

## The Weekly Bottom Line

February 26, 2021

### Highlights of the Week

#### United States

- Federal Reserve Chairman Powell reassured markets that there will be no early tightening of monetary policy or draw-down of asset purchases even with a brighter economic outlook.
- Consumers remain at the forefront of the recovery, as personal income surges and spending rebounds on the back of income support measures.
- Jobless claims fell more than expected this week but remain three times higher than pre-pandemic levels.

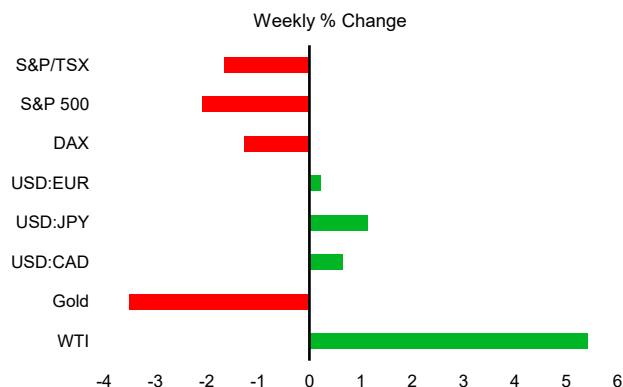
#### Canada

- The AstraZeneca vaccine was approved by Health Canada, with doses expected to arrive as early as March.
- In a speech this week, Bank of Canada Governor, Tiff Macklem, struck a cautious tone on the economic outlook, reiterating the Bank's forecast for economic activity to remain below potential until 2023.
- Data this week were generally positive, with the Survey of Employment, Payrolls, and Hours (SEPH) painting an improving picture of last December's jobs market, small business confidence climbing in February, and investment spending intentions for 2021 rising.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	3842	3907	3935	2237
S&P/TSX Comp.	18130	18384	18493	11228
DAX	13757	13993	14109	8442
FTSE 100	6469	6624	6873	4994
Nikkei	28966	30018	30468	16553
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	1.51	1.34	1.52	0.51
Canada 10-yr Bond	1.47	1.21	1.47	0.43
Germany 10-yr Bund	-0.25	-0.31	-0.19	-0.86
UK 10-yr Gilt	0.83	0.70	0.83	0.08
Japan 10-yr Bond	0.16	0.11	0.16	-0.16
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.79	0.79	0.80	0.69
Euro (USD per EUR)	1.21	1.21	1.23	1.07
Pound (USD per GBP)	1.40	1.40	1.41	1.15
Yen (JPY per USD)	106.7	105.5	111.2	102.4
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	62.5	59.2	63.6	-37.6
Natural Gas (\$US/MMBtu)	2.76	4.87	15.83	1.35
Copper (\$US/met. tonne)	9456.3	8946.8	9456.3	4625.0
Gold (\$US/troy oz.)	1722.8	1784.3	2063.5	1471.2

\*As of 11:45 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

### Blame Rising Yields for the Drop in Equities and Gold



Note: Data as of 11:30 AM ET, Friday, February 26, 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.

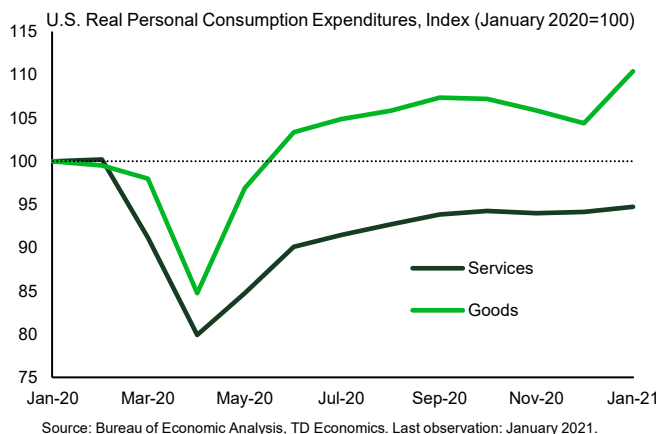
## U.S. – The American Consumer is Back

For a change, the S&P 500 did not have the best week. As of writing, it was down 2.4% compared to last week's close. Blame the Treasury yield. The 10-year Treasury yield hit the highest point in a year amid a more upbeat global economic outlook and rising concerns over inflation. The decline in equities was primarily led by large cap technology stocks, which have so far made major gains during the crisis. Still, the S&P 500 is 3% higher than where it was at the start of this year.

