

The Weekly Bottom Line

September 27, 2019

Highlights of the Week

United States

- Downturn in U.S. consumer confidence and rising political risks as the House began impeachment inquiries against President Trump, triggered volatility in global markets.
- US personal incomes jump in August (to 0.4% month-on-month from 0.1% previously), even as spending was subdued (0.1% in August vs. 0.5% in July).
- Activity in the housing market continued to perk up with larger-than-expected rises in both new and pending home sales on the heels of similar increases in housing starts and permits last week.

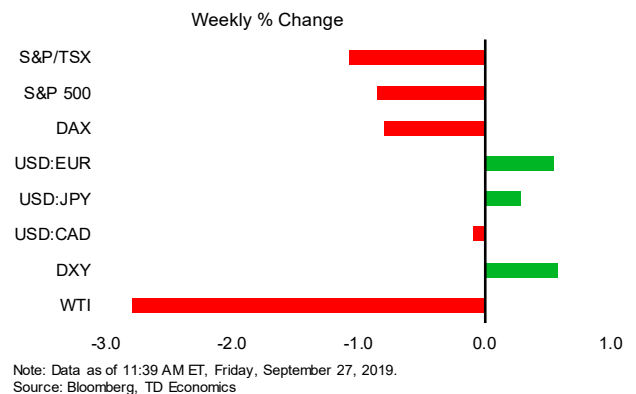
Canada

- It was a generally weak week for Canadian markets as falling oil prices helped send the TSX lower.
- In contrast, the Canadian economic data this week was generally encouraging. Wholesale trade gained nicely in July, as did construction activity. The payrolls data showed another month of gains, making it seven-for-seven so far this year.
- The data broke from the more modest reports earlier this month – continuing the trend of hot and cold economic data. All told, the Canadian economy appears to have started the third quarter on decent footing.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2984	2992	3026	2351
S&P/TSX Comp.	16749	16900	16900	13780
DAX	12366	12468	12630	10382
FTSE 100	7426	7345	7687	6585
Nikkei	21879	22079	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	1.70	1.72	3.24	1.46
Canada 10-yr Bond	1.36	1.39	2.60	1.09
Germany 10-yr Bund	-0.57	-0.52	0.57	-0.71
UK 10-yr Gilt	0.50	0.63	1.73	0.41
Japan 10-yr Bond	-0.24	-0.21	0.16	-0.29
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.75	0.78	0.73
Euro (USD per EUR)	1.09	1.10	1.16	1.09
Pound (USD per GBP)	1.23	1.25	1.33	1.20
Yen (JPY per USD)	108.2	107.6	114.5	105.3
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	55.3	58.1	76.4	42.3
Natural Gas (\$US/MMBtu)	2.57	2.66	4.80	2.02
Copper (\$US/met. tonne)	5693.3	5770.0	6555.5	5584.5
Gold (\$US/troy oz.)	1491.6	1516.9	1552.4	1182.9

*As of 11:34 AM on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

Growth Concerns Drag Oil, Markets Lower



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.

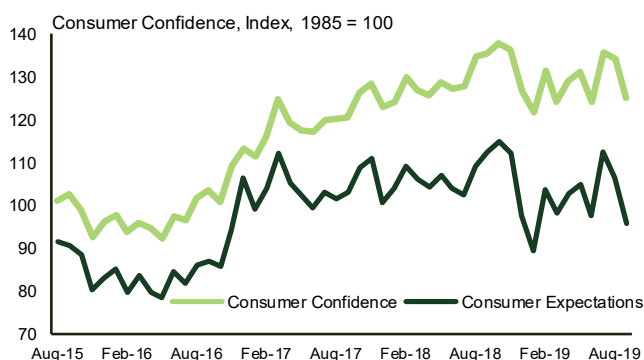
U.S. - Political Risks Heighten Economic Uncertainty

The financial news this week was highlighted by old-fashioned political words like “prorogation” and “impeachment.” In the U.K., the Supreme Court ruled that Prime Minister Johnson acted unlawfully when he prorogued Parliament earlier this month. The ruling is expected to intensify Brexit tensions in the weeks ahead.

