Viewpoint

Our Thoughts

- New Inflation Data Next Week—This Is a Big One
- Tales from the Trade-War Trenches
- Big Beautiful Bump (to Growth)

BMO

BMO Economics

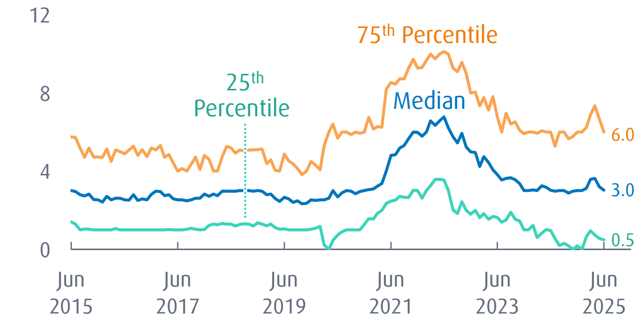
economics.bmo.com

New Inflation Data Next Week—This Is a Big One

Scott Anderson
Chief U.S. Economist
scotta.anderson@bmo.com

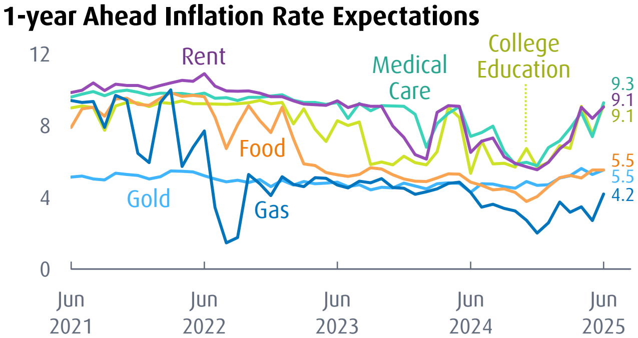
All eyes will be on Tuesday's CPI data as the Fed ponders the inflationary impacts of the tariffs and whether it can resume rate cuts in the Fall as the market currently expects. So far, the effects appear to be limited. Goods price inflation remains muted through May, but the trade war is far from over. After a temporary truce to allow for negotiations, the President announced another round of tariffs on more than 20 countries with a new 50% tariff on copper by August 1. If implemented, we estimate that **the average effective tariff rate in the United States would rise from the current 15% to around 18%**, the highest since 1934—not the right direction to warrant the Fed to let down its guard on inflation.

Chart 1
Inflation Expectations Contained?
United States (percent)
1-year Ahead Inflation Rate Expectations



Sources: BMO Economics, NY Fed Survey of Consumer Expectations

Chart 2
Inflation Expectations Still Rising for Major Categories
United States (percent)
1-year Ahead Inflation Rate Expectations



Sources: BMO Economics, NY Fed Survey of Consumer Expectations

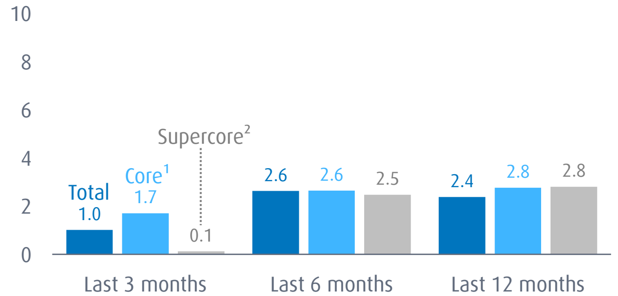
Tariff pass-through may have been delayed for several reasons including uncertainty about tariff duration and final levels, stockpiled inventory, supply-chain adjustments, long-term contracts, and even competitive pressures due to price-sensitive demand. Until the Fed can better disentangle these effects and gauge how much of the shock has already been fully passed through, it will likely need to stay on the sidelines. And, of course, the **new tariff shocks keep coming**.

Encouragingly, the June FOMC Minutes noted that the Fed staff forecasts for GDP growth and inflation had improved since May and that recession risks had diminished. This correlates well with the equity market rebound and the improvement in market-based inflation expectations over the period. The New York Fed's Consumer Expectations Survey for June seemed to concur with the 1-year ahead inflation expectations measures moving lower for a second straight month (*Chart 1*). But, consumers' more specific commodity price expectations 1-year ahead (from the same survey) paint a more complicated inflation picture. Consumers' price expectations for medical care, college education, rent, food, and gas continue to rise, and for the most part have already returned to earlier pandemic levels—a steep climb since the turn of the year (*Chart 2*).

That's why **June's CPI report** is so consequential. Investors have taken a glass half-full position on tariff inflation risks, betting that expectations will remain well-anchored and that the Fed will look through any pickup in goods inflation as services inflation cools. Fed funds futures are currently pricing in about a 70% chance of a September cut. However, the delayed pass-through of the tariffs and ongoing trade war raise the risk the Fed will have to wait longer than expected before the path forward on policy becomes clear. From March

Chart 3
Moderating Energy and Services Inflation Tested

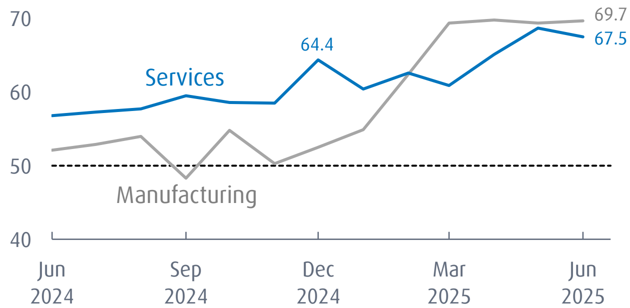
United States — May 2025 (% change annual rate : s.a.)
CPI Inflation Trends



Sources: BMO Economics, BLS [1] *ex. food & energy;* [2] *services ex. energy & housing*

Chart 4
Prices Paid Still Point to Elevated Inflation Pressures

United States (50+ = increasing)
ISM Manufacturing and Services Prices Indexes



Sources: BMO Economics, Haver Analytics, Institute for Supply Management

through May, big declines in gas prices and moderating services inflation helped to keep overall price pressures under wraps (*Chart 3*). But the June CPI data could be an important test of this favorable trend. Oil prices increased by 10% and retail gasoline prices were largely flat, suggesting less of a tailwind from diminishing energy inflation. At the same time, further improvement in services may be more difficult to come by, now that many categories have already cooled down. The June ISM Prices Indexes for manufacturers and services firms are telling as they continue to suggest elevated price pressures (*Chart 4*).

