Scotiabank.

GLOBAL ECONOMICS

DAILY POINTS

March 3, 2025 @ *7:00 EST*

Contributors

Derek Holt
VP & Head of Capital Markets Economics
Scotiabank Economics
416.863.7707
derek.holt@scotiabank.com

On Deck for Monday, March 3

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03-03	10:00	Construction Spending (m/m)	Jan	0.0	-0.1	0.5
US	03-03	10:00	ISM Manufacturing Index	Feb	51.5	50.8	50.9
US	03-03	12:35	Fed's Musalem Speaks on Economy, Policy				
US	03-03		Total Vehicle Sales (mn a.r.)	Feb	16.5	16.1	15.6

KEY POINTS:

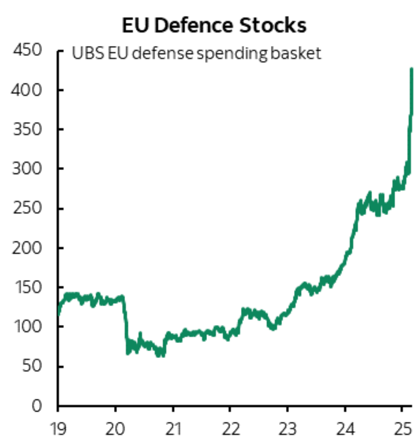
- **Markets nervously await five dominant risks this week**
- **European security summit drivers yields higher on defence spending implications**
- **EGB yields rise, euro gains after Eurozone CPI comes in hot**
- **US macro reports: ISM-mfrg, construction, vehicle sales**
- **Canada's Conservatives are collapsing as an election approaches**
- **Global Week Ahead highlights: Tariffs, ECB, Canadian jobs, US jobs, Powell**
- **Lutnick wants to mess with GDP. Hello Argentina.**
- **US fiscal plans on the ropes as they violate budget rules with only regressive effects**
- **Why 'America First' is entirely compatible with standing by Ukraine**

Regular publishing resumes following a week of marketing expectations for US and Canadian markets and economies with our sales colleagues to a mixture of institutional investors in Tokyo, Singapore, Bangkok and Taipei.

Today's main focal points include hotter Eurozone CPI and US macro reports that are mainly focused on ISM-manufacturing.

Expectations for a surge in European defence spending after a weekend security summit are contributing to a bond sell off as Germany's long-end sells off by about 10–11bps and is leading other global yields higher. A basket of EU defence stocks has been among the best investments going over the past two years (chart 1).

Chart 1



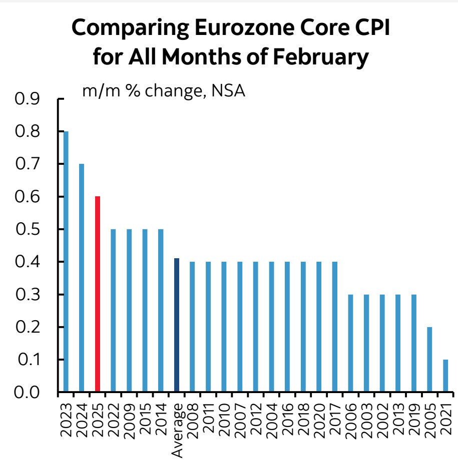
Sources: Scotiabank Economics, UBS.

Markets will then turn their attention to five more dominant risks over the coming week that I'll highlight below. For now, we have equities being generally bid across major markets, sovereign bond yields moderately higher, and the dollar is playing defence against the Euro and related crosses.

Eurozone Core Inflation Lights Up Yields, Euro

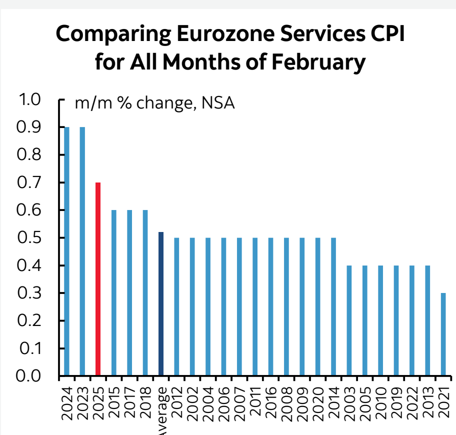
Eurozone inflation was warmer than expected and that pushed EGB yields higher and an appreciation of the euro. Key is that core CPI at 0.6% m/m NSA was the third hottest gain on record compared to like months of February in history (chart 2). Services CPI was also hotter than usual, posting a gain of 0.7% m/m NSA which was also the third hottest reading on record (chart 3). Headline CPI was up 0.5% m/m (0.4% consensus) and 2.4% y/y (2.3% consensus).

Chart 2



Sources: Scotiabank Economics, Eurostat.

Chart 3



Sources: Scotiabank Economics, Eurostat.

Next is to monitor what surging defence spending is likely to do to Eurozone inflation.

