

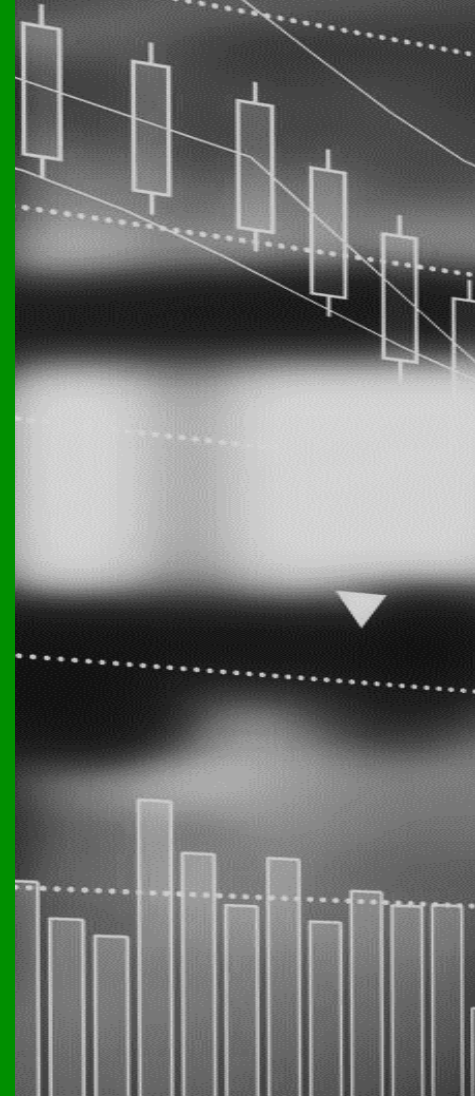
TD ECONOMICS

# The Final Frontier

Leslie Preston, Managing Director & Senior Economist

April 2023

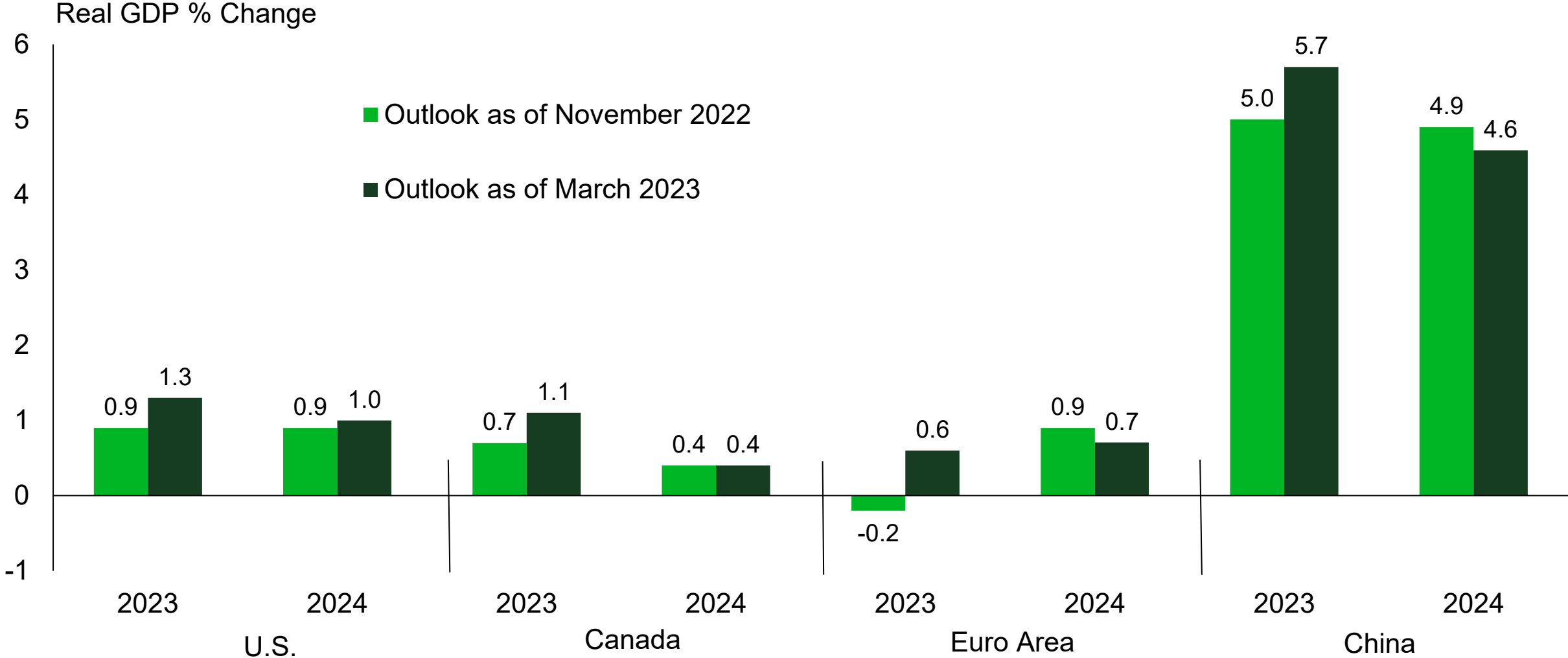




## Today's Agenda

- 1 Just as economic and geopolitical risks slim down, financial risks fatten up
- 2 Economic resilience...too much of a good thing?

# Forecast Revisions Are Moving Up

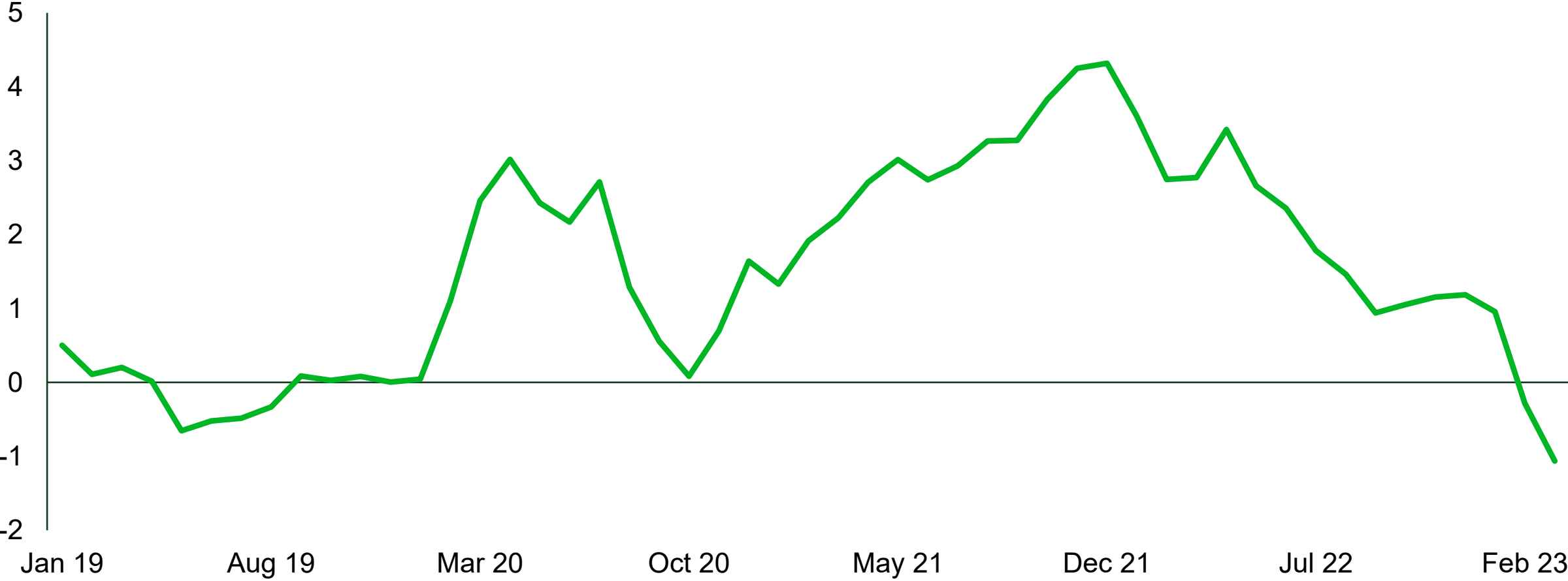


Source: BEA, StatCan, EuroStat, CNBS, TD Economics.

# Easing Of Supply Chain Snarls Is A Silver Lining of Global Slowdown

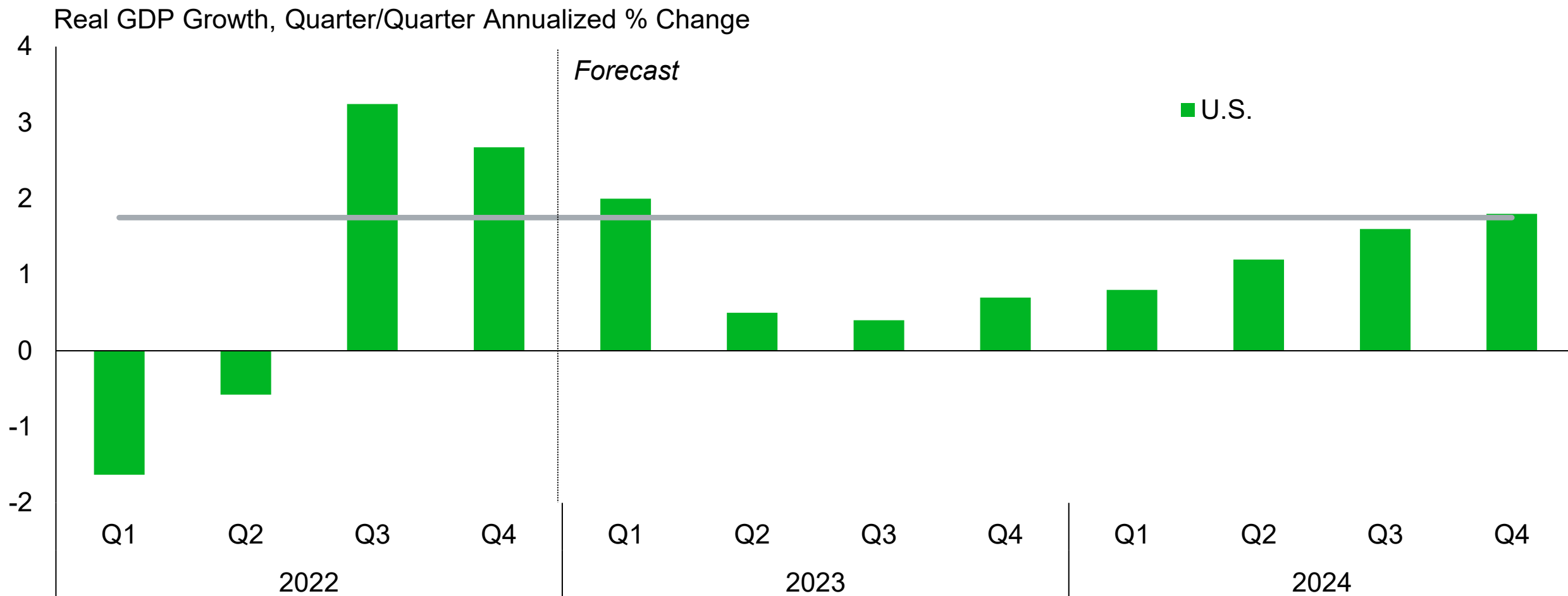


Global Supply Chain Pressure Index



Source: NY Fed, TD Economics. Last observation: March 2023.

