September 4, 2020

Focus

Feature Article

BoC Preview and Review

Our Thoughts

- Labour's Day, But Not Its Year
- U.S. Economy: A Respectable if Not August Performance
- Heat Wave in Canadian Housing

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Labour's Day, But Not Its Year

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In this summer like no other, it makes perfect sense that the final week before Labour Day would be anything but dull. In financial markets, the S&P 500 charged to yet further record highs before the high-flying tech sector found a major air pocket late in the week. Commodity prices took a big breather, with oil sagging below US$40 on some slippage in supply discipline, and previously hot gold, lumber and copper all cooling. But the biggest news was on the economic front as the initial wave of August data began to roll in, and mostly on the positive side of the ledger. Yet, even with ongoing high-side surprises for the economy, bond yields still took another trip lower, nearly reversing last week's Jackson Hole backup.

Looking at the raft of August economic results, **the big picture is that even in the face of a summer flare-up in virus cases, the U.S. economy managed to soldier on reasonably well.** Payrolls were largely as advertised at up 1.37 million, bolstered heavily by census hiring of 238,000. **But the eye-popping result was the 1.8 ppt plunge in the jobless rate to 8.4%, driven by a massive 3.8 million gain in the household survey.** While the latter may seem a tad suspect, some of the outsized gain represents catch-up after deeper initial job losses versus the payroll report. Another way to look at it is that the U.S. jobless rate is now 4.9 percentage points above February's pre-pandemic level, versus a very similar 4.6 ppt rise in Canada (to 10.2%).

Beyond the jobs data, there were encouraging signs from the ISM reports, which showed further advances in manufacturing (to 56.0) and still-solid levels in services (56.9). These lofty survey levels no doubt overstate the strength of the economy, as they simply ask whether things are getting better or worse on a variety of indicators, and it's pretty tough to get worse than spring-time conditions. Still, the new orders component of the factory survey spiked to its highest level since 2004, and it is an excellent leading indicator of the official durable goods figure. Looking past just the surveys, **new vehicle sales came in much better than expected at 15.2 million units last month.** While still down more than 10% from a year ago, the recovery has so far been much faster than many expected. For example, in the prior cycle, it took roughly four years to get auto sales back to these levels from similar depths; this time it took four months. The overall economy may not be able to carve out a perfect V-shaped recovery, but parts of it certainly have pulled that trick.

Canada also printed a series of generally supportive results, albeit with still lots of work to do. After months of wildly volatile employment reports, the August result was pretty much in line with consensus, without the jobless rate shock seen stateside. Headline jobs rose by almost 246,000, bringing the four-month recovery to 1.9 million jobs, but leaving them still down 1.1 million from the February high. Another way to look at it: Canadian employment is now 5.7% below the pre-pandemic level, compared with a 7.2% shortfall in the U.S. household survey (the LFS is a household tally too). Auto sales stayed at decent levels last month, with the 8.9% y/y sag a bit milder than in the U.S., although coming off deeper drops in the spring. That's been a theme for much of the data; **Canada saw a deeper drop during the shutdowns** (GDP fell at a combined 25% annual rate in the first two quarters, versus a 19% drop in the U.S.), **but is now seeing a more vigorous snapback.**

And nowhere is that snapback more obvious than in the Canadian housing sector. True, the U.S. is also posting some very impressive rebounds in sales and starts. But **no one expected the Canadian increases**. As Rob details below, home sales were even hotter in August, with a variety of cities knocking down record activity and posting double-digit price gains. Toronto's average price gain of 20% y/y is admittedly flattered by a shift to higher-priced detached homes, but still…who was calling for such frothy activity a few short months ago? In fact, one agency, which shall remain nameless, was looking for a decline in prices of a roughly similar magnitude in the spring. We suspect policymakers will grin and bear the housing market heat, accepting growth where they can find it in these challenging times.

Finally, both Canada and the U.S. produced **Q2 productivity** reports this week, and here the plot thickens. On the surface, the big U.S. gain of 10.1% annualized seems very impressive. That left output per hour up 2.8% y/y in the non-farm business sector, as hours worked fell 13.6% and output dropped a milder 11.2% y/y. This moderate uptick in productivity is partly due to a more intensive use of tech, but also a deeper drop in the hours worked among lower-wage industries (e.g., hospitality).

But there was nothing moderate about Canada's productivity figures; StatsCan estimates that output per hour in the business sector has rocketed 14.9% y/y, or roughly three times faster than any previous gain. The huge difference with the U.S. data is mostly due to an estimated 27.3% y/y plunge in reported hours worked. Simply put, at least one of the two countries has it wrong; there is no way that Canadian productivity has surged almost 15% in the past year when U.S. productivity was up less than 3%. Most likely, the truth lies somewhere in between, and both measures are likely to see some serious revisions in the years ahead. Yes, there may have been a modest narrowing in the productivity gap in recent months, but we highly doubt it was slammed shut.

