TD Economics

Weekly Bottom Line

December 6, 2024

Highlights

Canada

- The odds of a 50 basis-point rate cut rose to 80% as the unemployment rate ticked up to its highest level since January 2017 (excluding the pandemic).
- There are notable positives in the jobs report. Employment rose by more than twice the consensus forecast, and the employment rate held steady in October, breaking the recent trend of declines.
- With looming tariffs, fiscal spending is poised to rise in 2025. Together with the rebound in consumer spending and real estate, this argues for a more measured 25-basis point rate cut next week. The Bank may still opt for larger cuts if it prioritizes higher unemployment rate and broader economic weakness.

U.S.

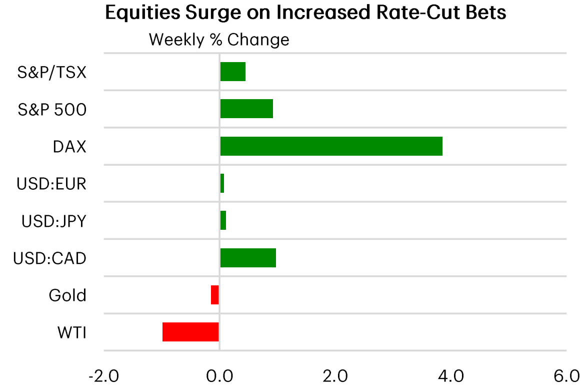
- The embattled ISM Manufacturing Index showed improvement in November, but continued to point to contraction. In contrast to manufacturing, the services sector continued to expand in November, although the pace of growth slowed.
- As was widely expected, hiring rebounded in November, with payrolls adding 227,000 new jobs, as impact of the Boeing strike and hurricanes reversed. However, an uptick in the unemployment rate increased market confidence that a Fed rate cut is in the offing.
- Vehicle sales also posted a sizeable gain in November, reaching the highest level in over three years. It is possible that some of this strength in sales came from replacement demand related to hurricane activity.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	6087	6032	6087	4586
S&P/TSX Comp.	25758	25648	25758	20234
DAX	20376	19626	20376	16432
FTSE 100	8307	8287	8446	7446
Nikkei	39091	38208	42224	31458
Fixed Income Yields				
U.S. 10-yr Treasury	4.17	4.17	4.70	3.62
Canada 10-yr Bond	3.00	3.09	3.87	2.87
Germany 10-yr Bund	2.12	2.09	2.69	1.90
UK 10-yr Gilt	4.29	4.24	4.56	3.44
Japan 10-yr Bond	1.06	1.05	1.10	0.56
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.71	0.71	0.76	0.71
Euro (USD per EUR)	1.06	1.06	1.12	1.04
Pound (USD per GBP)	1.27	1.27	1.34	1.24
Yen (JPY per USD)	150.0	149.8	161.7	140.6
Commodity Spot Prices**				
Crude Oil ($US/bbl)	67.3	68.0	86.9	65.8
Natural Gas ($US/MMBtu)	2.95	3.37	13.20	1.22
Copper ($US/met. tonne)	8961.8	8891.9	10800.8	8065.0
Gold ($US/troy oz.)	2639.4	2643.2	2787.6	1979.5

*As of 11:25 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 Surge on Increased Rate-Cut Bets



Note: Data as of 11:27 AM ET, Friday, December 6, 2024.
Source: Bloomberg, TD Economics.

Global Official Policy Rate Targets

Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	4.50 - 4.75%
Bank of Canada (Overnight Rate)	3.75%
European Central Bank (Refi Rate)	3.40%
Bank of England (Repo Rate)	4.75%
Bank of Japan (Overnight Rate)	0.25%

Source: Bloomberg.

