The Weekly Bottom Line

October 22, 2021

Highlights

- Inflation remained top of mind this week as economic indicators offered little evidence of moderation in supply-side disruptions.
- The bond market continued to reassess the path of monetary policy, pulling its expectations for the first rate hike forward to September 2022.

Special Feature

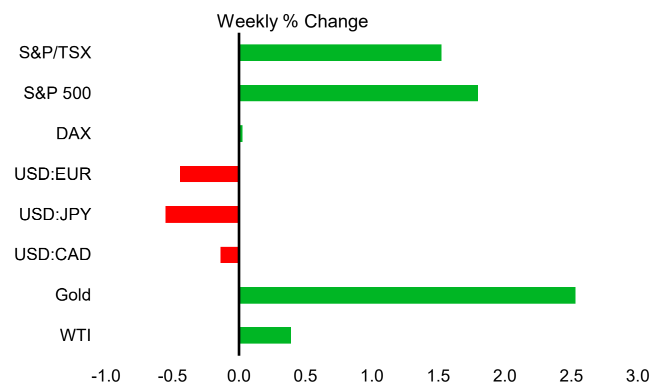
- Remote work shot up in popularity during the onset of the pandemic but has waned over time, alongside improving public health conditions. This trend is expected to continue as the pandemic moves further into the rear-view mirror.
- The future of work is still in flux, but surveys suggests that worker preferences tilt toward hybrid/flexible work arrangements. This supports the notion that remote work will continue to play a heavier role than it did pre-pandemic.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4528	4471	4550	3270
S&P/TSX Comp.	21147	20928	21212	15581
DAX	15543	15587	15977	11556
FTSE 100	7205	7234	7234	5577
Nikkei	28805	29069	30670	22977
Fixed Income Yields				
U.S. 10-yr Treasury	1.64	1.57	1.74	0.76
Canada 10-yr Bond	1.65	1.59	1.70	0.60
Germany 10-yr Bund	-0.11	-0.17	-0.09	-0.64
UK 10-yr Gilt	1.15	1.11	1.20	0.17
Japan 10-yr Bond	0.10	0.08	0.16	0.01
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.81	0.81	0.83	0.75
Euro (USD per EUR)	1.16	1.16	1.23	1.15
Pound (USD per GBP)	1.37	1.38	1.42	1.29
Yen (JPY per USD)	113.6	114.2	114.4	102.7
Commodity Spot Prices*				
Crude Oil ($US/bbl)	83.3	82.3	83.9	35.8
Natural Gas ($US/MMBtu)	4.92	5.44	16.35	2.19
Copper ($US/met. tonne)	10078.5	10538.0	11299.5	6707.5
Gold ($US/troy oz.)	1785.1	1767.6	1951.4	1683.5

*As of 12:01 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equity Markets Rise on Strong Earnings, Gold Gains on Inflation Concerns



Note: Data as of 11:07 AM ET, Friday, October 22, 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	2021				2022				2023			
	10/22/21	Q1	Q2	Q3	Q4F	Q1F	Q2F	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	0.50	0.75	1.00	1.25	1.50
2-yr Govt. Bond Yield	0.47	0.16	0.25	0.28	0.50	0.80	1.00	1.20	1.40	1.55	1.70	1.80	1.90
10-yr Govt. Bond Yield	1.64	1.74	1.45	1.52	1.85	2.00	2.10	2.20	2.30	2.35	2.35	2.30	2.25
30-yr Govt. Bond Yield	2.08	2.41	2.06	2.08	2.15	2.30	2.40	2.50	2.60	2.65	2.65	2.60	2.55

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

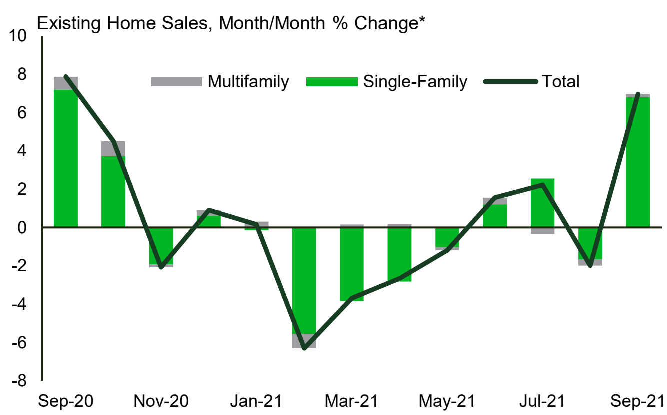
Inflation Keeps on Persisting

Inflation remained top of mind this week as analysts debated its persistant nature. September's reading on industrial production, which posted a surprise drop of 1.3% month-on-month, offered little comfort as input shortages were evident throughout the report. While the drop in the materials sub-index was mostly attributed to temporary outages related to Hurricane Ida, the production of consumer goods suffered from continued supply-side disruptions, pushing the durables component to -3.7% month-on-month.

