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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

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Working with Fire/Fury and Steel

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Markets generally strengthened on a mixed bag of important events this week, with the U.S. dollar, bond yields, and—especially—stocks making their way higher. Before delving into the grimy details of the economic data, we must first allow that **news out of Washington was again the big driver**, as has so often been the case in the past year. First, we had the week-long sideshow of the steel & aluminum tariffs, which prompted Gary Cohn's resignation and pretty much went along with what the President threatened last week (25% on steel and 10% on aluminum), with the exception of exemptions for Canada and Mexico. The twist here was that the exemptions will only hold so long as NAFTA negotiations are ongoing, which is not exactly a big positive for Canada. It's a bit like the schoolyard bully saying he won't beat you up today, so long as you agree to a deal to hand over your lunch money tomorrow. Note that while the Canadian dollar improved from its worst level this week (of just under $1.30/US$, or 77 cents), it was barely better than a week ago by Friday morning at 77.9 cents.

While the steel tariff issue mostly went down as expected, sadly so, the big surprise later in the week was the very sudden thaw in U.S. "relations" with North Korea. President Trump threw another rule book out the window by promptly agreeing to the offer of direct bilateral talks with Kim Jong-un. True, pretty much the entire U.S. intelligence community appears to be highly sceptical that these proposed talks (tentatively expected by May) will produce any lasting improvement, but this is a long way from the pledge of fire and fury just a few short months ago. With tensions having already temporarily eased recently, the latest news didn't make a huge impression on markets, but kept the mostly positive trend going. For example, the S&P 500 was headed for a weekly gain of 2.8% by Friday morning, more than reversing last week's dip. And, despite Canada's steel exemption—stop me if you've heard this before—the TSX was lagging at +1.1%.

The economic news played its part in supporting the markets, capped by **a nearly ideal February U.S. payroll report**. Not only did job growth post its strongest month in nearly two years at +313,000 (with upward revisions to boot), holding the jobless rate steady yet again at 4.1%, but wages calmed after the scare they threw into markets last month. Average hourly earnings cooled to 2.6% y/y (from a downwardly-revised 2.8% clip in January), which is only a snick above last year's average pace (of 2.5%). In a sense, that's **almost a perfect outcome**—workers are seeing better gains, but not nearly so quickly as to seriously threaten inflation. That theme was echoed earlier in the week in the Q4 productivity revisions, which showed a 2.9% y/y rise in compensation, but a more modest 1.7% rise in unit labour costs (with productivity gains explaining the gap).

The story in **Canada's job market was a tad less market friendly**, as job growth was tamer (at a so-so +15,400) in February, but wages a bit firmer (at 3.1% y/y). This is quite the relative turnaround from last year, when Canada consistently reported stronger job growth, but milder wage gains than the U.S. was churning out (Canadian job growth is now 1.5% y/y versus 1.6% stateside). Given the ongoing volatility in the Labour Force Survey and its wage measure, policymakers are now focusing on a blend of four measures of compensation. But all four measures now seem to be pointing higher, with Canada's productivity report also showing a notable pick-up in hourly compensation (to 3.3% in Q4). At the same time, manufacturing capacity utilization has popped to its highest level since 2000. The main point is that **while the BoC has moved to the sidelines for now amid the deepening uncertainty on trade and the housing market, the tightening bias remains very much in place with the economy operating close to capacity.**

BAT out of hell? Lest one thought that trade issues and concerns could now move to the sidelines, U.S. Treasury Secretary Mnuchin suggested on Friday that **the Administration is in preliminary talks with Congress on a "reciprocal tax"**. This is essentially a new and reformed version of the earlier so-called Border Adjustment Tax (BAT), although presumably a bit more focussed on particular countries and/or products. There can be little doubt that the main target for any such serious trade action would be China. This week's widening U.S. trade deficit report once again highlighted the deep and growing imbalance in U.S.-China trade: The deficit with China hit a record $380 billion over the past 12 months (more than four times the gap with the NAFTA partners combined), and alone accounts for almost half the entire U.S. shortfall.

The nakedly protectionist Administration has so far treated China with relative kid gloves on trade, likely owing to the geopolitical realities of concerns over North Korea. But with tensions receding on that front, at least for now, and the trade deficit steadily widening, the U.S. may feel emboldened to take a more serious and strident approach on trade.

Bank of Canada Policy: More Clarity, Same Patience

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For market participants, in crafting their Bank of Canada policy expectations, the opening statement to the Bank's quarterly press conference on the Monetary Policy Report has become as important as, or perhaps even more important than, the policy announcement or the MPR itself. The opening statement is unique in that it sheds light on the Bank's reaction function; how the Governing Council is interpreting and deliberating the data and other developments. This week, we had a non-MPR policy announcement, but, for the first time, it was followed (next day) by an "Economic Progress Report", a purposely-scheduled speech by a Council member designed to clarify the Bank's often-terse announcement and play a role similar to opening statements.

With respect to the policy announcement, **the Bank kept rates unchanged**, as was widely expected. And, amid an apparent balanced assessment of recent data and developments (the Bank sounded upbeat on some but downbeat on others), one got the sense that they were in **no hurry to follow-up January's rate hike** (or last year's July-September duo) anytime soon. Next day, we heard from Deputy Governor Lane.

From a policy messaging perspective, Lane reiterated the tone of the previous day's announcement and January's policy pronouncements. The Bank is in a gradual normalizing gear, *"balancing the risk of undermining the economic expansion by moving too quickly with the risk of delaying too long and needing to raise rates sharply later to rein in inflation."* And because of the *"persistent competitiveness challenges* *facing Canadian exports, the chilling effect of heightened uncertainty about future US trade policies, and the burden of high household debt levels,"* the Bank was in no hurry to get back to neutral (the 2.5%-to-3.5% range). However, rate hikes will still happen, with timing dictated by how incoming data inform on four key issues: (1) late-cycle capacity expansion lifting potential growth; (2) technology-enabled disruption impacting the inflation process; (3) full employment lifting wages; and (4) high household debt levels increasing interest rate sensitivity.