# Inflation vs. GDP Growth: Requires Depth or Duration on Underperformance

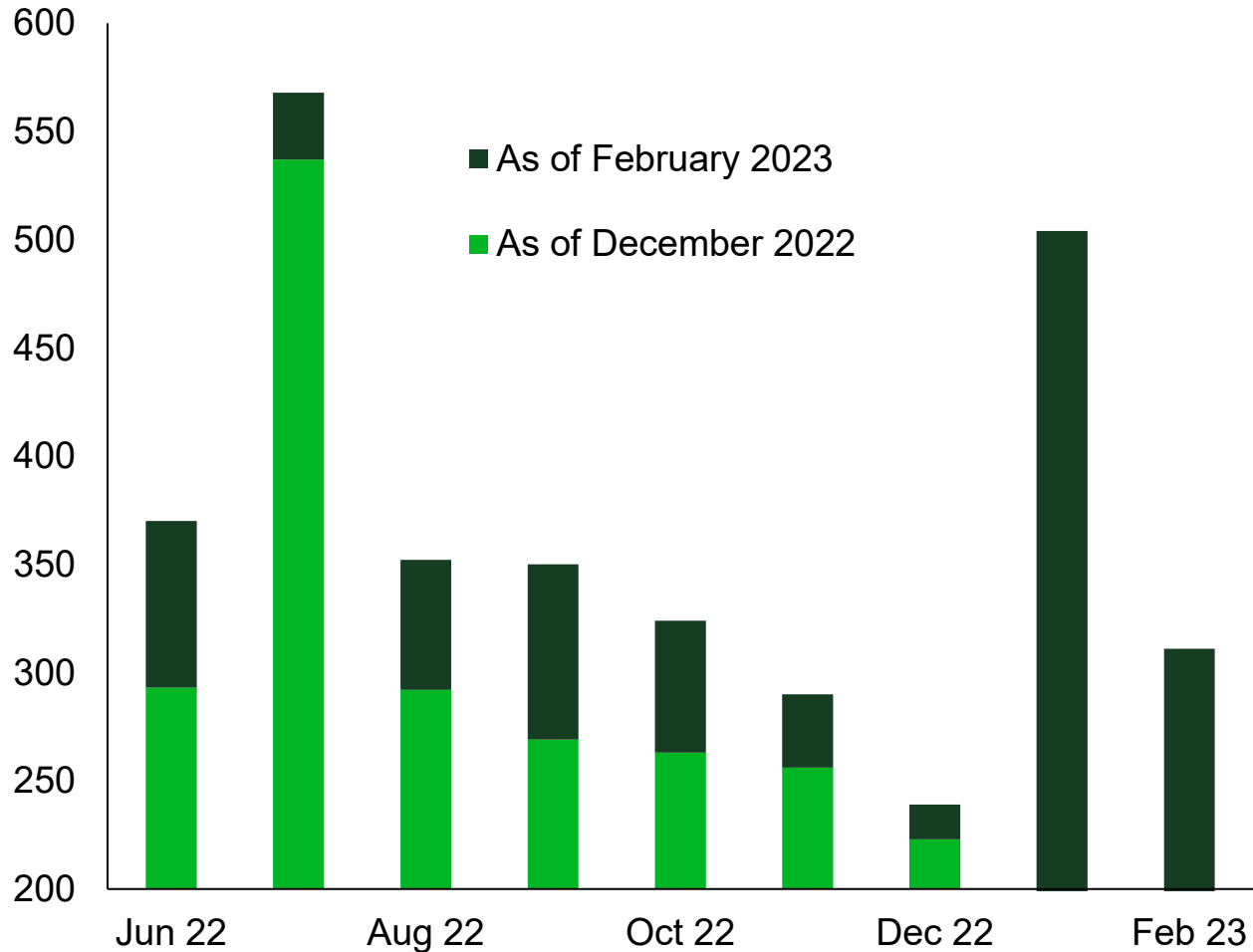


Source: Bureau of Economic Analysis, TD Economics. Forecast as of March 2023.

# U.S. Data Revisions Revealed Even More Heat In Economy

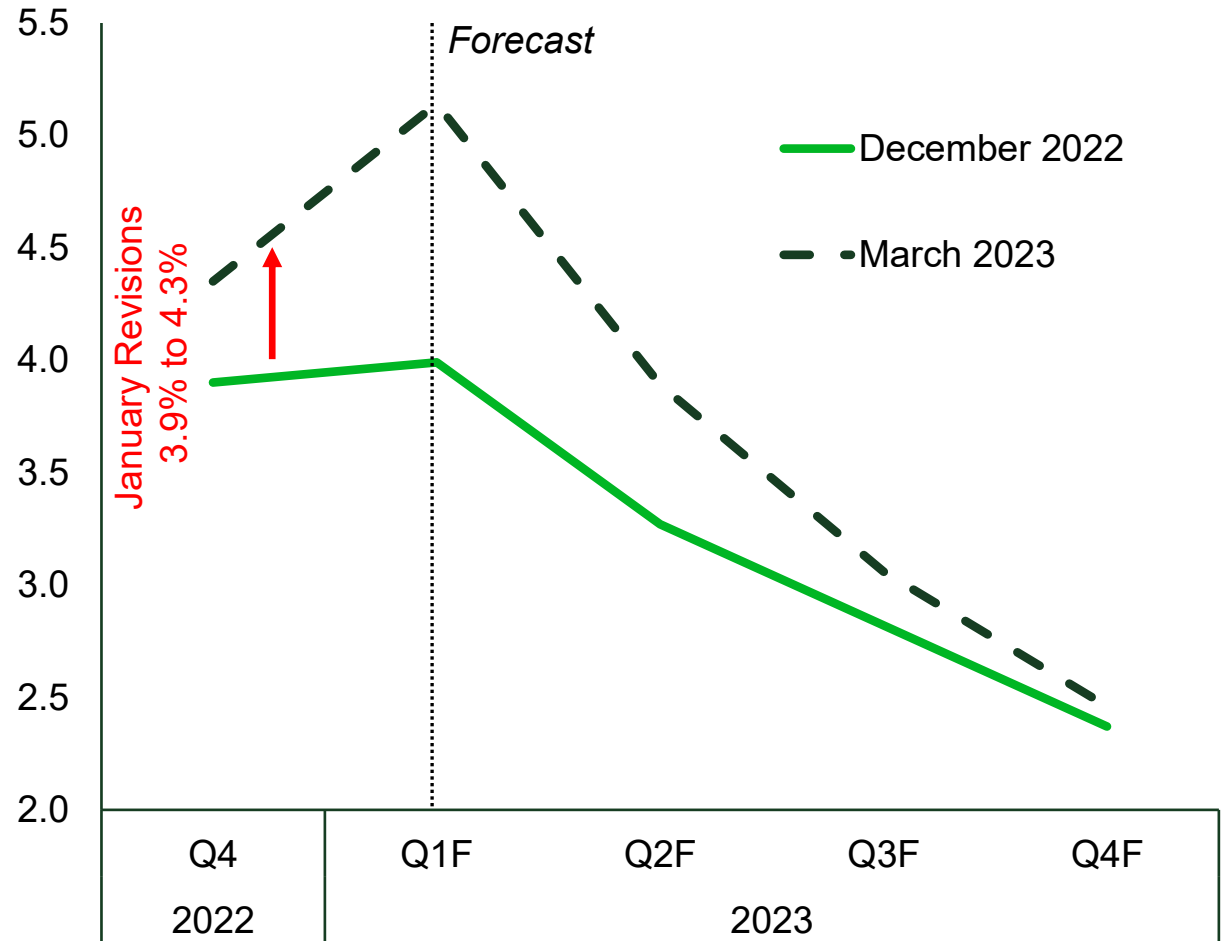


U.S. Non-Farm Payrolls, Thousands



Source: BLS, TD Economics.

Core PCE Price Deflator, Quarter/Quarter Annualized % Change

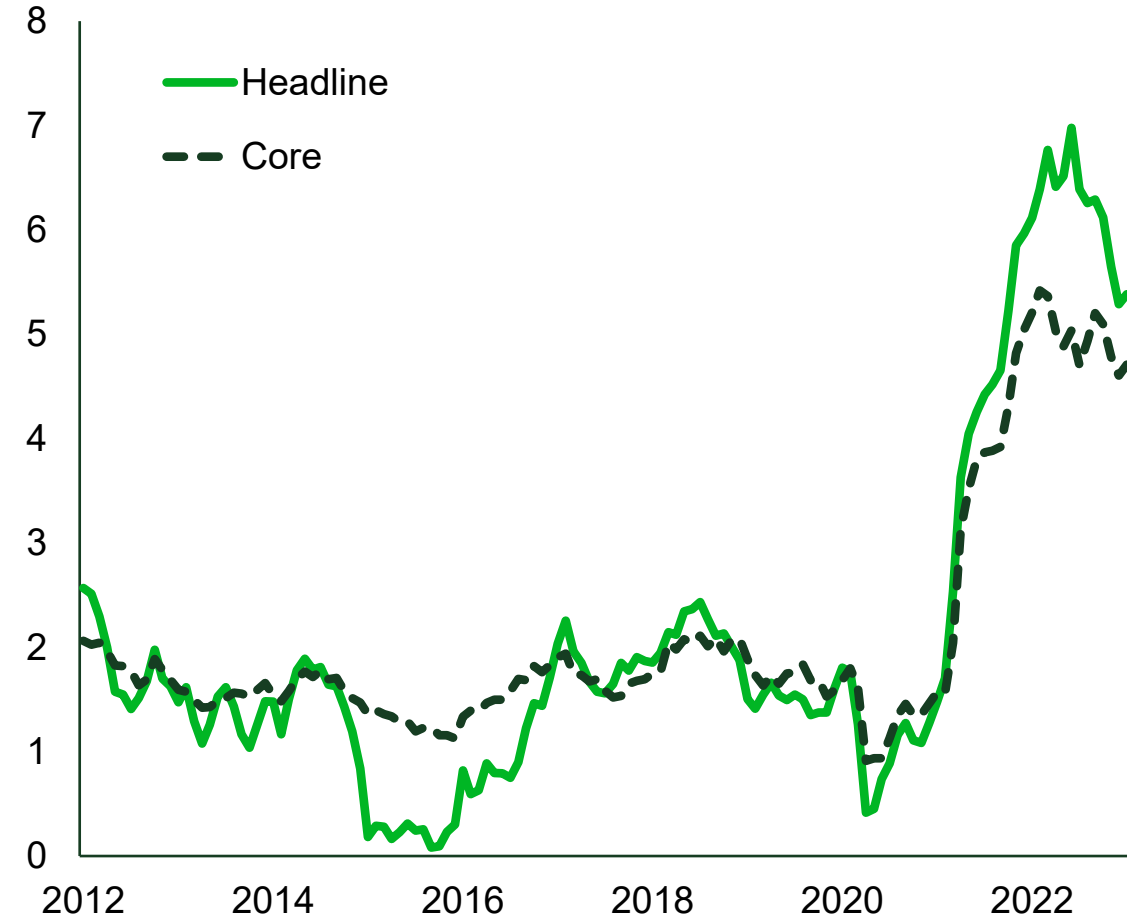


Source: BEA, TD Economics.

# Inflation Adjustment Process Has Begun, But A Long Way to 2%

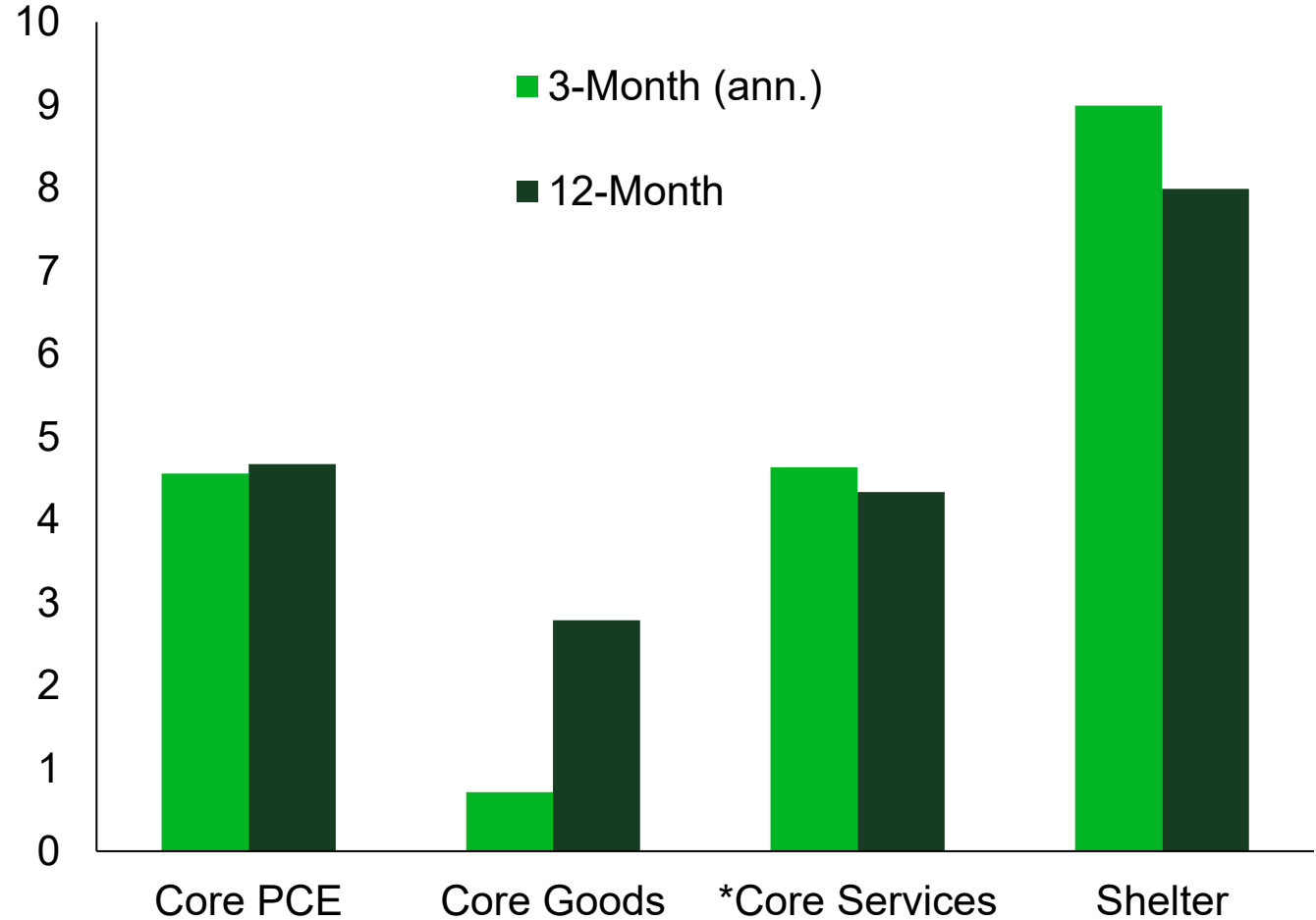


U.S. PCE Inflation, Year/Year % Change



Source: Bureau of Economic Analysis, TD Economics.

