

The Weekly Bottom Line

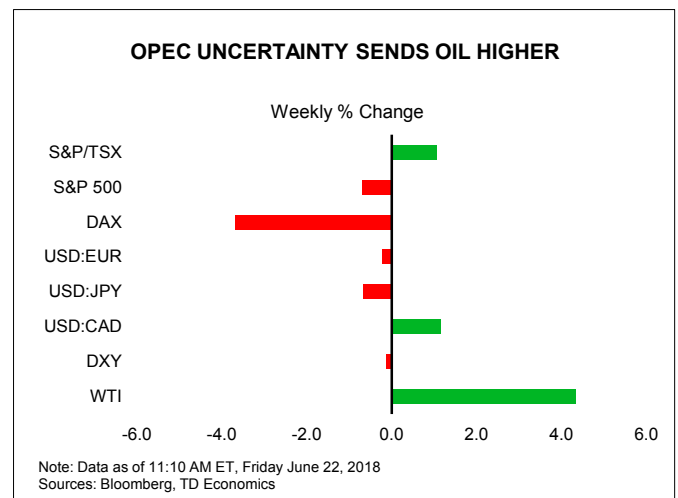
June 22, 2018

Highlights of the Week

- The U.S. economy is barreling ahead with more momentum than we had expected. Our latest forecast upgrades real GDP growth to 3.0% in 2018, from 2.7% in March.
- 3% is difficult to sustain over the medium term. As the fiscal boost fades, higher interest rates weigh and structural constraints bind, growth in 2019 is set to slow.
- Even with slower growth, the U.S. is still set to out-perform its G7 peers. The main downside risk to the outlook is an escalating trade war. While this presents a serious risk to its trading partners that are dependent on access to the U.S. market, America has sufficient cushion to withstand the hit.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2763	2780	2873	2410
S&P/TSX Comp.	16469	16314	16469	14952
DAX	12550	13011	13560	11787
FTSE 100	7672	7634	7877	6889
Nikkei	22517	22852	24124	19275
Fixed Income Yields				
U.S. 10-yr Treasury	2.91	2.92	3.11	2.04
Canada 10-yr Bond	2.12	2.22	2.52	1.46
Germany 10-yr Bund	0.34	0.40	0.77	0.25
UK 10-yr Gilt	1.31	1.33	1.65	0.97
Japan 10-yr Bond	0.04	0.04	0.10	-0.01
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.76	0.83	0.75
Euro (USD per EUR)	1.16	1.16	1.25	1.12
Pound (USD per GBP)	1.33	1.33	1.43	1.27
Yen (JPY per USD)	110.1	110.7	114.2	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	67.7	65.1	72.2	42.5
Natural Gas (\$US/MMBtu)	3.00	3.02	7.13	2.52
Copper (\$US/met. tonne)	6788.8	7019.0	7330.5	5723.5
Gold (\$US/troy oz.)	1270.0	1279.6	1358.5	1213.2

*as of 10:18 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)	1.75 - 2%
Bank of Canada (Overnight Rate)	1.25%
European Central Bank (Refi Rate)	0.00%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	-0.10%

Source: Central Banks.

TD ECONOMICS KEY FORECASTS													
	Current Rate 6/22/18	2017				2018				2019			
		Q1	Q2	Q3	Q4	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	2.00	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.25
2-yr Govt. Bond Yield (%)	2.55	1.27	1.38	1.47	1.89	2.27	2.55	2.75	2.90	3.00	3.10	3.15	3.15
10-yr Govt. Bond Yield (%)	2.91	2.40	2.31	2.33	2.40	2.74	3.00	3.10	3.20	3.25	3.30	3.35	3.35
30-yr Govt. Bond Yield (%)	3.06	3.02	2.84	2.86	2.74	2.97	3.20	3.30	3.40	3.45	3.50	3.55	3.55
Real GDP (Q/Q % Chg)*	2.2 (Q1-18)	1.2	3.1	3.2	2.9	2.2	4.3	2.7	3.0	2.8	2.5	2.4	2.1
CPI (Y/Y % Chg.)	2.8 (May-18)	2.5	1.9	2.0	2.1	2.2	2.7	2.7	2.4	2.0	2.1	2.1	2.2
Unemployment Rate (%)	3.8 (May-18)	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.7	3.6	3.6	3.5	3.5

