

## The Weekly Bottom Line

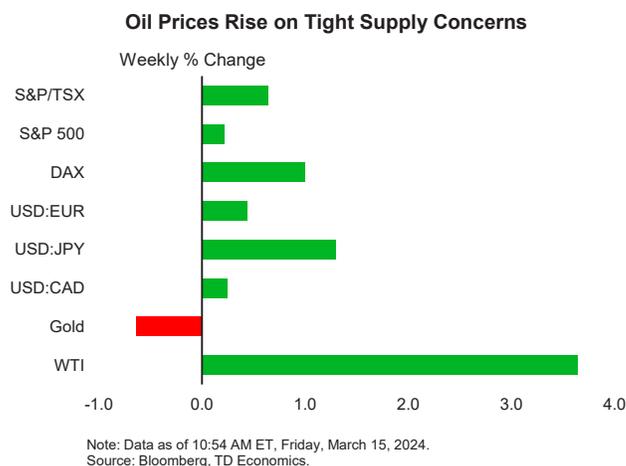
March 15, 2024

### Highlights

- February's Consumer Price Index report showed that inflation came in higher-than-expected for a second consecutive month – a development which is likely to be on the Fed's agenda at their two-day meeting next week.
- Spending in the retail sector disappointed expectations, despite some recovery from last month's notable decline.
- With inflation top of mind, U.S. small businesses were also feeling less optimistic in February.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	5123	5124	5175	3917
S&P/TSX Comp.	21842	21738	21970	18737
DAX	17986	17815	17986	14687
FTSE 100	7739	7660	7914	7257
Nikkei	38708	39689	40109	26946
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	4.32	4.07	4.99	3.31
Canada 10-yr Bond	3.57	3.33	4.24	2.73
Germany 10-yr Bund	2.44	2.27	2.97	1.90
UK 10-yr Gilt	4.11	3.98	4.75	3.28
Japan 10-yr Bond	0.79	0.74	0.96	0.25
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.74	0.74	0.76	0.72
Euro (USD per EUR)	1.09	1.09	1.12	1.05
Pound (USD per GBP)	1.27	1.29	1.31	1.21
Yen (JPY per USD)	148.9	147.1	151.7	130.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	81.3	78.0	93.7	66.7
Natural Gas (\$US/MMBtu)	1.24	1.54	13.20	1.24
Copper (\$US/met. tonne)	8783.3	8487.3	9065.8	7823.8
Gold (\$US/troy oz.)	2161.8	2179.0	2182.8	1820.3

\*As of 10:28 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)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	5.00%
European Central Bank (Refi Rate)	4.50%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 3/15/24	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.50	5.00	5.25	5.50	5.50	5.50	5.50	5.00	4.50	4.00	3.50	3.00	2.75
2-yr Govt. Bond Yield	4.72	4.06	4.87	5.03	4.23	4.65	4.35	4.05	3.75	3.45	3.15	2.75	2.75
10-yr Govt. Bond Yield	4.32	3.48	3.81	4.59	3.88	4.30	4.10	3.90	3.70	3.50	3.30	3.20	3.20
30-yr Govt. Bond Yield	4.45	3.67	3.85	4.73	4.03	4.45	4.40	4.20	4.00	3.80	3.60	3.50	3.50

Forecast by TD Economics as of February 2024; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

## Sticky Prices Could Delay Rate Cuts

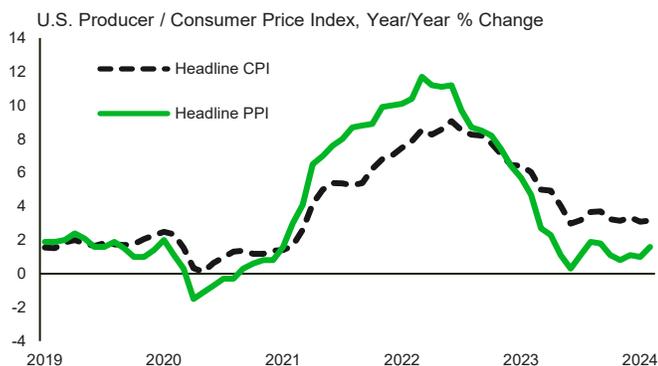
The key data among this week’s releases was the consumer price inflation numbers. While the headline monthly figure was in line with expectations, the details could give the Fed more to discuss in their upcoming policy meeting next week. Markets took the report in stride, with Treasury yields up a bit and the major stock indices closing the day higher after the release.