We expect an increase in June CPI and core inflation to 0.29% and 0.26%, respectively, from tame 0.08% and 0.13% increases in May. From a year ago, CPI inflation should heat up two-tenths of a percentage point to 2.6% with the core measure increasing a tenth to 2.9%. An upside surprise could lead to a big shift in Fed interest rate expectations and longer-term Treasury yields.

Tales from the Trade-War Trenches

Michael Gregory, CFA
Deputy Chief Economist
michael.gregory@bmo.com

Erik Johnson
Senior Economist
erik.johnson@bmo.com

If you think you're up-to-date on the Administration's tariff war, just wait a few minutes (to borrow from a Mark Twain quote). Below, we take stock of this week's burst of trade policy announcements with the caveat that this note was published on Friday at 12:00, with many more minutes left in the week.

July 9 marked the end of the 90-day postponement of 'reciprocal' tariffs. According to the Wall Street Journal, Treasury Secretary Bessent convinced President Trump to push the deadline to August 1 to allow more time for trade deals to be struck, which the President announced on July 7. As the week unfolded, a flurry of letters was sent to individual countries informing them what tariff rate they would face for the privilege of trading with the United States come August 1. The proposed tariff rates look a lot like the April 2 'reciprocal' tariff rates that were postponed, with a few exceptions that we discuss below.

So far, **23 letters** have been sent out over social media, **comprising around 29% of U.S. imports** (*Table 1*). Many of the countries don't have meaningful trading relationships with the U.S. (e.g., Moldova, Bosnia and Herzegovina, and Brunei to name a few) and so tariffs on them will have limited macroeconomic impact. But for an administration keen to demonstrate that it remains all-in on tariffs as a policy tool, it sends a message (are you listening Europe?). However, six of those countries make up the lion's share of that 29% and if the U.S. goes ahead with those tariffs, the average American consumer will start to feel the pinch at the store.

Canada is the most notable letter recipient, which will now face 35% tariffs (up from 25%) starting on August 1. USMCA-compliant goods will remain exempt according to reports (the letter doesn't directly make that distinction). The exemption for USMCA-compliant goods will continue to mitigate the effects of tariffs on both the Canadian and U.S. economies—as of May, **the calculated tariff rate** (customs duties as a share of imports) **on Canadian exports to the U.S. fell to 1.9%** in May (from 2.3% in April), which suggests better than 90% USMCA compliance (or limited enforcement of stated tariff rates by the U.S.). However, it doesn't appear that the Canadian trade negotiators have made much progress on thawing the frosty trading relationship with the United States.

Table 1

The Letters of the Tariff Law

United States — July 2025 (percent)

Trading partner	Enacted/ threatened tariffs	Tariff letter rate	Share of U.S. Imports	Share of U.S. Exports
Canada[1]	25	35	12.61	16.97
Japan	24	25	4.54	3.83
South Korea	25	25	4.03	3.18
Thailand	36	36	1.94	0.87
Malaysia	24	25	1.61	1.34
Brazil[2]	10	50	1.30	2.38
Indonesia	32	32	0.86	0.49
South Africa	30	30	0.45	0.28
Philippines	17	20	0.43	0.45
Cambodia	49	36	0.39	0.02
Bangladesh	37	35	0.26	0.11
Iraq	39	30	0.23	0.08
Sri Lanka	44	30	0.09	0.02
Algeria	30	30	0.08	0.05
Kazakhstan	27	25	0.07	0.05
Libya	31	30	0.04	0.03
Tunisia	28	25	0.03	0.02
Serbia	37	35	0.02	0.01
Laos	48	40	0.02	0.00
Myanmar	44	40	0.02	0.00
Brunei	24	25	0.01	0.01
Bosnia & Herzegovina	35	30	0.01	0.00
Moldova	31	25	0.00	0.00

[1] Canada's 25% tariffs correspond to the 'fentanyl tariffs' originally imposed on March 4; oil and gas, critical minerals, and potash are subject to a lesser 10% tariff; USMCA-compliant goods are reported to remain exempt. [2] Brazil runs a trade deficit with the U.S. and so was subject to the 10% baseline tariff rate on April 2.

Sources: BMO Economics, White House, Haver Analytics, Census Bureau

The inclusion of **Brazil** on the list, particularly with such a high threatened tariff rate (50%) is odd. Originally, the U.S. was concerned about trade deficits, but it runs a trade surplus with Brazil. Unlike most of the letters sent out, the language in the letter to Brazil was unique in that it seemed to argue that the tariffs were in retaliation for its treatment of former President Bolsonaro in domestic legal proceedings. Hence, tariffs are now being stretched as a policy tool to influence political dynamics in other countries.

There were also developments on the sector tariff front. President Trump announced a **50% levy on imported copper** effective August 1. He posted about receiving a "*robust*" national security investigation, concluding that tariffs were necessary. The 'Section 232' (Trade Expansion Act of 1962) study was initiated March 10, with the Commerce Department's report due within 270 days (9 months). The report hasn't been published yet but Secretary Lutnick said tariffs could be in place by the end of July. The levies could potentially cover copper in all its forms: copper ore, copper concentrates, refined copper, copper alloys, scrap copper, and derivative products. **America currently imports about half of its copper needs** according to reports.

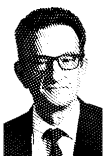
There is also a Section 232 investigation under way into **pharmaceuticals** and related ingredients (it was initiated April 1). This week, President Trump threatened to impose a 200% tariff "very soon". But it wouldn't be effective for a while, so companies have time to re-shore production and establish new plants.

And finally, from a geopolitical standpoint, President Trump also threatened members of the **BRICS** group and *"any country aligning themselves with the Anti-American* *policies of BRICS"* with an additional 10% tariff (on top of the others already put in place or announced).

The adversarial turn in U.S. trade policy once again doesn't bode well for the outstanding negotiations with other countries that have yet to receive letters (Europe, China, Mexico), but perhaps it's a rushed attempt to exact leverage before the President's authority to impose tariffs is potentially curtailed by the courts. We hope that the trade negotiators of the world weren't expecting a long summer vacation because it will be an intense three weeks leading into the new August 1 deadline for 'reciprocal' tariffs.