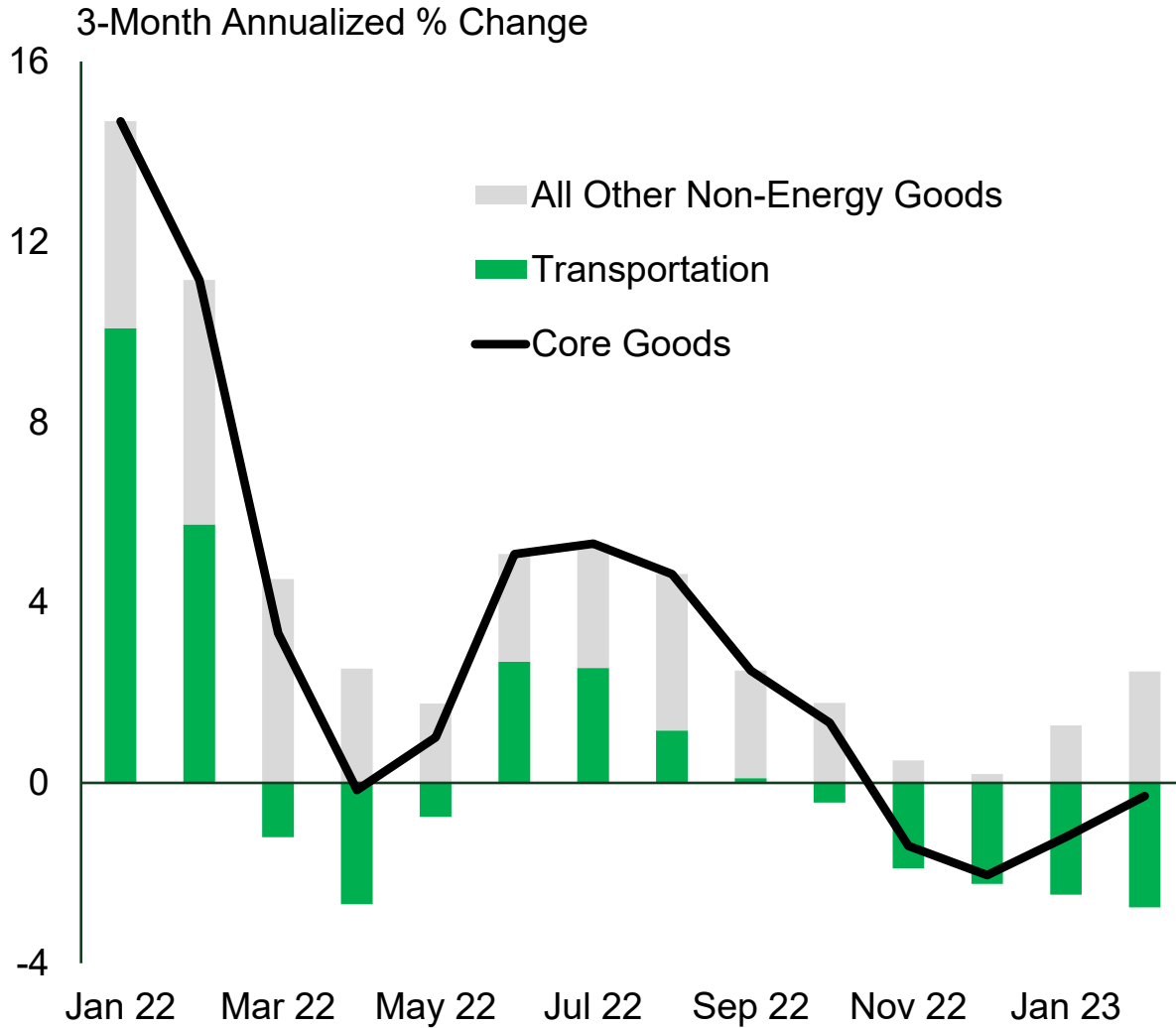
U.S. PCE Inflation, % Change



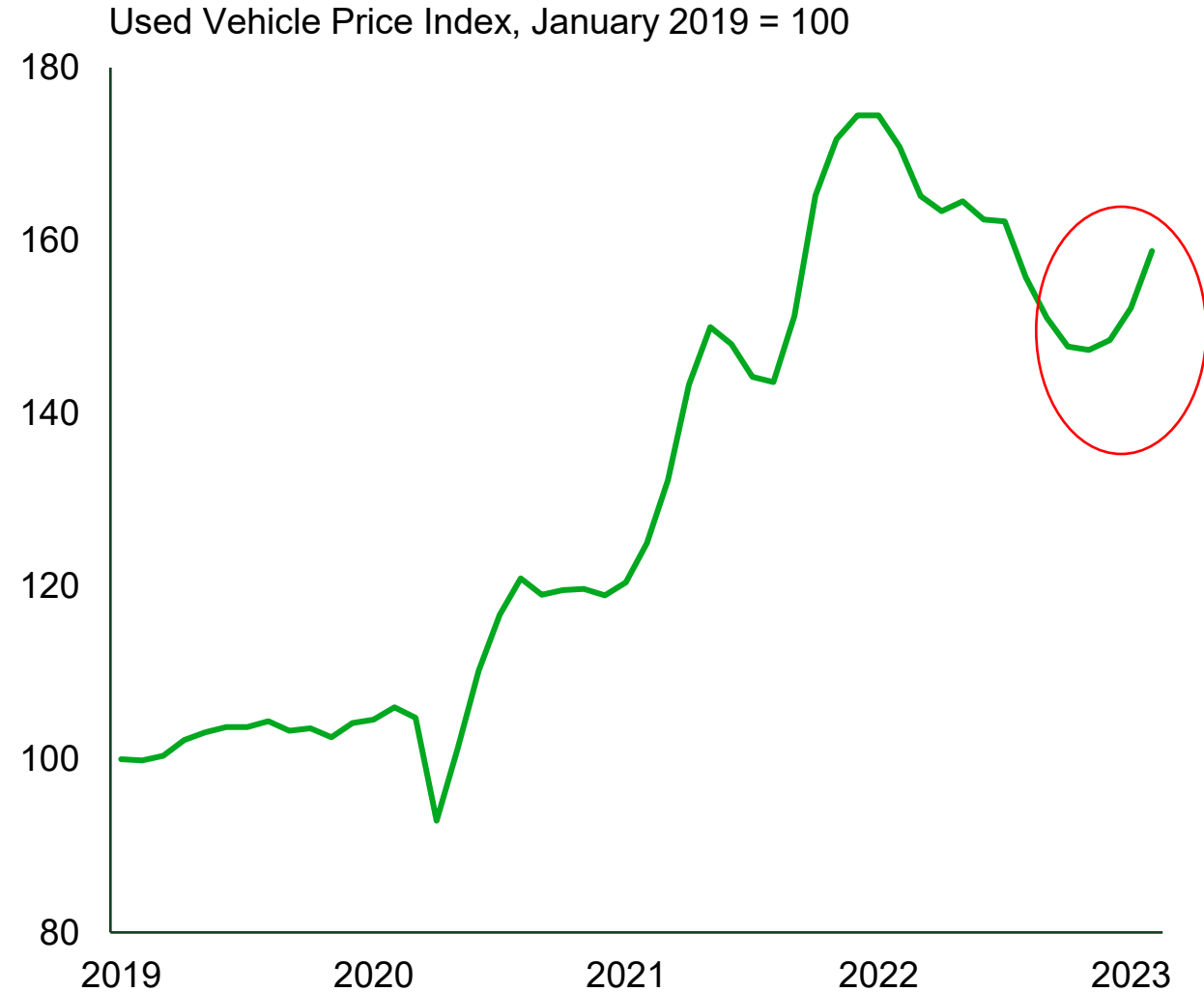
Source: BEA, TD Economics.

Note: Core services excludes shelter and healthcare services.

# Goods Deflation Will Need To Broaden...



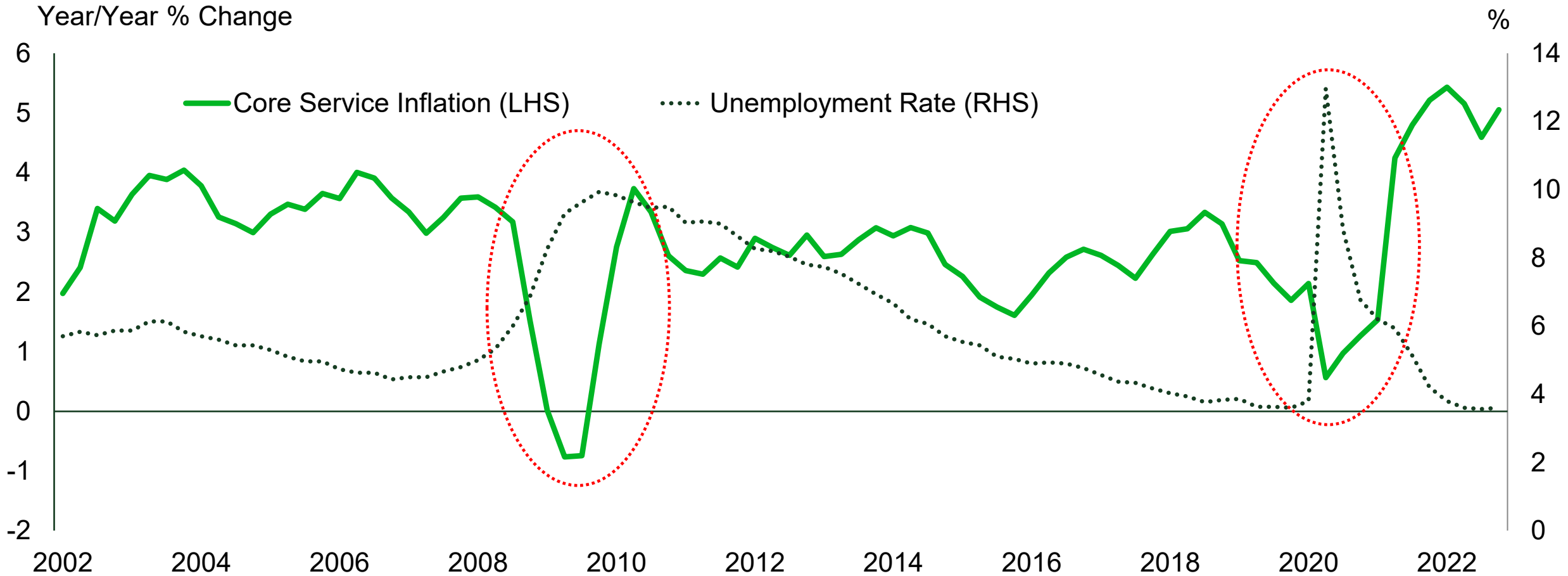
Source: BLS, TD Economics.



Source: Manheim, TD Economics. Last observation: February 2023.



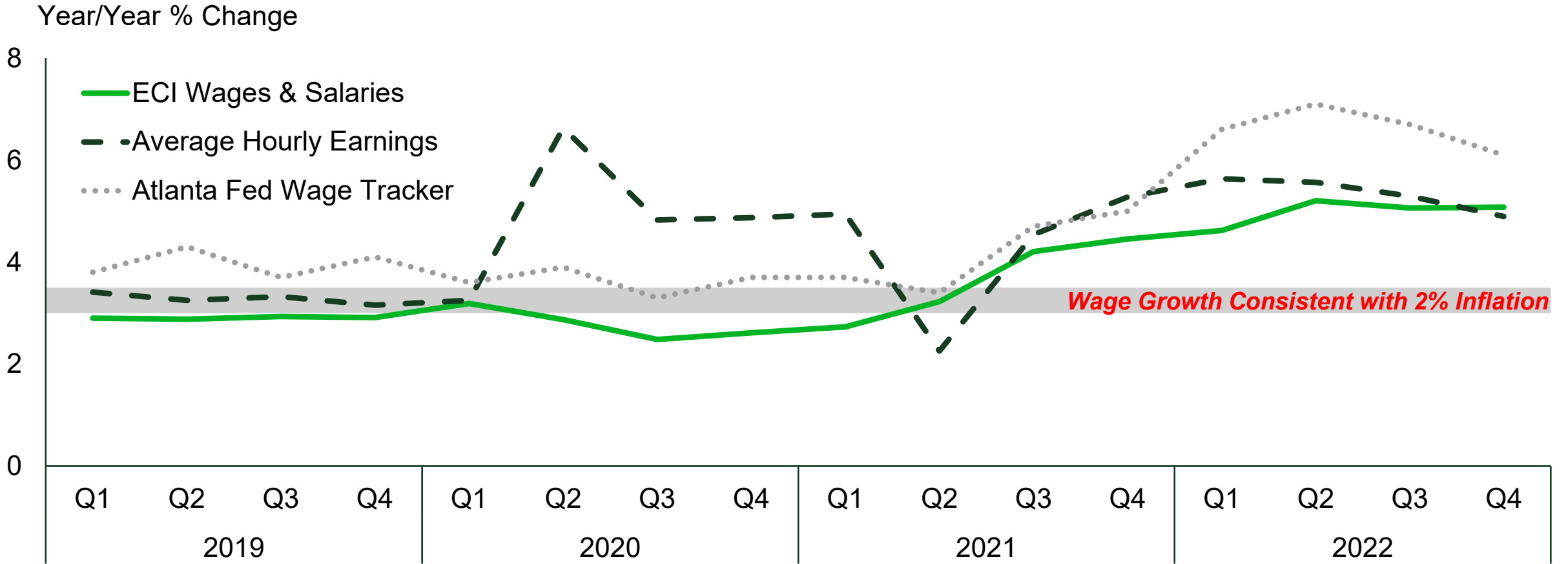
# Federal Reserve Eyeing Relationship of Labor Market and Service Prices



Note: Core service inflation excludes both shelter & medical care costs.

