

Weekly Bottom Line

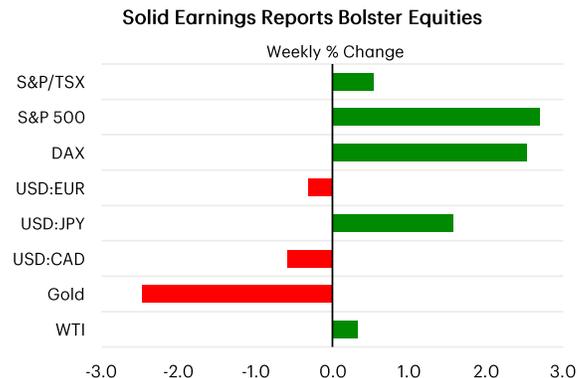
April 26, 2024

Highlights

- There was no reprieve in U.S. data this week for those concerned the economy is running too hot for the Federal Reserve to deliver imminent interest rate relief. Expectations for multiple rate cuts have been greatly pared back since the start of the year and this week's data will only reinforce that.
- This week's release of U.S. Q1-GDP shows that U.S. consumers still exhibit resilience to higher interest rates.
- Similarly, PCE inflation delivered two hawkish surprises: goods inflation eased less than expected and services inflation continued to trend up, for an overall uptick in the recent trend in prices.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5099	4967	5254	4061
S&P/TSX Comp.	21925	21807	22362	18737
DAX	18200	17737	18492	14687
FTSE 100	8143	7896	8143	7257
Nikkei	37935	37068	40888	28458
Fixed Income Yields				
U.S. 10-yr Treasury	4.66	4.62	4.99	3.34
Canada 10-yr Bond	3.82	3.74	4.24	2.76
Germany 10-yr Bund	2.56	2.50	2.97	1.90
UK 10-yr Gilt	4.31	4.23	4.75	3.44
Japan 10-yr Bond	0.89	0.85	0.96	0.36
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.73	0.76	0.72
Euro (USD per EUR)	1.07	1.07	1.12	1.05
Pound (USD per GBP)	1.25	1.24	1.31	1.21
Yen (JPY per USD)	157.1	154.6	157.1	134.0
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	85.2	83.1	93.7	67.1
Natural Gas (\$US/MMBtu)	1.46	1.43	13.20	1.24
Copper (\$US/met. tonne)	9742.2	9797.2	9797.2	7823.8
Gold (\$US/troy oz.)	2334.3	2391.9	2391.9	1820.3

*As of 10:43 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Note: Data as of 10:40 AM ET, Friday, April 26, 2024.
Source: Bloomberg, TD Economics.

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 4/26/24	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	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	5.25	4.75	4.25	3.75	3.25	2.75
2-yr Govt. Bond Yield	4.99	4.06	4.87	5.03	4.23	4.59	4.85	4.55	4.25	3.95	3.65	3.35	3.05
10-yr Govt. Bond Yield	4.66	3.48	3.81	4.59	3.88	4.20	4.60	4.25	4.05	3.85	3.70	3.50	3.35
30-yr Govt. Bond Yield	4.77	3.67	3.85	4.73	4.03	4.34	4.75	4.55	4.35	4.15	4.00	3.80	3.65

Forecast by TD Economics as of April 2024; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

Consumer Still Resilient

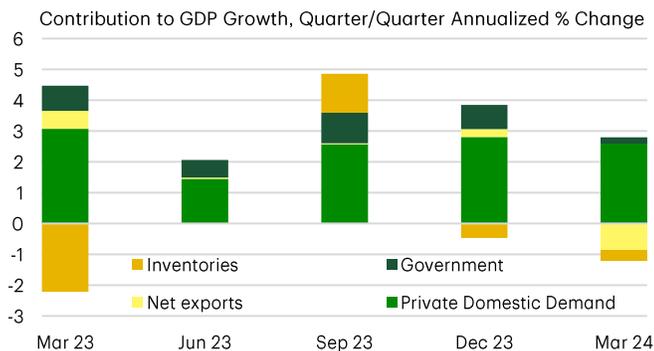
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The big question for the U.S. economy is when inflation will subside or the economy will slow under the pressure of higher interest rates, especially on the side of consumer spending. Either development could be sufficient to bring forward expectations for Federal Reserve interest rate cuts, but this week both GDP and inflation remained stubbornly robust.