Big Beautiful Bump (to Growth)

After slowing partly due to the trade war, the U.S. economy will get a lift from the new budget bill.



Michael Gregory, CFA
Deputy Chief Economist
michael.gregory@bmo.com

Sal Guatieri
Senior Economist
sal.guatieri@bmo.com

On Independence Day, Congress passed the sweeping One Big Beautiful Bill Act (OBBBA), meeting a self-imposed deadline. The centerpiece of the Act are tax cuts and more spending on defense and border control, partly offset by reduced funding for health care, food stamps, and student loans. Analysts expect the Act to raise the budget deficit and lift the economy in the near term. But by how much?

Taxes cut

The OBBBA's marquee revenue measures include the **permanent extensions of the tax cuts from 2017's Tax Cuts and Jobs Act** (TCJA) that were slated to expire January 1, 2026. For example, most of the seven personal income tax rates were poised to rise between 3 and 4 percentage points (ppts). In addition to being extended permanently, some TCJA measures were also enhanced. For example, the **child tax credit**, scheduled to drop to $1,000 next year from $2,000 currently, was lifted to $2,200 and will now be adjusted for inflation. Also, instead of being extended at $10,000, the **SALT** (state and local tax) deduction was temporarily lifted to $40,000. And other TCJA measures that were already being phased out were revived, such as **bonus depreciation**. The TCJA's original 100% rate began dropping by 20-ppt annual increments in 2023 (to 40% for 2025). This is now set permanently at 100% beginning this year. The enhancement and revival of TCJA measures added to the price tag of the extension. The Committee for a Responsible Federal Budget (CRFB) pegs the TCJA-related total impact at $4.6 trillion, compared to the Congressional Budget Office (CBO) baseline. *(Going forward, all dollar figures refer to 10-year totals over the budget period ending 2034.)*

The OBBA's other major revenue measures (see Table 1 at the end) reflect some of the tax cuts promised during the election campaign. For example, **no taxes on overtime pay or tips** (both with limitations), along with a new **tax deduction for auto loan interest and an increase in the standard deduction for seniors**. (The latter is in lieu of more costly tax-free Social Security benefits that were promised.) Elsewhere, **bonus depreciation was expanded to new factories**. Note that all the new measures mentioned above sunset after 2028, partly to keep their total deficit cost down. Still, they amount to around $700 billion (CRFB), resulting in $5.3 trillion worth of total (gross) tax reductions. Interestingly, the OBBBA's revenue offsets add up to just over $700 billion (CRFB), led by the **repeal and reform of Inflation Reduction Act (IRA) tax credits** (worth almost $545 billion). All in, the CBO estimates total revenue will fall by $4.5 trillion compared to the budget baseline.

Spending sliced, but by less

The **OBBBA cuts total spending by $1.2 trillion** compared to the CBO's baseline. The largest slices to outlays occurred in three buckets. The first was **health care**, with a $1.1 trillion hit (CRFB). The bulk of this was reduced funding for Medicaid via establishing work requirements and tightening eligibility/enrollment rules, along with 'savings' in administering the Affordable Care Act. The CBO estimates that millions of Americans could lose health insurance coverage as a result.

The second bucket was **student loans**, with a reduction of more than $305 billion (CBO). This mirrors stricter loan repayment and Pell Grant eligibility rules, along with lower borrowing limits and thus lower loan volumes over time. Note that under federal budget accounting rules, the 'subsidy costs' of student loans over their lifetime are measured on an accrual basis and recorded in the first year of the budget. As such, **$172 billion in 'subsidy savings' on student loans are recorded in FY2025, amplifying the improvement in the budget but with little real economic impact**.

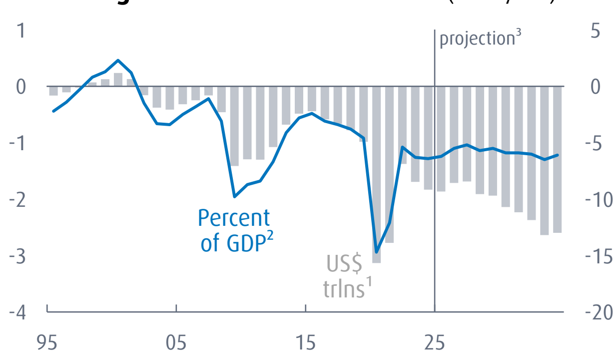
The third bucket was the **Supplemental Nutrition Assistance Program** (SNAP, a.k.a. 'food stamps'), with an impact of around $185 billion (CRFB). This includes more stringent work requirements and eligibility rules, along with passing more of the program's costs to the states. The CBO estimates that several million people could lose access over the budget period.

Spending on defense and border security saw the biggest boosts, with their (committee) outlay envelopes expanding by $150 billion and nearly $130 billion, respectively (CBO). The latter includes $45 billion for expanding Immigration and Customs Enforcement (ICE) detention capacity to facilitate mass deportations. This could have significant negative impacts on industries that (knowingly or unknowingly) employ undocumented workers such as agriculture, construction, and hospitality.

Chart 1

Before OBBBA

Federal Budget Balance — United States (fiscal years)



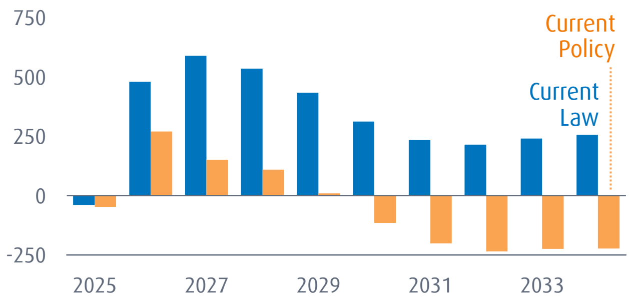
[1] (lhs); [2] (rhs); [3] CBO projection (January 2025)
Sources: BMO Economics, Haver Analytics, Congressional Budget Office

Current law vs. current policy

Given the $4.5 trillion decrease in net revenue and $1.2 trillion drop in net spending, the **OBBBA increases the cumulative deficit by $3.3 trillion**, compared to the CBO's baseline (ignoring additional interest payments, which could amount to nearly $715 billion according to the CRFB). The CBO baseline projection is the standard for measuring fiscal impacts of policy changes, and it assumes that policy evolves as existing laws dictate (a.k.a. the 'current law' baseline). The CBO's latest (January) forecast assumed the expiring 2017 tax cuts would, in fact, expire (*Chart 1*). As a result, the baseline deficit projection shows an improvement as relatively more taxes roll in starting in calendar 2026, despite the economy falling over a fiscal cliff on January 1. The hit to disposable income from higher tax rates alone would be enough to push real GDP growth into negative territory in early 2026. This is one reason that at least some of the tax cuts would have been extended regardless of the outcome of last year's elections.

