

The Weekly Bottom Line

September 17, 2021

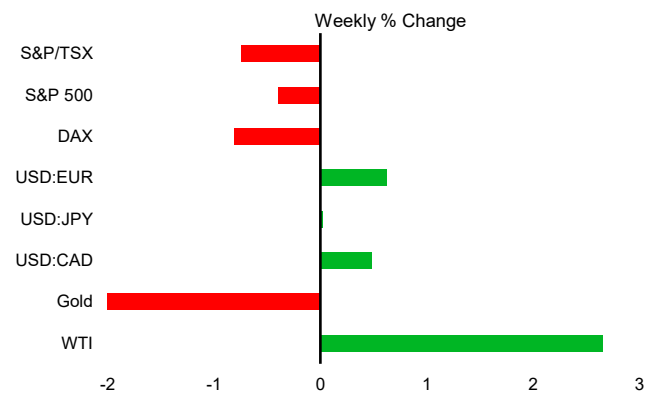
Highlights

- Retail sales surprised on the upside in August, growing by 0.7% month-on-month. This followed a downward revision to the decline in July, but suggests resilience in the face of increased headwinds.
- Consumer price inflation slowed in August. From a peak of 5.4% year-on-year, the headline rate edged lower to 5.3%. Core inflation (ex. food and energy) decelerated more, moving from 4.3% to 4.0%.
- The Federal Open Market Committee will announce its next moves on monetary policy next week. It is likely to signal its intentions to begin tapering asset purchases in the near future.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4441	4459	4537	3237
S&P/TSX Comp.	20481	20633	20821	15581
DAX	15471	15610	15977	11556
FTSE 100	6967	7029	7220	5577
Nikkei	30500	30382	30670	22977
Fixed Income Yields				
U.S. 10-yr Treasury	1.38	1.34	1.74	0.65
Canada 10-yr Bond	1.29	1.24	1.61	0.54
Germany 10-yr Bund	-0.28	-0.33	-0.10	-0.64
UK 10-yr Gilt	0.85	0.76	0.90	0.16
Japan 10-yr Bond	0.05	0.05	0.16	0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.78	0.79	0.83	0.75
Euro (USD per EUR)	1.17	1.18	1.23	1.16
Pound (USD per GBP)	1.37	1.38	1.42	1.27
Yen (JPY per USD)	110.0	109.9	111.5	102.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	71.8	69.7	75.3	35.8
Natural Gas (\$US/MMBtu)	5.45	5.05	15.83	1.35
Copper (\$US/met. tonne)	9348.5	9684.5	10448.5	6374.8
Gold (\$US/troy oz.)	1751.3	1787.6	1951.4	1683.5

*As of 11:01 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Improving Demand Sentiment, U.S. Supply Disruptions Lift WTI



Note: Data as of 11:08 AM ET, Friday, September 17, 2021.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	0.00 - 0.25%
Bank of Canada (Overnight Rate)	0.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.10%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 9/17/21	2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
2-yr Govt. Bond Yield	0.23	0.23	0.16	0.13	0.13	0.16	0.25	0.30	0.55	0.80	1.00	1.20	1.40
10-yr Govt. Bond Yield	1.38	0.70	0.66	0.69	0.93	1.74	1.45	1.60	2.00	2.10	2.20	2.30	2.40
30-yr Govt. Bond Yield	1.92	1.35	1.41	1.46	1.65	2.41	2.06	2.20	2.40	2.55	2.65	2.70	2.75

Forecast by TD Economics as of July 2021; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

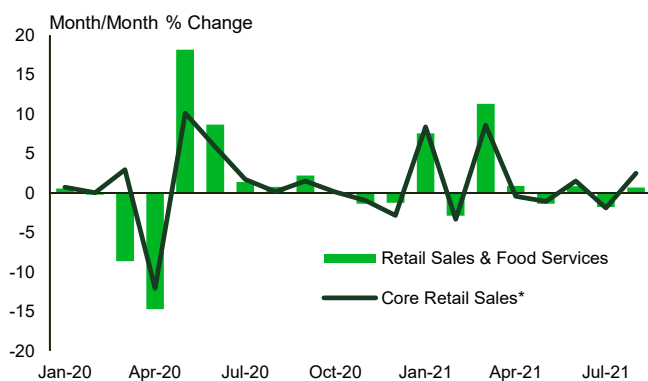
Transitory Setbacks vs. Transitory Inflation

The American economy continues to be buffeted by the pandemic and supply chain challenges. Still, it is showing its resilience. Retail sales in August surprised economists' dour predictions for decline, rebounding by 0.7% month-on-month (Chart 1). A lack of inventory prevented consumers from spending on automobiles, while rising virus counts appear to have taken a toll on dining out. But, where consumers could spend, they did – at furniture and general merchandise stores, and, as they have been doing at a record pace since the pandemic began, at online retailers.

