

## The Weekly Bottom Line

February 15, 2019

### Highlights of the Week

#### United States

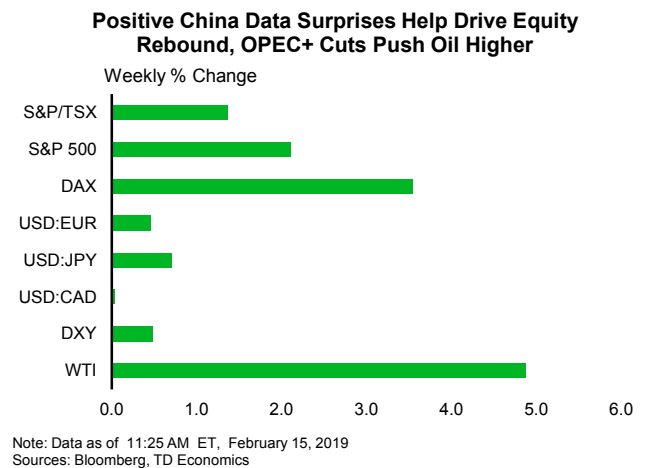
- December retail sales came in significantly weaker than expected, falling 1.2% m/m, with the decline being broad-based. Consumption in Q4 is now tracking around 2.6% annualized – softer than expected, but still a pretty good showing.
- The retail sales report provides a weak handoff to 2019. The fact that the government shutdown extended into January and consumer confidence retreated on the month, further reinforces the notion for a soft print in first-quarter spending and GDP.
- Core inflation remained at 2.2% (y/y) in January, where it has sat for five of the past six months. And there is little indication that it will move in either direction soon. This should provide comfort for the Fed to remain patient.

#### Canada

- This was a quiet week in financial markets, with the S&P/TSX moving up 1% and the CAD almost unchanged. Oil benchmarks advanced on reassuring signs of OPEC+’s curtailment discipline.
- The week was also light on data, but a poor manufacturing sales showing served to further reinforce the moderating growth narrative and slightly impacted our Q4 GDP tracking.
- Housing data delivered a pleasant surprise, advancing 3.6% on the month. Average homes prices, however, continued to decelerate.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	2765	2708	2931	2351
S&P/TSX Comp.	15839	15633	16567	13780
DAX	11300	10907	13170	10382
FTSE 100	7246	7071	7877	6585
Nikkei	20901	20333	24271	19156
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	2.66	2.63	3.24	2.55
Canada 10-yr Bond	1.90	1.88	2.60	1.83
Germany 10-yr Bund	0.10	0.09	0.76	0.09
UK 10-yr Gilt	1.16	1.15	1.73	1.15
Japan 10-yr Bond	-0.02	-0.03	0.16	-0.04
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.75	0.75	0.80	0.73
Euro (USD per EUR)	1.13	1.13	1.25	1.12
Pound (USD per GBP)	1.29	1.29	1.43	1.25
Yen (JPY per USD)	110.5	109.7	114.5	104.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	55.4	52.7	76.4	42.3
Natural Gas (\$US/MMBtu)	2.60	2.62	4.80	2.52
Copper (\$US/met. tonne)	6137.3	6190.8	7330.5	5713.8
Gold (\$US/troy oz.)	1315.9	1314.5	1353.7	1174.2

\*as of 11:20 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 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.

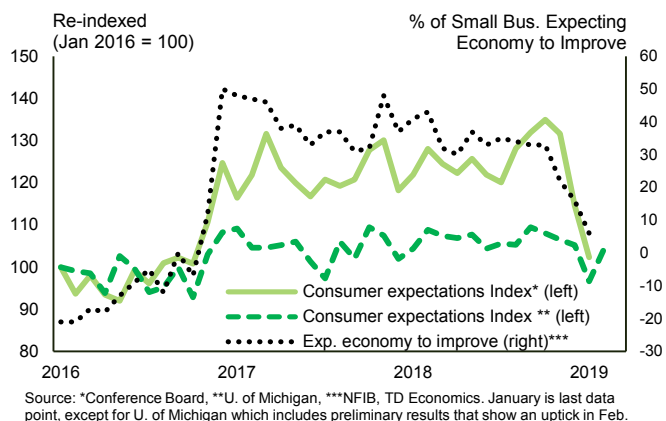
## U.S. - Wall of Uncertainty

They say good things come to those who wait. But judging from developments this week, we'll have to wait a bit longer. The delayed December retail sales report finally came out this week, but the results were deeply disappointing. While consensus had set a low bar for a nearly-flat print, sales fell a whopping 1.2% m/m – the worst decline since September 2009 (Chart 1). Moreover, the pullback was broad-based. Apart from gains at autos and building materials stores, everything else was in the red. Sales in the 'control group', which strips out volatile categories and is then used in the calculation of GDP, fared even worse (-1.7%).