Chart 2
OBBBA's Big Bang

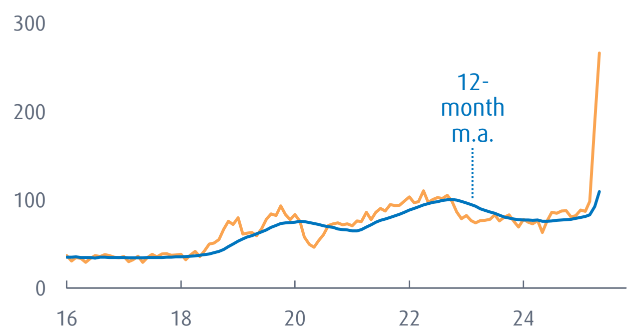
United States ($blns : by fiscal year)
Change in Budget Deficit vs. CBO Baselines[1]



[1] *not including additional interest payments*
Sources: BMO Economics, Congressional Budget Office

Chart 3
Tariffs' Take

United States ($blns : a.r.)
Federal Customs Receipts



Sources: BMO Economics, Haver Analytics, U.S. Treasury

The **CBO can also produce another budget projection based on existing policies remaining in place regardless of what current laws dictate** (a.k.a. the 'current policy' baseline). This provides a better jump-off point for assessing economic impacts, given that existing tax policies are remaining in place—and then some. Apart from a potential positive impact on sentiment and investment, the extension of the 2017 tax cuts likely won't have a material effect on the economy. In Chart 2, we show how the OBBBA's policy changes, beyond extending the TCJA tax cuts, impact the budget balance. Revenues are down almost $830 billion with most of the impact occurring before the new temporary tax cuts end in calendar 2029. Spending is down a net $1.3 trillion, resulting in nearly $510 billion in net deficit reduction. The **latter should be a net negative for economic growth over the next decade, although the tax cuts (beyond extensions) should provide some near-term lift**.

The CBO's 'current policy' baseline sees the OBBBA reducing the budget deficit by $47 billion in FY2025, which normally would ding the economy. But the up-front recording of $172 billion in student loan 'subsidy savings' explains the entire improvement in the deficit, which, as mentioned earlier, greatly overstates the negative impact on the economy. **Excluding this accounting effect, the OBBBA would actually increase the deficit by $125 billion in FY2025, or 0.4% of GDP.** Some of the economic lift will come from a reduction in employer withholding rates on overtime pay and tips.

Alas, other policies will likely more than offset OBBBA's economic push in 2025. **DOGE-related cuts** to the federal government could ramp up after a recent Supreme Court decision repealed a lower court's ruling that blocked large-scale layoffs. **Deportations** are now showing up in the workforce data and could accelerate due to increased funding for immigration enforcement. A recent Dallas Fed study found that real GDP growth could be 0.8 ppt lower in 2025 if current deportation trends (about 88,000 annually) persist and 0.5 ppt lower in 2027, with the latter rising to 1.5 ppts if deportations reach one million annually.

The trade war will also weigh on growth. Based on work by the Fed, and assuming limited retaliation, a 15% average effective tariff rate on U.S. imports could reduce annual GDP growth by about one-half percentage point. This week's round of 'tariff letters' suggests we could land on a figure 3 ppts higher on August 1. Any new tariffs will help to plug a revenue hole and lower the budget deficit, but will also depress growth. In May, customs duties totaled an annualized $266 billion (*Chart 3*). However, this figure was flattered by 145% tariffs on Chinese goods, which were lowered to 30% for the second half of the month. Nevertheless, if we assume a 10% average tariff on America's $3.3 trillion worth of annual imports, this could generate $330 billion per annum, other things equal. However, it's unclear what portion of the tariffs will be absorbed by foreign exporters and, thus, how much U.S. import prices (and the prices of import-competing goods) will rise. It is also unclear how an erosion of purchasing power will impact tax revenues, though we are assuming some hit.

All in, the DOGE cuts, deportations, and tariffs tend to **support our call for real GDP growth slowing to 1.0%** (on a fourth quarter-over-fourth quarter basis) in 2025 from 2.5% in 2024.

Some rolling back of tariffs and more clarity on trade policies are assumed over time, reducing uncertainty and allowing the growth drag to fade in 2026—just when OBBBA's push will more fully kick in. The CBO's 'current policy' baseline estimates the Act will increase the deficit by $270 billion in FY2026. That, relative to the earlier mentioned $125 billion increase in FY2025 (sans the student loan subsidy savings), **amounts to a 0.5 ppt lift to GDP growth in 2026**. Some additional indirect support could stem from the accelerated deduction allowances for businesses raising the capital stock, and from lower taxes on overtime pay increasing work incentive. This, together with an assumed fading effect of the trade war and resumption of Fed rate cuts, **aligns with our view of GDP growth improving to 1.7% in 2026**.

Bottom Line: While the economic effects of the OBBBA are uncertain, the heavily front-loaded tax cuts and spending hikes for national security look to more than offset cutbacks, pointing to a **potential one-half percentage point lift to growth in 2026**. Effectively, the tax cuts for individuals and businesses will paper over higher import taxes. This could reinforce the Fed's current go-slow approach to easing for now, but may not be material enough to fan inflation, especially given some supply-side response of tax cuts, keeping policymakers on track to gradually restore policy neutrality from the current modestly restrictive stance.

