

# THE WEEKLY BOTTOM LINE

## TD Economics



### HIGHLIGHTS OF THE WEEK

June 23, 2017

#### United States

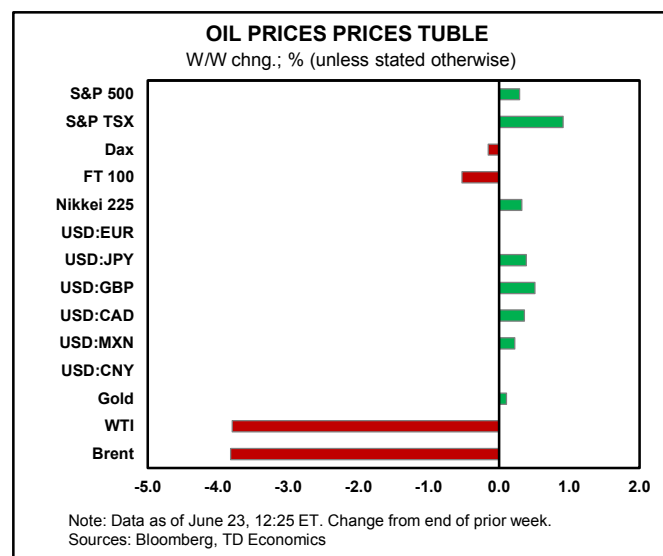
- Equity markets started off the week on a positive note. But the advance proved transitory as oil prices slid into bear territory, sending energy stocks and the main indices lower.
- With little in the way of economic data, Fed speeches took center stage. While echoing support for last week's decision, some Fed speakers appeared to take on a more dovish tone, with Harker and Evans putting an emphasis on waiting for further proof to hike again.
- The only significant economic data releases this week pertained to housing activity. Existing home sales surprised on the upside. Meanwhile, sales in the smaller and more volatile new home market, also rebounded in May.

#### Canada

- For those trying to time the next Bank of Canada rate, this week's economic data brought mixed signals with inflation easing for a fifth straight month and momentum retail spending holding strong into the second quarter of the year.
- While soft inflation is likely to keep the Bank of Canada on hold through July, the pick-up in economic momentum offers good grounds for an October rate hike. Inflation is a lagging indicator, and May's reading likely reflects soft economic conditions from late 2015 to early 2016. But inflation may be nearing a trough, as slack is being eaten up at a quickened pace.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	2,435	2,433	2,453	2,001
S&P/TSX Comp.	15,220	15,193	15,922	13,690
DAX	12,705	12,753	12,889	9,269
FTSE 100	7,421	7,464	7,548	5,982
Nikkei	20,133	19,943	20,230	14,952
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	2.15	2.15	2.63	1.36
Canada 10-yr Bond	1.48	1.52	1.87	0.95
Germany 10-yr Bund	0.25	0.28	0.49	-0.19
UK 10-yr Gilt	1.03	1.02	1.52	0.52
Japan 10-yr Bond	0.06	0.06	0.12	-0.29
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.75	0.76	0.78	0.73
Euro (USD per EUR)	1.12	1.12	1.14	1.04
Pound (USD per GBP)	1.27	1.28	1.49	1.20
Yen (JPY per USD)	111.2	110.9	118.2	99.9
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	42.7	44.7	54.1	39.5
Natural Gas (\$US/MMBtu)	2.85	2.97	3.76	2.03
Copper (\$US/met. tonne)	5723.5	5639.0	6103.5	4595.0
Gold (\$US/troy oz.)	1257.5	1253.7	1366.4	1128.4

\*as of 9:45 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)	1.00 - 1.25%
Bank of Canada (Overnight Rate)	0.50%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.25%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

