

The Weekly Bottom Line

March 8, 2024

Highlights

United States

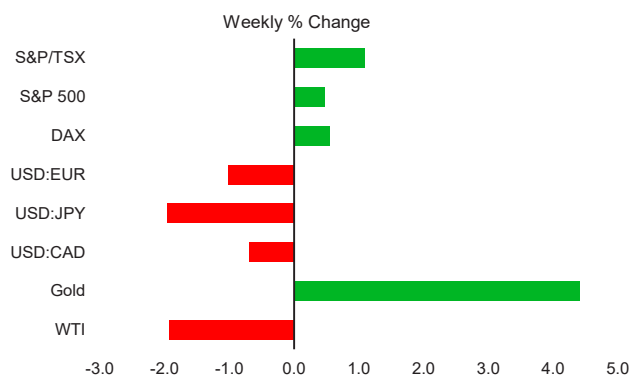
- The U.S. economy added 275k jobs in February, but job gains in the prior two months were revised down significantly and the unemployment rate ticked up to 3.9%.
- In his testimony before Congress this week, Federal Reserve Chair Powell noted that economic resilience gave the FOMC time to assess the sustainability of current disinflation trends.
- Congress is set to pass half of the federal spending bills for the 2024 fiscal year this week, five months and four continuing resolutions after the fiscal year began in October.

Canada

- The Bank of Canada (BoC) maintained the overnight rate at 5.00% and stated that it's still too early to consider lowering the policy rate.
- Markets are leaning towards a first interest rate cut in June, in line with our view.
- Canada's economy gained a solid 41k new jobs in February, but given continued strength in labour force growth, the unemployment rate ticked higher. Wage growth also moderated, suggesting labour markets are continuing to cool.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5164	5137	5164	3856
S&P/TSX Comp.	21796	21552	21796	18737
DAX	17830	17735	17843	14687
FTSE 100	7666	7683	7914	7257
Nikkei	39689	39911	40109	26946
Fixed Income Yields				
U.S. 10-yr Treasury	4.09	4.18	4.99	3.31
Canada 10-yr Bond	3.35	3.43	4.24	2.73
Germany 10-yr Bund	2.27	2.41	2.97	1.90
UK 10-yr Gilt	3.98	4.11	4.75	3.28
Japan 10-yr Bond	0.74	0.72	0.96	0.25
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.76	0.72
Euro (USD per EUR)	1.09	1.08	1.12	1.05
Pound (USD per GBP)	1.29	1.27	1.31	1.19
Yen (JPY per USD)	147.2	150.1	151.7	130.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	78.9	80.0	93.7	66.7
Natural Gas (\$US/MMBtu)	1.56	1.47	13.20	1.47
Copper (\$US/met. tonne)	8546.5	8416.0	9065.8	7823.8
Gold (\$US/troy oz.)	2174.8	2082.9	2174.8	1820.3

Equities Rise, Dollar Falls on Renewed Rate Cut Bets



Note: Data as of 11:19 AM ET, Friday, March 8, 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)	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.

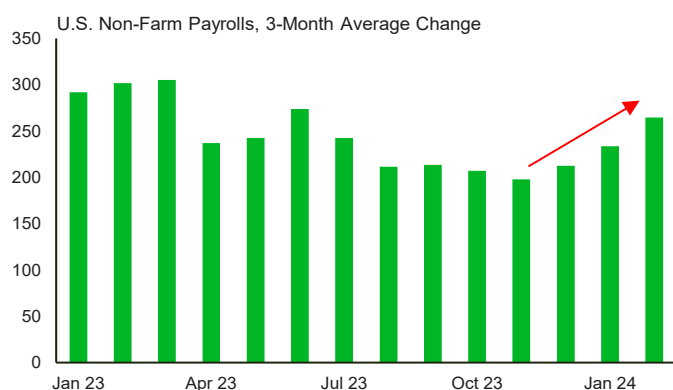
U.S. – A Busy Week in Washington

With the first quarter entering its final weeks, we received a host of important economic data this week that will help form expectations for the year ahead. This included a labor market pulse check in addition to Federal Reserve Chair Powell's semi-annual testimony before Congress. Equity markets continued to notch record highs, with the S&P 500 rising 0.8% on the week, while Treasury yields fell by roughly 10 basis-points as of the time of writing.

