BMO Capital Markets
We're here to help.™

BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

August 10, 2018

Feature Article
Page 7

Canada's Semi-Stealth Population Boomlet

Canadian Jobs Surge... Details Less Robust

Canadian Markets Briefly Dip on Saudi Spat

U.S. & China Announce 2nd Round of Tariffs

U.S. & Mexico Close to NAFTA Auto Deal

Turkish Lira Plunges to Record Low

BMO Capital Markets Economics
economics.bmocapitalmarkets.com • 1-800-613-0205
Please refer to page 16 for important disclosures

IstanBears

Douglas Porter, CFA
Chief Economist
douglas.porter@bmo.com
416-359-4887

If you can keep your head when all about you
Are losing theirs and blaming it on you,
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;

Yada, yada, yada…
Yours is the Earth and everything that's in it, yada, yada.

Full disclosure: The plan for this piece was to riff off Rudyard Kipling's famous poem, pointing to the S&P 500 as remarkably managing to keep its head while the rest of the world seemed to be "losing theirs". With the benchmark index finally moving to within a hair of its late-January record high on Thursday, even as a variety of global markets were struggling amid widespread trade tensions and various sanctions, the plan was falling into place—until Friday. After rumbling away in the background for weeks, **a full-blown plunge in the Turkish lira sent shockwaves across global markets**, slicing stocks and pulling bond yields broadly lower.

Details of Turkey's trauma can be found in Art Woo's Thought below, but the skinny is that markets there have been clobbered by **a nasty combination of ill-judged domestic economic policies** (President Erdogan's disdain for higher interest rates for one), **vulnerable fundamentals** (low savings, large current account deficits, high inflation), **and U.S. sanctions** (made worse by Trump's doubling of steel and aluminum tariffs on Turkey). Erdogan's response on Friday was far from helpful, choosing a combative stance and imploring Turks to convert the dollars under their pillows for lira. In response, the lira went into a veritable free-fall, (and whatever figure we quote here will likely need to be cranked up by the time you read this) dropping by more than 15% on Friday alone. In this fast-moving situation, the currency is now down more than 40% in 2018—with the cost of a US$ leaping above 6.5 liras versus 3.8 at the start of the year.

For the rest of the world, Turkey is certainly a significant player, but with economic output of less than US$900 billion (and falling) **it's not big enough to shake global markets alone for long**. The concern is that there are other weak spots out there, and the relentless trade battles risk exacerbating underlying fault lines, as so vividly displayed by Turkey. To point to just a few examples: 1) the Russian rouble has slid 7% in the past two weeks, after the U.S. hit it with new sanctions, 2) Argentina's peso has also been walloped this year, falling by more than 30%, partly on concerns over its own domestic political scandal, 3) the U.K. pound has dropped 11% in four months as fears of a no-deal-Brexit mount; and, 4) China's currency and equities continue to reel from the deepening trade skirmish with America.

As suggested at the outset, these slowly building stress lines in the rest of the world were being largely ignored by U.S. markets, in part because the U.S. economy and earnings just kept thundering ahead. In stark contrast to notably cooler growth elsewhere, U.S. GDP is on course to accelerate this year to almost 3% growth, factories have added more jobs in the past year than at any time in the past 30 years, and Q2 earnings for the S&P 500 are up more than 20% y/y. On the flip side, each of the Eurozone, Britain and Japan reported Q2 GDP growth of less than 2% (Japan was actually best at 1.9%). But the world worries finally caught up with U.S. markets, with only the Nasdaq managing to stay in the green this week, and 10-year Treasuries pulling back below 2.9% after briefly piercing 3% last week.

Looking ahead, we recall the old adage *"never change your fundamental forecast in August"*, a reminder that summer markets are thinner and prone to dramatic moves that may mean little later on. **But we wouldn't dismiss the unfortunate lurch to protectionism and trade battles as a passing phase, nor the very real difficulties that some major emerging markets face in this more hostile backdrop**—and amid a tightening Fed. At a minimum, we believe that global growth is past its peak, and that activity will slow more broadly in 2019. Still, with inflation slowly grinding higher and job markets tight almost everywhere, the Fed and the Bank of Canada will continue to gradually tighten in coming quarters. But, as we have seen so many times in the past, the rate hike timetable can be delayed if emerging market turmoil intensifies—a prime example can be found in events 20 years ago to this month in August 1998, when the Asian crisis morphed into a broader emerging market crisis and the Fed ultimately cut rates by 75 bps that fall.

Given that cautionary note, we would suggest that you ignore this less-quoted passage in Kipling's "If"; let's call it his anti-Volcker Rule:

If you can make one heap of all your winnings
And risk it on one turn of pitch-and-toss,
And lose, and start again at your beginnings
And never breathe a word about your loss;

Until late in the week, it seemed that **Saudi Arabia** was going to make the biggest market news emanating from the Middle East. Its abrupt decision to halt all new trade and investment with Canada was reportedly accompanied by an edict to sell all holdings of Canadian stocks and bonds, *"no matter the cost"*. While Canadian markets did stumble slightly for about 24 hours, traders quickly reversed the small losses and returned to the bigger picture. Before Friday's broader global weakness, the TSX was essentially unchanged for the week, bond spreads had moved by about 1 bp versus their U.S. counterparts, and the Canadian dollar was down less than 0.5%. After all, given **the relatively modest nature of Canada's exposure to Saudi Arabia**, and that nothing had fundamentally changed for the Canadian economic outlook, what self-respecting hedge fund wouldn't step in on the other side of the Saudi sell order?

