

The Weekly Bottom Line

May 13, 2022

Highlights

- The consumer price index (CPI) report showed that both overall and core price pressures eased a touch in year-over-year terms in April. Overall inflation fell to 8.3% y/y from 8.5% in the month prior, while core inflation fell to 6.2% from 6.5%.
- The producer price index (PPI) report echoed a similar message, with producer prices decelerating modestly in April to 11% y/y, but remaining near March's record high of 11.5%.
- Signs of a slight tick down in inflation will do little to dissuade the Fed from removing monetary stimulus expeditiously. Despite staging a notable recovery on Friday, the S&P 500 looks to end the week down over 2%.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4026	4123	4797	3930
S&P/TSX Comp.	20169	20633	22087	19136
DAX	14028	13674	16272	12832
FTSE 100	7418	7388	7672	6844
Nikkei	26428	27004	30670	24718
Fixed Income Yields				
U.S. 10-yr Treasury	2.92	3.13	3.13	1.17
Canada 10-yr Bond	2.96	3.13	3.13	1.12
Germany 10-yr Bund	0.95	1.13	1.13	-0.50
UK 10-yr Gilt	1.74	2.00	2.01	0.51
Japan 10-yr Bond	0.25	0.24	0.25	0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.77	0.77	0.83	0.77
Euro (USD per EUR)	1.04	1.06	1.23	1.04
Pound (USD per GBP)	1.22	1.23	1.42	1.22
Yen (JPY per USD)	129.3	130.6	130.9	108.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	110.1	109.8	123.7	62.1
Natural Gas (\$US/MMBtu)	7.26	8.40	8.46	2.79
Copper (\$US/met. tonne)	9103.5	9411.0	11299.5	8894.0
Gold (\$US/troy oz.)	1812.4	1883.8	2050.8	1726.4

*As of 12:34 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Risk Assets Continue Weekly Slide Despite Friday Bounce-Back



Note: Data as of 12:39 PM ET, Friday, May 13, 2022.
Source: Bloomberg, TD Economics.

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

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 5/13/22	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	1.00	0.25	0.25	0.25	0.25	0.50	1.50	2.25	2.50	2.50	2.50	2.50	2.50
2-yr Govt. Bond Yield	2.60	0.16	0.25	0.28	0.73	2.28	2.85	2.90	2.85	2.65	2.55	2.40	2.30
10-yr Govt. Bond Yield	2.92	1.74	1.45	1.52	1.52	2.32	3.00	3.10	3.05	2.85	2.75	2.65	2.55
30-yr Govt. Bond Yield	3.07	2.41	2.06	2.08	1.90	2.44	3.05	3.15	3.10	3.05	3.00	2.95	2.85

Forecast by TD Economics as of May 2022; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

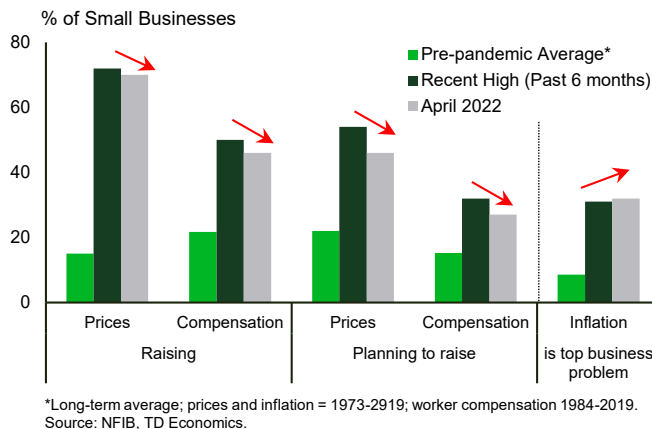
Slight Pullback in Inflation Won't Change Fed's Mind

The second week of May carried a light economic calendar, with primary data releases continuing to center on inflation. The consumer price index (CPI) report showed that inflationary pressures eased a bit in April, falling to 8.3% year-on-year (y/y) – down from 8.5% in March (Chart 1). Base effects are likely to have played a favorable role, as price pressures stemming from supply chain disruptions began to manifest in March and April of last year.

