Focus

Feature Article

Unemployment: (North) American Exceptionalism

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Summertime Madness

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So much for a summer lull. This week was jam-packed with key economic indicators, a series of financial market milestones, a renewal of trade tensions, and some serious drama in Washington. Okay, admittedly, that last part is nothing new. But as stimulus talks are going down to the wire, and even beyond it, the economic data generally rolled in on the supportive side of the ledger for July. Even as that month witnessed a major flare-up in U.S. virus cases, the recovery mostly stayed on track as shown by solid results in auto sales, the ISMs, and jobs. And the more timely weekly data suggested that **momentum managed to trudge ahead into early August**. In turn, the astonishing rally in equities and many commodities carried on, with the S&P 500 moving within 2% of all-time highs, and the Nasdaq hitting a series of fresh record highs. Even the TSX flashed some strength. It moved above year-ago levels this week for the first time since March, and has clipped its 2020 decline to 3%.

While **stocks** have been the headline act, almost every financial market had a significant storyline of its own this week. Even with most major economic reports coming in above expectations, **bond yields still careened** to some record lows early in the week. Treasury yields from 2- to 10-years had all-time low daily closes at one stage, with the former flirting with the 0.1% level and the latter 0.5%. Commodities also posted some records, with gold punching above $2,000 for the first time ever, lumber taking another big leg higher to near records, and even natural gas quietly hitting a 2020 high. **Currencies** also got into the act, with the Turkish lira hitting a record low, and the U.S. dollar managing its own comeback story on the decent jobs data. Still, at almost $1.18, the euro has managed to rise almost 5% so far this year against the dollar.

Euro gains are partly a reflection of underlying economic conditions. The **Euro Area continues to rebound markedly** from the spring shutdowns, with its composite PMI bouncing in July to 54.9 amid big gains in both services and factories. Echoing the U.S. comeback, Europe has also seen an almost perfect V-shaped recovery in retail sales as the economy reopened. And, as we point out in this week's Feature, strong wage subsidy programs have helped hold the Euro Area jobless rate in check during the pandemic. In stark contrast to the spikes seen in North America, Europe's unemployment rate is up less than one percentage point to a moderate 7.8%.

Even more impressive has been the recovery in much of Asia. **China continues to carve out something very closely resembling a V** for its broader economy, no doubt helped by low virus tallies. That economy also reported a solid composite PMI for July (amazingly close to Europe at 54.5), and solid gains in exports (+7.2% y/y in dollar terms). The downside of the latter is that with flat imports, China's trade surplus has flared higher to $62 billion, and risks renewed U.S. attention at a time when the Administration is back on the tariff trail again. But the more important message for markets—and commodities in particular—is **how well trade flows are holding up in much of Asia**. It's nothing short of amazing that combined exports among the East Asian economies (ex-Japan) were down just 2% y/y in June amid what's widely recognized as the deepest global downturn of the post-war era.

The U.S. economy has a lot further to go before anyone would describe the broader recovery as a full V (see Michael's Thought). While July data were encouraging on balance, the gains are slowing. For example, although the slightly above-consensus jobs add of 1.76 million, payrolls are still more than 8% below pre-virus levels. And, even with a respectable 14.5 million vehicle sales last month, they are still down almost 15% from last year's average. On the flip side, and memo to the naysayers and gloomsters, note that it took almost four years in the prior cycle for auto sales to get back up to that kind of level; this time it took less than four months. The main conclusion is that, **yes the recovery has a long hard road ahead, but it is going about as well as could have been realistically expected**.

Ditto for Canada, as the 418,500 employment rise in July means that more than half the job losses have now been recouped, but they are still down 7% from pre-virus levels. On many measures, **Canada is now seeing an even more forceful snap-back** after a more complete shutdown than the U.S. economy. For example, after a deeper plunge in auto sales, Canada's were down "only" 4.9% y/y last month. But the most spectacular comeback has been in the housing market. Defying the usual legion of bears, national home sales look to have roared back in July to record levels, and most major cities reported double-digit year-on-year price gains. Clearly, much of the bounce is simply pent-up demand as the key spring selling season was pushed into the summer. Still, how many analysts were predicting double-digit sales and price gains at this point during the depths in April?

All of this is not to suggest that it's perfectly smooth sailing in the coming months. There is **no shortage of serious challenges ahead**. Top of the list is the still-high level of virus cases, especially stateside, but now creeping up in some of Europe and places like Australia. At deadline time, we also still have an impasse on the U.S. stimulus talks, and seemingly little room for even a reasonable compromise. Finally, this week also saw trade tensions move beyond talk and into action, with Canada somehow the first major target with the 10% tariff on aluminum. This measure is likely to punish U.S. consumers more than any other group, and is bound to reward aluminum exporters in other countries like Russia and China, more than U.S. producers. Summertime madness indeed.

U.S. Jobs: Where's the V?

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Payroll employment jumped by 1.76 million in July, topping market expectations for the third consecutive month. This lifted the three-month cumulative increase to 9.28 million, now having recovered 42% of the 22.16 million jobs lost during March and April owing to the lockdowns. **For employment, the recovery is looking less V-shaped and more like a tilted checkmark or the much-mentioned swoosh.** So, why not a 'V'? The answer lies in the hiring caution many businesses now practice because of economic uncertainty, the operating constraints many firms now face because of the pandemic, and the fact that some businesses have, unfortunately, permanently closed. Additional insight is garnered by looking at the various job recovery ratios across industries.