As the summer draws to a close and we are now within less than two months of the U.S. elections, there are still no signs of any impending deal in Washington on a new stimulus bill. While the details are important, **a key stumbling block appears to simply be a fundamental difference on the size** of the measures. Initially, Democrats were looking at $3 trillion of new spending, while Republicans were closer to $1 trillion. There has been a clear willingness to move closer to $2 trillion, but a deal still seems a long way off at this point.

We will simply note the **enormity of these numbers**. For example, European markets temporarily celebrated a big fiscal package this week from France, which was equivalent to 100 billion euros (or about US$118 billion), and represents about 4% of GDP for that nation. Even new measures at the low end of U.S. negotiations would be equivalent to nearly 5% of GDP, a huge tally. At the start of the year—oh, so long ago—many were decrying the fact that the U.S. budget deficit had just moved above $1 trillion on a 12-month rolling basis. Now such sums are nearly dismissed as inadequate. Seasons change, rapidly.

U.S. Economy: A Respectable if Not August Performance

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With the first slate of major indicators for August out, the verdict is that **the economy continues to recuperate but still has a long ways to the finish line**. Most importantly, many more companies are hiring or rehiring than laying off. Nonfarm payrolls expanded 1.37 million, now reversing almost half of the 22 million jobs shed during the shutdowns. An even larger gain in the household survey chopped the unemployment rate by 1.8 ppts to 8.4%. Almost all industries are adding to, or calling back, staff, even in the hospitality sector, despite renewed restrictions on indoor dining and bars in some states. ISM manufacturing (56.0) is gaining steam and operating at the highest level since late 2018. Factory orders are the highest in 16 years, as companies replenish supplies to keep pace with heated demand for consumer goods. Exports are also improving amid a rebound in global demand, though resurgent imports spiked the trade deficit to 12-year highs. Trade could well be the only sector not contributing to Q3 GDP growth, which we peg at 25% annualized. The services PMI (56.9) suggests the rest of the economy is growing at a solid rate, though taking a step back from July. It took just three months for retail sales to surpass pre-virus levels, and a further advance is likely in August given a 4.5% spurt in unit auto sales.

Still, **not all sectors are enjoying a spirited recovery,** a message hammered home by the rising number of permanent layoffs, now up 2.1 million since February. As well, the Fed's Beige Book noted that, although residential real estate and manufacturing are doing fine, commercial construction and real estate remain weak. On the outlook, respondents were "modestly optimistic", but a few regions cited "some pessimism" related to the pandemic. Demand wasn't the only issue for companies. Some are finding it difficult to fill positions due to *"day care availability, as well as uncertainty over the coming school year and jobless benefits."*

The **recovery continues, but there are ongoing soft spots and much uncertainty about the course of the virus and policy** (Congress will take up debate on a fifth bill after Labor Day). The recuperation period will be a slower grind than the reopening phase, likely keeping the jobless rate elevated at an average 6½% next year. That's well below April's high-water mark of 14.7%, but still almost double the pre-pandemic level.

Heat Wave in Canadian Housing

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Anyone expecting even a modest contraction in Canadian home prices—be it the resident bears or national agencies—was sorely disappointed again in August. Figures from the major real estate boards confirmed that the market in most major cities went from hot to hotter in the month, with sales and prices both accelerating further. In Toronto, sales were up a hefty 40.3% y/y from quite normal year-ago levels, leaving August as the strongest month on record after seasonal adjustment. In Vancouver, sales jumped 36.6% y/y, with the level of activity now pushing to the highest since late-2017—recall that market was soggy heading into COVID. Montreal sales topped both, up 47% y/y. To be sure, listings are coming back onto the market at a solid clip, but not nearly fast enough to satiate heated demand. Benchmark prices in Toronto are up more than 11% from a year ago; Vancouver is up 5.3% (best since 2017); and the median single-family price in Montreal was up a cool 24%.

Part of the surge in activity simply reflects pent-up demand after the market was closed for about three months during prime buying season. Using Toronto as an example, underlying resale demand was settling into a run rate of about 8,000 units per month (seasonally adjusted) just before COVID hit. Assuming for now that underlying demand didn't change much (offsetting negatives and positives), even after very strong sales levels in July and August, there's still almost 8,000 units to make up in excess of that run rate. Looking at it another way, year-to-date sales are still down 4% from the same period in 2019 despite the big summer months. In other words, we would still need a few more months of record sales activity similar to August in order to just fill in the pandemic hole. Of course, if listings aren't sufficient, price pressure will only build further.