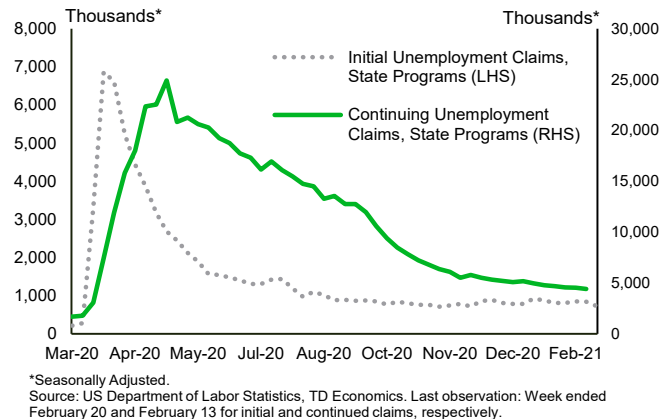
On the monetary policy front, the Federal Reserve's Chairman Powell probably had the most optimistic assessment of the economy since the start of the pandemic. He told Congress that there was "hope for a return to more normal conditions". Still, Powell signaled he is in no rush to tighten monetary policy or drawdown asset purchases even with a brighter economic outlook. The Chairman also reassured markets on the inflation front. He said that inflation dynamics do "not change on a dime" and that "the economy is a long way from our employment and inflation goals".

In terms of economic data, personal income surged by 10% month-on-month in January, in line with market expectations. The strength was primarily due to the 52.6% increase in social benefits which include stimulus checks and expanded unemployment insurance benefits. Meanwhile, personal spending rose by 2.4% and was led primarily by goods which went up 5.8% (Chart 1). The rise in goods spending was seen across the board, with recreational goods and vehicles driving most of the gains. The services sector also showed resilience, eking out a 0.7% growth in

**Chart 1: Goods Spending Starts the Year on a High Note**



**Chart 2: Unemployment Claims Are Falling, but Remain Above Pre-pandemic Levels**



spending. Gains were mostly led by food services and accommodation, the industry which has been in the line of fire right from the outset of this pandemic.

Turning to the labor market, jobless claims fell far more than expected (Chart 2). Initial claims came in at 730k, down 111k from the prior week, and beating the consensus of 825k. This was the largest weekly drop since the end of August. But not all states performed the same. California and Ohio registered the biggest declines while Illinois and Missouri recorded notable growth. Continuing claims came in at 4.4 million, 41k less than the consensus and down 0.1 million from the week before. Still, both claims are almost three times higher than their pre-pandemic levels. The labor market remains the weak link in an otherwise stronger-than-expected start to the new year for the economy.

Meanwhile, revisions to the second GDP release were relatively minor. The economy grew 4.1% annualized in the final quarter of last year, slightly higher than the initial estimate of 4.0%. Government and household spending were both revised down 0.1 ppts. Meanwhile, non-residential fixed investment was adjusted up 0.2 ppts, driven by stronger spending on equipment and intellectual property products. Residential investment was also revised higher by 0.1 ppts. Given the relatively minor adjustments to the quarterly data, there were no changes to the annual GDP, which shrank 3.5%.

Sohaib Shahid, Senior Economist | 416-982-2556

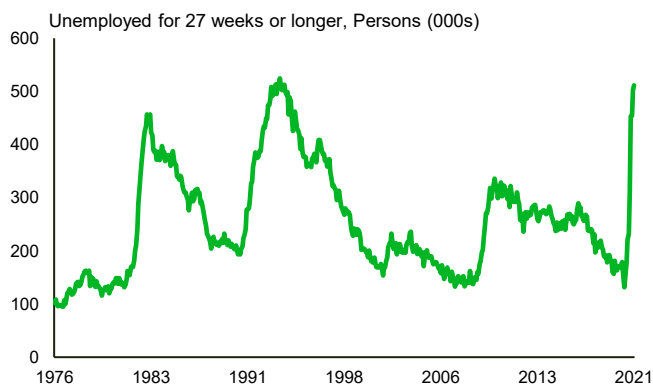
## Canada - BoC Governor Strikes Cautious Tone

It was an up-and-down week for the TSX. Like other North American equity markets, the index was bolstered by Fed Chairman Powell's two-day testimony to Congress, where he gave assurances that monetary policy will continue to nurture the recovery through low rates and asset purchases. However, these gains were on track to be undone on Friday, due in part to some late-week retracement in energy prices. Indeed, as of writing, WTI prices had given back some of the early-week gains. The end of the week also brought some positive news, as Canada approved the use of the AstraZeneca COVID-19 vaccine. Some 20 million doses of the vaccine have been procured and up to 500 thousand doses could arrive as early as March.

