

The Weekly Bottom Line

April 5, 2019

Highlights of the Week

United States

- Progress on U.S.-China trade negotiations helped support risk appetite this week, with equity prices and yields up.
- February retail sales fell 0.2% month-on-month, but an upgrade to January made it more palatable. On the other hand, the job market bounced back in March (+196k), confirming that the weakness in February was but a speed bump.
- The pace of job gains is expected to slow to around 150k per month on average over the remainder of the 2019 – slower than last year, but still decent and more than sufficient to keep downward pressure on the unemployment rate.

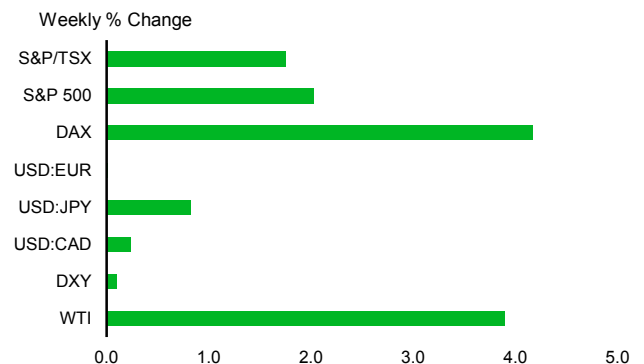
Canada

- It was a solid risk-on week in Canadian financial markets, as optimism on global growth and trade lifted equities and led to a selloff in fixed income.
- The Canadian job market finally returned to earth in March, shedding a modest 7.2k jobs following outsized gains in the previous two months. The unemployment rate remained unchanged at 5.8%
- Bank of Canada governor, Stephen Poloz gave a speech in Iqaluit this week, noting the structural challenges to Canadian goods exports, but also lauding the gains in services. In comments after his speech, he noted that the recent inversion in the yield curve was an “innocent” one and not indicative in his mind of a looming recession.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2891	2834	2931	2351
S&P/TSX Comp.	16376	16102	16567	13780
DAX	12011	11526	13170	10382
FTSE 100	7456	7279	7877	6585
Nikkei	21808	21206	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.50	2.41	3.24	2.37
Canada 10-yr Bond	1.70	1.62	2.60	1.53
Germany 10-yr Bund	0.00	-0.07	0.65	-0.08
UK 10-yr Gilt	1.12	1.00	1.73	0.99
Japan 10-yr Bond	-0.03	-0.08	0.16	-0.09
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.80	0.73
Euro (USD per EUR)	1.12	1.12	1.24	1.12
Pound (USD per GBP)	1.30	1.30	1.43	1.25
Yen (JPY per USD)	111.8	110.9	114.5	106.8
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	62.2	60.1	76.4	42.3
Natural Gas (\$US/MMBtu)	2.68	2.73	4.80	2.56
Copper (\$US/met. tonne)	6436.8	6486.5	7330.5	5713.8
Gold (\$US/troy oz.)	1291.4	1292.3	1353.4	1174.2

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

Global Growth Optimism Lifts Equities This Week



Note: Data as of 11:13 AM ET, April 05, 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.

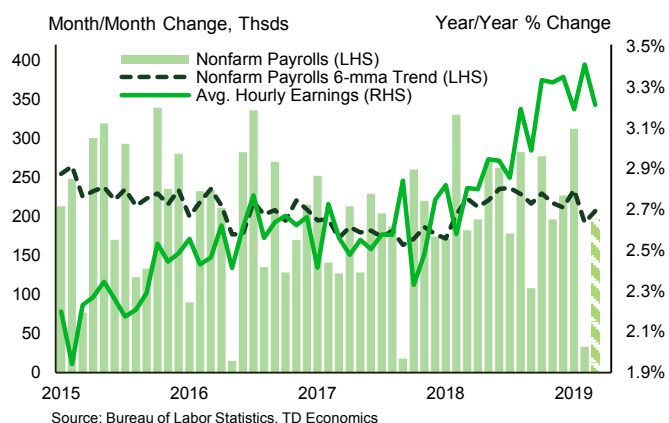
U.S. - Labor Market Strength Back on Display in March

Progress on U.S.-China trade negotiations helped support risk appetite in financial markets this week. Major U.S. stock indices, such as the S&P 500 – up 2% on the week – had a strong run. As money flowed into equities, Treasuries sold off, boosting bond yields, particularly for longer maturities. This helped keep the spread between long-term and short-term yields in positive territory, easing some of last week’s anxiety about any recession signal from the yield curve’s inversion.

