

The Weekly Bottom Line

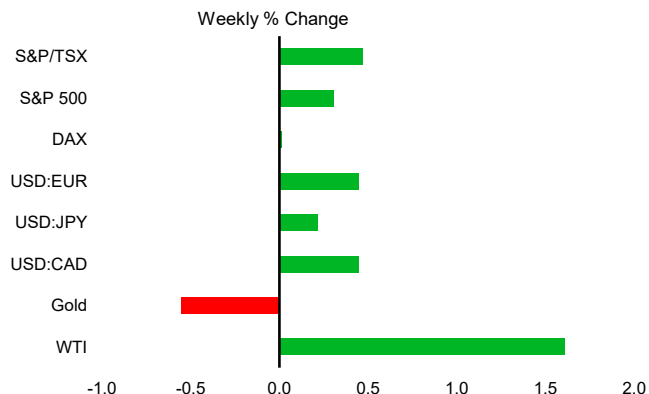
June 11, 2021

- Consumer price inflation accelerated to 5.0% year-on-year (y/y) in May, once again coming in ahead of expectations. Soaring prices for used cars and trucks (up 30% y/y) were a major factor in higher inflation in the month.
- Job openings continue to soar, rising to 9.3 million in the latest April data. There are now as many job openings as unemployed people in America.
- The Federal Open Market Committee meets to deliberate monetary policy next week. No change in policy is expected but look for migration higher in economic, inflation and interest rate forecasts.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4239	4230	4239	3002
S&P/TSX Comp.	20118	20029	20118	15051
DAX	15684	15693	15693	11556
FTSE 100	7134	7069	7134	5577
Nikkei	28949	28942	30468	21531
Fixed Income Yields				
U.S. 10-yr Treasury	1.46	1.55	1.74	0.51
Canada 10-yr Bond	1.38	1.46	1.61	0.43
Germany 10-yr Bund	-0.27	-0.21	-0.10	-0.64
UK 10-yr Gilt	0.71	0.79	0.90	0.08
Japan 10-yr Bond	0.04	0.09	0.16	0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.82	0.83	0.83	0.73
Euro (USD per EUR)	1.21	1.22	1.23	1.12
Pound (USD per GBP)	1.41	1.42	1.42	1.23
Yen (JPY per USD)	109.8	109.5	110.7	102.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	70.2	69.6	70.3	35.8
Natural Gas (\$US/MMBtu)	3.11	2.97	15.83	1.35
Copper (\$US/met. tonne)	9863.0	9939.5	10448.5	5678.8
Gold (\$US/troy oz.)	1882.0	1891.6	2063.5	1683.5

*As of 10:24 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 Data Mean Another Good Week for Equities, USD & Oil



Note: Data as of 10:18 AM ET, Friday, June 11, 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 6/11/21	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	0.15	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	1.46	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	2.15	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.

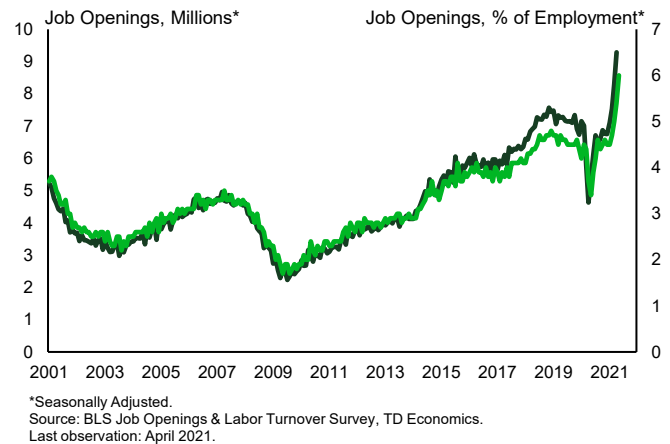
U.S. - Fed Meets as Inflation and Job Openings Soar

The Federal Open Market Committee meets next week and will have a lot to mull over as it determines its next policy steps. Since August of last year, the Fed has been aiming to push inflation above 2% – not for its own sake, but to allow the labor market to fully recover from the shock of the pandemic. Inflation has now pushed well above 2% – headline CPI hit 5% year-on-year (y/y) in May of this year – but the labor market is still far from full recovery – in the same month, employment was 7.6 million (5.0%) below its pre-pandemic level in February of last year.

