

## The Weekly Bottom Line

December 21, 2018 Note: The next issue of the Weekly Bottom Line will be published January 4th, 2019.

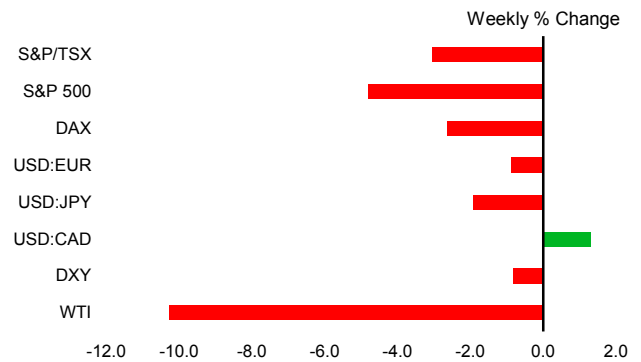
### Highlights of the Week

- As widely expected, the Fed hiked rates once more this year. At the same time, the Fed's dot plot moved lower over the forecast horizon. These changes are consistent with a softer inflation and economic outlook.
- Data came in broadly positive, with housing starts and home resales both defying weaker market expectations. Consumer spending remained hot in November, with consumption looking set to advance by a sturdy 4% (annualized) in Q4.
- The late-year equity market sell off continued this week, with looming risks for a partial government shutdown marking the latest in a series of factors that are likely to weigh on sentiment through the New Year.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	2471	2600	2931	2467
S&P/TSX Comp.	14140	14595	16567	14140
DAX	10567	10866	13560	10567
FTSE 100	6669	6845	7877	6669
Nikkei	20166	21375	24271	20166
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	2.79	2.89	3.24	2.41
Canada 10-yr Bond	2.02	2.10	2.60	1.96
Germany 10-yr Bund	0.25	0.25	0.77	0.23
UK 10-yr Gilt	1.32	1.24	1.73	1.17
Japan 10-yr Bond	0.05	0.04	0.16	0.02
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.74	0.75	0.82	0.74
Euro (USD per EUR)	1.14	1.13	1.25	1.12
Pound (USD per GBP)	1.27	1.26	1.43	1.25
Yen (JPY per USD)	111.1	113.4	114.5	104.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	45.5	51.2	76.4	45.5
Natural Gas (\$US/MMBtu)	3.60	3.99	7.13	2.52
Copper (\$US/met. tonne)	5977.5	6127.8	7330.5	5759.0
Gold (\$US/troy oz.)	1259.1	1238.5	1358.5	1174.2

\*as of 11:30 am on Friday. \*\*Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.

Market Woes Weighing on Holiday Spirit



Note: Data as of 11:30 AM ET, December 21, 2018  
Sources: Bloomberg, TD Economics

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 12/21/18	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	2.75	3.00	3.00	3.00	3.00	3.00	3.00
2-yr Govt. Bond Yield (%)	2.66	2.27	2.52	2.81	2.80	2.85	2.90	2.95	2.95	2.95	2.95	2.95	2.95
10-yr Govt. Bond Yield (%)	2.79	2.74	2.85	3.05	3.00	3.05	3.10	3.15	3.15	3.15	3.15	3.15	3.15
30-yr Govt. Bond Yield (%)	3.03	2.97	2.98	3.19	3.25	3.30	3.35	3.40	3.40	3.40	3.40	3.40	3.40
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.)	2.2 (Nov-18)	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 (%)	3.7 (Nov-18)	4.1	3.9	3.8	3.7	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

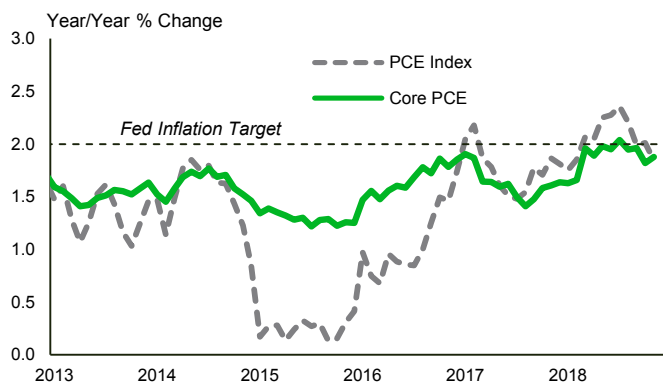
## Fed Set To Walk On Data Talk

It was a busy data week, but the FOMC meeting was the main event. As widely expected, the Fed hiked rates for the fourth time this year, lifting the upper bound of the fed funds rate to 2.5%. More interesting was that the Fed's dot plot, which shows members' expectations for future rate increases, shifted lower in 2019. The median expectation is now for two hikes, down from three previously. The expectation for the longer-run level of the fed funds rate also moved down 25 basis points to 2.75%. Consistent with these changes are a slightly more subdued price outlook and slightly higher unemployment rate, both a sign of a softer economic outlook in the years ahead.

