April 29, 2019 @ *8:05 EST*

ON DECK FOR MONDAY, APRIL 29

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	04/29	08:30	PCE Deflator (m/m)	Mar	0.3	0.3	-0.1
US	04/29	08:30	PCE Deflator (y/y)	Mar	1.7	1.6	1.4
US	04/29	08:30	PCE ex. Food & Energy (m/m)	Mar	0.1	0.1	0.1
US	04/29	08:30	PCE ex. Food & Energy (y/y)	Mar	1.7	1.7	1.8
US	04/29	08:30	Personal Spending (m/m)	Mar	0.8	0.7	0.1
US	04/29	08:30	Personal Income (m/m)	Mar	0.4	0.4	0.2
US	04/29	10:30	Dallas Fed. Manufacturing Activity	Apr	--	10.0	8.3

KEY POINTS:

- **Global markets await US consumption, inflation**
- **Economists shouldn't be dismissing Q1 US GDP growth…**
- **…after having turned far too bearish entering 2019…**
- **…and drastically underestimating growth**
- **A US consumption & housing rebound…**
- **…could offset import/inventory pullback on Q2 growth**
- **It's catch-up day for the US...**
- **...as two months of PCE inflation...**
- **...and consumption get updated**
- **Global Week Ahead**

Please see the Global Week Ahead here. Key risks this week will include:

- **CBs: Fed, BoE**
- **GDP: Canada, Eurozone, Mexico, HK, Taiwan**
- **Inflation: US, Eurozone, Switzerland, Peru, Indonesia, SK, Thailand**
- **US-China trade negotiations**
- **Nonfarm**
- **US: ISM, PCE, other macro**
- **PMIs: China, UK**
- **Japan's Golden Week**
- **Fed-speak**
- **BoC's Poloz**
- **Earnings**

INTERNATIONAL

Global markets are little changed to start the week but that could prove to be sensitive to the outcome of this morning's key US data updates. Major holes in US macro and inflation readings will be filled with the release of February and March updates for consumer spending and inflation (see below).

- The USD is little changed on balance. The euro and pound sterling are flat, the rand and won are slightly appreciating, and both CAD and the yen are slightly depreciating.

- Oil prices are very slightly lower.

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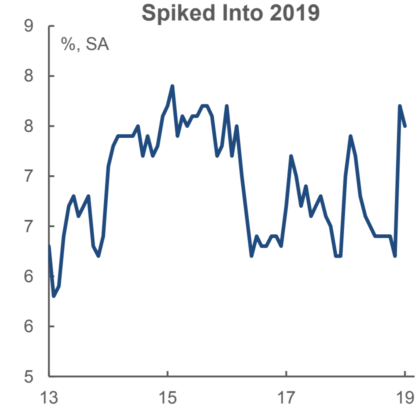
US Saving Rate Temporarily Spiked Into 2019

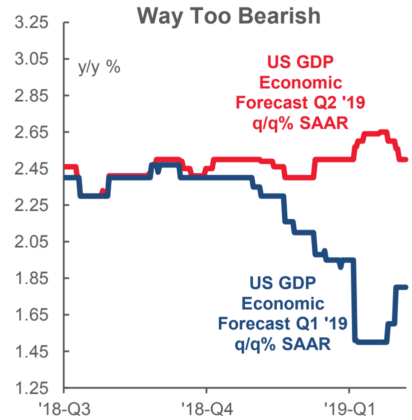


Sources: Scotiabank Economics, Bureau of Economic Analysis.

U.S. Manufacturing & Trade Inventories/Sales

Source: Scotiabank Economics, U.S. Census Bureau.

Economists Turned Way Too Bearish



Sources: Scotiabank Economics, Bloomberg.

- Sovereign bond yields are generally little changed with only very slight cheapening pressure in Treasuries, Canadas, bunds and gilts.
- US and Canadian equity futures are little changed while European cash markets range from no change in London and down by ¾% in Madrid following yesterday's election that extends uncertainty.