The weak report raised a few eyebrows, with its reliability in question among economics circles. December's result is hard to square with other industry reports, such the Redbook index, which shows same-store sales accelerating in year-over-year terms in December. The fact that non-store sales (-3.9%) weren't spared from the pullback also raises some suspicion. This category is largely made up of online sales, where there were no other major signs of stress during holiday season. Still, giving the Commerce Department the benefit of the doubt here, it would appear that the threat and subsequent materialization of the late-year government shutdown, together with a sharp selloff in equity markets amidst elevated trade tensions with China, prompted Americans to keep a tight grip on their wallets.

Consumer spending in the fourth quarter is now tracking around 2.6% ann. – softer than we previously expected, but still a pretty good showing. The December weakness

**Chart 2: Recent Weakness in Confidence Likely Weighed on Spending**



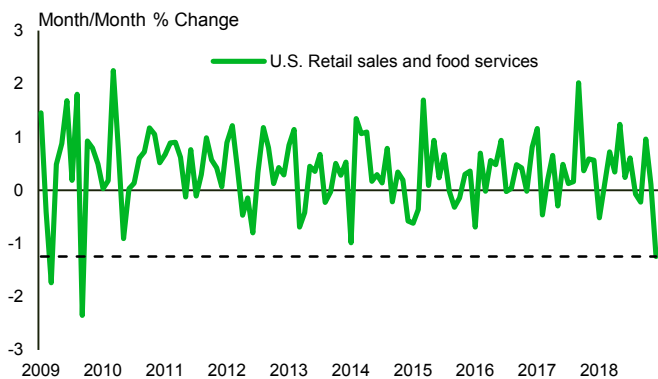
also provides a weak handoff to the start of 2019. The fact that the government shutdown dragged on until late-January and consumer confidence deteriorated on the month (Chart 2), further reinforces the notion of softer spending, with consumption expected to advance at just below 1.5% (ann.). A pullback in small business confidence and industrial production in January provide further credence to the view for a soft quarter overall.

Similar to last year, however, we don't expect the first-quarter performance to set the pace for the rest of the year, so long as a resilient labor market shores up spending. Consumption is expected to rebound in the second quarter, provided that there is no major disruption on the trade front or another government shutdown. Progress appeared to have been made on both of these areas this week. Reports indicate that Chinese and U.S. negotiators made headway in agreeing on broad principles, with negotiations to continue next week in Washington. It appears that President Trump will get his border wall funding by declaring a national emergency, and is also expected to sign a bipartisan spending bill that will avoid a second shutdown.

This week's developments reinforce the notion that the Fed will stay put until muddy waters begin to clear. The other part of the Fed's calculus, inflation trends, provide added comfort for patience. Core CPI has been holding at just above the Fed's target recently (2.2% y/y), with little indication that it will shift in either direction. For now, it's all about keeping the faith and playing the waiting game.

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**Chart 1: December Retail Sales Recorded the Largest Month-to-Month Drop since Sept. 2009**



Source: Census Bureau, TD Economics

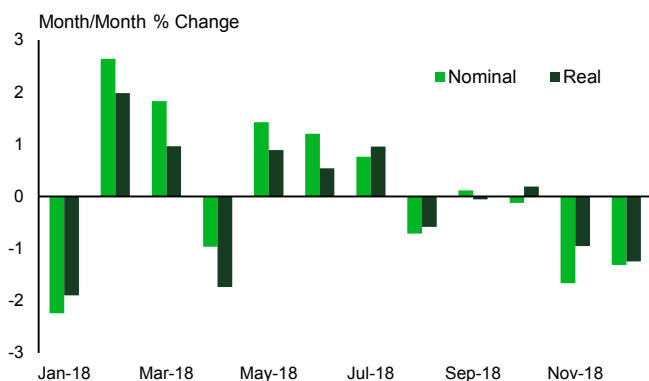
## Canada - A Snooze Button Week

This week was nothing to write home about on the Canadian data and financial markets fronts. The S&P/TSX composite edged up around 1.4% on the week. Oil markets fared better, with the WTI benchmark moving more than 5% and Brent an even more impressive 6%. The absence of a U.S-China deal was countered by reassurances of Russian cuts and intentions by Saudi Arabia to curtail output further in the upcoming months. OPEC has already demonstrated commitment to its output curtailment plan; January output for the group fell more than 1 million barrels per day below its November peak. The Canadian dollar, however, didn't follow suit, remaining almost flat against its U.S. counterpart.

It was also quiet on the economic data front. Still, and at the risk of sounding like a broken record, one Statistics Canada release served to further reinforce the moderating growth narrative. Manufacturing sales fell for the third consecutive month, coming in at a disappointing -1.3% with an almost equal decline in volumes (Chart 1). While a 10.4% drop in petroleum and coal services was the culprit, the overall decline was still broad-based, with 12 of the 21 industries in decline.

