

## The Weekly Bottom Line

August 25, 2023

### Highlights

#### United States

- Speaking at the Jackson Hole Economic Symposium on Friday, Chair Powell noted that some progress had been made on the inflation front, but that inflation was still “too high”. He noted that the Fed would proceed carefully in either tightening the policy rate further or holding it constant as it watches the data.
- Existing home sales were one piece of data reacting strongly to higher rates, falling further in July. Inventories remained lean, at 42% below pre-pandemic levels.
- Lack of supply in the existing market continues to push buyers to the new market, with sales there up strongly in July.

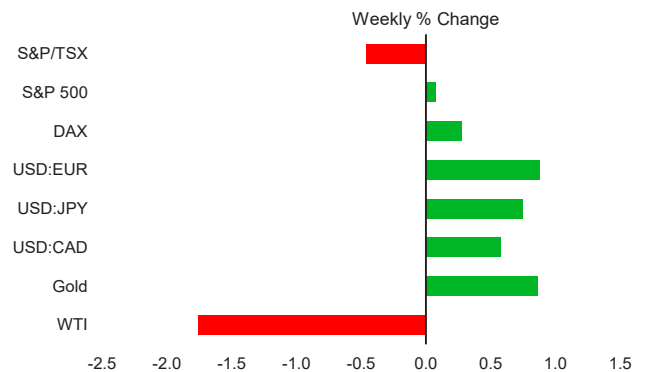
#### Canada

- Consumer activity was soft in June, with retail sales posting a very mild gain. Actual Q2 consumer spending is released with GDP data next week, and the retail data is pointing to a subdued 1% annualized gain in overall spending.
- July’s flash estimate flagged stronger retail spending growth last month, in line with our internal debit and credit card data. However, temporary government income supports were likely behind these healthy prints, and spending growth is set to fade.
- In a bid to help housing affordability, the federal government may be looking at capping international students. This restricting of population inflows would weigh on consumption.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	4357	4370	4589	3577
S&P/TSX Comp.	19687	19818	20767	18206
DAX	15626	15574	16470	11976
FTSE 100	7331	7262	8014	6826
Nikkei	31624	31451	33753	25717
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	4.27	4.25	4.34	3.03
Canada 10-yr Bond	3.74	3.72	3.82	2.72
Germany 10-yr Bund	2.57	2.62	2.75	1.32
UK 10-yr Gilt	4.48	4.68	4.75	2.60
Japan 10-yr Bond	0.66	0.64	0.67	0.22
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.73	0.74	0.77	0.72
Euro (USD per EUR)	1.08	1.09	1.12	0.96
Pound (USD per GBP)	1.26	1.27	1.31	1.07
Yen (JPY per USD)	146.6	145.4	150.2	127.9
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	80.9	81.3	97.0	66.7
Natural Gas (\$US/MMBtu)	2.42	2.44	9.48	1.77
Copper (\$US/met. tonne)	8326.5	8213.8	9330.8	7422.0
Gold (\$US/troy oz.)	1906.2	1889.3	2050.3	1622.4

\*As of 11:02 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

**Oil Slides on Growth Concerns, Supply Boosts**



Note: Data as of 11:12 AM ET, Friday, August 25, 2023.  
Source: Bloomberg, TD Economics.

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.

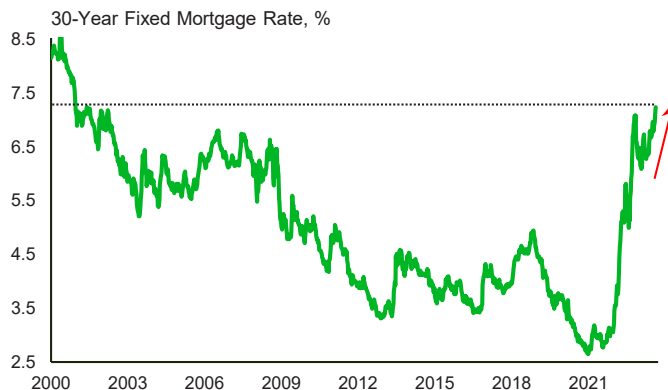
# U.S. – Fed Chair Powell Sticks to Tough Talk

In a relatively quiet economic data week, markets took their cue from Chair Powell’s Jackson Hole Economic Symposium speech. The annual speech is always a highly anticipated event, but this year’s was particularly important with the Fed being at a monetary policy pivot point. The speech struck a balance between acknowledging that some progress had been made on inflation, but that it remained “too high” with substantial ground to cover to get back to price stability. Equity and bond markets didn’t like this reminder and were down on Friday (at time of writing).

