

The Weekly Bottom Line

September 1, 2023

Highlights

United States

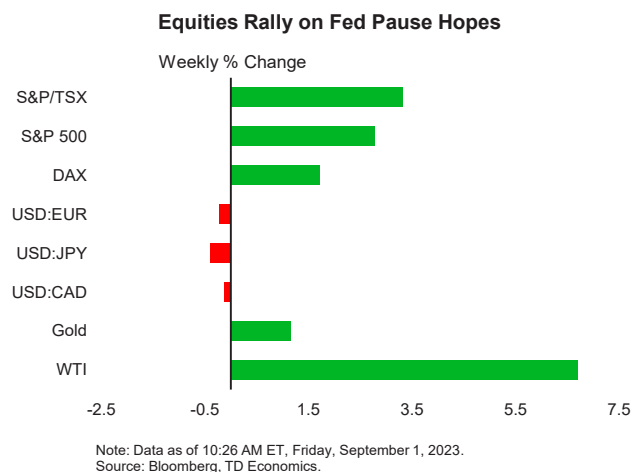
- The U.S. economy added 187k jobs in August, but revisions to the two prior months subtracted a notable 110k jobs from the previous reported tally.
- Both total and core PCE inflation rose by 0.2% month-on-month in July, equal to the monthly change seen in June for both measures.
- Hurricane Idalia, the first of the season to make landfall in the U.S., caused widespread flooding and wind damage through Florida's Big Bend region and up through Georgia and the Carolinas.

Canada

- Payrolls and GDP data show the economy coming off the boil, reflecting a year and a half's worth of rate hikes doing their job to cool economic momentum.
- Markets pricing for another rate hike by year-end has come in noticeably, following the string of softening data.
- The job's not quite done yet, but the Bank of Canada can feel better about how far they've come in reaching the target state.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4533	4406	4589	3577
S&P/TSX Comp.	20499	19836	20767	18206
DAX	15880	15632	16470	11976
FTSE 100	7473	7339	8014	6826
Nikkei	32711	31624	33753	25717
Fixed Income Yields				
U.S. 10-yr Treasury	4.15	4.24	4.34	3.19
Canada 10-yr Bond	3.56	3.70	3.82	2.72
Germany 10-yr Bund	2.51	2.56	2.75	1.53
UK 10-yr Gilt	4.38	4.44	4.75	2.88
Japan 10-yr Bond	0.63	0.66	0.67	0.22
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.77	0.72
Euro (USD per EUR)	1.08	1.08	1.12	0.96
Pound (USD per GBP)	1.26	1.26	1.31	1.07
Yen (JPY per USD)	145.6	146.4	150.2	127.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	84.9	80.5	92.6	66.7
Natural Gas (\$US/MMBtu)	2.57	2.46	9.30	1.77
Copper (\$US/met. tonne)	8404.5	8319.3	9330.8	7422.0
Gold (\$US/troy oz.)	1939.1	1915.0	2050.3	1622.4

*As of 10:20 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



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)	4.25%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

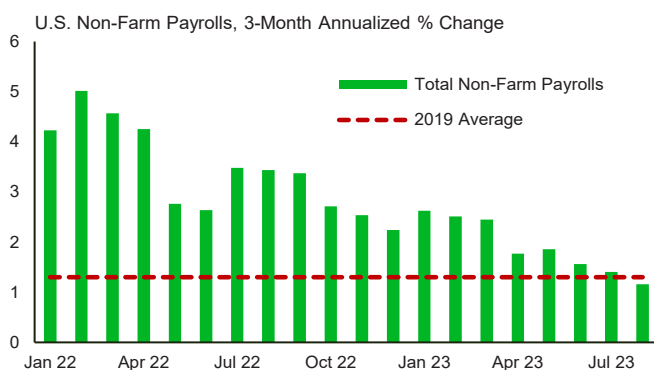
U.S. – The Labor Market Takes a Holiday

The U.S. almost managed to escape August without a major hurricane, but unfortunately those hopes were dashed when Hurricane Idalia made landfall as a category 3 hurricane on Wednesday in Florida. Strong winds, rain, and storm surges caused widespread flooding and property damage, leaving hundreds of thousands of Americans without power across the Southeast. Although the extent of the damage is still being assessed, insurance and clean-up costs are expected to be well over a billion dollars.

