

The Weekly Bottom Line

April 18, 2019

Highlights of the Week

United States

- Spring is coming to the U.S. economy after a tough winter. An impressive bounce back in retail sales in March indicates that consumer spending will bounce back in the second quarter after a disappointing start.
- First quarter GDP growth is released next week, and it is likely going to be messy. A strong headline is likely to belie weakness domestically, while the reverse is likely to be the case in Q2.
- Overall growth in the first half of the year is tracking close to our March forecast, the quarterly pattern is somewhat reversed. The overall story that the economy has slowed from its 2018 pace, but remains above trend, remains intact.

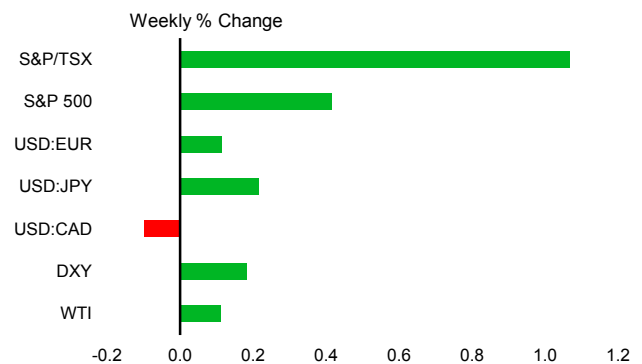
Canada

- This week saw a slew of data releases confirming the moderating growth narrative, ranging from a slight change in tone in the Business Outlook Survey, weak manufacturing and trade data releases, and modest upticks in retail and home sales.
- Consumer price inflation was the odd one out, showing a firming in both headline and core measures nearer to the Bank of Canada's target.
- Regionally, Alberta's provincial elections saw the UCP win a majority government, while Newfoundland & Labrador's government tabled its pre-election FY2019-20 budget.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2901	2888	2931	2351
S&P/TSX Comp.	16575	16399	16575	13780
DAX	12205	11935	13170	10382
FTSE 100	7466	7418	7877	6585
Nikkei	22090	21711	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.56	2.50	3.24	2.37
Canada 10-yr Bond	1.77	1.72	2.60	1.53
Germany 10-yr Bund	0.02	-0.01	0.65	-0.08
UK 10-yr Gilt	1.20	1.15	1.73	0.99
Japan 10-yr Bond	-0.03	-0.06	0.16	-0.09
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.79	0.73
Euro (USD per EUR)	1.12	1.13	1.24	1.12
Pound (USD per GBP)	1.30	1.31	1.42	1.25
Yen (JPY per USD)	111.9	111.7	114.5	107.2
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	63.9	63.6	76.4	42.3
Natural Gas (\$US/MMBtu)	2.66	2.74	4.80	2.56
Copper (\$US/met. tonne)	6537.0	6390.5	7330.5	5713.8
Gold (\$US/troy oz.)	1275.9	1292.6	1349.4	1174.2

*as of 11:10 am on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion, Source: Bloomberg.

Equity Markets Have Some Spring in their Step



Note: Data as of 11:10 AM ET, April 18, 2019
Sources: Bloomberg, TD Economics

Global Official Policy Rate Targets

	Current Target
Federal Reserve (Fed Funds Rate)	2.25 - 2.50%
Bank of Canada (Overnight Rate)	1.75%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.75%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

U.S. - Spring is Coming

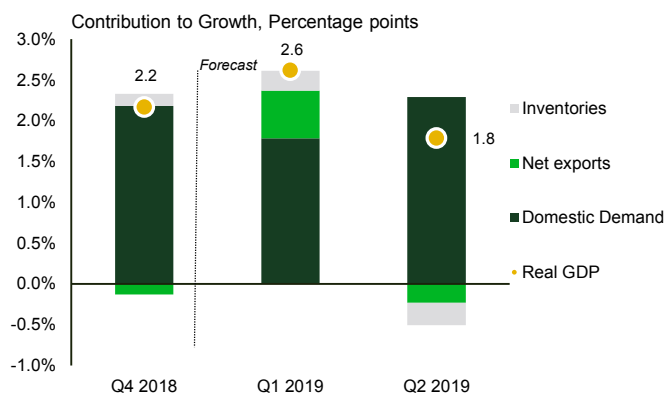
The U.S. economy had a tough winter. A government shutdown, stock market rout, and some bad weather patterns weighed on activity. The good news is that spring is coming.