The Chair noted the FOMC was prepared to “raise rates further if appropriate”, and that it intended to hold policy at a restrictive level until confident that inflation was moving sustainably down toward its objective (see [commentary](#)). However, given that they are navigating in a cloudy environment, they would proceed “carefully”. What appeared to be off the table was any indication of potentially lowering rates, thus giving the speech a more hawkish tilt in our view. We believe that the continuation of this tough talk is necessary to prevent an undesirable give back in bond yields and, ultimately, to help keep inflationary expectations in check as it continues to monitor the data closely (see [here](#)).

Powell provided a little more detail into the factors that will go into policymaking by breaking down inflation into three key categories. This included core goods inflation, along with housing and non-housing services. He noted progress on all three. On non-housing services – a category also known as “supercore”, which accounts for over half of the core PCE index – annual inflation has moved mostly side-

**Chart 2: U.S. Mortgage Rates at Highest Level Since 2001**



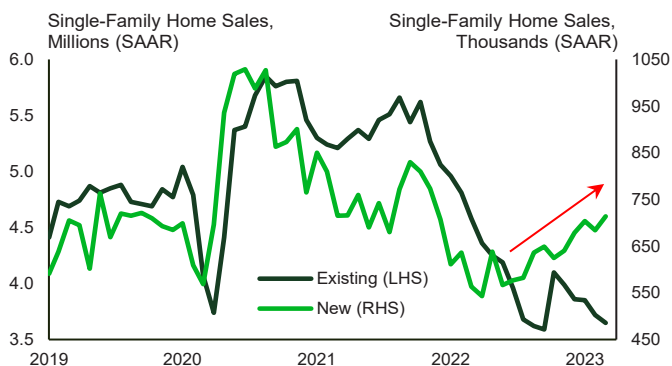
Source: Freddie Mac, TD Economics.

ways, but encouragingly it has started to decline on a three and six-month basis. Meanwhile, housing services inflation is expected to continue to ease given well-known lags (see [here](#)), but they will be watching market rent data closely.

Speaking of housing, existing home sales continued to head lower in July (see [commentary](#)). With mortgage rates some 40 basis points higher than in the two months prior it is no wonder that activity pulled back. The elevated rate environment also poses a hurdle on the supply side, as existing homeowners with much lower mortgage rates are reluctant to move and take on a higher rate. This theme is evident in inventories, which were 42% lower than pre-pandemic July levels (July 2019).

The tightness in resale market has kept a floor on home prices, while also pushing more would-be buyers to the “new” home market. New single-family home sales continue to buck the broader negative trend, making additional gains in July (Chart 1). This has been much to the delight of homebuilders, who have looked to boost supply in the single-family sector. While this trend may have some more room to run, mortgage rates have pushed even higher recently and are now hovering in the 7.2-7.5% range (Chart 2). This could test the strength of the positive single-family homebuilding trend sooner than anticipated, as evidenced by the recent pullback in homebuilder confidence and some flattening in single-family housing permits. Ultimately, it all ties back to interest rates, which, given the Fed’s continued tough talk, appear set to remain higher for longer.

**Chart 1: U.S. Existing Home Sales Trend Lower, New Home Sales Push Higher**



Source: National Association of Realtors, Freddie Mac, TD Economics.

