

The Weekly Bottom Line

April 29, 2022

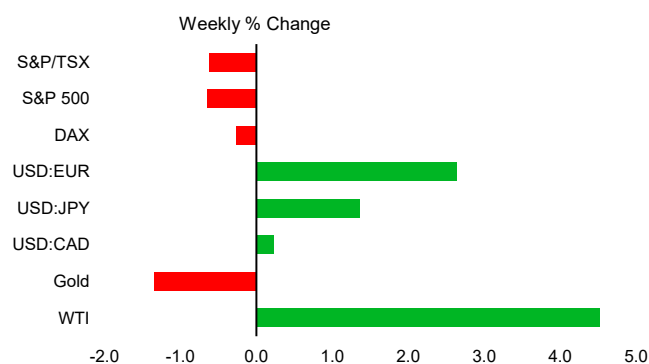
Highlights

- U.S. economic growth contracted in the first three months of 2022. Real GDP fell 1.4% due largely to a sizeable increase in the trade deficit.
- The U.S. goods trade deficit widened unexpectedly by almost 18% to hit a new record in March, reflecting both higher import volumes and prices.
- Personal income and consumer spending rose on a monthly basis in March. While a key inflation measure, the core PCE deflator, eased marginally to 5.2% year/year from 5.3% in February.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4244	4272	4797	4063
S&P/TSX Comp.	21052	21186	22087	19108
DAX	14105	14142	16272	12832
FTSE 100	7524	7522	7672	6844
Nikkei	26848	27105	30670	24718
Fixed Income Yields				
U.S. 10-yr Treasury	2.90	2.90	2.94	1.17
Canada 10-yr Bond	2.88	2.87	2.89	1.12
Germany 10-yr Bund	0.91	0.97	0.97	-0.50
UK 10-yr Gilt	1.89	1.96	2.01	0.51
Japan 10-yr Bond	0.23	0.25	0.25	0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.78	0.79	0.83	0.77
Euro (USD per EUR)	1.05	1.08	1.23	1.05
Pound (USD per GBP)	1.25	1.28	1.42	1.25
Yen (JPY per USD)	130.3	128.5	130.9	108.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	106.4	103.1	123.7	62.1
Natural Gas (\$US/MMBtu)	6.89	6.58	7.49	2.79
Copper (\$US/met. tonne)	9696.0	10113.3	11299.5	8894.0
Gold (\$US/troy oz.)	1905.6	1931.6	2050.8	1726.4

*As of 10:20 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 Rise Amid Increased Likelihood of an EU Embargo on Russian Oil Imports



Note: Data as of 12:53 PM ET, Friday, April 29, 2022.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	0.25 - 0.50%
Bank of Canada (Overnight Rate)	1.00%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.75%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
Current Rate		2021				2022				2023			
	4/29/22	Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.50	0.25	0.25	0.25	0.25	0.50	1.50	1.75	2.00	2.25	2.50	2.50	2.50
2-yr Govt. Bond Yield	2.72	0.16	0.25	0.28	0.73	2.28	2.30	2.35	2.30	2.25	2.20	2.15	2.05
10-yr Govt. Bond Yield	2.90	1.74	1.45	1.52	1.52	2.32	2.70	2.75	2.70	2.60	2.50	2.40	2.30
30-yr Govt. Bond Yield	2.96	2.41	2.06	2.08	1.90	2.44	2.80	2.85	2.80	2.75	2.70	2.65	2.60
Forecast by TD Economics as of April 2022; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.													

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GDP Drop Obscures Strong Underlying Demand

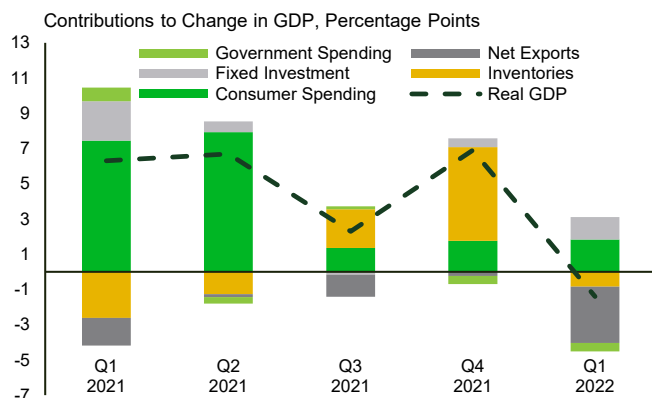
First quarter GDP was the disappointing marquee release this week, but there were plenty of silver linings. The consensus was for weak, but still positive, growth. Instead, the U.S. economy retreated by 1.4% annualized, after booming 6.9% in the fourth quarter of 2021 (see [here](#)). The unexpected retrenchment was largely due to a widening trade deficit, with slowing inventory accumulation and fading stimulus spending chipping in (Chart 1). The headline decline masked underlying strength in consumer spending and business investment, which posted solid gains of 2.7% and 9.2% respectively in the quarter.

