

The Weekly Bottom Line

May 19, 2023

Highlights

United States

- Financial markets remained eerily positive this week, despite the debt ceiling X-date looming with no bipartisan deal in sight.
- Retail sales data for April showed the continued resilience of the U.S. consumer, while housing starts are looking to have reached a bottom after having fallen 24% last year. Home sales were lower in April, and likely have a bit further to fall.
- Fed speakers diverged this week on the near-term trajectory of the fed funds rate. Financial markets are still pricing 50 bps of rate cuts by year-end.

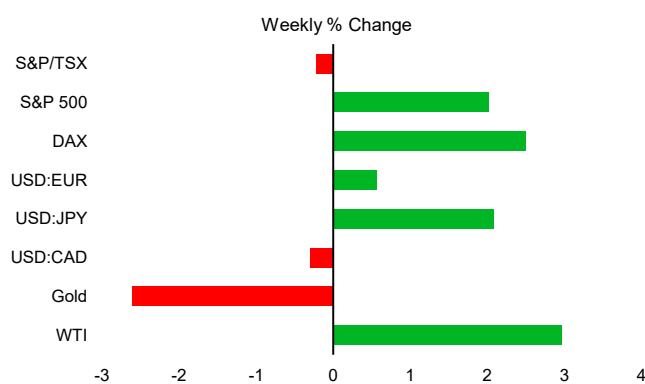
Canada

- CPI inflation surprised to the upside, rising by 4.4% year-on-year (y/y) in April, up from 4.3% y/y in March. This was the first increase in the inflation rate since June 2022.
- Real estate data also came in hot, as home sales shot up by 11% month-on-month (m/m) in April, and the average home price rose by 6% m/m.
- Canadian retail sales data came in at -1.4% m/m in March, but when we add in services, consumer spending grew at an above trend clip in the first quarter of 2023.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4211	4124	4305	3577
S&P/TSX Comp.	20393	20420	21032	18206
DAX	16290	15914	16290	11976
FTSE 100	7781	7755	8014	6826
Nikkei	30808	29388	30808	25717
Fixed Income Yields				
U.S. 10-yr Treasury	3.71	3.46	4.24	2.57
Canada 10-yr Bond	3.21	2.88	3.68	2.61
Germany 10-yr Bund	2.50	2.28	2.75	0.78
UK 10-yr Gilt	4.09	3.78	4.51	1.81
Japan 10-yr Bond	0.40	0.39	0.53	0.17
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.80	0.72
Euro (USD per EUR)	1.08	1.08	1.11	0.96
Pound (USD per GBP)	1.24	1.25	1.27	1.07
Yen (JPY per USD)	138.6	135.7	150.2	126.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	73.0	70.0	122.1	66.7
Natural Gas (\$US/MMBtu)	2.30	1.98	9.84	1.85
Copper (\$US/met. tonne)	8128.5	8222.8	9743.0	7160.0
Gold (\$US/troy oz.)	1960.8	2010.8	2050.3	1622.4

*As of 9:56 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equities Pushed Higher on Hopes of U.S. Debt-Ceiling Deal



Note: Data as of 10:51 AM ET, Friday, May 19, 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)	4.50%
European Central Bank (Refi Rate)	3.75%
Bank of England (Repo Rate)	4.50%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

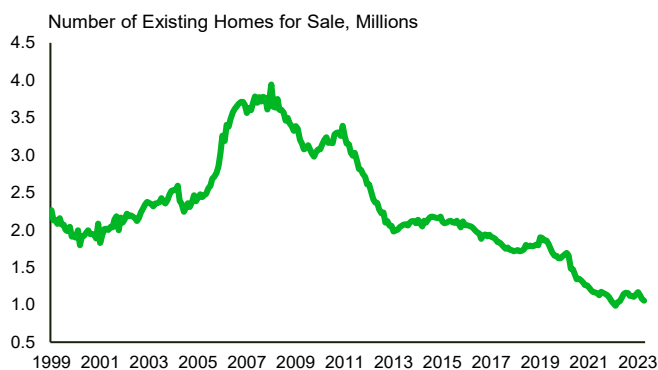
U.S. - Optimistic Markets Cheer the Small Wins

Risk sentiment remained eerily positive across global financial markets this week, despite the clock ticking down on the debt ceiling X-date (see [report](#)). But instead of losing the forest for the trees, investors seemed to cheer the incremental progress made this week. President Biden and Speaker McCarthy, and their negotiators, met on Tuesday for a closed-door meeting, where there appears to be some common ground on several items including clawing back unspent pandemic relief funds, speeding up permitting of domestic energy projects, and applying stricter work requirements for some social safety net programs. However, the two parties remain deeply divided on the size of broader spending cuts. At the time of writing, equity markets are looking to end the week up 2%, while the 10-year Treasury is up 25 bps to 3.71%.

