

The Weekly Bottom Line

January 18, 2019

Highlights of the Week

United States

- The government shutdown extended to its 28th day, making it the longest on record with no clear end in sight.
- The White House upped its estimate of the impact of the government shutdown to a 0.5ppt drag on 19Q1 growth after four weeks. This is much higher than private sector estimates of between -0.1 to -0.2 ppts.
- As expected, the Brexit withdrawal agreement was soundly rejected by UK parliament. With the March 29th deadline fast approaching, it looks increasingly likely that the UK will have no choice but to seek an extension from the EU.

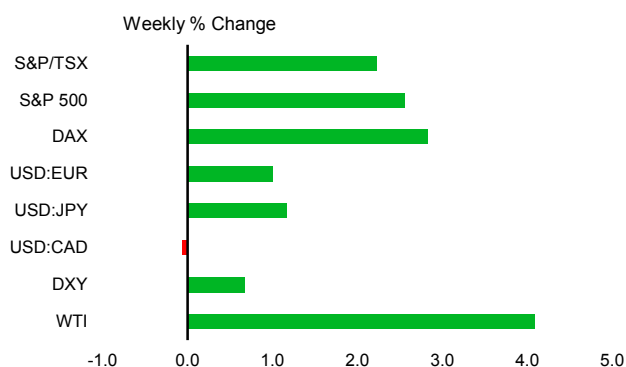
Canada

- Recent Canadian housing data painted a somber picture. Existing home sales were down 2.5% month-on-month in December, their fourth straight monthly decline. B.C. and Ontario were largely to blame.
- Headline inflation came in ahead of market expectations at 2.0% year-on-year, due in large part to a seasonal surge in airfares. Beneath the surface there is little to get worked up about as core inflation was unchanged.
- The U.S. shutdown is making itself felt north of the border: Statistics Canada will delay the trade data until they receive figures from their American counterparts.

This Week in the Markets				
	Current*	Week Ago	52-Week High	52-Week Low
Stock Market Indexes				
S&P 500	2664	2596	2931	2351
S&P/TSX Comp.	15279	14939	16567	13780
DAX	11195	10887	13560	10382
FTSE 100	6982	6918	7877	6585
Nikkei	20666	20360	24271	19156
Fixed Income Yields				
U.S. 10-yr Treasury	2.78	2.70	3.24	2.55
Canada 10-yr Bond	2.04	1.96	2.60	1.83
Germany 10-yr Bund	0.26	0.24	0.77	0.15
UK 10-yr Gilt	1.35	1.29	1.73	1.19
Japan 10-yr Bond	0.02	0.02	0.16	-0.04
Foreign Exchange Cross Rates				
C\$ (USD per CAD)	0.75	0.75	0.82	0.73
Euro (USD per EUR)	1.14	1.15	1.25	1.12
Pound (USD per GBP)	1.29	1.28	1.43	1.25
Yen (JPY per USD)	109.7	108.5	114.5	104.7
Commodity Spot Prices**				
Crude Oil (\$US/bbl)	53.8	51.6	76.4	42.3
Natural Gas (\$US/MMBtu)	3.58	2.89	4.80	2.52
Copper (\$US/met. tonne)	5964.8	5920.0	7330.5	5713.8
Gold (\$US/troy oz.)	1283.5	1287.5	1358.5	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.

Another Solid Week for Equities & Oil as Recovery from Year-end Lows Continue



Note: Data as of 11:20 AM ET, January 18, 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.

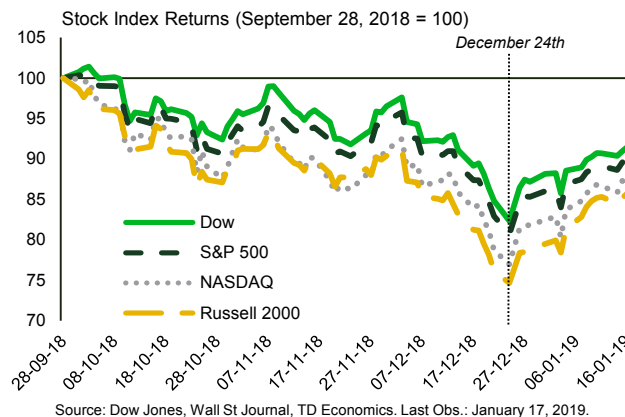
U.S. - Dysfunctional Governments on Parade

