

Weekly Bottom Line

April 26, 2024

Highlights

U.S.

- There was no reprieve in U.S. data this week for those concerned the economy is running too hot for the Federal Reserve to deliver imminent interest rate relief. Expectations for multiple rate cuts have been greatly pared back since the start of the year and this week's data will only reinforce that.
- This week's release of U.S. Q1-GDP shows that U.S. consumers still exhibit resilience to higher interest rates.
- Similarly, PCE inflation delivered two hawkish surprises: goods inflation eased less than expected and services inflation continued to trend up, for an overall uptick in the recent trend in prices.

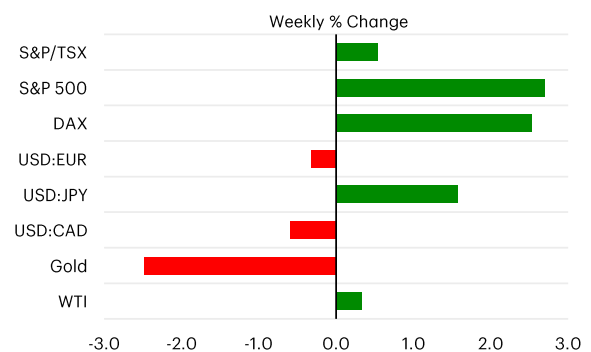
Canada

- Retail spending was subdued in February, although overall consumption was strong in the first quarter. Solid consumption underpinned what was likely robust Q1 growth for GDP.
- However, we see economic growth easing in Q2 as consumer spending softens amid elevated borrowing costs and a rapidly cooling job market.
- The Bank of Canada's Summary of Deliberations revealed a more dovish lean by policymakers, although "sustained" evidence of cooling inflation is required before pulling the trigger on cuts.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5099	4967	5254	4061
S&P/TSX Comp.	21925	21807	22362	18737
DAX	18200	17737	18492	14687
FTSE 100	8143	7896	8143	7257
Nikkei	37935	37068	40888	28458
Fixed Income Yields				
U.S. 10-yr Treasury	4.66	4.62	4.99	3.34
Canada 10-yr Bond	3.82	3.74	4.24	2.76
Germany 10-yr Bund	2.56	2.50	2.97	1.90
UK 10-yr Gilt	4.31	4.23	4.75	3.44
Japan 10-yr Bond	0.89	0.85	0.96	0.36
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.73	0.76	0.72
Euro (USD per EUR)	1.07	1.07	1.12	1.05
Pound (USD per GBP)	1.25	1.24	1.31	1.21
Yen (JPY per USD)	157.1	154.6	157.1	134.0
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	85.2	83.1	93.7	67.1
Natural Gas (\$US/MMBtu)	1.46	1.43	13.20	1.24
Copper (\$US/met. tonne)	9742.2	9797.2	9797.2	7823.8
Gold (\$US/troy oz.)	2334.3	2391.9	2391.9	1820.3

*As of 10:43 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion. Source: Bloomberg.

Solid Earnings Reports Bolster Equities



Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	5.00%
European Central Bank (Refi Rate)	4.50%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	0.10%

Source: Bloomberg.

U.S. – Consumer Still Resilient

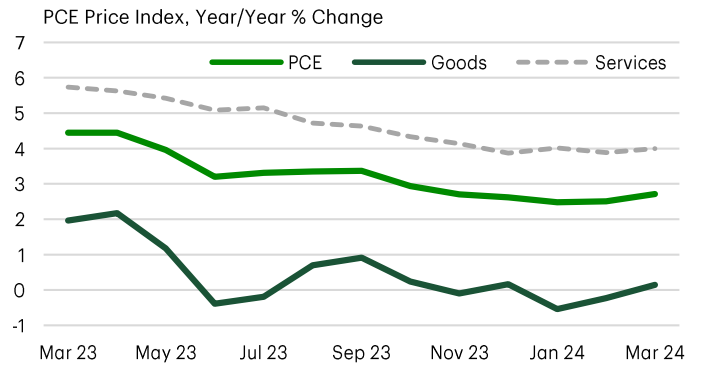
Vikram Rai, Senior Economist
416-923-1692

The big question for the U.S. economy is when inflation will subside or the economy will slow under the pressure of higher interest rates, especially on the side of consumer spending. Either development could be sufficient to bring forward expectations for Federal Reserve interest rate cuts, but this week both GDP and inflation remained stubbornly robust.

