

## Weekly Bottom Line

June 21, 2024

### Highlights

#### U.S.

- U.S. retail sales grew marginally in May, however the downward revision in April points to waning momentum among U.S. consumers.
- Housing starts and building permits both declined in May as higher interest rates weigh on builder confidence.
- U.S. existing home sales dipped for a third consecutive month as record home prices stretch buyers' affordability limit.

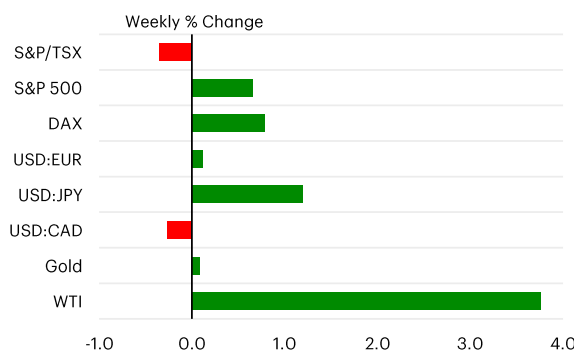
#### Canada

- The housing market showed mixed signals in May, with an increase in housing starts and contraction in home sales. The overall trend suggests the housing market will weigh on economic activity in the short term.
- Consumer spending also appears tepid, with a strong retail sales print in April overshadowed by weak performance in the prior two months, and an anticipated decline in May.
- The Summary of the Bank of Canada's Governing Council deliberations showed that policymakers contemplated waiting until July to cut rates. The Bank will remain cautious, focusing on both inflation risks and economic performance, rather than foreign exchange divergence, when making the next move.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5464	5432	5487	4117
S&P/TSX Comp.	21557	21639	22468	18737
DAX	18150	18002	18869	14687
FTSE 100	8243	8147	8446	7257
Nikkei	38596	38815	40888	30527
Fixed Income Yields				
U.S. 10-yr Treasury	4.26	4.22	4.99	3.71
Canada 10-yr Bond	3.34	3.28	4.24	3.06
Germany 10-yr Bund	2.40	2.36	2.97	1.90
UK 10-yr Gilt	4.08	4.06	4.75	3.44
Japan 10-yr Bond	0.98	0.94	1.09	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)	1.26	1.27	1.31	1.21
Yen (JPY per USD)	159.4	157.4	159.4	138.1
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	82.2	78.5	93.7	67.7
Natural Gas (\$US/MMBtu)	2.39	2.74	13.20	1.24
Copper (\$US/met. tonne)	9721.5	9615.5	10800.8	7823.8
Gold (\$US/troy oz.)	2329.1	2333.0	2425.3	1820.3

\*As of 10:25 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

#### Oil Prices Continue To Climb on Improving Demand



Note: Data as of 10:22 AM ET, Friday, June 21, 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)	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.

## U.S. – Housing Market Strains Under the Weight of Higher Rates and Prices

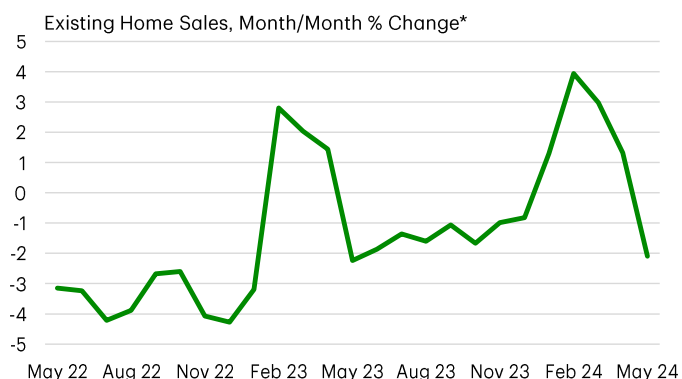
**Shernette McLeod, Economist**  
416-415-0413

Data out this week was largely tilted to the housing market, providing an update on where things stand in the usually busy spring season. Thus far, the situation appears largely unimpressive as market activity continues to be impacted by the dowsing effect of higher interest rates and prices. Another look at the health of the U.S. consumer via the retail spending report was also in the lineup. Despite news on the economic front, activity in the stock market was largely driven by the ups and downs of Nvidia, which managed to dethrone Microsoft this week as the most valuable public company in the world. Bond prices also continued to rise, driving yields lower. At the time of writing, the 10-year Treasury yield was down 0.5 basis points relative to where they started the week.