The Fed's dovish tone with respect to future hikes did little to appease investors. Both U.S. and international equity markets extended their losing streak on the news. It should be noted, however, that the path of interest rates is not set in stone, with the Fed placing a greater emphasis on data-dependency. As Fed Chair Powell put it, from this point on "we're going to be letting the data speak to us".

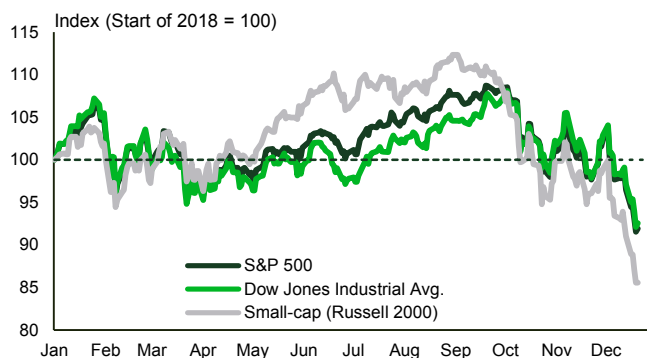
Speaking of data, this week's releases continued to confirm several running themes. First, inflation remains near target but has softened lately. The core PCE price index, the Fed's preferred measure of inflation, edged up in November, but still fell short of target (Chart 1). Secondly, U.S. consumer spending remains hot. Real spending was up 0.3% in November. With two months in the bag, consumption looks set to advance by close to 4% (annualized) in the final quarter of the year, better than previously ex-

**Chart 1: Core Inflation Ticked Up in November (Now 1.9% vs. 1.8% Previously), but Remains Below Target**



Source: BEA, TD Economics

**Chart 2: Late-year Selloff in Equity Markets Continues, Following Fed Rate Hike and Looming U.S. Government Shutdown**



Source: Bloomberg, TD Economics

pected. This brings our tracking for real GDP for the same quarter up to 2.8% – a deceleration from the third quarter (3.4%), but enough to keep growth at 2.9% for the year.

Third, the housing market remains soft but recent improvements are encouraging. Both housing starts (3.2%) and existing home sales (1.9%) rose in November, besting market expectations. On a less positive note, starts were propped up by the volatile multifamily segment (single-family starts fell for a third straight month), while home resales are still down between 3% and 15% year-on-year across major U.S. regions.

As the sugar high from monetary and fiscal stimulus wears off, we expect growth to slow to a still-healthy 2.5% in 2019. But, several potential potholes lie in the path ahead (see [here](#)). The latest spending bill impasse, which could lead to a partial government shutdown, is but one example. Given that shutdowns typically prove to be short-lived, history suggests limited economic impact. However, the hit to market confidence could prove more damaging.

Given expectations for slowing growth and the pronounced late-year selloff in equity markets (Chart 2), the "recession" word has gained traction recently. Our [recent look](#) at a broad range of indicators sees little evidence for this. That said, negative expectations have the potential to become self-fulfilling. For now, the only thing we have to fear is fear itself.

Admir Kolaj, Economist

## Upcoming Key Economic Releases

### U.S. ISM Manufacturing Index - December\*

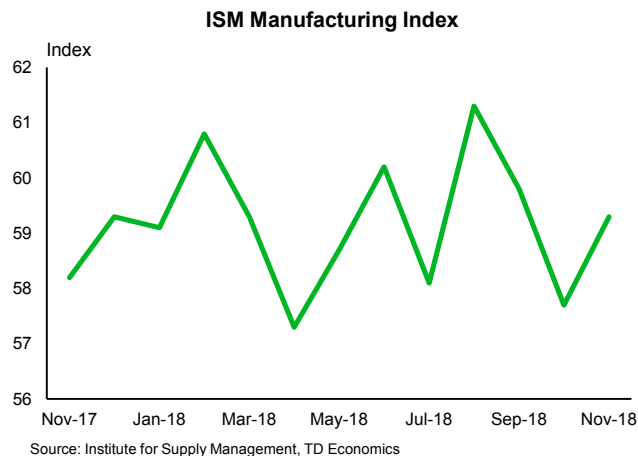
Release Date: January 3, 2018

Previous: 59.3

TD Forecast: 57.3

Consensus: 58.4

As suggested by weaker-than-expected prints in both the Empire Manufacturing and Philly Fed surveys, we look for the ISM Manufacturing index to give back some of its recent strength in December. Although we expect it to recede more than current consensus, we note that the ISM index remains at strong levels and well away from contractionary territory. ISM's employment index should give us confirmation of steady labor demand in the manufacturing sector, while new orders could be at risk of a pullback after hovering above the strong 60 level for most of the year.