Canada – Employment or Unemployment: That is the Question

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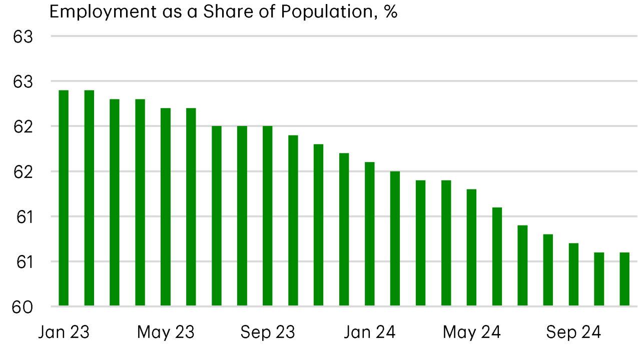
This week on Bay Street, attention centered on bank earnings, which presented a balanced mix of misses and beats, resulting in modest movement. Investors had plenty to digest with today's employment report. The unemployment rate climbed to 6.8% - its highest level since January 2017, excluding the pandemic. This nudged the odds of a 50 basis-point rate cut up to 80% (at the time of writing) from what was previously a near coin flip. Consequently, the 10-year bond yield dropped below 3.0% mark for the first time since October, while the S&P/TSX ended the week up 0.5%.

Yet focusing solely on the unemployment rate risks missing the full picture, as the increase was driven by a boost in labour force rather than job losses. There are plenty of bright spots in the overall picture. Employment rose by 51k – more than twice the consensus forecast. Full-time positions accounted for most of the gains, extending the momentum seen in recent months. Previously, employment growth trailed the expansion in the labour force, pushing the employment rate (the share of population that is employed) lower. This time, however, the employment rate held steady, rather than declining (Chart 1).

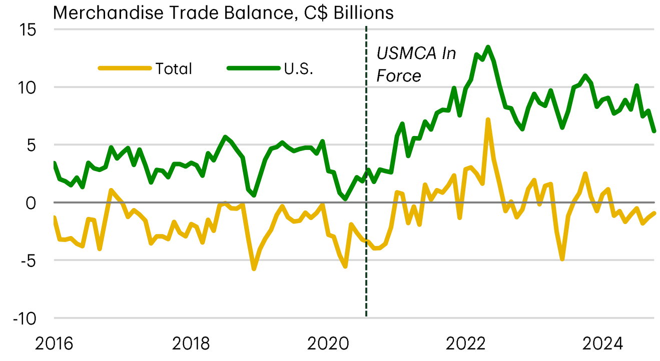
Taken together, these figures challenge the collective wisdom of the market. We think that today's labour market data offers little justification for aggressive monetary easing. Moreover, average hourly wage growth of 4.1% year-on-year should still be too discomforting for the Bank of Canada. Strong wage growth without accompanying productivity gains fuels inflationary pressures, strengthening the case for a measured approach to rate cuts.

Chart 1: Employment Rate Held Steady in October, Breaking the Trend of Declines



Source: Statistics Canada, TD Economics.

Chart 2: U.S. Trade Surplus Boosts Canada's Overall Trade Balance



Source: Statistics Canada, TD Economics.

There are other reasons to tread carefully as 2025 approaches. President-elect Donald Trump's renewed threats of tariffs loom large, potentially making trade dynamics a critical swing factor. In October, Canada's merchandise trade balance recorded its eighth consecutive monthly deficit. Although exports rose for the first time in four months, modest import gains outpaced the improvement. Nonetheless, trade with the United States remained a bright spot. Despite declining, the value of exports to the U.S. exceeded the value of imports, contributing positively to Canada's overall trade balance. This trend has played growing role on economic activity since the USMCA came into effect in mid-2020 (Chart 2).

This trade surplus with the U.S. is precisely what Trump opposes and demands stronger border security in exchange for Canada avoiding tariffs. As a result, any trade deal would likely entail increased spending on border security and defense. This would add to fiscal stimulus initiatives, such as tax holidays and direct payments.

Finally, recent rebounds in consumer and real estate activity argue for the Bank of Canada taking incremental steps to reduce restrictive monetary policy and avoiding steps that could exacerbate inflationary pressures. Still, policymakers may focus on the spike in the unemployment rate and the broader weakness in economic activity, opting to cut rates by another 50 basis points. The wait is almost over – attention now shifts to next Wednesday's policy decision.

