

The Weekly Bottom Line

May 10, 2019

Highlights of the Week

United States

- Effective today, the U.S. increased tariffs to 25% on \$200bn worth of Chinese imports. The threat to extend a 25% tariff to virtually all Chinese imports “shortly” remains. This comes even as the two sides continue negotiations to reach a trade deal.
- The U.S. overall trade deficit edged higher in March to \$50bn, even as the bilateral goods trade deficit with China declined to a five year low.
- Consumer price inflation continues to show little signs of accelerating, with both headline and core inflation around 2%. Things could change however, as tariff hikes filter through the economy.

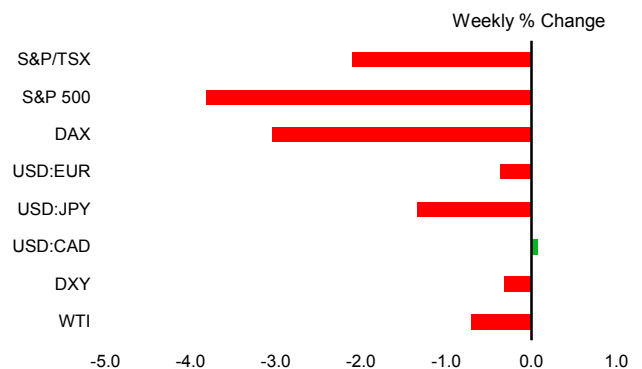
Canada

- Today’s Labour Force Survey release took the spotlight with an above-expectations net job gain of 106.5K that left the unemployment rate a tick lower at 5.7%.
- Canadian international trade bounced back to life in March. Unfortunately, this was eclipsed by substantial downward revisions to the prior month, resulting in an overall poor Q1.
- The economic calendar was also heavy on housing data. Starts surprised on the upside, whereas delayed home sales data from TREB showed encouraging signs of demand in Toronto.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2832	2946	2946	2351
S&P/TSX Comp.	16142	16494	16669	13780
DAX	12032	12413	13170	10382
FTSE 100	7197	7381	7877	6585
Nikkei	21345	22259	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.43	2.53	3.24	2.37
Canada 10-yr Bond	1.69	1.76	2.60	1.53
Germany 10-yr Bund	-0.05	0.03	0.65	-0.08
UK 10-yr Gilt	1.13	1.22	1.73	0.99
Japan 10-yr Bond	-0.05	-0.04	0.16	-0.09
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.74	0.75	0.78	0.73
Euro (USD per EUR)	1.12	1.12	1.19	1.11
Pound (USD per GBP)	1.30	1.32	1.36	1.25
Yen (JPY per USD)	109.6	111.1	114.5	107.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	61.7	61.9	76.4	42.3
Natural Gas (\$US/MMBtu)	2.57	2.61	4.80	2.53
Copper (\$US/met. tonne)	6089.0	6229.3	7330.5	5713.8
Gold (\$US/troy oz.)	1287.2	1279.2	1341.0	1174.2

*As of 11:16 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Markets in the Red as Tariff Tensions Escalate



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. - Tariff Talks Teeter

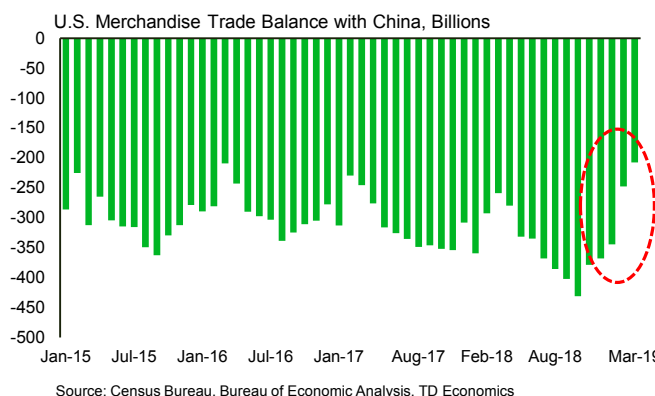
With few data releases, the return of U.S.-China trade tensions captured attention. Financial markets were volatile, but largely down as President Trump tweeted over the weekend that an increase to tariffs on Chinese imports would go into effect Friday. These sentiments were reiterated by other high-ranking U.S. trade officials who accused Beijing of renegeing on its promises in earlier negotiations. This rhetoric threatened to derail planned high-level talks with Chinese negotiators; however the Chinese delegation only delayed the meetings rather than cancelling them.