The bigger picture still suggests that there is more than just pent-up activity going on as well. First, demand-side factors are still surprisingly supportive. While broad Canadian employment was still down almost 6% from pre-COVID levels in August, the bulk of the declines remain concentrated in lower-paying industries. Even in those hard-hit areas, massive federal benefit programs have held up, or even lifted, disposable incomes. All the while, sub-2% five-year fixed-rate mortgages have been readily available for the first time. Meantime, preferences have shifted in response to the new normal, leading to a spike in demand for more spacious homes on larger lots, sometimes well outside the core of the major cities. In Toronto, for example, condo sales were up 'just' 9.2% y/y in the downtown 416 area code versus a 50.6% increase in broader detached homes across the wider region. Also, the strongest year-over-year price gain (+18%) was in a region about 1-to-2 hours northwest of the city. The anecdotes have been aplenty, and now there's some supportive data too.

The Bottom Line: The bizarro real estate recession continues, and the market ran even hotter in August. With pent-up demand still rolling out, we suspect sales will remain lofty into the fall and, if listings can't keep pace, prices will push higher still. At some point, one has to wonder if the animal spirits that were quelled by foreign buyer taxes a few years ago are starting to stir again.

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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 ▪ Solid full-time job gains, but still long way back to normal ▪ Toronto housing market heats up	**Employment** +245,800 (Aug.) **Jobless Rate** -0.7 ppts to 10.2% (Aug.) **Average Hourly Wages** +6.5% y/y (Aug.) **Labour Productivity** +9.8% (Q2) **Industrial Product Prices** +0.7%; **Raw Materials Prices** +3.0% (July) **Markit Manufacturing PMI** +2.2 pts to 55.1 (Aug.)	**Auto Sales** -8.9% y/y (Aug.) **Merchandise Trade Deficit** widened to \$2.5 bln (July) **Building Permits** -3.0% (July) **Ivey PMI** -0.7 pts to 67.8 (Aug.)
United States ▪ Congress, White House reach deal to avert another government shutdown ▪ Job market continues recovery in long road ahead ▪ Nasdaq drops 5% in one-day after hitting record high	**Nonfarm Payrolls** +1,371,000 (Aug.) **Jobless Rate** -1.8 ppts to 8.4% (Aug.) **Average Hourly Earnings** +0.4% (Aug.) **Initial Claims** -130k to 880k (Aug. 29 week) **Auto Sales** climbed to 15.2 mln a.r. (Aug.) **Manufacturing ISM** +1.8 pts to 56.0 (Aug.) **Construction Spending** +0.1% (July) **Factory Orders** +6.4% (July) **Nonfarm Productivity** revised up to +10.1% a.r. (Q2)	**Goods & Services Trade Deficit** widened to \$63.6 bln (July) **Services PMI** -1.2 pts to 56.9 (Aug.)—but still solid
Japan ▪ LDP party election set for Sep. 14 ▪ Chief Cabinet Secretary Suga leads in polls for next PM	**Industrial Production** +8.0% (July P)	**Retail Sales** -3.3% (July) **Capital Spending** -11.3% y/y (Q2) **Jobless Rate** +0.1 ppts to 2.9% (July) **Consumer Confidence** -0.2 pts to 29.3 (Aug.)
Europe ▪ Euro strength raises concern for some ECB policymakers	**Germany—Unemployment** -9,000 (Aug.) —**Jobless Rate** steady at 6.4% **Germany—Factory Orders** +2.8% (July) **U.K.—Nationwide House Prices** +3.7% (Aug.)	**Euro Area—Retail Sales** -1.3% (July) **Euro Area—Jobless Rate** +0.2 ppts to 7.9% (July) **Euro Area—Consumer Prices** -0.2% y/y (Aug.) **Germany—Retail Sales** -0.9% (July) **France—Jobless Rate** +0.3 ppts to 6.9% (July P) **Italy—Real GDP** revised down to -12.8% q/q (Q2) **Italy—Jobless Rate** +0.4 ppts to 9.7% (July P) **U.K.—Construction PMI** -3.5 pts to 54.6 (Aug.)
Other ▪ RBA on hold but lifts size of term funding	**China—Caixin Manufacturing PMI** +0.3 pts to 53.1 (Aug.) **China—Non-manufacturing PMI** +1.0 pts to 55.2 (Aug.) **Australia—Retail Sales** +3.2% (July) **Australia—Building Approvals** +12.0% (July)	**China—Manufacturing PMI** -0.1 pts to 51.0 (Aug.) **China—Caixin Services PMI** -0.1 pts to 54.0 (Aug.) **Australia—Real GDP** -7.0% q/q (Q2) **Australia—Trade Surplus** narrowed sharply to A\$4.6 bln (July) **India—Real GDP** -23.9% y/y (Q2) **Brazil—Real GDP** -11.4% y/y (Q2)

