

The Weekly Bottom Line

February 24, 2023

Highlights

United States

- A second read on fourth-quarter GDP showed that the U.S. economy grew by 2.7% (q/q annualized) instead of 2.9% as reported previously. A measure of underlying domestic demand was revised down from 0.2% to an even softer 0.1%.
- Real consumer spending rose a solid 1.1% month-on-month (m/m) in January. Core PCE inflation came in hotter than anticipated, rising to 4.7% year-on-year in January from an upwardly revised 4.6% in December.
- Despite hopes for an improvement to the housing narrative at the start of 2023, existing home sales fell 0.7% (m/m) in January, extending their losing streak to 12 consecutive months.

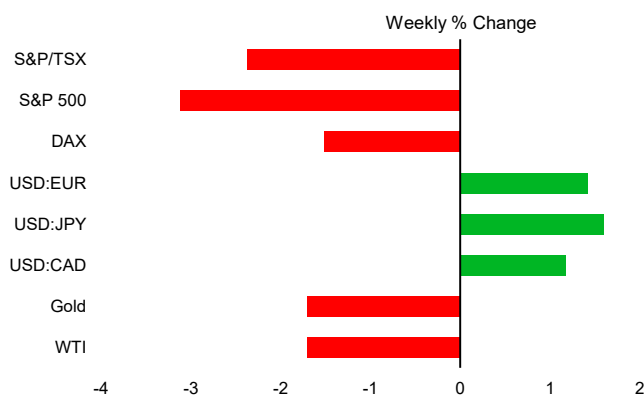
Canada

- CPI updates for January provided some respite from uncomfortable levels of inflation that far exceeded the Bank of Canada's target. Interest rates are working their way through various channels to bring inflation down.
- Strong U.S. macro data likely influenced the Canadian rates picture. The increase in U.S. yields over the week dragged Canadian rates up in tandem, possibly distorting the effects of domestic developments that could support a moderating in Canadian rates.
- GDP figures for the fourth quarter are on tap for next week. The Canadian economy has shown resilience, but we expect momentum to continue to moderate into the year.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3947	4079	4632	3577
S&P/TSX Comp.	20020	20515	22087	18206
DAX	15246	15482	15534	11976
FTSE 100	7883	8004	8014	6826
Nikkei	27453	27513	29223	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.94	3.81	4.24	1.73
Canada 10-yr Bond	3.40	3.29	3.68	1.67
Germany 10-yr Bund	2.54	2.44	2.57	-0.07
UK 10-yr Gilt	3.64	3.52	4.51	1.13
Japan 10-yr Bond	0.50	0.51	0.53	0.14
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.74	0.80	0.72
Euro (USD per EUR)	1.06	1.07	1.13	0.96
Pound (USD per GBP)	1.20	1.20	1.34	1.07
Yen (JPY per USD)	136.2	134.2	150.2	114.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	75.4	76.3	123.7	71.0
Natural Gas (\$US/MMBtu)	2.18	2.27	9.82	2.06
Copper (\$US/met. tonne)	8885.0	8950.3	10702.0	7160.0
Gold (\$US/troy oz.)	1813.6	1842.4	2050.8	1622.4

*As of 10:29 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price).
Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Rising Yields Take a Toll on Equities



Note: Data as of 11:08 AM ET, Friday, February 24, 2023.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.50 - 4.75%
Bank of Canada (Overnight Rate)	4.50%
European Central Bank (Refi Rate)	3.00%
Bank of England (Repo Rate)	4.00%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

U.S. - Sticky Inflation Means Higher Rates

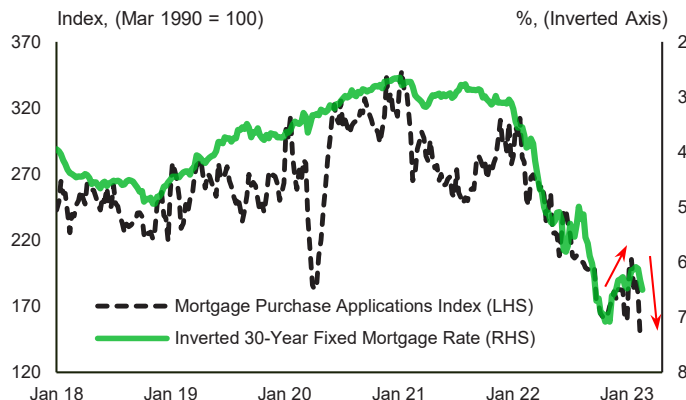
Not all economic data was positive this week, but a strong rebound in consumption and evidence of sticky inflation continued to build the case that the Fed will take the policy rate higher. Rising Treasury yields took a toll on equity markets, with the S&P 500 down 3.3% from last week's close (at time of writing).