The advance estimate of real GDP for Q1-2024 came in at a seemingly sub-par 1.6% (q/q annualized), below the consensus forecast of 2.5%. This is a slowdown from the large expansion of 3.4% we saw in the previous quarter, but the softness in this quarter's reading looks temporary, while the strength has momentum. The biggest drags on growth were imports and an inventory drawdown, which are more volatile in the quarterly data, and could be reversed in next quarter's data (Chart 1). More to the point, they speak less to how consumers and U.S. businesses are reacting to high interest rates, the chief concern for the Federal Reserve when it asks whether its policy is cooling the economy. Consumer spending softened only a little, and growth generally continues to be supported by solid domestic demand. This is not yet an economy that looks overly burdened by high interest rates.

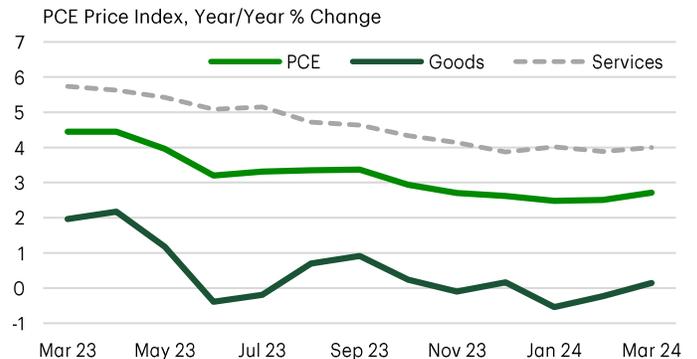
The latest inflation data has the same signals as the activity data. In the first quarter, core PCE inflation rose sharply from the average rate of inflation we saw in the second half of 2023. On a year-over-year basis, headline PCE inflation increased in March from February, maintaining roughly the same monthly increase as from

Chart 1: US Growth Driven by Private Domestic Demand in Q1



Source: Haver Analytics, BEA, TD Economics.

Chart 2: Goods and Services added to US PCE Inflation in March



Source: Haver Analytics, BEA, TD Economics.

February to January – that is, it looks like inflation has momentum in the first quarter. The March data showed an increase in both goods and services prices, whereas in previous months we had seen some declines in goods prices (Chart 2). Core PCE inflation, the Federal Reserve's preferred metric, was essentially flat from February to March.

This morning's personal income data also confirmed that the consumer is still resilient. Personal consumption increased in March, and increases were registered across goods and services, showing strong demand from households. And personal savings declined in absolute terms and as a share of disposable income, despite a strong increase in income – suggesting that consumers are not motivated to build up precautionary savings. Our tracking for Q2 would now point to consumer spending to increase 3.5% given the favourable increase in goods spending in March and continued momentum in services. That is a notable upgrade from the 1.9% we [forecast in March](#).

Those hoping for the data to support interest rate cuts earlier rather than later would have been looking for a slowdown in consumer spending, inflation, or both, but this week we received the opposite. This complicates things for the Federal Reserve, which needs to ensure inflation keeps decelerating towards the 2% target. Given this week's economic data, market pricing is solidifying around a delayed start to rate cuts.

Exhibits

Recent Key Economic Indicators: Apr 22 - 26, 2024

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 23	S&P Global US Composite PMI	Apr	Index	50.9	52.1
Apr 23	S&P Global US Manufacturing PMI	Apr	Index	49.9	51.9
Apr 23	S&P Global US Services PMI	Apr	Index	50.9	51.7
Apr 24	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	0.2	0.4
Apr 24	Durable Goods Orders	Mar	M/M % Chg.	2.6	0.7
Apr 25	Advance Goods Trade Balance	Mar	Blns	-91.80	-90.30
Apr 25	Gross Domestic Product (Annualized)	Q1	Q/Q % Chg.	1.6	3.4
Apr 25	Initial Jobless Claims	Apr 20	Thsd	207.0	212.0
Apr 25	Personal Consumption	Q1	Q/Q % Chg.	2.5	3.3
Apr 25	Pending Home Sales	Mar	M/M % Chg.	3.4	1.6
Apr 26	PCE Core Deflator	Mar	Y/Y % Chg.	2.8	2.8
Apr 26	PCE Deflator	Mar	Y/Y % Chg.	2.7	2.5
Apr 26	Personal Income	Mar	M/M % Chg.	0.5	0.3
Apr 26	Real Personal Spending	Mar	M/M % Chg.	0.5	0.5
Canada					
Apr 22	Industrial Product Price	Mar	M/M % Chg.	0.8	1.1
Apr 24	Retail Sales	Feb	M/M % Chg.	-0.1	-0.3
Apr 24	Retail Sales Ex Auto	Feb	M/M % Chg.	-0.3	0.4
Apr 25	CFIB Business Barometer	Apr	Index	47.5	52.9
Apr 25	Payroll Employment Change (SEPH)	Feb	Thsd	-17.7	39.8
International					
Apr 22	JN Jibun Bank Japan PMI Mfg	Apr	Index	49.9	48.2
Apr 22	JN Jibun Bank Japan PMI Services	Apr	Index	54.6	54.1
Apr 25	JN Tokyo Consumer Price Index	Apr	Y/Y % Chg.	1.8	2.6

