

The Weekly Bottom Line

April 21, 2023

Highlights

United States

- China's economy saw solid growth in the first quarter, with a strong rebound in consumption and exports after lockdowns were lifted at the end of last year.
- U.S. existing home sales fell by 2.4% month-on-month (m/m) in March, falling from February's revised 13.8% m/m uptick as past mortgage rate increases weighed on demand.
- FOMC members noted that they continue to monitor credit conditions, but many seem to be in favor of further policy tightening at the next meeting in May.

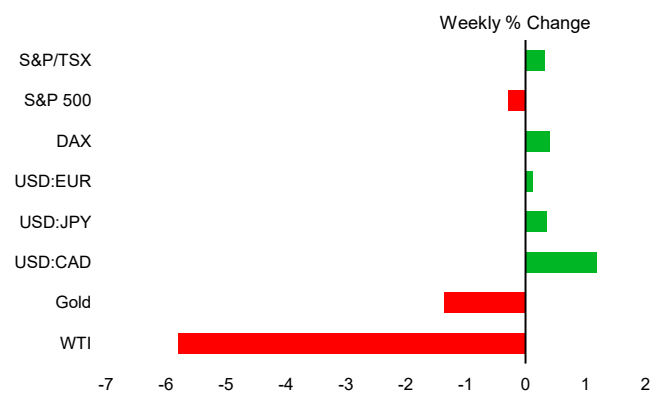
Canada

- Canadian inflation continued to ease in March, coming in at 4.3% year-on-year, as energy prices weighed on the overall index.
- Core inflation rates also fell, but to a lesser degree, as strength in the Canadian economy has led to an upturn in the cyclical components of inflation (supercore).
- Although today's retail sales data showed that Canadians pared back on goods spending, our internal TD data revealed that this was more about consumers shifting to services rather than an outright pull back in spending.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4125	4138	4394	3577
S&P/TSX Comp.	20643	20580	21650	18206
DAX	15870	15808	15895	11976
FTSE 100	7907	7872	8014	6826
Nikkei	28564	28493	29223	25717
Fixed Income Yields				
U.S. 10-yr Treasury	3.57	3.51	4.24	2.57
Canada 10-yr Bond	2.98	3.04	3.68	2.61
Germany 10-yr Bund	2.49	2.44	2.75	0.78
UK 10-yr Gilt	3.76	3.67	4.51	1.66
Japan 10-yr Bond	0.47	0.48	0.53	0.17
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.75	0.80	0.72
Euro (USD per EUR)	1.10	1.10	1.10	0.96
Pound (USD per GBP)	1.24	1.24	1.30	1.07
Yen (JPY per USD)	134.3	133.8	150.2	126.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	77.8	82.5	122.1	66.7
Natural Gas (\$US/MMBtu)	2.19	1.87	9.84	1.87
Copper (\$US/met. tonne)	8865.3	9030.3	10272.0	7160.0
Gold (\$US/troy oz.)	1976.9	2004.2	2040.2	1622.4

*As of 11:25 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 Prices Retreat on Global Demand Fears



Note: Data as of 11:31 AM ET, Friday, April 21, 2023.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.75 - 5.00%
Bank of Canada (Overnight Rate)	4.50%
European Central Bank (Refi Rate)	3.50%
Bank of England (Repo Rate)	4.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

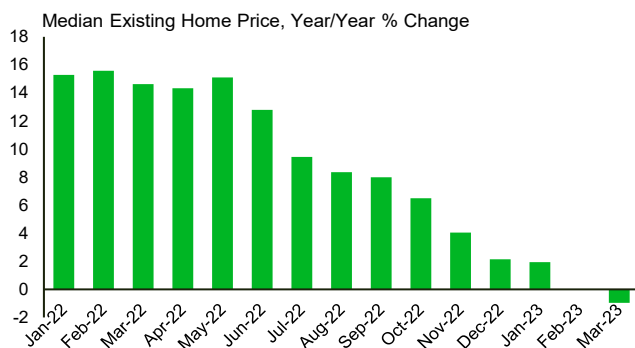
U.S. - Housing Falls as the Fed Blackout Period Begins

As earnings season picked up pace this week, markets were closely attuned to the first quarter performance of U.S. companies. However, the net result on equity markets was muted, as results that were on aggregate moderately positive were partially overshadowed by the downbeat outlook for demand amid the expected economic slowdown later this year. As of the time of writing, the S&P 500 is down 0.5% on the week while the ten-year Treasury yield is up 5 basis-points (bps) to 3.57%.

