

# THE WEEKLY BOTTOM LINE

## TD Economics



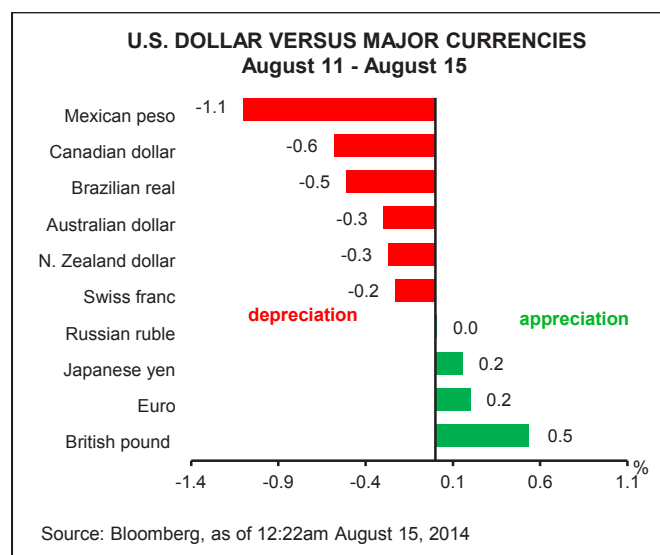
### HIGHLIGHTS OF THE WEEK

August 15, 2014

- The U.S. economy appears to be sustaining the robust economic momentum kick-started in the second quarter. Labor market fundamentals continue to improve. Job openings from the JOLTs survey surpassed their pre-recession peak, and details of the NFIB small business optimism survey were also encouraging.
- Economic news from across the Atlantic disappointed this week. The Eurozone's economy stalled in Q2, as none of the bloc's largest economies – Germany, France nor Italy – posted any growth.
- Lack of growth in Europe alongside heightened geopolitical concerns over the situation in eastern Ukraine have led to increased demand for the safest bonds, sending German, U.K. and U.S. yields lower.

THIS WEEK IN THE MARKETS				
	Current*	Week Ago	52-Week High	52-Week Low
<b>Stock Market Indexes</b>				
S&P 500	1,955	1,932	1,988	1,630
S&P/TSX Comp.	15,291	15,196	15,525	12,573
DAX	9,306	9,009	10,029	8,103
FTSE 100	6,733	6,567	6,878	6,338
Nikkei	15,318	14,778	16,291	13,338
<b>Fixed Income Yields</b>				
U.S. 10-yr Treasury	2.39	2.42	3.03	2.39
Canada 10-yr Bond	2.06	2.07	2.82	2.06
Germany 10-yr Bund	1.01	1.05	2.05	1.01
UK 10-yr Gilt	2.41	2.46	3.07	2.41
Japan 10-yr Bond	0.50	0.51	0.78	0.50
<b>Foreign Exchange Cross Rates</b>				
C\$ (USD per CAD)	0.92	0.91	0.98	0.89
Euro (USD per EUR)	1.34	1.34	1.39	1.31
Pound (USD per GBP)	1.67	1.68	1.72	1.55
Yen (JPY per USD)	102.7	102.0	105.3	96.7
<b>Commodity Spot Prices**</b>				
Crude Oil (\$US/bbl)	95.6	97.6	110.5	91.7
Natural Gas (\$US/MMBtu)	3.83	3.91	8.03	3.32
Copper (\$US/met. tonne)	6839.0	7010.8	7405.5	6439.0
Gold (\$US/troy oz.)	1295.8	1311.0	1417.5	1188.7

\*as of 9:00 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)	0 - 0.25%
Bank of Canada (Overnight Rate)	1.00%
European Central Bank (Refi Rate)	0.15%
Bank of England (Repo Rate)	0.50%
Bank of Japan (Overnight Rate)	0.10%

Source: Central Banks, Haver Analytics

TD ECONOMICS KEY FORECASTS									
	Current Rate	2014				2015			
	8/15/14	Q1	Q2	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F
Fed Funds Target Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
2-yr Govt. Bond Yield (%)	0.42	0.44	0.47	0.70	0.80	0.90	1.05	1.40	1.75
10-yr Govt. Bond Yield (%)	2.39	2.73	2.53	2.75	2.90	3.10	3.20	3.45	3.60
30-yr Govt. Bond Yield (%)	3.17	3.56	3.34	3.45	3.60	3.75	3.85	4.05	4.20
Real GDP (Q/Q % Chg, Annualized) *	4.0 (Q2 A)	-2.1	3.9	2.9	3.1	2.9	3.0	2.9	2.7
CPI (Y/Y % Chg.)	2.1 (Jun-14)	1.4	2.1	2.2	2.4	2.5	2.2	2.1	2.2
Unemployment Rate (%)	6.2 (Jul-14)	6.7	6.2	6.2	6.0	5.9	5.8	5.6	5.5

Forecast by TD Economics. Source: Bloomberg, TD Economics.

