

The Weekly Bottom Line

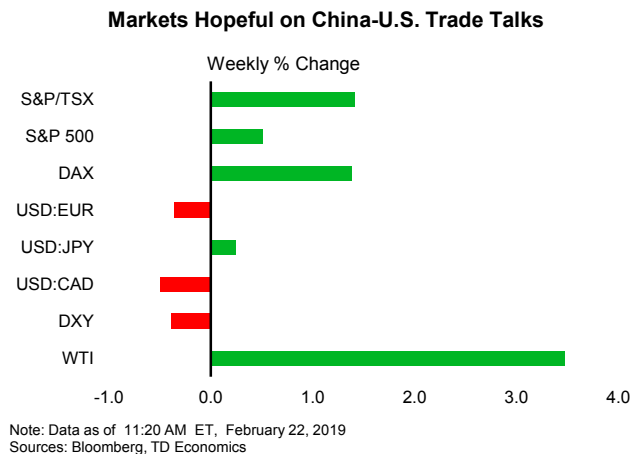
February 22, 2019

Highlights of the Week

- The barrage of negative U.S. data continued this week, with weakness in December durable goods orders and a decline in existing home sales in January.
- Still, markets were hopeful that progress would be made in the China-U.S. trade talks, which could help remove a cloud of uncertainty that has weighed on investment.
- The data affirms that the Fed made the right choice to shift off of gradual rate increases, and wait patiently to see if the U.S. economy remains resilient in the face of global weakness. We expect these signs to become clearer in the spring.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2788	2776	2931	2351
S&P/TSX Comp.	16063	15838	16567	13780
DAX	11454	11300	13170	10382
FTSE 100	7178	7237	7877	6585
Nikkei	21426	20901	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.65	2.66	3.24	2.55
Canada 10-yr Bond	1.88	1.90	2.60	1.83
Germany 10-yr Bund	0.09	0.10	0.71	0.09
UK 10-yr Gilt	1.16	1.16	1.73	1.15
Japan 10-yr Bond	-0.04	-0.02	0.16	-0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.76	0.76	0.80	0.73
Euro (USD per EUR)	1.13	1.13	1.24	1.12
Pound (USD per GBP)	1.31	1.29	1.43	1.25
Yen (JPY per USD)	110.7	110.5	114.5	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	57.3	55.6	76.4	42.3
Natural Gas (\$US/MMBtu)	2.73	2.59	4.80	2.56
Copper (\$US/met. tonne)	6394.5	6193.0	7330.5	5713.8
Gold (\$US/troy oz.)	1330.2	1321.6	1353.4	1174.2

*as of 11:11 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)	2.25 - 2.50%
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.

TD Economics Key Forecasts													
	Current Rate 2/22/19	2018				2019				2020			
		Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	2.50	1.75	2.00	2.25	2.50	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75
2-yr Govt. Bond Yield (%)	2.50	2.27	2.52	2.81	2.48	2.55	2.65	2.75	2.75	2.75	2.75	2.75	2.75
10-yr Govt. Bond Yield (%)	2.65	2.74	2.85	3.05	2.69	2.80	2.90	3.00	3.00	3.00	3.00	3.00	3.00
30-yr Govt. Bond Yield (%)	3.01	2.97	2.98	3.19	3.02	3.05	3.15	3.25	3.25	3.25	3.25	3.25	3.25
Real GDP (Q/Q % Chg)*	3.4 (Q3-18)	2.2	4.2	3.4	2.3	2.1	2.5	2.3	2.0	1.7	2.0	1.6	1.8
CPI (Y/Y % Chg.)	1.6 (Jan-19)	2.2	2.7	2.6	2.2	1.8	2.0	2.2	2.3	2.3	2.3	2.2	2.2
Unemployment Rate (%)	4.0 (Jan-19)	4.1	3.9	3.8	3.8	3.6	3.6	3.6	3.6	3.7	3.8	3.8	3.9