Importantly, Lane's speech shed some light on how the Governing Council assessed incoming data. *"As job creation has absorbed slack in the labour market, we have started to see wages pick up. With respect to the impact of higher interest rates on housing markets and the economy, although it is still too early to make a full assessment, we have seen a deceleration in household borrowing. And while it's also too early to tell how much additional potential output in the economy is being created, last week's strong investment figures are encouraging."* The first point leans on the hawkish side, while the latter two points lean on the dovish side.

Interestingly, the subsequently-released Labour Force Survey for February pointed to a bit more slack in the labour market… although the unemployment rate went down, wage inflation cooled and the long-term jobless rate went up… probably making the Bank a bit more patient moving forward. The reference to the *"deceleration in household borrowing"* is also interesting. Admittedly, household credit expanded only 0.2% m/m in January, which was the slowest monthly growth in nearly 4½ years, but this followed a solid 17-month run of 0.4s and 0.5s. The annual change is still 5.5% y/y, well above any longer-run path for personal income growth. This likely reveals just how concerned the Bank is about interest rate sensitivity, generally, and how the housing market might hold up under higher borrowing costs, specifically (on top of new mortgage rules). On balance, **we judge the Bank has signalled that it will likely be on hold in April as well**. MJG

Tariff Tiff

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Just when markets were getting accustomed to a string of growth-inducing measures from the U.S. government (deregulation, tax reform, new spending) that had analysts upping their GDP estimates, along comes a single cringe-inducing measure that risks undoing the gains. The trade tariffs on steel and aluminum, though likely to have just a modest adverse impact on the economy, could be an initial volley in a possible trade war. Of real concern is that the Administration virtually ignored a firestorm of criticism from American business leaders, trade allies and Congressional Republicans. (The latter, deathly quiet during the budget debate, flashed their free-trade credentials; hat tip to Paul Ryan). It's no coincidence that the tariff announcement coincides with a U.S. trade gap pushing nine-year highs…and sure to head higher as fiscal stimulus fans imports.

The tariffs will extend an upswing in steel and aluminum prices and users' input costs. Industries, such as fabricated metals that operate at capacity, will likely pass along the cost increase, cramping spending power. As one example, Americans could pay about 1% more for an automobile, or just over $300. Sure, they won't stop driving, but they will have less money to spend on other stuff. The direct impact of the tariffs on GDP could be 0.2%, or somewhat less if Canada and Mexico (which supply a quarter of the U.S.'s foreign steel needs) get an extended pass. The impact could get shaved further if steel and aluminum shipments, which both leaped 13% last year, get a beggar-thy-neighbour boost. The primary metals industry (largely steel and aluminum) is operating below capacity, and thus could manage to crank out more output. The estimated increase required to return the industry to trend capacity utilization (assuming some modest expansion in capacity) is about 8% in a year. Given that primary metals account for just under 0.7% of the economy, the increased output could add 0.05% to GDP. Still, **the net economic impact of tariffs is negative,** as they **benefit just a small slice of the economy**, while **harming nearly everyone else**. Moreover, our analysis excludes potential supply chain disruptions. Studies of the economic impact of the 2002 steel tariffs (30% on most steel products) found many more job losses than gains, though the economic expansion was less mature.

If the tariffs eventually extend to Canada (i.e., if Trump doesn't get his way on NAFTA), its economy could slow a few tenths, with Quebec and Ontario taking the brunt of the impact. U.S.-bound shipments of steel and aluminum are just over 1% of GDP. The economy will be hurt even in the absence of tariffs, as noted by Bank of Canada Deputy Governor Lane, because the uncertainty will affect investment decisions.

For both the U.S. and Canada, the economic impact of the tariffs alone is modest. But that's not what investors or businesses fear. The real concern is that a global trade war could erupt, leaving few survivors. It might benefit a handful of companies (and governments which collect duties), but at the far greater cost of widespread disruption and damage to other businesses and consumers. The tariffs will ultimately undermine U.S. competitiveness and productivity. The President says *"trade wars are good, and easy to win"*, but, in reality, U.S. businesses would reconsider their long-term plans if they are unsure of future costs and suppliers. Look for forthcoming surveys on business confidence to take a step back from multi-decade highs.

The 1930 Smoot-Hawley tariffs (also imposed by a Republican president and Republican-led Congress and covering more than 20,000 goods) didn't start the Great Depression, but it sure didn't help. Cooler heads will hopefully eventually prevail this time. For starters, Congress needs to get a firmer grip on the trade file. Are the tariffs mere bargaining chips in trade negotiations or do they really address national security risks? For now, you can add the tariff row, if it escalates, to the list of things that might derail a nine-year old expansion. Sal

Supply-Demand U-turn in Toronto Housing

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For a long time, the narrative in Toronto housing was a lack of supply and too much demand—this week's data highlight how quickly the tables have turned. On the demand side, Toronto home sales slumped again in February and, after some activity was pulled forward into late-2017 ahead of the new OSFI rules, seasonally-adjusted sales look to have slid more than 30% in the first two months of the year. From a year ago, sales were down roughly 35%, a period which covers both the tax on nonresident buyers and the new mortgage rules. Not surprisingly, the fallout is weighing disproportionately at the higher end of the market, with sales in the $1 million-plus range down nearly 60% from a year ago and single-detached home prices now down for the first time since the 2009 recession.

On the supply side, however, the February housing starts report showed one of the strongest ever raw levels of new construction in Toronto, regardless of the fact it was in the depths of winter. True, we see more bursts like this and longer completion times given that condos now make up the bulk of new supply (projects are pre-sold, often bringing waves of units to market at once), but the 12-month average is now running north of 40k per year, barely meeting strong demographic demand. On the resale side, active listings are nearly three times higher than a year ago. Indeed, one notable result of the provincial policy change was that, although it technically targeted the demand side, the impact it had on speculative psychology likely helped unleash pent-up listings as well. Interestingly enough, while single-detached prices are fully correcting, condo prices continue to push higher, up nearly 19% y/y in February. This highlights that, while the high end of the market is undergoing an asset-price adjustment, underlying unit demand (demographics, the job market, etc.) continues to support construction activity and prices in the mid-range of the market.

