

## The Weekly Bottom Line

February 16, 2024

### Highlights

#### United States

- U.S. inflation rose more than anticipated to start the year, on a Consumer Price Index basis, largely due to greater price pressures within the services sector.
- However, retail spending surprised to the downside in January, suggesting that consumer spending may be less vigorous than the stunning pace of last year.
- A slowdown in housing starts and less optimistic small businesses also suggest that economic momentum may be cooling.

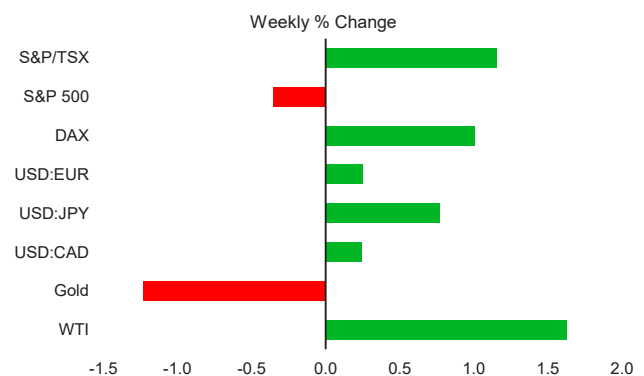
#### Canada

- Canadian home sales increased for the second straight month in January. However, price growth was soggy, with sellers lowering their price expectations. However, firmer price growth is likely moving forward.
- Homebuilders continue to break ground on new homes at an impressive pace. However, starts still trail fundamental housing requirements flowing from Canada's sizzling population growth.
- Next week's inflation report is likely to show little change in overall inflation and sticky core measures, keeping policy-makers vigilant on rates.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5011	5027	5030	3856
S&P/TSX Comp.	21264	21010	21264	18737
DAX	17064	16927	17064	14687
FTSE 100	7693	7573	8014	7257
Nikkei	38487	36897	38487	26946
Fixed Income Yields				
U.S. 10-yr Treasury	4.29	4.18	4.99	3.31
Canada 10-yr Bond	3.59	3.54	4.24	2.73
Germany 10-yr Bund	2.40	2.38	2.97	1.90
UK 10-yr Gilt	4.10	4.09	4.75	3.28
Japan 10-yr Bond	0.74	0.73	0.96	0.25
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.76	0.72
Euro (USD per EUR)	1.08	1.08	1.12	1.05
Pound (USD per GBP)	1.26	1.26	1.31	1.18
Yen (JPY per USD)	150.4	149.3	151.7	130.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	78.0	76.8	93.7	66.7
Natural Gas (\$US/MMBtu)	1.53	1.73	13.20	1.51
Copper (\$US/met. tonne)	8223.0	8065.0	9183.5	7823.8
Gold (\$US/troy oz.)	2001.9	2024.3	2077.5	1811.0

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

### OPEC Cuts, Ongoing Geopolitical Tensions Support Oil



Note: Data as of 10:05 AM ET, Friday, February 16, 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.

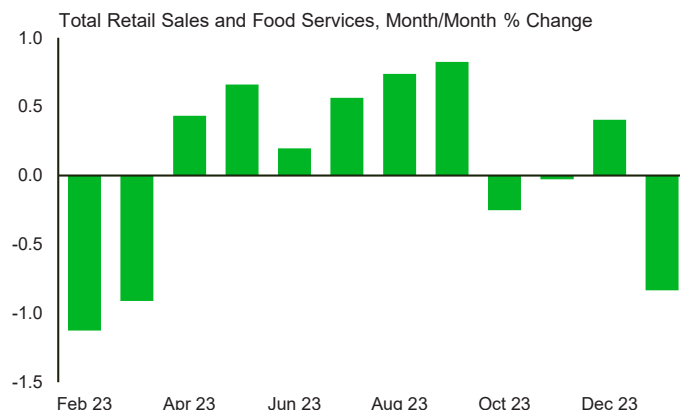
## U.S. – Inflation Progress Stalls and Spending Falls in January

This week saw some key data releases to help gauge the state of the U.S. economy at the start of 2024, and the likely timing of a Fed rate cut. Among them were the CPI inflation and retail sales reports for January. While inflation was higher than expected, retail spending came in notably lower. Markets reacted strongly to the inflation data with stocks falling sharply and treasury yields rising.

