

# THE WEEKLY BOTTOM LINE

## TD Economics



May 5, 2017

### HIGHLIGHTS OF THE WEEK

#### United States

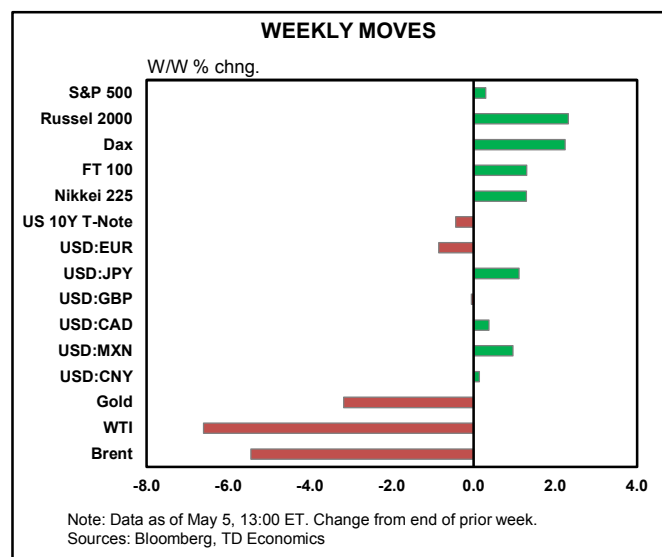
- The past week was action packed with economic data and events in Washington. Data largely supported the view that the U.S. economy will bounce back from its winter weakness.
- The job market sprang back into action in April, enabling investors to heave a sigh of relief that the fundamentals remain in place for a Q2 rebound. The Fed expressed its confidence in the economy in its statement accompanying its stand pat rate decision.
- Still, weak auto sales and a recent loss in inflation momentum suggest the U.S. economy is not entirely out of the woods. The Fed will be watching the data closely in the coming weeks before the case for a June hike is cemented.

#### Canada

- An 8% drop in crude oil prices led the S&P/TSX to a 6-week low and took the loonie below 73 US cents for the first time in over a year.
- The Canadian economy added just 3k jobs in April. The unemployment rate fell to 6.5% as 45k people left the workforce. Wage growth slowed to a record low of just 0.5% y/y.
- Auto sales slipped 1.6% y/y in April, but this follows a record breaking quarter. Sales remain quite elevated relative to historical norms.
- Exports bounced back in March, helping to narrow Canada's trade deficit. However, net trade will still be a drag on growth during the first quarter.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	2,392	2,384	2,396	2,001
S&P/TSX Comp.	15,463	15,586	15,922	13,564
DAX	12,680	12,438	12,680	9,269
FTSE 100	7,277	7,204	7,430	5,924
Nikkei	19,446	19,197	19,634	14,952
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	2.37	2.28	2.63	1.36
Canada 10-yr Bond	1.56	1.55	1.87	0.95
Germany 10-yr Bund	0.41	0.32	0.49	-0.19
UK 10-yr Gilt	1.12	1.09	1.52	0.52
Japan 10-yr Bond	0.02	0.02	0.12	-0.29
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.73	0.73	0.79	0.73
Euro (USD per EUR)	1.10	1.09	1.14	1.04
Pound (USD per GBP)	1.30	1.30	1.49	1.20
Yen (JPY per USD)	112.6	111.5	118.2	99.9
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	45.4	49.3	54.1	39.5
Natural Gas (\$US/MMBtu)	3.07	3.17	3.76	1.75
Copper (\$US/met. tonne)	5518.0	5710.5	6103.5	4495.8
Gold (\$US/troy oz.)	1227.7	1268.3	1366.4	1128.4

\*as of 10:20 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)	0.75 - 1%
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%