Consumer spending continued to show signs of fading as [retail sales](#) barely grew in May (0.1% m/m), following a decline of -0.2% in April. The outturn was weaker than analysts expected (Chart 1). Overall, weak retail sales are consistent with a U.S. economy that is losing momentum. The main takeaway is that consumers may finally be starting to yield to the pressures of elevated prices and higher borrowing costs.

Nonetheless, most Fed speakers throughout the week were key to emphasize that there is still more ground to be gained on the inflation front with the current restrictive policy before normalization becomes appropriate. In a recent interview, Fed Governor Barkin suggested that consumer spending is “fine” despite the weak retail sales print. In his view, “consumer spending is solid, not frothy and not weak” and the Fed is well positioned to respond to any path the economy may take. Other speakers, including New York Fed President John Williams and Bos-

**Chart 2: U.S. Existing Home Sales Drop for a Third Consecutive Month**



\*3-Month Moving Average. Source: National Association of Realtors, TD Economics.

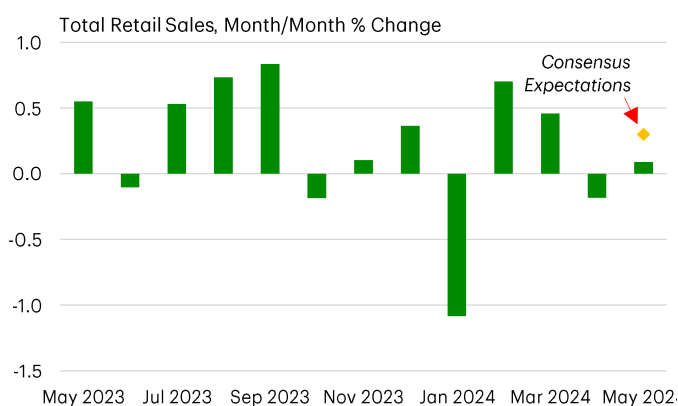
ton Fed President Susan Collins, stressed the Fed’s data dependent approach. Williams noted that he expects “interest rates to come down gradually over the next couple of years” but declined to give specific timing, while Collins stressed the need for patience and time to assess the “constellation of available data.”

On the housing front, homebuilding activity retreated last month with a decline in both [housing starts](#) and building permits. A consistent pullback in permitting activity over the past few months, has resulted in a decline in the number of units under construction. Evidently, elevated interest rates are weighing not only on buyers, who have pulled back on new home purchases resulting in higher inventory, but also on builders as it increases the cost of construction financing.

Despite a decline in the average 30-year fixed mortgage rate from a recent peak of 7.22% in early May to 6.87% this week, the housing market remains under pressure. [Existing home sales](#) slipped again for the third month in a row as home prices hit a record high (Chart 2). Buyers continue to be weighed down by high prices and rates, with little prospect of relief in the near term as the Fed continues to exercise patience with respect to rate cuts.

Looking ahead, the central bank’s preferred inflation gauge is out next week. Fed governors and market participants alike will be eager to see how much of the recent easing in the Consumer Price Index will flow through to the Personal Consumption Expenditure measure. Perhaps the Fed will find more of that “consistent data” they require to support a less restrictive policy stance.

**Chart 1: U.S. Retail Spending Underwhelms in May**



Source: Census Bureau, TD Economics.

## Canada – A Grand Slam of Economic Data

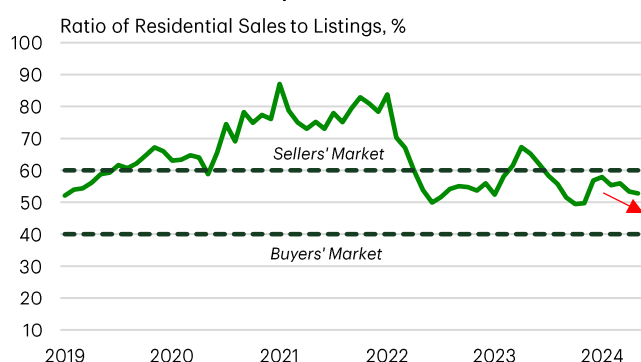
Maria Solovieva, CFA, Economist  
416-380-1195

Just as sports enthusiasts reveled in the array of top-tier events like the Euro Cup, Stanley Cup playoffs, and Copa America, economic news aficionados had a wealth of data to absorb this week. The economic arena was further energized by updates from forecasters, including yours truly – TD Economics - releasing our own view on the outlook for [national](#) and [provincial](#) economic growth.

The week kicked off with updates on the state of the housing market. Housing [starts](#) surprised to the upside, posting a robust 10% month-on-month increase. This performance boosted the three-month average, though it fell short of reaching the explosive growth seen during the pandemic-induced 'race for space'.

