

Weekly Bottom Line

September 20, 2024

Highlights

U.S.

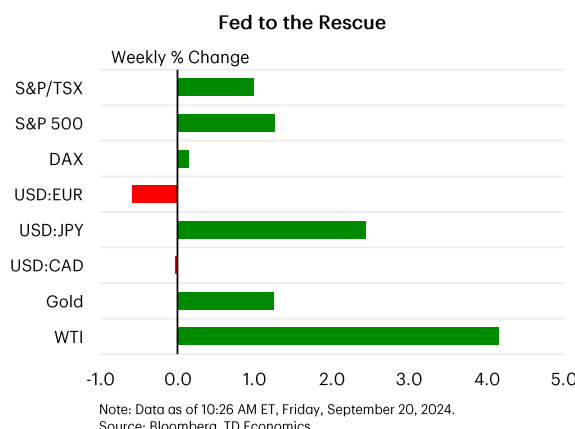
- The Federal Reserve started its easing cycle with a bang, reducing the policy rate by 50 basis points (bps), bringing the target range to 4.75%-5.0%.
- Futures markets are pricing an additional 75 bps of cuts by year-end, slightly more than the updated median FOMC forecast, which shows another 50 bps of cuts.
- Economic data out this week including retail sales, housing starts, and industrial production all came in stronger than expected. Our Q3 GDP tracking sits a 2.1%.

Canada

- Headline inflation clocked in at the Bank of Canada's (BoC's) 2.0% year-on-year target in August. This marks a symbolic accomplishment for an economy that has been struggling to deal with high inflation for the last three years.
- Retail sales pointed to a strong summertime bounce back, while housing starts and house price growth continue to ebb in the face of still high interest rates.
- The stabilization in inflation has raised odds that the BoC follows the Fed with an outsized 50 basis point cut at either its October or December meeting.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	5697	5626	5714	4117
S&P/TSX Comp.	23800	23569	23866	18737
DAX	18713	18699	19002	14687
FTSE 100	8226	8273	8446	7291
Nikkei	37724	36582	42224	30527
Fixed Income Yields				
U.S. 10-yr Treasury	3.75	3.65	4.99	3.62
Canada 10-yr Bond	2.97	2.90	4.24	2.87
Germany 10-yr Bund	2.22	2.15	2.97	1.90
UK 10-yr Gilt	3.91	3.77	4.67	3.44
Japan 10-yr Bond	0.85	0.85	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	1.11	1.12	1.05
Pound (USD per GBP)	1.33	1.31	1.33	1.21
Yen (JPY per USD)	144.2	140.9	161.7	140.6
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	71.5	68.7	93.7	65.8
Natural Gas (\$US/MMBtu)	2.34	2.26	13.11	1.24
Copper (\$US/met. tonne)	9388.2	9189.2	10800.8	7823.8
Gold (\$US/troy oz.)	2611.7	2577.7	2611.7	1820.3

*As of 10:27 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



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. – FOMC Starts Easing Cycle With a Bang

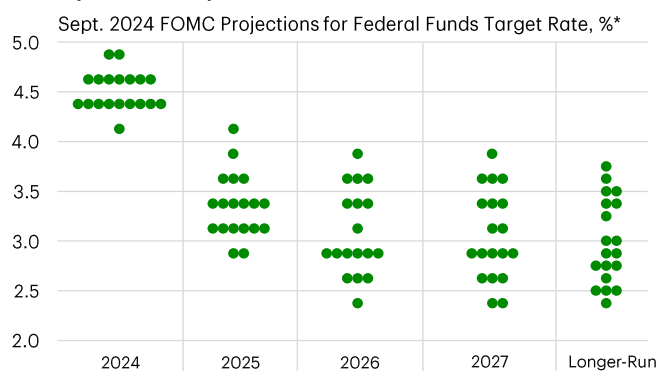
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There was no doubt heading into this week that the Federal Reserve would be cutting its policy rate on Wednesday. What remained in question, was the size of the cut. Right up until the announcement, market pricing remained relatively split on whether the FOMC would cut by 25 or 50 basis points (bps). Ultimately, policymakers opted for the bigger cut and signaled more easing to come. The more dovish tilt pushed U.S. equity markets higher, with the S&P 500 up just over 1% for the week at the time of writing.

Accompanying the policy statement, the [FOMC](#) also released revised economic forecasts, known as the Summary of Economic Projections (SEP). The SEP is an aggregation of each Committee members' individual forecasts but are not "official" Fed projections. Overall, the median forecast showed that the growth outlook remained little changed relative to the June forecast, with GDP still expected to expand by 2.0% per-year between 2024 and 2027. However, the unemployment rate was revised higher for both 2024 and 2025, and core PCE inflation was marked down in both years.

