

The Weekly Bottom Line

May 3, 2019

Highlights of the Week

United States

- Apart from vehicle sales, recent data paint a positive narrative for consumer-related industries at the start of spring. Real consumer spending and pending home sales surged in March, while consumer confidence improved in April.
- Payrolls were up 263k in April, much better than expected; wage growth held steady at 3.2% y/y and the unemployment rate fell to a near-50 year low of 3.6%. A drop in the labor force participation rate assisted the latter.
- The Fed held rates steady this week, with an emphasis put on inflation running below target. But in the press conference, Fed Chair Powell noted that inflation was driven down by “transient” factors, adding that there is no strong case “for moving in either direction”. Indeed, for now, all of the tea leaves suggest that the Fed will remain on hold for some time.

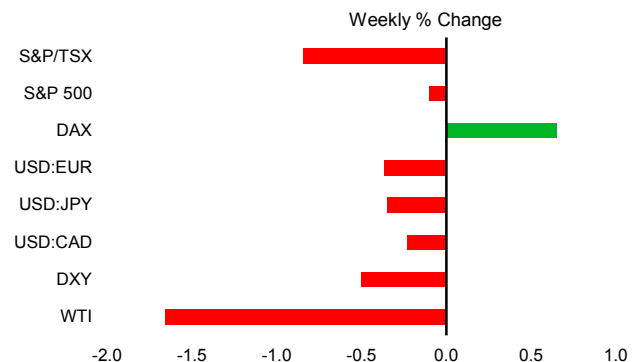
Canada

- It was a soft week for Canadian markets, partially reflecting a generally lackluster view on near-term economic prospects.
- This was confirmed in the data. Economic activity pulled back in February, setting the economy up for another soft quarterly expansion to start 2019.
- Early data for the second quarter also points to softness, with April auto sales falling month-on-month for the first time in three months alongside a weak PMI report. Growth acceleration still appears likely, but it now looks more like another sub-trend performance is in store.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2937	2940	2946	2351
S&P/TSX Comp.	16473	16613	16669	13780
DAX	12395	12315	13170	10382
FTSE 100	7376	7428	7877	6585
Nikkei	22259	22259	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.52	2.50	3.24	2.37
Canada 10-yr Bond	1.77	1.69	2.60	1.53
Germany 10-yr Bund	0.02	-0.02	0.65	-0.08
UK 10-yr Gilt	1.21	1.14	1.73	0.99
Japan 10-yr Bond	-0.04	-0.04	0.16	-0.09
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.74	0.78	0.73
Euro (USD per EUR)	1.12	1.12	1.20	1.11
Pound (USD per GBP)	1.31	1.29	1.36	1.25
Yen (JPY per USD)	111.2	111.6	114.5	107.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	61.7	63.3	76.4	42.3
Natural Gas (\$US/MMBtu)	2.63	2.61	4.80	2.53
Copper (\$US/met. tonne)	6166.0	6398.8	7330.5	5713.8
Gold (\$US/troy oz.)	1281.3	1286.3	1341.0	1174.2

*As of 11:29 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 Follow Oil Lower



Note: Data as of 11:41 AM ET, Friday, May 03, 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. - Inflation Undershoots, Jobs Overshoot, Fed Stays Put

It was a busy week for those keeping a careful watch on the U.S. economy. A volley of first-tier economic data and an FOMC rate decision took center stage, while trade developments reverberated in the background.

While the consumer had a soft showing overall in the first quarter, a two-month data dump this week provided added detail on recent momentum. Real consumer spending was flat in February, before surging 0.7% in March. This spending upswing points to consumers shaking off the adverse effects of the prolonged government shutdown, and provides a solid handoff to consumption in the second-quarter.

The (mostly) positive narrative on consumer-related industries at the start of spring was further bolstered by a 3.8% m/m surge in pending home sales in March and a pickup in consumer confidence in April. The former leads existing home sales by 1-2 months, and points to further stabilization in the housing market. However, vehicle sales were disappointing, falling 6% m/m in April to 16.4M units. Despite this, overall consumer spending is still tracking a 3% annualized pace in the second quarter, a sharp acceleration from the 1.2% clip in the first quarter. This will provide support to overall economic activity as other temporary factors that boosted growth in the first quarter fall off.

