

Weekly Bottom Line

August 30, 2024

Highlights

U.S.

- The second estimate of Q2 GDP revealed that the U.S. economy grew at 3.0% annualized, a bit stronger than previously reported, thanks to an upward revision in consumer spending.
- Spending momentum continued into July, outstripping income growth for the sixth consecutive month and pushing the savings rate to a two-year low of 2.9%.
- Core PCE inflation held steady at 2.6% year-on-year in July, while the three-month annualized rate of change fell below the Fed's 2% inflation target.

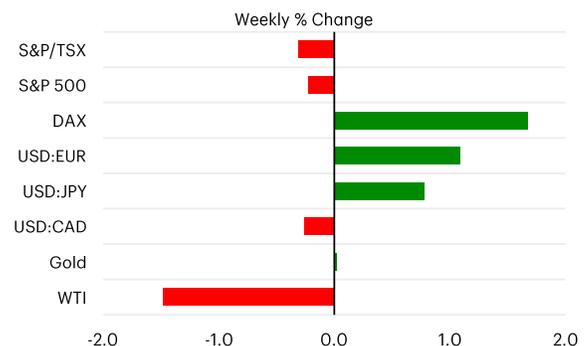
Canada

- Second-quarter GDP came in ahead of expectations, driven by government expenditures and business spending. Other details were less encouraging, as household spending, residential investment and net exports fell short of expectations.
- In other news, June payrolls declined for the first time in six months while the job vacancy rate remained steady.
- The Bank of Canada is likely to interpret this week's data as supportive of maintaining its easing bias, with three more quarter-point cuts expected by year-end.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5623	5635	5667	4117
S&P/TSX Comp.	23213	23286	23349	18737
DAX	18939	18633	18939	14687
FTSE 100	8391	8328	8446	7291
Nikkei	38648	38364	42224	30527
Fixed Income Yields				
U.S. 10-yr Treasury	3.87	3.80	4.99	3.79
Canada 10-yr Bond	3.13	3.03	4.24	3.00
Germany 10-yr Bund	2.28	2.23	2.97	1.90
UK 10-yr Gilt	4.00	3.91	4.67	3.44
Japan 10-yr Bond	0.90	0.90	1.10	0.56
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.76	0.72
Euro (USD per EUR)	1.11	1.12	1.12	1.05
Pound (USD per GBP)	1.32	1.32	1.33	1.21
Yen (JPY per USD)	145.6	144.4	161.7	140.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	73.7	74.8	93.7	68.6
Natural Gas (\$US/MMBtu)	1.87	1.88	13.11	1.24
Copper (\$US/met. tonne)	9125.6	9173.4	10800.8	7823.8
Gold (\$US/troy oz.)	2511.7	2512.6	2524.6	1820.3

*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.

Oil Slides on OPEC+ Supply Boost, Weak Demand



Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	4.50%
European Central Bank (Refi Rate)	4.25%
Bank of England (Repo Rate)	5.00%
Bank of Japan (Overnight Rate)	0.25%

Source: Bloomberg.

U.S. – Fed to Tilt Focus to Labor Market as it Tees Up First Rate Cut

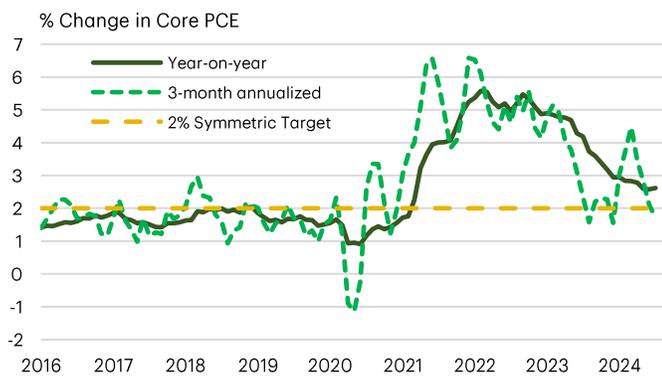
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The Labor Day weekend is upon us, providing an opportunity to celebrate the achievements of the American worker. Keeping with the labor market theme, now that the Fed appears relatively confident that inflation will return to target, we believe it will put a little more emphasis the other side of its dual mandate – the goal of maximum employment – to determine the speed and size of policy easing. In that vein, next week's payrolls report can't come soon enough. This week's data, meanwhile, did little to rock the boat, coming in broadly positive. Amidst this backdrop, long-term yields trended modestly higher, while the S&P 500 looks to end the week lower by 0.6% as of the time of writing.

