

The Weekly Bottom Line

June 23, 2023

Highlights

United States

- Housing starts rose 21.7% month-on-month (m/m) in May, hitting its highest level in 13 months as both single-family and multi-family construction picked up.
- Existing home sales grew 0.2% m/m in May with elevated mortgage rates and limited supply continuing to act as headwinds.
- FOMC Chair Powell reiterated his expectation that rates would need to rise further this year during his semi-annual Congressional hearing.

Canada

- Equity market sentiment soured this week, as more global central banks followed the Bank of Canada in ratcheting up rate hikes. Markets are worried about the coming economic slowdown in the wake of tighter monetary policy.
- April retail sales was the key Canadian data point in a relatively quiet week. Consumers ramped up spending in a wide variety of categories during the month, putting upside risk on Q2 consumer spending.
- All eyes will turn to next week's inflation report for May along with the BoC's Business Outlook Survey. Both will provide key information for the Bank to weigh ahead of its mid-July rate decision.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4345	4410	4426	3577
S&P/TSX Comp.	19450	19975	20767	18206
DAX	15751	16358	16358	11976
FTSE 100	7450	7643	8014	6826
Nikkei	32782	33706	33706	25717
Fixed Income Yields				
U.S. 10-yr Treasury	3.71	3.76	4.24	2.57
Canada 10-yr Bond	3.34	3.35	3.68	2.61
Germany 10-yr Bund	2.33	2.47	2.75	0.78
UK 10-yr Gilt	4.26	4.41	4.51	1.81
Japan 10-yr Bond	0.37	0.41	0.53	0.17
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.76	0.78	0.72
Euro (USD per EUR)	1.09	1.09	1.11	0.96
Pound (USD per GBP)	1.27	1.28	1.28	1.07
Yen (JPY per USD)	143.0	141.8	150.2	127.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	67.4	71.8	111.8	66.7
Natural Gas (\$US/MMBtu)	2.27	2.13	9.84	1.77
Copper (\$US/met. tonne)	8579.3	8555.0	9330.8	7160.0
Gold (\$US/troy oz.)	1934.3	1958.0	2050.3	1622.4

*As of 9:46 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Hawkish Central Banks Stir Growth Concerns



Note: Data as of 10:34 AM ET, Friday, June 23, 2023.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.00 - 5.25%
Bank of Canada (Overnight Rate)	4.75%
European Central Bank (Refi Rate)	4.00%
Bank of England (Repo Rate)	5.00%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

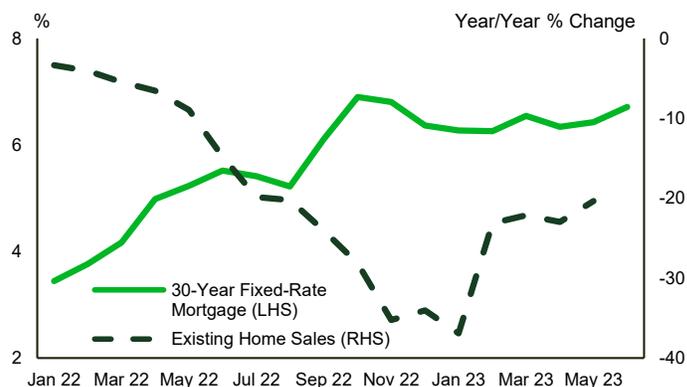
U.S. – Housing Up, Rates to Follow

The holiday-shortened, first week of summer was relatively quiet on the economic data front. However, we did get to hear from several FOMC members on the heels of last week's meeting, including Chair Powell who was before Congress this week for the Fed's semi-annual hearing. We also got a pulse check on housing this week which showed more homes being built and sold. Equity markets drifted lower on the week, as the S&P 500 fell 1.4% and the yield curve inversion steepened as the 10-Year Treasury yield fell by 5 basis-points (bps) to 3.72% as of the time of writing.

The week kicked off on Tuesday with a notable upside surprise in homebuilding activity, as housing starts came in at 1.63 million units (annualized) in May, 231k units higher than expected. Starts rose by 5.5% year-on-year (y/y), marking the first time in 13 months that starts were higher than their year-ago level (Chart 1). Most of the surprise can be attributed to an atypically large jump in single-family starts, while multi-family starts continued to fluctuate near elevated levels. With the prospect of higher for longer rates likely keeping existing home inventory relatively low for the foreseeable future, near-term tailwinds have formed behind residential construction.

