

The Weekly Bottom Line

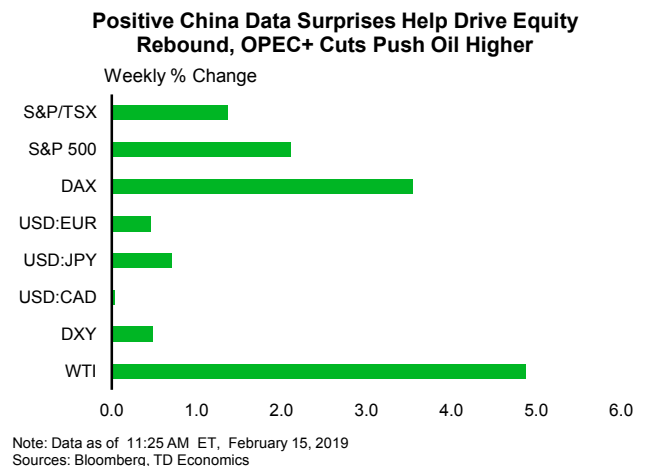
February 15, 2019

Highlights of the Week

- December retail sales came in significantly weaker than expected, falling 1.2% m/m, with the decline being broad-based. Consumption in Q4 is now tracking around 2.6% annualized – softer than expected, but still a pretty good showing.
- The retail sales report provides a weak handoff to 2019. The fact that the government shutdown extended into January and consumer confidence retreated on the month, further reinforces the notion for a soft print in first-quarter spending and GDP.
- Core inflation remained at 2.2% (y/y) in January, where it has sat for five of the past six months. And there is little indication that it will move in either direction soon. This should provide comfort for the Fed to remain patient.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2765	2708	2931	2351
S&P/TSX Comp.	15839	15633	16567	13780
DAX	11300	10907	13170	10382
FTSE 100	7246	7071	7877	6585
Nikkei	20901	20333	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.66	2.63	3.24	2.55
Canada 10-yr Bond	1.90	1.88	2.60	1.83
Germany 10-yr Bund	0.10	0.09	0.76	0.09
UK 10-yr Gilt	1.16	1.15	1.73	1.15
Japan 10-yr Bond	-0.02	-0.03	0.16	-0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.80	0.73
Euro (USD per EUR)	1.13	1.13	1.25	1.12
Pound (USD per GBP)	1.29	1.29	1.43	1.25
Yen (JPY per USD)	110.5	109.7	114.5	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	55.4	52.7	76.4	42.3
Natural Gas (\$US/MMBtu)	2.60	2.62	4.80	2.52
Copper (\$US/met. tonne)	6137.3	6190.8	7330.5	5713.8
Gold (\$US/troy oz.)	1315.9	1314.5	1353.7	1174.2

*as of 11:20 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)	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	2018				2019				2020			
	2/15/19	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 (%)	2.51	2.27	2.52	2.81	2.48	2.70	2.85	2.95	2.95	2.95	2.95	2.95	2.95
10-yr Govt. Bond Yield (%)	2.66	2.74	2.85	3.05	2.69	2.90	3.05	3.15	3.15	3.15	3.15	3.15	3.15
30-yr Govt. Bond Yield (%)	3.00	2.97	2.98	3.19	3.02	3.15	3.30	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.)	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

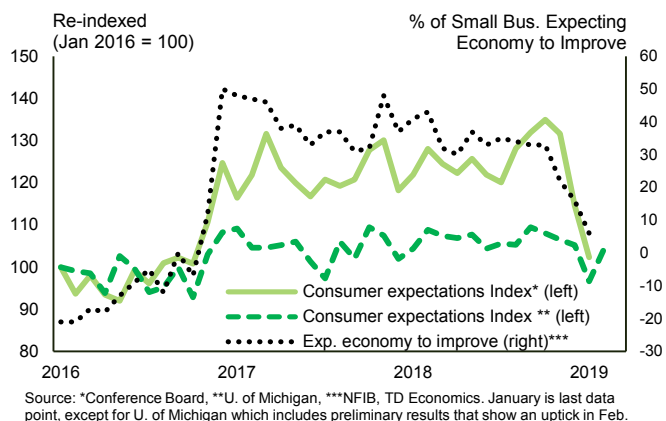
Wall of Uncertainty

They say good things come to those who wait. But judging from developments this week, we'll have to wait a bit longer. The delayed December retail sales report finally came out this week, but the results were deeply disappointing. While consensus had set a low bar for a nearly-flat print, sales fell a whopping 1.2% m/m – the worst decline since September 2009 (Chart 1). Moreover, the pullback was broad-based. Apart from gains at autos and building materials stores, everything else was in the red. Sales in the 'control group', which strips out volatile categories and is then used in the calculation of GDP, fared even worse (-1.7%).