The advance estimate of real GDP for Q1-2024 came in at a seemingly sub-par 1.6% (q/q annualized), below the consensus forecast of 2.5%. This is a slowdown from the large expansion of 3.4% we saw in the previous quarter, but the softness in this quarter's reading looks temporary, while the strength has momentum. The biggest drags on growth were imports and an inventory drawdown, which are more volatile in the quarterly data, and could be reversed in next quarter's data (Chart 1). More to the point, they speak less to how consumers and U.S. businesses are reacting to high interest rates, the chief concern for the Federal Reserve when it asks whether its policy is cooling the economy. Consumer spending softened only a little, and growth generally continues to be supported by solid domestic demand. This is not yet an economy that looks overly burdened by high interest rates.

The latest inflation data has the same signals as the activity data. In the first quarter, core PCE inflation rose sharply from the average rate of inflation we saw in the second half of 2023. On a year-over-year basis, headline PCE inflation increased in March from February, maintaining roughly the same monthly increase as from

Chart 2: Goods and Services added to US PCE Inflation in March



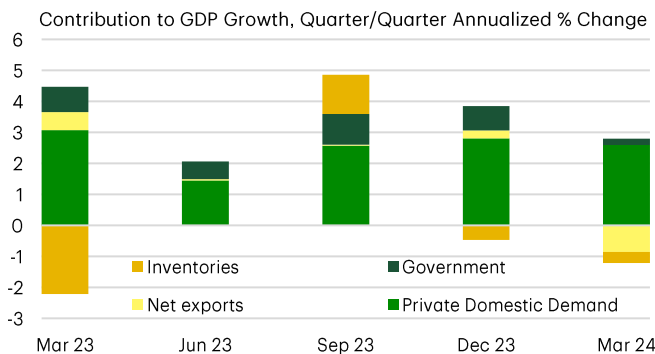
Source: Haver Analytics, BEA, TD Economics.

February to January – that is, it looks like inflation has momentum in the first quarter. The March data showed an increase in both goods and services prices, whereas in previous months we had seen some declines in goods prices (Chart 2). Core PCE inflation, the Federal Reserve's preferred metric, was essentially flat from February to March.

This morning's personal income data also confirmed that the consumer is still resilient. Personal consumption increased in March, and increases were registered across goods and services, showing strong demand from households. And personal savings declined in absolute terms and as a share of disposable income, despite a strong increase in income – suggesting that consumers are not motivated to build up precautionary savings. Our tracking for Q2 would now point to consumer spending to increase 3.5% given the favourable increase in goods spending in March and continued momentum in services. That is a notable upgrade from the 1.9% we [forecast in March](#).

Those hoping for the data to support interest rate cuts earlier rather than later would have been looking for a slowdown in consumer spending, inflation, or both, but this week we received the opposite. This complicates things for the Federal Reserve, which needs to ensure inflation keeps decelerating towards the 2% target. Given this week's economic data, market pricing is solidifying around a delayed start to rate cuts.

Chart 1: US Growth Driven by Private Domestic Demand in Q1



Source: Haver Analytics, BEA, TD Economics.

Canada – Rate Cuts on the Horizon

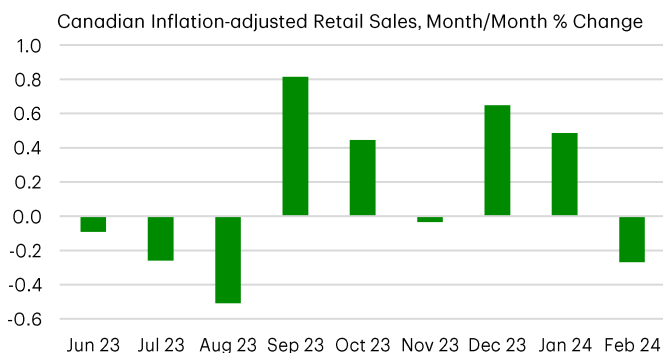
Rishi Sondhi, Economist
416-983-8806

Themes that have recently characterized Canadian financial markets generally held true again this week. The Canadian dollar was broadly unchanged, hanging at a low level of 73 U.S. cents which will do no favours for inflation. Meanwhile, the 10-year Canada yield moved somewhat higher (as of writing), as U.S. rate cut expectations continue to be pared back. Meanwhile, the WTI oil benchmark climbed by about \$2, reflecting an unanticipated drawdown in inventories.