For example, the private sector is at 45%, but the **public sector** has continued to shed jobs as state and local governments grapple with massive deficits amid balanced budget requirements. During the recession, while the federal government added 26k jobs, mostly Census workers, 1.00 million state and local government workers (around 80% local) were laid off. Since then, federal jobs expanded a further 19k, despite fewer Census workers, while state and local governments reduced their payrolls by another 175k (all local, as state workers were essentially flat at +6k). Cutbacks will likely continue unless state and local governments get some federal support, which is the biggest gulf between the Democrats and Republicans in agreeing on another economic support package. The House-passed HEROES Act has $1 trillion targeted here while the GOP's HEALS Act has no specific provision for other levels of government. The National Association of Governors has already made a bipartisan appeal for $500 billion of federal support, with the National Council of Mayors appealing for $250 billion.

Within the **private sector**, the job recovery ratio for goods-producing industries is now 49% with the more-pandemic-affected services-producing industries at 44%. On the goods side, construction jobs have done the best, recovering 59% (-1.08 million followed by +639k), while manufacturers are at 46% (-1.36 million followed by +623k). The remainder of the goods sector is denominated by continued job losses in mining, as the oil industry, particularly, adjusts to a crude output level that appears to have stabilized at about 2.0 million barrels per day below its March (record) peak (down more than 15%). This sector shed 57k jobs during the recession and another 34k since.

On the private services side, the jobs recovery in accommodation and food services employment nudged above the 50% mark in July. This sector had the largest recession job loss at 6.99 million and had since rehired 3.55 million workers, paced mostly by food services and drinking places (57% recovery here versus only 12% for accommodation). People are eating and drinking out again but aren't yet travelling. However, as the month unfolded, several states began closing bars and restaurants again amid rollbacks of reopening plans, as new coronavirus cases surged.

Retailers are, so far, the stars of the services sector—and the entire economy—hiring back 62% of their laid off employees, as stores and showrooms went from being mostly closed (2.38 million jobs lost) to now all open (1.47 million gained). However, with the pandemic-accelerated increased competition from the likes of Amazon and Wayfair, along with several chains now in bankruptcy protection and other smaller enterprises having closed for good, the retail sector is going to be hard pressed to hold onto its 'star' moniker.

Interestingly, the job recovery ratios in industries such as finance and insurance, along with professional and technical services are both less than 30% (combined -604k followed by +164k). Meanwhile, the layoffs have continued in industries such as information services, along with management of companies and enterprises (combined -377k followed by -69k). These were all among the jobs that were supposed to be the relatively easiest to do at home, and hint that some more permanent (cost-cutting) labour shedding might be happening.

On balance, given all these hiring headwinds, the tilted-checkmark- or swoosh-shaped recovery for jobs could become weaker in the period ahead.

The Bizzaro Real Estate Recession

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Home sales across Canada's major cities continued to roar back in July, headlined by a record month in Toronto. Sales across the country will likely be up about 16% from year-ago levels when the final tally is published, with the average price also up by double digits. In a nutshell, after effectively shutting down through the height of the pandemic, **the housing market has reopened**, and there is **plenty of pent-up demand** at this stage to absorb the wave of new listings—in Toronto, for example, both sales and new listings were up nearly 30% y/y in July.

The performance of the housing market through this historic economic shock has, to put it mildly and without naming names, surprised the bears. In fact, this has shaped up to be a bizzaro-world recession for the sector, where what is usually down is up, and vice versa. Some examples:

- You won't find a single recession during the postwar era that has not seen a meaningful decline in residential construction activity, but this pandemic actually left the sector as one of the few that was able to operate relatively undisturbed. As a result, housing starts have sailed above bearish expectations.
- New listings, which usually jump into a downturn (see 2009), were almost fully absent given social distancing restrictions on home selling. This effectively froze the market in time, rather than triggering a price correction.
- Home buying demand has continued to build, which is contrary to what you'd normally see. Part of this reflects the fact that the mid-to-upper income range of the job market has held up very well versus the lower end. July's employment report, for example, shows that employment in the accommodation & food and culture & recreation industries was down 21% from February, but finance and professional services were down just 2%. You'll be hard pressed to find a downturn where the rental market is hit harder than the mid-to-high end of the resale market.

While real estate has largely sailed through the pandemic, **questions linger about the outlook when massive support programs start to expire**, and the market is left more to its own devices. As the CERB winds down and evolves, the impact will likely be disproportionately heavy at the lower end of the resale market and in the rental segment. Mortgage deferrals should be absorbed into outstanding balances which will increase the debt level, but limit any payment shock, especially for those that can refinance at record-low rates. At any rate, a picture that shows resilience and strength in real estate through the downturn, but some sluggishness later on in the recovery would indeed look bizzaro.

Meantime, pent-up demand is starting to be unleashed in the auto sector too, with sales up firmly in both Canada and the U.S. in July. Canadian sales were down just 5% y/y in the month, but in a sharp "V" have effectively returned to pre-COVID levels on a seasonally-adjusted basis. U.S. sales were still down 14.6% y/y in July and are about 15% below pre-COVID levels, but month-over-month momentum is brisk, and this sales recovery is looking much sharper than that coming out of the Great Recession.

Tariff Man Strikes Again

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As the North American and global economies continue to climb out of the deep pandemic-lockdown driven holes, President Trump (a.k.a Tariff Man) strikes again. The U.S. is claiming that **Canadian exports of aluminum into the U.S.** have surged which warrants re-imposing the 10% tariffs that were in place in 2018/19. This is just another case of the President giving in to domestic pressures from an industry managing to yell the loudest. The data show exactly zero surge in aluminum imports from Canada (and that's using U.S. data). In fact, there's actually been a slowing of shipments in Q2! Perhaps the White House is focused on one small category that jumped in Q1, but it has already started falling and accounts for less than 10% of aluminum shipments which are subject to tariffs. Canada can retaliate but only in similar products. U.S. aluminum exports into Canada are about 1/3rd as large; and in an economy ten times the size, the impact will be nothing more than an annoyance.