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

Awaiting Signs of Spring

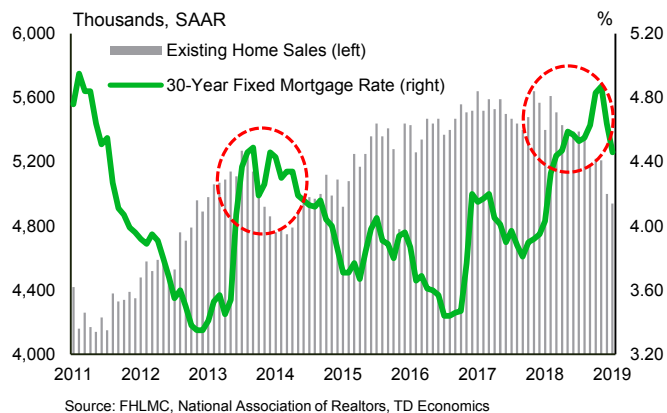
Spring training got underway this week, a reminder that better weather is just around the corner. But, it will likely be some time before we see signs of spring in the U.S. economy. Various indicators pointed to soft momentum at the end of 2018 and early in 2019. Last week it was retail sales and industrial production. This week, the bad news came from durable goods orders and existing home sales.

Overall durable goods orders rose 1.2% in December, but the underlying business-investment gauge – nondefense capital goods orders ex-aircraft – declined 0.7%, the fourth decline since August. Capex spending had already slowed in the third quarter of 2018 after a period of strength (Chart 1), and the durables data suggests a similarly modest pace in Q4. That lines up with our capital expenditure tracker, (based on Fed sentiment surveys) and points to more modest growth into early 2019 as well.

Uncertainty related to trade policy and slower growth abroad likely contributed to more modest business spending in the latter half of 2018. Markets were optimistic about ongoing China-U.S. talks this week, but there is no concrete news yet. The President also indicated that March 1st is not a magic date, providing hope that an escalation in tariffs isn't imminent. It could also mean that talks drag on, keeping the cloud of uncertainty hanging over investment.

The U.S. housing market also started 2019 on a weaker footing. Existing home sales fell 1.2% in January, hitting the lowest level since November 2015. It is likely sales were somewhat depressed by uncertainty due to the government

Chart 2: Lower Mortgage Rates Should Lead to Better Sales in Months Ahead



shutdown, but the trend was already soft.

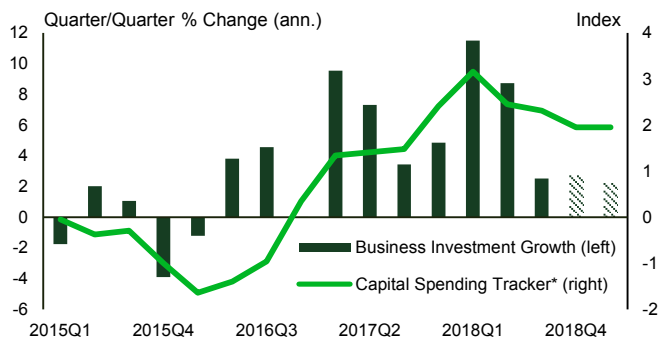
Deteriorating affordability has cut into housing demand over the past year, but mortgage rates have dropped about 60 basis points since late 2018, which should show up in improved sales in the months to come (Chart 2). Home-builder confidence also improved in February, supporting a more positive housing narrative ahead.

Finally, on the data front, the delayed fourth quarter GDP report is released next week. We expect growth moderated to 2.2% in Q4, after running above 3 ½% through the middle of the year. With the government shutdown and the continued phenomenon of residual seasonality, the first quarter of 2019 is likely to be even weaker at 1.6%.

For now, this lackluster data affirms that the Fed made the right choice to shift off of gradual rate increases, and wait patiently to see if the U.S. economy remains resilient in the face of global weakness. The minutes from the January FOMC meeting showed members debating whether further rate hikes will be necessary, but not contemplating cuts. Members continued to view sustained expansion strong labor market conditions, and inflation near 2% as the most likely path ahead. We too expect economic momentum to improve in the spring, and remain modestly above trend through the remainder of 2019. As long as there are no curve balls, the Fed is likely to raise rates once more in the latter half of the year.