The rebound in retail sales is encouraging, showing there is still gas in the consumer tank and that while slowing after its stimulus-fueled surge in the first half of the year, it will not become a drag on economic activity. Even the sources of weakness in retail sales in August have a silver lining. The slowdown in auto production will not last forever. As long as demand is there, sales should rebound once inventories are rebuilt – if not this year, then next. The setback in spending at food services and drinking places is no doubt a consequence of the worsening virus trend, but there are signs of better days. Cases are now falling in the worst hit states.

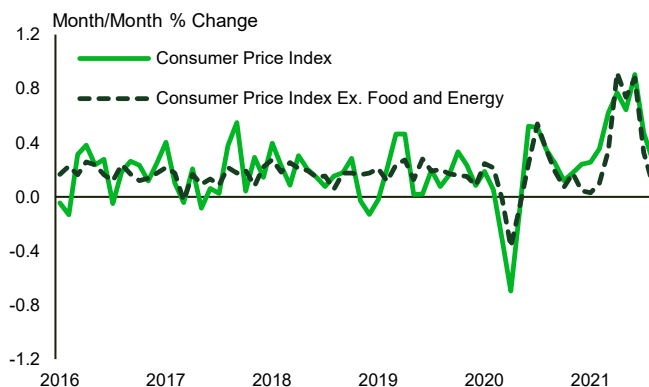
At the same time, the acceleration in inflation – the consequence of buoyant demand and constrained supply – appeared to slow in August. Overall consumer prices were up 5.3% relative to a year ago, below the 5.4% peak in June and July. Excluding food and energy, the rate of core inflation slowed to 4.0% from 4.3%. The slowing is more evident on a month-on-month basis where price growth cooled to 0.3%, down from 0.5% in August and a peak of 0.9% in June. The core rate was up just 0.1% (Chart 2).

Chart 1: Retail Sales Rebound in August



*Excluding Auto, Gas Stations, & Building Materials.
Source: Census Bureau, TD Economics. Last observation: August 2021.

Chart 2: Consumer Price Growth Cooled as Transitory Factors Ebb in August



Source: Bureau of Labor Statistics, TD Economics. Last observation: August 2021.

Just as important, some of the biggest contributors to inflation pulled back in August. For example, used vehicles prices had skyrocketed through the spring and early summer, adding over a percentage point to headline inflation, but pulled back 1.5% in August. This gives credence to the view that as the pandemic shock passes and transitory influences fade, the rate of price growth will also return to its pre-pandemic calm.

Into this to-and-fro, the Federal Open Market Committee meets next week to deliberate on the course of monetary policy. Importantly, the Fed's statement will come alongside renewed projections for economic growth, unemployment and inflation. Economic growth projections are likely to be downgraded, but to rates that are still well above trend. The pace of improvement in unemployment is also likely to be slowed, but still make progress. The inflation forecast is also likely to see an upgrade in the near-term, marking to the data.

With these economic views, the Fed is likely to communicate that in order to ensure inflation remains transitory it must begin preparing to withdraw policy support. The first step is to slow the pace of asset purchases, which is likely to happen this calendar year. The Fed's statement is likely to emphasize that this does not mean that policy rate hikes are around the corner, but as long as growth continues, they may not be too far on the horizon.

