

## The Weekly Bottom Line

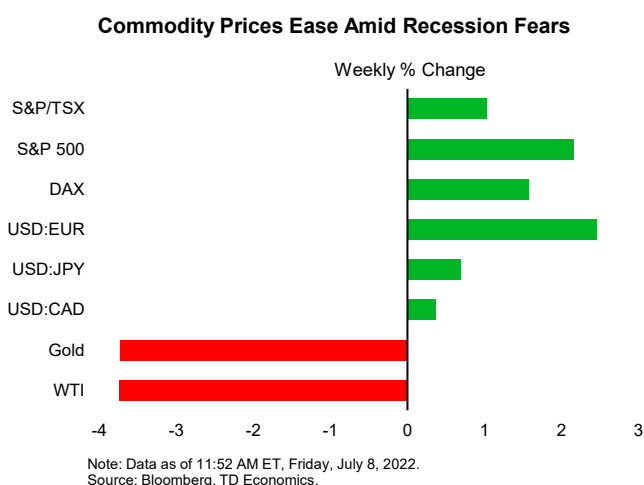
July 8, 2022

### Highlights

- Recession calls increased this week, but the job market begged to differ. The U.S. added 372k jobs in June, keeping the unemployment rate at its historic low of 3.6% and amplifying fears about inflation.
- In contrast, leading business indicators slipped modestly in June, while remaining above the 50 threshold, which suggests that both manufacturing and services sectors continue to expand.
- The FOMC minutes from the June meeting showed significant worries about the possibility that high inflation is becoming entrenched in consumer expectations. The Fed is positioned for another supersized rate hike at the end of the month.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3886	3825	4797	3667
S&P/TSX Comp.	18973	18861	22087	18717
DAX	12902	12813	16272	12401
FTSE 100	7166	7169	7672	6844
Nikkei	26517	25936	30670	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.04	2.88	3.47	1.17
Canada 10-yr Bond	3.26	3.22	3.62	1.12
Germany 10-yr Bund	1.29	1.23	1.77	-0.50
UK 10-yr Gilt	2.15	2.09	2.65	0.51
Japan 10-yr Bond	0.24	0.23	0.26	0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.77	0.78	0.81	0.77
Euro (USD per EUR)	1.02	1.04	1.19	1.02
Pound (USD per GBP)	1.20	1.21	1.40	1.19
Yen (JPY per USD)	136.0	135.2	136.6	109.0
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	104.0	108.4	123.7	62.3
Natural Gas (\$US/MMBtu)	5.93	5.68	9.45	3.34
Copper (\$US/met. tonne)	7818.5	8040.3	11299.5	7506.3
Gold (\$US/troy oz.)	1742.6	1811.4	2050.8	1726.4

\*As of 11:17 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	1.50 - 1.75%
Bank of Canada (Overnight Rate)	1.50%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	1.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
Current Rate		2021				2022				2023			
	7/8/22	Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	1.75	0.25	0.25	0.25	0.25	0.50	1.75	3.00	3.25	3.25	3.25	3.25	3.25
2-yr Govt. Bond Yield	3.08	0.16	0.25	0.28	0.73	2.28	2.92	3.30	3.30	3.25	3.10	3.00	2.95
10-yr Govt. Bond Yield	3.04	1.74	1.45	1.52	1.52	2.32	2.98	3.40	3.50	3.45	3.40	3.35	3.30
30-yr Govt. Bond Yield	3.22	2.41	2.06	2.08	1.90	2.44	3.14	3.60	3.70	3.75	3.70	3.65	3.60
Forecast by TD Economics as of July 2022; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.													

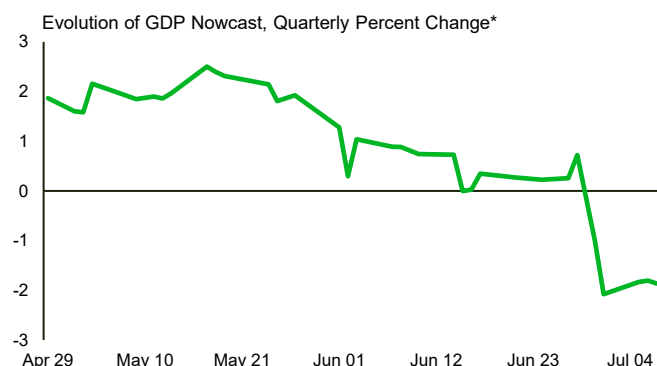
# Job Gains Defy Recession Calls

Recession became a much more popular word on the street this week. Revisions to first quarter GDP data and a weak spending report for May which came out at the end of last week revealed much softer consumer momentum in the first half of the year. This led many forecasters to downgrade their outlooks, with some calling for recession. TD Economics is not calling for a recession, but we acknowledge the downside risks have risen. As such, we have formulated an [alternate economic profile](#) on how a U.S. recession might unfold.

