

Weekly Bottom Line

May 3, 2024

Highlights

U.S.

- The Federal Reserve held the policy rate steady this week and signaled that rates will likely remain higher for longer.
- The U.S. jobs engine slowed in April, adding 175k jobs. The unemployment rate rose modestly to a still low 3.9%.
- Last year's productivity surge has come to an end. Productivity growth slowed to a stall speed in Q1, while unit labor costs turned sharply higher.

Canada

- The Canadian economy continued to grow in February, but the momentum after January's surge is beginning to wane. Still, first quarter GDP growth is on pace for a sturdy print.
- Trade data confirms that strength this quarter will be short-lived, with net trade posing a headwind to Q1 growth.
- The debate between a Bank of Canada rate cut in June or July cut rages on. We think a July cut is supported by fundamentals.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5109	5100	5254	4061
S&P/TSX Comp.	21874	21969	22362	18737
DAX	18001	18161	18492	14687
FTSE 100	8209	8140	8209	7257
Nikkei	38236	37935	40888	28950
Fixed Income Yields				
U.S. 10-yr Treasury	4.52	4.66	4.99	3.38
Canada 10-yr Bond	3.67	3.82	4.24	2.80
Germany 10-yr Bund	2.52	2.58	2.97	1.90
UK 10-yr Gilt	4.24	4.32	4.75	3.44
Japan 10-yr Bond	0.90	0.89	0.96	0.36
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.73	0.76	0.72
Euro (USD per EUR)	1.08	1.07	1.12	1.05
Pound (USD per GBP)	1.25	1.25	1.31	1.21
Yen (JPY per USD)	152.9	158.3	158.3	134.3
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	79.0	83.9	93.7	67.1
Natural Gas (\$US/MMBtu)	1.66	1.41	13.20	1.24
Copper (\$US/met. tonne)	9642.5	9852.8	10063.9	7823.8
Gold (\$US/troy oz.)	2292.4	2338.0	2391.9	1820.3

*As of 11:01 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

US Employment Miss Drags USD Lower



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.

U.S. – Holding Steady for Longer

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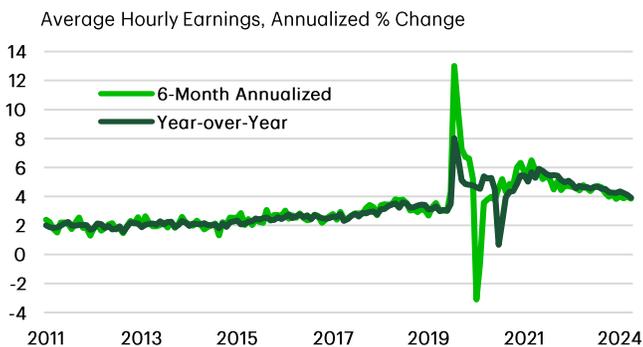
It was a very busy week on the economic data calendar, but the two headliners were a pulse check on the state of the labor market and the Federal Reserve's interest rate announcement. Policymakers delivered no surprises this week, with the FOMC voting unanimously to hold the policy rate steady at the current target range of 5.25% - 5.5%. The same can't be said for April's employment report, which showed job growth coming in handily below expectations. Financial markets greeted the news positively, with the S&P 500 recouping its losses from earlier in the week, while the 10-year Treasury yield was down 14-bps to 4.53% at the time of writing.

It's not that long ago that investors were expecting the first rate cut to come at this very meeting. But after three months of hotter-than-expected inflation readings, the FOMC appears to be on hold indefinitely, as it looks for "greater confidence that inflation is moving sustainably back towards 2%". What exactly that means remains to be seen, but it will likely require a further rebalancing in the labor market, which ultimately leads to more sustained downward pressure on wage growth.

From that perspective, April's jobs data was a Goldilocks report. Non-farm payrolls rose by 175k while the unemployment rate ticked up to 3.9%. Importantly, average hourly earnings cooled more than expected, with the 12-month change slipping to a near three-year low of 3.9% (Chart 1).

