

Weekly Bottom Line

October 11, 2024

Highlights

U.S.

- Progress on the inflation front appears to have stalled at the end of the third quarter, as core CPI inflation ticked up, albeit modestly, by 0.1 percentage point to 3.3% year-on-year in September.
- Initial jobless claims surged higher by last week, as states affected by Hurricane Helene (FL, NC) and the ongoing Boeing strike (WA) recorded outsized increases to their unadjusted initial jobless claims.
- Between stronger job growth, and slower progress on inflation, we expect the Fed to cut rates more gradually, with two quarter-point cuts in November and December.

Canada

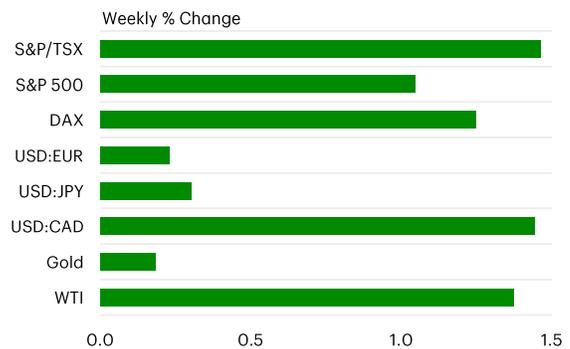
- Canada's job market defied expectations in September, with the unemployment rate ticking down for the first time since January.
- The better-than-expected jobs data will temper expectations for a 50-basis point cut from the Bank of Canada this month. We expect a 25-basis point reduction in the overnight rate.
- The Bank of Canada's Business Outlook Survey reaffirms that businesses are feeling the burden of high interest rates, but most are not planning to reduce headcounts and fewer are expecting a recession.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5812	5751	5812	4117
S&P/TSX Comp.	24507	24163	24507	18737
DAX	19356	19121	19474	14687
FTSE 100	8257	8281	8446	7291
Nikkei	39606	38636	42224	30602
Fixed Income Yields				
U.S. 10-yr Treasury	4.07	3.97	4.99	3.62
Canada 10-yr Bond	3.23	3.20	4.20	2.87
Germany 10-yr Bund	2.27	2.21	2.93	1.90
UK 10-yr Gilt	4.21	4.13	4.67	3.44
Japan 10-yr Bond	0.95	0.89	1.10	0.56
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.73	0.74	0.76	0.72
Euro (USD per EUR)	1.10	1.10	1.12	1.05
Pound (USD per GBP)	1.31	1.31	1.34	1.21
Yen (JPY per USD)	149.1	148.7	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	75.5	74.4	89.4	65.8
Natural Gas (\$US/MMBtu)	2.26	2.51	13.20	1.24
Copper (\$US/met. tonne)	9582.9	9796.4	10800.8	7875.8
Gold (\$US/troy oz.)	2658.1	2653.6	2672.4	1868.9

*As of 11:33 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

U.S. Equities Set for Fifth Straight Winning Week



Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.75 - 5.00%
Bank of Canada (Overnight Rate)	4.25%
European Central Bank (Refi Rate)	3.65%
Bank of England (Repo Rate)	5.00%
Bank of Japan (Overnight Rate)	0.25%

Source: Bloomberg.

U.S. – Rates to Fall, But Not So Fast

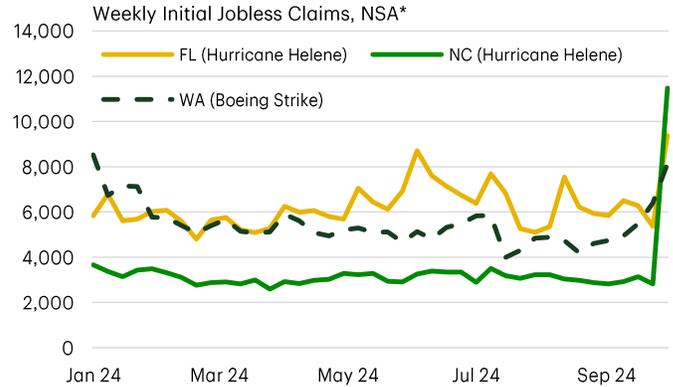
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The second week of October continued to reflect the theme that began at last week’s close. A stronger-than-expected payrolls report last Friday drove home the point that the U.S. labor market is holding up better than previously thought, while this week’s CPI report showed progress on the inflation front stalling. All of this suggests that the Fed is likely to slow the pace of rate cuts next month. Bond yields continued the climb higher this week, with the 10-Year yield up another 10 basis points, closing out the week at 4.1%. Equity markets managed to eke out a decent gain, with the S&P 500 up roughly 1% from last week’s close, as of the time of writing.

