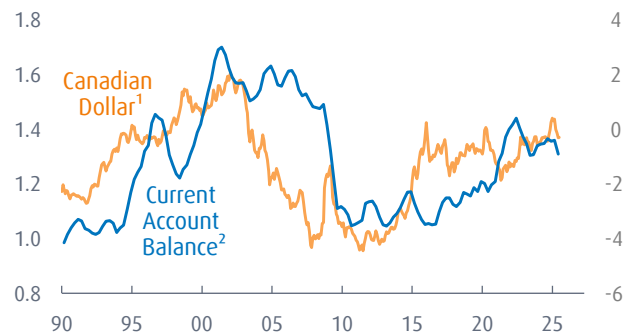
Canada (C\$ blns : 4-qtr m.s.)



Sources: BMO Economics, Haver Analytics, Statistics Canada

Chart 5
Following the Loonie

Canada



¹ (lhs : C\$/US\$); ² (rhs : s.a. : % of GDP)
Sources: BMO Economics, Haver Analytics, Statistics Canada, Bank of Canada

performance has been inversely related to the current account over the past few decades, highlighting that there are other factors at work, and potentially that the current account balance has more of a cumulative impact on the currency (*Chart 5*). If the FDI flows turn consistently favourable, that would bode well for the loonie, especially if goods trade flows rebound somewhat. **We're forecasting consistent appreciation through the end of 2026** amid broader USD weakness. There's also potentially significant further room to appreciate if the government implements business-friendly reforms over the next couple of budgets.

Bottom Line: The trade war has had a profound impact on the Canadian economy, which is most evident in the second quarter economic contraction and the sharp deterioration in the current account. While that's a headwind for the Canadian dollar, net FDI inflows have the potential to be an offset, especially as global firms look for alternative trading partners to the United States. That's **a prime opportunity for Canada**, but it will have to manage with a relatively large current account deficit until a trade deal with the U.S. is struck.

[1] Note that funds spent by visitors to Canada are considered travel services exports, while Canadian spending abroad is considered travel services imports. [↗](#)

[2] A country's balance of payments measures the funds coming in from, and going to, the rest of the world. It includes the current account (trade balance + net income + net current transfers), capital account (capital transfers + non-financial assets), and financial accounts (foreign direct investment + portfolio investment). In theory, these accounts are meant to "balance", i.e., sum to zero in a given period. [↗](#)

Economic Forecast Summary for August 29, 2025

	2025				2026				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025	2026
CANADA											
Real GDP (q/q % chng : a.r.)	2.0	-1.6	0.5 ↑	1.5	1.9	1.8	1.8	2.1	1.6	1.2 ↓	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.)	-5.3	-84.6	-73.6 ↓	-72.5 ↓	-69.6 ↓	-66.5 ↓	-63.6 ↓	-60.5 ↓	-14.1	-59.0 ↓	-65.0 ↓
Interest Rates (average for the quarter : %)											
Overnight Rate	2.92	2.75	2.75 ↑	2.50 ↑	2.25 ↑	2.00	2.00	2.00	4.48	2.73 ↑	2.06 ↑
3-month Treasury Bill	2.85	2.63	2.65 ↑	2.45 ↑	2.20 ↑	1.95	1.95	1.95	4.37	2.65 ↑	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	-165 ↑	-154 ↑	-157 ↑	-157 ↑	-133	-107	-53	-160 ↑	-138 ↑
10-year	-133	-115	-87	-83	-81	-79	-77	-76	-87	-105	-78
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-0.5	3.3	1.1 ↓	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	-1.14 ↓	-1.15 ↓	-1.15 ↓	-1.16 ↓	-1.17 ↓	-1.18 ↓	-1.19	-1.30 ↓	-1.17 ↓
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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Merchandise Trade Balance

Thursday, 8:30 am

July (e) **-\$4.5 bln**Consensus *-\$5.3 bln*June *-\$5.9 bln*

The **merchandise trade** deficit is expected to narrow to \$4.5 bln in July from \$5.9 bln in June. Higher energy prices will support exports, while a solid manufacturing flash points to higher imports and non-energy exports. But, imports will be affected by a one-time order of industrial equipment and parts from June which is unlikely to be repeated. This is expected to be the sixth straight month in deficit as goods exports face significant headwinds amid ongoing negotiations for a trade deal with the United States. — S.K.