Fortunately for the national economy, sunnier skies could be found in this week's economic data, including the 187k new jobs added in August. While this reading, in addition to the downward revisions to the previous two months, marks a continued moderation in the pace of hiring, it indicates that supply and demand in the labor market are coming into a more sustainable alignment (Chart 1). This was further evidenced by the decline in job openings in July, with the job opening to unemployed ratio falling to 1.5. While the unemployment rate did rise to 3.8%, this mostly resulted from a boost in labor force growth which could be considered a net positive if it helps to offset labor shortages. On aggregate, this progress will come as positive news for the Federal Reserve, however the most recent data on inflation was slightly more mixed.

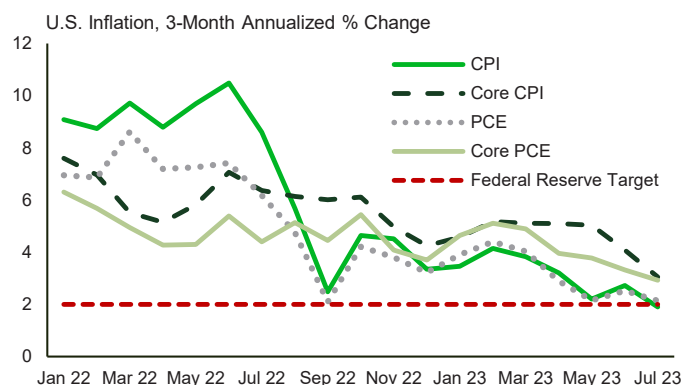
On Thursday, we saw that PCE inflation rose by 3.3% year-on-year (y/y) in July, up from 3.0% in June. This was driven by a moderation in the negative base effects resulting from the spike in energy prices last year in addition to a moderate uptick in services inflation – driven entirely by Powell's 'supercore' component. Looking at the 3-month annual-

Chart 1: Job Growth Has Moderated Notably Relative to 2022



Source: U.S. BLS, TD Economics.

Chart 2: Total Inflation Back on Target, Core Trending Downward



Source: U.S. BLS, U.S. BEA, TD Economics.

ized trend (Chart 2), we can see that total inflation is pushing closer to the Fed's 2% target, though this is likely to be short lived given the recent move up in energy prices. In addition, while core inflation is moving in the right direction, non-housing core services have barely budged from their cyclical highs and continue to run at an elevated annualized pace. Until we see a meaningful cooling here, core inflation will likely remain north of 3%.

Some offset to inflationary pressures continues to be provided by the goods sector, with the ISM Manufacturing Purchasing Managers' Index (PMI) showing manufacturing activity contracted for a tenth consecutive month in August. Ten out of sixteen industries reported lower input prices, which is likely factoring in downstream to the consumer. Price growth in the services sector has been more stubborn, so next week's update on the ISM Services PMI will offer insight into how resilient the sector remains.

With the Labor Day holiday on Monday, next week will be short both in length and in the volume of economic data that we receive. However, the release of the Fed's Beige Book will be one item to watch, as it will feed into the viewpoints that FOMC members bring to the upcoming meeting. We expect that the progress on inflation and job market cooling up to this point will be sufficient to warrant a hold in 2 weeks' time, but the tone will likely remain hawkish to guard against the potential for pre-mature easing in financial conditions.

Andrew Foran, Economist | 416-350-8927

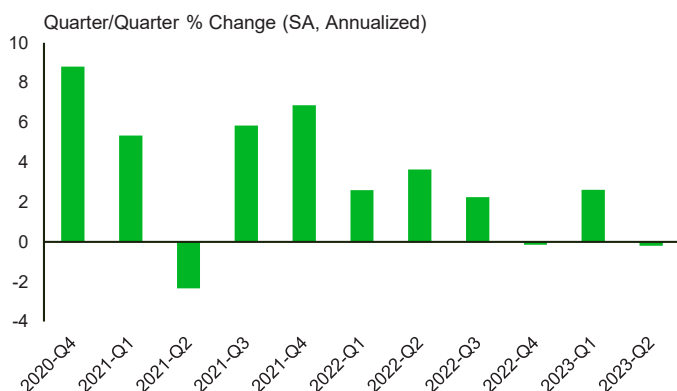
Canada – Soft GDP Data Take Pressure off BoC

And just like that, concerns about the need for another Bank of Canada (BoC) rate hike have cooled substantially. Payrolls and GDP data that show the economy coming off the boil, reflect a year and a half's worth of rate hikes doing their job to cool economic momentum. The job's not quite done yet, but with the data coming in soft this week, the BoC can feel better about how far they've come in reaching the target state.

