

The Weekly Bottom Line

April 30, 2021

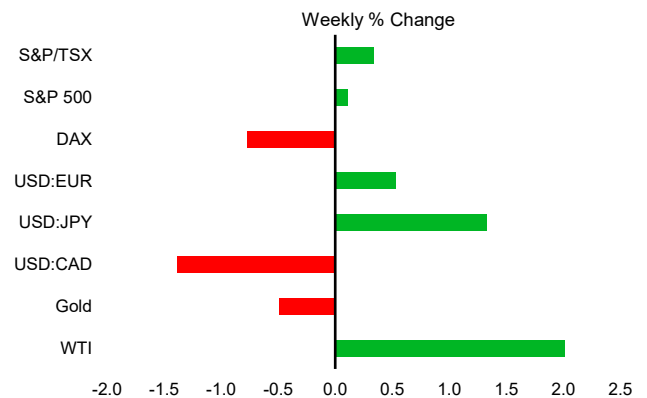
Highlights

- America's economic recovery picked up steam at the start of 2021, with growth accelerating to 6.4% (annualized). Growth was powered by consumption, which expanded by 10.7% (annualized).
- President Biden unveiled the American Families Plan this week. The plan calls for \$1.8 trillion in new spending on childcare, education and paid leave, and would be funded by raising taxes on the wealthiest Americans.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4188	4180	4211	2820
S&P/TSX Comp.	19170	19102	19357	14503
DAX	15136	15280	15460	10337
FTSE 100	6970	6939	7020	5577
Nikkei	28813	29021	30468	19619
Fixed Income Yields				
U.S. 10-yr Treasury	1.63	1.56	1.74	0.51
Canada 10-yr Bond	1.54	1.52	1.61	0.43
Germany 10-yr Bund	-0.20	-0.26	-0.19	-0.64
UK 10-yr Gilt	0.84	0.74	0.88	0.08
Japan 10-yr Bond	0.10	0.07	0.16	-0.03
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.81	0.80	0.81	0.71
Euro (USD per EUR)	1.20	1.21	1.23	1.08
Pound (USD per GBP)	1.38	1.39	1.41	1.21
Yen (JPY per USD)	109.3	107.9	110.7	102.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	63.4	62.2	66.1	18.8
Natural Gas (\$US/MMBtu)	2.86	2.73	15.83	1.35
Copper (\$US/met. tonne)	9889.0	9581.5	9889.0	5081.0
Gold (\$US/troy oz.)	1766.9	1777.2	2063.5	1683.5

*As of 11:56 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Oil Moves Higher on Improving Growth Outlook



Note: Data as of 11:45 AM ET, Friday, April 30, 2021.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
Central Banks	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: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 4/30/21	2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield	0.16	0.23	0.16	0.13	0.13	0.16	0.18	0.20	0.25	0.30	0.35	0.45	0.55
10-yr Govt. Bond Yield	1.63	0.70	0.66	0.69	0.93	1.74	1.60	1.65	1.70	1.75	1.80	1.85	1.90
30-yr Govt. Bond Yield	2.30	1.35	1.41	1.46	1.65	2.41	2.30	2.35	2.40	2.45	2.50	2.50	2.50

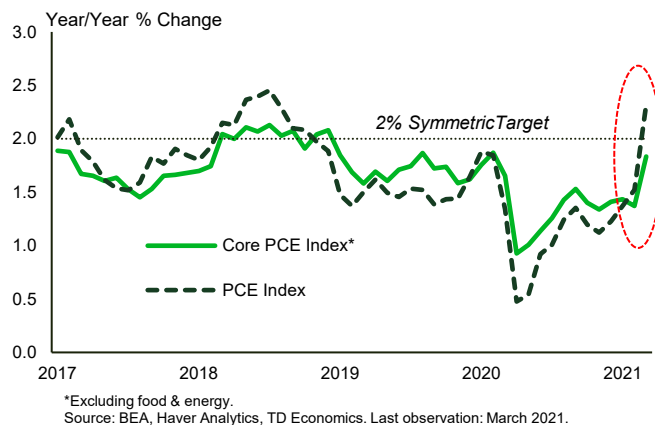
Forecast by TD Economics as of March 2021; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

Economic Recovery Picks Up Pace

America's economic recovery picked up steam at the start of this year. The advance GDP report showed that the economy expanded at a robust pace of 6.4% (annualized) in the first quarter – slightly ahead of market expectations. The gain was fueled by a subsiding health crisis and the latest dose of fiscal stimulus. Powering growth was consumption, which expanded at 10.7% (annualized), while fixed investment and government spending also lent a hand. Overall consumption is now back at the pre-pandemic level, but this is largely the result of a surge in goods spending (Chart 1). Spending on services meanwhile, remains roughly 6% below its pre-pandemic level.

