Focus

Feature Article

States of Recession

Our Thoughts

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Never Say Never, Yet Again

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In any other year, **this week** would have ranked high on the drama scale, because it was **oh-so-2020**. Stocks came charging back after a see-saw September—okay, mostly "saw"—with the S&P 500 headed for its best week since late June with a gain well above 3%. Markets swayed on prospects for further U.S. fiscal support, with the President exiting the hospital and first calling off negotiations until after the election, then welcoming a restart late in the week ("never say never!"). But then, Mitch McConnell downplayed last gasp efforts. The civil Vice-Presidential debate sharpened focus on the fast-approaching election, and it may prove to be the last formal debate. Meantime, Hurricane Delta bore down on Louisiana, helping lift WTI more than 10% from last Friday's low.

Whether the latest burst of negotiation-by-tweet on new fiscal measures is real, or just a show to pin the blame on the other party for its failure is unclear. But the overriding view is that **a significant major package will eventually get done, even if it is after the election**. Of course, the outcome of the vote will likely determine the shape and scope of the next package, but there will almost certainly be additional fiscal support for the U.S. economy in coming months. And we would assert that **consumers can deal with a relatively short delay** in new measures (see Sal's Thought for details). Note that even with an expected pullback in personal incomes in October, the savings rate will still be well north of 10% in the month, since spending remains well down from pre-pandemic levels. And, U.S. households built up an enormous buffer of excess savings in the past six months, which we reckon could represent nearly 6% of GDP—strong ballast to withstand a few months of lean support.

On the economic data front, it was relatively thin gruel stateside, but the few major releases continued to roll in generally on the firm side of the ledger. The **services ISM** perked up to a solid 57.8, while **continuing jobless claims** stepped down by more than 1 million in the latest week. At the same time, **China** came back from a long holiday and reported that the private sector's **PMI** stayed solid last month at 54.5, with services gaining ground. That's important, because unlike many other economies, China's industrial sector was quick to rebound but consumers were slower to return; strength in services suggests that spending is coming back. The **Euro Area composite PMI** stepped back in September amid the rapid run-up in virus cases, but stayed just above 50.

In contrast to sparse economic calendars in many areas, it was a full plate in **Canada**. The heavyweight jobs report on Friday was the main draw, and it soared above expectations with a massive 378,200 advance. To put it mildly, it has been (*ahem*) a challenging year for employment forecasts, with even the quality of the data suspect. For example, StatsCan's two employment surveys have been sending quite different messages in 2020 (with the heavily delayed payroll survey much weaker than the up-to-date household measure). Generally speaking, the **surprises have landed on the positive side on jobs**, but September's broad-based gains were another step up.

The big gain left employment down just 3.7% from February's high, a much milder slice than the 7.1% shortfall in U.S. payrolls. Given that Canada's GDP will almost certainly fall more than the U.S. this year (we estimate a 5.6% drop versus 4.0% in the U.S.), the relatively lighter hit in Canada likely reflects policy measures to help keep workers on the job. Note that total hours worked in both Canada and the U.S. have dropped by just under 7% since February. Still, as a result of the solid jobs report, **we have trimmed our forecast for Canada's jobless rate**, looking for it to dip to 8% by year-end, and then to around 7% by the end of next year.

Besides jobs, Canada reported a moderately **disappointing trade** report for August, with both exports and imports stepping back a bit. This seems to be a theme, that many parts of the economy saw a lull in that month (including, arguably, jobs) after most of the reopenings were complete in July. But one area that did not see a lull was **home sales**, which hit record highs in August and, by all accounts, leapt further last month (more on that below). Home building instead came back to earth in September, but remained healthy at 209,000 units. The key point there is that starts are on track to rise slightly for all of 2020 from last year, one of the very few areas to report any kind of growth in this deeply challenging year.

Hot for housing: For Canada's economy, it always seems to come back to housing, doesn't it? This week's speech by BoC Governor Tiff Macklem focused on the risk backdrop, and a highlight was in the Q&A. When asked about negative interest rates, he again said the Bank wasn't seriously looking at them at this point, but said "*never say never*", keeping the embers alive. But, between the continuing sturdy comeback in jobs and a raging housing market, it would seem that the likelihood for negative rates is fading further. On housing, Macklem said:

"We will also watch for signs that housing markets are being driven higher by <u>speculation</u> that prices will keep rising. And we will watch whether people buying houses are <u>taking on outsized debt</u> relative to their income. We are not back to the <u>frothy</u> housing markets we saw in 2016, and we expect the bounceback in housing to dampen. But if too many Canadian households start to become <u>dangerously over-leveraged</u>, policy-makers have several macroprudential tools they can use. Our experience with the mortgage-interest stress test shows how effective these tools can be." (Emphasis ours, for dramatic effect.)

This is the **first bead of sweat** we have detected on the BoC's brow about the rapid-fire rebound in the Canadian housing market. Next week's national report is likely to show that existing home sales blasted 40% above year-ago levels in September (to, by far, a record high) alongside a blistering average price gain of around 19%. Mortgage debt has perked up to a 5.2% y/y growth rate from 4.7% last year, and looks set to forge higher in coming months as it responds in delayed reaction to this run-up in prices. Quite simply, it was previously unheard of to have mortgage growth gathering speed in a recession. And, clearly, while the BoC no doubt welcomes the growth support from housing—at this point, they will take growth where they can find it—they are also a tad unnerved about the potential for a renewed run-up in debt at this fragile point of the recovery.