BoC Preview and Review

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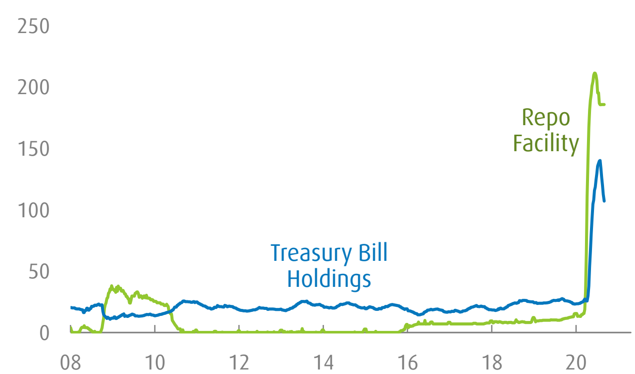
The pandemic has prompted a broad re-evaluation from policymakers both in government and central banks globally. The Fed is the highest profile in the central bank space with Chair Powell announcing a move to average inflation targeting in a recent speech. Full details of the shift will be unveiled perhaps as soon as September's FOMC meeting. In Canada, the Bank of Canada has kicked off the review of their policy framework ahead of next year's renewal with the government. The renewal occurs every five years, with the review of the framework taking place the year before. With the Bank of Canada delving into quantitative easing and other non-traditional policies, the policy review has the potential to be a bit broader than in the past. Here's a quick look at where the BoC's various non-traditional policies stand:

- **Government Bond Purchase Program**: The BoC committed to buying at least $5 bln/week of Government of Canada (GoC) bonds until the recovery is well underway. The initial run rate of the program was closer to $6 bln, but that's been pared to just above $5 bln. While the government is issuing plenty of debt, there's a supply shortage of a number of older bonds as the BoC has absorbed supply that was available for sale. Perhaps there's some regret in choosing the $5 bln minimum, since the timeline for ending purchases looks to be well into 2021 at the earliest.
- **Provincial Bond Purchase Program**: This facility was introduced as a 1-year vehicle to buy up to $50 bln in provincial bonds with a maturity of 11 years or less (from the inception date). While the buying has been ongoing, the pace to date will leave the total well short of the maximum. Through 17 weeks, the BoC has purchased $8.4 bln, which would peg the total at about $25 bln if the pace is maintained.
- **Canada Mortgage Bond Purchase Program**: Introduced at a maximum of $500 mln/week, the BoC has been buying at a much slower pace. Through 25 weeks, the Bank has purchased about $8.2 bln, an average of about $340 mln/week, with the recent pace consistently under $200 mln.
- **Corporate Bond Purchase Program**: The program is ongoing, with $14.2 mln purchases this week. However, these were the first purchases since late-June. At just $141 mln, purchases likely won't come anywhere close to the $10 bln maximum barring another serious market blowup.
- **Provincial Money Market Purchase Program**: The BoC initially bought up to 40% of provincial T-bill issuance if requested by the province. That maximum size has been cut to 20% now, which suggests the size of the program (now $7.4 bln) will likely shrink as T-bills mature.

Chart 1
Shrinkage

Bank of Canada (C$ blns)



Sources: BMO Economics, Haver Analytics

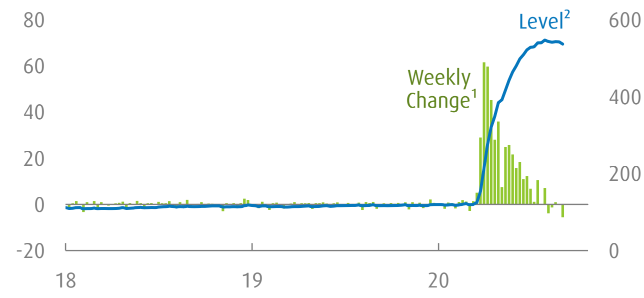
- **Canada T-Bill Auction buying**: In an effort to facilitate the surge in government liquidity needs, the BoC increased their purchase share at T-bill auctions from 20% to 40%. That increased holdings of T-bills from about $25 bln pre-COVID to $140 bln at the peak in late July. At that juncture, the BoC cut purchases back down to 20%, which along with a shrinking T-bill float will shrink the Bank's footprint in this space significantly.
- **Bankers' Acceptance Purchase Facility**: While this program is still available, there has been no take-up since April. All BAs purchased have matured, leaving the balance at zero.
- **Commercial Paper Purchase Program**: Similarly, this program is now at a zero balance, as take-up has dried up despite still being available.
- **Repo operations**: In an effort to support market liquidity, the BoC increased the size and maturity of term repo operations which saw significant take-up. The first of the six-month operations will start to mature this week. With little to no take-up since early June, the outstandings will begin to shrink this week.

The above covers the major programs, though there are some other smaller actions the BoC has taken. The key takeaway from the above is that, while most of the support programs are ongoing, they have shrunk in size considerably from their peak. Falling holdings of T-bills (amid smaller auction sizes and smaller purchases) and maturing repo operations will be somewhat offset by ongoing buying of GoCs, provincial bonds and CMBs (*Chart 1*). Note that the BoC's balance sheet contracted through most of August and will likely be steady to lower in the coming months unless asset buying ramps up again (*Chart 2*).