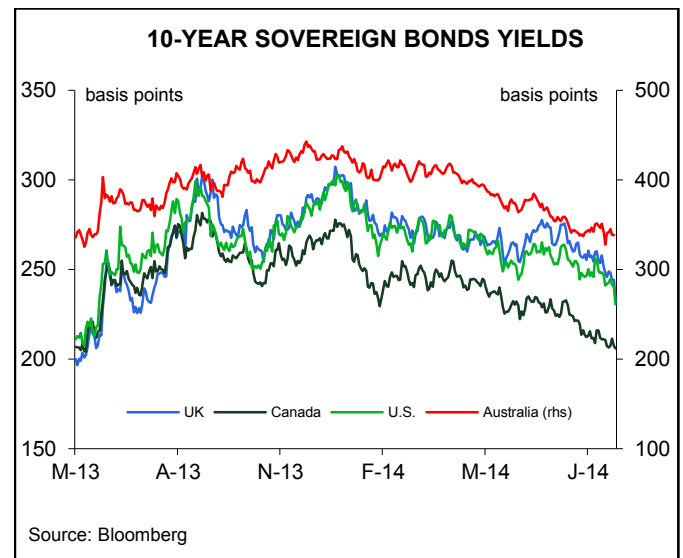
## IT'S A LOW YIELD WORLD

As summer is drawing closer to an end, the U.S. economy continues to bask in the late summer glow. Following a stumble in the first quarter of the year, economic growth bounced back decisively in the second quarter, advancing by 4% in annualized terms. Recent higher-frequency indicators, such as manufacturing and non-manufacturing PMIs, consumer and business confidence, have also been broadly optimistic, offering hope that the robust growth momentum will be sustained in the second half of the year.

Most encouraging of all is the marked acceleration in job creation. In the first seven months of 2014, the economy has generated a total of 1.6 million net new positions. Payroll growth has exceeded 200k every month since February – a streak not seen since 1997. The unemployment rate has also fallen by 0.5 ppts since the onset of 2014 to 6.2% in July. Other gauges of labor market health – such as jobless claims and the rate of job openings – also point to a gradual labor market improvement. This week, the Job Opening and Labor Turnover survey (JOLTs) showed that private job openings have surpassed their pre-recession peak, rising to a level last seen back in 2001. Other survey-based measures, such as the NFIB small business optimism index, suggest that small and medium businesses intend to fill those positions, keeping the hiring momentum going in the second half of this year.

Recent progress in the labor market alongside an uptick in the consumer price index has raised some concerns that reduced economic slack will exert upward pressure on wages and thus fuel inflation. We feel that so far there are few reasons for concern. The Fed's preferred measure of inflation, the personal consumption expenditure (PCE) deflator, ended June at 1.6% y/y, and inflationary expectations remain well-anchored. Moreover, declining energy and, to a lesser extent, food prices as well as a strengthening U.S. dollar are likely to keep a lid on prices over the remainder of this year. Lastly, while the labor market tide is clearly turning, the wage growth is just enough to keep up with inflation, implying that there are hardly any gains in real terms. Eventually, as labor market slack is absorbed further, wages will likely rise, but evidently we are not there yet.

Modest wage growth is likely keeping consumers cautious. Wednesday's advance report on July's retail sales was the black sheep among this week's data releases. The headline number remained flat relative to a month earlier, as declines in motor vehicles (-0.2% m/m) and at general merchandise stores (-0.5% m/m) weighed on sales growth,



offsetting gains seen in other categories. This was the slowest pace of growth since January, suggesting that third quarter consumer spending is off to a weak start. Nonetheless, retail sales should recover over the coming months, supported by ongoing progress in the labor market.