On the demand side of the housing equation, we saw existing home sales rise by 0.2% month-on-month (m/m) in May. All of that growth was found in the condo/co-op segment which grew by 4.7% m/m, while single-family sales declined by 0.3% m/m. While existing home sales have rebounded modestly in recent months, they are still down 20% y/y (Chart 2). Stabilizing mortgage rates have helped sales to experience a moderate near-term rebound, but with

Chart 2: Existing Home Sales Rebounded Modestly on Stabilizing Rates, But Are Still Down 20% Year-on-Year



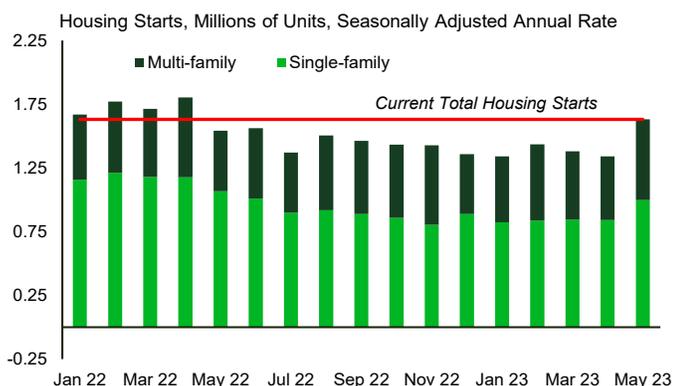
Source: Freddie Mac, National Association of Realtors, TD Economics.

the Fed eyeing further rate hikes a sustainable rebound is unlikely to materialize this year.

Last week's FOMC meeting brought a long-awaited pause to one of the most aggressive rounds of monetary policy tightening in decades, but it also came with the caveat that the FOMC expects an additional 50bps of rate hikes will be necessary this year. At his Congressional hearing this week, Chair Powell reiterated his comments from last week that inflation remained too high and that the Fed had more work to do. Other Fed speakers this week diverged, with Bostic seeing current rates as sufficiently restrictive, Goolsbee emphasizing a wait-and-see approach, and Bowman echoing Powell that more work needs to be done.

Across the pond, the Bank of England surprised markets with a 50bps hike on Thursday after core inflation accelerated in recent months. In the U.S., core PCE inflation – the Fed's preferred inflation measure – has not accelerated, but roughly flatlined since the start of the year. This is why the Fed has favored 25bps hikes as it fine-tunes its approach to the terminal rate, but it is also why last week's pause was conditional on further policy tightening. Next week we will receive an update on core PCE, and although it is unlikely to shift market expectations for a 25bps hike in July, it will help shape expectations for the rest of the FOMC meetings this year.

Chart 1: Housing Starts Jumped in May



Source: U.S. Census Bureau, TD Economics.

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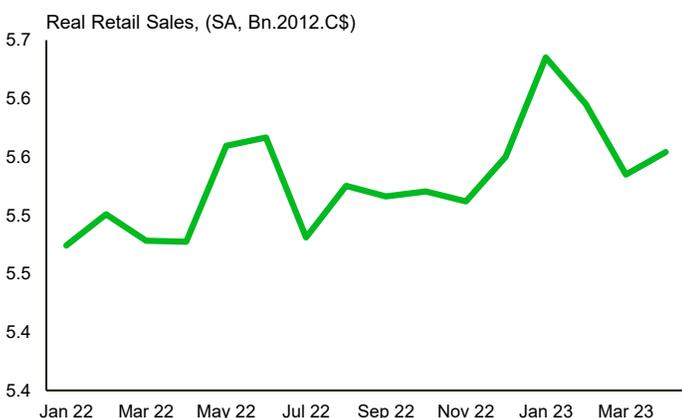
Canada – Consumer Updraft Supports Hawkish BoC

Sentiment on equity markets soured this week as more global central banks raised rates to cool inflation that remains overheated across much of the world. In Canada, April retail sales data was the headliner in a relatively quiet week for data. The report underscored the solid momentum on the consumer front. Despite high inflation, increased borrowing costs and uncertainty about recession, consumer spending has held up relatively well this spring.