Business investment has good momentum heading into Q2, with durable goods orders up 0.8% month-on-month (m/m) in March, after a 1.7% decline in February. The increase was driven by autos, computers and other electronics. The measure has risen in five of the last six months. The report also showed that a closely watched proxy for business investment – new orders for nondefense capital goods excluding aircraft – rose by 1% m/m, pointing to resilience in the business sector.

On the housing front, data from the S&P CoreLogic Case-Shiller Index showed that home price growth remained robust in February. Prices posted a 19.8% y/y gain, up from 19.1% in January. This was the highest growth rate since August and reflects extremely low levels of inventory relative to demand. As mortgage rates continue to climb, however, purchasing power will dim, resulting in lowered demand which should restore greater equilibrium to the market.

There are already some indications of this as sales of newly built single-family homes fell in March for the third consec-

Chart 1: First Quarter GDP Contracts on Rising Trade Deficit



Source: Bureau of Economic Analysis, TD Economics.

Chart 2: U.S. Merchandise Trade Deficit Hits New Record High on Surging Imports



Source: Census Bureau, TD Economics. Last observation: March 2022.

utive month. New home sales were down 8.6% m/m. There was also a decline in contracts signed to purchase homes. Pending home sales headed lower for the fifth consecutive month. The metric fell 1.2% m/m in March, pushing signed contracts to the lowest level since May 2020. As prices and interest rates head higher, and a solid supply of homes under construction are completed, the current imbalance between housing supply and demand should start to close.

There was little sign of improvement in the trade deficit through the quarter, as the monthly deficit hit a new record in March. A surge in imports dwarfed export gains (Chart 2). The goods trade gap rose by 17.8% m/m to \$125.3 billion. While strong demand from businesses and consumers lead to a surge in imports, rising prices also contributed to the sizeable increase in the deficit. Front-loading of imports due to geopolitical and supply-chain uncertainty saw sizeable increases in the import of consumer goods (13.6%) and motor vehicles (12%).

Finally, both nominal personal income and spending rose in March by 0.5% and 1.1% m/m respectively (see [here](#)). Accounting for prices, real spending rose 0.2% on the month. The Fed's preferred inflation gauge, the core personal consumption expenditure deflator, rose 5.2% y/y, a slight deceleration from February. Add it all up, and with inflation still elevated, and strong momentum in consumer spending and business investment, the Fed is expected to look past the headline decline in GDP, and press full steam ahead with policy normalization, with a 50 basis point hike next week.

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Recent Key Economic Indicators: Apr 25 - 29, 2022					
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.	1.0	-0.3
Apr 26	Durable Goods Orders	Mar	M/M % Chg.	0.8	-1.7
Apr 26	S&P CoreLogic CS US HPI NSA	Feb	Y/Y % Chg.	19.8	19.1
Apr 26	Conf. Board Consumer Confidence	Apr	Index	107.3	107.6
Apr 26	New Home Sales	Mar	Thsd	763.0	835.0
Apr 27	Advance Goods Trade Balance	Mar	Blns	-125.3	-106.3
Apr 27	Pending Home Sales	Mar	M/M % Chg.	-1.2	-4.0
Apr 28	Core Personal Consumption Expenditure	1Q	Q/Q % Chg.	5.2	5.0
Apr 28	Gross Domestic Product Annualized	1Q	Q/Q % Chg.	-1.4	6.9
Apr 28	Initial Jobless Claims	Apr 23	Thsd	180.0	185.0
Apr 28	Personal Consumption	1Q	Q/Q % Chg.	2.7	2.5
Apr 29	Employment Cost Index	1Q	Q/Q % Chg.	1.4	1.0
Apr 29	Personal Consumption Expenditure Deflator	Mar	Y/Y % Chg.	6.6	6.3
Apr 29	Personal Income	Mar	M/M % Chg.	0.5	0.7
Apr 29	Real Personal Spending	Mar	M/M % Chg.	0.2	0.1
Canada					
Apr 28	CFIB Business Barometer	Apr	Index	64.9	65.1
Apr 28	Payroll Employment Change - SEPH	Feb	Thsd	142.9	5.5
Apr 29	Gross Domestic Product	Feb	M/M % Chg.	1.1	0.2
International					
Apr 25	JN Jobless Rate	Mar	%	2.6	2.7
Apr 27	JN Retail Sales	Mar	Y/Y % Chg.	0.9	-0.9
Apr 28	JN BOJ Policy Balance Rate	Apr 28	%	-0.10	-0.10
Apr 29	EZ Consumer Price Index Estimate	Apr	Y/Y % Chg.	7.5	7.5
Apr 29	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	5.0	4.7
Apr 29	MX Gross Domestic Product NSA	1Q	Y/Y % Chg.	1.6	1.1

