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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

May 11, 2018

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Canada Jobs Disappoint

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May 17 NAFTA Deadline Floated

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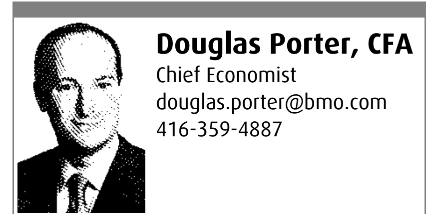
The Law of Small Numbers



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The economic data generally took a back seat to geopolitical developments this week, as the U.S. withdrawal from the Iran nuclear pact—and the subsequent surge in oil—the countdown to a tight NAFTA deadline, and even a shock election result in Malaysia cast a long shadow on markets. Probably the single most important development was the push in oil prices above $70, and this week's Focus feature on page 8 takes an in-depth look at the implications. The unifying theme to this week's parade of economic reports was that they generally landed on the low side of expectations, but in almost every case there was a classic *"yes, but…"* response. Here are some of the most noteworthy examples from this past week:

Consumer prices: Probably the stand-out report this week was the highly anticipated U.S. CPI for April, and it came in on the small side. In particular, core CPI edged up just 0.1%, holding the yearly rise steady at 2.1% and blunting the 3- and 6-month underlying trends to 1.8% and 2.4%, after some scarier figures earlier this year. Headline prices were a non-threatening +0.2%, even with a big push from energy. In a similar vein, China also reported soft-ish April inflation, with CPI cooling to a below-expected result of 1.8% y/y. *Yes, but…* with oil prices firing higher yet, labour markets tight, and year-over-year trends near or above 2% already, one month doesn't change the bigger picture on underlying inflation.

U.S. wages: Much is being made of the microscopic rise in real average hourly earnings in the past year, which are now up just 0.2% y/y. *Yes, but…* this cooldown is being driven by higher inflation, not slower nominal wage growth. The key "small number" at this point is the tiny 3.9% U.S. jobless rate. And, with the U.S. now sporting more job openings (6.5 million) than job seekers, for the first time on record, don't expect wages to stay slow for long (see Michael's Thought).

Canadian jobs: From a Canadian lens, this week's key report was Friday's April jobs data, but it was also a damp squib. Employment dipped 1,100 in the month, and the jobless rate only stayed steady at 5.8% because the part rate fell again. Accordingly, after building expectations of a BoC rate hike as early as the May 30 decision, the market walked those odds right back down again after the report. *Yes, but…* the details of the release were fine, with solid full-time and private sector job gains, and wages powering up to a hefty 3.6% y/y pace. And, the headline tally was liked blunted by the horrid weather last month, with the 18,900 drop in construction weighing. We still believe the Bank is on track to hike in July, assuming a non-negative outcome for NAFTA talks.

The yield curve: After a mild steepening at the start of the week, the U.S. Treasury curve got back to the flattening program late in the week, especially after the mild CPI result. The gap between 10s and 2s is now just 43 bps, less than half of where it stood a year ago and compared with more than 260 bps as recently as 2014. Canada's curve now carries an almost identical gap on 10s-2s. *Yes, but…* while the curve is flatter, it's not particularly flat. The extremes were the steepness of the curve in recent years, when central banks had the foot to the floor. As we so often note, the Treasury curve was flatter than current levels for much of the 1995-99 period, and the U.S. economy and financial markets thrived through that episode. In other words, we're still far from the danger zone on the slope of the yield curve.

The TSX: It's been a tough relative go of it for Canadian stocks in recent years. Just as a simple example, the Dow now stands more than 50% above the index level of the TSX (almost 25k versus roughly 16k), yet less than seven years ago they were equal (in late 2011). Over that particular stretch, the Dow has risen at better than an 11% annualized clip, while the TSX has crawled at less than a 5% pace. Adding insult, the TSX remains underwater so far this year. *Yes, but…* there is finally a ray of sunlight for the burdened TSX. Thanks to the comeback in oil, it was working on a six-day winning streak by Friday, was finally close to breaking even for the year, and managed to push above the 16,000 level for the first time since late January.

Rate hikes: The number of central banks actually raising interest rates at this point is few and far between. Since the Bank of Canada's January hike, we can point to the Fed, and, and… Argentina? With the Bank of England gracefully stepping aside this week, that suggests it may be only the Fed that hikes through the rest of Q2 (with the June 13 meeting still very much looking like a "go"). *Yes, but…* we still see the BoC on track for Q3, the BoE is likely delayed not derailed, and with oil on the march, we suspect others will not be as far behind as currently expected.

The overriding conclusion is that while the latest round of economic data were on the sluggish side—and, indeed, global growth may be passing its peak—taut job markets and rising oil prices suggest price pressures will build.

One other example of a small number, with a *"yes, but"*: There is now just one Canadian-based team remaining in the playoffs between both the NHL and the NBA. *Yes, but…* it's a good one and a big one. The Winnipeg Jets are the largest team in the NHL by some measures (though we would hasten to point out that another semi-finalist Tampa Bay is also the smallest team in the league). And, the Jets also had the best season record among the remaining teams, despite the fact that they are the only non-divisional winner among the final four. According to third-party sources—*we would never pay attention to this kind of thing, to be clear*—the Jets are now the second favourites to win the Stanley Cup (just behind Tampa), and are thus within shouting distance of becoming the first Canadian team to win in 25 years. Go Jets.

U.S. Labour Market: "We Haven't Had that Spirit Here since 1969"