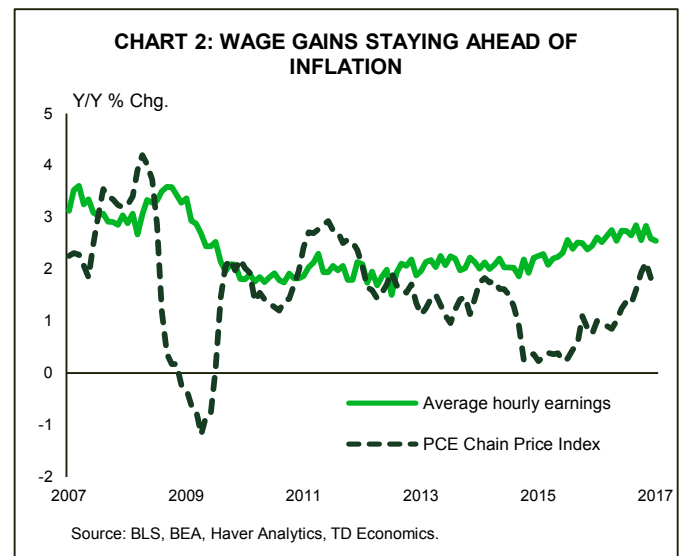
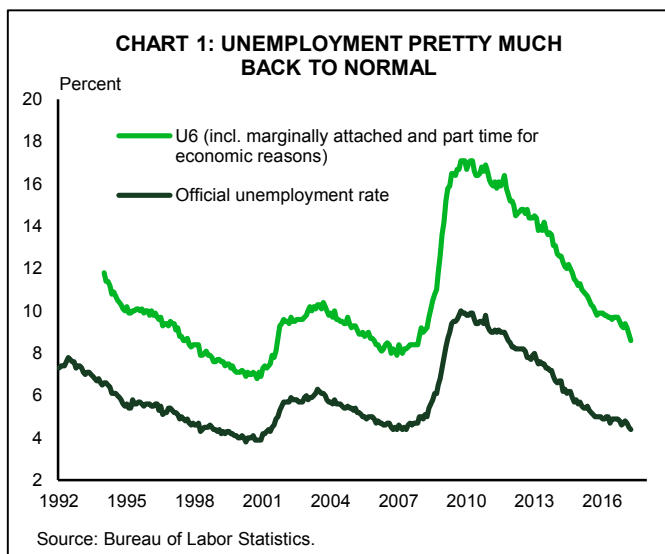
Source: Central Banks.

## U.S. – ECONOMY SHOWING SIGNS OF SPRING THAW

From Washington to Wall street, there was no shortage of news for investors to digest this week. Data largely supported the view that the U.S. economy is bouncing back from its winter weakness. Markets have one eye turned on policy shifts in Washington too, where the GOP took baby steps towards repealing and replacing Obamacare (ACA). The revised American Health Care Act (AHCA) passed the House by a very narrow margin, but faces a bigger challenge in the Senate.

Investors heaved a sigh of relief on Friday as the job market bounced back in April, bearing out the Fed’s confidence in the economy expressed in Wednesday’s rate announcement. Payrolls advanced 211k jobs in April and the unemployment rate fell to 4.4% – the lowest level since 2007. Broader measures of labor market slack also declined, with the broadest U6 measure (including discouraged workers and involuntary part-timers) falling to 8.6%, just 0.2 percentage points off its pre-recession level (Chart 1). Average hourly earnings rose 0.3%, as expected in April. That left wages up 2.5% over a year ago, not yet flashing red, but is still sufficient to provide real gains in purchasing power (Chart 2). This should flow through to consumer spending in the months ahead, providing the impetus for stronger economic growth.

As expected, the Fed kept interest rates unchanged on Wednesday and issued a largely status quo statement. It pointed to continued improvement in the labor market, while seeing through disappointing economic growth in the first quarter. The weakness in inflation in March was noted, but one-month’s result is unlikely to sway the Fed.



As Yellen has continually emphasized, the Fed’s path is data dependent. So, members will be watching the data closely over the next few weeks as indicators for the second quarter are released. If the numbers confirm that a second quarter rebound is underway, and that the slowdown in inflation has not become more entrenched, we would expect the Fed to take rates higher in June.

