Economic Commentary

Third Quarter 2024

Inflation Shows Steady Decline

After following an even path during the first half of the year, inflation levels in both the U.S. and Canada declined steadily during the third quarter. In Canada, headline CPI was 2.7% in June, followed by 2.5% in July and 2.0% in August. Inflation finally reached the Bank of Canada's 2.0% target, representing a significant decline from the peak level of 8.1% reached in June 2022. In the U.S., inflation declined from 3.0% in June to 2.9% in July and 2.5% in August. Further declines are necessary in the U.S. in order for headline CPI to reach the Federal Reserve's 2.0% target. However, recent declines in North American inflation has provided confidence to both the Bank of Canada and the Fed that inflation is now under control and they can comfortably lower interest rates from current levels. Inflation levels in Europe are exhibiting healthy declines as well. Inflation in the Eurozone dropped below 2.0%, with the most recent reading showing an annual rate of 1.8%. Inflation in the U.K. currently stands at 2.2%.

U.S. FED Embarks On Easing Cycle

The U.S. Federal Reserve finally began lowering interest rates at its meeting in September. After remaining on the sidelines since COVID, the Federal Reserve began its easing cycle with a larger than expected cut of 50 b.p. Market expectations for interest rate cuts by the Fed have been extremely volatile for much of the year as inflation remained more persistent than what the Fed was hoping for during the first half of the year. As a result, overnight administered rates remained higher for longer in the U.S. Once inflation began to show steady declines, the Fed was in a better position to begin lowering rates.

The Bank of Canada, which had been the first major central bank to cut interest rates with a 25 bp decline at its June meeting, continued to lower rates with 25 bp cuts at both the July and September meetings. Better progress on the inflation front has enabled the Bank of Canada to be more aggressive than the Fed in cutting interest rates this year. Both the European Central Bank and the Bank of England lowered rates by 25 bp during the quarter.

Labour Market Weakness A Growing Concern

Persistent inflation has been the biggest factor influencing global financial markets and anticipated interest rate decisions by major central banks over the past several years. With inflation levels now cooling and approaching the target level of 2.0% in most countries, the emphasis has now shifted towards the state of global labour markets. Central banks have a dual mandate to promote maximum employment and stable prices and are now becoming more focused on the employment side. After showing surprising resilience in the face of swift and dramatic interest rate increases over the past few years, weakness is now starting to appear in the monthly labour statistics. The unemployment rate in Canada is now 6.6%, compared to the low mark of 4.8% in July 2022, while in the U.S., the unemployment rate is 4.2%, up from the low point of 3.4% in January 2023.

Even though economic growth has slowed recently, it is still exhibiting modest strength. While labour markets have cooled, consumption data continues to provide support to the economy. Despite small periods of negative

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Key Metrics

Indicator	Value	Chg Q3	Chg 1Y
S&P/TSX Composite	24,000.37	10.5%	26.7%
S&P 500 (USD)	5,762.48	5.9%	36.3%
iShares MSCI EAFE ETF (USD)	83.63	6.8%	25.0%
USD/CAD	$ 0.74	1.1%	0.4%
WTI Crude ($/bl))	$ 68.17	-16.4%	-24.9%
GoC 10Y Bond	2.96%	-55 bps	-107 bps
GoC Deposit Rate	4.25%	-50 bps	-75 bps
Cdn CPI YoY	2.0%	-0.7%	-1.8%
US 10Y Treasury	3.78%	-62 bps	-79 bps
Fed Funds Rate	5.00%	-50 bps	-50 bps
USD CPI YoY	2.5%	-0.5%	-1.2%

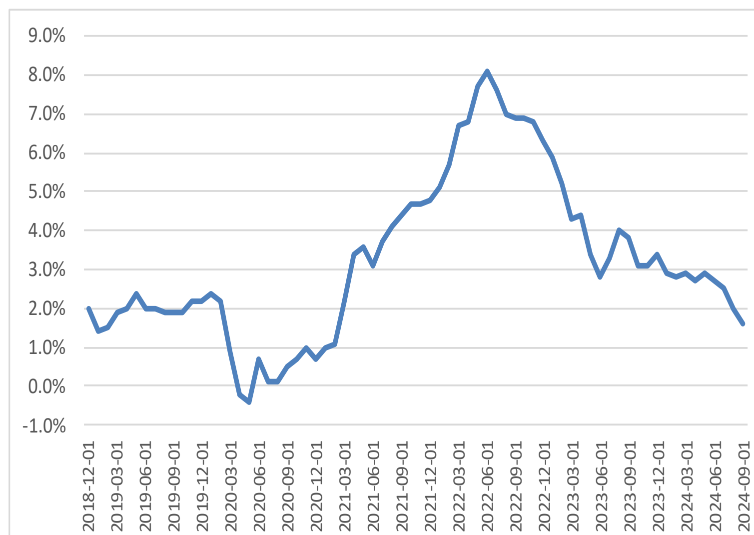
Top Themes

Inflation declines steadily, attention turns to weak labour markets

Fed joins global peers in cutting interest rates

Retail sales remain resilient in North America

Top Chart: Canada CPI YoY



Source: Bloomberg, Lincluden

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growth, retail sales in both Canada and the U.S. continue to provide a positive impact to overall economic growth. Second quarter GDP in the U.S. came in at 3.0%, a surprising increase from the first quarter growth rate of 1.6%. In Canada, monthly GDP growth is showing modest strength, with year-over-year data reflecting a 1.5% growth rate. Higher than expected mortgage rates at this point in the cycle continue to have a negative impact on the housing market.

Equity Markets Push Higher While Bond Yields Rally

The Canadian equity market had a strong quarter as further declines in interest rates by the Bank of Canada helped propel markets. The larger-than-expected 50 bp cut by the U.S. Federal Reserve in September, however, was the main catalyst that fueled the strong rally in equity markets into quarter-end. Expectations for further interest rate cuts by central banks through next year have provided confidence to equity markets that a soft landing from an economic perspective will be achieved. Bond yields declined significantly during the quarter as central banks have now pivoted from an environment of higher interest rates to one where on-going rate cuts are projected through next year. The yield on the benchmark 10 year U.S. Treasury bond decreased by 62 bp, finishing the quarter at 3.78%. The yield on the benchmark bond is now down 10 bp on the year, after beginning the year at 3.88%.