Table 1

OBBBA: Key Changes in Federal Budget

U.S. Federal Government — FY2025-FY2034 ($trlns)	Net change
Personal Taxes	
Extend and expand 2017 tax cuts	-2.193
Exempt tips and overtime pay from taxes	-0.122
Increase standard deduction for seniors	-0.093
Increase child tax credit	-0.817
Increase SALT deduction cap	-0.145
Business Taxes	
Increase limits on immediate expensing of investments and expand depreciation deduction for building production facilities	-0.645
Reduce clean-energy tax credits	0.542
Expenses	
Boost funding for military and border-control policies; other homeland security issues	-0.282
Cut Medicaid funding, other health-related savings	1.074
Reduce spending on food stamps program	0.147
Limit student loans and reform loan repayment	0.313

Negative numbers imply an increase in deficit, positive numbers a decrease
Sources: BMO Economics, Committee for a Responsible Federal Budget

Olivia Yong
Summer Intern
olivia.yong@bmo.com

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

	Good News	Bad News
United States ▪ Pres. Trump announces 50% tariff on copper imports for Aug. 1 despite heavy reliance on global imports... ▪ ...and sends tariff letters to almost two dozen countries	**Global Supply Chain Pressure Index** 0.0 (June) **Initial Jobless Claims** -5k to 227k (July) —7-week low	**NFIB Small Business Optimism** -0.2 pts to 98.6 (June) **Continuing Claims** +10k to 1,965k (June)—highest since late 2021 **Consumer Credit** slows to +$5.1 bln (May) —pullback in credit card balances
Canada ▪ U.S. Administration threatens 35% tariff on non-USMCA goods starting Aug. 1 ▪ Firm jobs data lowers potential for a July rate cut	**Employment** +83,100 (June)—third straight gain **Unemployment Rate** fell 0.1 ppts to 6.9% (June) **Average Hourly Wages** +3.2% y/y (June) **Building Permits** +12.0% (May) **Ivey Purchasing Managers Index** +4.4 pts to 53.3 (June)	
China ▪ U.S. Sec. of State's *"constructive"* visit opens the door to potential Xi-Trump summit		**Consumer Prices** +0.1% y/y (June)—but m/m change still in negative territory **Producer Prices** -3.6% y/y (June)—steepest fall since July 2023
Japan ▪ Pres. Trump slaps a 25% tariff on Japanese exports to U.S. effective Aug. 1	**Bank Lending ex. Trusts** +3.0% y/y (June)	**Real Cash Earnings** -2.9% y/y (May)—largest decline since Sept. 2023 **Machine Tool Orders** -0.5% y/y (June P)
Europe ▪ Bloc could face division amid U.S. negotiations... but talks are progressing	**Germany—Industrial Production** +1.2% (May) **U.K.—Index of Services** +0.1% (May)	**Euro Area—Retail Sales** -0.7% (May) **Germany—Trade Surplus** widened to €18.4 bln (May)—but exports dropped 1.4% as U.S. tariffs hit **France—Trade Deficit** widened to €7.8 bln (May) **Italy—Industrial Production** -0.7% (May) **U.K.—Trade Deficit** widened to €21.7 bln (May) **U.K.—Monthly Real GDP** -0.1% (May) **U.K.—Industrial Production** -0.9% (May)
Other ▪ RBA, RBNZ, BOK all on hold ▪ Brazil's tariff rate hiked from 10% to 50% for Aug. 1	**Australia—NAB Business Confidence** +3 pts to 5 (June)—highest level since March 2024	

Economic Forecast Summary for July 11, 2025

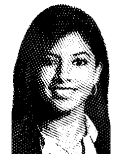
	2025				2026				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025	2026
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-0.5	1.6	1.5	1.2	1.6	1.6	1.8	1.7	2.8	1.5	1.5
Consumer Price Index (y/y % chng)	2.7	2.5	3.3	3.4	3.1	3.2	2.7	2.5	3.0	3.0	2.9
Unemployment Rate (percent)	4.1	4.2	4.3	4.5	4.6	4.6	4.6	4.6	4.0	4.3	4.6
Housing Starts (mlns : a.r.)	1.40	1.32	1.35	1.38	1.40	1.41	1.41	1.42	1.37	1.36	1.41
Current Account Balance ($trlns : a.r.)	-1.80	-1.14	-1.14	-1.15	-1.15	-1.16	-1.16	-1.17	-1.19	-1.30	-1.16
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	4.38	4.38	4.29	4.04	3.79	3.54	3.29	3.04	5.15	4.27	3.42
3-month Treasury Bill	4.34	4.37	4.40 ↑	4.10 ↑	3.85	3.60 ↑	3.30	3.00	5.18	4.30	3.45
10-year Note	4.45	4.36	4.30 ↓	4.25	4.20	4.10	4.05	4.00	4.21	4.35	4.10
EXCHANGE RATES (average for the quarter)											
C$/US$	1.43	1.38	1.36	1.35	1.35	1.34	1.34	1.33	1.37	1.38	1.34
¥/US$	152	144	144	143	142	141	141	140	151	146	141
US$/Euro	1.05	1.13	1.17	1.19	1.19	1.20	1.20	1.21	1.08	1.14	1.20
US$/£	1.26	1.34	1.36	1.37	1.37	1.38	1.38	1.39	1.28	1.33	1.38
CANADA											
Real GDP (q/q % chng : a.r.)	2.2	-0.8	-0.3	1.0	2.1	1.7	1.8	2.1	1.6	1.3	1.3
Consumer Price Index (y/y % chng)	2.3	1.9	1.9	1.8	1.6	2.0	2.0	2.3	2.4	2.0	2.0
Unemployment Rate (percent)	6.6	6.9	7.2 ↓	7.5 ↓	7.4 ↓	7.2 ↓	7.1 ↓	6.9 ↓	6.4	7.1 ↓	7.2 ↓
Housing Starts (000s : a.r.)	223	260	228	228	225	225	225	225	245	235	225
Current Account Balance ($blns : a.r.)	-8.5	-67.5	-62.0	-61.9	-59.7	-56.6	-53.5	-50.2	-14.1	-50.0	-55.0
Interest Rates (average for the quarter : %)											
Overnight Rate	2.92	2.75	2.50	2.25	2.00	2.00	2.00	2.00	4.48	2.60	2.00
3-month Treasury Bill	2.85	2.63	2.50	2.25	2.00	1.95	1.95	1.95	4.37	2.55	1.95
10-year Bond	3.12	3.21	3.35 ↑	3.30 ↑	3.30 ↑	3.25 ↑	3.20 ↑	3.20 ↑	3.34	3.25 ↑	3.25 ↑
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-149	-173	-190 ↓	-185 ↓	-184 ↓	-164 ↓	-137 ↓	-108	-53	-174 ↓	-148 ↓
10-year	-133	-115	-96 ↑	-93 ↑	-90 ↑	-86 ↑	-83 ↑	-82 ↑	-87	-109 ↑	-85 ↑

