TD Economics

The Weekly Bottom Line

March 1, 2019

Highlights of the Week

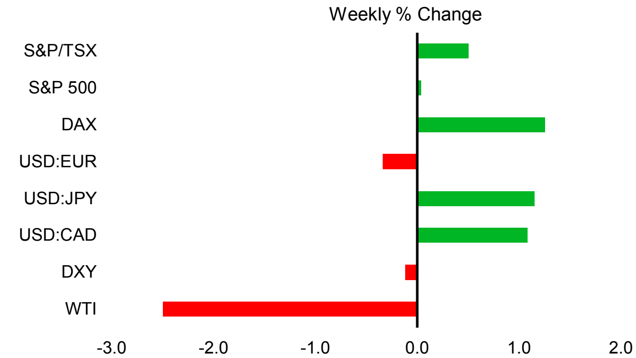
- The U.S. economy grew a robust 2.9% in 2018, the best performance since 2015, but growth moderated at the end of the year and at the start of 2019. The government shutdown and soft consumer spending in December are expected to translate into near-1% growth this quarter.
- Extending the barrage of negative housing data, housing starts plunged by 11.2% (m/m) in December to 1.08 million (annualized).
- Manufacturing data remained soft. The U.S. ISM manufacturing index declined in February, and manufacturing contraction in Europe and Asia broadened further. Soft global activity reinforces the Fed's patient stance.

This Week in the Markets

	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2792	2793	2931	2351
S&P/TSX Comp.	16089	16013	16567	13780
DAX	11602	11458	13170	10382
FTSE 100	7107	7179	7877	6585
Nikkei	21603	21426	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.74	2.65	3.24	2.55
Canada 10-yr Bond	1.92	1.89	2.60	1.83
Germany 10-yr Bund	0.18	0.10	0.68	0.09
UK 10-yr Gilt	1.30	1.16	1.73	1.15
Japan 10-yr Bond	-0.01	-0.04	0.16	-0.04
Foreign Exchange Cross Rates				
C$ (USD per CAD)	0.75	0.76	0.80	0.73
Euro (USD per EUR)	1.14	1.13	1.24	1.12
Pound (USD per GBP)	1.32	1.31	1.43	1.25
Yen (JPY per USD)	111.9	110.7	114.5	104.7
Commodity Spot Prices**				
Crude Oil ($US/bbl)	57.1	57.1	76.4	42.3
Natural Gas ($US/MMBtu)	2.97	2.74	4.80	2.56
Copper ($US/met. tonne)	6555.5	6519.0	7330.5	5713.8
Gold ($US/troy oz.)	1301.1	1328.3	1353.4	1174.2

*as of 12:23 am on Friday. **Oil-WTI, Cushing, Nat. Gas-Henry Hub, LA (Thursday close price), Copper-LME Grade A, Gold-London Gold Bullion; Source: Bloomberg.

Cautious Optimism on China Trade Deal Fails to Move Markets, Oil Falls on Global Growth Concerns



Note: Data as of 12:28 PM ET, March 1, 2019
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	2018				2019				2020			
	3/1/19	Q1	Q2	Q3	Q4	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 (%)	2.55	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 (%)	2.74	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 (%)	3.12	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)*	2.6 (Q4-18)	2.2	4.2	3.4	2.6	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

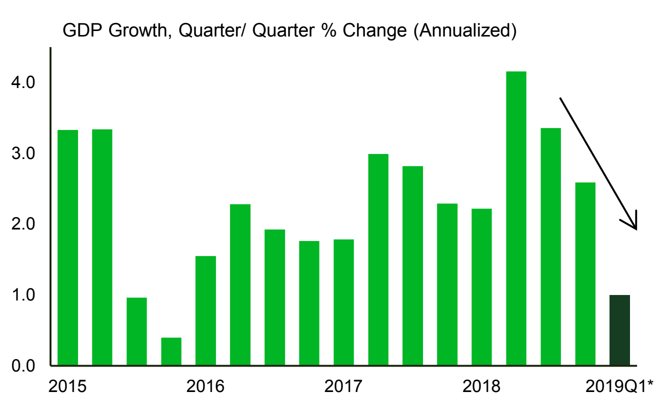
Strong 2018 Finish But a Soft Start to 2019

Data released this week confirms that in 2018 the U.S. economy clocked its best annual growth since 2015. The bad news is that a repeat performance is unlikely, with higher-frequency data suggesting the economy is heading into 2019 with decidedly less gusto.