This week came as a bit of a bad news is good news moment. GDP growth in the first quarter was revised downward, easing some concerns that growth had accelerated substantially above-trend in early 2023. With a healthy hand-off from the first quarter, market consensus was that momentum in the second quarter would see the economy expand at a 1.2% quarter-on-quarter (q/q, annualized) rate. What happened was a loud thud, with the economy shrinking marginally (-0.2% q/q) amid a steep drop-off in consumption growth and a host of extreme events (Chart 1). Striking workers and a horrific fire season acted as a drag on activity – bringing the economy to a standstill.

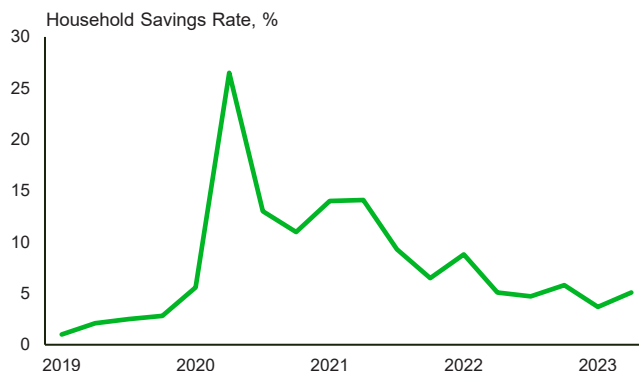
Looking forward, there doesn't appear to be much relief. The third quarter looks to be getting off on the wrong foot as Statistics Canada's flash estimate shows the economy failed to grow in July. This is in line with our view that overall economic momentum will remain weak over the rest of this year. With rates set to remain well in restrictive territory for the coming months, the prospect of strong growth in the second half of 2023 seems far-off.

Chart 1: Canada's Real GDP Growth Evaporates in Second Quarter



Source: Statistics Canada, TD Economics

Chart 2: Canada's Savings Rate Ticks Higher in Second Quarter



Source: Statistics Canada, TD Economics.

The news has palpably shifted investor sentiment. Market pricing that had started the week with roughly six-in-ten odds of a hike by the end of this year has pulled back to a much more moderate one-in-ten as of this morning. On cue, bonds are rallying as investors look to lock-up solid yields. Ten-year yields that started the week at roughly 3.7% have shaved off about 15 basis points as of the time of writing. The five-year yield is down nearly 25 basis points over the same time span.

That said, while the economy is cooling, it's not cold. The labour market is still churning out jobs. This week's Survey of Employment, Payrolls and Hours (SEPH) showed fixed weight wages still growing at 3.9% year-on-year (y/y). While the fixed weight wage gains are slightly lower than the 5% y/y print from the Labour Force Survey, they both reflect a labour market that, despite recent setbacks, still has a healthy appetite to hire – a fact supported by job vacancies that are still roughly 250k positions higher than before the pandemic.

For the BoC, the totality of this week's data suggest that things are still trending in the right direction to meet its mandate. Sure, the labour market suggests that underlying pressures persist, but spending data show consumers aren't freely spending their wage gains – as the savings rate ticked up 1.4 percentage points (Chart 2). In totality, the case for further hikes weakened this week, helping lift hopes of a soft landing.

