

The Weekly Bottom Line

September 20, 2019

Highlights of the Week

United States

- In the main financial event of the week, the Federal Reserve cut its key lending rate by 25 basis points, but was mum on the prospect for additional cuts. Our latest [forecast](#) sees slower economic growth leading to at least one more rate cut.
- Fed rate cuts will help to offset some of the dampening effects of trade-uncertainty and weak global growth. In fact, this week saw early signs that the American housing market is responding to lower rates.
- Oil prices spiked early in the week on the attack in Saudi Arabia but gave up much of the gains as the week ended. Elsewhere, the strike at GM is likely to add volatility to the economic growth profile.

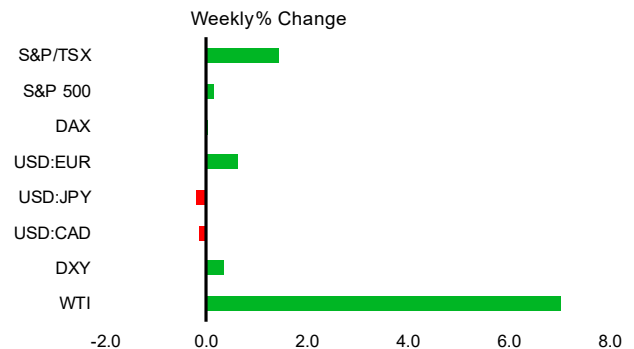
Canada

- This week's data painted a complex picture of the Canadian economy. Housing market continued its recovery while manufacturing and retail sales disappointed.
- The global manufacturing slump may finally be hitting Canada. The ongoing decline in U.S. manufacturing will weigh on the Canadian manufacturing sector in months to come.
- With trade tensions, uncertainty and softening global growth seeping into Canada, the Bank of Canada will likely come off the sidelines to deliver a rate cut later this year.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	3012	3007	3026	2351
S&P/TSX Comp.	16924	16682	16924	13780
DAX	12468	12469	12630	10382
FTSE 100	7355	7367	7687	6585
Nikkei	22079	21988	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	1.76	1.90	3.24	1.46
Canada 10-yr Bond	1.41	1.51	2.60	1.09
Germany 10-yr Bund	-0.52	-0.45	0.57	-0.71
UK 10-yr Gilt	0.63	0.76	1.73	0.41
Japan 10-yr Bond	-0.21	-0.15	0.16	-0.29
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.78	0.73
Euro (USD per EUR)	1.10	1.11	1.18	1.10
Pound (USD per GBP)	1.25	1.25	1.33	1.20
Yen (JPY per USD)	107.9	108.1	114.5	105.3
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	59.1	54.9	76.4	42.3
Natural Gas (\$US/MMBtu)	2.65	2.62	4.80	2.02
Copper (\$US/met. tonne)	5761.5	5949.3	6555.5	5584.5
Gold (\$US/troy oz.)	1503.7	1488.7	1552.4	1182.9

*As of 11:12 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Attack on Saudi Facility Sends Oil Higher



Note: Data as of 11:04 AM ET, Friday, September 20, 2019.
Source: Bloomberg, TD Economics

Global Official Policy Rate Targets	
	Current Target
Federal Reserve (Fed Funds Rate)	1.75 - 2.00%
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. - Fed Cuts Rates, More to Come

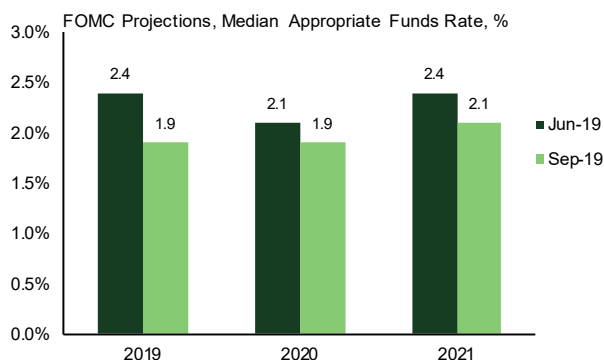
The main event for investors this week was the Fed’s rate decision. Equity markets managed to hang on to last week’s optimism. However, long-term Treasury yields were a little lower as bond markets remain cautious on the economic outlook.