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# Canada – Cooler Spending On Tap

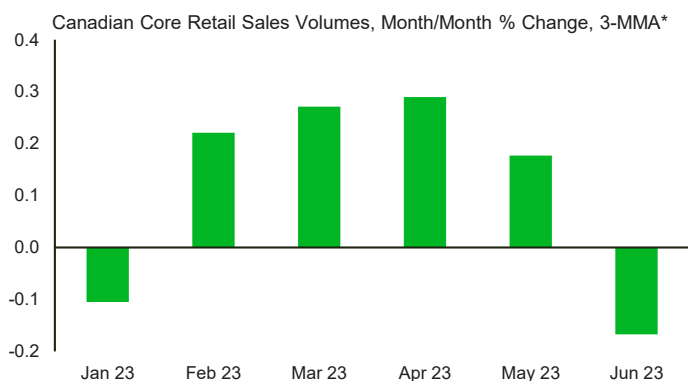
It was a choppy week for bonds, with Canadian yields diving lower on Wednesday amid weak global PMI data before recovering some lost ground to end the week. As of writing, the benchmark Canadian 10-year yield was on track to end the week modestly lower than where it began. Oil prices are seemingly headed for their second weekly decline on Chinese growth concerns, reports of healthy supply coming out of Iran and the possibility that U.S. sanctions might be lifted on the Venezuelan oil sector.

This soft tone extended to the June retail sales data, which inched only marginally higher by 0.1% month-on-month (m/m). On the one hand, it slightly beat Statistics Canada's advance estimate. On the other, core sales (which strip out autos and gas stations), plunged nearly 1% m/m (Chart 1), and volumes were slightly lower. This cooler consumer momentum contributed to traders paring back their expectations for BoC hikes (Chart 2).

One silver lining from the retail report was that nominal spending may have increased 0.4% m/m in July according to Statcan's preliminary estimate. Taken together with healthy flash estimates for manufacturing and wholesale activity in July and growth in hours worked reported in the Labour Force Survey, it appears that overall economic growth was positive last month.

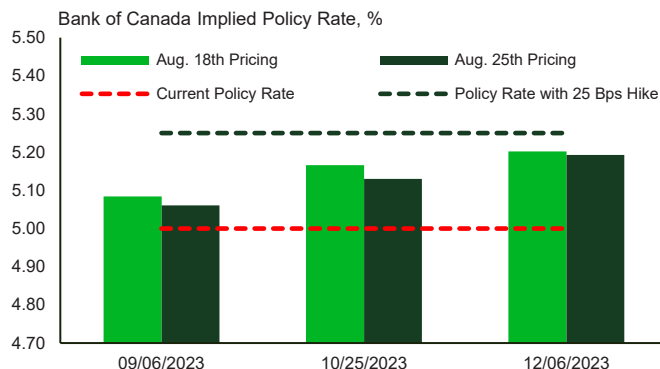
The retail report also squares with our internal data show-

**Chart 1: Canadian Household Goods Spending Losing Momentum**



\*3-month moving average. Note: Core retail sales are defined as retail sales excluding motor vehicle and parts dealers and gas stations. Source: Statistics Canada, TD Economics.

**Chart 2: BoC Rate Hike Bets Pared Back on Soft Data**



Source: Bloomberg, TD Economics.

ing a solid monthly gain in debit and credit card spending in July. But there are good reasons to fade this positive news. Recall that last month, the federal government paid out the \$2.5 billion Grocery Rebate and one payment of the enhanced Canada Workers Benefit. Assuming no additional step-up in government supports, this temporary boost to household incomes will dissipate and with it, momentum in consumer spending. Accordingly, after a hefty third quarter, we expect a slowdown in household spending thereafter (see our [Quarterly Outlook Q&A](#)).

The federal government may soon be doing their part to soften consumer spending by limiting population flows. Cabinet ministers met this week to discuss Canada's housing affordability crisis and one of the solutions floated was a cap on international students. Capping international student inflows is likely an easier lever to pull to address rental affordability than ramping up new home construction quickly. However, the idea was met with some resistance. At least one province – Quebec – has been unreceptive, vowing to reject the federal government's idea. Provinces would likely be on the hook for some of the tuition shortfall for post-secondary schools.