Housing market data also signaled strong price pressures. Despite a near all-time-high level of homebuilder confidence, housing starts edged lower in September, largely reflecting homebuilders' continued struggle with supply bottlenecks and elevated commodity prices (see report). Meanwhile, existing home sales surprised on the upside with a higher-than-expected monthly reading of 7.0%, suggesting that demand remains strong, especially in the single-family market (Chart 1). The increase might be a one-off, triggered by buyers pulling forward their purchases to take advantage of low (but climbing) mortgage rates. Still, should housing demand maintain its recent strength and supply fail to keep up, home price growth is unlikely to slow very much. Median home price growth remained firmly in double-digit territory relative to year ago levels in September.

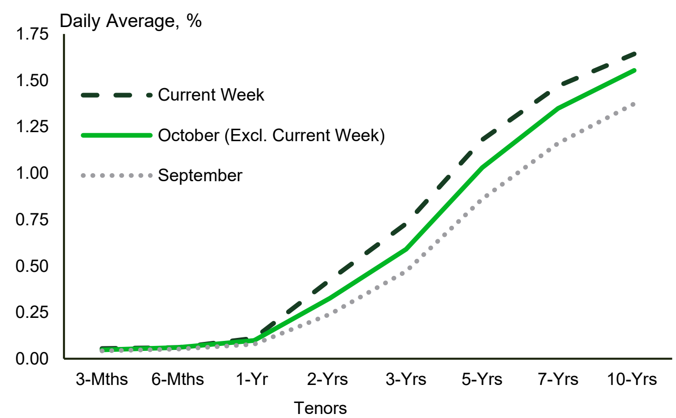
While rising home prices are not fully reflected in the shelter-cost component of consumer inflation measures (which estimate the cost of housing services and not the price of the asset itself), a persistent increase in housing demand unmet by new supply will push shelter inflation higher. A further acceleration in rental price growth may be the proverbial straw that convinces the Fed to begin its hiking cycle. In a speech this week, Fed Governor Waller noted that he is "closely watching prices for housing services" and that, should monthly inflation continue to push higher, "a more aggressive policy response than just tapering may well be warranted in 2022".

Chart 1: Housing Demand Recovers in September



*Seasonally adjusted annual rate.
Source: National Association of Realtors, TD Economics.

Chart 2: Bond Market Reassess the Fed's Policy Path



Source: Federal Reserve Board, TD Economics.

After months of relative complacency, the bond market is no longer holding back expressing its concerns about more persistent inflation pressures. With the Fed's tapering schedule now priced in (see Dollars and Sense), this week's steepening of the yield curve reflects a reassessment of the policy path, with the first rate hike pulled forward to September of 2022 (Chart 2).

While the bond market is concerned with inflation, the equity market keeps on whistling. This week, investors concentrated their attention on strong corporate earnings, which indicated that American companies were able to avoid an erosion of profit margins by passing at least a portion of price increases onto consumers.

This may be good news for equity investors but increasing consumer tolerance for price increases may itself prove more permanent. In the extreme, this could trigger a wage-price spiral where workers demand higher wages to make up for the loss of purchasing power. While there is little evidence of it yet, the mere possibility of an intrenched inflationary mindset will not go unnoticed by a central bank still dedicated to low and stable price growth.

