

The Weekly Bottom Line

May 6, 2022

Highlights

United States

- The Fed raised the monetary policy rate by 50 basis points for the first time since 2000 and signaled more hikes of the same magnitude are in the works.
- The economy added more jobs than expected in April, but the labor market remains tight with the number of workers looking for jobs retreating.
- Supply constraints continue to create a mismatch between demand and supply. Should supply fail to improve, inflation will remain high, making the Fed's job more difficult.

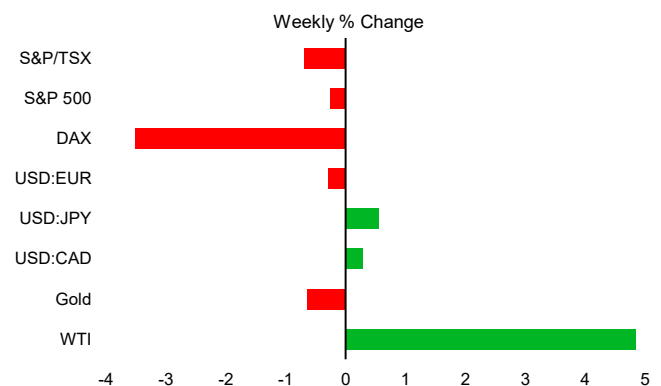
Canada

- The Canadian 10-year bond yield broke the 3% threshold for the first time since 2011 this week.
- Higher rates are weighing on housing, with early data pointing to steep April sales declines in Vancouver, Calgary, and Toronto. The latter is now on the cusp of being a buyer's market.
- Job growth cooled in April and hours worked fell. However, both follow big gains in Feb/March and some slowing was expected given an economy operating excess demand.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4121	4132	4797	4063
S&P/TSX Comp.	20621	20762	22087	19108
DAX	13604	14098	16272	12832
FTSE 100	7370	7545	7672	6844
Nikkei	27004	26848	30670	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.09	2.93	3.09	1.17
Canada 10-yr Bond	3.07	2.87	3.07	1.12
Germany 10-yr Bund	1.14	0.94	1.14	-0.50
UK 10-yr Gilt	1.99	1.91	2.01	0.51
Japan 10-yr Bond	0.24	0.23	0.25	0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.78	0.78	0.83	0.77
Euro (USD per EUR)	1.06	1.05	1.23	1.05
Pound (USD per GBP)	1.23	1.26	1.42	1.23
Yen (JPY per USD)	130.4	129.7	130.9	108.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	109.5	104.7	123.7	62.1
Natural Gas (\$US/MMBtu)	8.47	6.84	8.47	2.78
Copper (\$US/met. tonne)	9512.5	9770.5	11299.5	8894.0
Gold (\$US/troy oz.)	1884.5	1896.9	2050.8	1726.4

*As of 11:03 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Fears of EU Embargo on Russian Oil Boosts WTI, Equities Drop



Note: Data as of 11:23 AM ET, Friday, May 6, 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.

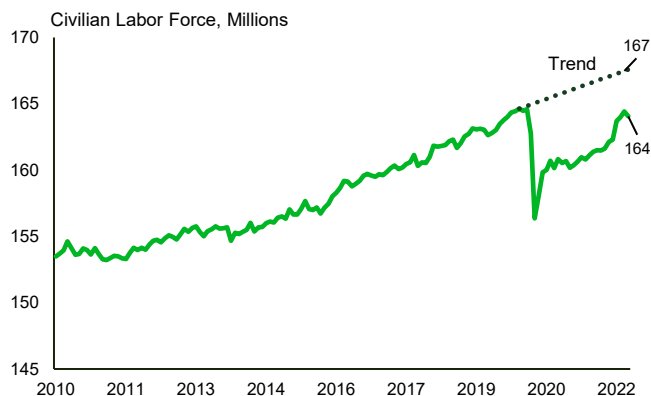
U.S. - Tight Corners of the Economy

This was a big week for the U.S. economy with a Federal Reserve interest rate decision and early macroeconomic indicators for the month of April. As widely anticipated, the Fed raised the monetary policy rate by 50 basis points for the first time since 2000. More tightening is in the works: we anticipate the central bank will hike the fed funds rate in two more 50 basis point moves at its next two meetings. A that point, we expect it to return to more gradual quarter-point adjustments (see [Dollars & Sense](#)). Chair Powell's push back against the possibility of a larger hike was first accepted as bullish by the equity market, but the sentiment reversed quickly pushing the equity market a quarter of a percent lower and bond yields 15 bps higher for the week (at the time of writing).