But, the **key message** here is that **the BoC would rely on tighter regulatory rules** (i.e., macroprudential measures) **to eventually control the housing market**, and **not rate hikes**. Still, it's instructive at this very early stage of the recovery that concerns about a too-hot-for-comfort housing market are already arising. One could say that the Bank is concerned that housing, typically an economic model citizen, could lapse into zero discipline. RIP EVH.

Income Cliff?

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With the market hanging on every twist and turn in current fiscal relief talks, there is **growing concern about the economic impact of fading fiscal stimulus**. And, with households driving the post-shutdown recovery by buying homes, furniture and many other goods (but far fewer services), the biggest fear is the health of consumers. If households retreat sharply, so, too, will businesses on structures, equipment and hiring, regardless of the also much-needed support for hard-hit industries.

To put the income-support measures for households in perspective just note one thing: **you don't often see disposable income jump 13% y/y in the face of 22 million job losses** and the deepest economic downturn since the Depression. The jump in Q2 income was the result of government transfers to households, mainly the $1,200 CARES Act cheques to most individuals and $500 to children, as well as the Federal UI top-up payments of $600 per week and extended jobless benefits for many self-employed and contract workers via two new assistance programs. These payments boosted personal transfers by $2.4 trillion annualized in Q2 from Q1, swamping a $0.8 trillion decline in employee compensation. While the lift from transfer payments didn't prevent consumer spending from plunging 33% annualized in Q2, it seriously cushioned the blow, even as households saved about one-quarter of their income. That goes a long way to explaining why real personal spending has pared its initial 18% slide in March/April to just under 4% in August, and a big reason we are seeing an estimated 38% annualized rebound in Q3.

The **first leg of the income-support stool was cut short in August,** when the federal UI top-up payment was halved to $300 per week. That more than offset a jump in worker compensation, resulting in personal incomes falling 2.7%. Barring quick passage of a relief bill, the full loss of the top-up payment could see personal income slide almost 2% in October, largely taking it back to pre-pandemic levels. This will act as a drag on spending, notably among low-income workers who have taken the brunt of the pandemic pain and have a higher marginal propensity to spend than upper-income earners.

However, the drop in income won't necessarily haul consumer spending into the red. Note that real personal spending still jumped 0.7% in August. Though slowing, spending remains supported by pent-up demand and shifting habits (like touring around in an RV rather than a jet). And it's also **well cushioned by the massive savings that have piled up in household accounts:** $2.4 trillion annualized in August, up more than $1 trillion from February. The amount of excess savings built up during the pandemic has topped $1.1 trillion (not annualized), which is equivalent to 6% of estimated GDP this year. The 14.1% savings rate in August is still well above February's 8.3% rate, and looks to remain north of 12% in October, despite the drop in income. This should support continued, albeit slower gains in spending. For now, we still look for consumers to slow to a modest rate in Q4 after last quarter's big rebound. **But the slowing is driven more by fading pent-up demand and ongoing anxiety about the virus and restrictions put in place to contain it, rather than the partial loss of income-support measures.**

EU Has a Busy Agenda

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The **EU Summit** will be held in Brussels on October 15-16. Topics up for debate include climate change, foreign policy (EU/Africa relations), COVID-19 and Brexit. So is there something significant about this particular gathering? Why yes! This was supposed to be the meeting that the 27 European leaders would hear all of the gory details about the historic trade arrangement made with Britain and, after some lengthy discussion, would ok it and take it (or a translated copy) back to their respective parliaments. Then, each national government would give the deal its stamp of approval, paving the way for a smooth, orderly Brexit come January 1, 2021.

But there is a small problem. There is no deal to be presented. Not yet, anyway. Both sides cannot get past a **few big hurdles**: 1) access to British waters for fishing; 2) the EU's demand that the U.K. adhere to certain rules on state aid (i.e. level playing field) and agree to an "independent regulator"; and 3) the U.K.'s demand for declaration-free movement of goods between Great Britain and Northern Ireland. Separately, the **internal market bill** that the Lower House passed recently is also a bit of a sore spot, as it nullifies parts of the Withdrawal Agreement. As that is deemed illegal, the EU is bringing in its legal team. But that is an issue likely for next year.

Missing this October deadline does not mean that there will be no deal. Both sides can still cobble one together before year-end, or before the next scheduled EU meeting in mid-December. But there is a risk that it won't be officially ratified by the European nations in time. That leaves a period when the U.K. is left to its own devices, without a trade agreement. And that, by definition, is a hard Brexit.

A note from **Stephen Gallo, European Head of FX Strategy**: The more time that passes, the more it looks as if both sides won't be able to finalize much more than a 'mini deal' covering a portion of goods trade and easing some border restrictions. And that means the extent of the 'relief rally' in the GBP when the deal is struck will probably be very modest.