Leslie Preston, Senior Economist

Chart 1: Surveys Point to Weaker CAPEX



* Capex tracker is a principle component analysis of the balance of opinion on capital expenditure intentions six month ahead from five regional Fed Surveys (Dallas, Philly, Richmond, Kansas City and New York). Q1 2019 is a snapshot, based on January sentiment. Source: TD Economics

Upcoming Key Economic Releases

U.S. Real GDP - Q4 Initial

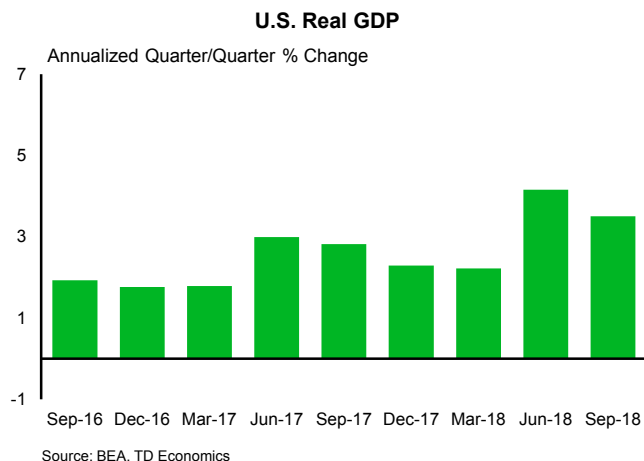
Release Date: February 28, 2019

Previous: 3.4%

TD Forecast: 2.2%

Consensus: 2.5%

Following weak December retail sales and core capital goods data, we look for Q4 GDP growth to slow to 2.2%, down from Q3's solid burst of 3.4%. While consumption expenditures should be respectable (upper 2% range), housing and business inventories are likely to subtract from growth. The more measured expansion rate reflects the economy's normalization as fiscal stimulus wanes and past interest rate hikes bite. As a final note, due to the shut-down, this report will be a combination of the advance and second releases; there will only be one subsequent revision.



Recent Key Economic Indicators: Feb 18 - 22, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 19	NAHB Housing Market Index	Feb	Index	62.0	58.0
Feb 21	Initial Jobless Claims	Feb 16	Thsd	216.0	239.0
Feb 21	Durable Goods Orders	Dec	M/M % Chg.	1.2	1.0
Feb 21	Durables Ex Transportation	Dec	M/M % Chg.	0.1	-0.2
Feb 21	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	-0.7	-1.0
Feb 21	Markit US Services PMI	Feb	Index	56.2	54.2
Feb 21	Markit US Manufacturing PMI	Feb	Index	53.7	54.9
Feb 21	Existing Home Sales	Jan	Mlns	4.95	5.00
Canada					
Feb 21	Wholesale Trade Sales	Dec	M/M % Chg.	0.3	-1.1
Feb 22	Retail Sales Ex Auto	Dec	M/M % Chg.	-0.5	-0.7
Feb 22	Retail Sales	Dec	M/M % Chg.	-0.1	-0.9
International					
Feb 19	UK ILO Unemployment Rate 3Mths	Dec	%	4.0	4.0
Feb 20	JN Nikkei Japan PMI Manufacturing	Feb	Index	48.5	50.3
Feb 21	EZ Markit Eurozone Manufacturing PMI	Feb	Index	49.2	50.5
Feb 21	JN National Consumer Price Index	Jan	Y/Y % Chg.	0.2	0.3
Feb 22	EZ Consumer Price Index	Jan	Y/Y % Chg.	1.4	1.4