The Atlanta Fed's GDP Nowcast is pointing to a second quarter of contraction in GDP in Q2 (Chart 1). However, two quarters of contraction in GDP is not enough to qualify as a recession according to NBER criteria – the economic body that defines recessions. In addition to economic output, it places a heavy importance on payrolls employment and real personal incomes less transfers. The income measure has certainly softened with high inflation in recent months but remains in expansionary territory. And the impressive June [payrolls report](#) confirmed that employment remained strong (Chart 2). The unemployment rate remained low at 3.6%, and average hourly wages were up a healthy 5.1% year-on-year, both pointing to tight labor market conditions.

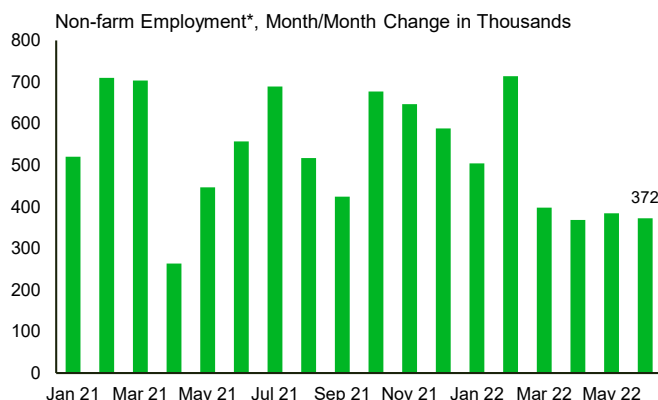
Putting aside healthy hiring through June, sentiment indicators are showing some softness. The Institute for Supply Management's (ISM) readings for the [manufacturing](#) and [services](#) sectors both slipped modestly. However, both sectors remained above the 50 threshold, which suggests that both remained in expansionary territory.

**Chart 1: Atlanta Fed GDPNow Estimate Points to Negative GDP Growth**



\*Seasonally adjusted annual rate.  
Source: Federal Reserve Bank of Atlanta, TD Economics. Last observation: July 7, 2022.

**Chart 2: No Signs of Recession in Jobs Data**



\*Seasonally Adjusted.  
Source: Bureau of Labor Statistics, TD Economics. Last observation: June 2022.

The underlying details paint a slightly more nuanced picture. Both sectors showed an increase in current business activity, but in the manufacturing sector, the new orders index slipped into contractionary territory, while in the services sector it eased but remained solidly expansionary.

Another important message of the ISM reports is that prices paid by businesses continue to ease – a trend that corresponds with a recent reduction in supply chain bottlenecks. Indeed, the supplier delivery times have improved since the beginning of the year, especially in the manufacturing sector. According to the San Francisco Fed's research, the distribution of price gains as measured by core PCE inflation is equally split between supply and demand factors, suggesting that cooling on the supply side should help ease inflation going forward.

In the meantime, [minutes from the FOMC meeting](#) in June showed that members are worried about the level of stickiness in price gains, and the rising possibility that high inflation is becoming entrenched in consumers expectations. This fear clearly overshadowed any concern the members might have had about prospects for economic growth, resulting in a rare consensus when deciding to supersize the rate hike to 75 basis points. The Fed is positioned for another supersized rate hike at the end of the month, as it focuses on tempering demand.