April retail sales rose an impressive 1.1% month/month, coming in above Statistics Canada's advance estimate. Inflation was part of the story, but sales in real terms were still up a healthy 0.3% m/m, albeit coming after a couple of months of declines. Sales were up broadly across categories as well: general merchandise (+3.3% m/m), clothing and accessories (+3.1% m/m), food and beverages (+1.5% m/m), health and personal care retailers (+1.0% m/m), sporting goods, hobby items, musical instruments, and books stores (+1.0% m/m) and building material and garden equipment and supplies dealers (+0.7% m/m). Notable exceptions included furnishings, and electronics and appliances.

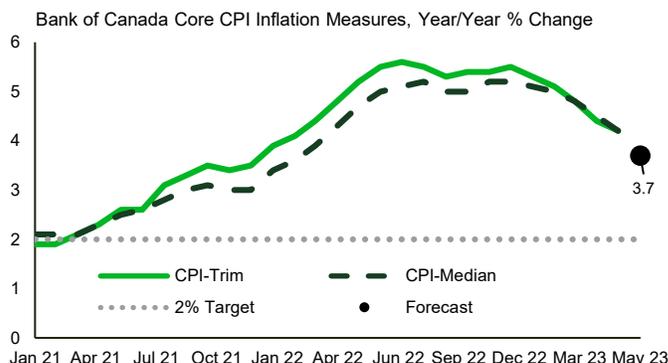
Consumer momentum looks to have carried through to May. Statistics Canada's advance estimate for May retail sales points to a solid 0.5% m/m follow through. However, with April's advance estimate falling well short of the actual data, this must be taken with several grains of salt. The firm retail data puts upside risk to our recent [quarterly forecast](#) for consumer spending, which is now tracking closer to a 1% annualized gain for Q2, versus our initial expectation for a relatively flat quarter following a healthy Q1.

Chart 1: Canadian Retail Sales Rebound in April



Source: Statics Canada, TD Economics.

Chart 2: CDN Core Inflation to be Closely Watched Next Week



Source: Bank of Canada, Statistics Canada, TD Economics.

This data vindicates the Bank of Canada's decision to raise the policy rate in early June. Strength in consumer spending had been a key factor in the Bank's decision to step off the sidelines and raise rates a quarter point. The BoC released its summary of deliberations leading up to its June 7th rate hike this week, and there was little new. The summary expanded on the factors outlined in the Bank's statement ([see commentary](#)). Attention turns now to what the Bank is likely to do at its July 12th decision.

Next week's inflation data for May will be key. The BoC's preferred core inflation metrics – CPI trim and CPI median – had not eased as much as the Bank had hoped in recent months, another key factor in their rate hike. We expect the measures to decelerate to an average 3.7% year/year in May (Chart 2). If inflation cools far more than we expect, our confidence that the BoC is likely to hike again will be reduced.

However, the Bank will be assessing the totality of the data and may not be dissuaded from taking their policy rate higher with one soft inflation report, particularly given on-going strength in housing, which has knock on effects for spending. Another key indicator is their quarterly Business Outlook Survey, due out next Friday. Last quarter's survey suggested businesses expected inflation pressures to ease, which hasn't panned out quite as the Bank would have liked. Nevertheless, business sentiment will be another piece of the data puzzle in their decision.

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Recent Key Economic Indicators: Jun 19 - 23, 2023					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jun 19	NAHB Housing Market Index	Jun	Index	55.0	50.0
Jun 20	Building Permits	May	Thsd	1491.0	1417.0
Jun 20	Housing Starts	May	Thsd	1631.0	1340.0
Jun 22	Initial Jobless Claims	Jun 17	Thsd	264.0	264.0
Jun 22	Existing Home Sales	May	Mlns	4.3	4.3
Jun 23	S&P Global US Manufacturing PMI	Jun	Index	46.3	48.4
Jun 23	S&P Global US Services PMI	Jun	Index	54.1	54.9
Jun 23	S&P Global US Composite PMI	Jun	Index	53.0	54.3
Canada					
Jun 19	Industrial Product Price	May	M/M % Chg.	-1.0	-0.6
Jun 21	Retail Sales	Apr	M/M % Chg.	1.1	-1.5
Jun 21	Retail Sales Ex Auto	Apr	M/M % Chg.	1.3	-0.4
International					
Jun 21	UK Consumer Price Index	May	Y/Y % Chg.	8.7	8.7
Jun 22	UK Bank of England Bank Rate	Jun 22	%	5.0	4.5
Jun 22	JN Natl Consumer Price Index	May	Y/Y % Chg.	3.2	3.5
Jun 22	JN Jibun Bank Japan PMI Mfg	Jun	Index	49.8	50.6
Jun 23	UK Retail Sales Ex Auto Fuel	May	Y/Y % Chg.	-1.7	-3.0

