

Weekly Bottom Line

September 6, 2024

Highlights

U.S.

- The U.S. added fewer jobs than expected in August, even as wage growth accelerated, and the unemployment rate edged down. Additionally, JOLTS data pointed to lower job openings, suggesting that the U.S. labor market continued to cool.
- Fed Governor Williams stated that the time had come for less restrictive monetary policy but remained mum on the possible size of any cut. Governor Waller, however, suggested he favored starting carefully.
- Manufacturing activity continued to contract in August, with demand easing. However, the services sector, continued to chug along as it has for much of this year.

Canada

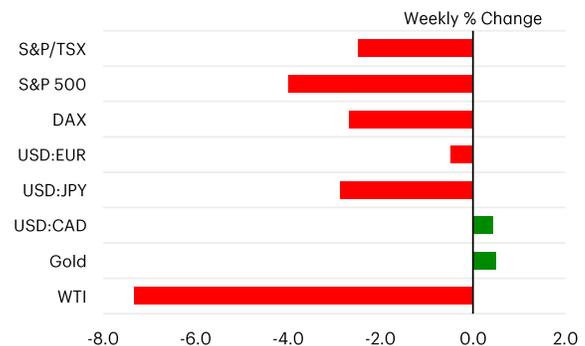
- There were no surprises from the Bank of Canada this week, as they proceeded with another rate cut this week. We expect two more rate cuts before the end of the year.
- Employment data for August showed modest job gains, but the details of the report indicate cooling in the labour market.
- Canada recorded a trade surplus in July, leaving net trade tracking to add modestly to third quarter growth in Canada.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5421	5648	5667	4117
S&P/TSX Comp.	22760	23346	23349	18737
DAX	18361	18907	18931	14687
FTSE 100	8202	8377	8446	7291
Nikkei	36391	38648	42224	30527
Fixed Income Yields				
U.S. 10-yr Treasury	3.66	3.90	4.99	3.66
Canada 10-yr Bond	2.93	3.16	4.24	2.93
Germany 10-yr Bund	2.17	2.30	2.97	1.90
UK 10-yr Gilt	3.88	4.02	4.67	3.44
Japan 10-yr Bond	0.85	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	1.10	1.12	1.05
Pound (USD per GBP)	1.31	1.31	1.33	1.21
Yen (JPY per USD)	142.0	146.2	161.7	140.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	68.2	73.6	93.7	68.2
Natural Gas (\$US/MMBtu)	2.02	1.99	13.20	1.24
Copper (\$US/met. tonne)	8978.7	9118.1	10800.8	7823.8
Gold (\$US/troy oz.)	2513.7	2503.4	2524.6	1820.3

*As of 11:20 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Equities Down Amidst Cooling Economy



Note: Data as of 11:18 AM ET, Friday, September 6, 2024.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	4.25%
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. – With Employment Slowing, The Time to Cut is Here

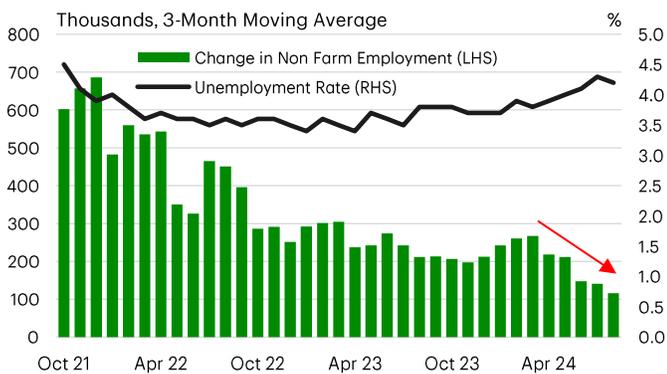
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In a holiday shortened week, the labor market took center stage. Both the Job Opening and Labor Turnover Survey (JOLTS) and employment report were on the calendar. Given the Fed's recent heightened focus on the second leg of its dual mandate – to promote maximum employment – the reports carried larger than usual significance. Notably, they provided a last look at top-tier labor market data before the Fed's meeting on September 18th. Markets were generally down throughout the week. This morning's employment report extended that trend as 10-year bond yields edged lower relative to last week's close (-0.22 percentage points) and the S&P500 also dipped lower (-3.4%), as of the time of writing.