The revival of trade frictions comes following a notable deterioration of Canada's trade balance in June. Energy was a key culprit in widening the trade gap, as higher prices don't look to have fully filtered through just yet. There's still plenty of room for trade activity to recover with export volumes at just 89% of February levels, while imports are at 87.7%. The tariffs won't help, but fortunately, they only impact about $500 mln (just over 1%) of monthly exports. Perhaps the bigger impact will be on sentiment, as this seemingly outrageous tariff suggests CUSMA might not provide as much protection as Canadian firms doing business in the U.S. would like.

Recap

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Indications of stronger growth and a move toward price stability are **good news** *for the economy.*

	Good News	Bad News
Canada ▪ Labour market continues to improve as much of the country reopened in July ▪ U.S. re-imposes 10% tariff on Canadian aluminium; Canada to retaliate	**Employment** +418,500 (July) **Unemployment Rate** -1.4 ppts to 10.9% (July) **Average Hourly Wages** +6.3% y/y (July) **Markit Manufacturing PMI** +5.1 pts to 52.9 (July) **Ivey PMI** +10.3 pts to 68.5 (July)	**Auto Sales** -4.9% y/y (July) **Merchandise Trade Deficit** widened to $3.2 bln (June)
United States ▪ Job growth slows as virus cases climbed in July ▪ Stimulus talks ongoing ▪ White House targets China's tech firms	**Nonfarm Payrolls** +1,763k (July) **Unemployment Rate** -0.9 ppts to 10.2% (July) **Average Hourly Earnings** +0.2% (July) **Continuing Claims** -844k to 16,107k (July 25 week) **Auto Sales** rose to 14.52 mln a.r. (July) **Manufacturing ISM** +1.6 pts to 54.2; **Non-Manufacturing ISM** +1.0 pt to 58.1 (July) **Factory Orders** +6.2% (June) **Goods and Services Trade Deficit** narrowed to $50.7 bln (June)	**Construction Spending** -0.7% (June) **Wholesale Inventories** -1.4% (June F) —but revised higher
Japan ▪ Virus cases continue to surge as support for PM Abe slides	**Manufacturing PMI** +5.1 pts to 45.2 (July F) —a 6-month high **Services PMI** +0.4 pts to 45.4 (July F)	**Household Spending** -9.8% y/y (Apr.-to-June)
Europe ▪ Bank of England on hold... negative rates in the toolbox but "*not appropriate now*" ▪ U.K./Japan trade talks continue	**Euro Area—Manufacturing PMI** +4.4 pts to 51.8; **Services PMI** +6.4 pts to 54.7(July F) **Euro Area—Retail Sales** +5.7% (June) **Germany—Industrial Production** +8.9%; **Factory Orders** +27.9% (June) **Germany—Trade Surplus** grew to €15.6 bln (June) **France—Industrial Production** +12.7% (June) **Italy—Industrial Production** +8.2% (June) **U.K.—Manufacturing PMI** +3.2 pts to 53.3; **Services PMI** +9.4 pts to 56.5; **Construction PMI** +2.8 pts to 58.1 (July F)	**France—Trade Deficit** widened to €8.0 bln (June)
Other ▪ RBA on hold at 0.25% ▪ Brazil cuts rates 25 bps to 2.00%; India on hold ▪ Gold above $2,000	**China—Caixin Manufacturing PMI** +1.6 pts to 52.8 (July) **China—Vehicle Sales** +14.9% y/y (July P) **China—Exports** +7.2% y/y (July) **China—Foreign Reserves** $3.1 trln (July) **Australia—Trade Surplus** grew to A$8.2 bln (June)	**China—Caixin Services PMI** -4.3 pts to 54.1 (July) **China—Imports** -1.4% y/y (July) **Australia—Retail Sales Volumes** -3.2% (Q2)

Unemployment: (North) American Exceptionalism

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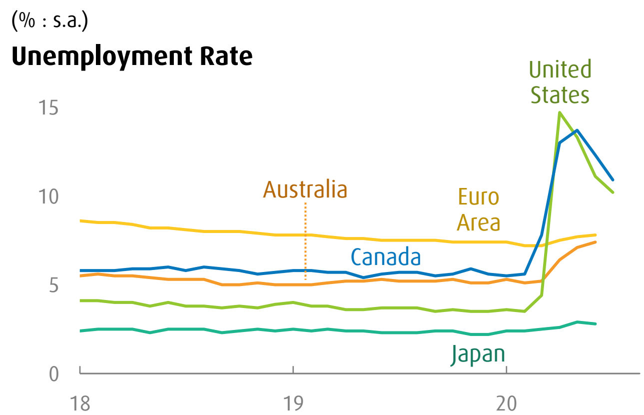
Among the developed world's jobless rates, the U.S. and Canada stand out, and not in a good way. Yes, their respective rates pulled back further in July from spring highs, but at 10.2% in the U.S. and 10.9% in Canada, they join the likes of Spain and Greece in double-digit terrain. That's a very different world from just six months ago, when the U.S. boasted one of the lowest rates at 3.5%, and Canada was unremarkable at 5.6%. The surge in each over the past half-year—6.7 percentage points (ppts) for the U.S. and 5.3 ppts for Canada—is quite simply unparalleled globally *(Chart 1)*. No other economy has seen its jobless rate rise 4 ppts during the pandemic; in fact, very few even saw a 2-ppt deterioration. For example, the Euro Area's jobless rate is up just 0.6 ppts from pre-virus levels, while Japan is up just 0.4 ppts. Why is that?