In the U.S., House Speaker Nancy Pelosi announced an official impeachment inquiry into President Trump after a whistleblower report suggested that he withheld aid to Ukraine while pressing the country to investigate Democratic presidential candidate Joe Biden and his son. The threat of ousting the president from office contributed to market volatility, but with few believing it will hit the two-thirds of the Senate required for conviction, market reaction was relatively muted, with stock markets edging modestly lower and bond yields down a few basis points.

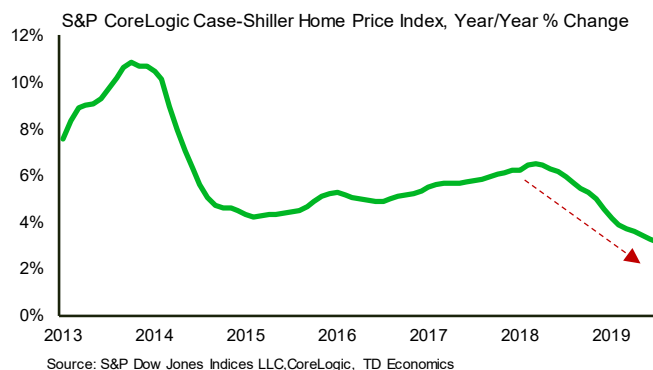
Meanwhile the U.S.-China trade dispute continues to simmer. Washington and Beijing, sent out mixed signals throughout the week. Mr. Trump noted that he wouldn’t accept a “bad” trade deal with China, but by Wednesday stated that a trade deal with China “could happen sooner than you think.” China, on the other hand, called trade talks “productive” and “constructive” and there are reports that Chinese companies are preparing to increase their purchases of U.S. pork and soybeans, notwithstanding the cancellation of scheduled U.S. farm visits by Chinese delegates.

Chart 1: Erratic Trade Talks Rattle Consumer Confidence



Source: The Conference Board, TD Economics

Chart 2: Continued Deceleration in Home Price Growth Helps to Spur Renewed Activity in the Housing Market



Source: S&P Dow Jones Indices LLC, CoreLogic, TD Economics

On a more positive note, Mr. Trump and Japan’s Prime Minister signed a trade-enhancement agreement that will lower agricultural tariffs in Japan, industrial tariffs in the U.S. and set new rules for digital trade between the two countries. The limited accord is potentially the first step in a broader trade agreement between the two countries.

The erratic nature of trade talks has undoubtedly contributed to a falloff in consumer confidence. The Conference Board’s index fell by the most in nine months in September to 125.1, from a downwardly revised 134.2 the month before (Chart 1). The reading was well below market expectations. The expectations index also declined to 95.8 from 106.4 previously. The downturn in expectations could see consumers hold back on spending. Indeed, consumer spending slowed more than expected in August, nudging up just 0.1% month-on-month. On the upside, incomes rose by a solid 0.4%. Price pressures were steady, with PCE inflation holding at 1.4% year-on-year, but the core measure ticked up to 1.8% (from 1.7%).

Activity in the housing market fared better. New home sales increased 7.1% in August and pending home sales rose a better-than-expected 1.6%. Residential investment is likely to add a small, but positive, amount to third quarter GDP – a welcome development after several quarters subtracting from growth. On the price side, the Case-Shiller index slowed in July to the slowest pace since September 2012 (Chart 2). The deceleration in price growth may not be such a bad thing, easing affordability pressures and helping to sustain the recent pickup in housing demand.

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Canada - More Mixed Messages

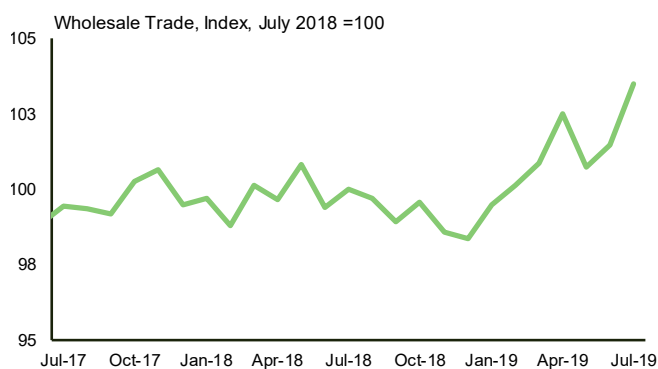
Canadian markets were generally soft this week, with the S&P/TSX composite index trending steadily lower, in near-lockstep with falling oil prices. Notably, the declines were widespread, with only the utilities and financials sub-categories shaping up to end the week higher at the time of writing. South of the border, markets withstood some spicy political headlines and managed to turn out a mixed performance across the major indices.