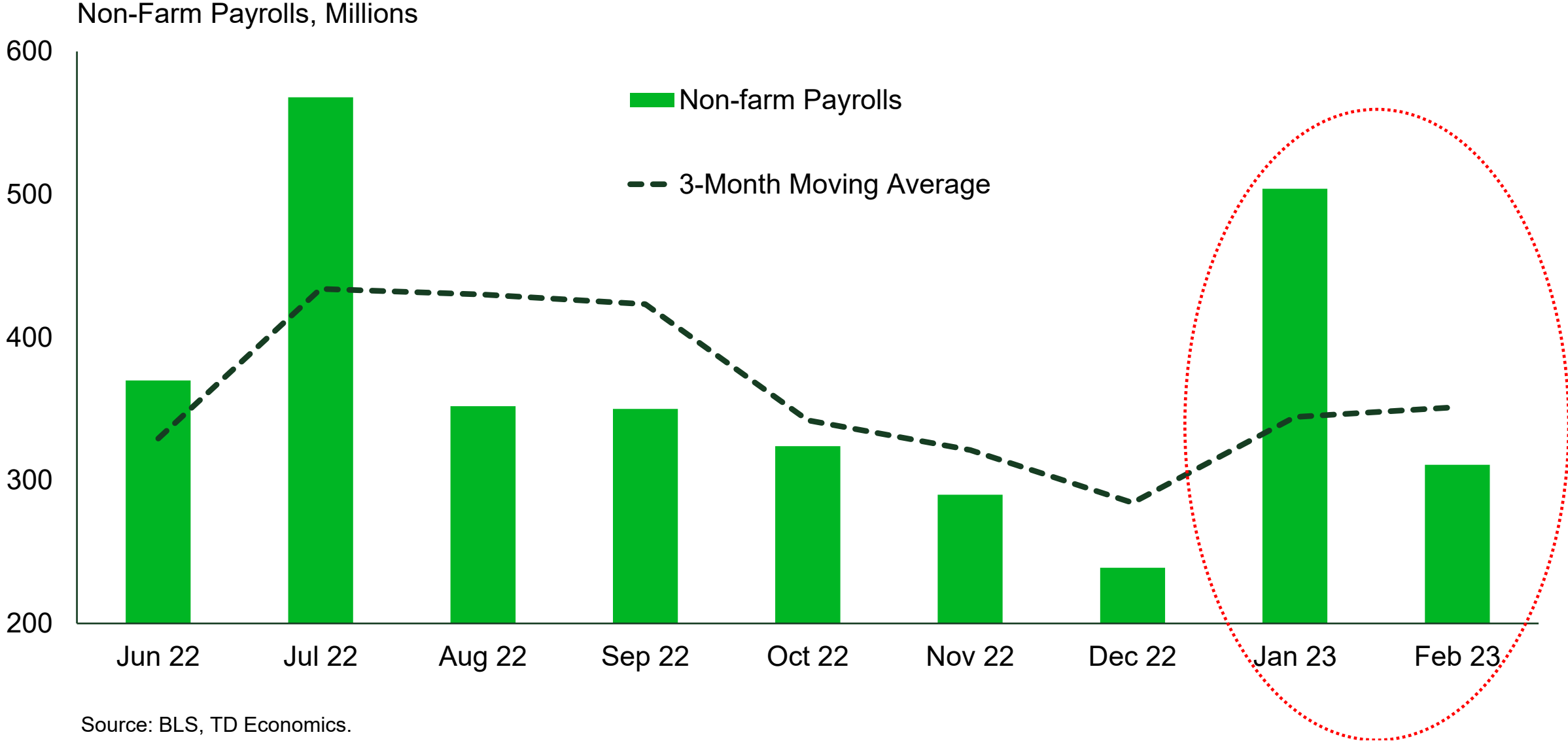
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, TD Economics.

# The Importance On Breaking the Path On Wages & Service Inflation



Source: Bureau of Labor Statistics, Federal Reserve, TD Economics

# Labor Market Resilience – Too Much Of A Good Thing

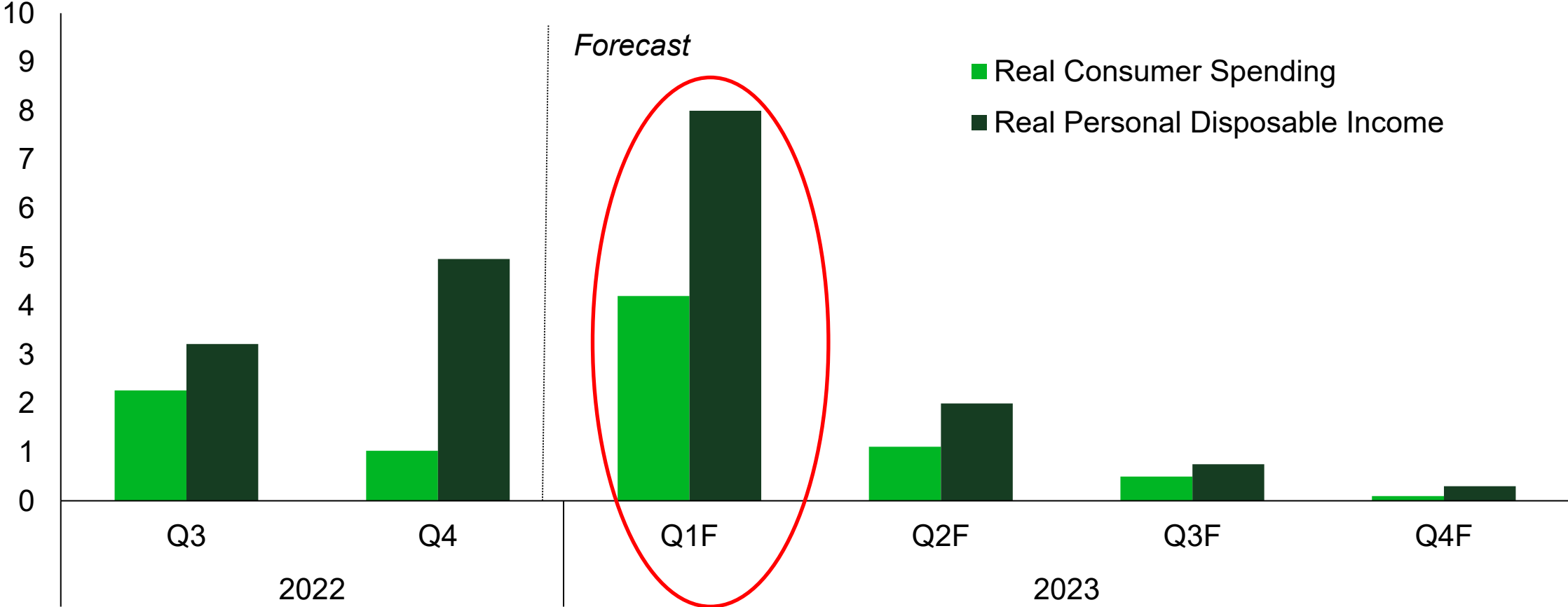


Source: BLS, TD Economics.

# Consumers Continue To Show Staying Power

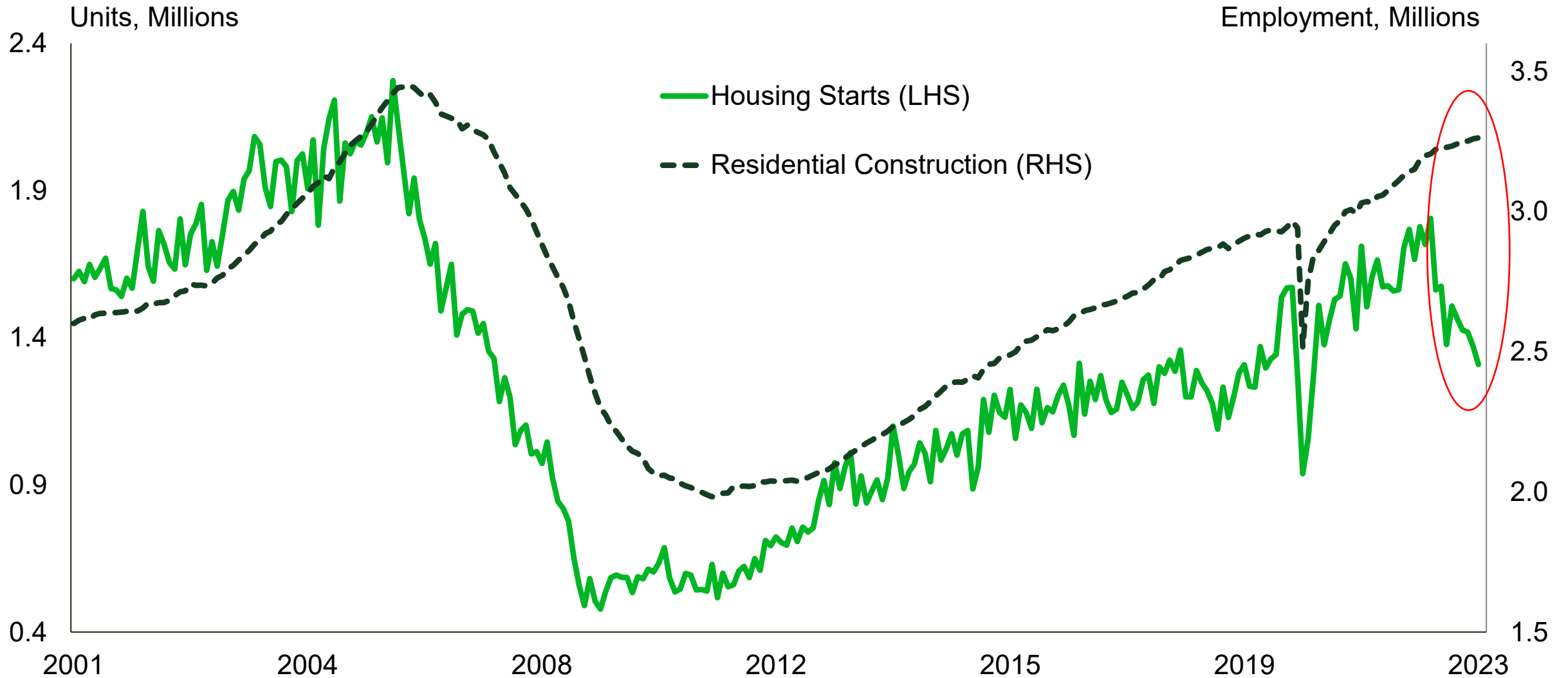


Quarter/Quarter % Change Annualized



Source: Bureau of Economic Analysis, TD Economics.

# ...Some Things Don't Make Sense

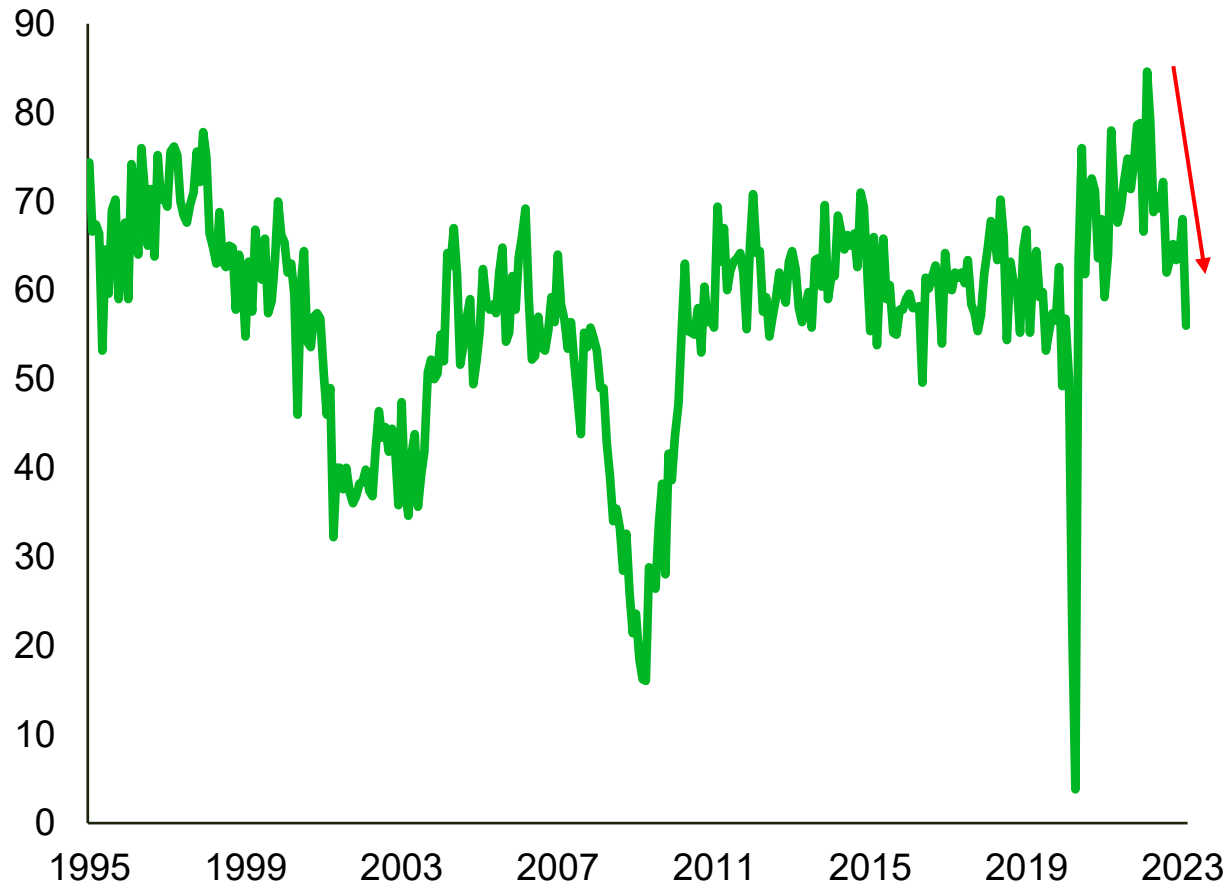


Source: BLS, Census Bureau, TD Economics. Last observation: February 2023.