Total inflation as measured by CPI cooled in September, easing from 2.5% year-on-year (y/y) to 2.4%, largely due to falling energy prices. However, the good news ended there. Core CPI inflation rose a tenth of a percentage point, more than the consensus forecast, which pushed the twelve-month change higher to 3.3% y/y (Chart 1). Price growth in the important ‘shelter’ category eased, though we saw broader price pressures heat up across most other service categories, while core goods prices added to overall inflationary pressure – a first in seven months.

With progress on the inflation front stalling and the labor market holding up well, futures markets are now pricing just an 80% probability that the Fed will cut by 25-basis points next month. Minutes from the last FOMC meeting show that the Fed’s strong start to the

Chart 2: States Affected by Boeing Strike, Hurricane Helene Recorded Surge in Initial Jobless Claims



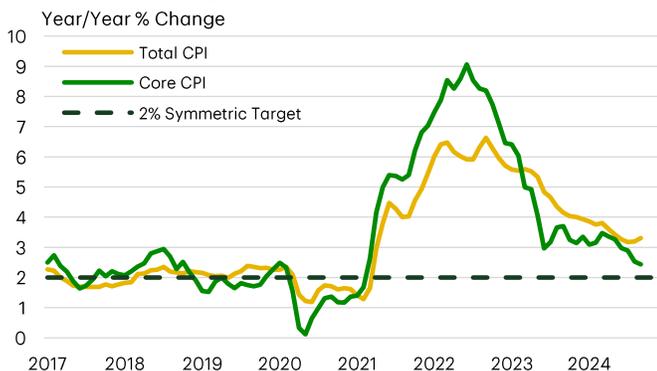
*Advance Report. Source: BLS, TD Economics.

easing cycle in September was thought of as a “recalibration” to help bring restrictive monetary policy into “better alignment” with recent indicators of inflation and the labor market, and that this should not be interpreted as the new pace of policy easing over the coming months. We anticipate the Fed will deliver two additional 25 basis point cuts by the end of this year.

However, it’s important to note that the Fed will remain heavily data dependent in setting monetary policy. This will become increasingly difficult over the coming months, with large distortions likely to be seen in October/November data because of Hurricane’s Helene and Milton and the ongoing Boeing strike. Besides the tragic loss of life, the recent hurricanes have left behind a path of destruction in the Southeast, which will exude some near-term weakness.

The impacts of Boeing and Helene appear to already be featuring in employment data, with a sharp jump in initial jobless claims (up 33,000 to a seasonally adjusted 258,000 last week) tied in part to these events. Large increases in initial jobless claims were recorded in affected states such as Florida and North Carolina (Helene) and Washington (Boeing) (see Chart 2). We anticipate the Fed will look past the transient nature of some of these impacts as it continues to ease monetary policy next month, but communication as related to the next cut will require considerable effort given the many factors at play.

Chart 1: Progress on U.S. Inflation Stalled in September As Core CPI Ticked Up in Year-on-Year Terms



Source: BLS, TD Economics.

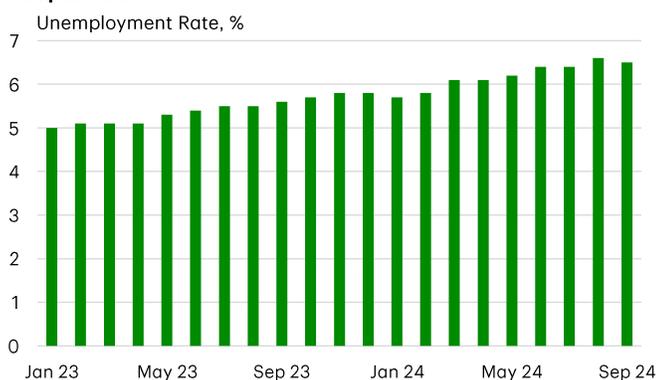
Canada – Good news on job market, but businesses remain subdued

