

The Weekly Bottom Line

October 21, 2022

Highlights

United States

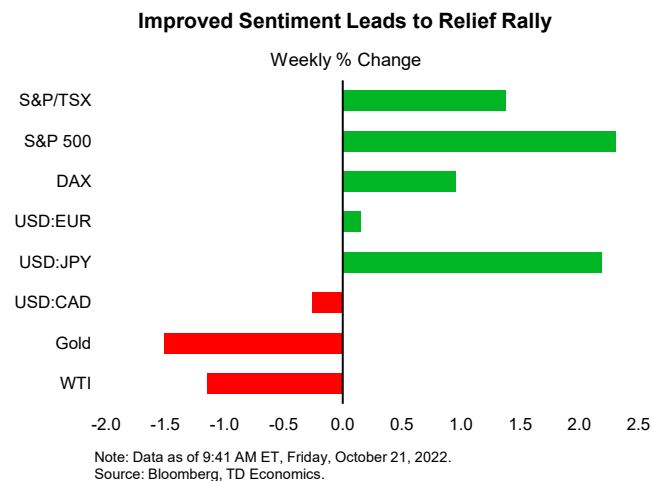
- UK policymakers abruptly U-turned on its recently proposed “mini” budget, forcing Prime Minister Liz Truss to resign.
- Existing home sales fell 1.5% m/m in September to 4.7 million units. Sales have now fallen for eight consecutive months and are down 23% year-to-date.
- Housing starts fell 8.1% m/m to 1.4 million units, with declines felt across both the single-family (-4.7% m/m) and multi-family (-13.2% m/m) segments. The number of units currently under construction continued to edge higher, rising to a historic high of 1.7 million units.

Canada

- Canadian consumer price inflation took a small step in the right direction in September, easing to 6.9% year-on-year, down from 7.0% in August.
- Worryingly, the monthly inflation numbers showed a re-acceleration, with food and shelter costs proving more enduring.
- The Bank of Canada’s business and consumer surveys were also released, showing heightened fears that a recession will hit Canada in the next year.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3663	3583	4797	3577
S&P/TSX Comp.	18550	18326	22087	18206
DAX	12638	12438	16272	11976
FTSE 100	6898	6859	7672	6826
Nikkei	26891	27091	29808	24718
Fixed Income Yields				
U.S. 10-yr Treasury	4.29	4.02	4.29	1.34
Canada 10-yr Bond	3.72	3.49	3.72	1.32
Germany 10-yr Bund	2.47	2.35	2.47	-0.39
UK 10-yr Gilt	4.07	4.34	4.51	0.70
Japan 10-yr Bond	0.26	0.25	0.26	0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.72	0.81	0.72
Euro (USD per EUR)	0.98	0.97	1.17	0.96
Pound (USD per GBP)	1.11	1.12	1.38	1.07
Yen (JPY per USD)	151.5	148.7	151.5	112.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	86.7	85.6	123.7	65.6
Natural Gas (\$US/MMBtu)	5.47	5.80	9.82	3.34
Copper (\$US/met. tonne)	7645.5	7652.8	10702.0	7160.0
Gold (\$US/troy oz.)	1634.6	1644.5	2050.8	1622.4

*As of 9:35 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)	3.00 - 3.25%
Bank of Canada (Overnight Rate)	3.25%
European Central Bank (Refi Rate)	1.25%
Bank of England (Repo Rate)	2.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

U.S. - Hey Housing, How Low Can You Go?

This week brought some calming to global financial markets, helped along by UK policymakers abrupt U-turn on its proposed “mini” budget which had included £45 billion of unfunded tax cuts. UK Prime Minister Liz Truss resigned on Thursday, leaving the Conservative Party to elect a new leader sometime later next week. Yields on longer duration Gilts were down 50 basis points (bps) on the week, while the Sterling lost a modest 0.5% vis’-a-vis the dollar.

Investors also continued to digest last week’s CPI report, which led to further pressure on U.S. yields. At the time of writing, the 10-year has moved up an additional 30-bps this week to 4.3%, reaching both a new cyclical high and also the highest level since mid-2007. Top of mind on the inflation front, has been the recent turn higher in energy prices. Indeed, since peaking in July, gasoline prices had fallen by nearly 30% through mid-September. However, the recent announcement by OPEC+ members to pare back production quotas has led to renewed pressure on oil prices, which has also pulled gasoline prices higher. In an effort to provide some relief to consumers, the Biden Administration announced this week that they will be digging further into its Special Petroleum Reserve (SPR) and releasing an additional 15 million barrels in December. After including this week’s announcement, the cumulative release through December will total nearly 180 million barrels over the six-month preceding period. And its impact on gas prices cannot be understated. The U.S. Treasury estimated that the release of reserves to date has lowered retail fuel prices by as much as 42 cents per-gallon. That has come at the expense of an unprecedented drawdown in the SPR, which will eventually need to be topped up (Chart 1). According to the Biden Administration, this will happen once