We're not expecting any major changes to rates or QE at next week's policy meeting. Indeed, the backdrop has improved since the last meeting in July. There's only a policy statement, no Monetary Policy Report, this time around. Note that the July MPR had Q2 GDP contracting 43% annualized and Q3 rebounding 31.3%. We already have Q2 at -38.7%, more than 4 ppts better, while Q3 is tracking north of 40% growth (we're at 45% with upside risk) (*Chart 3*). While the recovery still has a long way to go, it's clear we're in a better place than the BoC expected six weeks ago. Indeed, the statement is expected to note as much, while focusing on the risks

Chart 2
Topping Out

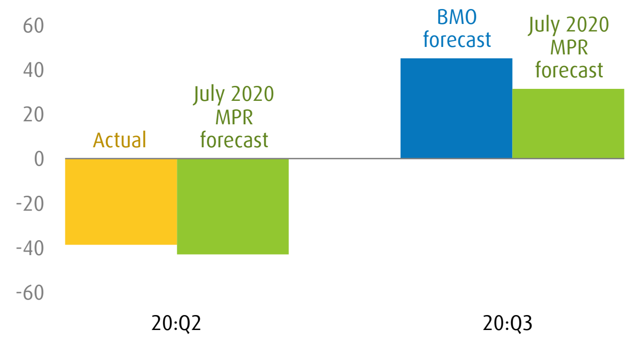
Bank of Canada (C$ blns)
Balance Sheet



¹ (lhs); ² (rhs)
Sources: BMO Economics, Haver Analytics

Chart 3
Growth Outperforming BoC Forecast

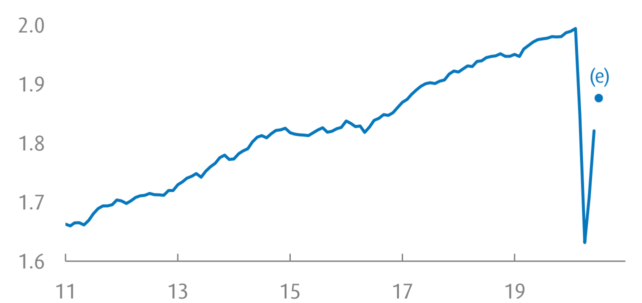
Canada (ann. % chng)
Real GDP



Sources: BMO Economics, Bank of Canada, Statistics Canada

Chart 4
Still a Deep Hole

Canada (chained 2012 C$ trlns)
Monthly Real GDP



(e) = July 2020 estimate (Statistics Canada)
Sources: BMO Economics, Haver Analytics

still ahead and the fact that a full recovery is still many quarters away (*Chart 4*).

The key for the Bank of Canada will be to reinforce that policy will remain extremely accommodative for some time yet. The strong run in the domestic data has been impressive; and, while our upgrade of the 2020 growth forecast last week is a notable positive, GDP will likely remain 3%-to-4% below February 2020 levels at year-end. To put that in perspective, the peak-to-trough drop in GDP during the 2008/09 financial crisis was 4.7%. So even with the better backdrop, there will be plenty of ground to make up in 2021, necessitating ongoing monetary policy support.

Key Takeaway: After a dramatic six months that saw fast and furious policy moves, the first foray into QE, as well as a new governor, the near-term outlook for the BoC is much quieter. We await a full review of the Bank's policy framework in 2021; in the meantime, don't look for much from next week's policy statement.

Economic Forecast Summary for September 4, 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	45.0	6.6 ↓	6.5	4.5 ↑	4.0 ↑	3.2	1.7	-5.5	6.0
Consumer Price Index (y/y % chng)	1.8	0.0	0.4	0.4	0.7	1.9	1.6	1.7	1.9	0.7	1.5
Unemployment Rate (percent)	6.3	13.0	10.2 ↑	8.9 ↑	8.4 ↑	8.1	7.9	7.5 ↓	5.7	9.6 ↑	8.0
Housing Starts (000s : a.r.)	209	191	217	205	210	206	202	202	209	205	205
Current Account Balance ($blns : a.r.)	-52.9	-34.5	-31.6 ↓	-29.2 ↓	-31.2 ↓	-31.6 ↓	-31.8 ↓	-33.2 ↓	-47.0	-37.0 ↓	-32.0 ↓
Interest Rates	(average for the quarter : %)										
Overnight Rate	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.50	0.25
3-month Treasury Bill	1.29	0.22	0.15	0.15	0.15	0.15	0.15	0.15	1.65	0.45	0.15
10-year Bond	1.20	0.59	0.55	0.65	0.75	0.90	1.00	1.15	1.59	0.75	0.95
Canada-U.S. Interest Rate Spreads	(average for the quarter : bps)										
90-day	16	8	6	6	6	6	6	6	-45	9	6
10-year	-18	-10	-9 ↑	-9	-8	-7	-6	-6	-56	-11	-7
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-5.0	-31.7	25.0	2.5	5.8	5.7	4.1	3.2	2.2	-4.5	4.0
Consumer Price Index (y/y % chng)	2.1	0.4	1.1	1.0	1.2	2.4	1.9	1.8	1.8	1.2	1.8
Unemployment Rate (percent)	3.8	13.0	9.0 ↓	8.2 ↓	7.6 ↓	7.0 ↓	6.4 ↓	6.0 ↓	3.7	8.5 ↓	6.8 ↓
Housing Starts (mlns : a.r.)	1.48	1.06	1.43	1.33	1.30	1.31	1.31	1.32	1.30	1.33	1.31
Current Account Balance ($blns : a.r.)	-417	-413	-525 ↓	-545 ↓	-576 ↑	-586 ↓	-595 ↓	-602 ↑	-480	-475	-590
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	0.65	0.75	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	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$/Euro	1.10	1.10	1.17	1.20	1.20	1.21	1.21	1.22	1.12	1.14	1.21
US$/£	1.28	1.24	1.30	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

