BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

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March: In Like a Bear

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Don't say we didn't warn you. For much of the first 16 months following the 2016 U.S. election, markets and investors chose to focus only on the positive aspects of President Trump's economic proposals—tax cuts and deregulation—and turned a blind eye to the negatives—bigger budget deficits and protectionism. Well, the negatives are now starting to bite. News that **the U.S. plans to slap 25% tariffs on steel imports and 10% on aluminum**, about the most aggressive option available under Section 232, hit the market like a bolt from the blue this week, despite the fact that Trump has been rattling the trade sabre non-stop for a year. **The President's response to harsh criticism to the move is even more unsettling**: *"trade wars are good, and easy to win"*, suggesting that **retaliatory moves**—and there likely will be many—**will be met with even more U.S. actions**.

In isolation, the net effect of U.S. tariffs will likely be sharply higher domestic metals prices, and mostly hit the **U.S. consumer**; our initial estimate is that CPI will be bumped 0.2 percentage points by the tariffs. Note that capacity utilization in the fabricated metals space is now running above 81%, or higher than its long-run average. And this week's ISM report for February carried this comment from the industry: *"Steel market is doing rather well. Everybody is out of what I need."* All that suggests there isn't a lot of room for U.S. producers to ramp up production in the near term, so the tariffs will mostly get passed along in the form of higher prices across the board. Beyond consumers, of course any **U.S. manufacturer** that uses steel and/or aluminum has just been handed a competitive punch to the gut, as their input costs rise in comparison to global competitors—e.g. automakers.

This arises at the very point at which markets had suddenly become much more attuned to inflation risks and equity volatility had taken a big step higher. With stocks already sagging again, the trade news was, shall we say, downright *tariffying*. Equities are now commonly gyrating by more than 1% per day, after rarely breaching that threshold over the past year, with intraday swings even greater. For all of February, the S&P 500 fell 3.9%, its worst month in more than two years (albeit after its best month in almost two years), and then proceeded to fall heavily in the first two days of March on the tariff news. Notably, bonds are benefiting only slightly from the equity sag, and we would just reiterate that **trade wars are patently not a positive for bonds**—true, **trade spats may dampen longer-run growth**, but they are **even more negative for inflation**. Treasury yields were roughly unchanged this week despite an early dip.

For the currency market, the brewing trade conflict provides a more nuanced story. On the week, the U.S. dollar was on balance a bit firmer, even as it slipped versus the yen, especially, but also against most European currencies. The yen was given a big boost by the BoJ's Kuroda suggesting that the end of QE in Japan is coming within sight, even if the sightline stretches out until 2019. On the flip side, two of the biggest losers on the week were the NAFTA currencies, as the Canadian dollar and the Mexican peso slid almost 2%. Both rank high on the list of metal suppliers to the U.S. (Canada is first in both), and the new tariffs throw yet a new wrench into the trade talks. Note that when the U.S. hiked steel tariffs by 8%-to-30% in 2002 under George W. Bush, Canada and Mexico were exempted due to NAFTA rules, but that

doesn't seem to be a consideration this go-round (on national security grounds). Indeed, any retaliation to the steel levies by Canada and/or Mexico will no doubt further sour the mood of the broader trade talks, which are quietly close to wrapping up Round 7 this week.

Every early indication is that Canada will not be exempt from the steel and aluminum tariffs. It's little consolation that Canada is a net steel importer, given that it also shipped a grand total of $24 billion of raw and processed steel and aluminum products to the U.S. in 2017, or 1.1% of domestic GDP. Suffice it to say that it is a very negative signal indeed from the country's largest trading partner, for growth, inflation and the currency.

While the already dark trade clouds darkened further, and the multitude of challenges to Canadian business mounted, Ottawa's annual budget document did its level best to change the subject this week. The 367 page manifesto introduced more than $5 billion in new spending for the coming fiscal year, aimed at strengthening equality, with a particular focus on gender issues, while the budget deficit forecast was all but locked in at $18 billion. (The gory details can be seen on pages 10–11.)

Finance Minister Morneau responded to concern that the budget did not address Canada's pressing competitive challenge with: *"It's not news to me that business is asking for lower tax rates."* And then added, *"It's interesting to me that the same people that are asking us to lower our taxes are the people that are telling me to stay fiscally responsible."*

First, tax relief and fiscal responsibility are not mutually exclusive if married with a modicum of spending restraint. Second, this budget provided neither tax relief nor a lower deficit: most private-sector analysts were asking for one or the other, rather than neither. (For the record, we would tend to see the priority as the competitive challenge at this point, and would put less emphasis on a more aggressive attack on the deficit.) Instead, Ottawa cycled every last dime afforded by a stronger economy and various tax increases back into program spending. Third, many "in business" may not have truly been expecting significant steps to address the competitiveness issue in this year's budget, but we also probably didn't expect a slap in the collective face either.

When Headwinds Become Tailwinds

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Chairman Powell delivered his inaugural congressional testimony on the Fed's Monetary Policy Report this week, sounding a bit more hawkish than his predecessor in prepared remarks and during the Q&As. However, we suspect even Janet Yellen would have sounded more upbeat given the two huge dollops of stimulative fiscal policy just dropped on the economy. An economy, by the way, that already sported healthy headline GDP growth of 2.5% annualized in Q4 (revised down this week from 2.6%) and, more significantly, final domestic demand growth of 4.3% (unchanged)—and this is before the Tax Cuts and Jobs Act and the Bipartisan Budget Act take effect.

Powell said *"while many factors shape the economic outlook, some of the headwinds the U.S. economy faced in previous years have turned into tailwinds…"* He pointed to fiscal policy; gone are the days of fiscal consolidation. From 2010Q4 until 2014Q4, federal government spending cutbacks sapped an average of 28 bps of annualized GDP growth each quarter. Since then, the contribution has averaged flat (actually a puny 4 bps per quarter), but this is about to flash. We reckon combined fiscal stimulus will add about 1.0 percentage points to GDP growth this year and another 0.3 points next year (other things equal).

Powell also pointed to exports; gone are the days when *"global economic and financial developments"* were the FOMC's major concern. There were three facets to that concern: a strong U.S. dollar, low oil prices and sluggish global economic growth. But, these three headwinds have also 180-ed. After averaging a more than 14½-year high in December 2016 and having appreciated some 25% since July 2014, the broad trade-weighted exchange rate has depreciated about 8%. WTI crude oil prices last averaged above $100/bbl in July 2014 before plummeting to $30 in February 2016. Two years later they are averaging double their nadir, above $62, and with record oil production to boot. And then there's global growth. We track 75 countries that report GDP growth on a quarterly basis, and for 2017Q3 (with 74 reporting), we estimate global growth was 4.0% y/y, with all countries expanding and about three-quarters of them exhibiting an accelerating expansion (compared to annual growth in 2016Q3, which was 3.1% y/y for the global aggregate). With 42 countries reporting for Q4, 4.0% growth looks to have been maintained.