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

Key for Next Week


Scott Anderson
Chief U.S. Economist
scotta.anderson@bmo.com


Sal Guatieri
Senior Economist
sal.guatieri@bmo.com


Priscilla Thiagamoorthy
Senior Economist
priscilla.thiagamoorthy@bmo.com

Consumer Prices

Tuesday, 8:30 am

June (e)	**+0.3%**	**+2.6% y/y**
Consensus	*+0.3%*	*+2.6% y/y*
May	+0.1%	+2.4% y/y

Ex. Food & Energy		
June (e)	**+0.3%**	**+2.9% y/y**
Consensus	*+0.3%*	*+2.9% y/y*
May	+0.1%	+2.8% y/y

CPI inflation is expected to pick up in June following four consecutive months of relatively tame readings. Prices look to increase 0.3% in June following a modest 0.1% rise in May. From a year ago, the inflation rate is projected to rise to 2.6% from 2.4%. Declining gasoline and energy prices were a big part of the recent moderation in inflation, but that likely ended in June. Retail gasoline prices were basically flat last month, while crude oil prices jumped 10% on the worsening Middle East conflict. We also anticipate less relief from declining airfares, motor vehicle, and apparel prices than we saw in May. Goods prices could also start ticking up as tariff-related costs start to get passed along. Price pressures for manufacturers and services business remain high. The ISM Manufacturing Prices Index was even higher in June, rising slightly to 69.7. The ISM Services Prices Index moderated only a bit to 67.5.

Core inflation is forecast at a somewhat elevated 0.3% in June, up from 0.1% in May. The yearly rate is expected to increase to 2.9% from 2.8%. The pickup in monthly inflation will likely keep the Fed firmly on the sidelines at the next meeting. — S.A.

Industrial Production

Tuesday, 8:30 am

	Industrial Production	**Capacity Utilization**
June (e)	**+0.1%**	**77.5%**
Consensus	*+0.1%*	*77.4%*
May	-0.2%	77.4%

Industrial production likely edged up in June after slipping in the prior month. While there is some downside risk to our call amid the tariff turmoil, we anticipate business equipment output climbed for an eighth straight month. Even so, manufacturing activity continues to face strong headwinds amid trade war uncertainty, stirring price pressures, slowing U.S. and global demand, and still-elevated borrowing costs. — P.T.

Beige Book

Wednesday, 2:00 pm

The Fed will use its regional survey of business contacts to assess how much harm the trade war is causing (or likely to cause) the economy and inflation. Tariff effects on the latter have been missing in action, possibly because businesses are still working through earlier (pre-tariff) stockpiles or eating the import tax for fear of losing customers. For the economy, the June **Beige Book** hinted at some tariff damage, as half of the Districts reported slight to moderate declines in activity, two more than in April, partly due to "*elevated levels of economic and policy uncertainty*". Moreover, it said the "*outlook remains slightly pessimistic*", which likely hasn't changed given the President's recent tariff threats. If the economy was all the Fed had to worry about, the Beige Book would weigh toward a near-term rate cut. But the last report also found that most businesses expected costs and prices to rise faster due to tariffs. Until hard data can clarify whether the economy or inflation is the bigger casualty of the trade war, the FOMC will likely remain patient. — S.G.

Retail Sales

Thursday, 8:30 am

	Retail Sales	**Ex. Autos**
June (e)	**+0.1%**	**+0.2%**
Consensus	*+0.1%*	*+0.3%*
May	-0.9%	-0.3%

	Ex. Autos/Gas
June (e)	**+0.2%**
Consensus	*+0.3%*
May	-0.1%

Consumers are expected to remain cautious with their spending in June. **Retail sales** are forecast to rebound modestly after plunging 0.9% in May, but are still unlikely to keep up with price increases, so real retail sales should continue to fall. Motor vehicle sales were once again a drag on spending last month. Unit vehicle sales fell another 2.0% in June following a 9.4% decline in May, according to Ward's Automotive Group. Retail gasoline prices were largely flat, keeping service station sales contained. Spending ex-autos should a fare a little better, as consumers shift their priorities away from cars, and are projected to increase 0.2%, with sales ex-autos and gas rising at a similar pace. — S.A.

Housing Starts

Friday, 8:30 am

June (e)	**1.32 mln a.r. (+4.7%)**
Consensus	*1.30 mln a.r. (+3.5%)*
May	1.26 mln a.r. (-9.8%)

Building Permits

June (e)	**1.40 mln a.r. (+0.4%)**
Consensus	*1.39 mln a.r. (-0.3%)*
May	1.39 mln a.r. (-2.0%)

While residential real estate remains under pressure, June **housing starts** are expected to reverse some of the prior month's near-10% drop. Single-detached units look to edge up, while volatile multis likely rebounded strongly. Despite the expected increase, home building activity remains subdued amid high input prices, elevated borrowing costs, and downbeat sentiment. Meantime, **building permits**, a good proxy for future home construction, are expected to edge up, though the gauge has stayed muted for the past couple of years. Overall, the report will likely showcase a still-beleaguered housing market. — P.T.

North American Calendar — July 14–July 18

United States

Monday July 14

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

G20 Finance Ministers and Central Bank Governors meet in Zimbali, South Africa (July 14-18)

Tuesday July 15

8:30 am	**Consumer Prices**	
June (e)	**+0.3%**	**+2.6% y/y**
Consensus	*+0.3%*	*+2.6% y/y*
May	+0.1%	+2.4% y/y
8:30 am	**CPI ex. Food & Energy**	
June (e)	**+0.3%**	**+2.9% y/y**
Consensus	*+0.3%*	*+2.9% y/y*
May	+0.1%	+2.8% y/y

Fed Speakers: Vice Chair for Supervision Bowman (9:15 am); Governor Barr (12:45 pm); Richmond's Barkin (1:00 pm); Boston's Collins (2:45 pm); Dallas' Logan (7:30 pm)

11:00 am	4-, 8- & 17-week bill auction announcements
11:30 am	6-week bill auction $70 bln