The headline release for this week was Friday's employment report, which showed that 275k jobs had been added in February. While job gains in the prior two months were revised down by a considerable 167k jobs, the economy still saw solid and accelerating job growth moving into 2024 (Chart 1). However, the unemployment rate ticked up by 0.2 percentage-points to 3.9%, in part due to a return of positive labor force growth. On aggregate, the labor market remains healthy but is continuing to moderate towards a more balanced state. This will be welcome news for the Federal Reserve as they target their dual mandate of maximum sustainable employment and price stability.

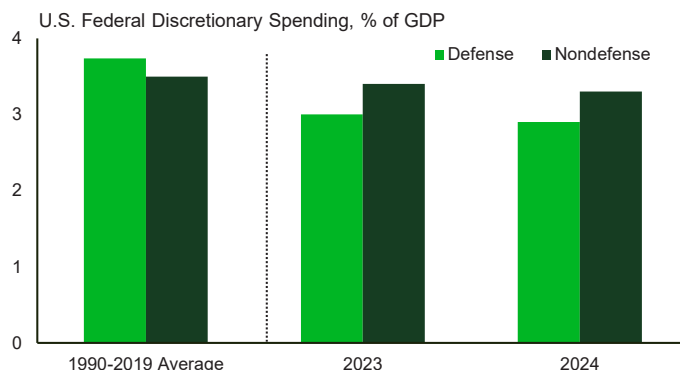
The shift towards a more balanced risk outlook was also noted in Chair Powell's testimony to Congressional committees this week. In his remarks he stated that the resilience of the economy and the labor market gave the FOMC time to assess the sustainability of current disinflation trends. While Powell did note that it would likely be necessary to implement less restrictive policy this year, he cautioned against the risk of easing pre-maturely. Solid job growth and an economy that continues to exhibit above-trend growth support Chair Powell's assessment and our

Chart 1: Employment Gains Accelerate To Start 2024



Source: U.S. Bureau of Labor Statistics, TD Economics.

Chart 2: Discretionary Spending Declines Modestly Under FY2024 Budget



Note: Estimates include effects of continuing resolution funding through first five months of fiscal year. Source: Congressional Budget Office, TD Economics.

expectation that the FOMC will hold off until July to begin lowering interest rates.

Also on Capitol Hill this week, Congress passed half of the federal spending bills for fiscal year 2024. With funding for six federal departments set to expire on Friday – legislated by the fourth continuing resolution of this cycle passed last week – the House passed a package of appropriation bills on Wednesday for the departments subject to the deadline. Senate approval and the President's signature is expected ahead of the midnight deadline on Friday. The other six appropriations bills will need to be passed ahead of their March 22nd deadline, but aggregate spending levels are expected to be consistent with the limits previously agreed to by Congress (Chart 2). Removing the near-term risk of a government shutdown is undoubtedly positive, but ongoing structural deficits leave the sustainability of the national debt a long-term risk, which was also noted by Chair Powell in Congress this week.

In the near-term, markets will be closely watching the February CPI inflation data release next week, which is expected to show a deceleration from January's unexpected uptick. Further progress on disinflation will be required before the Federal Reserve considers shifting its current policy stance.

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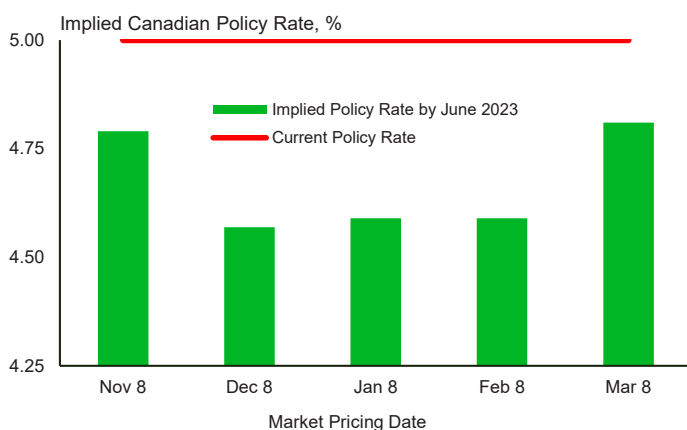
Canada – Bank of Canada Holds the Line