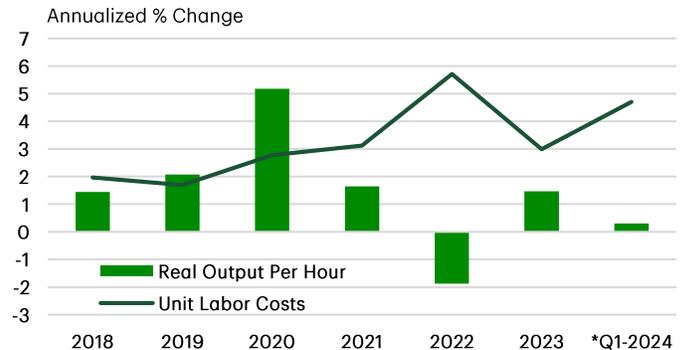
While the softening in wage growth will come as welcome news for Fed officials, it needs to be weighed against other measures of employee compensation,

Chart 1: Wage Growth Slips to a Near Three Year Low in April



Source: Bureau of Labor Statistics, TD Economics.

Chart 2: Unit Labor Costs Are Pressured Higher in Q1-2024



Source: Bureau of Economic Analysis, TD Economics.
*Denotes quarter/quarter annualized figures.

particularly the Employment Cost Index – the Fed's preferred wage measure – which showed an unexpected acceleration. Moreover, after rising by a robust 1.5% in 2023, growth in non-farm productivity slipped to a near stall speed in Q1. Taken alongside last quarter's uptick hourly compensation, unit labor costs (ULC) also rose sharply higher (Chart 2). This has important implications for inflation. ULC can best be thought of as a productivity adjusted cost of labor, making it a useful gauge on the extent to which the nominal pace of compensation growth is running above (or below) what would be consistent with achieving 2% inflation. However, with the Q1 reading not only turning higher but also running at an annualized rate that's more than double where it should otherwise settle, provides yet another signal that progress on the inflation front has indeed stalled.

In the press conference following the release of the FOMC statement, Chair Powell noted that while ongoing progress is "not assured" he still expects that over the course of the year "inflation will move back down". But Powell also emphasized that he's become less confident in that forecast. Moreover, when asked if today's rates were "sufficiently restrictive" Powell instead described them as only "restrictive". While the Chair said further rate hikes are "unlikely", the refusal to characterize today's stance as sufficiently restrictive is an implicit acknowledgment that further policy firming cannot be ruled out. At this point, we view this as highly unlikely. But given the economy's sustained strength alongside the recent stalling on inflation, [we now expect](#) the Fed to remain on hold until December.

Canada – A GDP Growth Blip

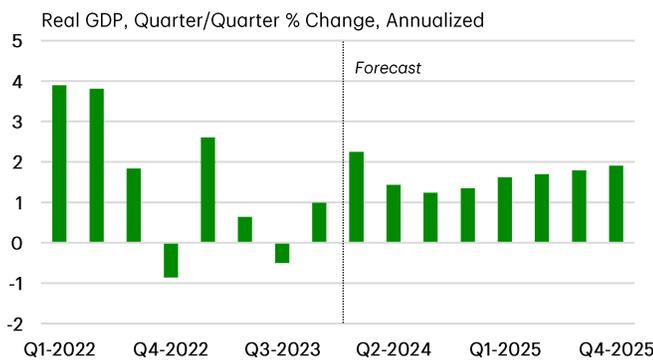
Marc Ercolao, Economist

Canadian markets took their cue from events south of the border this week as the Federal Reserve policy meeting and payrolls data took center stage. The two and ten-year Canada yields fell by around 15 basis points (bps), while the CAD finished the week flat after being down almost one cent to the U.S. Dollar mid-week. The dovish messaging from the Fed trumped Canada’s weaker-than-expected economic growth report for [February](#) which saw GDP advance at a below-consensus 0.2% month-on-month (m/m).

