TD Economics

Weekly Bottom Line

August 7, 2026

Highlights

Canada

- Canadian employment jumped 75k in July, with broad-based gains across industries, pushing the unemployment rate down to 6.4% and reinforcing signs of economic resilience despite ongoing trade uncertainty.
- Strong labour market and international trade data alongside improving housing activity, suggests the economy got off to a good start to Q3, following what was likely a robust Q2.
- Policymakers are still likely to remain on hold in September given contained inflation and lingering tariff risks.

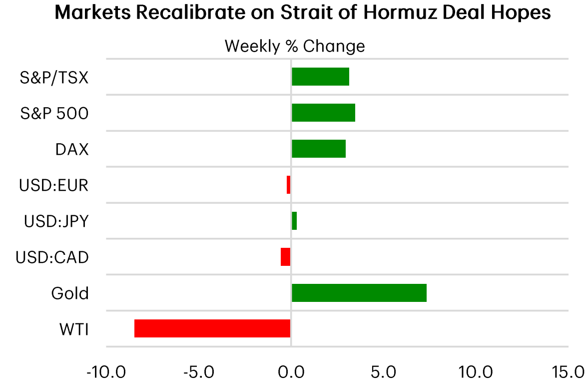
U.S.

- Stocks reached fresh all-time highs to start August as oil prices retreated on the back of reports of a potential deal to restart transit through the Strait of Hormuz.
- ISM surveys indicated that manufacturing and services activity continued to expand in July, but elevated input costs point to lingering inflation pressures.
- The labor market lost 23k jobs in July, but this was driven by an outsized decline in local government educational services, likely related to residual seasonality.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	7750	7490	7750	6340
S&P/TSX Comp.	36336	35226	36336	27759
DAX	26382	25629	26382	22301
FTSE 100	10919	10868	10919	9096
Nikkei	65607	64362	72366	41059
Fixed Income Yields				
U.S. 10-yr Treasury	4.64	4.73	4.73	3.94
Canada 10-yr Bond	3.64	3.66	3.70	3.04
Germany 10-yr Bund	3.13	3.21	3.21	2.55
UK 10-yr Gilt	4.92	5.05	5.17	4.23
Japan 10-yr Bond	2.81	2.81	2.88	1.49
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.72	0.71	0.74	0.70
Euro (USD per EUR)	1.16	1.15	1.20	1.14
Pound (USD per GBP)	1.35	1.35	1.38	1.30
Yen (JPY per USD)	157.9	157.4	163.9	146.5
Commodity Spot Prices**				
Crude Oil ($US/bbl)	77.53	84.67	113.0	55.3
Natural Gas ($US/MMBtu)	2.51	2.59	33.80	0.26
Copper ($US/met. tonne)	14226.6	13835.7	14226.6	9595.2
Gold ($US/troy oz.)	4344.4	4046.2	5417.2	3315.8

*As of 10:48 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 Recalibrate on Strait of Hormuz Deal Hopes



Note: Data as of 10:48 AM ET, Friday, August 7, 2026.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets	
Central Banks	**Current Target**
Federal Reserve (Fed Funds Rate)	3.50 - 3.75%
Bank of Canada (Overnight Rate)	2.25%
European Central Bank (Refi Rate)	2.40%
Bank of England (Repo Rate)	3.75%
Bank of Japan (Overnight Rate)	1.00%

Source: Bloomberg.

