

## The Weekly Bottom Line

November 8, 2019

### Highlights of the Week

#### United States

- It was a relatively quiet week for economic data. The trade deficit narrowed a bit in September, but new tariffs appear to have weighed on both exports and imports. The ISM non-manufacturing index followed its manufacturing counterpart higher in October, with the recent trend indicating a stabilization in activity.
- Trade negotiations continued to dominate headlines. Comments from the U.S. Commerce Secretary suggest that the U.S. is likely to avoid a major escalation in trade tensions with Europe next week over autos.
- The interim U.S.-China trade deal is unlikely to be signed this month, but the mid-December tariffs still appear likely to be scrapped. Pres. Trump poured cold water on the notion that there was an agreement on removing existing tariffs.

#### Canada

- After several months of surprisingly strong monthly job growth, the Canadian labour market shed 1.8k jobs in October. The unemployment rate remained unchanged at 5.5%, just a tenth of a percentage point above its historical nadir.
- Job growth has been mainly full time, but people are working fewer hours. Average hours worked has been falling, leading to a more modest increase in total labor hours.
- Provincial economic accounts for 2018 confirm the disparity in growth between provinces, with energy-rich provinces lagging the pack. This is also playing out in labour markets where unemployment rates remain elevated relative to the levels of just five years ago.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	3082	3067	3085	2351
S&P/TSX Comp.	16831	16594	16900	13780
DAX	13229	12961	13289	10382
FTSE 100	7362	7302	7687	6585
Nikkei	23392	22851	23392	19156
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	1.90	1.71	3.24	1.46
Canada 10-yr Bond	1.57	1.45	2.54	1.09
Germany 10-yr Bund	-0.27	-0.38	0.46	-0.71
UK 10-yr Gilt	0.78	0.66	1.57	0.41
Japan 10-yr Bond	-0.05	-0.18	0.12	-0.29
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.76	0.76	0.77	0.73
Euro (USD per EUR)	1.10	1.12	1.15	1.09
Pound (USD per GBP)	1.28	1.29	1.33	1.20
Yen (JPY per USD)	109.1	108.2	114.1	105.3
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	56.2	56.2	66.4	42.3
Natural Gas (\$US/MMBtu)	2.86	2.54	4.80	2.02
Copper (\$US/met. tonne)	5966.5	5827.0	6555.5	5584.5
Gold (\$US/troy oz.)	1467.0	1514.4	1552.4	1200.4

\*As of 11:33 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)	1.50 - 1.75%
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. - The Deal With The Deal

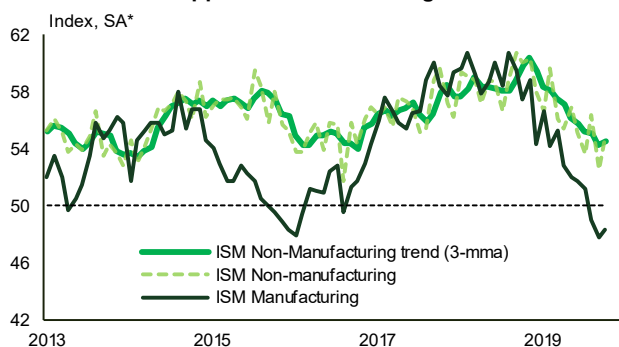
It was a relatively quiet week for economic data. The September trade report had a bit of a dated feel since last week's GDP report already confirmed that net exports were a drag on third quarter economic growth. Still, the report drove in the point of tariff-related volatility in trade activity. The trade deficit narrowed a bit in September as goods imports contracted more than goods exports. This reflected, in part, the impact of tariffs on a large tranche of consumer goods imports from China imposed on September 1st.

The ISM non-manufacturing report, on the other hand, ushered in a bit of optimism. The headline index followed its manufacturing counterpart higher in October, with the improvement broad-based across the subcomponents. While a bit better than expected, the October uptick was not large enough to offset the decline in the month prior. As such, instead of a major strengthening in the pace of expansion, the recent trend is more indicative of a stabilization in activity (Chart 1).