The increase in August's payroll growth came in lower than anticipated and on a three-month basis, continued to head lower (Chart 1). Additionally, the figures for the prior two months were revised down. Despite this, there was some good news – the unemployment rate ticked down and annual growth in average hourly earnings edged up. Today's payrolls report was a mixed bag, but overall, adds to the thesis that the labour market has eased off the gas. In a statement by Fed Governor Williams, following release of the report, he was clear in his belief that it was now appropriate to dial back policy restrictiveness. Further, speaking after the jobs data, Governor Waller pointed to starting rate cuts "carefully", but was open to moving faster if the data warrant it.

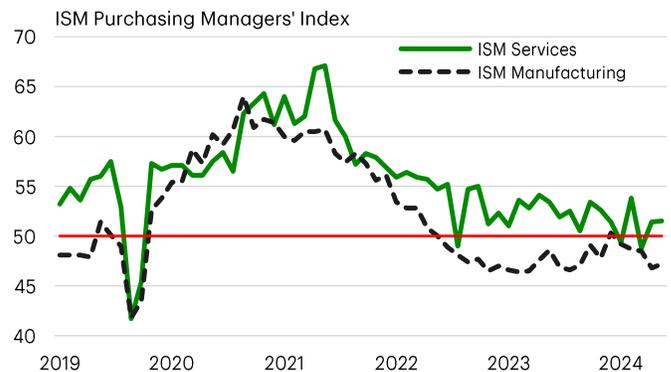
In another sign of a cooling labor market, the more backward-looking JOLTS report revealed that job open-

Chart 1: Employment Growth Continues To Weaken in the U.S.



Source: Bureau of Labor Statistics, TD Economics. Last Observation: August 2024.

Chart 2: The Divergence Continues As U.S. Services Expand and Manufacturing Contracts



Note: Readings above (below) 50 indicate expansion (contraction).
Source: Institute of Supply Management, TD Economics.

ings fell more than anticipated in July to 7.7 million. This marked the lowest level in more than three years. Additionally, the job openings to unemployed workers ratio declined to 1.1 from a high of 2 in early-2022. The job separation rate also ticked up in July after a dip in June, though it still remains relatively low. Overall, the JOLTS data suggests that the pandemic era of tightness in the labor market has receded and adds to the mounting evidence of cooling labor demand and a slowing economy.

On the production side, while the ISM Manufacturing Index managed to edge up in August, it remained in contraction territory for the fifth consecutive month and came in lower than analysts' expectations. The sector continued to experience weakness in demand as both the new orders and new export orders indexes slid deeper into contraction. The ongoing weakness in the sector rekindled some concerns over the health of the economy. On the services side, however, things were a bit better, with the ISM Services Index coming in at 51.5 in August, up just slightly from 51.4 in July. Overall, the services sector continues to hold its ground, offsetting much of the weakness evident in the manufacturing sector (Chart 2).

With the employment numbers now a known variable, the Fed's attention will be focused on the inflation data on tap for release next week. Barring any unforeseen flare-ups, all roads seem to lead to a quarter-point rate cut at the September meeting.

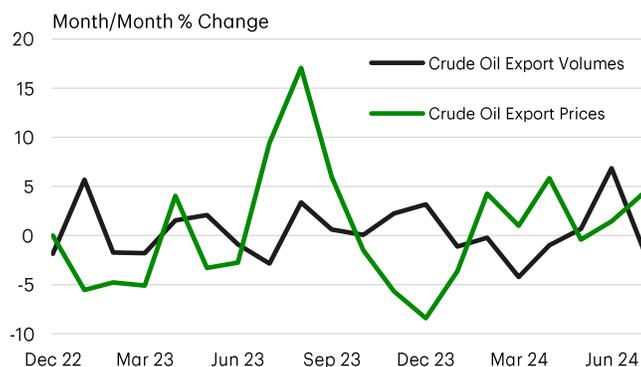
Canada – Signs Point to Continued Rate Cuts