At any rate, the provincial policy move, OSFI rules and three Bank of Canada rate hikes have clearly had a psychological and affordability impact in the Toronto market, and the Bank of Canada is paying close attention. Deputy Governor Lane noted after this week's policy statement that *"one of the reasons we are very cautious is to make sure we are adequately taking stock of what rates are doing to households"*. In other words, the Bank has noticed credit growth slowing early in 2018, and is likely watching for a broader landing in the Toronto market—on the latter, we likely have some time yet to go. Rob K.

As The World Turns

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It's been quite the week, with no shortage of political and economic drama. With much of the focus squarely on the U.S., **Italy's** election was seemingly lost in the shuffle. The results were not a shock, but they were certainly not euro-positive and stood in sharp contrast to France's results last year—when markets let out a collective sigh of relief following Macron's clear and decisive win. There was nothing clear and decisive in Italy, except that the Democrat Party has been pushed aside, clearing the path for the populists. The centre-right coalition took 37% of the vote, with the Northern League (18%) slightly ahead of Forza Italia (17%). But 37% is not a majority. Meantime, the Five Star Movement took the single biggest haul (32%). But 32% is not a majority. Now we have a tussle between the League's Matteo Salvini and Five Star's Luigi Di Maio, each claiming the right to govern given their share of the votes. But the law is the law and 40% is the magic number. It is going to take weeks or months before the centre-right coalition can beef up its ranks. No matter who the official PM will be, **Italy has taken a big step to the right**, which will shake up the euro.

In **Germany**, Chancellor Merkel was given the all-clear for her fourth and likely final term. But Merkel made a lot of concessions to arrive at this point, such as giving up the prestigious Finance Minister post to the SPD and, now, she may not back the

Bundesbank's Weidmann as a candidate to take over for ECB President Draghi next year, for fear of what Italy and France will demand in return. In **Europe**, there is a huge gap between what Britain envisions after leaving the EU, compared to what the EU sees. That is not a big shock, but PM May is under tremendous pressure to make concessions as the clock ticks. It doesn't help that the Labour Party is now pushing to stay in the customs union, as well. In the meantime, the economic data continue to point to steady growth for the majors, although some stumbled at the turn of the year. This was enough to convince the **ECB** to finally refine its message, dropping the easing bias (no longer standing ready to boost purchases) but shrugging it off and emphasizing the ample degree of stimulus still required.

The **BoJ** this week also stayed the course, to the surprise of no one. What will be of more interest is what happens in April, when a dove becomes Deputy Governor, adding to the voice of the extreme dove already on the monetary policy committee.

Bottom Line: Q1 began with certainty on the economic and political front but is finishing on an uncertain note. JLee

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	Good News	Bad News
Canada ▪ Cautious BoC on hold and in no rush to hike rates ▪ …while economic report confirms growth *"progressing well"* ▪ Ontario plans a return to deficits next year ▪ Canada and 10 other nations sign TPP trade deal	**Employment** +15,400 (Feb.)—but **full-time** -39,300 **Average Hourly Wages** +3.1% y/y (Feb.) **Jobless Rate** -0.1 ppts to 5.8% (Feb.) **Capacity Utilization Rate** +0.9 ppts to 86.0% (Q4) **Labour Productivity** +0.2% (Q4) **Housing Starts** +6.7% to 229,797 a.r. (Feb.) **Building Permits** +5.6% (Jan.) **Ivey PMI** +4.4 pts to 59.6 (Feb.)	**Merchandise Trade Deficit** narrowed to $1.9 bln (Jan.)—but on lower trade activity **New Housing Price Index** unch (Jan.)
United States ▪ President Trump signs tariffs order with a temporary exemption for NAFTA partners ▪ …and will meet Kim Jong-un in May ▪ Economic adviser Gary Cohn resigns on tariffs spat	**Nonfarm Payrolls** +313,000 (Feb.) **Average Hourly Earnings** +0.1% (Feb.) **Jobless Rate** steady at 4.1% (Feb.) **Non-manufacturing ISM** -0.4 pts to 59.5 (Feb.)—still 3rd highest reading since Aug. '05 **Household Net Worth** extended record run to $98.7 trln (Q4)	**Goods & Services Trade Deficit** widened to $56.6 bln (Jan.)—largest since Oct. '08 **Factory Orders** -1.4% (Jan.) **Consumer Credit** +$13.9 bln (Jan.)—sharp slowdown in revolving debt **Initial Claims** +21k to 231k (Mar. 3 week)
Japan ▪ BoJ on hold until inflation hits 2% ▪ Gov. Kuroda sets the record straight: that doesn't mean an exit will be *"immediately in fiscal 2019"*	**Real GDP** revised higher to +0.4% q/q (Q4)—upward revisions to prior quarters **Household Spending** +2.0% y/y (Jan.) **Current Account Surplus** ¥607 bln (Jan.) **Bank Lending Ex-Trusts** +2.1% y/y (Feb.)	**Services PMI** -0.2 pts to 51.7 (Feb.) **Composite PMI** -0.6 pts to 52.2 (Feb.)
Europe ▪ ECB drops option to raise the monthly APP amount—a tiny tweak to QE guidance… ▪ …and 2018 GDP outlook revised up to 2.4% (from 2.3%) ▪ Populism rise results in hung parliament after Italian election ▪ Germany's SPD party votes in favour of coalition, securing a 4th term for Chancellor Merkel	**Euro Area—Retail PMI** +1.5 pts to 52.3 (Feb.) **Germany—Trade Surplus** steady at €21.3 bln (Jan.) **U.K.—Industrial Production** +1.3% (Jan.) **U.K.—Services PMI** +1.5 pts to 54.5 (Feb.) **U.K.—Composite PMI** +1 pt to 54.5 (Feb.)	**Euro Area—Retail Sales** -0.1% (Jan.) **Germany—Factory Orders** -3.9% (Jan.) **Germany—Industrial Production** -0.1% (Jan.) **France—Industrial Production** -2.0% (Jan.) **France—Trade Deficit** widened to €5.6 bln (Jan.) **U.K.—Trade Deficit** widened to £12.3 bln (Jan.) **U.K.—RICS House Price Balance** unch (Feb.)
Other ▪ China pledges a *"necessary response"* to U.S. tariffs ▪ RBA on hold and tilts more cautious ▪ North Korea willing to discuss denuclearization	**China—Exports** +24.4% y/y; **Imports** +21.7% y/y (Jan.-Feb.) **China—M2 Money Supply** +8.8% y/y (Feb.) **Australia—Trade Surplus** widened to A$1.1 bln (Jan.)—big swing **Australia—Building Approvals** +17.1% (Jan.)	**China—Consumer Prices** +2.9% y/y; **Producer Prices** +3.7% y/y (Feb.) **China—Foreign Reserves** $3.1 trln (Feb.)—first decline in 13 months **China—Aggregate Yuan Financing** 1.2 trln (Feb.)—and **New Yuan Loans** 0.84 trln **China—Caixin Services PMI** -0.5 pts to 54.2 (Feb.) **China—Caixin Composite PMI** -0.4 pts to 53.3 (Feb.) **Australia—Real GDP** slowed to +0.4% q/q (Q4) **Australia—Retail Sales** +0.1% (Jan.)—below expected