Other second-tier data reports did little to rock the boat. Of note, job openings continued to edge lower in September, reinforcing the notion that appetite among U.S. employers for labor, while elevated, has waned a bit recently. The September data also affirmed that the pullback in job openings so far has limited geographic breadth, with recent pressures concentrated in the Midwest (Chart 2; for more see [here](#)).

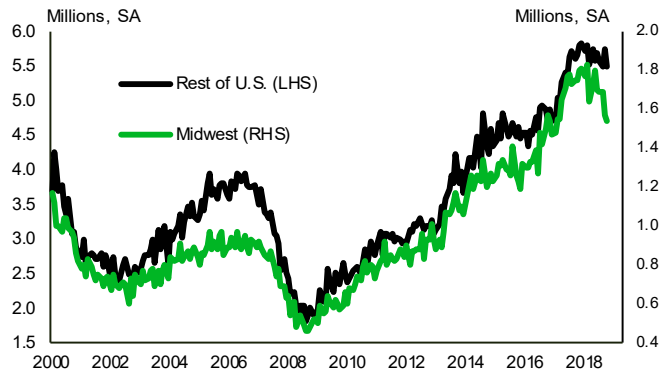
With little else on the data front, trade negotiations had a free hand at driving headlines. On this front, there were signs of a de-escalation in trade tensions between the U.S. and other major trading partners, importantly the E.U. and China. Auto tariffs remain a major concern for the former,

**Chart 1: Non-Manufacturing Activity Appears to Be Stabilizing**



\*An index above 50 indicates an increase in activity.  
Source: ISM, TD Economics

**Chart 2: Pullback in Job Openings Continues to Be Concentrated in the Midwest**



Source: JOLTS, TD Economics. Last data point September 2019.

and President Trump is set to make a decision on the matter by next Wednesday. The U.S. Commerce Secretary recently stated that he expected negotiations with “individual companies about their investment plans” to bear fruit, making the imposition of auto tariffs potentially unnecessary. This suggests that the administration will avoid a major spike in tensions next week, either by taking a lighter approach on auto tariffs or by deferring action to a later date.

When it came to China, developments were more capricious. For starters, contrary to initial hopes, the Trump-Xi meeting to sign the ‘Phase One’ trade deal is unlikely to happen this month. On the other hand, it appears likely that the tariffs that were slated to go into effect in mid-December will still be scrapped (provided that the interim deal remains on track to be signed in the near-term). China’s Commerce Ministry spokesperson suggested that the two economic heavyweights had agreed to roll back existing tariffs in phases as trade talks advanced. But this morning, President Trump poured cold water on the notion of such an agreement, while also stating that he will not fully eliminate tariffs on China. This softened some of the optimism that had built from China’s earlier announcement, highlighting the delicate and volatile nature of trade negotiations.

All in all, there are indeed signs of a de-escalation in trade tensions, which help dilute some of the near-term risk as economic activity shows signs of stabilizing. But, as today’s events have shown, we caution against reading too much into the recent optimism, for as long as core issues remain unaddressed, a re-escalation in the trade war remains a distinct possibility.

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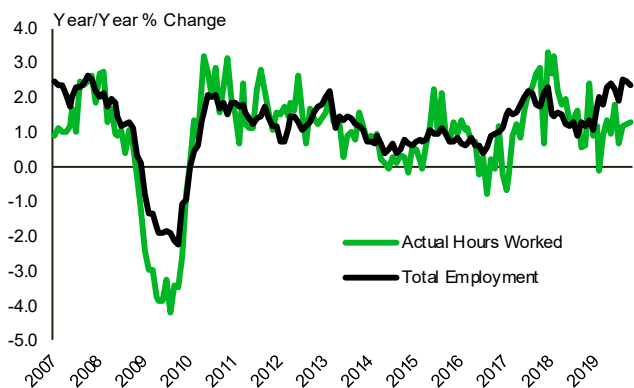
## Canada - Job Growth Stalls But Labour Market Still Hot

It was bound to happen eventually. After several months of surprisingly strong job growth, the Canadian labour market returned a little closer to earth, shedding 1.8k jobs in October. The modest pullback did little to slow the longer-term trend. Year-on-year (y/y) jobs are up 2.4% – the same reading as September, and the strongest rate since 2007. It is also well above the last reading of monthly economic growth (1.3% y/y as of August). At 5.5%, the Canadian unemployment rate is just a tenth off its historical low hit in May of this year.