Economic data, though not entirely positive, was broadly supportive. February retail sales undershot market expectations, falling by 0.2% m/m, instead of rising by a commensurate amount. The miss on the sign in the headline print seemed like a cruel April Fools’ joke. But, the hefty upward revision to January mitigates the downside to 19Q1 spending (Chart 1). Proving more constructive was a strong bounce-back in auto sales in March to 17.5 million, after two consecutive monthly declines. But, even with a decent showing in March, first-quarter consumption growth is unlikely to surpass 1% annualized. This soft performance is really no surprise given the drag from ‘residual seasonality’ and the government shutdown.

Lower interest rates and a steady Fed, together with a robust labor market, should continue to shore up spending in the months ahead. On the employment front, the payrolls report did not disappoint, with job gains making a comeback in March (Chart 2). The economy added 196k new jobs last month, while the unemployment rate managed to

Chart 2: America's Job Market Rebounds in March



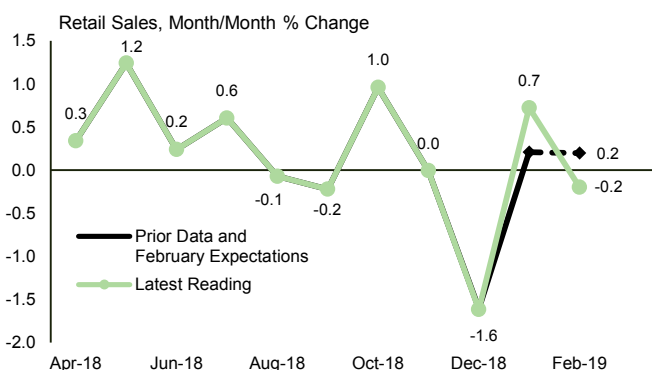
hold on to a low 3.8%. In addition, the prior two months of data were revised up by 14k combined. Other details were less rosy, such as the participation rate ticking down 0.2 pts to 63% and wage growth easing a touch.

The March jobs data confirms that the weak February print was but a speed bump. That said, we still expect a tightening labor market to curtail the pace of job gains to below 150k per month on average through the remainder of 2019. This is slower than last year, but still decent – a theme that aligns with the broader economic narrative of GDP growth slowing to just above 2% this year.

The recent performance of manufacturing and service industries supports this view. The ISM indices have decelerated on a trend basis from last year’s highs, but both remain well in expansionary territory. In March, the two indices diverged, with the non-manufacturing index undershooting expectations (-3.6 points to 56.1) and the manufacturing index surprising on the upside (+1.1 points to 55.3). Still, both signal an economy expanding at a healthy pace.

The resilience of the U.S. manufacturing sector has been remarkable, given the slump in activity elsewhere. Although manufacturing improved in China and a few regional partners in March, it remained in contraction in the Euro Area. The Old Continent is going through a rough patch, and, with economic growth expected to clock in at a low 1.3% this year, it remains a source of downside risk to the global economic outlook (see [here](#)).

Chart 1: February Retail Sales Came in Worse Than Expected, January Revised Up



Source: Census Bureau, TD Economics

Admir Kolaj, Economist | 416-944-6318

Canada - Job Market Returns to Earth

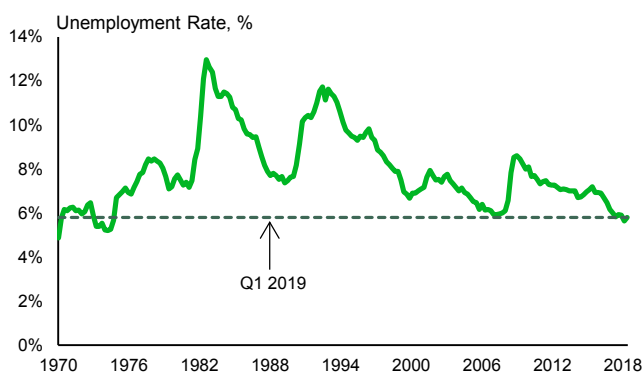
It was a risk-on week in Canadian financial markets, as optimism about global growth and prospects for a trade deal between China and the U.S. boosted equity prices and brought bond yields along for the ride. Economic data was relatively sparse, but the much awaited labour force survey landed with a thud, showing job growth returning to earth after several months of gravity defying gains.

