

The Weekly Bottom Line

April 29, 2022

Highlights

United States

- 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.

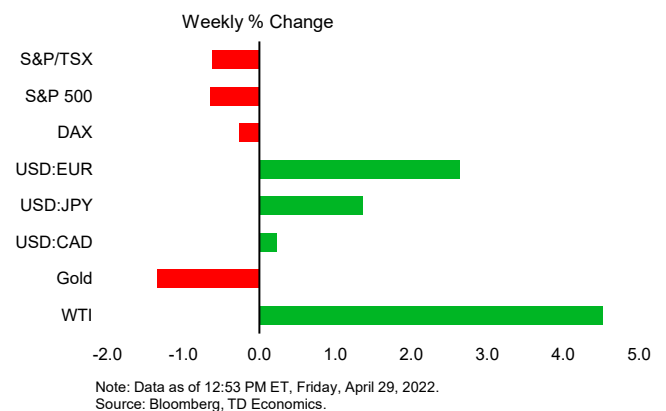
Canada

- This morning's GDP report showed that output surged 1.1% month/month in February, beating Statistics Canada's flash estimate of 0.8%. The preliminary estimate for March also points to a strong gain of 0.5%.
- Governor Maklem noted that "the economy has entered excess demand" territory and is starting to bump up against its capacity constraints. This is adding pressure on prices and wages, and emboldening the Bank to act swiftly.
- April's CFIB's Small Business Barometer reaffirmed that businesses remained upbeat about the near-term outlook, but were feeling the constraints presented by the tight labour market.

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



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.

U.S. - GDP Drop Obscures Strong Underlying Demand

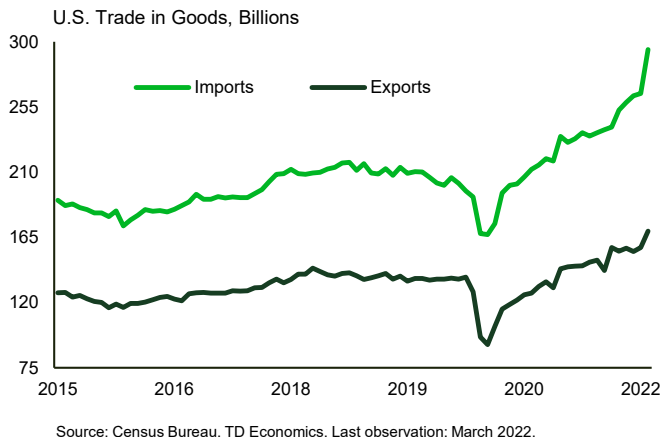
First quarter GDP was the disappointing marquee release this week, but there were plenty of silver linings. The consensus was for weak, but still positive, growth. Instead, the U.S. economy retreated by 1.4% annualized, after booming 6.9% in the fourth quarter of 2021 (see [here](#)). The unexpected 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 2: U.S. Merchandise Trade Deficit Hits New Record High on Surging Imports

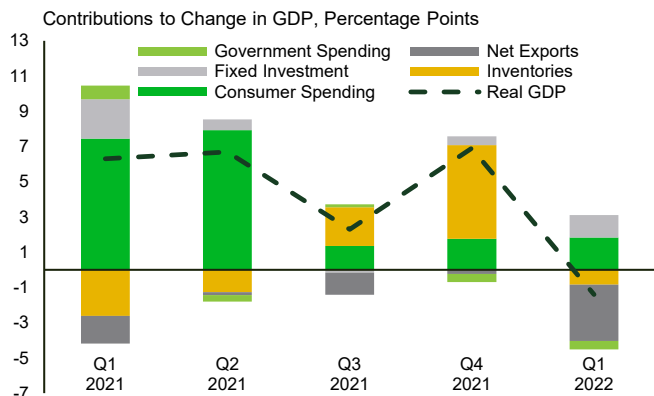


utive month. New home sales were down 8.6% m/m. There was also a decline in contracts signed to purchase homes. Pending home sales headed lower for the fifth consecutive month. The metric fell 1.2% m/m in March, pushing signed contracts to the lowest level since May 2020. As prices and interest rates 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.

Chart 1: First Quarter GDP Contracts on Rising Trade Deficit



Source: Bureau of Economic Analysis, TD Economics.

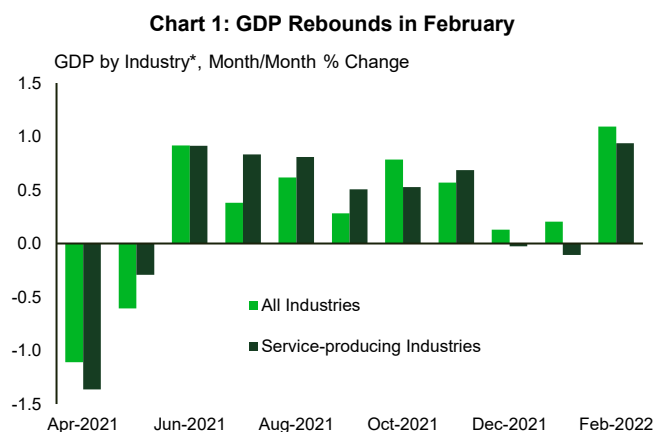
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Canada - Some Do Not Like It Hot...