Canada – Jobs Market Starts Q3 on the Front Foot

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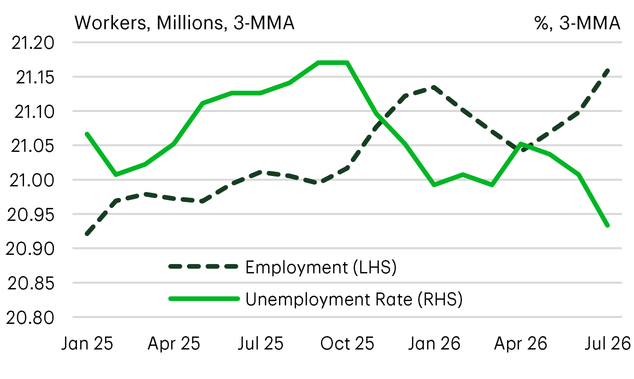
Markets were taken for a late-week ride amid a duo of key July jobs reports in Canada and the U.S. For Canadian bond yields, the latter held sway as surprisingly soft hiring in America downwardly pressured interest rates in both countries. The benchmark Canadian 10-year yield sat at around 3.65% in the wake of both reports and remains near its high for the year. The soggy U.S. jobs report was also bad news for the U.S. dollar, which upwardly pressured the loonie, among other major currencies. For its part, oil slid this week on headlines that a U.S./Iran deal could soon be in the offing.

Unlike its U.S. counterpart, the Canadian jobs report was a near picture of wall-to-wall strength (Chart 1). Hiring surged by 75k positions in July, bolstered by the private sector and both full- and part-time positions. What's more, hiring gains were relatively broad-based across industries. Even the beleaguered manufacturing sector managed to add positions last month, although employment is still down about 2-3% since the start of the U.S./Canada trade conflict. Meanwhile the unemployment rate dipped 0.1 percentage points to 6.4% - its lowest level since 2024 - despite a rise in both the labour force and the participation rate. Hours worked advanced a firm 0.6% month-on-month, offering a solid signal for monthly GDP. One fly in the ointment from a growth perspective was that wage growth decelerated in the month.

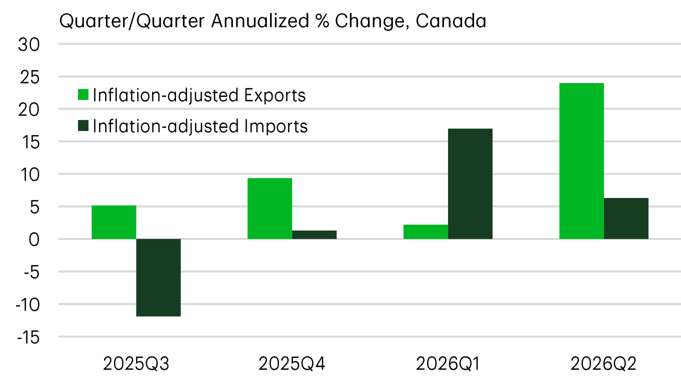
Canada's healthy July employment gains joined preliminary housing data from local boards released this week in painting an optimistic economic growth picture at the start of Q3. Indeed, the housing data suggests that another sales gain took place last month, which would mark the 4th straight increase. These gains may have been sparked by improved affordability in Ontario.

Chart 1: Canada's Job Market is Finding its Footing



Source: Statistics Canada, TD Economics

Chart 2: Export Gains to Add Handsomely to Q2 GDP Growth



Source: Statistics Canada, TD Economics

The Bank of Canada's (BoC) expectation was that economic growth would advance 1.5% annualized in the third quarter, roughly in line with our own. However, this follows what looks to be a very strong outturn in Q2. And this week's trade report offered fresh evidence of this. Canada's merchandise trade surplus widened for the fourth straight month in June, supported by a rise in exports that continued the string of sturdy gains over the past few months. Stripping away inflation impacts, export trade volumes rose by 1% month-on-month (m/m) in June, while imports slid 1.5% m/m. For Q2 overall, goods exports were up over 20% annualized, with imports up a lesser 6% (Chart 2), implying a notable contribution to GDP from net trade.

For the BoC, the jobs report was the highlight of the week, Policymakers will no doubt be encouraged by the healthy jobs print, especially considering their recent uncertainty about the durability of Canadian growth after Q2. However, for the upcoming September 2nd meeting, we still see policymakers holding the line on rates. The economy is still facing notable trade-related headwinds (especially the threat of 50% tariffs on 5% of U.S.-bound shipments on the horizon). Also, core inflation remains well-behaved and the jobs market, while improving, isn't out of the woods just yet.

