

Weekly Bottom Line

October 4, 2024

Highlights

U.S.

- The U.S. labor market perked up in September as job gains beat expectations, the unemployment rate ticked down and annual wage gains edged up.
- The economic outlook, however, has been buffeted by significant disruptions, namely Hurricane Helene and a port worker strike.
- The production side of the economy continues to travel two very different paths with manufacturing contracting, while services expand.

Canada

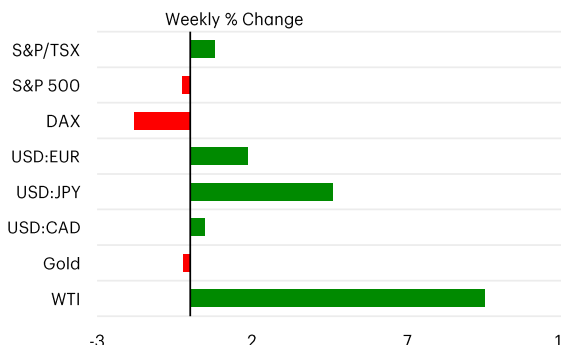
- Canadian market conditions this week were dictated by U.S. and global developments amid a quiet domestic calendar.
- Markets are putting some odds on a larger 50 basis point cut at the Bank of Canada's next rate announcement on October 23rd. We expect they will stick to a quarter point cut.
- The next two weeks will feature critical data releases including inflation, labour market updates and Bank of Canada surveys which will weigh heavily in the final decision.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5723	5738	5762	4117
S&P/TSX Comp.	24144	23957	24144	18737
DAX	19121	19474	19474	14687
FTSE 100	8281	8321	8446	7291
Nikkei	38636	39830	42224	30602
Fixed Income Yields				
U.S. 10-yr Treasury	3.96	3.75	4.99	3.62
Canada 10-yr Bond	3.19	2.96	4.20	2.87
Germany 10-yr Bund	2.21	2.13	2.93	1.90
UK 10-yr Gilt	4.13	3.98	4.67	3.44
Japan 10-yr Bond	0.89	0.85	1.10	0.56
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.76	0.72
Euro (USD per EUR)	1.10	1.12	1.12	1.05
Pound (USD per GBP)	1.31	1.34	1.34	1.21
Yen (JPY per USD)	148.7	142.2	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	74.7	68.2	89.4	65.8
Natural Gas (\$US/MMBtu)	2.75	2.66	13.20	1.24
Copper (\$US/met. tonne)	9717.9	9846.5	10800.8	7823.8
Gold (\$US/troy oz.)	2653.1	2658.2	2672.4	1820.3

*As of 11:59 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Escalating Middle East Conflict Lifts Oil Prices



Note: Data as of 11:59 AM ET, Friday, October 4, 2024.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.75 - 5.00%
Bank of Canada (Overnight Rate)	4.25%
European Central Bank (Refi Rate)	3.65%
Bank of England (Repo Rate)	5.00%
Bank of Japan (Overnight Rate)	0.25%

Source: Bloomberg.

U.S. – A Duo of Disruption Muddies the Economic Outlook

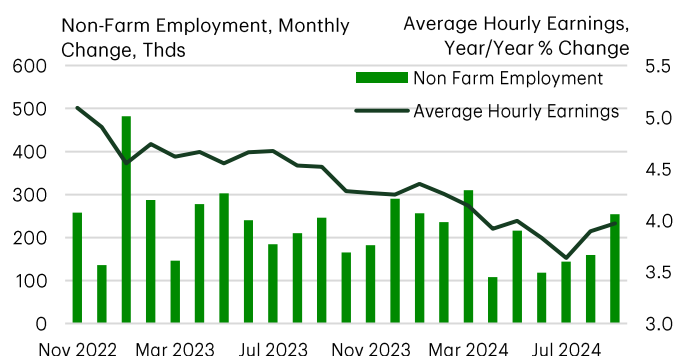
Shernette McLeod, Economist
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The labor market was the data highlight in a week rocked by a major strike and natural disaster. Ten-year bond yields were notably higher relative to yesterday's close (0.11 basis points) and the S&P500 was also up about 0.4% as the strong jobs report tempered expectations about the Fed's cutting cycle.