Turning to the domestic dataflow, releases were mainly ‘second tier’; the type that typically don’t get as many headlines, but still contribute to the economic picture. In contrast to last week’s generally weak data releases (such as the retail sales report that showed effectively no growth in volumes over the past year), the data this week was more constructive.

Top of the list was the wholesale trade report. Sales volumes in this industry were up an impressive 1.9% m/m in July – the strongest showing in nearly three years (Chart 1). As strong as sales were, rising inventories meant the inventory-to-sales ratio was down only a touch, and remains elevated after surging higher in early 2018 – matching the trend seen among manufacturers.

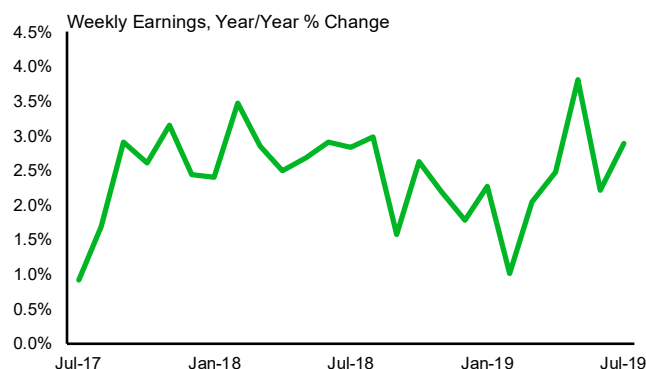
The July construction investment data was also encouraging. Residential construction was up 0.8%, helped by healthy gains in single dwelling activity (multis were down on the month). The pace of growth may have cooled a bit after a strong run earlier this year, but activity is still well above the low levels seen late last year. Non-residential construction grew at the same 0.8% monthly pace, for an

Chart 1: Wholesale Trade Jumped Higher in July



Source: Statistics Canada, TD Economics

Chart 2: Decent Earnings Growth in July



Source: Statistics Canada, TD Economics

eighth straight month of expansion, with all major categories (industrial, commercial, and government) up in July.

Finally, the July payrolls report – often overshadowed by its much timelier cousin the Labour Force Survey (which gives us the unemployment rate) – also painted an encouraging picture. Payroll employment continued its so far unbroken climb this year, up 75.4k month-on-month in July. Hours worked were basically unchanged, but the somewhat more volatile weekly earnings figure ticked back up to hit 2.9% y/y (Chart 2). Over the past six months, earnings gains have averaged 2.4% – above inflation, but still shy of the 3.5% mark associated with tight labour conditions.

Looking ahead to next week’s monthly GDP report, things are shaping up well. Despite the mixed messages in the monthly data, we look for another month of decent economic growth (See the Upcoming Releases section of this report).

So where does this leave the Bank of Canada? With the election cycle in full swing, we won’t be hearing much (if anything) from Poloz and company this month, making their post-election forecast update even more important than usual. But perhaps it is just as well for them: divergent trends, global developments and potential changes in fiscal policy all mean the economic landscape may look quite a bit different in a month’s time. While the data and near-term silence augur for another hold in October, expect to see some shifts in tone when Poloz next faces the media.