Now in its 28th day, the U.S. government shutdown has far exceeded the 21-day shutdown record set in 1995-96 with no clear end in sight. The longer the shutdown lingers, the higher the likelihood that some of the negative economic impacts from the shutdown gain permanency. As an example, this week the White House doubled its estimated economic impact of the shutdown. Previous estimates assumed a drag of about 0.1 percentage points off of first quarter growth for every two weeks of the shutdown. But, after incorporating the impact of contract workers not being paid, the estimate rises to about -0.13 percentage points off growth each week. This suggests that after four weeks the shutdown is estimated to have shaved half a point off of first quarter GDP growth. This estimate is well above other private sector estimates that expect a more modest impact on growth of about 0.1 ppt drag for every three weeks or so that the shutdown lingers.

The shutdown is exacting a toll on those least responsible for it. Anecdotes continue to highlight the hardships that furloughed federal employees are experiencing. These include workers turning to payday loan companies and food banks, while also taking on side hustles, such as driving for Uber, in order to make ends meet. Although federal employees will eventually be paid for lost wages, the near-term pain is clearly taking a toll.

Across the pond, Brexit developments in the UK this week signaled that government dysfunction is not solely a U.S. pastime. After weeks of anticipation, the withdrawal agree-

Chart 2: U.S. Equity Markets Continue to Rebound off Christmas Eve Lows

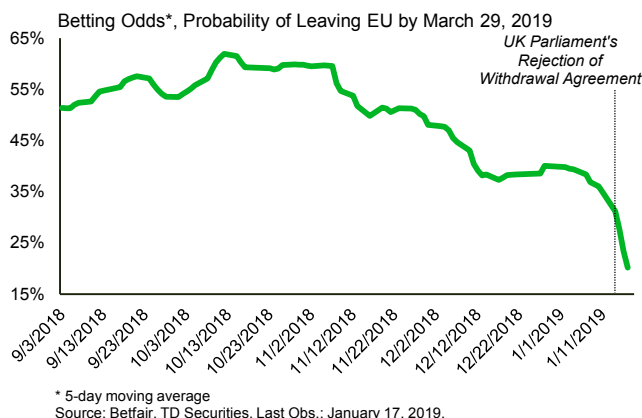


ment was put to a vote and was soundly rejected by parliament. The next day, Theresa May's government survived a confidence vote, concluding a tumultuous week. Next steps include consultations between the prime minister and other parties on proposed amendments to the withdrawal agreement set to be tabled on January 21st, but not voted upon until January 29th. With the March 29th deadline fast approaching, it looks increasingly likely that the UK will have no choice but to seek an extension from the EU (Chart 1).

Despite the government dysfunction on display on both sides of the Atlantic, financial markets were largely unfazed. U.S. equity indexes have soared since the New Year, and are now back at levels seen in early December (Chart 2). There's good reason for optimism. Data still being reported, such as weekly initial jobless claims, continued to signal a healthy economy. Trade talks with China are ongoing, with the next round set to take place on January 30th in Washington. Although little progress has been announced so far, news that U.S. officials were discussing ratcheting back some of the tariffs on Chinese imports in order to encourage an agreement helped to stoke a global rally in risk assets. Perhaps more importantly, Federal Reserve Presidents were out delivering speeches that reinforced the Fed's willingness to be patient before the next rate hike. Indeed, patience is warranted given uncertainty about the economic impact of the government shutdown, and ongoing concerns about the health of the global economy.

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Chart 1: Odds of Brexit Occurring by March 29, 2019 Deadline Plunged After Events this Week



Canada - Under (Little) Pressure

It looks to have been a solid week for Canadian markets, with the S&P/TSX composite index performing well. In fact, as of Thursday's close, the index was up 6.2% year-to-date, making it among the top performing global indices. A constructive energy price environment is likely helping. The headline WTI oil contract sat at around \$53 per barrel at the time of writing, still soft, but off its December lows. Even more impressive has been the change in heavy oil pricing, now up to the \$40 range, a quadrupling relative to the worst of December.

Away from markets, it was a somewhat more somber week on the data front. Existing home sales were down 2.5% month-on-month in December, marking a fourth straight monthly decline (Chart 1). B.C. and Ontario led the decline. In Ontario, the post B-20 summer 2018 sales bump has given way to softer conditions, with sales back to 2014 levels. Prices held up better, with the average sale price ending 2018 pretty much where it ended 2017.