Employment

Friday, 8:30 am

Aug. (e) **unch (+10,000)**Consensus *unch (+10,000)*July *-0.2% (-40,800)*

We expect the Canadian economy added 10k **jobs** in August, following a whipsaw in the previous two months that resulted in an average gain of about 21k jobs on net. The modest pace is unlikely to keep up with tepid labour force growth, pushing the unemployment rate back up to 7.0%. This is one of the last major data releases (along with the following week's CPI report) ahead of the Bank of Canada's September meeting. Policymakers already know that the labour market is soft, but any surprises here and in the inflation figures will be key to decisionmaking. — S.K.

Unemployment Rate**Aug. (e)** **7.0%**Consensus *7.0%*July *6.9%***Average Hourly Wages****Aug. (e)** **+3.2% y/y**July *+3.3% y/y*

United States



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ISM Manufacturing PMI

Tuesday, 10:00 am

Aug. (e) **48.5**Consensus *48.9*July *48.0*

The **ISM Manufacturing Index** is projected to improve modestly to 48.5 in August, a pickup from 48.0 in July, which was the low so far this year. The index has been in contraction territory (below 50.0) for much of the time since October 2022. The S&P Global U.S. Manufacturing PMI for August unexpectedly climbed to a robust 53.3 reading—its best level of the year—putting some upside risk to our estimate. Regional manufacturing PMIs released so far for August, however, paint a more nuanced picture of activity with three regional indexes still in contraction territory and only two pointing to a modest expansion. Two regional PMI indexes worsened on the month, two improved, and one stayed the same. Industrial production growth is forecast to slow further in the second half of this year as softer U.S. and global demand keeps manufacturing gains in check. — S.A.

Beige Book

Wednesday, 2:00 pm

The last update of the Fed's regional economic report cited some improvement in activity but warned of looming tariff-led price increases. Both likely reinforced the FOMC's decision to stand pat at the July policy meeting. However, the report also indicated that hiring was lacklustre, which was confirmed in the July jobs report. Should the updated **Beige Book** and August job numbers show further weakness, they would underscore Powell's recent concern about downside risks to the labour market. That, in turn, should prod the FOMC into action for the first time this year on September 17. — S.G.

Key for Next Week

ISM Services PMI

Thursday, 10:00 am

Aug. (e) 50.9

Consensus 50.8

July 50.1

Nonfarm Payrolls

Friday, 8:30 am

Aug. (e) +75,000

Consensus +75,000

July +73,000

Unemployment Rate

Aug. (e) 4.3%

Consensus 4.3%

July 4.2%

Average Hourly Earnings

Aug. (e) +0.3% +3.7% y/y

Consensus +0.3% +3.7% y/y

July +0.3% +3.9% y/y

The **ISM Services PMI** is expected to increase modestly in August though remain weak. **New orders** and **business activity** are likely to improve slightly amid firmer consumer spending. However, **new export orders** and **imports** will likely continue in contraction mode amid trade tensions. And, the **employment** subcomponent looks to stay below the 50-mark for a third straight month as the job market softens. Meanwhile, the **Price Index** is expected to edge up after the prior month hit the highest level since late 2022. This is a tough scenario for the Fed, with risks to both sides of its dual mandate. Ultimately, we think the Fed will jump off the sidelines to shore up the labour market, even as inflation stays somewhat elevated. — P.T.

Nonfarm payroll growth is forecast to remain at a subdued 75k jobs in August, nearly unchanged from a sluggish 73k in July. New hiring for services and goods producers has been lacklustre over the past three months as businesses brace for slower sales growth and elevated tariff-driven economic and financial uncertainty. The four-week moving average of initial jobless claims increased modestly in August, while continuing claims held near four-year highs, pointing to ongoing weakness in labour demand. The **unemployment rate** is expected to tick up to 4.3%, a tenth higher than in July. **Average hourly earnings** growth is forecast to increase at a steady 0.3% m/m with year-on-year growth slowing to 3.7% from 3.9% in July. Average hours worked are expected to slip to 34.2 hours from 34.3. Tough new immigration policies and enforcement are pushing down labour force growth and masking some of the softening in labour demand, keeping the unemployment rate far lower than it would be in their absence. Jay Powell acknowledged this “*curious kind*” of balance in his Jackson Hole speech, suggesting the downside risk to the labour market is rising. A result in line with our forecast should keep the FOMC on track for a cut in September, but investors will be looking closely at any net downward revisions to past payrolls to get a sense of the timing of future cuts. — S.A.