On the global economic data front, we kicked off the week with first quarter Chinese GDP data, which grew by 4.5% from its year-ago level. The print was better than expected, as pent-up demand from consumers powered growth. China's economic rebound is expected to be short-lived as consumer exuberance fades and structural headwinds continue to weigh on the economy in the back half of the year.

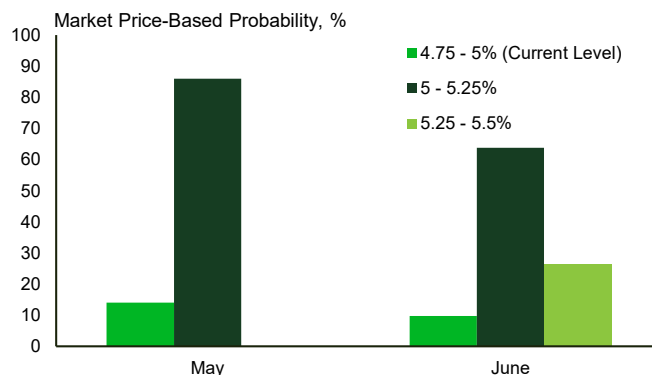
In the U.S. we had a housing-centric week for economic data, with updates on both existing home sales and residential construction. Data released on Thursday showed that existing home sales fell by 2.4% month-on-month (m/m) in March, pulling back from February's revised 13.8% m/m increase. Month-to-month changes have been mirroring the volatility seen in mortgage rates (with a lag) as elevated prices have increased the reliance of buyers on financing conditions. While median home prices declined for a second consecutive month relative to year-ago levels (Chart 1), the seasonally adjusted change between February and March was slightly positive. Prices have been held up in part due

Chart 1: U.S. Median Existing Home Prices Saw First Tangible Year-on-Year Decline Since Early 2012 in March



Note: Median prices declined Year/Year in February, but the decline was 0.03%. Source: National Association of Realtors, TD Economics.

Chart 2: Markets See Limited Upside Risk to Policy Rate Beyond May Meeting



Note: Data up to date as of 10am Friday April 21st, 2023. Source: CME Group, TD Economics.

to low inventory levels. However, new home construction is picking up, with single-family housing starts recovering for a second consecutive month in March, after eleven straight months of declines.

With the Federal Reserve's pre-meeting blackout period starting on Saturday, we won't hear from any FOMC members again until Chair Powell's press conference on May 3rd. Luckily, we heard from ten Fed officials this week, six of whom are voting members. Most of the speakers noted that they were continuing to monitor credit conditions for signs of further stress. The Fed's regional monitoring in April's Beige Book stating that "several Districts noted that banks tightened lending standards amid increased uncertainty and concerns about liquidity". Although this may aid the Fed in tightening credit conditions, as noted by Chicago Fed President Goolsbee this week, most members seemed to agree that further policy tightening would be required to sustainably return inflation to the Fed's 2% target. As of the time of writing, markets are expecting the Fed to hike by 25bps in May, and then hold in June (Chart 2).

Next week we'll get a first look at first quarter U.S. GDP and March PCE inflation, both of which are expected to show signs of cooling. Our [forecast](#) calls for activity to continue to slow through the remainder of 2023. This should help ease inflation pressures, enabling the Fed to keep the funds rate at 5.25% for the rest of the year.

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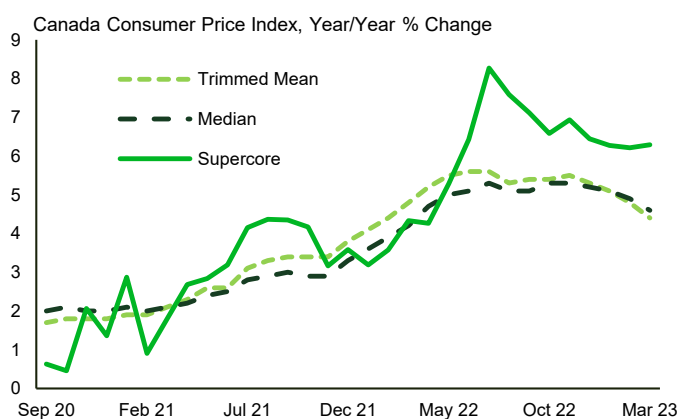
Canada – It's a Bird, It's a Plane, It's Supercore!