This was a relatively quiet week in terms of economic data, with industry-level GDP for February the main highlight. Bank of Canada speeches were also on the docket, providing some additional colour on the Bank's view of the economy, inflation and monetary policy.

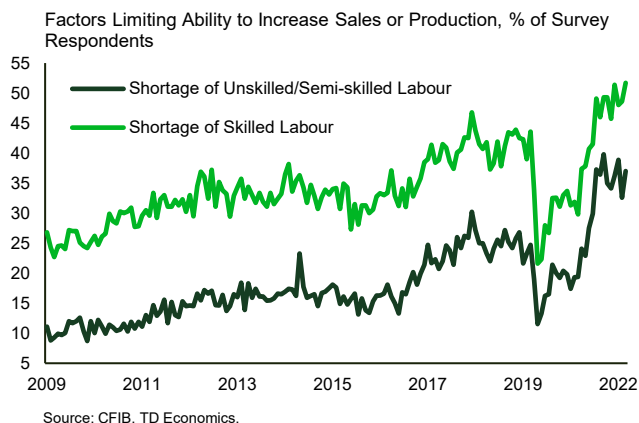
In his speeches earlier this week the Bank of Canada Governor Tiff Maklem sought to make three key points: that "the Canadian economy is strong", that "inflation is too high", and that higher interest rates are very much needed in order to stomp out the inflationary fire. Indeed, this morning's monthly GDP report echoed his words on the strength of the recovery, with economy expanding 1.1% month/month in February. This result was well-ahead of expectations, lifting the level of GDP 1.5% above its pre-pandemic level. Easing public health restrictions supported the rebound in February, particularly in the services sector. Accommodation and food services industry led the way with real GDP surging by 15.1% on the month (Chart 1).

With GDP above its pre-pandemic level, and the unemployment rate falling below its pre-crisis mark, Governor Maklem noted that "the economy has entered excess demand" territory and is starting to bump up against its productive capacity constraints. The labour market is a poster child of this. Businesses are having a tough time filling vacant positions, even at higher wages. This week's CFIB's Small Business Barometer [survey](#) reaffirmed that businesses are acutely feeling those challenges. Half of survey respon-



*Seasonally adjusted annual rate, chained (2012) CAD dollars.
Source: Statistics Canada, TD Economics.

Chart 2: Small Businesses Report Significant Labour Shortages



dents reported shortages of skilled labour were limiting their ability to ramp up production, and 37% cited a shortage of semi-skilled/unskilled labour as an impediment (Chart 2).

On inflation, the governor said that it "remains the Bank's primary focus", noting that "high inflation affects everyone". Indeed, rapidly rising prices are being felt by all Canadians, but as we note in this week's [report](#), inflationary pressure also varies by province. Inflation has been particularly hot in most of the Atlantic Provinces, lifted by food and energy product prices (which carry a large weighting in the region). Inflation has been much slower in most of Western Canada, on the back of relatively muted recoveries in Alberta and Saskatchewan and a slower increase in transportation costs in B.C.

On average, however, the BoC estimates that 5% inflation costs the average Canadian \$2000 more per year relative to 2% inflation. To bring it down and to keep expectations anchored, the BoC will not be shy to raise rates. Together with inflation, higher interest rates will be another hit to household finances. We estimate that annual debt servicing costs will increase by \$2000 per household by the first quarter of 2023 as the overnight rate reaches 2.25%. Let's hope this will be enough to cool domestic demand and bring inflation down, otherwise the Bank is not afraid to raise interest rates more "forcefully".

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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	<i>Fed Chair Holds Press Conference Following FOMC Meeting</i>				
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	<i>Fed's Williams Gives Opening Remarks at Environmental Economics and Policy Event</i>				
May 6	15:00	<i>Fed's Bostic Gives Commencement Address at Georgia Tech</i>				
May 6	19:15	<i>Fed's Bullard and Waller Speak on Hoover Institute Panel</i>				
May 6	20:00	<i>Fed's Daly Gives Commencement Speech at Utah Valley University</i>				
Canada						
May 2	9:30	S&P Global Canada Manufacturing PMI	Apr	Index	-	58.9
May 3	12:45	<i>BoC's Senior Deputy Governor Rogers Speaks Before Women in Capital Markets</i>				
May 4	8:30	International Merchandise Trade	Mar	Blns	-	2.7
May 5	9:55	<i>BoC's Deputy Governor Schembri Speaks at NACCA Indigenous Prosperity Forum</i>				
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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