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Not wanting to be outdone by its southern neighbours, Canada's jobs data also surprised to the upside this week. Much like last week's U.S. payroll's report, September's Labour Force Survey can only be described as stronger than expected. Employment rose by more than expected in the month and, defying the expectations of most, the unemployment rate fell one tenth to 6.5%. Expectations were for an increase in the unemployment rate to 6.7% (see [commentary](#)). While this is positive news on the margin, the overall trend over the last two years is a gradually increasing unemployment rate, with the occasional backtrack in the monthly figures (Chart 1). This development is likely not a game-changer for the outlook. However, it may serve to firm expectations that Canada is closer to a soft landing than recession, and for that reason, it reduces the likelihood that the Bank of Canada will deliver an outsized interest rate reduction in its October decision, like the Federal Reserve did in September.

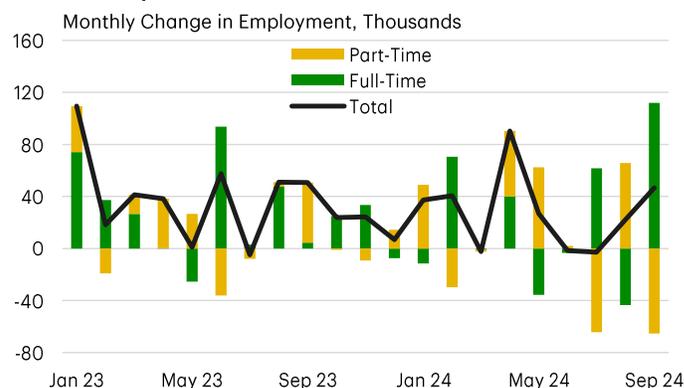
One reason we don't see the unexpected positive monthly reading leading to any major dialing back of rate expectations is that the monthly jobs figures have been giving us whiplash for the last several months (Chart 2). The past four months have seen relatively little overall increase in employment, and the changes in part-time and full-time employment in one month have subsequently been undone by the next for four months now. To be sure, September's jobs gain, which is heavily weighted to full-time employment, will be read as a sign of a labour market that is some distance from

Chart 1: Canada's Unemployment Rate Ticked Down in September



Source: Statistics Canada, TD Economics.

Chart 2: Canada's Monthly Employment Posted Large Gain in September



Source: Statistics Canada, TD Economics.

faltering. But the past few months of data mean we need to be cautious about reading too much into this.

The Bank of Canada's Business Outlook Survey for the third quarter was also released on Friday and helps place the September jobs data into context. The overall picture is subdued, but somewhat improved, business conditions compared to last quarter (see [commentary](#)). Firms surveyed by the Bank reported a below-average outlook for sales, but sales expectations have increased since interest rates start declining. Similarly, the share of businesses expecting a recession declined this quarter. Despite these areas of improvement, firms continued to indicate that high interest rates and soft demand were the biggest factors weighing down business conditions. In our view, the Bank of Canada is likely to interpret this survey as supporting the need to continue gradually reducing its policy rate.

This was a light week for Canadian data, today's two releases being the only major releases all week. Next week, all eyes will be on Tuesday's inflation data, probably the most important data release before the Bank of Canada's October decision. Last month, headline inflation came in at 2% on a year-over-year basis, exactly on the Bank of Canada's target. The jobs report today pushes expectations in the direction of a quarter-point cut in October and we look ahead to the September inflation data for confirmation.

Exhibits

Recent Key Economic Indicators: Oct 07 - 11, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Oct 8	NFIB Small Business Optimism	Sep	Index	91.5	91.2
Oct 8	Trade Balance	Aug	Blns	-70.4	-78.9
Oct 9	Wholesale Trade Sales	Aug	M/M % Chg.	-0.1	1.1
Oct 10	Consumer Price Index	Sep	Y/Y % Chg.	2.4	2.5
Oct 10	Consumer Price Index	Sep	M/M % Chg.	0.2	0.2
Oct 10	Consumer Price Index Ex Food and Energy	Sep	Y/Y % Chg.	3.3	3.2
Oct 10	Consumer Price Index Ex Food and Energy	Sep	M/M % Chg.	0.3	0.3
Oct 10	Initial Jobless Claims	Oct 05	Thsd	258.0	225.0
Oct 11	PPI Ex Food and Energy	Sep	M/M % Chg.	0.2	0.3
Oct 11	PPI Final Demand	Sep	M/M % Chg.	0.0	0.2
Canada					
Oct 8	Int'l Merchandise Trade	Aug	Blns	-1.10	-0.29
Oct 11	Net Change in Employment	Sep	Thsd	46.7	22.1
Oct 11	Unemployment Rate	Sep	%	6.5	6.6
Oct 11	BoC Business Outlook Survey Indicator	Q3	Index	-2.3	-2.9
International					
Oct 07	EZ Retail Sales	Aug	Y/Y % Chg.	0.8	-0.1
Oct 11	UK Monthly Gross Domestic Product	Aug	3M/3M % Chg.	0.2	0.3