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Recent Key Economic Indicators: Aug 21 - Aug 25, 2023					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Aug 22	Existing Home Sales	Jul	Mlns	4.07	4.16
Aug 23	S&P Global US Manufacturing PMI	Aug	Index	47.0	49.0
Aug 23	S&P Global US Services PMI	Aug	Index	51.0	52.3
Aug 23	S&P Global US Composite PMI	Aug	Index	50.4	52.0
Aug 23	New Home Sales	Jul	Thsd	714.0	684.0
Aug 24	Initial Jobless Claims	Aug 19	Thsd	230.0	240.0
Aug 24	Durable Goods Orders	Jul	M/M % Chg.	-5.2	4.4
Aug 24	Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	0.1	-0.4
<b>Canada</b>					
Aug 23	Retail Sales	Jun	M/M % Chg.	0.1	0.1
Aug 23	Retail Sales Ex Auto	Jun	M/M % Chg.	-0.8	-0.3
<b>International</b>					
Aug 22	JN Jibun Bank Japan PMI Mfg	Aug	Index	49.7	49.6
Aug 24	JN Tokyo Consumer Price Index	Aug	Y/Y % Chg.	2.9	3.2

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

Upcoming Economic Releases and Events: Aug 28 - Sep 01, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Aug 28	15:00	<i>Fed's Barr Speaks About Banking Services</i>				
Aug 29	9:00	S&P CoreLogic CS 20-City NSA	Jun	Y/Y % Chg.	-	-1.7
Aug 29	9:00	S&P CoreLogic CS US HPI NSA	Jun	Y/Y % Chg.	-	-0.5
Aug 29	10:00	Conf. Board Consumer Confidence	Aug	Index	116.5	117.0
Aug 30	8:15	ADP Employment Change	Aug	Thsd	195.0	324.0
Aug 30	8:30	Advance Goods Trade Balance	Jul	Blns	-90.0	-87.8
Aug 30	8:30	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	2.4	2.4
Aug 30	8:30	Personal Consumption	2Q	Q/Q % Chg.	1.9	1.6
Aug 31	8:30	Initial Jobless Claims	Aug 26	Thsd	235.0	230.0
Aug 31	8:30	Personal Income	Jul	M/M % Chg.	0.3	0.3
Aug 31	8:30	Real Personal Spending	Jul	M/M % Chg.	-	0.4
Aug 31	8:30	PCE Deflator	Jul	Y/Y % Chg.	3.3	3.0
Aug 31	9:00	<i>Fed's Collins Speaks on Community Colleges</i>				
Sep 01	6:00	<i>Fed's Bostic Speaks on US Monetary Policy</i>				
Sep 01	8:30	Change in Nonfarm Payrolls	Aug	Thsd	165.0	187.0
Sep 01	8:30	Unemployment Rate	Aug	%	3.5	3.5
Sep 01	8:30	Average Hourly Earnings	Aug	M/M % Chg.	0.3	0.4
Sep 01	9:45	<i>Fed's Mester Speaks on Inflation</i>				
Sep 01	9:45	S&P Global US Manufacturing PMI	Aug	Index	-	47.0
Sep 01	10:00	ISM Manufacturing	Aug	Index	47.0	46.4
Sep 01	10:00	Wards Total Vehicle Sales	Aug	Mlns	15.5	15.7
<b>Canada</b>						
Aug 31	6:00	CFIB Business Barometer	Aug	Index	-	54.2
Aug 31	8:30	Payroll Employment Change - SEPH	Jun	Thsd	-	129.9
Sep 01	8:30	Quarterly Gross Domestic Product Annualized	2Q	Q/Q % Chg.	-	3.1
Sep 01	8:30	Gross Domestic Product	Jun	M/M % Chg.	-	0.3
Sep 01	9:30	S&P Global Canada Manufacturing PMI	Aug	Index	-	49.6
<b>International</b>						
Aug 28	19:30	JN Jobless Rate	Jul	%	2.5	2.5
Aug 30	19:50	JN Retail Sales	Jul	Y/Y % Chg.	5.5	5.6
Aug 30	21:30	CH Manufacturing PMI	Aug	Index	49.1	49.3
Aug 31	5:00	EZ Consumer Price Index Estimate	Aug	Y/Y % Chg.	5.1	5.3
Aug 31	5:00	EZ Unemployment Rate	Jul	%	6.4	6.4
Aug 31	8:00	IN Gross Domestic Product	2Q	M/M % Chg.	7.8	6.1
Aug 31	20:30	JN Jibun Bank Japan PMI Mfg	Aug	Index	-	49.7
Aug 31	21:45	CH Caixin China PMI Mfg	Aug	Index	49.2	49.2
Sep 01	8:00	BZ Gross Domestic ProductQ	2Q	Q/Q % Chg.	0.5	1.9

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

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