This morning's personal income and spending report adds additional color to recent economic momentum. Supported by the injection of federal cash into the wallets of consumers (i.e. the \$1,400 stimulus checks issued recently), real disposable income rose a whopping 23% in March, while real spending rose 3.6%. Momentum in consumer spending is solid heading into the second quarter thanks to improving consumer confidence and an appetite to spend some of the accumulated savings, which are now almost \$2.9 trillion above the pre-crisis level. With vaccinations continuing at a rapid pace, the pandemic's grip on the American economy will loosen further. This will allow more leisure and hospitality establishments to turn on the lights and welcome back customers, and should be an important tailwind for services spending.

Chart 2: Fed's Preferred Inflation Gauge, Core PCE, Rose to 1.8% Year-over-year in March

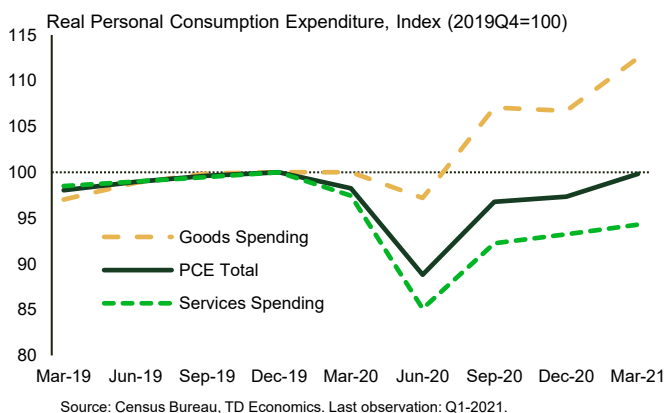


At the same time, inflation is picking up steam. The personal consumption expenditure price index accelerated sharply to 2.3% year-over-year in March, with higher energy prices the main lift. Meanwhile, the Fed's preferred measure of inflation, core PCE, rose to 1.8% in March (Chart 2). We expect inflation to continue moving higher in the near-term, partly due to an improving demand backdrop and partly due to transient base effects.

Strong growth and rising inflation would typically nudge the central bank to start thinking about raising rates. But, Federal Reserve Chair Jay Powell gave no hint of this at his press conference this week, instead continuing his cautions tone that the economy still has a long way to go. Given that recent data has continued to come in well ahead of expectations, the Fed is likely to end up hiking rates before their current communication would suggest. We expect the first hike in the final quarter of 2022 (see [Dollars & Sense](#)).

Keeping with the theme of above-expectation economic growth, recent policy initiatives proposed by President Biden also pose upside risk to the forecast. This week, the President unveiled the American Families Plan, which calls for \$1.8 trillion in new spending on childcare, education and paid leave. The plan would be largely paid for with higher taxes on the wealthiest Americans. As of now, it remains unclear what exactly will pass and when, but given their size, they are an item that we will be keeping a close eye on.

Chart 1: Real Consumer Spending Is Back at Pre-crisis Level, but Services Spending Lags