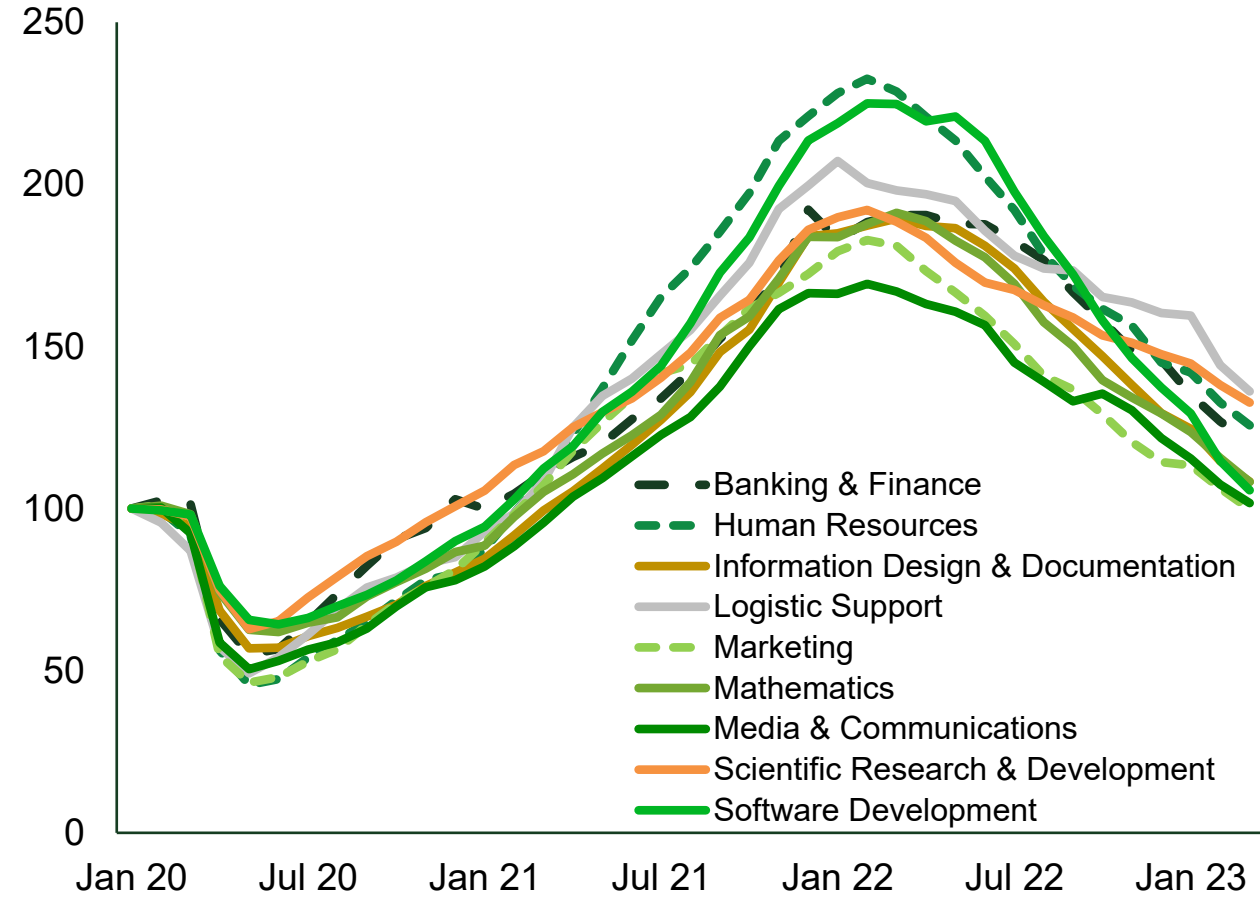
# But Private Sector Hiring is Showing Some Fatigue



Share of Private Sector Industries Hiring, %



U.S. Job Openings by Sector, Index\*



Source: BLS, TD Economics.

\*January 2020 = 100. Source: Indeed, TD Economics. Last observation: March 2023.

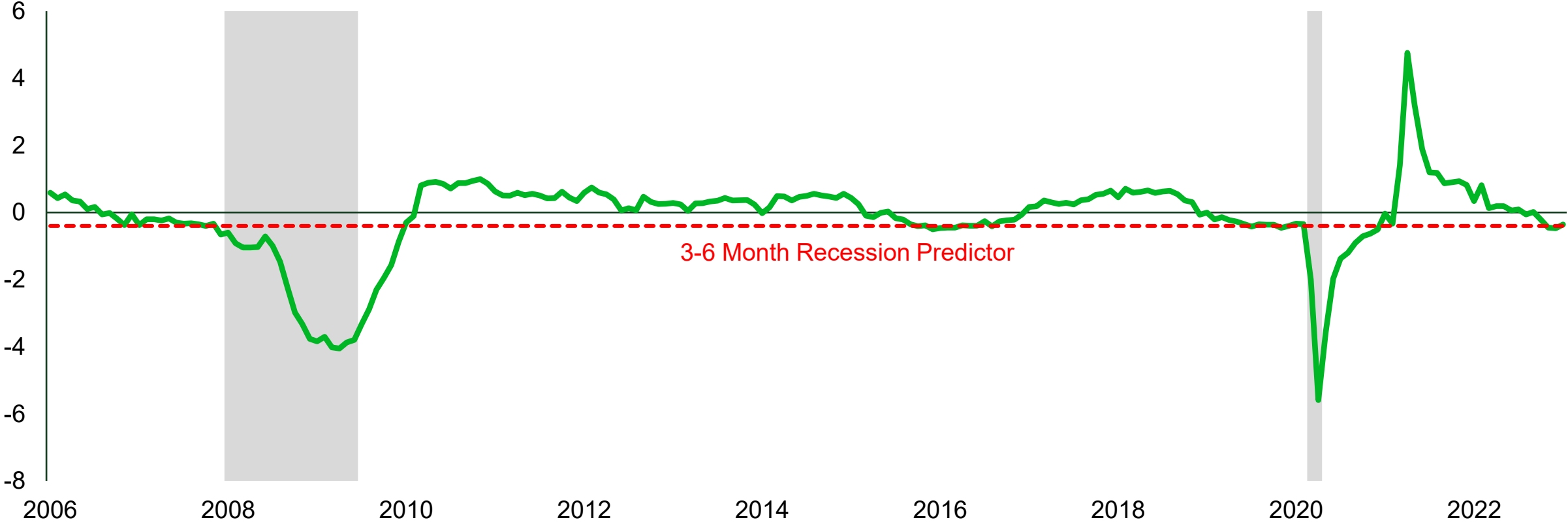


# Evaluating Risk & Recession Concerns

# U.S. Economic Recession Index Sitting At A Warning Threshold



TDE U.S. Leading Economic Index, Standard Deviations



Source: TD Economics. Note: Index is based on data through December 2022, January 2023 is a point estimate.



# So Far Weakness Driven By Manufacturing and Housing

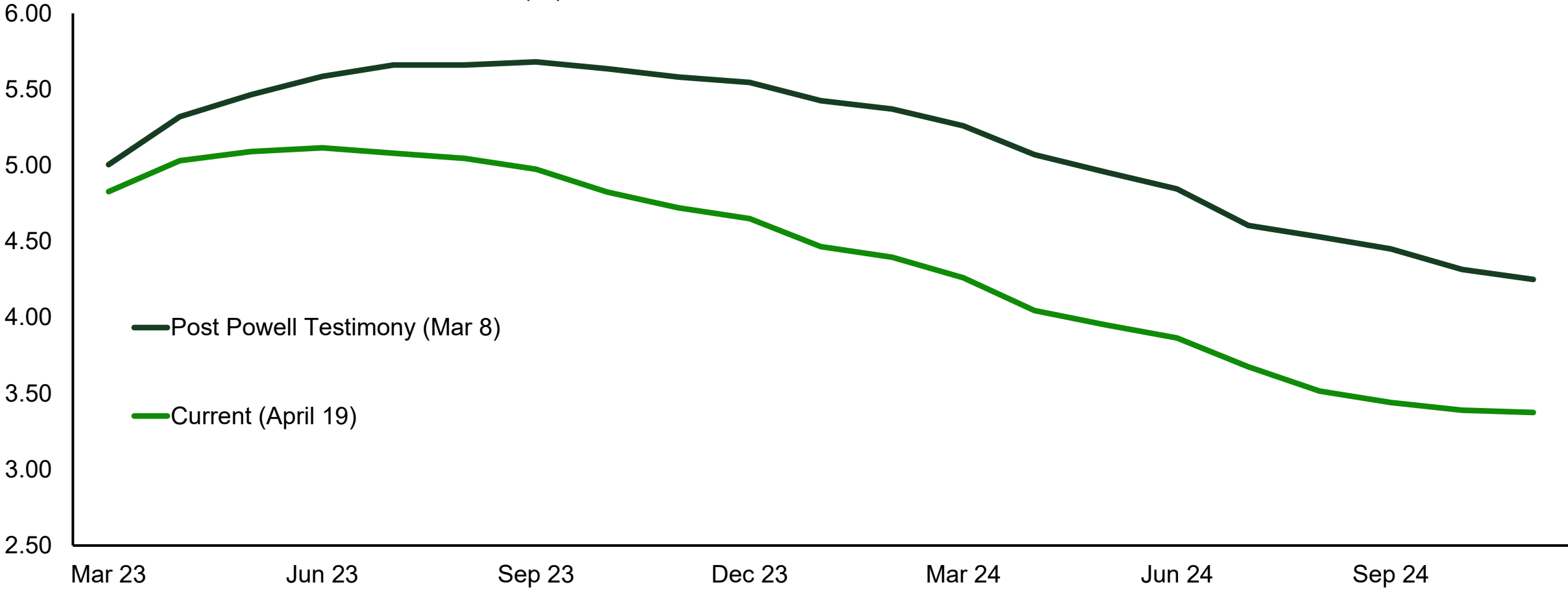


	TDE Economic Index	Core Retail Sales	Housing Permits	Industrial Production	ISM Manufacturing	Hours Worked	Unemployment Insurance Claims	Core Durable Goods New Orders	Delinquency Rates
May/2022	0.2	-0.19	-0.02	0.12	0.11	0.21	0.05	-0.06	-0.03
Jun/2022	0.1	-0.19	-0.01	0.09	0.01	0.21	0.04	-0.08	-0.03
Jul/2022	0.1	-0.10	-0.01	0.08	-0.01	0.17	0.04	-0.08	-0.01
Aug/2022	-0.1	-0.15	-0.13	0.09	0.00	0.18	0.04	-0.10	0.02
Sep/2022	0.0	-0.14	-0.05	0.14	-0.07	0.14	0.04	-0.12	0.07
Oct/2022	-0.2	-0.09	-0.11	0.07	-0.10	0.13	0.03	-0.12	-0.02
Nov/2022	-0.5	-0.06	-0.21	0.01	-0.13	0.09	0.02	-0.14	-0.02
Dec/2022	-0.5	0.07	-0.27	-0.03	-0.15	0.09	0.01	-0.17	-0.02
Jan/2023	-0.4	0.13	-0.25	-0.04	-0.19	0.15	0.02	-0.17	-0.02

# U.S. Banking Risks Bring Interest Rate Expectations Full Circle



Federal Funds Rate Futures, Yields (%)



Source: Bloomberg, TD Economics.