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

Bitcoin and Blockchain: Risk and Opportunity

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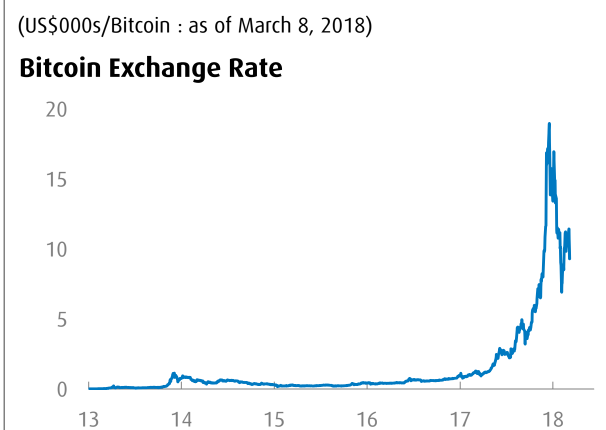
Bitcoin—the first decentralized digital currency—was worth less than a penny in 2009, zoomed to US$19,000 in December 2017, before plunging below $7,000 earlier this year (*Chart 1*). That's volatility with a capital V, sending enthusiasts on a wild ride. With the currency garnering more investor attention, it's important to understand the reality behind cryptocurrencies, including how they function and potential risks.

Bitcoin and Blockchain: Not One and the Same

Crucially, investors must distinguish between blockchain—the platform behind the currency—and bitcoin itself. As a decentralized, online ledger, **blockchain is a technology many analysts say will thrive.** It promises lower costs, greater efficiencies and faster processing times for recording transactions than current systems. Using cryptology to secure transactions makes it less prone to fraud. Banks, governments and the real estate industry are just a few players seeking to reap benefits. But blockchain can run on any currency—including fiat currencies. Simply put, **bitcoin needs blockchain, not the other way around**.

Chart 1
Over the Waterfall

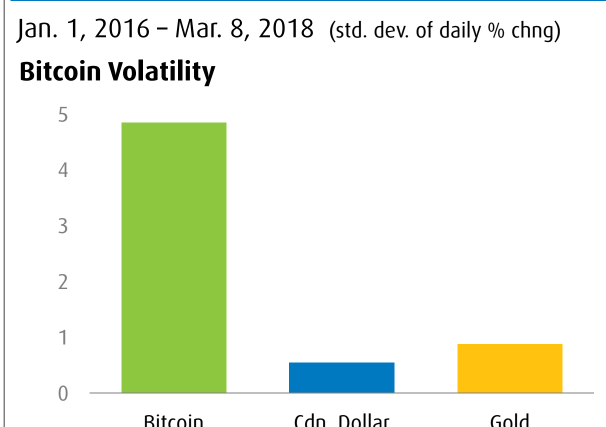


Sources: BMO Economics, Haver Analytics, CoinDesk

Bitcoin through an Economist's Lens

Bitcoin—along with the hundreds of other digital currencies that have mushroomed in the past year—is **not a true currency in the conventional sense**. Although it is used to purchase goods from some retailers and to transfer funds between countries, it has **no inherent value**. Unlike assets such as stocks, bonds or real estate, bitcoin doesn't generate earnings, income or rents. This means it lacks the foundation for appraising its value. Bitcoin is simply worth what buyers and sellers think it will be worth in the future. In this sense, the price of bitcoin has become completely detached from a valuation framework. This contrasts with fiat currencies, which are tethered to economic fundamentals and backed by governments and taxpayers. For example, Canadian dollar holders can appraise its value by comparing retail prices in Canada and the U.S. If prices are higher in Canada, the currency should (at least in theory) depreciate to equalize purchasing power in the two countries. Economic shocks could push the currency away from so-called "fair value", but eventually it should gravitate back when the shock fades.

Chart 2
Store of Value?



