

## The Weekly Bottom Line

January 10th, 2020

### Highlights of the Week

#### United States

- The U.S. economy continued to churn out jobs at a solid pace. Non-farm employment grew by 1.6% over 2019, marking only a slight deceleration from the 1.7% recorded in 2018.
- The services side of the economy also continued to fare better than its manufacturing counterpart. The ISM Non-Manufacturing Index edged 1.1 points higher, to its highest level in seven months.
- The U.S. trade deficit dipped to its lowest level in three years as tariffs, among other factors, shifted trade flows.

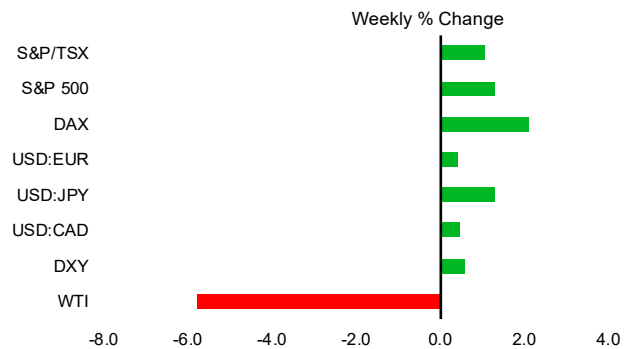
#### Canada

- Risk appetite returned to equity markets this week. Easing geopolitical risks pushed the TSX index to new record highs, even as domestic economic data released this week was not something to write home about.
- The trade deficit narrowed in November, the improvement, however, was not due to strong exports, but rather a result of imports falling more than exports. [Housing starts](#) also missed market expectations in December, dipping below 200k units for the first time since May.
- The much-anticipated December [employment report](#) revealed that the Canadian economy added a modest 35k new jobs, following two months of losses.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	3275	3235	3275	2583
S&P/TSX Comp.	17240	17066	17240	14903
DAX	13494	13219	13495	10856
FTSE 100	7594	7622	7687	6747
Nikkei	23851	23657	24066	20164
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	1.82	1.79	2.78	1.46
Canada 10-yr Bond	1.59	1.54	2.04	1.09
Germany 10-yr Bund	-0.20	-0.28	0.26	-0.71
UK 10-yr Gilt	0.77	0.74	1.35	0.41
Japan 10-yr Bond	0.00	-0.01	0.02	-0.29
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.77	0.77	0.77	0.74
Euro (USD per EUR)	1.11	1.12	1.15	1.09
Pound (USD per GBP)	1.31	1.31	1.33	1.20
Yen (JPY per USD)	109.5	108.1	112.2	105.3
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	59.1	63.1	66.4	50.5
Natural Gas (\$US/MMBtu)	2.05	2.06	4.25	2.02
Copper (\$US/met. tonne)	6152.5	6104.0	6555.5	5584.5
Gold (\$US/troy oz.)	1559.2	1552.2	1574.4	1270.7

\*As of 11:43 AM on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price). Copper-LME Grade A. Gold-London Gold Bullion. Source: Bloomberg.

### News of Easing U.S.-Iran Tensions Weigh on Oil Prices



### Global Official Policy Rate Targets

	Current Target
Federal Reserve (Fed Funds Rate)	1.50 - 1.75%
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.

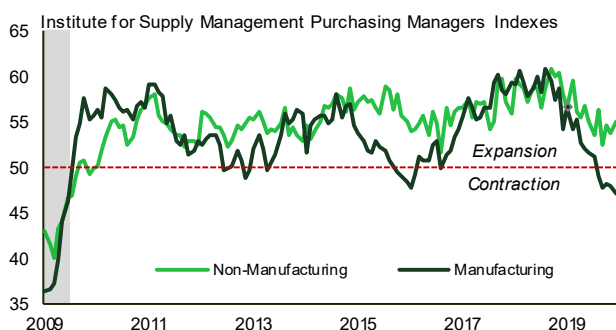
# U.S. - Services Keep the Economic Engine Humming Along