The U.S. administration officially implemented the tariff increase from 10% to 25% on approximately \$200bn worth of Chinese imports on Friday. Additionally, President Trump has tweeted that he plans to levy the new 25% tariff on a further \$325bn worth of Chinese goods “shortly”, a move that would cover virtually all U.S. imports from China. Even as China urged the U.S. to meet them halfway, they announced that countermeasures will be implemented, although specific details have not been revealed.

Despite the new developments, talks continued on Friday as the two sides try to salvage a deal. A sticking point for the U.S., however, is whether China will agree to implement legal changes so as to facilitate the trade deal and to make the details public. China has resisted this push, insisting that it impinges on their national sovereignty.

The new tariffs will result in a more significant drag on growth if they are sustained, impacting not only capital

Chart 2: U.S. Goods Trade Deficit with China Narrows to 5 Year Low, Even as Tensions Escalate



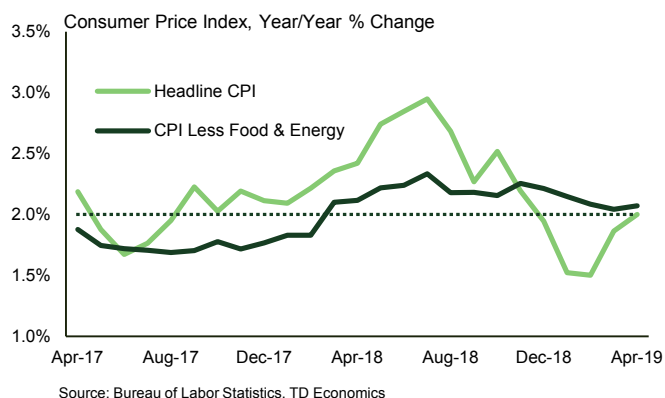
expenditure and consumer spending but also confidence. In a recent [note](#), we estimate that U.S. growth could be lowered by -0.1% to -0.3% with the higher tariff. Growth could fall by as much as -0.6% if the threatened \$325bn becomes a reality. The run-up in inventories witnessed in prior months partially reflected preparation by businesses for this possibility, and with additional tariffs to take effect, they are likely to pass on price increases to consumers.

To date, inflationary pressures have been benign. Consumer prices in April rose 0.3% over the previous month and were up 2% year-on-year (Chart 1). However, the threatened escalation in tariffs could see inflationary pressures firm up. We estimate that consumer prices rose by 0.3ppts from tariffs already imposed and could rise by an additional 0.4ppts if the remaining \$325bn of Chinese imports are made subject to 25% tariff (see [note](#)).

Despite the U.S.’s heavy use of tariffs to rebalance trade flows, their trade deficit edged up in March, reflecting the difficulties inherent in attempting to redirect international trade. Of note, the merchandise trade deficit with China, a special area of interest, has been declining for the past few months, and hit a five year low in March (Chart 2). This development may positively impact ongoing negotiations between the two economic powerhouses. All told, the U.S. and Chinese economies are at an important juncture. Decisions made now are likely to have significant implications for the global economic landscape in the future.