It was a quiet week for economic data releases, headlined by a consumer pulse check coming through retail sales. Spending was modest in February, with retail volumes, or sales adjusted for inflation, dipping 0.3% m/m (month-on-month). However, it didn't change the narrative that the first quarter was a solid one for Canadian [consumption](#), thanks in large part to a huge gain in the country's population. Note that February's data represented a partial retracement after two months of very strong gains (Chart 1). What's more, our internal credit and debit card spending data (which captures both goods and services spending) suggests that a firm increase took place in March.

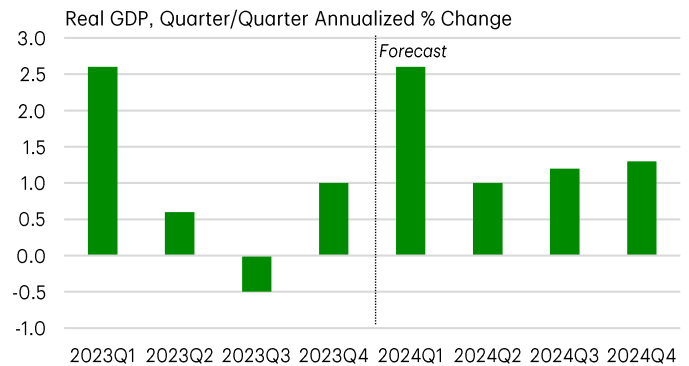
The February retail data will have some negative influence on next week's February GDP report. However, if Statcan's advance GDP estimate is to be believed, growth was healthy at 0.4% m/m. Even if there was no gain in March, industry-based GDP growth is tracking a robust 3.5% annualized pace in the first quarter (this is distinct from the national accounts GDP measure in

Chart 1: Despite February Pull-back, Retail Sales Tracking Solid Q1 Gain



Source: Statistics Canada, TD Economics.

Chart 2: Canada's Growth Poised to Slow After Q1 Surge



Source: TD Economics.
Note that Q1 represents our updated tracking for the quarter.

our [forecast](#)). The question now becomes whether this momentum will last. In our view, the answer is no, as we expect economic growth to cool to a sub-trend pace starting in the second quarter (Chart 2). Underpinning our forecast is an anticipated slowdown in consumer spending, weighed down by elevated interest rates and a job market that is rapidly cooling.

The Bank of Canada's latest Monetary Policy Report revealed a noteworthy upgrade to the Bank's economic growth projections. Still, policymakers chose to hold the line on rates earlier in the month. This week featured the release of the Bank's Summary of Deliberations, which more fully fleshed out the reasoning behind this decision. The summary struck a more dovish tone than in prior deliberations given recent favourable inflation readings.

That said, there was a desire by policymakers for this improvement to be "sustained" before rates could be cut, although what constitutes "sustained" was not defined. Some Governing Council members emphasized that domestic demand and solid U.S. growth could keep inflation from slowing further. Still, others focused on the progress made in bringing inflation down. All told, the minutes reinforced the view that easing will likely be coming in short order, with June/July still looking like a safe bet for the first move. We'll hear more from Governor Macklem next week when he appears before the Senate banking committee on May 1st.

Exhibits

Recent Key Economic Indicators: Apr 22 - 26, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 23	S&P Global US Composite PMI	Apr	Index	50.9	52.1
Apr 23	S&P Global US Manufacturing PMI	Apr	Index	49.9	51.9
Apr 23	S&P Global US Services PMI	Apr	Index	50.9	51.7
Apr 24	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	0.2	0.4
Apr 24	Durable Goods Orders	Mar	M/M % Chg.	2.6	0.7
Apr 25	Advance Goods Trade Balance	Mar	Blns	-91.80	-90.30
Apr 25	Gross Domestic Product (Annualized)	Q1	Q/Q % Chg.	1.6	3.4
Apr 25	Initial Jobless Claims	Apr 20	Thsd	207.0	212.0
Apr 25	Personal Consumption	Q1	Q/Q % Chg.	2.5	3.3
Apr 25	Pending Home Sales	Mar	M/M % Chg.	3.4	1.6
Apr 26	PCE Core Deflator	Mar	Y/Y % Chg.	2.8	2.8
Apr 26	PCE Deflator	Mar	Y/Y % Chg.	2.7	2.5
Apr 26	Personal Income	Mar	M/M % Chg.	0.5	0.3
Apr 26	Real Personal Spending	Mar	M/M % Chg.	0.5	0.5
Canada					
Apr 22	Industrial Product Price	Mar	M/M % Chg.	0.8	1.1
Apr 24	Retail Sales	Feb	M/M % Chg.	-0.1	-0.3
Apr 24	Retail Sales Ex Auto	Feb	M/M % Chg.	-0.3	0.4
Apr 25	CFIB Business Barometer	Apr	Index	47.5	52.9
Apr 25	Payroll Employment Change (SEPH)	Feb	Thsd	-17.7	39.8
International					
Apr 22	JN Jibun Bank Japan PMI Mfg	Apr	Index	49.9	48.2
Apr 22	JN Jibun Bank Japan PMI Services	Apr	Index	54.6	54.1
Apr 25	JN Tokyo Consumer Price Index	Apr	Y/Y % Chg.	1.8	2.6

