

## The Weekly Bottom Line

September 18, 2020

### Highlights of the Week

#### United States

- The Federal Reserve is not likely to increase interest rates until at least end-2023, however, this has not been enough to quench investors' thirst for more liquidity.
- Retail sales strengthened for the fourth straight month this August, with several categories above or close to pre-pandemic levels of sales. However, the recovery momentum is fading.
- The labor market recovery has slowed with initial claims flattening at elevated levels. Almost 30 million people are still claiming unemployment benefits.

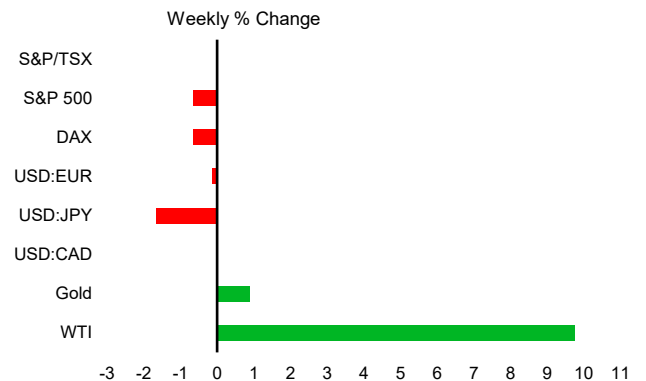
#### Canada

- Financial markets were mixed this week, with the S&P/TSX flat on the week. Meanwhile, oil markets received a boost from a bullish EIA inventory report and Thursday's OPEC+ meeting.
- Economic data released this week continued to point to an ongoing recovery. However, improvements are uneven across the sectors. The highlight was the ongoing strength in resale housing markets that left sales 20% above their pre-pandemic levels.
- Meanwhile, soft CPI inflation readings for August (0.1% y/y) once again served as a reminder that slack remains in the economy.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	3334	3341	3581	2237
S&P/TSX Comp.	16252	16222	17944	11228
DAX	13116	13203	13789	8442
FTSE 100	6007	6032	7675	4994
Nikkei	23360	23406	24084	16553
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	0.69	0.67	1.94	0.51
Canada 10-yr Bond	0.58	0.55	1.70	0.43
Germany 10-yr Bund	-0.49	-0.48	-0.16	-0.86
UK 10-yr Gilt	0.18	0.18	0.87	0.08
Japan 10-yr Bond	0.02	0.03	0.08	-0.26
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.76	0.76	0.77	0.69
Euro (USD per EUR)	1.19	1.18	1.19	1.07
Pound (USD per GBP)	1.30	1.28	1.34	1.15
Yen (JPY per USD)	104.4	106.2	112.1	102.4
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	41.1	37.3	63.3	-37.6
Natural Gas (\$US/MMBtu)	1.65	1.93	2.87	1.40
Copper (\$US/met. tonne)	6806.3	6770.3	6814.5	4625.0
Gold (\$US/troy oz.)	1958.5	1940.6	2063.5	1454.4

\*As of 12:42 PM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

### Stock Draws, OPEC+ Meeting Boost Oil Prices



Note: Data as of 12:56 PM ET, Friday, September 18, 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.

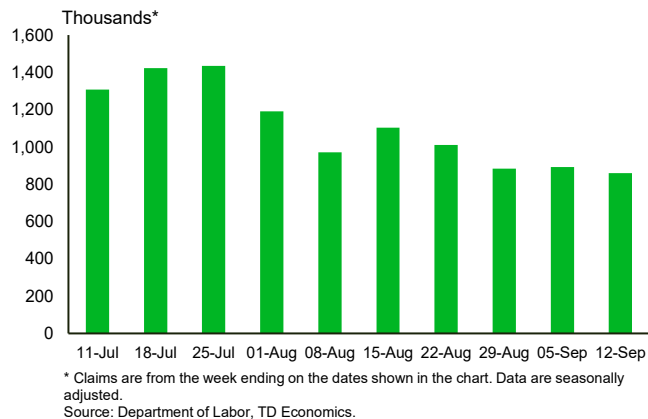
## U.S. – The Recovery Shifts In to Low Gear

U.S. financial markets had a bumpy ride this week. The highs early on were followed by a sharp drop after Chairman Powell failed to quench investors’ thirst for more liquidity. The declines were primarily led by large cap technology stocks, which have so far made major gains during the crisis. As of writing, the S&P 500 is on track to end the week about 0.1% lower compared to last week’s close.