# Will The Decline In Bond Yields Forestall Rate Cuts?

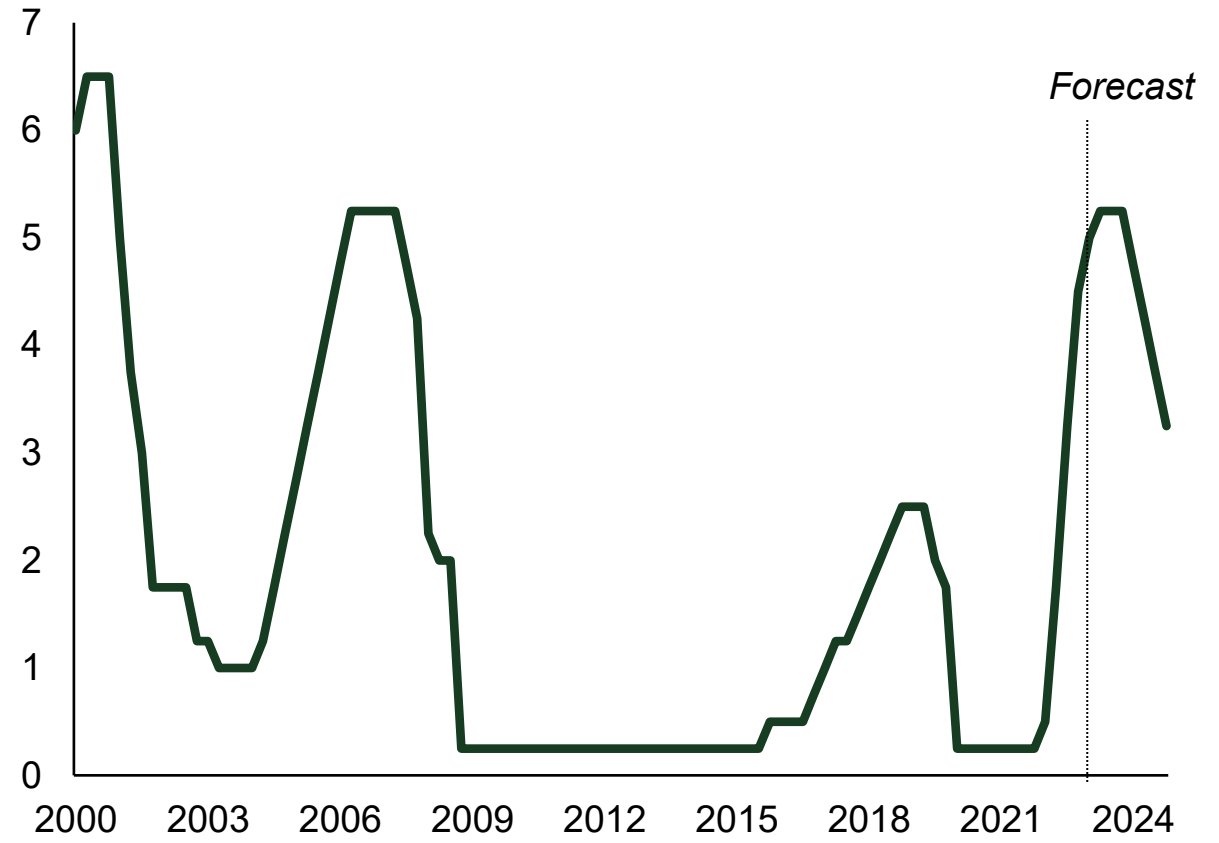


10-Year U.S. Treasury Yield, %



Source: Bank of Canada, Federal Reserve Board, TD Economics. Last observation: March 27, 2023.

Federal Funds Rate, %



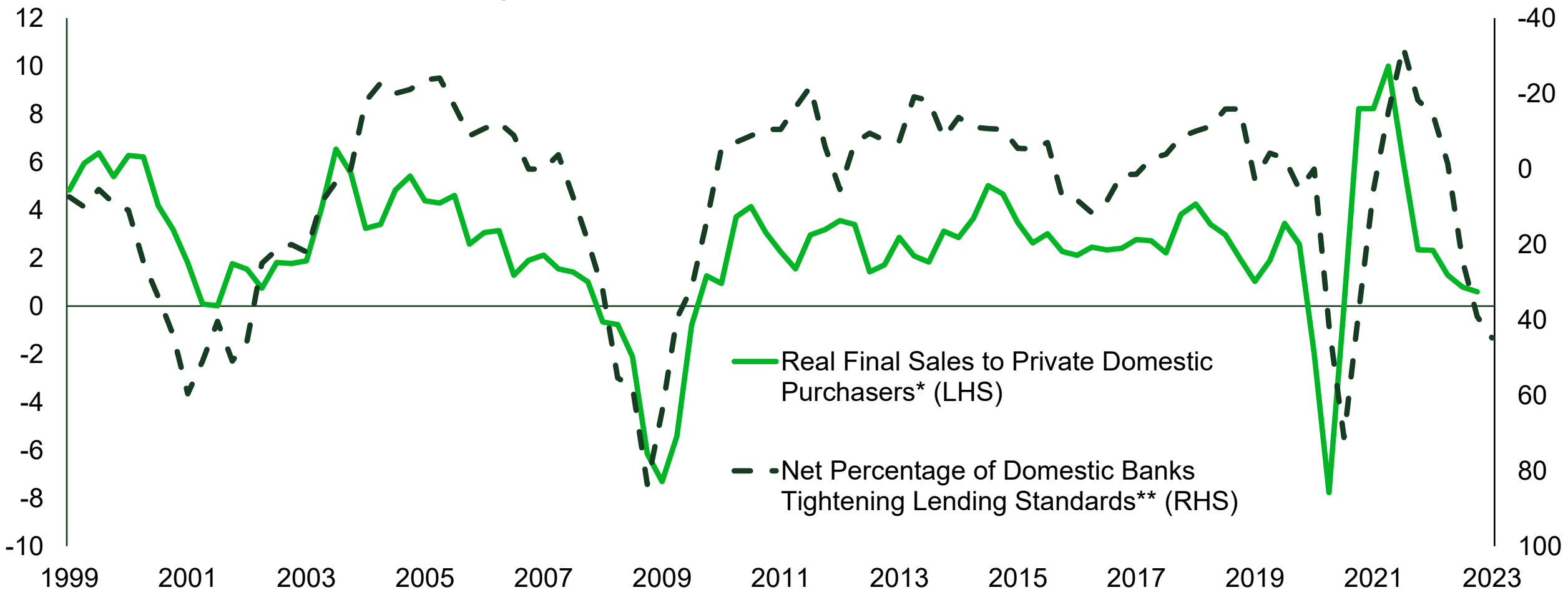
Source: Bank of Canada, Federal Reserve, TD Economics. Forecast as of March 2023.

# New Risk #1 - Confidence Shocks Feed Into The Real Economy With A Lag



Quarter/Quarter Annualized % Change

%, Inverted Scale



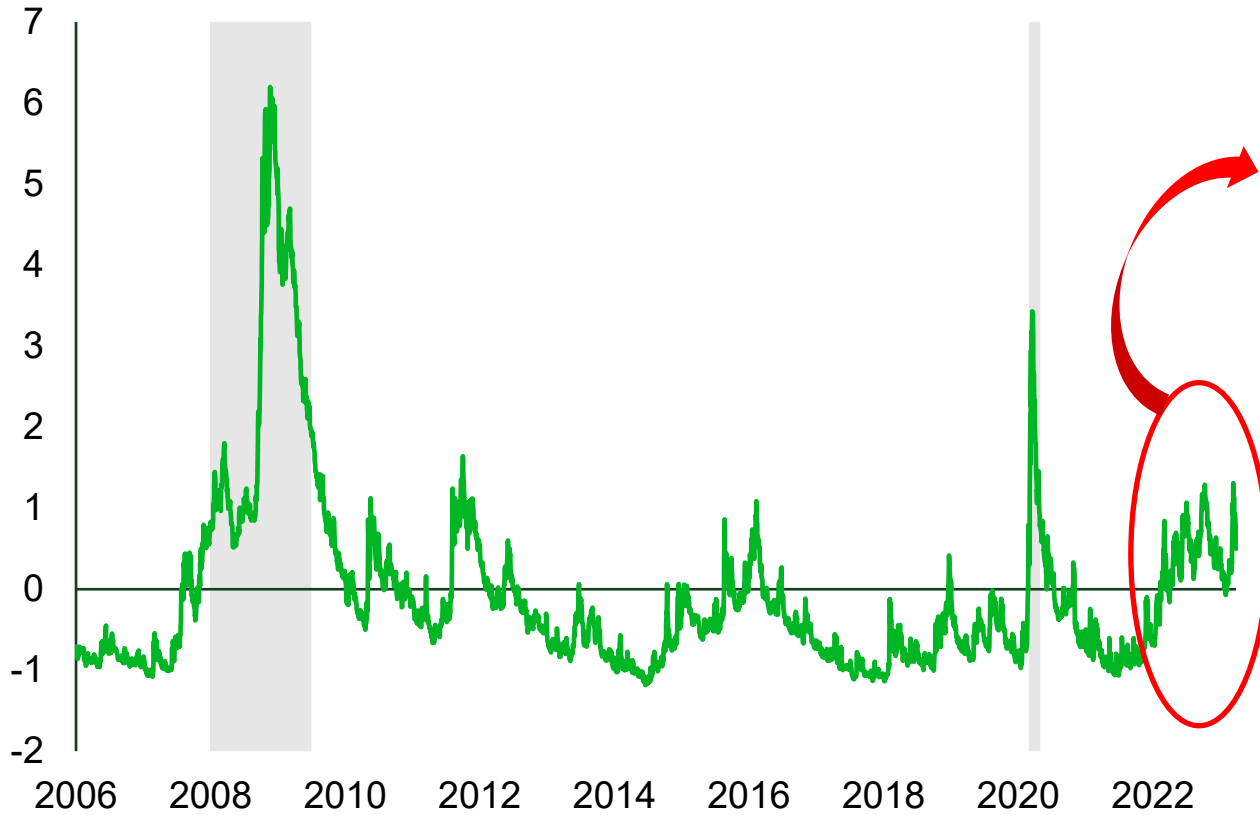
— Real Final Sales to Private Domestic Purchasers\* (LHS)  
 - -Net Percentage of Domestic Banks Tightening Lending Standards\*\* (RHS)

\*Truncated at -10% and 10% annualized QoQ % change reported at 2-quarter moving average. \*\* Inverted scale.  
 Source: FRED, TD Economics.