Chart 1
Jobless Rates: Spot the Outliers

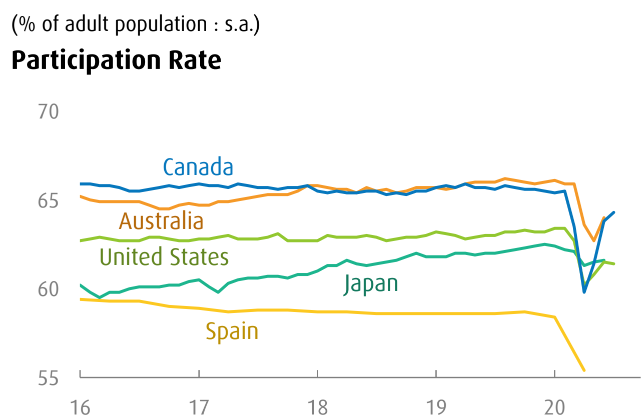


Sources: BMO Economics, Haver Analytics

The divergence can't be explained by major differences in underlying economic conditions. The recent Q2 GDP reports showed generally consistent deteriorations in most advanced economies. In fact, the 40.3% annualized drop in the Euro Area GDP last quarter was deeper than the 32.9% fall in the U.S., and in line with the initial estimate for Canada. True, Japan and Australia are expected to reveal somewhat lighter GDP hits than the U.S. for Q2, but not nearly enough to explain away such pronounced gaps in unemployment rates.

The divergence also can't be readily explained by big shifts in participation rates (e.g., stability in North America and big declines elsewhere, which would pump up jobless rates in the former relative to others). In fact, Canada and the U.S. initially saw massive drops in part rates during the shutdowns, which limited the spike in headline jobless rates in both countries *(Chart 2)*. True, some specific European economies also reported a surge in people dropping out of the labour force (notably Italy and Spain), restraining joblessness. However, this hasn't been widely repeated in most major economies, and doesn't explain the wide divergence in unemployment rates.

Chart 2
Part Rates: Only a *Part*ial Answer



Sources: BMO Economics, Haver Analytics

Instead, the gap reflects a **marked difference in employment trends through the shutdown and early reopening phases**. While Canada and the U.S. both posted employment declines of almost 16% in the March/April period, Japan, Europe, Australia and

Britain saw nothing close to that kind of setback *(Chart 3)*. And even with solid recoveries in the ensuing three months, North American job levels are still well below the others. But, again, why is that? Why have jobs been so especially hard hit in the U.S. and Canada, when underlying economic activity was not significantly weaker (and firmer in some cases)?

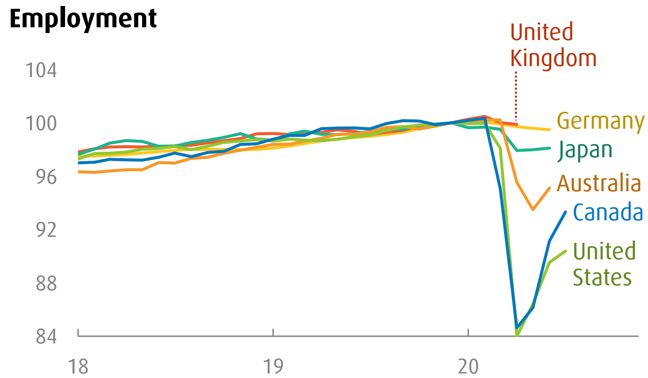
To begin, it's not a "normal" cyclical development to have North America's job market the only one to be hit hard. Looking back to the deep 2008/09 recession, all major economies suffered a sharp employment hit and a severe back-up in jobless rates *(Chart 4)*. It happens that the U.S. also saw the largest deterioration in that cycle, owing to its housing crash, but others experienced nearly as serious hits, especially compared with Canada.

There are **four primary explanations** for why this cycle looks so different on the jobs front and why the unemployment back-up has mostly been a North American phenomenon. **First**, and probably most important, is that most other economies had effective wage subsidy programs in place to keep workers attached to their employers. Germany's *Kurzarbeit* is probably the best known and is estimated by some to have saved 5.5% of the workforce from jobless tallies (roughly the difference between the deterioration in U.S. and German jobless rates). While the program is not notably more generous than, say, Canada's wage subsidy plan, it was already in place when the pandemic hit, and was made retroactive to March 1. And, while Germany's unemployment rate has been held to a 1.2 ppt rise, some other EU nations have reported outright *declines* in joblessness, including Italy, Ireland and Portugal.

Second, few other economies have leaned as heavily on direct income support measures as have the U.S. and Canada during the pandemic. Supplemented UI and the CERB have played a crucial role in offsetting income losses as a result of the shutdowns, and thus supported a rapid rebound in North American retail sales and housing markets. However, these programs may have incented at least some to defer their return to work, and thus partly boosted jobless rates beyond the shutdown phase.

Chart 3
Employment: Same Outliers

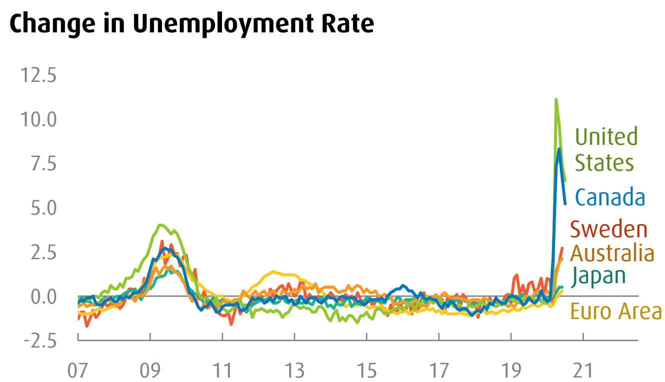
(December 2019 = 100 : s.a.)



