

# The Weekly Bottom Line

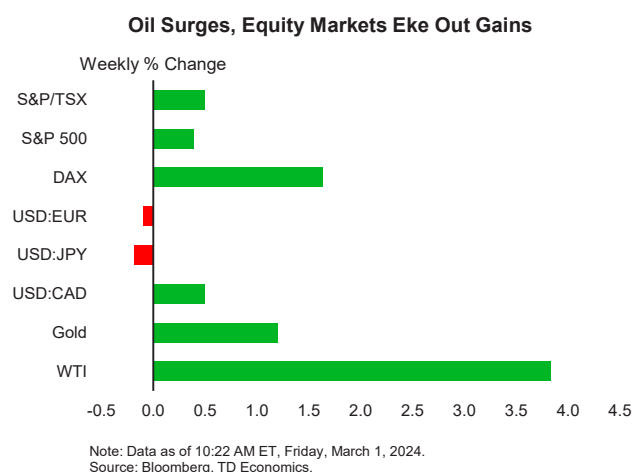
March 1, 2024

## Highlights

- January's personal and income spending report landed just where it was expected to, with the only surprise coming from a bigger than expected lift from nominal personal income growth.
- The Fed's preferred measure of inflation, core personal consumption expenditure prices, cooled to 2.8% year-on-year, with near-term trends suggesting it has room to fall.
- A weaker-than-expected ISM manufacturing report helped support the notion that demand is cooling.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5111	5089	5111	3856
S&P/TSX Comp.	21536	21413	21536	18737
DAX	17723	17419	17723	14687
FTSE 100	7659	7706	7947	7257
Nikkei	39911	39099	39911	26946
Fixed Income Yields				
U.S. 10-yr Treasury	4.20	4.25	4.99	3.31
Canada 10-yr Bond	3.45	3.46	4.24	2.73
Germany 10-yr Bund	2.41	2.36	2.97	1.90
UK 10-yr Gilt	4.10	4.04	4.75	3.28
Japan 10-yr Bond	0.72	0.72	0.96	0.25
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.76	0.72
Euro (USD per EUR)	1.08	1.08	1.12	1.05
Pound (USD per GBP)	1.26	1.27	1.31	1.18
Yen (JPY per USD)	150.1	150.5	151.7	130.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	78.3	77.5	93.7	66.7
Natural Gas (\$US/MMBtu)	1.67	1.52	13.20	1.50
Copper (\$US/met. tonne)	8401.5	8475.0	9065.8	7823.8
Gold (\$US/troy oz.)	2062.9	2035.4	2077.5	1813.5

\*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		2023				2024				2025			
3/1/24		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	4.54	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	4.20	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	4.35	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.													

## Coming Off the Boil?

January's personal and income spending report landed just where it was expected to, with the only surprise coming from a bigger lift from nominal personal income growth. The as-expected print comes on the heels of updated GDP data that showed consumer spending closed out last year at an even better pace than originally thought. Most importantly, an upside inflation surprise was averted in January, allowing markets to let out a sigh of relief. After the data release Treasury yields tumbled and equities rallied. The data showed that price pressures continue to cool off. However, for a cautious Fed more progress will have to be made, leaving the first policy rate cuts a ways away.

First and foremost, this week's personal income and spending report showed real personal consumption expenditures (PCE) pulled back 0.1% in January after healthy gains in November and December. Not a big surprise after January's retail sales [report](#) showed a significant pullback. With some weather related factors weighing on demand it's likely that this was more of a one-off than a new trend and February will likely show some bounce back.

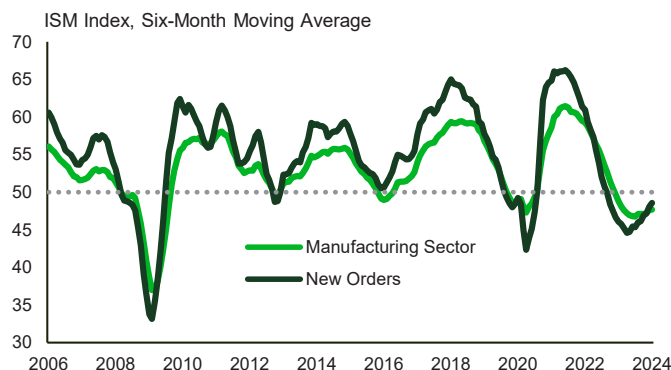
Stronger-than-expected growth in personal income was largely a result of a larger cost of living adjustment in social security payments (and other government transfers), and the inflation adjusted real personal disposable income (PDI) measure showed no growth. Looking forward, this is what we're interested in, as the downbeat month shaved two percentage points off of annual real PDI growth, bringing it down to 2.1% year-on-year. A deceleration in total real income growth is going to be part of the formula that cools the relentless consumer demand we've seen from the U.S. since the pandemic.