Even though February growth disappointed expectations, it still builds on the robust growth from January. It also firms estimates that first-quarter GDP will come in stronger (at between 2-2.5%) than what was expected earlier this year. It is important to contextualize Canadian GDP growth over the first two months of the year. On one hand, growth over January and February was the strongest over a two-month period since exactly a year ago. However, the more important takeaway is that guidance for flat GDP in March signals that this rebound is unlikely to last. March’s soft handoff into Q2 suggests the re-emergence of weaker, below-trend growth patterns (Chart 1). Overall, Canada’s economy has weathered high interest rates relatively well, which has allowed the BoC to keep interest rates elevated to fight the last leg of the inflation battle.

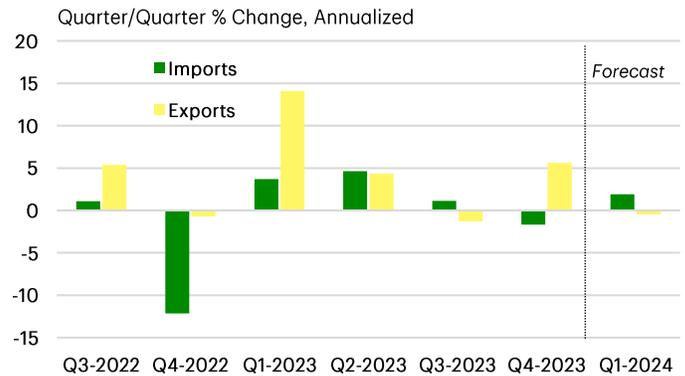
Trade data for the month of March also confirms that the healthy growth expected in the first quarter growth will likely be short-lived. As we’ve seen in the past sev-

Chart 1: Q1 Canadian GDP Rebound to Be Short-Lived



Source: Statistics Canada, TD Economics.

Chart 2: Trade Expected to Act As a Small Drag on Growth This Quarter



Source: Statistics Canada, TD Economics.

eral quarters, net trade has been a major swing factor on the expenditure-side GDP readings. A sharp reversal in export volumes for March coupled with trade revisions for February now put net trade tracking as a headwind to growth (Chart 2).

As the dust settles on this week’s events, markets are slightly favouring the first BoC cut to occur at their next meeting in June. The Bank continues to acknowledge that they are growing more confident that inflation is on a sustainable path back to 2 percent. We think the BoC can justify cutting rates in July based on economic fundamentals and will allow the Bank more time to analyze domestic data prints to confirm trends are durable. At the same time, the resilience in the U.S. economy has the Fed in no rush to lower policy rates—we’ve penciled in the [first U.S. rate cut](#) to take place in December.

We are now at a crossroads where a divergence between Canadian and U.S. interest rates could put further downward pressure on the Canadian dollar. Macklem’s remarks this week reiterated that policy setting in Canada is independent of U.S. developments despite the ties between the two countries. In any event, while the BoC may cut slowly at the beginning, we expect the Bank to accelerate the pace towards the end of this year. This would match when we think the Fed will be comfortable cutting rates, limiting policy rate differentials and keeping a floor under the loonie.