Chart 1: SPR Has Been Drawn Down at an Unprecedented Rate

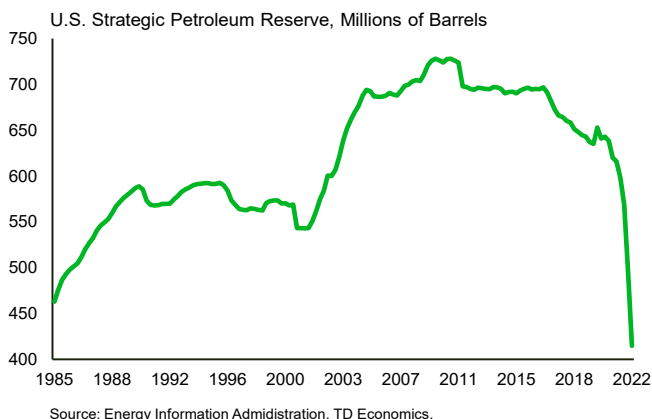
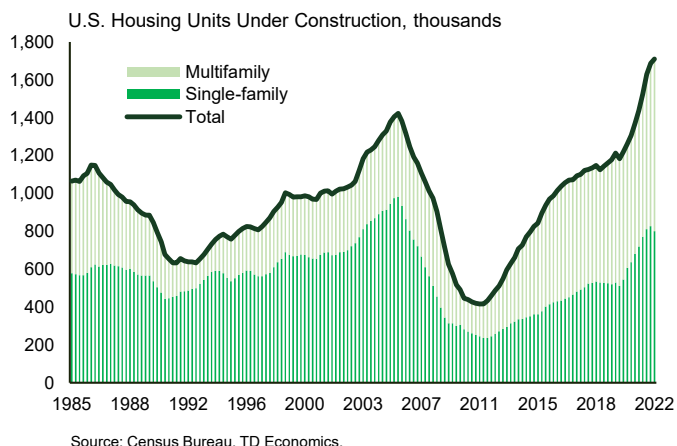


Chart 2: Housing Units Under Construction at Historic High



oil prices fall below \$70 per-barrel.

The renewed pressure on interest rates has brought the housing market squarely back into focus. With the 30-year fixed mortgage rate now at 7.25%, buyer affordability has eroded to levels beyond the lows pre-dating the mid-2000 housing crisis. Demand continues to soften, with existing home sales falling 1.5% m/m to 4.7 million units in September and are now down 23% year-to-date. No reprieve appears to in sight, as leading indicators such as pending home sales and mortgage applications both point to further weakness in the months ahead.

Beyond the sales side, the combination of rising rates and elevated material costs has also heavily weighed on builder sentiment, with September housing starts falling 8.1% m/m in September. Declines were seen across both the single-family (-4.7% m/m) and multifamily (-13.2% m/m) segments, though the former has disproportionately accounted for most of the pullback year-to-date. Interestingly, the number of homes currently under construction remains at a historical high, as labor and building material shortages have significantly lengthen the time it takes to build a home (Chart 2). Perhaps most worrying is the fact that the number of single-family homes under construction currently sits at a 16-year high. With demand in this segment quickly receding, builders have already started reducing prices and adding additional incentives in an effort to attract buyers. However, with record amounts of new supply still in the pipeline, further declines in home prices are all but certain.

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Canada – Inflation Leading to a Drop in Sentiment

It was a busy calendar for Canadian data this week. With CPI showing even greater persistence, we saw yields rise across the curve on changing expectations for the [Bank of Canada \(BoC\)](#). Adding even more colour to the inflation picture was the release of the BoC's own surveys of business and consumer sentiment. Both showed heightened fears of a recession on the back of stubbornly high inflation. The BoC will have these reports in hand as it prepares for its forthcoming interest rate announcement next Wednesday.