B.C., in contrast, did not have a summer sales bump as provincial cooling measures have continued to weigh on activity. Much like Ontario, average prices seem to have levelled off somewhat, perhaps reflecting a relatively small amount of supply for sale to date. For both B.C. and Ontario, there is little reason to expect this to change. The number of units under construction in these provinces is elevated, but is a far cry from the levels seen before the early-1990s housing adjustment once current populations are taken into account. It remains our view that the most likely

Chart 1: Canadian & Ontario Home Sales Soft, B.C. Down Markedly

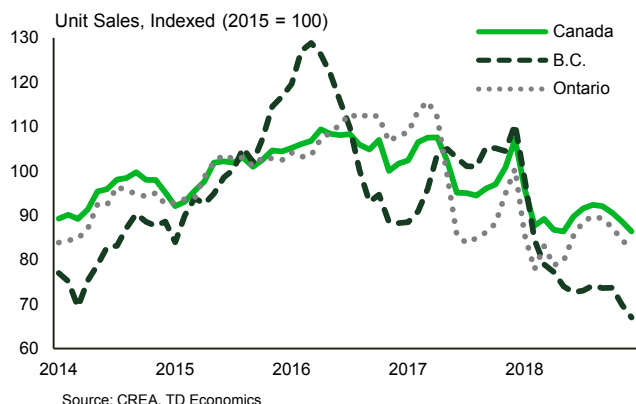
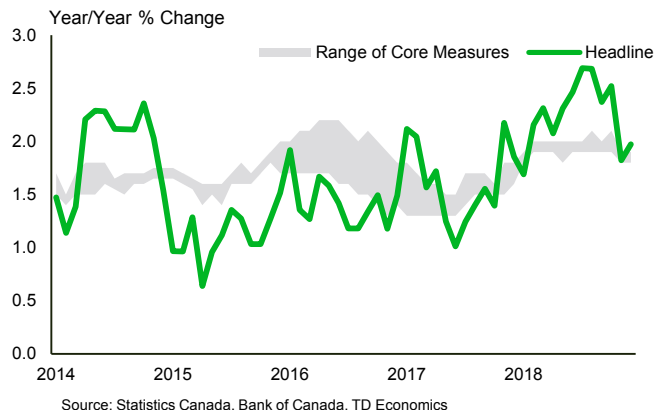


Chart 2: Core Measures Remained Contained in December



path forward is for sales growth to remain subdued, with constrained affordability playing off against fundamental demand to leave little in the way of upward price pressure. This may be a big change from recent years, but is not without precedent: almost the entirety of the 1990s looked this way. Adjust your expectations accordingly.

On the topic of prices, the December CPI figures were exciting on their face as a surge in airfares drove the headline figure to 2.0%, beating market expectations of a 1.7% print. Beneath the surface however, there was little in the way of fundamental pressures (Chart 2). The core measures were unchanged as much of the headline surprise was due to a (seasonal) surge in airfares – a grain of salt is needed here as a calculation change by Statistics Canada makes year-on-year comparisons difficult. Suffice it to say that fundamental price pressures remained tame at the close of 2018.

Finally, the U.S. government shutdown has begun to hit Canadians, as Statistics Canada [announced](#) this week that the December trade data would be delayed until their U.S. counterparts are able to provide import data. This doesn't mean too much in the near-term, and Statistics Canada plans to release GDP data as normal at the end of next month. But, should the shutdown persist, we, and more importantly the Bank of Canada, will have a challenging time assessing Canada's trade performance, an area given particular focus in the latest Monetary Policy Report, and yet another item for a "hold off on the next hike" checklist.

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Canada: Upcoming Key Economic Releases