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Special Feature - Remote Work Will Wane, but Will Continue to Play a Heavier Role than It Did Pre-pandemic

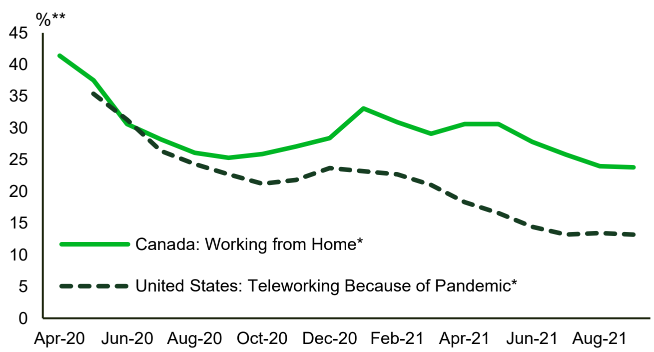
Chances are that if you use a computer for work, you have had to work remotely at some point during the last nineteen months. The shift to remote work in the U.S. and Canada had been gaining ground steadily in the years leading up to the pandemic. But the health crisis helped expedite the trend in a major way, as it forced millions of workers across North America to work remotely. As this happened, plenty of office space sat empty, while vacancy rates surged higher. Against this backdrop, builders, for their part, have eased off the accelerator – a trend that's expected to continue for some time and one that will avoid overburdening the commercial real estate (CRE) office market as it recovers from the pandemic's hit.

With large swathes of the North American population having already been vaccinated, the worst of the health crisis may be over. Indeed, more workers have returned to the office, even as the latest Delta-driven infection wave slowed down the rate of progress in early autumn. As of September, roughly 13% of U.S. workers were still operating from home because of the pandemic, down from a peak of around 35% earlier last year (Chart 1). This measure does not factor in those working remotely for reasons other than the pandemic (estimated at close to 6% before the health crisis), leading to some undercounting.

In Canada, where governments and businesses are proceeding with greater caution, 24% of employees continue to work remotely, compared to about 40% at the high-point last year and a pre-virus level of roughly 5%. Note that due to methodological differences, these data series are not a perfect apples to apples comparison. Still, the main point to highlight is that even as remote work shares have declined, they remain well above the pre-pandemic levels in both countries. As the pandemic wanes and firms resume the return-to-office plans that were put on hold as a result of the Delta wave, the remote work shares are expected to ease further in both.

Companies and employees are still in the process of figuring out what the future of work will look like over the long term. Recently announced company-specific decisions and survey data point to a fragmented picture. Consider that while client-facing businesses may be eager to get employees back to the office, companies like LinkedIn, Twitter and Amazon will give many of their workers the option to work remotely full-time. Then there's the hybrid approach, where companies allow workers to split time between in-person and remote work. This latter strategy, which may allow for greater flexibility, appears to be relatively popular, garnering the support of 50-75% of employees (depending on the survey).

Chart 1: Remote Working Shares Have Eased, but Remain Well Above Pre-pandemic Levels



*Canada: 15 to 69 age group who worked at least half their usual hours. US: 16+ age group.
**Note: Because of methodological differences, the data are not a direct comparison.
Source: LFS, BLS, TD Economics. Last observation: September 2021.

Whatever the individual path, one thing is for sure: remote work will take on a permanently higher share than it did pre-pandemic, even as the traditional office recaptures some activity. Ultimately, this will mean lower demand for office space over the long-term. But the need to reduce worker density in a post-pandemic world, which can be achieved by increasing space per employee, could provide some important offset. In the meantime, besides greater elbow room, look for work offices to also become more welcoming as they compete with the conveniences of the remote office.

