

## The Weekly Bottom Line

October 23, 2020

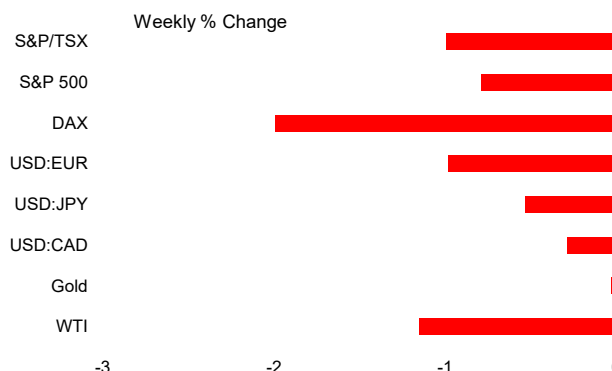
### Highlights of the Week

- Covid-19 infections continued to rise this week, nearing record highs set in July. Concerns regarding this trend weighed on markets, but progress on a new stimulus package helped improve the mood later in the week.
- Positive housing reports reinforced the sector's position as a bright spot in the U.S. economy. Existing home sales soared 9.4% in September, blowing expectations out of the water, while price growth accelerated further.
- Fast-rising prices are good news for builders who have recognized the need to build more homes. Housing starts also pushed higher in September (+1.9%), with gains concentrated in the single-family segment.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3453	3484	3581	2237
S&P/TSX Comp.	16272	16439	17944	11228
DAX	12628	12909	13789	8442
FTSE 100	5850	5920	7675	4994
Nikkei	23517	23411	24084	16553
Fixed Income Yields				
U.S. 10-yr Treasury	0.85	0.75	1.94	0.51
Canada 10-yr Bond	0.65	0.58	1.70	0.43
Germany 10-yr Bund	-0.57	-0.62	-0.16	-0.86
UK 10-yr Gilt	0.28	0.18	0.87	0.08
Japan 10-yr Bond	0.04	0.02	0.08	-0.18
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.76	0.77	0.69
Euro (USD per EUR)	1.18	1.17	1.19	1.07
Pound (USD per GBP)	1.30	1.29	1.34	1.15
Yen (JPY per USD)	104.8	105.4	112.1	102.4
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	40.6	40.9	63.3	-37.6
Natural Gas (\$US/MMBtu)	2.57	2.16	2.87	1.33
Copper (\$US/met. tonne)	6907.0	6723.8	6977.8	4625.0
Gold (\$US/troy oz.)	1899.2	1899.3	2063.5	1454.4

\*As of 11:36 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

### Rising New Infections Weigh on Markets



Note: Data as of 11:23 AM ET, Friday, October 23, 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		2020				2021				2022			
	10-23-20	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2-yr Govt. Bond Yield	0.15	0.23	0.16	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.35
10-yr Govt. Bond Yield	0.85	0.70	0.66	0.70	0.80	0.95	1.10	1.25	1.40	1.55	1.60	1.65	1.70
30-yr Govt. Bond Yield	1.66	1.35	1.41	1.45	1.60	1.75	1.85	1.95	2.05	2.10	2.15	2.20	2.25
Forecast by TD Economics as of September 2020; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.													

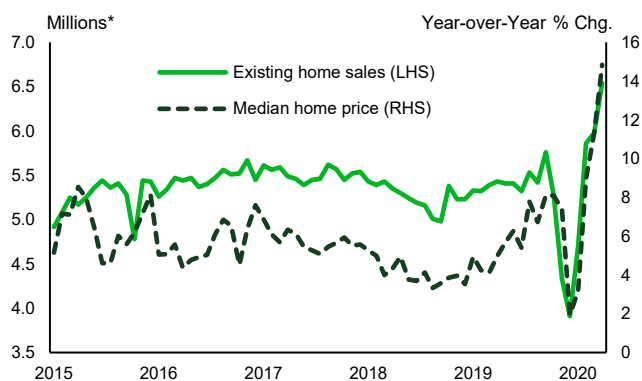
## Housing Market Remains A Bright Spot

Markets continued their choppy ride this week, as investors weighed a rising trend in new infections against hopes for fiscal stimulus. Signs of progress on the latter helped put markets in a better mood later in the week, while a strong housing report provided an added fillip.