The fourth quarter GDP report painted a picture of solid but moderating growth. For the year as a whole, the economy expanded by a robust 2.9% in 2018. However, the headline conceals the fact that growth moderated as the year progressed, slowing to 2.6% (annualized) in Q4 from the 3.4% and 4.2% pace seen in Q3 and Q2, respectively. Looking at the individual components, consumer spending moderated to 2.8% in Q4 from 3.5% in Q3. Business investment surprised to the upside, with growth accelerating to 6.2% from a 2.5% pace in the previous quarter. However, trade and residential investment were a drag on growth both in Q4 and for the year as a whole.

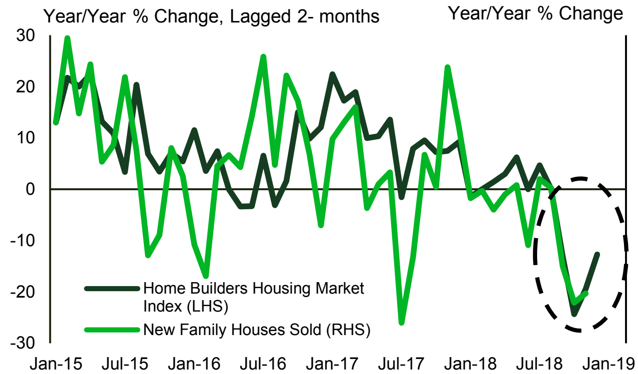
A solid end to 2018, but momentum has clearly waned at the start of this year. Consumer spending data for December confirmed that the weak retail print was not a fluke, as the negative mood led consumers to hold on tight to their wallets. In what's become a recurring theme, first quarter growth will be bleak. The government shutdown and soft consumer spending translate to growth slowing to 1% in Q1 (Chart 1). However, as in prior years, the slowdown should prove temporary, with output forecast to rebound to an above 2% pace in the second quarter.

Chart 1: Slower Growth Ahead



Source: Bureau of Economic Analysis, TD Economics *forecast

Chart 2: Home Builders Confidence Suggest Home Sales To Move Higher



Source: NAHB, Census Bureau, TD Economics

Extending previous declines, housing starts ended 2018 by plunging 11.2% (m/m) in December to 1.08 million (annualized). Rising mortgage rates amid high financial market volatility at the end of last year dented builders' confidence, which fell to a 3-year low in December. Moreover, California wildfires also likely weighed on the headline. Although housing activity is not expected to race too far ahead in 2019, it should see a modest rebound. The recent decline in mortgage rates, back-to-back gains in home builder confidence in January and February, and a large gain in pending home sales this week all bode well for better performance in coming months (Chart 2).

Less hopeful is the underwhelming manufacturing data from this morning that suggests that the global manufacturing rout is not easing. The U.S. ISM manufacturing index declined in February, falling to the lowest level in more than a year, but remaining firmly in expansionary territory. Trade and Brexit uncertainty are a bigger drag on business sentiment in the Euro Area, where a broadening contraction in manufacturing PMIs is underway. Ditto for Japanese, Chinese, and ASEAN manufacturers.

On a positive note, trade tensions with China appear to be easing somewhat. Substantial progress on a trade deal has been made and the scheduled March 1st increase in tariffs on imports from China has been suspended. However, the progress on talks may have come too little too late, and the tariff cloud may continue to cast a shadow on global economy for some time, reinforcing the Fed's patient stance.