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Chart 1: Inflationary Could Firm Up as Tariff Hike Takes Effect and More Consumer Products at Risk



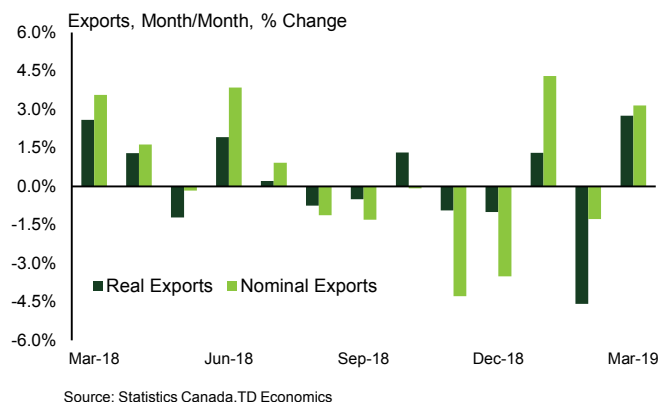
Canada - Record Job Gain Defies Expectations

Canadian financial markets were mixed this week, with the S&P/TSX composite following global peers lower, dropping around 2.1% (as of writing), and the loonie moving sideways but remaining flat relative to last week. A mixed bag of data releases was joined by recent developments on the U.S.-China trade front. In a recent [note](#), we highlight that the likely impact on Canadian growth if the recent increases in U.S. tariffs on Chinese goods persist sits in the 0.1%-0.2% range, with most of the impacts generated through confidence effects.

On the data front, today's [Labour Force Survey](#) release was the main event. Labour markets continued to defy the ongoing soft patch in the Canadian economy, with a record 106.5K job gain (Chart 1) that was staggeringly above expectations for a flat print. Details of the report were just as positive. For instance, wage gains advanced 2.6% (y/y). The composition of job gains was healthy, with private sector (+84K) and full-time (+73K) hiring doing the heavy lifting. Other details were also encouraging, including an uptick in the participation rate (to 65.9%), and an unexpected but welcome increase in Alberta's job gains (+21K).

Meanwhile, March's [international trade](#) data offered a glimpse of hope (Chart 2). Export volumes rebounded 2.6%, and a pick-up in some consumer and investment-related import categories offered signs of optimism for domestic demand. The export bounce-back was also relatively broad-based, spanning 9 of the 11 categories. Unfortunately, much of this was eclipsed by a downward revision to

Chart 2: Encouraging Rebound in March Trade Data Eclipsed by an Overall Weak Q1

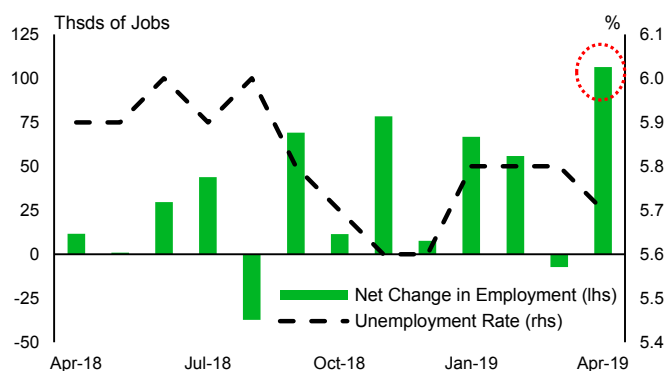


already-weak February report, which left overall Q1 export volumes down 2.4%.

The economic calendar was also heavy on housing data. [Housing starts](#) surprised on the upside, surging 23% (m/m) in April to reach a 236K annualized pace. TREB data showed that Toronto home sales advanced 11% in April, an encouraging print given the subdued performance in Q1. Also grabbing attention was a [speech](#) by Governor Poloz highlighting the impacts of the B-20 regulations on the quality of new loans, and calling for changes in Canada's mortgage markets, including longer renewal terms and a private market for securitization.

On the whole, this week's data releases confirm that the economy's current soft patch is likely temporary. While certainly not a leading indicator, the continued health in Canada's labour markets should at least provide some reassurance on existing business sentiment and for consumer spending going forward. It is worth noting that the Bank of Canada's conservative Q1 assumption was primarily driven by a drag from exports, and to a lesser extent, housing. Data has confirmed outsized weakness in these categories in Q1, but the recent reversals, and the resulting handoff provide some early indications that Q2 will likely turn in a better performance - in line with the Bank of Canada's expectations (and our own).