Healthy consumer spending is being supported by a strong labor market. Payrolls rose 263k in April, beating expectations (190k) once again (Chart 1). The jobless rate moved down to a near-50 year low of 3.6%. However, that was

Chart 1: Payroll Gains Defy Expectations , Top 260k in April, Wage Growth Holds Steady at 3.2% y/y

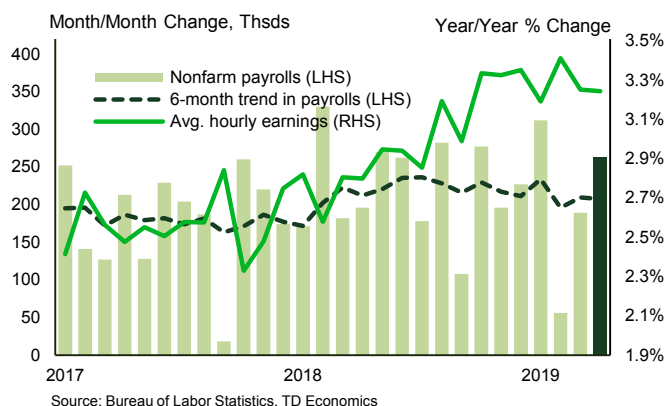
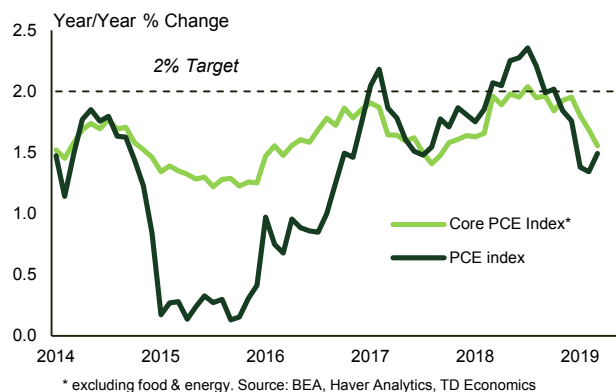


Chart 2: Fed's Preferred Inflation Gauge (Core PCE) Has Eased and Is Running below Target



driven by a disappointing decline in the labor force participation rate. Wage growth held steady at 3.2% y/y. But with softer inflation (see Chart 2), wage gains look even better in real terms. Given the current tightness, we expect wage pressures to remain, but job gains to slow to a more sustainable sub-150k per month through the remainder of 2019.

Rounding out the April data reports were the ISM indices. Both moderated on the month but continue to hover around the 55-point mark, which is in tune with the broader narrative of slower, but still decent, growth this year.

With the labor market and economic growth not looking too shabby, inflation remains the Fed's key concern and main reason for holding rates steady, as it did this week. The FOMC statement emphasized that inflation has run below target. But in the press conference, Fed Chair Powell noted that inflation was driven down by "transient" factors, adding that there is currently no strong case "for moving in either direction". We agree with the Fed's assessment. Given that inflation has persistently undershot the Fed's target, it would take a notable acceleration in price pressures to push the Fed to hike. We do not expect inflation to accelerate that quickly, and all of the latest data support our view that the Fed is likely to remain on hold for quite some time.

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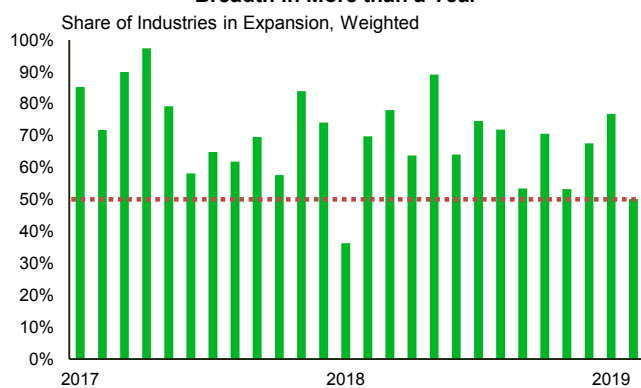
Canada - Slump Prolonged

It was something of a down week for Canadian markets. The S&P/TSX composite index fell gradually through the week, while the loonie, despite some mid-week swings, looks set to end the week close to where it began. In oil markets, the benchmark WTI contract fell roughly US\$2 per barrel to \$61, within the range that we expect to persist for the next while (See report). From a Canadian oil perspective, we look for the heavy oil discount to widen somewhat, consistent with the economics of crude by rail, which, for the time being, seems like the only game in town for getting a marginal barrel of oil to market. This will have a modestly negative impact on revenues, but should help clear out still sizeable inventories.