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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 ▪ BoC Gov. Macklem warns of financial system risks after economic recovery	**Employment** +378,200 (Sep.) **Jobless Rate** -1.2 ppts to 9.0% (Sep.)—lowest since March **Average Hourly Wages** +5.7% y/y (Sep.)	**Merchandise Trade Deficit** little changed at $2.4 bln (Aug.) **Housing Starts** -20.1% to 208,980 a.r. (Sep.) **Ivey PMI** -13.5 pts to 54.3 (Sep.)
United States ▪ Fed Chair Powell warns of too little stimulus as the expansion is “*far from complete*” ▪ Stimulus hopes revive after talks re-start ▪ WTI climbs as Hurricane Delta threatens Gulf output	**ISM Services PMI** +0.9 pts to 57.8 (Sep.) **Initial Claims** -9k to 840k (Oct. 3 week)	**Goods & Services Trade Deficit** $67.1 bln (Aug.)—a 14-year high **Job Openings** -3.0% (Aug.) **Consumer Credit** -$7.2 bln (Aug.)
Japan ▪ BoJ Kuroda sees continued recovery after pandemic hit	**Current Account Surplus** steady at ¥2.1 trln (Aug.)	**Real Household Spending** -6.9% y/y (Aug.)
Europe ▪ ECB Pres. Lagarde sees Europe’s recovery as “*a little bit more shaky*” ▪ ECB Minutes show concerns over inflation and euro ▪ U.K. expands support for jobs, and for businesses forced to close	**Euro Area—Retail Sales** +4.4% (Aug.)—and +8.2% in **Italy** **Germany—Factory Orders** +4.5% (Aug.) **Italy—Industrial Production** +7.7% (Aug.) **U.K.—Real GDP** +8.0% (3 mths to Aug.)—and **Services Output** +7.1% **U.K.—Construction PMI** +2.2 pts to 56.8 (Sep.) **U.K.—RICS House Price Balance** rose to +61% (Sep.)	**Germany—Industrial Production** -0.2% (Aug.) **Germany—Trade Surplus** narrowed to €15.7 bln (Aug.) **France—Industrial Production** +1.3% (Aug.) —below expected **France—Trade Deficit** widened to €7.7 bln (Aug.) **U.K.—Industrial Production** +0.3% (Aug.) —below expected **U.K.—Trade Deficit** widened to £9.0 bln from £7.9 bln (Aug.)
Other ▪ RBA on hold	**China—Caixin Services PMI** +0.8 pts to 54.8 (Sep.)—highest since June	**China—Foreign Reserves** fell to $3.1 trln (Sep.) **Australia—Trade Surplus** narrowed to A$2.6 bln (Aug.)

States of Recession

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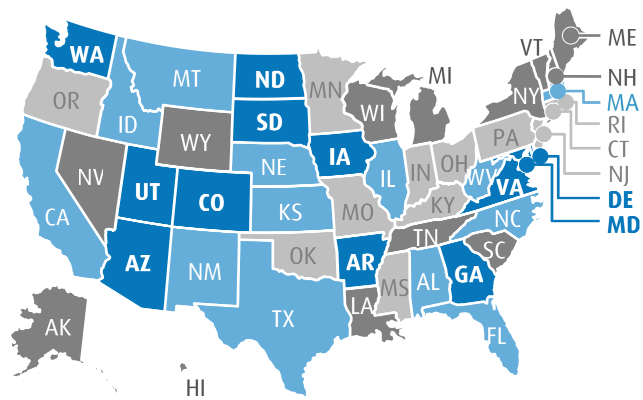
The U.S. economy contracted 10.1% through the first two quarters of 2020, owing to the pandemic-related lockdowns. In the wake of this third estimate, the Bureau of Economic Analysis (BEA) released real GDP figures on a state and industry basis. All states experienced a recession, but to different degrees. For example, the deepest downturn was 14.8% in Hawaii and the shallowest contraction was 7.1% in Utah. Between these bookends, state economic performance displayed a geographical theme (*Chart 1*).

The BEA divides the economy into eight regions [1]. In the New England, Mideast and Great Lakes, three-quarters of the 16 states suffered recessions that were worse than the national average. In contrast, three-quarters of the 16 states in the Plains, Southwest and Rocky Mountain displayed better-than-average downturns. Meanwhile, in the Southeast and Far West, there was an even split among the 18 states between better-than-average and worse-than-average contractions. Note that the Southeast tipped to outperformance (by one state) and the Far West tilted to underperformance (also by one state).

One of the drivers of relative state economic performance was how COVID-19 infections unfolded, along with the stringency and duration of each jurisdiction's lockdown. Looking at the national total (*Chart 2*), there were two infection 'waves' during the spring and summer. The first surge saw the seven-day average of new daily cases top 31,000 on April 10 before drifting down to well below 21,000 by June 9. Then, the second surge saw the case rate top 66,000 on July 22. However, this pattern reflects the fact that all states did not experience their major surge in cases at the same time. During the early spring, many states in the northeastern quadrant of the country saw case rates spike. New York, at one point, was an epicentre of the pandemic. Meanwhile, states in other parts of the country registered only grinding gains. By April, all jurisdictions had some form of a lockdown; the stringency reflected the height and slope of the state's new infection curve. In May, the lockdowns began to lift, in some cases too early or too enthusiastically. In many states that previously registered only grinding gains, case rates subsequently spiked, causing these jurisdictions

Chart 1
Real GDP by State
United States — 2020:Q2
(2-qtr % chng)

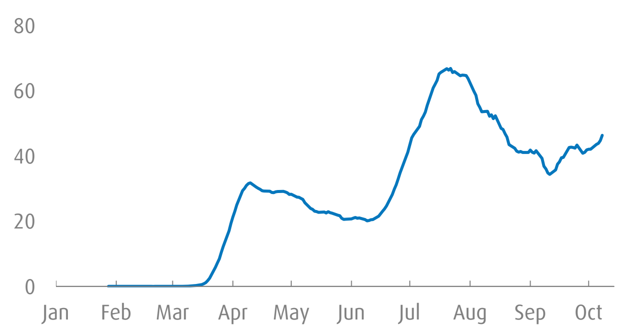


1st quartile **-8.8 to -7.1 (shallowest)** | 2nd quartile -10.1 to -9.1 | 3rd quartile -11.2 to -10.1 | 4th quartile -14.8 to -11.2 (deepest)

Sources: BMO Economics, Haver Analytics, BEA

Chart 2
Two-stage Wave One
United States — 2020 (000s : 7-day m.a. : as of October 8, 2020)

New Confirmed COVID-19 Cases



Sources: BMO Economics, Haver Analytics, Johns Hopkins University to either postpone or rollback their reopening plans. However, lockdowns were not reinstituted.