Bank of Canada Governor Macklem also spoke this week, striking a similarly cautious tone to his U.S. counterpart. His comments focused on the job market, noting that over a half a million Canadians have been out of work and actively looking for a job for longer than 26 weeks (Chart 1). This is the highest number in nearly 30 years. He also reiterated the Bank's forecast that the output gap will close only in 2023 and that monetary policy will likely need to remain accommodative for a considerable period.

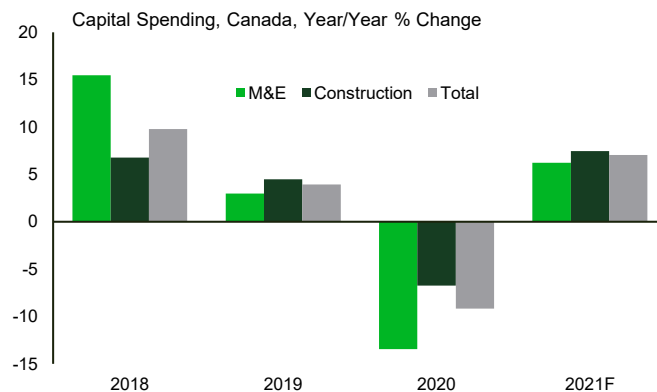
On the data front, the week was relatively light on releases, although not completely devoid. The backward-looking Survey of Employment, Payrolls and Hours (SEPH) for December was released. Although jobs tallies reported by this survey lag the timelier Labour Force Survey, they are nonetheless important because of the predictive value they hold for monthly GDP growth. Employment increased 0.3% in December by this measure, providing some positive news

**Chart 1: A Lengthy Bout of Unemployment for Many Canadians Raises the Risk of Job Market "Scarring"**



Source: Statistics Canada, TD Economics. Last observation: January 2021.

**Chart 2: Capital Spending Expected to Rise This Year After a Weak 2020 Performance**



Source: Statistics Canada, TD Economics.

for next week's December GDP report. However, disappointing retail, wholesale and manufacturing sales reports suggest some downside risk to Statcan's flash estimate of a 0.3% monthly gain.

Other data released this week offered a timelier picture of activity. The February CFIB small business confidence report revealed that optimism about the next 12 months was the highest it's been since early 2018. Confidence in the near-term outlook also increased but remained low, reflecting falling COVID-19 cases and the attendant easing restrictions. In a separate release, Statistics Canada revealed that firms of all sizes expect to boost their capital spending by 7.0% this year. Spending on construction activities is forecast to fully recapture last year's losses. However, machinery and equipment expenditures are expected to only partially recoup 2020's weakness.

All told, we agree with Governor Macklem's assessment that full recovery is still a long-ways away, but progress is definitely being made. Indeed, the SEPH survey painted a better picture of December's jobs market, small business optimism is on the rise (albeit vulnerable to the path of the virus), and the government will do its part to bolster capital spending this year. Vaccine approval is similarly encouraging. Despite a lower clinical efficacy than those currently in use, and some international debate as to its appropriateness for the older population, the AstraZeneca jab has the potential to give the economic recovery a proverbial shot in the arm.