On the data front, the main event this week was monthly GDP, which came in below market expectations for a flat print, contracting by 0.1% month-on-month (See commentary). Weather was partially to blame, causing issues in the transportation and real-estate sectors, among others, but doesn't explain all of the weakness. Mining activity dropped again, and the broader mining, quarrying, oil & gas sector is now down 5% year-on-year. The breadth of the pullback was best evidenced by the share of growing industries hitting its lowest level in more than a year (Chart 1).

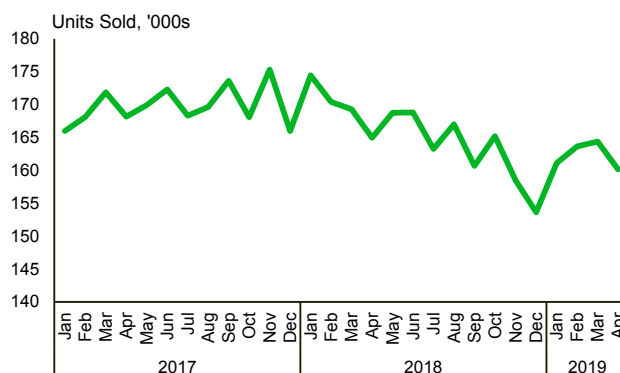
The GDP data appears to confirm what we'd been suspecting: that the Canadian economy likely again struggled to eke out growth at the start of the year. We now track first quarter growth at 0.6% q/q, annualized, just a bit above the Bank of Canada's 0.3% view. If there is a silver lining, it is

Chart 1: February's GDP Report Saw Weakest Breadth in More than a Year



Source: Statistics Canada, TD Economics. Weights are approximate.

Chart 2: April Ends Three Month Sales Upswing



Source: Desrosiers Automotive Consultants. Seasonally adjusted by TD Economics.

that some of the details look decent, with signs of life in investment after a disappointing 2018. Nevertheless, with the first half of the year shaping up to come in soft, the Bank of Canada's more dovish turn seems appropriate.

More signs of first-half softness were evident in the very early indicators for the second quarter. Canadians bought fewer cars in April, once seasonal variation is taken into account (Chart 2). The three-month upswing we saw at the start of the year has come to an end, and the level of sales now sits more or less in line with the downtrend that began last year. To be sure, this data can be noisy, so we shouldn't read too much into a single month, but it hardly provides a positive start to the second quarter.

Other, relatively second-tier data also indicated softness. April housing resale activity in Vancouver fell 29.1% year-on-year, with the benchmark price dropping 8.5%, and the Markit Manufacturing Purchasing Managers Index (PMI) fell below the 50 'no-change' mark for the first time since early 2016 on weak details. We won't get too carried away with this data – it is worth noting that despite soft housing markets (resale activity fell 32% last year), British Columbia's economy overall turned in an impressively strong growth performance last year, expanding 2.4% on fairly broad-based strength. All this is to say that some of the challenges facing the Canadian economy are unlikely to be resolved quickly, so expect the subpar performance to continue for a bit longer – it's a slow slog back home.

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U.S.: Upcoming Key Economic Releases