Taking a closer looker at CPI, the headline figure came in at 3.1% year-on-year (Chart 1). While this was lower than December's 3.4%, it was higher than market expectations for 2.9%. The core measure matched December's pace at 3.9%, but again was higher than expectations (3.7%). The near-term movements showed that progress on the disinflation front stalled a bit, largely due to services. Both monthly headline and core inflation accelerated relative to December. Also, both the 3-month and 6-month annualized growth for core CPI accelerated, suggesting that the process to tame inflation is likely to progress in uneven spurts. The producer price index corroborated the stalled CPI signal, with the PPI rising by 0.3% m/m in January (markets expected 0.1%) relative to -0.1% in December.

Turning to retail spending, consumers were a lot less jolly coming off the holiday season. Retail sales declined by 0.8% m/m in January (Chart 2). The sizeable decline was much larger than market expectations, however severe winter weather during January likely played a part in keeping consumers on the sidelines. Technical aspects of how the seasonally adjusted data is calculated may also have contributed to the relatively large decline. Nonetheless, the pullback suggests that consumer spending may be less of

**Chart 2: U.S. Retail Sales Opens 2024 on a Downbeat Note**



Source: Census Bureau, TD Economics.

tailwind to U.S. economic resilience than it was last year.

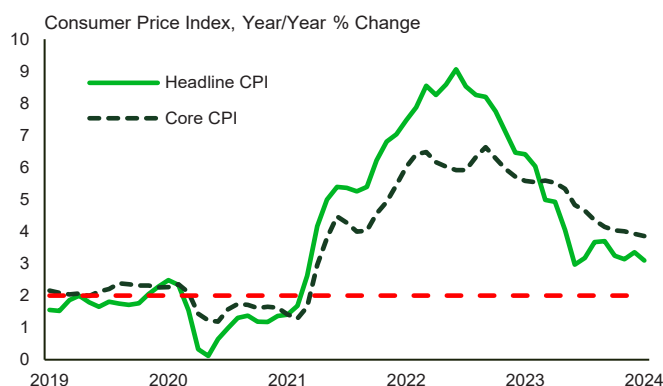
Signals from the small business sector also suggest that economic activity might be slower in 2024. The NFIB's small business optimism index declined to 89.9 from 91.1 in December, marking the biggest monthly decline since late-2022. On balance, small firms were generally less upbeat about their economic prospects, with the net percent of firms anticipating a better economy falling by 2 points. Given the higher exposure of small businesses to domestic economic conditions compared to larger firms, their downbeat mood points to headwinds ahead for the economy.

On the housing front, starts also disappointed expectations falling 14.8% to a five-month low (1.33 million) in January. The decline was in both the single and multi-family segments. Permits for future construction also fell on the month, implying that recovery in the housing market will be slow as buyers await lower mortgage rates.

Overall, data for January largely came in below expectations. This has left many market participants wondering what it all means for the timing of rate cuts. FOMC members have repeatedly stated that they need to see steady evidence that inflation is on a consistent path back to 2%. While the CPI and PPI data suggest that progress may be slow going for a bit, the pullback in other indicators point to an economy that is cooling. As such, Fed members may soon have the evidence that they need to begin the cutting cycle – it may just be later than markets desire.

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**Chart 1: Progress on U.S. Inflation Slows in January**



Note: Core CPI excludes food and energy prices.  
Source: Bureau of Labor Statistics, TD Economics.

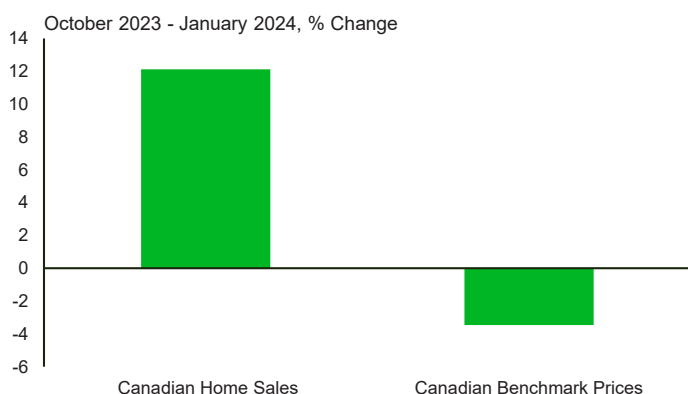
## Canada – Housing to Offer Little Shelter from Inflation

Canada's economic calendar was relatively light this week, so markets took their cue from developments south of the border. A hotter-than-expected U.S. inflation report reminded markets that the fight is not over, prompting a repricing of rate cut expectations. The prospect of delayed fed rate cuts pushed U.S. yields higher, dragging their Canadian counterparts along with them, while also weighing on the loonie. The Canadian 10-year yield hit 3.67% early in the week – the highest since November, before it retreated into week's end on softer U.S. consumer spending data.