The weak report raised a few eyebrows, with its reliability in question among economics circles. December's result is hard to square with other industry reports, such the Redbook index, which shows same-store sales accelerating in year-over-year terms in December. The fact that non-store sales (-3.9%) weren't spared from the pullback also raises some suspicion. This category is largely made up of online sales, where there were no other major signs of stress during holiday season. Still, giving the Commerce Department the benefit of the doubt here, it would appear that the threat and subsequent materialization of the late-year government shutdown, together with a sharp selloff in equity markets amidst elevated trade tensions with China, prompted Americans to keep a tight grip on their wallets.

Consumer spending in the fourth quarter is now tracking around 2.6% ann. – softer than we previously expected, but still a pretty good showing. The December weakness

Chart 2: Recent Weakness in Confidence Likely Weighed on Spending



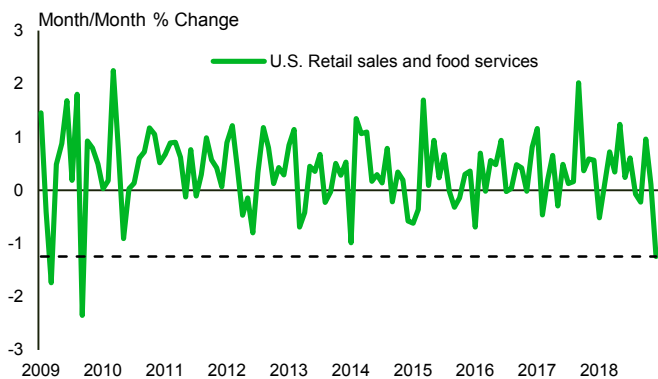
also provides a weak handoff to the start of 2019. The fact that the government shutdown dragged on until late-January and consumer confidence deteriorated on the month (Chart 2), further reinforces the notion of softer spending, with consumption expected to advance at just below 1.5% (ann.). A pullback in small business confidence and industrial production in January provide further credence to the view for a soft quarter overall.

Similar to last year, however, we don't expect the first-quarter performance to set the pace for the rest of the year, so long as a resilient labor market shores up spending. Consumption is expected to rebound in the second quarter, provided that there is no major disruption on the trade front or another government shutdown. Progress appeared to have been made on both of these areas this week. Reports indicate that Chinese and U.S. negotiators made headway in agreeing on broad principles, with negotiations to continue next week in Washington. It appears that President Trump will get his border wall funding by declaring a national emergency, and is also expected to sign a bipartisan spending bill that will avoid a second shutdown.

This week's developments reinforce the notion that the Fed will stay put until muddy waters begin to clear. The other part of the Fed's calculus, inflation trends, provide added comfort for patience. Core CPI has been holding at just above the Fed's target recently (2.2% y/y), with little indication that it will shift in either direction. For now, it's all about keeping the faith and playing the waiting game.

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Chart 1: December Retail Sales Recorded the Largest Month-to-Month Drop since Sept. 2009