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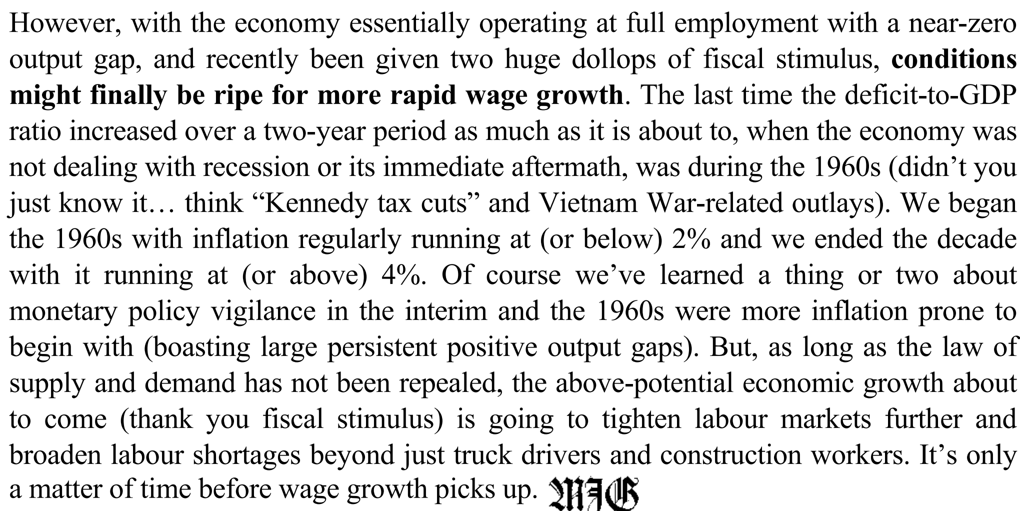
Initial claims for unemployment insurance were unchanged at 211k for the week ending May 5th. However, this still pulled down the four-week average by 6k to 216k, which marks the lowest level since December 1969. Last week, it was reported that the unemployment rate dipped a tenth to 3.9% in April, which, apart from a sole 3.8% print in April 2000, was the lowest jobless rate since—you guessed it—December 1969 (when it was 3.5%). However, despite the tightest labour market conditions in nearly half a century (according to these indicators), wage growth has remained subdued. Average hourly earnings were up "only" 2.6% y/y in April, and other major wage growth measures are not far from this mark. The Employment Cost Index increased 2.7% y/y in Q1 (for both total compensation and just wages and salaries). In the nonfarm business sector, hourly compensation was 2.5% y/y in Q1.

Only the Atlanta Fed's (smoothed) wage growth tracker has managed to push above 3% (3.3% y/y in March).

The fact that wages have yet to respond more meaningfully to extremely tight labour markets does not imply that they never will. Secular disinflationary forces such as demographics are still partly dampening cyclical inflationary forces. Older, higher-paid workers are separating (not always via voluntary retirement) and being replaced by younger, lower-paid workers. Secular dampening pressure on the wage-setting process is also being applied by globalization (Mexican malaise) and technology-enabled disruption (automation anxiety).



However, with the economy essentially operating at full employment with a near-zero output gap, and recently been given two huge dollops of fiscal stimulus, **conditions might finally be ripe for more rapid wage growth**. The last time the deficit-to-GDP ratio increased over a two-year period as much as it is about to, when the economy was not dealing with recession or its immediate aftermath, was during the 1960s (didn't you just know it… think "Kennedy tax cuts" and Vietnam War-related outlays). We began the 1960s with inflation regularly running at (or below) 2% and we ended the decade with it running at (or above) 4%. Of course we've learned a thing or two about monetary policy vigilance in the interim and the 1960s were more inflation prone to begin with (boasting large persistent positive output gaps). But, as long as the law of supply and demand has not been repealed, the above-potential economic growth about to come (thank you fiscal stimulus) is going to tighten labour markets further and broaden labour shortages beyond just truck drivers and construction workers. It's only a matter of time before wage growth picks up. MJG

A Productive Rally

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The tech-heavy NASDAQ led global stock markets last year with a 28% advance and is outperforming again this year. In fact, information technology stocks in the S&P 500 romped all other sectors with a 37% advance in 2017, and they fared well on the TSX (up 16%), too. They are leading both markets again this year. While the S&P 500 has quadrupled since its March 2009 lows, the NASDAQ has zoomed nearly six-fold. Of course, even within tech, the big gains have been led by a few high flyers (e.g., Amazon is up 67% in the past year and Shopify is up 46% on the TSX). But there is something more fundamental going on, and that is: **investors are hoping that advances in automation, robotics and AI will revive productivity, and want in on the companies that are either developing, or will benefit from, the technology.** Analysts believe that AI will give some companies a tremendous first-mover advantage in predicting demand, serving customers and cutting costs.

The revival might already be underway. After lying dormant for a decade, **productivity has picked up on both sides of the border**. On a four-quarter moving average basis, labour productivity (in the U.S. business sector) grew 1.3% in Q1 from the prior year, almost double the average rate of the past seven years (0.7%). While the current pace still badly lags the 3.1% mean from 1996 to 2005—when the widespread use of the internet spawned major efficiencies in communications—it's an encouraging sign. Canada's performance is even more noteworthy, up 2.1% in 2017 versus 1.2% in the past seven years, and within striking distance of the 2½%

norm around the turn of the century. Productivity has also hooked up in Germany and France, though not in most other advanced economies.

Studies by Accenture and McKinsey suggest that advanced nations could reap a more than one-percentage-point lift to annual productivity growth from AI. Self-coding AI systems are getting smarter and cannot help but make workers more productive, too. While one percentage point might not sound like much, it's the difference between an economy growing at an uninspiring potential rate of no more than 2% and a robust rate of 3% (or more) as prevailed in the 1960s and the second half of the 1980s and 90s. A revival in productivity is the best chance that an economy running low on workers has to maintain strong growth yet low inflation and interest rates. It would give the Fed and Bank of Canada—which have dallied in removing the punchbowl—a get-out-of-jail-free card by reducing the risk of the expansion overheating and ending in a barrage of rate hikes.

True, there's no guarantee that the productivity revival is underway or will even begin soon given the economy's usual inertia to adopting general purpose technologies (of which AI surely is). Yet, if it is, it **could strengthen and lengthen the current expansion and give fresh legs to the second-longest running U.S. equity bull market of the past half century**.

It's Happening... Slowly but Surely

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Almost one year ago (June 2017), I was hit by a thought (a rare and momentous occasion): have ALL central bankers suddenly become hawks? The event: an ECB forum in Sintra, Portugal. The people: BoC Governor Poloz, who said *"those cuts have done their job"*; ECB's Draghi, who said *"all signs now point"* to a stronger economy; and, the BoE's Carney, who warned they have *"limited"* tolerance for higher inflation. Of course, then-Fed Chair Yellen had raised rates two weeks prior.

Fast forward to May 2018, and a couple of those central bankers are not talking as tough, but they are still, to varying degrees, less accommodative. **BoE Governor Carney** followed through with his recent warning that May was not a done deal. The Bank stayed put this week, after seeing softer economic data in the first quarter and less pass-through to consumer prices from the past depreciation in the pound. The majority of the MPC felt that it was prudent to wait a bit… to see if the slowdown was temporary. The general expectation was that it was, but it wouldn't hurt to wait it out, and *"discern"* and *"learn"* from the data. That's reasonable, and given that Governor Carney acknowledged that the economy was still broadly unchanged from February, we are sticking to our call for one rate hike (in August).

Then there is the **ECB**. They've already reduced their monthly bond purchases earlier this year, with the current €30 bln pace scheduled to run until September. We expect the ECB to trim its purchases further this fall (to about €15 bln), and run until year-end, but we do not look for a rate hike until later in 2019… one step at a time. But there are conflicting views within the ECB, starting at the top. President Draghi sounded much more cautious at the recent meeting, an indication of how reluctant he is to pull the plug on QE. Thankfully, a trio of policymakers in the Governing Council spoke out this

week and relayed a fairly consistent message: a gradual reduction in monetary accommodation could likely be announced this summer.