The first estimate of Q1 economic growth will be released next week. The story is likely to be muddy. Headline GDP is forecast to post a reassuring 2.6% print, but that hides a much softer picture for domestic demand (1.7%, annualized). The combination of an inventory build and a decline in imports is forecast to add nearly a percentage point to growth (Chart 1). Domestic demand, meanwhile, was held back by weakness in both consumer spending (+1.2%) and business investment (+1.6%).

Soft consumer spending is likely to prove temporary. The combination of plummeting stock markets, government shutdown, and bad weather helped send consumers into hibernation at the end of 2018 and early 2019. But, March retail sales showed consumers awakening from their slumber, enough to lift consumer spending to roughly 2 ½% in the second quarter.

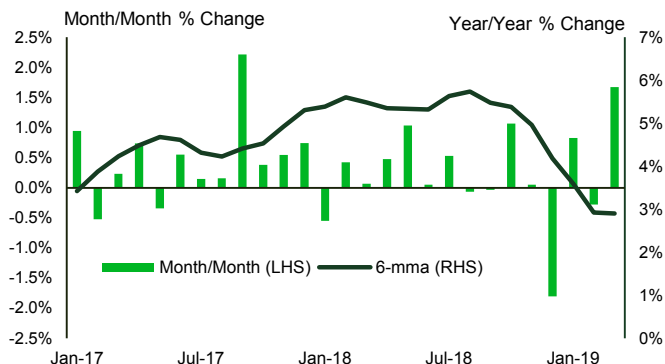
Headline retail sales rebounded 1.7% in March, after falling in three of the last four months. That was a bit stronger than we had anticipated, and it lifted our tracking for growth in the first quarter by 0.2 percentage points. Strength was broad based. Sales at motor vehicle dealers were up sharply, as expected, and in line with the bounce reported in unit sales.

Chart 1: Q1 Growth Boosted by Trade & Inventories



Source: Bureau of Economic Analysis, TD Economics

Chart 2: Monthly Volatility Hides Slowing Trend in Retail Sales



Source: Census Bureau, TD Economics

Retail weakness had stood out against stronger fundamentals in terms of income growth, low unemployment and confidence surveys. That said, the 3%-plus readings on real consumer spending we saw last year are behind us. We expect continued solid quarterly growth in outlays in the 2-2.5% range for the remainder of the year. This downshift in growth is apparent in the smoothed year-on-year growth in retail sales (Chart 2).

The Fed’s latest Beige Book – its qualitative snapshot of the U.S. economy – reinforces this view of the economy slowing from last year’s pace, but still growing solidly. Labor markets were characterized as tight, restraining hiring growth in some regions. Some weakness is evident in manufacturing, consistent with weaker demand from abroad. Trade uncertainty restrained expansions in some districts. The clouds hovering over the global outlook have not cleared, despite a better-than-expected first quarter growth report out of China.

Trade peace with China and Europe would certainly help global sentiment. China and U.S. negotiators plan two more rounds of face-to-face talks, and are working towards a signing ceremony in late May/early June. It remains to be seen whether a deal lifts the tariffs already in place, or if these are kept on as an incentive for compliance. If they are lifted, it would provide a tailwind to Chinese, and likely global, growth.

