

## The Weekly Bottom Line

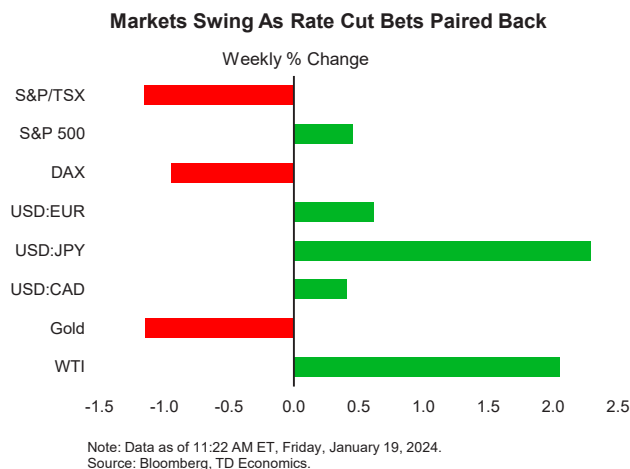
January 19, 2024

### Highlights

- Higher than expected retail sales in December suggests that consumer spending remained resilient to end the year.
- Several Fed governors sought to push back against market expectations for swift and significant rate cuts.
- The housing market ended 2023 on a sour note, with both new home construction and existing home sales falling in December.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4790	4784	4790	3856
S&P/TSX Comp.	20720	20990	21075	18737
DAX	16537	16705	16794	14687
FTSE 100	7464	7625	8014	7257
Nikkei	35963	35577	35963	26405
Fixed Income Yields				
U.S. 10-yr Treasury	4.17	3.94	4.99	3.31
Canada 10-yr Bond	3.51	3.22	4.24	2.73
Germany 10-yr Bund	2.34	2.18	2.97	1.90
UK 10-yr Gilt	3.94	3.79	4.75	3.01
Japan 10-yr Bond	0.67	0.61	0.96	0.25
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.75	0.76	0.72
Euro (USD per EUR)	1.09	1.10	1.12	1.05
Pound (USD per GBP)	1.27	1.28	1.31	1.18
Yen (JPY per USD)	148.4	144.9	151.7	128.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	74.2	72.7	93.7	66.7
Natural Gas (\$US/MMBtu)	2.88	13.20	13.20	1.77
Copper (\$US/met. tonne)	8223.8	8241.2	9330.8	7823.8
Gold (\$US/troy oz.)	2028.1	2049.1	2077.5	1811.0

\*As of 9:52 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		2023				2024				2025			
	1/19/24	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	4.39	4.06	4.87	5.03	4.23	4.15	4.30	4.00	3.70	3.40	3.10	2.75	2.75
10-yr Govt. Bond Yield	4.17	3.48	3.81	4.59	3.88	3.95	3.95	3.75	3.55	3.35	3.20	3.20	3.20
30-yr Govt. Bond Yield	4.38	3.67	3.85	4.73	4.03	4.20	4.15	4.05	3.85	3.65	3.50	3.50	3.50
Forecast by TD Economics as of December 2023; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.													

## A Resilient Consumer Dims Hopes for an Early Rate Cut

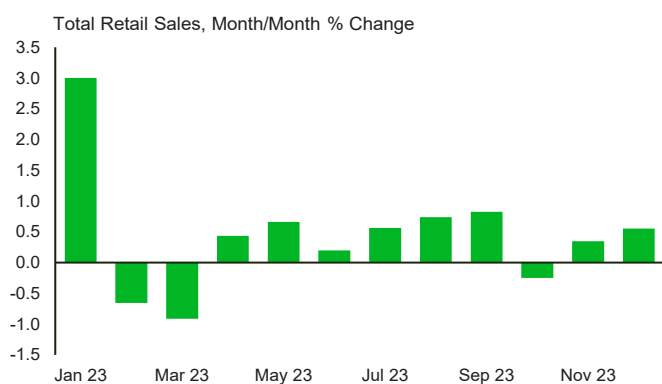
Just when you think the U.S. consumer might yield to mounting pressures currently buffeting their balance sheets, they surprise by closing out 2023 on a retail spending binge. The increased spending kept the economy on firm ground and suggests a solid hand off heading into the new year. It also caused investors to pare back expectations for a March rate cut and pushed U.S. Treasury yields higher.