U.S. – Data Clears the Path for the Rate Cut in December

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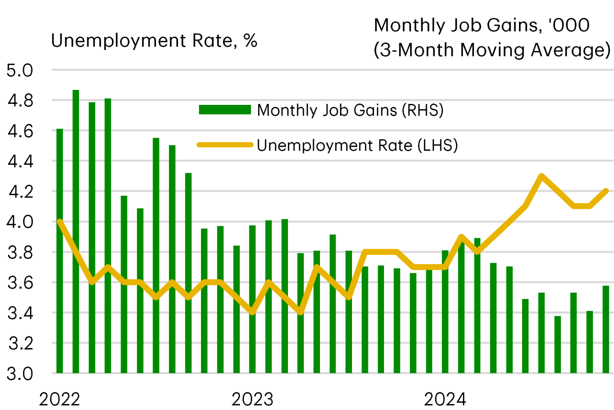
It's not just the Christmas holidays that are fast approaching. The next Federal Reserve meeting is also just around a corner, and this week featured several important updates for signals on the health of the U.S. economy. This week's results were broadly positive: contraction eased in manufacturing, activity continued to expand in the services sector, job growth rebounded in November, as did vehicle sales. Vehicle sales registered their highest level in over three years, although it is possible that some of this strength came from replacement demand related to hurricane activity.

The embattled ISM Manufacturing Index showed improvement in November, but still signaled that activity is contracting. Overall, the manufacturing sector has gained some momentum, with the new orders index rising for the third consecutive month, since the Fed began cutting interest rates. However, regulatory and trade policy cloud the outlook. In contrast to manufacturing, the services sector continued to expand in November, although the pace of growth slowed. Still, with 14 out of 18 industries reporting growth, the services sector appears to be in relatively good shape.

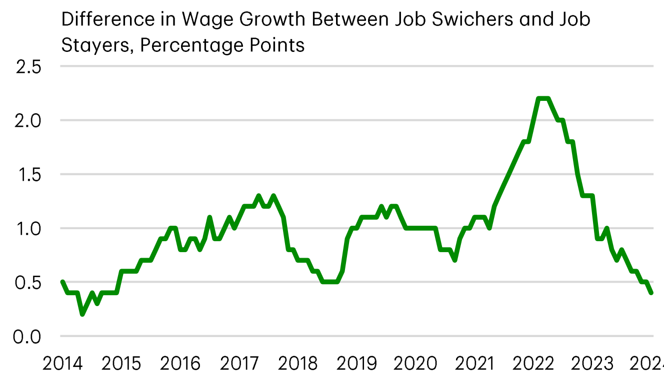
As expected, hiring rebounded in November, with payrolls adding 227k new jobs (Chart 1). Revisions also added 56k jobs to the gains seen in the prior two months. Smoothing through the recent volatility, job gains have averaged 173k over the past three-months, or only a modest step down from the 186K averaged over the prior twelve-month period. But this likely overstates the degree of "strength" in the job market. In the household

Chart 1: Labour Market Continues to Cool



Source: Bureau of Labor Statistics, TD Economics.

Chart 2: Labor Market No Longer Offers Large Premiums For Job Hopping



Source: Federal Reserve Bank of Atlanta, TD Economics.

survey, the unemployment rate backed up one tenth to 4.2%, after spending September and October at 4.1%.

Other indicators, such as the Job opening and labor turnover survey (JOLTS), similarly point to a labor market that has come into balance and is no longer a meaningful source of inflationary pressure. JOLTS data, released this week, showed that while job openings increased in October, the uptick was narrowly concentrated in professional and business services and leisure and hospitality. Meanwhile, both the quit rates and the hiring rate are below their pre-pandemic levels. This suggests that the employers are becoming more selective, while workers are less eager to leave job voluntarily. Indeed, with no significant premium for job switching (Chart 2) and given the low hiring rate, landing a new job may be challenging.

Comments from the latest Fed's Beige book also reflected this trend, stating that "hiring activity was subdued as worker turnover remained low" and that "wage growth softened to a modest pace". The Beige book, along with the payrolls and especially the next week's inflation report will help to solidify the Fed's stance on their next rate move later this month. The cooling labor market should give the policy makers confidence for another quarter point cut. However, with inflation showing some stickiness lately, and in the words of Jerome Powell this week, the Fed could "afford to be a little more cautious". The market is pricing nearly 90% odds of a December cut, but the path for rate cuts in 2025 is less clear (report).