Andrew Hencic, Senior Economist | 416-944-5307

Recent Key Economic Indicators: Aug 28 - Sep 01, 2023					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Aug 29	S&P CoreLogic CS 20-City NSA	Jun	Y/Y % Chg.	-1.2	-1.7
Aug 29	S&P CoreLogic CS US HPI NSA	Jun	Y/Y % Chg.	0.0	-0.4
Aug 29	Conf. Board Consumer Confidence	Aug	Index	106.1	114.0
Aug 30	ADP Employment Change	Aug	Thsd	177.0	371.0
Aug 30	Advance Goods Trade Balance	Jul	Blns	-91.2	-88.8
Aug 30	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	2.1	2.4
Aug 30	Personal Consumption	2Q	Q/Q % Chg.	1.7	1.6
Aug 31	Initial Jobless Claims	Aug 26	Thsd	228.0	232.0
Aug 31	Personal Income	Jul	M/M % Chg.	0.2	0.3
Aug 31	Real Personal Spending	Jul	M/M % Chg.	0.8	0.6
Aug 31	PCE Deflator	Jul	Y/Y % Chg.	3.3	3.0
Sep 01	Change in Nonfarm Payrolls	Aug	Thsd	187.0	157.0
Sep 01	Unemployment Rate	Aug	%	3.8	3.5
Sep 01	Average Hourly Earnings	Aug	M/M % Chg.	0.2	0.4
Sep 01	S&P Global US Manufacturing PMI	Aug	Index	47.9	47.0
Sep 01	ISM Manufacturing	Aug	Index	47.6	46.4
Canada					
Aug 31	CFIB Business Barometer	Aug	Index	54.8	53.1
Aug 31	Payroll Employment Change - SEPH	Jun	Thsd	47.7	129.9
Sep 01	Quarterly Gross Domestic Product Annualized	2Q	Q/Q % Chg.	-0.2	2.6
Sep 01	Gross Domestic Product	Jun	M/M % Chg.	-0.2	0.2
Sep 01	S&P Global Canada Manufacturing PMI	Aug	Index	48.0	49.6
International					
Aug 28	JN Jobless Rate	Jul	%	2.7	2.5
Aug 30	JN Retail Sales	Jul	Y/Y % Chg.	6.8	5.6
Aug 30	CH Manufacturing PMI	Aug	Index	49.7	49.3
Aug 31	EZ Consumer Price Index Estimate	Aug	Y/Y % Chg.	5.3	5.3
Aug 31	EZ Unemployment Rate	Jul	%	6.4	6.4
Aug 31	IN Gross Domestic Product	2Q	M/M % Chg.	7.8	6.1
Aug 31	JN Jibun Bank Japan PMI Mfg	Aug	Index	49.6	49.7
Aug 31	CH Caixin China PMI Mfg	Aug	Index	51.0	49.2
Sep 01	BZ Gross Domestic Product	2Q	Q/Q % Chg.	0.9	1.8

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

Upcoming Economic Releases and Events: Sep 04 - Sep 08, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 05	10:00	Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	-	0.1
Sep 05	10:00	Durable Goods Orders	Jul	M/M % Chg.	-	-5.2
Sep 05	10:00	Factory Orders	Jul	M/M % Chg.	-2.5	2.3
Sep 05	10:00	Factory Orders Ex Trans	Jul	M/M % Chg.	0.2	0.2
Sep 06	8:30	<i>Fed's Collins Speaks on Economy</i>				
Sep 06	8:30	Trade Balance	Jul	Blns	-67.7	-65.5
Sep 06	9:45	S&P Global US Composite PMI	Aug	Index	-	50.4
Sep 06	9:45	S&P Global US Services PMI	Aug	Index	-	51.0
Sep 06	10:00	ISM Services Index	Aug	Index	52.3	52.7
Sep 06	14:00	<i>Federal Reserve Releases Beige Book</i>				
Sep 07	8:30	Initial Jobless Claims	Sep 02	Thsd	233.0	228.0
Sep 07	8:30	Unit Labor Costs	2Q	Q/Q % Chg.	1.7	1.6
Sep 07	10:00	<i>Fed's Harker Speaks on Future of Fintech</i>				
Sep 07	15:30	<i>Fed's Williams Speaks at Bloomberg Market Forum</i>				
Sep 07	15:45	<i>Fed's Bostic Speaks on Economic Outlook</i>				
Sep 08	10:00	Wholesale Trade Sales	Jul	M/M % Chg.	-	-0.7
Canada						
Sep 06	8:30	Int'l Merchandise Trade	Jul	Blns	-	-3.7
Sep 06	10:00	Bank of Canada Rate Decision	Sep 06	%	5.0	5.0
Sep 07	14:10	<i>Bank of Canada Governor Tiff Macklem Gives Economic Progress Report</i>				
Sep 08	8:30	Net Change in Employment	Aug	Thsd	-	-6.4
Sep 08	8:30	Unemployment Rate	Aug	%	-	5.5
International						
Sep 06	5:00	EZ Retail Sales	Jul	Y/Y % Chg.	-1.2	-1.4
Sep 07	5:00	EZ Employment	2Q	Y/Y % Chg.	-	1.5
Sep 07	5:00	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	0.6	0.6
Sep 07	19:50	JN Gross Domestic Product Annualized SA	2Q	Y/Y % Chg.	5.6	6.0
Sep 08	21:30	CH Consumer Price Index	Aug	Y/Y % Chg.	-	-0.3

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

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