Taking it all in, we continue to anticipate that after ending its QE program in October, the Fed is unlikely to raise rates until at least mid-2015. Even when rates do rise, the increase will be very gradual and will be contingent on continued improvements in the economy, particularly in the housing market, where progress remains slow.

Despite the improving U.S. economic backdrop, Treasury yields continued to slide this week. In part, this is due to global events. On Thursday, data showed that the Eurozone's economy stalled in Q2, as none of the bloc's largest economies – Germany, France nor Italy – posted any growth. Price pressures also remained lackluster with July's inflation rate confirmed at 0.4% y/y. Stalling economic growth on top of geopolitical concerns over the situation in eastern Ukraine have led to increased demand for the safest bonds, sending yields on Germany's 10-year bonds below 1%. Low and falling yields in Europe provided a tailwind to Treasuries, pushing 10-year yields down 9 basis points to 2.33% (at the time of writing) – their lowest level in over a year.

The bottom line is that while overseas risks appear to be trumping robust domestic fundamentals right now, the U.S. outlook remains optimistic and, once the dust settles, U.S. bond yields should grind higher.

*Ksenia Bushmeneva, Economist*

## UPCOMING KEY ECONOMIC RELEASES

### U.S. CPI - July\*

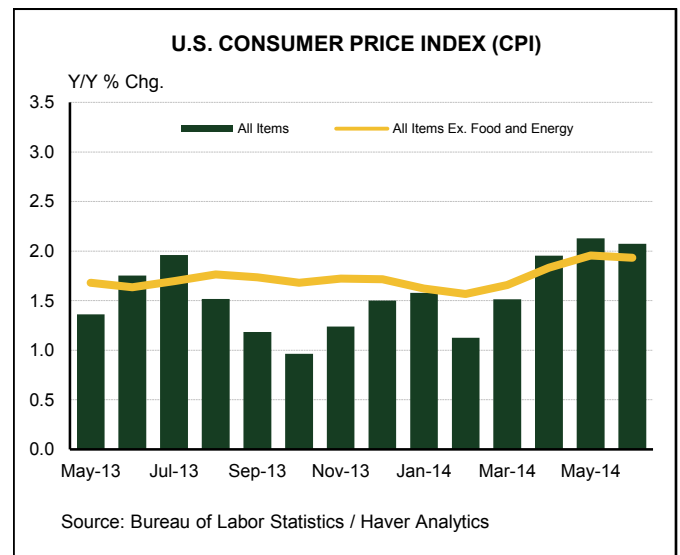
**Release Date:** August 19, 2014

**June Result:** Core 0.1% m/m, all-items 0.3% m/m

**TD Forecast:** Core 0.2% m/m, all-items 0.2% m/m

**Consensus:** Core 0.2% m/m, all-items 0.1% m/m

We expect the headline consumer price index to rise by 0.2 m/m (0.198% before rounding) in July, though the annual pace of headline inflation should remain unchanged at 2.1% y/y. Rising food prices are likely to be one key driver for the pick-up in headline prices, adding to the modest gain in energy prices. Core CPI should also rise at a 0.2% m/m pace (0.183% before rounding). The annual rate of core CPI inflation should remain unchanged at 1.9% y/y. In the coming months, we expect the pace of both headline and core inflation to gradually converge to the Fed's 2.0% y/y target.