Exhibits

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior
Recent Key Economic Indicators: Dec 02 - 06, 2024						
United States						
Dec 2		S&P Global US Manufacturing PMI	Nov	Index	49.7	48.8
Dec 2		ISM Manufacturing	Nov	Index	48.4	46.5
Dec 3		Wards Total Vehicle Sales	Nov	Mlns	16.50	16.04
Dec 3		Job Openings	Oct	Mlns	7.74	7.37
Dec 4		ADP Employment Change	Nov	Thsd	146.0	184.0
Dec 4		S&P Global US Composite PMI	Nov	Index	54.9	55.3
Dec 4		S&P Global US Services PMI	Nov	Index	56.1	57.0
Dec 4		Cap Goods Orders Nondef Ex Air	Oct	M/M % Chg.	-0.2	-0.2
Dec 4		Durable Goods Orders	Oct	M/M % Chg.	0.3	0.2
Dec 4		Factory Orders	Oct	M/M % Chg.	0.2	-0.2
Dec 4		Factory Orders Ex Trans	Oct	M/M % Chg.	0.1	0.1
Dec 4		ISM Services	Nov	Index	52.1	56.0
Dec 5		Initial Jobless Claims	Nov 30	Thsd	224.0	215.0
Dec 5		Trade Balance	Oct	Blns	-73.8	-83.3
Dec 6		Average Hourly Earnings	Nov	M/M % Chg.	0.4	0.4
Dec 6		Change in Nonfarm Payrolls	Nov	Thsd	227.0	36.0
Dec 6		Unemployment Rate	Nov	%	4.2	4.1
Canada						
Dec 5		Int'l Merchandise Trade	Oct	Blns	-0.92	-1.30
Dec 6		Net Change in Employment	Nov	Thsd	50.5	14.5
Dec 6		Unemployment Rate	Nov	%	6.8	6.5
International						
Dec 2	EZ	Unemployment Rate	Oct	%	6.3	6.3
Dec 3	BZ	Gross Domestic Product	Q3	Y/Y % Chg.	4.0	3.3
Dec 3	JN	Jibun Bank Japan PMI Services	Nov	Index	50.5	50.2
Dec 5	EZ	Retail Sales	Oct	Y/Y % Chg.	1.9	3.0
Dec 6	EZ	Employment	Q3	Y/Y % Chg.	1.0	1.0
Dec 6	EZ	Gross Domestic Product SA	Q3	Y/Y % Chg.	0.9	0.9

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Dec 09 - 13, 2024							
Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States							
Dec 9	10:00		Wholesale Trade Sales	Oct	M/M % Chg.	-	0.2
Dec 9	11:00		NY Fed 1-Yr Inflation Expectations	Nov	%	-	2.9
Dec 10	6:00		NFIB Small Business Optimism	Nov	Index	94.1	93.7
Dec 10	8:30		Unit Labor Costs	Q3	Q/Q % Chg.	1.4	1.9
Dec 11	8:30		Consumer Price Index	Nov	Y/Y % Chg.	2.7	2.6
Dec 11	8:30		Consumer Price Index	Nov	M/M % Chg.	0.3	0.2
Dec 11	8:30		Consumer Price Index Ex Food and Energy	Nov	Y/Y % Chg.	3.3	3.3
Dec 11	8:30		Consumer Price Index Ex Food and Energy	Nov	M/M % Chg.	0.3	0.3
Dec 12	8:30		Initial Jobless Claims	Dec 07	Thsd	-	224.0
Dec 12	8:30		PPI Ex Food and Energy	Nov	M/M % Chg.	0.2	0.3
Dec 12	8:30		PPI Final Demand	Nov	M/M % Chg.	0.3	0.2
Canada							
Dec 11	9:45		Bank of Canada Rate Decision	Dec 11	%	3.25	3.75
Dec 13	8:30		Manufacturing Sales	Oct	M/M % Chg.	-	-0.5
Dec 13	8:30		Wholesale Sales ex Petroleum	Oct	M/M % Chg.	-	0.8
International							
Dec 12	8:15	EZ	ECB Main Refinancing Rate	Dec 12	%	3.15	3.40
Dec 13	2:00	UK	Monthly Gross Domestic Product	Oct	3M/3M % Chg.	0.1	0.2

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

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