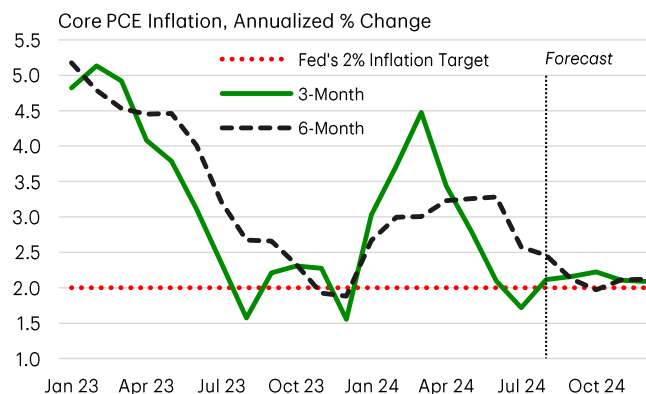
Consistent with the FOMC's expectations for a slightly softer labor market, and cooler inflation, there were notable downward revisions to the median interest rate outlook (i.e., the "dot plot") for 2024 through 2026. The revised forecast now shows a total of 100 bps of easing by the end of this year (previously 25 bps) with another 100 bps of cuts projected for 2025, corresponding to a target range of 3.25%-3.5% (Chart 1). This is 75 bps lower than the June SEP.

Chart 1: FOMC's Median Projection Shows An Additional 50 Bps of Cuts By Year-End



*Midpoint of Target Range. Source: Federal Reserve Board, TD Economics.

Chart 2: Near-Term U.S. Inflation Trends Should Continue To Improve



Source: Bureau of Economic Analysis, TD Economics.

In the press conference, Chair Powell characterized the larger cut as a "strong start", but also reiterated that future reductions in the policy rate were by no means on a preset course. Moreover, the Chair pushed back on the notion that this week's outsized move was driven by a fear that the FOMC had fallen behind the curve. However, he did state that had the FOMC known back at the July 30-31 meeting that the labor market would have cooled as much as it did in the months that followed that rate decision, they probably would have started the easing cycle sooner.

As noted in our recent [Quarterly Forecast](#), we feel that odds favor another 50-bps cut in November. If policymakers are truly concerned that today's policy stance is too restrictive, it's more likely that they will want to act quickly to alleviate the pressure, before slowing the pace in December.

This is not a guarantee. The Fed remains data dependent, and nearly all economic data out this week including retail sales, industrial production, housing starts, and initial jobless claims came in better than expected, and remain consistent with an economy that's still expanding in the 2-2.5% range. Next week's personal income and spending data will provide more insight on August spending trends and is also likely to show a bit more progress on easing inflationary pressures (Chart 2). But it's the September and October employment reports that could ultimately be the deciding factor of whether the Fed cuts by 25 or 50 bps in November.

Canada – Inflation Hits the Mark

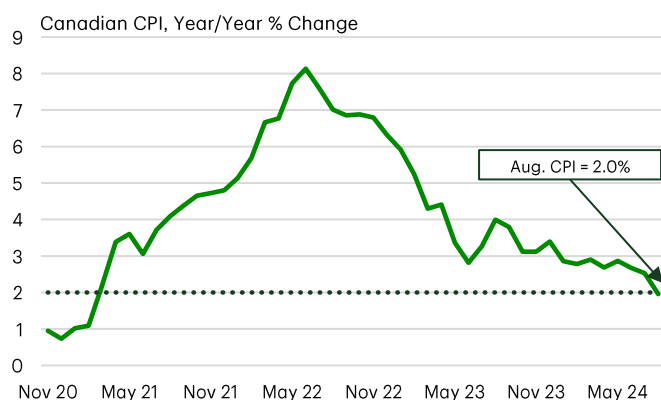
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The U.S. Federal Reserve's outsized 50 basis point (bp) cut may have dominated headlines, but it was still a busy week for Canadian economic data. Canadian Consumer Price Index (CPI) inflation made a big downward move, hitting the Bank of Canada's (BoC's) 2% target (Chart 1). We also got another reading on the housing market, which is still weighed down by high rates. Retail sales, however, sprung to life during the summer months. Progress on inflation and likely some hope the BoC will take its cue from the Fed has led financial markets pricing for the next BoC move to swing between another 25 bp cut in October or a larger 50 bp cut.