On the economic front, the Federal Reserve indicated that there will be no interest rate increase until at least end-2023. The Fed said that it would not tighten policy until inflation is higher than 2% for “some time”, a move away from its previous policy goal of “maximum employment” and “symmetric 2% inflation”. This announcement makes the Fed’s desire to make up for past inflation underperformance more explicit. However, the Fed continued to remain vague on the period over which it seeks to achieve higher inflation. Despite the dovish stance, markets thought it wasn’t dovish enough. Equities slid, as investors were hoping for the Fed to magnify its QE by announcing the purchase of more government bonds.

In terms of economic data, retail sales strengthened for the fourth straight month in August with many of the major categories being very close to or even above their pre-pandemic level of sales (Chart 1). However, the momentum is fading as sales grew by a meagre 0.6% month-on-month in August, down from 0.9% in July. Cooling pent-up demand and a decline in income for a significant share of the population (due to CARES Act payments being stopped in end-July) may be responsible for this slowdown. How-

**Chart 2: Initial Jobless Claims Are Flattening at Elevated Levels**

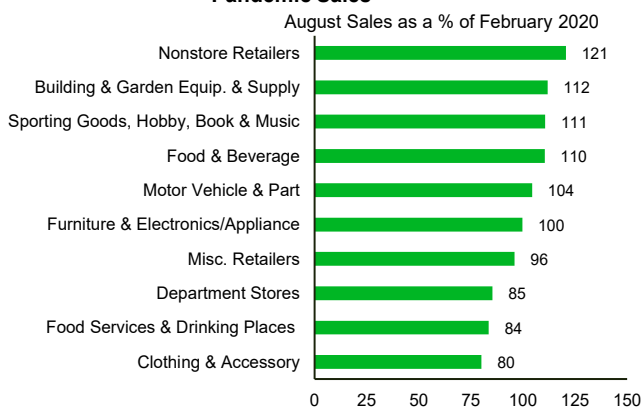


ever, the strength in retail has been uneven as it masks the continued weakness seen in clothing, restaurants and bars and department stores. It is important to keep in mind that some of the hardest-hit areas, especially high-touch services (recreation, childcare and haircuts etc.) are not included in these data.

Turning to the housing market, starts weakened by 5.1% month-on-month. The decline was primarily driven by the multi-family segment, which fell by 23% on the month, reversing much of the gains seen during the summer. Single-family starts, on the other hand, jumped by 4.1%. Construction for single family homes is continuing at a solid pace on the back of perceived health risks posed by dense living as well as more permanent work from home policies. The housing market is likely to see slower gains in the coming months as economic recovery slows and pandemic-induced uncertainty abounds.

Meanwhile, the labor market recovery has slowed down (Chart 2). Initial jobless claims (860k) were broadly around consensus, down 33k from last week. Continuing claims came in at 12.6 million, beating the consensus (13 million) and down 1 million. Moreover, the number of people collecting unemployment benefits edged higher in late August. At almost 30 million people, the total remains incredibly high. Job growth is expected to be slower through the remainder of the year, with a full labor market recovery not taking months, or quarters, but years.

**Chart 1: Several Retailers are Above Pre-Pandemic Sales**



Source: Bureau of the Census, TD Economics.

Sohaib Shahid, Senior Economist | 416-982-2556

## Canada - More Evidence of a "Swoosh"-Shaped Recovery

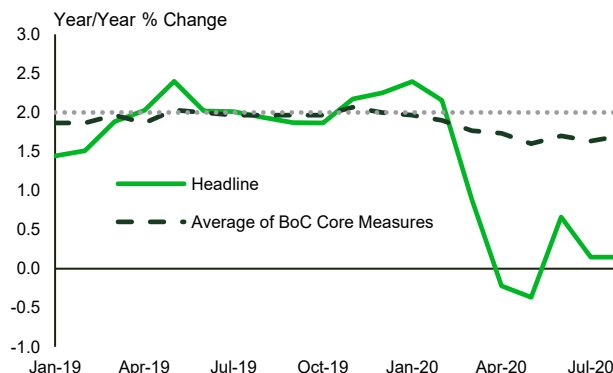
Financial markets were mixed this week, with risk sentiment alternating on global central bank meetings, ongoing uncertainty around U.S. fiscal policy, and the upcoming election. The S&P/TSX ended the week almost flat (as of writing). Turning to oil markets, WTI prices recorded a 9% gain on the week. This was driven by a bullish report from the Energy Information Administration (EIA) which revealed a larger-than-expected crude oil inventory draw in the U.S. Prices were also helped by messaging from major OPEC+ producers on their commitment to rebalancing markets.