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Apr 29, May 2 - 6, 2022						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 2	9:45	S&P Global US Manufacturing PMI	Apr	Index	59.7	59.7
May 2	10:00	ISM Manufacturing	Apr	Index	57.8	57.1
May 3	10:00	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	-	1.0
May 3	10:00	Durable Goods Orders	Mar	M/M % Chg.	-	0.8
May 3	10:00	Factory Orders	Mar	M/M % Chg.	1.0	-0.5
May 3	10:00	Factory Orders Ex Trans	Mar	M/M % Chg.	-	0.4
May 3		Wards Total Vehicle Sales	Apr	Mlns	13.8	13.3
May 4	8:15	ADP Employment Change	Apr	Thsd	388.0	455.0
May 4	8:30	Trade Balance	Mar	Blns	-86.9	-89.2
May 4	9:45	S&P Global US Composite PMI	Apr	Index	-	55.1
May 4	9:45	S&P Global US Services PMI	Apr	Index	54.7	54.7
May 4	10:00	ISM Services Index	Apr	Index	58.7	58.3
May 4	14:00	FOMC Rate Decision (Upper Bound)	May 4	%	1.00	0.50
May 4	14:00	Interest on Reserve Balances Rate	May 5	%	-	0.4
May 4	14:30	Fed Chair Holds Press Conference Following FOMC Meeting				
May 5	8:30	Initial Jobless Claims	Apr 30	Thsd	183	180.0
May 5	8:30	Unit Labor Costs	1Q	Q/Q % Chg.	7.3	0.9
May 6	8:30	Average Hourly Earnings	Apr	M/M % Chg.	0.4	0.4
May 6	8:30	Change in Nonfarm Payrolls	Apr	Thsd	390.0	431.0
May 6	8:30	Unemployment Rate	Apr	%	3.6	3.6
May 6	9:15	Fed's Williams Gives Opening Remarks at Environmental Economics and Policy Event				
May 6	15:00	Fed's Bostic Gives Commencement Address at Georgia Tech				
May 6	19:15	Fed's Bullard and Waller Speak on Hoover Institute Panel				
May 6	20:00	Fed's Daly Gives Commencement Speech at Utah Valley University				
Canada						
May 2	9:30	S&P Global Canada Manufacturing PMI	Apr	Index	-	58.9
May 3	12:45	BoC's Senior Deputy Governor Rogers Speaks Before Women in Capital Markets				
May 4	8:30	International Merchandise Trade	Mar	Blns	-	2.7
May 5	9:55	BoC's Deputy Governor Schembri Speaks at NACCA Indigenous Prosperity Forum				
May 6	8:30	Net Change in Employment	Apr	Thsd	-	72.5
May 6	8:30	Unemployment Rate	Apr	%	-	5.3
International						
Apr 29	21:30	CH Manufacturing PMI	Apr	Index	48	49.5
Apr 29	21:45	CH Caixin China PMI Mfg	Apr	Index	47	48.1
May 2	4:00	EZ S&P Global Eurozone Manufacturing PMI	Apr	Index	55.3	55.3
May 3	4:30	UK S&P Global/CIPS UK Manufacturing PMI	Apr	Index	55.3	55.3
May 3	5:00	EZ Unemployment Rate	Mar	%	6.7	6.8
May 4	5:00	EZ Retail Sales	Mar	Y/Y % Chg.	1.6	5.0
May 5	7:00	UK Bank of England Bank Rate	May 5	%	1.00	0.75
May 5	19:30	JN Tokyo Consumer Price Index	Apr	Y/Y % Chg.	2.3	1.3
*Eastern Standard Time. Source: Bloomberg, TD Economics.						

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