Retail sales rose 0.6% month-on-month in December, following a 0.3% gain in November (Chart 1). The breadth of the increase was also noteworthy with 9 out of the 13 categories recording gains. The “control group” which factors into the calculation of personal consumption expenditure rose an even more impressive 0.8% on the month. The stellar number suggests that consumer spending grew at a healthy clip of around 2.5% (annualized) in Q4.

The stronger than expected retail sales report has resulted in upward revisions to expectations of Q4 GDP growth. After the report, the Atlanta Fed’s GDPNow growth estimate rose to 2.4% (from 2.2%), while our own estimate currently sits at 1.9%. (Chart 2). We won’t have to wait long to know for sure though, as the BEA is set to release the advance estimate of Q4 GDP next Thursday. Given expectations for the print to be relatively strong, there is even less pressure on the Fed to entertain rate cuts over the coming months.

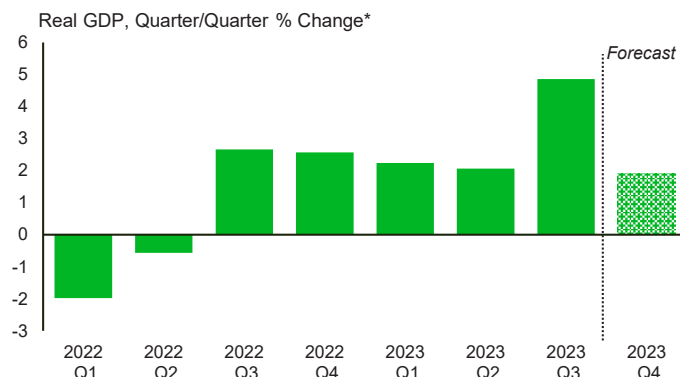
The slew of Fed speakers making the rounds this week were quick to reinforce that point. “With economic activity and labor markets in good shape and inflation coming down gradually” Governor Waller sees “no reason to move as quickly or cut as rapidly as in the past.” He used terms such as “carefully calibrated and not rushed” and

**Chart 1: U.S. Retail Sales Closes 2023 on an Upbeat Note**



Source: Census Bureau, TD Economics.

**Chart 2: U.S. GDP on Course to Grow at Trend in Q4**



\*Seasonally adjusted annual rate. Source: Bureau of Economic Analysis, TD Economics.

“lowered methodically and carefully” to push back against market expectations of sizeable cuts this year. Atlanta Fed President Bostic was on a similar page. He noted that rates could be cut earlier than Q3, “but the evidence would need to be convincing.” What’s more, he urged caution given the current uncertain environment (domestic budget battles, global conflict, elections etc.), which could have unpredictable economic impacts and re-ignite inflation pressures.

Turning to the housing sector, reports out this week showed housing activity ended a tumultuous year on a sour note. Housing starts fell in December reversing a portion of November’s gain, while existing home sales declined to a 14-year low. A dearth of available inventory and historically poor affordability are to blame for last year’s weak showing. However, with mortgage rates having come down by over 100 basis points from its mid-October peak, we’ve likely reached the bottom and should see some uptick in sales activity through 2024.

Ultimately, the timing and pace of rate cuts will depend on the strength of economic growth and inflationary pressures. This week’s data indicate that economic conditions are currently resilient. Last week’s CPI print shows there is still work to be done on the inflation front. The combination means that a policy pivot to rate cuts is unlikely to be top of mind for Fed officials just yet.