Chart 1: Labour Market Continues to Defy Expectations with a Record Job Gain



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U.S.: Upcoming Key Economic Releases

U.S. Retail Sales -April*

Release Date: May 15, 2019

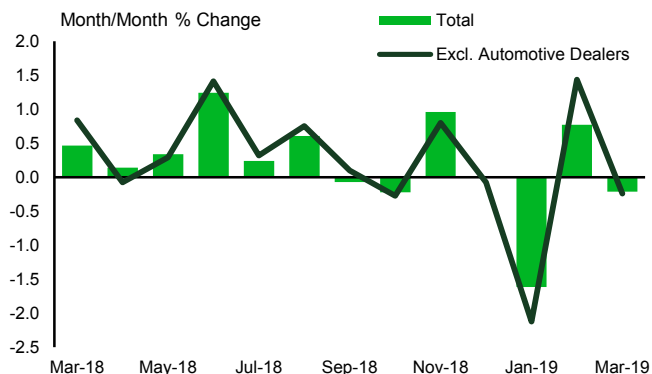
Previous: 1.6%, ex auto: 1.2%, control group: 1.0%

TD Forecast: 0.3%, ex auto: 1.1%, control group: 0.5%

Consensus: 0.2%, ex auto: 0.7%, control group: 0.3%

We expect another firm increase in sales in the control group (+0.5% m/m) to be the main driver behind a 0.3% rise in the headline measure for April. The increase in the latter would represent a mean-reversion in growth following the notable 1.6% jump in March that likely reflected, to a large extent, a normalization in tax refunds. We expect growth in sales in the key control group to be supported by solid real disposable income and a still humming labor market. In addition, we anticipate a 2.5% decline in auto sales to be a drag on headline growth, while food and gasoline station sales should continue to lend upside support to the headline measure

U.S. Retail and Food Services Sales



Source: U.S. Department of Commerce, TD Economics

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

Canada: Upcoming Key Economic Releases

Canadian Consumer Price Index - April*

Release Date: May 15, 2019

Previous: 0.7% m/m, 1.9% y/y

TD Forecast: 0.4% m/m, 2.0% y/y, NSA Index: 136.0

Consensus: N/A

TD looks for headline CPI to firm to 2.0% y/y in April, leaving inflation at target for the first month since December. Our forecast is consistent with a 0.4% m/m increase, helped by a broad pickup in energy prices on the heels of the federal carbon backstop imposed on Ontario, Saskatchewan, Manitoba and New Brunswick on April 1st. This set the price for carbon emissions at \$20/tonne and pushed gasoline prices higher by 4.4 cents per litre, contributing to another 10% m/m increase in the price at the pump following an 11.6% gain in March. The combination of carbon taxes alongside seasonal fluctuations and a pickup in oil prices has pushed gasoline prices above their Q4 highs to an average of \$1.35 on April 29, just five cents shy of the record from 2014.