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The Bank of Canada's interest rate decision on Wednesday was front and centre to start off September. As widely expected, the Bank of Canada reduced its benchmark rate by a quarter of a percent, in line with our expectation. Their statement recognized what we have been seeing in the data since their July rate reduction – economic activity has been softening, the labour market has been cooling, and inflation is slowing further towards its target. While the Bank of Canada has maintained a measured tone around inflation, we expect the weakening trends in the labour market and growth to be their focus in upcoming meetings. We continue to expect another 175 basis points in cuts through the end of next year, at a pace of a quarter point per meeting.

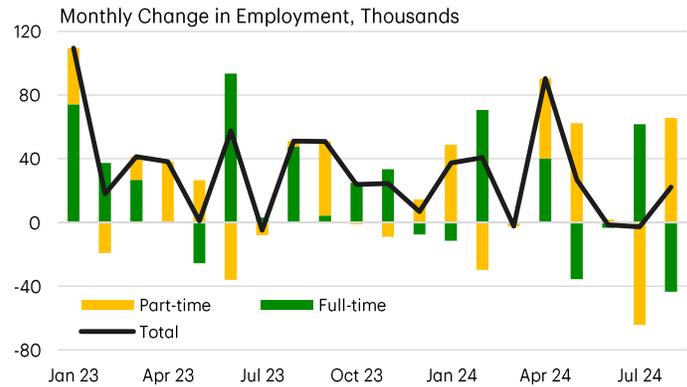
July's trade data on Wednesday also showed some hints of softening that underscore the need for the Bank of Canada to continue on its rate reduction path. While Canada recorded a trade surplus for the month, this was on the back of declines in both import and export volumes, meaning that the surplus was driven by a combination of higher prices and greater weakness in imports than exports. Weakness in imports is often just another symptom of softening demand in the economy. There may be some brighter notes in the coming months' trade data. While crude oil exports increased in July due to higher prices and a modest decline in volumes, we expect that volumes should be boosted in the coming months due to shipments from the newly operational Trans Mountain Pipeline (Chart 1). This is a spot to look for growth in next month's report.

Chart 1: Canada's Crude Oil Export Gains in July From Higher Export Prices



Source: Statistics Canada, TD Economics.

Chart 2: August Reverses July's Gains in Full-Time Employment in Canada



Source: Statistics Canada, TD Economics.

On Wednesday, the Bank of Canada noted that the labour market had continued to slow, with little change in employment in recent months. At the time, the data for June and July showed close to no monthly changes in total employment. The August data, released today, does complicate that story somewhat, showing a gain of 22k new positions – though this is not a statistically significant increase given the high volatility of this report. Also of note, all of the net new gains in employment in August were in part-time employment (Chart 2). More than that, the increases in full-time employment from the July data were reversed. Notwithstanding the relatively high volatility of the employment data, these are signs of a cooling labour market. Adding to this, labour force growth outpaced employment growth, leading to the unemployment rate to tick up to 6.6 percent. Wage growth moderated somewhat, though still rising at a healthy clip – average hourly wages in August were still up 5% from a year prior, compared to the long-run average of around 3%. Wage growth this high does mean that concerns about inflation are still relevant.

The combination of moderating wage growth, rising unemployment, and falling full-time employment is a clear signal that the labour market is cooling. When expectations for interest rates are as firmly entrenched as they are now, the main thing to look for is any signal that might upset those expectations – and we saw nothing to upset the apple cart this week. This week's data were not game changers, leaving a clear case for the Bank of Canada to continue reducing interest rates.