Sources: BMO Economics, Haver Analytics

Chart 4
Jobless Jump: It Truly Is Different This Time

(y/y chng : ppts : s.a.)



Sources: BMO Economics, Haver Analytics

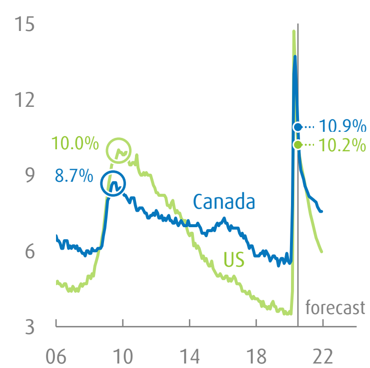
Third, the North American economies tend to have a greater share of employment in services. And, unlike every other recession in history, this one hit the service sector harder than goods-producing industries (manufacturing, construction, and resources), because of its unique nature. For example, U.S. private-sector services have seen a net job loss of nearly 10% since February, compared with a 6% setback in goods-producing industries. The roles were reversed in the 2009 recession.

Finally, the economic deterioration has been a bit lighter, at least so far, in some economies such as Japan, New Zealand and Australia, reflecting a less-severe hit from the virus. That, in turn, has partially explained the less-severe job losses in some of those specific economies. However, that relative position may be changing, with a few countries that managed to initially fend off the virus now seeing new flare-ups and economic restraints—notably Australia and Japan.

And that brings us to the main conclusion: the wide divergences in jobless rates between North America and the rest of the advanced economies are likely to narrow markedly in the year ahead. Most importantly, we anticipate that even a muted further recovery will help bring down jobless rates in the U.S. and Canada over the next year *(Chart 5)*. We also look for employers to lean more heavily on wage support programs in the coming months, especially in Canada as the CERB is phased out. On the flip side, the highly effective European programs may start to lose lustre. Britain's wage subsidy program, for one, expires in October, and it's not clear to what extent it will be replaced. Germany's program runs for one year, pointing to a possible rise in joblessness next year even amid an economic recovery in Europe. However, it's fair to say that the wage subsidy programs increase the chances of a meaningful recovery in most of Europe in 2021, assuming effective virus control is in place.

Chart 5
Jobless Gaps Should Narrow

Unemployment Rate (percent)



	Current	Pre-COVID
Spain	15.6	13.6
Canada	10.9	5.6
US	10.2	3.5
Sweden	9.1	7.1
Italy	8.8	9.2
Euro Area	7.8	7.2
France	7.7	7.6
Australia	7.4	5.1
UK	7.3	3.4
Germany	4.2	3.6
NZ	4.0	4.1
Switzerland	3.3	2.2
Japan	2.8	2.4

Sources: BMO Economics, Haver Analytics

Bottom Line: The massive relative deterioration in North America's jobless rates is likely to prove to be an anomaly, which should mostly unwind over the next year. Even so, the much weaker starting point for jobs also leaves the recovery in the U.S. and Canada more fragile, and vulnerable to disappointment.

Economic Forecast Summary for August 7, 2020

	2020				2021				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	2021
CANADA											
Real GDP (q/q % chng : a.r.)	-8.2	-40.0	42.0	10.0	6.5	4.2	3.5	3.2	1.7	-6.0	6.0
Consumer Price Index (y/y % chng)	1.8	0.0	0.8	0.6	0.9	2.1	1.5	1.6	1.9	0.8	1.5
Unemployment Rate (percent)	6.3	13.0	10.0 ↑	8.8 ↓	8.3 ↓	8.1 ↓	7.9 ↑	7.6 ↑	5.7	9.5	8.0
Housing Starts (000s : a.r.)	209	191	190	193	205	205	220	228	209	195	215
Current Account Balance ($blns : a.r.)	-44.4	-73.7	-63.4	-58.6	-55.1	-54.0	-51.8	-51.0	-47.0	-60.0	-53.0
Interest Rates (average for the quarter : %)											
Overnight Rate	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.50	0.25
3-month Treasury Bill	1.29	0.22	0.15 ↓	0.15 ↓	0.15 ↓	0.15 ↓	0.15 ↓	0.15 ↓	1.65	0.45	0.15 ↓
10-year Bond	1.20	0.59	0.50	0.60 ↓	0.75 ↓	0.90 ↓	1.00 ↓	1.15 ↑	1.59	0.70 ↓	0.95 ↓
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	16	8	7 ↑	8 ↑	8 ↑	8 ↑	8 ↑	8 ↑	-45	10 ↑	8 ↑
10-year	-18	-10	-10 ↑	-8 ↑	-8 ↑	-7 ↑	-6 ↑	-6	-56	-11 ↑	-7 ↑
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-5.0	-32.9	22.0	4.0	6.4	5.7	4.1	3.2	2.2	-5.0	4.0
Consumer Price Index (y/y % chng)	2.1	0.4	0.6	0.5	0.6	1.9	1.7	1.7	1.8	0.9	1.5
Unemployment Rate (percent)	3.8	13.0	9.8	8.9 ↓	8.0 ↓	7.2 ↓	6.5 ↓	6.1 ↓	3.7	8.9	7.0
Housing Starts (mlns : a.r.)	1.48	1.04	1.25	1.31	1.28	1.29	1.29	1.30	1.30	1.27	1.29
Current Account Balance ($blns : a.r.)	-417	-421	-475	-488	-518	-527	-535	-542	-480	-450	-530
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	1.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	2.13	0.38	0.13
3-month Treasury Bill	1.13	0.14	0.10	0.10	0.10	0.10	0.10	0.10	2.10	0.35	0.10
10-year Note	1.38	0.69	0.55 ↓	0.70 ↓	0.85 ↓	0.95 ↓	1.10	1.20	2.14	0.85 ↓	1.00 ↓
EXCHANGE RATES (average for the quarter)											
US¢/C$	74.4	72.2	74.4 ↑	75.4 ↑	75.9 ↑	76.2 ↑	76.5 ↑	76.8 ↑	75.4	74.1 ↑	76.4 ↑
C$/US$	1.34	1.39	1.34 ↓	1.33	1.32 ↓	1.31 ↓	1.31 ↓	1.30 ↓	1.33	1.35	1.31 ↓
¥/US$	109	108	106 ↓	105	105 ↓	106 ↓	106 ↓	107 ↓	109	107	106 ↓
US$/Euro	1.10	1.10	1.17 ↑	1.20 ↑	1.20	1.21	1.21	1.22	1.12	1.14	1.21
US$/£	1.28	1.24	1.29 ↑	1.30 ↑	1.30	1.31	1.32	1.33	1.28	1.28 ↑	1.31