Unfortunately, there are two **potential developments** that could get in the way. First, there is **Brexit,** where British politicians are limiting PM May's ability to negotiate with the EU, and she can't begin to negotiate until she determines what Parliament wants. Are we in or out of the customs union? And let's not forget that the EU also has a say in this; it is not just up to Britain. Then there is **Italy**, where the country may finally be getting the government it has been wanting since March 4th. However, assuming they hammer out a deal, the ruling coalition would be made up of the Five Star Movement and the Northern League, two parties that are anti-euro/EU/reforms, immigration and austerity. More spending and lower taxes… how are they paying for this? These events could **stir up plenty of turmoil in financial markets**. However, Germany and France could be pushed closer together, recognizing the need for a stronger and more democratic Europe.

Bottom Line: The BoE and ECB are becoming less accommodative, but the pace will be slow and gradual. JLee

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	Good News	Bad News
Canada ▪ Mortgage stress test tougher as qualifying rate rises ▪ C$ strengthens on oil	**Average Hourly Wages** +3.6% y/y (Apr.) **Jobless Rate** steady at 5.8% (Apr.) **Building Permits** +3.1% (Mar.)	**Employment** -1,100 (Apr.)—but **full-time** +28,000 **Housing Starts** -4.9% to 214,379 a.r. (Apr.) **New Housing Price Index** unch (Mar.)
United States ▪ President Trump pulls out of Iran nuclear deal… ▪ …oil jumps to highest level since late 2014 ▪ Paul Ryan sets May 17 deadline for NAFTA passage in current Congress	**Core Consumer Prices** steady at +2.1% y/y (Apr.)—but total **Consumer Prices** +2.5% y/y **Consumer Credit** +$11.6 bln (Mar.) **Job Openings** 6,550k (Mar.)—record high **Initial Claims** unch at 211k (May 5 week) **NFIB Small Business Optimism Index** +0.1 pts to 104.8 (Apr.) **U of M Consumer Sentiment** steady at 98.8 (May P) **Budget Surplus** widened to $214.3 bln (Apr.)	**Producer Prices** +2.6% y/y (Apr.) **Import Prices** +3.3% y/y (Apr.) **Wholesale Inventories** revised lower to +0.3% (Mar.)
Japan ▪ BoJ Minutes and Summary of Opinions emphasize easy policy firmly in place	**Current Account Surplus** widened to ¥3.1 trln (Mar.) **Bank Lending ex. Trusts** +2.0% y/y (Apr.)	**Household Spending** -0.7% y/y (Mar.)
Europe ▪ BoE on hold but expects *"modest"* tightening ahead ▪ GBP sags on downgrade to inflation outlook ▪ PM May faces yet another Upper House defeat over EU single market ▪ Italy's two populist parties edge closer to forming coalition government	**Germany—Trade Surplus** widened to €22 bln (Mar.) **Germany—Industrial Production** +1.0% (Mar.) **Italy—Industrial Production** +1.2% (Mar.) **U.K.—Industrial Production** +0.1% (Mar.)	**Euro Area—Retail PMI** -1.5 pts to 48.6 (Apr.) **Germany—Factory Orders** -0.9% (Mar.)—and prior month revised down **France—Industrial Production** -0.4% (Mar.) **Italy—Retail Sales** -0.2% (Mar.) **U.K.—Trade Deficit** widened to £12.3 bln (Mar.) **U.K.—RICS House Price Balance** fell to -8% (Apr.)
Other ▪ Kiwi weakens after RBNZ pushes out rate hike expectations ▪ Support for Mexico's presidential frontrunner fades as election nears	**China—Exports** +12.9% y/y; **Imports** +21.5% y/y (Apr.) **China—Consumer Prices** +1.8% y/y; **Producer Prices** +3.4% y/y (Apr.) **China—Aggregate Yuan Financing** 1.56 trln (Apr.)—and **New Yuan Loans** 1.18 trln **China—M2 Money Supply** +8.3% y/y (Apr.) **China—Foreign Reserves** steady at $3.1 trln (Apr.) **Australia—NAB Business Confidence** +2 pts to 10 (Apr.)	**Australia—Retail Sales** unch (Mar.)

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

Oil & the Canadian Economy: This Time *is* Different

Douglas Porter, CFA, Chief Economist and **Robert Kavcic,** Senior Economist

- Oil prices punched well above $70/barrel this week for the first time since they cracked lower in November 2014. In the wake of news that the U.S. Administration will withdraw from the Iranian nuclear deal, WTI is now up 50% from just one year ago.
- Our economic forecast assumes that oil prices will ease only slightly over the next 18 months, with **WTI averaging $67 this year** and $65 next, versus $51 last year and $43 in 2016.
- These levels compare with an average of $59 over the past 45 years, measured in today's dollars. In other words, prices are back above "normal" levels, and the analysis below looks at the many implications for the Canadian economy of this upswing.

- The recovery in oil prices is **a net positive for the Canadian economy**, while a very mild drag on U.S. growth. However, both relationships are weaker than in previous cycles. For the U.S., the surge in shale production has slashed import dependency and rendered oil price changes as nearly a neutral factor for the growth outlook.
- For Canada, the rebound may be less of a driver than in the past since it is unlikely to spur much new oil investment, given the ongoing uncertainty over pipeline capacity. Accordingly, we are not yet nudging our growth projections for either country, and still look for Canada to grow just 2.0% this year (and 1.8% in 2019) versus 2.8% for U.S. GDP (and 2.5% next year).
- This underperformance by Canadian growth stands in stark contrast to past episodes of rising oil prices—typically, the move seen over the past year would imply Canadian growth outpacing the U.S. by roughly 1 percentage point, not the other way around.

- From **a regional perspective**, the rally in oil provides a much-needed tailwind for Alberta, Saskatchewan and Newfoundland & Labrador. But, our view remains that growth in these provinces will settle in around longer-term potential, rather than outperforming by a wide margin again.
- These provinces will, however, see an income boost (i.e., nominal GDP), which will support employment and consumer spending. Indeed, our index that tracks a range of such indicators is showing convergence with most other provinces.
- For the rest of Canada, higher oil prices are technically a net drag, but the current run is unlikely to have a major impact, especially given it is comes absent a strengthening loonie.