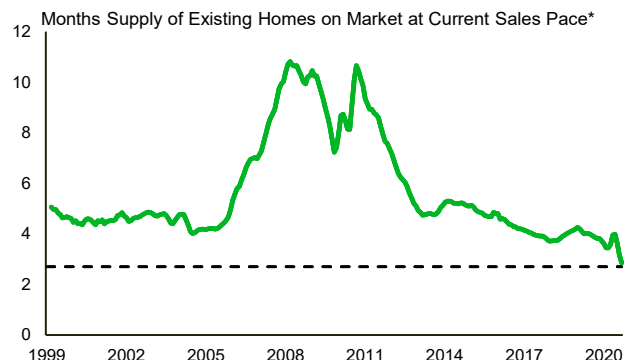
The September existing home sales report reinforced the notion that the housing market remains a bright spot, even as most sectors of the economy continue to struggle under the weight of the pandemic. After gains moderated in the two months prior, resale activity surged by 9.4% in September, blowing expectations out of the water. Sales are now at a new post-Great Recession high and nearly 14% above their pre-pandemic level (Chart 1). Details from the report suggested that the purchasing of homes in vacation destinations – a trend that appears to have been supported by an improved flexibility of working from home – played a part in boosting overall sales. While the latter are up 21% year-over-year (y/y), sales in vacation destination counties accelerated over the summer and are up 34% y/y according to the National Association of Realtors.

With low mortgage rates and a still-improving labor market, we expect resale activity to continue grinding higher, but at a more moderate pace. A sharp acceleration in home price growth is eroding affordability and a record-low supply of housing means that markets will remain tight. Housing inventory now sits at just 1.47 million or a record low of 2.7 months at the current sales pace (Chart 2). As a result, the median existing home price has accelerated to a sharp 15% y/y – the fastest pace since the “frothy” days of 2005.

**Chart 1: Home Resales Surge Higher in September to yet Another Post-great Recession Record**



**Chart 2: Months Supply of Existing Home Inventory at Record Low**



Low inventory and fast-rising prices are good news for homebuilders who have recognized the need to build more homes. More shovels were put to the ground in September, with housing starts up 1.9% on the month. Gains were concentrated in the single-family segment, while multi-family starts fell for the second consecutive month – a trend that seems to align with a tilt to less-denser suburban living as a result of the pandemic. Added supply in the new home market would help by enabling move-up buyers to acquire new homes, thereby easing the gridlock in the resale market. That said, the support from this channel will take time.

The few remaining indicators pointed to a slowing economic recovery outside housing. Initial jobless claims fell by 55k to 787k last week – better than expected, but still slightly higher than at the start of the month. Meanwhile, continuing claims from all programs eased to a still-elevated 23.2 million at the start of the month (data is delayed). Anecdotal evidence from the Beige Book also pointed to a “slight to modest” pace of growth this fall. Coupled with the fact that the virus’ spread is nearing a record high, these elements support the case for added fiscal stimulus.

The outcome of the election, which is now a little over a week away, will have important implications for the economy (see [here](#)) and the amount of fiscal stimulus. So far, Joe Biden is leading in the polls. But, judging from what happened in 2016, it’s worth continuing to take these numbers with a grain of salt.