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Recent Key Economic Indicators: Jan 15 - 19, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 16	Empire Manufacturing	Jan	Index	-43.7	-14.5
Jan 17	Retail Sales Advance	Dec	M/M % Chg.	0.6	0.3
Jan 17	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	0.6	0.6
Jan 17	Capacity Utilization	Dec	%	78.6	78.6
Jan 17	Industrial Production	Dec	M/M % Chg.	0.1	0.0
Jan 17	Manufacturing (SIC) Production	Dec	M/M % Chg.	0.1	0.2
Jan 17	Business Inventories	Nov	M/M % Chg.	-0.1	-0.1
Jan 17	NAHB Housing Market Index	Jan	Index	44.0	37.0
Jan 18	Building Permits	Dec	Thsd	1495.0	1467.0
Jan 18	Housing Starts	Dec	Thsd	1460.0	1525.0
Jan 18	Initial Jobless Claims	Jan 13	Thsd	187.0	203.0
Jan 19	Existing Home Sales	Dec	MIns	3.78	3.82
Canada					
Jan 15	Manufacturing Sales	Nov	M/M % Chg.	1.2	-2.8
Jan 15	Wholesale Sales ex Petroleum	Nov	M/M % Chg.	0.9	-0.5
Jan 15	Existing Home Sales	Dec	M/M % Chg.	8.7	-0.9
Jan 15	BoC Business Outlook Survey Indicator	Q4	Index	-3.2	-3.5
Jan 16	Housing Starts	Dec	Thsd	249.3	210.9
Jan 16	Consumer Price Index	Dec	Y/Y % Chg.	3.4	3.1
Jan 16	Consumer Price Index NSA	Dec	M/M % Chg.	-0.3	0.1
Jan 17	Industrial Product Price	Dec	M/M % Chg.	-1.5	-0.3
Jan 19	Retail Sales	Nov	M/M % Chg.	-0.2	0.5
Jan 19	Retail Sales Ex Auto	Nov	M/M % Chg.	-0.5	0.4
International					
Jan 16	CH Gross Domestic Product	Q4	Y/Y % Chg.	5.2	4.9
Jan 16	CH Retail Sales	Dec	Y/Y % Chg.	7.4	10.1
Jan 16	CH Surveyed Jobless Rate	Dec	%	5.1	5.0
Jan 17	UK Consumer Price Index	Dec	Y/Y % Chg.	4.0	3.9
Jan 17	EZ Consumer Price Index	Dec	Y/Y % Chg.	2.9	2.4
Jan 18	JN National Consumer Price Index	Dec	Y/Y % Chg.	2.6	2.8
Jan 19	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	-2.1	0.5

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

Upcoming Economic Releases and Events: Jan 22 - 26, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 24	9:45	S&P Global US Manufacturing PMI	Jan	Index	47.7	47.9
Jan 24	9:45	S&P Global US Services PMI	Jan	Index	51.0	51.4
Jan 24	9:45	S&P Global US Composite PMI	Jan	Index	-	50.9
Jan 25	8:30	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.0	4.9
Jan 25	8:30	Personal Consumption	4Q	Q/Q % Chg.	2.4	3.1
Jan 25	8:30	Advance Goods Trade Balance	Dec	Blns	-88.5	-89.3
Jan 25	8:30	Durable Goods Orders	Dec	M/M % Chg.	1.0	5.4
Jan 25	8:30	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	-0.1	0.8
Jan 25	8:30	Initial Jobless Claims	Jan 20	Thsd	200.0	187.0
Jan 25	10:00	New Home Sales	Dec	Thsd	650.0	590.0
Jan 26	8:30	Personal Income	Dec	M/M % Chg.	0.3	0.4
Jan 26	8:30	Real Personal Spending	Dec	M/M % Chg.	-	0.3
Jan 26	8:30	PCE Deflator	Dec	Y/Y % Chg.	2.6	2.6
Canada						
Jan 24	9:45	Bank of Canada Rate Decision	Jan 24	%	5.0	5.00
Jan 25	7:00	CFIB Business Barometer	Jan	Index	-	47.00
Jan 25	8:30	Payroll Employment Change - SEPH	Nov	Thsd	-	-44.60
International						
Jan 22	0:00	JN BOJ Policy Balance Rate	Jan 23	%	-0.1	-0.1
Jan 23	19:30	JN Jibun Bank Japan PMI Mfg	Jan	Index	-	47.9
Jan 25	8:15	EZ ECB Main Refinancing Rate	Jan 25	%	4.5	4.5
Jan 25	18:30	JN Tokyo Consumer Price Index	Jan	Y/Y % Chg.	2.0	2.4

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

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