

The Weekly Bottom Line

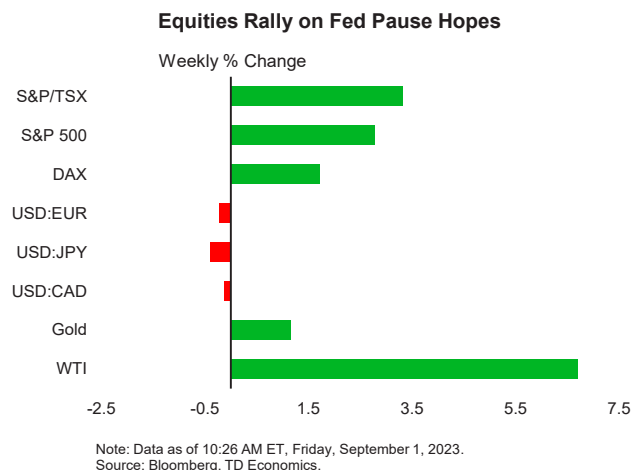
September 1, 2023

Highlights

- The U.S. economy added 187k jobs in August, but revisions to the two prior months subtracted a notable 110k jobs from the previous reported tally.
- Both total and core PCE inflation rose by 0.2% month-on-month in July, equal to the monthly change seen in June for both measures.
- Hurricane Idalia, the first of the season to make landfall in the U.S., caused widespread flooding and wind damage through Florida's Big Bend region and up through Georgia and the Carolinas.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	4533	4406	4589	3577
S&P/TSX Comp.	20499	19836	20767	18206
DAX	15880	15632	16470	11976
FTSE 100	7473	7339	8014	6826
Nikkei	32711	31624	33753	25717
Fixed Income Yields				
U.S. 10-yr Treasury	4.15	4.24	4.34	3.19
Canada 10-yr Bond	3.56	3.70	3.82	2.72
Germany 10-yr Bund	2.51	2.56	2.75	1.53
UK 10-yr Gilt	4.38	4.44	4.75	2.88
Japan 10-yr Bond	0.63	0.66	0.67	0.22
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.74	0.77	0.72
Euro (USD per EUR)	1.08	1.08	1.12	0.96
Pound (USD per GBP)	1.26	1.26	1.31	1.07
Yen (JPY per USD)	145.6	146.4	150.2	127.9
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	84.9	80.5	92.6	66.7
Natural Gas (\$US/MMBtu)	2.57	2.46	9.30	1.77
Copper (\$US/met. tonne)	8404.5	8319.3	9330.8	7422.0
Gold (\$US/troy oz.)	1939.1	1915.0	2050.3	1622.4

*As of 10:20 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.



Global Official Policy Rate Targets	
Central Banks	Current Target
Federal Reserve (Fed Funds Rate)	5.25 - 5.50%
Bank of Canada (Overnight Rate)	5.00%
European Central Bank (Refi Rate)	4.25%
Bank of England (Repo Rate)	5.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Bloomberg.

TD Economics Key Financial Forecasts													
	Current Rate 9/1/23	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate	5.50	0.50	1.75	3.25	4.50	5.00	5.25	5.50	5.50	5.50	5.00	4.50	4.00
2-yr Govt. Bond Yield	4.83	2.28	2.92	4.22	4.41	4.06	4.87	4.90	4.50	4.10	3.70	3.30	3.00
10-yr Govt. Bond Yield	4.15	2.32	2.98	3.83	3.88	3.48	3.81	4.00	3.80	3.55	3.35	3.20	3.05
30-yr Govt. Bond Yield	4.28	2.44	3.14	3.79	3.97	3.67	3.85	4.00	3.95	3.85	3.65	3.50	3.35

Forecast by TD Economics as of July 2023; all forecasts are end-of-period. Source: Bloomberg, Federal Reserve Board, TD Economics.

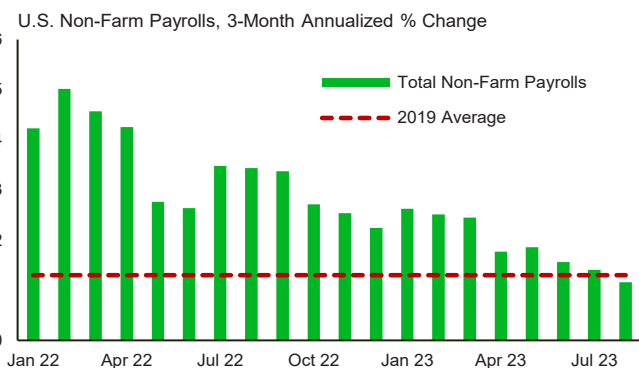
The Labor Market Takes a Holiday

The U.S. almost managed to escape August without a major hurricane, but unfortunately those hopes were dashed when Hurricane Idalia made landfall as a category 3 hurricane on Wednesday in Florida. Strong winds, rain, and storm surges caused widespread flooding and property damage, leaving hundreds of thousands of Americans without power across the Southeast. Although the extent of the damage is still being assessed, insurance and clean-up costs are expected to be well over a billion dollars.