US Macro Reports Will Dominate the N.A. Session

On tap into the N.A. session will be a trio of US macro readings from construction spending (10amET) to ISM-manufacturing (10amET) and vehicle sales (e.o.d.). I've gone above consensus for ISM (51.5, 50.8 consensus) and vehicle sales (16.5 million SAAR, 16.08 consensus) and in line for construction spending that is expected to be roughly flat.

Other minor data will include Canada's manufacturing PMI for February (9:30amET) and Chile's economic activity GDP proxy for January (6:30amET).

Global Week Ahead Highlights

In lieu of a Global Week Ahead publication this week is the following brief summary of the five remaining key developments that are expected after this morning's Eurozone CPI. There is also US President Trump's SOTU speech tomorrow evening, but I've confined the list to substantive matters. I'll write about other developments including global indicators throughout the week.

1. US tariffs (Tuesday): Tuesday brings the US deadline for imposing 25% tariffs on Canada and Mexico and an extra 10% on China. Will the Oscar for best actor in a political drama go to President Trump should he once again fail to enact upon his threats, or will he get the Oscar for best actor in a war movie? If tariffs are enacted, expect swift Canadian retaliation.

2. ECB (Thursday): A 25bps cut is priced and widely anticipated. The next meeting in April is also mostly priced. Guidance to date has emphasized preference for returning toward a neutral rate which implies a handful of cuts this year.

3. Canadian jobs (Friday): My estimate for Canada's February employment survey is for a gain of 20k. Jobs have been on a tear for multiple months. Historically when Canada gets large back-to-back gains like the past couple of months, the next month strongly favours another gain. Small business hiring plans were resilient in February. The tariff threat could cut both ways, by reducing hiring confidence but also by shifting decisions toward hiring more labour while investing less in a way that raises the weight on labour to meet production since it's easier to adjust if developments deteriorate.

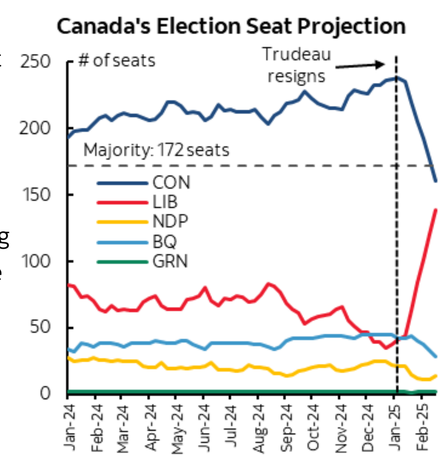
4. US nonfarm payrolls (Friday): I went with 140k for my nonfarm payrolls estimate with an up-tick to 4.1% in the unemployment rate. Bloomberg consensus is at 160k. Seasonal adjustments for February tend to downplay seasonally adjusted payrolls for months of February in the post-pandemic era. Weather is likely to be an ongoing disruption. There may be an early glimpse of job losses in Washington, although the bulk of that lies ahead. This week's other labour market indicators will further inform expectations.

5. Fed's Powell (Friday): Powell speaks about the economic outlook on Friday (12:30pmET) after payrolls and just before the FOMC goes into communications blackout the next day ahead of the March 18th–19th meeting. What he says is likely to reinforce the patient narrative, offer an interpretation of the very recent softening in macroeconomic data in terms of his views on momentum versus distortions, and with the broad tone perhaps being highly influenced by whether tariffs proceed this week and by nonfarm.

Polls Confirm Canada is Now Looking at a Minority Government

Have a look at chart 4. It shows that the worst thing to happen to Canada's Conservatives was for PM Trudeau to resign. Ever since then they've lost their majority as being tracked by attempts to translate polls into seat projections right. The results are fresh as of yesterday and hence capture last week's Liberal leadership debates. There is a lot of ground to cover until an election that may be held either in April or May, but the sudden reversal of fortunes is stunning.

Chart 4



Sources: Scotiabank Economics, 338canada.com.

Lutnick Wants to Mess with GDP

US Commerce Secretary Lutnick and Elon Musk wish to mess with US macro data and that's a red flag on American markets. It's one that should have readers recalling the fate of other countries that have messed with macro data, such as Argentina, and how they lost trust while risk premia soared in the process.

Lutnick said yesterday that he wants to exclude government spending from GDP accounts. He said "You know that governments historically have messed with GDP," and so his curious solution is to, well, mess with GDP. He expressed amazement that "They count government spending as part of GDP. So I'm going to separate those two and make it transparent."

It already is transparent, Mr. Lutnick. The street and markets competently do their jobs dissecting the accounts and examining the drivers of GDP growth. You have a lot of skilled professionals in the BEA who can school you on the matter, assuming they haven't all been fired.

His motive is clearly to overstate GDP growth by removing the effects of all of the spending cuts he and his colleagues wish to deliver. It's a danger because the Bureau of Economic Analysis that produces the GDP accounts reports through Lutnick.

Will he also exclude all of the direct and indirect effects of not only spending but also taxation and regulatory policies on GDP? This should be good, with a hint of sarcasm that words may not adequately convey.