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Housing Starts

Wednesday, 8:15 am

Aug. (e)	**205,000 a.r. (-16.5%)**
Consensus	*a.r. (%)*
July	245,604 a.r. (+15.8%)

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. Despite the solid backdrop, July's surge is not sustainable and we look for housing starts to fall to 205,000 in August, consistent with the drop 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.

BoC Policy Announcement

Wednesday, 10:00 am

See Benjamin Reitzes' Feature Article on page 7.

National Balance Sheet and Financial Flow Accounts (Q2)

Friday, 8:30 am

Perhaps one of the more curious parts of the sharp drop in Q2 economic activity is that personal incomes actually surged in the period thanks to the flood of government support. Housing slowed ever so briefly in the quarter limiting credit growth to the lowest since 2001Q1, especially as consumer credit contracted for the first time since 1992. The combination of government income support and slower credit growth likely caused the household debt-to-income ratio to plunge by the most on record (upwards of 5 percentage points). However, as housing has come roaring back, credit growth will no doubt rebound as well, suggesting we'll get at least some reversal of the pullback in Q3. It's also worth watching government debt ratios which will surge from Q2 on. Note that this release also includes details on household assets. Look for a rebound here after a plunge in Q1, as equity prices were in the first stage of their improbable rebound. However, home prices softened a touch (temporarily) which will act as a restraint.

United States

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Consumer Prices

Friday, 8:30 am

Aug. (e)	**+0.3%**	**+1.1% y/y**
Consensus	*+0.3%*	*+1.2% y/y*
July	+0.6%	+1.0% y/y

CPI Ex. Food & Energy

Aug. (e)	**+0.2%**	**+1.6% y/y**
Consensus	*+0.2%*	*+1.6% y/y*
July	+0.6%	+1.6% y/y

U.S. consumer prices are expected to rise 0.3% in August, lifting the yearly rate slightly to 1.1%, amid pricier fuel, surging lumber costs, and fewer discounts after the shutdowns. Core prices should simmer down to a 0.2% gain after leaping 0.6% in July, holding the yearly rate at 1.6% and retracing a third of the decline from 2.4% in February to 1.2% in June. Although automobiles and appliances are more expensive today than before the pandemic, clothing and many services such as airlines and hotels are much cheaper, recovering just a fraction of their earlier slide. Despite supply bottlenecks and additional virus-related costs, inflation should remain well-contained by high joblessness, consumer anxiety and increased automation. The Fed has set an even higher bar for itself with its new average inflation-targeting regime.

Central Banks

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ECB Monetary Policy Meeting
Thursday, 7:45 am
Press conference at 8:30 am

No changes to key interest rates are expected at the ECB's policy meeting on September 10. But, that's not to say that it will be a non-event. Au contraire. At the previous meeting in July, the word "*uncertainty*" was sprinkled liberally throughout the Minutes. Though there was a general acknowledgement of "*improvements*" in the data, there was still plenty of uncertainty on the outlook, particularly with regards to the pandemic. And, it was noted that, by the September meeting, "*more information would be available*", and the Governing Council would then be in a "*better position to reassess the monetary policy stance and its policy tools*."

So here we are. Since the July meeting, the EU reached the historic deal on the recovery fund and most of the data are still pointing to a hefty Q3 rebound, but there have been some unsettling developments. In August, Euro Area CPI fell below year-ago levels for the first time since 2016, the manufacturing PMI slipped from July's 20-month highs, and the jobless rate hit a 20-month high. On top of that, a second wave of COVID-19 cases is sweeping across Europe (especially in Spain). Though an increase in the €1.35 trln Pandemic Emergency Purchase Programme cannot be dismissed, it is likely too soon. But, it will be interesting to see not only the updated economic forecasts, but how the ECB is feeling about the euro's strength. As Chief Economist Philip Lane warned recently, "*the euro-dollar rate does matter*". And there will undoubtedly be questions during the press conference about the ECB's year-long strategy review and whether or not President Lagarde will borrow from the Fed's new strategy of average inflation targeting. She likely will.