Indeed, the seemingly-unflappable Canadian job market wobbled in March, shedding 7.2k jobs. The pullback in job was matched with a similarly modest outflow of people from the labour force (-11.3k), leaving the unemployment rate unchanged at 5.8%.

Looking across the country, job losses were concentrated in central Canada, with both Quebec and Ontario shedding jobs after strong growth in the prior two months. In Ontario, the losses were enough to push the unemployment rate up two ticks to 5.9%, while in Quebec the rate fell a tick to 5.2%, as people left the labour force.

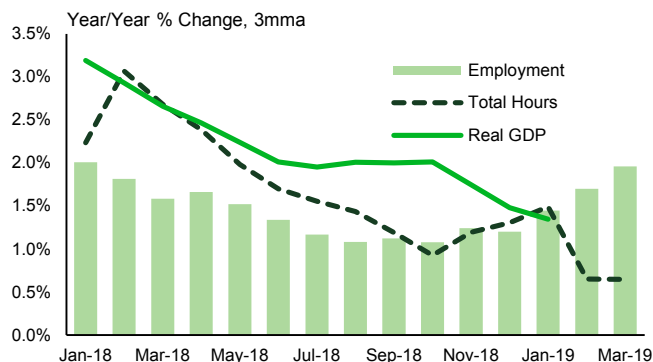
While disappointing perhaps, the data was ripe for a reversal. Job growth in the preceding two months seemed completely divorced from the broader economic narrative of slowing activity. Even while losing jobs in March, the three month average for gains is 38.5k (or 2.5% annualized). Judging the threshold for job growth required to keep the unemployment rate steady is more difficult these days given the acceleration in Canadian population growth, but there is little doubt the recent trend has been above it. Job

Chart 1: Canadian Unemployment Rate Near 40-Year Low



Source: Statistics Canada, TD Economics

Chart 2: Total Hours More In Line with GDP Than Employment



Source: Statistics Canada, TD Economics

growth in the neighborhood of 10k a month is still a good estimate for trend, and unless growth slows below this rate, we see little reason to worry about the health of the labour market.

Another reason to look past the headline job number is that total hours worked went in the opposite direction in March, rising 1% and partially reversing three months of weakness. By this metric, the labor market performance has been less impressive over the start of this year, but more consistent with a modest pace of economic growth.

Bank of Canada governor Poloz's speech this week in Iqualuit offered yet another reason for the seeming disconnect between the job market and economic data, noting that growth has been concentrated in service-industries where measurement is more difficult. This may not be the most satisfying explanation, but it has merit. Nearly 30% of the jobs created over the past year in Canada have been in professional, scientific and technical services - relatively high paying service-sector jobs. This is a positive signal that once through near-term challenges, Canada is adapting to the new economy.

Still, as long as the global outlook remains uncertain, Canada's trade engine is sputtering, and households highly sensitive to changes in interest rates, the policy stance required to keep us on the straight and narrow is likely to remain accommodative and the overnight rate to stay put at 1.75%.

James Marple, Senior Economist | 416-982-2555

U.S.: Upcoming Key Economic Releases

U.S. Consumer Price Index - March*

Release Date: April 10, 2019

Previous: 0.2% m/m, 1.5% y/y; core 0.1% m/m

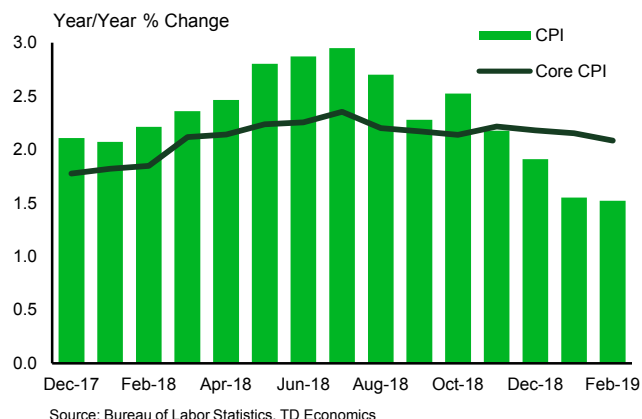
TD Forecast: 0.4% m/m, 1.9% y/y; core 0.2% m/m

