

The Weekly Bottom Line

September 11, 2020

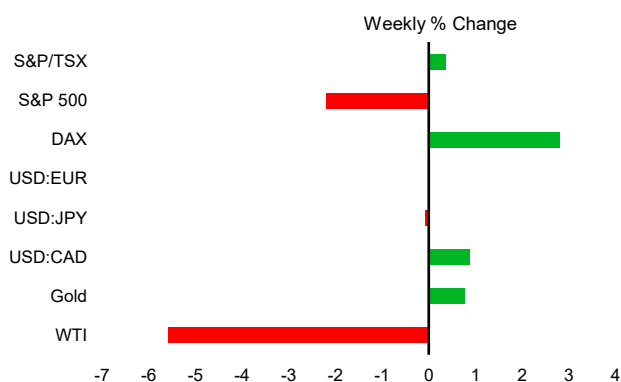
Highlights of the Week

- A wide dispersion of forecasts for U.S. growth over the next year reflects high levels of uncertainty around the duration of the health crisis as well as future government supports.
- Assuming a modest fiscal package passes Congress this fall and a vaccine becomes available by the middle of next year, the American economy should recover most of what was lost through the pandemic by the end of 2021.
- Inflation data showed an acceleration in price growth in August. Total CPI was up 1.3% year-on-year in August, continuing its recovery from only 0.1% in May.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3355	3427	3581	2237
S&P/TSX Comp.	16277	16218	17944	11228
DAX	13203	12843	13789	8442
FTSE 100	6032	5799	7675	4994
Nikkei	23406	23205	24084	16553
Fixed Income Yields				
U.S. 10-yr Treasury	0.67	0.72	1.94	0.51
Canada 10-yr Bond	0.56	0.60	1.70	0.43
Germany 10-yr Bund	-0.48	-0.47	-0.16	-0.86
UK 10-yr Gilt	0.18	0.26	0.87	0.08
Japan 10-yr Bond	0.03	0.04	0.08	-0.26
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.77	0.77	0.69
Euro (USD per EUR)	1.18	1.18	1.19	1.07
Pound (USD per GBP)	1.28	1.33	1.34	1.15
Yen (JPY per USD)	106.2	106.2	112.1	102.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	36.8	39.8	63.3	-37.6
Natural Gas (\$US/MMBtu)	2.13	1.80	2.87	1.40
Copper (\$US/met. tonne)	6690.0	6729.5	6810.8	4625.0
Gold (\$US/troy oz.)	1949.6	1933.9	2063.5	1454.4

*As of 12:08 PM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Oil Drops On Demand Concerns



Note: Data as of 12:11 PM ET, Friday, September 11, 2020.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
	Current Target
Federal Reserve (Fed Funds Rate)	0.00 - 0.25%
Bank of Canada (Overnight Rate)	0.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.10%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

TD Economics Key Financial Forecasts													
	Current Rate 9/11/20	2019				2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	2.50	2.50	2.00	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield	0.13	2.27	1.75	1.63	1.58	0.23	0.20	0.20	0.20	0.20	0.25	0.30	0.35
10-yr Govt. Bond Yield	0.67	2.41	2.00	1.68	1.92	0.70	0.65	0.70	0.80	0.95	1.10	1.25	1.40
30-yr Govt. Bond Yield	1.42	2.81	2.52	2.12	2.39	1.35	1.40	1.45	1.60	1.75	1.90	2.05	2.15

Forecast by TD Economics as of June 2020; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