The highly anticipated employment data revealed that the U.S. economy added jobs for the 10<sup>th</sup> consecutive year, despite a slower pace of hiring. Non-farm payrolls rose by 145k in December, a mild deceleration from November's 256k. This gain was largely concentrated in the services sector, with job increases in retail trade (+41k), health care (+28k), leisure and hospitality (+40k) and construction (+20k). Manufacturing employment however was down by 12k. The unemployment rate continues to hover at its 50-year low of 3.5%, while year-on-year wage gains decelerated to 2.9% from 3.1% in November.

Despite the overall positive tenor of the report, there are warning signs on the horizon as the U.S. population in 2019 grew at the slowest pace in about a century. Though the economic impact of this development may be slow to materialize, it does have implications for the availability of workers, taxpayers and consumers to fuel future growth.

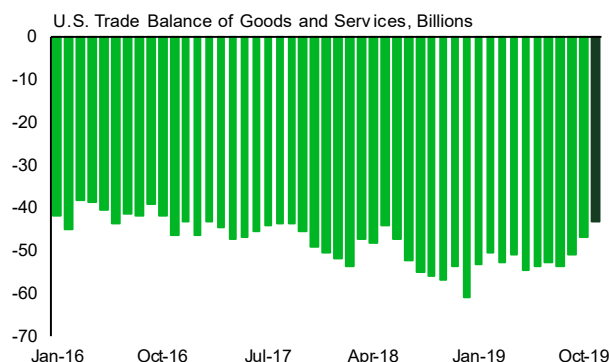
The employment numbers suggest that U.S. service sector activity has been resilient. This was echoed in sentiment, where the Institute for Supply Management's Non-Manufacturing Index diverged from its manufacturing counterpart in December. The index edged 1.1 points higher to 55.0 – its highest level in seven months. Healthy consumer fundamentals and less exposure to trade tensions helped the services sector, which accounts for a larger proportion of the U.S. economy, remain in expansionary territory throughout 2019. This is in contrast to the manufacturing sector, where activity has been contracting for the past five months and in December slumped to its lowest level since June 2009 (Chart 1).

**Chart 1: As Manufacturing Continues to Contract, the Services Sector Improves**



Note: Grey shading represents recession periods. Source: Institute for Supply Management, TD Economics

**Chart 2: U.S. Trade Deficit Shrinks to the Lowest Level in Three Years**



Note: Last data point is November 2019. Source: U.S. Census Bureau, TD Economics

Geopolitical developments continued to influence market movements this week as Iran retaliated for the death of a top military leader, with an air strike against U.S. forces. Markets reacted violently to this development, with stock futures tumbling. However, by end-of-week stocks pared losses, and oil and gold retreated from earlier highs.

On the trade front, U.S. tariffs contributed to a slide in imports (down 1% month-on-month) in November while exports picked up (up 0.7% m/m), pushing the trade deficit to its lowest level since October 2016 (Chart 2). The goods and services deficit decreased by 8.2% to \$43.1bn in November, down from \$46.9bn in the previous month. Of note, the country's merchandise trade deficit with China fell for a fourth consecutive month reflecting tensions between the two countries. A preliminary trade deal however, expected to be signed next week, should bring improvements in bilateral trade relations. Despite this, the impact of potential tariffs on goods from other trading partners such as the EU and Latin America cannot be discounted, and may result in further data distortions in the months ahead.

Overall, the U.S. economy has managed to exit a tumultuous 2019 relatively better-off than most other advanced economies. While U.S. growth is expected to slow in 2020 as detailed in our latest [forecast](#), it will still lead the G7 pack, notwithstanding continued trade policy uncertainty.