To no one's surprise, the Bank of Canada (BoC) maintained the overnight policy rate at 5.00% at this week's meeting. When the Bank will start to cut interest rates is still top of mind for market watchers. However, Governor Macklem offered no clues to when this could occur, stating "it's too early to consider lowering the policy rate". January's downside surprise in headline and core inflation was not enough to move the BoC off of their concern that upside risks to the inflation outlook are still present—though they continue to acknowledge progress. As it stands, the narrative remains the same: the BoC is afforded the time to wait to see more evidence that inflation is moving durably back to 2% before lowering interest rates.

In the wake of the decision, markets moved the probability of a June cut slightly lower, though June still stands as the most likely timing for a first rate cut (~80%). This pricing looks like where it was back in November, despite reactive pricing movements in the interim in the wake of incoming data (Chart 1). We sit in the June-cut camp, taking cues from the fact that economic growth continues to sputter, labour markets are balancing, and core inflation measures, while still a bit elevated, are being driven by shelter prices.

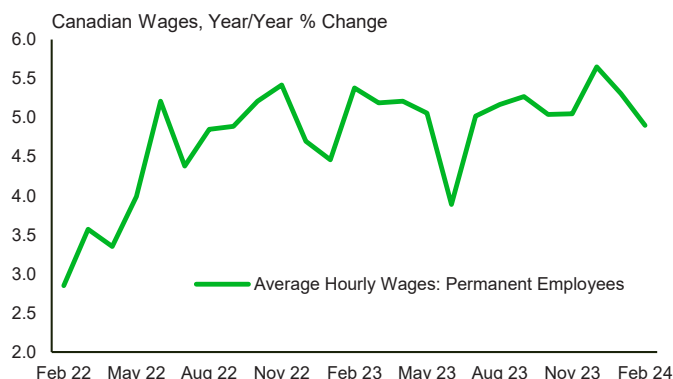
The focus now shifts to the April 10th policy meeting where the BoC will release a fresh set of forecasts in their Monetary Policy Report (MPR). These updates may start to lay the foundation for interest rate cuts. Notably, since the last MPR released in January, inflation for Q4-2023 came in a touch lower than projected (3.2% vs 3.3% y/y), while Q4-2023 growth came in a touch stronger.

Chart 1: Markets Settling on a June Interest Rate Cut



Source: Bloomberg, TD Economics.

Chart 2: Wage Growth Still Elevated, But Showing Signs of Slowing



Source: Statistics Canada, TD Economics.

February's jobs data saw a healthy 40.7k net new jobs, driven by full-time employment, but details under the hood were weak. The unemployment rate nudged back up a tenth to 5.8% as labour market gains continue to outpace employment growth. Meanwhile, hours worked tallied a trend-like gain. The pace of wage growth has been a thorn in the side for the BoC, having been stuck above 5% y/y for seven consecutive months. Fortunately, wage growth dipped back into the high 4% y/y range in February, the softest reading since June 2023 (Chart 2). Still, more progress on this front is likely desired by the BoC.

Finally, international trade data for the month of January showed that both import and export activity are slowing. The sharp drop in import volumes reflects weakness in the Canadian consumer. This is consistent with Statistics Canada's guidance for January's retail sales and our own view of weaker spending over the first half of the year. Recall that last quarter, strong export activity contributed most to Canada's GDP growth. Early tracking is showing trade may not be as much of a tailwind to Q1-2024 growth.

Now we sit and wait. One more inflation and labour market reading, as well as the release of the Bank of Canada's Business Outlook Survey in early-April, are due before the BoC's next meeting. These developments could set the tone for a potential communication shift from the BoC as rate cuts come closer to fruition.

