

Weekly Bottom Line

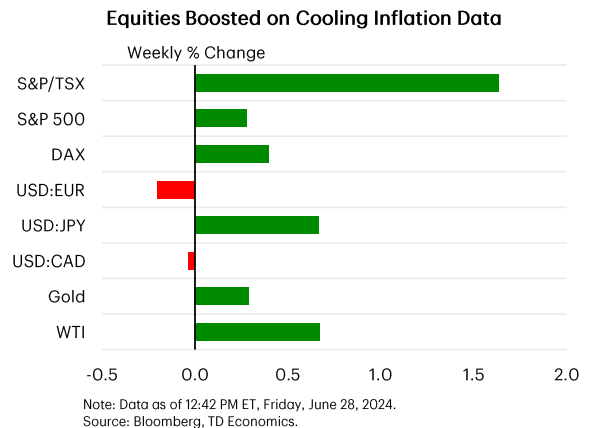
June 28, 2024

Highlights

- Headline PCE inflation came in flat for the month of May and core PCE inflation eased.
- Personal income posted a strong gain last month, while spending growth was more moderate, leading to an uptick in the savings rate.
- The heat in the economy still looks mainly to be in the service sector, as goods-producing industries contracted last quarter and goods prices continued to retreat in May.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5480	5465	5487	4117
S&P/TSX Comp.	21906	21555	22468	18737
DAX	18235	18164	18869	14687
FTSE 100	8164	8238	8446	7257
Nikkei	39583	38596	40888	30527
Fixed Income Yields				
U.S. 10-yr Treasury	4.35	4.26	4.99	3.75
Canada 10-yr Bond	3.50	3.35	4.24	3.06
Germany 10-yr Bund	2.50	2.41	2.97	1.90
UK 10-yr Gilt	4.17	4.08	4.75	3.44
Japan 10-yr Bond	1.06	0.98	1.09	0.39
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)	1.26	1.26	1.31	1.21
Yen (JPY per USD)	160.9	159.8	160.9	138.1
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	81.5	80.7	93.7	68.6
Natural Gas (\$US/MMBtu)	2.55	2.44	13.20	1.24
Copper (\$US/met. tonne)	9372.1	9547.6	10800.8	7823.8
Gold (\$US/troy oz.)	2328.8	2322.0	2425.3	1820.3

*As of 12:44 PM 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)	4.75%
European Central Bank (Refi Rate)	4.25%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 6/28/24	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	5.00	4.50	4.00	3.50	
2-yr Govt. Bond Yield	4.72	4.06	4.87	5.03	4.23	4.59	4.70	4.50	4.30	4.00	3.70	3.10	
10-yr Govt. Bond Yield	4.35	3.48	3.81	4.59	3.88	4.20	4.30	4.30	4.15	3.95	3.75	3.45	
30-yr Govt. Bond Yield	4.50	3.67	3.85	4.73	4.03	4.34	4.45	4.45	4.35	4.25	4.05	3.75	

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

Services Spending and Prices Starting to Settle

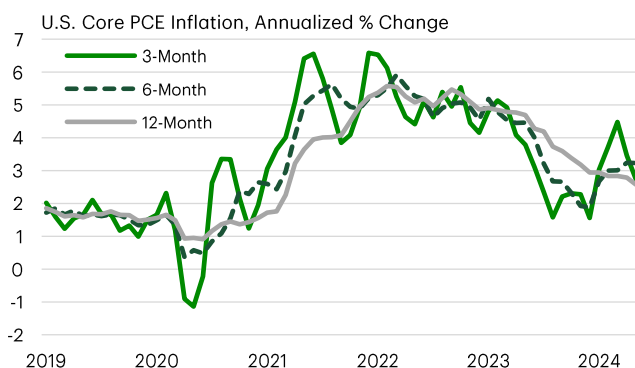
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The past week had a relatively light data calendar for the U.S. economy, which continued on relative cruise control to gradually moderating economic growth and inflation. The current state of the economy was well summarized by Federal Reserve Board Governor Bowman in her speech earlier this week, which emphasized that we have seen only modest progress on inflation in 2024, despite moderating economic growth. The message holds true in the week's data, which included an update on consumer prices and personal spending, as well as the revised reading on first-quarter GDP.