Looking back at relative cumulative cases by the end of June, there is evidence of **weaker-than-average economic performance corresponding with higher-than-average total COVID cases**, and **vice versa** (*Chart 3*). Employing the groupings mentioned above, in the New England, Mideast and Great Lakes regions, while 75% of the 16 states suffered worse-than-average recessions, 69% had above-average total cases. And, in the Plains, Southwest and Rocky Mountain regions, while 75% of the 16 states displayed better-than-average downturns, 63% had below-average total cases. However, the evidence is not overwhelming, with too many extreme mismatches. For example, Hawaii, Vermont, Wyoming, Maine, New Hampshire and Alaska had bottom quartile economic performance (deepest recessions) but total COVID cases in the top quartile (least infections). And, Delaware, Maryland, Iowa and Arizona had bottom quartile cases (most infections) but top quartile economic performance (shallowest recessions).

Also affecting economic outcomes is each state's industrial structure and how their dominant industries were impacted by the pandemic and the policy responses to it. Although the entire economy contracted 10.1%, individual industry performance was all over the map (*Table 1*). For example, those industries requiring more in-person contact saw activity contract very sharply, including arts, entertainment & recreation (-61.0%), accommodation & food services (-46.0%), transportation & warehousing (-24.9%, e.g. airlines and public transit), and other services (-22.7%, e.g. personal services). Other notable underperformers included health care & social assistance (-16.7%, reflecting cancelled appointments and procedures), durable goods manufacturing (-14.5%, e.g. many production lines couldn't physical distance), and mining (-12.7%, reflecting the collapse in oil prices and output).

However, the industries most amenable to working from home fared much better, including finance & insurance (-0.6%), information (-2.5%), real estate, rental & leasing (-2.8%), and management of companies & enterprises (-3.2%). The highly-automated and capital-intensive utilities sector was the best performing industry (-0.3%).

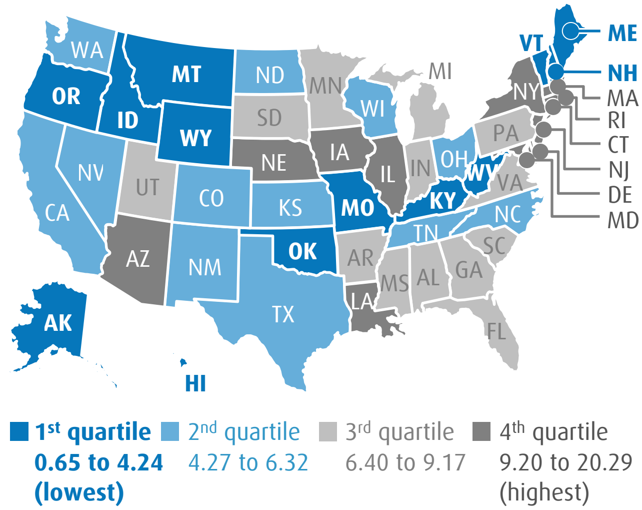
State exposure to these worst- and best-performing industries, compared to the national average, can partly

Chart 3

COVID Cases by State

United States — End of June 2020

(cumulative cases / 1000 people)



Sources: BMO Economics, Haver Analytics, Johns Hopkins University

Table 1

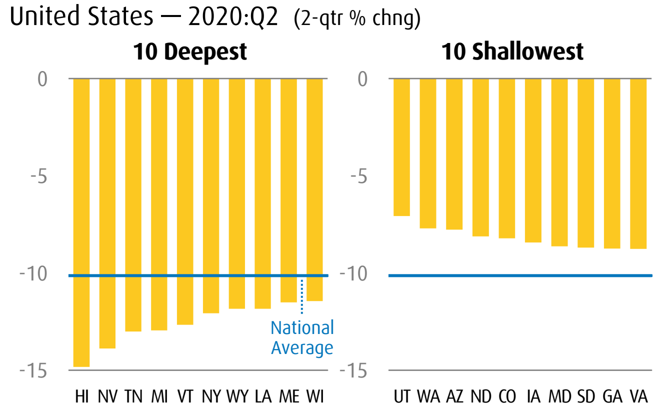
Real GDP by Industry

United States (percent)

	Share 2019	Change 19:Q4–20:Q2
All Industries	100.0	-10.1
Private Industries	88.0	-10.9
Agriculture, Forestry, Fishing & Hunting	1.3	-4.9
Mining	2.6	-12.7
Utilities	1.5	-0.3
Construction	3.5	-7.3
Manufacturing	11.6	-12.2
Durable Goods	6.5	-14.5
Nondurable Goods	5.1	-9.2
Wholesale Trade	5.7	-10.3
Retail Trade	5.9	-10.6
Transportation & Warehousing	3.0	-24.9
Information	6.5	-2.5
Finance & Insurance	6.3	-0.6
Real Estate, Rental & Leasing	12.7	-2.8
Professional, Scientific & Technical Services	8.0	-7.8
Mgmt. Of Companies & Enterprises	2.3	-3.2
Admin. & Waste Management Services	3.0	-15.3
Educational Services	1.2	-12.5
Health Care & Social Assistance	7.5	-16.7
Arts, Entertainment & Recreation	1.1	-61.0
Accommodation & Food Services	2.8	-46.0
Other Services ex Government	2.0	-22.7
Government	11.7	-5.0
Residual	0.3	n.a.

Sources: BMO Economics, Haver Analytics, BEA explain relative economic outcomes, assuming a state's individual industry performance is comparable to the industry's nationwide performance. Obviously, this is not always the case given things like local labour disruptions and extreme climate events. The impact on relative state economic performance is reinforced to the extent larger exposures to the strongest industries are mirrored in smaller exposures to the weakest industries, and vice versa.