So far this year, measures of sentiment have been more ebullient than the “hard” economic data. Not surprisingly, the ISM Manufacturing index did lose a bit of its post-election optimism in April. We have raised concerns that markets might have been a bit overconfident that Washington could easily implement highly stimulative fiscal policy. While this week, the House finally passed a bill to repeal and replace the ACA, this is only the first step in an ongoing process. Passage in the Senate where the Republican majority is even slimmer, will prove much more difficult.

Passing healthcare reform into law is arguably a necessary pre-condition to making further changes to the tax code. This is because the savings achieved leave room to cut taxes without expanding the deficit. The Congressional Budget Office has not yet scored the new bill, but the previous bill reduced the deficit by over \$330 billion over the next decade. This is only about one-tenth of what is necessary to pay for Trump’s proposed tax cuts, but it might allow for some reduction in the corporate tax rate. In any case, there is a long road ahead on forging consensus on both the AHCA and eventually tax reform, leaving the potential for further sentiment disappointments in the months ahead.

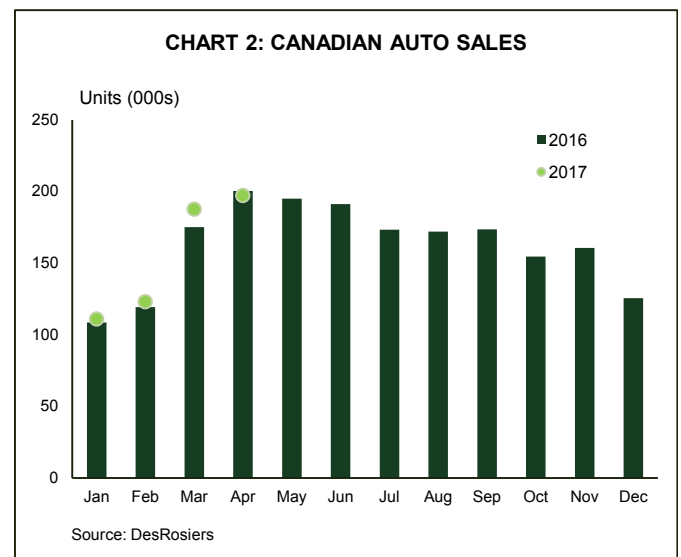
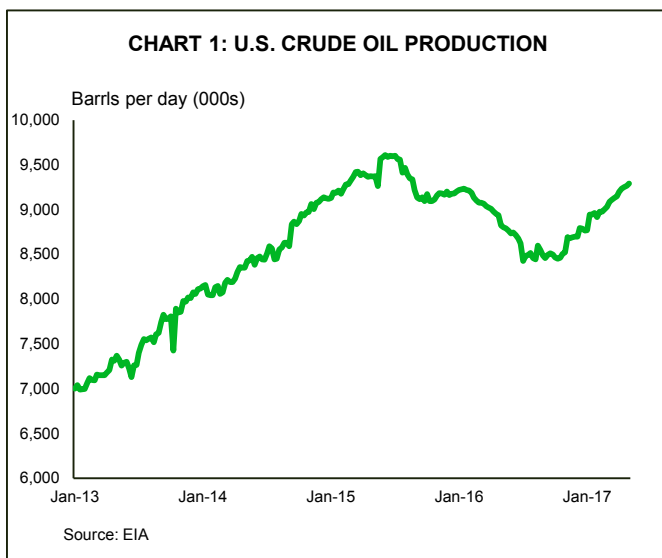
*Leslie Preston, Senior Economist 416-983-7053*

## CANADA – PLUNGING OIL PRICES WEIGH ON FINANCIAL MARKETS

It was a rough week for Canadian financial markets, as the S&P/TSX index and the Canadian dollar were pulled down by an 8% plunge in crude oil prices to US\$45 per barrel. The equity market hit a 6-week low, while the loonie fell below 73 US cents for the first time in over a year.