Rishi Sondhi, Economist | 416-983-8806

## U.S.: Upcoming Key Economic Releases

### U.S. ISM Services Index- February\*

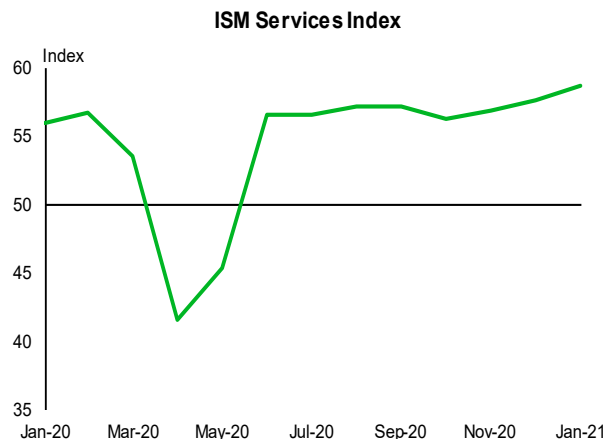
Release Date: Mar 1, 3, 2020

Previous: Manufacturing 58.7; Services 58.7

TD Forecast: Manufacturing 59.5; Services 58.7

Consensus: Manufacturing 58.6; Services 58.7

Business surveys already reported for February have generally been as strong, or stronger, than the surveys for January, consistent with high readings again for the ISM indexes; we forecast a rise in the manufacturing index and no change in the services index. Survey readings are likely being boosted by optimism about COVID and fiscal stimulus.



Source: Institute for Supply Management, TD Economics.

### U.S. Employment - February\*

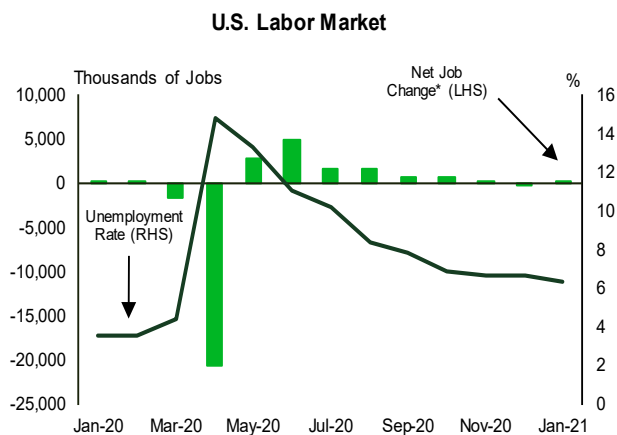
Release Date: March 5, 2020

Previous: NFP 49k; UE rate 6.3%; AHE 0.2% m/m, 5.4% y/y

TD Forecast: NFP 300k; UE rate 6.3%; AHE 0.2% m/m, 5.3% y/y

Consensus: NFP 145k, UE rate 6.4%; AHE 0.2% m/m, 5.3% y/y

The employment data have been much weaker than the spending data and the survey data over the last two months, with payrolls up just 49k in January after declining by 227k in December, but the February report will probably show momentum starting to pick up again. More improvement is likely as COVID restrictions are eased further. Recovery will likely take a while; payrolls are down by 9.9mn since last February (pre-COVID). The unemployment rate is officially 6.3%, but we estimate



Seasonally-Adjusted Data; \*Change in Non-Farm Payrolls  
Source: U.S. Department of Labor, TD Economics.

a 9.7% rate after adjusting for a COVID-related decline in the participation rate as well as lingering classification issues.

\*Forecast by Rates and FX Strategy Group. For further information, contact [TDRates&FXCommoditiesResearch@tdsecurities.com](mailto:TDRates&FXCommoditiesResearch@tdsecurities.com)

## Canada: Upcoming Key Economic Releases

### Canadian Real GDP – Q4 & Dec\*

Real GDP – Q4 & Dec

Release Date: March 2

Previous: 40.5% q/q, 0.7% m/m

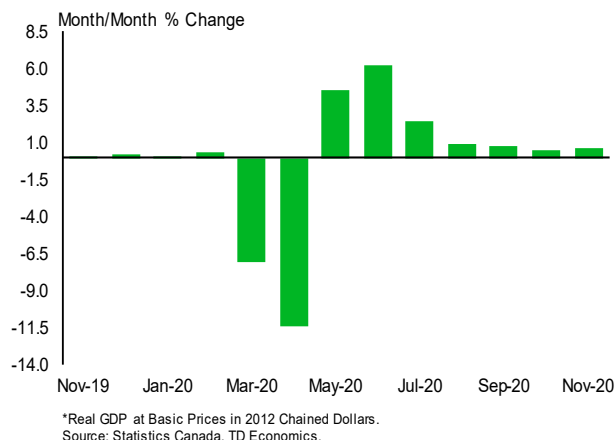
TD Forecast: 7.5% q/q, 0.0% m/m

Consensus: 7.2% q/q, 0.1% m/m

The Canadian economy continued on the road to recovery in the fourth quarter of last year. GDP likely rose by 7.5% (annualized) as consumers and businesses better adapted to the challenges posed by the pandemic. Firms conducted more business online and households spent a record amount through e-commerce platforms. Moreover, Canada’s housing market continued to run red hot, with residential investment poised to advance 10% in the fourth quarter. Still, surging caseloads and tougher restrictions likely weakened economic activity towards the end of the quarter. While provinces are gradually easing restrictions, and activity is picking up, the emergence of more contagious COVID-19 variants, and the slower-than-expected vaccine rollout, could yet force future lockdown measures. It will be a bumpy road ahead for the Canadian economy.