Turning to the economic data, retail sales data painted a picture of a still resilient consumer in April. Although headline retail sales (+0.4% m/m) came in below expectations (+0.8% m/m), this was partially the result of a pullback in gasoline sales – largely a price-driven decline. The headline was also weighed down by weaker growth in motor vehicle sales, despite wholesale auto sales showing a healthy gain last month. After removing the volatile items, the control group – a more precise measure of consumer spending – rose by a healthy 0.7% m/m. This suggests continued momentum for Q2 consumer spending, with our current tracking around 1%-1.5%.

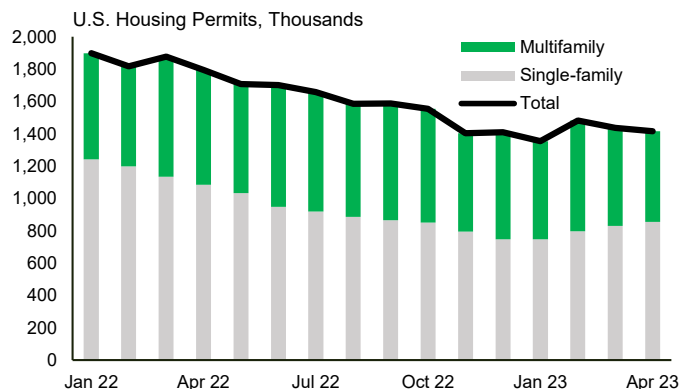
Data out this week on the housing market showed existing home sales fell by 3.4% m/m to 4.28 million units in April. The pullback comes after sales had shown signs of life ear-

Chart 1: Inventory of Homes For Sale Near Historic Lows



Source: National Association of Realtors, TD Economics.

Chart 2: Pullback in Single-family Construction Appears to Have Bottomed



Source: Census Bureau, TD Economics.

lier this year. However, much of that activity was the result of a pullback in mortgage rates that had occurred between October-January. Since then, mortgage rates have again turned higher, and at 7.1%, are not far off last year's highs. Not only has this kept new homebuyers on the sidelines, but it has also discouraged move-up buyers from listing properties, which has kept inventory levels near historic lows (Chart 1).

While home sales likely have a bit more room to fall, housing starts may have already reached a bottom. Residential construction rose 2.2% m/m to 1.4 million in April, with gains seen across both the multifamily (+3.2% m/m) and single-family (+1.6% m/m) segments. Permitting activity points to an uptick in construction in the single-family segment over the coming months, though this will likely be offset by some pullback in multifamily, which has yet to feel any correction through this tightening cycle (Chart 2).

Several Fed speakers this week showed a growing divergence among committee members on the near-term trajectory of the fed funds rate. While a few officials endorsed another rate hike, others are favoring a pause given the recent banking turmoil and the uncertainty it poses to the economic outlook. However, all officials still support rates remaining elevated through this year, which remains at odds with market pricing where 50 bps of cuts are still expected by year-end.

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Canada – Canadian Economy is Too Hot to Handle

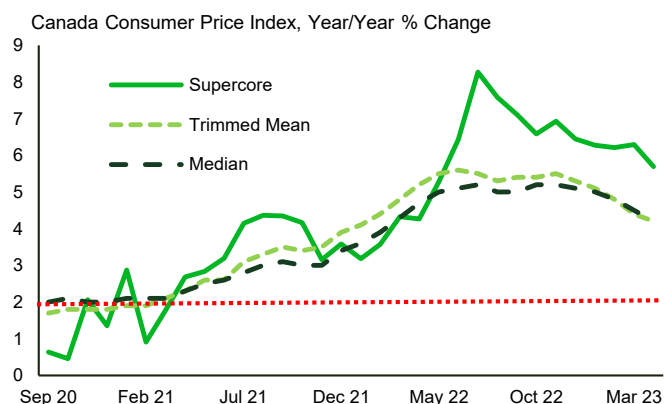
It was a busy week for Canadian economic data. CPI inflation readings showed an acceleration in prices, while the real estate market surged into the spring buying season. The hot data caused a massive repricing for the Bank of Canada (BoC), with markets now leaning towards another 25 basis point (bp) hike this summer. The Canada 2-year yield rose a whopping 40 bps, reaching its highest level since the start of the U.S. regional banking stress in March.