Chart 4
Deepest and Shallowest State Recessions



Sources: BMO Economics, Haver Analytics, BEA

Looking at the states with the deepest recessions (*Chart 4*), many have much larger exposures to the worst performing industries. For example, compared to the U.S. share: Hawaii has 6.6 ppts more to arts, entertainment & recreation; Nevada has 9.6 ppts more to accommodation & food services; Michigan has 8.2 ppts more to durable goods manufacturing; Vermont has 3.8 ppts more to heath care & social assistance with Maine at 4.5 ppts; Wyoming has 22.4 ppts more to mining and 5.6 ppts to transportation and warehousing; Louisiana has 4.5 ppts more to mining. Alaska, another bottom-quartile economic performer, has 20.5 ppts more exposure to mining and 7.9 ppts to transportation and warehousing.

Eying the states with the shallowest recessions (*Chart 4 again*), many have much larger exposures to the best performing industries. For example, compared to the U.S. share: Washington has 10.2 ppts more to information; Iowa has 6.4 ppts more to finance & insurance with South Dakota at 7.3 ppts; Maryland has 3.5 ppts more to real state, rental & leasing; Georgia has 3.0 ppts more to information. Delaware, another top-quartile economic performer, has 17.8 ppts more exposure to finance & insurance and 4.4 ppts to real estate, rental and leasing.

Unfortunately, industry exposure, like COVID cases, is not a definitive guide to relative state economic performance. Elsewhere, growth momentum seems to shed a little light on subsequent economic performance. Washington (#2), Colorado (#3), Utah (#4) and Arizona (#7) were among the 10 fastest growing states in 2019 and were among those with the shallowest recessions. Hawaii (#50), Vermont (#42) and Michigan (#41) were among the 10 slowest growing states in 2019 and were also among those with deepest recessions. On balance, all the factors mentioned above, taken together, help inform on relative state economic performance. They should help in assessing the recoveries as well.

Endnote:

[1] New England includes Connecticut (CT), Maine (NE), Massachusetts (MA), New Hampshire (NH), Rhode Island (RI) and Vermont (VT). The Mideast includes Delaware (DE), Maryland (MD), New Jersey (NJ), New York (NY) and Pennsylvania (PA). This region also includes the District of Columbia. The Great Lakes include Illinois (IL), Indiana (IN), Michigan (MI), Ohio (OH) and Wisconsin (WI). The Plains include Iowa (IA), Kansas (KS), Minnesota (MN), Missouri (MO), Nebraska (NE), North Dakota (ND) and South Dakota (SD). The Southeast includes Alabama (AL), Arkansas (AR), Florida (FL), Georgia (GA), Kentucky (KY), Louisiana (LA), Mississippi (MS), North Carolina (NC), South Carolina (SC), Tennessee (TN), Virginia (VA) and West Virginia (WV). The Southwest includes Arizona (AZ), New Mexico (NM), Oklahoma (OK) and Texas (TX). The Rocky Mountain region includes Colorado (CO), Idaho (ID), Montana (MT), Utah (UT) and Wyoming (WY). The Far West includes Alaska (AK), California (CA), Hawaii (HI), Nevada (NV), Oregon (OR) and Washington (WA). [^]

Economic Forecast Summary for October 9, 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	-38.7	46.0	3.9	7.7	5.3	4.0	3.2	1.7	-5.6	6.0
Consumer Price Index	(y/y % chng)	1.8	0.0	0.4	0.3	0.6	1.9	1.6	1.7	1.9	0.6	1.4
Unemployment Rate	(percent)	6.3	13.0	10.0	8.5 ↓	8.0 ↓	7.6 ↓	7.4 ↓	7.0 ↓	5.7	9.5 ↓	7.5 ↓
Housing Starts	(000s : a.r.)	209	191	239	210 ↑	210	206	202	202	209	212 ↑	205
Current Account Balance	($blns : a.r.)	-52.9	-34.5	-32.9	-31.9	-33.5	-33.7	-33.7	-35.1	-47.0	-38.0	-34.0
Interest Rates		(average for the quarter : %)										
Overnight Rate		1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.50	0.25
3-month Treasury Bill		1.29	0.22	0.16	0.15	0.15	0.15	0.15	0.15	1.65	0.45	0.15
10-year Bond		1.20	0.59	0.55	0.60	0.65 ↓	0.70 ↓	0.80	0.85 ↓	1.59	0.75	0.75 ↓
Canada-U.S. Interest Rate Spreads		(average for the quarter : bps)										
90-day		16	8	5	4 ↑	4 ↑	4 ↑	4 ↑	4 ↑	-45	8	4 ↑
10-year		-18	-10	-10	-17 ↓	-17 ↓	-16 ↓	-15 ↓	-15 ↓	-56	-14 ↓	-16 ↓
UNITED STATES												
Real GDP	(q/q % chng : a.r.)	-5.0	-31.4	30.0	1.5	4.9	4.6	4.2	3.2	2.2	-4.0	4.0
Consumer Price Index	(y/y % chng)	2.1	0.4	1.2	1.2	1.4	2.7	2.1	2.0	1.8	1.2	2.0
Unemployment Rate	(percent)	3.8	13.0	8.8	7.7	7.3	6.9	6.4	6.0	3.7	8.3	6.7
Housing Starts	(mlns : a.r.)	1.48	1.08	1.43	1.33	1.30	1.31	1.31	1.32	1.30	1.33	1.31
Current Account Balance	($blns : a.r.)	-446	-682	-736	-737	-754	-760	-771	-776	-480	-650	-765
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	0.11	0.10	0.10	0.10	0.10	0.10	2.10	0.35 ↓	0.10
10-year Note		1.38	0.69	0.65	0.80 ↑	0.85 ↑	0.90 ↑	0.95 ↑	1.00	2.14	0.90 ↑	0.90
EXCHANGE RATES		(average for the quarter)										
US¢/C$		74.4	72.2	75.1	75.7	75.9	76.2	76.5	76.8	75.4	74.4	76.4
C$/US$		1.34	1.39	1.33	1.32	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$/Euro		1.10	1.10	1.17	1.19	1.20	1.20	1.21	1.22	1.12	1.14	1.21
US$/£		1.28	1.24	1.29	1.29	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