U.S. Consumer Price Index - April*

Release Date: May 10, 2019

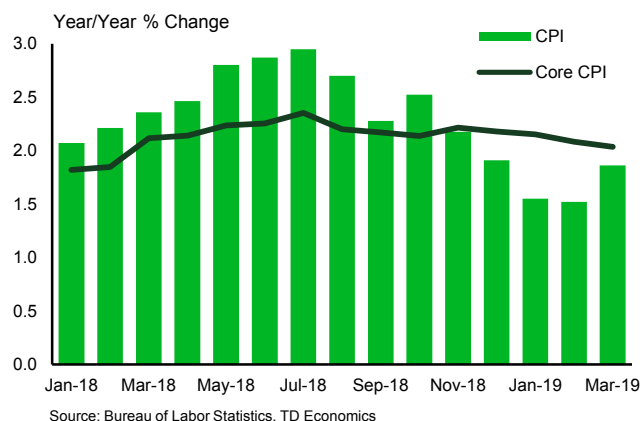
Previous: 0.4% m/m; core 0.1% m/m

TD Forecast: 0.4% m/m; core 0.2% m/m

Consensus: 0.4% m/m; core 0.2% m/m

We look for headline CPI to pick up two tenths to 2.1% in April on the back of a strong 0.4% seasonally-adjusted monthly increase. The main driver behind the monthly gain is another sizable jump in gasoline prices (+10.2% m/m). Furthermore, we anticipate core CPI inflation to register another “soft” 0.2% m/m gain (2.1% y/y), as a firm 0.2% increase in core services prices will likely offset a third consecutive monthly decline in prices in the core goods segment (which we pencil in at -0.1% m/m). We expect OER to remain largely steady at 0.3% m/m and for the ex-shelter segment to improve marginally on a monthly basis.

U.S. Consumer Price Index (CPI)



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

Canada: Upcoming Key Economic Releases

Canadian Housing Starts - April*

Release Date: May 8, 2019

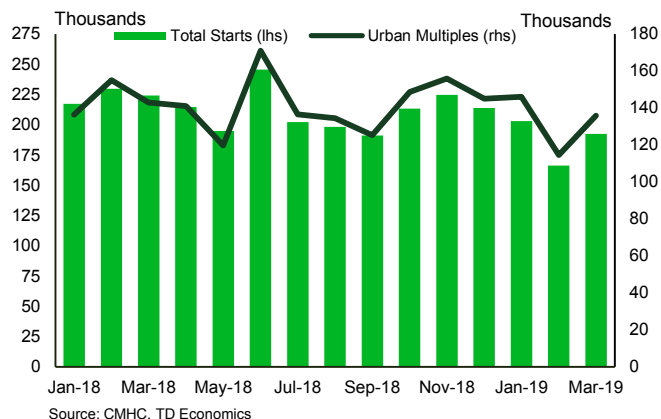
Previous: 192.5k

TD Forecast: 197k

Consensus: N/A

TD looks for housing starts to rise to a 197k pace in April on pickup in both single and multi-unit construction. Permit issuance for single family homes has started to recover from post-crisis lows, suggesting some more upside to construction activity after starts registered their first increase since November last month. We also see scope for further gains in multi-unit starts even after a 20% rebound last month; multi-unit urban starts remain well off their peak from mid-2018 and while we are unlikely to retest such levels anytime soon, low vacancy rates and affordability constraints continue to underpin demand for apartment units.

Canadian Housing Starts



Canadian International Trade - March*

Release Date: May 9, 2019

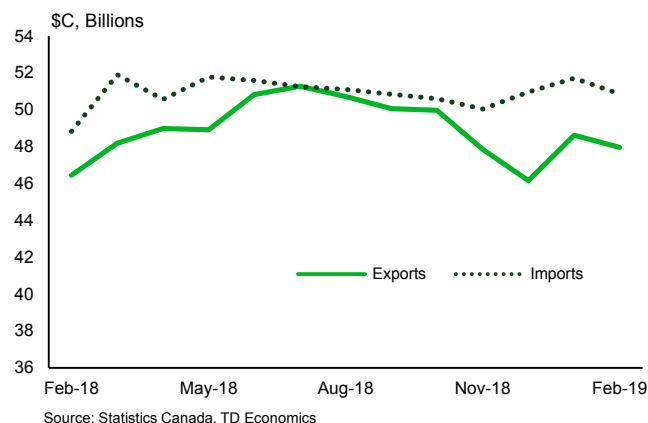
Previous: -\$2.90bn

TD Forecast: -\$2.30bn

Consensus: N/A

TD looks for the merchandise trade deficit to narrow to \$2.3bn in March, helped by a further recovery in crude oil prices and a rebound in non-energy exports following the broad pullback last month. Adjusted to Canadian dollars, WTI prices rose by 7% in March while WCS prices rose by 12%. However, energy export volumes will be challenged by tight WCS spreads which continued to hold near \$10 throughout the month, a level that discourages rail shipments while pipelines continue to operate at full capacity. We also expect a broad recovery in non-energy exports from March although forestry products should remain under pressure due to continued weakness in residential con-

Canadian International Merchandise Trade



struction south of the border. Stronger exports should be partially offset by a pickup in import activity while real export growth will come in well below the nominal advance due to higher industrial prices.