Wednesday July 16

7:00 am	**MBA Mortgage Applications**	**30-year FRM**
July 11		
July 4	+9.4%	6.77%
8:30 am	**PPI Final Demand**	
June (e)	**+0.3%**	**+2.4% y/y**
Consensus	*+0.3%*	*+2.4% y/y*
May	+0.1%	+2.6% y/y
8:30 am	**PPI Final Demand ex. F&E**	
June (e)	**+0.2%**	**+2.6% y/y**
Consensus	*+0.2%*	*+2.6% y/y*
May	+0.1%	+3.0% y/y
9:15 am	**Industrial Production**	**Capacity Utilization**
June (e)	**+0.1%**	**77.5%**
Consensus	*+0.1%*	*77.4%*
May	-0.2%	77.4%

2:00 pm Beige Book

Fed Speakers: Richmond's Barkin (8:00 am); Cleveland's Hammack (9:15 am); Governor Barr (10:00 a.m.); New York's Williams (5:30 pm)

11:30 am	17-week bill auction

Thursday July 17

8:30 am	**Initial Claims**	
July 12 (e)	**233k (+6k)**	
July 5	227k (-5k)	
8:30 am	**Continuing Claims**	
July 5		
June 28	1,965k (+10k)	
8:30 am	**Retail Sales**	**Ex. Autos**
June (e)	**+0.1%**	**+0.2%**
Consensus	*+0.1%*	*+0.3%*
May	-0.9%	-0.3%
8:30 am	**Retail Sales ex. Autos/Gas**	
June (e)	**+0.2%**	
Consensus	*+0.3%*	
May	-0.1%	
8:30 am	**Import Prices**	
June (e)	**+0.2%**	**+0.3% y/y**
Consensus	*+0.2%*	*+0.3% y/y*
May	unch	+0.2% y/y
10:00 am	**NAHB Housing Index**	
July (e)	**33**	
June	32	
10:00 am	**Business Inventories**	
May F (e)	**+0.1%**	
May P	unch	
Apr.	unch	
4:00 pm	**Net TIC Flows Total**	**Long Term**
May		
Apr.	-$14.2 bln	-$7.8 bln

Fed Speakers: Governor Kugler (10:00 am); San Francisco's Daly (12:45 pm); Governor Cook (1:30 pm); Governor Waller (6:30 pm)

11:00 am	6-, 13- & 26-week bill, 20[R]-year bond, 10-year TIPS auction announcements
11:30 am	4- & 8-week bill auctions

Friday July 18

8:30 am	**Housing Starts**
June (e)	**1.32 mln a.r. (+4.7%)**
Consensus	*1.30 mln a.r. (+3.5%)*
May	1.26 mln a.r. (-9.8%)
8:30 am	**Building Permits**
June (e)	**1.40 mln a.r. (+0.4%)**
Consensus	*1.39 mln a.r. (-0.3%)*
May	1.39 mln a.r. (-2.0%)
10:00 am	**University of Michigan Consumer Sentiment**
July P (e)	**61.2**
Consensus	*61.5*
June	60.7

Canada

Monday July 14

8:30 am	**Wholesale Trade**
May (e)	**-0.4%**
Apr.	-2.3%

Tuesday July 15

8:15 am	**Housing Starts**	
June (e)	**270,000 a.r. (-3.4%)**	
May	279,510 a.r. (-0.2%)	
8:30 am	**Consumer Price Index**	
June (e)	**+0.2% (+0.4% s.a.)**	**+2.0% y/y**
Consensus	*+0.2%*	*+2.0% y/y*
May	+0.6%	+1.7% y/y

8:30 am	**CPI Core (% y/y)**		
	Trim	**Median**	**ex. F&E**
June (e)	**+3.1**	**+3.1**	**+2.8**
May	+3.0	+3.0	+2.6

8:30 am	**Mfg. Sales**	**New Orders**
May (e)	**-1.3%**	**-1.5%**
Apr.	-2.8%	-6.8%
8:30 am	**New Motor Vehicle Sales**	
May (e)	**+8.0% y/y**	
Apr.	+11.3% y/y	
9:00 am	**Existing Home Sales[D]**	**Average Prices**
June (e)	**+2.0% y/y**	**-1.0% y/y**
May	-4.3% y/y	-1.8% y/y
9:00 am	**MLS Home Price Index[D]**	
June (e)	**-3.5% y/y**	
May	-3.5% y/y	

10:30 am	3-, 6, 12-month bill auction $25.0 bln (new cash -$1.1 bln)
11:15 am	Cash management bond buybacks $0.5 bln
Noon	1-month bill auction $2.5 bln

Wednesday July 16

Noon	30-year bond auction $3.0 bln

Thursday July 17

8:30 am	**Int'l Securities Transactions Inflows**	**Outflows**
May		
Apr.	-$9.4 bln	$4.1 bln

Noon	2-year (Jun27 reopening) bond auction $0.75 bln
	2-, 10-year bond auction announcements

Friday July 18

8:30 am	**Construction Investment**	
May		
Apr.	-3.2%	+9.2% y/y
8:30 am	**Household Credit**	**Mortgage Credit**
May		
Apr.	+4.5% y/y	+4.7% y/y

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

Upcoming FOMC Policy Meetings: July 29-30, Sep. 16-17, Oct. 28-29

General Disclosures

BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Bank N.A. (member FDIC), Bank of Montreal Europe p.l.c, and Bank of Montreal (China) Co. Ltd, the institutional broker dealer business of BMO Capital Markets Corp. (Member FINRA and SIPC) and the agency broker dealer business of Clearpool Execution Services, LLC (Member FINRA and SIPC) in the U.S., and the institutional broker dealer businesses of BMO Nesbitt Burns Inc. (Member Canadian Investment Regulatory Organization and Member Canadian Investor Protection Fund) in Canada and Asia, Bank of Montreal Europe p.l.c. (authorised and regulated by the Central Bank of Ireland) in Europe and BMO Capital Markets Limited (authorised and regulated by the Financial Conduct Authority) in the UK and Australia. BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such Information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor's particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Economic Publications: Our publications are disseminated via email and may also be available via our web site https://economics.bmo.com. Please contact your BMO Financial Group Representative for more information.

Additional Matters

This report is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Its contents have not been reviewed by any regulatory authority. BMO Capital Markets does not represent that this report may be lawfully distributed or that any financial products may be lawfully offered or dealt with, in compliance with regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder.