While Q4 has shaped up to be stronger than expected, we look for a more muted performance into year-end with

Canadian Real GDP\*



industry-level GDP forecast to remain unchanged in December. This is well below StatCan tracking for 0.3% m/m and while these estimates have proven conservative thus far, service sector headwinds will exert a sizeable drag in December. We anticipate a pullback in retail and wholesale trade along with further declines in heavily affected areas like arts/recreation and food services, while energy will be one of few bright spots on the continued recovery in crude oil production. New flash estimates for January warrant attention alongside the December results as more stringent lockdowns across Eastern Canada are expected weigh heavily on economic activity.

### International Trade – January\*

Release Date: March 5, 2020

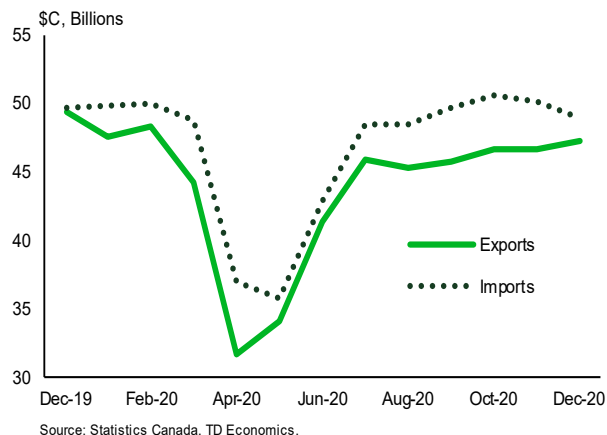
Previous: -\$1.67bn

TD Forecast: -\$2.0bn

Consensus: -\$1.4bn

We look for the international trade deficit to edge wider to \$2.0bn in January as a temporary hit to auto production weighs on total exports, while imports should see a muted rebound from their 2.5% decline last month. Looking past motor vehicles we look for a solid performance for ex-auto exports, consistent with strong foreign demand as industrial activity continues to recover south of the border. However, volumes should paint a more downbeat picture with nominal exports supported by a surge in factory prices.

Canadian International Merchandise Trade



\*Forecast by Rates and FX Strategy Group. For further information, contact [TDRates&FXCommoditiesResearch@tdsecurities.com](mailto:TDRates&FXCommoditiesResearch@tdsecurities.com)

Recent Key Economic Indicators: Feb 22 - 26, 2021					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Feb 23	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	10.4	9.5
Feb 23	Conf. Board Consumer Confidence	Feb	Index	91.3	88.9
Feb 24	New Home Sales	Jan	Thsd	923.0	885.0
Feb 25	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.5	1.5
Feb 25	Core Personal Consumption Expenditure	4Q	Q/Q % Chg.	1.4	1.4
Feb 25	Durable Goods Orders	Jan	M/M % Chg.	3.4	1.2
Feb 25	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	4.1	4.0
Feb 25	Initial Jobless Claims	Feb 20	Thsd	730.0	841.0
Feb 25	Personal Consumption	4Q	Q/Q % Chg.	2.4	2.5
Feb 25	Pending Home Sales	Jan	M/M % Chg.	-2.8	0.5
Feb 26	Advance Goods Trade Balance	Jan	Blns	-83.7	-83.2
Feb 26	Personal Consumption Expenditure Core Deflator	Jan	Y/Y % Chg.	1.5	1.4
Feb 26	Personal Consumption Expenditure Deflator	Jan	Y/Y % Chg.	1.5	1.3
Feb 26	Personal Income	Jan	M/M % Chg.	10.0	0.6
Feb 26	Real Personal Spending	Jan	M/M % Chg.	2.0	-0.8
<b>Canada</b>					
Feb 25	CFIB Business Barometer	Feb	Index	62.5	58.7
Feb 26	Industrial Product Price	Jan	M/M % Chg.	2.0	1.5
<b>International</b>					
Feb 23	UK ILO Unemployment Rate 3Mths	Dec	%	5.1	5.0
Feb 23	EZ Consumer Price Index	Jan	Y/Y % Chg.	0.9	0.9
Feb 25	MX Gross Domestic Product NSA	4Q	Y/Y % Chg.	-4.3	-4.5
Feb 25	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	-0.3	-0.5
Feb 25	JN Retail Sales	Jan	Y/Y % Chg.	-2.4	-0.2
Feb 26	IN Gross Domestic Product	4Q	Y/Y % Chg.	0.4	-7.3