Forecast by TD Economics as of June 2018. Source: Bloomberg, TD Economics. *Annualized

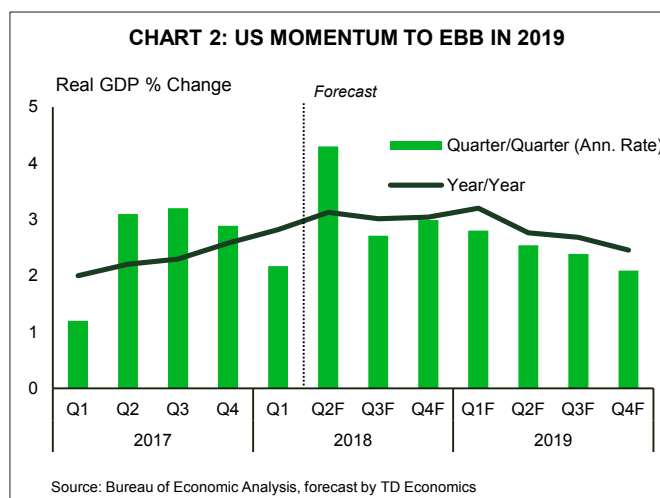
Let the Good Times Roll!

Our new quarterly forecast is titled [Full Steam Ahead](#), which is an accurate description of our forecast. The American economy is barreling ahead with more momentum than we had expected. Real GDP growth is tracking 3.0% in 2018, revised up from 2.7% in our March forecast. This is a notable improvement from 2.3% in 2017, thanks in large part to fiscal stimulus.

A healthy economy is set to push the unemployment rate even lower over the coming quarters. This in turn will add to inflation pressures. Stronger economic momentum and firming inflation have prompted us to edge up our rate-hike expectation by an additional 25 basis points for this year, taking the upper end of the policy range to 2.5% by year end (see [Financial Outlook](#)).

At the risk of sounding like a broken record, 3% growth is difficult to sustain beyond a near-term cyclical updraft. The boost from tax cuts and government spending increases will start to fade next year. Add to that the reduced lift from monetary policy. The Fed has raised its policy rate 150 basis points over the past 18 months, and is expected to raise it 125 more over the next 18 months (Chart 1). Higher oil prices than in our previous forecast will also nip at consumer and businesses' purchasing power. These cyclical concerns add to the underlying structural dynamics of the US economy. Even with an expected improvement in productivity growth, an aging population holds potential growth in the economy to roughly 2%.

All of these factors mean that on a quarterly basis growth is set to slow over the course of 2019, to 2.1% by the end

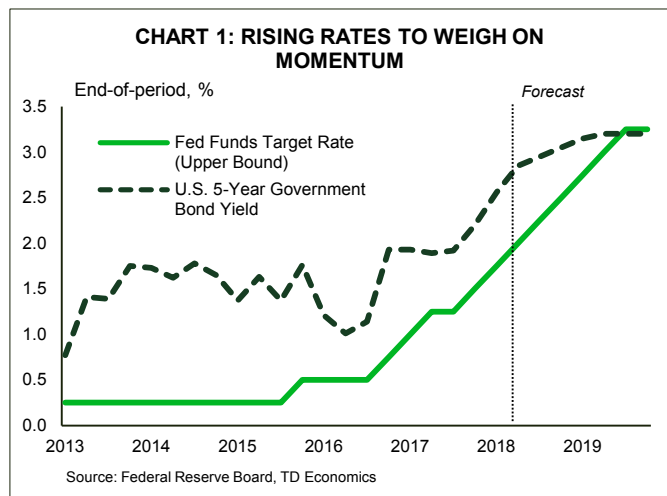


of the year (Chart 2). Still, this should be kept in perspective. Even as the U.S. slows, it is expected to outpace all other G7 economies (see [Global Outlook](#)). And, when an economy is already running at 3%, the only real direction for it is to slow.