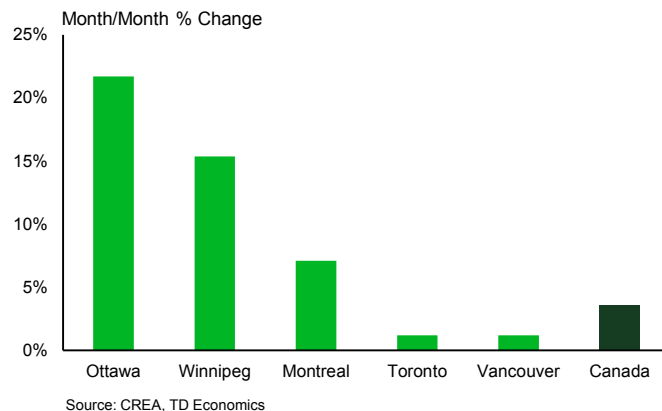
Energy sector woes during the fall of 2018 may have been partly contributing to recent Canadian data disappointments (both in real and nominal terms), although some of the declines are also due to maintenance work at some refineries. Combined with a range of other slowing indicators, the print pushed our Q4 real GDP tracking down to

**Chart 1: Manufacturing Sales Disappointed in Q4**



Source: Statistics Canada, TD Economics

**Chart 2: Existing Home Sales Were Positive**



Source: CREA, TD Economics

0.9%, slightly below the Bank of Canada's 1.3% estimate in its latest MPR. Looking forward, more near-term sluggishness is expected as the Alberta oil cuts are set to impact volumes during the first quarter of 2019. The manufacturing sector should receive support in the medium term on the back of a weak loonie, still-strong growth south of the border, and evidence of capacity constraints. At least this is the hope, as Canada's growth outlook is dependent on a much-needed rotation from consumer spending to investment and export-driven growth.

Meanwhile, Canada's housing market delivered a relatively pleasant surprise this morning, with existing home sales advancing 3.6% - the strongest monthly change since June (Chart 2). Montreal's surge, at 7.1% was particularly notable, but the closely watched Vancouver and Toronto markets also put in a positive showing. Still, average home prices continued to decelerate, falling 2.9% on the month as the regulation-prone B.C. and oversupplied Alberta markets continued to weigh on price growth. Moreover, the overall British Columbia market still turned in a monthly sales decline.

That said, while one month of data is not sufficient, the headline print, together with positive housing starts data should support a return to positive growth in residential investment in the first quarter of 2019.

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## Canada: Upcoming Key Economic Releases

### Canadian Retail Sales - December\*

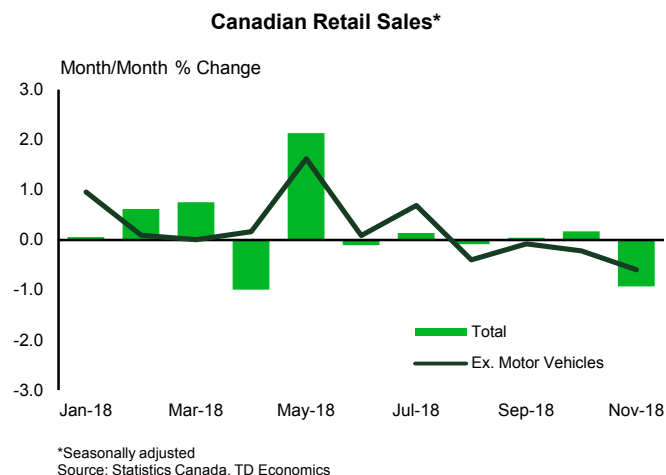
Release Date: February 22, 2019

Previous: -0.9%, ex-auto: -0.6%

TD Forecast: -0.4%, ex-auto: -0.4%

Consensus: 0.0%, ex-auto: -0.5%

TD looks for a 0.4% contraction in December retail sales due to weaker sales at gasoline stations, with little offset from core retail sales. Seasonally adjusted gasoline prices fell by over 4% during the month which presents a headwind to sales after a 5% decline last month, although favourable weather and holiday driving may contribute to an offsetting increase in volumes. Elsewhere we expect the continued weakness in the housing market to weigh on retail sales of building materials and home furnishings, while auto sales should see a modest decline to leave the ex-autos measure in line with the headline print. Real retail sales are likely to post a slightly larger decline than the nominal series owing to higher consumer prices, which will weigh on service-sector growth in December.