Delving into the details, the CPI report showed that both monthly and annual headline [inflation](#) accelerated in February, largely reflecting a rise in gasoline and shelter prices. This was also accompanied by higher-than-expected figures for both monthly and annual core inflation. Notably, the prices for core goods unexpectedly ticked higher in February after eight consecutive months of price declines. Back-to-back months of stronger than expected readings on core inflation point to an uneven road ahead as the Fed attempts to steer inflation back to target.

Price pressures further up the supply chain were also a little hotter than expected in February. The Producer Price Index (PPI) also came in above expectations. Both the monthly and annual headline PPI numbers accelerated relative to January. As such, both the consumer and producer price reports suggest that inflationary pressures remain sticky (Chart 1).

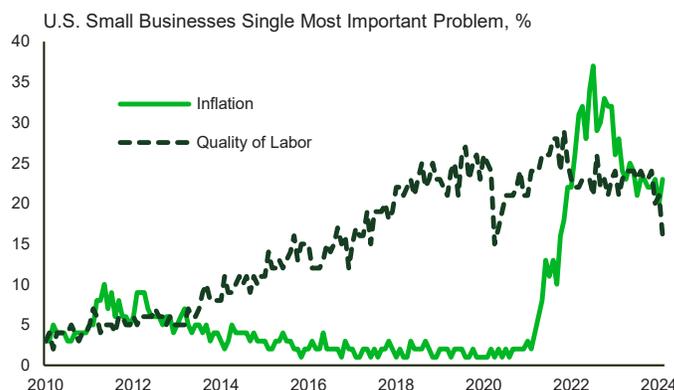
Adding to the subjects that the Fed will likely be mulling over during their meeting, is the 0.6% m/m gain in February’s retail sales after a sizeable pullback in January. On the upside, while [retail sales](#) growth flipped back to positive territory, it was lower than market expectations (0.8%).

**Chart 1: Both Consumer and Producer Prices Point to Sticky Inflation**



Source: Bureau of Labor Statistics, TD Economics.

**Chart 2: Inflation Once Again Takes Top Spot as Main Concern for U.S. Small Businesses**



Source: National Federation of Independent Businesses, TD Economics.

What’s more, the control group category, which factors into the calculation of personal consumption expenditure, was flat on the month relative to expectations for growth. Overall, the data suggests that consumers still have the ability to spend, despite challenges to their balance sheet, such as higher prices.

Inflation was also high on the list of concerns for America’s small businesses. A net 23% of respondents to the [NFIB’s small business survey](#) noted that inflation was their single most important business problem, up three points from the previous reading (Chart 2). Overall, small businesses were less optimistic in February, with the optimism index dropping to a nine-month low of 89.4. This was lower than market expectations for a slight improvement and notably below the series’ 50-year average of 98. On the upside, small businesses are having an easier time attracting and retaining employees, such that the net percentage of firms who increased compensation or are planning to do so in the near-term both fell over the month.

The key takeaway from this week’s releases is that while the labor market is normalizing as indicated by responses from the small business sector, consumers still have spending power and inflationary pressures have not fully abated. The combination suggests that the Fed is likely to remain cautious with respect to rate cuts, erring on the side of leaving rates higher for longer rather than take the risk of re-igniting price pressures by cutting prematurely.