U.S. – Stocks Hit All-Time Highs Amid Mixed Economic Data

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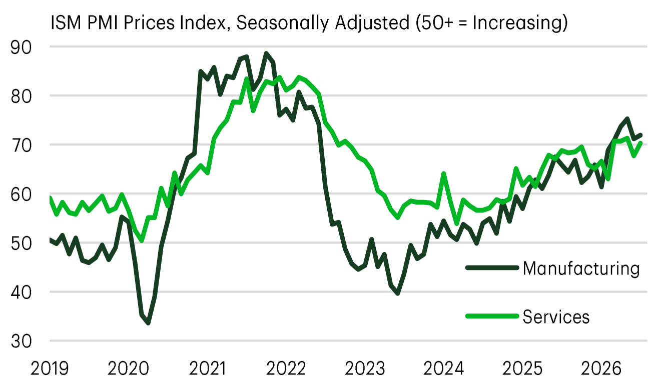
The first week of August kicked off with stocks hitting fresh all-time highs as oil prices retreated on news of a potential near-term deal to restart transit through the Strait of Hormuz. The deal is reportedly being negotiated between Oman and Iran, but a formal agreement between all parties has yet to be announced as of the time of writing. The S&P 500 rose 3.5% on the week as oil prices fell by 10% and the U.S. 10-year Treasury yield ended the week roughly 10 basis points lower.

Higher oil prices have contributed to stronger nominal manufacturing activity in 2026, while also helping to push the ISM Manufacturing PMI to a four-year high in July. However, there are reasons to view the survey's strength with some caution. The ISM Prices Paid Index remains near a four-year high (Chart 1), indicating elevated input cost pressures across the manufacturing sector. At the same time, a portion of the improvement in the headline PMI reflects slower supplier deliveries, which the survey interprets as a sign of stronger demand, but can also be consistent with supply-chain constraints. Taken together, the survey continues to point to an expansion in manufacturing activity, though likely at a more moderate pace than implied by the headline reading.

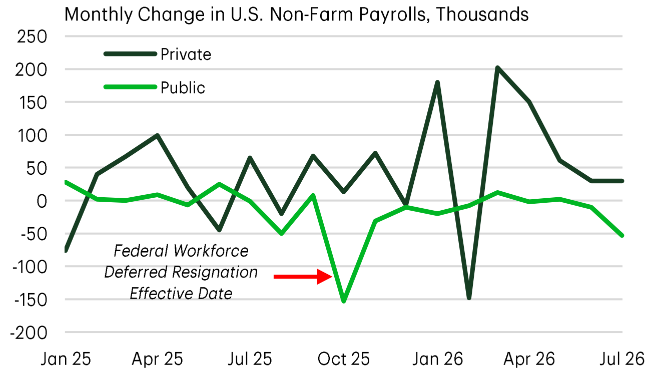
The larger services sector also continued to expand in July according to the ISM report, with new orders and business activity both picking up. However, the report was more concerning for the Federal Reserve, as the employment index slipped back into contraction territory and the prices paid index remained elevated.

Chart 1: U.S. Businesses Continue to Report Elevated Input Cost Pressures



Source: Institute for Supply Management, TD Economics.

Chart 2: July Employment Weighed Down by Seasonal Public Sector Trends



Source: U.S. Bureau of Labor Statistics, TD Economics.

This concern was somewhat enhanced by the headline report for July employment, which showed a loss of 23k jobs. However, looking into the details, the decline was entirely driven by an outsized loss in local government educational services. This is likely driven by unaccounted for seasonality coinciding with the summer break for schools. The private sector added 30k jobs during the month, on par with the prior month trend (Chart 2). In addition, the unemployment rate ticked lower to 4.1%, consistent with a labor market that is steady overall.

Taken together, the Federal Reserve is faced with an economy that has a stable labor market, but persistent excess inflationary pressures. Among the three voting members of the FOMC that we heard from this week, Minneapolis Fed President Kashkari was the most vocal in support of policy tightening, noting he dissented in favor of a rate hike at the July meeting. Philadelphia Fed President Paulson and Governor Lisa Cook were more measured but noted that persistent inflation could require higher rates. After the employment report, odds of rate hike in September fell from roughly 50/50 to 60% odds for no hike.