# Financial Conditions Have Eased From Mid-March Highs

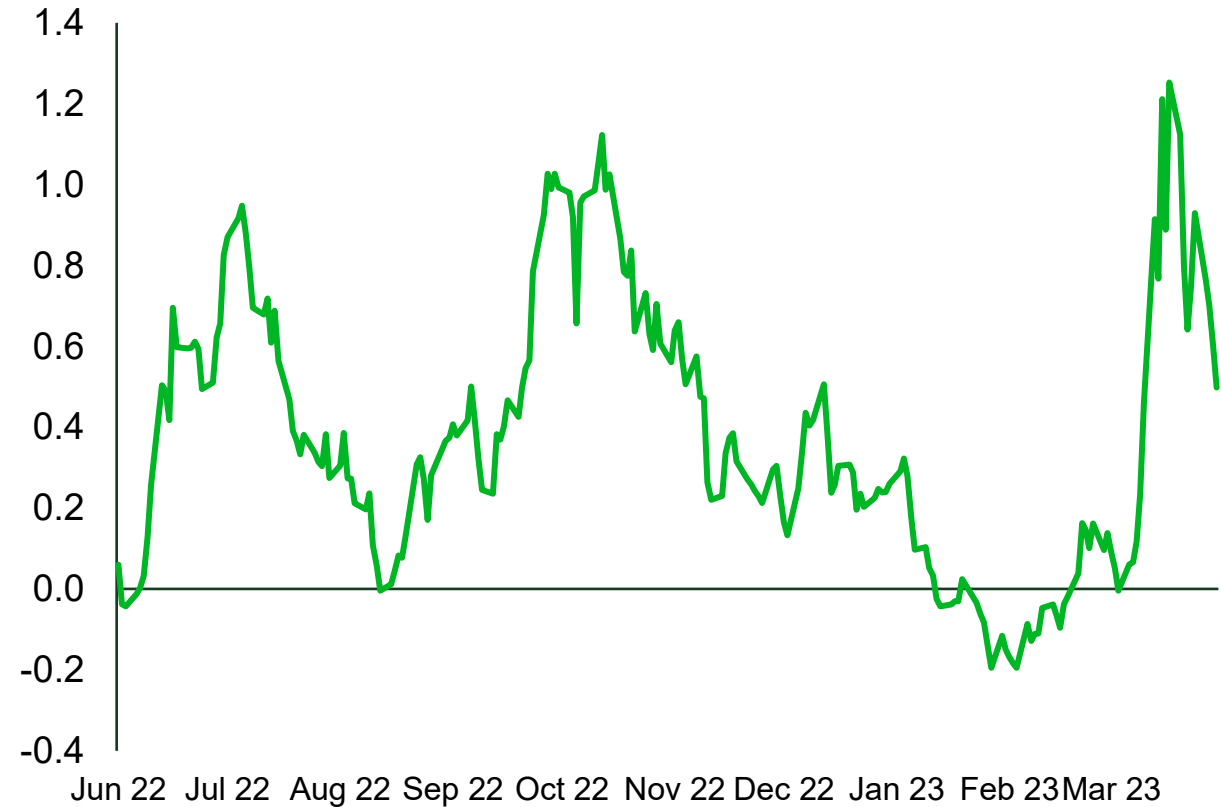


TDE Financial Stability Index, Standard Deviations



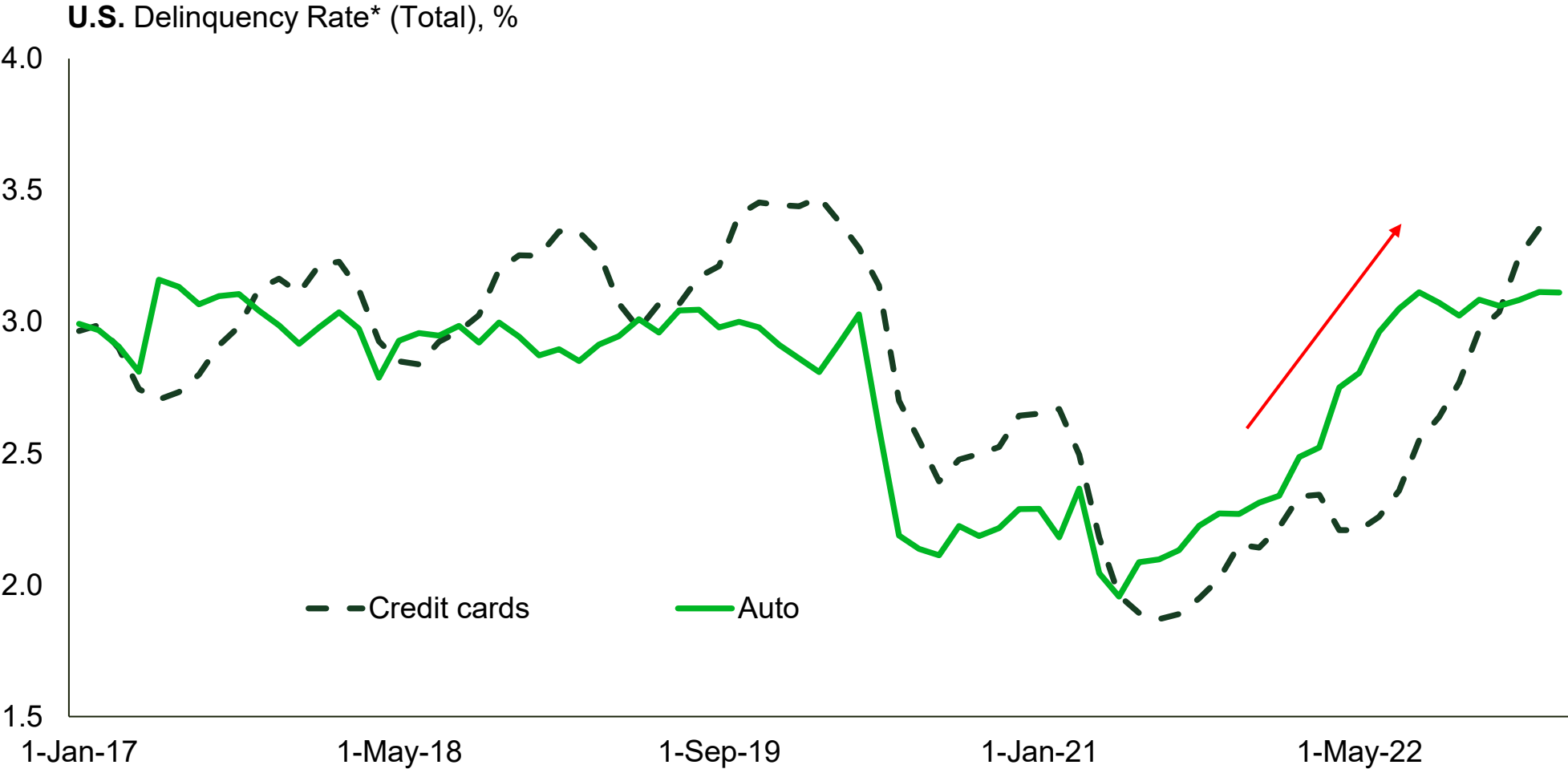
Source: Wall Street Journal, TD Economics. Last observation March 30, 2023.

TDE Financial Stability Index, Standard Deviations



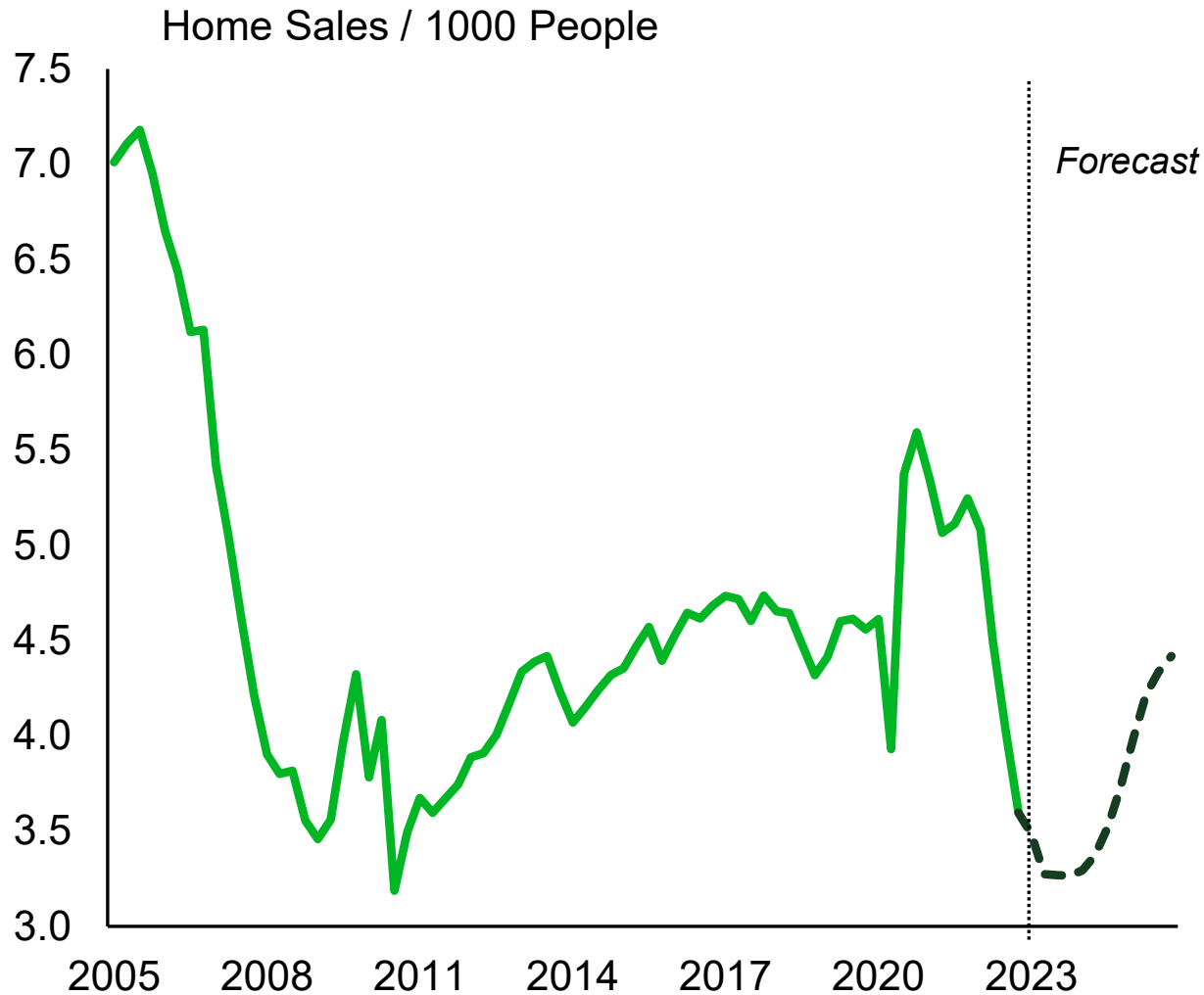
Source: Wall Street Journal, TD Economics. Last observation March 30, 2023.

# Consumer Delinquency Rates – Normalization vs. Recession?

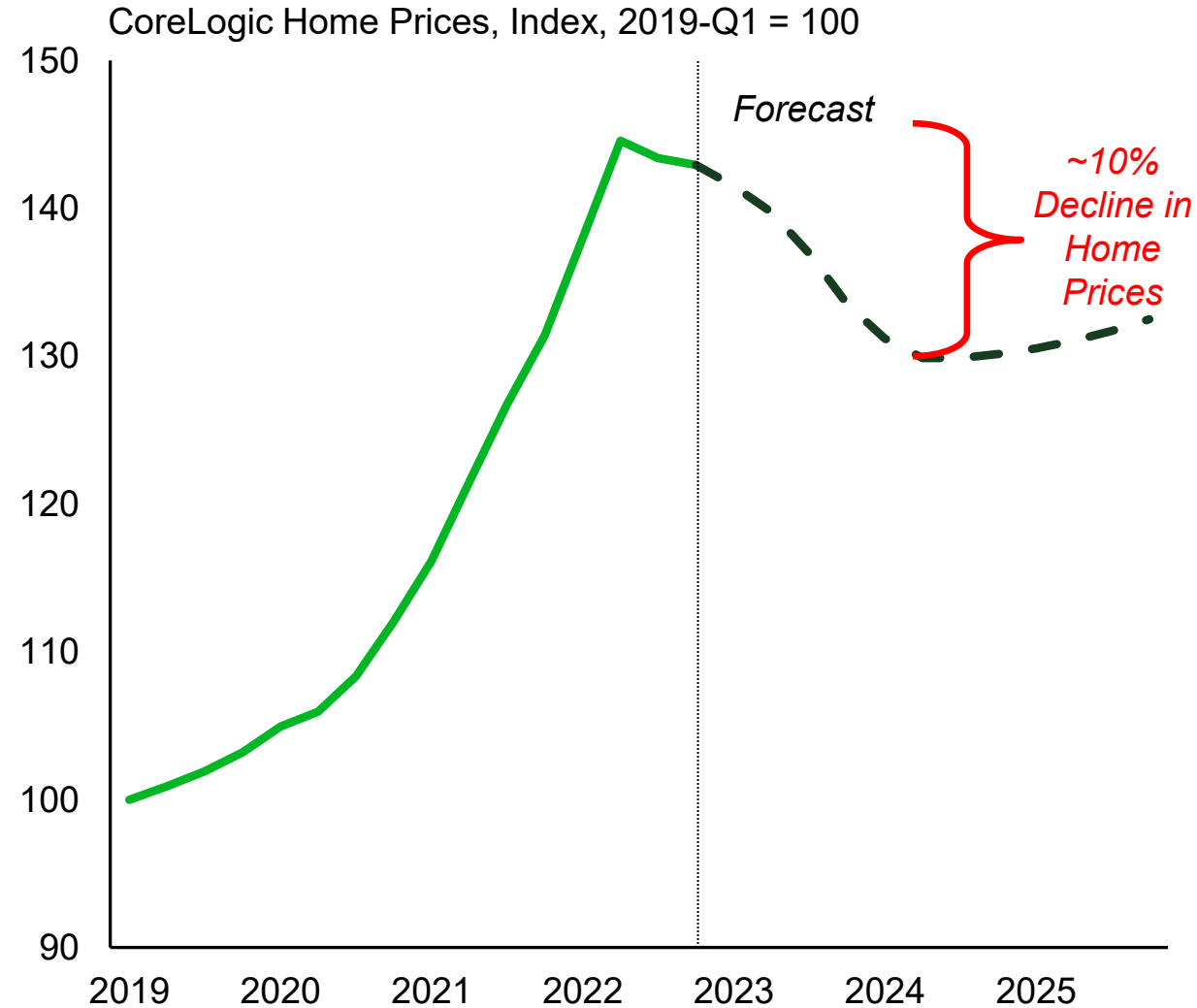


Source: Equifax, TD Economics (\*Seasonally adjusted, last point March 2023)

# Housing Could Be Nearing A Bottom

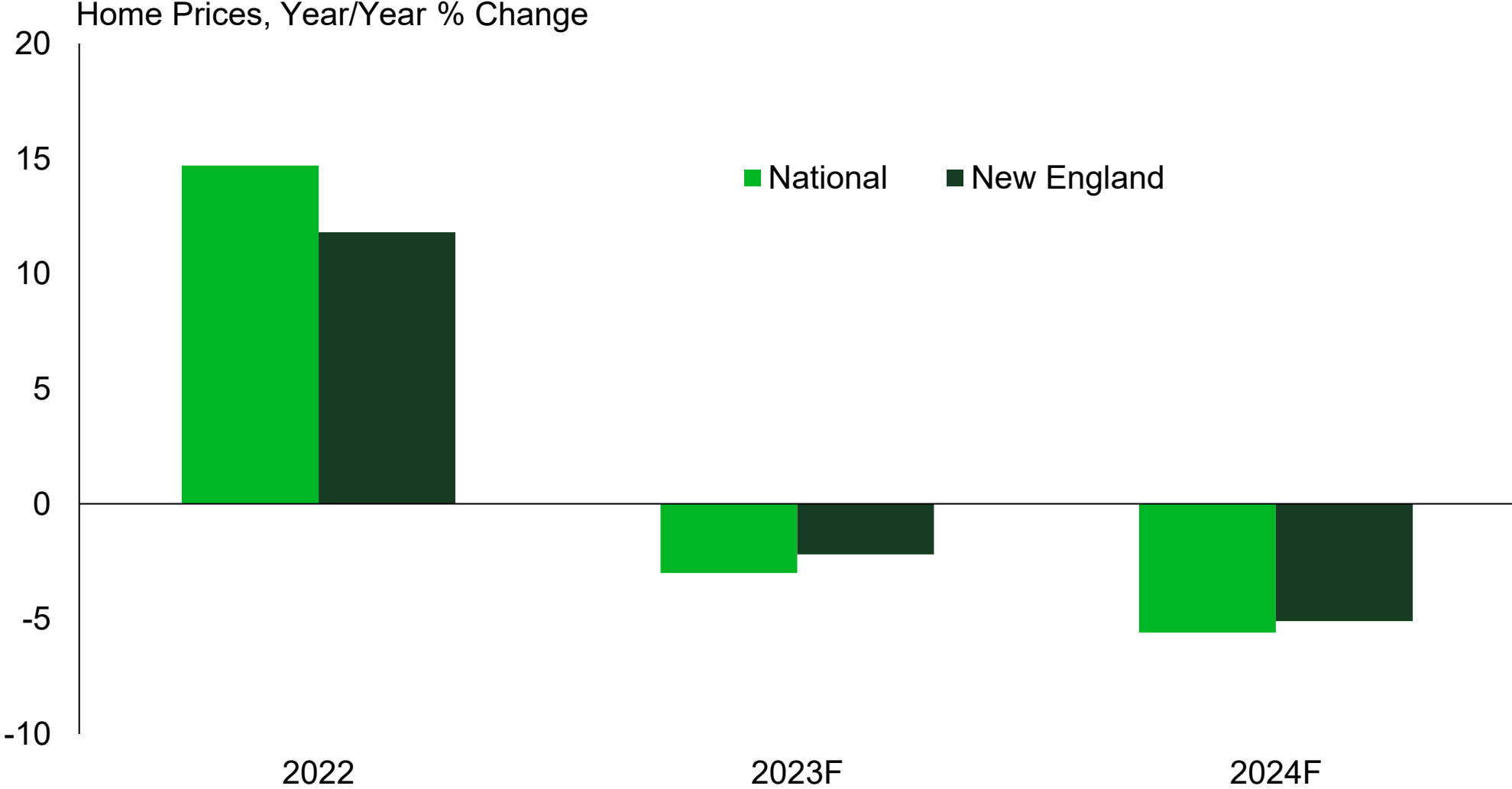


Source: NAR, TD Economics.



