

The Weekly Bottom Line

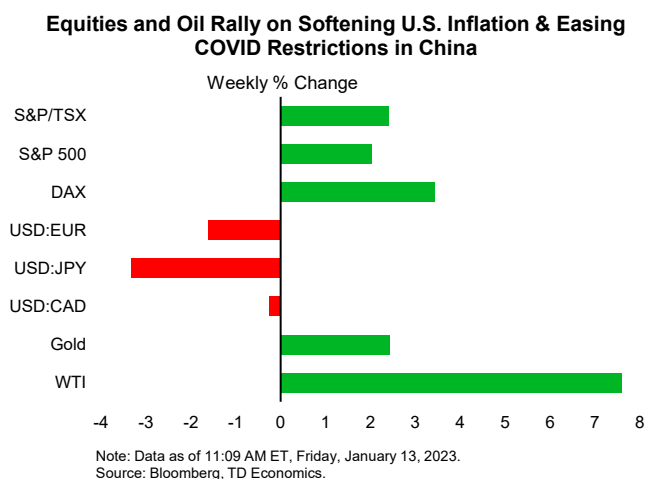
January 13, 2023

Highlights

- After fifteen rounds of votes, Kevin McCarthy was elected the new House Speaker. However, it didn't come without making major concessions, setting the stage for more political brinkmanship over the coming months.
- Headline inflation came in below expectations – falling 0.1% m/m. The core measure rose by 0.3% m/m, bring the 12-month change to 5.7% - the slowest pace of price growth in a year.
- Data out this week showed that labor market remains incredibly tight. The number of small businesses with unfilled job openings remains historically elevated while jobless claims have steadily trended lower over the last month.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3983	3895	4663	3577
S&P/TSX Comp.	20211	19815	22087	18206
DAX	15059	14610	16032	11976
FTSE 100	7826	7699	7826	6826
Nikkei	26120	25974	29223	24718
Fixed Income Yields				
U.S. 10-yr Treasury	3.47	3.56	4.24	1.70
Canada 10-yr Bond	2.91	3.09	3.68	1.67
Germany 10-yr Bund	2.13	2.21	2.57	-0.11
UK 10-yr Gilt	3.32	3.47	4.51	1.11
Japan 10-yr Bond	0.51	0.51	0.51	0.13
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.74	0.80	0.72
Euro (USD per EUR)	1.08	1.06	1.15	0.96
Pound (USD per GBP)	1.22	1.21	1.37	1.07
Yen (JPY per USD)	128.3	132.1	150.2	113.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	78.6	73.8	123.7	71.0
Natural Gas (\$US/MMBtu)	3.48	3.43	9.84	3.24
Copper (\$US/met. tonne)	9169.1	8569.9	10702.0	7160.0
Gold (\$US/troy oz.)	1900.0	1865.7	2050.8	1622.4

*As of 11:04 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)	4.25 - 4.50%
Bank of Canada (Overnight Rate)	4.25%
European Central Bank (Refi Rate)	2.50%
Bank of England (Repo Rate)	3.50%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 1/13/23	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	4.50	0.50	1.75	3.25	4.50	5.00	5.00	5.00	4.50	4.00	3.50	3.00	2.75
2-yr Govt. Bond Yield	4.16	2.28	2.92	4.22	4.41	4.20	3.85	3.50	3.20	2.95	2.70	2.55	2.40
10-yr Govt. Bond Yield	3.47	2.32	2.98	3.83	3.88	3.55	3.50	3.40	3.30	3.15	3.00	2.90	2.80
30-yr Govt. Bond Yield	3.60	2.44	3.14	3.79	3.97	3.55	3.50	3.45	3.40	3.35	3.30	3.20	3.10

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

Inflation Turning, But Victory Still Nowhere Insight

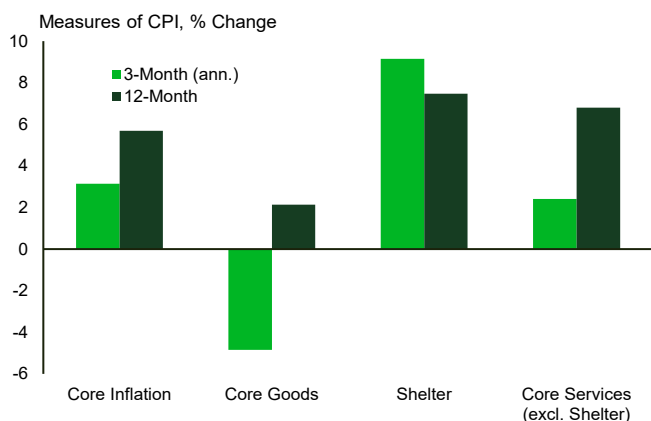
This week ushered in a new House Speaker and a fresh reading on CPI. The former came after fifteen rounds of votes and several concessions made by Speaker McCarthy. Of those, arguably the biggest was a commitment to pairing an increase in the debt ceiling with cuts in government spending. U.S. Treasury Secretary Janet Yellen informed Congress that the debt limit could be reached as early as next week, and Treasury will start to employ extraordinary measures which are expected to last until June. With Democrats unwilling to tie debt ceiling negotiations to cuts in spending, we are headed for more fiscal brinkmanship over the coming months.