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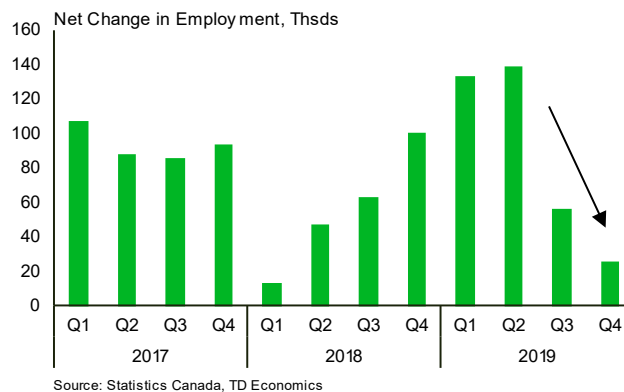
## Canada - Job Growth Returns in December

Risk appetite returned to equity markets this week amid easing geopolitical risks. The U.S. and Iran have backed away from a near-term military conflict. Trade tensions also receded somewhat, amid official confirmation that China's Vice President Liu He will be arriving to Washington next week to sign a phase-one deal. These developments helped to push the TSX index to new record highs, even as domestic economic data released this week was not something to write home about. Incoming data was consistent with the notion that Canadian economic growth has slowed noticeably in the fourth quarter.

International [trade](#) data was the first on the docket, and revealed that the trade deficit narrowed in November. The improvement, however, was not due to strong exports (which actually contracted on the month), but rather a result of imports falling more than exports. Worse, in volume terms, which matter for GDP growth, exports fell sharply, outpacing the contraction in imports. Temporary factors appear to have been at play in November, with Statistics Canada noting that declines in exports and imports coincided with the CN Rail strike. The GM strike, which ended in late October, could have also muddied recent trade data. With both strikes now in the rear-view mirror, December trade data should look better. Even so, trade will likely remain a drag on economic growth in Q4, with a sub-1% GDP print looking like a distinct possibility.

[Housing starts](#) also missed market expectations in December, dipping below 200k units for the first time since May. Despite some moderation in the pace of construction relative to the earlier months of last year, a sharp downturn in

**Chart 2: Hiring Decelerates Noticeably in Q4**



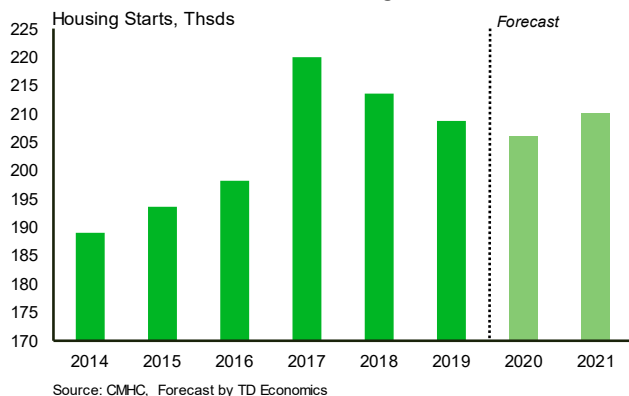
homebuilding remains an unlikely scenario. Robust population growth, low mortgage rates, rising home prices and low rental vacancy rates in key metro markets are all factors supporting new home construction. Indeed, we forecast starts to edge only moderately lower in 2020 (Chart 1), as past declines in pre-construction sales weigh on homebuilding activity even as economic fundamentals remain solid.

Strong job and wage gains have been another factor supporting housing markets. The much-anticipated December [employment report](#) was released today. While the headline print was modest at 35k net new jobs, it was encouraging to see job growth return following two months of losses. The composition was favourable, with all the gains and then some in full-time work (+38.4k). The private sector broke its contractionary streak (+56.9k). A positive December print is reassuring, but there's no denying that while the labour market started the year like a lion it ended like a lamb (Chart 2). After adding nearly 270k new jobs during the first two quarters of the year, job gains averaged just 25k in Q4.