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Feb 25 - Mar 1, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 25	10:00	Wholesale Trade Sales	Dec	M/M % Chg.	-	-0.6
Feb 26	8:30	Housing Starts	Dec	Thsd	1253.0	1256.0
Feb 26	8:30	Building Permits	Dec	Thsd	1290.0	1322.0
Feb 26	9:00	House Price Purchase Index	4Q	Q/Q % Chg.	-	1.3
Feb 26	9:00	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	-	5.2
Feb 26	10:00	<i>Fed's Jerome Powell delivers semi-annual monetary report to Congress</i>				
Feb 26	10:00	Conf. Board Consumer Confidence	Feb	Index	124.2	120.2
Feb 27	8:30	Advance Goods Trade Balance	Dec	USD, Blns	-75.70	-
Feb 27	8:30	Retail Inventories	Dec	M/M % Chg.	-	-
Feb 27	10:00	Pending Home Sales	Jan	M/M % Chg.	-	-2.2
Feb 27	10:00	Factory Orders	Dec	M/M % Chg.	1.4	-0.6
Feb 27	10:00	Factory Orders Ex Trans	Dec	M/M % Chg.	-	-1.3
Feb 27	10:00	<i>Fed's Jerome Powell gives semi-annual testimony before the House Finance Committee</i>				
Feb 28	8:00	<i>Fed's Richard Clarida speaks at NABE Conference in Washington, DC</i>				
Feb 28	8:30	Personal Consumption	4Q	Q/Q % Chg.	3.8	3.5
Feb 28	8:30	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.5	3.4
Feb 28	8:30	Initial Jobless Claims	Feb 23	Thsd	-	216.0
Feb 28	8:30	Core Personal Consumption Expenditure	4Q	Q/Q % Chg.	1.6	1.6
Feb 28	8:50	<i>Fed's Raphael Bostic speaks on economic and housing landscape in Atlanta, GA</i>				
Feb 28	13:00	<i>Fed's Patrick Harker speaks on economic outlook in Philadelphia, PA</i>				
Mar 01	8:30	Personal Income	Jan	M/M % Chg.	0.3	-
Mar 01	8:30	Real Personal Spending	Dec	M/M % Chg.	0.2	0.3
Mar 01	8:30	Personal Consumption Expenditure Core	Dec	Y/Y % Chg.	1.9	1.9
Mar 01	8:30	Personal Consumption Expenditure Deflator	Dec	Y/Y % Chg.	1.7	1.8
Mar 01	10:00	ISM Employment	Feb	Index	-	55.5
Mar 01	10:00	ISM Manufacturing	Feb	Index	56.2	56.6
Mar 01	12:50	<i>Fed's Raphael Bostic speaks at NABE Conference in Washington, DC</i>				
Mar 01		Wards Total Vehicle Sales	Feb	Mlns	16.80	16.60
Canada						
Feb 27	8:30	Consumer Price Index Core - Common	Jan	Y/Y % Chg.	1.9	1.9
Feb 27	8:30	Consumer Price Index Core - Median	Jan	Y/Y % Chg.	1.8	1.8
Feb 27	8:30	Consumer Price Index Core - Trim	Jan	Y/Y % Chg.	1.9	1.9
Feb 27	8:30	Consumer Price Index	Jan	Y/Y % Chg.	1.5	2.0
Feb 27	8:30	Consumer Price Index NSA	Jan	M/M % Chg.	0.2	-0.1
Feb 28	6:00	CFIB Business Barometer	Feb	Index	-	56.1
Feb 28	8:30	Current Account Balance	4Q	CAD, Blns	-	-10.34
Feb 28	8:30	Industrial Product Price	Jan	M/M % Chg.	-	-0.7
Mar 01	8:30	Quarterly Gross Domestic Product Annualized	4Q	Q/Q % Chg.	-	2.0
Mar 01	8:30	MLI Leading Indicator	Jan	M/M % Chg.	-	-0.3
Mar 01	8:30	Gross Domestic Product	Dec	M/M % Chg.	-	-0.1
Mar 01	9:30	Markit Canada Manufacturing PMI	Feb	Index	-	53.0
International						
Feb 25	9:00	MX Gross Domestic Product NSA	4Q	Y/Y % Chg.	-	1.8
Feb 27	18:50	JN Retail Trade	Jan	Y/Y % Chg.	-	1.3
Feb 27	20:00	CH Manufacturing PMI	Feb	Index	49.6	49.5
Feb 28	7:00	BZ Gross Domestic Product	4Q	Y/Y % Chg.	-	1.3
Feb 28	7:00	IN Gross Domestic Product	4Q	Y/Y % Chg.	-	7.1
Feb 28	18:30	JN Jobless Rate	Jan	%	2.4	2.4
Feb 28	19:30	JN Nikkei Japan Manufacturing PMI	Feb	Index	-	48.5
Mar 01	4:00	EZ Markit Eurozone Manufacturing PMI	Feb	Index	-	49.2
Mar 01	4:30	UK Markit UK Manufacturing PMI	Feb	Index	52.2	52.8
Mar 01	5:00	EZ Unemployment Rate	Jan	%	7.9	7.9

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

Note: Some data releases may be impacted by the recent U.S. partial government shutdown.

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