Domestically, news flow focused on the U.S. decision to reverse tariffs on Canadian aluminum – a welcome development that should prevent an ill-timed drop in exports for aluminum producers, namely in Quebec (see our latest [Provincial Economic Forecast](#)).

Data releases this week point to a recovery that remains intact, but with varying "shapes" across different sectors. Our latest [Quarterly Economic Forecast](#) imbeds a Nike "swoosh"-shaped recovery - a middle ground between the V-shaped snapback seen in areas such as housing, and the more elongated recoveries observed in other sectors.

At one end of the spectrum, existing home sales clocked in another 6.2% month-on-month gain in August, leaving overall sales 20% above pre-pandemic levels. Average prices, likewise, saw a 4% boost (17.8% year/year) as markets remained broadly in sellers' territory. The stark divergence between housing market activity and other economic indicators is driven by a combination of pent-up demand, borrowing rates, and stable incomes. The solid rebound will

**Chart 2: Headline Inflation Continues to Point to Economic Slack**



Source: Statistics Canada, Bank of Canada, TD Economics. Last observation August 2020.

support the economic recovery. That said, pent-up demand is unlikely to have lasting power, giving way to some pullback in activity in Q4.

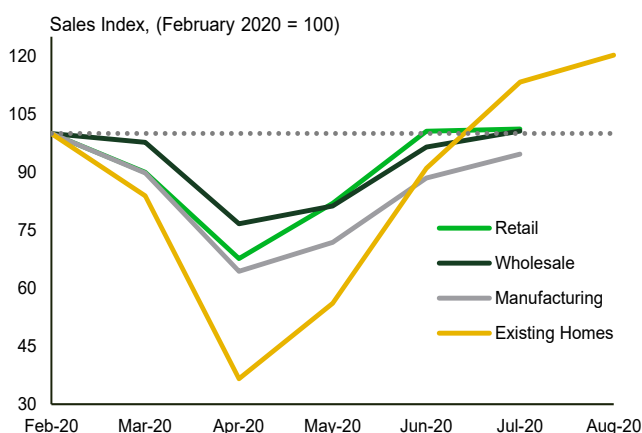
Elsewhere in the economy, retail (+0.6% m/m) and wholesale trade (+4.3%) also recorded further gains in July. Retail sales remained above pre-pandemic levels for a second consecutive month, with a further 1.1% increase anticipated by Statistics Canada in August. However, this swift rebound in retail sales masks diverging trends across the subsectors. For instance, gasoline and clothing sales both were still 14-15% below February levels.

Meanwhile, manufacturing sales in July remained 5.4% below pre-pandemic levels, despite a 7% increase in July's shipments. The sector remains vulnerable to an uncertain global macroeconomic and business investment backdrop - especially in Canada's oil & gas sector.

All told, positive data received this week are a welcome sign, but the recovery appears to be slowing. More timely indicators (such as Google's mobility reports, TD spending data) suggest that momentum is tapering off as we enter the autumn season. Perhaps best capturing lingering economic slack is this week's CPI inflation release for August, which at 0.1% y/y, underperformed consensus expectations for a second consecutive month. Although firmer core inflation measures provide some respite, the persistent weakness in headline measures and notable softness across some hard-hit spending indicators (i.e. clothing, recreation, travel) is a reminder that we have a long way to go before pandemic-induced losses are fully recouped.

Omar Abdelrahman, Economist | 416-734-2873

**Chart 1: Uneven Recoveries Across Different Sectors**



Source: Statistics Canada, TD Economics.