Consensus: 0.3% m/m, 1.8% y/y; core 0.2% m/m

We look for headline CPI to pick up to 1.9% from 1.5%, reflecting a strong 0.4% seasonally adjusted m/m increase. The main driver is a sharp pickup in gasoline prices (+7.7% m/m). In the core index, we expect a 0.2% m/m print, but on the weak side. OER is likely to moderate this month after its outsized 0.33% m/m gain in the prior month. This should be partially offset by a rebound in core services ex-shelter, allowing overall core services to print a steady 0.2% increase. Core goods prices should normalize after a fairly sharp decline in February, but we are hesitant to expect a strong rebound thanks to weak imported goods prices. Upward tariff-related impacts have likely faded by now as well.

February CPI and our forecast for March suggests that the downward trajectory in core PCE inflation will continue through March. Recall that core PCE disappointed at

U.S. Consumer Price Index (CPI)



1.8% y/y in January, down from an upwardly revised 2.0% in December. We expect core PCE to hold at 1.8% y/y in February (but fall on an unrounded basis) and slide further to 1.7% in March. A slip to 1.7% by February cannot be ruled out.

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

Canada: Upcoming Key Economic Releases

Canadian Housing Starts - March*

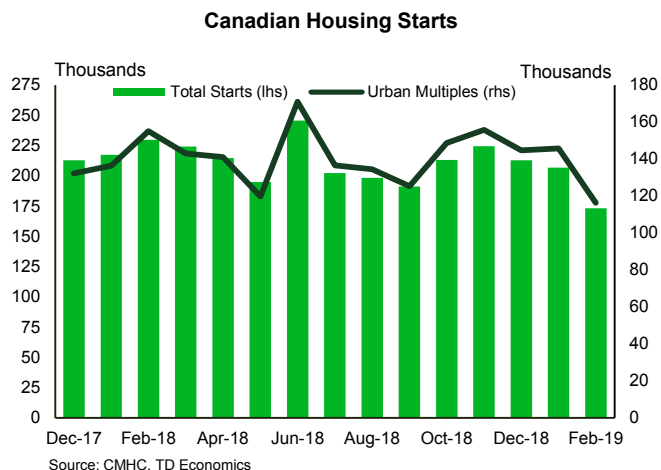
Release Date: April 8, 2019

Previous: 173k

TD Forecast: 190k

Consensus: 194k

Housing starts are forecast to remain subdued at a 190k pace in March for a modest pickup from the post-crisis lows of 173k the prior month. Multi-unit starts fell by an annualized 30k in February despite sustained strength in permit issuance which points towards some recovery in March; previous declines of a similar magnitude have seen a 60% correction the following month. However, employment data has shown a sharp decline in construction hours worked through early 2019 and single family permit issuance continues to trend lower, which points towards further weakness ahead.