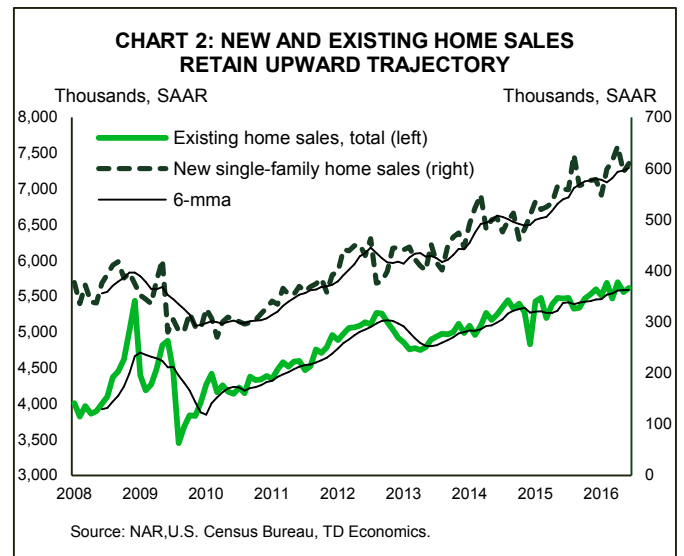
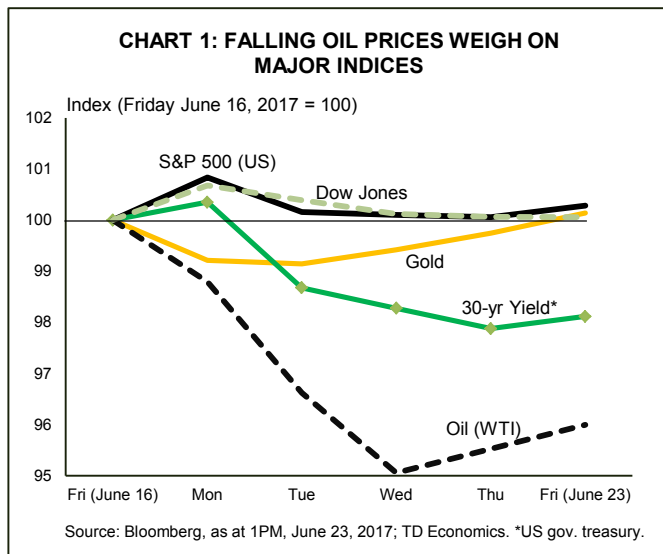
## U.S. – FED SPEECHES TAKE CENTER STAGE

Markets started off the week on a positive note. Tech stocks bounced back on Monday as industry leaders met with President Trump at the first gathering of the American Technology Council. Meanwhile, financials were buoyed by comments from FOMC voting member Dudley that didn't seem too concerned with the slowdown in inflation. Sentiment was also supported by Macron's majority-win of the French parliamentary elections.

Unfortunately, the advance proved transitory. Oil prices slid into bear territory on account of rising production among the U.S., Libya and Nigeria and doubts as to whether recent OPEC cuts would be sufficient to manage the supply glut. This sent energy stocks and the main indices lower and enabled a move toward safe heaven assets (Chart 1).

With little in the way of economic data, Fed speeches took center stage. Given that last week's decision to hike was not unanimous and the fact that inflation has drifted lower, FOMC members appeared to be on the defensive. Vice-Chair Fischer pointed to "high and rising" home prices as one of the hazards of keeping rates low for long. While echoing support for last week's decision, other Fed speakers appeared to take on a more dovish tone, with Harker and Evans putting an emphasis on waiting for further proof to hike again. Bullard (non-voter) suggested that the expectation for rates rise to 3% over the next two and a half years is "unnecessarily aggressive."

Still, the Fed is sticking to its guns in expecting another rate hike by the end of this year, betting that the factors weighing on price growth will prove temporary and that a tight labor market will pull up wages and buoy inflation.



They may also get some help from a lower U.S. dollar, which is well off its peak level set earlier this year and is on track to end lower again the week. A lower dollar should help put upward pressure on goods prices, which have been consistently negative over the past year.

The only significant economic data releases this week pertained to housing activity. Existing home sales rose 1.1% m/m, surprising on the upside. Tight inventory levels and rising prices have weighed on momentum recently. But, declining mortgage rates contributed to the positive print and should provide further support in June, with the volume of mortgage applications on an upswing during the month. Sales in the smaller and more volatile new home market, also rebounded in May, with both series retaining an upward trajectory (Chart 2).