After last week's payrolls report, investors were eager to see the December reading on U.S. CPI to better gauge the future path of the policy rate. Going into the week, most market participants expected a further downshift in the pace of rate hikes when the FOMC next meets in early-February. Inflation is (finally) moving in the right direction, solidifying market pricing for a 25-bps hike. Equities were up 2% on the week, while the U.S. 10Y fell by roughly 10-bps and currently sits at 3.45%

Headline inflation fell 0.1% m/m – a tick below expectations – with the pullback largely attributed to weaker gasoline prices (-9.4%). The core measure rose by 0.3% which brought the twelve-month change to “just” 5.7% – the slowest pace of growth in over a year. Even more encouraging was the steady downward trend in the three-month annualized change, which now sits at 3.1% (Chart 1).

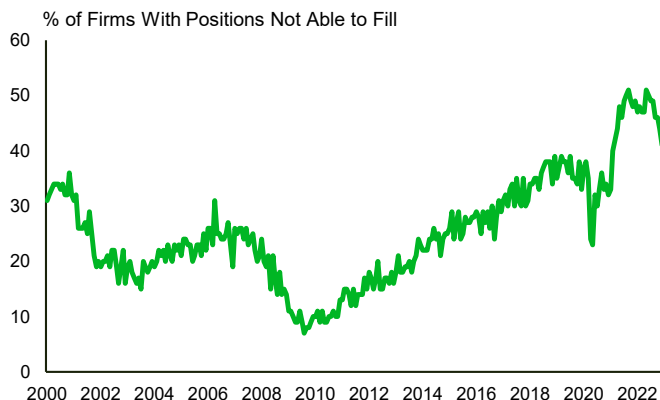
Distortions from the pandemic continued to show further evidence of easing, with core goods prices (-0.3%) falling for the third consecutive month. Declines were primarily con-

Chart 1: Services Keeping Inflation Elevated



Source: Bureau of Labor Statistics, TD Economics.

Chart 2: Small Business Job Openings Coming Down But Remain Historically Elevated



Source: National Federation of Independent Business, TD Economics.

centrated in transportation, while most other categories were higher on the month. That said, retail inventories have been piling up more recently, suggesting we are likely to see further price declines in things like apparel, furniture, and electronics in the months ahead. While encouraging, a softening in goods prices alone can only go so far in bringing down inflation. Core services will also need to slow, and herein lies the problem. Shelter continues to make outsized gains and is not expected to rollover until mid-year. Meanwhile, services (excluding shelter), whose price growth is more closely tied to wages, is unlikely to slow until we see some softening in underlying labor market conditions. And that doesn't appear to be on the immediate horizon.

Data out this week showed that while the number of small businesses reporting job openings are declining, they remain historically elevated (Chart 2). As a result, nearly half of small businesses surveyed reported having increased compensation in recent months, while more than a quarter are planning to boost wages over the next three months. Elsewhere, jobless claims continued to edge lower through the first week of January – falling to 205k – with the four-week moving average having steadily declined since late-November. Putting all this together suggests the labor market remains incredibly tight and has not yet reached an inflection point. So while inflation may be easing, the Fed is nowhere near declaring victory. We expect more tightening to come over the coming months – likely in the form of two 25-bps hikes – before pausing to assess the cumulative impact of all 475-bps of tightening.