Ksenia Bushmeneva, Economist

Upcoming Key Economic Releases

U.S. Employment - February*

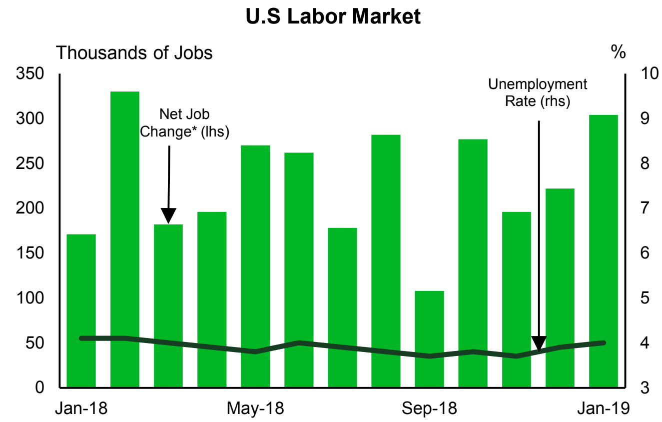
Release Date: March 8, 2019

Previous: 304k, unemployment rate: 4.0%

TD Forecast: 190k, unemployment rate: 3.9%

Consensus: 185k, unemployment rate: 3.9%

Following two consecutive reports with 300k+ prints for December and January, we look for payrolls to mean-revert to 190k in February. In particular, we see scope for softness in the construction and in the leisure/hospitality sectors given recent above-average strength in hiring. Conversely, the phase-out of the impact from the government shutdown on the household survey should be reflected on a tick down in the unemployment rate to 3.9% in February, as furloughed federal employees exit their "unemployed on temporary layoff" status. Lastly, we expect wages to rise by a "soft" 0.3% m/m pace on a favorable reference week, increasing the annual print by a tenth to 3.3% in February. However, a "strong" 0.3% print could see an even larger increase in the annual pace to 3.4%.



Seasonally-Adjusted Data; * Change in Non-Farm Payrolls
Source: U.S. Department of Labor, TD Economics

Recent Key Economic Indicators: Feb 25 - Mar 1, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
	United States				
Feb 25	Wholesale Trade Sales	Dec	M/M % Chg.	-1.0	-1.2
Feb 26	Housing Starts	Dec	Thsd	1078.0	1214.0
Feb 26	Building Permits	Dec	Thsd	1328.0	1322.0
Feb 26	House Price Purchase Index	4Q	Q/Q % Chg.	1.1	1.3
Feb 26	S&P CoreLogic CS US HPI NSA	Dec	Y/Y % Chg.	4.7	5.1
Feb 26	Conf. Board Consumer Confidence	Feb	Index	131.4	121.7
Feb 27	Advance Goods Trade Balance	Dec	USD, Blns	-79.5	-70.5
Feb 27	Retail Inventories	Dec	M/M % Chg.	0.9	-0.4
Feb 27	Pending Home Sales	Jan	M/M % Chg.	4.6	-2.3
Feb 27	Factory Orders	Dec	M/M % Chg.	0.1	-0.5
Feb 27	Factory Orders Ex Trans	Dec	M/M % Chg.	-0.6	-1.3
Feb 28	Personal Consumption	4Q	Q/Q % Chg.	2.8	3.5
Feb 28	Gross Domestic Product Annualized	4Q	Q/Q % Chg.	2.6	3.4
Feb 28	Initial Jobless Claims	Feb 23	Thsd	225.0	217.0
Feb 28	Core Personal Consumption Expenditure	4Q	Q/Q % Chg.	1.7	1.6
Mar 01	Personal Income	Jan	M/M % Chg.	-0.1	1.0
Mar 01	Real Personal Spending	Dec	M/M % Chg.	-0.6	0.5
Mar 01	Personal Consumption Expenditure Core	Dec	Y/Y % Chg.	1.9	1.9
Mar 01	Personal Consumption Expenditure Deflator	Dec	Y/Y % Chg.	1.7	1.8
Mar 01	ISM Employment	Feb	Index	52.3	55.5
Mar 01	ISM Manufacturing	Feb	Index	54.2	56.6
	Canada				
Feb 27	Consumer Price Index Core - Common	Jan	Y/Y % Chg.	1.9	1.9
Feb 27	Consumer Price Index Core - Median	Jan	Y/Y % Chg.	1.8	1.8
Feb 27	Consumer Price Index Core - Trim	Jan	Y/Y % Chg.	1.9	1.9
Feb 27	Consumer Price Index	Jan	Y/Y % Chg.	1.4	2.0
Feb 27	Consumer Price Index NSA	Jan	M/M % Chg.	0.1	-0.1
Feb 28	CFIB Business Barometer	Feb	Index	59.0	56.1
Feb 28	Current Account Balance	4Q	CAD, Blns	-15.5	-10.1
Feb 28	Industrial Product Price	Jan	M/M % Chg.	-0.3	-0.8
Mar 01	Quarterly Gross Domestic Product Annualized	4Q	Q/Q % Chg.	0.4	2.0
Mar 01	Gross Domestic Product	Dec	M/M % Chg.	-0.1	-0.1
Mar 01	Markit Canada Manufacturing PMI	Feb	Index	52.6	53.0
	International				
Feb 25	MX Gross Domestic Product NSA	4Q	Y/Y % Chg.	1.7	1.7
Feb 27	JN Retail Trade	Jan	Y/Y % Chg.	0.6	1.3
Feb 27	CH Manufacturing PMI	Feb	Index	49.2	49.5
Feb 28	BZ Gross Domestic Product	4Q	Y/Y % Chg.	1.1	1.3
Feb 28	IN Gross Domestic Product	4Q	Y/Y % Chg.	6.6	7.1
Feb 28	JN Jobless Rate	Jan	%	2.5	2.4
Feb 28	JN Nikkei Japan Manufacturing PMI	Feb	Index	48.9	48.5
Mar 01	EZ Markit Eurozone Manufacturing PMI	Feb	Index	49.3	49.2
Mar 01	UK Markit UK Manufacturing PMI	Feb	Index	52.0	52.6
Mar 01	EZ Unemployment Rate	Jan	%	7.8	7.8