Oil prices have now fallen by 15% in just three weeks, reaching the lowest level seen since November 2016 – right before OPEC members agreed on production cuts. The drop stemmed from concerns surrounding the global supply glut, as efforts by OPEC and a group of non-OPEC countries to scale back production have yet to put a meaningful dent in global stocks. Meanwhile, production elsewhere – particularly in the U.S. – has been on the rise. Indeed, U.S. oil production continues to expand, now sitting at 9.3 million barrels per day – a level not seen August 2015. OPEC will meet on May 25th to determine whether production quotas will be extended past June. Indications from the cartel suggest that they will, however, it appears as though markets are starting to think that bigger cuts will be necessary to bring the market back into balance. Volatility in oil prices is likely to continue as the meeting approaches, moving in response to rhetoric coming from OPEC and U.S. production and inventory data.

On the economic front, data out this week was mixed. The Canadian economy added just 3k jobs in April, all part-time, and wage growth slowed to 0.5% y/y – half of its first-quarter pace and the slowest pace on record. While a disappointing report, it does follow several months of strong job creation.



Auto sales were down 1.6% versus year-ago levels, but the drop comes on the heels of a record-breaking first quarter and is contending with last year's stellar performance when sales topped 200,000 units for the first time in a single month. Needless to say, even with a slight pullback in April, auto sales remain quite elevated. That said, given the remarkable strength seen in recent years, it would not be surprising to see auto sales lose some steam in the coming months.

International trade data showed a bounce back in export volumes in March, while imports edged down slightly. This won't be enough to prevent net trade from weighing on economic growth during the first quarter – thanks to rebounding imports – but it does provide a solid hand off for Q2. Moreover, momentum in exports should continue going forward, as the Canadian dollar remains under pressure and economic activity in the U.S. is set to pick up after a slow start to the year.

This will help underpin the rotation in Canadian growth drivers away from stretched consumers and housing, toward a more balanced growth path. In a [report](#) released this week, we noted that stabilization in non-residential investment and a modest improvement in other business investment, combined with a better net trade performance should offset expected declines in housing activity over the remainder of this year, keeping the economy advancing at a decent clip of just under 2%. The Bank of Canada will be looking for such signs of a more sustainable growth path before moving off the sidelines.

*Dina Ignjatovic, Economist, 416-982-2555*

## U.S.: UPCOMING KEY ECONOMIC RELEASES

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

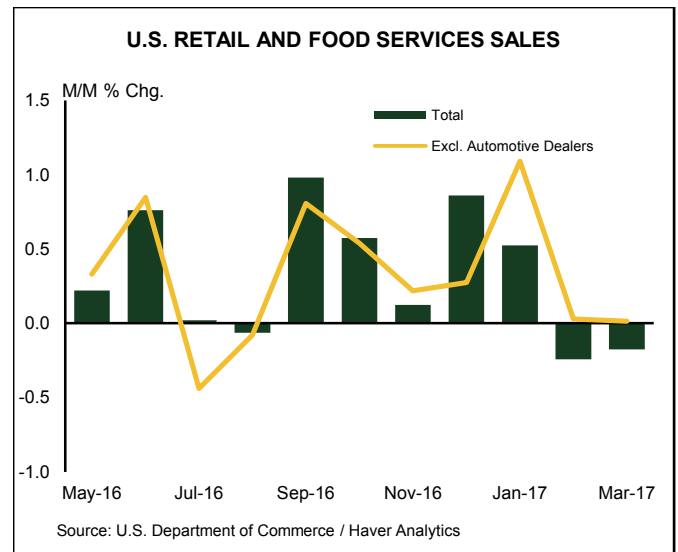
**Release Date:** May 12, 2017

**Previous Result:** -0.2%, ex-auto 0.0%, control 0.6%

**TD Forecast:** 0.4%, ex-auto 0.3%, control 0.3%

**Consensus:** 0.6%, ex-auto 0.5%, control 0.4%

We expect retail sales to pick up steam in April, rising 0.4% after a 0.2% dip in March. Auto sales, which disappointed again in April, should still provide a moderate boost while gasoline station sales should be negligible to a modest negative. Warmer than normal temperatures suggest a lift to building materials and restaurant spending as well. Outside of these categories, we look for core sales to moderate to a 0.3% increase after a strong showing in March (0.6%), the latter which likely reflected a positive late-Easter effect. Overall, these projections would remain supportive of Q2 real PCE at or just below a 3% pace.