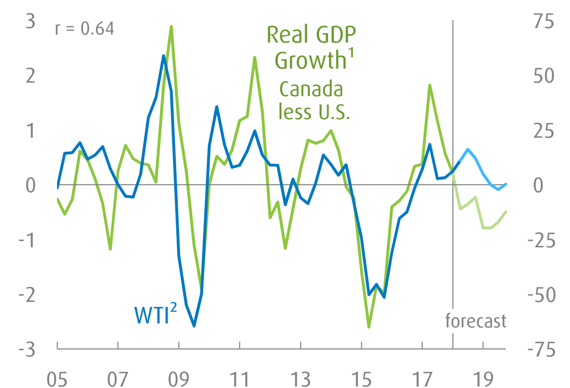
Chart 1
Breakout

(US$/bbl : as of May 11, 2018)

WTI Crude Oil Price

Sources: BMO Economics, Haver Analytics

Chart 2
Where's the Growth?

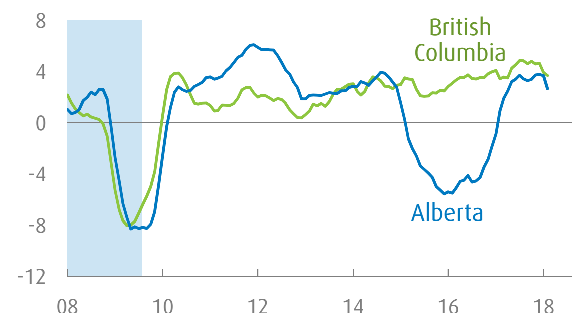


[1] (lhs : diff. in y/y % chng : ppts) [2] (rhs : US$: y/y chng : adv. 1 qtr.)
Sources: BMO Economics, Haver Analytics

Chart 3
Regional Convergence

(y/y % chng)

BMO Economic Performance Index

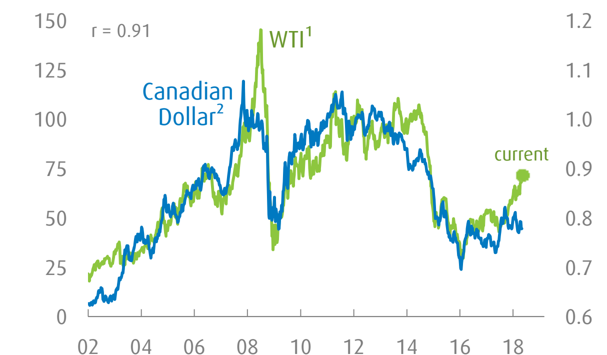


Shading marks period of Canadian recession
Sources: BMO Economics, Haver Analytics

- **The loonie** would normally be one of the biggest winners from the rise in oil prices; instead, it has gone mostly sideways in the past six months. Even as oil hit a 3½-year high this week, the Canadian dollar tested two-month lows at around 77 cents (nearly $1.30/US$) before rebounding above 78 cents. Still, traditional relationships suggest that the currency should be almost 10 cents stronger with oil at these levels.
- What's holding the currency back? First, there is the above-mentioned factor that Canada is unlikely to see the normal growth dividend from higher oil prices.
- The loonie is also being held back by a generally stronger U.S. dollar (the C$ is strong on the crosses), as well as some renewed trade jitters. In the event of a NAFTA deal, we expect a pop in the loonie of upwards of 3%.

Chart 4
Oil and C$: Separation Anxiety

(as of May 10, 2018)

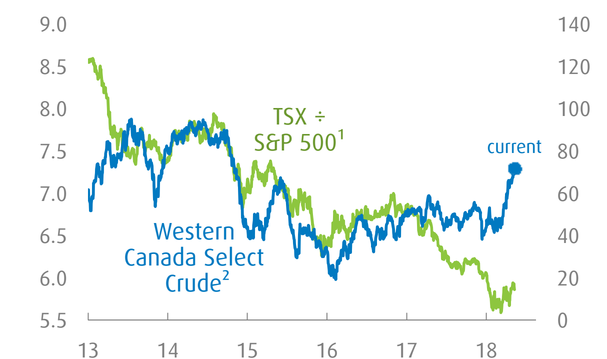


[1] 1st expiring contract (lhs : US$/bbl) [2] (rhs : US$/C$)
Sources: BMO Economics, Haver Analytics

- Oil has uncharacteristically done little to help **relative TSX performance**. Part of this likely reflects uncertainty over pipeline capacity and, until recently, a deep discount faced by Canadian producers. The latter has improved sharply to more normal levels in the past month, yet the TSX remains the worst-performing major market, down 1% on the year.
- The rally in oil should eventually help—energy is still 20% of the index—if and when these issues get cleared up.
- The bigger issue for the TSX is a distinct lack of exposure to technology and consumer discretionary, two sectors that have led performance in the U.S., while financials have taken a breather as housing cools.

Chart 5
The TSX: No Fuel

(as of May 11, 2018)

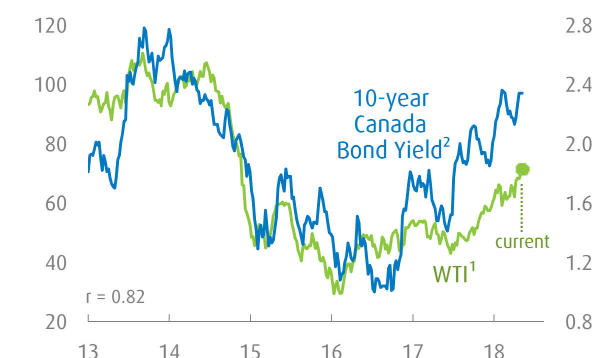


[1] (lhs : ratio) [2] (rhs : C$/bbl)
Sources: BMO Economics, Haver Analytics, Bloomberg

- While the loonie and equities are not behaving as they normally would in the face of rising oil, **bond yields** for the most part are going according to plan.
- **Canadian 10-year yields are up more than 80 bps in the past year**, even slightly out-distancing the 75 bp cumulative rate hikes by the Bank of Canada in that period. Tens are now almost back to where they stood before oil prices collapsed in mid-2014, and have actually risen more than U.S. yields from a year ago.
- Two-year yields, meantime, have vaulted more than 120 bps in the past year, moving virtually in lockstep with the upswing in two-year Treasuries over that period.