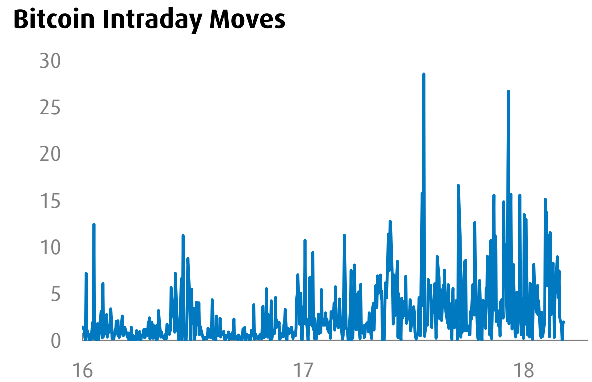
Sources: BMO Economics, Haver Analytics, CoinDesk

Lacking intrinsic value, bitcoin is **highly vulnerable to shifts in investor sentiment.** This is evidenced by its wide price variation between countries and even exchanges. Consequently, bitcoin is too volatile to be used as a store of value (*Chart 2*). For example, if half its value was lost overnight, investors wouldn't know whether it is now undervalued and worth buying. Conversely, if a company's share lost half its value due to a "flash crash", buyers would likely rush in, believing the stock is now attractive relative to earnings.

Bitcoin's **excessive volatility also greatly limits its use as a means of transaction**. Intraday price swings in excess of 10% are far from rare (*Chart 3*). It tends to swing by more than 5% once every three days. Compare this to the C$/US$ exchange rate, where intraday moves of even 2% or more are rare, occurring on just a handful of occasions in the past seven years. Thus, retailers transacting in bitcoin assume a meaningful risk of losses, unless they immediately convert it to fiat currency.

Chart 3
Bumpy Ride

(% of daily high from open : as of March 8, 2018)



Sources: BMO Economics, Haver Analytics, CoinDesk

Currency **risk is amplified by lengthy transaction times**, which can take several days if a customer balks at paying fees. The latter, as well, can be highly volatile, rising as high as US$55 in December before settling just above $2 in February. This is hardly an ideal payment system for any business. Unlike traditional payment systems, fees can be highly affected by speculative trading activity and market volatility, dragging transactional users and businesses into the fray and effectively freezing the market as trading positions are settled (the infamous Miami bitcoin conference that wouldn't accept bitcoin comes to mind).

Widespread acceptance of bitcoin could undermine the economy. Its previous soaring price implied one of the greatest deflationary episodes of all time (as the price of goods in terms of bitcoin fell), while its more recent sharp pullback was the opposite (i.e., it now takes more bitcoin to purchase the same amount of goods as before). Rather than providing a neutral means of exchange, bitcoin could have real world consequences for spending and production if it gained widespread use.

Is It a Bubble?

From our standpoint, **persons *investing* in bitcoin are speculating**, buying and holding because they believe its price will rise—the textbook definition of a bubble. In fact, a recent report by Convoy Investments[1] compared bitcoin's price performance to some of the biggest market bubbles in history, including tulip-mania. Despite losing two-thirds of its value at one point recently, bitcoin's price remains 9-times higher than a year ago. In our view, a significant portion of the market is governed by a "buy-and-hoard" mentality, which lends support but could change abruptly. Ownership is concentrated, with 1,000 users said to own 40% of all bitcoin. If the "whales" sell, prices could plunge.

Looking Ahead

Investors should be aware that there are over a thousand cryptocurrencies, each running on an entirely different network and created for its own unique purpose. One can **expect further proliferation**. After all, since blockchain technology is open-source and replicable, it can be used to run any digital currency. In truth, there's nothing to prevent central banks from inventing their own digital currency.

Buyer considerations:

No inherent value – only worth what buyers and sellers think it is worth.

High transaction fees – as much as $50 per transaction during peak periods.

Expensive system – verifying transactions and mining new coins are resource-intensive and require high electricity usage.

Myth of limited supply – two other variations of bitcoin exist (bitcoin cash and bitcoin gold), and more could be produced—not to mention the many other cryptocurrencies already in existence.

Unregulated and subject to fraud and hacking –the blockchain ensures intermediary-less transactions, but does not preclude a user from being defrauded by an unscrupulous counterparty. Indeed, some exchanges have been hacked, wiping out user holdings.

[1] https://www.marketwatch.com/story/why-bitcoin-is-now-the-biggest-bubble-in-history-in-one-chart-2017-12-13

Many investors believe that, if blockchain technology prospers, so too will bitcoin, thereby raising its value. But remember, the blockchain doesn't need bitcoin to survive. Moreover, the bigger cryptocurrencies become, the **more likely they will be subject to regulation** to limit their impact on the financial system and fiscal revenues. The growing use of cryptocurrencies could also complicate monetary policy, since the central bank would not have a reliable measure of, and control of, the money supply. The risk for cryptocurrencies is that if a portion of their value is based on the desire for anonymity, then a pronounced shift in the regulatory climate could slice valuations. Indeed, this exact scenario played out in South Korea, where bitcoin's "Kimchi premium" has all but evaporated as regulators tightened their grip. And just this week, the U.S. Securities and Exchange Commission issued strong warnings about the risks of using cryptocurrency exchanges and potential regulatory requirements for operators of the exchanges. The announcement sent bitcoin's price skidding 10% lower.

Unlike cryptocurrencies, blockchain technology functions on its own merit. As a secure, transparent means of verifying payments, major banks are looking at blockchain as an opportunity to supplant portions of their existing infrastructure. Other companies are developing blockchain systems to track ownership of assets, keep healthcare records, and even improve voting systems. Investors would be wise to keep a watchful eye on companies developing and adopting this technology.

Bottom Line: For those looking to "invest" in cryptocurrencies, we'd cite the age-old adage: In gambling, many must lose for the few to win. A better bet is to stick with companies that are developing the decentralized digital ledgers running these casinos.

