

Weekly Bottom Line

August 2, 2024

Highlights

U.S.

- Nonfarm payroll gains came in lower than expected in July, with the unemployment rate heading higher. The numbers add to other data suggesting that the U.S. labor market is losing steam.
- While the Federal Reserve held rates steady at their July meeting as widely expected, Chair Powell gave the strongest indication yet that a September rate cut is on the table.
- The manufacturing sector continued to struggle, as the ISM manufacturing index remained in contraction territory.

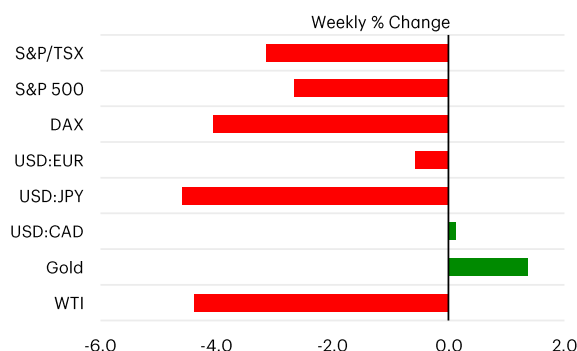
Canada

- This week's market action was influenced by events south of the border. The Fed decision and weak U.S. jobs report lead Canada's 10-year and 5-year government bond yields more than 30 basis points lower.
- The key Canadian economic report, monthly GDP by industry, exceeded expectations and solidified stronger-than-expected growth in the second quarter.
- Looking ahead to next week's jobs report, the Bank will likely be focused on the degree of slack in the labour market as they calibrate the pace of interest rate cuts.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5310	5459	5667	4117
S&P/TSX Comp.	22052	22815	23111	18737
DAX	17648	18418	18869	14687
FTSE 100	8164	8286	8446	7258
Nikkei	35910	37667	42224	30527
Fixed Income Yields				
U.S. 10-yr Treasury	3.82	4.19	4.99	3.79
Canada 10-yr Bond	3.00	3.32	4.24	3.00
Germany 10-yr Bund	2.17	2.41	2.97	1.90
UK 10-yr Gilt	3.84	4.10	4.75	3.44
Japan 10-yr Bond	0.95	1.07	1.10	0.56
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.72	0.72	0.76	0.72
Euro (USD per EUR)	1.09	1.09	1.11	1.05
Pound (USD per GBP)	1.28	1.29	1.30	1.21
Yen (JPY per USD)	146.6	153.8	161.7	140.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	73.7	77.2	93.7	68.6
Natural Gas (\$US/MMBtu)	1.96	1.84	13.11	1.24
Copper (\$US/met. tonne)	8923.9	8995.5	10800.8	7823.8
Gold (\$US/troy oz.)	2419.8	2387.2	2469.1	1820.3

*As of 11:17 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Markets Slide on Weak U.S. Jobs Report



Note: Data as of 11:12 AM ET, Friday, August 2, 2024.
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)	4.50%
European Central Bank (Refi Rate)	4.25%
Bank of England (Repo Rate)	5.00%
Bank of Japan (Overnight Rate)	0.25%

Source: Bloomberg.

U.S. – It's A Different World

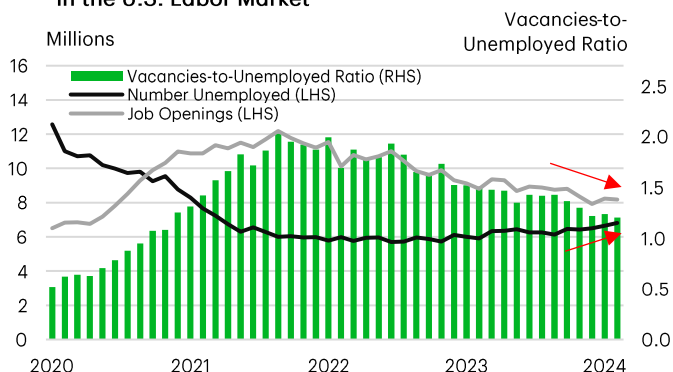
Shernette McLeod, Economist
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The main highlights of the week were developments in the labor market and a mid-week update from the Federal Reserve. Several reports showed that conditions in the labor market were cooling, while the Fed largely lived up to expectations by holding rates steady. Their signals about a possible cut at the September meeting were generally of more interest to markets. In response to the September signal, stock markets rallied, and bond yields pulled back. This morning's jobs number was even more of a market mover, with 10-year yields down 13 basis points relative to yesterday's close.