Rising interest rates, combined with robust price growth on the bigger resale segment are expected weigh on affordability. Still, households are likely to withstand the incremental increases in borrowing costs thanks to a solid labor market that is poised to deliver continued job and income gains. An improvement in the homeownership rate is also expected to provide a gentle tailwind as outlined in our recent [report](#), with resales expected to advance by 3.4% this year and 2.6% in 2018 to nearly 5.8 million by the end of the forecast horizon. Price growth should remain strong this year, holding near 6%. But a rebound in for-sale inventory, which is expected to be more of a factor next year, will help keep price growth in check at around 4% in 2018.

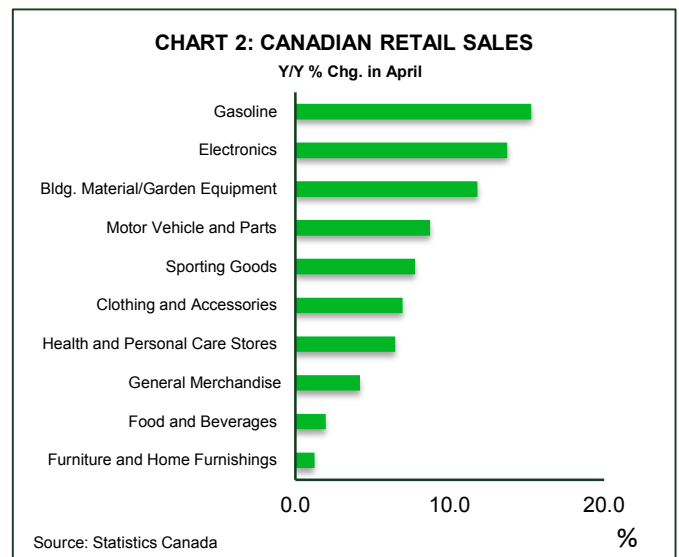
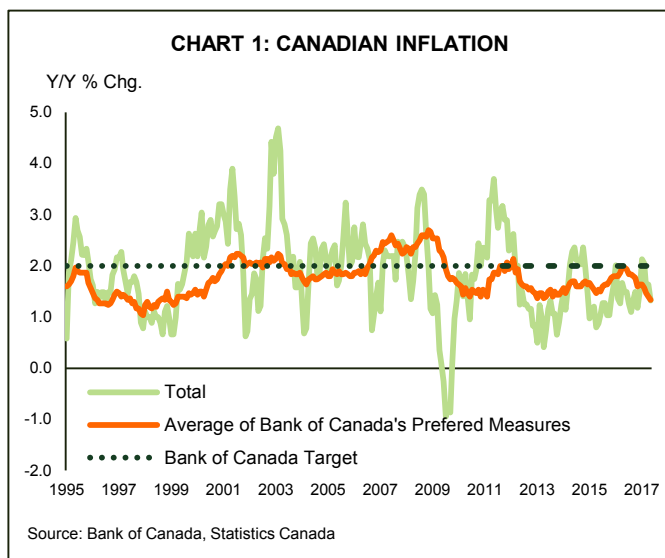
*Admir Kolaj, Economist*  
416-944-6318

## CANADA – MIXED SIGNALS

Those trying to time the next Bank of Canada move received mixed signals this week. Retail sales in April started the second quarter off on a strong note, suggesting the continuation of strong economic momentum. But, then Friday’s weaker-than-anticipated consumer price report showed that inflation continued to decelerate into May. Most of the Bank of Canada’s preferred measures of inflation eased for a fifth straight month, and are well below the Bank’s 2% target. While the soft inflation report helped curb enthusiasm over the possibility of a July rate hike, there are still grounds to believe the Bank of Canada will begin raising interest rates in October.