Admir Kolaj, Economist | 416-944-6318

## Upcoming Key Economic Releases

### U.S. Real GDP – Q3\*

Release Date: October 29, 2020

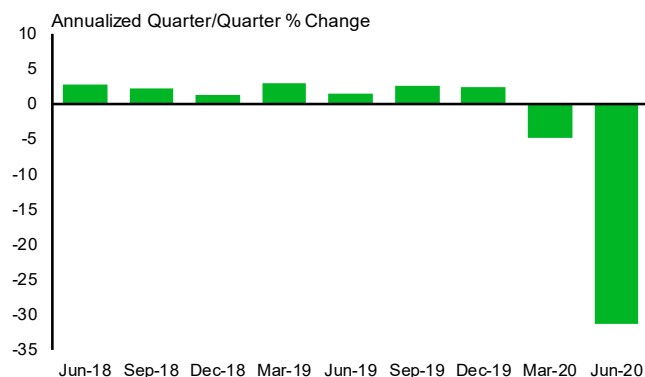
Previous: -31.4%

TD Forecast: 30.0%

Consensus: 32.0%

Real GDP appears to have surged in Q3, albeit after a larger plunge previously. The rebound likely extended to consumer spending, residential investment and business investment. Net exports probably subtracted from growth, with imports up much more than exports. Our 30% q/q AR forecast for overall real GDP implies a net decline of 4.0% since Q4 of 2019, identical to the peak-to-trough decline in the severe 2008-09 recession. Meanwhile, timely data are pointing to slowing/stalling in the current quarter.

U.S. Real GDP



Source: BEA, TD Economics.

### U.S. Personal Income & Spending - September\*

Release Date: October 30, 2020

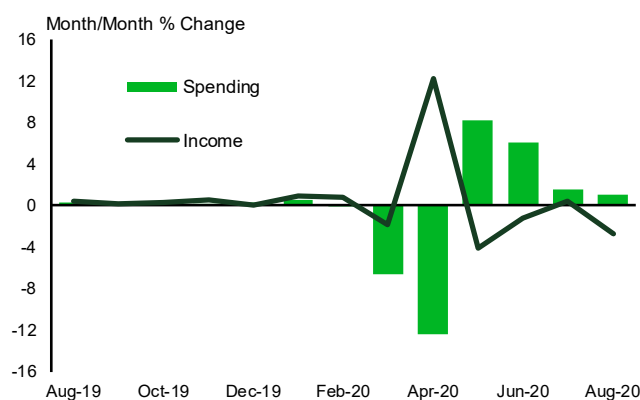
Previous: PCE deflator: 0.3% m/m, 1.4% y/y; core PCE deflator: 0.3% m/m, 1.6% y/y

TD forecast: PCE deflator: 0.1% m/m, 1.5% y/y; core PCE deflator: 0.1% m/m, 1.7% y/y

Consensus: PCE deflator: 0.2% m/m, 1.5% y/y; core PCE deflator: 0.2% m/m, 1.7% y/y

Consumer spending probably finished Q3 with a solid gain, consistent with the retail sales data that have already been reported. Real spending appears to have risen at about a 39% q/q annual rate in Q3 as a whole, helped by fiscal stimulus as well recovery in the labor market. Stimulus is starting to fade, however, and it will fade a lot more in coming months unless a new fiscal package is enacted in Washington. CARES Act provisions boosted the level of personal income by 4.7 percentage points in August.

U.S. Personal Income and Spending



Source: Bureau of Economic Analysis, TD Economics.

\*Forecast by Rates and FX Strategy Group. For further information, contact [TDRates&FXCommoditiesResearch@tdsecurities.com](mailto:TDRates&FXCommoditiesResearch@tdsecurities.com)

Recent Key Economic Indicators: Oct 19-23, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Oct 19	NAHB Housing Market Index	Oct	Index	85.0	83.0
Oct 20	Building Permits	Sep	Thsd	1553.0	1476.0
Oct 20	Housing Starts	Sep	Thsd	1415.0	1388.0
Oct 22	Initial Jobless Claims	Oct 17	Thsd	787.0	842.0
Oct 22	Existing Home Sales	Sep	Mlns	6.54	5.98
Oct 23	Markit US Manufacturing PMI	Oct	Index	53.3	53.2
Oct 23	Markit US Services PMI	Oct	Index	56.0	54.6
Canada					
Oct 19	Wholesale Trade Sales	Aug	M/M % Chg.	0.3	5.2
Oct 19	BoC Overall Business Outlook Survey	3Q	Q/Q % Chg.	-2.2	-6.9
Oct 20	Teranet/National Bank HPI	Sep	Y/Y % Chg.	6.7	5.7
Oct 21	Consumer Price Index NSA	Sep	M/M % Chg.	-0.1	-0.1
Oct 21	Consumer Price Index	Sep	Y/Y % Chg.	0.5	0.1
Oct 21	Retail Sales Ex Auto	Aug	M/M % Chg.	0.5	-0.1
Oct 21	Retail Sales	Aug	M/M % Chg.	0.4	1.0
International					
Oct 21	UK Consumer Price Index	Sep	Y/Y % Chg.	0.5	0.2
Oct 22	JN Natl Consumer Price Index	Sep	Y/Y % Chg.	0.0	0.2
Oct 22	JN Jibun Bank Japan PMI Mfg	Oct	Index	48.0	47.7
Oct 23	UK Retail Sales Ex Auto Fuel	Sep	Y/Y % Chg.	6.4	4.3
Oct 23	EZ Markit Eurozone Manufacturing PMI	Oct	Index	54.4	53.7
Oct 23	UK Markit UK PMI Manufacturing SA	Oct	Index	53.3	54.1