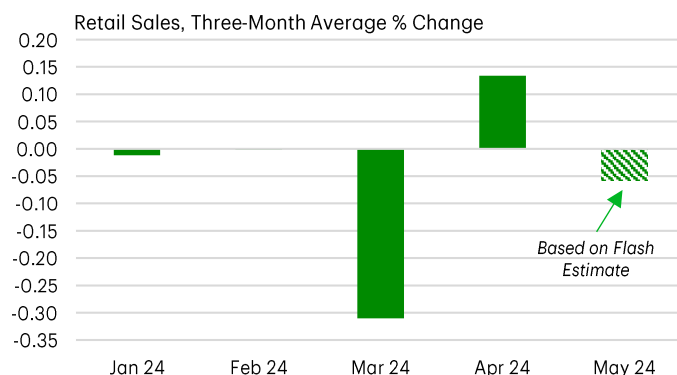
Conversely, the spring home selling season failed to gain momentum in May, with residential [home sales](#) posting another monthly decline. This was not entirely unexpected, as many potential buyers remained cautious, awaiting signals from the Bank of Canada. Luckily, both short- and long-term interest rates moved lower after the BoC cut rates on June 5th. This will help make home borrowing more affordable. An increase to new listings also contributed to improved affordability. This combined with lower sales activity, the sales-to-listings ratio pushed further into balanced territory (Chart 1). With that, the benchmark home price index declined by 0.2% month-on-month, primarily due to weakness in the condo market. Despite these adjustments, the softer sales trend is expected to persist, leading to an anticipated 3% contraction in the second quarter. We forecast that housing will weigh on economic activity in the short term, with a rebound expected in the latter half of the year as interest rate uncertainty subsides.

**Chart 1: Canadian Housing Market Moved to a More Balanced Territory**



Source: Canadian Real Estate Association, TD Economics.

**Chart 2: Canadian Retail Sales' Remain on The Losing Streak**



Source: Statistics Canada, TD Economics.

Similarly, the consumer is not likely to be pulling the freight. The strong [retail sales](#) print for April is preceded by two months of weakness and is expected to be followed by a weak print in May (Chart 2). This hardly signals strength. Notably, auto sales declined sharply, erasing the marginal gains of the previous two months. Recent industry data points to sluggish demand in auto sales in May as consumers grapple with high borrowing cost and prices roughly 20% higher than three years ago. This weakness offsets some of the strength observed in services spending, weighing on our projections for personal consumer spending of 0.7% quarter-on-quarter annualized (down from 3.0% in the first quarter).

As a result, this week's data doesn't provide a strong case for a more hawkish stance from the BoC. The Summary of the Governing Council's deliberations showed that members considered waiting until July to cut the policy rate, as they placed similar weight on the downside risks to inflation stemming from weaker consumer spending and on the upside risks associated with persistence in wage growth and the potential for a housing market rebound. Ultimately, the Council decided that there was sufficient progress on inflation to cut in June, but this doesn't guarantee a cut in July. Policy-makers also discussed market expectations for policy divergence between Canada and the U.S.. They agreed that while there are limits to how far policy can diverge, the limits are not close to being reached. Therefore, the domestic economic performance will remain the major driver of the BoC's decisions this year.