Now is the time in the economic cycle where so-called “animal spirits” can lead to excess risk taking, and sow the seeds of the next recession. For the U.S. it is as yet unclear what these unknowns might be. Indeed the factors that cause the next recession may come from outside the U.S.’s borders. But one potential risk is self-inflicted. An escalating trade war is a clear downside risk, particularly for the U.S.’s key trading partners (see impacts of [auto tariffs on Canada](#)), which would have knock on impacts at home. Even so, with the economy doing so well, it has sufficient economic cushion to absorb some negative shocks.

In an otherwise quiet week for economic data, we did get an update on the trigger of the last recession – the housing market. There a few signs of froth there. Housing starts continued their gradual upward trend in May. Residential construction has been on a stronger footing this year after weakness in multi-unit structures drove a lull in 2017. The existing home market, on the other hand, was a bit disappointing in May. Sales have trended down recently, as the market struggles with a lack of listings. Forward looking indicators suggests activity should improve in the months ahead. In time, construction of new homes should help, but improvement is expected to be gradual as affordability constrains demand.

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Upcoming Key Economic Releases

Personal Income & Spending - May*

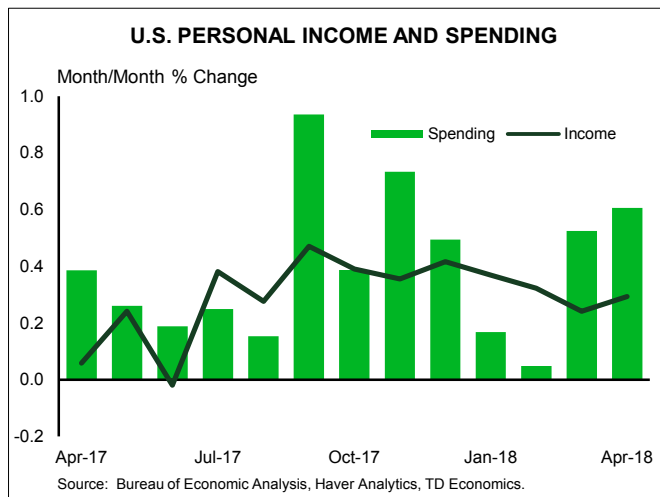
Release Date: June 29, 2018

Previous Result: Income 0.4% m/m, Spending 0.2% m/m

TD Forecast: Income 0.3% m/m, Spending 0.4% m/m

Consensus: Income 0.4% m/m, Spending 0.4% m/m

We expect an upbeat tone from May PCE data with few surprises. PCE inflation should accelerate to 2.2%, with energy and food prices offsetting each other on a m/m basis and core PCE printing 0.2% m/m. That will lead the Fed's inflation gauge higher to 1.9%, just below target. Personal spending should advance 0.4%, supporting robust Q2 expenditures above a 3% pace.



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

RECENT KEY ECONOMIC INDICATORS: JUNE 18 - 22, 2018

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jun 18	NAHB Housing Market Index	Jun	Index	68.0	70.0
Jun 19	Housing Starts	May	Thsd	1350.0	1286.0
Jun 19	Building Permits	May	Thsd	1301.0	1364.0
Jun 20	Current Account Balance	1Q	Blns	-124.1	-116.2
Jun 20	Existing Home Sales	May	Mlns	5.43	5.45
Jun 21	Initial Jobless Claims	Jun 16	Thsd	218.0	221.0
Jun 22	Markit US Manufacturing PMI	Jun P	Index	54.6	56.4
Jun 22	Markit US Services PMI	Jun P	Index	56.5	56.8
Canada					
Jun 21	Wholesale Trade Sales	Apr	M/M % Chg.	0.1	1.4
Jun 22	Retail Sales Ex Auto	Apr	M/M % Chg.	-0.1	0.0
Jun 22	Retail Sales	Apr	M/M % Chg.	-1.2	0.8
Jun 22	Consumer Price Index NSA	May	M/M % Chg.	0.1	0.3
Jun 22	Consumer Price Index	May	Y/Y % Chg.	2.2	2.2
Jun 22	Consumer Price Index Core - Common	May	Y/Y % Chg.	1.9	1.9
Jun 22	Consumer Price Index Core - Trim	May	Y/Y % Chg.	1.9	2.1
Jun 22	Consumer Price Index Core - Median	May	Y/Y % Chg.	1.9	2.1
International					
Jun 21	UK Bank of England Bank Rate	Jun 21	%	0.50	0.50
Jun 21	JN Natl Consumer Price Index	May	Y/Y % Chg.	0.7	0.6
Jun 22	EZ Markit Eurozone Manufacturing PMI	Jun	Index	55.0	55.5

Source: Bloomberg, TD Economics.