As expected, the Fed cut its key lending rate, but there was little change in its economic forecasts. Investors may have been disappointed by the Fed’s “dot” plot, which showed the median FOMC member does not expect to lower rates in the next few years. It is important to note that Chair Powell de-emphasized the “dots” in the press conference after the decision. He argued that when the Fed is dealing with a high degree of uncertainty, and heightened data dependency, the dots farther out have less meaning.

Recent history has born this out. As recently as June of this year, the median FOMC member did not expect to cut rates in 2019 (Chart 1). In the three months since, the Fed has cut rates twice. The FOMC will clearly shift in response to risks to the economic outlook. It is late in the business cycle, with limited pent-up demand and mounting geopolitical risks. This requires the dot plot to be taken with several grains of salt.

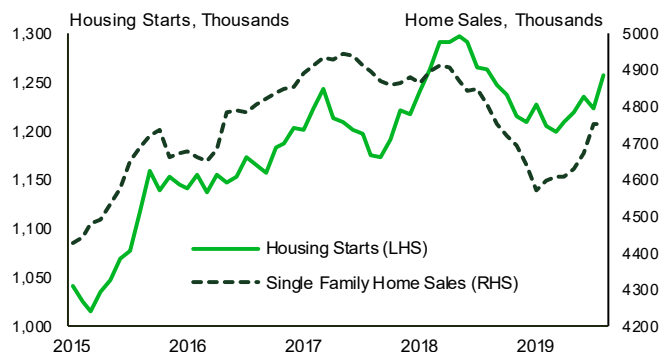
Our new [forecast](#) discusses how a lower growth trajectory over the next year and continued uncertainty on the trade front is likely to lead the Fed cut rates once more this year. Indeed, the Fed is not the only central bank easing policy. Easier financial conditions globally should help soften the

Chart 1: FOMC Expectations Less Meaningful in a Data Dependent World



Source: Federal Reserve Board, TD Economics

Chart 2: Lower Mortgage Rates Finally Provide a Boost to Housing



Source: Census Bureau, NAR, TD Economics

negative cycle taking hold in sentiment, and ultimately sow the seeds for a modest firming in global economic growth in 2020.

Here in the U.S. we are finally starting to see the positive impact of falling interest rates. The one percentage point drop in mortgage rates since late 2018 is finally providing a boost to the housing market (Chart 2). Residential investment is likely to expand in the third quarter for the first time in almost two years. We expect it to continue to grow at a modest pace, as positive demand forces – record-low unemployment and low mortgage rates – push up against challenges on the supply side – a lack of inventory of homes for sale, and still-inadequate construction.

Adding to an eventful week, the GM strike halted production at more than 30 U.S. plants. There are few signs of a deal, and the strike is likely to subtract around 0.1 percentage points off real GDP growth in Q3. The impact on fourth quarter growth will depend on how long it lasts and on how quickly GM ramps up activity after the strike. A four-week strike would see very limited bounce back in activity in the fourth quarter, but would push the rebound in growth more into the first quarter of 2020.

Finally, oil prices have fallen back after their spike on Monday. While the increase was startling, oil prices remain about 18% below their year-ago level, and prices at the pump continue to put downward pressure on inflation, adding to consumer purchasing power – at least for now.