The weakness in inflation was fairly broad based and it was difficult to find signs of any significant price pressures in this morning’s report. The biggest decline was in clothing and footwear prices, which fell 1.5% year-over-year in May. This was followed by a 0.1% y/y contraction in food prices. Price growth for household operation and furnishings slowed to just 0.3% y/y in May, after averaging between 1.5% and 2% earlier this year. Transportation price growth also decelerated to just 2.2% y/y from 4.2% in the prior month as gasoline price growth slowed to 6.8% from 15.9% in April.

While the downward trend in inflation was broad, it likely reflects the lagged effect of past soft economic conditions from four to six quarters ago. Given the strength in economic growth over the past several quarters we are likely nearing a trough. Economic growth picked up considerable over the second half of 2016 and early 2017. Real GDP



growth averaged 3.5% annualized between the third quarter of 2016 and the first quarter of 2017, up from an average sub-1% in early 2016. Based on the Bank of Canada’s measures of the output gap, the amount of economic slack peaked in the second quarter of 2016 (four quarters ago), and has been eaten up fairly quickly since.

Looking forward, a healthy pace of consumer spending is likely to continue to underpin robust economic momentum. While housing related items were at the top of household shopping lists, consumers have been spending on just about everything at a healthy rate – a trend that will likely continue through most of 2017. Households are still carrying a lot of debt, but the low interest rate environment has kept the carrying costs of that debt low, giving them some financial wiggle room to continue to support retail spending. Meanwhile, the strength in housing activity through the last quarter of 2016 and into early 2017 is likely to continue to boost spending on house-related items as those buyers renovate and furnish their homes. The slowdown in housing activity currently underway will likely not feed into a slower pace of retail spending until the end of this year and early next year.

Overall, the low inflation backdrop is likely to keep the Bank of Canada on hold through July’s rate announcement, but given that monetary policy acts with a long and variable lead, improving economic conditions are likely to give the central Bank motivation to start gradually raising rates in October of this year.

*Diana Petramala, Economist, 416-982-6420*

## U.S.: UPCOMING KEY ECONOMIC RELEASES

### U.S. Personal Income & Spending - May\*

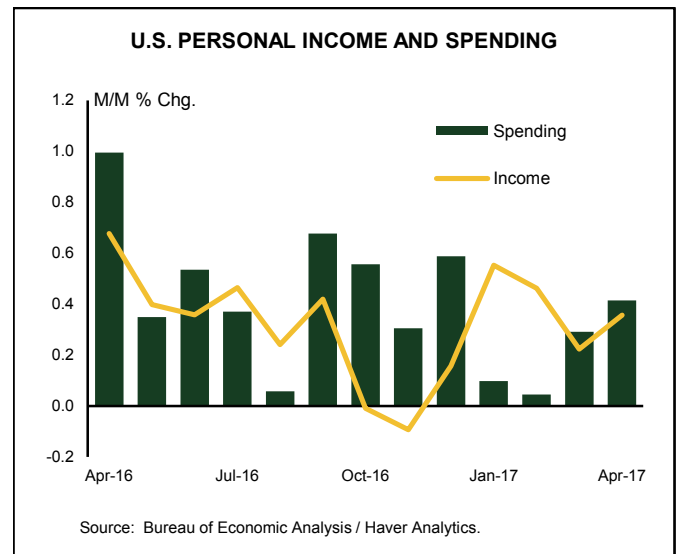
**Release Date:** June 30, 2017

**Previous Result:** Income 0.4% m/m, Spending 0.4% m/m

**TD Forecast:** Income 0.3% m/m, Spending 0.1% m/m

**Consensus:** Income 0.3% m/m, Spending 0.1% m/m

Headline PCE inflation is expected to slow to 1.5% in May vs 1.7% in April, reflecting a 0.1% fall in prices on the month. In line with the CPI report, energy prices decelerated further led by a m/m drop in gasoline prices. Food prices should be little changed on the month but due to base effects should be less of a drag on a y/y basis. All eyes are on the core PCE (excluding food & energy) index, which we expect to post a modest 0.1% increase on the month. That could lead to another slip in the core inflation rate to 1.4% y/y vs 1.5% y/y. Once again, we expect several one-offs (wireless telephone services, apparel) along with continued weakness in healthcare services prices to drive a relatively modest print in May. While fundamental factors (economic activity, labor market conditions, exchange rate pass-through) continue to point to gradual firming in the months ahead, sustained softness particularly in goods prices would become increasingly at odds with this outlook.