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Existing Home Sales

Thursday, 9:00 am (expected)

		Average Prices
Sep. (e)	**+40.0% y/y**	**+19.0% y/y**
Aug.	+33.5% y/y	+18.5% y/y

MLS Home Price Index

Sep. (e)	**+10.5% y/y**
Aug.	+9.4% y/y

What happens when you mix pent-up demand, a work-from-home push for space and record-low mortgage rates? A white-hot **housing market** and a record level of September sales. In a reverse from the trend in recent years, the strength has been more on the single-family home front, as those working from home look for a larger footprint. That factor has also boosted demand well outside of the major cities. The strength was throughout the country, with sales in big cities up anywhere from 30% to 60% from a year ago, putting the national figure up 40% y/y… simply on fire! Unsurprisingly, the surge in sales has put significant upward pressure on prices, with **average home prices** expected to be up 19% y/y, while the quality-adjusted MLS HPI looks to pick up to +10.5% y/y, a three-year high. Our call for sales would put them up 5% y/y on a year-to-date basis, suggesting that the pent-up demand has been spent. We'll see if the other factors driving sales are enough to maintain the record monthly pace.

United States

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Consumer Prices

Tuesday, 8:30 am

Sep. (e)	**+0.2%**	**+1.4% y/y**
Consensus	*+0.2%*	*+1.4% y/y*
Aug.	+0.4%	+1.3% y/y

CPI Ex. Food & Energy

Sep. (e)	**+0.2%**	**+1.7% y/y**
Consensus	*+0.2%*	*+1.8% y/y*
Aug.	+0.4%	+1.7% y/y

The **CPI** is expected to rise 0.2% in September on a further unwinding of earlier pandemic-driven discounts, lifting the yearly rate slightly to 1.4%. Core prices should simmer down to a 0.2% advance after a couple of outsized gains, with the latest driven by a spike in used vehicle prices. The slower advance should hold the yearly core rate at 1.7%, which is up from June's low (1.2%) but below pre-virus levels (2.4%). Automobiles and appliances are more expensive today than before the pandemic, but clothing and many services (think airfares and hotels) are much cheaper. Supply bottlenecks and increased virus-related costs have added to the recent partial snapback in inflation, but still-high unemployment and automation should provide a heavy brake.

Retail Sales

Friday, 8:30 am

		Ex. Autos
Sep. (e)	**+0.8%**	**+0.5%**
Consensus	*+0.8%*	*+0.5%*
Aug.	+0.6%	+0.7%

	Ex. Autos/Gas
Sep. (e)	**+0.5%**
Consensus	*+0.5%*
Aug.	+0.7%

Faster auto sales likely lifted **retail receipts** 0.8% in September, stepping up from the prior month's pace. Even with the scaling back of supplemental UI benefits, consumer confidence rebounded last month. Excluding autos and gas, sales look to rise a lesser 0.5%, as renewed restrictions likely depressed appetites at restaurants. However, most retailers, notably those selling furniture, computers, electronics, games and sporting goods, should extend gains that have taken total sales above pre-pandemic levels. Demand for housing-related goods has been stoked by the increased amount of time spent at home and desire for more spacious properties. Consumer spending is expected to bounce 38% annualized in the third quarter.

Industrial Production

Friday, 9:15 am

		Capacity Utilization
Sep. (e)	**+0.7%**	**71.9%**
Consensus	*+0.6%*	*71.9%*
Aug.	+0.4%	71.4%

Industrial production is expected to rise 0.7% in September, quickening from the prior month's pace, and raising the capacity utilization rate to a still-low 71.9%. Revving auto assemblies will likely lift manufacturing, where strong consumer demand for goods has been tempered by weaker business spending on industrial gear. Despite stagnant oil production, mining should advance on the back of firmer metal prices. However, a dip in work hours suggests utilities pulled back on less demand for air conditioning. Industrial production has retraced just over half (57%) of its earlier 17% plunge.

Europe

European Council Meeting in Brussels

Thursday–Friday

See Jennifer Lee's Thought on page 5.