To Australian residents: BMO Capital Markets Limited and Bank of Montreal are exempt from the requirement to hold an Australian financial services licence under the Corporations Act in respect of financial services they provide to wholesale investors (as defined in the Corporations Act). BMO Capital Markets Limited is regulated by the UK Financial Conduct Authority under UK laws, and Bank of Montreal in Hong Kong is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission which differ from Australian laws. This document is only intended for wholesale clients (as defined in the Corporations Act 2001),Eligible Counterparties or Professional Clients (as defined in Annex II to MiFID II) and Professional Investors (as defined in the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules under the Securities and Futures Ordinance of Hong Kong).

To Canadian Residents: BMO Nesbitt Burns Inc. furnishes this report to Canadian residents and accepts responsibility for the contents herein subject to the terms set out above. Any Canadian person wishing to effect transactions in any of the securities included in this report should do so through BMO Nesbitt Burns Inc.

To E.U. Residents: In an E.U. Member State this document is issued and distributed by Bank of Montreal Europe plc which is authorised and regulated in Ireland and operates in the E.U. on a passported basis. This document is only intended for Eligible Counterparties or Professional Clients, as defined in Annex II to "Markets in Financial Instruments Directive" 2014/65/EU ("MiFID II").

To U.K. Residents: In the UK this document is published by BMO Capital Markets Limited which is authorised and regulated by the Financial Conduct Authority. The contents hereof are intended solely for the use of, and may only be issued or passed on to, (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together referred to as "relevant persons"). The contents hereof are not intended for the use of and may not be issued or passed on to retail clients.

To Hong Kong Residents: In Hong Kong, this report is published and distributed by Bank of Montreal. Bank of Montreal (incorporated in Canada with limited liability) is an authorized institution under the Banking Ordinance and a registered institution with the Securities and Futures Commission (CE No. AAK809) to carry on Type 1 (dealing in securities) and Type 4 (advising in securities) regulated activities under the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong). This report has not been reviewed or approved by any regulatory authority in Hong Kong. Accordingly this report must not be issued, circulated or distributed in Hong Kong other than (a) to professional investors as defined in the Securities and Futures Ordinance and the Securities and Futures (Professional Investor) Rules under the Securities and Futures Ordinance of Hong Kong, or (b) in circumstances which do not result in or constitute an offer to the public in Hong Kong.

To Israeli residents: BMO Capital Markets is not licensed under the Israeli Law for the Regulation of Investment Advice, Investment Marketing and Portfolio Management of 1995 (the "Advice Law") nor does it carry insurance as required thereunder. This document is to be distributed solely to persons that are qualified clients (as defined under the Advice Law) and qualified investors under the Israeli Securities Law of 1968. This document represents the analysis of the analyst but there is no assurance that any assumption or estimation will materialize.

To Korean Residents: This report has been provided to you without charge for your convenience only. All information contained in this report is factual information and does not reflect any opinion or judgement of BMO Capital Markets. The information contained in this report should not be construed as offer, marketing, solicitation or investment advice with respect to financial investment products in this report.

To Japan Residents: This report has not been reviewed by any regulatory authority in Japan. This report is provided for information purposes only and it should not be construed as an offer to sell, a solicitation to buy, or a recommendation for any security, or as an offer to provide investment management or advisory or other services in Japan. Securities may not be offered or sold in Japan by means of this report or any other document other than to Qualified Financial Institutions within the meaning of item (i) of Article 17-3 of the Government Ordinance to enforce the Financial Instruments and Exchange Act (Kinyu Shohin Torihiki Ho Sekou Rei). Unless specified otherwise, the securities that may be offered to you are not and will not be registered in Japan pursuant to the Financial Instruments and Exchange Acts.

To Taiwanese Residents: This report is not intended to constitute investment advice nor a public offer for any investment products to investors in Taiwan. This report should only be accessed by investors in Taiwan that are qualified to invest in investment products pursuant to relevant Taiwanese laws and regulations, and subject to sales restrictions as set forth in the relevant Taiwanese laws and regulations. BMO Capital Markets has not and will not secure the required licenses in Taiwan for the offer of securities and investment services. Any offer of securities has not been and will not be registered or filed with or approved by the Financial Commission of Taiwan and/or other regulatory authority pursuant to relevant securities laws and regulations of Taiwan, and may not be issued, offered or sold within Taiwan through a public offering or in circumstances which constitute an offer that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority in Taiwan under relevant securities laws and regulations of Taiwan. No person or entity in Taiwan has been authorized to offer or sell the securities in Taiwan.

To PRC Residents: This material does not constitute an offer to sell or the solicitation of an offer to buy any financial products in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the "PRC"). BMO and its affiliates do not represent that this material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. This material may not be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

To Singapore Residents: This report is intended for general circulation and does not and is not intended to constitute the provision of financial advisory services, whether directly or indirectly, to persons in Singapore. You should seek advice from a financial adviser regarding the suitability of the investment products, taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. This report has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, it should not be circulated or distributed, nor may the securities described herein be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor or a relevant person as defined in and pursuant to and in accordance with the conditions of the relevant provisions of the Securities and Futures Act of Singapore or (b) otherwise pursuant to and in accordance with the conditions of, any other applicable provision of the SFA.

To Thai Residents: The contents hereof are intended solely for the use of persons qualified as Institutional Investors according to Notification of the Securities and Exchange Commission No. GorKor. 11/2547 Re: Characteristics of Advice which are not deemed as Conducting Derivatives Advisory Services dated 23 January 2004 (as amended). BMO and its affiliates do not represent that the material may be lawfully distributed, or that any financial products may be lawfully offered, in compliance with any regulatory requirements in Thailand, or pursuant to an exemption available under any applicable laws and regulations.

To U.S. Residents: BMO Capital Markets Corp. furnishes this report to U.S. residents and accepts responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal.

These documents are provided to you on the express understanding that they must be held in complete confidence and not republished, retransmitted, distributed, disclosed, or otherwise made available, in whole or in part, directly or indirectly, in hard or soft copy, through any means, to any person, except with the prior written consent of BMO Capital Markets.Furthermore, you shall not use (nor enable or procure any third party to use) these materials, in whole or in part, for the development of any software program, model, algorithm, or generative artificial intelligence (AI) tool or any other derivative content, including, but not limited to, training or using these materials in connection with the development or operation of a machine learning or artificial intelligence (AI) system (including any use of these documents for training, fine tuning, or grounding the machine learning or AI system or as part of retrieval-augmented generation). **ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**