Exhibits

Recent Key Economic Indicators: Sep 02 - 06, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 03	S&P Global US Manufacturing PMI	Aug	Index	47.9	48.0
Sep 03	ISM Manufacturing	Aug	Index	47.2	46.8
Sep 04	Trade Balance	Jul	Blns	-78.8	-73.0
Sep 04	Factory Orders	Jul	M/M % Chg.	5.0	-3.3
Sep 04	Factory Orders Ex Trans	Jul	M/M % Chg.	0.4	0.1
Sep 04	Durable Goods Orders	Jul	M/M % Chg.	9.8	9.9
Sep 04	Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	-0.1	-0.1
Sep 04	Wards Total Vehicle Sales	Aug	Mlns	15.1	15.8
Sep 05	ADP Employment Change	Aug	Thsd	99.0	111.0
Sep 05	Unit Labor Costs	Q2	Q/Q % Chg.	0.4	0.9
Sep 05	Initial Jobless Claims	Aug 31	Thsd	227.0	232.0
Sep 05	S&P Global US Services PMI	Aug	Index	55.7	55.2
Sep 05	S&P Global US Composite PMI	Aug	Index	54.6	54.1
Sep 05	ISM Services Index	Aug	Index	51.5	51.4
Sep 06	Change in Nonfarm Payrolls	Aug	Thsd	142.0	89.0
Sep 06	Unemployment Rate	Aug	%	4.2	4.3
Sep 06	Average Hourly Earnings	Aug	M/M % Chg.	0.4	0.2
Canada					
Sep 03	S&P Global Canada Manufacturing PMI	Aug	Index	49.5	47.8
Sep 04	Int'l Merchandise Trade	Jul	Blns	0.68	-0.18
Sep 04	Bank of Canada Rate Decision	Sep 04	%	4.25	4.50
Sep 06	Net Change in Employment	Aug	Thsd	22.1	-2.8
Sep 06	Unemployment Rate	Aug	%	6.6	6.4
International					
Sep 03	BZ Gross Domestic Product	Q2	Q/Q % Chg.	1.4	1.0
Sep 05	EZ Retail Sales	Jul	Y/Y % Chg.	-0.1	-0.4
Sep 06	EZ Gross Domestic Product SA	Q2	Y/Y % Chg.	0.6	0.6
Sep 06	EZ Employment	Q2	Y/Y % Chg.	0.8	0.8

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sep 09 - 13, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 9	10:00	Wholesale Trade Sales	Jul	M/M % Chg.	-	-0.6
Sep 9	11:00	NY Fed 1-Yr Inflation Expectations	Aug	%	-	3.0
Sep 10	6:00	NFIB Small Business Optimism	Aug	Index	93.7	93.7
Sep 11	8:30	Consumer Price Index	Aug	Y/Y % Chg.	2.6	2.9
Sep 11	8:30	Consumer Price Index	Aug	M/M % Chg.	0.2	0.2
Sep 11	8:30	Consumer Price Index Ex Food and Energy	Aug	Y/Y % Chg.	3.2	3.2
Sep 11	8:30	Consumer Price Index Ex Food and Energy	Aug	M/M % Chg.	0.2	0.2
Sep 12	8:30	Initial Jobless Claims	Sep 07	Thsd	230.0	227.0
Sep 12	8:30	PPI Ex Food and Energy	Aug	M/M % Chg.	0.2	0.0
Sep 12	8:30	PPI Final Demand	Aug	M/M % Chg.	0.2	0.1
Canada						
Sep 10	8:25	<i>BoC's Macklem Speaks at Canada-U.K. Chamber of Commerce</i>				
Sep 13	8:30	Wholesale Sales ex Petroleum	Jul	M/M % Chg.	-	-0.6
International						
Sep 10	2:00	UK ILO Unemployment Rate (3 Mths.)	Jul	%	4.1	4.2
Sep 11	2:00	UK Monthly Gross Domestic Product	Jul	3M/3M % Chg.	0.6	0.9
Sep 12	8:15	EZ ECB Main Refinancing Rate	Sep 12	%	3.65	4.25
Sep 13	22:00	CH Retail Sales	Aug	Y/Y % Chg.	2.5	2.7
Sep 13	22:00	CH Surveyed Jobless Rate	Aug	%	5.2	5.2

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

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