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Recent Key Economic Indicators: Mar 11 - 15, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Mar 12	NFIB Small Business Optimism	Feb	Index	89.4	89.9
Mar 12	Consumer Price Index	Feb	M/M % Chg.	0.4	0.3
Mar 12	Consumer Price Index Ex Food and Energy	Feb	M/M % Chg.	0.4	0.4
Mar 12	Consumer Price Index	Feb	Y/Y % Chg.	3.2	3.1
Mar 12	Consumer Price Index Ex Food and Energy	Feb	Y/Y % Chg.	3.8	3.9
Mar 14	Retail Sales Advance	Feb	M/M % Chg.	0.6	-1.1
Mar 14	Retail Sales Ex Auto and Gas	Feb	M/M % Chg.	0.3	-0.8
Mar 14	PPI Final Demand	Feb	M/M % Chg.	0.6	0.3
Mar 14	PPI Ex Food and Energy	Feb	M/M % Chg.	0.3	0.5
Mar 14	Initial Jobless Claims	Mar 09	Thsd	209.0	210.0
Mar 14	Business Inventories	Jan	M/M % Chg.	0.0	0.3
Mar 15	Empire Manufacturing	Mar	Index	-20.9	-2.4
Mar 15	Industrial Production	Feb	M/M % Chg.	0.1	-0.5
Mar 15	Capacity Utilization	Feb	%	78.3	78.3
Mar 15	Manufacturing (SIC) Production	Feb	M/M % Chg.	0.8	-1.1
<b>Canada</b>					
Mar 14	Manufacturing Sales	Jan	M/M % Chg.	0.2	-1.1
Mar 15	Housing Starts	Feb	Thsd	253.5	223.2
<b>International</b>					
Mar 12	UK ILO Unemployment Rate	Jan	Q/Q % Chg.	3.9	3.8
Mar 13	UK Gross Domestic Product	Jan	Q/Q % Chg.	-0.1	-0.3

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



Upcoming Economic Releases and Events: Mar 18 - 22, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Mar 18	8:30	New York Fed Services Business Activity	Mar	Index	-	-7.3
Mar 18	10:00	NAHB Housing Market Index	Mar	Index	48.0	48.0
Mar 19	8:30	Building Permits	Feb	Thsd	1500.0	1470.0
Mar 19	8:30	Housing Starts	Feb	Thsd	1430.0	1331.0
Mar 19	10:00	<i>FOMC Begins Two-Day Meeting</i>				
Mar 20	14:00	FOMC Rate Decision (Upper Bound)	Mar 20	%	5.50	5.50
Mar 20	14:00	Interest on Reserve Balances Rate	Mar 21	%	-	5.40
Mar 20	14:00	<i>FOMC Ends Two-Day Meeting</i>				
Mar 20	14:30	<i>Fed Chair Powell Holds Post-Meeting Press Conference</i>				
Mar 21	8:30	Initial Jobless Claims	Mar 16	Thsd	-	209.0
Mar 21	9:45	S&P Global US Composite PMI	Mar	Index	-	52.5
Mar 21	9:45	S&P Global US Manufacturing PMI	Mar	Index	51.8	52.2
Mar 21	9:45	S&P Global US Services PMI	Mar	Index	52.0	52.3
Mar 21	10:00	Existing Home Sales	Feb	Mlns	3.92	4.00
Mar 22	16:00	<i>Fed's Bostic Participates in Moderated Conversation</i>				
<b>Canada</b>						
Mar 18	8:30	Industrial Product Price	Feb	M/M % Chg.	-	-0.1
Mar 18	9:00	Existing Home Sales	Feb	M/M % Chg.	-	3.7
Mar 19	8:30	Consumer Price Index NSA	Feb	M/M % Chg.	0.6	0.0
Mar 19	8:30	Consumer Price Index	Feb	Y/Y % Chg.	3.1	2.9
Mar 20	13:30	<i>Bank of Canada Releases Summary of Deliberations</i>				
Mar 21	9:50	<i>Deputy Governor Toni Gravelle Speaks to the CFA Society Toronto</i>				
Mar 22	8:30	Retail Sales	Jan	M/M % Chg.	-0.4	0.9
Mar 22	8:30	Retail Sales Ex Auto	Jan	M/M % Chg.	-0.5	0.6
<b>International</b>						
Mar 18	6:00	EZ Consumer Price Index	Feb	Y/Y % Chg.	2.6	2.6
Mar 18-19		JN BOJ Policy Balance Rate	Mar 19	%	-0.10	-0.10
Mar 20	20:30	JN Jibun Bank Japan PMI Mfg	Mar	Index	-	47.2
Mar 21	19:30	JN Natl Consumer Price Index	Feb	Y/Y % Chg.	2.9	2.2
Mar 20	3:00	UK Consumer Price Index	Feb	Y/Y % Chg.	3.5	4.0
Mar 21	8:00	UK Bank of England Bank Rate	Mar 21	%	5.25	5.25
Mar 22	3:00	UK Retail Sales Ex Auto Fuel	Feb	Y/Y % Chg.	-0.80	0.7

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



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