Economic Forecast Summary for March 9, 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	5.8 ↓	5.8	5.7	5.6	7.0	6.3	5.7
Housing Starts (000s : a.r.)	222	207	223	229	222 ↑	217 ↑	204 ↑	198	198	220	210 ↑
Current Account Balance ($blns : a.r.)	-54.6	-62.4	-74.4	-65.4	-58.8	-56.8	-55.0	-53.5	-65.4	-63.9	-56.0
Interest Rates (average for the quarter : %)											
Overnight Rate	0.50	0.50	0.83	1.00	1.25	1.25	1.50	1.75	0.50	0.71	1.44
3-month Treasury Bill	0.47	0.54	0.81	0.92	1.15	1.20	1.45	1.70	0.49	0.69	1.35
10-year Bond	1.71	1.51	1.95	1.96	2.30	2.40	2.55	2.65	1.25	1.78	2.45
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-13	-36	-25	-30	-43	-65	-58	-51	17	-26	-54
10-year	-73	-75	-30	-41	-48	-50	-46	-42	-59	-55	-46
UNITED STATES											
Real GDP (q/q % chng : a.r.)	1.2	3.1	3.2	2.5	2.6	2.8	2.9	2.9	1.5	2.3	2.8
Consumer Price Index (y/y % chng)	2.6	1.9	2.0	2.1	2.4	2.8	2.9	2.6	1.3	2.1	2.7
Unemployment Rate (percent)	4.6	4.3	4.3	4.1	4.1 ↑	3.9	3.8	3.7	4.9	4.4	3.8
Housing Starts (mlns : a.r.)	1.24	1.17	1.17	1.26	1.30	1.29	1.27	1.26	1.18	1.21	1.28
Current Account Balance ($blns : a.r.)	-454	-498	-402	-507	-535 ↓	-556 ↓	-576 ↓	-593 ↓	-452	-465	-565 ↓
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	79.1 ↓	78.1 ↓	79.1 ↓	79.9	75.5	77.1	79.1 ↓
C$/US$	1.32	1.34	1.25	1.27	1.26 ↑	1.28 ↑	1.27 ↑	1.25	1.33	1.30	1.27 ↑
¥/US$	114	111	111	113	108 ↓	106 ↓	105 ↓	105	109	112	106 ↓
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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National Balance Sheet and Financial Flow Accounts (Q4)
Thursday, 8:30 am

The closely-scrutinized household debt-to-disposable income ratio could push a new record high in Q4, after rising to 171.1% in Q3. While the Bank of Canada highlighted slowing credit growth in its latest policy statement, that became more pronounced early in Q1 as housing activity slowed. Still, the historically-high debt levels do suggest the economy is more sensitive to interest rates, one reason for caution within the walls of the Bank of Canada. Considering both sides of the balance sheet, Canadian households look less levered, with debt-to-assets and debt-to-net worth both well below peak levels. That said, net worth dipped from record levels recently, and that trend could continue in Q4 with Toronto single-detached home prices still falling.

Existing Home Sales, MLS Home Price Index
Thursday, 9:00 am (expected)

	Existing Home Sales	Average Prices
Feb. (e)	**-12.0% y/y**	**-5.0% y/y**
Jan.	-2.4% y/y	+2.3% y/y

	MLS Home Price Index
Feb. (e)	**+6.0% y/y**
Jan.	+7.7% y/y

CREA will release the full suite of February housing market data, but the most important information is already in hand. That is, what happened in Toronto—not good. Sales in the city were down nearly 35% y/y, which likely translates into another meaningful seasonally-adjusted decline month-over-month as the new OSFI rules weigh. Other major cities didn't see as dramatic declines, but the overall picture is subdued with Vancouver sales down 9% y/y and Calgary down 18% y/y. Montreal bucked the trend, with sales up 5% y/y in the month. Depending how the smaller markets fared, that should leave national sales down roughly 12% y/y. Toronto's 12.4% y/y decline in average transaction prices will also weigh on the national figure, while the national benchmark price likely slowed for a 10th consecutive month, to 6% y/y. One of the key price themes is ongoing double-digit gains in the Toronto and Vancouver condo markets, even while detached home prices are falling.

United States

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Consumer Prices
Tuesday, 8:30 am

Feb. (e)	**+0.2%**	**+2.3% y/y**
Consensus	*+0.2%*	*+2.2% y/y*
Jan.	+0.5%	+2.1% y/y
	Ex. Food & Energy	
Feb. (e)	**+0.2%**	**+1.9% y/y**
Consensus	*+0.2%*	*+1.8% y/y*
Jan.	+0.3%	+1.8% y/y

Paced by sturdy gains in medical and housing costs, we look for the core CPI to increase 0.2% in February. This is less than January's 0.3% jump, as the prior month's outsized cost increases for items such as apparel and automobile insurance return to norm. The monthly move should be sufficient (0.21% unrounded) to turn the dial up a notch on the annual change, to 1.9% y/y (matching an 11-month high). Indeed, with the three-month change likely to accelerate to 3.3% annualized in February (up from 2.9% in January) and the six-month change remaining at 2.6% annualized, the core inflation rate looks to creep up in the months ahead—particularly as last spring's idiosyncratic factors (such as the record drop in cell phone service plan fees) wash out. The total CPI should increase 0.2%, also fuelled by higher gasoline prices, lifting the headline inflation rate two ticks to 2.3% y/y (also an 11-month high).

Retail Sales

Wednesday, 8:30 am

	Retail Sales	Ex. Autos
Feb. (e)	**+0.4%**	**+0.4%**
Consensus	*+0.3%*	*+0.4%*
Jan.	-0.3%	unch
	Ex. Autos/Gas	
Feb. (e)	**+0.4%**	
Consensus	*+0.3%*	
Jan.	-0.2%	

Having caught their breath in January and late December (after a solid holiday shopping season), and amid sturdy job and income growth, increasing confidence and larger paycheques owing to lower withholding taxes, consumers probably lifted spending again in February—albeit moderately. We look for headline retail sales to rise 0.4%, braked a bit by lower vehicle sales volumes, but fuelled by slightly higher gasoline prices.