Fed officials have beaten a consistent drum that the acceleration in price growth is “transitory” and reflects the unique circumstances of an economy emerging from a one in one hundred year health shock. They point to the out-sized gains in used vehicle prices (Chart 1). Vehicle demand has risen due to the lack of public transit alternatives and supply has fallen as production of new vehicles was stymied first by the pandemic and then by shortages of semiconductors (whose demand also skyrocketed).

Alongside fiscal stimulus, monetary policy has certainly helped to bring demand back to the economy. The challenge is that increasingly, what appears to be holding back the labor market is not a lack of demand, but of supply. The disappointing pace of job growth over the past two months cannot be chalked up to a lack of employer demand. Job openings in April rose to 9.3 million, the highest level on record and over 20% above its pre-crisis peak (Chart 2). There is now effectively a job opening for every unemployed person, the best ratio since January 2020, when the

Chart 2: Job Openings Rise to Record Level



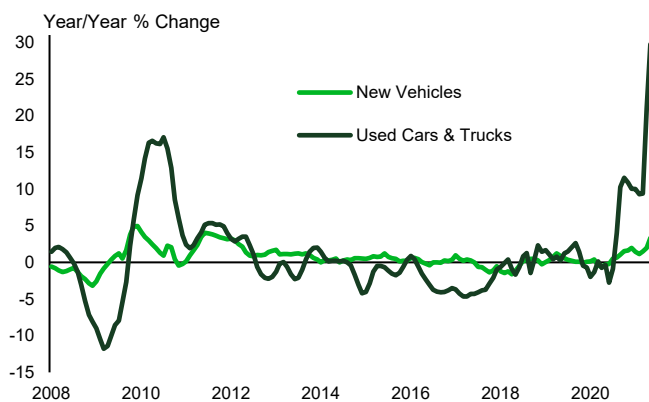
unemployment rate was just 3.5%. Rather, the challenge is that for a number of reasons people are either reluctant or unable to fill those jobs.

This is not to suggest that the Fed should raise interest rates next week or even a year from now. Low interest rates may not solve the supply challenges, but tightening financial conditions could worsen them. The hope is that as the pandemic ends, many of the supply-side constraints will solve themselves. For example, people will be more inclined to take jobs that require close interaction with others. Still, some of the delay in returning to full employment likely reflects deeper reallocation challenges. People who have moved from waiting tables to delivering online orders may not want to go back to their old positions. Or the jobs they used to do may simply not exist in the new digital economy.

In parsing future Fed decisions, look to the evolution of their forecasts. Fed members will clearly have to adjust their near-term inflation views, but longer-term views will be more informative. Similarly, on the economic front, the near-term is likely to see more improvement, but with an increasing chance of even more fiscal stimulus down the road – the Senate this week showed their ability to pass funding for infrastructure when the logic is keeping up with China – upgrades in future years could also come with higher expectations for the federal funds rate.

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Chart 1: Used Vehicle Prices Continue to Accelerate