Source: CoreLogic, TD Economics.

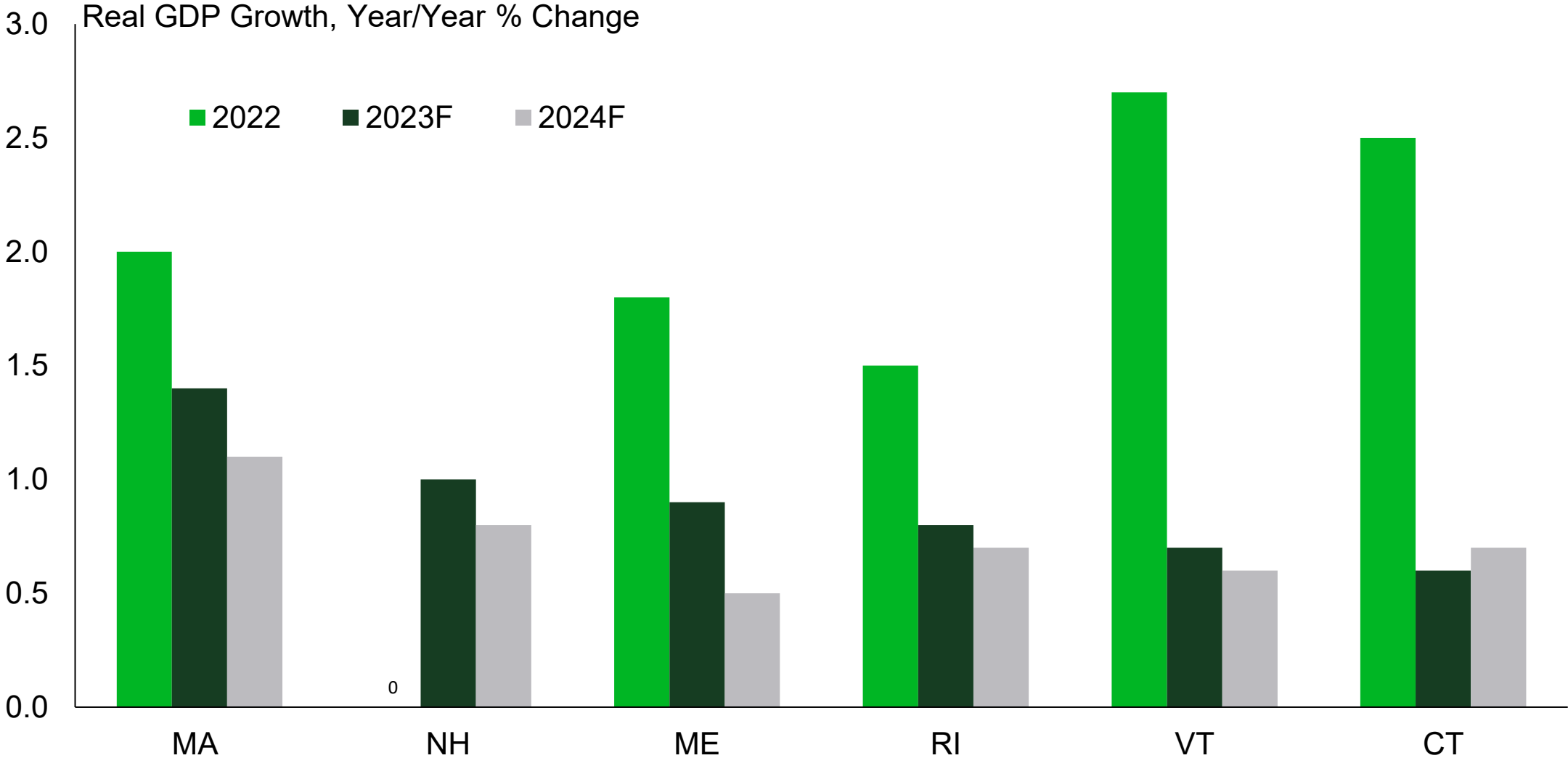
# New England Price Declines Tempered By Tight Supply



Source: CoreLogic, TD Economics



# Growth to Slow Across New England After Pandemic Rebound

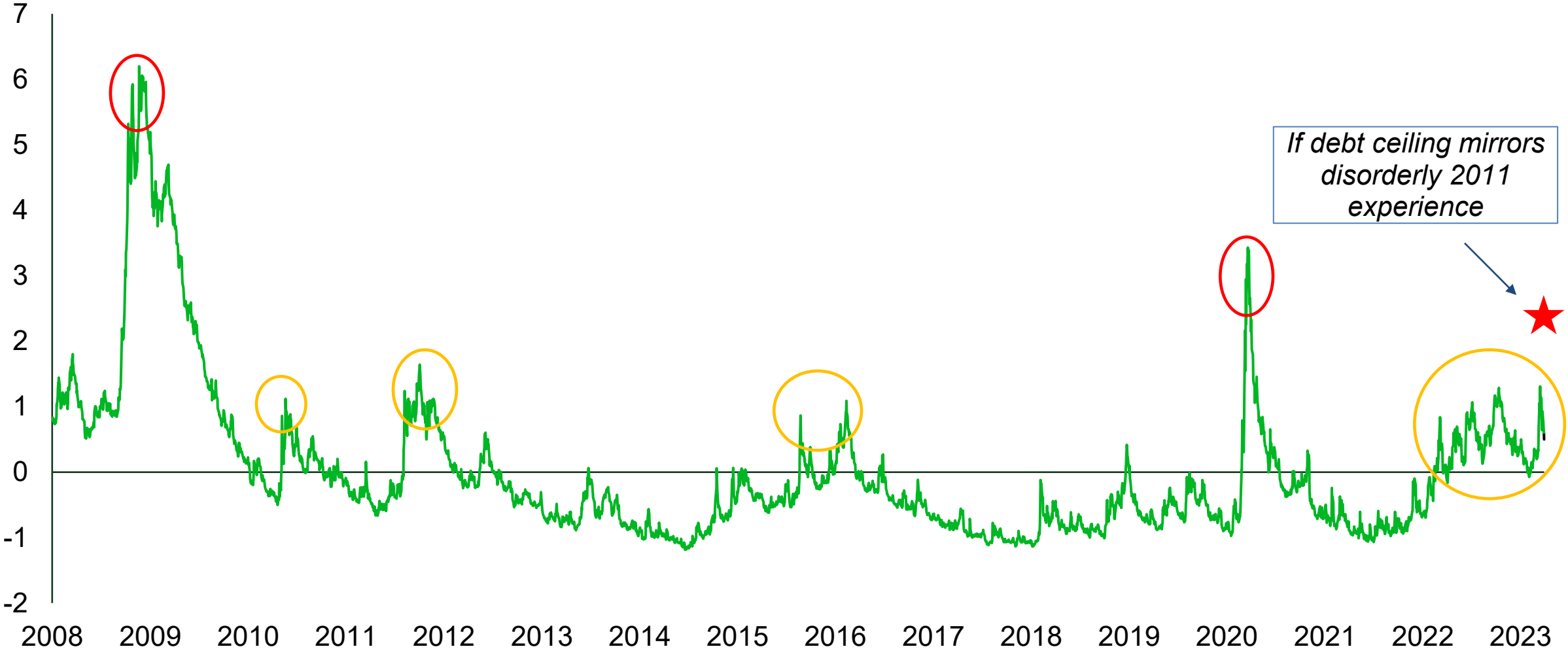


Source: TD Economics

# New Risk #2 - U.S. Debt Ceiling Brinksmanship Still To Come



TDE Financial Stress Index, Standard Deviations



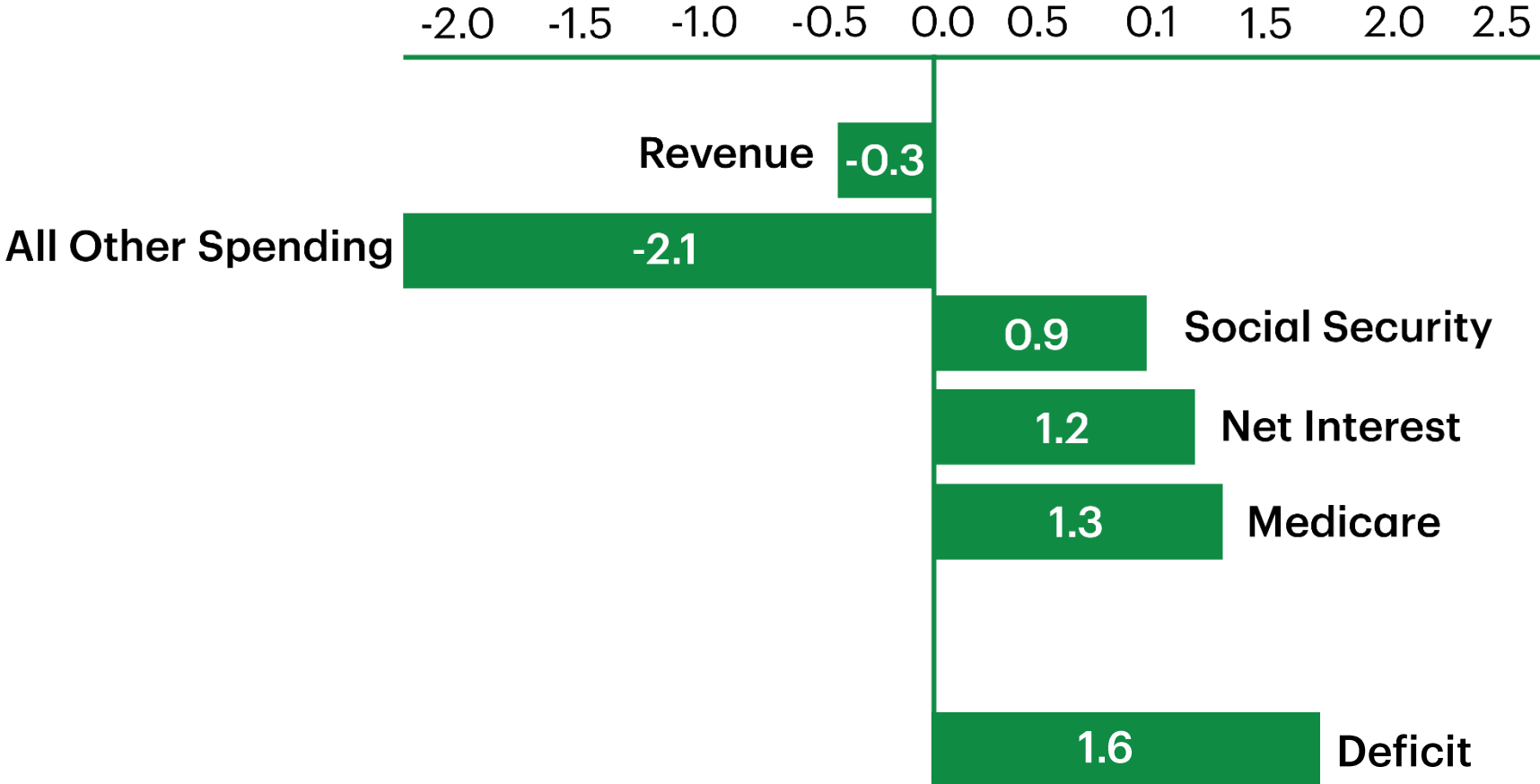
Source: TD Economics.

# Balancing The U.S. Budget Won't Be Solved On These Discussions



## Change from 2023 to 2033

% of GDP



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