A second reading on fourth-quarter GDP showed that the U.S. economy ended 2022 on softer footing than previously reported. The headline measure was revised down from 2.9% quarter-on-quarter (q/q) annualized to 2.7%. Net exports and inventory investment, two inherently volatile components, continued to make up the bulk of gain, while final sales to private domestic purchasers – a measure of underlying domestic demand – was downgraded from 0.2% to an even softer 0.1%. This as consumer spending was shaved down noticeably from 2.1% to 1.4%.

However, January's personal income and outlays report showed that consumer spending rebounded strongly to start the year. Real consumer spending rose 1.1% month-on-month (m/m) in January, reflecting gains in both goods and services. Following in the footsteps of a strong retail sales report, real goods spending rose a sharp 2.2% (m/m), while services spending rose 0.6%. Overall, this is a very good start to first-quarter consumption, which we anticipate will expand in the 1.5-2.0% (q/q annualized) range. A tight labor market, which is helping support healthy growth in wages and salaries, will also help in this regard.

The above report also provided an update on inflation. Total PCE inflation accelerated to 5.4% year-on-year (y/y) from

Chart 2: Housing Demand Falls as Mortgage Rates Rise Again



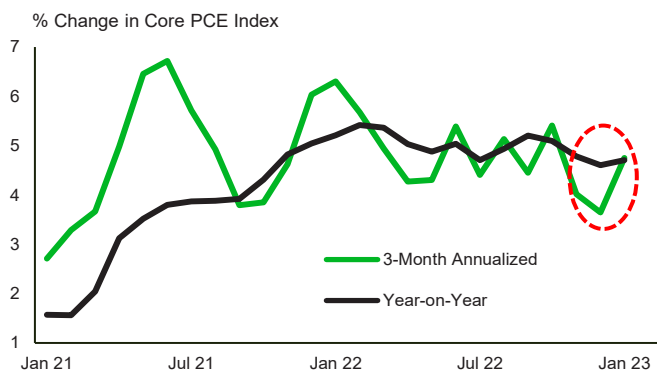
Source: MBA, Freddie Mac, Haver, TD Economics.

5.0% in December. The Fed's preferred inflation gauge, core PCE, accelerated modestly, rising to 4.7% y/y from an upwardly revised 4.6% in December. The key point to highlight here is that core PCE inflation looks to have picked up some steam recently (Chart 1).

The fact that inflation is showing signs of stickiness and that the labor market remains hot, raises the odds that the Fed will need to take the policy rate higher and perhaps keep it there for longer. Minutes from the latest FOMC meeting, which showed members' resolve to keep fighting inflation through additional rate hikes based on incoming data, helps further cement this view. Marked odds still favor a rate hike of 25 basis points (bps) at the March meeting, but odds for a 50-bps hike crept higher following the PCE report and are hovering around 33% as of writing.

Among other things, a "higher for longer" policy rate, means that there could be additional fallout for interest-sensitive areas of the economy. On this front, existing home sales fell again in January (-0.7% m/m), extending the losing streak to 12 consecutive months. Since interest rate changes tend to influence sales activity with a lag, past declines in mortgage rates could drive some improvement in sales over the near-term. But given that mortgage rates turned higher again, housing activity will continue to be tested. High frequency data second this view, with mortgage purchase applications falling to a 28-year low last week (Chart 2). Indeed, it appears that the start of a new and improving trend in housing is still some time away.

Chart 1: Core PCE Inflation Comes in Hotter than Expected



Source: Census Bureau, BLS, TD Economics.

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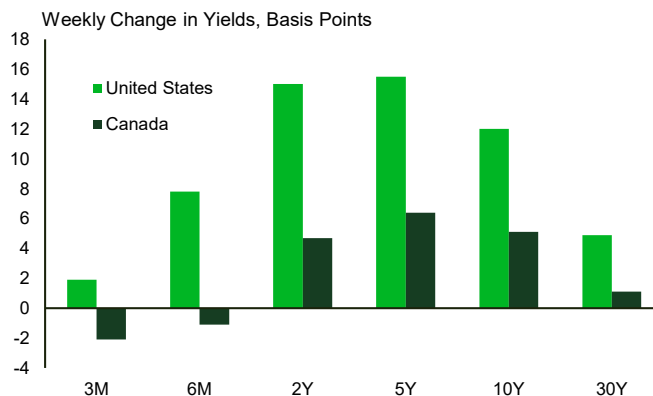
Canada – A Slight Sigh of Relief

It was a busy week on the Canadian economic calendar with the welcome cooling in inflation in January the main event. The Bank of Canada's (BoC) conditional hold on the policy rate has been tested by recent upside surprises from the labour market and consumer spending data. At this juncture, every new data point is critical to the further assessment of the BoC's policy stance.