Recent Key Economic Indicators: June 7 - 11, 2021					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jun 8	NFIB Small Business Optimism	May	Index	99.6	99.8
Jun 8	Trade Balance	Apr	Blns	-68.9	-75.0
Jun 9	Wholesale Trade Sales	Apr	M/M % Chg.	0.8	4.3
Jun 10	Consumer Price Index	May	M/M % Chg.	0.6	0.8
Jun 10	Consumer Price Index Ex Food and Energy	May	M/M % Chg.	0.7	0.9
Jun 10	Consumer Price Index	May	Y/Y % Chg.	5.0	4.2
Jun 10	Consumer Price Index Ex Food and Energy	May	Y/Y % Chg.	3.8	3.0
Jun 10	Initial Jobless Claims	Jun 5	Thsd	376.0	385.0
Canada					
Jun 8	Int'l Merchandise Trade	Apr	Blns	0.6	-1.4
Jun 9	Bank of Canada Rate Decision	Jun 9	%	0.25	0.25
International					
Jun 7	JN Gross Domestic Product Annualized SA	1Q	Q/Q % Chg.	-3.9	-5.1
Jun 8	EZ Employment	1Q	Y/Y % Chg.	-1.8	-2.1
Jun 8	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	-1.3	-1.8
Jun 8	CH Consumer Price Index	May	Y/Y % Chg.	1.3	0.9
Jun 10	EZ ECB Main Refinancing Rate	Jun 10	%	0.00	0.00
Jun 11	UK Monthly Gross Domestic Product (3M/3M)	Apr	M/M % Chg.	1.5	-1.5

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jun 14 - 18, 2021

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jun 15	8:30	Empire Manufacturing	Jun	Index	22.0	24.3
Jun 15	8:30	Producer Price Index Ex Food and Energy	May	M/M % Chg.	0.5	0.7
Jun 15	8:30	Producer Price Index Final Demand	May	M/M % Chg.	0.5	0.6
Jun 15	8:30	Retail Sales Advance	May	M/M % Chg.	-0.5	0.0
Jun 15	8:30	Retail Sales Ex Auto and Gas	May	M/M % Chg.	0.0	-0.8
Jun 15	9:15	Capacity Utilization	May	%	75.1	74.6
Jun 15	9:15	Industrial Production	May	M/M % Chg.	0.6	0.5
Jun 15	9:15	Manufacturing (SIC) Production	May	M/M % Chg.	0.7	0.4
Jun 15	10:00	Business Inventories	Apr	M/M % Chg.	-0.1	0.3
Jun 15	10:00	NAHB Housing Market Index	Jun	Index	83.0	83.0
Jun 16	8:30	Building Permits	May	Thsd	1730.0	1733.0
Jun 16	8:30	Housing Starts	May	Thsd	1640.0	1569.0
Jun 16	14:00	FOMC Rate Decision (Upper Bound)	Jun 16	%	0.25	0.25
Jun 16	14:30	<i>Powell Holds Press Conference Following FOMC Meeting</i>				
Jun 17	8:30	Initial Jobless Claims	Jun 12	Thsd	360.0	376.0
Canada						
Jun 14	8:30	Manufacturing Sales	Apr	M/M % Chg.	-	3.5
Jun 15	8:15	Housing Starts	May	Thsd	-	268.6
Jun 15	9:00	Existing Home Sales	May	M/M % Chg.	-	-12.5
Jun 16	8:30	Consumer Price Index	May	Y/Y % Chg.	-	3.4
Jun 16	8:30	Consumer Price Index NSA	May	M/M % Chg.	-	0.5
Jun 16	8:30	Wholesale Trade Sales	Apr	M/M % Chg.	-	2.8
Jun 16	18:30	<i>BoC's Macklem Speaks at Senate Committee on Banking, Trade and Commerce via Webcast</i>				
International						
Jun 15	2:00	UK ILO Unemployment Rate 3Mths	Apr	%	4.7	4.8
Jun 15	22:00	CH Retail Sales	May	Y/Y % Chg.	14.0	17.7
Jun 15	22:00	CH Surveyed Jobless Rate	May	%	5.1	5.1
Jun 16	2:00	UK Consumer Price Index	May	Y/Y % Chg.	1.8	1.5
Jun 17	5:00	EZ Consumer Price Index	May	Y/Y % Chg.	2.0	1.6
Jun 17	19:30	JN Natl Consumer Price Index	May	Y/Y % Chg.	-0.2	-0.4
Jun 18	2:00	UK Retail Sales Ex Auto Fuel	May	Y/Y % Chg.	27.1	37.7
Jun 18		JN BOJ Policy Balance Rate	Jun 18	%	-	-0.10

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

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