UNITED STATES

Key updates for the Fed's preferred inflation gauges and consumer spending over the February and March period arrive this morning (8:30amET). The updates were delayed by the US government shutdown and so the Federal Reserve has been dealing with stale inflation and consumption figures for some time now. The figures will be important in two respects.

One is that they'll inform how the first quarter ended for consumption which is key to determining tracking risks for consumption growth into Q2. There are a few points to make here:

- All we know is that consumption grew by just 1.2% q/q at a seasonally adjusted and annualized rate in Q1 but the interpolation of the individual months will matter to forecasting the potential for accelerated consumption growth in Q2.
- Given that nominal retail sales grew by 1.6% m/m in March for the second strongest monthly gain since 2007 and most of this was through volumes as opposed to higher prices, there should be a solid rise in total consumption during March in this morning's figures.
- If so, then given the way the quarterly math works, this would bake in a high starting point for consumption growth into Q2 (it's better to exit Q1 on a high than a low).
- The more fundamental premise for this is that over parts of Q4 and Q1, **consumption was depressed by harsher than usual weather and confidence-sapping effects of the government shutdown and market volatility and by corollary there may well be pent-up demand to be released.** A big part of such expectations is that the saving rate soared (see chart) as paycheques were horded during this period and often times when that happens it comes falling right back down in a return to consumption growth.

Second is that we want to see how higher frequency core inflation figures are evolving over the quarter. Here too there are several points worth considering.

- Markets homed in on core PCE inflation of just 1.3% q/q during Q1 in Friday's release and down a half point from the prior quarter. The year-ago rate wasn't as low at 1.7% y/y, down two tenths. Quarter-ago figures are intrinsically more volatile.
- In any case, we want to see how the higher frequency monthly inflation figures evolved and we haven't been able to discern this for some time given January is the freshest reading with February and March to be released simultaneously this morning.
- The question for the Fed is what is driving core PCE lower and will it be sustained. I think prior broad dollar gains over most of 2018 are contributing to disinflationary pressures but the broad dollar has largely moved sideways after depreciating earlier in the year. The Fed figures every 10% broad dollar appreciation drives core PCE inflation down by ½% within six months and the effects dissipate to 0.3% within a year.
- As such, we're still in the grips of the transitory dollar influences upon disinflationary pressures. If the broad dollar trend keeps roughly moving sideways then this disinflationary trend should dissipate. Then we're faced with the lagging effects of the US economy's push into broad excess aggregate demand and those lag effects haven't been given enough time to operate.

Income growth will also be updated for March but February's data wasn't interrupted by the shutdown the way consumption and inflation were.

As an important aside, dismissing 3.2% GDP growth in Q1 because import and inventory effects are thought to have been temporary potentially loses sight of the prospects for a consumption rebound in Q2 as the other part of the view that inventories will unwind in Q2 from high levels (second chart). Ditto for housing in that the strong rise in new home sales this year could well take the housing contribution to GDP growth from nothing in Q1 to positive in Q2 once housing starts catch up to sales.

I made these points in the GDP recap on Friday (here) but still find that much of the popular commentary on the GDP release is very one-sided by dismissing it as a temporary inventory and import distortion while considering no other arguments that go the other direction. To the above consumption and housing points, one might also add that Federal government spending should resume growing in Q2 after no growth in Q1 due to the shutdown.

Now step back even further and rewind the clock to the beginning of the year when too many economists and strategists panicked and swung to the opposite side of the ship in forecasting terrible Q1 growth. Some economists argued the US was slipping into recession right off the bat. After seeing 3.2% growth in Q1, what you now have is much of consensus trying to find excuses for how badly their forecasts for Q1 performed. Q1 growth forecasts evolved just awfully, in fact, and the Fed got caught up in it all. As a reminder of what the consensus of economists was forecasting for Q1 growth and how it evolved, see the accompanying chart. Before the final survey estimates were submitted and showed consensus at 2.2% and a full point lower than reality, the chart shows that the consensus of economists dramatically slashed their Q1 growth forecasts as the calendar year flipped over. At the low point, consensus was forecasting less than half of the growth we actually got. Fess up. Growth was stronger than forecast so put on ice the attempts to dismiss it by cherry picking the drivers.