**Chart 1: Core Price Pressures Continue to Fade**



\*Average of recent three months relative to prior three months.  
Source: BEA, TD Economics. Last Observation: Jan 2024.

**Chart 2: ISM Shows U.S. Manufacturing Sector's Gradual Recovery**



Note: Values <50 indicate contraction.  
Source: ISM, TD Economics. Last Observation: Feb. 2024.

Of course, the Fed isn't after just slowing the economy, but bringing demand and supply into better balance to tame inflation. On this front, yesterday's report brought welcome news. The Fed's preferred measure of inflation (core PCE) cooled to 2.8% year-on-year. Yes, still above the Fed's target, but this is owing to base-effects from last year. Take a closer look at any near-term metrics and inflation is looking a lot closer to target. The three-month and six-month rates are at 2.6% and 2.5% (annualized), respectively. Smooth out some of the month-to-month noise in the series by taking a rolling quarterly rate of change, and core PCE prices have been advancing between 2% and 2.3% (annualized) since last September (Chart 1).

February's ISM manufacturing report closed out the week, and supported the notion that demand is coming off a boil. With a 47.8 print for the month, the reading fell well short of market expectations and signaled that the recovery in the manufacturing sector is progressing rather slowly (Chart 2). Moreover, new manufacturing orders show that demand remains tepid.

For the Fed, these indicators come as signs that the relentless demand that powered the U.S. economy in late-2023 might be cooling off. Next Tuesday's February ISM services report should shed light on the much larger services sector, while Fed Chair Jerome Powell's testimony on Wednesday will hopefully give us a better sense of how the Fed is viewing these latest numbers.