Reflecting these economic tailwinds and, specifically, after the Bipartisan Budget Act was signed into law on February 9, we changed our Fed call, looking for four rate hikes this year instead of three. **We see rate hikes continuing at a quarterly cadence until the FOMC pauses once it hits its current longer-run median projection of 2.75%** (technically, we see the pause at the 2.75%-to-3.00% range with its 2.875% midpoint, so an additional two rate hikes) **by the middle of next year**. Beginning July 2019, the current business cycle will become the longest in U.S. history (dating back to the 1850s), and how long the expansion might continue will depend critically on whether the Fed feels compelled to begin pushing policy rates well above their neutral levels to check the inflation process. At this point, we judge there are **net upside risks to our 2019 Fed call**. MJG

Why the Loonie Can't Fly

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Could the outlook for the Canadian dollar get any grimmer? It's the weakest of 17 major currencies this year, losing just over 2% of its value against the greenback. And no, NAFTA fears are not the chief culprit, as the Mexican peso is up almost 4% against the big dollar. Of course, the U.S. government's threat to impose duties on steel and aluminum hasn't helped, assuming Canada gets lumped in with other perceived national security risks such as China. Canada is the biggest seller of steel to the U.S. (and its best customer too). A bigger threat is if the announcement is an initial volley in a prolonged campaign of protectionist trade measures by the U.S. government. **Should a trade war erupt, the loonie will get caught in the cross-fire.**

Apart from trade fears, the currency's biggest challenge is that **the competitive landscape is rapidly shifting in favour of U.S. companies**. Canadian business leaders railed about this issue ahead of the 2018 federal budget, albeit to little avail. **Lower U.S. corporate income taxes** will make it harder for Canadian firms to compete on price, while an even larger wedge in personal income taxes will make it tougher to attract skilled workers to the country. **Diverging regulatory policies**, notably on the environment, will also influence investment decisions. Although nonresidential investment rebounded last year after consecutive declines during the oil shock, the outlook is uninspiring. A Statistics Canada survey found subdued capital spending intentions for 2018, with private-sector expenditures expected to decline for a fourth straight year. The only group seemingly eager to invest is the government. Foreign direct investment in Canada plunged in 2017 to seven-year lows, while investment outflows surged and ran about three-times faster than inflows. Barring a shift in policies, **Canadian firms will need a cheaper loonie just to maintain competitiveness.**

The diverging regulatory climate in the two countries is readily apparent in **pipeline development**, or, in Canada's case, the lack of. If oil producers can't deliver their product at reasonable cost to the U.S. or Asia, they will lose out to less hamstrung competitors. Lighter regulatory requirements have lessened America's oil dependency, while allowing its producers to send record amounts to China. Transportation bottlenecks also explain why Canadian producers net increasingly less for their oil. Simply, higher oil prices aren't going to bail out the loonie.

The economic backdrop should also keep the loonie in the penalty box. As the Canadian economy slows to an expected pace of 2% this year, the U.S. will likely pick up to 2.8%. The divergence in growth outlooks largely reflects different fiscal policies, in both size and scope. The U.S. is on course to run a budget shortfall of more than 5% of GDP next year, while Canada's deficit should stay below 1%. The U.S. policies aim to promote growth (the Administration's goal is 3% or more), while Canada's recent budget was geared toward ensuring more people share in growth.

A **diverging economic outlook** explains why the Fed will likely raise policy rates faster than the Bank of Canada this year. The policy debate has diverged: Powell worries that too-strong U.S. growth could push inflation above target, while Poloz fears that trade risks, indebted households and tougher mortgage rules could slow growth and keep inflation below target. Rate spreads will surely favour the big dollar.

While the current account deficit is improving (slowly) and the U.S.'s is worsening, Canada's remains larger at 3.0% of GDP in 2017 versus about 2½%. This difference will likely close in 2018, but that's far from a ringing endorsement for the loonie.

Perhaps the only way the Canadian dollar will strengthen is if the greenback weakens. And the only real reason the greenback will fall further is if investors express growing concerns about the ballooning U.S. budget deficit or possible political uncertainty. There's no guarantee this will happen. Assuming NAFTA talks end well (no guarantee there either), the loonie might get some relief. But even getting back to 80 cents US (C$1.25) this year will be a mighty struggle.

BoC Preview: Patience

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The Bank of Canada is broadly expected to hold overnight rates steady at 1.25% at the March 7 policy announcement. Following January's rate hike, the economic data have softened and a number of uncertainties suggest there's little reason to rush another move. We anticipate the statement will reflect as much, but since this is a non-Monetary Policy Report meeting, there's some chance markets could misinterpret the message, something we've seen recently. While there is no press conference or MPR, the BoC will hold its **first post-meeting update speech on March 8** to ensure the appropriate message is received.

At the time of the January rate hike, the BoC outlined a number of uncertainties clouding the outlook. **NAFTA** was prominent in the January statement, garnering two mentions. Expect a lower profile for NAFTA uncertainty this time around as negotiations are progressing very slowly and it's tough to see a deal being struck before Mexico's elections (July 1) which are followed by U.S. midterms in November. Neither Mexico nor the U.S. will want to be negotiating through election season. That possibly kicks the NAFTA can into 2019. Accordingly, with no new information on NAFTA, and the BoC already twice downgrading its forecast based on the uncertainty, it should play a less prominent role in the statement. One wild card is the **steel/aluminum tariff** President Trump is floating, which could increase the uncertainty surrounding trade.

One of the more cautionary sections will likely be on the **economic outlook**. With Q4 GDP already in hand, we know that it missed the BoC's 2.5% forecast by 0.8 ppts. And, with home sales falling off a cliff in January, it looks as though there are reasonably high odds that Q1 is going to miss their 2.5% forecast as well. Don't be surprised if housing gets a special mention as the full impact of the new mortgage rules and B.C.'s policy changes suggest there is some further downside risk for the sector. Look for the statement to acknowledge the GDP forecast miss and that the economic backdrop isn't quite as strong as expected. However, recall that the output gap is closed and potential growth is sub-2%, so the Bank shouldn't be too fussed by the GDP misses.

On the more upbeat side of the ledger, **core inflation** continues to trend higher. Two of three measures are up to 1.9%, with the third at 1.6%. The upward drift in core CPI is consistent with the BoC's view that the economy is operating at potential. Indeed, as long as inflation continues to edge higher, that should keep the BoC in tightening mode, assuming growth doesn't fall below potential. This section might be enough to offset the dovishness likely coming from the growth discussion.