Housing Starts, Building Permits

Friday, 8:30 am

	Housing Starts
Feb. (e)	**1.273 mln a.r. (-4.0%)**
Consensus	*1.290 mln a.r. (-2.7%)*
Jan.	1.326 mln a.r. (+9.7%)
	Building Permits
Feb. (e)	**1.322 mln a.r. (-4.0%)**
Consensus	*1.328 mln a.r. (-3.6%)*
Jan.	1.377 mln a.r. (+5.9%)

A surge in multiple-unit starts in January flags some payback in February. We look for a 4% decline to 1.273 million units (annualized), a moderate retreat from cycle highs and still holding above last year's average to extend the upward trend in place since 2011. Lofty building permits and sky-high builders' confidence reflect an upturn in ownership rates and record-low resale listings. The biggest challenge for builders today is managing costs amid a dearth of skilled trades people and surging lumber costs (up more than a third in the past year owing to import duties on Canadian softwood lumber). Builders are trying to hold the line on prices, with the median climbing at a relatively steady 5% y/y rate in the past four years. Still, prices are outrunning family incomes, chipping away at affordability.

Industrial Production

Friday, 9:15 am

	Industrial Production	Capacity Utilization
Feb. (e)	**+0.3%**	**77.6%**
Consensus	*+0.3%*	*77.7%*
Jan.	-0.1%	77.5%

After slipping for the first time in five months, industrial production should rebound 0.3%. While the previous setback was led by the mining sector, oil output jumped the most in seven years in February. Factories are humming, with the ISM index at 13-year highs as a result of strong demand for business machinery. On the flip side, unusually mild weather likely curbed heating usage and utilities output. The capacity utilization rate is expected to nudge up to 77.6, still low by historic standards.

		Mar 9 [1]	Mar 2	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	1.10	1.14	-4	-7	4
	United States	1.66	1.64	3	11	29
	Japan	-0.19	-0.20	1	-3	-3
	Eurozone	-0.33	-0.33	0	0	0
	United Kingdom	0.60	0.58	2	7	8
	Australia	1.91	1.81	10	15	13
2-Year Bonds	Canada	1.80	1.77	4	2	12
	United States	2.27	2.24	2	19	38
10-Year Bonds	Canada	2.25	2.20	5	-10	21
	United States	2.90	2.87	4	5	49
	Japan	0.05	0.06	-2	-1	0
	Germany	0.65	0.65	0	-10	22
	United Kingdom	1.50	1.47	3	-7	31
	Australia	2.78	2.73	5	-8	15
Risk Indicators	VIX	15.4	19.6	-4.2 pts	-13.7 pts	4.3 pts
	TED Spread	42	39	4	16	11
	Inv. Grade CDS Spread [2]	57	57	0	-6	8
	High Yield CDS Spread [2]	340	341	-1	-26	34
					(percent change)	
Currencies	US¢/C$	77.87	77.63	0.3	-2.0	-2.1
	C$/US$	1.284	1.288	—	—	—
	¥/US$	107.01	105.75	1.2	-1.6	-5.0
	US$/€	1.2323	1.2317	0.0	0.6	2.6
	US$/£	1.388	1.380	0.6	0.4	2.7
	US¢/A$	78.38	77.60	1.0	0.3	0.4
Commodities	CRB Futures Index	194.61	194.12	0.3	3.2	0.4
	Oil (generic contract)	61.21	61.25	-0.1	3.4	1.3
	Natural Gas (generic contract)	2.74	2.70	1.6	5.9	-7.3
	Gold (spot price)	1,322.06	1,322.75	-0.1	0.4	1.5
Equities	S&P/TSX Composite	15,562	15,385	1.2	3.5	-4.0
	S&P 500	2,762	2,691	2.6	5.4	3.3
	Nasdaq	7,493	7,258	3.2	9.0	8.5
	Dow Jones Industrial	25,092	24,538	2.3	3.7	1.5
	Nikkei	21,469	21,182	1.4	0.4	-5.7
	Frankfurt DAX	12,322	11,914	3.4	1.8	-4.6
	London FT100	7,210	7,070	2.0	1.7	-6.2
	France CAC40	5,266	5,137	2.5	3.7	-0.9
	S&P ASX 200	5,963	5,929	0.6	2.1	-1.7

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

Global Calendar
March 12 – March 16

BMO Capital Markets®

	Monday March 12	Tuesday March 13	Wednesday March 14	Thursday March 15	Friday March 16
Japan		**Producer Price Index** **Feb. (e) +0.2% +2.5% y/y** Jan. +0.3% +2.7% y/y **Tertiary Industry Index** **Jan. (e) -0.3%** Dec. -0.2%	BoJ Minutes from Jan. 22-23 meeting		**Industrial Production** **Jan. F (e) -6.6% +2.7% y/y** Dec. +2.9% +4.4% y/y
Euro Area			EURO AREA **Industrial Production** **Jan. (e) -0.4% +4.6% y/y** Dec. +0.4% +5.2% y/y GERMANY **Consumer Price Index** **Feb. F (e) +0.5% +1.2% y/y** Jan. -1.0% +1.4% y/y ITALY **Retail Sales** **Jan.** Dec. -0.3% -0.1% y/y	FRANCE **Consumer Price Index** **Feb. F (e) unch +1.3% y/y** Jan. -0.1% +1.5% y/y	EURO AREA **Consumer Price Index** **Feb. F (e) +0.2% +1.2% y/y** Jan. -0.9% +1.3% y/y **Core CPI** **Feb. F (e) +1.0% y/y** Jan. +1.0% y/y **Labour Costs** **Q4** Q3 +1.6% y/y ITALY **Consumer Price Index** **Feb. F (e) +0.7% y/y** Jan. +1.2% y/y
U.K.		Chancellor Hammond to present Spring Statement to Parliament			
Other	CHINA **Foreign Direct Investment**[D] **Feb.** Jan. +0.3% y/y	AUSTRALIA **NAB Business Confidence** **Feb.** Jan. 12	CHINA **Industrial Production (ytd)** **Feb. (e) +6.2% y/y** Dec. +6.6% y/y **Retail Sales (ytd)** **Feb. (e) +9.8% y/y** Dec. +10.2% y/y **Fixed Asset Investment (ytd)** **Feb. (e) +7.0% y/y** Dec. +7.2% y/y AUSTRALIA **Westpac Consumer Confidence** **Mar.** Feb. -2.3%		RUSSIA Presidential Election (March 18)