Looking past energy prices, we expect CAD depreciation

Canadian Manufacturing Sales – March*

Release Date: May 16, 2019

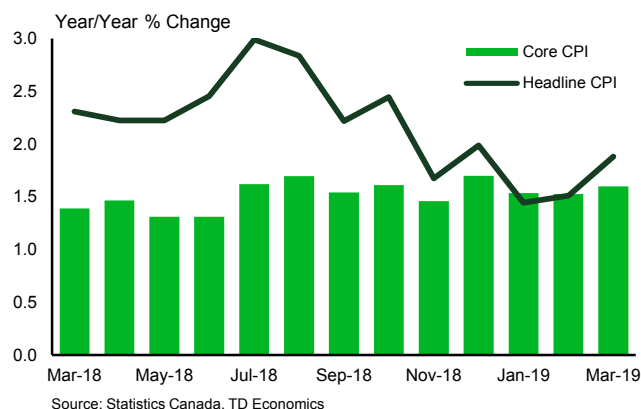
Previous: -0.2%

TD Forecast: 1.6%

Consensus: N/A

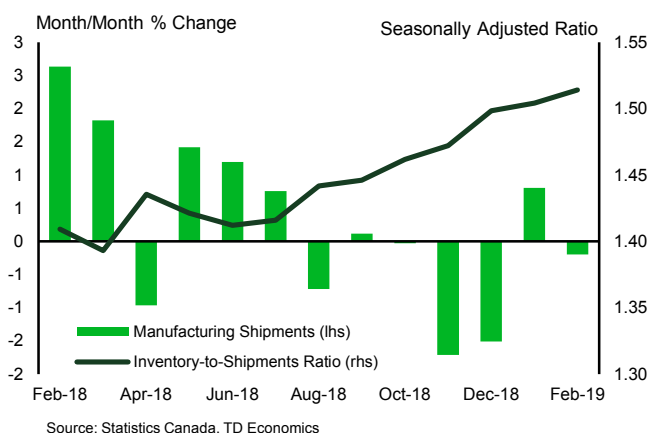
Manufacturing sales are forecast to rise by 1.6% in March, helped by a rebound in motor vehicle production and a significant increase in factory prices. Motor vehicle exports rose by 8% in March which fits with a rebound in preliminary production figures following a sharp pullback in February. Energy products will provide another source of strength for the nominal print on the heels of a 10% increase in gasoline prices. Excluding gasoline, industrial prices saw a more modest increase which will still provide

Canadian Consumer Price Index (CPI)



to provide a tailwind to food products while ex. food and energy prices should see a soft 0.1% increase (0.2% seasonally adjusted); BoC measures of core inflation are likely to hold at 2.0% on average. Telephone services are a key upside risk after the Big 3 Telecoms raised internet prices throughout late March and early April while rent should also provide another source of strength following methodology changes that had seen rental CPI rise by 0.5% m/m in the last three months.

Canadian Manufacturing Shipments



support to the nominal series although the broad strength in real exports bodes well for manufacturing volumes.

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

Recent Key Economic Indicators: May 6 - May 10, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
May 09	Initial Jobless Claims	May 04	Thsd	228.0	230.0
May 09	Producer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.2	0.3
May 09	Producer Price Index Final Demand	Apr	M/M % Chg.	0.2	0.6
May 09	Trade Balance	Mar	Blns	-50.0	-49.3
May 09	Wholesale Trade Sales	Mar	M/M % Chg.	2.3	0.3
May 10	Consumer Price Index	Apr	M/M % Chg.	0.3	0.4
May 10	Consumer Price Index	Apr	Y/Y % Chg.	2.0	1.9
May 10	Consumer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.1	0.1
May 10	Consumer Price Index Ex Food and Energy	Apr	Y/Y % Chg.	2.1	2.0
May 10	Real Avg Hourly Earning	Apr	Y/Y % Chg.	1.2	1.3
Canada					
May 08	Housing Starts	Apr	Thsd	235.5	192.0
May 09	Int'l Merchandise Trade	Mar	Blns	-3.2	-3.4
May 10	Hourly Wage Rate Permanent Employees	Apr	Y/Y % Chg.	2.3	2.3
May 10	Net Change in Employment	Apr	Thsd	106.5	-7.2
May 10	Unemployment Rate	Apr	%	5.7	5.8
International					
May 06	EZ Markit Eurozone Composite PMI	Apr	Index	51.5	51.3
May 06	EZ Markit Eurozone Services PMI	Apr	Index	52.8	52.5
May 06	EZ Retail Sales	Mar	Y/Y % Chg.	1.9	3.0
May 08	CH Consumer Price Index	Apr	Y/Y % Chg.	2.5	2.3
May 10	UK Gross Domestic Product	1Q	Y/Y % Chg.	1.8	1.4
May 10	UK Manufacturing Production	Mar	Y/Y % Chg.	2.6	1.2