What a difference a year makes. The U.S. economy today, with annualized growth slowing from about 4% towards a more trend-like 2%, inflation down and unemployment ticking up, looks starkly unlike it did a year ago according to Fed Chair Powell. After issuing a statement keeping the policy rate unchanged, at his press conference, Powell noted that last year, it was a completely different economy with higher inflation and a robust job market. Now, he notes, on the employment front, indicators show the job market has gradually normalized from “overheated” conditions and the Fed is able to weigh prices and the labor market more equally as inflation has cooled.

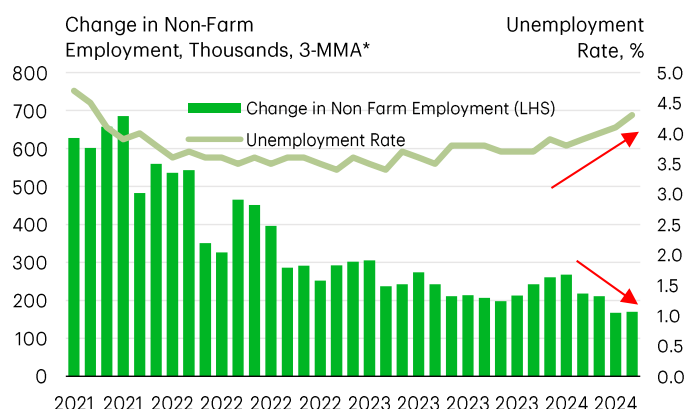
Reports out this week supported his statements on the job market. First up, the more backward-looking JOLTS data showed that the number of job openings in June inched down relative to May. While there are still plenty of jobs available relative to the more than 6.8 million unemployed job seekers in June — the gap has narrowed with the vacancies-to-unemployed ratio falling relative to its value in May (Chart 1). Other elements of the re-

Chart 1: The Supply-Demand Gap Slowly Closes in the U.S. Labor Market



Note: Last data point is June 2024. Source: Bureau of Labor Statistics, TD Economics.

Chart 2: The U.S. Labor Market Looks a lot Cooler



*3-month moving average. Source: Bureau of Labor Statistics, TD Economics.

port also supported a softening labor market narrative – the hires rate ticked down and the quits rate was unchanged from May's downwardly revised 2.1% (which is below where it was immediately prior to the pandemic). Additionally, the Employment Cost Index (ECI) report, which the Fed watches closely for wage trends, slowed at a faster-than-expected pace in Q2.

The signal from the more recent July payrolls report was generally in line with the JOLTS and ECI data. The economy added 114k jobs in July, missing expectations (Chart 2). The unemployment rate rose for the fourth consecutive month and annual wage growth decelerated to the slowest pace in over three years. Together, the three employment reports suggest that demand for workers continued to slow and add further evidence that the labor market is cooling.

On the production side, the ISM Manufacturing Index declined again in June. The series fell 1.7 points to 46.8, marking its fourth consecutive month in contraction territory after a short-lived reprieve in March. Demand continued to slow and output conditions worsened. Persistent contraction in the manufacturing sector alongside slowing consumer demand, present downside risks to US growth, which has already come off the above trend pace of last year.

As Chair Powell hinted at, the U.S. economy is in a different world now. As both sides of the Fed's dual mandate come into sharper focus, a September cut is almost a guarantee and the chance for three rate cuts this year has certainly risen.

Canada – Strong Second Quarter Unlikely to Move the Needle on Rate Decision

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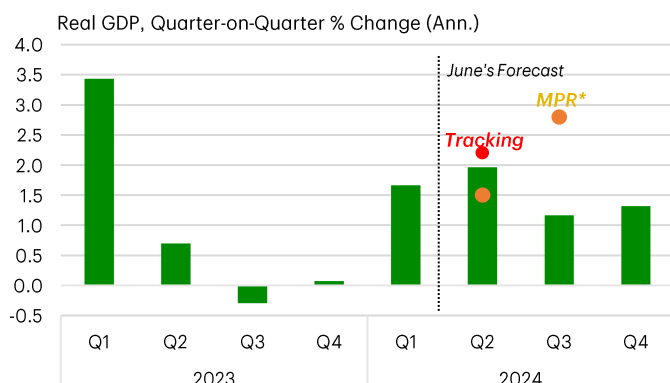
Maria Solovieva, CFA, Economist

This week's market action was heavily influenced by the U.S. Federal Reserve's interest rate decision, Chair Powell's subsequent press conference, and Friday's employment report. Canada's bond market mirrored the rally of its southern counterpart, rising throughout the week and accelerating on Friday. Given the inverse relationship to prices, Canada's 10-year and 5-year government bond yields fell by roughly 30 basis points.