Overall, this week's data is consistent with Governor Poloz's [remarks](#) yesterday where he noted the recent softening in the data flow, but did not spill any beans regarding the near-term monetary policy course. This is not overly surprising. Given the many one-off factors at work in Q4, the Bank of Canada is likely taking its time disentangling their impact. We'll have to wait for this month's Monetary Policy Report (January 22nd) to see where the Governor and his team land in interpreting these and other recent trends.

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**Chart 1: Healthy Fundamentals to Put a Floor on Homebuilding**



## U.S.: Upcoming Key Economic Releases

### U.S. Consumer Price Index – December\*

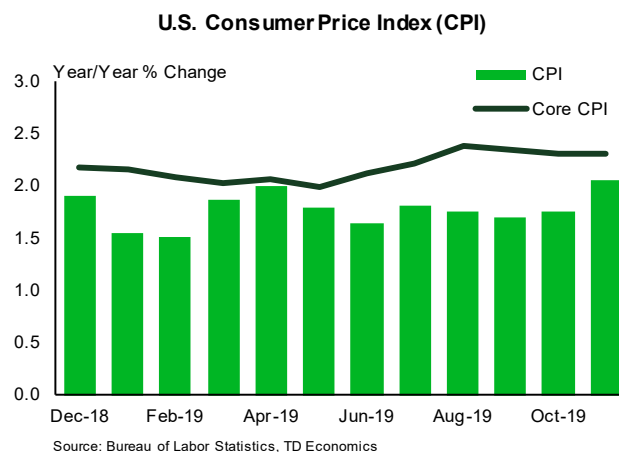
Release Date: January 14, 2020

Previous: 0.3% m/m, 2.1% y/y

TD Forecast: 0.3% m/m, 2.4% y/y

Consensus: 0.2% m/m, 2.4% y/y

The headline CPI was probably boosted in December by higher gasoline prices—we forecast up 0.3% month-over-month. Moreover, gasoline prices were falling a year ago, so the 12-month change in the overall index is likely to pick up to 2.4% from 2.1%. We expect a more trend-like 0.2% month-over-month rise in the core index. The 12-month change in core probably held at 2.3%, although it is a close call between 2.3% and 2.4%. The 12-month change in core prices was 2.2% in December 2018, so there has been slight acceleration in the past year.



### U.S. Retail Sales – December\*

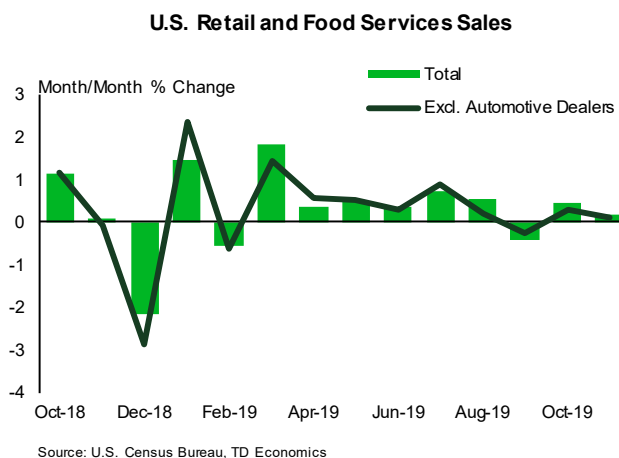
Release Date: January 16th, 2020

Previous: 0.2% m/m

TD Forecast: 0.5% m/m

Consensus: 0.3% m/m

Seasonally adjusting retail sales can be challenging around year-end, but sales probably rose fairly solidly in December, even with a dip in auto sales. Anecdotal reports on the holiday shopping season were generally positive, albeit with department stores continuing to lose market share to nonstore retailers. The backdrop for spending has remained positive, with the labor market still fairly strong (even with some slowing in the payrolls data for December), wealth measures rising and consumer confidence staying high.