This morning's [jobs report](#) surprised with 428k jobs added in February, according to the payrolls survey, well above 380k anticipated by forecasters. The unemployment rate, which is measured by the household survey held steady 3.6%. The labor force – a measure of people working or actively looking for work – dropped unexpectedly, pushing the participation rate down to 62.2%. As a result, an already sizeable shortfall relative to the pre-pandemic trend, expanded even further (Chart 1). Without progress on this front, the labor market will remain very tight, providing little relief for businesses already struggling to attract workers.

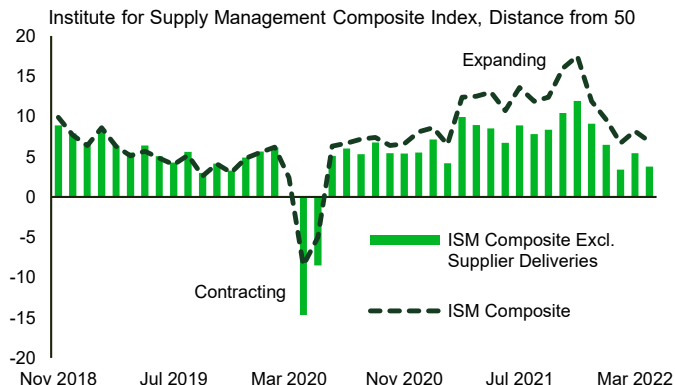
Meanwhile, leading business indicators – the ISM purchasing managers indexes – came in weaker than expected by the consensus, while remaining in the expansionary territory. The [manufacturing](#) sector decelerated for the second month in a row. All major subcomponents but the

Chart 1: Missing Workers Keep the Labor Market Tight



Source: Bureau of Labor Statistics, TD Economics.

Chart 2: Slow Delivery Times Keep Supply Tight Despite Softer Demand



Source: Institute for Supply Management, TD Economics.

supplier deliveries index declined, with the largest drop in the employment index. Softness in demand is consistent with our expectation that consumers start to cut back on manufactured products in favor of services. In this context, a deceleration in the [services](#) sector was somewhat disappointing. The underlying details suggest that current business activity accelerated, but new orders and new export orders slipped. Another drag was the employment sub-index, which dropped back into the contractionary territory, likely due to “hypercompetitive” demand for workers, as suggested by one of the purchasing managers.

Importantly, supply constraints and challenges in logistics continue to create a mismatch between demand and supply in both sectors of the economy. Comparing to history, the supplier delivery index has been unusually strong since March of 2021, creating a wedge between this sub-component the rest of the index's drivers (Chart 2). Another way to think about it is that delivery times remain atypically slow relative to softer demand.

Should supply fail to improve in lock steps with demand softening, inflation is likely to remain elevated. This will make it more difficult for the Fed to soften growth without crushing the economy into a recession. The good news is that the strength of consumer finances points to a softening in spending, rather than an outright retreat (see [report](#)). This should help the Fed navigate the economy out of its tight spot.

Maria Solovieva, CFA, Economist | 416-380-1195

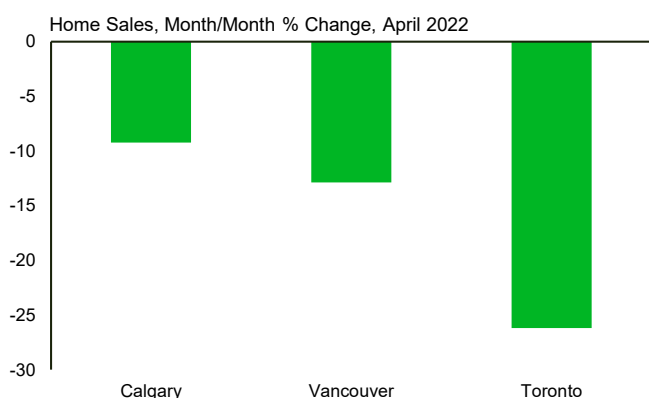
Canada - Higher Rates Are Doing Their Job

Interest rates in Canada were breaching all kinds of thresholds this week, with implications for the housing market. The 10-year Government of Canada bond rose above 3% this week for the first time since 2011. U.S. the 10-year yield had recently breached this 3% psychological threshold, but it had been above 3% as recently as 2018.