Today's employment report revealed that while the labor market may be cooling, it is doing so at a moderate pace (see [commentary](#)). Payrolls gains handily surpassed expectations, the unemployment rate edged down slightly, and wage gains nudged higher (Chart 1). Overall, the report was better than many market participants had expected and complements the previously released JOLTS data for August. The JOLTS report showed that while firms have slowed the pace of hiring there still continues to be steady demand for workers, as the number of job openings rose slightly. After the superheated labor market witnessed earlier in the post-pandemic period, followed by a steady cooling, the current leveling off in demand and supply is in line with a labor market that is coming into better balance.

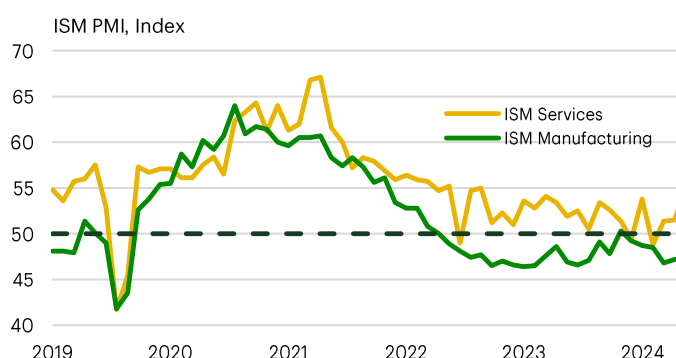
On the production side, the ISM Manufacturing Index was unchanged in September, remaining in contraction territory for the sixth consecutive month. On the services side, however, things were looking better, with the ISM Services Index rising notably in September. Overall, the services sector continues to hold its ground, offsetting much of the weakness evident in the country's manufacturing sector (Chart 2).

Chart 1: U.S. Employment and Wage Gains Perk Up in September



Source: Bureau of Labor Statistics, TD Economics.

Chart 2: The Divergence Continues as U.S. Services Expand and Manufacturing Remains in the Doldrums



Note: Readings above (below) 50 indicate expansion (contraction).
Source: Institute of Supply Management, TD Economics.

Major disruptions are threatening the health of the economy, however. Hurricane Helene, devastated parts of the southeastern United States with strong winds and heavy rains leaving widespread destruction. The destruction will depress near-term economic activity and is likely to negatively impact employment surveys. As rebuilding ensues, however, and normal economic activity resumes, a rebound is expected. The timeline on this, however, is uncertain.

In addition, a major dockworker strike at U.S. East and Gulf coast ports added to economic uncertainty. The strike was suspended late Thursday after the dockworkers' union and the group representing ocean carriers reached an agreement to extend the currently expired contract, until January 15th. This allows dockworkers to resume work while negotiations over wages and port automation, which had been at an "impasse" for months, would now continue. While the worst effects of the strike have been avoided for now, the cloud of uncertainty continues to loom. If the two sides are not able to reach an agreement prior to the end of the extension, then things could be right back to where they were and the longer a strike persists, the greater the economic fallout (see [commentary](#)).

The job market showing signs of only gradual cooling, lends support to Powell's view expressed earlier in the week that officials didn't see a reason to lower rates as aggressively as they did at their most recent meeting. Barring the uncertainty of recent events, the labor market remains key in the Fed's assessment of the most appropriate policy action.