Financial Markets Update for August 29, 2025

		Aug 29 ¹	Aug 22	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	2.66	2.64	2	0	-50
	United States	4.15	4.18	-3	-12	-17
	Japan	0.43	0.42	1	1	22
	Australia	3.57	3.56	1	-10	-82
2-Year Bonds	Canada	2.64	2.69	-5	-5	-29
	United States	3.62	3.70	-8	-6	-62
10-Year Bonds	Canada	3.38	3.43	-5	0	16
	United States	4.22	4.26	-4	0	-35
	Japan	1.59	1.62	-2	4	51
	Germany	2.72	2.72	0	5	36
	United Kingdom	4.72	4.69	3	20	16
	Australia	4.27	4.31	-4	-4	-9
Risk Indicators	VIX	15.5	14.2	1.3 pts	-4.9 pts	-1.9 pts
	Inv. Grade CDS Spread ²	50	50	0	-4	0
	High Yield CDS Spread ²	317	316	2	-19	6
		(percent change)				
Currencies	US¢/C\$	72.82	72.33	0.7	0.4	4.7
	C\$/US\$	1.373	1.383	—	—	—
	¥/US\$	146.94	146.94	0.0	-0.3	-6.5
	US\$/€	1.1701	1.1718	-0.1	1.0	13.0
	US\$/£	1.351	1.353	-0.1	1.7	7.9
	US¢/A\$	65.45	64.90	0.8	1.1	5.8
Commodities	CRB Futures Index	301.75	300.00	0.6	2.2	1.7
	Oil (generic contract)	64.11	63.66	0.7	-4.8	-10.6
	Natural Gas (generic contract)	2.98	2.80	6.5	-3.3	-17.9
	Gold (spot price)	3,446.68	3,371.86	2.2	2.5	31.3
Equities	S&P/TSX Composite	28,576	28,333	0.9	5.8	15.6
	S&P 500	6,459	6,467	-0.1	3.5	9.8
	Nasdaq	21,473	21,497	-0.1	4.0	11.2
	Dow Jones Industrial	45,518	45,632	-0.2	4.4	7.0
	Nikkei	42,718	42,633	0.2	4.7	7.1
	Frankfurt DAX	23,902	24,363	-1.9	2.0	20.1
	London FT100	9,187	9,321	-1.4	1.3	12.4
	France CAC40	7,704	7,970	-3.3	2.1	4.4
	S&P ASX 200	8,973	8,967	0.1	3.6	10.0

¹ = as of 12:40 pm ² = One day delay

Global Calendar — September 1–September 5

	Monday September 1	Tuesday September 2	Wednesday September 3	Thursday September 4	Friday September 5
China	Manufacturing PMI Aug. (e) 49.5 July 49.3 Non-mfg. Aug. 50.3 July 50.1 Composite PMI Aug. July 50.2	RatingDog Mfg PMI Aug. (e) 49.8 July 49.5	RatingDog Services PMI Aug. (e) 52.5 July 52.6 Comp. n.a. July 50.8		
	Capital Spending Q2 (e) +6.2% y/y Q1 +6.4% y/y Manufacturing PMI Aug. F (e) 49.9 July 48.9		Services PMI Aug. F (e) 52.7 July 53.6 Composite 51.9 51.6		Real Cash Earnings July (e) -0.6% y/y June -0.8% y/y Household Spending July (e) +2.3% y/y June +1.3% y/y
Japan	EURO AREA Manufacturing PMI Aug. F (e) 50.5 July 49.8 Jobless Rate July (e) 6.2% June 6.2% ITALY Jobless Rate July June 6.3% UNITED KINGDOM Manufacturing PMI Aug. F (e) 47.3 July 48.0	EURO AREA Consumer Price Index Aug. P (e) +0.1% +2.1% y/y July unch +2.0% y/y Core CPI Aug. P (e) +2.2% y/y n.a. July +2.3% y/y +3.2% y/y	EURO AREA Services PMI Aug. F (e) 50.7 July 51.0 Composite 51.1 50.9 UNITED KINGDOM Services PMI Aug. F (e) 53.6 July 51.8 Composite 53.0 51.5	EURO AREA Retail Sales July (e) -0.2% +2.4% y/y June +0.3% +3.1% y/y UNITED KINGDOM DMP 1-Year Expectations Aug. July +3.2% y/y	EURO AREA Real GDP Q2 T (e) +0.1% +1.4% y/y Q1 +0.6% +1.5% y/y GERMANY Factory Orders July (e) +0.5% -0.6% y/y June -1.0% +0.8% y/y FRANCE Trade Deficit July June €7.6 bln ITALY Retail Sales July June +0.6% +1.0% y/y UNITED KINGDOM Retail Sales (ex. Fuel) July (e) +0.3% +1.1% y/y June +0.6% +1.8% y/y
	Other	BRAZIL Real GDP Q2 (e) +0.3% +2.1% y/y Q1 +1.4% +2.9% y/y	AUSTRALIA Real GDP Q2 (e) +0.5% +1.6% y/y Q1 +0.2% +1.3% y/y	AUSTRALIA Trade Surplus July (e) A\$4.9 bln June A\$5.4 bln Household Spending July (e) +0.5% +5.0% y/y June +0.5% +4.8% 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