Financial Markets Update for October 9, 2020

		Oct 9 [1]	Oct 2	Week Ago	4 Weeks Ago	Dec 31, 2019
					(basis point change)	
Canadian	Call Money	0.25	0.25	0	0	-150
Money Market	Prime Rate	2.45	2.45	0	0	-150
U.S. Money	Fed Funds (effective)	0.25	0.25	0	0	-150
Market	Prime Rate	3.25	3.25	0	0	-150
3-Month Rates	Canada	0.09	0.12	-3	-6	-157
	United States	0.09	0.09	1	-2	-145
	Japan	-0.14	-0.18	3	-2	-3
	Eurozone	-0.51	-0.51	0	-3	-13
	United Kingdom	0.05	0.06	-1	-1	-74
	Australia	0.08	0.09	-1	-1	-83
2-Year Bonds	Canada	0.26	0.24	2	0	-143
	United States	0.15	0.13	2	2	-142
10-Year Bonds	Canada	0.61	0.56	4	6	-109
	United States	0.76	0.70	6	10	-116
	Japan	0.04	0.02	2	2	6
	Germany	-0.54	-0.54	0	-6	-35
	United Kingdom	0.27	0.25	3	9	-55
	Australia	0.85	0.83	2	-6	-52
Risk Indicators	VIX	25.3	27.6	-2.4 pts	-1.6 pts	11.5 pts
	TED Spread	13	15	-2	-1	-23
	Inv. Grade CDS Spread [2]	55	59	-4	-15	10
	High Yield CDS Spread [2]	373	404	-31	18	93
					(percent change)	
Currencies	US¢/C$	76.11	75.14	1.3	0.3	-1.1
	C$/US$	1.314	1.331	—	—	—
	¥/US$	105.66	105.29	0.4	-0.5	-2.7
	US$/€	1.1815	1.1716	0.8	-0.3	5.4
	US$/£	1.299	1.294	0.4	1.5	-2.0
	US¢/A$	72.27	71.61	0.9	-0.8	2.9
Commodities	CRB Futures Index	151.88	144.12	5.4	3.7	-18.3
	Oil (generic contract)	41.10	37.05	10.9	10.1	-32.7
	Natural Gas (generic contract)	2.79	2.44	14.3	22.8	27.3
	Gold (spot price)	1,925.64	1,899.84	1.4	-0.8	26.9
Equities	S&P/TSX Composite	16,548	16,199	2.2	2.0	-3.0
	S&P 500	3,465	3,348	3.5	3.7	7.3
	Nasdaq	11,531	11,075	4.1	6.2	28.5
	Dow Jones Industrial	28,543	27,683	3.1	3.2	0.0
	Nikkei	23,620	23,030	2.6	0.9	-0.2
	Frankfurt DAX	13,036	12,689	2.7	-1.3	-1.6
	London FT100	6,020	5,902	2.0	-0.2	-20.2
	France CAC40	4,943	4,825	2.4	-1.8	-17.3
	S&P ASX 200	6,102	5,792	5.4	4.1	-8.7

[1] = as of 11:00 am *[2] = One day delay*

Global Calendar — October 12–October 16

	Monday October 12	Tuesday October 13	Wednesday October 14	Thursday October 15	Friday October 16
Japan	**Core Machine Orders** **Aug. (e) -1.0% -16.7% y/y** July +6.3% -16.2% y/y **Bank Lending Ex-Trusts** **Sep.** Aug. +6.7% y/y **Machine Tool Orders** **Sep. P** Aug. -23.2% y/y		**Industrial Production** **Aug. F (e) +1.7% -13.3% y/y** July +8.7% -15.5% y/y	**Tertiary Industry Index** **Aug. (e) +1.5%** July -0.5%	
Euro Area		**GERMANY** **ZEW Survey—Expectations** **Oct. (e) 74.0** Sep. 77.4 **Consumer Price Index** **Sep. F (e) -0.4% -0.4% y/y** Aug. -0.2% -0.1% y/y	**EURO AREA** **Industrial Production** **Aug. (e) +0.7% -7.2% y/y** July +4.1% -7.7% y/y	**FRANCE** **Consumer Price Index** **Sep. F (e) -0.6% unch y/y** Aug. -0.1% +0.2% y/y **ITALY** **Industrial Orders** **Aug.** July +3.7% -7.2% y/y **European Council Meeting in Brussels (October 15-16)**	**EURO AREA** **Trade Surplus** **Aug. (e) €19.0 bln** July €20.3 bln **Consumer Price Index** **Sep. F (e) +0.1% -0.3% y/y** Aug. -0.4% -0.2% y/y **Core CPI** **Sep. F (e) +0.2% y/y** Aug. +0.4% y/y **ITALY** **Consumer Price Index** **Sep. (e) +1.0% -0.9% y/y** Aug. -1.3% -0.5% y/y
U.K.		**Jobless Claims** **Sep.** Aug. +73,700 **Employment (3m/3m)** **Aug. (e) -30,000** July -12,000 **Avg. Wkly Earnings Ex. Bonus (3 mma)** **Aug. (e) +0.6% y/y** July +0.2% y/y **Jobless Rate (3 mma)** **Aug. (e) 4.3%** July 4.1%			
Other	**CHINA** **Aggregate Yuan Financing [D]** **Sep. (e) 3.0 trln** Aug. 3.6 trln **New Yuan Loans [D]** **Sep. (e) 1.7 trln** Aug. 1.3 trln **M2 Money Supply [D]** **Sep. (e) +10.4% y/y** Aug. +10.4% y/y **Foreign Direct Investment [D]** **Sep.** Aug. +18.7% y/y **Trade Surplus [D]** in USD / in CNY **Sep. (e) $59.3 bln 419.5 bln** Aug. $58.9 bln 416.6 bln		**AUSTRALIA** **Westpac Consumer Confidence** **Oct.** Sep. +18.0% **G20** **Finance Ministers and Central Bank Governors' videoconference**	**CHINA** CPI / PPI **Sep. (e) +1.9% y/y -1.9% y/y** Aug. +2.4% y/y -2.0% y/y **AUSTRALIA** **Employment** **Sep. (e) -35,000** Aug. +111,000 **Jobless Rate** **Sep. (e) 7.1%** Aug. 6.8%	

[D] = date approximate

Upcoming Policy Meetings | Bank of England: Nov. 5, Dec. 17, Feb. 4 | European Central Bank: Oct. 29, Dec. 10, Jan. 21

North American Calendar — October 12–October 16

Canada

Monday October 12

Thanksgiving Day (markets closed)

