

The Weekly Bottom Line

May 17, 2019

Highlights of the Week

United States

- Equity markets rebounded this week as the U.S. administration delayed its decision on auto tariffs for six months.
- Housing starts and retail sales data for April support the narrative of healthy domestic spending this quarter.
- That said, externally oriented industries appear to be getting caught in the downdraft of weak foreign demand. Formerly resilient, U.S. manufacturing activity has softened this year, in line with global developments.

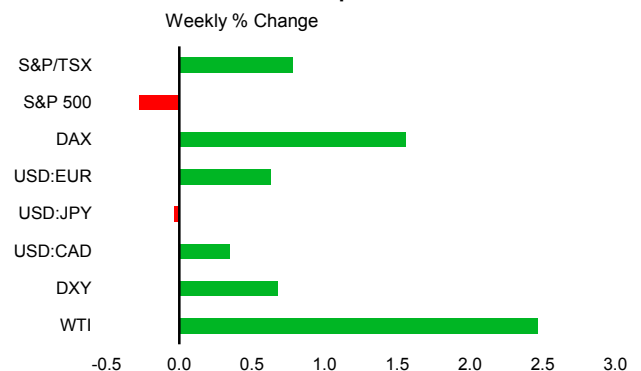
Canada

- Canada's housing market showed further signs of stabilization in April with home sales rising 3.6%. Still, the market is highly fragmented between east and west. Activity is weak and relatively oversupplied in markets west of Ontario, but strong and relatively tight in Ontario and eastward.
- The Bank of Canada released its annual Financial System Review this week outlining its assessment of vulnerabilities to financial stability. Little surprise, the level of household debt topped the list. However, with slowing credit growth and tighter mortgage lending conditions this vulnerability was characterized as moderating relative to previous years.
- Inflation ticked up to 2.0% in April as energy prices advanced. Core inflation measures, on the other hand, ticked down, and on average are running just below the Bank of Canada's target.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2879	2881	2946	2351
S&P/TSX Comp.	16433	16298	16669	13780
DAX	12257	12060	13170	10382
FTSE 100	7349	7203	7877	6585
Nikkei	21250	21345	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.40	2.47	3.24	2.37
Canada 10-yr Bond	1.69	1.73	2.60	1.53
Germany 10-yr Bund	-0.10	-0.05	0.64	-0.10
UK 10-yr Gilt	1.04	1.14	1.73	0.99
Japan 10-yr Bond	-0.05	-0.05	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	1.18	1.11
Pound (USD per GBP)	1.27	1.30	1.35	1.25
Yen (JPY per USD)	109.9	110.0	114.5	107.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	63.2	61.7	76.4	42.3
Natural Gas (\$US/MMBtu)	2.68	2.54	4.80	2.53
Copper (\$US/met. tonne)	6071.0	6108.0	7330.5	5713.8
Gold (\$US/troy oz.)	1276.0	1286.1	1341.0	1174.2

*As of 11:32 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 Equities Rebound on News that Auto Tariffs Postponed



Note: Data as of 11:46 AM ET, Friday, May 17, 2019.
Source: 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. - Domestic Resilience, But Weakness Abroad Taking a Toll

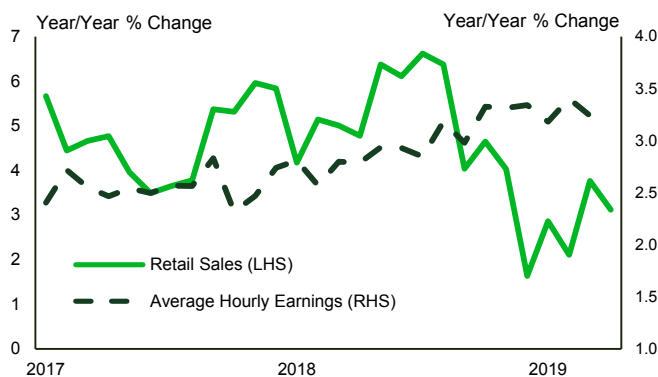
U.S. equity markets managed to shrug off much of last week's losses after rumors earlier this week, [confirmed](#) by the White House this morning, that the U.S. administration would delay a decision on auto tariffs for six months. However, this somewhat-renewed sense of optimism in equities was not shared by the bond market. U.S. Treasury yields hit lows last seen in late 2017, just prior to fiscal stimulus being announced. Moreover, markets are raising their bets that the Fed's next move will likely be a rate cut rather than a rate hike.