The release of the [Canadian Consumer Price Index](#) on Wednesday was the headliner on the economic calendar. As widely expected, the headline index declined on a year-on-year basis, reaching 6.9% in September, the lowest level since April 2022 (Chart 1). This decline occurred on the back of a 7.4% drop in gasoline prices. Though this was a welcomed sign, the underlying figures were not encouraging. On a month-on-month (m/m) annualized basis, the index increased by 4.8%, compared to 0.8% in August. This was driven by a 14.7% m/m gain in food prices and a 6.0% rise in shelter costs. Both of these factors are concerning. On the food side, there has been a re-acceleration in household staples like beef, poultry, and dairy products. Regarding shelter, the rise in mortgage interest costs is far outpacing the adjustment in house prices. Given the lags within the shelter component and the uncertainty regarding global food supplies, this raises the risk that inflation will take even longer to return to normal levels.

Chart 1: Canadian Inflation Peaking

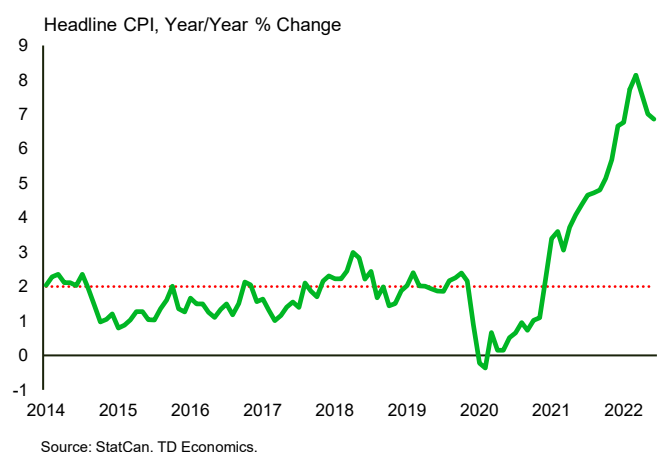
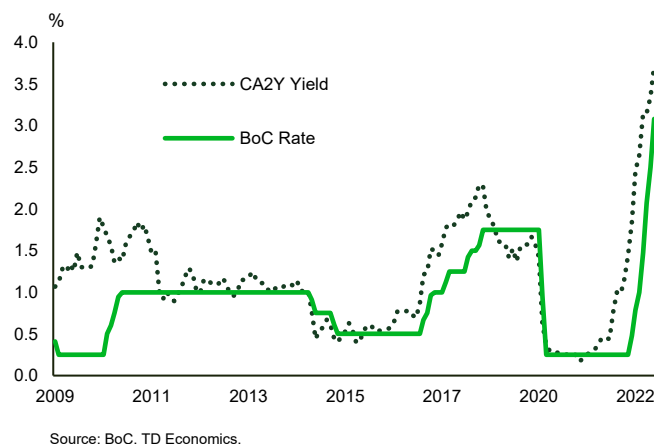


Chart 2: BoC Set to Hike Further



Inflation persistence has also had an impact on businesses. The [Bank of Canada's Business Outlook Survey](#) showed a sizable drop in overall confidence, with the main index falling to a level of 1.7 in 2022 Q3, from 4.9 in 2022 Q2. Driving this was a deterioration in the outlook for future sales, with more than 50% of firms expecting a recession in the next 12 months. The culprit here is the belief that the BoC will go too far in its fight against inflation, with interest rates set to further dent housing activity and weigh on household consumption. This was echoed in the BoC's parallel release of its [Canadian Survey of Consumer Expectations](#). Here too, the economic outlook has dwindled, with most Canadian's thinking a recession will occur sometime in the next year.

The BoC is set to hike interest rates by 75 basis points next week and provide an update to its outlook for economic growth and inflation (Chart 2). We will be keenly attentive to any change in the BoC's [inflation forecast](#) given the impact this is having on sentiment. As we saw in both BoC surveys mentioned above, expectations for future inflation remain high. This should keep the BoC's tone very hawkish as it needs to cement pricing for higher interest rates in order to bring down expectations for future inflation. Though the bank's aggressive policy to date is starting to have an impact, as business inflation expectations are easing somewhat, there is still more to be done.