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Oct 14 - 18, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Oct 14	9:00	<i>Fed's Kashkari Participates in Panel Discussion</i>				
Oct 14	11:00	NY Fed 1-Yr Inflation Expectations	Sep	%	-	3.0
Oct 14	15:00	<i>Fed's Waller Speaks on the Economic Outlook</i>				
Oct 14	17:00	<i>Fed's Kashkari Participates in Fireside Chat</i>				
Oct 15	8:30	Empire Manufacturing	Oct	Index	3.3	11.5
Oct 15	11:30	<i>Fed's Daly Gives Keynote Remarks</i>				
Oct 15	13:00	<i>Fed's Kugler Participates in Moderated Discussion</i>				
Oct 17	8:30	Initial Jobless Claims	Oct 12	Thsd	240.0	258.0
Oct 17	8:30	Retail Sales Advance	Sep	M/M % Chg.	0.3	0.1
Oct 17	8:30	Retail Sales Ex Auto and Gas	Sep	M/M % Chg.	0.3	0.2
Oct 17	9:15	Capacity Utilization	Sep	%	77.8	78.0
Oct 17	9:15	Industrial Production	Sep	M/M % Chg.	-0.1	0.8
Oct 17	9:15	Manufacturing (SIC) Production	Sep	M/M % Chg.	-0.2	0.9
Oct 17	10:00	Business Inventories	Aug	M/M % Chg.	0.3	0.4
Oct 17	10:00	NAHB Housing Market Index	Oct	Index	43.0	41.0
Oct 17	11:00	<i>Fed's Goolsbee Gives Opening Remarks</i>				
Oct 18	8:30	Building Permits	Sep	Thsd	1450.0	1470.0
Oct 18	8:30	Housing Starts	Sep	Thsd	1350.0	1356.0
Oct 18	10:00	<i>Fed's Kashkari Moderates Panel</i>				
Oct 18	10:00	<i>Fed's Kashkari Moderates Panel Event</i>				
Oct 18	12:10	<i>Fed's Waller Speaks on Decentralized Finance</i>				
Canada						
Oct 15	8:30	Consumer Price Index	Sep	Y/Y % Chg.	1.9	2.0
Oct 15	8:30	Consumer Price Index NSA	Sep	M/M % Chg.	-0.2	-0.2
Oct 15	8:30	Wholesale Sales ex Petroleum	Aug	M/M % Chg.	-1.1	0.4
Oct 15	9:00	Existing Home Sales	Sep	M/M % Chg.	-	1.3
Oct 16	8:15	Housing Starts	Sep	Thsd	235.0	217.4
Oct 16	8:30	Manufacturing Sales	Aug	M/M % Chg.	-1.5	1.4
International						
Oct 15	2:00	UK ILO Unemployment Rate (3 Mths.)	Aug	%	4.1	4.1
Oct 16	2:00	UK Consumer Price Index	Sep	Y/Y % Chg.	1.9	2.2
Oct 17	5:00	EZ Consumer Price Index	Sep	Y/Y % Chg.	1.8	1.8
Oct 17	8:15	EZ ECB Main Refinancing Rate	Oct 17	%	3.40	3.65
Oct 17	19:30	JN National Consumer Price Index	Sep	Y/Y % Chg.	2.5	3.0
Oct 17	22:00	CH Gross Domestic Product	Q3	Y/Y % Chg.	4.6	4.7
Oct 17	22:00	CH Retail Sales	Sep	Y/Y % Chg.	2.5	2.1
Oct 17	22:00	CH Surveyed Jobless Rate	Sep	%	5.3	5.3
Oct 18	2:00	UK Retail Sales Ex Auto Fuel	Sep	Y/Y % Chg.	3.1	2.3

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

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