Source: Census Bureau, TD Economics

Recent Key Economic Indicators: Feb 11 - 15, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Feb 12	NFIB Small Business Optimism	Jan	Index	101.2	104.4
Feb 13	Consumer Price Index	Jan	M/M % Chg.	0.0	0.0
Feb 13	Consumer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.2	0.2
Feb 13	Consumer Price Index	Jan	Y/Y % Chg.	1.6	1.9
Feb 13	Consumer Price Index Ex Food and Energy	Jan	Y/Y % Chg.	2.2	2.2
Feb 13	Real Avg Hourly Earning	Jan	Y/Y % Chg.	1.7	1.3
Feb 14	Producer Price Index Final Demand	Jan	M/M % Chg.	-0.1	-0.1
Feb 14	Producer Price Index Ex Food and Energy	Jan	M/M % Chg.	0.3	0.0
Feb 14	Initial Jobless Claims	Feb 09	Thsd	239	235
Feb 14	Retail Sales Advance	Dec	M/M % Chg.	-1.2	0.1
Feb 14	Retail Sales Ex Auto and Gas	Dec	M/M % Chg.	-1.4	0.5
Feb 14	Business Inventories	Nov	M/M % Chg.	-0.1	0.6
Feb 15	Empire Manufacturing	Feb	Index	8.8	3.9
Feb 15	Import Price Index ex Petroleum	Jan	M/M % Chg.	-0.7	0.3
Feb 15	Export Price Index	Jan	M/M % Chg.	-0.6	-0.6
Feb 15	Export Price Index	Jan	Y/Y % Chg.	-0.2	1.1
Feb 15	Industrial Production	Jan	M/M % Chg.	-0.6	0.1
Feb 15	Manufacturing (SIC) Production	Jan	M/M % Chg.	-0.9	0.8
Feb 15	Capacity Utilization	Jan	Index	78.2	78.8
Canada					
Feb 13	Teranet/National Bank HPI	Jan	Y/Y % Chg.	2.2	2.5
Feb 14	Manufacturing Sales	Dec	M/M % Chg.	-1.3	-1.7
Feb 15	Existing Home Sales	Jan	M/M % Chg.	3.6	-2.5
International					
Feb 11	UK Gross Domestic Product	4Q	Y/Y % Chg.	1.3	1.5
Feb 13	UK Consumer Price Index	Jan	Y/Y % Chg.	1.8	2.1
Feb 14	CH Consumer Price Index	Jan	Y/Y % Chg.	1.7	1.9
Feb 14	EZ Gross Domestic Product SA	4Q	Y/Y % Chg.	1.2	1.2
Feb 15	UK Retail Sales Ex Auto Fuel	Jan	Y/Y % Chg.	4.1	2.9

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Feb 18 - 22, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Feb 19	8:50	<i>Fed's Loretta Mester speaks about the economic outlook and monetary policy in Newark, DE</i>				
Feb 19	10:00	NAHB Housing Market Index	Feb	Index	59.0	58.0
Feb 20	14:00	<i>FOMC Meeting Minutes</i>				
Feb 21	8:30	Initial Jobless Claims	Feb 16	Thsd	-	-
Feb 21	8:30	Durable Goods Orders	Dec	M/M % Chg.	1.7	0.7
Feb 21	8:30	Durables Ex Transportation	Dec	M/M % Chg.	0.2	-0.4
Feb 21	8:30	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	0.2	-0.6
Feb 21	9:45	Markit US Services PMI	Feb	Index	-	54.2
Feb 21	9:45	Markit US Manufacturing PMI	Feb	Index	-	54.9
Feb 21	10:00	Existing Home Sales	Jan	Mlns	5.00	4.99
Feb 22	10:15	<i>Fed's John Williams speaks at Monetary Policy Forum in New York, NY</i>				
Feb 22	13:30	<i>Fed's Richard Clarida, James Bullard and Patrick Harker participate in panel in New York, NY</i>				
Feb 22	13:30	<i>Fed's John Williams speaks at Joint Research Day event in New York, NY</i>				
Canada						
Feb 21	8:30	Wholesale Trade Sales	Dec	M/M % Chg.	-	-1.0
Feb 21	12:50	<i>Bank of Canada's Stephen Poloz speaks at Chamber of Commerce in Montréal, QC</i>				
Feb 22	8:30	Retail Sales Ex Auto	Dec	M/M % Chg.	-0.5	-0.6
Feb 22	8:30	Retail Sales	Dec	M/M % Chg.	0.0	-0.9
International						
Feb 19	4:30	UK ILO Unemployment Rate 3Mths	Dec	%	4.0	4.0
Feb 20	19:30	JN Nikkei Japan PMI Manufacturing	Feb	Index	-	50.3
Feb 21	4:00	EZ Markit Eurozone Manufacturing PMI	Feb	Index	-	50.5
Feb 21	18:30	JN National Consumer Price Index	Jan	Y/Y % Chg.	-	0.3
Feb 22	5:00	EZ Consumer Price Index	Jan	Y/Y % Chg.	-	1.6

* 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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