THE WEEKLY BOTTOM LINE

TD Economics

HIGHLIGHTS OF THE WEEK

January 20, 2017

United States

- Recently inaugurated President Trump has taken the reins at a time of low unemployment and solid economic growth. The details of the policies he will implement in the early days of his mandate, crucial for deducing the impact on the economy, remain to be seen.
- The past week's economic data have confirmed that the U.S. economy is humming along at a solid pace. The Fed's Beige book painted a relatively bright picture, inflation is picking up and homebuilding retains upward momentum heading into 2017.
- The cost of the current Republican tax cut plans would require either dramatic cuts in spending or a sizeable rise in the deficit. It is likely that the final package will be more modest, and provide less of a near-term economic boost than markets expect.

Canada

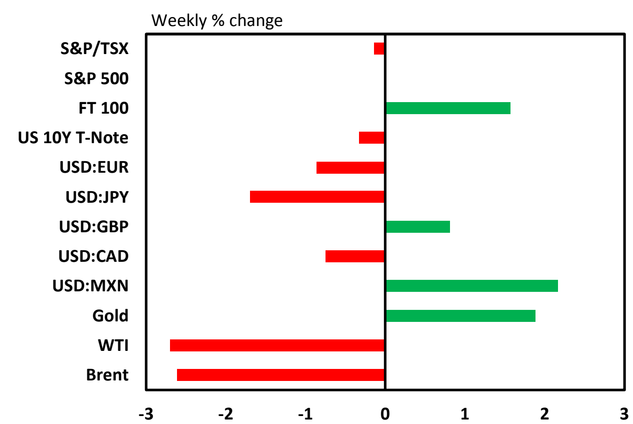
- Existing home sales rose 2.2% in December rebounding somewhat from a sharp decline in the prior month. Home prices, after adjusting for location and housing type, rose on the month and were up by double-digits versus year-ago levels across all housing types.
- Retail sales rose 0.2% in November, with volumes up by a robust 0.7% on the month.
- Manufacturing sales bounced back by 1.5% in November, reaching the highest level since January. Volumes were up a healthy 1.2%.
- Headline inflation accelerated to 1.5% in December. The three core inflation measures showed limited price pressures across the economy.

THIS WEEK IN THE MARKETS

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2,274	2,275	2,277	1,829
S&P/TSX Comp.	15,570	15,497	15,587	12,036
DAX	11,622	11,629	11,646	8,753
FTSE 100	7,202	7,338	7,338	5,537
Nikkei	19,138	19,287	19,594	14,952
Fixed Income Yields				
U.S. 10-yr Treasury	2.51	2.40	2.60	1.36
Canada 10-yr Bond	1.76	1.72	1.84	0.95
Germany 10-yr Bund	0.43	0.34	0.48	-0.19
UK 10-yr Gilt	1.43	1.36	1.71	0.52
Japan 10-yr Bond	0.07	0.05	0.24	-0.29
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.75	0.76	0.80	0.70
Euro (USD per EUR)	1.07	1.06	1.15	1.04
Pound (USD per GBP)	1.23	1.22	1.49	1.20
Yen (JPY per USD)	115.1	114.5	121.1	99.9
Commodity Spot Prices*				
Crude Oil ($US/bbl)	52.5	52.4	54.1	26.2
Natural Gas ($US/MMBtu)	3.21	3.36	3.76	1.49
Copper ($US/met. tonne)	5713.5	5883.8	5945.0	4419.0
Gold ($US/troy oz.)	1202.9	1197.6	1366.4	1098.0

*as of 11:25 am on Friday **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.

NORTH AMERICAN EQUITIES FLAT ON THE WEEK



Note: Data as of Jan. 13, 11:15 AM ET.
Sources: Bloomberg, TD Economics

GLOBAL OFFICIAL POLICY RATE TARGETS

	Current Target
Federal Reserve (Fed Funds Rate)	0.5 - 0.75%
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.