Consumer prices rose by 4.4% year-on-year (y/y) in April, up from 4.3% y/y in March. This was the first increase in the inflation rate since June 2022. Gasoline was the main contributor, with prices at the pump rising 6.3% month-on-month (m/m). Outside of energy, overall inflation was boosted by rising rent, mortgage interest costs, and prices for recreational vehicles.

The Bank of Canada's core inflation metrics (trimmed mean and median) were a little more encouraging, averaging 4.2% y/y, versus 4.5% y/y in March. Even our measure of 'supercore' inflation that reflects cyclically driven services inflation decelerated to 5.7% y/y, from 6.3% y/y in March (Chart 1). The cost of travel was the major disinflationary force as prices have come down from the peaks seen last year.

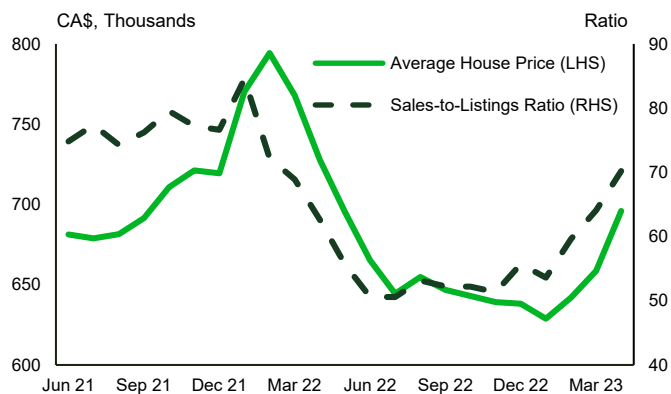
While the comparisons to last year are moving in the right direction, core readings on a three-month basis are more worrying. The average of the BoC's core measures increased to 3.7%, from 3.4% in March. These timelier measures point to more persistent inflation pressures than we expected in our March forecast.

Chart 1: Supercore Running Hot



Source: StatCan, TD Economics. The red line shows the BoC's 2% target

Chart 2: House Prices Rise on Jump in Sales



Source: CREA, TD Economics.

Speaking of hot, look no further than the Canadian real estate market. Home sales shot up by 11% m/m in April, as they jumped off the floor formed earlier in the year. At the same time, listings were only higher by 1.6% m/m, putting the sales-to-listings ratio firmly into sellers' territory at 70.2% (Chart 2). The demand/supply imbalance pushed the average home price up by 6% m/m. Housing starts also shot-up by 22% m/m in April, as the reigniting of the real estate market incentivized building.

Canada is in the midst of a cyclical upturn. The jobs market has accelerated on Canada's population boom, wages are growing faster than inflation, and governments are providing generous inflation support transfers. This income windfall has Canadians spending once again. While today's retail sales numbers showed a -1.4% m/m drop in March, they are missing the surge in services spending and strong demand from online shopping. Our more holistic tracking for consumer spending for 2023 Q1 is coming in around 5% (quarter-on-quarter, annualized)!

BoC Governor Macklem spoke this week following the release of the Bank's Financial System Review. Although the discussion was focused on the risks facing the Canadian financial system, it was notable that the Governor seemed to be looking past the recent upturn in economic data. While the BoC's view is that growth will slow in the coming months, should the economy continue to accelerate in line with recent data, another rate hike may be put back on the table by this summer.