Leslie Preston, Senior Economist | 416-983-7053

Canada - Insurance Is Calling

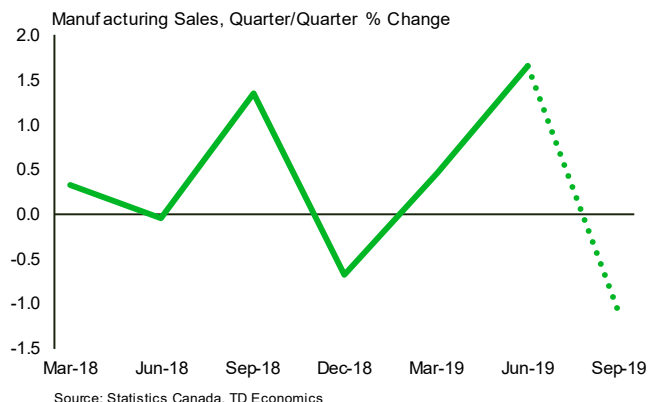
Canadian markets saw a steady rise through the week with the TSX, up 1.4% and reaching an all-time high. Following a bumpy ride, due in no small part to the drone strikes on Saudi's oil production facilities, WTI price had settled to \$58/barrel at the time of writing.

Canadian data came in droves this week, painting a complex picture of the Canadian economy. While the housing market continued to strengthen, manufacturing activity and retail sales were subdued. Inflation data revealed nothing new, leaving the Bank of Canada to look to other signs to guide the future course of monetary policy.

The housing market recovery is fully underway. Sales of existing homes rose for a sixth straight month in August (Chart 1). Winnipeg lead the way with a whopping 18.2% gain. Most provinces saw an increase in sales as low mortgage rates, healthy labor markets, and robust population growth buttressed the housing industry. The weakness from earlier in the year seems to be a distant memory, and signs are now pointing to positive sales growth through 2020.

Unlike housing, manufacturing activity was down in the dumps. Manufacturing sales declined for the second straight month in July with most industries reporting contractions. Moreover, forward looking indicators also pointed to weaker activity in the months to come. Even if manufacturing sales normalize to historical means through the third quarter, it will see a sizeable contraction in Q3 (Chart 2). What's more, the global manufacturing slowdown may finally be seeping its way through to the Canadian manufacturing sector. Specifically, the contraction in U.S. manu-

Chart 2: Manufacturing Sales Set to Dip in 19Q3



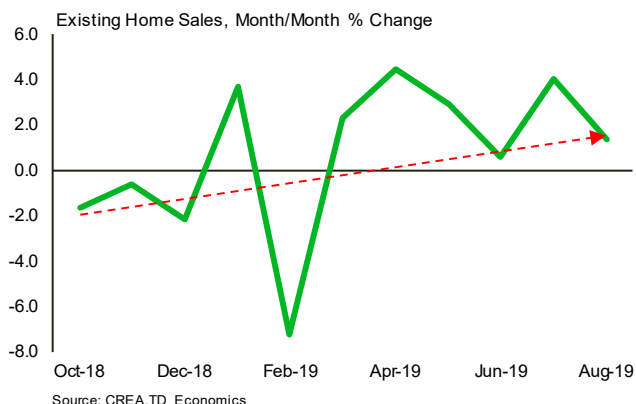
facturing, as witnessed by the decline in the ISM manufacturing index, will likely continue to hold down activity north of the border. With trade tensions and the accompanying uncertainty not going away anytime soon, things are not looking up for Canadian manufacturing.

In a similar vein, retail sales also disappointed in July. Although incomes are rising at a decent pace and labour markets are solid, retail sales have trended sideways for more than a year now. It appears that elevated household debt levels and high debt-service ratios may be leading to a thriftier Canadian consumer. But, lower borrowing rates and stronger housing markets may loosen the purse-strings, at least a little, in future months.

Despite the action on the real side of the economy, price movements were stable. Headline inflation slowed slightly due to weaker gas prices, but stripping that and food prices out, core measures averaged exactly 2.0% in July, leaving the Bank of Canada to turn to the other indicators to guide its policy path.

Indeed, the weakness in manufacturing will present a case for monetary easing to the BoC. Clearly, Canada is not immune to the global manufacturing slowdown and some insurance may help offset the negative impacts. As detailed in our newly released [Quarterly Economic Forecast](#), with trade tensions, softening global outlook, and uncertainty holding back investment, we expect the BoC to cut rates later this year.