On Canada's economic front, the key report was the monthly [GDP by industry](#). Growth exceeded expectations, showing a 0.2% month-on-month growth in May, with the advance estimate for June suggesting a 0.1% increase. Assuming no revisions, this report solidifies expectations that second-quarter GDP will be stronger than previously anticipated, around 2.2% annualized, and growth in the third quarter is now looking a bit stronger than we had expected at the time of our June forecast. The Bank of Canada (BoC), on the other hand expects a solid out turn for the economy in Q2, forecasting 2.8% growth in its recent Monetary Policy Report (Chart 1).

Economic growth was broad-based in May, with both goods-producing and services-providing sectors expanding. The most significant contributions came from non-durable manufacturing, particularly petroleum refineries, which rebounded after maintenance work in April. On the services side, aside from the public sector's significant contribution, the largest impacts came from accommodation & food services as well as finance & insurance, driven by investment activity in bonds and mutual funds. An interesting detail highlighted by Sta-

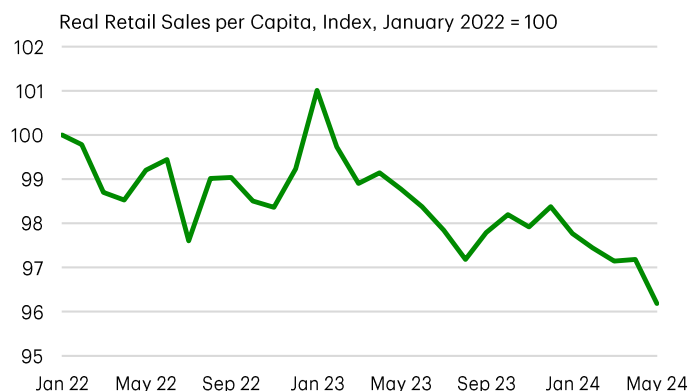
Chart 1: GDP Growth Unlikely to Maintain Momentum



*Monetary Policy Report, July 2024.

Source: Statistics Canada, Bank of Canada TD Economics.

Chart 2: Adjusted for Price and Population Growth, Retail Sales Weakened Since Start of the Hiking Cycle



Source: Statistics Canada, TD Economics.

tistics Canada was the increase in arts, entertainment, & recreation sector, which was bolstered by three Canadian teams playing in the NHL playoffs in May. While these contributions are noteworthy, some of them share a common characteristic of being temporary effects. So while the report shows that there is still resilience in the economy, the momentum is not strong enough to push economic growth above trend levels.

For another perspective, consider the state of the Canadian consumer. Higher frequency data on consumption, including spending at retail stores and restaurants, as well as our own [card spending data](#), indicates a more cautious consumer who may still be spending, but without extravagance. Furthermore, one factor masking consumer weakness is population growth, which has exceeded estimates for several quarters and partly explains positive economic surprises. In fact, when adjusted for price and population gains, retail spending has weakened since the start of the Bank's hiking cycle and contracted for most of this year (Chart 2). With new government restrictions on non-permanent residents taking effect, slower population growth is likely to become a headwind for the economy.

Next week it's Canada's turn for jobs numbers. Canada has been seeing cooler labour market conditions for a while now. The Bank will be focused on the degree of slack in the labour market and wage growth trends as they calibrate the pace of interest rate cuts. Market consensus suggests that the BoC is likely to proceed with a third consecutive rate cut in September.