For the housing market, the most important yield is on the 5-year Canada, which drives the pricing of many mortgage products and is hovering near 24-year highs. And, with the Bank of Canada taking their policy rate higher, rates on variable mortgages are on the rise as well. This means that there's nowhere to run, nowhere to hide for potential buyers. Affordability is rapidly eroding, and housing demand is softening.

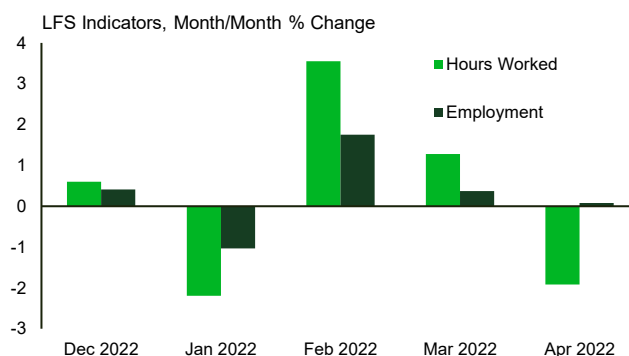
This week brought fresh evidence that the housing market correction intensified in April (Chart 1). Home sales declined in month-on-month terms in Calgary and Vancouver but plunged nearly 30% in one month in Toronto. The latter region seems to be the real outlier here, as supply/demand conditions are now closer to favouring buyers, and average prices were down 6.4% during the month. In contrast, markets remained quite tight in Calgary and Vancouver and price growth seems to have been stronger. It's no great surprise that Toronto's market is correcting more than these other jurisdictions – this is the other side of the rapid runup in prices that had Toronto challenging for the most expensive market in all of Canada in recent months.

Chart 1: Higher Rates Weighing on Housing Demand, Sales Plunging in Toronto



Source: Local Real Estate Boards, TD Economics.

Chart 2: Job Growth Cools but Remains Positive in April, Hours Worked Biased Downwards by COVID-Related Absences



Source: Statistics Canada, TD Economics.

Of course, the Bank of Canada is not done hiking rates. Our [updated forecasts](#) see the central bank taking its policy rate to 2% in very short order before shifting to a more gradual rate hike cadence, ultimately finishing the year at 2.5%. This means that further downward pressure is in store for Canadian home sales and prices.

While the interest-sensitive housing sector is softening under the weight of higher rates, the overall economy seems to have taken a breather last month as well. This morning's jobs report showed that employment expanded by 0.1% m/m (or 15k positions), but hours worked dropped 1.9% m/m. Other details were soft, as full-time employment dropped. However, the more modest jobs gain follows a massive 409k positions being added in February and March, and the drop-in hours worked only partially retraces the large gains made during those two months (Chart 2). Moreover, some of the decline was due to COVID-19 related absences. In addition, job growth of 15k is only a touch below the long-term average and was made in the context of an economy operating in excess demand.

While the decline in hours worked throws some cold water on the Bank's forecast for a 6% annualized Q2 expansion in GDP, the jobs report is not going to knock the Bank off its tightening course. Expect a 50 bps move in June.