Chart 1: Housing Market Continues to Strengthen



Sri Thanabalasingam, Economist | 416-413-3117

U.S.: Upcoming Key Economic Releases

U.S Personal Income & Spending- August*

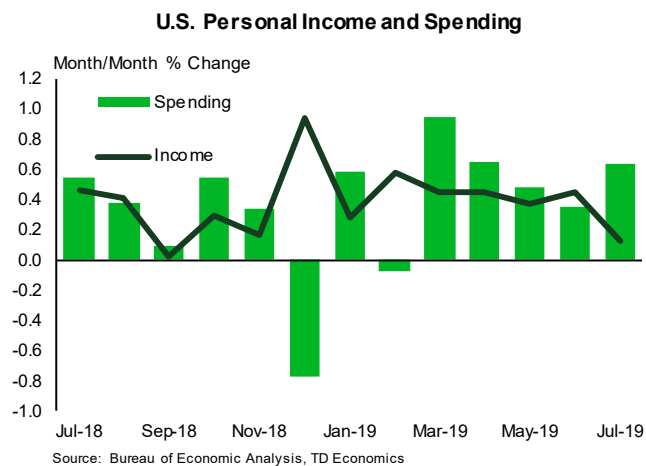
Release Date: September 27, 2019

Previous: spending: 0.6%; income: 0.1%

TD Forecast: spending: 0.3% m/m; income: 0.5%

Consensus: spending: 0.3% m/m; income: 0.4%

We anticipate growth in personal spending to have slowed to a still firm 0.3% m/m in August from 0.6% in July. This would keep real spending growth at a still strong 3.9% pace so far in Q3, down from 4.7% in Q2. In the details, we expect a 0.3% m/m increase in services spending to be the main driver of the August gain, with a rise in spending on durables (0.3%) and nondurables (+0.2%) also helping on the headline. Moreover, we forecast income to rise a strong 0.5% m/m, following the soft 0.1% increase in July.



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

Recent Key Economic Indicators: Sep 16 - 20, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 16	Empire Manufacturing	Sep	Index	2.0	4.8
Sep 17	Capacity Utilization	Aug	M/M % Chg.	77.9	77.5
Sep 17	Industrial Production	Aug	M/M % Chg.	0.6	-0.1
Sep 17	Manufacturing (SIC) Production	Aug	M/M % Chg.	0.5	-0.4
Sep 17	NAHB Housing Market Index	Sep	Index	68.0	67.0
Sep 18	Building Permits	Aug	Thsd	1419.0	1317.0
Sep 18	FOMC Rate Decision (Upper Bound)	Sep 18	%	2.00	2.25
Sep 18	Housing Starts	Aug	Thsd	1364.0	1215.0
Sep 18	Interest Rate on Excess Reserves	Sep 19	%	1.8	2.1
Sep 19	Current Account Balance	2Q	Blns	-128.2	-136.2
Sep 19	Existing Home Sales	Aug	Mlns	5.5	5.4
Sep 19	Initial Jobless Claims	Sep 14	Thsd	208.0	206.0
Canada					
Sep 16	Existing Home Sales	Aug	M/M % Chg.	1.4	3.5
Sep 17	Manufacturing Sales	Jul	M/M % Chg.	-1.3	-1.4
Sep 18	Consumer Price Index NSA	Aug	M/M % Chg.	-0.1	0.5
Sep 18	Consumer Price Index	Aug	Y/Y % Chg.	1.9	2.0
Sep 18	Consumer Price Index Core: Median	Aug	Y/Y % Chg.	2.1	2.1
Sep 18	Consumer Price Index Core: Common	Aug	Y/Y % Chg.	1.8	1.9
Sep 18	Consumer Price Index Core: Trim	Aug	Y/Y % Chg.	2.1	2.1
Sep 19	Teranet/National Bank HPI	Aug	Y/Y % Chg.	0.6	0.4
Sep 20	Retail Sales	Jul	M/M % Chg.	0.4	-0.1
Sep 20	Retail Sales Ex Auto	Jul	M/M % Chg.	-0.1	0.9
International					
Sep 18	EZ Consumer Price Index Core	Aug	Y/Y % Chg.	0.9	0.9
Sep 18	EZ Consumer Price Index	Aug	Y/Y % Chg.	1.0	1.0
Sep 18	UK Consumer Price Index	Aug	Y/Y % Chg.	1.7	2.1
Sep 18	UK Consumer Price Index Core	Aug	Y/Y % Chg.	1.5	1.9
Sep 19	UK Bank of England Bank Rate	Sep 19	%	0.75	0.75
Sep 19	UK Retail Sales Ex Auto Fuel	Aug	Y/Y % Chg.	2.2	3.1