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

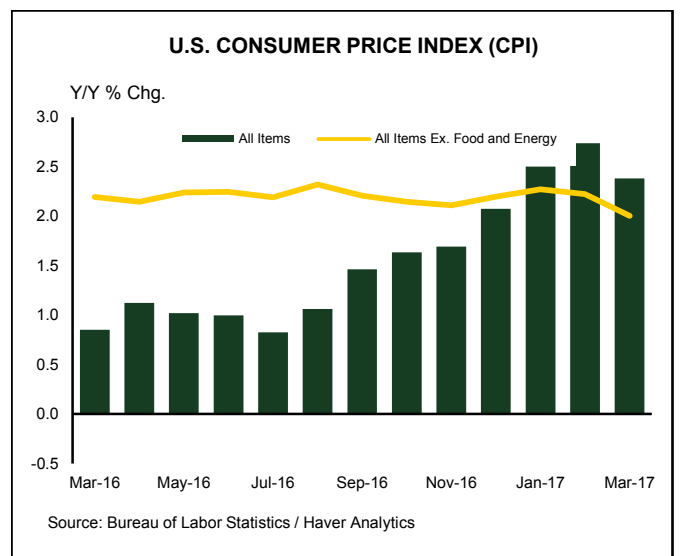
**Release Date:** May 12, 2017

**Previous Result:** -0.3% m/m, core -0.1% m/m

**TD Forecast:** 0.2% m/m, core 0.1% m/m

**Consensus:** 0.3% m/m, core 0.2% m/m

Headline CPI inflation is expected to slip to 2.2% y/y in April, with prices up 0.2% on the month. We look for energy prices to decelerate further from their February highs as gasoline prices (seasonally adjusted) were fairly muted on the month. Further firming in food prices is likely, especially accounting for adverse weather and labor shortages cited by farmers. On a somewhat downbeat note, we expect a modest 0.1% print on the core index, leaving the core inflation rate unchanged at 2.0% y/y but with downside risk. This should reflect a further, albeit more modest drag from wireless services prices along with continued deflation in vehicle prices. But aside from these pockets of weakness, we believe a firming trend remains in place on steady strength in the remaining price categories of services and



a slow recovery in goods prices. Moreover, labor market fundamentals strengthen this view with slack essentially diminished. Such a backdrop of tighter labor market conditions will be the driving force behind the timing of the next Fed rate hike, which is still likely in June in our view.