### U.S. Existing Home Sales – July\*

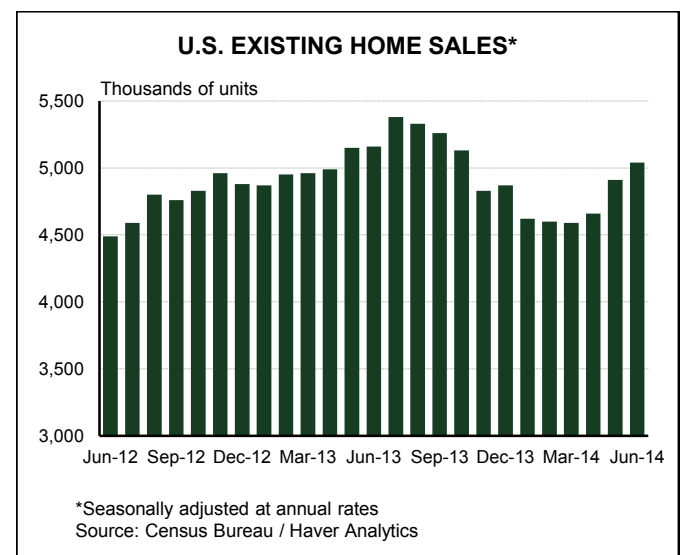
**Release Date:** August 21, 2014

**June Result:** 5.04 million

**TD Forecast:** 5.12 million

**Consensus:** 5.00 million

The rebound in home sales activity is expected to continue in July, with the pace of existing home sales rising to 5.12M in July (up 1.6% m/m). The increase in sales activity reflects a further pick-up in activity during the summer months, following the relatively slow spring selling season. The advance will mark the 5th consecutive monthly gain in this indicator, demonstrating the relatively decent sales momentum in this sector. In the coming months, with underlying buying conditions remaining generally favorable (with mortgage rates still low and jobs growth remaining robust), we expect the rebound in home sales to gain further traction.



\*Forecast by Rates and FX Strategy Group.

**RECENT KEY ECONOMIC INDICATORS: AUGUST 11-15, 2014**

Release Date	Economic Indicator/Event	Data for Period	Units	Current	Prior		
<b>United States</b>							
Aug 12	NFIB Small Business Optimism	Jul	Index	95.7	95.0		
Aug 12	JOLTs Job Openings	Jun	Thsd	4671	4577	R▼	
Aug 12	Monthly Budget Statement	Jul	USD, Blns	-94.6	70.5		
Aug 13	MBA Mortgage Applications	Aug 8	W/W % Chg.	-2.7	1.6		
Aug 13	Retail Sales Advance	Jul	M/M % Chg.	0.0	0.2		
Aug 13	Retail Sales Ex Auto and Gas	Jul	M/M % Chg.	0.1	0.6	R▲	
Aug 13	Business Inventories	Jun	M/M % Chg.	0.4	0.5		
Aug 14	Initial Jobless Claims	Aug 9	Thsd	311	290	R▲	
Aug 14	Import Price Index	Jul	M/M % Chg.	-0.2	0.1		
Aug 14	Continuing Claims	Aug 2	Thsd	2544	2519		
Aug 15	Empire Manufacturing	Aug	Index	14.69	25.60		
Aug 15	PPI Final Demand	Jul	M/M % Chg.	0.1	0.4		
Aug 15	PPI Ex Food & Energy	Jul	M/M % Chg.	0.2	0.2		
Aug 15	Total Net TIC Flows	Jun	USD, Blns	-153.5	33.1	R▼	
Aug 15	Industrial Production	Jul	M/M % Chg.	0.4	0.4	R▲	
Aug 15	Capacity Utilization	Jul	%	79.2	79.1		
Aug 15	Manufacturing (SIC) Production	Jul	M/M % Chg.	1.0	0.3	R▲	
Aug 15	University of Michigan Confidence	Aug P	Index	79.2	81.8		
<b>Canada</b>							
Aug 11	Housing Starts	Jul	Thsd	200.1	198.7	R▲	
Aug 13	Teranet/National Bank HPI	Jul	M/M % Chg.	1.1	0.9		
Aug 13	Teranet/National Bank HPI	Jul	Y/Y % Chg.	4.9	4.4		
Aug 14	New Housing Price Index	Jun	M/M % Chg.	0.2	0.1		
Aug 15	Manufacturing Sales	Jun	M/M % Chg.	0.6	1.7	R▲	
Aug 15	Existing Home Sales	Jul	M/M % Chg.	0.8	0.8		
<b>International</b>							
Aug 11	JN	Producer Price Index	Jul	Y/Y % Chg.	4.3	4.6	
Aug 11	AU	House Price Index	Q2	Y/Y % Chg.	10.1	10.9	
Aug 12	FR	Current Account Balance	Jun	EUR, Blns	-7.4	-3.3	R▼
Aug 12	JN	Gross Domestic Product SA	Q2 P	Q/Q % Chg.	-1.7	1.5	R▼
Aug 12	JN	GDP Deflator	Q2 P	Y/Y % Chg.	2.0	-0.1	
Aug 13	FR	Consumer Price Index	Jul	Y/Y % Chg.	0.5	0.5	
Aug 13	EC	Industrial Production WDA	Jun	Y/Y % Chg.	0.0	0.6	R▲
Aug 14	FR	Gross Domestic Product	Q2 P	Y/Y % Chg.	0.1	0.8	R▲
Aug 14	GE	Gross Domestic Product WDA	Q2 P	Y/Y % Chg.	1.2	2.3	
Aug 14	EC	Gross Domestic Product SA	Q2 A	Y/Y % Chg.	0.7	0.9	
Aug 15	UK	Gross Domestic Product	Q2 P	Y/Y % Chg.	3.2	3.1	

Source: Bloomberg, TD Economics.