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Recent Key Economic Indicators: May 15 - 19, 2023					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
May 15	Empire Manufacturing	May	Index	-31.8	10.8
May 16	Retail Sales Advance	Apr	M/M % Chg.	0.4	-0.7
May 16	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	0.4	-0.5
May 16	Industrial Production	Apr	M/M % Chg.	0.0	0.0
May 16	Capacity Utilization	Apr	%	79.7	79.4
May 16	Manufacturing (SIC) Production	Apr	M/M % Chg.	0.1	-0.8
May 16	Business Inventories	Mar	M/M % Chg.	-0.1	0.0
May 16	NAHB Housing Market Index	May	Index	50.0	45.0
May 17	Housing Starts	Apr	Thsd	1401.0	1371.0
May 17	Building Permits	Apr	Thsd	1416.0	1437.0
May 18	Initial Jobless Claims	May 13	Thsd	242.0	264.0
May 18	Existing Home Sales	Apr	Mlns	4.28	4.43
Canada					
May 15	Housing Starts	Apr	Thsd	261.6	213.8
May 15	Wholesale Trade Sales	Mar	M/M % Chg.	-0.1	-1.7
May 15	Existing Home Sales	Apr	M/M % Chg.	11.3	1.40
May 16	Manufacturing Sales	Mar	M/M % Chg.	0.7	-3.6
May 16	Consumer Price Index NSA	Apr	M/M % Chg.	0.7	0.5
May 16	Consumer Price Index	Apr	Y/Y % Chg.	4.4	4.3
May 19	Retail Sales	Mar	Y/Y % Chg.	-1.4	-0.2
May 19	Retail Sales Ex Auto	Mar	M/M % Chg.	-0.3	-0.7
International					
May 15	CH Retail Sales	Apr	Y/Y % Chg.	18.4	10.6
May 15	CH Surveyed Jobless Rate	Apr	%	5.2	5.3
May 16	UK ILO Unemployment Rate	Mar	Q/Q % Chg.	3.9	3.8
May 16	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	1.3	1.3
May 16	EZ Employment	1Q	Y/Y % Chg.	1.7	1.5
May 16	JN Gross Domestic Product Annualized SA	1Q	Q/Q % Chg.	1.6	-0.1
May 17	EZ Consumer Price Index	Apr	Y/Y % Chg.	7.0	7.0
May 18	JN Natl Consumer Price Index	Apr	Y/Y % Chg.	3.5	3.2

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

Upcoming Economic Releases and Events: May 22 - 26, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 22	8:30	Fed's Bullard Speaks on US Economy and Monetary Policy				
May 22	11:05	Fed's Bostic and Barkin Discuss Technology-Enabled Disruption				
May 23	9:00	Fed's Logan Gives Welcoming Remarks at Technology-Enabled Disruption Conference				
May 23	9:45	S&P Global US Manufacturing PMI	May	Index	50.0	50.2
May 23	9:45	S&P Global US Services PMI	May	Index	52.6	53.6
May 23	9:45	S&P Global US Composite PMI	May	Index	-	53.4
May 23	10:00	New Home Sales	Apr	Thsd	660.0	683.0
May 24	14:00	FOMC Meeting Minutes	May 03			
May 25	8:30	Initial Jobless Claims	May 20	Thsd	-	242.0
May 25	8:30	Gross Domestic Product Annualized	1Q	Q/Q % Chg.	1.1	1.1
May 25	8:30	Personal Consumption	1Q	Q/Q % Chg.	-	3.7
May 25	8:30	Core PCE	1Q	Q/Q % Chg.	-	4.9
May 25	10:00	Pending Home Sales	Apr	M/M % Chg.	-	-5.2
May 26	8:30	Personal Income	Apr	M/M % Chg.	0.4	0.3
May 26	8:30	Real Personal Spending	Apr	M/M % Chg.	-	0.0
May 26	8:30	PCE Deflator	Apr	Y/Y % Chg.	-	4.2
May 26	8:30	Advance Goods Trade Balance	Apr	Blns	-85.60	-84.60
May 26	8:30	Durable Goods Orders	Apr	M/M % Chg.	-1.0	3.2
May 26	8:30	Cap Goods Orders Nondef Ex Air	Apr	M/M % Chg.	-	-0.6
Canada						
May 23	8:30	Industrial Product Price	Apr	M/M % Chg.	-	0.1
May 25	7:00	CFIB Business Barometer	May	Index	-	55.7
May 25	8:30	Payroll Employment Change - SEPH	Mar	Thsd	-	62.5
International						
May 22	20:30	Jibun Bank Japan PMI Mfg	May	Index	-	49.5
May 24	2:00	Consumer Price Index	Apr	Y/Y % Chg.	8.0	10.1
May 25	19:30	Tokyo Consumer Price Index	May	Y/Y % Chg.	3.5	3.5
May 26	2:00	Retail Sales Ex Auto Fuel	Apr	Y/Y % Chg.	-	-3.2

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

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