Key Takeaway: With almost nothing priced into markets, there's little intrigue about this meeting. There are enough uncertainties looming over the outlook that there's **no rush for the BoC to tighten again in the near-term**. Expect a cautious tone, but no sign that the Bank will back off its tightening trajectory. *B.A.A.R.*

Turbulence Ahead

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Financial markets relaxed over the course of 2017, after the worst-case scenarios failed to play out in a number of European elections. However, there are **two potential curve balls** coming this weekend from **Germany** and **Italy** that may, just may, influence the **ECB's** decision.

German SPD Vote

While Germany's September election saw Angela Merkel remain Chancellor, there have been difficulties sorting out which parties will play a role in the ruling government. Although the CSU/CDU and SPD agreed to a preliminary arrangement, the SPD's 400,000+ members have been voting over the past two weeks on the "grand coalition" arrangement. If the majority votes against the deal, which looks increasingly like a meaningful possibility, Germany could head to the polls again. We will find out March 4th.

Italy's Election

Also on March 4th, Italians will head to the ballot booth to vote for their next prime minister. The election process of the Euro Area's 3rd largest economy is complicated, even more so given the large number of parties running. The main parties include the ***centre-left*** **Democratic Party** (PD), formerly headed by Matteo Renzi until he stepped down last February, and now led by PM Paolo Gentiloni. The PD currently holds the majority of seats in Parliament but is widely expected to lose seats this weekend. Then there is the ***centrist*** **Five-Star Movement** (M5S), led by Luigi Di Maio, and the ***centre-right's*** **Forza Italia** (FI), run by former PM Silvio Berlusconi. (If the FI wins, Mr. Berlusconi cannot actually be the PM given he was convicted of tax fraud, so his #2—Gianni Letta—or the European Parliament President, Antonio Tajani, would assume the role.) There is also the Eurosceptic and anti-immigration **Northern League** (LN), the left-wing **Free and Equal Party** (LeU), and the nationalist **Brothers of Italy** (FdI), who are anti-immigration and anti-globalization.

The **good news** is that the Eurosceptic rhetoric has eased over the past year. The M5S is no longer discussing a referendum on the euro, and the LN has cooled its anti-euro stance (although not completely). The **bad news** is that plenty of euroscepticism still exists as well as other divisive issues, including immigration, border controls, ongoing fiscal austerity. A pro-euro party/coalition would be welcomed by the financial community. But, as shown by the small backup in German and Italian 10-year spreads (from a low of 120 bps earlier this month to 135 bps in the final days before the vote), some concern is creeping in.

The **polls point to inconclusive results**—no party is expected to capture a majority. But the **centre-right coalition** (which could include the FI, LN, and the FdI) **has gained ground** over the past few months, enough to spark speculation that it could win an outright majority. Still, it wouldn't be smooth sailing as the FI and the LN have clashed over the country's future within the EU. (The FI wants to keep the euro; the LN likely wants to pull out of it.) And such a coalition would push Italy's budget deficit sharply higher with promises of, for example, a flat tax and higher pensions. The coalition would be pitted against the PD and the M5S, the latter of which has refused to join any coalition, although political stances can change, as Germany's

SPD has shown us. In fact, there were recent reports that Mr. Di Maio is open to a deal with the PD if he had to, although there would be a tussle over who would lead the government.

In either case, whatever the coalition, various parties could end up offsetting the others' extreme calls, and wind up with policies that lie somewhere in the middle. **If the polls are correct** (don't hold your breath) **and no single party/coalition wins the needed 40% of the vote**, then there will be a **hung parliament**. President Sergio Mattarella would need to ask the party with the greatest number of votes to try to form a coalition government. Failing that, Italy would head to the polls again, and in the meantime, PM Gentiloni will continue to run the country. But, it will again herald the return of uncertain and unstable times.

As for the **euro**, our **Stephen Gallo, Head of European FX Strategy**, sees a centre-right or centre-left/centre-right coalition as *"moderately EUR-supportive, and the EUR should rally modestly on March 4/5 as long as anti-establishment parties don't perform significantly better-than-expected"*. He looks for as much as a 2% drop in the currency if the anti-establishment parties gain significantly more ground than expected; however, because the risks of any Italian EU/euro referendum are very low in the near-term, he would not immediately drop his call for a stronger EUR in the medium-term.

ECB Monetary Policy Meeting

It was just in December that the ECB released its *"substantial upward revisions to GDP"* growth forecasts. Although inflation had yet to show convincing signs of an upturn (still the case), the Governing Council believed that the *"language pertaining to various dimensions of the monetary policy stance and forward guidance could be revisited early in the coming year"*. So when's *"early"*? Given the improved outlook, we believe that the March 8th meeting should be that meeting. A rate hike is not even on the radar this year, but the ECB can take **one baby step** toward ending its QE program that began in March 2015 (at €60 bln/mth). The monthly pace has changed over the past few years; most recently, it was halved beginning last month to €30 bln, and is scheduled to run until September. **Tweaking or fine-tuning the forward guidance on asset purchases** (*"we stand ready to increase the asset purchase programme (APP) in terms of size and/or duration"*) **would be a good place to start**. The guidance on rates (*"remain at their present levels for an extended period of time, and well past the horizon of our net asset purchases"*) can come later.

There is **considerable uncertainty** with this call. Rest assured policymakers will be reluctant and will drag their feet on change. **Any negative shock from the elections** would also spook the central bank, as well as the **new round of uncertainty brought on by President Trump's steel and aluminum tariffs**. But a hint that asset purchases could conclude by year-end, cushioned by all sorts of qualifiers to dampen the EUR's reaction (for example: "if and only if inflation turns higher" or *"but we still remain patient and persistent"),* would be an excellent first step. JLee

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Canada

- Federal deficits to persist for the foreseeable future with no return to balance
- C$ weakens on trade fears

Good News

Current Account Deficit narrowed to $65.4 bln a.r. (Q4)

Auto Sales +2.0% y/y (Feb.)—record Feb.

Industrial Product Prices +0.3%; **Raw Material Prices** +3.3% (Jan.)

Bad News

Real GDP +1.7% a.r (Q4)—below expected

Real GDP at Basic Prices slowed to +0.1% (Dec.)

Conference Board's Consumer Confidence Index -9.8 pts to 112.0 (Feb.)—lowest since June 2017

Capital Spending Intentions slowed to +0.8% (2018)

Ottawa looks for budget deficit to narrow slightly to $18.1 bln (FY18/19)

United States

- President Trump warns of steep tariffs on imported steel and aluminum…
- …stocks sell off
- Fed Chair Powell sees *"further gradual"* rate hikes amid an improved economic outlook

Good News

Wholesale Inventories +0.7%; **Retail Inventories** +0.8% (Jan. A)

Personal Income +0.4% (Jan.)