A second read on U.S. GDP revealed an even better growth profile of 3.0% annualized in the second quarter (vs. 2.8% previously), thanks in large part to an upward revision in consumer spending (2.9% vs. 2.3% previously). But this week's highlight was the July personal income and spending (PCE) report. The latter showed that overall and core PCE inflation held steady on an annual basis, coming in at respectively 2.5% and 2.6% in July. Looking to more recent trends, on a 3-month annualized basis, core PCE eased to 1.7% in July from 2.1% in the month prior, suggesting we're likely to see more cooling in inflationary pressures in the months ahead (Chart 1).

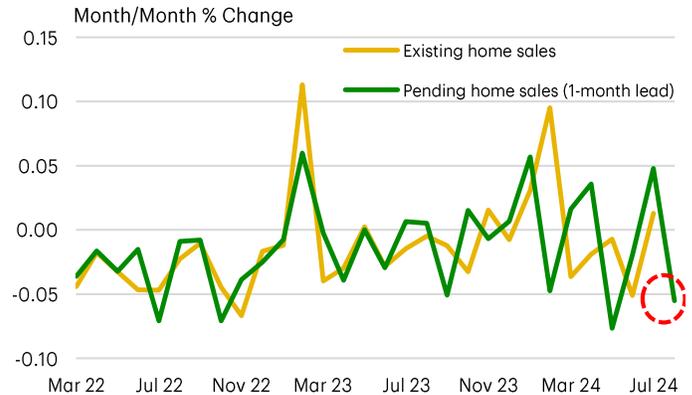
The PCE report also shed light on consumer spending, which had a relatively healthy start to the third quarter. Real spending rose by 0.4% month-over-month (m/m) in July – an acceleration from 0.3% in the month prior,

Chart 1: Fed's Preferred Inflation Gauge, Core PCE, Drifts Below Target on a 3-Month Annualized Basis



Source: BEA, TD Economics.

Chart 2: U.S. Pending Home Sales Backtrack in July



Source: NAR, TD Economics.

with both goods and service spending chipping in with healthy gains. However, real disposable personal income continued to trail behind (+0.1%), which meant consumers had to dip into their savings to sustain the higher rate of spending. As a result, the personal savings rate fell to a two-year low of 2.9%.

Other consumer-related indicators continued to paint a nuanced picture. Americans were a little more upbeat in August, with the Conference Board confidence measure rising to a six-month high, thanks in large part to an improvement in the "expectations" subcomponent. Still, plans to buy large ticket items, including cars, homes, and major appliances, all trended lower on the month. And it's not just survey data showing a consumer's reluctance to make big purchases. Pending home sales – a leading indicator for existing home sales – fell sharply in July (-5.5%), driving home the point that the recent pullback in interest rates has so far failed to spark a sustained improvement in sales (Chart 2).

Next week, attention will turn towards the August payrolls report, which will help shape whether the Fed cuts by 25 or 50 basis points at its next rate decision in September. Market expectations call for some rebound in job gains relative to July's gain of 114,000. The recent steadying of both jobless claims and job postings suggests that the chances of another downside miss is less likely, which favors a 25 basis point cut in September.

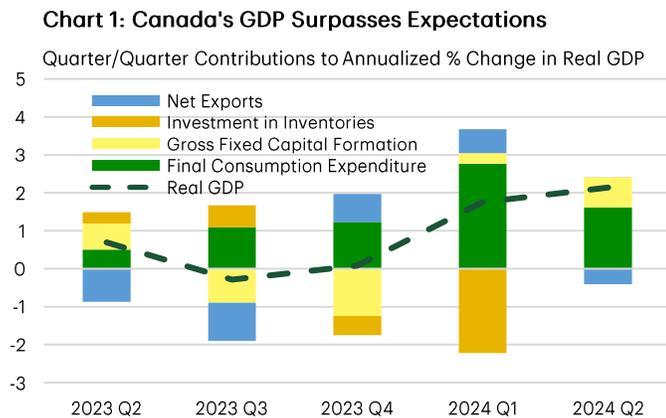
Canada – More Reason to Ride Down the Policy Escalator