Admir Kolaj, Economist | 416-944-6318

Recent Key Economic Indicators: Apr 26 - 30, 2021					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 26	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	0.9	-0.8
Apr 26	Durable Goods Orders	Mar	M/M % Chg.	0.5	-0.9
Apr 27	S&P CoreLogic CS US HPI NSA	Feb	Y/Y % Chg.	12.0	11.2
Apr 27	Conf. Board Consumer Confidence	Apr	Index	121.7	109.0
Apr 28	Advance Goods Trade Balance	Mar	Blns	-90.6	-87.1
Apr 28	FOMC Rate Decision (Upper Bound)	Apr 28	%	0.25	0.25
Apr 29	Core Personal Consumption Expenditure	1Q	Q/Q % Chg.	2.3	1.3
Apr 29	Gross Domestic Product Annualized	1Q	Q/Q % Chg.	6.4	4.3
Apr 29	Initial Jobless Claims	Apr 24	Thsd	553.0	566.0
Apr 29	Personal Consumption	1Q	Q/Q % Chg.	10.7	2.3
Apr 29	Pending Home Sales	Mar	M/M % Chg.	1.9	-11.5
Apr 30	Employment Cost Index	1Q	Q/Q % Chg.	0.9	0.7
Apr 30	Personal Consumption Expenditure Deflator	Mar	Y/Y % Chg.	2.3	1.5
Apr 30	Personal Income	Mar	M/M % Chg.	21.1	-7.0
Apr 30	Real Personal Spending	Mar	M/M % Chg.	3.6	-1.2
Canada					
Apr 28	Retail Sales	Feb	M/M % Chg.	4.8	0.0
Apr 28	Retail Sales Ex Auto	Feb	M/M % Chg.	4.8	-0.1
Apr 29	CFIB Business Barometer	Apr	Index	63.4	68.2
Apr 30	Gross Domestic Product	Feb	M/M % Chg.	0.4	0.7
Apr 30	Industrial Product Price	Mar	M/M % Chg.	1.6	2.6
International					
Apr 27	JN Retail Sales	Mar	Y/Y % Chg.	5.2	-1.5
Apr 27	JN BOJ Policy Balance Rate	Apr 27	%	-0.10	-0.10
Apr 29	JN Jobless Rate	Mar	%	2.6	2.9
Apr 29	JN Tokyo Consumer Price Index	Apr	Y/Y % Chg.	-0.6	-0.2
Apr 29	JN Jibun Bank Japan PMI Mfg	Apr	Index	53.6	53.3
Apr 29	CH Manufacturing PMI	Apr	Index	51.1	51.9
Apr 30	EZ Consumer Price Index Estimate	Apr	Y/Y % Chg.	1.6	1.3
Apr 30	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	-1.8	-4.9
Apr 30	EZ Unemployment Rate	Mar	%	8.1	8.2
Apr 30	MX Gross Domestic Product NSA	1Q	Y/Y % Chg.	-3.8	-4.3

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 3 - 7, 2021						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 3	9:45	Markit US Manufacturing PMI	Apr	Index	60.7	60.6
May 3	10:00	ISM Manufacturing	Apr	Index	65.0	64.7
May 3	14:20	<i>Fed Chair Powell Speaks on Community Development</i>				
May 3		Wards Total Vehicle Sales	Apr	Mlns	17.5	17.8
May 4	8:30	Trade Balance	Mar	Blns	-74.0	-71.1
May 4	10:00	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	-	0.9
May 4	10:00	Durable Goods Orders	Mar	M/M % Chg.	-	0.5
May 4	10:00	Factory Orders	Mar	M/M % Chg.	1.5	-0.8
May 4	10:00	Factory Orders Ex Trans	Mar	M/M % Chg.	1.8	-0.6
May 4	13:00	<i>Fed's Daly Speaks to Economic Club of Minnesota</i>				
May 5	8:15	ADP Employment Change	Apr	Thsd	863.0	517.0
May 5	9:30	<i>Fed's Evans Speaks on Economy on Monetary Policy</i>				
May 5	9:45	Markit US Services PMI	Apr	Index	63.1	63.1
May 5	10:00	ISM Services Index	Apr	Index	64.2	63.7
May 5	12:00	<i>Fed's Mester Speaks to Boston Economic Club</i>				
May 6	8:30	Initial Jobless Claims	May 1	Thsd	540.0	553.0
May 6	8:30	Unit Labor Costs	1Q	Q/Q % Chg.	-1.0	6.0
May 6	10:00	<i>Fed's Kaplan Takes Part in Moderated Q&A</i>				
May 6	13:00	<i>Fed's Mester Speaks at UC Santa Barbara Event</i>				
May 6	16:00	<i>Fed to Release May 2021 Financial Stability Report</i>				
May 7	8:30	Average Hourly Earnings	Apr	M/M % Chg.	0.0	-0.1
May 7	8:30	Change in Nonfarm Payrolls	Apr	Thsd	950.0	916.0
May 7	8:30	Unemployment Rate	Apr	%	5.8	6.0
May 7	10:00	Wholesale Trade Sales	Mar	M/M % Chg.	-	-0.8
Canada						
May 3	9:30	Markit Canada Manufacturing PMI	Apr	Index	-	58.5
May 4	8:30	Int'l Merchandise Trade	Mar	Blns	-	1.0
May 7	8:30	Net Change in Employment	Apr	Thsd	-	303.1
May 7	8:30	Unemployment Rate	Apr	%	-	7.5
International						
May 3	4:00	EZ Markit Eurozone Manufacturing PMI	Apr	Index	63.3	63.3
May 4	4:30	UK Markit UK PMI Manufacturing SA	Apr	Index	60.7	60.7
May 6	5:00	EZ Retail Sales	Mar	Y/Y % Chg.	9.4	-2.9
May 6	7:00	UK Bank of England Bank Rate	May 6	%	0.10	0.10

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

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