Canadian Employment - April*

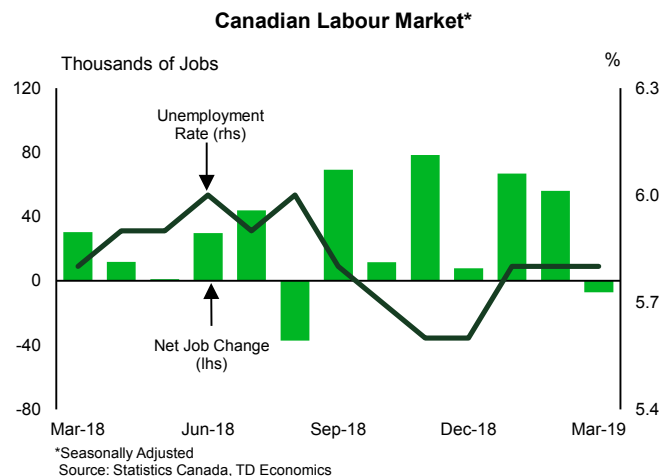
Release Date: May 10, 2019

Previous: -7.2k, unemployment rate: 5.9%,

TD Forecast: -10k, unemployment rate

Consensus: N/A

TD looks for the economy to give back 10k jobs during month of April, which will help nudge the pace lower after averaging 36k for the six months through March. We have argued that recent labour market gains are unwarranted by current economic backdrop, and while it is difficult to predict the timing of a giveback, we think this tilts the risks towards a soft print. Full-time employment should drive the pullback, which will add to the downbeat tone of the report, while the goods-producing sector should account for most of the jobs lost during the month with manufacturing in the spotlight after Markit PMI tipped into contractionary territory for the first time in three years. Job losses of 10k



should see the unemployment rate edge higher to 5.9% assuming modest labour force growth while we expect wage growth to hold at 2.3% y/y.

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

Recent Key Economic Indicators: Apr 29 - May 3, 2019

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Apr 29	Real Personal Spending	Mar	M/M % Chg.	0.1	0.4
Apr 29	Personal Consumption Expenditure Deflator	Mar	Y/Y % Chg.	1.3	1.4
Apr 29	Personal Income	Mar	M/M % Chg.	0.1	0.2
Apr 30	Employment Cost Index	1Q	Q/Q % Chg.	0.7	0.7
Apr 30	S&P CoreLogic CS US HPI NSA	Feb	Y/Y % Chg.	4.0	4.2
Apr 30	MNI Chicago PMI	Apr	Index	52.6	58.7
Apr 30	Pending Home Sales	Mar	M/M % Chg.	3.8	-1.0
Apr 30	Conf. Board Consumer Confidence	Apr	Index	129.2	124.2
May 01	ADP Employment Change	Apr	Thsd	275.0	151.0
May 01	ISM Manufacturing	Apr	Index	52.8	55.3
May 01	ISM Employment	Apr	Index	52.4	57.5
May 01	FOMC Rate Decision (Upper Bound)	May 01	%	2.50	2.50
May 01	Wards Total Vehicle Sales	Apr	Mlns	16.4	17.5
May 02	Initial Jobless Claims	Apr 27	Thsd	230.0	230.0
May 02	Unit Labor Costs	1Q	Q/Q % Chg.	-0.9	2.5
May 02	Factory Orders	Mar	M/M % Chg.	1.9	-0.3
May 02	Factory Orders Ex Trans	Mar	M/M % Chg.	0.8	0.3
May 03	Advance Goods Trade Balance	Mar	Blns	71.4	70.9
May 03	Retail Inventories	Mar	M/M % Chg.	-0.3	0.2
May 03	Change in Nonfarm Payrolls	Apr	Thsd	185.0	196.0
May 03	Unemployment Rate	Apr	%	3.6	3.8
May 03	Average Hourly Earnings	Apr	M/M % Chg.	0.2	0.2
May 03	ISM Non-Manufacturing Index	Apr	Index	55.5	56.1
Canada					
Apr 30	Gross Domestic Product	Feb	M/M % Chg.	-0.1	0.3
Apr 30	Industrial Product Price	Mar	M/M % Chg.	1.3	0.3
May 01	MLI Leading Indicator	Mar	M/M % Chg.	0.2	0.0
May 01	Markit Canada Manufacturing PMI	Apr	Index	49.7	50.5
International					
Apr 29	CH Manufacturing PMI	Apr	Index	50.1	50.5
Apr 30	EZ Gross Domestic Product SA	1Q	Y/Y % Chg.	1.2	1.2
Apr 30	EZ Unemployment Rate	Mar	%	7.7	7.8
Apr 30	MX Gross Domestic Product NSA	1Q	Y/Y % Chg.	1.3	1.7
May 01	UK Markit UK PMI Manufacturing SA	Apr	Index	53.1	55.1
May 02	UK Bank of England Bank Rate	May 02	%	0.75	0.75
May 03	EZ Consumer Price Index Estimate	Apr	Y/Y % Chg.	1.7	1.4