Financial Markets Update for September 4, 2020

		Sep 4 [1]	Aug 28	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	0.14	0.15	-1	-2	-152
	United States	0.10	0.10	1	2	-144
	Japan	-0.14	-0.10	-4	-7	-3
	Eurozone	-0.48	-0.48	-1	-1	-10
	United Kingdom	0.07	0.06	0	-1	-72
	Australia	0.09	0.09	0	-2	-82
2-Year Bonds	Canada	0.27	0.28	-1	0	-142
	United States	0.14	0.13	1	1	-143
10-Year Bonds	Canada	0.58	0.63	-6	10	-112
	United States	0.68	0.72	-4	11	-124
	Japan	0.04	0.05	-2	3	6
	Germany	-0.48	-0.41	-7	3	-29
	United Kingdom	0.25	0.31	-6	11	-57
	Australia	0.89	1.02	-13	6	-48
Risk Indicators	VIX	35.3	23.0	12.3 pts	13.0 pts	21.5 pts
	TED Spread	14	14	0	-2	-22
	Inv. Grade CDS Spread [2]	65	67	-2	1	20
	High Yield CDS Spread [2]	366	370	-3	-19	86
					(percent change)	
Currencies	US¢/C$	76.31	76.34	0.0	2.1	-0.9
	C$/US$	1.310	1.310	—	—	—
	¥/US$	106.35	105.37	0.9	0.4	-2.1
	US$/€	1.1806	1.1903	-0.8	0.2	5.3
	US$/£	1.322	1.335	-1.0	1.3	-0.3
	US¢/A$	72.50	73.65	-1.6	1.3	3.3
Commodities	CRB Futures Index	148.78	153.44	-3.0	1.3	-19.9
	Oil (generic contract)	39.88	42.97	-7.2	-3.3	-34.7
	Natural Gas (generic contract)	2.45	2.66	-7.7	9.6	12.0
	Gold (spot price)	1,924.62	1,964.83	-2.0	-5.4	26.8
Equities	S&P/TSX Composite	16,142	16,706	-3.4	-2.4	-5.4
	S&P 500	3,375	3,508	-3.8	0.7	4.5
	Nasdaq	11,089	11,696	-5.2	0.7	23.6
	Dow Jones Industrial	27,828	28,654	-2.9	1.4	-2.5
	Nikkei	23,205	22,883	1.4	3.9	-1.9
	Frankfurt DAX	12,833	13,033	-1.5	1.2	-3.1
	London FT100	5,796	5,964	-2.8	-3.9	-23.2
	France CAC40	4,964	5,003	-0.8	1.5	-17.0
	S&P ASX 200	5,926	6,074	-2.4	-1.3	-11.3

[1] = as of 11:35 am *[2] = One day delay*

Japan

Tuesday September 8

Real GDP

Q2 F (e)	**-8.1%**	**-10.1% y/y**
Q2 P	-7.8%	-9.9% y/y
Q1	-0.6%	-1.8% y/y

Current Account Surplus

July '20 (e)	**¥1.9 trln**
July '19	¥2.0 trln

Bank Lending Ex-Trusts

Aug.	
July	+6.4% y/y

Wednesday September 9

Machine Tool Orders

Aug. P	
July	-31.1% y/y

Thursday September 10

Core Machine Orders

July (e)	**+2.0%**	**-18.2% y/y**
June	-7.6%	-22.5% y/y

Euro Area

Monday September 7

GERMANY

Industrial Production

July (e)	**+4.5%**	**-7.0% y/y**
June	+8.9%	-11.7% y/y

Tuesday September 8

EURO AREA

Real GDP

Q2 F (e)	**-12.1%**	**-15.0% y/y**
Q2 P	-12.1%	-15.0% y/y
Q1	-3.6%	-3.1% y/y

GERMANY

Trade Surplus

July	
June	€14.5 bln

FRANCE

Trade Deficit

July	
June	€8.0 bln

ITALY

Retail Sales

July (e)	**-0.1%**	**-1.0% y/y**
June	+12.1%	-2.2% y/y

Thursday September 10

EURO AREA

ECB Monetary Policy Meeting

FRANCE

Industrial Production

July (e)	**+4.9%**	**-8.4% y/y**
June	+12.7%	-11.7% y/y

Manufacturing Production

July		
June	+14.4%	-12.5% y/y

ITALY

Industrial Production

July (e)	**+3.5%**	**-9.8% y/y**
June	+8.2%	-13.7% y/y

Friday September 11

GERMANY

Consumer Price Index

Aug. F (e)	**-0.2%**	**-0.1% y/y**
July	-0.5%	unch y/y

U.K.