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Recent Key Economic Indicators: Jan 9 - 13, 2022					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 10	NFIB Small Business Optimism	Dec	Index	89.8	91.9
Jan 10	Wholesale Trade Sales	Nov	M/M % Chg.	-0.6	0.0
Jan 12	Consumer Price Index	Dec	M/M % Chg.	-0.1	0.1
Jan 12	Consumer Price Index	Dec	Y/Y % Chg.	6.5	7.1
Jan 12	Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.3	0.2
Jan 12	Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	5.7	6.0
Jan 12	Initial Jobless Claims	Jan 7	Thsds	205.0	206.0
International					
Jan 9	EZ Unemployment Rate	Nov	%	6.5	6.5
Jan 9	JN Tokyo Consumer Price Index	Dec	Y/Y % Chg.	4.0	3.7
Jan 11	CH Consumer Price Index	Dec	Y/Y % Chg.	1.8	1.6
Jan 13	UK Monthly GDP (3M/3M)	Nov	M/M % Chg.	-0.3	-0.4

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

Upcoming Economic Releases and Events: Jan 16 - 20, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 17	8:30	Empire Manufacturing	Jan	Index	-8.7	-11.2
Jan 17	15:00	<i>Fed's Williams Gives Welcoming Remarks</i>				
Jan 18	8:30	PPI Ex Food and Energy	Dec	M/M % Chg.	0.1	0.4
Jan 18	8:30	PPI Final Demand	Dec	M/M % Chg.	-0.1	0.3
Jan 18	8:30	Retail Sales Advance	Dec	M/M % Chg.	-0.8	-0.6
Jan 18	8:30	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	-0.1	-0.2
Jan 18	9:00	<i>Fed's Bostic Makes Welcoming Remarks at Academic Conference</i>				
Jan 18	9:15	Capacity Utilization	Dec	%	79.6	79.7
Jan 18	9:15	Industrial Production	Dec	M/M % Chg.	-0.1	-0.2
Jan 18	9:15	Manufacturing (SIC) Production	Dec	Index	-0.2	-0.6
Jan 18	10:00	Business Inventories	Nov	M/M % Chg.	0.4	0.3
Jan 18	10:00	NAHB Housing Market Index	Jan	Index	31.0	31.0
Jan 18	14:00	<i>Federal Reserve Releases Beige Book</i>				
Jan 18	14:00	<i>Fed's Harker Discusses the Economic Outlook</i>				
Jan 18	17:00	<i>Fed's Logan Gives Speech in Austin</i>				
Jan 19	8:30	Building Permits	Dec	Thsds	1370.0	1351.0
Jan 19	8:30	Housing Starts	Dec	Thsds	1351.0	1427.0
Jan 19	8:30	Initial Jobless Claims	Jan 14	Thsds	212.0	205.0
Jan 19	9:00	<i>Fed's Collins Speaks at Housing Conference</i>				
Jan 19	13:15	<i>Fed's Brainard Discusses the Economic Outlook</i>				
Jan 19	18:35	<i>Fed's Williams Speaks at Event in New York</i>				
Jan 20	9:00	<i>Fed's Harker Discusses the Economic Outlook</i>				
Jan 20	10:00	Existing Home Sales	Dec	Mlns	3.97	4.09
Jan 20	13:00	<i>Fed's Waller Speaks at the Council on Foreign Relations</i>				
Canada						
Jan 16	8:30	Manufacturing Sales	Nov	M/M % Chg.	-	2.8
Jan 16	9:00	Existing Home Sales	Dec	M/M % Chg.	-	-3.3
Jan 16	10:30	BoC Overall Business Outlook Survey	4Q	Q/Q % Chg.	-	1.7
Jan 17	8:15	Housing Starts	Dec	Thsds	-	264.2
Jan 17	8:30	Consumer Price Index	Dec	Y/Y % Chg.	-	6.8
Jan 17	8:30	Consumer Price Index NSA	Dec	M/M % Chg.	-	0.1
Jan 18	8:30	Industrial Product Price	Dec	M/M % Chg.	-	-0.4
Jan 19	8:30	Wholesale Trade Sales	Nov	M/M % Chg.	-	2.1
Jan 20	8:30	Retail Sales	Nov	M/M % Chg.	-	1.4
Jan 20	8:30	Retail Sales Ex Auto	Nov	M/M % Chg.	-	1.7
International						
Jan 16	21:00	CH Gross Domestic Product	4Q	Q/Q % Chg.	1.6	3.9
Jan 16	21:00	CH Retail Sales	Dec	Y/Y % Chg.	-9.5	-5.9
Jan 16	21:00	CH Surveyed Jobless Rate	Dec	%	5.8	5.7
Jan 17	2:00	UK ILO Unemployment Rate 3Mths	Nov	M/M % Chg.	3.7	3.7
Jan 17-18		JN BOJ Policy Balance Rate	Jan 18	%	-	-0.10
Jan 18	2:00	UK Consumer Price Index	Dec	Y/Y % Chg.	10.5	10.7
Jan 18	5:00	EZ Consumer Price Index	Dec	Y/Y % Chg.	9.2	9.2
Jan 19	18:30	JN National Consumer Price Index	Dec	Y/Y % Chg.	4.0	3.8
Jan 20	2:00	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	-4.4	-5.9

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

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