Chart 6
Oil and Bonds: On the Up and Up

(as of May 10, 2018)



[1] 1st expiring contract (lhs : US$/bbl) [2] (rhs : %)
Sources: BMO Economics, Haver Analytics

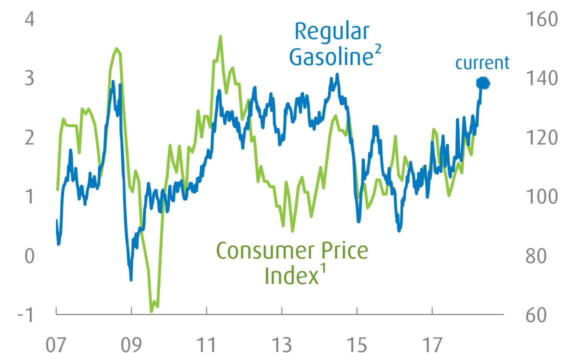
- Higher oil prices generally equal higher interest rates, all things being equal. The link is that **inflation and nominal GDP growth are higher than they otherwise would be** in the face of rising oil prices.
- Over the past 12 months, higher energy prices have directly added 0.4 percentage points to headline Canadian inflation (ex-energy CPI is now at 1.9% y/y), and the tally looks to rise in the next few months. The comparable U.S. figures are 0.5 ppts and 2.0% y/y.
- The Bank of Canada based their latest forecast (in the April MPR) on an assumption of WTI at $60 and WCS at $40, and was still expecting headline CPI inflation of 2.4% by the end of this year. Based on recent oil prices alone, Q4 inflation could be closer to 2.7%, marking a seven-year high.

- Against this backdrop, the **rise in oil prices increases the odds that the Bank of Canada will resume its tightening campaign**. Of course, the Bank famously cut interest rates twice in the wake of the oil price collapse in 2015, so it's not a great leap to draw the connection in the opposite direction.
- However, the case for rate hikes based on oil alone is not strong—the rebound has been much more gradual than seen during the collapse, the growth impact is much less direct now due to the pipeline capacity issues, and natural gas prices remain depressed.
- We continue to look for the Bank to hike rates twice in the second half of the year, and then follow through with three additional moves in 2019, bringing the overnight rate to 2.5% at that point—right at the low end of what is considered neutral. While higher oil prices have not prompted a change in that view (yet), we have stopped highlighting the downside risk to our BoC rate call.

- **On the fiscal front**, the 2018 federal budget assumed $56 WTI in 2018, and $57 over the next two years. While Ottawa doesn't collect royalties, the boost to nominal GDP, through the deflator, could reach as much as a percentage point—that would lift tax revenues roughly $2 bln, based on budget sensitivities.
- This increases the padding underneath Ottawa's $18.1 bln FY18/19 deficit projection, which already includes a $3 bln contingency, leaving upside potential in the fiscal plan.
- The oil-producing provinces were also conservative with their oil price assumptions, with all three pegging WTI (or equivalent) in the high-$50 range. Assuming the WCS differential and C$ also hold around current levels for the full fiscal year, these provinces could be looking at combined $4 bln of revenue upside (the bulk in Alberta), all else equal.

Chart 7
Inflation: Driven by Gasoline

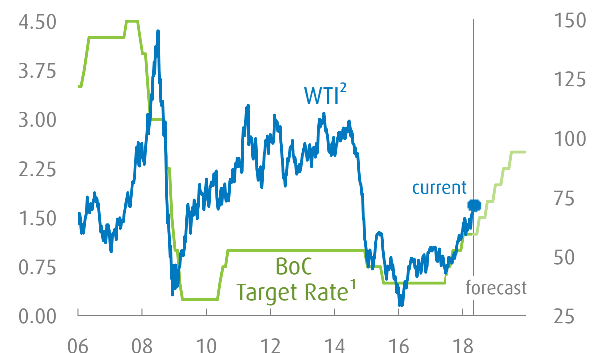
Canada (as of May 10, 2018)



[1] (lhs : y/y % chng) [2] volume wtd. avg. (rhs : CAD¢/L)
Sources: BMO Economics, Haver Analytics

Chart 8
BoC: Oil Looms Large

(as of May 11, 2018)

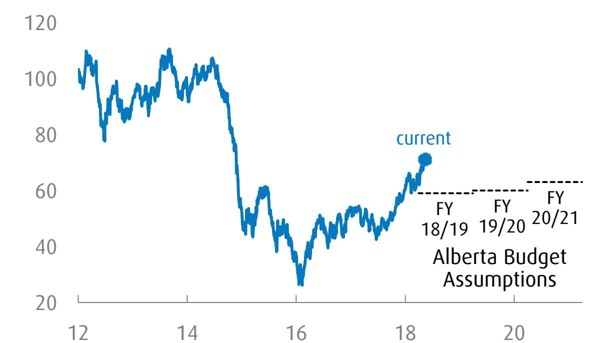


[1] (lhs : %) [2] 1st expiring contract (lhs : US$/bbl)
Sources: BMO Economics, Haver Analytics

Chart 9
Government Finances: Greased

(US$/bbl : as of May 11, 2018)

WTI Crude Oil Price



Sources: BMO Economics, Haver Analytics, Alberta budget

Economic Forecast Summary for May 11, 2018

BMO Capital Markets Economic Research

	2017				2018				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
CANADA											
Real GDP (q/q % chng : a.r.)	4.0	4.4	1.5	1.7	1.5	2.3	2.1	1.9	3.0	2.0	1.8
Consumer Price Index (y/y % chng)	1.9	1.3	1.4	1.8	2.1	2.4	2.5	2.3	1.6	2.3	2.1
Unemployment Rate (percent)	6.6	6.5	6.2	6.0	5.8	5.8	5.6 ↓	5.5	6.3	5.7	5.5
Housing Starts (000s : a.r.)	222	207	223	229	224	218 ↓	220	218	220	220	210
Current Account Balance ($blns : a.r.)	-54.6	-61.3	-74.4	-65.4	-72.1	-64.2	-62.6	-61.2	-63.9	-65.0	-60.0
Interest Rates (average for the quarter : %)											
Overnight Rate	0.50	0.50	0.83	1.00	1.25	1.25	1.50	1.75	0.71	1.44	2.31
3-month Treasury Bill	0.47	0.54	0.81	0.92	1.14	1.20	1.45	1.70	0.69	1.40 ↑	2.20
10-year Bond	1.71	1.51	1.95	1.96	2.24	2.30	2.40	2.50	1.78	2.35	2.80
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-13	-36	-25	-30	-44	-66 ↑	-58 ↑	-51 ↑	-26	-55 ↑	-33 ↑
10-year	-73	-75	-30	-41	-52	-62	-61	-58	-55	-59 ↓	-53 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	1.2	3.1	3.2	2.9	2.3	2.8	2.9	2.9	2.3	2.8	2.5
Consumer Price Index (y/y % chng)	2.6	1.9	2.0	2.1	2.3	2.7	2.8	2.6 ↑	2.1	2.6	2.2 ↑
Unemployment Rate (percent)	4.6	4.3	4.3	4.1	4.1	3.9	3.8	3.7	4.4	3.9	3.5
Housing Starts (mlns : a.r.)	1.24	1.17	1.17	1.26	1.32	1.28	1.30	1.28	1.21	1.29	1.28
Current Account Balance ($blns : a.r.)	-451	-495	-406	-513	-543	-556	-572	-591	-466	-565	-625
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	1.00	1.83	2.73
3-month Treasury Bill	0.60	0.90	1.06	1.23	1.58	1.85	2.05	2.20	0.95	1.90	2.55
10-year Note	2.44	2.26	2.24	2.37	2.76	2.95	3.05	3.10	2.33	2.95	3.35 ↑
EXCHANGE RATES (average for the quarter)											
US¢/C$	75.6	74.4	79.9	78.6	79.1	78.7	79.3	79.8	77.1	79.2	81.1
C$/US$	1.32	1.34	1.25	1.27	1.27	1.27	1.26	1.25	1.30	1.26	1.23
¥/US$	114	111	111	113	108	108	107	106	112	107	104
US$/Euro	1.07	1.10	1.18	1.18	1.23	1.22	1.23	1.24	1.13	1.23	1.27
US$/£	1.24	1.28	1.31	1.33	1.39	1.39	1.40	1.42	1.29	1.40	1.45

