

The Weekly Bottom Line

May 8, 2020

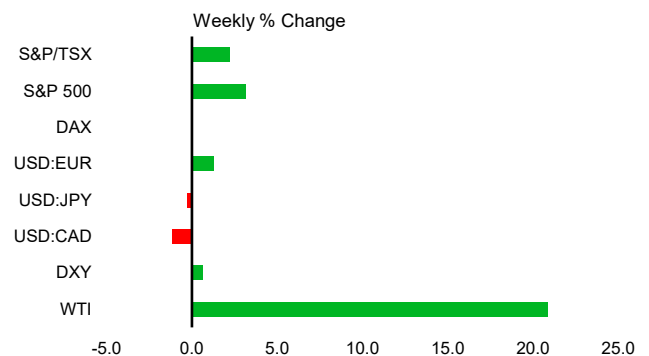
Highlights of the Week

- The start of May ushered in a barrage of sour data reports. The list included a plunge in April vehicle sales and service-sector activity falling into deep contractionary territory as indicated by the ISM non-manufacturing index.
- The most-anticipated report of the week, the jobs report, showed that U.S. payrolls plunged by 20.5 million in April. The unemployment rate skyrocketed to 14.7%. This double-digit rate still undercounts some the pandemic's impact on the labor market, given a surge in the number of Americans not counted in the labor force who currently want a job.
- In a sign that there are some vague lights at the end of the tunnel, initial jobless claims continued to trend down, coming in at 3.2 million last week – about half their late-March peak.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2922	2831	3386	2237
S&P/TSX Comp.	14958	14620	17944	11228
DAX	10904	10862	13789	8442
FTSE 100	5936	5763	7687	4994
Nikkei	20179	19619	24084	16553
Fixed Income Yields				
U.S. 10-yr Treasury	0.65	0.61	2.47	0.54
Canada 10-yr Bond	0.56	0.53	1.76	0.53
Germany 10-yr Bund	-0.54	-0.59	-0.05	-0.86
UK 10-yr Gilt	0.24	0.25	1.14	0.16
Japan 10-yr Bond	0.00	-0.02	0.08	-0.29
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.72	0.71	0.77	0.69
Euro (USD per EUR)	1.08	1.10	1.15	1.07
Pound (USD per GBP)	1.24	1.25	1.33	1.15
Yen (JPY per USD)	106.6	106.9	112.1	102.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	23.9	19.8	63.3	-37.6
Natural Gas (\$US/MMBtu)	1.84	1.69	2.87	1.50
Copper (\$US/met. tonne)	5243.3	5081.0	6270.0	4625.0
Gold (\$US/troy oz.)	1710.6	1700.4	1730.5	1273.3

*As of 1:12 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Oil, Equities Buoyed by Economies' Reopening Plans



Note: Data as of 1:09 PM ET, Friday, May 08, 2020.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets

	Current Target
Federal Reserve (Fed Funds Rate)	0.00 - 0.25%
Bank of Canada (Overnight Rate)	0.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.10%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

TD Economics Key Financial Forecasts

	Current Rate 5/8/20	2019				2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	2.50	2.50	2.00	1.75	0.25	0.20	0.25	0.25	0.25	0.25	0.25	0.50
2-yr Govt. Bond Yield	0.12	2.27	1.75	1.63	1.58	0.23	0.20	0.25	0.35	0.50	0.65	0.80	0.90
10-yr Govt. Bond Yield	0.65	2.41	2.00	1.68	1.92	0.70	0.40	0.60	0.80	1.00	1.20	1.40	1.55
30-yr Govt. Bond Yield	1.36	2.81	2.52	2.12	2.39	1.35	1.10	1.20	1.30	1.40	1.50	1.65	1.80

Forecast by TD Economics as of April 2020; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

Pandemic Wipes Out Nearly All Job Gains Of Past Decade

The start of May ushered in a barrage of bitter news on the data front, with the economic fallout from COVID-19 clearly on display this week. The sour data buffet included a widening of the U.S. trade deficit in March as a decline in exports outweighed that in imports, plunging vehicle sales in April (-24.5% m/m) and the service sector falling into contractionary territory, as indicated by the April ISM non-manufacturing index (-10.7 points to 41.8).

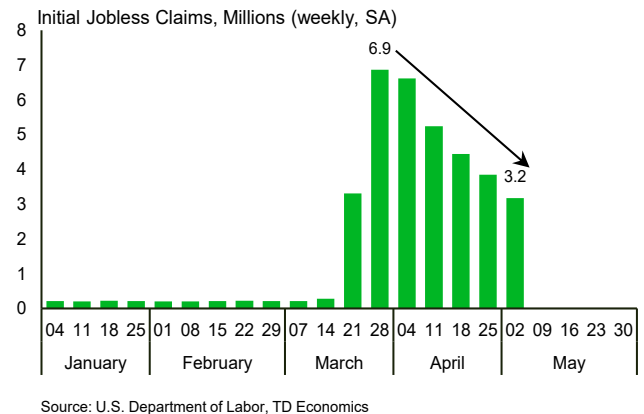
Still, the most-anticipated report of the week, by far, was the jobs report. Like much of everything these days, the April collapse in payrolls marks a new record. The U.S. economy shed a massive 20.5 million jobs last month, as COVID-19 led many businesses to close and lay off staff. Job losses were widespread on a sectoral basis. Unsurprisingly, the consumer-driven leisure and hospitality sector led the decline (-7.7 million or -47% m/m). Together with a downwardly revised March print (-870k), about 97% of all job gains made in the aftermath of the Great Recession have already been wiped out, with payrolls now back to their early-2011 level (Chart 1).