Headline inflation clocked in at 2.0% year-on-year (y/y) in August – bang on the central bank's target. This marks a symbolic accomplishment for an economy that has been struggling to deal with [high inflation](#) for the last three years. Even more impressive was that this occurred while services inflation continues to run at a +4% y/y pace. Shelter inflation remains the culprit here, but when we strip out this impact, inflation has slowed to a tepid 0.5% y/y pace.

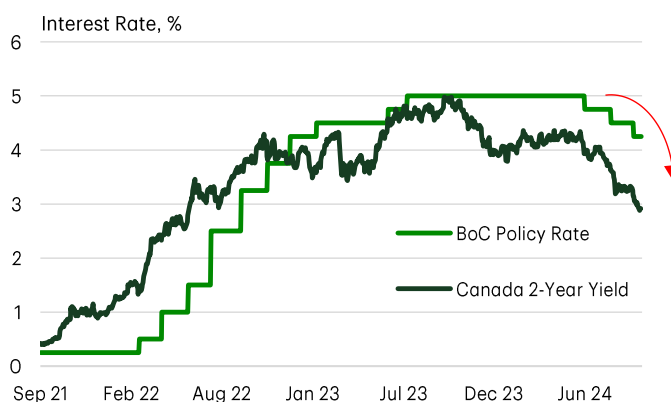
The continued deceleration in the BoC's two preferred core inflation rates was also encouraging. Coming in at 2.3% y/y and 2.4% y/y in August (down from 2.4% y/y and 2.7% y/y in July), these rates are effectively at the BoC's target. The underlying trends in core inflation make us believe that the easing in core rates should be sustained. Not only are the more recent trends in core inflation stabilizing around 2% (on a three-month annualized basis), but the share of goods and services with

Chart 1: Inflation Hits the Target



Source: Bank of Canada, Statistics Canada, TD Economics.

Chart 2: Expectations Are for Continued BoC Rate Cuts



Source: BoC, LSEG, TD Economics. Last Observation: Sep. 19th, 2024.

inflation running hot (the percent of CPI items growing +3%) has returned to historical norms. Couple this with a clear slowing in the real economy – rising unemployment – and we have all the ingredients for inflation to stabilize at current levels.

Speaking of weakness, the Canadian housing market remains stuck in neutral. This week we saw housing prices fall again in August as sales have yet to respond to recent BoC rate cuts. Builders have taken notice of this lackluster demand, resulting in housing starts plunging by double-digits in August. On a positive note, [retail sales rebounded](#) in the summer months, driven by a bounce-back in motor vehicle and parts dealers, following a series of cyberattacks that hit retailers in June. Even with this recovery, economic growth is still expected to run below its potential in the third quarter, despite the working age population increasing close to 4% on the quarter!

The BoC's policy meeting deliberations released this week alongside a slew of speeches have signaled that the bank is done with seeing Canadian economic growth underperform its potential. While that intention is all well and good, our [updated quarterly forecast](#) points to continued weakness in the coming months. This will keep the central bank in cutting mode (Chart 2), and possibly at an even quicker pace than we have seen thus far. Market participants are already considering this possibility, with pricing nudging towards a 50 bps move at the bank's upcoming announcement in October or December.

Exhibits

Recent Key Economic Indicators: Sep 16 - 20, 2024					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 16	Empire Manufacturing	Sep	Index	11.5	-4.7
Sep 17	Retail Sales Advance	Aug	M/M % Chg.	0.1	1.1
Sep 17	Retail Sales Ex Auto and Gas	Aug	M/M % Chg.	0.2	0.4
Sep 17	Capacity Utilization	Aug	%	78.0	77.4
Sep 17	Industrial Production	Aug	M/M % Chg.	0.8	-0.9
Sep 17	Manufacturing (SIC) Production	Aug	M/M % Chg.	0.9	-0.7
Sep 17	Business Inventories	Jul	M/M % Chg.	0.4	0.3
Sep 17	NAHB Housing Market Index	Sep	Index	41.0	39.0
Sep 18	Building Permits	Aug	Thsd	1475.0	1406.0
Sep 18	Housing Starts	Aug	Thsd	1356.0	1237.0
Sep 18	FOMC Rate Decision (Upper Bound)	Sep 18	%	5.00	5.50
Sep 19	Initial Jobless Claims	Sep 14	Thsd	219.0	231.0
Sep 19	Existing Home Sales	Aug	Mlns	3.86	3.96
Canada					
Sep 16	Manufacturing Sales	Jul	M/M % Chg.	1.4	-1.7
Sep 16	Existing Home Sales	Aug	M/M % Chg.	1.3	-0.7
Sep 17	Housing Starts	Aug	Thsd	217.4	279.8
Sep 17	Consumer Price Index	Aug	Y/Y % Chg.	2.0	2.5
Sep 17	Consumer Price Index NSA	Aug	M/M % Chg.	-0.2	0.4
Sep 17	CPI-Median	Aug	Y/Y % Chg.	2.3	2.4
Sep 17	CPI-Trim	Aug	Y/Y % Chg.	2.4	2.7
Sep 20	Industrial Product Price	Aug	M/M % Chg.	-0.8	-0.1
Sep 20	Retail Sales	Jul	M/M % Chg.	0.9	-0.2
Sep 20	Retail Sales Ex Auto	Jul	M/M % Chg.	0.4	0.3
International					
Sep 18	UK Consumer Price Index	Aug	Y/Y % Chg.	2.2	2.2
Sep 18	EZ Consumer Price Index	Aug	Y/Y % Chg.	2.2	2.6
Sep 19	UK Bank of England Bank Rate	Sep 19	%	5.00	5.00
Sep 19	JN National Consumer Price Index	Aug	Y/Y % Chg.	3.0	2.8
Sep 20	UK Retail Sales Ex Auto Fuel	Aug	Y/Y % Chg.	2.3	1.4