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Recent Key Economic Indicators: Sep 13 - 17, 2021					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 14	NFIB Small Business Optimism	Aug	Index	100.1	99.7
Sep 14	Consumer Price Index	Aug	M/M % Chg.	0.3	0.5
Sep 14	Consumer Price Index	Aug	Y/Y % Chg.	5.3	5.4
Sep 14	Consumer Price Index Ex Food and Energy	Aug	M/M % Chg.	0.1	0.3
Sep 14	Consumer Price Index Ex Food and Energy	Aug	Y/Y % Chg.	4.0	4.3
Sep 15	Empire Manufacturing	Sep	Index	34.3	18.3
Sep 15	Capacity Utilization	Aug	%	76.4	76.2
Sep 15	Industrial Production	Aug	M/M % Chg.	0.4	0.8
Sep 15	Manufacturing (SIC) Production	Aug	M/M % Chg.	0.2	1.6
Sep 16	Initial Jobless Claims	Sep 11	Thsd	332.0	312.0
Sep 16	Retail Sales Advance	Aug	M/M % Chg.	0.7	-1.8
Sep 16	Retail Sales Ex Auto and Gas	Aug	M/M % Chg.	2.0	-1.4
Sep 16	Business Inventories	Jul	M/M % Chg.	0.5	0.9
Canada					
Sep 14	Manufacturing Sales	Jul	M/M % Chg.	-1.5	2.1
Sep 15	Consumer Price Index	Aug	Y/Y % Chg.	4.1	3.7
Sep 15	Consumer Price Index NSA	Aug	M/M % Chg.	0.2	0.6
Sep 15	Existing Home Sales	Aug	M/M % Chg.	-0.5	-3.5
Sep 16	Housing Starts	Aug	Thsds	260.2	272.2
Sep 16	Wholesale Trade Sales	Jul	M/M % Chg.	-2.1	-0.9
International					
Sep 14	UK ILO Unemployment Rate 3Mths	Jul	%	4.6	4.7
Sep 14	CH Retail Sales	Aug	Y/Y % Chg.	2.5	8.5
Sep 14	CH Surveyed Jobless Rate	Aug	%	5.1	5.1
Sep 15	UK Consumer Price Index	Aug	Y/Y % Chg.	3.2	2.0
Sep 17	UK Retail Sales Ex Auto Fuel	Aug	Y/Y % Chg.	-0.9	0.9
Sep 17	EZ Consumer Price Index	Aug	Y/Y % Chg.	3.0	3.0

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sep 20 - 24, 2021						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 20	10:00	NAHB Housing Market Index	Sep	Index	74.0	75.0
Sep 21	8:30	Building Permits	Aug	Thsd	1595.0	1630.0
Sep 21	8:30	Housing Starts	Aug	Thsd	1550.0	1534.0
Sep 22	10:00	Existing Home Sales	Aug	Mlns	5.9	6.0
Sep 22	14:00	FOMC Rate Decision (Upper Bound)	Sep 22	%	0.25	0.25
Sep 22	14:30	<i>Powell Holds Press Conference Following FOMC Meeting</i>				
Sep 23	8:30	Initial Jobless Claims	Sep 18	Thsd	315.0	332.0
Sep 23	9:45	Markit US Manufacturing PMI	Sep	Index	61.0	61.1
Sep 23	9:45	Markit US Services PMI	Sep	Index	55.0	55.1
Sep 24	8:45	<i>Fed's Mester Discusses the Economic Outlook</i>				
Sep 24	10:00	New Home Sales	Aug	Thsd	709.0	708.0
Sep 24	10:00	<i>Powell, Clarida and Bowman Host Fed Listens Event</i>				
Sep 24	10:05	<i>Fed's George Discusses Economic Outlook</i>				
Canada						
Sep 20	8:30	Teranet/National Bank HPI	Aug	Y/Y % Chg.	-	17.8
Sep 23	8:30	Retail Sales	Jul	M/M % Chg.	-	4.2
Sep 23	8:30	Retail Sales Ex Auto	Jul	M/M % Chg.	-	4.7
International						
Sep 22		JN BOJ Policy Balance Rate	Sep 22	%	-	-0.10
Sep 23	4:00	EZ Markit Eurozone Manufacturing PMI	Sep	Index	60.4	61.4
Sep 23	4:30	UK Markit UK PMI Manufacturing SA	Sep	Index	59.0	60.3
Sep 23	7:00	UK Bank of England Bank Rate	Sep 23	%	0.10	0.10
Sep 23	19:30	JN Natl Consumer Price Index	Aug	Y/Y % Chg.	-0.3	-0.3
Sep 23	20:30	JN Jibun Bank Japan PMI Mfg	Sep	Index	-	52.7

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

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