Core PCE Deflator +0.3% (Jan.)

Manufacturing ISM +1.7 pts to 60.8 (Feb.)

S&P Case-Shiller Home Prices +6.3% y/y (Dec.)

FHFA House Prices +6.5% y/y (Dec.)

Conference Board's Consumer Confidence Index +6.5 pts to 130.8 (Feb.)—over 17-yr high

Chicago Fed National Activity Index +0.12 (Jan.)

U of M Consumer Sentiment revised higher to 99.7 (Feb.)

Initial Claims -10k to 210k (Feb. 24 week) —48-yr low

Bad News

Real GDP revised down a tick to +2.5% a.r. (Q4 P)

Real Personal Spending -0.1% (Jan.)

Core Durable Goods Orders -0.2% (Jan.)

Construction Spending unch (Jan.)

Auto Sales -0.5% to 17.1 mln units a.r. (Feb.)

Goods Trade Deficit widened to $74.4 bln (Jan. A)

New Home Sales -7.8% to 593,000 a.r. (Jan.)

Pending Home Sales -4.7% (Jan.)

Japan

- If inflation hits 2% *"around fiscal 2019"*, BoJ will discuss possible QE exit strategy

Good News

Capital Spending +4.3% y/y (Q4)

Jobless Rate -0.3 ppts to 2.4% (Jan.) —near 25-yr low

Bad News

Retail Sales -1.8% (Jan.)

Industrial Production -6.6% (Jan. P)

Consumer Confidence -0.4 pts to 44.3 (Feb.)

Europe

- ECB Pres. Draghi says economic slack may be more than estimated even as growth remains robust
- Brexit talks falter after PM May dismisses EU draft deal
- PM May lays U.K. trade vision and sets 5 *"tests"* for good Brexit deal

Good News

Euro Area—Jobless Rate steady at 8.6% (Jan.)—as prior month revised a tick lower

Euro Area—Private Sector Credit +3.3% y/y (Jan.)

Euro Area—Producer Prices +0.4% (Jan.)

Germany—Unemployment -22,000 (Feb.)—and **Jobless Rate** steady at a record low 5.4%

Italy—Consumer Confidence +0.1 pts to 115.6 (Feb.)

U.K.—Construction PMI +1.2 pts to 51.4 (Feb.)

Bad News

Euro Area—Consumer Prices slowed to +1.2% y/y (Feb. A)

Euro Area—Economic Confidence -0.8 pts to 114.1 (Feb.)

Germany—Retail Sales -0.7% (Jan.)

Germany—GfK Consumer Confidence -0.2 pts to 10.8 (Mar.)

France—Consumer Confidence -4 pts to 100 (Feb.)

France—Consumer Spending -1.9% (Jan.)

Italy—Jobless Rate +0.2 ppts to 11.1% (Jan. P)

U.K.—Manufacturing PMI -0.1 pts to 55.2 (Feb.)

U.K.—GfK Consumer Confidence -1 pt to -10 (Feb.)

U.K.—Nationwide House Prices -0.3% (Feb.)

Other

- China to enact sweeping reforms allowing President Xi to rule with no term limits

Good News

China—Caixin Manufacturing PMI +0.1 pts to 51.6 (Feb.)

India—Real GDP +7.2% y/y (Q4)

Bad News

China—Manufacturing PMI -1 pt to 50.3; **Non-manufacturing PMI** -0.9 pts to 54.4 (Feb.)

Brazil—Real GDP slowed to +0.1% q/q (Q4)

Indications of stronger growth and a move toward price stability are good news for the economy.

2018 Federal Budget Recap: High Times

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The third budget of the current federal government arrived with little fanfare and subdued expectations, and reinforces Ottawa's underlying priorities. Against a backdrop of aggressive U.S. tax reform and NAFTA uncertainty, Finance Minister Morneau played it safe with a largely stand-pat fiscal plan, allowing recent economic strength, deferred infrastructure spending and some tax increases (yes, including a pot tax) to fund yet another spending boost. Ottawa is again projecting a string of double-digit budget deficits as far as the eye can see, narrowing somewhat in the coming fiscal year, while the now-key debt/GDP ratio still gradually drifts lower. This outlook comes as little surprise, as a fading debt ratio has become the de facto anchor for policy. Last year's firmer-than-expected economic backdrop has provided a big tailwind for finances, although that favourable trend looks to have run its course. Two areas of uncertainty heading into budget day were: 1) would there be any significant response to the competitive challenge from U.S. tax reform; and, 2) would there be any new spending measures in the year before the next election? The short answers are: No; and, every last dollar subject to keeping the deficit path unchanged. This is set against what could quite possibly be the high point for economic and fiscal conditions in Canada. Consider what likely lies ahead:

- Economic growth is bound to slow after a powerful upside surprise last year, and as we get deep into an already long cycle (witness today's soggy Q4 GDP result);
- Profound uncertainty around the NAFTA talks; and a possible U.S. steel tariff;
- Debt interest costs are poised to edge higher after years of consistent positive surprises, rising as a share of GDP for the first time in decades;
- There is little fiscal room to stimulate the economy further, assuming the fiscal anchor holds, and short of a major re-profiling of the infrastructure program; and
- U.S. tax reform is a tough new competitive challenge, to which the budget is nearly silent in response.

Meantime, the deficit profile closely follows the update laid out in the 2017 Fall Statement, which is no surprise, given that the current economic outlook is little changed since that point. Recall, that update incorporated a much stronger-than-expected 2017 economic growth backdrop into the fiscal plan, reducing average deficits from FY18/19 through FY21/22 by an average of $6.5 billion per year. Similarly, the updated outlook in this budget calls for an $18.1 billion deficit this fiscal year, before shrinking modestly to $13.8 billion by FY21/22—there is still no plan to balance the books within the forecast horizon. Below the surface, **some re-profiling of the infrastructure program, lower EI benefit payments (stronger labour market), more favourable Crown expenses and some tax increases have allowed chunky new spending measures to go through without impacting the bottom line**.