Unease about U.S. economic performance is building for good reason. Economic growth is set to moderate this year after a blowout, stimulus-fueled 2018. Foreign demand remains weaker than last year, while geopolitical risks and trade policy uncertainty appear to be on the rise. Moreover, high frequency indicators are beginning to diverge. Domestic demand remains resilient, but externally oriented industries are combatting stronger headwinds.

Data for retail sales and housing starts for April support the view that the domestic economy remains healthy. Although [retail sales](#) pulled back in April, this came after a very strong March. Some payback was to be expected. Even with the decline, the strength in March, alongside continued income gains supports a very healthy 3% quarterly annualized rate of expansion in consumer spending in the second quarter (Chart 1).

[Housing starts](#), on the other hand, surprised to the up-

Chart 1: Retail Sales Expected to Be Supported by Robust Wage Growth



Source: BLS, U.S. Census Bureau, TD Economics. Last Obs.: April 2019

Chart 2: U.S. Manufacturing Activity Catching Down to Global Peers



Source: Federal Reserve Board, ISM, JP Morgan/IHS Markit, TD Economics. Last Obs.: April 2019

side. After December's dip, housing starts appear to have regained stronger footing, but activity has been choppy through April. Home builder sentiment is improving as well, reaching a 7-month high in May. Moderating home price growth, combined with lower mortgage rates, rising wage growth, and decades-low vacancy rates should support more homebuilding in the months to come.

All told, the data this week remains consistent with our forecast for the U.S. economy to expand at a 2% annualized pace this quarter, largely on the back of a more confident consumer. That said, signs continue to build that this may be as good as things get for the rest of this year. Cracks are beginning to appear in what was previously a very resilient manufacturing sector. Industrial production contracted 0.5% in April, the third contraction monthly contraction this year. This mirrors the declining pace of output reported in the ISM manufacturing survey (Chart 2). Softer auto sales are partly to blame, as motor vehicle assemblies have fallen 12.8% since December's peak.

Although manufacturing is a relatively small share of the U.S. economy (about 11%), its performance is still considered a harbinger of the direction of the U.S. economy largely due to its sensitivity to changes in foreign demand. On that front, there are some signs that the global economy is gradually improving. However, escalating trade and geopolitical risks threaten to derail this nascent recovery.

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Canada - Housing Market Stabilizing, Debt Risks Still Elevated

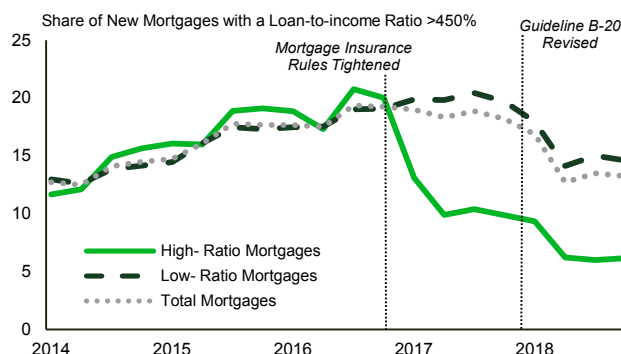
Global equity markets had a raucous week as China announced countermeasures in response to increased U.S. tariffs. Canada was pulled along for the ride, but despite declines early in the week it looks to have managed to scrape by with a modest gain as the week came to a close.

In terms of economic data, the key release this week was data on home sales, new listings and prices. Signs of a stabilization in housing demand continued in April. Canadian home sales rose 3.6%, accelerating from an upwardly-revised 2.3% reading in March. Sales were up across most provinces, with only Manitoba seeing a pullback.

The Canadian housing story remains one of stark divergence between markets in Western Canada and those in the east. There are two sub-threads here. First, weakness in energy-producing provinces is not confined to housing. Fortunately, major markets in Saskatchewan and Alberta saw solid sales gains in home sales in April, evidence perhaps of underlying economic improvement that has also been echoed in recent jobs reports. Still, these markets remain over-supplied with sales to new listings ratios generally in buyers' market territory (Chart 1).

In Vancouver, the story is not about economic weakness. The B.C. economy has been one of Canada's fastest growing, and seemingly immune to the slowdown in this important sector. Instead, the cumulative impact of higher mortgage rates, measures to stem foreign demand at the provincial level, and tighter mortgage lending standards at

Chart 2: B-20 Guidelines Reduce the Share of New Mortgages to Highly-Indebted Households



Source: Department of Finance Canada, Regulatory Filings of Canadian Banks, Bank of Canada, TD Economics

the national level have combined to pull the chair out from under home sales. In April, sales in Greater Vancouver hit a new cycle low. The sales to new listings ratio is deep in buyer's market territory, suggesting yet further price declines on the horizon.