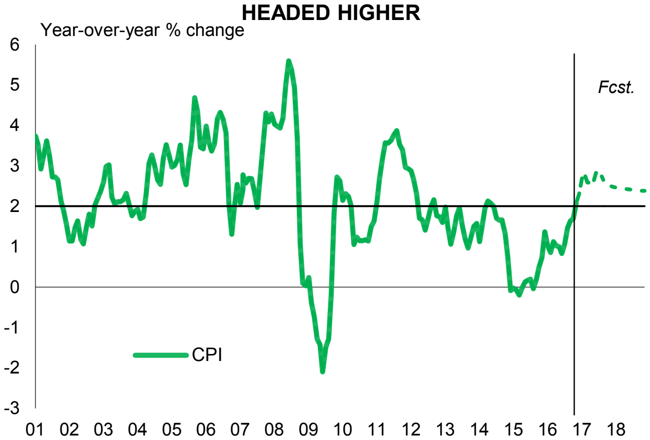
U.S. – OVER TO YOU, PRESIDENT TRUMP

All eyes were on Washington D.C. Friday, as Donald Trump was sworn in as the 45th President of the United States. While it remains to be seen precisely what policies his administration will implement, the President inherits an economy that's growing steadily with low unemployment. The inaugural address stuck to the usual big themes and a call for the nation to unite. There were few policy details, making precise estimates of the impact of repealing the Affordable Care Act, cutting taxes and implementing an "America first" trade agenda challenging.

The economic data over the past week have confirmed that the U.S. economy is humming along at a solid pace. The Fed's Beige Book painted a relatively bright picture of the domestic economy. Labor markets were reported to be tight, or tightening while wages pressures were building. Initial jobless claims fell to a 43-year low. Moreover, December's inflation report showed that the dampening effect of the drop in energy prices is behind us. Headline inflation rose back above 2%, and is expected to head higher over the coming months (see chart). Core inflation has been more range bound over the past year but with wage pressures clearly building broadly across the economy, underlying price pressures are expected to increase.

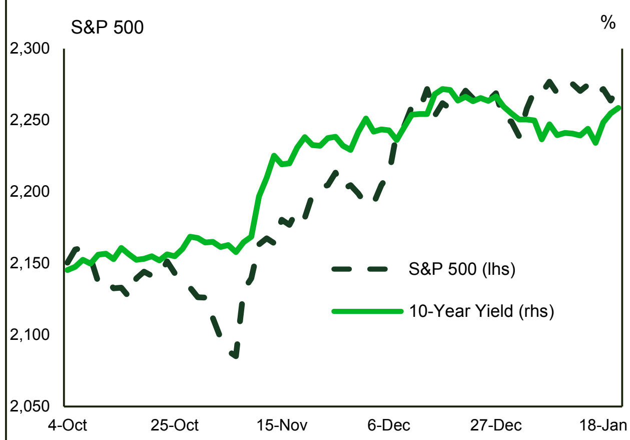
Homebuilding continued to make progress as 2016 drew to a close. Permits for single-family homes rose in December, suggesting homebuilding has upward momentum in the months ahead. While the recent jump up in mortgage rates presents a headwind for the sector, demand should prove resilient, underpinned by rising wages, and a rebound in household formation.

CHART 1: U.S. INFLATION ABOVE 2% AND HEADED HIGHER



Source Bureau of Labor Statistics, Bureau of Economic Analysis
Forecast by TD Economics

CHART 2: WILL THE TRUMP BUMP LAST?



Source: Bloomberg, TD Economics.

In remarks this past week, Fed Chair Janet Yellen reiterated that the Fed is coming close to achieving its goal of maximum employment and price stability. Looking ahead, she said that "the course of monetary policy will depend on many different factors, of which fiscal policy is just one". She also remarked that it would be risky and unwise to allow the economy to run persistently hot, as she argued for a gradual reduction in monetary support for the economy.

That takes us to the number one question looming over the U.S. outlook for the next two years. Will President Trump implement fiscal stimulus that will boost short-term growth and increase the Fed's pace of rate hikes? Or will tax reform be paid for with spending cuts, potentially resulting in some near-term economic drag? We do expect a major tax reform package to come from the new administration, which ideally could reduce many costly distortions and complexity in the current tax system, while improving incentives for domestic business investment and potentially raising productivity.