The underlying belief is that all government spending is wasteful, which has been the danger from day one attached to putting individuals in charge who have zero background in policy, government—and basic economics. Hence tariffs. Hence a fiscal plan that is on the ropes as independent costing (**here**) shows that the impact of the House plan on fiscal deficits is much larger than let on and violates budget reconciliation rules while—and everybody knows this—offering little effect on GDP over time while imposing sharply regressive outcomes.

'America First' is Entirely Compatible with Standing By Ukraine

US support for Ukraine shouldn't be viewed as an act of altruism; it's imperative and perfectly consistent with putting 'America First' as the braggadocious slogan puts it. It's through this lens that I for one was appalled to see the war hero Volodymyr Zelenskyy walk into a trap set for the cameras by Trump and several of his compliant cabinet members.

Not only is opposition to Putin's aggression including his longstanding desire to reclaim what was lost when the Soviet Union collapsed, but the cost of supporting Ukraine may be a small insurance price to pay compared to the alternative. US foot dragging in WWI (that started in 1914 with the US entering in 1917) and WWII (1939 start, late 1941 US entry) reflected an initial desire to be neutral to conflict abroad. American school textbooks paint a picture of American triumph. They neglect to mention that had the US stood against fascism and hegemonic ambitions of brutal states at a much earlier stage, then perhaps the two world wars may have ended earlier with less devastation and loss of life and at a far lower economic cost to the world. That the US may be making the same mistake a third time sits alongside seeking to do to Ukraine what the Treaty of Versailles once did through pilfering its resource riches.

'America First' needs export markets. If the European Union's market of 450 million people goes down in war, then tussles over perceived wrongs in current economic policies will be child's play to the damage done to the US economy.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	4.03	3.99	4.18	4.06	4.02	4.24	4.25	4.21	4.40	4.53	4.49	4.66
CANADA	2.57	2.62	2.73	2.61	2.67	2.81	2.90	2.96	3.11	3.12	3.18	3.29
GERMANY	2.08	2.03	2.09	2.23	2.15	2.24	2.51	2.41	2.48	2.82	2.70	2.75
JAPAN	0.83	0.81	0.82	1.05	1.01	1.06	1.41	1.38	1.43	2.37	2.36	2.35
U.K.	4.24	4.17	4.23	4.28	4.17	4.25	4.59	4.48	4.56	5.16	5.09	5.16
	Spreads vs. U.S. (bps):											
CANADA	-146	-137	-144	-145	-135	-143	-135	-125	-130	-141	-131	-136
GERMANY	-194	-197	-209	-183	-187	-200	-175	-180	-192	-172	-179	-190
JAPAN	-319	-318	-336	-301	-301	-318	-284	-283	-297	-217	-213	-231
U.K.	21	18	5	22	15	1	33	27	16	62	60	50

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	25393	265.2	1.1	1.0	0.6	17.8
Dow 30	43841	601.4	1.4	1.0	-1.3	12.2
S&P 500	5955	92.9	1.6	-1.0	-0.7	15.9
Nasdaq	18847	302.9	1.6	-3.5	-2.8	15.8
DAX	22816	264.7	1.2	1.7	6.5	28.6
FTSE	8864	53.9	0.6	2.4	3.3	15.4
Nikkei	37785	630.0	1.7	-2.6	-1.9	-5.3
Hang Seng	23006	65.0	0.3	-1.4	13.8	38.7
CAC	8184	72.0	0.9	1.1	4.2	3.1
Commodities	**Level**		**% change:**			
WTI Crude	69.83	0.07	0.1	-1.2	-4.6	-12.7
Natural Gas	3.83	-0.01	-0.2	-4.2	14.2	108.6
Gold	2874.52	16.68	0.6	-2.6	28.9	38.0
Silver	31.14	-0.59	-1.9	-5.5	3.3	39.3
CRB Index	301.83	-4.20	-1.4	-3.0	-2.3	8.9
Currencies	**Level**		**% change:**			
USDCAD	1.4435	-0.0026	-0.2	1.2	0.0	6.3
EURUSD	1.0452	0.0077	0.7	-0.2	1.0	-3.7
USDJPY	151.20	0.5700	0.4	1.0	-2.3	0.4
AUDUSD	0.6223	0.0014	0.2	-2.0	-0.1	-4.4
GBPUSD	1.2661	0.0084	0.7	0.3	1.7	-0.2
USDCHF	0.9016	-0.0015	-0.2	0.5	-1.0	1.9

Central Banks	
Current Rate	
Canada - BoC	3.00
US - Fed	4.50
England - BoE	4.50
Euro zone - ECB	2.90
Japan - BoJ	0.50
Mexico - Banxico	9.50
Australia - RBA	4.10
New Zealand - RBNZ	3.75
Next Meeting Date	
Canada - BoC	Mar 12, 2025
US - Fed	Mar 19, 2025
England - BoE	Mar 20, 2025
Euro zone - ECB	Mar 06, 2025
Japan - BoJ	Mar 19, 2025
Mexico - Banxico	Mar 27, 2025
Australia - RBA	Mar 31, 2025
New Zealand - RBNZ	Apr 08, 2025