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

Canada

Benjamin Reitzes,
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Housing Starts
Tuesday, 8:15 am

July (e)	**215,000 a.r. (+1.6%)**
June	211,567 a.r. (+8.2%)

The housing sector has rebounded remarkably quickly as the economy reopened from the COVID lockdowns. Pent-up demand and low rates have fuelled home sales; in turn, keeping builders busy. We look for **housing starts** to rise modestly to 215,000 in July, consistent with the rebound in building permits. With rates likely to be low for some time, the biggest hurdle for housing is slower population growth as borders remain largely closed due to the pandemic.

United States

Michael Gregory, CFA,
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Consumer Prices
Wednesday, 8:30 am

July (e)	**+0.4%**	**+0.8% y/y**
Consensus	*+0.3%*	*+0.7% y/y*
June	+0.6%	+0.6% y/y

CPI Ex. Food & Energy

July (e)	**+0.2%**	**+1.1% y/y**
Consensus	*+0.2%*	*+1.1% y/y*
June	+0.2%	+1.2% y/y

U.S. **core CPI** increased a moderate 0.2% in June (0.24% unrounded), as shoppers returned to the stores and showrooms. This followed three consecutive declines for the first time on record owing to the lockdowns, and kept the core inflation rate at 1.2% y/y. This will likely be repeated in July, albeit a bit less so unrounded as the record increases in car insurance premiums and rental fees aren't repeated, pulling it down a tenth to 1.1% y/y. Meanwhile, pumped by higher gasoline prices (up almost 5% nsa) and fed further by still-lofty hikes for food prices, **total CPI** likely increased 0.4%, lifting the annual change two-tenths to 0.8% y/y. As COVID-19 has impacted some food supplies (think meat) and more would-be restaurant goers have bought groceries instead, food price inflation has escalated. In the past three months alone, food-at-home prices have surged at an 18.4% annualized rate, the fastest since 1980.

Retail Sales
Friday, 8:30 am

		Ex. Autos
July (e)	**+3.0%**	**+1.1%**
Consensus	*+1.8%*	*+1.3%*
June	+7.5%	+7.3%

Retail Sales ex. Autos/Gas

July (e)	**+0.7%**
Consensus	*+1.2%*
June	+5.6%

After registering record reductions in March and April (21.7% combined), **retail sales** registered record rises in May and June (27.0% combined), reflecting the reopenings. At just 0.6% shy of its pre-pandemic level, this is one of the few indicators to display a perfect 'v-shaped' recovery, albeit unevenly across the retail segments, helped by the government's income support measures. For July, driven by faster vehicle sales (Autodata's tally was up 10.2% to 14.5 million) and larger gasoline station receipts (prices were up nearly 5% (nsa)), retail sales should rise 3.0% to an all-time high, or 1.1% excluding autos and 0.7% further excluding gasoline. These results will likely be held back by restaurants and bars as some states rolled back reopening plans.

Industrial Production
Friday, 9:15 am

	Industrial Production	Capacity Utilization
July (e)	**+2.7%**	**70.5%**
Consensus	*+3.0%*	*70.5%*
June	+5.4%	68.6%

The recovery in factory output continued in July. The ISM index's production component jumped 4.8 points to a near 2-year high of 62.1. Aggregate hours worked rose 2.0%, after increasing a cumulative 8.0% in May and June. Meanwhile, stabilizing oil production (at 2 mbpd below its March peak) should stabilize mining output. Utilities output should get a boost from cranked-up air conditioners and rebounding broader economic activity. Overall, we look for industrial production to increase 2.7%, now having recovered nearly 50% of the pandemic plummet (-16.6%). This should lift the capacity utilization rate 1.9 points to 70.5%, still well below the pre-pandemic range of around 77%.