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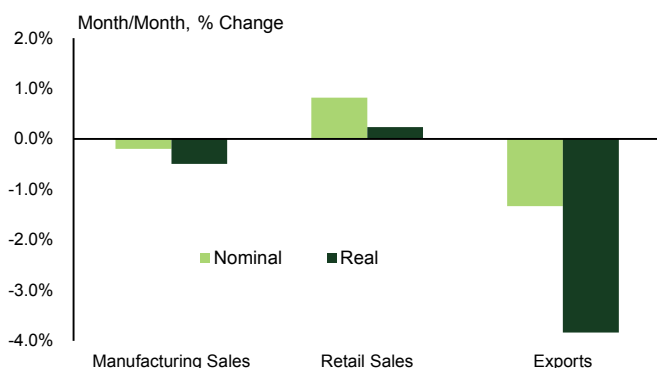
Canada - Data Reinforces View of a Q1 Disappointment

Canadian financial markets were quiet this week, with the S&P/TSX up 1%, and the loonie and oil prices relatively flat. Instead, this week's news flow was heavily dominated by a slew of data releases (Chart 1), which together served to reinforce the view that the Canadian economy started the year in a soft spot. Provincial developments were also in the spotlight, with Alberta's election front and center.

On the consumer side, [existing home sales](#) kicked off the release schedule, with a modest 0.9% m/m uptick. The lacklustre recovery left overall Q1 sales down 2.7%. Prices disappointed further, with annual growth in the composite price index now at its slowest pace since late-2009. Rounding off the week was a ho-hum [retail sales](#) report, where the above-consensus headline print (0.8% against 0.4%) came with only a modest volume uptick (0.2%) and negative revisions to January's data. Retail sales volumes look set to contract in Q1, absent a strong March rebound.

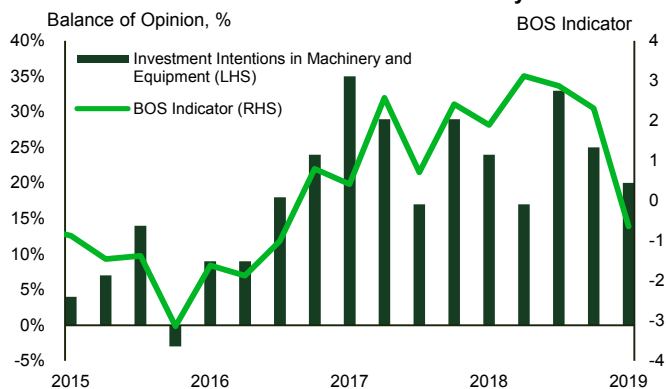
Business-related indicators didn't fare better. The Bank of Canada's [Business Outlook Survey](#) for Q1 offered a slight change of tone relative to prior surveys. Its summary indicator fell into negative territory for the first time since 2016, suggesting weakening business sentiment (Chart 2). At the same time, forward-looking indicators of investment intentions, and indicators of capacity constraints, while still positive, have moderated. There can be a disconnect between the survey and Statistics Canada data, but the change in tone matches recent disappointments in business investment and moderation in manufacturing and exports.

Chart 1: This Week Saw a Range of Sub-Par Data Releases



Source: Statistics Canada, TD Economics

Chart 2: Sentiment Declined in the Bank of Canada's Business Outlook Survey



Source: Bank of Canada Business Outlook Survey, TD Economics

Statistics Canada's [manufacturing sales](#) releases are case in point, with a particularly weak showing in Q4 of 2018. January's release was decent, but February's data saw both the headline (-0.2%) and the volumes (-0.5%) disappoint. However, most impactful to our Q1 tracking was a particularly disappointing [international trade](#) release, with export volumes dropping a dramatic 4% that spanned all major product groupings. With any luck, the weakness will prove temporary, with energy-sector and trade uncertainty weighing on business activity, and past interest rate increases still working their way into consumer spending.

This week's [CPI inflation](#) print was the odd one out, with both headline (1.9%) and core measures (average of 2%) firming closer to the Bank of Canada's target. However, the release was brushed off in the midst of weak activity indicators, especially given that a large part of the rebound was attributable to one-off factors.