Table 1
Fiscal Outlook

(C$ blns, except where noted)

	Est.	— Forecast —		
	17/18	18/19	19/20	20/21
Revenues	309.6	323.4	335.5	348.0
Expenditures	329.0	338.5	350.0	361.9
Program Spending	304.6	312.2	321.5	331.5
Public Debt Charges	24.4	26.3	28.6	30.3
Adjustment for Risk	—	(3.0)	(3.0)	(3.0)
Budget Balance	(19.4)	(18.1)	(17.5)	(16.9)
Federal Debt	651.5	669.6	687.1	704.0
As a percent of GDP:				
Budget Balance	(0.9)	(0.8)	(0.8)	(0.7)
Federal Debt	30.4	30.1	29.8	29.4

Source: Federal Budget ( ) = deficit

A contingency of $3 billion per year remains in place through the forecast horizon, offering some wiggle room should the economy

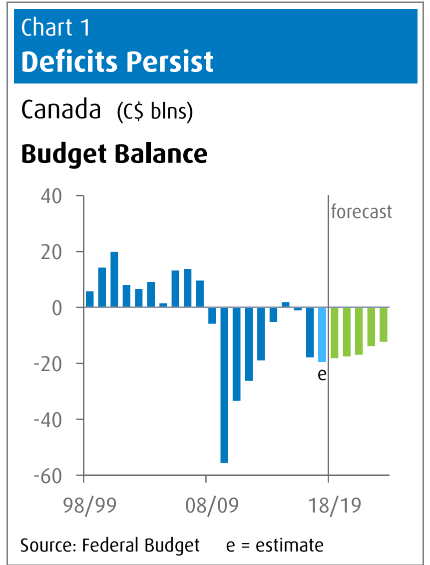
slow further (NAFTA risks, for example). Also, the debt-to-GDP ratio will fade from 30.1% this coming fiscal year, to 28.4% by FY22/23. We'd just reiterate that we are observing late-cycle conditions in North America, often a period that governments should build fiscal capacity—after all, a stable debt-to-GDP ratio will deteriorate overnight as the next downturn hits.

Major Policy Measures: A Shade of Pink

The net fiscal impact of new measures detailed in this year's budget is $5.4 billion (or 0.2% of GDP), fading to average $2.5 billion per year in the subsequent four fiscal years—not big, but not immaterial. Here's a recap of some key measures:

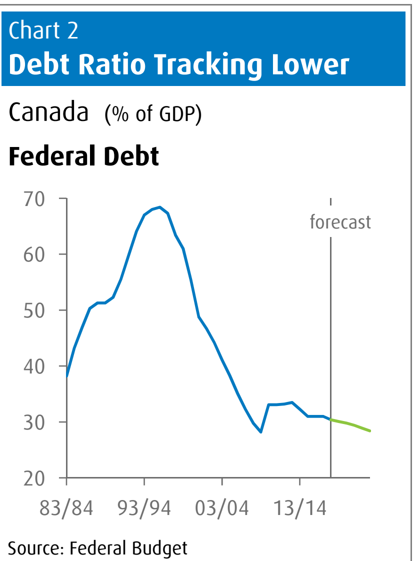
- ***Program spending*** *will rise 2.5% in FY18/19 after at 6.1% surge in FY17/18. As a share of GDP, program spending will dip slightly to 14%, but that remains up from the recent low of just under 13% in FY14/15. Notably, program spending as a share of GDP will drift very modestly lower over the forecast horizon.*
- ***Infrastructure spending:*** *Further re-profiling of the infrastructure plan, pushing some investment into future years. Since the Fall Statement, Ottawa has moved more than $2 billion out of FY18/19, with a meaningful chunk landing in FY19/20—an election year.*
- ***EI Parental Sharing Benefit:*** *Additional 5 weeks of parental leave for a family where the second parent agrees to take a minimum of 5 weeks. This will start in June 2019, and is expected to cost roughly $300 million per year, funded through the EI account.* ***EI premiums will rise by 3 cents*** *in FY18/19, to $1.66 (announced earlier). This will likely fall short in increasing female workforce participation.*
- *Other measures to promote* ***gender equality*** *include pay equity legislation in the federal sector and recognition for companies with gender equality on their board.*
- ***Tax loopholes:*** *Various changes to business taxes aim to raise $1.2 billion by FY20/21. This includes taxation of* ***passive income*** *in private corporations, where the business limit (income that triggers the higher general corporate rate) is reduced from $500,000 as passive investment income increases. A business would need at least $50,000 of investment income to be affected. Other targets include* ***limiting refundable taxes larger companies can obtain on dividend distribution****; and a few measures targeting* ***artificial losses generated by financial instruments*** *and* ***share buybacks*** *(measures which will mostly affect banks).*
- ***Pot tax:*** *Ottawa outlines a cannabis tax framework and raises tobacco taxes immediately. Combined, these will raise more than $400 million in FY18/19.*
- ***Canada Workers Benefit:*** *Revamped Working Income Tax Benefit, made more generous and easier to access. Funding was accounted for in the Fall Statement.*
- *Creation of an advisory council to look at a* ***national pharmacare*** *program. This could be the big-ticket item in next year's budget.*
- ***Debt management strategy*** *calls for gross issuance of $115 billion in FY18/19, down from $138 billion in FY17/18. Net borrowing requirements are pegged at $35 billion in the coming fiscal year, with cash balances unchanged.*

Chart 1
Deficits Persist



Source: Federal Budget e = estimate

Chart 2
Debt Ratio Tracking Lower



Source: Federal Budget

Economic Forecast Summary for March 2, 2018

BMO Capital Markets Economic Research

	2017				2018				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018
CANADA											
Real GDP (q/q % chng : a.r.)	4.0	4.4	1.5	1.7	1.8	2.3 ↓	2.1 ↓	1.9 ↓	1.4	3.0	2.0 ↓
Consumer Price Index (y/y % chng)	1.9	1.3	1.4	1.8	2.0	2.3	2.4	2.2	1.4	1.6	2.2
Unemployment Rate (percent)	6.6	6.5	6.2	6.0	5.9	5.8	5.7	5.6	7.0	6.3	5.7
Housing Starts (000s : a.r.)	222	207	223	229	215	209	200	198	198	220	205
Current Account Balance ($blns : a.r.)	-54.6	-62.4	-74.4	-65.4	-58.8 ↑	-56.8 ↑	-55.0 ↑	-53.5 ↑	-65.4	-63.9	-56.0 ↑
Interest Rates (average for the quarter : %)											
Overnight Rate	0.50	0.50	0.83	1.00	1.25	1.25	1.50	1.75	0.50	0.71	1.44
3-month Treasury Bill	0.47	0.54	0.81	0.92	1.15	1.20	1.45	1.70	0.49	0.69	1.35
10-year Bond	1.71	1.51	1.95	1.96	2.30	2.40	2.55	2.65	1.25	1.78	2.45 ↓
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-13	-36	-25	-30	-43 ↓	-65 ↓	-58 ↓	-51 ↓	17	-26	-54 ↓
10-year	-73	-75	-30	-41	-48 ↓	-50 ↓	-46 ↓	-42 ↓	-59	-55	-46 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	1.2	3.1	3.2	2.5	2.6	2.8	2.9	2.9	1.5	2.3	2.8
Consumer Price Index (y/y % chng)	2.6	1.9	2.0	2.1	2.4	2.8	2.9	2.6	1.3	2.1	2.7
Unemployment Rate (percent)	4.6	4.3	4.3	4.1	4.0	3.9	3.8	3.7	4.9	4.4	3.8
Housing Starts (mlns : a.r.)	1.24	1.17	1.17	1.26	1.30	1.29	1.27	1.26	1.18	1.21	1.28
Current Account Balance ($blns : a.r.)	-454	-498	-402	-507 ↓	-513	-539 ↓	-558 ↓	-572	-452	-465	-545
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	0.71	0.96	1.13	1.21	1.46	1.71	1.96	2.21	0.40	1.00	1.83
3-month Treasury Bill	0.60	0.90	1.06	1.23	1.60	1.85	2.00	2.20	0.32	0.95	1.90
10-year Note	2.44	2.26	2.24	2.37	2.75	2.90	3.00	3.05	1.84	2.33	2.95
EXCHANGE RATES (average for the quarter)											
US¢/C$	75.6	74.4	79.9	78.6	79.8	79.6	79.8	79.9	75.5	77.1	79.8
C$/US$	1.32	1.34	1.25	1.27	1.25	1.26	1.25	1.25	1.33	1.30	1.25
¥/US$	114	111	111	113	109	107	106	105	109	112	107
US$/Euro	1.07	1.10	1.18	1.18	1.23	1.24	1.25 ↓	1.25 ↓	1.11	1.13	1.24 ↓
US$/£	1.24	1.28	1.31	1.33	1.39 ↓	1.41 ↓	1.42 ↓	1.43 ↓	1.35	1.29	1.41 ↓