Recent Key Economic Indicators: Sep 14- 18, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Sep 15	Empire Manufacturing	Sep	Index	17.0	3.7
Sep 15	Capacity Utilization	Aug	%	71.4	71.1
Sep 15	Industrial Production	Aug	M/M % Chg.	0.4	3.5
Sep 15	Manufacturing (SIC) Production	Aug	M/M % Chg.	1.0	3.9
Sep 16	Retail Sales Advance	Aug	M/M % Chg.	0.6	0.9
Sep 16	Retail Sales Ex Auto and Gas	Aug	M/M % Chg.	0.7	1.1
Sep 16	Business Inventories	Jul	M/M % Chg.	0.1	-1.1
Sep 16	NAHB Housing Market Index	Sep	Index	83.0	78.0
Sep 16	FOMC Rate Decision (Upper Bound)	Sep 16	%	0.25	0.25
Sep 17	Building Permits	Aug	Thsd	1470.0	1483.0
Sep 17	Housing Starts	Aug	Thsd	1416.0	1492.0
Sep 17	Initial Jobless Claims	Sep 12	Thsd	860.0	893.0
<b>Canada</b>					
Sep 15	Manufacturing Sales	Jul	M/M % Chg.	7.0	23.0
Sep 15	Existing Home Sales	Aug	M/M % Chg.	6.2	26.0
Sep 16	Consumer Price Index	Aug	Y/Y % Chg.	0.1	0.1
Sep 16	Consumer Price Index NSA	Aug	M/M % Chg.	-0.1	0.0
Sep 18	Retail Sales	Jul	M/M % Chg.	0.6	22.7
Sep 18	Retail Sales Ex Auto	Jul	M/M % Chg.	-0.4	15.5
Sep 18	Teranet/National Bank HPI	Aug	Y/Y % Chg.	5.7	5.5
Sep 18	Wholesale Trade Sales	Jul	M/M % Chg.	4.3	18.8
<b>International</b>					
Sep 14	CH Retail Sales	Aug	Y/Y % Chg.	0.5	-1.1
Sep 14	CH Surveyed Jobless Rate	Aug	%	5.6	5.7
Sep 15	UK ILO Unemployment Rate 3Mths	Jul	%	4.1	3.9
Sep 16	UK Consumer Price Index	Aug	Y/Y % Chg.	0.2	1.0
Sep 16	JN BOJ Policy Balance Rate	Aug	%	-0.10	-0.10
Sep 17	EZ Consumer Price Index	Aug	Y/Y % Chg.	-0.2	-0.2
Sep 17	UK Bank of England Bank Rate	Sep 17	%	0.10	0.10
Sep 17	JN Natl Consumer Price Index	Sep 17	Y/Y % Chg.	0.2	0.3
Sep 18	UK Retail Sales Ex Auto Fuel	Aug	Y/Y % Chg.	4.3	3.1

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sep 21-25, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Sep 21	10:00	<i>Fed Board Holds Open Meeting on Community Reinvestment Act</i>				
Sep 21	12:00	<i>Fed's Brainard Discusses Community Reinvestment Act</i>				
Sep 22	10:00	Existing Home Sales	Aug	Mlns	6.0	5.86
Sep 22	10:00	<i>Fed's Evans Discusses the U.S. Economy and Monetary Policy in a Webinar</i>				
Sep 22	10:30	<i>Powell Appears Before House Financial Services Panel to Testify on the CARES Act</i>				
Sep 23	9:00	<i>Fed's Mester Discusses Payments and the Pandemic at the Chicago Symposium</i>				
Sep 23	9:45	Markit US Manufacturing PMI	Sep	Index	53.5	53.1
Sep 23	9:45	Markit US Services PMI	Sep	Index	54.5	55.0
Sep 23	10:00	<i>Powell Appears before House Panel on Covid-19 Crisis</i>				
Sep 23	11:00	<i>Fed's Evans Discusses the U.S. Economy and Monetary Policy</i>				
Sep 23	12:00	<i>Fed's Rosengren Discusses U.S. Economy at a Virtual Event</i>				
Sep 23	14:00	<i>Fed's Quarles Gibes a Virtual Speech on the Economic Outlook</i>				
Sep 23	15:00	<i>Fed's Daly Discusses Labor Force Implications of Covid-19 over a Virtual Event</i>				
Sep 24	8:30	Initial Jobless Claims	Sep 19	Thsd	845.0	860.0
Sep 24	10:00	New Home Sales	Aug	Thsd	891.0	901.0
Sep 24	10:00	<i>Powell, Mnuchin Testify Before Senate Banking Committee about CARES Act Quarterly Report</i>				
Sep 24	12:00	<i>Fed's Bullard Discusses Economy and Monetary Policy in a Webinar</i>				
Sep 24	13:00	<i>Fed's Evans Discusses the U.S. Economy and Monetary Policy in a Virtual Event</i>				
Sep 25	8:30	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	1.0	1.9
Sep 25	8:30	Durable Goods Orders	Aug	M/M % Chg.	1.4	11.4
Sep 25	9:00	<i>Fed's Williams Talks with Community Development Leaders</i>				
Sep 25	15:10	<i>Fed's Williams Discusses the Covid-19 Job Market with Young Adults via Videoconference</i>				
<b>Canada</b>						
Sep 24	6:00	CFIB Business Barometer	Sep	Index	-	59.2
<b>International</b>						
Sep 22	20:30	JN Jibun Bank Japan PMI Mfg	Sep	Index	-	47.2
Sep 23	4:00	EZ Markit Eurozone Manufacturing PMI	Sep	Index	51.9	51.7
Sep 23	4:30	UK Markit UK PMI Manufacturing SA	Sep	Index	54.0	55.2

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.