Financial Markets Update for August 7, 2020

		Aug 7 [1]	Jul 31	Week Ago	4 Weeks Ago (basis point change)	Dec 31, 2019
Canadian Money Market	Call Money	0.25	0.25	0	0	-150
	Prime Rate	2.45	2.45	0	0	-150
U.S. Money Market	Fed Funds (effective)	0.25	0.25	0	0	-150
	Prime Rate	3.25	3.25	0	0	-150
3-Month Rates	Canada	0.17	0.17	0	-1	-149
	United States	0.09	0.08	1	-3	-145
	Japan	-0.06	-0.09	3	5	5
	Eurozone	-0.48	-0.46	-2	-4	-10
	United Kingdom	0.07	0.08	-1	-2	-72
	Australia	0.11	0.11	0	0	-81
2-Year Bonds	Canada	0.27	0.26	1	-2	-143
	United States	0.12	0.11	1	-3	-145
10-Year Bonds	Canada	0.48	0.46	1	-7	-122
	United States	0.55	0.53	2	-10	-137
	Japan	0.01	0.01	0	0	3
	Germany	-0.51	-0.53	1	-4	-32
	United Kingdom	0.14	0.10	3	-2	-68
	Australia	0.83	0.82	1	-3	-54
Risk Indicators	VIX	22.5	24.5	-2.0 pts	-4.8 pts	8.7 pts
	TED Spread	16	17	0	2	-20
	Inv. Grade CDS Spread [2]	65	71	-6	-10	20
	High Yield CDS Spread [2]	393	442	-49	-115	113
					(percent change)	
Currencies	US¢/C$	74.73	74.56	0.2	1.6	-2.9
	C$/US$	1.338	1.341	—	—	—
	¥/US$	105.88	105.83	0.0	-1.0	-2.5
	US$/€	1.1785	1.1778	0.1	4.3	5.1
	US$/£	1.305	1.309	-0.3	3.4	-1.6
	US¢/A$	71.77	71.43	0.5	3.3	2.2
Commodities	CRB Futures Index	147.65	143.69	2.8	4.3	-20.5
	Oil (generic contract)	41.42	40.27	2.9	2.1	-32.2
	Natural Gas (generic contract)	2.22	1.80	23.3	22.9	1.3
	Gold (spot price)	2,037.58	1,975.86	3.1	13.3	34.3
Equities	S&P/TSX Composite	16,552	16,169	2.4	5.3	-3.0
	S&P 500	3,350	3,271	2.4	5.2	3.7
	Nasdaq	11,103	10,745	3.3	4.6	23.7
	Dow Jones Industrial	27,341	26,428	3.5	4.9	-4.2
	Nikkei	22,330	21,710	2.9	0.2	-5.6
	Frankfurt DAX	12,685	12,313	3.0	0.4	-4.3
	London FT100	6,037	5,898	2.4	-1.0	-20.0
	France CAC40	4,895	4,784	2.3	-1.5	-18.1
	S&P ASX 200	6,005	5,928	1.3	1.4	-10.2

[1] = as of 11:10 am *[2] = One day delay*

Global Calendar — August 10–August 14

	Monday August 10	Tuesday August 11	Wednesday August 12	Thursday August 13	Friday August 14
Japan		**Bank Lending (ex. Trusts)** **July** June +6.5% y/y **Current Account Balance** **June '20 (e) +¥0.1 trln** June '19 +¥1.3 trln	**Machine Tool Orders** **July P** June -32.1% y/y		**Tertiary Index** **June (e) +6.6%** May -2.1%
Euro Area		**GERMANY** **ZEW Survey—Expectations** **Aug. (e) 55.8** July 59.3	**EURO AREA** **Industrial Production** **June (e) +10.0% -11.6% y/y** May +12.4% -20.9% y/y **ITALY** **Consumer Price Index** **July F (e) -0.6% +0.9% y/y** June unch -0.4% y/y	**GERMANY** **Consumer Price Index** **July F (e) -0.5% unch y/y** June +0.7% +0.8% y/y	**EURO AREA** **Real GDP** **Q2 P (e) -12.1% -15.0% y/y** Q2 A -12.1% -15.0% y/y Q1 -3.6% -3.1% y/y **Trade Surplus** **June (e) €15.0 bln** May €8.0 bln **FRANCE** **Consumer Price Index** **July F (e) +0.4% +0.9% y/y** June +0.1% +0.2% y/y
U.K.		**Jobless Claims** **July** June -28,100 **Employment (3m/3m)** **June (e) -298,000** May -125,000 **Avg. Wkly Earnings Ex. Bonus (3 mma)** **June (e) -0.1% y/y** May +0.7% y/y **Jobless Rate (3 mma)** **June (e) 4.2%** May 3.9%	**Real GDP** **Q2 P (e) -20.5% -22.2% y/y** Q1 -2.2% -1.7% y/y **Monthly Real GDP 3m/3m** **June (e) +8.1% n.a.** May +1.8% -19.1% **Index of Services 3m/3m** **June (e) +8.0% -20.5%** May +0.9% -18.9% **Industrial Production** **June (e) +9.7% -12.6% y/y** May +6.0% -20.0% y/y **Manufacturing Production** **June (e) +10.0% -15.0% y/y** May +8.4% -22.8% y/y **Trade Balance Non-EU** **June (e) -£4.4 bln -£0.7 bln** May -£2.8 bln +£0.6 bln	**RICS House Price Balance** **July (e) -5%** June -15%	
Other	**CHINA** **CPI PPI** **July (e) +2.6% y/y -2.5% y/y** June +2.5% y/y -3.0% y/y **Aggregate Yuan Financing [D]** **July (e) 1.8 trln** June 3.4 trln **New Yuan Loans [D]** **July (e) 1.2 trln** June 1.8 trln **M2 Money Supply [D]** **July (e) +11.1% y/y** June +11.1% y/y	**CHINA** **Foreign Direct Investment [D]** **July** June +7.1% y/y **AUSTRALIA** **NAB Business Confidence** **July** June 1	**AUSTRALIA** **Westpac Consumer Confidence** **Aug.** July -6.1%	**AUSTRALIA** **Employment Jobless Rate** **July (e) +30,000 7.8%** June +210,800 7.4%	**CHINA** **Industrial Production** **July (e) +5.1% y/y** June +4.8% y/y **Retail Sales** **July (e) +0.1% y/y** June -1.8% y/y **Fixed Asset Investment (YTD)** **July (e) -1.6% y/y** June -3.1% y/y Saturday August 15 **U.S./China virtual meeting on Phase 1 progress**