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The final week of a summer break stayed drama-free with analysts' attention squarely on Friday's marquee release of [Canada's second-quarter GDP](#). Equity markets saw intraday volatility primarily driven by earnings, leaving the TSX closing -0.3% on the week. In the rates market, today's data was met as a confirmation of what had already been priced – a gradual stepwise descent in 25 basis points increments through the end of the year. Longer-term yields inched higher with the 10-year government bond up 8 bps to 3.12% to end the week.

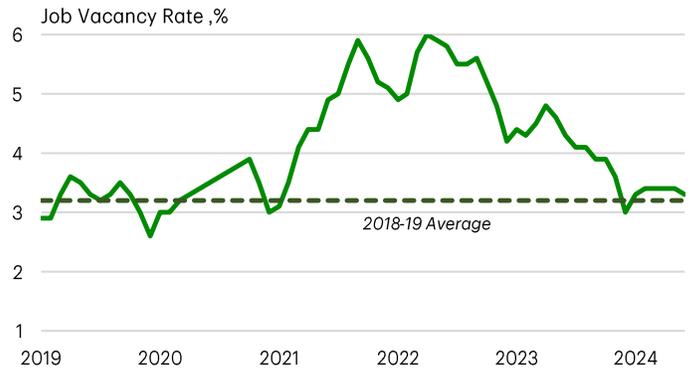
Real gross domestic product (GDP) rose by 2.1% quarter-on-quarter (q/q, annualized) in the second quarter, ahead of expectations calling for a gain of 1.6% q/q (Chart 1). The primary drivers of this gain were government expenditures supported by increases in compensation of employees (expense on the government ledger), and purchases of goods and services. Business spending on non-residential investment and machinery & equipment also made a significant contribution to today's reading.

However, other details were less encouraging. Household spending came in lower than expected, consistent with the [more recent data pointing](#) to a weaker trajectory. A higher revision to Q1 spending partially offsets last quarter's miss as the upward adjustment roughly matches the magnitude of Q2's shortfall. Services spending remained a steady growth contributor with consumers increasing their outlays on necessities such as housing, food, and electricity. Spending on goods edged down, particularly in automobile expenditures, which were impacted by temporary technological setbacks are expect-



Source: Statistics Canada, TD Economics.

Chart 2: Job Vacancies Point to a Balanced Labour Market



Source: Statistics Canada, TD Economics.

ed to reverse next quarter. Softer spending combined with solid gains in compensation led to an increase in the savings rate, which rose to 7.2% - the highest reading since Q1 2022 and significantly above the pre-pandemic average.

On the housing front, residential investment saw its largest decline in over a year with all major components – construction, renovations and homeownership transfer costs – falling during the quarter. Net exports also fell short of expectations for a rebound, weighing on the GDP reading. We expect growth to continue at a below-trend pace for the next several quarters until the economy gains further relief from lower rates.

In other news, this week's Survey of Employment, payrolls and hours data showed that June payrolls declined for the first time in six months. The job vacancy rate – a ratio of vacancies to a number of available jobs – remained close to its pre-pandemic average, indicating a relatively balanced demand-supply position (Chart 2). The details show significant disparities among sectors, with labour demand still elevated in the service sector, but has cooled below pre-pandemic levels for the goods-producing sector.

The Bank of Canada is likely to interpret this week's data as supportive of maintaining its easing bias. With the Fed now poised to adopt a similar policy stance, the risk of significant monetary policy divergence has diminished, reducing downward pressure on the Canadian dollar and easing the risk of importing price inflation.