Blocked areas represent BMO Capital Markets forecasts

Up and down arrows indicate changes to the forecast ↑↓

Spreads may differ due to rounding

Canada

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Merchandise Trade Deficit
Wednesday, 8:30 am
Jan. (e) $2.0 bln
Dec. $3.2 bln

Canada's trade deficit likely narrowed to $2 bln in January after deteriorating to more than $3 bln to end 2017. Three factors should support an improved balance. First, auto production jumped strongly in seasonally-adjusted terms after some abnormal shutdowns weighed in Q4. Also, U.S. manufacturing activity has been flashing strength, though manufacturing output steadied in the month. And, WTI oil prices were modestly higher in the month, while Western Canada Select edged slightly higher in Canadian dollar terms. Note that real net exports carved from growth in every quarter last year, but the negative impact should fade in 2018.

BoC Policy Announcement
Wednesday, 10:00 am

See Benjamin Reitzes' Thought on page 6.

Housing Starts
Thursday, 8:15 am
Feb. (e) 218,000 a.r. (+0.8%)
Jan. 216,182 a.r. (-0.04%)

Building Permits
Thursday, 8:30 am
Jan. (e) -2.0%
Dec. +4.8%

Housing starts are expected to edge up to 218k annualized in February, roughly consistent with activity over the prior two months, and the run-rate for permits in recent months. This more subdued (but still strong) level of activity follows a wave of condo projects that broke ground in the GTA in November, driving the third largest single-month tally for starts in almost a decade. Beneath the volatility, the strongest rate of population growth since the early-1990s and millennial household formation are supporting robust construction activity. The value of building permits is expected to dip 2% in January.

Employment
Friday, 8:30 am
Feb. (e) +20,000 (+0.1%)
Jan. -88,000 (-0.5%)

Unemployment Rate
Feb. (e) 5.9%
Jan. 5.9%

Average Hourly Wages
Feb. (e) +3.1% y/y
Jan. +3.3% y/y

Look for a more 'normal' Canadian employment report in February, if there is such a thing, with job growth expected at 20,000 in the month. Recall that the January report was one of the worst of the cycle, all factors considered, including a record 137k drop in part-time work. Despite the deep decline, keep in mind that average monthly job growth over the past 3-, 6- and 12-month periods is running around a solid 20,000. The jobless rate will likely hold steady at 5.9%, as a rebound in the labour force is likely alongside the job gain. Keep an eye on wage growth, which accelerated to 3.3% y/y in January—near a cycle high and one of the only strong spots of the prior report.

United States

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Non-manufacturing ISM (NMI)
Monday, 10:00 am
Feb. (e) 59.0
Consensus 58.8
Jan. 59.9

After spiking to 12-year highs, the ISM non-manufacturing index could retreat slightly to 59.0 in February. That's not a sign of weakness, just normal payback after a two standard-deviation move. New orders surged to seven-year highs last month, a harbinger of higher production. The jobs sub-index hit new peaks, and a further increase would hint at an upside surprise in the payrolls report. Prices paid have ratcheted higher, and a further increase could fan inflation concerns.

Goods & Services Trade Deficit
Wednesday, 8:30 am
Jan. (e) $54.0 bln
Consensus $54.5 bln
Dec. $53.1 bln

The trade deficit likely widened to a nine-year high of $54 billion in January due to a 2.7% slide in goods exports. Imports pulled back only slightly, and are up a faster 6.6% y/y. While exports remain well supported by a firmer global economy and previously weaker dollar, imports are underpinned by an economy that is running low on resources to meet sturdy demand. Fiscal stimulus will only fan imports, which will prod the White House to up its calls for tariffs and other forms of protectionism.

Beige Book

Wednesday, 2:00 pm

The Fed's regional report card, prepared for the March 20/21 policy meeting, should confirm that growth is solid across the nation and worker shortages are worsening. Recent reports have noted that wages are rising in a broad range of industries and positions, and that some firms are raising selling prices as a result. The new report should reflect increased optimism about sales in the face of tax cuts, but also growing concern about staffing, delivery times and material prices—all good reasons to raise rates in March.

Nonfarm Payrolls

Friday, 8:30 am

Feb. (e)	**+200,000**	
Consensus	*+195,000*	
Jan.	+200,000	
	Unemployment Rate	
Feb. (e)	**4.0%**	
Consensus	*4.0%*	
Jan.	4.1%	
	Average Hourly Earnings	
Feb. (e)	**+0.2%**	**+2.8% y/y**
Consensus	*+0.3%*	*+2.9% y/y*
Jan.	+0.3%	+2.9% y/y

The ISM non-manufacturing (and ADP) job figures will help refine estimates for nonfarm payrolls. For now, we expect another hearty 200,000 increase in February, as initial jobless claims are mining half-century lows and ISM factory jobs spiked higher. Better weather could also help. Our call would mark a step up from the three-month trend (192,000) and past-year norm (176,000). The biggest challenge for companies today isn't weak demand, but a lack of workers. The Conference Board's consumer sentiment survey showed the best job prospects in 18 years, while the number of persons having difficulty finding work is nearing half-century lows. This, and a dip in the insured jobless rate, suggest the unemployment rate eased to 4.0% for the first time since 2000 after four straight months of stability. Investors will zero in on average hourly earnings, which spiked in January and gave bond and equity markets a bad case of indigestion. We expect a milder 0.2% increase in February, as the prior month was fanned by higher minimum wages in 18 states and companies passing along some of the tax windfall. The yearly rate could slip to 2.8% from eight-year highs. The payrolls report is the most important economic release before the March FOMC meeting, and it should cement odds of a rate hike. More importantly, any high-side surprises, especially in wages, could see the "dot plot" tack on a fourth rate move this year.