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 13 - 17, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 13	9:05	<i>Fed's Eric Rosengren speaks at the New England Perspectives on Fed Policymaking conference</i>				
May 13	9:10	<i>Fed's Richard Clarida speaks at the New England Perspectives on Fed Policymaking conference</i>				
May 14	3:15	<i>Fed's John Williams speaks on the International Monetary System in Zurich, Switzerland</i>				
May 14	6:00	NFIB Small Business Optimism	Apr	Index	102.0	101.8
May 14	12:45	<i>Fed's Esther George speaks at the Economic Club of Minnesota in Minneapolis, MN</i>				
May 15	8:30	Empire Manufacturing	May	Index	8.0	10.1
May 15	8:30	Retail Sales Advance	Apr	M/M % Chg.	0.3	1.6
May 15	8:30	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	0.4	0.9
May 15	9:15	Capacity Utilization	Apr	%	78.8	78.8
May 15	9:15	Industrial Production	Apr	M/M % Chg.	0.1	-0.1
May 15	9:15	Manufacturing (SIC) Production	Apr	M/M % Chg.	0.1	0.0
May 15	10:00	Business Inventories	Mar	M/M % Chg.	0.0	0.3
May 15	10:00	NAHB Housing Market Index	May	Index	64.0	63.0
May 15		Mortgage Delinquencies	1Q	Q/Q % Chg.	-	4.1
May 16	8:30	Building Permits	Apr	Thsd	1295.0	1269.0
May 16	8:30	Housing Starts	Apr	Thsd	1221.0	1139.0
May 16	8:30	Initial Jobless Claims	May 11	Thsd	-	228.0
May 16	8:30	Revisions: Housing Starts & Building Permits				
May 16		Revisions: Manufacturers' Shipments, Inventories, Orders				
May 17	11:15	<i>Fed's John Williams speaks at the Community League of the Heights in New York, NY</i>				
May 17	14:00	<i>Fed's John Williams speaks at an event in New York, NY</i>				
Canada						
May 14	8:30	Teranet/National Bank HPI	Apr	Y/Y % Chg.	-	1.5
May 15	8:30	Consumer Price Index	Apr	Y/Y % Chg.	-	1.9
May 15	8:30	Consumer Price Index Core- Common %	Apr	Y/Y % Chg.	-	1.8
May 15	8:30	Consumer Price Index Core- Median %	Apr	Y/Y % Chg.	-	2.0
May 15	8:30	Consumer Price Index Core- Trim %	Apr	Y/Y % Chg.	-	2.1
May 15	8:30	Consumer Price Index NSA	Apr	M/M % Chg.	-	0.7
May 15	9:00	Existing Home Sales	Apr	M/M % Chg.	-	0.9
May 16	8:30	ADP Canada Releases April Payroll Estimates				
May 16	8:30	Manufacturing Sales	Mar	M/M % Chg.	-	-0.2
May 16	10:30	<i>BoC's Timothy Lane participates in a panel Ottawa, ON</i>				
May 16	10:30	Publication - Bank of Canada's Financial System Review				
International						
May 14	4:30	UK ILO Unemployment Rate 3Mths	Mar	%	3.9	3.9
May 14	5:00	EZ Industrial Production	Mar	Y/Y % Chg.	-1.0	-0.3
May 14	22:00	CH Industrial Production	Apr	Y/Y % Chg.	6.5	8.5
May 14	22:00	CH Retail Sales	Apr	Y/Y % Chg.	8.6	8.7
May 14	22:00	CH Surveyed Jobless Rate	Apr	%	-	5.2
May 15	5:00	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	1.2	1.2
May 17	5:00	EZ Consumer Price Index	Apr	Y/Y % Chg.	1.7	1.4
May 17	5:00	EZ Consumer Price Index Core	Apr	Y/Y % Chg.	1.2	1.2

* Eastern Standard Time. Source: Bloomberg, TD Economics.

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