Underneath the surface, the story is (only) slightly less ebullient. The discrepancy between soft economic growth and strong employment is reconciled in part by a softer trend in average hours among the employed. Even while most of the jobs created have been full-time (76% over the past year), they're not quite as "full-time" as they used to be. That is to say, the average number of hours each employee is working has been falling. As a result, total labor hours are up by a softer, but still-decent 1.3% relative to a year ago, roughly in line with real GDP growth (Chart 1) and implying that labour productivity growth has been nil.

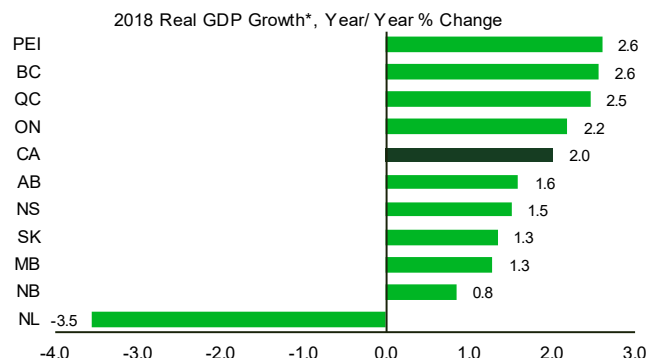
Still, there is little doubt that the Canadian labour market is tight. This is evidenced not only in near record-low unemployment, but also in vacancy rates that are at an all-time high. What is more, this finally appears to be coming through in wage growth. Average hourly wages were up 4.3% y/y in October. The strong pace of job growth is starting to show some staying power, it has printed above 3.7% every month since June. The acceleration is also evident in median hourly wages, up 6.9% year-on-year – the

**Chart 1: More Employees Working Fewer Hours**



Source: Statistics Canada, TD Economics

**Chart 2: Energy-Dependent Provinces Lag in Economic Growth**



Source: Statistics Canada, TD Economics. \*Chained 2012 Canadian Dollar

strongest growth rate on record (data back to 1998).

While the headline numbers may show some disagreement, the regional story shows more consistency between rates of economic growth and the strength of respective job markets. Provincial and territorial economic accounts for 2018 confirmed the disparity in growth between leaders and laggards. Economic growth was strongest in British Columbia (2.6%), PEI (2.6%) and Quebec (2.5%) and weakest in energy-producing provinces. On the other side, Newfoundland and Labrador contracted 3.5% in 2018 as major energy and infrastructure projects were completed. Meanwhile, Alberta's growth rebound slowed dramatically, with real GDP growth moderating from 4.8% in 2017 to just 1.6% in 2018. Weakness in Saskatchewan continued, with growth of just 1.3% following a 1.7% outturn in 2017. The Saskatchewan economy didn't fall nearly as much as Alberta's during the 2015/2016 bust, but it has seen very little recovery to date.

This is a look in the rear-view mirror in terms of economic growth, but these differences have continued through 2019 and are mirrored in unemployment rates and job vacancy rates across the country. In Quebec, BC, and PEI, unemployment rates continue to hover near historical lows and job vacancy rates stand at historical peaks. Meanwhile, after an initial recovery period, Alberta's and Saskatchewan's unemployment rates remain elevated, over two percentage points above pre-2015 recession levels and have shown few signs of meaningful improvement. You can bet the political challenge this poses will continue to make headlines.

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## U.S.: Upcoming Key Economic Releases