Blocked areas represent BMO Capital Markets forecasts
Up and down arrows indicate changes to the forecast ↑↓   Spreads may differ due to rounding

Canada

Existing Home Sales, MLS Home Price Index

Tuesday, 9:00 am (expected)

	Existing Home Sales	Average Prices
Apr. (e)	**-15.0% y/y**	**-7.0% y/y**
Mar.	-22.7% y/y	-10.4% y/y
	MLS Home Price Index	
Apr. (e)	**+2.0% y/y**	
Mar.	+4.6% y/y	

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CREA will release the full suite of April housing market data, and the overall picture will continue to look weak. National sales were likely down 15% y/y in the month, slightly improved from the 23% y/y decline seen in March, but still pointing to soggy underlying conditions in the wake of new OSFI rules, Bank of Canada rate hikes and some provincial policy measures. As such, the average price was likely down 7% from a year ago, partly reflecting a bigger sales decline in the pricier Toronto market (the MLS benchmark was likely positive, though still decelerating). Toronto sales were down a still-steep 32% y/y, while benchmark prices were down 5.2% y/y, the weakest print since the 2009 recession. Vancouver sales fell 27% y/y and, in both markets, we continue to see pronounced weakness at the higher end (versus strength in condos). Elsewhere, the picture is mixed, with Calgary and Edmonton very sluggish, while Ottawa and Montreal are still seeing markets tighten and prices accelerate.

Retail Sales

Friday, 8:30 am

		Ex. Autos
Mar. (e)	**+0.1%**	**+0.3%**
Feb.	+0.4%	unch

Canadian consumer spending has simmered down, and the March retail report will likely reinforce that theme. Auto sales volumes and prices both dipped in the month (seasonally adjusted), but gas prices rose modestly. Elsewhere, resale housing weakness could continue to dampen furniture and building material spending. Look for total retail sales to edge up 0.1%, or a slightly firmer 0.3% excluding autos. Volumes should be somewhat firmer given lower goods prices in the month.

Consumer Price Index

Friday, 8:30 am

Apr. (e)	**+0.3% (-0.1% sa)**	**+2.2% y/y**
Mar.	+0.3%	+2.3% y/y
	Trimmed Mean Core CPI	
Apr.		
Mar.	+2.0% y/y	
	Weighted Median Core CPI	
Apr.		
Mar.	+2.1% y/y	
	Common Component Core CPI	
Apr.		
Mar.	+1.9% y/y	

Canadian inflation is settling in right around the Bank of Canada's 2% target, and that story will likely be reinforced in the April CPI data. Headline inflation is expected to come in at 2.2% y/y, down a tick from the prior month. While some price pressures are percolating, such as gas (up 5% in April alone) and restaurants (Ontario minimum wage hike), last April saw a chunky increase—gas prices actually jumped more than 9% a year ago. The average of the Bank of Canada's core measures was unchanged at 2% in March, for a second straight month, reinforcing that underlying inflation is very close to the Bank's target. There's some upside potential for the traditional core measure in April, after dipping to 1.4% y/y in the prior month.

United States

Retail Sales

Tuesday, 8:30 am

		Ex. Autos
Apr. (e)	**+0.4%**	**+0.5%**
Consensus	*+0.3%*	*+0.5%*
Mar.	+0.6%	+0.2%
	Ex. Autos/Gas	
Apr. (e)	**+0.4%**	
Consensus	*+0.4%*	
Mar.	+0.3%	

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Retail sales should increase 0.4% in April, braked by slower vehicle sales (0.5% ex-autos) but pumped by higher gasoline prices (0.4% ex-autos & gas). This year's early Easter (April 1st) might have pushed some related spending into March (at the expense of April) and relatively chilly weather (coldest April in 21 years) might have postponed some purchases of gardening and other outdoor items. Nevertheless, consumers seemed to be in a solid buying mood, buoyed by sturdy job creation and the cumulative impact of lower withholding taxes. Indeed, the Johnson Redbook (month-to-date) sales metric advanced more in April than in March, and at a 10-month high clip. Meanwhile, buying plans for major appliances hit a near nine-year high apart from December's spike.

Housing Starts

Wednesday, 8:30 am

Apr. (e)	**1.307 mln a.r. (-0.9%)**
Consensus	*1.325 mln a.r. (+0.5%)*
Mar.	1.319 mln a.r. (+1.9%)
	Building Permits
Apr. (e)	**1.350 mln a.r. (-2.1%)**
Consensus	*1.347 mln a.r. (-2.3%)*
Mar.	1.379 mln a.r. (+4.4%)

The demand for homes continues to expand moderately, supported by historically attractive affordability (albeit deteriorating), sturdy job/income growth and elevated consumer confidence. Meanwhile, existing homes available for sale averaged their lowest level on record in 2018Q1 (the record dates back to 1999 for all homes and as far back as 1982 for single-family units). This demand-supply mix is prodding an increasing trend in housing starts; they averaged a decade-high pace in the 12 months ending in March. However, wonky weather and lumpy multi-family activity can play havoc with month-to-month moves. Indeed, reflecting payback for the 16%-plus surge in multi-family units the month before, we look for housing starts to slip 0.9% in April to 1.307 million units (annualized). Building permits should dip as well, but still outpace starts, pointing to a pick-up in the latter.