Tuesday October 13

10:30 am — 3-, 6- & 12-month bill auction $10.0 bln (new cash -$1.2 bln)

BoC Buyback: Under 2-year sector

Wednesday October 14

Noon — 3-year bond auction $6.0 bln

BoC Buyback: 2-year sector

Thursday October 15

8:30 am	**New Motor Vehicle Sales**[D]	
Aug. (e)	**-9.0% y/y**	
July	-10.5% y/y	
8:30 am	**ADP Nat'l Employment Report**	
Sep.		
Aug.	-205,433	
9:00 am	**Existing Home Sales**[D]	**Average Prices**
Sep. (e)	**+40.0% y/y**	**+19.0% y/y**
Aug.	+33.5% y/y	+18.5% y/y
9:00 am	**MLS Home Price Index**[D]	
Sep. (e)	**+10.5% y/y**	
Aug.	+9.4% y/y	
9:45 am	**BoC Deputy Governor Lane speaks at the Central Bank Payments Conference by videoconference**	

Friday October 16

8:30 am	**Mfg. Sales**	**Mfg. New Orders**
Aug. (e)	**-2.0%**	**-3.0%**
July	+7.0%	+9.0%
8:30 am	**Int'l Securities Transactions Inflows**	**Outflows**
Aug.		
July	-$8.5 bln	$1.3 bln

BoC Buyback: 5-year sector

United States

Monday October 12

Columbus Day (stock markets open, bond markets closed)

Tuesday October 13

6:00 am	**NFIB Small Business Economic Trends Survey**	
Sep. (e)	**100.9**[C]	
Aug.	100.2	
8:30 am	**Consumer Prices**	
Sep. (e)	**+0.2%**	**+1.4% y/y**
Consensus	*+0.2%*	*+1.4% y/y*
Aug.	+0.4%	+1.3% y/y
8:30 am	**CPI ex. Food & Energy**	
Sep. (e)	**+0.2%**	**+1.7% y/y**
Consensus	*+0.2%*	*+1.8% y/y*
Aug.	+0.4%	+1.7% y/y
2:00 pm	**Budget Balance**	
Sep. '20 (e)	**-$124.0 bln**	
Sep. '19	+$82.8 bln	

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

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

1:00 pm — 119-day CMB $30 bln

1:00 pm — 43-day CMB $30 bln

Wednesday October 14

7:00 am	**MBA Mortgage Apps**	
Oct. 9		
Oct. 2	+4.6%	
8:30 am	**PPI Final Demand**	
Sep. (e)	**+0.1%**	**+0.2% y/y**
Consensus	*+0.2%*	*+0.2% y/y*
Aug.	+0.3%	-0.2% y/y
8:30 am	**PPI Final Demand ex. F&E**	
Sep. (e)	**+0.1%**	**+0.9% y/y**
Consensus	*+0.2%*	*+0.9% y/y*
Aug.	+0.4%	+0.6% y/y

G20 Finance Ministers and Central Bank Governors' videoconference

Fed Speakers: Vice Chair Clarida (9:00 am), Governor Quarles (10:30 am), Dallas' Kaplan and Governor Quarles (3:00 pm), Dallas' Kaplan (6:00 pm)

Thursday October 15

Noon — 30-year bond auction $3.0 bln

2-, 5- & 10-year bond auction announcements

BoC Buyback: 30-year sector

8:30 am	**Initial Claims**	
Oct. 10 (e)	**820k (-20k)**[C]	
Oct. 3	840k (-9k)	
8:30 am	**Continuing Claims**	
Oct. 3		
Sep. 26	10,976k (-1,003k)	
8:30 am	**Import Prices**	
Sep. (e)	**+0.3%**	**-1.2% y/y**[C]
Aug.	+0.9%	-1.4% y/y
8:30 am	**Philadelphia Fed Index**	
Oct. (e)	**14.5**[C]	
Sep.	15.0	
8:30 am	**Empire State Manufacturing Survey**	
Oct. (e)	**14.0**[C]	
Sep.	17.0	
9:00 pm	**Second Presidential debate (may be postponed)**	

Fed Speakers: Atlanta's Bostic (9:00 am), Governor Quarles (11:00 am), Dallas' Kaplan (11:00 am), Minneapolis' Kashkari (5:00 pm)

11:00 am — 13- & 26-week bill, 20[R]-year bond, 5-year TIPS auction announcements

11:30 am — 4- & 8-week bill auctions

Friday October 16

8:30 am	**Retail Sales**	**Ex. Autos**
Sep. (e)	**+0.8%**	**+0.5%**
Consensus	*+0.8%*	*+0.5%*
Aug.	+0.6%	+0.7%
8:30 am	**Retail Sales ex. Autos/Gas**	
Sep. (e)	**+0.5%**	
Consensus	*+0.5%*	
Aug.	+0.7%	
9:15 am	**Industrial Production**	**Capacity Utilization**
Sep. (e)	**+0.7%**	**71.9%**
Consensus	*+0.6%*	*71.9%*
Aug.	+0.4%	71.4%
10:00 am	**Business Inventories**	
Aug. F (e)	**+0.4%**[C]	
July	+0.1%	
10:00 am	**University of Michigan Consumer Sentiment**	
Oct. P (e)	**80.4**[C]	
Sep.	80.4	
4:00 pm	**Net TIC Flows Total**	**Long Term**
Aug.		
July	-$88.7 bln	$10.8 bln

Fed Speaker: New York's Williams (9:45 am)

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

Upcoming Policy Meetings | Bank of Canada: Oct. 28, Dec. 9, Jan. 20 | FOMC: Nov. 4-5, Dec. 15-16, Jan. 26-27

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