In Central and Eastern Canada the story is one of either stability following past adjustments, or of outright strength. Sales were up again in the Greater Toronto Area in April, raising the sales to new listings ratio further into balanced market territory. In markets in the province's east, such as Ottawa, sales are close to record highs and well into seller's market territory, contributing to healthy price gains. The same is true in Quebec, where both sales and prices are up and with tight markets look to remain so.

The performance of the housing market is of central concern to the Bank of Canada, which noted these divergences in its Financial System Review (FSR) released this week. Overall, the Bank judges imbalances in housing markets to have moderated, but remain a source of vulnerability.

The Bank's number one vulnerability is the intrinsically related one of elevated household debt. This risk too is seen as moderating, reflecting a slowdown in household credit growth and reduction in the share of new mortgage debt going to highly-indebted households (Chart 2). Still, given its potential to exacerbate an economic downturn, this is one the Bank of Canada will watch closely.

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Chart 1: Sellers' Markets In the East, Buyers' Markets in the West



Note: A range of 40 to 60 is generally considered a balanced market for most regions. Data to Q1 2019. Source: CREA, Québec Federation of Real Estate Boards, TD Economics.

Canada: Upcoming Key Economic Releases

Canadian Retail Sales - March*

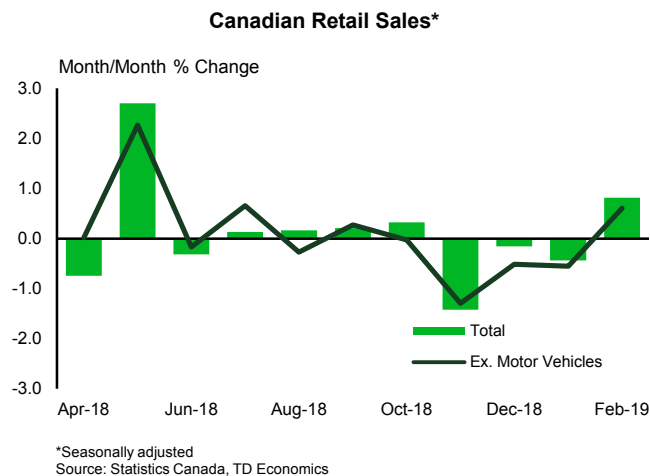
Release Date: May 22, 2019

Previous: 0.8%, ex-auto: 0.6%

TD Forecast: 1.4%, ex-auto: 1.3%

Consensus: 1.2%, ex-auto: 1.0%

TD looks for retail sales to build on recent gains with a 1.4% advance in March, reflecting broad strength in household goods consumption. Gasoline stations and motor vehicle sales should lead the move, with the former benefitting from a 10% m/m increase in the price at the pump. This will allow the ex-autos measure to come in near the headline print at 1.3%, although sales should see more modest gains (0.8%) when excluding gasoline as well. Core retail sales rose by 0.4% in February for their first increase since September and we expect this performance to continue into March on the heels of a sharp increase in consumer goods imports and strong labour market data. Real retail sales should underperform the headline print owing



to the sharp increase in gasoline prices although we still expect to see an increase of roughly 0.8% m/m. This is consistent with a flat print on Q1 after soft data in January and February, although stronger retail volumes will provide a solid handoff to Q2.