Headline inflation for January decelerated to 5.9% year-on-year (y/y), below the 6.1% consensus estimate and down from 6.3% in December. Core inflation pressures remain elevated but continue to ease. CPI ex-food and energy came in at 4.9% y/y, down from 5.3% in December. The BoC's primary core inflation measures (CPI-trim and CPI-median) both ticked down two-tenths of a percent to 5.1% and 5.0% y/y, respectively. As we show in Chart 1, the trajectory of inflation is broadly evolving in line with the BoC's objective of bringing prices back to their mandated 2% target.

Although current inflation is moving in the right direction, the path back to 2% may not be smooth sailing. Canadian economic growth continues to exhibit surprising strength. Retail sales ended 2022 on a high note, rising 0.5% month-on-month (m/m) in December with volumes up 1.3% (see [commentary](#)). TD's own consumer spending data suggests that the strength carried forward into January, with figures chalking up [another gain](#). And it is not just domestic

Chart 2: U.S. Yields Likely Influenced the Canadian Curve



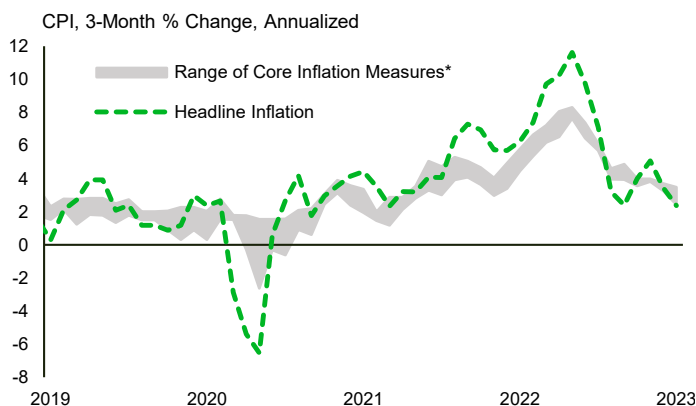
Source: Bloomberg, TD Economics.

strength. The growth outlook for Europe and China has substantially improved, which can further slow the disinflationary impulse in Canada. See our [updated Q&A](#) for a complete discussion on the balance of risks around the inflation outlook.

This week we saw another leg higher in yields, with U.S. macro data showing incredible resilience (Chart 2). This upturn in economic data has reinforced the higher-for-longer policy rate narrative. Market pricing for the Canadian policy rate wavered a touch over the last several days but is still largely pricing in one more 25-bp hike by Q3-2023. Markets do not expect rate cuts to materialize in 2023. We are not as confident, as a slowdown in economic momentum is still on the horizon. If the data evolve consistently with our outlook, it is probable that the BoC cuts rates by the end of the year. We currently have a cumulative 50 bps of cuts penciled in for the fourth quarter.

The main event for next week is Q4 Canadian GDP growth. These figures will inform how the BoC's forecasts in January's Monetary Policy Report (MPR) are shaping up, while also providing a foundation for the hand-off into the first quarter of this year. Also keep watch on Q4 quarterly productivity figures. Productivity in Canada notoriously lags other developed economies, but any sign of a rebound could mean another strong quarter of growth is in the cards.

Chart 1: Inflation Trending in the Right Direction



*Includes BoC's core measures (CPI-trim & CPI-median), CPIX, and core excl. food & energy. Source: Statistics Canada, TD Economics.