But, the leading House GOP tax plan has a $3 trillion price tag over ten years. If funded by spending cuts, it would require total federal government spending – including increasingly costly entitlements like Social Security – to be cut by roughly 8% every year over the decade. At the end of the day, to make it more fiscally palatable, any fiscal package may have to be cut down from what financial markets currently expect. That would mean little stimulus, and depending on the mix of spending and tax cuts, potentially economic drag in the short run, presenting downside risks to the "Trump bump" on financial markets since the election.

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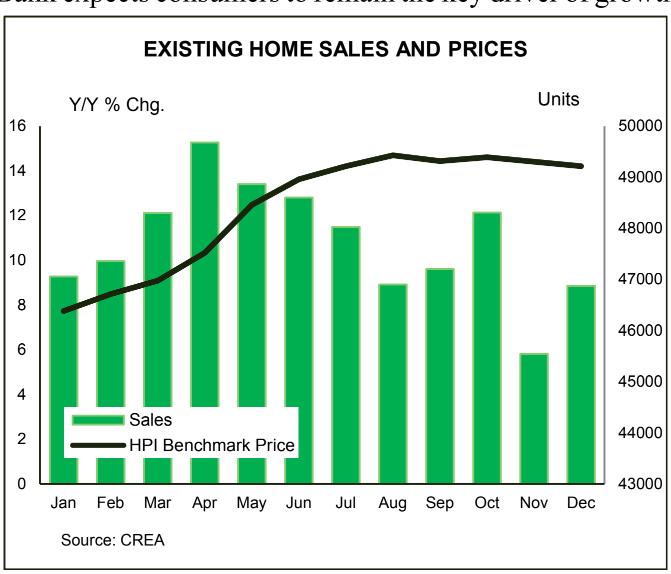
CANADA – 2016 ENDS ON STRONG NOTE, BUT 2017 FULL OF UNCERTAINTY

This week was chalk full of Canadian data releases, most of which were positive. Consumers remain a bright spot in Canada, with sales data showing ongoing strength – particularly for big ticket items. Existing home sales rose 2.2% in December, recouping some of the ground lost in November, although much of the gains were concentrated across the Toronto market. Prices – adjusting for location and housing type – also rose and were up by double-digits versus year-ago levels across all housing types. Meanwhile, robust auto sales helped drive retail sales up 0.2% in November, extending the gains to a fourth straight month. In volume terms, retail sales were up by an even healthier 0.7%.

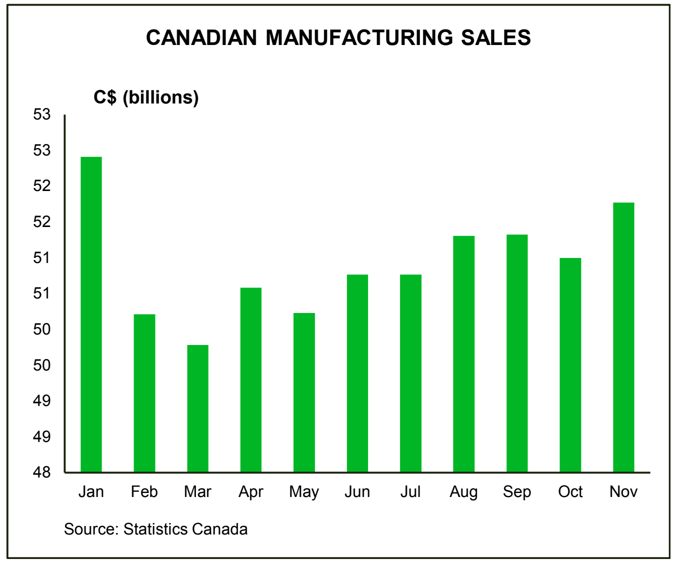
While some cooling is expected this year in the housing market and retail sales as interest rates gradually rise, consumers are expected to continue to underpin economic growth in 2017, alongside some help from additional fiscal spending. Meanwhile, looking at Canada's external sector, there is a great deal of uncertainty clouding the outlook.

We have been patiently awaiting the manufacturing and export sectors to pick up the growth baton, and both seem to be finding some footing after an uneven performance earlier in the year. This week's manufacturing data showed that sales bounced back sharply in November, reaching the highest level seen since January. However, there is a risk that the incoming U.S. administration's trade policies could limit the upside for Canadian manufacturing and exports going forward.