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

Recent Key Economic Indicators: May 13 - May 17, 2019

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
May 14	NFIB Small Business Optimism	Apr	Index	103.5	101.8
May 15	Empire Manufacturing	May	Index	17.8	10.1
May 15	Retail Sales Advance	Apr	M/M % Chg.	-0.2	1.7
May 15	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	-0.2	1.1
May 15	Capacity Utilization	Apr	%	77.9	78.5
May 15	Industrial Production	Apr	M/M % Chg.	-0.5	0.2
May 15	Manufacturing (SIC) Production	Apr	M/M % Chg.	-0.5	0.0
May 15	Business Inventories	Mar	M/M % Chg.	0.0	0.3
May 15	NAHB Housing Market Index	May	Index	66.0	63.0
May 15	Mortgage Delinquencies	1Q	Q/Q % Chg.	4.4	4.1
May 16	Building Permits	Apr	Thsd	1296.0	1288.0
May 16	Housing Starts	Apr	Thsd	1235.0	1168.0
May 16	Initial Jobless Claims	May 11	Thsd	212.0	228.0
Canada					
May 14	Teranet/National Bank HPI	Apr	Y/Y % Chg.	1.2	1.5
May 15	Consumer Price Index	Apr	Y/Y % Chg.	2.0	1.9
May 15	Consumer Price Index Core- Common %	Apr	Y/Y % Chg.	1.8	1.8
May 15	Consumer Price Index Core- Median %	Apr	Y/Y % Chg.	1.9	2.1
May 15	Consumer Price Index Core- Trim %	Apr	Y/Y % Chg.	2.0	2.1
May 15	Consumer Price Index NSA	Apr	M/M % Chg.	0.4	0.7
May 15	Existing Home Sales	Apr	M/M % Chg.	3.6	0.9
May 16	Manufacturing Sales	Mar	M/M % Chg.	2.1	-0.2
International					
May 14	UK ILO Unemployment Rate 3Mths	Mar	%	3.8	3.9
May 14	EZ Industrial Production	Mar	Y/Y % Chg.	-0.6	0.0
May 14	CH Industrial Production	Apr	Y/Y % Chg.	5.4	8.5
May 14	CH Retail Sales	Apr	Y/Y % Chg.	7.2	8.7
May 14	CH Surveyed Jobless Rate	Apr	%	5.0	5.2
May 15	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	1.2	1.2
May 17	EZ Consumer Price Index	Apr	Y/Y % Chg.	1.7	1.7
May 17	EZ Consumer Price Index Core	Apr	Y/Y % Chg.	1.3	1.2

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 20 - 24, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 20	9:30	<i>Fed's Patrick Harker speaks in Boston, MA</i>				
May 20	13:00	<i>Fed's John Williams & Richard Clarida speak in New York, NY</i>				
May 21	10:00	Existing Home Sales	Apr	Mlns	5.3	5.2
May 21	10:45	<i>Fed's Charles Evans speaks at the Fernandina Beach in Florida, FL</i>				
May 21	12:00	<i>Fed's Eric Rosengren speaks at the Economic Club in New York, NY</i>				
May 22	1:00	<i>Fed's James Bullard speaks at the Foreign Correspondent's Club in Hong Kong</i>				
May 22	10:10	<i>Fed's Raphael Bostic speaks in Dallas, TX</i>				
May 22	14:00	FOMC Meeting Minutes	May 01			
May 23	8:30	Initial Jobless Claims	May 18	Thsd	-	212.0
May 23	9:45	Markit US Services PMI	May	Index	-	53.0
May 23	9:45	Markit US Manufacturing PMI	May	Index	-	52.6
May 23	10:00	New Home Sales	Apr	Thsd	673.0	692.0
May 23	13:00	<i>Fed's Robert Kaplan, Mary Daly, Tom Barkin, & Raphael Bostic speak in Dallas, TX</i>				
May 24	8:30	Durable Goods Orders	Apr	M/M % Chg.	-1.8	2.6
May 24	8:30	Durables Ex Transportation	Apr	M/M % Chg.	0.3	0.3
May 24	8:30	Cap Goods Orders Nondef Ex Air	Apr	M/M % Chg.	-	1.4
Canada						
May 22	8:30	Retail Sales	Mar	M/M % Chg.	-	0.8
May 22	8:30	Retail Sales Ex Auto	Mar	M/M % Chg.	-	0.6
May 23	8:30	Wholesale Trade Sales	Mar	M/M % Chg.	-	0.3
International						
May 22	4:30	UK Consumer Price Index	Apr	Y/Y % Chg.	2.2	1.9
May 22	4:30	UK Consumer Price Index Core	Apr	Y/Y % Chg.	1.9	1.8
May 22	20:30	JN Nikkei Japan PMI Mfg	May	Index	-	50.2
May 23	4:00	EZ Markit Eurozone Manufacturing PMI	May	Index	48.2	47.9
May 23	4:00	EZ Markit Eurozone Services PMI	May	Index	53.0	52.8
May 23	4:00	EZ Markit Eurozone Composite PMI	May	Index	51.8	51.5
May 23	19:30	JN Natl Consumer Price Index	Apr	Y/Y % Chg.	0.9	0.5
May 24	9:00	MX Gross Domestic Product NSA	1Q	Y/Y % Chg.	1.4	1.3

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

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