Beneath the headline, food inflation accelerated both in yearly and monthly terms, whereas energy prices eased a touch. Both, however, remain elevated at 9.4% y/y and 30.3% y/y, respectively. Excluding these two volatile categories, core prices also decelerated modestly, falling to 6.2% y/y from 6.5% y/y in March. However, several important categories bucked the trend. On the goods side, new vehicle prices were higher, while medical care, transportation, and shelter were all meaningful contributors on the services side. The transportation category was buoyed from airfares, which continued to rise sharply (18.6% m/m). Meanwhile, market-based measures of strong home price and rent growth suggest that the weighty shelter component has more upside ahead. This, together with the fact that gas prices have resumed their upward climb this month, and that we're likely to see further upward pressure in food prices from the war in Ukraine, muddy the CPI report's headline message that inflation may have peaked, making it prudent to wait for further confirmation to this notion.

The producer price index (PPI) report echoed a similar message to last month's CPI numbers. Producer prices were up 11% from a year ago in April, marking an easing from an

Chart 2: Share of Businesses Raising Prices and Wages Has Eased; Inflation Remains Top Concern

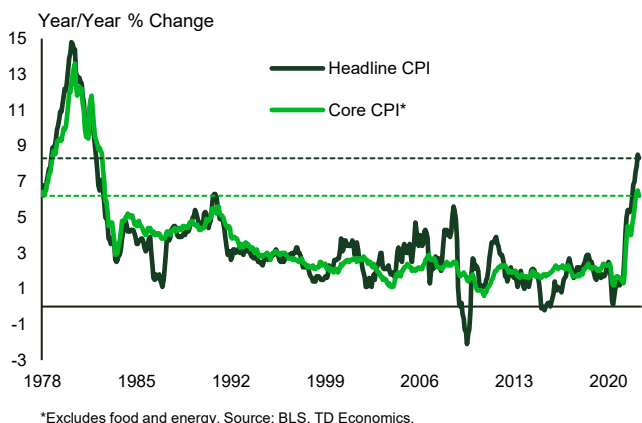


upwardly revised 11.5% y/y in March. Core PPI also eased a touch. That being said, April's PPI showings, which are not far off from the March record highs, indicate that inflationary pressures continue to build in the production pipeline.

The small business report from the NFIB provided more of the same. In Chart 2 we can see that while the share of businesses raising (and planning to raise) average selling prices and worker compensation have eased from recent highs, they remain well above historical norms. On the other hand, the share of businesses identifying inflation as their top business problem reached a new post-1980 high in April. Another striking feature of the report is the fact that the share of small businesses expecting an improvement in the economy in the months ahead fell to a yet new record low (-50%).

Doubtful expectations about a further improvement in the economy have some basis. Signs of a slight moderation in inflation will do little to dissuade the Fed from removing monetary stimulus expeditiously, which in turn will weigh on economic momentum. In tune with this notion, risk assets continued their downward slide this week. Despite a notable bounce back Friday, the S&P 500 is down 2.6% from last week's close and roughly 16% from peak. Of course, as Fed Chair Powell noted this week, there's no guarantee that the Fed will see smooth sailing in its goal to engineer a soft-landing. In a speech Thursday, Chair Powell, who was recently confirmed for a second term, noted that getting inflation back to 2% will cause "some pain". For now, however, we're still full ship ahead with another 50-basis point hike in June.