Inflation – as measured by the personal consumption (PCE) deflator – continued to moderate in May, with the core PCE deflator posting a 'soft' gain of 0.1% m/m – down sharply from the 0.3% gain registered the month prior. The deceleration in price pressures was entirely driven by another month of declines in goods prices and a further slowing in non-housing services prices. More critically, the three-month trend eased to a five-month low of 2.7% (annualized). Fed Governor Bowman repeated earlier this week that inflation has been slow to come down and more progress towards 2% is needed to support rate cuts this year. This morning's data showed another (small) step in the right direction, though Fed officials will likely need to see at least another several 'good' inflation readings before having enough confidence to start dialing back the policy rate,

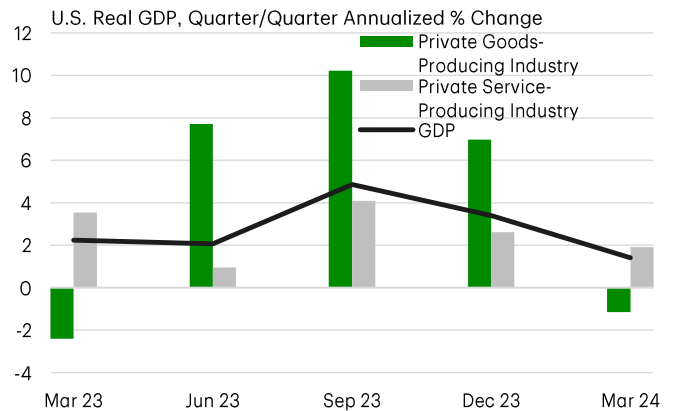
[On the spending side](#), the release of May's data showed some retrenchment in the goods and services split, with

Chart 1: Inflationary Pressures Subsiding After Q1 'Flare-Up'



Source: Bureau of Economic Analysis, TD Economics.

Chart 2: GDP Growth in Q1 All in Services



Source: National Statistical Agencies, TD Economics.

goods leading personal spending growth after having recorded declines in three of the four prior months. Overall, the softer gain in services spending implies our Q2 tracking for consumer spending is likely closer to 1.5%, which is a bit lower than what was assumed in [our updated forecast](#) published earlier this week.

The last big piece of data out this week was the third estimate of first-quarter GDP. Usually, the 3rd estimate is not very exciting – after all, the first estimate was released two months ago, and revised minimally last month, only to be revised minimally again this week. Mostly old news, in that sense, but in the 3rd estimate we do get one new piece of data: the first look at GDP by industry for the quarter. Here, two observations quickly become clear – goods-producing industries contracted in the first quarter following several quarters of high growth in 2023, and services-producing industries, which had been supporting growth for over a year now, posted moderate growth relative to the last two quarters. The moderation of services growth coinciding with the downtrend in services inflation is an encouraging combination.

Next week, we will be closely following Chairman Powell's words at the European Central Bank's policy extravaganza at Sintra for a better view of how the central bank is digesting the latest data. Markets and other observers will also be focused on next week's jobs data for any signs that the cooling we have seen in spending and prices is spilling over to the labour market.