Rishi Sondhi, Economist | 416-983-8806

Recent Key Economic Indicators: Apr 29, May 2 - 6, 2022					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
May 2	S&P Global US Manufacturing PMI	Apr	Index	592	59.7
May 2	ISM Manufacturing	Apr	Index	55.4	57.1
May 3	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	1.3	1.0
May 3	Durable Goods Orders	Mar	M/M % Chg.	1.1	0.8
May 3	Factory Orders	Mar	M/M % Chg.	2.2	0.1
May 3	Factory Orders Ex Trans	Mar	M/M % Chg.	2.5	1
May 3	Wards Total Vehicle Sales	Apr	Mlns	14.3	13.3
May 4	ADP Employment Change	Apr	Thsd	247.0	479.0
May 4	Trade Balance	Mar	Blns	-109.8	-89.8
May 4	S&P Global US Composite PMI	Apr	Index	56	55.1
May 4	S&P Global US Services PMI	Apr	Index	55.6	54.7
May 4	ISM Services Index	Apr	Index	57.1	58.3
May 4	FOMC Rate Decision (Upper Bound)	May 4	%	1.00	0.50
May 4	Interest on Reserve Balances Rate	May 5	%	0.9	0.4
May 5	Initial Jobless Claims	Apr 30	Thsd	200.0	181.0
May 5	Unit Labor Costs	1Q	Q/Q % Chg.	11.6	1.0
May 6	Average Hourly Earnings	Apr	M/M % Chg.	0.3	0.5
May 6	Change in Nonfarm Payrolls	Apr	Thsd	428.0	428.0
May 6	Unemployment Rate	Apr	%	3.6	3.6
Canada					
May 2	S&P Global Canada Manufacturing PMI	Apr	Index	56.2	58.9
May 4	International Merchandise Trade	Mar	Blns	2.5	2.7
May 6	Net Change in Employment	Apr	Thsd	15.3	72.5
May 6	Unemployment Rate	Apr	%	5.2	5.3
International					
Apr 29	CH Manufacturing PMI	Apr	Index	47.4	49.5
Apr 29	CH Caixin China PMI Manufacturing	Apr	Index	46.0	48.1
May 2	EZ S&P Global Eurozone Manufacturing PMI	Apr	Index	55.5	55.3
May 3	UK S&P Global/CIPS UK Manufacturing PMI	Apr	Index	55.8	55.3
May 3	EZ Unemployment Rate	Mar	%	6.8	6.9
May 4	EZ Retail Sales	Mar	Y/Y % Chg.	0.8	5.2
May 5	UK Bank of England Bank Rate	May 5	%	1.00	0.75
May 5	JN Tokyo Consumer Price Index	Apr	Y/Y % Chg.	2.5	1.3

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 9 - 13, 2022						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 9	10:00	Wholesale Trade Sales	Mar	M/M % Chg.	1.8	1.7
May 10	6:00	NFIB Small Business Optimism	Apr	Index	92.9	93.2
May 10	7:40	<i>Fed's Williams Gives Speech at NABE/Bundesbank Symposium</i>				
May 10	9:15	<i>Fed's Barkin Discusses Inflation</i>				
May 10	13:00	<i>Fed's Waller and Kashkari Speak to Economic Club of Minnesota</i>				
May 10	15:00	<i>Fed's Mester Takes Part in Panel Discussion at Atlanta Fed's Annual Financial Markets Conference</i>				
May 10	19:00	<i>Fed's Bostic Discusses Monetary Policy and the Economy</i>				
May 11	8:30	Consumer Price Index	Apr	M/M % Chg.	0.2	1.2
May 11	8:30	Consumer Price Index	Apr	Y/Y % Chg.	8.1	8.5
May 11	8:30	Consumer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.4	0.3
May 11	8:30	Consumer Price Index Ex Food and Energy	Apr	Y/Y % Chg.	5.9	6.5
May 11	12:00	<i>Fed's Bostic Discusses Economy and Monetary Policy</i>				
May 12	8:30	Initial Jobless Claims	May 07	Thsd	190.0	200.0
May 12	8:30	PPI Ex Food and Energy	Apr	M/M % Chg.	0.6	1.0
May 12	8:30	PPI Final Demand	Apr	M/M % Chg.	0.5	1.4
May 12	16:00	<i>Fed's Daly Takes Part in Moderated Discussion</i>				
May 13	11:00	<i>Fed's Kashkari Discusses Energy and Inflation</i>				
May 13	12:00	<i>Fed's Mester Discusses Monetary Policy</i>				
Canada						
May 12	11:50	<i>BoC's Toni Gravelle, Deputy Governor, Remarks on Impacts of Commodity Price Shocks in Canada</i>				
International						
May 10	21:30	CH Consumer Price Index	Apr	Y/Y % Chg.	1.9	1.5
May 12	2:00	UK Gross Domestic Product	1Q	Y/Y % Chg.	8.9	6.6

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

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.