North American Calendar — September 1-September 5

	Monday September 1	Tuesday September 2	Wednesday September 3	Thursday September 4	Friday September 5
Canada	Labour Day (markets closed)	9:30 am S&P Global Manufacturing PMI Aug. July 46.1 Auto Sales^o Aug. July +6.9% y/y 11:15 am Cash management bond buybacks \$0.5 bln	8:30 am Labour Productivity Q2 (e) Q1 -1.1% +0.2% Noon 5-year bond auction \$5.25 bln	8:30 am Merchandise Trade Balance July (e) - \$4.5 bln <i>Consensus</i> - <i>\$5.3 bln</i> June - <i>\$5.9 bln</i> 9:30 am S&P Global Services PMI Aug. 49.3 2-year bond auction announcement 7:30 am Challenger Layoff Report Aug. July +139.8% y/y	8:30 am Employment Aug. (e) unch (+10,000) <i>Consensus</i> <i>unch (+10,000)</i> July -0.2% (-40,800) 8:30 am Unemployment Rate Aug. (e) 7.0% <i>Consensus</i> 7.0% July 6.9% 8:30 am Average Hourly Wages Aug. (e) +3.2% y/y July +3.3% y/y
	Labor Day (markets closed)	9:45 am S&P Global Manufacturing PMI (Aug. F) 10:00 am ISM Manufacturing PMI Aug. (e) 48.5 <i>Consensus</i> 48.9 July 48.0 10:00 am Construction Spending July (e) +0.1% <i>Consensus</i> -0.2% June -0.4% Autodata Total Vehicle Sales^o Aug. (e) 16.2 mln a.r. <i>Consensus</i> 16.2 mln a.r. July 16.9 mln a.r. 11:00 am 4-, 8- & 17-week bill auction announcements 11:30 am 13- & 26-week bill auctions \$155 bln 1:00 pm 6-week bill auction \$85 bln 1:00 pm 52-week bill auction \$50 bln	7:00 am MBA Mortgage Applications 30-year FRM Aug. 29 Aug. 22 -0.5% 6.69% 10:00 am Job Openings & Labor Turnover Survey July (e) 7,300k (-137k) June 7,437k (-275k) 10:00 am Factory Orders July (e) -1.5% <i>Consensus</i> -1.4% June -4.8% 2:00 pm Beige Book Fed Speakers: St. Louis' Musalem (9:00 am); Minneapolis' Kashkari (1:30 pm) 11:30 am 17-week bill auction	8:15 am ADP Nat'l Employment Aug. (e) +65,000 July +104,000 8:30 am Initial Claims Aug. 30 (e) 233k (+4k) Aug. 23 229k (-5k) 8:30 am Continuing Claims Aug. 23 Aug. 16 1,954k (-7k) 8:30 am Productivity ULC Q2 F (e) +2.6% a.r. +1.5% a.r. <i>Consensus</i> +2.9% a.r. +0.8% a.r. Q2 P +2.4% a.r. +1.6% a.r. Q1 -1.8% a.r. +6.9% a.r. 8:30 am Goods & Services Trade Deficit July (e) \$74.5 bln <i>Consensus</i> <i>\$64.5 bln</i> June \$60.2 bln 9:45 am S&P Global Services/Composite PMI (Aug. F) 10:00 am ISM Services PMI Aug. (e) 50.9 <i>Consensus</i> 50.8 July 50.1 Fed Speakers: New York's Williams (12:05 pm); Chicago's Goolsbee (7:00 pm) 11:00 am 6-, 13- & 26-week bill, 3-, 10 ^o -year note, 30 ^o -year bond auction announcements 11:30 am 4- & 8-week bill auctions	8:30 am Nonfarm Payrolls Aug. (e) +75,000 <i>Consensus</i> +75,000 July +73,000 8:30 am Unemployment Rate Aug. (e) 4.3% <i>Consensus</i> 4.3% July 4.2% 8:30 am Average Hourly Earnings Aug. (e) +0.3% +3.7% y/y <i>Consensus</i> +0.3% +3.7% y/y July +0.3% +3.9% y/y 10:00 am Global Supply Chain Pressure Index Aug. July 0.07

^c = consensus; ^o = 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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