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sep 23 - 27, 2024						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 23	8:00	<i>Fed's Bostic Gives Speech on Economic Outlook</i>				
Sep 23	9:45	S&P Global US Composite PMI	Sep	Index	54.7	54.6
Sep 23	9:45	S&P Global US Manufacturing PMI	Sep	Index	48.6	47.9
Sep 23	9:45	S&P Global US Services PMI	Sep	Index	55.2	55.7
Sep 23	10:15	<i>Fed's Goolsbee Speaks in Fireside Chat</i>				
Sep 23	13:00	<i>Fed's Kashkari Participates in Q&A on Childcare</i>				
Sep 24	9:00	S&P CoreLogic CS 20-City NSA	Jul	Y/Y % Chg.	5.9	6.5
Sep 24	9:00	S&P CoreLogic CS US HPI NSA	Jul	Y/Y % Chg.	-	5.4
Sep 24	10:00	Conf. Board Consumer Confidence	Sep	Index	103.3	103.3
Sep 26	8:30	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	0.1	-0.1
Sep 26	8:30	Durable Goods Orders	Aug	M/M % Chg.	-2.7	9.8
Sep 26	8:30	Gross Domestic Product (Annualized)	Q2	Q/Q % Chg.	2.9	3.0
Sep 26	8:30	Personal Consumption	Q2	Q/Q % Chg.	-	2.9
Sep 26	8:30	Initial Jobless Claims	Sep 21	Thsd	225.0	219.0
Sep 26	9:10	<i>Fed's Collins, Kugler Participate in Fireside Chat</i>				
Sep 26	9:20	<i>Fed's Powell Gives Pre-Recorded Opening Remarks</i>				
Sep 26	9:25	<i>Fed's Williams Gives Remarks at Conference</i>				
Sep 26	10:00	Pending Home Sales	Aug	M/M % Chg.	3.0	-5.5
Sep 26	10:30	<i>Fed's Barr Gives Remarks at Conference</i>				
Sep 26	13:00	<i>Fed's Kashkari Hosts Fireside Chat with Michael Barr</i>				
Sep 27	8:30	Advance Goods Trade Balance	Aug	Blns	-99.70	-102.80
Sep 27	8:30	Personal Income	Aug	M/M % Chg.	0.4	0.3
Sep 27	8:30	Real Personal Spending	Aug	M/M % Chg.	-	0.4
Sep 27	9:30	<i>Fed's Collins, Kugler Travel to Fitchburg, Mass.</i>				
Canada						
Sep 24	13:10	<i>BoC's Macklem Speaks at Canadian Bankers Association Forum 2024</i>				
Sep 26	7:00	CFIB Business Barometer	Sep	Index	-	56.8
Sep 26	8:30	Payroll Employment Change (SEPH)	Jul	Thsd	-	-47.3
Sep 27	8:30	Gross Domestic Product	Jul	M/M % Chg.	-	0.0
International						
Sep 23	20:30	JN Jibun Bank Japan PMI Mfg	Sep	Index	-	49.8
Sep 23	20:30	JN Jibun Bank Japan PMI Services	Sep	Index	-	53.7
Sep 26	19:30	JN Tokyo Consumer Price Index	Sep	Y/Y % Chg.	2.2	2.6

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

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