## CANADA: UPCOMING KEY ECONOMIC RELEASES

### Canadian Housing Starts - April\*

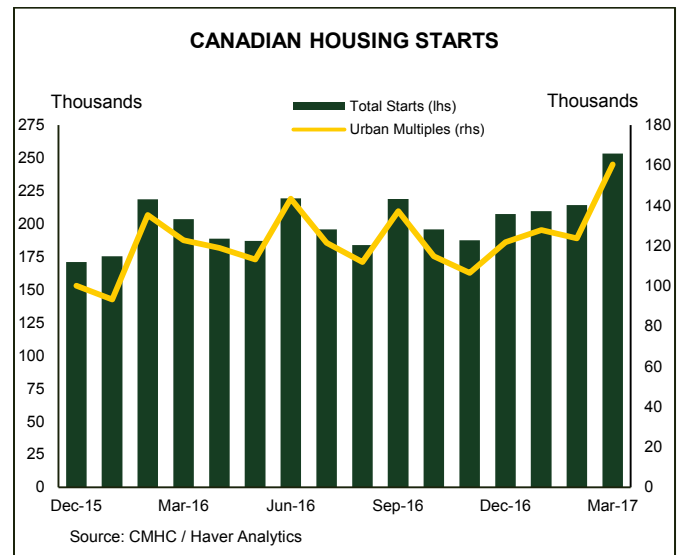
**Release Date:** May 8, 2017

**March Result:** 253k

**TD Forecast:** 210k

**Consensus:** 220k

Housing starts are forecast to decelerate to a 210k pace in April, in line with the six-month trend. Last month's pickup to 253k reflected an unsustainable jump in multi-unit construction, which we expect to correct fully. Single unit starts should see a more modest decline but nonetheless contribute to the overall slowdown in residential construction. Single unit construction has recorded a fresh 3-year high in 3 of the last 4 months, and has decoupled from the trend in building permit issuance. New regulatory measures in the Toronto area, most notably rent control and the foreign buyer's tax, are unlikely to influence this month's report given the long lead time for new projects, but will act as a modest headwind



in the medium-term due to the dampening effect on demand from investors.

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

**RECENT KEY ECONOMIC INDICATORS: May 1-5, 2017**

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior	
<b>United States</b>						
May 01	PCE Core	Mar	Y/Y % Chg.	1.6	1.8	
May 01	PCE Deflator	Mar	Y/Y % Chg.	1.8	2.1	
May 01	Real Personal Spending	Mar	M/M % Chg.	0.3	-0.1	
May 01	Personal Income	Mar	M/M % Chg.	0.2	0.3	R▼
May 01	ISM Employment	Apr	Index	52.0	58.9	
May 01	ISM Manufacturing	Apr	Index	54.8	57.2	
May 02	Wards Total Vehicle Sales	Apr	Mlns	16.8	16.5	
May 03	ADP Employment Change	Apr	Thsd	177.0	255.0	R▼
May 03	ISM Non-Manf. Composite	Apr	Index	57.5	55.2	
May 03	FOMC Rate Decision (Upper Bound)	May 03	%	1.0	1.0	
May 04	Trade Balance	Mar	USD, Blns	-43.7	-43.8	R▼
May 04	Unit Labor Costs	1Q P	Q/Q % Chg.	3.0	1.3	R▼
May 04	Initial Jobless Claims	Apr 29	Thsd	238.0	257.0	
May 04	Factory Orders	Mar	M/M % Chg.	0.2	1.2	R▲
May 04	Factory Orders Ex Trans	Mar	M/M % Chg.	-0.3	0.3	R▼
May 05	Change in Nonfarm Payrolls	Apr	Thsd	211.0	79.0	R▼
May 05	Unemployment Rate	Apr	%	4.4	4.5	
May 05	Average Hourly Earnings	Apr	M/M % Chg.	0.3	0.1	
<b>Canada</b>						
May 01	MLI Leading Indicator	Mar	M/M % Chg.	0.5	0.4	
May 01	Markit Canada Manufacturing PMI	Apr	Index	55.9	55.5	
May 04	Int'l Merchandise Trade	Mar	CAD, Blns	-0.1	-1.1	R▼
May 05	Unemployment Rate	Apr	%	6.5	6.7	
May 05	Net Change in Employment	Apr	Thsd	3.2	19.4	
May 05	Ivey Purchasing Managers Index SA	Apr	Index	62.4	61.1	
<b>International</b>						
May 01	JN Vehicle Sales	Apr	Y/Y % Chg.	5.4	13.8	
May 01	JN Monetary Base	Apr	Y/Y % Chg.	19.8	20.3	
May 01	JN Nikkei Japan PMI Composite	Apr	Index	52.6	52.9	
May 01	CH Caixin China PMI Mfg	Apr	Index	50.3	51.2	
May 02	UK Markit UK PMI Manufacturing SA	Apr	Index	57.3	54.2	
May 02	EZ Unemployment Rate	Mar	%	9.5	9.5	
May 03	EZ Producer Price Index	Mar	Y/Y % Chg.	3.9	4.5	
May 03	EZ Gross Domestic Product SA	1Q A	Q/Q % Chg.	0.5	0.5	R▲
May 03	EZ Gross Domestic Product SA	1Q A	Y/Y % Chg.	1.7	1.8	R▲
May 04	UK Markit/CIPS UK Composite PMI	Apr	Index	56.2	54.8	R▼
May 04	EZ Retail Sales	Mar	Y/Y % Chg.	2.3	1.7	R▼

Source: Bloomberg, TD Economics.