Canadian Manufacturing Sales - November*

Release Date: January 22, 2019

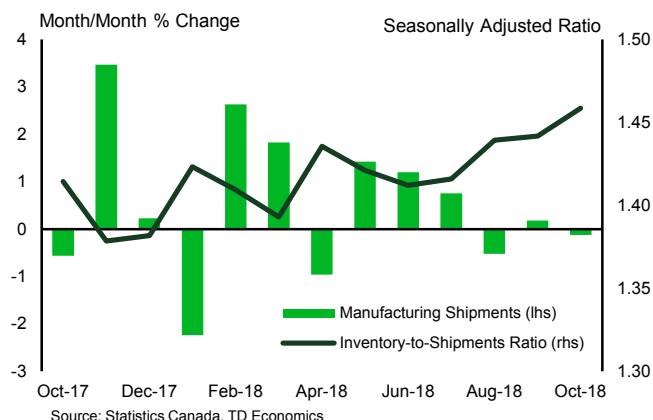
Previous: -0.1%

TD Forecast: -0.4%

Consensus: N/A

TD looks for manufacturing sales to decline by 0.4% in November on weaker petroleum sales, reflecting a sharp drop in gasoline prices. Auto production estimates were also lower throughout the month, which fits with a pull-back in imported automotive parts to suggest weaker factory sales of motor vehicles. However, lower prices for petroleum products should be partially offset by a return to normal operations at the Irving Refinery in St. Johns; maintenance shutdowns caused New Brunswick's non-durable output to fall by 13% m/m in October, shaving 0.2pp from total manufacturing sales. Despite our forecast for a negative headline print, real manufacturing sales should

Canadian Manufacturing Shipments



post a modest increase in November owing to a 0.8% decline in factory prices (ex petrol: +0.2%) which suggests a slight tailwind to industry-level GDP from the manufacturing sector.

Canadian Retail Sales - November *

Release Date: January 23, 2019

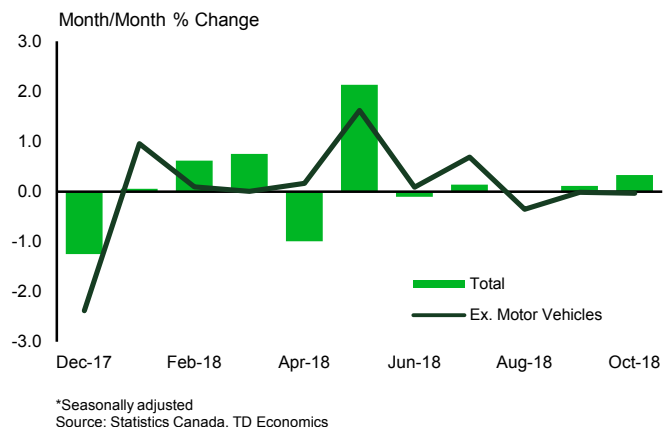
Previous: 0.3%, ex-auto: 0.0%

TD Forecast: -0.6%, ex-auto: -0.4% m/m

Consensus: N/A

Lower gasoline prices will exert a heavy drag on retail activity for November, with nominal retail sales forecast to decline by 0.6% m/m. Much of this is attributable to the price at the pump, which fell by nearly 10% throughout the month - only slightly less than the largest one-month drop during the 2014/15 period. This should shave roughly 0.5pp from the headline print while a pullback in motor vehicle sales will also weigh on monthly sales activity, leaving ex-auto sales 0.4% lower. Offsetting weakness in motor vehicles and gasoline sales will be a rebound in core retail activity after posting a 0.4% decline in October, the largest in 2018. However, since much of the decline will be driven

Canadian Retail Sales*



by lower prices the impact on growth should be more modest than the headline print implies, with real retail sales down roughly 0.2 m/m.

*Forecast by Rates and FX Strategy Group. For further information, contact TDRates&FXCommoditiesResearch@tdsecurities.com