Canada – Taking Stock

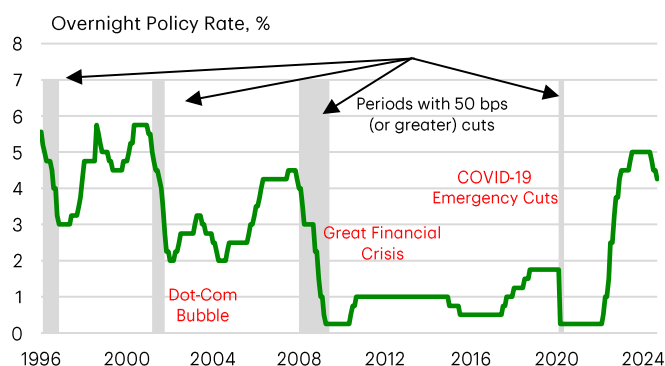
Marc Ercolao, Economist

This week served Canadian market watchers an opportunity to take a breather. There was no top-shelf economic data, no Bank of Canada (BoC) speeches, and no domestic headline-grabbing news. Beyond our borders however, a hefty U.S. jobs report pulled Canadian yields higher. The U.S. port strike also came to an end, stemming worries of potential near-term inflationary impacts. Elsewhere, conflict is escalating between Israel and Iran, which has sent oil prices almost 10% higher on the week to \$74 per barrel. Despite the rise in oil prices, the Canadian dollar tracked modestly lower.

The BoC is 75 basis points (bps) into their cutting cycle, delivered in three 25 bps increments over their last three meetings. The pressing question for Macklem & Co. is whether they feel it's necessary to deliver a supersized, 50 bps cut at their next meeting on October 23rd. Outside of the 2020 pandemic-emergency rate cuts, the '07-'08 Global Financial Crisis and the early-2000's Dot-Com bubble, one would have to look back to Oct. 1996 to find the last time the BoC cut by more than the standard 25 bps in the middle of an easing-cycle (Chart 1).

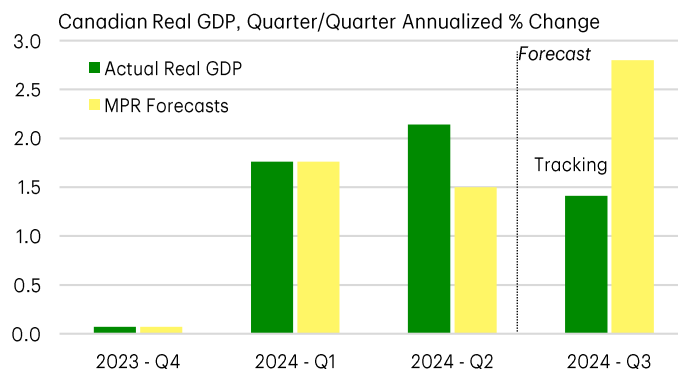
With inflation now back to the two-percent target, the Bank is putting more stock into the growth outlook to ensure that inflation doesn't fall too much. It's a fair shift in priorities given the slowdown in the Canadian economy. Last week's GDP reading for July, and advanced look-ahead for August, confirmed that third

Chart 1: The Bank of Canada's History of Super-Sized Cuts



Note: Shaded areas represent periods where super-sized cuts occurred.
Source: Bank of Canada, TD Economics.

Chart 2: Real GDP Tracking Weaker Than Bank of Canada Expectations



Source: Bank of Canada, TD Economics.

quarter growth is tracking well below both the BoC's current estimate and potential growth (Chart 2). We don't think the GDP data tipped the scales any more-or-less in favour of a potential 50 bps interest rate cut, which would follow the recent move from the Federal Reserve. The BoC also needs to accept that their current forecast is facing downside risk. A fresh set of forecasts via an updated Monetary Policy Report (MPR) at its next meeting will shed light on how they are looking at near-term growth.

Now, emphasis will be placed on upcoming inflation data and labour market trends, where the Bank will be assessing how durable the current 2% inflation is and whether or not labour markets are continuing to cool. The Business Outlook Survey (BOS) and companion consumer survey will also land next week and be closely watched.

With all we know to date, we look for the BoC to continue on their gradual path, delivering another 25 bps cut at their next meeting, bringing the policy rate to 4.00%. Market pricing, for what it's worth, is attaching around a 30% chance of a supersized cut. We acknowledge the risk of a potential larger cut should incoming data display further signs of deterioration. Past this, we see rates continuing to gradually decline into next year before hitting 2.25% by early-2026.