This sentiment was echoed by the Bank of Canada this week, as it held the overnight rate steady at 0.50%. The Bank expects consumers to remain the key driver of growth this year, but noted that uncertainty was 'undiminished', particularly with respect to U.S. policies. While the Bank did incorporate some stimulative tax policy measures into its U.S. economic outlook, it refrained from adopting any relating to trade policy given the still significant unknowns. In light of this, the Bank added a potential shift toward protectionist trade policies as a new risk to the outlook.



Source: CREA



Source: Statistics Canada

Overall, the central bank expects the Canadian economy to expand by 2.1% in both 2017 and 2018. This is ahead of our forecast for growth of 1.8% and 1.7% this year and next, respectively. Part of the difference can be explained by the Bank's more optimistic view on the contribution from fiscal stimulus, with our cautious view related to delays that have been observed in getting projects off the ground. Moreover, unlike the Bank, we have not yet altered our view of U.S. growth from potential new policies given the significant unknowns that remain.

Still, the Bank of Canada's mandate is to target inflation. This morning's report showed that inflation accelerated to 1.5% in December, largely in line with the Bank's view. The Bank also expects higher energy prices and the dissipation of food price impacts to bring inflation close to the 2% target in the coming months, where it is forecast to remain over the medium term – largely in line with our outlook. As such, we expect the Bank of Canada to leave rates unchanged for the foreseeable future. However, there is a risk that any policy changes in the U.S. that adversely impact Canada could prompt the Bank of Canada to ease monetary policy further.

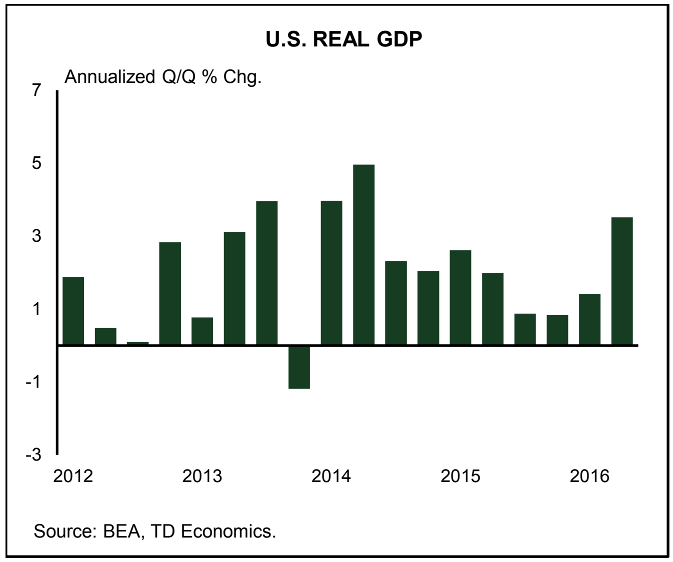
Dina Ignjatovic, Economist, 416-982-2555

U.S.: UPCOMING KEY ECONOMIC RELEASES

U.S. Real GDP - Q4 Advance*

Release Date: January 27, 2017
Q3 Result: 3.5%
TD Forecast: 2.2%
Consensus: 2.2%

Q4 real GDP growth likely advanced at a above-trend pace of 2.2% though a stepdown from the 3.5% increase in Q3. Details should also be positive in revealing robust consumer spending and a further recovery in non-residential investment. The latter in particular is expected to reflect advances across all components (structures, equipment, IP), with equipment spending posting its first increase in five quarters. Consumer spending, underpinned by rising incomes and steady job growth, likely confirmed another healthy quarter and rose at a 2.5% pace. To a smaller degree, residential investment, government spending and inventory accumulation should all contribute positively to growth as well. However, a strong negative offset likely came from net exports, which corrected from its sharp Q3 narrowing largely driven by a swing in soybean exports and higher imports.