It's a heavy start to the trading week for global earnings reports. Much of this came through Asia overnight, but nine S&P500 firms release Q1 earnings today. Loews released already and beat expectations, while Alphabet (formerly Google) is the key name in the after-market.

Four TSX-listed firms release including CN Railway in the aftermarket.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	2.28	2.28	2.39	2.29	2.29	2.39	2.51	2.50	2.59	2.93	2.92	2.99
CANADA	1.55	1.55	1.62	1.53	1.52	1.61	1.69	1.68	1.78	1.99	1.98	2.08
GERMANY	-0.59	-0.60	-0.57	-0.43	-0.44	-0.39	-0.01	-0.02	0.03	0.64	0.63	0.68
JAPAN	-0.15	-0.15	-0.15	-0.16	-0.16	-0.15	-0.04	-0.04	-0.03	0.57	0.57	0.59
U.K.	0.73	0.73	0.77	0.87	0.86	0.91	1.15	1.14	1.20	1.68	1.67	1.71
	Spreads vs. U.S. (bps):											
CANADA	-74	-74	-77	-76	-77	-78	-81	-81	-80	-94	-95	-91
GERMANY	-287	-288	-296	-271	-273	-278	-251	-252	-256	-229	-230	-231
JAPAN	-243	-243	-254	-245	-245	-254	-255	-254	-262	-236	-236	-240
U.K.	-155	-155	-162	-142	-143	-148	-136	-136	-139	-125	-125	-128

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	16613	37.3	0.2	0.0	3.2	6.0
Dow 30	26543	81.3	0.3	-0.1	2.4	9.2
S&P 500	2940	13.7	0.5	1.2	3.7	10.1
Nasdaq	8146	27.7	0.3	1.9	5.4	14.4
DAX	12284	-30.9	-0.3	0.5	6.6	-2.4
FTSE	7430	1.7	0.0	-0.4	2.1	-1.0
Nikkei	22259	-48.9	-0.2	0.3	5.0	-0.9
Hang Seng	29893	287.8	1.0	-0.2	2.9	-1.3
CAC	5559	-10.5	-0.2	-0.4	3.9	1.4
Commodities	**Level**		**% change:**			
WTI Crude	63.11	-0.19	-0.3	-3.9	4.9	-7.3
Natural Gas	2.57	-0.01	-0.5	1.7	-3.6	-7.4
Gold	1282.35	-3.90	-0.3	0.6	-0.8	-3.1
Silver	15.00	0.14	0.9	0.3	-2.8	-9.5
CRB Index	184.44	-0.22	-0.1	-1.9	0.4	-8.4
Currencies	**Level**		**% change:**			
USDCAD	1.3476	0.0021	0.2	1.0	1.0	4.9
EURUSD	1.1151	0.0000	0.0	-0.9	-0.6	-7.7
USDJPY	111.73	0.1500	0.1	-0.2	0.8	2.2
AUDUSD	0.7045	0.0003	0.0	-1.2	-0.7	-6.4
GBPUSD	1.2915	-0.0001	-0.0	-0.5	-0.9	-6.2
USDCHF	1.0205	0.0009	0.1	0.5	2.5	3.0

Central Banks	
Current Rate	
Canada - BoC	1.75
US - Fed	2.50
England - BoE	0.75
Euro zone - ECB	0.00
Japan - BoJ	-0.10
Mexico - Banxico	8.25
Australia - RBA	1.50
New Zealand - RBNZ	1.75
Next Meeting Date	
Canada - BoC	May 29, 2019
US - Fed	May 01, 2019
England - BoE	May 02, 2019
Euro zone - ECB	Jun 06, 2019
Japan - BoJ	Jun 20, 2019
Mexico - Banxico	May 16, 2019
Australia - RBA	May 07, 2019
New Zealand - RBNZ	May 07, 2019

Source: Bloomberg. All quotes reflect Bloomberg data as at the time of publishing. While this source is believed to be reliable, Scotiabank cannot guarantee its accuracy.