Exhibits

Recent Key Economic Indicators: Jun 24 - 28, 2024						
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States						
Jun 25	S&P CoreLogic CS 20-City NSA	Apr	Y/Y % Chg.	7.2	7.5	
Jun 25	S&P CoreLogic CS US HPI NSA	Apr	Y/Y % Chg.	6.3	6.5	
Jun 25	Conf. Board Consumer Confidence	Jun	Index	100.4	101.3	
Jun 27	Advance Goods Trade Balance	May	Blns	-100.60	-98.00	
Jun 27	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	-0.6	0.3	
Jun 27	Durable Goods Orders	May	M/M % Chg.	0.1	0.2	
Jun 27	Gross Domestic Product (Annualized)	Q1	Q/Q % Chg.	1.4	1.3	
Jun 27	Initial Jobless Claims	Jun 22	Thsd	233.0	239.0	
Jun 27	Pending Home Sales	May	M/M % Chg.	-2.1	-7.7	
Jun 28	PCE Core Deflator	May	Y/Y % Chg.	2.6	2.8	
Jun 28	PCE Deflator	May	Y/Y % Chg.	2.6	2.7	
Jun 28	Personal Income	May	M/M % Chg.	0.5	0.3	
Jun 28	Real Personal Spending	May	M/M % Chg.	0.3	-0.1	
Canada						
Jun 25	Consumer Price Index	May	Y/Y % Chg.	2.9	2.7	
Jun 25	Consumer Price Index NSA	May	M/M % Chg.	0.6	0.5	
Jun 25	CPI-Median	May	Y/Y % Chg.	2.8	2.6	
Jun 25	CPI-Trim	May	Y/Y % Chg.	2.9	2.8	
Jun 27	CFIB Business Barometer	Jun	Index	56.3	56.6	
Jun 27	Payroll Employment Change (SEPH)	Apr	Thsd	-22.7	42.2	
Jun 28	Gross Domestic Product	Apr	M/M % Chg.	0.3	0.0	
International						
Jun 26	JN Retail Sales	May	Y/Y % Chg.	3.0	2.0	
Jun 27	JN Jobless Rate	May	%	2.6	2.6	
Jun 27	JN Tokyo Consumer Price Index	Jun	Y/Y % Chg.	2.3	2.2	
Jun 28	UK Gross Domestic Product	Q1	Y/Y % Chg.	0.3	0.2	

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

Upcoming Economic Releases and Events: July 01 - 05 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jul 01	9:45	S&P Global US Manufacturing PMI	Jun F	Index	51.7	51.7
Jul 01	10:00	ISM Manufacturing	Jun	Index	49.2	48.7
Jul 02	9:00	Wards Total Vehicle Sales	Jun	Mlns	15.9	15.9
Jul 02	9:30	<i>Powell, Lagarde, Campos Neto Speak in Sintra</i>				
Jul 03	7:00	<i>Fed's Williams Speaks on Panel at ECB Forum</i>				
Jul 03	8:15	ADP Employment Change	Jun	Thsd	158.0	152.0
Jul 03	8:30	Trade Balance	May	Blns	-76.0	-74.6
Jul 03	8:30	Initial Jobless Claims	Jun 29	Thsd	-	233.0
Jul 03	9:45	S&P Global US Services PMI	Jun F	Index	52.3	55.1
Jul 03	9:45	S&P Global US Composite PMI	Jun F	Index	-	54.6
Jul 03	10:00	Factory Orders	May	M/M % Chg.	0.3	0.7
Jul 03	10:00	Factory Orders Ex Trans	May	M/M % Chg.	-	0.7
Jul 03	10:00	ISM Services Index	Jun	Index	52.7	53.8
Jul 03	10:00	Durable Goods Orders	May F	M/M % Chg.	-	0.1
Jul 03	10:00	Cap Goods Orders Nondef Ex Air	May F	M/M % Chg.	-	-0.6
Jul 03	14:00	FOMC Meeting Minutes	Jun 12			
Jul 05	5:40	<i>Fed's Williams Gives Keynote Remarks to Reserve Bank of India</i>				
Jul 05	8:30	Change in Nonfarm Payrolls	Jun	Thsd	185.0	272.0
Jul 05	8:30	Unemployment Rate	Jun	%	4.0	4.0
Jul 05	8:30	Average Hourly Earnings	Jun	M/M % Chg.	0.3	0.4
Canada						
Jul 02	9:30	S&P Global Canada Manufacturing PMI	Jun	Index	-	49.3
Jul 03	8:30	Int'l Merchandise Trade	May	Blns	-	-1.1
Jul 05	8:30	Net Change in Employment	Jun	Thsd	25.0	26.7
Jul 05	8:30	Unemployment Rate	Jun	%	6.3	6.2
International						
Jul 02	5:00	EZ Consumer Price Index Estimate	Jun	Y/Y % Chg.	2.5	2.6
Jul 02	5:00	EZ Unemployment Rate	May	%	6.4	6.4
Jul 05	5:00	EZ Retail Sales	May	Y/Y % Chg.	0.1	0.0

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

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