Although the Canadian data slate was light this week, it certainly wasn't barren. Housing took centre stage, thanks to reports on home sales and prices, alongside the latest data on homebuilding. Home sales increased for the second straight month in January, benefitting from lower borrowing costs in recent months, favourable weather conditions, and ample pent-up demand. The signal from home prices was much softer, with average home prices up only modestly while quality-adjusted benchmark prices declined.

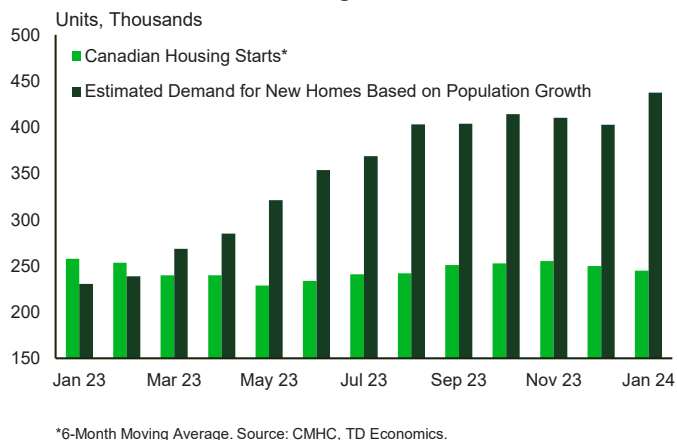
Looking at the big picture, home sales have surged since rates broke meaningfully lower in October, while price growth has lagged (Chart 1). Our view on this dichotomy is that sellers have lowered the price expectations in order to move their homes, especially in Ontario and B.C., where conditions have recently favoured buyers. However, with supply/demand conditions now much more balanced in these markets, weak price performances are likely in the rear view.

**Chart 1: Sellers Capitulating on Prices, Supporting Canadian Home Sales**



Source: CREA, TD Economics.

**Chart 2: Solid Canadian Housing Starts Still Lag Housing Needs**



This is not just a story for the short-term, either, as Canadian housing shortages should support higher prices over the longer-term. This week, we received homebuilding data which showed a January decline, but that starts are still elevated on a trend basis. However, the rate at which builders are breaking ground continues to lag fundamental requirements from tremendously strong population growth which has persisted into this year (Chart 2).

Resurgent housing demand, alongside tighter markets, is sure to raise some eyebrows at the Bank of Canada. Rising housing market activity supports GDP growth through a direct boost to residential investment and can stoke consumer spending as well. Meanwhile, home prices feed directly into the CPI through the shelter component, which accounts for nearly 30% of the index. We agree with the Bank of Canada that inflation can hit its 2% target, despite only gradual improvements in the shelter component. However, if the housing market heats up by more than policymakers expect, this could delay rate cuts and/or alter the speed at which they're delivered.

We won't have to wait long to observe the impacts of housing market activity on consumer costs, as the January CPI report is on tap next week. The consensus expectation is that overall inflation was little changed last month, while the Bank's preferred core measures are likely to remain sticky at above 3.5%. The Canadian inflation battle clearly still has legs, which will keep the Bank vigilant on rates.