## Exhibits

Recent Key Economic Indicators: Jun 17 - 21, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jun 17	Empire Manufacturing	Jun	Index	-6.0	-15.6
Jun 18	Retail Sales Advance	May	M/M % Chg.	0.1	-0.2
Jun 18	Retail Sales Ex Auto and Gas	May	M/M % Chg.	0.1	-0.3
Jun 18	Capacity Utilization	May	%	78.7	78.2
Jun 18	Industrial Production	May	M/M % Chg.	0.9	0.0
Jun 18	Manufacturing (SIC) Production	May	M/M % Chg.	0.9	-0.4
Jun 18	Business Inventories	Apr	M/M % Chg.	0.3	-0.1
Jun 19	NAHB Housing Market Index	Jun	Index	43.0	45.0
Jun 20	Building Permits	May	Thsd	1386.0	1440.0
Jun 20	Housing Starts	May	Thsd	1277.0	1352.0
Jun 20	Initial Jobless Claims	Jun 15	Thsd	238.0	243.0
Jun 21	S&P Global US Composite PMI	Jun	Index	54.6	54.5
Jun 21	S&P Global US Manufacturing PMI	Jun	Index	51.7	51.3
Jun 21	S&P Global US Services PMI	Jun	Index	55.1	54.8
Jun 21	Existing Home Sales	May	MIns	4.11	4.14
Canada					
Jun 17	Housing Starts	May	Thsd	264.5	241.1
Jun 17	Existing Home Sales	May	M/M % Chg.	-0.6	-1.7
Jun 21	Industrial Product Price	May	M/M % Chg.	0.0	1.4
Jun 21	Retail Sales	Apr	M/M % Chg.	0.7	-0.3
Jun 21	Retail Sales Ex Auto	Apr	M/M % Chg.	1.8	-0.8
International					
Jun 18	EZ Consumer Price Index	May	Y/Y % Chg.	2.6	2.4
Jun 19	UK Consumer Price Index	May	Y/Y % Chg.	2.0	2.3
Jun 20	UK Bank of England Bank Rate	Jun 20	%	5.25	5.25
Jun 20	JN National Consumer Price Index	May	Y/Y % Chg.	2.8	2.5
Jun 20	JN Jibun Bank Japan PMI Mfg	Jun	Index	50.1	50.4
Jun 20	JN Jibun Bank Japan PMI Services	Jun	Index	49.8	53.8
Jun 21	UK Retail Sales Ex Auto Fuel	May	Y/Y % Chg.	1.2	-2.5

Source: Bloomberg, TD Economics.

## Upcoming Economic Releases and Events: Jun 24 - 28, 2024

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jun 24	3:00	Fed's Waller Gives Opening Remarks				
Jun 24	14:00	Fed's Daly Gives Remarks on Economy, Policy				
Jun 25	7:00	Fed's Bowman Speaks on Monetary Policy, Bank Capital Reform				
Jun 25	9:00	S&P CoreLogic CS 20-City NSA	Apr	Y/Y % Chg.	7.0	7.4
Jun 25	9:00	S&P CoreLogic CS US HPI NSA	Apr	Y/Y % Chg.	-	6.5
Jun 25	10:00	Conf. Board Consumer Confidence	Jun	Index	100.0	102.0
Jun 25	12:00	Fed's Lisa Cook Speaks on Economic Outlook				
Jun 25	14:10	Fed's Bowman Gives Recorded Opening Remarks				
Jun 27	8:30	Advance Goods Trade Balance	May	Blns	-96.00	-99.40
Jun 27	8:30	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	0.2	0.2
Jun 27	8:30	Durable Goods Orders	May	M/M % Chg.	0.0	0.6
Jun 27	8:30	Gross Domestic Product (Annualized)	Q1	Q/Q % Chg.	1.4	1.3
Jun 27	8:30	Initial Jobless Claims	Jun 22	Thsd	240.0	238.0
Jun 27	10:00	Pending Home Sales	May	M/M % Chg.	2.5	-7.7
Jun 28	6:00	Fed's Barkin Gives Keynote Speech				
Jun 28	8:30	PCE Core Deflator	May	Y/Y % Chg.	2.6	2.8
Jun 28	8:30	PCE Deflator	May	Y/Y % Chg.	2.6	2.7
Jun 28	8:30	Personal Income	May	M/M % Chg.	0.4	0.3
Jun 28	8:30	Real Personal Spending	May	M/M % Chg.	-	-0.1
Jun 28	12:00	Fed's Bowman Speaks in Moderated Q&A				
Canada						
Jun 24	13:45	BoC Governor Macklem Speaks at The Winnipeg Chamber of Commerce				
Jun 25	8:30	Consumer Price Index	May	Y/Y % Chg.	2.6	2.7
Jun 25	8:30	Consumer Price Index NSA	May	M/M % Chg.	0.3	0.5
Jun 25	8:30	CPI-Median	May	Y/Y % Chg.	2.6	2.6
Jun 25	8:30	CPI-Trim	May	Y/Y % Chg.	2.8	2.9
Jun 27	7:00	CFIB Business Barometer	Jun	Index	-	56.4
Jun 27	8:30	Payroll Employment Change (SEPH)	Apr	Thsd	-	51.4
Jun 28	8:30	Gross Domestic Product	Apr	M/M % Chg.	0.3	0.0
International						
Jun 26	19:50	JN Retail Sales	May	Y/Y % Chg.	2.0	2.0
Jun 27	19:30	JN Jobless Rate	May	%	2.6	2.6
Jun 27	19:30	JN Tokyo Consumer Price Index	Jun	Y/Y % Chg.	2.3	2.2
Jun 28	2:00	UK Gross Domestic Product	Q1	Y/Y % Chg.	0.2	0.2

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

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