*Eastern Standard Time. Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Apr 29 - May 03, 2024

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Apr 30	8:30	Employment Cost Index	1Q	Index	1.0	0.9
Apr 30	9:00	S&P CoreLogic CS US HPI NSA	Feb	Index	-	6.0
Apr 30	9:00	S&P CoreLogic CS 20-City NSA	Feb	Index	-	6.6
Apr 30	10:00	Conf. Board Consumer Confidence	Apr	Index	104.1	104.7
Apr 30	10:00	<i>FOMC Begins Two-Day Meeting</i>				
May 01	8:15	ADP Employment Change	Apr	Thsd	185.0	184.0
May 01	9:45	S&P Global US Manufacturing PMI	Apr	Index	49.9	49.9
May 01	10:00	ISM Manufacturing	Apr	Index	50.1	50.3
May 01	14:00	FOMC Rate Decision (Upper Bound)	May 01	%	5.5	5.5
May 01	14:00	Interest on Reserve Balances Rate	May 02	%	-	5.4
May 01	14:30	<i>Fed Chair Powell Holds Post-Meeting Press Conference</i>				
May 01	15:00	Wards Total Vehicle Sales	Apr	Mlns	15.7	15.5
May 02	8:30	Trade Balance	Mar	Blns	-69.0	-68.9
May 02	8:30	Unit Labor Costs	1Q	Q/Q % Chg.	2.0	0.4
May 02	8:30	Initial Jobless Claims	Apr 27	Thsd	-	207.0
May 02	10:00	Factory Orders	Mar	M/M % Chg.	1.6	1.4
May 02	10:00	Factory Orders Ex Trans	Mar	M/M % Chg.	-	1.1
May 02	10:00	Durable Goods Orders	Mar	M/M % Chg.	-	2.6
May 02	10:00	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	-	0.2
May 03	8:30	Change in Nonfarm Payrolls	Apr	Thsd	250.0	303.0
May 03	8:30	Unemployment Rate	Apr	%	3.8	3.8
May 03	8:30	Average Hourly Earnings	Apr	M/M % Chg.	0.3	0.3
May 03	9:45	S&P Global US Services PMI	Apr	Index	50.9	50.9
May 03	9:45	S&P Global US Composite PMI	Apr	Index	-	50.9
May 03	10:00	ISM Services Index	Apr	Index	52.0	51.4
May 03	19:45	<i>Fed's Goolsbee Participates in Panel Discussion</i>				
Canada						
Apr 30	8:30	Gross Domestic Product	Feb	M/M % Chg.	0.3	0.6
May 01	9:30	S&P Global Canada Manufacturing PMI	Apr	Index	-	49.8
May 02	8:30	Int'l Merchandise Trade	Mar	Blns	1.0	1.4
International						
Apr 29	19:30	Jobless Rate	Mar	%	2.5	2.6
Apr 29	19:50	Retail Sales	Mar	Y/Y % Chg.	2.5	4.7
Apr 29	21:30	Manufacturing PMI	Apr	Index	50.3	50.8
Apr 29	21:45	Caixin China PMI Mfg	Apr	Index	51.0	51.1
Apr 30	5:00	Consumer Price Index Estimate	Apr	Y/Y % Chg.	2.4	2.4
Apr 30	5:00	Gross Domestic Product SA	1Q	Y/Y % Chg.	0.2	0.1
Apr 30	20:30	Jibun Bank Japan PMI Mfg	Apr	Index	-	49.9
May 03	5:00	Unemployment Rate	Mar	%	6.5	6.5

*Eastern Standard Time. Source: Bloomberg, TD Economics.

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.