**UPCOMING ECONOMIC RELEASES AND EVENTS: May 8-12, 2017**

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
May 08	8:45	<i>Fed's Mester Speaks at Chicago Council on Global Affairs</i>				
May 08		MBA Mortgage Foreclosures	1Q	Q/Q % Chg.	--	1.5
May 08		Mortgage Delinquencies	1Q	Q/Q % Chg.	--	4.8
May 09	6:00	NFIB Small Business Optimism	Apr	Index	--	104.7
May 09	10:00	Wholesale Trade Sales	Mar	M/M % Chg.	--	0.6
May 09	13:00	<i>Fed's Rosengren Speaks at NYU Conference on Risk Management</i>				
May 09	16:15	<i>Fed's Kaplan Speaks in Dallas</i>				
May 10	8:30	Export Price Index	Apr	Y/Y % Chg.	--	3.6
May 10	8:30	Export Price Index	Apr	M/M % Chg.	--	0.2
May 10	8:30	Import Price Index ex Petroleum	Apr	M/M % Chg.	--	0.2
May 10	12:00	<i>Fed's Rosengren to Speak on Economy at Vermont Business Group</i>				
May 11	6:25	<i>Fed's Dudley Speaks on Globalization in Mumbai</i>				
May 11	8:30	Producer Price Index Final Demand	Apr	M/M % Chg.	0.1	-0.1
May 11	8:30	Producer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.2	0.0
May 11	8:30	Initial Jobless Claims	May 06	Thsd	--	--
May 11	8:45	<i>Bloomberg May United States Economic Survey</i>				
May 12	8:30	Consumer Price Index	Apr	M/M % Chg.	0.2	-0.3
May 12	8:30	Consumer Price Index Ex Food and Energy	Apr	M/M % Chg.	0.2	-0.1
May 12	8:30	Consumer Price Index	Apr	Y/Y % Chg.	--	2.4
May 12	8:30	Consumer Price Index Ex Food and Energy	Apr	Y/Y % Chg.	--	2.0
May 12	8:30	Retail Sales Ex Auto and Gas	Apr	M/M % Chg.	--	0.1
May 12	8:30	Retail Sales Advance	Apr	M/M % Chg.	0.7	-0.2
May 12	8:30	Real Avg Hourly Earning	Apr	Y/Y % Chg.	--	0.3
May 12	9:00	<i>Fed's Evans Speaks in Dublin</i>				
May 12	10:00	Business Inventories	Mar	M/M % Chg.	0.1	0.3
<b>Canada</b>						
May 08	8:15	Housing Starts	Apr	Thsd	--	253.7
May 12	8:30	Teranet/National Bank HPI	Apr	Y/Y % Chg.	--	13.5
May 12	9:00	<i>Bloomberg May Canada Economic Survey</i>				
<b>International</b>						
May 09	21:30	CH Producer Price Index	Apr	Y/Y % Chg.	--	7.6
May 09	21:30	CH Consumer Price Index	Apr	Y/Y % Chg.	--	0.9
May 11	8:00	UK NIESR Gross Domestic Product Estimate	Apr	M/M % Chg.	--	0.5
May 11	7:00	UK <i>Bank of England Inflation Report</i>				
May 11	7:00	UK Bank of England Bank Rate	May 11	%	--	0.3
May 11	4:30	UK Manufacturing Production	Mar	Y/Y % Chg.	--	3.3
May 11	4:30	UK Manufacturing Production	Mar	M/M % Chg.	--	-0.1

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



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