Away from the data, Newfoundland & Labrador's government tabled its budget, which included a one-time (front-loaded) revenue boost from the Atlantic Accord that resulted in a sizeable temporary surplus in the current fiscal year. However, Alberta's election took center stage, with the United Conservative Party (UCP) winning a majority government. The UCP's election platform included corporate tax cuts and carbon tax changes, and a plan to balance the books by FY2022-23 via spending restraint.

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U.S.: Upcoming Key Economic Releases

U.S. Real GDP - Q1 Advanced*

Release Date: April 26, 2019

Previous: 2.2%

TD Forecast: 2.6%

Consensus: 2.0%

We expect GDP to advance 2.6% q/q saar in Q1. The strong headline is likely to be flattered by an inventory build and a decline in imports. Domestic demand is forecast to be weaker thanks a notable slowdown in consumer spending. Also notable, and reflecting the recent pick-up in the housing sector, residential investment likely contributed positively to growth for the first time since 2017. All in, a more solid Q1 print will likely borrow from Q2 growth, which is currently forecast to come in below 2%.



*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

Canada: Upcoming Key Economic Releases

Bank of Canada Rate Decision*

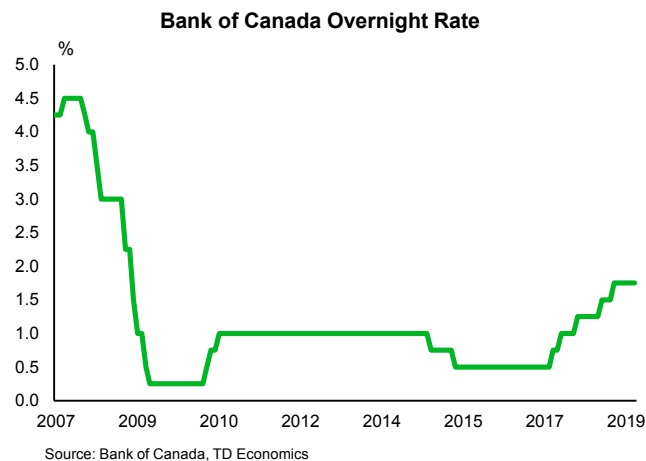
Release Date: April 24, 2019

Previous: 1.75%

TD Forecast: 1.75%

Consensus: 1.75%

We look for the Bank of Canada to hold rates unchanged at 1.75% at next week's meeting while updated projections and a tweak to forward looking language should give a dovish tone. We expect the MPR to include a 0.2pp downgrade to 2019 GDP growth and with the softer outlook, we look for the Bank to all but confirm market pricing and remove the reference to future rate increases in the communique. We also look for the Bank to shift its range for the neutral rate 0.25% lower (leaving the lower bound at 2.25%) although we still think the Bank will end the cycle at 1.75%.