With elevated uncertainty over what policy decision will be made by the Federal Reserve at their next meeting, next week's CPI print for July is likely to be closely monitored. Consensus expectations are for an acceleration in total inflation to 3.5% year-on-year, consistent with the uptick in energy prices during the month. Currently we don't expect a rate hike in September, but if current inflation trends prove persistent, then policy action may be required.

Exhibits

Recent Key Economic Indicators: Aug 3 - 7, 2026						
Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
United States						
Aug 03		S&P Global US Manufacturing PMI	Jul	Index	53.9	53.8
Aug 03		ISM Manufacturing	Jul	Index	55.6	53.3
Aug 04		Trade Balance	Jun	Blns	-73.3	-77.6
Aug 04		Factory Orders	Jun	M/M % Chg.	-0.3	-1.1
Aug 04		Factory Orders Ex Trans	Jun	M/M % Chg.	-0.4	2.0
Aug 04		Durable Goods Orders	Jun	M/M % Chg.	0.5	0.3
Aug 04		Cap Goods Orders Nondef Ex Air	Jun	M/M % Chg.	1.2	0.9
Aug 05		ADP Employment Change	Jul	Thsd	44.0	95.0
Aug 05		S&P Global US Services PMI	Jul	Index	54.6	53.6
Aug 05		S&P Global US Composite PMI	Jul	Index	54.5	53.6
Aug 05		ISM Services Index	Jul	Index	54.1	54.0
Aug 06		Unit Labor Costs	2Q	Q/Q % Chg.	1.3	1.3
Aug 06		Initial Jobless Claims	Aug 01	Thsd	199.0	198.0
Aug 06		Wholesale Trade Sales	Jun	M/M % Chg.	-3.0	3.5
Aug 07		Change in Nonfarm Payrolls	Jul	Thsd	-23.0	20.0
Aug 07		Average Hourly Earnings	Jul	M/M % Chg.	0.1	0.3
Aug 07		Unemployment Rate	Jul	%	4.1	4.2
Canada						
Aug 04		Int'l Merchandise Trade	Jun	Blns	3.9	3.7
Aug 04		S&P Global Canada Manufacturing PMI	Jul	Index	53.5	53.0
Aug 07		Net Change in Employment	Jul	Thsd	75.1	18.2
Aug 07		Unemployment Rate	Jul	%	6.4	6.5
International						
Aug 06	EZ	Retail Sales	Jun	Y/Y % Chg.	0.7	1.9

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Aug 10 - 14, 2026						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Aug 11	6:00	NFIB Small Business Optimism	Jul	Index	97.3	97.4
Aug 11	10:00	Existing Home Sales	Jul	Mlns	4.05	4.09
Aug 12	8:30	Consumer Price Index	Jul	Y/Y % Chg.	0.1	-0.4
Aug 12	8:30	Consumer Price Index	Jul	Y/Y % Chg.	3.4	3.5
Aug 13	8:15	*Fed's Hammack Speaks in Moderated Discussion*				
Aug 13	8:30	Initial Jobless Claims	Aug 08	Thsd	203.0	199.0
Aug 13	8:30	PPI Final Demand	Jul	M/M % Chg.	0.2	-0.3
Aug 13	8:30	PPI Ex Food and Energy	Jul	M/M % Chg.	0.3	0.2
Aug 13	8:40	*Barkin Speaks on Economic Outlook*				
Aug 14	8:30	Retail Sales Advance	Jul	M/M % Chg.	0.2	0.2
Aug 14	8:30	Retail Sales Ex Auto and Gas	Jul	M/M % Chg.	0.3	0.4
Aug 14	10:00	Business Inventories	Jun	M/M % Chg.	-	0.3
Canada						
Aug 14	8:30	Manufacturing Sales	Jun	M/M % Chg.	-0.1	1.3
International						
Aug 13	2:00	UK Gross Domestic Product	2Q	Y/Y % Chg.	1.1	0.9
Aug 14	5:00	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	1.0	1.0
Aug 14	5:00	EZ Employment	2Q	Y/Y % Chg.	-	0.5

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

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