Thursday September 10

RICS House Price Balance

Aug. (e)	**25%**
July	12%

Friday September 11

Monthly Real GDP		**3m/3m**
July (e)	**+6.7%**	**-7.4%**
June	+8.7%	-19.1%

Index of Services		**3m/3m**
July (e)	**+7.0%**	**-7.7%**
June	+7.7%	-19.9%

Industrial Production

July (e)	**+4.2%**	**-8.6% y/y**
June	+9.3%	-12.5% y/y

Manufacturing Production

July (e)	**+5.0%**	**-10.4% y/y**
June	+11.0%	-14.6% y/y

Trade Balance		**Non-EU**
July (e)	**-£6.9 bln**	**n.a.**
June	-£5.1 bln	+£0.3 bln

Other

Monday September 7

CHINA

Trade Surplus D

	in USD	in CNY
Aug. (e)	**$49.7 bln**	**386.0 bln**
July	$62.3 bln	442.2 bln

Foreign Reserves D

Aug. (e)	**$3.17 trln**
July	$3.15 trln

Tuesday September 8

AUSTRALIA

NAB Business Confidence

Aug.	
July	-14

Wednesday September 9

CHINA

	CPI	PPI
Aug. (e)	**+2.4% y/y**	**-1.9% y/y**
July	+2.7% y/y	-2.4% y/y

Aggregate Yuan Financing D

Aug. (e)	**2.6 trln**
July	1.7 trln

New Yuan Loans D

Aug. (e)	**1.3 trln**
July	1.0 trln

M2 Money Supply D

Aug. (e)	**+10.7% y/y**
July	+10.7% y/y

Foreign Direct Investment D

Aug.	
July	+15.8% y/y

AUSTRALIA

Westpac Consumer Confidence

Sep.	
Aug.	-9.5%

D = date approximate

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

North American Calendar — September 7–September 11

	Monday September 7	Tuesday September 8	Wednesday September 9	Thursday September 10	Friday September 11
Canada	**Labour Day (markets closed)**	**Manpower Survey—Net Outlook** **Q4 (e) 0%** Q3 -10% 10:30 am 3-, 6- & 12-month bill auction $10.0 bln (new cash -$1.6 bln) BoC Buyback: Under 2-year sector	**8:15 am Housing Starts** **Aug. (e) 205,000 a.r. (-16.5%)** *Consensus 220,000 a.r. (-10.4%)* July 245,604 a.r. (+15.8%) **10:00 am BoC Policy Announcement** BoC Buyback: 30-year sector	**12:30 pm BoC Governor Macklem speaks by videoconference to the Canadian Chamber of Commerce** Noon 2-year bond auction $6.0 bln 30-year bond auction announcement BoC Buyback: 2-year sector	**8:30 am Capacity Utilization** **Q2 (e) 67.0%** Q1 79.8% **8:30 am Industrial Product Price Index Flash Estimate** **Aug. A (e) +1.0%** July +0.7% **8:30 am National Balance Sheet and Financial Flow Accounts (Q2)** BoC Buyback: 10-year sector
United States	**Labor Day (markets closed)**	**6:00 am NFIB Small Business Economic Trends Survey** **Aug. (e) 98.9 [c]** July 98.8 **3:00 pm Consumer Credit** **July (e) +$12.9 bln [c]** June +$8.9 bln **Manpower Survey—Net Outlook** **Q4 (e) +5%** Q3 +3% 10:00 am 13- & 26-week bill auctions $105 bln 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 $50 bln	**7:00 am MBA Mortgage Apps** **Sep. 4** Aug. 28 -2.0% **10:00 am Job Openings & Labor Turnover Survey (July)** 1:00 pm 10[R]-year note auction $35 bln	**8:30 am Initial Claims** **Sep. 5 (e) 830k (-51k) [c]** Aug. 29 881k (-130k) **8:30 am Continuing Claims** **Aug. 29** Aug. 22 13,254k (-1,238k) **8:30 am PPI Final Demand** **Aug. (e) +0.2% -0.3% y/y** *Consensus +0.2% -0.4% y/y* July +0.6% -0.4% y/y **8:30 am PPI Final Demand ex. F&E** **Aug. (e) +0.2% +0.3% y/y** *Consensus +0.2% +0.3% y/y* July +0.5% +0.3% y/y **10:00 am Wholesale Inventories** **July F (e) -0.1%** June -1.3% 11:00 am 13- & 26-week bill, 20[R]-year bond, 10[R]-year TIPS auction announcements 11:30 am 4- & 8-week bill auctions 1:00 pm 30[R]-year bond auction $23 bln	**8:30 am Consumer Prices** **Aug. (e) +0.3% +1.1% y/y** *Consensus +0.3% +1.2% y/y* July +0.6% +1.0% y/y **8:30 am CPI Ex. Food & Energy** **Aug. (e) +0.2% +1.6% y/y** *Consensus +0.2% +1.6% y/y* July +0.6% +1.6% y/y **10:00 am Quarterly Services Survey (Q2 F)** **2:00 pm Budget Balance** **Aug. '20** Aug. '19 -$200.3 bln

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

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

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