**UPCOMING ECONOMIC RELEASES AND EVENTS: AUGUST 18-22, 2014**

Release Date	Time*	Economic Indicator/Event	Data for Period	Units	Consensus Forecast	Last Period
<b>United States</b>						
Aug 18	10:00	NAHB Housing Market Index	Aug	Index	53	53
Aug 19	8:30	Consumer Price Index	Jul	M/M % Chg.	0.1	0.3
Aug 19	8:30	CPI Excluding Food and Energy	Jul	M/M % Chg.	0.2	0.1
Aug 19	8:30	Consumer Price Index	Jul	Y/Y % Chg.	2.0	2.1
Aug 19	8:30	Housing Starts	Jul	Thsd	970	893
Aug 19	8:30	Building Permits	Jul	Thsd	1000	963
Aug 20	14:00	<i>Fed Releases Minutes from June 29-30 FOMC Meeting</i>				
Aug 21	14:00	Initial Jobless Claims	Aug 16	Thsd	300	311
Aug 21	14:00	Continuing Claims	Aug 9	Thsd	--	2544
Aug 21	9:45	Markit US Manufacturing PMI	Aug P	Index	55.7	55.8
Aug 21	10:00	Philadelphia Fed Business Outlook	Aug	Index	20.0	23.9
Aug 21	10:00	Existing Home Sales	Jul	Mlns	5.00	5.04
Aug 21	10:00	Leading Index	Jul	%	0.6	0.3
<b>Canada</b>						
Aug 18	8:30	International Securities Transactions	Jun	CAD, Blns	--	21.43
Aug 20	8:30	Wholesale Trade Sales	Jun	M/M % Chg.	0.5	2.2
Aug 22	8:30	Retail Sales	Jun	M/M % Chg.	0.3	0.7
Aug 22	8:30	Retail Sales Ex Auto	Jun	M/M % Chg.	0.3	0.1
Aug 22	8:30	Consumer Price Index	Jul	Y/Y % Chg.	2.2	2.4
Aug 22	8:30	CPI Core	Jul	Y/Y % Chg.	1.8	1.8
Aug 22	8:30	CPI SA	Jul	M/M % Chg.	--	0.3
Aug 22	8:30	CPI Core SA	Jul	M/M % Chg.	--	0.2
<b>International</b>						
Aug 18	5:00	EC Trade Balance SA	Jun	EUR, Blns	14.9	15.3
Aug 19	4:00	EC ECB Current Account SA	Jun	Euros, Blns	--	19.5
Aug 19	4:30	UK Consumer Price Index	Jul	Y/Y % Chg.	1.8	1.9
Aug 19	4:30	UK CPI Core	Jul	Y/Y % Chg.	1.9	2.0
Aug 19	4:30	UK Retail Price Index	Jul	Y/Y % Chg.	2.6	2.6
Aug 19	19:50	JN Trade Balance	Jul	Yen, Blns	-713.9	-823.2
Aug 20	2:00	GE Producer Price Index	Jul	Y/Y % Chg.	-0.7	-0.7
Aug 20	5:00	EC Construction Output	Jun	Y/Y % Chg.	--	3.5
Aug 20	21:35	JN Markit/JMMA Manufacturing PMI	Aug P	Index	51.5	50.5
Aug 21	3:00	FR Markit France Manufacturing PMI	Aug P	Index	47.8	47.8
Aug 21	3:00	FR Markit France Services PMI	Aug P	Index	50.2	50.4
Aug 21	3:30	GE Markit/BME Germany Manufacturing PMI	Aug P	Index	51.5	52.4
Aug 21	3:30	GE Markit Germany Services PMI	Aug P	Index	55.5	56.7
Aug 21	4:00	EC Markit Eurozone Manufacturing PMI	Aug P	Index	51.3	51.8
Aug 21	4:00	EC Markit Eurozone Services PMI	Aug P	Index	53.5	54.2
Aug 21	4:30	UK Retail Sales Excluding Auto	Jul	Y/Y % Chg.	3.5	4.0

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



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