Exhibits

Recent Key Economic Indicators: August 26 - 30, 2024

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Aug 26	Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	-0.1	0.5
Aug 26	Durable Goods Orders	Jul	M/M % Chg.	9.9	-6.9
Aug 27	S&P CoreLogic CS 20-City NSA	Jun	Y/Y % Chg.	6.5	6.9
Aug 27	S&P CoreLogic CS US HPI NSA	Jun	Y/Y % Chg.	5.4	5.9
Aug 27	Conf. Board Consumer Confidence	Aug	Index	103.3	101.9
Aug 29	Advance Goods Trade Balance	Jul	Blns	-102.70	-96.60
Aug 29	Gross Domestic Product (Annualized)	Q2	Q/Q % Chg.	3.0	2.8
Aug 29	Personal Consumption	Q2	Q/Q % Chg.	2.9	2.3
Aug 29	Initial Jobless Claims	Aug 24	Thsd	231.0	233.0
Aug 29	Pending Home Sales	Jul	M/M % Chg.	-5.5	4.8
Aug 30	Personal Income	Jul	M/M % Chg.	0.3	0.2
Aug 30	Real Personal Spending	Jul	M/M % Chg.	0.4	0.3
Canada					
Aug 29	CFIB Business Barometer	Aug	Index	56.8	55.5
Aug 29	Payroll Employment Change (SEPH)	Jun	Thsd	-47.3	39.7
Aug 30	Gross Domestic Product (Annualized)	Q2	Q/Q % Chg.	2.1	1.8
International					
Aug 29	JN Jobless Rate	Jul	%	2.7	2.5
Aug 29	JN Tokyo Consumer Price Index	Aug	Y/Y % Chg.	2.6	2.2
Aug 29	JN Retail Sales	Jul	Y/Y % Chg.	2.6	3.8
Aug 30	EZ Consumer Price Index Estimate	Aug	Y/Y % Chg.	2.2	2.6
Aug 30	EZ Unemployment Rate	Jul	%	6.4	6.5
Aug 30	IN Gross Domestic Product	Q2	Y/Y % Chg.	6.7	7.8

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

Upcoming Economic Releases and Events: September 02 - 06, 2024

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 03	9:45	S&P Global US Manufacturing PMI	Aug	Index	48.1	48.0
Sep 03	10:00	ISM Manufacturing	Aug	Index	47.5	46.8
Sep 04	8:30	Trade Balance	Jul	Blns	-78.5	-73.1
Sep 04	10:00	Factory Orders	Jul	M/M % Chg.	4.6	-3.3
Sep 04	10:00	Factory Orders Ex Trans	Jul	M/M % Chg.	-	0.1
Sep 04	10:00	Durable Goods Orders	Jul	M/M % Chg.	-	9.9
Sep 04	10:00	Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	-	-0.1
Sep 04	0:00	Wards Total Vehicle Sales	Aug	Mlns	15.4	15.8
Sep 05	8:15	ADP Employment Change	Aug	Thsd	138.0	122.0
Sep 05	8:30	Unit Labor Costs	2Q	Q/Q % Chg.	0.9	0.9
Sep 05	8:30	Initial Jobless Claims	Aug 31	Thsd	230.0	231.0
Sep 05	9:45	S&P Global US Services PMI	Aug	Index	-	55.2
Sep 05	9:45	S&P Global US Composite PMI	Aug	Index	-	54.1
Sep 05	10:00	ISM Services Index	Aug	Index	50.9	51.4
Sep 06	8:30	Change in Nonfarm Payrolls	Aug	Thsd	165.0	114.0
Sep 06	8:30	Unemployment Rate	Aug	%	4.2	4.3
Sep 06	8:30	Average Hourly Earnings	Aug	M/M % Chg.	0.3	0.2
Canada						
Sep 03	9:30	S&P Global Canada Manufacturing PMI	Aug	Index	-	47.8
Sep 04	8:30	Int'l Merchandise Trade	Jul	Blns	-	0.6
Sep 04	9:45	Bank of Canada Rate Decision	Sep 04	%	4.25	4.50
Sep 06	8:30	Net Change in Employment	Aug	Thsd	25.0	-2.8
Sep 06	8:30	Unemployment Rate	Aug	%	6.5	6.4
International						
Sep 03	8:00	BZ Gross Domestic Product	2Q	Q/Q % Chg.	0.9	0.8
Sep 05	5:00	EZ Retail Sales	Jul	Y/Y % Chg.	0.1	-0.3
Sep 06	5:00	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	0.6	0.6
Sep 06	5:00	EZ Employment	2Q	Y/Y % Chg.	-	0.8

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

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