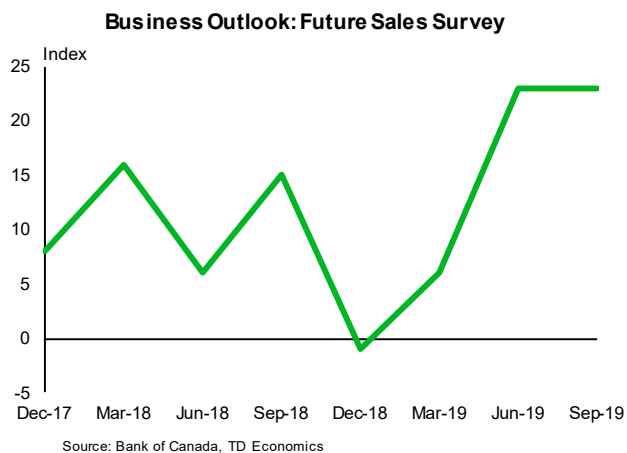
\*Forecast by Rates and FX Strategy Group. For further information, contact [TDRates&FXCommoditiesResearch@tdsecurities.com](mailto:TDRates&FXCommoditiesResearch@tdsecurities.com)

## Canada: Upcoming Key Economic Releases

### Bank of Canada Business Outlook Survey\*

Release Date: January 13th, 2020

The Bank of Canada’s Business Outlook Survey (BOS) will be watched for any signs of near-term malaise following the recent deterioration in economic data surprises and small business sentiment, which currently sits at the second lowest level since 2016. Despite recent softness in economic data, consensus GDP expectations have been revised higher in five of the last six months, which should lend support to expectations for sales growth. Elsewhere, the pickup in Q3 investment should translate into some relief in capacity-related indicators, and the recent moderation in employment data suggests an easing of labour shortages from the previous survey. Overall, this may result in a modest pullback for the aggregate BOS indicator, but we do not expect a retest of the Q1 lows. The Bank of Canada will also publish its Canadian Survey of Consumer Expectations alongside the BOS.



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

Recent Key Economic Indicators: Jan 6 - 10, 2020					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Jan 6	Markit US Services PMI	Dec	Index	52.8	52.2
Jan 7	Cap Goods Orders Nondef Ex Air	Nov	M/M % Chg.	0.2	0.1
Jan 7	Durable Goods Orders	Nov	M/M % Chg.	-2.1	-2.0
Jan 7	Durables Ex Transportation	Nov	M/M % Chg.	-0.1	0.0
Jan 7	Factory Orders	Nov	M/M % Chg.	0.2	0.3
Jan 7	Factory Orders Ex Trans	Nov	M/M % Chg.	0.3	0.3
Jan 7	ISM Non-Manufacturing Index	Dec	Index	55.0	53.9
Jan 7	Trade Balance	Nov	Blns	-43.0	-46.9
Jan 8	ADP Employment Change	Dec	Thsd	202.0	124.0
Jan 9	Initial Jobless Claims	Jan 19	Thsd	214.0	223.0
Jan 10	Average Hourly Earnings	Dec	M/M % Chg.	0.1	0.3
Jan 10	Change in Nonfarm Payrolls	Dec	Thsd	145.0	256.0
Jan 10	Unemployment Rate	Dec	%	3.5	3.5
Jan 10	Wholesale Trade Sales	Nov	M/M % Chg.	1.5	-0.7
<b>Canada</b>					
Jan 7	Int'l Merchandise Trade	Nov	Blns	-1.1	-1.1
Jan 9	Housing Starts	Dec	Thsd	197.3	201.3
Jan 10	Hourly Wage Rate Permanent Employees	Dec	Y/Y % Chg.	3.8	4.4
Jan 10	Net Change in Employment	Dec	Thsd	35.2	-71.2
Jan 10	Unemployment Rate	Dec	%	5.6	5.9
<b>International</b>					
Jan 6	EZ Markit Eurozone Services PMI	Dec	Index	52.8	52.4
Jan 6	UK Markit/CIPS UK Composite PMI	Dec	Index	49.3	48.5
Jan 6	UK Markit/CIPS UK Services PMI	Dec	Index	40.0	49.0
Jan 7	EZ Consumer Price Index Core	Dec	Y/Y % Chg.	1.3	1.0
Jan 7	EZ Retail Sales	Nov	Y/Y % Chg.	2.2	1.4
Jan 8	CH Consumer Price Index	Dec	Y/Y % Chg.	4.5	4.5
Jan 9	EZ Unemployment Rate	Nov	%	7.5	7.5