### U.S. Consumer Price Index - October\*

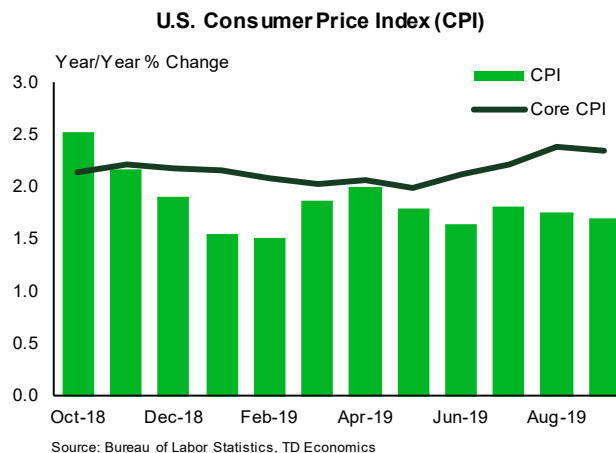
Release Date: November 13, 2019

Previous: 0.0% m/m, 1.7% y/y

TD Forecast: 0.3% m/m, 1.7% y/y

Consensus: 0.3% m/m, 1.7% y/y

We look for headline inflation to remain unchanged at 1.7% y/y in October (0.3% m/m), partly aided by an increase in energy prices. Core inflation should decline a tenth to 2.3% y/y. We expect core goods inflation to recover m/m, but for core services inflation to slow to 0.2% m/m after four straight increases at 0.3%. We anticipate OER to advance at 0.2% m/m, following a 0.3% monthly gain, and also for the ex-shelter segment to slow modestly on a monthly basis.



### U.S. Retail Sales - October\*

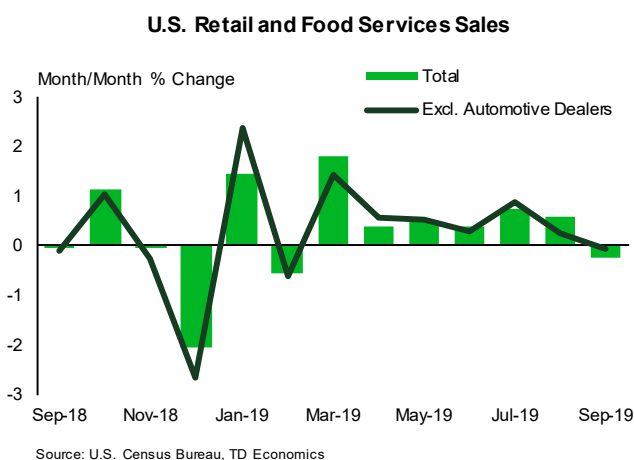
Release Date: November 15, 2019

Previous: -0.3%, ex auto: -0.1%

TD Forecast: 0.1%, ex auto: 0.4%

Consensus: 0.2%, ex auto: 0.4%

We look for retail sales to register a soft 0.1% gain for October as a decline in auto sales (-1% m/m) likely kept headline sales subdued. However, we expect a rebound in the control group (+0.3% m/m) to be the main driver of headline growth, reflecting still-solid consumer spending. Sales at gasoline stations should also boost growth on the back of a gain in gasoline prices in October.



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

Recent Key Economic Indicators: Nov 4 - 8, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Nov 4	Cap Goods Orders Nondef Ex Air	Sep	M/M % Chg.	-0.6	-0.6
Nov 4	Durable Goods Orders	Sep	M/M % Chg.	-1.2	-1.2
Nov 4	Durables Ex Transportation	Sep	M/M % Chg.	-	-0.3
Nov 4	Factory Orders	Sep	M/M % Chg.	-0.6	-0.1
Nov 4	Factory Orders Ex Trans	Sep	M/M % Chg.	-0.1	-0.2
Nov 5	Trade Balance	Sep	Blns	-52.50	-55.00
Nov 5	Markit US Services PMI	Oct	Index	50.6	51.0
Nov 5	ISM Non-Manufacturing Index	Oct	Index	54.7	52.6
Nov 6	Unit Labor Costs	3Q	Q/Q % Chg.	3.6	2.4
Nov 7	Initial Jobless Claims	Nov 19	Thsd	211.0	219.0
Nov 8	Wholesale Trade Sales	Sep	M/M % Chg.	0.0	-0.1
<b>Canada</b>					
Nov 5	Int'l Merchandise Trade	Sep	Blns	-0.98	-1.24
Nov 8	Housing Starts	Oct	Thsd	202.0	221.1
Nov 8	Hourly Wage Rate Permanent Employees	Oct	Y/Y % Chg.	4.4	4.3
Nov 8	Net Change in Employment	Oct	Thsd	-1.8	53.7
Nov 8	Unemployment Rate	Oct	%	5.5	5.5
<b>International</b>					
Nov 6	EZ Retail Sales	Sep	Y/Y % Chg.	3.1	2.7
Nov 7	UK Bank of England Bank Rate	Nov 19	%	0.75	0.75