Nominal PCE (personal spending) is expected to post a relatively soft 0.1% rise in May. But a stronger real spending (0.2%) print paired with a solid April increase and handoff from March would be supportive of real PCE holding a 3% pace. Within the month of May, our 0.1% forecast reflects declines in durables and nondurables spending offset by steady gains services expenditures. We also expect a solid showing for May personal incomes (0.3%).

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

## CANADA: UPCOMING KEY ECONOMIC RELEASES

### Canadian Real GDP - April\*

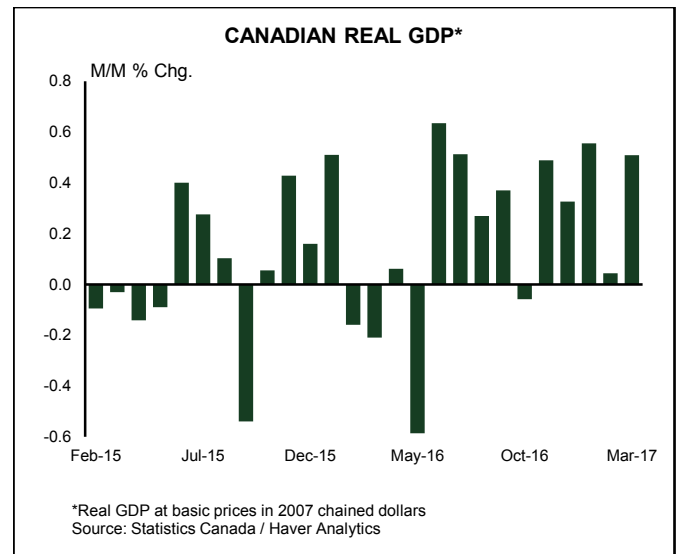
**Release Date:** June 30, 2017

**March Result:** 0.5% m/m

**TD Forecast:** 0.2% m/m

**Consensus:** N/A

Industry-level GDP growth is forecast to advance by 0.2% advance in April. We look for growth to be driven by both goods and services while a slowdown in housing activity should take some shine off. Goods sector output should be constrained by a sharp deceleration in residential construction. Meanwhile, services could feel an impact from the drop in resale activity. Elsewhere, GDP growth will be underpinned by an increase in manufacturing activity, consumer spending, and utilities output. Shutdowns at an oil sands upgrader will continue to weigh on nonconventional oil production but this should be offset by the ongoing recovery in oil and gas support services, which are up nearly 65% y/y.



Our forecast for a 0.2% monthly increase in industry level growth is consistent with Q2 growth near 3%, which should leave the Bank of Canada comfortable with the “sustainable” performance in the wider economy as they look to remove the 2015 insurance cuts in the coming months, most likely 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: JUNE 19-23, 2017**

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior	
<b>United States</b>						
Jun 20	Current Account Balance	1Q	Blns	-116.8	-114.0	R▼
Jun 21	Existing Home Sales	May	Mlns	5.62	5.56	R▼
Jun 22	Initial Jobless Claims	Jun 17	Thsd	241.0	238.0	R▲
Jun 23	Markit US Manufacturing PMI	Jun	Index	52.1	52.7	
Jun 23	Markit US Services PMI	Jun	Index	53.0	53.6	
Jun 23	New Home Sales	May	Thsd	610.0	593.0	R▲
<b>Canada</b>						
Jun 20	Wholesale Trade Sales	Apr	M/M % Chg.	1.0	1.2	R▲
Jun 22	Retail Sales Ex Auto	Apr	M/M % Chg.	1.5	-0.1	R▲
Jun 22	Retail Sales	Apr	M/M % Chg.	0.8	0.5	R▼
Jun 23	Consumer Price Index Core- Common	May	Y/Y % Chg.	1.3	1.3	
Jun 23	Consumer Price Index Core- Median	May	Y/Y % Chg.	1.5	1.6	
Jun 23	Consumer Price Index Core- Trim	May	Y/Y % Chg.	1.2	1.3	
Jun 23	Consumer Price Index NSA	May	M/M % Chg.	0.1	0.4	
Jun 23	Consumer Price Index	May	Index	1.3	1.6	
<b>International</b>						
Jun 22	JN Nikkei Japan PMI Mfg	Jun	Index	52.0	53.1	
Jun 23	EZ Markit Eurozone Manufacturing PMI	Jun	Index	57.3	57.0	

Source: Bloomberg, TD Economics.