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Oct 26-30, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Oct 26	10:00	New Home Sales	Sep	Thsd	1025.0	1011.0
Oct 27	8:30	Cap Goods Orders Nondef Ex Air	Sep	M/M % Chg.	0.6	1.9
Oct 27	8:30	Durable Goods Orders	Sep	M/M % Chg.	0.6	0.5
Oct 27	9:00	S&P CoreLogic CS US HPI NSA	Aug	Y/Y % Chg.	-	4.78
Oct 27	10:00	Conf. Board Consumer Confidence	Oct	Index	101.7	101.8
Oct 28	8:30	Advance Goods Trade Balance	Sep	Blns	-85.0	-82.9
Oct 28	18:00	<i>Fed's Kaplan Moderates a Panel Discussion with Mark Carney</i>				
Oct 29	8:30	Core Personal Consumption Expenditure	3Q	Q/Q % Chg.	4.0	-0.8
Oct 29	8:30	Gross Domestic Product Annualized	3Q	Q/Q % Chg.	32.0	-31.4
Oct 29	8:30	Initial Jobless Claims	Oct 24	Thsd	778.0	787.0
Oct 29	8:30	Personal Consumption	3Q	Q/Q % Chg.	38.9	-33.2
Oct 29	10:00	Pending Home Sales	Sep	M/M % Chg.	3.0	8.8
Oct 30	8:30	Employment Cost Index	3Q	Q/Q % Chg.	0.6	0.5
Oct 30	8:30	Personal Consumption Expenditure Core Deflator	Sep	Y/Y % Chg.	1.7	1.6
Oct 30	8:30	Personal Consumption Expenditure Deflator	Sep	Y/Y % Chg.	1.5	1.4
Oct 30	8:30	Personal Income	Sep	M/M % Chg.	0.3	-2.7
Oct 30	8:30	Real Personal Spending	Sep	M/M % Chg.	-	0.7
<b>Canada</b>						
Oct 28	10:00	Bank of Canada Rate Decision	Oct 28	%	0.25	0.25
Oct 29	6:00	CFIB Business Barometer	Oct	Index	-	59.2
Oct 30	8:30	Gross Domestic Product	Aug	M/M % Chg.	-	3.0
Oct 30	8:30	Industrial Product Price	Sep	M/M % Chg.	-	0.3
<b>International</b>						
Oct 28	19:50	JN Retail Sales	Sep	Y/Y % Chg.	-7.6	-1.9
Oct 29	19:30	JN Jobless Rate	Sep	%	3.1	3.0
Oct 29	19:30	JN Tokyo Consumer Price Index	Oct	Y/Y % Chg.	-0.1	0.2
Oct 29		JN BOJ Policy Balance Rate	Oct 29	%	-	-0.10
Oct 30	6:00	EZ Consumer Price Index Estimate	Oct	Y/Y % Chg.	-0.3	-0.3
Oct 30	6:00	EZ Gross Domestic Product SA	3Q	Y/Y % Chg.	-7.0	-14.7
Oct 30	6:00	EZ Unemployment Rate	Sep	%	8.2	8.1
Oct 30	8:00	MX Gross Domestic Product NSA	3Q	Y/Y % Chg.	-	-18.7
Oct 30	21:00	CH Manufacturing PMI	Oct	Index	51.5	51.5

Source: Bloomberg, TD Economics.

## Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.