Euro Area

ECB Monetary Policy Announcement

Thursday, 7:45 am ET

Press conference 8:30 am ET

See Jennifer Lee's Thought on page 7.

		Mar 2 [1]	Feb 23	Week Ago	4 Weeks Ago	Dec. 31, 2017
					(basis point change)	
Canadian Money Market	Call Money	1.25	1.25	0	0	25
	Prime Rate	3.45	3.45	0	0	25
U.S. Money Market	Fed Funds (effective)	1.50	1.50	0	0	0
	Prime Rate	4.50	4.50	0	0	0
3-Month Rates	Canada	1.14	1.15	-1	-6	8
	United States	1.63	1.64	-1	16	25
	Japan	-0.20	-0.19	-1	-4	-4
	Eurozone	-0.33	-0.33	0	0	0
	United Kingdom	0.58	0.57	1	6	6
	Australia	1.81	1.77	4	3	3
2-Year Bonds	Canada	1.77	1.78	-1	-8	8
	United States	2.23	2.24	-1	8	34
10-Year Bonds	Canada	2.18	2.24	-6	-18	14
	United States	2.84	2.87	-3	-1	43
	Japan	0.06	0.05	1	-2	2
	Germany	0.63	0.65	-2	-14	21
	United Kingdom	1.44	1.52	-8	-13	25
	Australia	2.73	2.85	-11	-10	10
Risk Indicators	VIX	25.9	16.5	9.4 pts	8.6 pts	14.9 pts
	TED Spread	40	32	8	8	8
	Inv. Grade CDS Spread [2]	57	58	-1	8	8
	High Yield CDS Spread [2]	338	337	1	24	32
					(percent change)	
Currencies	US¢/C$	77.62	79.16	-1.9	-3.5	-2.4
	C$/US$	1.288	1.263	—	—	—
	¥/US$	105.37	106.89	-1.4	-4.4	-6.5
	US$/€	1.2325	1.2295	0.2	-1.1	2.7
	US$/£	1.378	1.397	-1.4	-2.4	2.0
	US¢/A$	77.45	78.43	-1.2	-2.3	-0.8
Commodities	CRB Futures Index	193.42	195.99	-1.3	-2.0	-0.2
	Oil (generic contract)	60.55	63.55	-4.7	-7.5	0.2
	Natural Gas (generic contract)	2.70	2.66	1.8	-5.0	-8.4
	Gold (spot price)	1,323.27	1,328.75	-0.4	-0.7	1.6
Equities	S&P/TSX Composite	15,340	15,638	-1.9	-1.7	-5.4
	S&P 500	2,654	2,747	-3.4	-3.9	-0.7
	Nasdaq	7,126	7,337	-2.9	-1.6	3.2
	Dow Jones Industrial	24,286	25,310	-4.0	-4.8	-1.8
	Nikkei	21,182	21,893	-3.2	-9.0	-7.0
	Frankfurt DAX	11,953	12,484	-4.3	-6.5	-7.5
	London FT100	7,081	7,244	-2.3	-4.9	-7.9
	France CAC40	5,148	5,317	-3.2	-4.0	-3.1
	S&P ASX 200	5,929	6,000	-1.2	-3.1	-2.2

[1] = as of 10:30 am [2] = One day delay

Global Calendar
March 5 – March 9

	Monday March 5	Tuesday March 6	Wednesday March 7	Thursday March 8	Friday March 9
Japan	**Services PMI** **Feb.** Jan. 51.9 **Composite PMI** **Feb.** Jan. 52.8			**Real GDP** **Q4 F (e) +0.2% +1.5% y/y** Q4 P +0.1% +1.5% y/y Q3 +0.6% +1.9% y/y **Current Account Surplus** **Jan. '18 (e) ¥0.4 trln** Jan. '17 ¥1.1 trln **Bank Lending Ex-Trusts** **Feb.** Jan. +2.3% y/y	**Household Spending** **Jan. (e) -0.8% y/y** Dec. -0.1% y/y BoJ Monetary Policy Meeting (Mar. 8-9)
Euro Area	EURO AREA **Services PMI** **Feb. F (e) 56.7** Jan. 58.0 **Composite PMI** **Feb. F (e) 57.5** Jan. 58.8 **Retail Sales** **Jan. (e) +0.3% +2.0% y/y** Dec. -1.1% +1.9% y/y GERMANY SPD Membership Voting Results (March 4) ITALY General Election (March 4)	EURO AREA **Retail PMI** **Feb.** Jan. 50.8	EURO AREA **Real GDP** **Q4 F (e) +0.6% +2.7% y/y** Q4 P +0.6% +2.7% y/y Q3 +0.7% +2.8% y/y FRANCE **Trade Deficit** **Jan. (e) €4.5 bln** Dec. €3.5 bln	EURO AREA ECB Monetary Policy Meeting GERMANY **Factory Orders** **Jan. (e) -1.6% +11.5% y/y** Dec. +3.8% +7.2% y/y	GERMANY **Trade Surplus** **Jan.** Dec. €21.5 bln **Industrial Production** **Jan. (e) +0.5% +6.0% y/y** Dec. -0.6% +6.5% y/y FRANCE **Industrial Production** **Jan. (e) -0.2% +3.8% y/y** Dec. +0.5% +4.5% y/y **Manufacturing Production** **Jan. (e) +0.1% +4.8% y/y** Dec. +0.3% +4.7% y/y
U.K.	**Services PMI** **Feb. (e) 53.3** Jan. 53.0 **Composite PMI** **Feb. (e) 53.6** Jan. 53.5			**RICS House Price Balance** **Feb. (e) 7%** Jan. 8%	**Trade Deficit / Non-EU** **Jan. (e) £12.0 bln £4.4 bln** Dec. £13.6 bln £5.2 bln **Industrial Production** **Jan. (e) +1.5% +1.9% y/y** Dec. -1.3% unch y/y **Manufacturing Production** **Jan. (e) +0.2% +2.8% y/y** Dec. +0.3% +1.4% y/y
Other	CHINA **Caixin Services PMI** **Feb. (e) 54.3** Jan. 54.7 **Caixin Composite PMI** **Feb.** Jan. 53.7 National People's Congress (Mar. 4-5) AUSTRALIA **Building Approvals** **Jan. (e) +5.0% -0.6% y/y** Dec. -20.0% -5.5% y/y	CHINA **Foreign Reserves** [D] **Feb. (e) $3.2 trln** Jan. $3.2 trln AUSTRALIA **Retail Sales** **Jan. (e) +0.4%** Dec. -0.5% RBA Monetary Policy Meeting	CHINA **Trade Balance** [D] **in USD / in CNY** **Feb. (e) -$8.5 bln -70.5 bln** Jan. +$20.4 bln +135.8 bln **Foreign Direct Investment** [D] **Feb.** Jan. +0.3% y/y AUSTRALIA **Real GDP** **Q4 (e) +0.5% +2.5% y/y** Q3 +0.6% +2.8% y/y	AUSTRALIA **Trade Balance** **Jan. (e) +A$0.2 bln** Dec. -A$1.4 bln	CHINA **CPI / PPI** **Feb. (e) +2.4% y/y +3.8% y/y** Jan. +1.5% y/y +4.3% y/y **Aggregate Yuan Financing** [D] **Feb. (e) 1.0 trln** Jan. 3.1 trln **New Yuan Loans** [D] **Feb. (e) 0.9 trln** Jan. 2.9 trln **M2 Money Supply** [D] **Feb. (e) +10.8% y/y** Jan. +8.6% y/y