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Nov 11 - Nov 15, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Nov 12	6:00	NFIB Small Business Optimism	Oct	Index	102.0	101.8
Nov 12	13:00	<i>Fed's Patrick Harker speaks in New York, NY</i>				
Nov 12	18:00	<i>Fed's Neel Kashkari speaks in Madison, WI</i>				
Nov 13	8:30	Consumer Price Index	Oct	M/M % Chg.	0.3	0.0
Nov 13	8:30	Consumer Price Index	Oct	Y/Y % Chg.	1.7	1.7
Nov 13	8:30	Consumer Price Index Ex Food and Energy	Oct	Y/Y % Chg.	2.4	2.4
Nov 13	8:30	Consumer Price Index Ex Food and Energy	Oct	M/M % Chg.	0.2	0.1
Nov 13	8:30	Real Avg Hourly Earning	Oct	Y/Y % Chg.	-	1.3
Nov 13	11:00	<i>Fed's Jerome Powell speaks in Washington, DC.</i>				
Nov 13	13:30	<i>Fed's Neel Kashkari speaks in a town hall at the University of Wisconsin La-Crosse, WI</i>				
Nov 14	8:30	Initial Jobless Claims	Nov 19	Thsd	-	211.0
Nov 14	8:30	Producer Price Index Ex Food and Energy	Oct	M/M % Chg.	0.2	-0.3
Nov 14	8:30	Producer Price Index Final Demand	Oct	M/M % Chg.	0.2	-0.3
Nov 14	12:00	<i>Fed's Charles Evans speaks at the Philadelphia Fed, in Philadelphia, PA</i>				
Nov 14	12:00	<i>Fed's John Williams speaks at the San Francisco Fed, CA</i>				
Nov 15	8:30	Empire Manufacturing	Nov	Index	6.0	4.0
Nov 15	8:30	Retail Sales Advance	Oct	M/M % Chg.	0.1	-0.3
Nov 15	8:30	Retail Sales Ex Auto and Gas	Oct	M/M % Chg.	-	0.0
Nov 15	9:15	Capacity Utilization	Oct	M/M % Chg.	77.1	77.5
Nov 15	9:15	Industrial Production	Oct	M/M % Chg.	-0.3	-0.4
Nov 15	9:15	Manufacturing (SIC) Production	Oct	M/M % Chg.	-	-0.5
Nov 15	10:00	Business Inventories	Sep	M/M % Chg.	0.1	0.0
Nov 15		Mortgage Delinquencies	3Q	Q/Q % Chg.	-	4.5
<b>Canada</b>						
Nov 11	10:00	Bloomberg Nov. Canada Economic Survey				
Nov 12	8:55	<i>BoC's COO Dinis speaks on Cybersecurity in Toronto, ON</i>				
Nov 14	21:45	<i>BoC's Poloz gives speech in San Francisco, CA</i>				
Nov 15	8:30	<i>BoC's Tim Lane speaks on Digital Currency Panel in Philadelphia, PA</i>				
Nov 15	9:00	Existing Home Sales	Oct	M/M % Chg.	-	0.6
<b>International</b>						
Nov 11	4:30	UK Gross Domestic Product	3Q	%	1.1	1.3
Nov 11	4:30	UK Industrial Production	Sep	Y/Y % Chg.	-1.1	-1.8
Nov 11	4:30	UK Manufacturing Production	Sep	Y/Y % Chg.	-1.3	-1.7
Nov 12	4:30	UK ILO Unemployment Rate 3Mths	Sep	Y/Y % Chg.	3.9	3.9
Nov 13	4:30	UK Consumer Price Index	Oct	Y/Y % Chg.	1.7	1.7
Nov 13	18:50	JN Gross Domestic Product SA	3Q	Q/Q % Chg.	0.2	0.3
Nov 13	21:00	CH Retail Sales	Oct	Y/Y % Chg.	7.8	7.8
Nov 14	5:00	EZ Gross Domestic Product SA	3Q	Q/Q % Chg.	1.1	1.1
Nov 15	5:00	EZ Consumer Price Index	Oct	Y/Y % Chg.	0.7	0.7

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

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