March's inflation data was under the microscope this week, and it continued its steady deceleration. The headline Consumer Price Index (CPI) was up 4.3% year-on-year (y/y), a significant drop from its reading of 5.2% y/y in February and its peak of 8.1% y/y last June. This trend is likely to continue. We expect that inflation is on course to flirt with the 3% upper bound of the Bank of Canada's (BoC's) target range this summer.

So far, headline inflation has cooled largely due to an easing in supply chain bottlenecks and steep decline in commodity prices over the last eight months. As a result, goods inflation has fallen to 3.6% y/y (down from 11.2% in June 2022), while energy inflation has turned negative, at -6.9% y/y. Energy prices are expected to continue to weigh on goods inflation over the next few months. This is the main reason why we are confident that inflation is likely to slow to a 3% pace in short order.

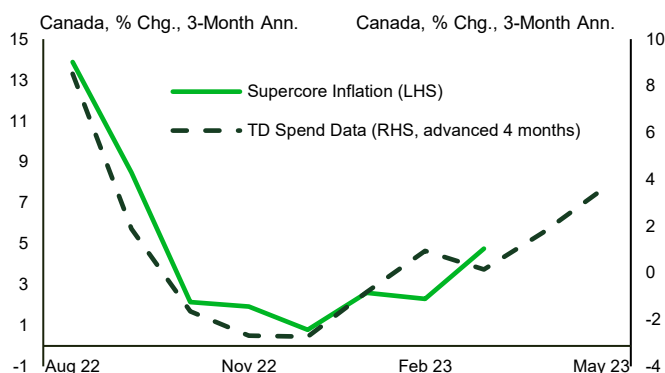
However, the BoC has stated it won't be happy with 3% inflation. It wants to finish the job and get to 2%. Central bankers typically look at core inflation measures as a guidepost to underlying inflation pressures, since things like food and energy can be volatile. Core inflation has come down, but at a much slower pace than headline inflation. The BoC's preferred metrics, trimmed mean and median inflation, came in slightly higher than headline CPI, at 4.4% y/y and 4.6% y/y, respectively. The story is more concerning when we look at our index of ['supercore' inflation](#) (cyclical

Chart 1: Core Inflation Rates Running High



Source: StatCan, TD Economics.

Chart 2: Spending Momentum Causing a Rise in Supercore



Source: StatCan, TD Economics.

inflation in services), which posted a 6.3% y/y print (Chart 1)! If these core metrics don't start to fall decisively, the BoC will be hard pressed to stabilize inflation at its 2% goal.

Core inflation rates have failed to move lower because consumer spending has seen a revival recently. Labour markets have continued to expand at an average pace of 62 thousand new jobs every month (4 times the trend pace) and governments are supporting peoples' incomes through debt financed transfers. No wonder our internal [TD credit/debit card data](#) have shown that total spending has been on the rise. Spending on services has fueled this growth – rising more than 4% month-on-month (m/m) in February, as Canadians shifted away from spending on goods. In that sense, today's retail sales data confirmed what we already knew, as retail spending (goods) fell 0.2% m/m in February. As we show in Chart 2, total spending in Canada is surging (Chart 2). And given that consumer demand is the main driver of cyclical inflation, we expect that supercore inflation will keep rising over the coming months.

The BoC is likely concerned about this. Although it has seen a cooling in interest rate sensitive parts of the economy like housing – as evidenced by the 11% drop in housing starts released this week – the cyclical thrust in other areas has intensified. This is likely why Governor Macklem has been reenforcing the message that rates will need to stay higher for longer. Or rather, rates will stay high for as long as it takes for renewed momentum to fizzle out.