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

Upcoming Economic Releases and Events: Apr 29 - May 03, 2024

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Apr 30	8:30	Employment Cost Index	1Q	Index	1.0	0.9
Apr 30	9:00	S&P CoreLogic CS US HPI NSA	Feb	Index	-	6.0
Apr 30	9:00	S&P CoreLogic CS 20-City NSA	Feb	Index	-	6.6
Apr 30	10:00	Conf. Board Consumer Confidence	Apr	Index	104.1	104.7
Apr 30	10:00	<i>FOMC Begins Two-Day Meeting</i>				
May 01	8:15	ADP Employment Change	Apr	Thsd	185.0	184.0
May 01	9:45	S&P Global US Manufacturing PMI	Apr	Index	49.9	49.9
May 01	10:00	ISM Manufacturing	Apr	Index	50.1	50.3
May 01	14:00	FOMC Rate Decision (Upper Bound)	May 01	%	5.5	5.5
May 01	14:00	Interest on Reserve Balances Rate	May 02	%	-	5.4
May 01	14:30	<i>Fed Chair Powell Holds Post-Meeting Press Conference</i>				
May 01	15:00	Wards Total Vehicle Sales	Apr	Mlns	15.7	15.5
May 02	8:30	Trade Balance	Mar	Blns	-69.0	-68.9
May 02	8:30	Unit Labor Costs	1Q	Q/Q % Chg.	2.0	0.4
May 02	8:30	Initial Jobless Claims	Apr 27	Thsd	-	207.0
May 02	10:00	Factory Orders	Mar	M/M % Chg.	1.6	1.4
May 02	10:00	Factory Orders Ex Trans	Mar	M/M % Chg.	-	1.1
May 02	10:00	Durable Goods Orders	Mar	M/M % Chg.	-	2.6
May 02	10:00	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	-	0.2
May 03	8:30	Change in Nonfarm Payrolls	Apr	Thsd	250.0	303.0
May 03	8:30	Unemployment Rate	Apr	%	3.8	3.8
May 03	8:30	Average Hourly Earnings	Apr	M/M % Chg.	0.3	0.3
May 03	9:45	S&P Global US Services PMI	Apr	Index	50.9	50.9
May 03	9:45	S&P Global US Composite PMI	Apr	Index	-	50.9
May 03	10:00	ISM Services Index	Apr	Index	52.0	51.4
May 03	19:45	<i>Fed's Goolsbee Participates in Panel Discussion</i>				
Canada						
Apr 30	8:30	Gross Domestic Product	Feb	M/M % Chg.	0.3	0.6
May 01	9:30	S&P Global Canada Manufacturing PMI	Apr	Index	-	49.8
May 02	8:30	Int'l Merchandise Trade	Mar	Blns	1.0	1.4
International						
Apr 29	19:30	Jobless Rate	Mar	%	2.5	2.6
Apr 29	19:50	Retail Sales	Mar	Y/Y % Chg.	2.5	4.7
Apr 29	21:30	Manufacturing PMI	Apr	Index	50.3	50.8
Apr 29	21:45	Caixin China PMI Mfg	Apr	Index	51.0	51.1
Apr 30	5:00	Consumer Price Index Estimate	Apr	Y/Y % Chg.	2.4	2.4
Apr 30	5:00	Gross Domestic Product SA	1Q	Y/Y % Chg.	0.2	0.1
Apr 30	20:30	Jibun Bank Japan PMI Mfg	Apr	Index	-	49.9
May 03	5:00	Unemployment Rate	Mar	%	6.5	6.5

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

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