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

RECENT KEY ECONOMIC INDICATORS: JANUARY 16-20, 2017

Release Date		Economic Indicator/Event	Data for Period	Units	Current	Prior	
United States							
Jan 17		Empire Manufacturing	Jan	Index	6.5	7.6	R▼
Jan 18		Real Average Hourly Earning	Dec	Y/Y % Chg.	0.8	0.8	
Jan 18		Consumer Price Index	Dec	M/M % Chg.	0.3	0.2	
Jan 18		Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	0.2	
Jan 18		Consumer Price Index	Dec	Y/Y % Chg.	2.1	1.7	
Jan 18		Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	2.2	2.1	
Jan 18		Industrial Production	Dec	M/M % Chg.	0.8	-0.7	R▼
Jan 18		Manufacturing (SIC) Production	Dec	M/M % Chg.	0.2	-0.1	
Jan 18		Capacity Utilization	Dec	%	75.5	74.9	R▼
Jan 18		NAHB Housing Market Index	Jan	Index	67.0	69.0	
Jan 19		Initial Jobless Claims	Jan 14	Thsd	234.0	249.0	R▲
Jan 19		Housing Starts	Dec	Thsd	1226	1102	R▲
Jan 19		Building Permits	Dec	Thsd	1210	1212	R▲
Canada							
Jan 16		Existing Home Sales	Dec	M/M % Chg.	2.2	-5.3	
Jan 18		Bank of Canada Rate Decision	Jan 18	%	0.5	0.5	
Jan 19		Manufacturing Sales	Nov	M/M % Chg.	1.5	-0.6	R▲
Jan 20		Retail Sales	Nov	M/M % Chg.	0.2	1.2	R▲
Jan 20		Retail Sales Ex Auto	Nov	M/M % Chg.	0.1	1.4	
Jan 20		Consumer Price Index	Dec	Y/Y % Chg.	1.5	1.2	
Jan 20		Consumer Price Index	Dec	M/M % Chg.	-0.2	-0.4	
International							
Jan 17	UK	Consumer Price Index	Dec	Y/Y % Chg.	1.6	1.2	
Jan 18	UK	Unemployment Rate	Nov	%	4.8	4.8	
Jan 18	EZ	Consumer Price Index	Dec	M/M % Chg.	0.5	-0.1	
Jan 19	EZ	ECB Main Refinancing Rate	Jan 19	%	0.0	0.0	
Jan 19	CN	Gross Domestic Product	Q4	Y/Y % Chg.	6.8	6.7	
Jan 19	CN	Retail Sales	Dec	Y/Y % Chg.	10.9	10.8	

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: JANUARY 23-27, 2017

Release Date	Time*		Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
			United States				
Jan 24	9:45		Markit US Manufacturing PMI	Jan P	Index	54.5	54.3
Jan 24	10:00		Existing Home Sales	Dec	M/M % Chg.	5.5	5.6
Jan 26	8:30		Initial Jobless Claims	Jan 21	Thsd	246.0	234.0
Jan 26	8:30		Retail Inventories	Dec	M/M % Chg.	-	1.0
Jan 26	8:30		Advance Goods Trade Balance	Dec	USD, Blns	-64.5	-65.3
Jan 26	9:45		Markit US Services PMI	Jan P	Index	54.2	53.9
Jan 26	10:00		New Home Sales	Dec	Thsd	585.0	592.0
Jan 27	8:30		Gross Domestic Product Annualized	Q4 A	Q/Q % Chg.	2.1	3.5
Jan 27	8:30		Personal Consumption	Q4 A	Q/Q % Chg.	2.5	3.0
Jan 27	8:30		Core PCE	Q4 A	Q/Q % Chg.	1.4	1.7
Jan 27	8:30		Durable Goods Orders	Dec P	M/M % Chg.	2.7	-4.5
Jan 27	8:30		Durables Ex Transportation	Dec P	M/M % Chg.	0.5	0.6
Jan 27	8:30		Cap Goods Orders Nondef Ex Air	Dec P	M/M % Chg.	0.3	0.9
Jan 27	8:30		Cap Goods Ship Nondef Ex Air	Dec P	M/M % Chg.	-	0.2
			Canada				
Jan 23	8:30		Wholesale Trade Sales	Nov	M/M % Chg.	-	1.1
Jan 26			CFIB Business Barometer	Jan	Index	-	60.7
			International				
Jan 24	4:00	EC	Markit Eurozone Manufacturing PMI	Jan P	Index	54.8	54.9
Jan 26	4:30	UK	Gross Domestic Product	Q4 A	Y/Y % Chg.	2.1	2.2
Jan 26	18:30	JN	Consumer Price Index	Dec	Y/Y % Chg.	0.2	0.5

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