**UPCOMING ECONOMIC RELEASES AND EVENTS: JUNE 26-30, 2017**

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Jun 26	1:10	<i>Fed's Williams Speaks in Sydney</i>				
Jun 26	8:30	Durables Ex Transportation	May P	M/M % Chg.	0.3	-0.5
Jun 26	8:30	Durable Goods Orders	May P	M/M % Chg.	-0.7	-0.8
Jun 27	4:05	<i>Fed's Williams Speaks in Sydney</i>				
Jun 27	9:00	S&P CoreLogic CS US HPI NSA	Apr	Y/Y % Chg.	-	5.8
Jun 27	10:00	Conf. Board Consumer Confidence	Jun	Index	116.2	117.9
Jun 27	11:15	<i>Fed's Harker Speaks on Economy in London</i>				
Jun 27	17:30	<i>Fed's Kashkari Speaks at Townhall Event in Houghton, Michigan</i>				
Jun 28	3:30	<i>Fed's Williams Speaks in Sydney</i>				
Jun 28	8:30	Retail Inventories	May	M/M % Chg.	-	-0.3
Jun 28	8:30	Advance Goods Trade Balance	May	Blns	-65.5	-67.6
Jun 28	10:00	Pending Home Sales	May	M/M % Chg.	-	-1.3
Jun 29	8:30	Initial Jobless Claims	Jun 24	Thsd	-	241.0
Jun 29	8:30	Core Personal Consumption Expenditure	1Q T	Q/Q % Chg.	-	2.1
Jun 29	8:30	Personal Consumption	1Q T	Q/Q % Chg.	-	0.6
Jun 29	8:30	Gross Domestic Product Annualized	1Q T	Q/Q % Chg.	1.2	1.2
Jun 29	13:00	<i>Fed's Bullard Speaks on Economy in London</i>				
Jun 30	8:30	Personal Income	May	M/M % Chg.	0.3	0.4
Jun 30	8:30	Real Personal Spending	May	M/M % Chg.	-	0.2
Jun 30	8:30	Personal Consumption Expenditure Deflator	May	Y/Y % Chg.	-	1.7
Jun 30	8:30	Personal Consumption Expenditure Core	May	Y/Y % Chg.	-	1.5
<b>Canada</b>						
Jun 28	9:30	<i>Bank of Canada's Poloz at ECB Panel</i>				
Jun 28	14:15	<i>Bank of Canada Deputy Governor Lynn Patterson Speaks</i>				
Jun 29		CFIB Business Barometer	Jun	Index	-	66.0
Jun 30	8:30	Industrial Product Price	May	M/M % Chg.	-	0.6
Jun 30	8:30	Gross Domestic Product	Apr	M/M % Chg.	-	0.5
Jun 30	10:30	BoC Senior Loan Officer Survey	2Q	Index	-	-1.9
Jun 30	10:30	Business Outlook Future Sales	2Q	Index	-	21.0
<b>International</b>						
Jun 28	19:50	JN Retail Trade	May	Y/Y % Chg.	-	3.2
Jun 29	19:30	JN Natl Consumer Price Index Ex Fresh Food, Energy	May	Y/Y % Chg.	-	0.0
Jun 29	19:30	JN Jobless Rate	May	%	-	2.8
Jun 29	21:00	CH Manufacturing PMI	Jun	Index	-	51.2
Jun 30	5:00	EZ Consumer Price Index Core	Jun A	Y/Y % Chg.	-	0.9

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



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