Fortunately for the national economy, sunnier skies could be found in this week’s economic data, including the 187k new jobs added in August. While this reading, in addition to the downward revisions to the previous two months, marks a continued moderation in the pace of hiring, it indicates that supply and demand in the labor market are coming into a more sustainable alignment (Chart 1). This was further evidenced by the decline in job openings in July, with the job opening to unemployed ratio falling to 1.5. While the unemployment rate did rise to 3.8%, this mostly resulted from a boost in labor force growth which could be considered a net positive if it helps to offset labor shortages. On aggregate, this progress will come as positive news for the Federal Reserve, however the most recent data on inflation was slightly more mixed.

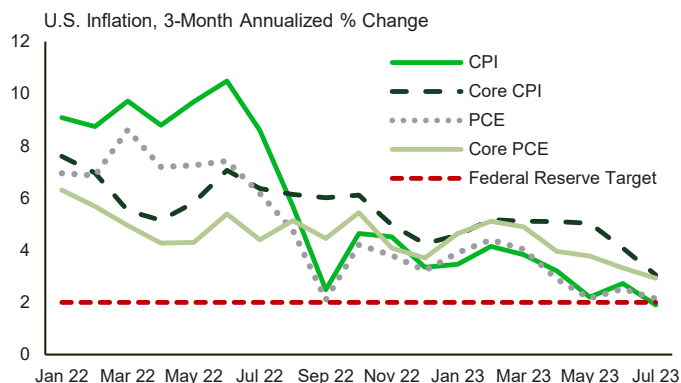
On Thursday, we saw that PCE inflation rose by 3.3% year-on-year (y/y) in July, up from 3.0% in June. This was driven by a moderation in the negative base effects resulting from the spike in energy prices last year in addition to a moderate uptick in services inflation – driven entirely by Powell’s ‘supercore’ component. Looking at the 3-month annual-

Chart 1: Job Growth Has Moderated Notably Relative to 2022



Source: U.S. BLS, TD Economics.

Chart 2: Total Inflation Back on Target, Core Trending Downward



Source: U.S. BLS, U.S. BEA, TD Economics.

ized trend (Chart 2), we can see that total inflation is pushing closer to the Fed’s 2% target, though this is likely to be short lived given the recent move up in energy prices. In addition, while core inflation is moving in the right direction, non-housing core services have barely budged from their cyclical highs and continue to run at an elevated annualized pace. Until we see a meaningful cooling here, core inflation will likely remain north of 3%.

Some offset to inflationary pressures continues to be provided by the goods sector, with the ISM Manufacturing Purchasing Managers’ Index (PMI) showing manufacturing activity contracted for a tenth consecutive month in August. Ten out of sixteen industries reported lower input prices, which is likely factoring in downstream to the consumer. Price growth in the services sector has been more stubborn, so next week’s update on the ISM Services PMI will offer insight into how resilient the sector remains.

With the Labor Day holiday on Monday, next week will be short both in length and in the volume of economic data that we receive. However, the release of the Fed’s Beige Book will be one item to watch, as it will feed into the viewpoints that FOMC members bring to the upcoming meeting. We expect that the progress on inflation and job market cooling up to this point will be sufficient to warrant a hold in 2 weeks’ time, but the tone will likely remain hawkish to guard against the potential for pre-mature easing in financial conditions.