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: May 6 - 10, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
May 06	9:30	<i>Fed's Patrick Harker speaks at Drexel University in Philadelphia, PA</i>				
May 07	7:00	<i>Fed's Robert Kaplan speaks in Beijing, China</i>				
May 08	7:00	Mortgage Delinquencies	1Q	Q/Q % Chg.	-	4.1
May 09	8:30	Producer Price Index Final Demand	Apr	M/M % Chg.	0.2	0.6
May 09	8:30	Initial Jobless Claims	May 04	Thsd	-	-
May 09	8:30	Producer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.2	0.3
May 09	8:30	Trade Balance	Mar	Blns	-52.0	-49.4
May 09	10:00	Wholesale Trade Sales	Mar	M/M % Chg.	-	0.3
May 09	10:45	<i>Fed's Raphael Bostic speaks in New Orleans, LA</i>				
May 09	13:15	<i>Fed's Charles Evans speaks at the Nabe International Symposium in Washington, DC</i>				
May 10	8:30	Consumer Price Index	Apr	M/M % Chg.	0.4	0.4
May 10	8:30	Consumer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.2	0.1
May 10	0.354	Consumer Price Index	Apr	Y/Y % Chg.	2.1	1.9
May 10	8:30	Real Avg Hourly Earning	Apr	Y/Y % Chg.	-	1.3
May 10	8:30	Consumer Price Index Ex Food and Energy	Apr	Y/Y % Chg.	2.1	2.0
May 10	9:05	<i>Fed's Raphael Bostic speaks in Meridian, MS</i>				
May 10	10:00	<i>Fed's John Williams speaks in Bronx, NY</i>				
Canada						
May 06	13:45	<i>BoC's Stephen Poloz speaks in Winnipeg, MB</i>				
May 08	8:15	Housing Starts	Apr	Thsd	-	192.5
May 09	8:30	Int'l Merchandise Trade	Mar	Blns	-	-2.9
May 10	8:30	Net Change in Employment	Apr	Thsd	-	-7.2
May 10	8:30	Unemployment Rate	Apr	%	-	5.8
May 10	8:30	Hourly Wage Rate Permanent Employees	Apr	Y/Y % Chg.	-	2.3
International						
May 08	21:30 CH	Consumer Price Index	Apr	Y/Y % Chg.	-	2.3
May 06	5:00 EZ	Retail Sales	Mar	Y/Y % Chg.	-	2.8
May 06	4:00 EZ	Markit Eurozone Composite PMI	Apr	Index	-	51.3
May 06	4:00 EZ	Markit Eurozone Services PMI	Apr	Index	-	52.5
May 10	4:30 UK	Gross Domestic Product	1Q	Y/Y % Chg.	-	1.4
May 10	4:30 UK	Manufacturing Production	Mar	Y/Y % Chg.	-	0.6

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

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