Recent Key Economic Indicators: Jan 14 - 18, 2019					
Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior
United States					
Jan 15	Empire Manufacturing	Jan	Index	3.9	11.5
Jan 15	Producer Price Index Ex Food and Energy	Dec	M/M % Chg.	-0.1	0.3
Jan 15	Producer Price Index Final Demand	Dec	M/M % Chg.	-0.2	0.1
Jan 16	Export Price Index	Dec	M/M % Chg.	-0.6	-0.8
Jan 16	Export Price Index	Dec	Y/Y % Chg.	1.1	1.8
Jan 16	NAHB Housing Market Index	Jan	Index	58.0	56.0
Jan 17	Initial Jobless Claims	Jan 12	Thsd	213.0	216.0
Jan 18	Capacity Utilization	Dec	Index	78.7	78.6
Jan 18	Industrial Production	Dec	M/M % Chg.	0.3	0.4
Jan 18	Manufacturing (SIC) Production	Dec	M/M % Chg.	1.1	0.1
Canada					
Jan 15	Existing Home Sales	Dec	M/M % Chg.	-2.5	-2.3
Jan 18	Consumer Price Index	Dec	M/M % Chg.	-0.1	-0.4
Jan 18	Consumer Price Index	Dec	Y/Y % Chg.	2.0	1.7
Jan 18	Consumer Price Index Core- Common	Dec	Y/Y % Chg.	1.9	1.9
Jan 18	Consumer Price Index Core- Median	Dec	Y/Y % Chg.	1.8	1.8
Jan 18	Consumer Price Index Core- Trim	Dec	Y/Y % Chg.	1.9	1.9
International					
Jan 15	JN Producer Price Index	Dec	Y/Y % Chg.	1.5	2.3
Jan 16	UK Consumer Price Index	Dec	Y/Y % Chg.	2.1	2.3
Jan 16	UK Consumer Price Index Core	Dec	Y/Y % Chg.	1.9	1.8
Jan 17	EZ Consumer Price Index	Dec	Y/Y % Chg.	1.6	1.6
Jan 17	JN Natl Consumer Price Index	Dec	Y/Y % Chg.	0.3	0.8
Jan 17	JN Industrial Production	Nov	Y/Y % Chg.	1.5	1.4
Jan 18	UK Retail Sales Ex Auto Fuel	Dec	Y/Y % Chg.	2.6	3.5
Jan 18	UK Retail Sales Inc Auto Fuel	Dec	Y/Y % Chg.	3.0	3.4

Source: Bloomberg, TD Economics.

Upcoming Economic Releases and Events: Jan 21 - 25, 2019						
Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
United States						
Jan 22	10:00	Existing Home Sales	Dec	Mlns	5.27	5.32
Jan 24	8:30	Initial Jobless Claims	Jan 19	Thsd	-	213.0
Jan 24	9:45	Markit US Manufacturing PMI	Jan	Index	-	53.8
Jan 24	9:45	Markit US Services PMI	Jan	Index	-	54.4
Jan 25	8:30	Durable Goods Orders	Dec	M/M % Chg.	-	-
Jan 25	8:30	Durables Ex Transportation	Dec	M/M % Chg.	-	-
Jan 25	8:30	Cap Goods Orders Nondef Ex Air	Dec	M/M % Chg.	-	-
Jan 25	10:00	New Home Sales	Dec	Thsd	-	-
-	-	Business Inventories **	Nov	M/M % Chg.	0.3	0.6
-	-	Retail Sales Ex Auto and Gas **	Dec	M/M % Chg.	0.4	0.5
-	-	Retail Sales Advance **	Dec	M/M % Chg.	0.1	0.2
-	-	Wholesale Trade Sales **	Nov	M/M % Chg.	-	-0.2
-	-	Trade Balance **	Nov	USD, Blns	-54.0	-55.5
-	-	Cap Goods Orders Nondef Ex Air **	Nov	M/M % Chg.	-	-0.6
-	-	Durables Ex Transportation **	Nov	M/M % Chg.	-	-0.3
-	-	Durable Goods Orders **	Nov	M/M % Chg.	0.8	0.8
-	-	Factory Orders Ex Trans **	Nov	M/M % Chg.	-	0.3
-	-	Factory Orders **	Nov	M/M % Chg.	0.3	-2.1
-	-	New Home Sales **	Nov	Thsd	567.0	544.0
-	-	Retail Inventories **	Nov	M/M % Chg.	-	0.8
-	-	Advance Goods Trade Balance **	Nov	USD, Blns	-76.1	-77.0
-	-	Building Permits **	Dec	Thsd	1290.0	1328.0
-	-	Housing Starts **	Dec	Thsd	1252.0	1256.0
Canada						
Jan 22	8:30	Manufacturing Sales	Nov	M/M % Chg.	-	-0.1
Jan 22	8:30	Wholesale Trade Sales	Nov	M/M % Chg.	-	1.0
Jan 23	8:30	Retail Sales Ex Auto	Nov	M/M % Chg.	-	0.0
Jan 23	8:30	Retail Sales	Nov	M/M % Chg.	-	0.3
International						
Jan 22	4:30	UK ILO Unemployment Rate 3Mths	Nov	%	4.1	4.1
Jan 23	19:30	JN Nikkei Japan PMI Manufacturing	Jan	Index	-	52.6
Jan 24	4:00	EZ Markit Eurozone Manufacturing PMI	Jan	Index	51.3	51.4

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

Note: Some data releases may be impacted by the current U.S. partial government shutdown. ** Previously scheduled data releases that are now delayed due to the shutdown.

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