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Mar 4 - 8, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Mar 05	7:30	*Fed's Eric Rosengren speaks in Boston, MA*				
Mar 05	9:45	Markit US Services PMI	Feb	Index	56.2	56.2
Mar 05	10:00	ISM Non-Manufacturing Index	Feb	Index	57.2	56.7
Mar 05	10:00	New Home Sales	Dec	Thsd	579.0	657.0
Mar 06	8:15	ADP Employment Change	Feb	Thsd	180.0	213.0
Mar 06	8:30	Trade Balance	Dec	Blns	-51.2	-49.3
Mar 06	10:00	Factory Orders	Jan	M/M % Chg.	-	-
Mar 06	10:00	Factory Orders Ex Trans	Jan	M/M % Chg.	-	-
Mar 06	10:00	Durable Goods Orders	Jan	M/M % Chg.	-	-
Mar 06	10:00	Durables Ex Transportation	Jan	M/M % Chg.	-	-
Mar 06	10:00	Cap Goods Orders Nondef Ex Air	Jan		-	-
Mar 06	12:00	*Fed's Loretta Mester participates in moderated discussion at Columbus, Ohio*				
Mar 06	14:00	Federal Reserve Releases Beige Book				
Mar 07	8:30	Unit Labor Costs	4Q	Q/Q % Chg.	2.0	0.9
Mar 07	8:30	Initial Jobless Claims	Mar 02	Thsd	-	-
Mar 07	12:00	Household Change in Net Worth	4Q	Blns	-	2070.0
Mar 08	8:30	Average Hourly Earnings	Feb	M/M % Chg.	0.3	0.1
Mar 08	8:30	Unemployment Rate	Feb	%	3.8	4.0
Mar 08	8:30	Change in Nonfarm Payrolls	Feb	Thsd	170.0	304.0
Mar 08	10:00	Wholesale Trade Sales	Jan	M/M % Chg.	-	-1.0
Mar 08		Building Permits	Jan	Thsd	-	1326.0
Mar 08		Housing Starts	Jan	Thsd	-	1078.0
Mar 08		Advance Goods Trade Balance	Jan	USD, Blns	-	-
Mar 08		Retail Inventories	Jan	M/M % Chg.	-	-
Canada						
Mar 06	8:30	Labor Productivity	4Q	Q/Q % Chg.	-	0.3
Mar 06	8:30	Int'l Merchandise Trade	Dec	Blns	-2.1	-2.1
Mar 06	10:00	Bank of Canada Rate Decision	Mar 06	%	1.75	1.75
Mar 07	12:45	*BoC's Lynn Patterson Speak at the Hamilton Chamber of Commerce, Hamilton, ON*				
Mar 08	8:15	Housing Starts	Feb	Thsd	-	207.9
Mar 08	8:30	Capacity Utilization Rate	4Q	%	-	82.6
Mar 08	8:30	Hourly Wage Rate Permanent Employees	Feb	Y/Y % Chg.	-	1.8
Mar 08	8:30	Net Change in Employment	Feb	Thsd	-	66.8
Mar 08	8:30	Unemployment Rate	Feb	%	5.8	5.8
International						
Mar 04	19:30	JN Nikkei Japan PMI Services	Feb	Index	-	51.6
Mar 04	19:30	JN Nikkei Japan PMI Composite	Feb	Y/Y % Chg.	-	50.9
Mar 05	4:00	EZ Markit Eurozone Composite PMI	Feb	Index	-	51.4
Mar 05	4:00	EZ Markit Eurozone Services PMI	Feb	Index	-	52.3
Mar 05	5:00	EZ Retail Sales	Jan	Y/Y % Chg.	-	0.8
Mar 07	5:00	EZ Gross Domestic Product SA	4Q	Y/Y % Chg.	-	1.2
Mar 08	20:30	CH Consumer Price Index	Feb	Y/Y % Chg.	-	1.7

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

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