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Recent Key Economic Indicators: Feb 26 - Mar 01, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 27	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.1	-0.6
Feb 27	Durable Goods Orders	Jan	M/M % Chg.	-6.1	-0.3
Feb 27	S&P CoreLogic CS 20-City NSA	Dec	Y/Y % Chg.	6.1	5.4
Feb 27	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	5.5	5.0
Feb 27	Conf. Board Consumer Confidence	Feb	Index	106.7	110.9
Feb 28	Advance Goods Trade Balance	Jan	Blns	-90.20	-87.90
Feb 28	Gross Domestic Product (Annualized)	Q4	Q/Q % Chg.	3.2	3.3
Feb 28	Personal Consumption	Q4	Q/Q % Chg.	3.0	2.8
Feb 29	Initial Jobless Claims	Feb 24	Thsd	215.0	202.0
Feb 29	PCE Core Deflator	Jan	Y/Y % Chg.	2.8	2.9
Feb 29	PCE Deflator	Jan	Y/Y % Chg.	2.4	2.6
Feb 29	Personal Income	Jan	M/M % Chg.	1.0	0.3
Feb 29	Real Personal Spending	Jan	M/M % Chg.	-0.1	0.6
Feb 29	Pending Home Sales	Jan	M/M % Chg.	-4.9	5.7
Mar 1	S&P Global US Manufacturing PMI	Feb	Index	52.5	51.5
Mar 1	ISM Manufacturing	Feb	Index	47.8	49.1
Canada					
Feb 28	Payroll Employment Change (SEPH)	Dec	Thsd	31.6	-88.3
Feb 29	CFIB Business Barometer	Feb	Index	54.9	48.8
Feb 29	Gross Domestic Product	Dec	M/M % Chg.	0.0	0.2
Feb 29	Gross Domestic Product (Annualized)	Q4	Q/Q % Chg.	1.0	-0.5
International					
Feb 26	JN National Consumer Price Index	Jan	Y/Y % Chg.	2.2	2.6
Feb 28	JN Retail Sales	Jan	Y/Y % Chg.	2.3	2.3
Feb 29	IN Gross Domestic Product	Q4	Y/Y % Chg.	8.4	8.1
Feb 29	JN Jobless Rate	Jan	%	2.4	2.5
Feb 29	JN Jibun Bank Japan PMI Mfg	Feb	Index	47.2	47.2
Feb 29	CH Manufacturing PMI	Feb	Index	49.1	49.2
Feb 29	CH Caixin China PMI Mfg	Feb	Index	50.9	50.8
Mar 1	EZ Consumer Price Index Estimate	Feb	Y/Y % Chg.	2.6	2.8
Mar 1	EZ Unemployment Rate	Jan	%	6.4	6.5
Mar 1	BZ Gross Domestic Product	Q4	Y/Y % Chg.	2.1	2.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Mar 04 - 08, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 4	11:00	<i>Fed's Harker Remarks on Economic Impact of Higher Education</i>				
Mar 5	9:45	S&P Global US Composite PMI	Feb	Index	-	51.4
Mar 5	9:45	S&P Global US Services PMI	Feb	Index	51.4	51.3
Mar 5	10:00	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	-	0.1
Mar 5	10:00	Durable Goods Orders	Jan	M/M % Chg.	-	-6.1
Mar 5	10:00	Factory Orders	Jan	M/M % Chg.	-3.0	0.2
Mar 5	10:00	Factory Orders Ex Trans	Jan	M/M % Chg.	0.0	0.4
Mar 5	10:00	ISM Services	Feb	Index	52.9	53.4
Mar 5	12:00	<i>Fed's Barr Speaks on Panel about CRA Modernization</i>				
Mar 6	8:15	ADP Employment Change	Feb	Thsd	145.0	107.0
Mar 6	10:00	<i>Fed Chair Powell Testifies Before Congress</i>				
Mar 6	10:00	Job Openings	Jan	Mlns	8.93	9.03
Mar 6	10:00	Wholesale Trade Sales	Jan	M/M % Chg.	-	0.7
Mar 6	12:00	<i>Fed's Daly to Give Keynote Address</i>				
Mar 6	14:00	<i>Federal Reserve Releases Beige Book</i>				
Mar 6	16:15	<i>Fed's Kashkari Speaks at WSJ Event</i>				
Mar 7	8:30	Initial Jobless Claims	Mar 02	Thsd	-	215.0
Mar 7	8:30	Trade Balance	Jan	Blns	-63.20	-62.20
Mar 7	8:30	Unit Labor Costs	Q4	Q/Q % Chg.	0.7	0.5
Mar 7	10:00	<i>Fed Chair Powell Testifies Before Congress</i>				
Mar 7	11:30	<i>Fed's Mester Gives Speech on Economic Outlook</i>				
Mar 8	7:00	<i>Fed's Williams Participates in Moderated Discussion</i>				
Mar 8	8:30	Average Hourly Earnings	Feb	M/M % Chg.	0.2	0.6
Mar 8	8:30	Change in Nonfarm Payrolls	Feb	Thsd	190.0	353.0
Mar 8	8:30	Unemployment Rate	Feb	%	3.7	3.7
Canada						
Mar 6	9:45	Bank of Canada Rate Decision	Mar 06	%	5.00	5.00
Mar 6	10:00	Ivey Purchasing Managers Index SA	Feb	Index	-	56.5
Mar 7	8:30	Int'l Merchandise Trade	Jan	Blns	0.29	-0.31
Mar 8	8:30	Net Change in Employment	Feb	Thsd	21.4	37.3
Mar 8	8:30	Unemployment Rate	Feb	%	5.8	5.7
International						
Mar 4	18:30	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	2.5	1.8
Mar 4	19:30	JN Jibun Bank Japan PMI Services	Feb	Index	-	52.5
Mar 6	5:00	EZ Retail Sales	Jan	Y/Y % Chg.	-1.3	-0.8
Mar 7	8:15	EZ ECB Main Refinancing Rate	Mar 07	%	4.50	4.50
Mar 8	5:00	EZ Employment	Q4	Y/Y % Chg.	-	1.3
Mar 8	5:00	EZ Gross Domestic Product SA	Q4	Y/Y % Chg.	0.1	0.1
Mar 8	20:30	CH Consumer Price Index	Feb	Y/Y % Chg.	0.2	-0.8

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

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