A Wide Dispersion of Expectations for Recovery

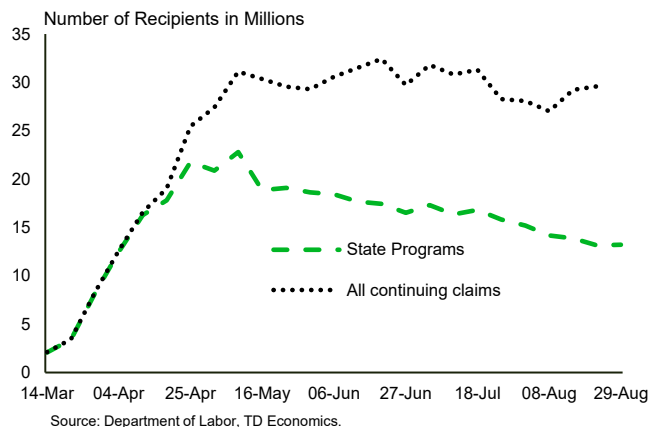
As we head into the final days of summer, it's a good time to step back and evaluate the prospects for the American economy over the next year. The dispersion of economic growth forecasts has perhaps never been higher. While forecasters all expect a meaningful decline in activity this year, that is due to what's already been recorded. Meanwhile, forecasts for growth in 2021 in the Blue Chip survey range from over 6% at the high end, to under 2% at the low end. At the high-end, this recovers all the activity lost to the pandemic, while at the low end, it is nothing short of stagnation.

This wide dispersion reflects the unprecedented level of uncertainty around the course of the pandemic, as well as its secondary economic impacts. This can be seen in the wide array of underlying assumptions among forecasters around items key to the outlook. For example: when and if a vaccine becomes available, how effective and permanent it will be, how much future government support will be provided.

We do not claim to have any better insight on these questions than other forecasters, but we have tried to make plausible assumptions to ground our forecast. In the case of the health questions, we assume that a vaccine or effective treatment becomes widely available by the second half of 2021.

Beyond the basic uncertainty around when and if we recover fully from the pandemic, we have little in the way of traditional macro models to gauge how consumers and businesses respond to health crises. This was true on the way down, but also on the way up. We can observe, based on recent data, that after an initial plunge, households have been more than willing to increase spending on durable goods – suggesting

Chart 2: Continuing Jobless Claims Remain Elevated Through the End of August



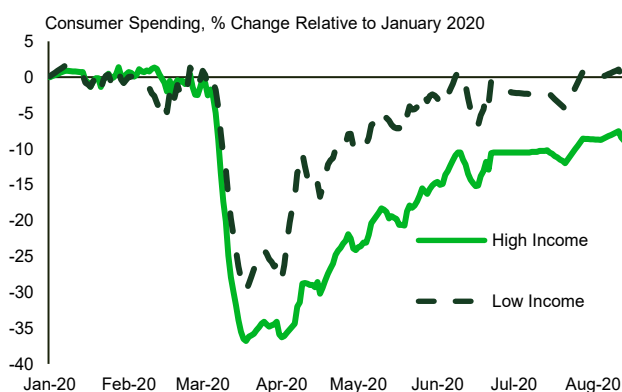
little permanent damage to household confidence. Rather, what's holding back a broader recovery is service-sector areas of the economy where activity is directly impacted by the potential risk of infection. This offers reason to expect a fairly solid bounce back once these fears are allayed.

In the case of government policy, we are equally in the dark. The extraordinary fiscal supports early in the year have divorced measures of overall economic activity from household income. Spending rebounded as it did due to these supports. Congress continues to debate another package, but the chasm between Republican and Democratic bills is roughly 10 times (\$300 billion versus \$3 trillion). So, we're left making assumptions. We assume that Congress does eventually come up with some additional support, but closer to the lower range of outcomes, around \$400 billion, split between individual checks and unemployment benefits.

With these assumptions in place, and assuming no major second wave of the virus leads to another round of shut-downs, it is reasonable to expect the American economy to recover much of what was lost to the pandemic over the past year. While growth appears likely to slow after its initial burst on reopening, it should pick up again once a vaccine is available. Importantly, much of the deficit in spending is due to high-income individuals, who should be able to dip into these accumulated saving to support growth once the virus threat has passed. As a result, we expect the level of GDP to regain its pre-recession level by the first quarter of 2022. We will be publishing our full views on the economic outlook next week and hope you will give them a read.