Industrial Production

Wednesday, 9:15 am

		Capacity Utilization
Apr. (e)	**+0.7%**	**78.5%**
Consensus	*+0.6%*	*78.4%*
Mar.	+0.5%	78.0%

With new and unfilled manufacturers' orders increasing in both February and March, and aggregate hours worked in the sector (for production and nonsupervisory employees) up 0.7%, factory output looks to increase at least 0.5% in April, keeping to the near-6% annualized pace of the past six months. And, with oil production hitting new highs in April (boosting mining output), and the coldest April in 21 years causing a surge in heating demand (boosting utilities output), overall industrial production looks to increase 0.7%. The capacity utilization rate should rise five-tenths to 78.5%, a 3¼-year high.

		May 11 [1]	May 4	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)	1.75	1.75	0	0	25
	Prime Rate	4.75	4.75	0	0	25
3-Month Rates	Canada	1.21	1.21	0	5	15
	United States	1.89	1.83	7	15	52
	Japan	-0.12	-0.14	2	6	4
	Eurozone	-0.33	-0.33	0	0	0
	United Kingdom	0.65	0.67	-3	-13	13
	Australia	1.93	2.02	-9	-13	15
2-Year Bonds	Canada	1.97	1.91	6	12	29
	United States	2.54	2.50	4	18	66
10-Year Bonds	Canada	2.40	2.33	7	16	36
	United States	2.98	2.95	3	15	57
	Japan	0.04	0.04	0	1	0
	Germany	0.57	0.54	2	6	14
	United Kingdom	1.45	1.40	5	2	26
	Australia	2.78	2.77	1	4	15
Risk Indicators	VIX	13.2	14.8	-1.6 pts	-4.2 pts	2.2 pts
	TED Spread	45	54	-10	-16	13
	Inv. Grade CDS Spread [2]	60	62	-2	-2	11
	High Yield CDS Spread [2]	331	342	-11	-9	24
				(percent change)		
Currencies	US¢/C$	78.21	77.85	0.5	-1.4	-1.7
	C$/US$	1.279	1.285	—	—	—
	¥/US$	109.33	109.12	0.2	1.8	-3.0
	US$/€	1.1946	1.1960	-0.1	-3.1	-0.5
	US$/£	1.357	1.353	0.3	-4.7	0.4
	US¢/A$	75.44	75.39	0.1	-2.8	-3.4
Commodities	CRB Futures Index	203.87	203.25	0.3	2.1	5.2
	Oil (generic contract)	71.12	69.72	2.0	5.5	17.7
	Natural Gas (generic contract)	2.81	2.71	3.6	2.7	-4.9
	Gold (spot price)	1,322.09	1,315.35	0.5	-1.7	1.5
Equities	S&P/TSX Composite	16,004	15,729	1.7	4.8	-1.3
	S&P 500	2,729	2,663	2.5	2.7	2.1
	Nasdaq	7,404	7,210	2.7	4.2	7.3
	Dow Jones Industrial	24,832	24,263	2.3	1.9	0.5
	Nikkei	22,758	22,473	1.3	4.5	0.0
	Frankfurt DAX	12,985	12,820	1.3	4.4	0.5
	London FT100	7,711	7,567	1.9	6.1	0.3
	France CAC40	5,534	5,516	0.3	4.1	4.2
	S&P ASX 200	6,116	6,063	0.9	4.9	0.8

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

Global Calendar
May 14 – May 18

BMO Capital Markets

Japan

Monday May 14

Producer Price Index

Apr. (e)	**+0.1%**	**+2.0% y/y**
Mar.	-0.1%	+2.1% y/y

Tuesday May 15

Tertiary Industry Index

Mar. (e)	**-0.2%**
Feb.	unch

Wednesday May 16

Real GDP

Q1 P (e)	**unch**	**+1.6% y/y**
Q4	+0.4%	+2.0% y/y

Industrial Production

Mar. F (e)	**+1.2%**	**+2.2% y/y**
Feb.	+2.0%	+1.6% y/y

Friday May 18

	CPI	Core CPI
Apr. (e)	**+0.7% y/y**	**+0.8% y/y**
Mar.	+1.1% y/y	+0.9% y/y

CPI Ex. Food & Energy

Apr. (e)	**+0.4% y/y**
Mar.	+0.5% y/y

Euro Area

Tuesday May 15

EURO AREA

Real GDP

Q1 P (e)	**+0.4%**	**+2.5% y/y**
Q1 A	+0.4%	+2.5% y/y
Q4	+0.7%	+2.8% y/y

Industrial Production

Mar. (e)	**+0.7%**	**+3.7% y/y**
Feb.	-0.8%	+2.9% y/y

GERMANY

Real GDP

Q1 P (e)	**+0.4%**	**+2.4% y/y**
Q4	+0.6%	+2.9% y/y

ZEW Survey—Expectations

May (e)	**-8.2**
Apr.	-8.2

FRANCE

Consumer Price Index

Apr. F (e)	**+0.1%**	**+1.8% y/y**
Mar.	+1.1%	+1.7% y/y

Wednesday May 16

EURO AREA

Consumer Price Index

Apr. F (e)	**+0.3%**	**+1.2% y/y**
Mar.	+1.0%	+1.3% y/y

Core CPI

Apr. F (e)	**+0.7% y/y**
Mar.	+1.0% y/y

GERMANY

Consumer Price Index

Apr. F (e)	**-0.1%**	**+1.4% y/y**
Mar.	+0.4%	+1.5% y/y

ITALY

Industrial Orders

Mar.		
Feb.	-0.6%	+3.4% y/y

Consumer Price Index

Apr. F (e)	**+0.5%**	**+0.6% y/y**
Mar.	+2.3%	+0.9% y/y

Friday May 18

EURO AREA

Trade Surplus

Mar. (e)	**€21.0 bln**
Feb.	€21.0 bln

GERMANY

Producer Price Index

Apr. (e)	**+0.3%**	**+1.8% y/y**
Mar.	+0.1%	+1.9% y/y

U.K.