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U.S.: Upcoming Key Economic Releases

U.S. ISM Manufacturing Index –September*

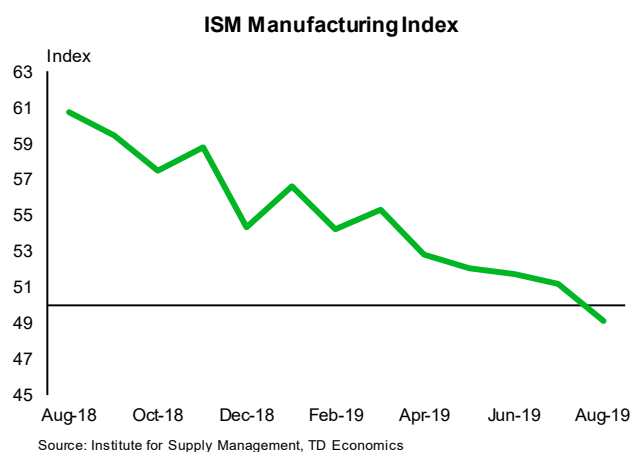
Release Date: October 1, 2019

Previous: 49.1

TD Forecast: 50.8

Consensus: 50.3

We look for a rebound in the ISM index to 50.8 in September after its drop to contractionary territory in August (49.1), as we expect easing trade tensions to have marginally boosted business sentiment in September. Indeed, the average of the ISM-adjusted regional surveys is pointing to some improvement since August. In addition, a recent spate of steady capex orders and a firmer Markit PMI also boost the odds for a positive surprise, in our view.



U.S. Employment – September*

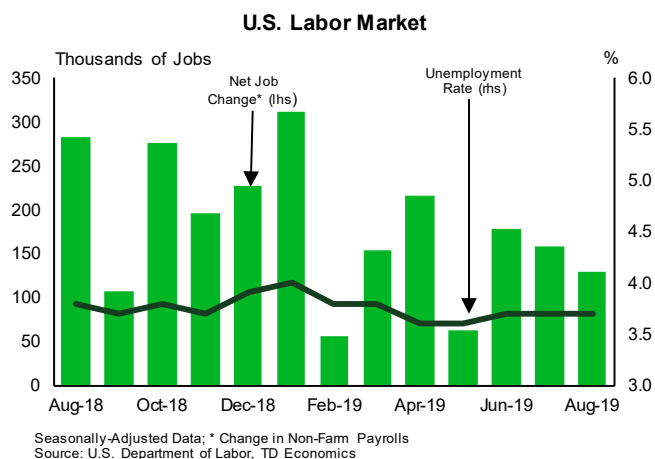
Release Date: October 4w, 2019

Previous: 130k, unemployment rate: 3.7%,

TD Forecast: 150k, unemployment rate: 3.7%

Consensus: 140k, unemployment rate: 3.7%,

We expect payrolls to increase by 150k in September, following the below-consensus 130k August print. Jobs in the goods sector should remain soft as manufacturing employment is expected to remain subdued, while we look for a modest rebound in services partly due to a recovery in job gains in the education sector. We also note that temporary census hiring for canvassing purposes should continue to boost employment figures this month: we pencil in a 15k increase federal hires. All in, the household survey should show the unemployment rate remaining steady at 3.7% in September, while wages are expected to rise 0.2% m/m, leaving the annual rate unchanged at 3.2% y/y.



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

Canada: Upcoming Key Economic Releases

Canadian Real GDP– July*

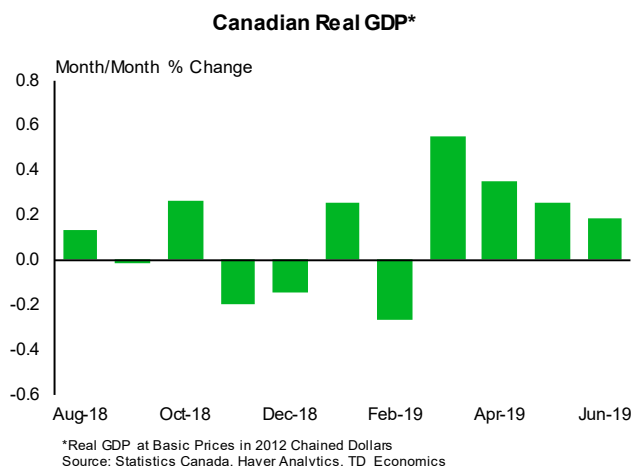
Release Date: October 1, 2019

Previous: 0.2%

TD Forecast: 0.1%

Consensus: 0.1%

Industry-level GDP growth is forecast to rise by a muted 0.1% in July due to continued softness in the goods-producing sector. Real manufacturing sales fell by 1.6% for their largest one-month drop since April 2018 which suggests that some of the weakness projected by softer PMIs is now showing up in the activity data. Energy production is also forecast to edge lower on the heels of a strong Q2; production caps were unchanged in July but scheduled increases of 25k/month for August-October should support growth in the coming months. One offset is an anticipated rise in utilities output, driven by heat waves across