### U.S. Employment - December\*

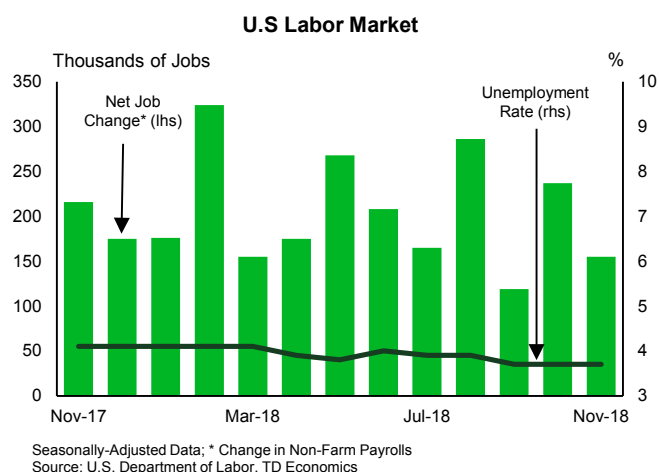
Release Date: January 4, 2018

Previous: 155k, unemployment rate: 3.7%

TD Forecast: 190k, unemployment rate: 3.7%

Consensus: 183k, unemployment rate: 3.7%,

TD expects payrolls to rebound to an above-consensus 190k for December following a larger than expected slide to 155k for November. Surveys published so far (Empire, Philly Fed) suggest employment likely remained firm in the manufacturing sector and there could be scope for an upside surprise from employment in the services sector (surveys are yet to be published). The construction sector will be particularly interesting to follow since it could continue to reflect weakness in activity. On the back of this, we anticipate the unemployment rate to stay largely unchanged at 3.7%. Lastly, we anticipate wages to rise 0.3% m/m in December largely reflecting a favourable reference



week. This should bring the annual print down slightly to 3.0% from 3.1% in November.

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

**Recent Key Economic Indicators: Dec 17 - 21, 2018**

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
<b>United States</b>					
Dec 17	Empire Manufacturing	Dec	Index	10.9	23.3
Dec 17	NAHB Housing Market Index	Dec	Index	56.0	60.0
Dec 18	Building Permits	Nov	Thsd	1328.0	1265.0
Dec 18	Housing Starts	Nov	Thsd	1256.0	1217.0
Dec 19	Current Account Balance	3Q	Blns	-124.8	-101.2
Dec 19	Existing Home Sales	Nov	Mlns	5.3	5.2
Dec 19	FOMC Rate Decision (Upper Bound)	Dec 19	%	2.50	2.25
Dec 20	Initial Jobless Claims	Dec 15	Thsd	214.0	206.0
Dec 21	Gross Domestic Product Annualized	3Q	Q/Q % Chg.	3.4	3.5
Dec 21	Personal Consumption	3Q	Q/Q % Chg.	3.5	3.6
Dec 21	Core Personal Consumption Expenditure	3Q	Q/Q % Chg.	1.6	1.5
Dec 21	Durable Goods Orders	Nov	M/M % Chg.	0.8	-4.3
Dec 21	Durables Ex Transportation	Nov	M/M % Chg.	-0.3	0.2
Dec 21	Cap Goods Orders Nondef Ex Air	Nov	M/M % Chg.	-0.6	0.5
Dec 21	Personal Income	Nov	M/M % Chg.	0.2	0.5
Dec 21	Real Personal Spending	Nov	M/M % Chg.	0.3	0.6
Dec 21	Personal Consumption Expenditure Deflator	Nov	Y/Y % Chg.	1.8	2.0
Dec 21	Personal Consumption Expenditure Core	Nov	Y/Y % Chg.	1.9	1.8
<b>Canada</b>					
Dec 17	Existing Home Sales	Nov	M/M % Chg.	-2.3	-1.6
Dec 18	Manufacturing Sales	Oct	M/M % Chg.	-0.1	0.2
Dec 19	Consumer Price Index Core - Common	Nov	Y/Y % Chg.	1.9	1.9
Dec 19	Consumer Price Index	Nov	Y/Y % Chg.	1.7	2.4
Dec 19	Consumer Price Index NSA	Nov	M/M % Chg.	-0.4	0.3
Dec 19	Consumer Price Index Core - Trim	Nov	Y/Y % Chg.	1.9	2.1
Dec 19	Consumer Price Index Core - Median	Nov	Y/Y % Chg.	1.9	2.0
Dec 20	Wholesale Trade Sales	Oct	M/M % Chg.	1.0	-0.7
Dec 21	Gross Domestic Product	Oct	M/M % Chg.	0.3	-0.1
Dec 21	Retail Sales Ex Auto	Oct	M/M % Chg.	0.0	0.0
Dec 21	Retail Sales	Oct	M/M % Chg.	0.3	0.1
Dec 21	BoC Overall Business Outlook Survey	4Q	Index	2.2	2.8
Dec 21	BoC Business Outlook Future Sales	4Q	Index	-1.0	15.0
Dec 21	BoC Senior Loan Officer Survey	4Q	Index	-16.0	-10.9
<b>International</b>					
Dec 17	EZ Consumer Price Index	Nov	Index	1.9	2.0
Dec 19	UK Consumer Price Index	Nov	Index	2.3	2.4
Dec 20	UK Bank of England Bank Rate	Dec 20	%	0.75	0.75
Dec 20	JN Natl Consumer Price Index	Nov	Y/Y % Chg.	0.8	1.4
Dec 21	UK Gross Domestic Product	3Q	Y/Y % Chg.	1.5	1.5