[D] = date approximate

Upcoming Policy Meetings | BoE: Mar. 22, May 10, June 21 | ECB: Apr. 26, June 14, July 26

North American Calendar
March 5 – March 9

Canada

Monday March 5

Tuesday March 6

10:00 am — **Ivey Purchasing Managers' Index (s.a.)**
Feb.
Jan. 55.2

10:30 am — 3-, 6- & 12-month bill auction $8.0 bln (new cash -$1.4 bln)

Wednesday March 7

8:30 am — **Merchandise Trade Deficit**
Jan. (e) **$2.0 bln**
Dec. $3.2 bln

8:30 am — **Labour Productivity**
Q4 (e) **+0.1%**
Q3 -0.6%

10:00 am — BoC Policy Announcement

Thursday March 8

8:15 am — **Housing Starts**
Feb. (e) **218,000 a.r. (+0.8%)**
Jan. 216,182 a.r. (-0.04%)

8:30 am — **Building Permits**
Jan. (e) **-2.0%**
Dec. +4.8%

8:30 am — **New Housing Price Index**
Jan. (e) **unch** **+3.2% y/y**
Dec. unch +3.3% y/y

11:00 am — **Finance Minister Morneau holds a town hall in Halifax**

11:30 am — **BoC Governor Poloz and Finance Minister Morneau unveil new $10 bill in Halifax**

3:35 pm — **BoC Deputy Governor Lane speaks to the Greater Vancouver Board of Trade on the Economic Progress Report**

3-year bond auction announcement

Friday March 9

8:30 am — **Employment**
Feb. (e) **+20,000 (+0.1%)**
Jan. -88,000 (-0.5%)

8:30 am — **Unemployment Rate**
Feb. (e) **5.9%**
Jan. 5.9%

8:30 am — **Average Hourly Wages**
Feb. (e) **+3.1% y/y**
Jan. +3.3% y/y

8:30 am — **Capacity Utilization**
Q4 (e) **85.0%**
Q3 85.0%

United States

Monday March 5

9:45 am — **Markit Services/Composite PMI (Feb. F)**

10:00 am — **Non-manufacturing ISM (NMI)**
Feb. (e) **59.0**
Consensus *58.8*
Jan. 59.9

Round 7 of NAFTA renegotiation in Mexico City (Feb. 25-Mar. 5)

Fed Speaker: Governor Quarles (1:15 pm)

11:00 am — 4-week bill auction announcement

11:30 am — 13- & 26-week bill auction $96 bln

Tuesday March 6

10:00 am — **Factory Orders**
Jan. (e) **-1.5%**
Consensus *-1.1%*
Dec. +1.7%

Fed Speakers: New York's Dudley (7:30 am); Governor Brainard (7:00 pm); Dallas' Kaplan (8:30 pm)

11:30 am — 4-week bill auction

Wednesday March 7

7:00 am — **MBA Mortgage Apps**
Mar. 2
Feb. 23 +2.7%

8:15 am — **ADP National Employment Report**
Feb. (e) **+200,000**
Consensus *+195,000*
Jan. +234,000

8:30 am

	Productivity	Unit Labour Costs
Q4 F (e)	**-0.2% a.r.**	**+2.1% a.r.**
Consensus	*-0.1% a.r.*	*+2.1% a.r.*
Q4 P	-0.1% a.r.	+2.0% a.r.
Q3	+2.7% a.r.	-0.1% a.r.

8:30 am — **Goods & Services Trade Deficit**
Jan. (e) **$54.0 bln**
Consensus *$54.5 bln*
Dec. $53.1 bln

2:00 pm — Beige Book

3:00 pm — **Consumer Credit**
Jan. (e) **+$19.0 bln**
Consensus *+$19.0 bln*
Dec. +$18.4 bln

Fed Speakers: New York's Dudley (8:00 am); Atlanta's Bostic (8:00 am)

Thursday March 8

7:30 am — **Challenger Layoff Report**
Feb.
Jan. -2.8% y/y

8:30 am — **Initial Claims**
Mar 3 (e) **220k (+10k)**[c]
Feb. 24 210k (-10k)

8:30 am — **Continuing Claims**
Feb. 24
Feb. 17 1,931k (+57k)

10:00 am — **Quarterly Services Survey (Q4)**

12:00 pm — **Flow of Funds (Q4)**

11:00 am — 13- & 26-week bill, 3- & 10[R]-year note, 30[R]-year bond auction announcements

Friday March 9

8:30 am — **Nonfarm Payrolls**
Feb. (e) **+200,000**
Consensus *+195,000*
Jan. +200,000

8:30 am — **Unemployment Rate**
Feb. (e) **4.0%**
Consensus *4.0%*
Jan. 4.1%

8:30 am — **Average Hourly Earnings**
Feb. (e) **+0.2%** **+2.8% y/y**
Consensus *+0.3%* *+2.9% y/y*
Jan. +0.3% +2.9% y/y

10:00 am — **Wholesale Inventories**
Jan. F (e) **+0.6%**
Jan. A +0.7%
Dec. +0.6%

Fed Speakers: Boston's Rosengren (12:40 pm); Chicago's Evans (12:45 pm)

[c] = consensus [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Apr. 18, May 30, July 11 | FOMC: Mar. 20-21, May 1-2, June 12-13

General Disclosure

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