\*Forecast by Rates and FX Strategy Group. For further information, contact [TDRates&FXCommoditiesResearch@tdsecurities.com](mailto:TDRates&FXCommoditiesResearch@tdsecurities.com)

Recent Key Economic Indicators: Feb 11 - 15, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Feb 12	NFIB Small Business Optimism	Jan	Index	101.2	104.4
Feb 13	Consumer Price Index	Jan	M/M % Chg.	0.0	0.0
Feb 13	Consumer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.2	0.2
Feb 13	Consumer Price Index	Jan	Y/Y % Chg.	1.6	1.9
Feb 13	Consumer Price Index Ex Food and Energy	Jan	Y/Y % Chg.	2.2	2.2
Feb 13	Real Avg Hourly Earning	Jan	Y/Y % Chg.	1.7	1.3
Feb 14	Producer Price Index Final Demand	Jan	M/M % Chg.	-0.1	-0.1
Feb 14	Producer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.3	0.0
Feb 14	Initial Jobless Claims	Feb 09	Thsd	239	235
Feb 14	Retail Sales Advance	Dec	M/M % Chg.	-1.2	0.1
Feb 14	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	-1.4	0.5
Feb 14	Business Inventories	Nov	M/M % Chg.	-0.1	0.6
Feb 15	Empire Manufacturing	Feb	Index	8.8	3.9
Feb 15	Import Price Index ex Petroleum	Jan	M/M % Chg.	-0.7	0.3
Feb 15	Export Price Index	Jan	M/M % Chg.	-0.6	-0.6
Feb 15	Export Price Index	Jan	Y/Y % Chg.	-0.2	1.1
Feb 15	Industrial Production	Jan	M/M % Chg.	-0.6	0.1
Feb 15	Manufacturing (SIC) Production	Jan	M/M % Chg.	-0.9	0.8
Feb 15	Capacity Utilization	Jan	Index	78.2	78.8
<b>Canada</b>					
Feb 13	Teranet/National Bank HPI	Jan	Y/Y % Chg.	2.2	2.5
Feb 14	Manufacturing Sales	Dec	M/M % Chg.	-1.3	-1.7
Feb 15	Existing Home Sales	Jan	M/M % Chg.	3.6	-2.5
<b>International</b>					
Feb 11	UK Gross Domestic Product	4Q	Y/Y % Chg.	1.3	1.5
Feb 13	UK Consumer Price Index	Jan	Y/Y % Chg.	1.8	2.1
Feb 14	CH Consumer Price Index	Jan	Y/Y % Chg.	1.7	1.9
Feb 14	EZ Gross Domestic Product SA	4Q	Y/Y % Chg.	1.2	1.2
Feb 15	UK Retail Sales Ex Auto Fuel	Jan	Y/Y % Chg.	4.1	2.9

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Feb 18 - 22, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Feb 19	8:50	<i>Fed's Loretta Mester speaks about the economic outlook and monetary policy in Newark, DE</i>				
Feb 19	10:00	NAHB Housing Market Index	Feb	Index	59.0	58.0
Feb 20	14:00	<i>FOMC Meeting Minutes</i>				
Feb 21	8:30	Initial Jobless Claims	Feb 16	Thsd	-	-
Feb 21	8:30	Durable Goods Orders	Dec	M/M % Chg.	1.7	0.7
Feb 21	8:30	Durables Ex Transportation	Dec	M/M % Chg.	0.2	-0.4
Feb 21	8:30	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	0.2	-0.6
Feb 21	9:45	Markit US Services PMI	Feb	Index	-	54.2
Feb 21	9:45	Markit US Manufacturing PMI	Feb	Index	-	54.9
Feb 21	10:00	Existing Home Sales	Jan	Mlns	5.00	4.99
Feb 22	10:15	<i>Fed's John Williams speaks at Monetary Policy Forum in New York, NY</i>				
Feb 22	13:30	<i>Fed's Richard Clarida, James Bullard and Patrick Harker participate in panel in New York, NY</i>				
Feb 22	13:30	<i>Fed's John Williams speaks at Joint Research Day event in New York, NY</i>				
<b>Canada</b>						
Feb 21	8:30	Wholesale Trade Sales	Dec	M/M % Chg.	-	-1.0
Feb 21	12:50	<i>Bank of Canada's Stephen Poloz speaks at Chamber of Commerce in Montréal, QC</i>				
Feb 22	8:30	Retail Sales Ex Auto	Dec	M/M % Chg.	-0.5	-0.6
Feb 22	8:30	Retail Sales	Dec	M/M % Chg.	0.0	-0.9
<b>International</b>						
Feb 19	4:30	UK ILO Unemployment Rate 3Mths	Dec	%	4.0	4.0
Feb 20	19:30	JN Nikkei Japan PMI Manufacturing	Feb	Index	-	50.3
Feb 21	4:00	EZ Markit Eurozone Manufacturing PMI	Feb	Index	-	50.5
Feb 21	18:30	JN National Consumer Price Index	Jan	Y/Y % Chg.	-	0.3
Feb 22	5:00	EZ Consumer Price Index	Jan	Y/Y % Chg.	-	1.6

\* 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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