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Dec 24, 2018 - Jan 4, 2019							
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period	
<b>United States</b>							
Dec 26	9:00	S&P CoreLogic CS US HPI NSA	Oct	Y/Y % Chg.	-	5.5	
Dec 27	10:00	New Home Sales	Nov	Thsd	568.0	544.0	
Dec 27	10:00	Conf. Board Consumer Confidence	Dec	Index	133.8	135.7	
Dec 28	8:30	Advance Goods Trade Balance	Nov	Blns	-75.8	-77.0	
Dec 28	8:30	Retail Inventories	Nov	M/M % Chg.	-	0.8	
Dec 28	10:00	Pending Home Sales	Nov	M/M % Chg.	0.3	-2.6	
Jan 02	9:45	Markit US Manufacturing PMI	Dec	Index	-	53.9	
Jan 03	8:15	ADP Employment Change	Dec	Thsd	175.0	179.0	
Jan 03	8:30	Initial Jobless Claims	Dec 29	Thsd	-	-	
Jan 03	10:00	ISM Manufacturing	Dec	Index	58.4	59.3	
Jan 03	10:00	ISM Employment	Dec	Index	-	58.4	
Jan 03		Wards Total Vehicle Sales	Dec	Mlns	17.4	17.4	
Jan 04	8:30	Change in Nonfarm Payrolls	Dec	Thsd	183.0	155.0	
Jan 04	8:30	Unemployment Rate	Dec	%	3.7	3.7	
Jan 04	8:30	Average Hourly Earnings	Dec	M/M % Chg.	0.3	0.2	
Jan 04	9:45	Markit US Services PMI	Dec	Index	-	53.4	
Jan 04	10:15	<i>Fed's Raphael Bostic participates in a panel on long-run macroeconomic performance in Atlanta, GA</i>					
Jan 05	10:15	<i>Fed's Raphael Bostic participates in a panel on the future of traditional banking in Atlanta, GA</i>					
<b>Canada</b>							
Dec 27	6:00	CFIB Business Barometer	Dec	Index	-	61.2	
Jan 02	8:30	MLI Leading Indicator	Nov	M/M % Chg.	-	-0.1	
Jan 02	9:30	Markit Canada Manufacturing PMI	Dec	Index	-	54.9	
Jan 04	8:30	Hourly Wage Rate Permanent Employees	Dec	Y/Y % Chg.	-	1.5	
Jan 04	8:30	Unemployment Rate	Dec	%	-	5.6	
Jan 04	8:30	Net Change in Employment	Dec	Thsd	-	94.1	
Jan 04	8:30	Industrial Product Price	Nov	M/M % Chg.	-	0.2	
<b>International</b>							
Dec 27	18:30	JN Jobless Rate	Nov	%	-	2.4	
Dec 27	18:50	JN Retail Trade	Nov	Y/Y % Chg.	-	3.6	
Jan 02	4:00	EZ Markit Eurozone Manufacturing PMI	Dec	Index	-	51.4	
Jan 02	4:30	UK Markit UK PMI Manufacturing	Dec	Index	-	53.1	
Jan 03	19:30	JN Nikkei Japan PMI Manufacturing	Dec	Index	-	52.4	
Jan 04	5:00	EZ Consumer Price Index Core	Dec	Y/Y % Chg.	-	1.0	
Jan 04	5:00	EZ Producer Price Index	Nov	Y/Y % Chg.	-	4.9	

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

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