

## Weekly Bottom Line

June 28, 2024

### Highlights

#### U.S.

- 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.

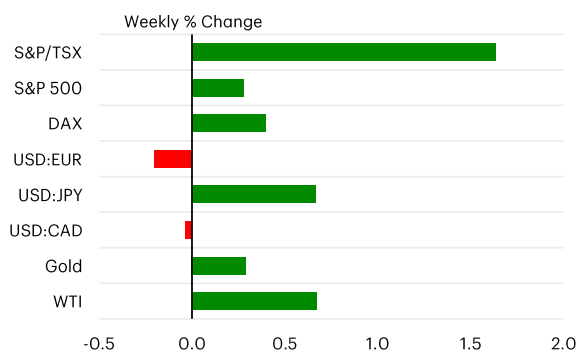
#### Canada

- May's disappointing inflation report slashed the odds of a follow up rate cut by the BoC in July and is more consistent with our view that the next move down in rates will be in September.
- May's report notwithstanding, inflation should cool moving forward, consistent with a softening jobs market. Data this week showed a dip in payrolls employment.
- Overall economic growth was firm in April. However, May's preliminary forecast was soft. An economy currently in excess supply implies further downward pressure on inflation.

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.

#### Equities Boosted on Cooling Inflation Data



Note: Data as of 12:42 PM ET, Friday, June 28, 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. – Services Spending and Prices Starting to Settle

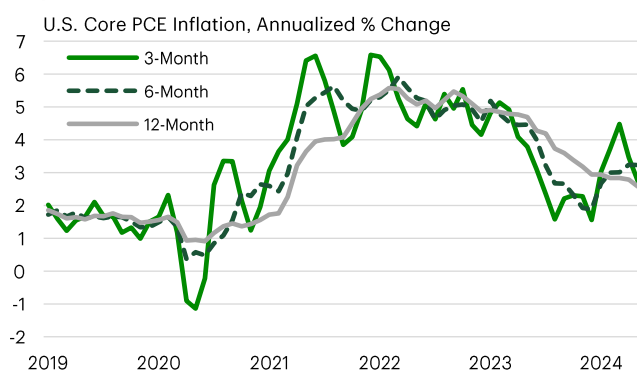
Vikram Rai, Senior Economist  
416-923-1692

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.

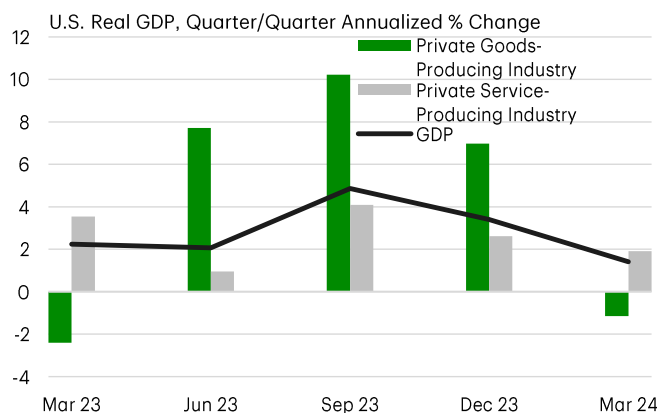
On the spending side, the release of May's data showed some retrenchment in the goods and services split, with

**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.

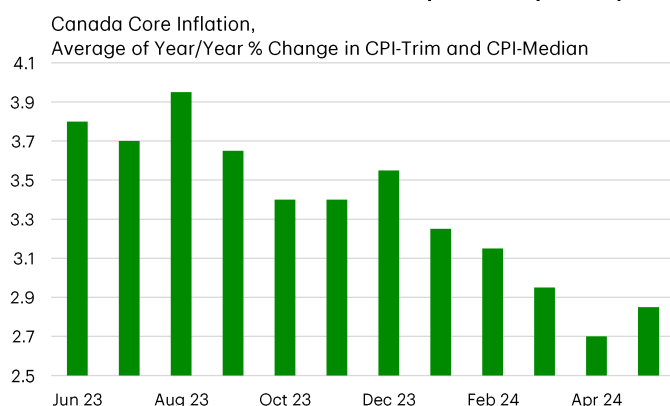
## Canada – Disappointing Inflation Print Affords Patience for the BoC

Rishi Sondhi, Economist  
416-983-8806

Market action this week was dictated by inflation reports from both north and south of the border. A disappointing Canadian report caused markets to push back strongly on the notion of a follow-up rate cut by the Bank of Canada in July. It also supports our call that the Bank can afford to wait until September until trimming its policy rate again. Bonds sold off in the wake of the report, pushing Canadian yields higher across the curve, although they gave up some of these gains on Friday amid a soft U.S. inflation print that showed some welcome cooling in price pressures. For its part, the loonie was down slightly on the week and remains in the lower end of the \$0.72 - \$0.76 USD range that's been in place for the better part of two years.

Canadian inflation had been on an improving trend for the first four months of 2024, increasing the Bank of Canada's confidence that it was on a sustainable path back to 2% and paving the way for an early June rate cut – the first in four years. Against this promising backdrop, the May report landed with a thud, as both headline inflation and the Bank of Canada's preferred core measures surprised to the upside. Indeed, both overall inflation and the average of the Bank's core metrics ticked 0.2 percentage points higher to 2.9% year-on-year in May, boosted by shelter prices. However, nowhere is it written that inflation must take a straight line down to the 2% target, and there were bound to be some bumps along the way (Chart 1). An obvious example of this is in the U.S., where inflation heated up in the first quarter, before giving back some ground in recent months.

**Chart 1: Inflation's Trek to 2% Hits a Speed Bump in May**



Source: Statistics Canada, TD Economics. Last Observation: May 2024.

**Chart 2: Canada's Jobs Market Has Loosened Considerably**



Source: Statistics Canada, TD Economics. Last Observation: April 2024.

A potential concern coming out of Canada's May CPI print is whether it's a harbinger of some potential stickiness in inflation, raising the potential for higher for longer interest rates. While it's too early to tell, our latest [forecast](#) anticipates a gradual easing in inflation pressures over the rest of 2024. A softening jobs market is a key reason that we expect inflation to ease further, with data this week showing that payroll employment declined in April. Meanwhile, both the job vacancy rate and the ratio of vacancies to the number of unemployed people (indicators of job market tightness) continued to decline from the highs observed a few years ago (Chart 2). Also encouraging was progress on wage growth, with average weekly earnings and the fixed-weight index of average hourly earnings both decelerating in April.

The likelihood that overall economic growth will be subdued moving forward is another good reason to expect inflation to be brought to heel. While this morning's data showed that the economy expanded at an above-trend 0.3% month-on-month (m/m) in April, supported by monthly gains in 15 of 20 industries, May's preliminary number was considerably weaker, showing a 0.1% m/m advance. All told, the second quarter is shaping up to be a decent one for growth. However, even with this performance the economy was likely in an "excess supply" position, meaning that the economy's performance should be pressuring inflation lower, not higher, going forward.

## 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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