UPCOMING ECONOMIC RELEASES AND EVENTS: JUNE 25 - 29, 2018						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jun 25	10:00	New Home Sales	May	Thsd	670.0	662.0
Jun 26	9:00	S&P CoreLogic CS US HPI NSA	Apr	Y/Y % Chg.	-	6.5
Jun 26	10:00	Conf. Board Consumer Confidence	Jun	Index	127.2	128.0
Jun 26	13:00	<i>Fed's Bostic Speaks at the Civil Rights Institute in Birmingham, AL</i>				
Jun 26	13:45	<i>Fed's Kaplan Participates in a Moderated Q&A in Houston, TX</i>				
Jun 27	8:30	Durable Goods Orders	May	M/M % Chg.	-0.5	-1.6
Jun 27	8:30	Advance Goods Trade Balance	May	Blns	-67.3	-67.3
Jun 27	8:30	Durables Ex Transportation	May	M/M % Chg.	0.5	0.9
Jun 27	8:30	Retail Inventories	May	M/M % Chg.	-	0.5
Jun 27	8:30	Cap Goods Orders Nondef Ex Air	May	M/M % Chg.	-	1.0
Jun 27	10:00	Pending Home Sales	May	M/M % Chg.	1.0	-1.3
Jun 27	12:15	<i>Fed's Rosengren Speaks on Ethics and Economics</i>				
Jun 28	8:30	Personal Consumption	1Q	Q/Q % Chg.	-	1.0
Jun 28	8:30	Gross Domestic Product Annualized	1Q	Q/Q % Chg.	2.2	2.2
Jun 28	8:30	Initial Jobless Claims	Jun 23	Thsd	-	-
Jun 28	8:30	Core Personal Consumption Expenditure	1Q	Q/Q % Chg.	-	2.3
Jun 28	10:45	<i>Fed's Bullard Speaks on U.S. Economy and Monetary Policy</i>				
Jun 29	8:30	Personal Consumption Expenditure Core	May	Y/Y % Chg.	-	1.8
Jun 29	8:30	Personal Income	May	M/M % Chg.	0.4	0.3
Jun 29	8:30	Real Personal Spending	May	M/M % Chg.	-	0.4
Jun 29	8:30	Personal Consumption Expenditure Deflator	May	Y/Y % Chg.	-	2.0
Canada						
Jun 27	15:00	<i>BoC Governor Stephen Poloz Speaks in Victoria, BC</i>				
Jun 28		CFIB Business Barometer	Jun	Index	-	62.5
Jun 29	8:30	Gross Domestic Product	Apr	M/M % Chg.	-	0.3
Jun 29	8:30	Industrial Product Price	May	M/M % Chg.	-	0.5
Jun 29	10:30	BoC Overall Business Outlook Survey	2Q	Index	-	2.0
Jun 29	10:30	BoC Senior Loan Officer Survey	2Q	Index	-	-5.2
Jun 29	10:30	BoC Business Outlook Future Sales	2Q	Index	-	16.0
International						
Jun 27	19:50 JN	Retail Trade	May	Y/Y % Chg.	-	1.5
Jun 28	19:30 JN	Jobless Rate	May	%	-	2.5
Jun 29	4:30 UK	Gross Domestic Product	1Q	Y/Y % Chg.	-	1.2
Jun 29	5:00 EZ	Consumer Price Index Core	Jun	Y/Y % Chg.	-	1.1
Jun 29	21:00 CH	Non-Manufacturing PMI	Jun	Index	-	54.9
Jun 29	21:00 CH	Manufacturing PMI	Jun	Index	-	51.9

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

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