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Recent Key Economic Indicators: Apr 17 - 21, 2023					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 17	Empire Manufacturing	Apr	Index	10.8	-24.6
Apr 17	NAHB Housing Market Index	Apr	Index	45.0	44.0
Apr 18	Building Permits	Mar	Thsd	1413.0	1550.0
Apr 18	Housing Starts	Mar	Thsd	1420.0	1432.0
Apr 20	Initial Jobless Claims	Apr 15	Thsd	245.0	240.0
Apr 20	Existing Home Sales	Mar	Mlns	4.44	4.55
Apr 21	S&P Global US Manufacturing PMI	Apr	Index	50.4	49.2
Apr 21	S&P Global US Services PMI	Apr	Index	53.7	52.6
Apr 21	S&P Global US Composite PMI	Apr	Index	53.5	52.3
Canada					
Apr 17	Wholesale Trade Sales	Feb	M/M % Chg.	-1.7	2.4
Apr 18	Consumer Price Index	Mar	Y/Y % Chg.	4.3	5.2
Apr 18	Consumer Price Index NSA	Mar	M/M % Chg.	0.5	0.4
Apr 19	Housing Starts	Mar	Thsd	213.9	240.9
Apr 19	Industrial Product Price	Mar	M/M % Chg.	0.1	-0.8
Apr 21	Retail Sales Ex Auto	Feb	M/M % Chg.	-0.7	0.9
Apr 21	Retail Sales	Feb	M/M % Chg.	-0.2	1.6
International					
Apr 17	CH Retail Sales	Mar	Y/Y % Chg.	10.6	-
Apr 17	CH Surveyed Jobless Rate	Mar	%	5.3	5.6
Apr 18	UK ILO Unemployment Rate	Feb	Q/Q % Chg.	3.8	3.7
Apr 19	UK Consumer Price Index	Mar	Y/Y % Chg.	10.1	10.4
Apr 19	EZ Consumer Price Index	Mar	Y/Y % Chg.	6.9	8.5
Apr 20	JN Natl Consumer Price Index	Mar	Y/Y % Chg.	3.2	3.3
Apr 20	JN Jibun Bank Japan PMI Mfg	Apr	Index	49.5	49.2
Apr 21	UK Retail Sales Ex Auto Fuel	Mar	Y/Y % Chg.	-3.2	-3.0

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



Upcoming Economic Releases and Events: Apr 24 - 28, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Apr 25	9:00	S&P CoreLogic CS US HPI NSA	Feb	Y/Y % Chg.	-	3.8
Apr 25	10:00	New Home Sales	Mar	Thsd	632.0	640.0
Apr 25	10:00	Conf. Board Consumer Confidence	Apr	Index	104.1	104.2
Apr 26	8:30	Advance Goods Trade Balance	Mar	Blns	-89.8	-91.6
Apr 26	8:30	Durable Goods Orders	Mar	M/M % Chg.	0.7	-1.0
Apr 26	8:30	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	0.2	-0.1
Apr 27	8:30	Initial Jobless Claims	Apr 22	Thsd	250.0	245.0
Apr 27	8:30	Gross Domestic Product Annualized	1Q	Q/Q % Chg.	2.0	2.6
Apr 27	8:30	Personal Consumption	1Q	Q/Q % Chg.	4.0	1.0
Apr 27	8:30	Core PCE	1Q	Q/Q % Chg.	4.7	4.4
Apr 27	10:00	Pending Home Sales	Mar	M/M % Chg.	1.0	0.8
Apr 28	8:30	Employment Cost Index	1Q	Index	1.1	1.0
Apr 28	8:30	Personal Income	Mar	M/M % Chg.	0.2	0.3
Apr 28	8:30	Real Personal Spending	Mar	M/M % Chg.	0.0	-0.1
Apr 28	8:30	PCE Deflator	Mar	Y/Y % Chg.	4.1	5.0
Canada						
Apr 26	13:30	<i>Bank of Canada Summary of Deliberations</i>				
Apr 27	7:00	CFIB Business Barometer	Apr	Index	-	55.3
Apr 27	8:30	Payroll Employment Change - SEPH	Feb	Thsd	-	71.1
Apr 28	8:30	Gross Domestic Product	Feb	M/M % Chg.	-	0.5
International						
Apr 27	19:30	JN Jobless Rate	Mar	%	2.5	2.6
Apr 27	19:30	JN Tokyo Consumer Price Index	Apr	Y/Y % Chg.	3.3	3.3
Apr 27	19:50	JN Retail Sales	Mar	Y/Y % Chg.	6.5	7.3
Apr 28	0:00	JN BOJ Policy Balance Rate	Apr 28	%	-0.1	-0.1
Apr 28	5:00	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	1.4	1.8
Apr 28	8:00	MX Gross Domestic Product NSA	1Q	Y/Y % Chg.	3.3	3.6

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

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