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

Recent Key Economic Indicators: Apr 1 - 5, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 01	Retail Sales Ex Auto and Gas	Feb	M/M % Chg.	-0.6	1.7
Apr 01	Retail Sales Advance	Feb	M/M % Chg.	-0.4	0.7
Apr 01	Markit US Manufacturing PMI	Mar	Index	52.4	52.5
Apr 01	Business Inventories	Jan	M/M % Chg.	0.8	0.8
Apr 01	ISM Employment	Mar	Index	57.5	52.3
Apr 01	ISM Manufacturing	Mar	Index	55.3	54.2
Apr 02	Cap Goods Orders Nondef Ex Air	Feb	M/M % Chg.	-0.1	0.9
Apr 02	Durables Ex Transportation	Feb	M/M % Chg.	0.1	-0.1
Apr 02	Durable Goods Orders	Feb	M/M % Chg.	-1.6	0.1
Apr 02	Wards Total Vehicle Sales	Mar	Mlns	17.5	16.6
Apr 03	ADP Employment Change	Mar	Thsd	129.0	197.0
Apr 03	Markit US Services PMI	Mar	Index	55.3	54.8
Apr 03	ISM Non-Manufacturing Index	Mar	Index	56.1	59.7
Apr 04	Initial Jobless Claims	Mar 30	Thsd	202.0	212.0
Apr 05	Change in Nonfarm Payrolls	Mar	Thsd	196.0	33.0
Apr 05	Unemployment Rate	Mar	%	3.8	3.8
Apr 05	Average Hourly Earnings	Mar	M/M % Chg.	0.1	0.4
Canada					
Apr 01	MLI Leading Indicator	Feb	M/M % Chg.	0.0	-0.1
Apr 01	Markit Canada Manufacturing PMI	Mar	Index	50.5	52.6
Apr 05	Net Change in Employment	Mar	Thsd	-7.2	55.9
Apr 05	Hourly Wage Rate Permanent Employees	Mar	Y/Y % Chg.	2.3	2.2
Apr 05	Unemployment Rate	Mar	%	5.8	5.8
International					
Apr 01	UK Markit UK PMI Manufacturing SA	Mar	Index	55.1	52.1
Apr 01	EZ Consumer Price Index Core	Mar	Y/Y % Chg.	0.8	1.0
Apr 01	EZ Unemployment Rate	Feb	%	7.8	7.8
Apr 02	JN Nikkei Japan PMI Composite	Mar	Index	50.4	50.7
Apr 02	JN Nikkei Japan PMI Services	Mar	Index	52.0	52.3
Apr 03	EZ Markit Eurozone Services PMI	Mar	Index	53.3	52.7
Apr 03	EZ Markit Eurozone Composite PMI	Mar	Index	51.6	51.3
Apr 03	EZ Retail Sales	Feb	Y/Y % Chg.	2.8	2.2

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Apr 8 - 12, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Apr 08	10:00	Factory Orders	Feb	M/M % Chg.	-0.5	0.1
Apr 08	10:00	Factory Orders Ex Trans	Feb	M/M % Chg.	-	-0.2
Apr 08	10:00	Durable Goods Orders	Feb	M/M % Chg.	-	-1.6
Apr 08	10:00	Durables Ex Transportation	Feb	M/M % Chg.	-	0.1
Apr 08	10:00	Cap Goods Orders Nondef Ex Air	Feb	M/M % Chg.	-	-0.1
Apr 09	6:00	NFIB Small Business Optimism	Mar	Index	101.2	101.7
Apr 10	8:30	Consumer Price Index	Mar	M/M % Chg.	0.3	0.2
Apr 10	8:30	Consumer Price Index Ex Food and Energy	Mar	M/M % Chg.	0.2	0.1
Apr 10	8:30	Consumer Price Index	Mar	Y/Y % Chg.	1.8	1.5
Apr 10	8:30	Consumer Price Index Ex Food and Energy	Mar	Y/Y % Chg.	2.1	2.1
Apr 10	8:30	Real Avg Hourly Earning	Mar	Y/Y % Chg.	-	1.9
Apr 10	14:00	<i>FOMC Meeting Minutes</i>	Mar 20			
Apr 10 - Apr 12		<i>Fed's Jerome Powell speaks about the economy at the House of Representatives Democratic Caucus</i>				
Apr 11	8:30	Producer Price Index Final Demand	Mar	M/M % Chg.	0.3	0.1
Apr 11	8:30	Producer Price Index Ex Food and Energy	Mar	M/M % Chg.	0.2	0.1
Apr 11	8:30	Initial Jobless Claims	Apr 06	Thsd	-	202.0
Apr 11	9:35	<i>Fed's John Williams speaks in New York City, NY</i>				
Apr 11	9:40	<i>Fed's James Bullard speaks in Tupelo, MS</i>				
Apr 12	8:30	Export Price Index	Mar	Y/Y % Chg.	-	0.3
Apr 12	8:30	Export Price Index	Mar	M/M % Chg.	0.1	0.6
Apr 12	8:30	Import Price Index ex Petroleum	Mar	M/M % Chg.	-	0.1
Canada						
Apr 08	8:15	Housing Starts	Mar	Thsd	194.0	173.2
Apr 12	8:30	Teranet/National Bank HPI	Mar	Y/Y % Chg.	-	1.9
International						
Apr 10	4:30	UK Gross Domestic Product	Feb	M/M % Chg.	0.2	0.5
Apr 10	21:30	CH Consumer Price Index	Mar	Y/Y % Chg.	2.4	1.5

* 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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