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Chart 1: Spending Recovery Retreats as Summer Ends



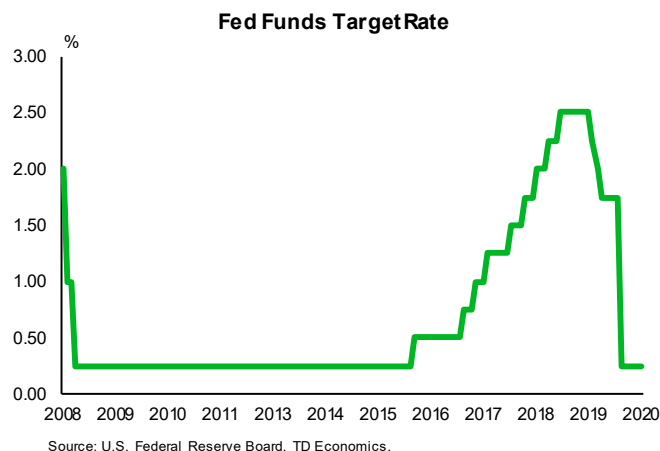
Source: Affinity Solutions, TD Economics. Last observation: August 30, 2020.

Upcoming Key Economic Releases

FOMC Meeting - September*

Release Date: September 16
 Previous: 0.0-0.25% funds rate
 TD forecast: 0.0-0.25%
 Consensus: 0.0-0.25%

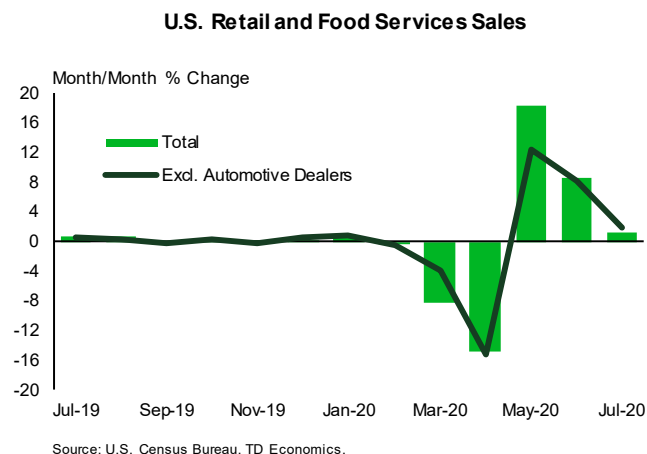
The focus of the FOMC meeting will be on details other than the funds rate, which will almost certainly be left at close to 0%. In particular, the focus will be on follow-up to the formal adoption of average inflation targeting (AIT) last month. We don't expect specific inflation-outcome-based forward guidance yet, raising the potential for disappointment in markets. However, we still expect plenty of dovishness, through the incorporation of AIT in the forward guidance—without specificity—the wording on QE, the tone on the economy, the dot plot, and the press conference.



U.S. Retail Sales - August*

Release Date: September 16
 Previous: 1.2% m/m total, 1.9% ex-autos, 1.4% control group
 TD forecast: 0.2% m/m total, 0.1% ex autos, 0.0% control group
 Consensus: 1.0% total, 1.0% ex-autos, 0.3% control group

Retail sales probably slowed again in August, with the boost from continued growth in employment through the month offset by a waning of fiscal support, most notably extended unemployment benefits. We forecast a rise of 0.2% m/m, following up 1.2% July and 8.4% in June. Even with slowing, spending is on track for a sharp increase in Q3 on a q/q basis. The slowing could be ominous for Q4, however, particularly if there is no “Phase 4” fiscal package.



*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

Recent Key Economic Indicators: Sep 7-11, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 8	NFIB Small Business Optimism	Aug	Index	100.0	98.8
Sep 10	Initial Jobless Claims	Sep 5	Thsd	884.0	884.0
Sep 10	Producer Price Index Ex Food and Energy	Aug	M/M % Chg.	0.4	0.5
Sep 10	Producer Price Index Final Demand	Aug	M/M % Chg.	0.3	0.6
Sep 10	Wholesale Trade Sales	Jul	M/M % Chg.	4.6	9.0
Sep 11	Consumer Price Index	Aug	M/M % Chg.	0.4	0.6
Sep 11	Consumer Price Index	Aug	Y/Y % Chg.	1.3	1.0
Sep 11	Consumer Price Index Ex Food and Energy	Aug	M/M % Chg.	0.4	0.6
Sep 11	Consumer Price Index Ex Food and Energy	Aug	Y/Y % Chg.	1.7	1.6
Canada					
Sep 9	Housing Starts	Aug	Thsd	262.4	245.4
Sep 9	Bank of Canada Rate Decision	Sep 9	%	0.25	0.25
International					
Sep 7	JN Gross Domestic Product Annualized SA	2Q	Q/Q % Chg.	-28.1	-27.8
Sep 8	EZ Employment	2Q	Y/Y % Chg.	-3.1	-2.9
Sep 8	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	-14.7	-15.0
Sep 8	CH Consumer Price Index	Aug	Y/Y % Chg.	2.4	2.7
Sep 10	EZ ECB Main Refinancing Rate	Sep 10	%	0.00	0.00
Sep 11	UK Monthly Gross Domestic Product (3M/3M)	Jul	M/M % Chg.	-7.6	-19.1