Exhibits

Recent Key Economic Indicators: Sep 30 - Oct 04, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Oct 1	Wards Total Vehicle Sales	Sep	Mlns	15.77	15.13
Oct 1	S&P Global US Manufacturing PMI	Sep	Index	47.3	47.0
Oct 1	ISM Manufacturing	Sep	Index	47.2	47.2
Oct 1	Job Openings	Aug	Mlns	8.04	7.71
Oct 2	ADP Employment Change	Sep	Thsd	143.0	103.0
Oct 3	Initial Jobless Claims	Sep 28	Thsd	225.0	219.0
Oct 3	S&P Global US Composite PMI	Sep	Index	54.0	54.4
Oct 3	S&P Global US Services PMI	Sep	Index	55.2	55.4
Oct 3	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	0.3	0.2
Oct 3	Durable Goods Orders	Aug	M/M % Chg.	0.0	0.0
Oct 3	Factory Orders	Aug	M/M % Chg.	-0.2	4.9
Oct 3	Factory Orders Ex Trans	Aug	M/M % Chg.	-0.1	0.3
Oct 3	ISM Services	Sep	Index	54.9	51.5
Oct 4	Average Hourly Earnings	Sep	M/M % Chg.	0.4	0.5
Oct 4	Change in Nonfarm Payrolls	Sep	Thsd	254.0	159.0
Oct 4	Unemployment Rate	Sep	%	4.1	4.2
Canada					
Oct 4	Ivey Purchasing Managers Index SA	Sep	Index	53.1	48.2
International					
Sep 30	UK Gross Domestic Product	Q2	Y/Y % Chg.	0.7	0.9
Sep 30	JN Jobless Rate	Aug	%	2.5	2.7
Sep 30	JN Jibun Bank Japan PMI Mfg	Sep	Index	49.7	49.6
Oct 1	EZ Consumer Price Index Estimate	Sep	Y/Y % Chg.	1.8	2.2
Oct 2	EZ Unemployment Rate	Aug	%	6.4	6.4
Oct 2	JN Jibun Bank Japan PMI Services	Sep	Index	53.1	53.9

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

Upcoming Economic Releases and Events: October 07 - 11, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Oct 07	13:00	Fed's Bowman Speaks at Indep Bankers Assoc of Texas				
Oct 08	6:00	NFIB Small Business Optimism	Sep	Index	91.7	91.2
Oct 08	8:30	Trade Balance	Aug	Blns	-71.3	-78.8
Oct 08	3:00	Fed's Kugler Speaks at ECB Event				
Oct 08	12:45	Fed's Bostic Speaks on the Economic Outlook				
Oct 08	16:00	Fed's Jefferson Speaks on Discount Window				
Oct 09	10:00	Wholesale Trade Sales	Aug	M/M % Chg.	-	1.1
Oct 10	11:00	Fed's Williams Gives Keynote Remarks				
Oct 09	14:00	FOMC Meeting Minutes	Sep 18		-	-
Oct 10	8:30	Consumer Price Index	Sep	M/M % Chg.	0.1	0.2
Oct 10	8:30	Consumer Price Index Ex Food and Energy	Sep	M/M % Chg.	0.2	0.3
Oct 10	8:30	Consumer Price Index	Sep	Y/Y % Chg.	2.3	2.5
Oct 10	8:30	Consumer Price Index Ex Food and Energy	Sep	Y/Y % Chg.	3.2	3.2
Oct 10	8:30	Initial Jobless Claims	Oct 05	Thsd	-	225.0
Oct 11	8:30	PPI Final Demand	Sep	M/M % Chg.	0.1	0.2
Oct 11	8:30	PPI Ex Food and Energy	Sep	M/M % Chg.	0.2	0.3
Canada						
Oct 08	8:30	Int'l Merchandise Trade	Aug	Blns	0.0	0.7
Oct 11	8:30	Net Change in Employment	Sep	Thsd	34.9	22.1
Oct 11	8:30	Unemployment Rate	Sep	%	6.60	0.07
Oct 11	10:30	BoC Business Outlook Future Sales	3Q	Q/Q % Chg.	25.0	100.0
Oct 11	10:30	BoC Overall Business Outlook Survey	3Q	Q/Q % Chg.	6.5	-290.0
International						
Oct 07	5:00	EZ Retail Sales	Aug	Y/Y % Chg.	1.0	-0.1
Oct 11	2:00	UK Gross Domestic Product	Aug	Q/Q % Chg.	0.3	0.5

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

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