Eastern Canada for part of the month. Solid momentum in services should provide another source of strength, with a large contribution from wholesale trade and real estate, while retail trade will exert a modest drag. A 0.1% increase would leave Q3 tracking in the low-1% range, slightly below BoC projections from July.

Canadian International Trade- August*

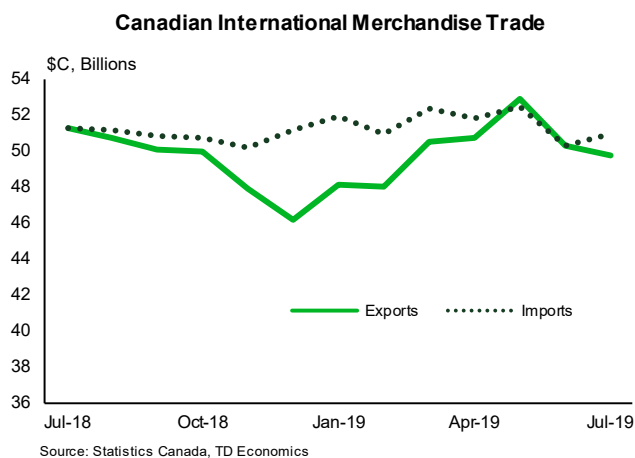
Release Date: October 4, 2019

Previous: -\$1.124bn

TD Forecast: -\$1.50bn

Consensus: -\$1.05bn

The international merchandise trade deficit is forecast to widen to \$1.5bn in August on account of higher imports, which have yet to fully recover from a 4% decline in June. Non-energy exports will provide a partial offset on higher auto production alongside higher forestry exports, which will benefit from a recent pickup in US homebuilding activity. Meanwhile, lower crude oil prices will weigh on nominal export activity.



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

Recent Key Economic Indicators: Sep 23 - 27, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Sep 23	Markit Manufacturing PMI	Sep	Index	51.0	50.3
Sep 23	Markit Services PMI	Sep	Index	50.9	50.7
Sep 24	Conf. Board Consumer Confidence	Sep	Index	125.1	134.2
Sep 24	S&P CoreLogic CS US HPI NSA	Jul	Y/Y % Chg.	3.2	3.3
Sep 25	New Home Sales	Aug	Thsd	713.0	666.0
Sep 26	Advance Goods Trade Balance	Aug	Blns	-72.8	-72.5
Sep 26	Core Personal Consumption Expenditure	2Q	Q/Q % Chg.	1.9	1.7
Sep 26	Gross Domestic Product Annualized	2Q	Q/Q % Chg.	2.0	2.0
Sep 26	Initial Jobless Claims	Sep 21	Thsd	213.0	210.0
Sep 26	Pending Home Sales	Aug	M/M % Chg.	1.6	-2.5
Sep 26	Personal Consumption	2Q	Q/Q % Chg.	4.6	4.7
Sep 26	Retail Inventories	Aug	M/M % Chg.	0.0	0.7
Sep 27	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	-0.2	0.0
Sep 27	Durable Goods Orders	Aug	M/M % Chg.	0.2	0.2
Sep 27	Personal Consumption Expenditure Core Deflator	Aug	Y/Y % Chg.	1.8	1.7
Sep 27	Personal Consumption Expenditure Deflator	Aug	Y/Y % Chg.	1.4	1.4
Sep 27	Personal Income	Aug	M/M % Chg.	0.4	0.1
Sep 27	Real Personal Spending	Aug	M/M % Chg.	0.1	0.3
Canada					
Sep 23	Wholesale Trade Sales	Jul	M/M % Chg.	1.7	0.7
Sep 26	CFIB Business Barometer	Sep	Index	59.3	60.6
International					
Sep 23	EZ Markit Eurozone Manufacturing PMI	Sep	Index	45.6	47.0
Sep 26	JN Tokyo Consumer Price Index	Sep	Y/Y % Chg.	0.4	0.6