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Recent Key Economic Indicators: Jun 30, Jul 1, 4 - 8, 2022					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jul 1	S&P Global US Manufacturing PMI	Jun	Index	52.7	52.4
Jul 1	ISM Manufacturing	Jun	Index	53.0	56.1
Jul 1	Wards Total Vehicle Sales	Jun	Mlns	13.0	12.7
Jul 5	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	0.6	0.5
Jul 5	Durable Goods Orders	May	M/M % Chg.	0.8	0.7
Jul 5	Factory Orders	May	M/M % Chg.	1.6	0.3
Jul 5	Factory Orders Ex Trans	May	M/M % Chg.	1.7	0.3
Jul 6	S&P Global US Composite PMI	Jun	Index	52.3	51.2
Jul 6	S&P Global US Services PMI	Jun	Index	52.7	51.6
Jul 6	ISM Services Index	Jun	Index	55.3	55.9
Jul 7	Initial Jobless Claims	Jul 2	Thsd	235.0	231.0
Jul 7	Trade Balance	May	Blns	85.5	86.7
Jul 8	Average Hourly Earnings	Jun	M/M % Chg.	0.3	0.4
Jul 8	Change in Nonfarm Payrolls	Jun	Thsd	372.0	384.0
Jul 8	Unemployment Rate	Jun	%	3.6	3.6
Jul 8	Wholesale Trade Sales	May	M/M % Chg.	0.5	0.8
Canada					
Jul 4	S&P Global Canada Manufacturing PMI	Jun	Index	54.6	56.8
Jul 4	BoC Business Outlook Future Sales	2Q	Q/Q % Chg.	-26.0	-11.0
Jul 4	BoC Overall Business Outlook Survey	2Q	Q/Q % Chg.	4.9	5.0
Jul 7	Int'l Merchandise Trade	May	Blns	5.3	2.2
Jul 8	Net Change in Employment	Jun	Thsd	-43.2	39.8
Jul 8	Unemployment Rate	Jun	%	4.9	5.1
International					
Jun 30	JN Jobless Rate	May	%	2.6	2.5
Jun 30	JN Tokyo Consumer Price Index	Jun	Y/Y % Chg.	2.3	2.4
Jun 30	JN Jibun Bank Japan PMI Manufacturing	Jun	Index	52.7	52.7
Jun 30	CH Caixin China PMI Manufacturing	Jun	Index	51.7	48.1
Jul 1	EZ Consumer Price Index Estimate	Jun	Y/Y % Chg.	8.6	8.1
Jul 6	EZ Retail Sales	May	Y/Y % Chg.	0.2	4.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jul 8, 11 - 15, 2022						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jul 11	14:00	<i>Fed's Williams Takes Part in Discussion on Libor Transition</i>				
Jul 12	6:00	NFIB Small Business Optimism	Jun	Index	92.8	93.1
Jul 12	12:30	<i>Fed's Barkin Discusses the 'Recession Question'</i>				
Jul 13	8:30	Consumer Price Index Ex Food and Energy	Jun	M/M % Chg.	0.6	0.6
Jul 13	8:30	Consumer Price Index Ex Food and Energy	Jun	Y/Y % Chg.	5.8	6.0
Jul 13	8:30	Consumer Price Index	Jun	M/M % Chg.	1.1	1.0
Jul 13	8:30	Consumer Price Index	Jun	Y/Y % Chg.	8.8	8.6
Jul 13	14:00	<i>U.S. Federal Reserve Releases Beige Book</i>				
Jul 14	8:30	Initial Jobless Claims	Jul 9	Thsd	235.0	235.0
Jul 14	8:30	PPI Ex Food and Energy	Jun	M/M % Chg.	0.5	0.5
Jul 14	8:30	PPI Final Demand	Jun	M/M % Chg.	0.8	0.8
Jul 14	11:00	<i>Fed's Waller Discusses the Economic Outlook</i>				
Jul 15	8:30	Empire Manufacturing	Jul	Index	-3.8	-1.2
Jul 15	8:30	Retail Sales Advance	Jun	M/M % Chg.	0.9	-0.3
Jul 15	8:30	Retail Sales Ex Auto and Gas	Jun	M/M % Chg.	0.0	0.1
Jul 15	8:45	<i>Fed's Bostic Discusses Monetary Policy and Global Uncertainty</i>				
Jul 15	9:15	Capacity Utilization	Jun	%	80.5	80.8
Jul 15	9:15	Industrial Production	Jun	M/M % Chg.	0.0	0.1
Jul 15	9:15	Manufacturing (SIC) Production	Jun	M/M % Chg.	-	-0.1
Jul 15	10:00	Business Inventories	May	M/M % Chg.	1.1	1.2
Canada						
Jul 13	10:00	Bank of Canada Rate Decision	Jul 13	%	2.13	1.50
Jul 13	11:00	<i>BoC's Governor &amp; Senior Deputy Governor Hold Press Conference to Discuss Monetary Policy Report</i>				
Jul 14	8:30	Manufacturing Sales	May	M/M % Chg.	-	1.7
Jul 15	8:30	Wholesale Trade Sales	May	M/M % Chg.	-	-0.5
Jul 15	9:00	Existing Home Sales	Jun	M/M % Chg.	-	-8.6
International						
Jul 8	21:30	CH Consumer Price Index	Jun	Y/Y % Chg.	2.4	2.1
Jul 13	2:00	UK Monthly Gross Domestic Product (3M/3M)	May	M/M % Chg.	0.0	0.2
Jul 14	22:00	CH Gross Domestic Product	2Q	Y/Y % Chg.	1.0	4.8
Jul 14	22:00	CH Retail Sales	Jun	Y/Y % Chg.	0.4	-6.7
Jul 14	22:00	CH Surveyed Jobless Rate	Jun	%	5.7	5.9

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

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