Tuesday May 15

	Jobless Claims	Claimant Count Rate
Apr.		
Mar.	11,600	2.4%

Avg. Wkly Earnings Ex. Bonus (3 mma)

Mar. (e)	**+2.9% y/y**
Feb.	+2.8% y/y

Jobless Rate (3 mma)

Mar. (e)	**4.2%**
Feb.	4.2%

Other

Monday May 14

CHINA

Foreign Direct Investment [D]

Apr.	
Mar.	+0.4% y/y

Tuesday May 15

CHINA

Industrial Production (ytd)

Apr. (e)	**+6.7% y/y**
Mar.	+6.8% y/y

Retail Sales (ytd)

Apr. (e)	**+9.8% y/y**
Mar.	+9.8% y/y

Fixed Asset Investment (ytd)

Apr. (e)	**+7.4% y/y**
Mar.	+7.5% y/y

AUSTRALIA

RBA Minutes from May 1 meeting

Wednesday May 16

AUSTRALIA

Westpac Consumer Confidence

May	
Apr.	-0.6%

BRAZIL

Central Bank of Brazil Monetary Policy Meeting

Thursday May 17

AUSTRALIA

Employment

Apr. (e)	**+20,000**
Mar.	+4,900

Jobless Rate

Apr. (e)	**5.5%**
Mar.	5.5%

MEXICO

Central Bank of Mexico Monetary Policy Meeting

RUSSIA

Real GDP [D]

Q1 A (e)	**+1.5% y/y**
Q4	+0.9% y/y

[D] = date approximate

Upcoming Policy Meetings | BoE: June 21, Aug. 2, Sep. 13 | ECB: June 14, July 26, Sep. 13

North American Calendar
May 14 – May 18

BMO Capital Markets®

Canada

Monday May 14

8:30 am — **New Motor Vehicle Sales**[D]
- **Mar.**
- Feb. +2.4% y/y

Tuesday May 15

9:00 am — **Existing Home Sales**[D] | **Average Prices**
- **Apr. (e)** **-15.0% y/y** | **-7.0% y/y**
- Mar. -22.7% y/y | -10.4% y/y

9:00 am — **MLS Home Price Index**[D]
- **Apr. (e)** **+2.0% y/y**
- Mar. +4.6% y/y

10:30 am — 3-, 6- & 12-month bill auction $13.0 bln (new cash $4.9 bln)

Wednesday May 16

8:30 am — **Mfg. Sales** | **Mfg. New Orders**
- **Mar. (e)** **+1.0%** | **+0.5%**
- Feb. +1.9% | +5.0%

Noon — **BoC Deputy Governor Schembri speaks to the CFA Society Ottawa and Ottawa Economics Association on *"Reaching our Potential: Challenges and Opportunities"***

Thursday May 17

8:30 am — **ADP Employment Report**
- **Apr. (e)**
- Mar. +42,800

8:30 am — **Int'l Securities Transactions** — **Inflows** | **Outflows**
- **Mar.**
- Feb. $4.0 bln | $6.3 bln

Noon — 5-year bond auction $3.0 bln

30-year bond auction announcement

Friday May 18

8:30 am — **Consumer Price Index**
- **Apr. (e)** **+0.3% (-0.1% sa)** | **+2.2% y/y**
- Mar. +0.3% | +2.3% y/y

8:30 am — **Trimmed Mean Core CPI**
- **Apr.**
- Mar. +2.0% y/y

8:30 am — **Weighted Median Core CPI**
- **Apr.**
- Mar. +2.1% y/y

8:30 am — **Common Component Core CPI**
- **Apr.**
- Mar. +1.9% y/y

8:30 am — **Retail Sales** | **Ex. Autos**
- **Mar. (e)** **+0.1%** | **+0.3%**
- Feb. +0.4% | unch

United States

Monday May 14

Fed Speakers: Cleveland's Mester (2:45 am); St. Louis' Bullard (9:40 am)

11:00 am — 4-week bill auction announcement

11:30 am — 13- & 26-week bill auction $90 bln

Tuesday May 15

8:30 am — **Retail Sales** | **Ex. Autos**
- **Apr. (e)** **+0.4%** | **+0.5%**
- *Consensus* *+0.3%* | *+0.5%*
- Mar. +0.6% | +0.2%

8:30 am — **Retail Sales ex. Autos/Gas**
- **Apr. (e)** **+0.4%**
- *Consensus* *+0.4%*
- Mar. +0.3%

8:30 am — **Empire State Manufacturing Survey**
- **May (e)** **15.4**
- *Consensus* *15.0*
- Apr. 15.8

10:00 am — **NAHB Housing Market Index**
- **May (e)** **70**
- *Consensus* *69*
- Apr. 69

10:00 am — **Business Inventories**
- **Mar. F (e)** **+0.1%**
- Mar. A +0.1%
- *Consensus* *+0.1%*
- Feb. +0.6%

10:00 am — **MBA Mortgage Delinquencies (Q1)**[D]

10:00 am — **Fed nominees Clarida (for Vice Chair) and Bowman (for Gov.) appear before the Senate Banking Committee**

4:00 pm — **Net TIC Flows** — **Total** | **Long Term**
- **Mar.**
- Feb. $44.7 bln | $49.0 bln

Fed Speakers: Dallas' Kaplan (8:00 am); San Francisco's Williams (1:00 pm)

11:30 am — 4-week bill auction

Wednesday May 16

7:00 am — **MBA Mortgage Apps**
- **May 11**
- May 4 -0.4%

8:30 am — **Housing Starts (and revisions)**
- **Apr. (e)** **1.307 mln a.r. (-0.9%)**
- *Consensus* *1.325 mln a.r. (+0.5%)*
- Mar. 1.319 mln a.r. (+1.9%)

8:30 am — **Building Permits**
- **Apr. (e)** **1.350 mln a.r. (-2.1%)**
- *Consensus* *1.347 mln a.r. (-2.3%)*
- Mar. 1.379 mln a.r. (+4.4%)

9:15 am — **Industrial Production** | **Capacity Utilization**
- **Apr. (e)** **+0.7%** | **78.5%**
- *Consensus* *+0.6%* | *78.4%*
- Mar. +0.5% | 78.0%

Fed Speakers: Atlanta's Bostic (8:30 am); St. Louis' Bullard (5:30 pm)

Thursday May 17

8:30 am — **Initial Claims**
- **May 12 (e)** **215k (+4k)**[C]
- May 5 211k (unch)

8:30 am — **Continuing Claims**
- **May 5**
- Apr. 28 1,790k (+30k)

8:30 am — **Philadelphia Fed Index**
- **May (e)** **22.0**
- *Consensus* *21.0*
- Apr. 23.2

10:00 am — **Leading Indicator**
- **Apr. (e)** **+0.4%**
- *Consensus* *+0.4%*
- Mar. +0.3%

Putative deadline for NAFTA agreement

Fed Speakers: Minneapolis' Kashkari (10:45 am); Dallas' Kaplan (1:30 pm)

11:00 am — 13-, 26- & 52-week bill, 2-, 5- & 7-year note, 2[R]-year FRN auction announcements

1:00 pm — 10[R]-year TIPS auction $11 bln

Friday May 18

Fed Speakers: Cleveland's Mester (3:00 am); Dallas' Kaplan (9:15 am); Gov. Brainard (9:15 am)

[C] = consensus [D] = date approximate [R] = reopening

Upcoming Policy Meetings | Bank of Canada: May 30, July 11, Sep. 5 | FOMC: June 12-13, July 31-Aug. 1, Sep. 25-26

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