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

Upcoming Economic Releases and Events: Jun 26 - 30, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jun 27	8:30	Durable Goods Orders	May	M/M % Chg.	-1.0	1.1
Jun 27	8:30	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	0.2	1.3
Jun 27	9:00	S&P CoreLogic CS 20-City NSA	Apr	Y/Y % Chg.	-	-1.2
Jun 27	9:00	S&P CoreLogic CS US HPI NSA	Apr	Y/Y % Chg.	-	0.7
Jun 27	10:00	New Home Sales	May	Thsd	668.0	683.0
Jun 27	10:00	Conf. Board Consumer Confidence	Jun	Index	103.8	102.3
Jun 28	8:30	Advance Goods Trade Balance	May	Blns	-93.20	-96.80
Jun 28	9:30	<i>Fed's Powell, ECB's Lagarde, BOJ's Ueda, BOE's Bailey: Sintra</i>				
Jun 29	8:30	Gross Domestic Product Annualized	1Q	Q/Q % Chg.	1.4	1.3
Jun 29	8:30	Personal Consumption	1Q	Q/Q % Chg.	3.8	3.8
Jun 29	8:30	Core PCE	1Q	Q/Q % Chg.	-	5.0
Jun 29	8:30	Initial Jobless Claims	Jun 24	Thsd	268.0	264.0
Jun 29	10:00	Pending Home Sales	May	M/M % Chg.	-0.9	0.0
Jun 29	14:30	<i>Fed's Powell Takes Part in a Discussion at the Bank of Spain</i>				
Jun 29	18:00	<i>Fed's Bostic Speaks on US Economic Outlook</i>				
Jun 30	8:30	Personal Income	May	M/M % Chg.	0.4	0.4
Jun 30	8:30	Real Personal Spending	May	M/M % Chg.	0.1	0.5
Jun 30	8:30	PCE Deflator	May	Y/Y % Chg.	3.8	4.4
Canada						
Jun 27	5:30	<i>BoC Deputy Governor Takes Part in ECB Forum on Central Banking</i>				
Jun 27	8:30	Consumer Price Index	May	Y/Y % Chg.	3.4	4.4
Jun 27	8:30	Consumer Price Index NSA	May	M/M % Chg.	0.5	0.7
Jun 29	7:00	CFIB Business Barometer	Jun	Index	-	56.4
Jun 29	8:30	Payroll Employment Change - SEPH	Apr	Thsd	-	-9.9
Jun 30	8:30	Gross Domestic Product	Apr	M/M % Chg.	0.2	0.0
Jun 30	10:30	BoC Overall Business Outlook Survey	2Q	Q/Q % Chg.	-	-1.1
Jun 30	10:30	BoC Business Outlook Future Sales	2Q	Q/Q % Chg.	-	-18.0
International						
Jun 28	19:50	JN Retail Sales	May	Y/Y % Chg.	5.1	5.0
Jun 29	19:30	JN Jobless Rate	May	%	2.6	2.6
Jun 29	19:30	JN Tokyo Consumer Price Index	Jun	Y/Y % Chg.	3.4	3.2
Jun 29	21:30	CH Manufacturing PMI	Jun	Index	49.0	48.8
Jun 30	2:00	UK Gross Domestic Product	1Q	M/M % Chg.	0.2	0.2
Jun 30	5:00	EZ Consumer Price Index Estimate	Jun	Y/Y % Chg.	5.6	-
Jun 30	5:00	EZ Unemployment Rate	May	%	6.5	6.5

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

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