[D] = date approximate

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

North American Calendar
March 12 – March 16

BMO Capital Markets®

Canada

Monday March 12

Manitoba Budget

Tuesday March 13

10:15 am **BoC Governor Poloz speaks at Queen's University in Kingston, ON on "Today's Labour Market and the Future of Work"**

Manpower Survey—Net Outlook

Q2 (e)	**+10%**
Q1	+11%

Wednesday March 14

8:30 am **New Motor Vehicle Sales**^D

Jan.	
Dec.	-0.5% y/y

Noon — 3-year bond auction $2.5 bln

Thursday March 15

8:30 am **ADP Employment Report**

Feb.	
Jan.	+10,700

8:30 am **National Balance Sheet and Financial Flow Accounts (Q4)**

9:00 am

	Existing Home Sales^D	Average Prices
Feb. (e)	**-12.0% y/y**	**-5.0% y/y**
Jan.	-2.4% y/y	+2.3% y/y

9:00 am **MLS Home Price Index**^D

Feb. (e)	**+6.0% y/y**
Jan.	+7.7% y/y

Friday March 16

8:30 am

	Mfg. Sales	Mfg. New Orders
Jan. (e)	**+0.5%**	**+0.3%**
Consensus	*-1.0%*	*n.a.*
Dec.	-0.3%	+0.3%

8:30 am **Int'l Securities Transactions**

	Inflows	Outflows
Jan.		
Dec.	-$2.0 bln	$22.0 bln

United States

Monday March 12

2:00 pm **Budget Balance**

Feb. '18	
CBO	*-$216 bln*
Feb. '17	-$192 bln

11:00 am — 4-week bill auction announcement

11:30 am — 26-week bill auction $45 bln

11:30 am — 3-year note auction $28 bln

1:00 pm — 13-week bill auction $51 bln

1:00 pm — 10^R-year note auction $21 bln

Tuesday March 13

6:00 am **NFIB Small Business Economic Trends Survey**

Feb. (e)	**107.1 (+0.2 pts)**
Consensus	*107.1 (+0.2 pts)*
Jan.	106.9 (+2.0 pts)

8:30 am **Consumer Prices**

Feb. (e)	**+0.2%**	**+2.3% y/y**
Consensus	*+0.2%*	*+2.2% y/y*
Jan.	+0.5%	+2.1% y/y

8:30 am **CPI ex. Food & Energy**

Feb. (e)	**+0.2%**	**+1.9% y/y**
Consensus	*+0.2%*	*+1.8% y/y*
Jan.	+0.3%	+1.8% y/y

10:00 am **Business Roundtable CEO Economic Outlook Survey (Q1)**

Manpower Survey—Net Outlook

Q2 (e)	**+19%**
Q1	+19%

11:30 am — 4-week bill auction

1:00 pm — 30^R-year bond auction $13 bln

Wednesday March 14

7:00 am **MBA Mortgage Apps**

Mar. 9	
Mar. 2	+0.3%

8:30 am

	Retail Sales	Ex. Autos
Feb. (e)	**+0.4%**	**+0.4%**
Consensus	*+0.3%*	*+0.4%*
Jan.	-0.3%	unch

8:30 am **Retail Sales ex. Autos/Gas**

Feb. (e)	**+0.4%**
Consensus	*+0.3%*
Jan.	-0.2%

8:30 am **PPI Final Demand**

Feb. (e)	**+0.1%**	**+2.8% y/y**
Consensus	*+0.1%*	*+2.8% y/y*
Jan.	+0.4%	+2.7% y/y

8:30 am **PPI Final Demand ex. F&E**

Feb. (e)	**+0.2%**	**+2.5% y/y**
Consensus	*+0.2%*	*+2.6% y/y*
Jan.	+0.4%	+2.2% y/y

10:00 am **Business Inventories**

Jan. (e)	**+0.5%**
Consensus	*+0.6%*
Dec.	+0.4%

Thursday March 15

8:30 am **Initial Claims**

Mar. 10 (e)	**228k (-3k)**^C
Mar. 3	231k (+21k)

8:30 am **Continuing Claims**

Mar. 3	
Feb. 24	1,870k (-64k)

8:30 am **Import Prices**

Feb. (e)	**+0.2%**	**+3.4% y/y**
Consensus	*+0.3%*	*+3.5% y/y*
Jan.	+1.0%	+3.6% y/y

8:30 am **Philadelphia Fed Index**

Mar. (e)	**24.0**
Consensus	*23.0*
Feb.	25.8

8:30 am **Empire State Manufacturing Survey**

Mar. (e)	**16.0**
Consensus	*15.5*
Feb.	13.1

10:00 am **NAHB Housing Market Index**

Mar. (e)	**72**
Consensus	*72*
Feb.	72

4:00 pm **Net TIC Flows**

	Total	Long Term
Jan.		
Dec.	-$119.3 bln	$27.3 bln

11:00 am — 13- & 26-week bill, 10^R-year TIPS auction announcements

Friday March 16

8:30 am **Housing Starts**

Feb. (e)	**1.273 mln a.r. (-4.0%)**
Consensus	*1.290 mln a.r. (-2.7%)*
Jan.	1.326 mln a.r. (+9.7%)

8:30 am **Building Permits**

Feb. (e)	**1.322 mln a.r. (-4.0%)**
Consensus	*1.328 mln a.r. (-3.6%)*
Jan.	1.377 mln a.r. (+5.9%)

9:15 am

	Industrial Production	Capacity Utilization
Feb. (e)	**+0.3%**	**77.6%**
Consensus	*+0.3%*	*77.7%*
Jan.	-0.1%	77.5%

10:00 am **University of Michigan Consumer Sentiment**

Mar. P (e)	**99.5**
Consensus	*99.5*
Feb.	99.7

10:00 am **Job Openings & Labor Turnover Survey (Jan.) (with revisions)**

^C = consensus ^D = date approximate ^R = reopening

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