Marc Ercolao, Economist

Recent Key Economic Indicators: Feb 20 - 24, 2022					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 21	S&P Global US Composite PMI	Feb	Index	50.2	46.8
Feb 21	S&P Global US Manufacturing PMI	Feb	Index	47.8	46.9
Feb 21	S&P Global US Services PMI	Feb	Index	50.5	46.8
Feb 21	Existing Home Sales	Jan	Mlns	4.00	4.03
Feb 23	Core PCE	4Q	Q/Q % Chg.	4.3	3.9
Feb 23	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.7	2.9
Feb 23	Initial Jobless Claims	Feb 18	Thsds	192.0	195.0
Feb 23	Personal Consumption	4Q	Q/Q % Chg.	1.4	2.1
Feb 24	PCE Deflator	Jan	Y/Y % Chg.	5.4	5.3
Feb 24	Personal Income	Jan	M/M % Chg.	0.6	0.3
Feb 24	Real Personal Spending	Jan	M/M % Chg.	1.1	-0.3
Feb 24	New Home Sales	Jan	Thsds	670.0	625.0
Canada					
Feb 21	Consumer Price Index	Jan	Y/Y % Chg.	5.9	6.3
Feb 21	Consumer Price Index NSA	Jan	M/M % Chg.	0.5	-0.6
Feb 21	Retail Sales	Dec	M/M % Chg.	0.5	0.0
Feb 21	Retail Sales Ex Auto	Dec	M/M % Chg.	-0.6	-0.5
Feb 23	CFIB Business Barometer	Feb	Index	51.7	51.2
Feb 23	Payroll Employment Change - SEPH	Dec	Thsds	91.4	7.1
International					
Feb 20	JN Jibun Bank Japan PMI Manufacturing	Feb	Index	47.4	48.9
Feb 23	EZ Consumer Price Index	Jan	Y/Y % Chg.	8.6	8.5
Feb 23	JN National Consumer Price Index	Jan	Y/Y % Chg.	4.3	4.0
Feb 24	MX Gross Domestic Product SA	4Q	Q/Q % Chg.	0.5	0.4

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

Upcoming Economic Releases and Events: Feb 27 - Mar 3, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 27	8:30	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.0	-0.1
Feb 27	8:30	Durable Goods Orders	Jan	M/M % Chg.	-3.9	5.6
Feb 27	10:00	Pending Home Sales MoM	Jan	M/M % Chg.	0.9	2.5
Feb 27	10:30	<i>Fed's Jefferson Discusses Inflation and the Dual Mandate</i>				
Feb 28	8:30	Advance Goods Trade Balance	Jan	M/M % Chg.	-91.0	-89.7
Feb 28	9:00	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	-	7.7
Feb 28	10:00	Conf. Board Consumer Confidence	Feb	Index	108.4	107.1
Feb 28	14:30	<i>Fed's Goolsbee Speaks at Community College</i>				
Mar 1	9:45	S&P Global US Manufacturing PMI	Feb	Index	47.8	47.8
Mar 1	10:00	ISM Manufacturing	Feb	Index	47.8	47.4
Mar 1		Wards Total Vehicle Sales	Feb	Mlns	14.9	15.7
Mar 2	8:30	Initial Jobless Claims	Feb 24	Thsds	-	192.0
Mar 2	8:30	Unit Labor Costs	4Q	Q/Q % Chg.	1.6	1.1
Mar 2	14:00	<i>Fed's Waller Discusses the Economic Outlook</i>				
Mar 3	9:45	S&P Global US Composite PMI	Feb	Index	-	50.2
Mar 3	9:45	S&P Global US Services PMI	Feb	Index	-	50.5
Mar 3	10:00	ISM Services Index	Feb	Index	54.5	55.2
Mar 3	11:00	<i>Fed's Logan Makes Opening Remarks at Event</i>				
Mar 3	12:00	<i>Fed's Bostic Discusses Racial Inequality Research</i>				
Mar 3	15:00	<i>Fed's Bowman Chairs Panel at Conference</i>				
Canada						
Feb 28	8:30	Gross Domestic Product	Dec	M/M % Chg.	-	0.1
Feb 28	8:30	Quarterly GDP Annualized	4Q	Q/Q % Chg.	-	2.9
Mar 1	9:30	S&P Global Canada Manufacturing PMI	Feb	Index	-	51.0
International						
Feb 27	18:50	JN Retail Sales	Jan	Y/Y % Chg.	4.1	3.8
Feb 28	7:00	IN Gross Domestic Product	4Q	Y/Y % Chg.	4.6	6.3
Feb 28	19:30	JN Jibun Bank Japan PMI Manufacturing	Feb	Index	-	47.4
Feb 28	20:00	CH Manufacturing PMI	Feb	Index	50.7	50.1
Feb 28	20:45	CH Caixin China PMI Manufacturing	Feb	Index	51.3	49.2
Mar 2	5:00	EC Consumer Price Index Estimate	Feb	Y/Y % Chg.	8.2	8.6
Mar 2	5:00	EC Unemployment Rate	Jan	%	6.6	6.6
Mar 2	7:00	BZ Gross Domestic Product	4Q	Q/Q % Chg.	-0.3	0.4
Mar 2	18:30	JN Jobless Rate	Jan	%	2.5	2.5
Mar 2	18:30	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	3.4	4.4

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

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