Total employment in the household survey, meanwhile, fell by 22.4 million in April. But, the size of the labor force also pulled back by 6.4 million, as the participation rate plunged 2.5 percentage points to 60.2% – the lowest level since 1973. Putting the pieces together, the number of jobless Americans rose by 15.9 million, while the unemployment rate skyrocketed to 14.7%, blowing past the 10.8% post-WWII record set in 1982. Despite the sharp departure from a jobless rate that was near the lowest level in half a century just recently,

Chart 1: April Job Losses Come in at 20.5 Million, Nearly All Post-Great Recession Gains Wiped out



Chart 2: Initial Jobless Claims Still Elevated, but Continue to Trend Down



the double-digit unemployment rate still undercounts some of the pandemic's impact on the labor market. For instance, the number of Americans not counted in the labor force who currently want a job nearly doubled to 9.9 million in April. If these people were counted as unemployed the unemployment rate would have topped 20%.

Despite all the record-setting negative data, there appear to be some vague lights at the end of the tunnel. Initial jobless claims, while still elevated, have been trending down, coming in at 3.2 million last week – about half their late-March peak (Chart 2). Some states have already eased restrictions in recent weeks and more are set to follow. As more regional economies reopen, the pressures should ease further. Since the majority of the unemployed are reported to be on temporary layoff, businesses may have an easier time restarting operations.

Still, the initial march toward normal will not be a speedy process. On the consumption side for instance, recent evidence suggests that even if businesses reopen, consumers may not feel safe to return to their old spending habits. At the same time, the hit to employment and income will linger, so a tighter grip on the purse strings is likely. In addition, speedy re-openings are also a bit of a double-edged sword, since they increase the risk of a rise in infections. All in all, the economic narrative is likely to remain ugly in the near-term. While there's reason to be optimistic about a gradual turnaround, the way forward hinges on the path of the virus.

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Upcoming Key Economic Releases

U.S. Consumer Price Index - April*

Release Date: May 12

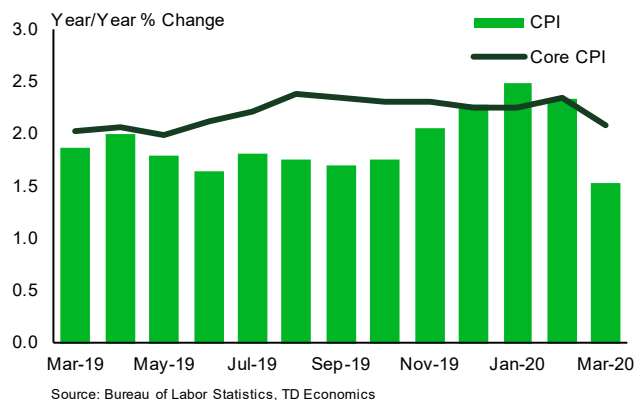
Previous: -0.4% m/m, 1.5% y/y

TD Forecast: -0.7% m/m, 0.5% y/y

Consensus: -0.7% m/m, 0.4% y/y

The overall CPI (forecast: -0.7% m/m) was likely pulled down by a plunge in gasoline prices, but core prices likely fell as well (we forecast: -0.2% m/m). Among core components, the most dramatic weakness will probably be reported for the travel-related parts, most notably airfares, other lodging (basically hotels) and car rental fees. We also expect a decline in apparel prices and some slowing in rents. All in, we expect the annual rates to slow to 0.5% for total CPI and to 1.7% for core.

U.S. Consumer Price Index (CPI)



U.S Retail Sales – April*

Release Date: May 15

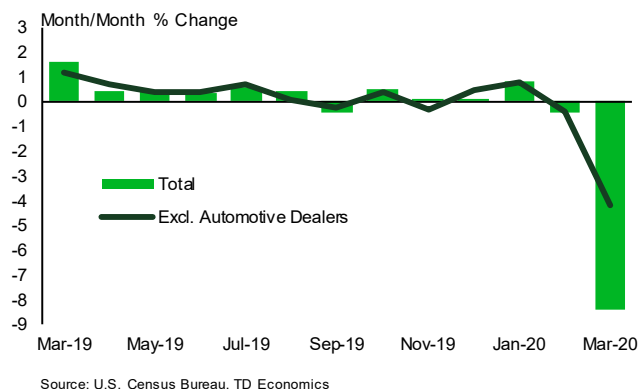
Previous: -8.4% m/m, ex-auto: -4.2%

TD Forecast: -12.5% m/m, ex-auto: -7.0%

Consensus: -11.0% m/m, ex-auto: -8.0%

In general, the April data are likely to show even more weakness than the March data, as the collapse in activity stemming from shutdowns and social distancing did not start until around the middle of March. On the plus side, online consumer spending was probably boosted somewhat in late April by “recovery rebates,” and food and beverage store sales probably remained fairly strong. Overall, though, the report is likely to show another plunge in spending: We forecast down 12.5% m/m after -8.4% in March.