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Mar 1 - 5, 2021						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Mar 1	9:00	<i>Fed's Williams Makes Opening Remarks at Conference Hosted by his Bank on Culture</i>				
Mar 1	9:45	Markit US Manufacturing PMI	Feb	Index	58.5	58.5
Mar 1	10:00	ISM Manufacturing	Feb	Index	58.6	58.7
Mar 1	14:00	<i>Fed's Bostic, Mester and Kashkari Discuss Racism and Economy</i>				
Mar 2	13:00	<i>Fed's Brainard Speaks to the Council on Foreign Relations</i>				
Mar 2	14:00	<i>Fed's Daly Speaks to Economic Club of new York</i>				
Mar 2		Wards Total Vehicle Sales	Feb	Mlns	16.5	16.6
Mar 3	8:15	ADP Employment Change	Feb	Thsd	150.0	174.0
Mar 3	9:45	Markit US Services PMI	Feb	Index	58.9	58.9
Mar 3	10:00	<i>Fed's Harker Discusses Equitable Workforce Discovery</i>				
Mar 3	10:00	ISM Services Index	Feb	Index	58.7	58.7
Mar 3	13:00	<i>Fed's Evans Discusses the Economic Outlook</i>				
Mar 3	14:00	U.S. Federal Reserve Releases Beige Book				
Mar 4	8:30	Initial Jobless Claims	Feb 27	Thsd	798.0	730.0
Mar 4	8:30	Unit Labor Costs	4Q	Q/Q % Chg.	6.7	6.8
Mar 4	10:00	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	-	0.5
Mar 4	10:00	Durable Goods Orders	Jan	M/M % Chg.	-	3.4
Mar 4	10:00	Factory Orders	Jan	M/M % Chg.	1.1	1.1
Mar 4	10:00	Factory Orders Ex Trans	Jan	M/M % Chg.	-	1.4
Mar 4	12:05	<i>Fed Chair Powell Discusses the U.S. Economy</i>				
Mar 5	8:30	Average Hourly Earnings	Feb	M/M % Chg.	0.2	0.2
Mar 5	8:30	Change in Nonfarm Payrolls	Feb	Thsd	145.0	49.0
Mar 5	8:30	Trade Balance	Jan	Blns	-67.5	-66.6
Mar 5	8:30	Unemployment Rate	Feb	%	6.4	6.3
<b>Canada</b>						
Mar 1	9:30	Markit Canada Manufacturing PMI	Feb	Index	-	54.4
Mar 2	8:30	Gross Domestic Product	Dec	M/M % Chg.	0.1	0.7
Mar 2	8:30	Quarterly Gross Domestic Product Annualized	4Q	Q/Q % Chg.	7.2	40.5
Mar 5	8:30	Int'l Merchandise Trade	Jan	Blns	-1.4	-1.7
<b>International</b>						
Mar 1	4:00	EZ Markit Eurozone Manufacturing PMI	Feb	Index	57.7	57.7
Mar 1	4:30	UK Markit UK PMI Manufacturing SA	Feb	Index	54.9	54.9
Mar 1	18:30	JN Jobless Rate	Jan	%	3.0	2.9
Mar 2	5:00	EZ Consumer Price Index Estimate	Feb	Y/Y % Chg.	0.9	0.9
Mar 3	7:00	BZ Gross Domestic Product	4Q	Y/Y % Chg.	-1.5	-3.9
Mar 4	5:00	EZ Retail Sales	Jan	Y/Y % Chg.	-1.3	0.6
Mar 4	5:00	EZ Unemployment Rate	Jan	%	8.3	8.3

Source: Bloomberg, TD Economics.

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