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jan 13 - 17, 2020						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Jan 13	10:00	<i>Fed's Eric Rosengren speaks on the Economic Outlook</i>				
Jan 13	12:40	<i>Fed's Raphael Bostic speaks on the Economic Outlook and Monetary Policy</i>				
Jan 14	6:00	NFIB Small Business Optimism	Dec	Index	104.9	104.7
Jan 14	8:30	Consumer Price Index	Dec	M/M % Chg.	0.2	0.3
Jan 14	8:30	Consumer Price Index	Dec	Y/Y % Chg.	2.3	2.1
Jan 14	8:30	Consumer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	0.2
Jan 14	8:30	Consumer Price Index Ex Food and Energy	Dec	Y/Y % Chg.	2.3	2.3
Jan 14	9:00	<i>Fed's John Williams speaks on Behavioral Science</i>				
Jan 14	13:00	<i>Fed's Esther George speaks in Kansas City, KS</i>				
Jan 15	8:30	Empire Manufacturing	Jan	Index	3.5	3.5
Jan 15	8:30	Producer Price Index Ex Food and Energy	Dec	M/M % Chg.	0.2	-0.2
Jan 15	8:30	Producer Price Index Final Demand	Dec	M/M % Chg.	0.2	0.0
Jan 15	14:00	U.S. Federal Reserve Releases Beige Book				
Jan 16	8:30	Initial Jobless Claims	Jan 20	Thsd	-	-
Jan 16	8:30	Retail Sales Advance	Dec	M/M % Chg.	0.3	0.2
Jan 16	8:30	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	-	0.0
Jan 16	10:00	Business Inventories	Nov	M/M % Chg.	-0.1	0.2
Jan 16	10:00	NAHB Housing Market Index	Jan	Index	-	76.0
Jan 17	8:30	Building Permits	Dec	Thsd	1470.0	1482.0
Jan 17	8:30	Housing Starts	Dec	Thsd	1378.0	1365.0
Jan 17	9:00	<i>Fed's Patrick Harker speaks on the Economic Outlook</i>				
Jan 17	9:15	Capacity Utilization	Dec	%	77.3	77.3
Jan 17	9:15	Industrial Production	Dec	M/M % Chg.	0.1	1.1
Jan 17	9:15	Manufacturing (SIC) Production	Dec	Index	-	1.1
<b>Canada</b>						
Jan 13	10:30	BoC Business Outlook Future Sales	4Q	Q/Q % Chg.	-	23.0
Jan 13	10:30	BoC Overall Business Outlook Survey	4Q	Q/Q % Chg.	-	0.4
Jan 15	9:00	Existing Home Sales	Dec	M/M % Chg.	-	0.0
<b>International</b>						
Jan 13	4:30	UK Industrial Production	Nov	Y/Y % Chg.	-1.3	-1.3
Jan 13	4:30	UK Monthly Gross Domestic Product (3M/3M)	Nov	M/M % Chg.	-0.1	0.0
Jan 15	4:30	UK Consumer Price Index	Dec	Y/Y % Chg.	-	1.5
Jan 16	21:00	CH Gross Domestic Product	4Q	Y/Y % Chg.	6.0	6.0
Jan 16	21:00	CH Industrial Production	Dec	Y/Y % Chg.	5.9	6.2
Jan 16	21:00	CH Retail Sales	Dec	Y/Y % Chg.	7.8	8.0
Jan 16	21:00	CH Surveyed Jobless Rate	Dec	%	-	5.1
Jan 17	4:30	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	-	0.8

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

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