[D] = date approximate

Upcoming Policy Meetings | Bank of England: Sep. 17, Nov. 5, Dec. 17 | European Central Bank: Sep. 10, Oct. 29, Dec. 10

Canada

Monday August 10

BoC Buyback: 5-year sector

Tuesday August 11

8:15 am	**Housing Starts**	
July (e)	**215,000 a.r. (+1.6%)**	
June	211,567 a.r. (+8.2%)	

10:30 am — 3-, 6- & 12-month bill auction $10.0 bln (new cash -$10.6 bln)

BoC Buyback: Under 2-year sector

Wednesday August 12

Noon — 30-year bond auction $3.0 bln

BoC Buyback: 30-year sector

Thursday August 13

Noon — 2-year bond auction $6.0 bln

2- & 5-year bond auction announcements

BoC Buyback: 2-year sector

Friday August 14

8:30 am	**Mfg. Sales**	**Mfg. New Orders**
June (e)	**+17.0%**	**+20.0%**
May	+10.7%	+9.4%

BoC Buyback: 10-year sector

United States

Monday August 10

10:00 am — **Job Openings & Labor Turnover Survey (June)**

Fed Speaker: Chicago's Evans (4:00 pm)

11:30 am — 13- & 26-week bill auctions $105 bln

Tuesday August 11

6:00 am	**NFIB Small Business Economic Trends Survey**	
July (e)	**100.4**[c]	
June	100.6	
8:30 am	**PPI Final Demand**	
July (e)	**+0.2%**	**-0.9% y/y**
Consensus	*+0.3%*	*-0.7% y/y*
June	-0.2%	-0.8% y/y
8:30 am	**PPI Final Demand ex. F&E**	
July (e)	**unch**	**-0.1% y/y**
Consensus	*+0.1%*	*+0.1% y/y*
June	-0.3%	+0.1% y/y

Fed Speakers: Richmond's Barkin (11 :00 am); San Francisco's Daly (noon)

11:00 am — 4- & 8-week bill auction announcements

11:30 am — 119-day cash management bill auction $30 bln

11:30 am — 42-day cash management bill auction $30 bln

1:00 pm — 52-week bill auction $34 bln

1:00 pm — 3-year note auction $48 bln

Wednesday August 12

7:00 am	**MBA Mortgage Apps**	
Aug. 7		
July 31	-5.1%	
8:30 am	**Consumer Prices**	
July (e)	**+0.4%**	**+0.8% y/y**
Consensus	*+0.3%*	*+0.7% y/y*
June	+0.6%	+0.6% y/y
8:30 am	**CPI Ex. Food & Energy**	
July (e)	**+0.2%**	**+1.1% y/y**
Consensus	*+0.2%*	*+1.1% y/y*
June	+0.2%	+1.2% y/y
2:00 pm	**Budget Balance**	
July '20		
July '19	-$119.7 bln	

Fed Speakers: Boston's Rosengren (10:00 am); Dallas' Kaplan (11:00 am); San Francisco's Daly (3:00 pm)

1:00 pm — 10-year note auction $38 bln

Thursday August 13

8:30 am	**Initial Claims**	
Aug. 8 (e)	**1,000k (-186k)**	
Consensus	*1,150k (-36k)*	
Aug. 1	1,186k (-249k)	
8:30 am	**Continuing Claims**	
Aug. 1		
July 25	16,107k (-844k)	
8:30 am	**Import Prices**	
July (e)	**+0.6%**	**-3.3% y/y**
Consensus	*+0.5%*	*-3.2% y/y*
June	+1.4%	-3.8% y/y

11:00 am — 13- & 26-week bill, 20-year bond, 30[R]-year TIPS auction announcements

11:30 am — 4- & 8-week bill auctions

1:00 pm — 30-year bond auction $26 bln

Friday August 14

8:30 am	**Retail Sales**	**Ex. Autos**
July (e)	**+3.0%**	**+1.1%**
Consensus	*+1.8%*	*+1.3%*
June	+7.5%	+7.3%
8:30 am	**Retail Sales ex. Autos/Gas**	
July (e)	**+0.7%**	
Consensus	*+1.2%*	
June	+5.6%	
8:30 am	**Productivity**	**Unit Labour Costs**
Q2 P (e)	**unch a.r.**	**+8.3% a.r.**
Consensus	*+1.5% a.r.*	*+5.5% a.r.*
Q1	-0.9% a.r.	+5.1% a.r.
9:15 am	**Industrial Production**	**Capacity Utilization**
July (e)	**+2.7%**	**70.5%**
Consensus	*+3.0%*	*70.5%*
June	+5.4%	68.6%
10:00 am	**Business Inventories**	
June F (e)	**-1.1%**	
Consensus	*-1.2%*	
May	-2.4%	
10:00 am	**University of Michigan Consumer Sentiment**	
Aug. P (e)	**71.7**[c]	
July	72.5	

Saturday August 15

U.S./China virtual meeting on Phase 1 progress

[c] = consensus   [D] = date approximate   [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Sep. 9, Oct. 28, Dec. 9 | FOMC: Sep. 15-16, Nov. 4-5, Dec. 15-16

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