Marc Ercolao, Economist

Recent Key Economic Indicators: Mar 04 - 08, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Mar 5	S&P Global US Composite PMI	Feb	Index	52.5	51.4
Mar 5	S&P Global US Services PMI	Feb	Index	52.3	51.3
Mar 5	Cap Goods Orders Nondef Ex Air	Jan	M/M % Chg.	0.0	0.1
Mar 5	Durable Goods Orders	Jan	M/M % Chg.	-6.2	-6.1
Mar 5	Factory Orders	Jan	M/M % Chg.	-3.6	-0.3
Mar 5	Factory Orders Ex Trans	Jan	M/M % Chg.	-0.8	-0.3
Mar 5	ISM Services	Feb	Index	52.6	53.4
Mar 6	ADP Employment Change	Feb	Thsd	140.0	111.0
Mar 6	Job Openings	Jan	Mlns	8.86	8.89
Mar 6	Wholesale Trade Sales	Jan	M/M % Chg.	-1.7	0.3
Mar 7	Initial Jobless Claims	Mar 02	Thsd	217.0	217.0
Mar 7	Trade Balance	Jan	Blns	-67.40	-64.20
Mar 7	Unit Labor Costs	Q4	Q/Q % Chg.	0.4	0.5
Mar 8	Average Hourly Earnings	Feb	M/M % Chg.	0.1	0.5
Mar 8	Change in Nonfarm Payrolls	Feb	Thsd	275.0	229.0
Mar 8	Unemployment Rate	Feb	%	3.9	3.7
Canada					
Mar 6	Bank of Canada Rate Decision	Mar 06	%	5.00	5.00
Mar 6	Ivey Purchasing Managers Index SA	Feb	Index	53.9	56.5
Mar 7	Int'l Merchandise Trade	Jan	Blns	0.50	-0.86
Mar 8	Net Change in Employment	Feb	Thsd	40.7	37.3
Mar 8	Unemployment Rate	Feb	%	5.8	5.7
International					
Mar 4	JN Tokyo Consumer Price Index	Feb	Y/Y % Chg.	2.6	1.8
Mar 4	JN Jibun Bank Japan PMI Services	Feb	Index	52.9	52.5
Mar 6	EZ Retail Sales	Jan	Y/Y % Chg.	-1.0	-0.5
Mar 7	EZ ECB Main Refinancing Rate	Mar 07	%	4.50	4.50
Mar 8	EZ Employment	Q4	Y/Y % Chg.	1.2	1.3
Mar 8	EZ Gross Domestic Product SA	Q4	Y/Y % Chg.	0.1	0.1

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

Upcoming Economic Releases and Events: Mar 11 - 15, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 12	6:00	NFIB Small Business Optimism	Feb	Index	90.6	89.9
Mar 12	8:30	Consumer Price Index	Feb	M/M % Chg.	0.4	0.3
Mar 12	8:30	Consumer Price Index Ex Food and Energy	Feb	M/M % Chg.	0.3	0.4
Mar 12	8:30	Consumer Price Index	Feb	Y/Y % Chg.	3.1	3.1
Mar 12	8:30	Consumer Price Index Ex Food and Energy	Feb	Y/Y % Chg.	3.7	3.9
Mar 14	8:30	Retail Sales Advance	Feb	M/M % Chg.	0.7	-0.8
Mar 14	8:30	Retail Sales Ex Auto and Gas	Feb	M/M % Chg.	0.2	-0.5
Mar 14	8:30	PPI Final Demand	Feb	M/M % Chg.	0.3	0.3
Mar 14	8:30	PPI Ex Food and Energy	Feb	M/M % Chg.	0.2	0.5
Mar 14	8:30	Initial Jobless Claims	Mar 09	Thsd	-	217.0
Mar 14	10:00	Business Inventories	Jan	M/M % Chg.	0.3	0.4
Mar 15	8:30	Empire Manufacturing	Mar	Index	-7.0	-2.4
Mar 15	9:15	Industrial Production	Feb	M/M % Chg.	0.0	-0.1
Mar 15	9:15	Capacity Utilization	Feb	%	78.4	78.5
Mar 15	9:15	Manufacturing (SIC) Production	Feb	M/M % Chg.	0.3	-0.5
Canada						
Mar 14	8:30	Manufacturing Sales	Jan	M/M % Chg.	0.4	-0.70
Mar 15	8:15	Housing Starts	Feb	Thsd	217.5	223.60
International						
Mar 12	3:00	UK ILO Unemployment Rate	Jan	Q/Q % Chg.	3.8	3.8
Mar 13	3:00	UK Gross Domestic Product	Jan	Q/Q % Chg.	-0.1	-0.3

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

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