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Recent Key Economic Indicators: Feb 12 - 16, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 12	NY Fed 1-Yr Inflation Expectations	Jan	%	3.0	3.0
Feb 13	NFIB Small Business Optimism	Jan	Index	89.9	91.9
Feb 13	Consumer Price Index	Jan	M/M % Chg.	0.3	0.2
Feb 13	Consumer Price Index	Jan	Y/Y % Chg.	3.1	3.4
Feb 13	Consumer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.4	0.3
Feb 13	Consumer Price Index Ex Food and Energy	Jan	Y/Y % Chg.	3.9	3.9
Feb 15	Empire Manufacturing	Feb	Index	-2.4	-43.7
Feb 15	Initial Jobless Claims	Feb 10	Thsd	212.0	220.0
Feb 15	Retail Sales Advance	Jan	M/M % Chg.	-0.8	0.4
Feb 15	Retail Sales Ex Auto and Gas	Jan	M/M % Chg.	-0.5	0.6
Feb 15	Capacity Utilization	Jan	%	78.5	78.7
Feb 15	Industrial Production	Jan	M/M % Chg.	-0.1	0.0
Feb 15	Manufacturing (SIC) Production	Jan	M/M % Chg.	-0.5	0.1
Feb 15	Business Inventories	Dec	M/M % Chg.	0.4	-0.1
Feb 15	NAHB Housing Market Index	Feb	Index	48.0	44.0
Feb 16	Building Permits	Jan	Thsd	1470.0	1493.0
Feb 16	Housing Starts	Jan	Thsd	1331.0	1562.0
Feb 16	PPI Ex Food and Energy	Jan	M/M % Chg.	0.5	-0.1
Feb 16	PPI Final Demand	Jan	M/M % Chg.	0.3	-0.1
Canada					
Feb 14	Existing Home Sales	Jan	M/M % Chg.	3.7	8.7
Feb 15	Housing Starts	Jan	Thsd	223.6	249.0
Feb 15	Manufacturing Sales	Dec	M/M % Chg.	-0.7	1.5
Feb 16	Wholesale Sales ex Petroleum	Dec	M/M % Chg.	0.3	0.9
International					
Feb 14	UK Consumer Price Index	Jan	Y/Y % Chg.	4.0	4.0
Feb 14	EZ Employment	Q4	Y/Y % Chg.	1.3	1.3
Feb 14	EZ Gross Domestic Product SA	Q4	Y/Y % Chg.	0.1	0.1
Feb 14	JN Gross Domestic Product SA (Annualized)	Q4	Q/Q % Chg.	-0.4	-3.3
Feb 15	UK Gross Domestic Product	Q4	Y/Y % Chg.	-0.2	0.2
Feb 16	UK Retail Sales Ex Auto Fuel	Jan	Y/Y % Chg.	0.7	-2.1

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Feb 19 - 23, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 21	8:00	<i>Fed's Bostic Gives Welcoming Remarks</i>				
Feb 21	14:00	<i>FOMC Meeting Minutes (Jan. 31st Decision)</i>				
Feb 22	8:30	Initial Jobless Claims	Feb 17	Thsd	-	212.0
Feb 22	9:45	S&P Global US Composite PMI	Feb	Index	-	52.0
Feb 22	9:45	S&P Global US Manufacturing PMI	Feb	Index	50.1	50.7
Feb 22	9:45	S&P Global US Services PMI	Feb	Index	52.0	52.5
Feb 22	10:00	Existing Home Sales	Jan	Mlns	3.97	3.78
Feb 22	10:00	<i>Fed's Jefferson to Give Speech, Q&amp;A</i>				
Feb 22	13:00	<i>Fed's Bowman Speaks to Exchequer Club in Washington</i>				
Feb 22	14:00	<i>Fed's Harker Speaks on Economic Outlook</i>				
Feb 22	17:00	<i>Fed's Cook Speaks at Macrofinance Conference</i>				
Feb 22	17:00	<i>Fed's Kashkari Participates in Panel Discussion on Outlook</i>				
Feb 22	19:35	<i>Fed's Waller Speaks on Economic Outlook</i>				
Canada						
Feb 19	8:30	Industrial Product Price	Jan	M/M % Chg.	-	-1.5
Feb 20	8:30	Consumer Price Index	Jan	Y/Y % Chg.	3.4	3.4
Feb 20	8:30	Consumer Price Index NSA	Jan	M/M % Chg.	0.5	-0.3
Feb 22	8:30	Retail Sales	Dec	M/M % Chg.	0.8	-0.2
Feb 22	8:30	Retail Sales Ex Auto	Dec	M/M % Chg.	0.6	-0.5
International						
Feb 21	19:30	JN Jibun Bank Japan PMI Mfg	Feb	Index	-	48.0
Feb 21	19:30	JN Jibun Bank Japan PMI Services	Feb	Index	-	53.1
Feb 22	5:00	EZ Consumer Price Index	Jan	Y/Y % Chg.	2.8	2.8
Feb 22	7:00	MX Gross Domestic Product NSA	Q4	Y/Y % Chg.	-	2.4

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

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