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Recent Key Economic Indicators: Oct 18 - 22, 2021						
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
		United States				
Oct 18		Capacity Utilization	Sep	%	75.2	76.2
Oct 18		Industrial Production	Sep	M/M % Chg.	-1.3	-0.1
Oct 18		Manufacturing (SIC) Production	Sep	M/M % Chg.	-0.7	-0.4
Oct 18		NAHB Housing Market Index	Oct	Index	80.0	76.0
Oct 19		Building Permits	Sep	Thsd	1589.0	1721.0
Oct 19		Housing Starts	Sep	Thsd	1555.0	1580.0
Oct 21		Initial Jobless Claims	Oct 16	Thsd	290.0	296.0
Oct 21		Existing Home Sales	Sep	Mlns	6.3	5.9
Oct 22		Markit US Manufacturing PMI	Oct	Index	59.2	60.7
Oct 22		Markit US Services PMI	Oct	Index	58.2	54.9
		Canada				
Oct 18		Housing Starts	Sep	Thsd	251.2	262.8
Oct 18		BoC Business Outlook Future Sales	3Q	Q/Q % Chg.	9.0	47.0
Oct 18		BoC Overall Business Outlook Survey	3Q	Q/Q % Chg.	4.7	4.2
Oct 20		Teranet/National Bank HPI	Sep	Y/Y % Chg.	17.3	18.4
Oct 20		Consumer Price Index NSA	Sep	M/M % Chg.	0.2	0.2
Oct 20		Consumer Price Index	Sep	Y/Y % Chg.	4.4	4.1
Oct 22		Retail Sales	Aug	M/M % Chg.	2.1	-0.1
Oct 22		Retail Sales Ex Auto	Aug	M/M % Chg.	2.8	-0.4
		International				
Oct 20	UK	Consumer Price Index	Sep	Y/Y % Chg.	3.1	3.2
Oct 20	EZ	Consumer Price Index	Sep	Y/Y % Chg.	3.4	3.4
Oct 21	JN	Natl Consumer Price Index	Sep	Y/Y % Chg.	0.2	-0.4
Oct 21	JN	Jibun Bank Japan PMI Mfg	Oct	Index	53.0	51.5
Oct 22	UK	Retail Sales Ex Auto Fuel	Sep	Y/Y % Chg.	-2.6	-1.1
Oct 22	EZ	Markit Eurozone Manufacturing PMI	Oct	Index	58.5	58.6
Oct 22	UK	Markit UK PMI Manufacturing SA	Oct	Index	57.7	57.1

Source: Bloomberg, TD Economics.

Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
Upcoming Economic Releases and Events: Oct 25 - 29, 2021							
United States							
Oct 26	9:00		S&P CoreLogic CS US HPI NSA	Aug	Y/Y % Chg.	-	19.7
Oct 26	10:00		Conf. Board Consumer Confidence	Oct	Index	108.0	109.3
Oct 26	10:00		New Home Sales	Sep	Thsd	758.0	740.0
Oct 27	8:30		Advance Goods Trade Balance	Sep	Blns	-88.2	-87.6
Oct 27	8:30		Cap Goods Orders Nondef Ex Air	Sep	M/M % Chg.	0.4	0.6
Oct 27	8:30		Durable Goods Orders	Sep	M/M % Chg.	-1.0	1.8
Oct 28	8:30		Core Personal Consumption Expenditure	3Q	Q/Q % Chg.	-	6.1
Oct 28	8:30		Gross Domestic Product Annualized	3Q	Q/Q % Chg.	2.4	6.7
Oct 28	8:30		Initial Jobless Claims	Oct 23	Thsd	294.0	290.0
Oct 28	8:30		Personal Consumption	3Q	Q/Q % Chg.	1.2	12.0
Oct 28	10:00		Pending Home Sales	Sep	M/M % Chg.	1.0	8.1
Oct 29	8:30		Employment Cost Index	3Q	Q/Q % Chg.	0.8	0.7
Oct 29	8:30		Personal Consumption Expenditure Deflator	Sep	Y/Y % Chg.	4.4	4.3
Oct 29	8:30		Personal Income	Sep	M/M % Chg.	-0.1	0.2
Oct 29	8:30		Real Personal Spending	Sep	M/M % Chg.	-	0.4
Canada							
Oct 27	10:00		Bank of Canada Rate Decision	Oct 27	%	0.25	0.25
Oct 28	6:00		CFIB Business Barometer	Oct	Index	-	57.8
Oct 29	8:30		Gross Domestic Product	Aug	M/M % Chg.	-	-0.1
Oct 29	8:30		Industrial Product Price	Sep	M/M % Chg.	-	-0.3
International							
Oct 27	19:50	JN	Retail Sales	Sep	Y/Y % Chg.	-2.3	-3.2
Oct 27		JN	BOJ Policy Balance Rate	Oct 28	%	-0.10	-0.10
Oct 28	7:45	EZ	ECB Main Refinancing Rate	Oct 28	%	0.00	0.00
Oct 28	19:30	JN	Jobless Rate	Sep	%	2.8	2.8
Oct 28	19:30	JN	Tokyo Consumer Price Index	Oct	Y/Y % Chg.	0.4	0.3
Oct 29	5:00	EZ	Consumer Price Index Estimate	Oct	Y/Y % Chg.	3.8	3.4
Oct 29	5:00	EZ	Gross Domestic Product SA	3Q	Y/Y % Chg.	3.5	14.3
Oct 29	7:00	MX	Gross Domestic Product NSA	3Q	Y/Y % Chg.	6.2	19.6

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

Disclaimer