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sep 23 - 27, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Sep 23	9:45	Markit Manufacturing PMI	Sep	Index	50.2	50.3
Sep 23	9:45	Markit Services PMI	Sep	Index	51.8	50.7
Sep 23	9:50	<i>Fed's John Williams speaks at the U.S. Treasury Market Conference in New York, NY</i>				
Sep 23	13:00	<i>Fed's James Bullard speaks on "U.S. Economy and Monetary Policy" in Effingham, IL</i>				
Sep 23	14:30	<i>Fed's Mary Daly speaks at the Salem Community Leaders Luncheon in Salem, OR</i>				
Sep 24	9:00	S&P CoreLogic CS US HPI NSA	Jul	Y/Y % Chg.	-	3.1
Sep 24	10:00	Conf. Board Consumer Confidence	Sep	Index	133.5	135.1
Sep 25	8:00	<i>Fed's Charles Evans speaks at the Lake Forest Rotary Club in Lake Forest, IL</i>				
Sep 25	10:00	New Home Sales	Aug	Thsd	653.0	635.0
Sep 25	19:00	<i>Fed's Robert Kaplan speaks at the Dallas Business Club in Dallas, TX</i>				
Sep 26	8:30	Advance Goods Trade Balance	Aug	Blns	-74.3	-72.3
Sep 26	8:30	Core Personal Consumption Expenditure	2Q	Q/Q % Chg.	-	1.7
Sep 26	8:30	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	2.0	2.0
Sep 26	8:30	Initial Jobless Claims	Sep 21	Thsd	-	-
Sep 26	8:30	Personal Consumption	2Q	Q/Q % Chg.	-	4.7
Sep 26	8:30	Retail Inventories	Aug	M/M % Chg.	-	0.8
Sep 26	9:30	<i>Fed's Robert Kaplan speaks on trade and immigration in Dallas, TX</i>				
Sep 26	10:00	<i>Fed's James Bullard speaks at a forum in St. Louis, MO</i>				
Sep 26	10:00	Pending Home Sales	Aug	M/M % Chg.	0.8	-2.5
Sep 26	11:45	<i>Fed's Mary Daly speaks at an event in San Francisco, CA</i>				
Sep 26	14:00	<i>Fed's Neel Kashkari speaks at a town hall in Billings, MT</i>				
Sep 27	8:30	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	-	0.2
Sep 27	8:30	Durable Goods Orders	Aug	M/M % Chg.	0.0	0.2
Sep 27	8:30	Personal Consumption Expenditure Core Deflator	Aug	Y/Y % Chg.	1.8	1.6
Sep 27	8:30	Personal Consumption Expenditure Deflator	Aug	Y/Y % Chg.	-	1.4
Sep 27	8:30	Personal Income	Aug	M/M % Chg.	0.4	0.1
Sep 27	8:30	Real Personal Spending	Aug	M/M % Chg.	-	0.4
Sep 27	12:00	<i>Fed's Patrick Harker speaks on the economic outlook in New York, NY</i>				
Canada						
Sep 23	8:30	Wholesale Trade Sales	Jul	M/M % Chg.	0.0	0.6
Sep 26	6:00	CFIB Business Barometer	Sep	Index	-	60.6
International						
Sep 23	4:00	EZ Markit Eurozone Manufacturing PMI	Sep	Index	-	47.0
Sep 26	19:30	JN Tokyo Consumer Price Index	Sep	Y/Y % Chg.	-	0.6

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

Disclaimer

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