U.S. Retail and Food Services Sales



*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

Recent Key Economic Indicators: May 4 - 8, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
May 4	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	-0.1	0.1
May 4	Durable Goods Orders	Mar	M/M % Chg.	-14.7	-14.4
May 4	Durables Ex Transportation	Mar	M/M % Chg.	-0.4	-0.2
May 4	Factory Orders	Mar	M/M % Chg.	-10.3	-0.1
May 4	Factory Orders Ex Trans	Mar	M/M % Chg.	-3.7	-1.1
May 5	Trade Balance	Mar	Blns	-44.4	-39.8
May 5	Markit US Services PMI	Apr	Index	26.7	27.0
May 5	ISM Non-Manufacturing Index	Apr	Index	41.8	52.5
May 6	ADP Employment Change	Apr	Thsd	20236.0	-149.0
May 7	Initial Jobless Claims	May 2	Thsd	3169.0	3846.0
May 7	Unit Labor Costs	1Q	Q/Q % Chg.	4.8	0.9
May 8	Average Hourly Earnings	Apr	M/M % Chg.	4.7	0.5
May 8	Change in Nonfarm Payrolls	Apr	Thsd	-20500.0	-870.0
May 8	Unemployment Rate	Apr	%	14.7	4.4
May 8	Wholesale Trade Sales	Mar	M/M % Chg.	-5.2	-0.7
Canada					
May 5	Int'l Merchandise Trade	Mar	Blns	-1.4	-1.0
May 8	Housing Starts	Apr	Thsd	171.3	195.2
May 8	Hourly Wage Rate Permanent Employees	Apr	Y/Y % Chg.	10.5	6.1
May 8	Net Change in Employment	Apr	Thsd	-1993.8	-1010.7
May 8	Unemployment Rate	Apr	%	13.0	7.8
International					
May 4	EZ Markit Eurozone Manufacturing PMI	Apr	Index	33.4	33.6
May 6	EZ Retail Sales	Mar	Y/Y % Chg.	-9.2	2.5
May 7	UK Bank of England Bank Rate	May 7	%	0.10	0.10

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 11 - 15, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 12	6:00	NFIB Small Business Optimism	Apr	Index	-	96.4
May 12	10:00	<i>Fed's Harker speaks in Welmington, DE</i>				
May 12	10:00	<i>Fed's Quarles speaks before the Senate Banking Committee in Washington, D.C.</i>				
May 12	15:00	<i>Fed's Mester speaks on monetary policy</i>				
May 12	8:30	Consumer Price Index Ex Food and Energy	Apr	M/M % Chg.	-0.1	-0.1
May 12	8:30	Consumer Price Index Ex Food and Energy	Apr	Y/Y % Chg.	-	2.1
May 12	8:30	Consumer Price Index	Apr	M/M % Chg.	-0.7	-0.4
May 12	8:30	Consumer Price Index	Apr	Y/Y % Chg.	-	1.5
May 12	8:30	Real Avg Hourly Earning	Apr	Y/Y % Chg.	-	1.6
May 13	8:30	Producer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.1	0.2
May 13	8:30	Producer Price Index Final Demand	Apr	M/M % Chg.	-0.4	-0.2
May 14	8:30	Initial Jobless Claims	May 9	Thsd	-	3169.0
May 15	8:30	Empire Manufacturing	May	Index	-	-78.2
May 15	8:30	Retail Sales Advance	Apr	M/M % Chg.	-12.0	-8.4
May 15	8:30	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	-	-2.8
May 15	9:15	Capacity Utilization	Apr	%	60.0	72.7
May 15	9:15	Industrial Production	Apr	M/M % Chg.	-13.3	-5.4
May 15	9:15	Manufacturing (SIC) Production	Apr	M/M % Chg.	-	-6.3
May 15	10:00	Business Inventories	Mar	M/M % Chg.	-0.5	-0.4
May 15		Mortgage Delinquencies	1Q	Q/Q % Chg.	-	3.8
Canada						
May 14	8:30	Manufacturing Sales	Mar	M/M % Chg.	-	0.5
May 14	11:15	Bank of Canada's Financial System Review				
May 15	9:00	Existing Home Sales	Apr	M/M % Chg.	-	-14.3
May 15	10:30	Bank of Canada's Senior Loan Officer Survey				
International						
May 11	21:30	CH Consumer Price Index	Apr	Y/Y % Chg.	3.7	4.3
May 13	4:30	UK Gross Domestic Product	1Q	Y/Y % Chg.	-	1.1
May 14	22:00	CH Retail Sales	Apr	Y/Y % Chg.	-5.9	-15.8
May 15	5:00	EZ Employment	1Q	Y/Y % Chg.	-	1.1
May 15	5:00	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	-	-3.3

Source: Bloomberg, TD Economics.

Disclaimer

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