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sep 14- 18, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 15	8:30	Empire Manufacturing	Sep	Index	7.0	3.7
Sep 15	9:15	Capacity Utilization	Aug	%	71.7	70.6
Sep 15	9:15	Industrial Production	Aug	M/M % Chg.	1.1	3.0
Sep 15	9:15	Manufacturing (SIC) Production	Aug	M/M % Chg.	2.3	3.4
Sep 16	8:30	Retail Sales Advance	Aug	M/M % Chg.	0.9	1.2
Sep 16	8:30	Retail Sales Ex Auto and Gas	Aug	M/M % Chg.	1.0	1.5
Sep 16	10:00	Business Inventories	Jul	M/M % Chg.	0.2	-1.1
Sep 16	10:00	NAHB Housing Market Index	Sep	Index	78.0	78.0
Sep 16	14:00	FOMC Rate Decision (Upper Bound)	Sep 16	%	0.25	0.25
Sep 16	14:30	<i>Powell Holds Post-FOMC Meeting Press Conference</i>				
Sep 17	8:30	Building Permits	Aug	Thsd	1520.0	1483.0
Sep 17	8:30	Housing Starts	Aug	Thsd	1478.0	1496.0
Sep 17	8:30	Initial Jobless Claims	Sep 12	Thsd	825.0	884.0
Sep 18	10:00	<i>Fed's Bullard Discusses the Covid Recovery Challenge in a virtual discussion</i>				
Canada						
Sep 15	8:30	Manufacturing Sales	Jul	M/M % Chg.	-	20.7
Sep 15	9:00	Existing Home Sales	Aug	M/M % Chg.	-	26.0
Sep 16	8:30	Consumer Price Index	Aug	Y/Y % Chg.	-	0.1
Sep 16	8:30	Consumer Price Index NSA	Aug	M/M % Chg.	-	0.0
Sep 18	8:30	Retail Sales	Jul	M/M % Chg.	-	23.7
Sep 18	8:30	Retail Sales Ex Auto	Jul	M/M % Chg.	-	15.7
Sep 18	8:30	Teranet/National Bank HPI	Aug	Y/Y % Chg.	-	5.5
Sep 18	8:30	Wholesale Trade Sales	Jul	M/M % Chg.	-	18.5
International						
Sep 14	22:00	CH Retail Sales	Aug	Y/Y % Chg.	0.0	-1.1
Sep 14	22:00	CH Surveyed Jobless Rate	Aug	%	5.6	5.7
Sep 15	2:00	UK ILO Unemployment Rate 3Mths	Jul	%	4.1	3.9
Sep 16	2:00	UK Consumer Price Index	Aug	Y/Y % Chg.	0.1	1.0
Sep 17	5:00	EZ Consumer Price Index	Aug	Y/Y % Chg.	-0.2	-0.2
Sep 17	7:00	UK Bank of England Bank Rate	Sep 17	%	0.10	0.10
Sep 17	19:30	JN Natl Consumer Price Index	Aug	Y/Y % Chg.	0.2	0.3
Sep 17		JN BOJ Policy Balance Rate	Sep 17	%	-	-0.10
Sep 18	2:00	UK Retail Sales Ex Auto Fuel	Aug	Y/Y % Chg.	4.2	3.1

Source: Bloomberg, TD Economics.

Disclaimer

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