James Orlando, CFA, Director & Senior Economist

Recent Key Economic Indicators: Oct 17 - 21, 2022

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Oct 17	Empire Manufacturing	Oct	Index	-9.1	-1.5
Oct 18	Capacity Utilization	Sep	%	80.3	80.1
Oct 18	Industrial Production	Sep	M/M % Chg.	0.4	-0.1
Oct 18	Manufacturing (SIC) Production	Sep	M/M % Chg.	0.4	0.4
Oct 18	NAHB Housing Market Index	Oct	Index	38.0	46.0
Oct 19	Building Permits	Sep	Thsd	1564.0	1542.0
Oct 19	Housing Starts	Sep	Thsd	1439.0	1566.0
Oct 20	Initial Jobless Claims	Oct 15	Thsd	214.0	226.0
Oct 20	Existing Home Sales	Sep	Mlns	-1.50	-0.80
Canada					
Oct 18	Housing Starts	Sep	Thsd	299.6	270.4
Oct 19	Consumer Price Index	Sep	Y/Y % Chg.	6.9	7.0
Oct 19	Consumer Price Index NSA	Sep	M/M % Chg.	0.1	-0.3
Oct 19	Industrial Product Price	Sep	M/M % Chg.	0.1	-1.6
Oct 21	Retail Sales	Aug	M/M % Chg.	0.7	-2.2
Oct 21	Retail Sales Ex Auto	Aug	M/M % Chg.	0.7	-2.5
International					
Oct 19	EZ Consumer Price Index	Sep	Y/Y % Chg.	9.9	9.1
Oct 19	UK Consumer Price Index	Sep	Y/Y % Chg.	10.1	9.9
Oct 20	JN Natl Consumer Price Index	Sep	Y/Y % Chg.	3.0	3.0
Oct 21	UK Retail Sales Ex Auto Fuel	Sep	Y/Y % Chg.	-6.2	-5.3

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Oct 24 - 28, 2022						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Oct 24	9:45	S&P Global US Manufacturing PMI	Oct	Index	51.0	52.0
Oct 24	9:45	S&P Global US Services PMI	Oct	Index	49.5	49.3
Oct 24	9:45	S&P Global US Composite PMI	Oct	Index	-	49.5
Oct 25	9:00	S&P CoreLogic CS US HPI NSA	Aug	Y/Y % Chg.	-	15.8
Oct 25	10:00	Conf. Board Consumer Confidence	Oct	Index	105.3	108.0
Oct 25	13:55	<i>Fed's Waller Discusses FedNow</i>				
Oct 26	8:30	Advance Goods Trade Balance	Sep	M/M % Chg.	-87.7	-87.3
Oct 26	10:00	New Home Sales	Sep	Thsd	580.0	685.0
Oct 27	8:30	Gross Domestic Product Annualized	3Q	Q/Q % Chg.	2.3	-0.6
Oct 27	8:30	Durable Goods Orders	Sep	M/M % Chg.	0.6	-0.2
Oct 27	8:30	Personal Consumption	3Q	Q/Q % Chg.	0.8	2.0
Oct 27	8:30	Cap Goods Orders Nondef Ex Air	Sep	M/M % Chg.	0.5	1.4
Oct 27	8:30	Core PCE	3Q	Q/Q % Chg.	4.6	4.7
Oct 27	8:30	Initial Jobless Claims	Oct 22	Thsd	-	214.0
Oct 28	8:30	Employment Cost Index	3Q	Q/Q % Chg.	1.2	1.3
Oct 28	8:30	Personal Income	Sep	M/M % Chg.	0.3	0.3
Oct 28	8:30	Real Personal Spending	Sep	M/M % Chg.	0.1	0.1
Oct 28	8:30	PCE Deflator	Sep	Y/Y % Chg.	6.3	6.2
Oct 28	10:00	Pending Home Sales	Sep	M/M % Chg.	-5.3	-2.0
Canada						
Oct 26	10:00	Bank of Canada Rate Decision	Oct 26	%	3.75	3.25
Oct 26	11:00	<i>BoC's Governor and Senior Deputy Governor Hold Press Conference on Monetary Policy Report</i>				
Oct 27	7:00	CFIB Business Barometer	Oct	Index	-	52.5
Oct 27	8:30	Payroll Employment Change - SEPH	Aug	Thsd	-	12.9
Oct 28	8:30	Gross Domestic Product	Aug	M/M % Chg.	0.0	0.1
International						
Oct 23	20:30	JN Jibun Bank Japan PMI Manufacturing	Oct	Index	-	50.8
Oct 27	8:15	EZ ECB Main Refinancing Rate	Oct 27	%	2.00	1.25
Oct 27	19:30	JN Jobless Rate	Sep	%	2.5	2.5
Oct 27	19:30	JN Tokyo Consumer Price Index	Oct	Y/Y % Chg.	3.3	2.8
Oct 20-31		CH Gross Domestic Product	3Q	Y/Y % Chg.	3.3	0.4
Oct 20-31		CH Retail Sales	Sep	Y/Y % Chg.	3.0	5.4
Oct 20-31		CH Surveyed Jobless Rate	Sep	%	5.2	5.3
Oct 27-28		JN BOJ Policy Balance Rate	Oct 28	%	-0.10	-0.10

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

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