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Recent Key Economic Indicators: Aug 28 - Sep 01, 2023						
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States						
Aug 29	S&P CoreLogic CS 20-City NSA	Jun	Y/Y % Chg.	-1.2	-1.7	
Aug 29	S&P CoreLogic CS US HPI NSA	Jun	Y/Y % Chg.	0.0	-0.4	
Aug 29	Conf. Board Consumer Confidence	Aug	Index	106.1	114.0	
Aug 30	ADP Employment Change	Aug	Thsd	177.0	371.0	
Aug 30	Advance Goods Trade Balance	Jul	Blns	-91.2	-88.8	
Aug 30	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	2.1	2.4	
Aug 30	Personal Consumption	2Q	Q/Q % Chg.	1.7	1.6	
Aug 31	Initial Jobless Claims	Aug 26	Thsd	228.0	232.0	
Aug 31	Personal Income	Jul	M/M % Chg.	0.2	0.3	
Aug 31	Real Personal Spending	Jul	M/M % Chg.	0.8	0.6	
Aug 31	PCE Deflator	Jul	Y/Y % Chg.	3.3	3.0	
Sep 01	Change in Nonfarm Payrolls	Aug	Thsd	187.0	157.0	
Sep 01	Unemployment Rate	Aug	%	3.8	3.5	
Sep 01	Average Hourly Earnings	Aug	M/M % Chg.	0.2	0.4	
Sep 01	S&P Global US Manufacturing PMI	Aug	Index	47.9	47.0	
Sep 01	ISM Manufacturing	Aug	Index	47.6	46.4	
Canada						
Aug 31	CFIB Business Barometer	Aug	Index	54.8	53.1	
Aug 31	Payroll Employment Change - SEPH	Jun	Thsd	47.7	129.9	
Sep 01	Quarterly Gross Domestic Product Annualized	2Q	Q/Q % Chg.	-0.2	2.6	
Sep 01	Gross Domestic Product	Jun	M/M % Chg.	-0.2	0.2	
Sep 01	S&P Global Canada Manufacturing PMI	Aug	Index	48.0	49.6	
International						
Aug 28	JN Jobless Rate	Jul	%	2.7	2.5	
Aug 30	JN Retail Sales	Jul	Y/Y % Chg.	6.8	5.6	
Aug 30	CH Manufacturing PMI	Aug	Index	49.7	49.3	
Aug 31	EZ Consumer Price Index Estimate	Aug	Y/Y % Chg.	5.3	5.3	
Aug 31	EZ Unemployment Rate	Jul	%	6.4	6.4	
Aug 31	IN Gross Domestic Product	2Q	M/M % Chg.	7.8	6.1	
Aug 31	JN Jibun Bank Japan PMI Mfg	Aug	Index	49.6	49.7	
Aug 31	CH Caixin China PMI Mfg	Aug	Index	51.0	49.2	
Sep 01	BZ Gross Domestic Product	2Q	Q/Q % Chg.	0.9	1.8	

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



Upcoming Economic Releases and Events: Sep 04 - Sep 08, 2023						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 05	10:00	Cap Goods Orders Nondef Ex Air	Jul	M/M % Chg.	-	0.1
Sep 05	10:00	Durable Goods Orders	Jul	M/M % Chg.	-	-5.2
Sep 05	10:00	Factory Orders	Jul	M/M % Chg.	-2.5	2.3
Sep 05	10:00	Factory Orders Ex Trans	Jul	M/M % Chg.	0.2	0.2
Sep 06	8:30	<i>Fed's Collins Speaks on Economy</i>				
Sep 06	8:30	Trade Balance	Jul	Blns	-67.7	-65.5
Sep 06	9:45	S&P Global US Composite PMI	Aug	Index	-	50.4
Sep 06	9:45	S&P Global US Services PMI	Aug	Index	-	51.0
Sep 06	10:00	ISM Services Index	Aug	Index	52.3	52.7
Sep 06	14:00	<i>Federal Reserve Releases Beige Book</i>				
Sep 07	8:30	Initial Jobless Claims	Sep 02	Thsd	233.0	228.0
Sep 07	8:30	Unit Labor Costs	2Q	Q/Q % Chg.	1.7	1.6
Sep 07	10:00	<i>Fed's Harker Speaks on Future of Fintech</i>				
Sep 07	15:30	<i>Fed's Williams Speaks at Bloomberg Market Forum</i>				
Sep 07	15:45	<i>Fed's Bostic Speaks on Economic Outlook</i>				
Sep 08	10:00	Wholesale Trade Sales	Jul	M/M % Chg.	-	-0.7
Canada						
Sep 06	8:30	Int'l Merchandise Trade	Jul	Blns	-	-3.7
Sep 06	10:00	Bank of Canada Rate Decision	Sep 06	%	5.0	5.0
Sep 07	14:10	<i>Bank of Canada Governor Tiff Macklem Gives Economic Progress Report</i>				
Sep 08	8:30	Net Change in Employment	Aug	Thsd	-	-6.4
Sep 08	8:30	Unemployment Rate	Aug	%	-	5.5
International						
Sep 06	5:00	EZ Retail Sales	Jul	Y/Y % Chg.	-1.2	-1.4
Sep 07	5:00	EZ Employment	2Q	Y/Y % Chg.	-	1.5
Sep 07	5:00	EZ Gross Domestic Product SA	2Q	Y/Y % Chg.	0.6	0.6
Sep 07	19:50	JN Gross Domestic Product Annualized SA	2Q	Y/Y % Chg.	5.6	6.0
Sep 08	21:30	CH Consumer Price Index	Aug	Y/Y % Chg.	-	-0.3

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

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