Exhibits

Recent Key Economic Indicators: Apr 29 - May 03, 2024

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 30	S&P CoreLogic CS 20-City NSA	Feb	Y/Y % Chg.	7.3	6.6
Apr 30	S&P CoreLogic CS US HPI NSA	Feb	Y/Y % Chg.	6.4	6.0
Apr 30	Conf. Board Consumer Confidence	Apr	Index	97.0	103.1
May 1	ADP Employment Change	Apr	Thsd	192.0	208.0
May 1	S&P Global US Manufacturing PMI	Apr	Index	50.0	49.9
May 1	ISM Manufacturing	Apr	Index	49.2	50.3
May 1	Job Openings	Mar	Mlns	8.49	8.81
May 1	FOMC Rate Decision (Upper Bound)	May 01	%	5.50	5.50
May 1	Wards Total Vehicle Sales	Apr	Mlns	15.74	15.49
May 2	Initial Jobless Claims	Apr 27	Thsd	208.0	208.0
May 2	Trade Balance	Mar	Blns	-69.40	-69.50
May 2	Unit Labor Costs	Q1	Q/Q % Chg.	4.7	0.0
May 2	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	0.1	0.2
May 2	Durable Goods Orders	Mar	M/M % Chg.	2.6	2.6
May 2	Factory Orders	Mar	M/M % Chg.	1.6	1.2
May 2	Factory Orders Ex Trans	Mar	M/M % Chg.	0.5	1.1
May 3	Average Hourly Earnings	Apr	M/M % Chg.	0.2	0.3
May 3	Change in Nonfarm Payrolls	Apr	Thsd	175.0	315.0
May 3	Unemployment Rate	Apr	%	3.9	3.8
May 3	S&P Global US Composite PMI	Apr	Index	51.3	50.9
May 3	S&P Global US Services PMI	Apr	Index	51.3	50.9
May 3	ISM Services	Apr	Index	49.4	51.4
Canada					
Apr 30	Gross Domestic Product	Feb	M/M % Chg.	0.2	0.5
May 2	Int'l Merchandise Trade	Mar	Blns	-2.28	0.48
International					
Apr 29	JN Jobless Rate	Mar	%	2.6	2.6
Apr 29	JN Retail Sales	Mar	Y/Y % Chg.	1.2	4.7
Apr 29	CH Manufacturing PMI	Apr	Index	50.4	50.8
Apr 29	CH Caixin China PMI Mfg	Apr	Index	51.4	51.1
Apr 30	EZ Consumer Price Index Estimate	Apr	Y/Y % Chg.	2.4	2.4
Apr 30	EZ Gross Domestic Product SA	Q1	Y/Y % Chg.	0.4	0.1
Apr 30	JN Jibun Bank Japan PMI Mfg	Apr	Index	49.6	49.9
May 3	EZ Unemployment Rate	Mar	%	6.5	6.5

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 06 - 10, 2024

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 6	12:50	<i>Fed's Barkin Speaks on Economic Outlook</i>				
May 6	13:00	<i>Fed's Williams Participates in Fireside Chat</i>				
May 6	14:00	<i>Senior Loan Officer Opinion Survey on Bank Lending Practices</i>				
May 7	11:30	<i>Fed's Kashkari Participates in Fireside Chat</i>				
May 8	11:45	<i>Fed's Collins Speaks to MIT Students</i>				
May 8	13:30	<i>Fed's Cook Speaks on Financial Stability</i>				
May 8	11:00	<i>Fed's Jefferson Speaks About Careers in Economics</i>				
May 8	10:00	Wholesale Trade Sales	Mar	M/M % Chg.	-	2.3
May 9	8:30	Initial Jobless Claims	May 04	Thsd	213.0	208.0
May 10	13:30	<i>Fed's Barr Gives Commencement Speech</i>				
May 10	9:00	<i>Fed's Bowman Speaks on Financial Stability Risks</i>				
May 10	12:45	<i>Fed's Goolsbee Speaks in Moderated Q&A</i>				
Canada						
May 7	10:00	Ivey Purchasing Managers Index SA	Apr	Index	-	57.5
May 9	10:00	<i>BoC Releases Financial System Review & Financial System Survey</i>				
May 10	8:30	Net Change in Employment	Apr	Thsd	17.5	-2.2
May 10	8:30	Unemployment Rate	Apr	%	6.2	6.1
May 10	10:30	<i>BoC Releases Senior Loan Officer Survey</i>				
International						
May 06	20:30	JN Jibun Bank Japan PMI Services	Apr	Index	-	54.6
May 07	5:00	EZ Retail Sales	Mar	Y/Y % Chg.	-0.2	-0.7
May 9	7:00	UK Bank of England Bank Rate	May 09	%	5.25	5.25
May 10	2:00	UK Gross Domestic Product	Q1	Y/Y % Chg.	0.0	-0.2
May 10	21:30	CH Consumer Price Index	Apr	Y/Y % Chg.	0.1	0.1

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

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