*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

Recent Key Economic Indicators: Apr 15 - 18, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 15	Empire Manufacturing	Apr	Index	10.1	3.7
Apr 16	Capacity Utilization	Mar	M/M % Chg.	78.8	79.0
Apr 16	Industrial Production	Mar	M/M % Chg.	-0.1	0.1
Apr 16	Manufacturing (SIC) Production	Mar	M/M % Chg.	0.0	-0.3
Apr 16	NAHB Housing Market Index	Apr	Index	63.0	62.0
Apr 17	Trade Balance	Feb	Blns	-49.4	-51.1
Apr 17	U.S. Federal Reserve Releases Beige Book				
Apr 17	Wholesale Trade Sales	Feb	M/M % Chg.	0.3	0.5
Apr 18	Business Inventories	Feb	M/M % Chg.	0.3	0.9
Apr 18	Initial Jobless Claims	Apr 13	Thsd	192.0	197.0
Apr 18	Markit US Manufacturing PMI	Apr	Index	52.4	52.4
Apr 18	Markit US Services PMI	Apr	Index	52.9	55.3
Apr 18	Retail Sales Advance	Mar	M/M % Chg.	1.6	-0.2
Apr 18	Retail Sales Ex Auto and Gas	Mar	M/M % Chg.	0.9	-0.7
Canada					
Apr 15	BoC Business Outlook Future Sales	1Q	Index	6.0	-1.0
Apr 15	BoC Overall Business Outlook Survey	1Q	Index	-0.6	2.2
Apr 15	BoC Senior Loan Officer Survey	1Q	Index	-2.7	-16.0
Apr 15	Existing Home Sales	Mar	M/M % Chg.	0.9	-9.1
Apr 16	Manufacturing Sales	Feb	M/M % Chg.	-0.2	0.8
Apr 17	Consumer Price Index	Mar	Y/Y % Chg.	1.9	1.5
Apr 17	Consumer Price Index Core- Common %	Mar	Y/Y % Chg.	1.8	1.8
Apr 17	Consumer Price Index Core- Median %	Mar	Y/Y % Chg.	2.0	1.9
Apr 17	Consumer Price Index Core- Trim %	Mar	Y/Y % Chg.	2.1	2.0
Apr 17	Consumer Price Index NSA	Mar	M/M % Chg.	0.7	0.7
Apr 17	Int'l Merchandise Trade	Feb	Blns	-2.9	-3.1
Apr 18	Retail Sales	Feb	M/M % Chg.	0.8	-0.4
Apr 18	Retail Sales Ex Auto	Feb	M/M % Chg.	0.6	-0.6
International					
Apr 16	CH Gross Domestic Product	1Q	Y/Y % Chg.	6.4	6.4
Apr 16	UK ILO Unemployment Rate 3Mths	Feb	%	3.9	3.9
Apr 16	CH Retail Sales	Mar	Y/Y % Chg.	8.7	-
Apr 17	UK Consumer Price Index	Mar	Y/Y % Chg.	1.9	1.9
Apr 17	EZ Consumer Price Index	Mar	Y/Y % Chg.	1.4	1.4
Apr 18	EZ Markit Eurozone Composite PMI	Apr	Index	51.3	51.6
Apr 18	EZ Markit Eurozone Services PMI	Apr	Index	52.5	53.3

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Apr 22 - 26, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Apr 22	10:00	Existing Home Sales	Mar	Mlns	5.3	5.5
Apr 23	10:00	New Home Sales	Mar	Thsd	650.0	667.0
Apr 25	8:30	Cap Goods Orders Nondef Ex Air	Mar	M/M % Chg.	-	-0.1
Apr 25	8:30	Durable Goods Orders	Mar	M/M % Chg.	0.5	-1.6
Apr 25	8:30	Durables Ex Transportation	Mar	M/M % Chg.	0.4	-0.1
Apr 25	8:30	Initial Jobless Claims	Apr 20	Thsd	-	-
Apr 26	8:30	Core Personal Consumption Expenditure	1Q	Q/Q % Chg.	-	1.8
Apr 26	8:30	Gross Domestic Product	1Q	Q/Q % Chg.	1.8	2.2
Apr 26	8:30	Personal Consumption	1Q	Q/Q % Chg.	-	2.5
Canada						
Apr 23	8:30	Wholesale Trade Sales	Feb	M/M % Chg.	-	0.6
Apr 24	10:00	Bank of Canada Overnight Rate	Apr 24	%	1.75	1.75
Apr 25	6:00	CFIB Business Barometer	Apr	Index	-	55.9
International						
Apr 24	JN	BOJ Policy Balance Rate	Apr 25	%	-	-0.10
Apr 25	19:30 JN	Jobless Rate	Mar	%	-	2.3
Apr 25	19:30 JN	Tokyo Consumer Price Index	Apr	Y/Y % Chg.	-	0.9
Apr 25	19:50 JN	Retail Sales	Mar	Y/Y % Chg.	-	0.4
Apr 25	19:50 JN	Industrial Production	Mar	Y/Y % Chg.	-	-

* Eastern Standard Time. Source: Bloomberg, TD Economics.
 Note: Some data releases may be impacted by the recent U.S. partial government shutdown.

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