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Sep 30 - Oct 4, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Oct 01		Wards Total Vehicle Sales	Sep	Mlns	17.1	17.0
Oct 01	10:00	ISM Employment	Sep	Index	-	47.4
Oct 01	10:00	ISM Manufacturing	Sep	Index	50.5	49.1
Oct 01	9:45	Markit US Manufacturing PMI	Sep	Index	-	51.0
Oct 01	9:15	<i>Fed's James Bullard speaks at the 2019 Community Banking Research Conference in St. Louis, MO</i>				
Oct 01	9:30	<i>Fed's Michelle Bowman speaks at the 2019 Community Banking Research Conference in St. Louis, MO</i>				
Oct 02	8:15	ADP Employment Change	Sep	Thsd	140.0	195.0
Oct 02	9:00	<i>Fed's Patrick Herker speaks at the 2019 Community Banking Research Conference in St. Louis, MO</i>				
Oct 02	10:50	<i>Fed's John Williams speaks at UC San Diego in La Jolla, CA</i>				
Oct 03	10:00	Durable Goods Orders	Aug	M/M % Chg.	-	-
Oct 03	10:00	Cap Goods Orders Nondef Ex Air	Aug	M/M % Chg.	-	-
Oct 03	10:00	ISM Non-Manufacturing Index	Sep	Index	55.2	56.4
Oct 03	8:30	Initial Jobless Claims	Sep 28	Thsd	-	213.0
Oct 03	9:45	Markit US Services PMI	Sep	Index	-	50.9
Oct 03	10:00	Factory Orders	Aug	M/M % Chg.	-0.5	1.4
Oct 03	10:00	Factory Orders Ex Trans	Aug	M/M % Chg.	-	0.3
Oct 03	3:45	<i>Fed's Charles Evans speaks at a central banking event in Madrid, Spain</i>				
Oct 03	12:10	<i>Fed's Loretta Mester speaks at a monetary policy event in Washington, D.C.</i>				
Oct 04	8:30	Change in Nonfarm Payrolls	Sep	Thsd	140.0	130.0
Oct 04	8:30	Trade Balance	Aug	Blns	-54.9	-54.0
Oct 04	8:30	Unemployment Rate	Sep	%	3.7	3.7
Oct 04	8:30	Average Hourly Earnings	Sep	M/M % Chg.	0.3	0.4
Oct 04	10:25	<i>Fed's Raphael Bostic speaks at a business forum in New Orleans, LA</i>				
Oct 04	14:00	<i>Fed's Chairman Jerome Powell speaks at an event in Washington, D.C.</i>				
Oct 04	14:10	<i>Fed's Lael Brainard speaks at an event in Washington, D.C.</i>				
Oct 04	16:00	<i>Fed's Richard Clarida speaks at an event in Washington, D.C.</i>				
Canada						
Sep 30	8:30	Industrial Product Price	Aug	M/M % Chg.	-	-0.3
Oct 01	8:30	Gross Domestic Product	Jul	M/M % Chg.	-	0.2
Oct 01	9:30	Markit Canada Manufacturing PMI	Sep	Index	-	49.1
Oct 04	8:30	Int'l Merchandise Trade	Aug	CAD, Blns	-	-1.1
International						
Sep 30	5:00	EZ Unemployment Rate	Aug	%	-	7.5
Sep 30	19:30	JN Jobless Rate	Aug	%	-	2.2
Sep 30	4:30	UK Gross Domestic Product	2Q	Y/Y % Chg.	-	1.2
Oct 01	5:00	EZ Consumer Price Index Estimate	Sep	Y/Y % Chg.	-	1.0
Oct 03	5:00	EZ Retail Sales	Aug	Y/Y % Chg.	-	2.2

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

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