Exhibits

Recent Key Economic Indicators: July 29 - August 02, 2024							
Release Date		Economic Indicator/Event		Data for Period	Units	Current	Prior
United States							
Jul 30		S&P CoreLogic CS US HPI NSA		May	Y/Y % Chg.	5.9	6.4
Jul 30		S&P CoreLogic CS 20-City NSA		May	Y/Y % Chg.	6.8	7.3
Jul 30		Conf. Board Consumer Confidence		Jul	Index	100.3	97.8
Jul 31		ADP Employment Change		Jul	Thsd	122.0	155.0
Jul 31		Employment Cost Index		2Q	Index	0.9	1.2
Jul 31		FOMC Rate Decision (Upper Bound)		Jul 31	%	5.50	5.50
Aug 01		Unit Labor Costs		2Q	Q/Q % Chg.	0.9	3.8
Aug 01		Initial Jobless Claims		Jul 27	Thsd	249.0	235.0
Aug 01		S&P Global US Manufacturing PMI		Jul	Index	49.6	49.5
Aug 01		ISM Manufacturing		Jul	Index	46.8	48.5
Aug 01		Wards Total Vehicle Sales		Jul	MIns	15.8	15.3
Aug 02		Change in Nonfarm Payrolls		Jul	Thsd	114.0	179.0
Aug 02		Unemployment Rate		Jul	%	4.3	4.1
Aug 02		Average Hourly Earnings		Jul	M/M % Chg.	0.2	0.3
Aug 02		Factory Orders		Jun	M/M % Chg.	-3.3	-0.5
Aug 02		Factory Orders Ex Trans		Jun	M/M % Chg.	0.1	-0.7
Aug 02		Durable Goods Orders		Jun	M/M % Chg.	-6.7	-6.6
Aug 02		Cap Goods Orders Nondef Ex Air		Jun	M/M % Chg.	0.2	1.0
Canada							
Jul 31		Gross Domestic Product		May	M/M % Chg.	0.2	0.3
Aug 01		S&P Global Canada Manufacturing PMI		Jul	Index	47.8	49.3
International							
Jul 29	JN	Jobless Rate		Jun	%	2.5	2.6
Jul 30	EZ	Gross Domestic Product SA		2Q	Y/Y % Chg.	0.6	0.5
Jul 30	JN	Retail Sales		Jun	Y/Y % Chg.	3.7	2.8
Jul 30	CH	Manufacturing PMI		Jul	Index	49.4	49.5
Jul 31	EZ	Consumer Price Index Estimate		Jul	Y/Y % Chg.	2.6	2.5
Jul 31	JN	Jibun Bank Japan PMI Mfg		Jul	Index	49.1	49.2
Jul 31	CH	Caixin China PMI Mfg		Jul	Index	49.8	51.8
Aug 01	EZ	Unemployment Rate		Jun	%	6.5	6.4
Aug 01	UK	Bank of England Bank Rate		Aug 01	%	5.00	5.25
*Eastern Standard Time. Source: Bloomberg, TD Economics.							

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Upcoming Economic Releases and Events: August 05 - 09, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Aug 05	8:30	<i>Fed's Goolsbee on CNBC</i>				
Aug 05	9:45	S&P Global US Services PMI	Jul	Index	56.0	56.0
Aug 05	9:45	S&P Global US Composite PMI	Jul	Index	-	55.0
Aug 05	10:00	ISM Services Index	Jul	Index	51.3	48.8
Aug 05	14:00	<i>Release of Senior Loan Officer Opinion Survey</i>				
Aug 05	17:00	<i>Fed's Daly Speaks in Moderated Discussion</i>				
Aug 06	8:30	Trade Balance	Jun	Blns	-72.6	-75.1
Aug 08	8:30	Initial Jobless Claims	Aug 03	Thsd	242.0	249.0
Aug 08	10:00	Wholesale Trade Sales	Jun	M/M % Chg.	-	0.4
Aug 08	15:00	<i>Fed's Barkin Speaks in Fireside Chat</i>				
Canada						
Aug 06	8:30	Int'l Merchandise Trade	Jun	Blns	-1.98	-1.93
Aug 07	13:30	<i>Bank of Canada Releases Summary of Deliberations</i>				
Aug 09	8:30	Net Change in Employment	Jul	Thsd	57.4	-1.4
Aug 09	8:30	Unemployment Rate	Jul	%	6.5	6.4
International						
Aug 06	5:00	EZ Retail Sales	Jun	Y/Y % Chg.	0.3	0.3
Aug 08	21:30	CH Consumer Price Index	Jul	Y/Y % Chg.	0.3	0.2

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

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