Chart 1: Inflation Eased a Touch in April, but Remained at Multidecade High



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Recent Key Economic Indicators: May 9 - 13, 2022					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
May 9	Wholesale Trade Sales	Mar	M/M % Chg.	2.3	2.3
May 10	NFIB Small Business Optimism	Apr	Index	93.2	93.2
May 11	Consumer Price Index	Apr	M/M % Chg.	0.3	1.2
May 11	Consumer Price Index	Apr	Y/Y % Chg.	8.3	8.5
May 11	Consumer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.6	0.3
May 11	Consumer Price Index Ex Food and Energy	Apr	Y/Y % Chg.	6.2	6.5
May 12	Initial Jobless Claims	May 07	Thsd	203.0	202.0
May 12	PPI Ex Food and Energy	Apr	M/M % Chg.	0.4	1.2
May 12	PPI Final Demand	Apr	M/M % Chg.	0.5	1.6
International					
May 10	CH Consumer Price Index	Apr	Y/Y % Chg.	2.1	1.5
May 12	UK Gross Domestic Product	1Q	Y/Y % Chg.	8.7	6.6

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 16 - 20, 2022						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 16	8:30	Empire Manufacturing	May	Index	15.0	24.6
May 16	8:55	<i>Fed's Williams Takes Part in Moderated Discussion</i>				
May 17	8:00	<i>Fed's Bullard Discusses Economic Outlook</i>				
May 17	8:30	Retail Sales Advance	Apr	M/M % Chg.	0.9	0.7
May 17	8:30	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	0.7	0.7
May 17	9:15	Capacity Utilization	Apr	%	78.5	78.3
May 17	9:15	<i>Fed's Harker Discusses Healthcare as Economic Driver</i>				
May 17	9:15	Industrial Production	Apr	M/M % Chg.	0.4	0.9
May 17	9:15	Manufacturing (SIC) Production	Apr	M/M % Chg.	0.3	0.9
May 17	10:00	Business Inventories	Mar	M/M % Chg.	1.9	1.5
May 17	10:00	NAHB Housing Market Index	May	Index	75.0	77.0
May 17	14:00	<i>Powell Interviewed During Wall Street Journal Live Event</i>				
May 17	14:30	<i>Fed's Mester Gives Opening Remarks to Panel on Inflation</i>				
May 17	18:45	<i>Fed's Evans Discusses the Economic Outlook</i>				
May 18	8:30	Building Permits	Apr	Thsd	1815.0	1870.0
May 18	8:30	Housing Starts	Apr	Thsd	1766.0	1793.0
May 18	16:00	<i>Fed's Harker Discusses the Economic Outlook</i>				
May 19	8:30	Initial Jobless Claims	May 14	Thsd	200.0	203.0
May 19	10:00	Existing Home Sales	Apr	MIns	5.7	5.8
Canada						
May 16	8:15	Housing Starts	Apr	Thsd	-	246.2
May 16	8:30	Manufacturing Sales	Mar	M/M % Chg.	2.0	4.2
May 16	8:30	Wholesale Trade Sales	Mar	M/M % Chg.	0.0	-0.4
May 16	9:00	Existing Home Sales	Apr	M/M % Chg.	-	-5.4
May 18	8:30	Consumer Price Index NSA	Apr	M/M % Chg.	-	1.4
May 18	8:30	Consumer Price Index	Apr	Y/Y % Chg.	-	6.7
May 18	8:30	Teranet/National Bank HPI	Apr	Y/Y % Chg.	-	18.4
May 19	8:30	Industrial Product Price	Apr	M/M % Chg.	-	4.0
International						
May 17	5:00	EZ Employment	1Q	Y/Y % Chg.	-	2.2
May 17	5:00	EZ Gross Domestic Product	1Q	Y/Y % Chg.	5.0	5.0
May 17	19:50	JN Gross Domestic Product Annualized	1Q	Q/Q % Chg.	-1.8	4.6
May 18	5:00	EZ Consumer Price Index	Apr	Y/Y % Chg.	7.5	7.4
May 19	19:30	JN National Consumer Price Index	Apr	Y/Y % Chg.	2.5	1.2

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

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