That's not to say Canadian markets escaped the late-week turmoil, with the TSX headed for a moderate loss of 0.7% and the Canadian dollar off a similar amount amid broad U.S. dollar strength. Notably, the currency sagged on the Turkey trauma despite an ostensibly snappy job gain in July. Canada's employment report was up to its old tricks last month, surprising with a hearty 54,000 jobs jump and a 2-tick slide the jobless rate to match the cycle-low of 5.8%. The problem was that the gains relied heavily on a 36,500 surge in education jobs—*in July!*—and a reported 5% m/m spike in total hours worked in the sector. Now we know that back-to-school sales start earlier every year, but this is getting ridiculous.

Bigger picture is that the Canadian job market remains tight, and—provided the EM turmoil subsides—the BoC will continue raising rates. Here's one classic example of just how tight the labour market is, courtesy of my one-time employer

The London Free Press: Chapman's Ice Cream is struggling to find workers in their Markdale plant (about 100 km North-west of Toronto), and is now offering $500 hiring bonuses for basic production workers.

The Consumers Are Alright

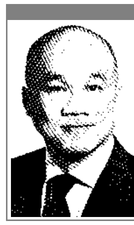
Michael Gregory, CFA
Deputy Chief Economist
michael.gregory@bmo.com
416-359-4747

The U.S. total CPI increased 0.2% in July, keeping the annual change at 2.9% y/y and matching the fastest pace in more than 6½ years (the one-tenth uptick in core CPI inflation to 2.3% y/y is probing almost decade highs). Some observers were quick to point out that this left the annual change in average hourly earnings (2.7% y/y), after adjusting for inflation, in negative territory (-0.2% y/y)… and in the worst way since October 2012. However, to conclude that this wage growth metric, now negative in real terms, somehow hinders households' wherewithal to keep spending at a Fed-described "strong" clip is to not appreciate what actually drives consumer spending.

Wages are obviously an important ingredient for spending. However, among the major wage metrics, this one—average hourly earnings (AHE)—is arguably the worst of the bunch because it is more distorted by the industrial and demographic mix of job growth. The Employment Cost Index (ECI) and the Atlanta Fed's Wage Growth Tracker (WGT), for example, are less distorted by the mix of job growth. So while CPI inflation averaged 2.7% y/y in Q2, AHE was 2.7% y/y (zero real but ending the period in negative territory and starting Q3 that way), ECI wages and salaries rose 2.8% y/y (a 9½-year high but barely positive in real terms), and the WGT was 3.5% y/y (more comfortably in positive territory). Whether the latter two measures will also turn negative is uncertain, but again, wages are only an ingredient, not the compete recipe for what feeds household spending.

For example, a sole focus on what private-sector employers pay their employees per hour ignores things like how many employees are working, how many hours they are working, what public-sector and self-employed workers are earning, non-wage forms of employee compensation and non-employment sources of funds. In other words, it's total income that predominately drives consumption, not the wage rate. And, this is why household spending is currently "strong" and still sports favourable prospects—not dimming ones. Personal income increased 4.9% y/y in June, a two-year high. And, accounting for tax cuts, disposable personal income increased 5.4% y/y, a 3½-year high. Adjusting both for the appropriate inflation rate results in real personal income increasing 2.6% y/y or 3.1% y/y after-tax. There are no negatives here. Indeed, this magnitude of real income growth is very encouraging. Over the past 30 years, the correlation between the growth in real personal income and real personal consumption expenditures (PCE) has been 76%. Over the same period, the correlation between real average hourly earnings (the production and nonsupervisory employees version because the other one dates back to only 2006) and real PCE is 4%. We monitor wages for their inflation implications not their income and consumption consequences. MJG

Does Turkey Have a Viable Rescue Plan?



Art Woo
Senior Economist
art.woo@bmo.com
416-359-4525

With the meltdown in the Turkish lira accelerating this week, it appears that the country's policymakers (i.e., President Erdogan) will finally be forced to take action. However, other than stating that 'a new economic approach' will be pursued, the finance ministry has yet to propose, at the time of writing, any significant measures that would help stabilize the lira and prevent a broader, deeper economic crisis from developing (i.e., a banking crisis).

Notwithstanding the possibility that a deal over the detainment of U.S. Pastor Andrew Brunson could be struck in coming days; in our view, this would only temporarily ease pressures. The U.S.-Turkey dispute is simply exacerbating pre-existing vulnerabilities in the Turkish economy and financial system, especially the refusal to adopt orthodox macroeconomic policies. As a result, consumer price inflation (15.9% y/y in July) remains well above the Turkish central bank's (CBRT's) 5.0% target. High inflation and a weakening currency is a tough combination for an economy that is both heavily dollarized (a high proportion of banks' deposits and loans are denominated in foreign currencies) and reliant on external funding due to Turkey's large current account deficit.

From our perspective, Turkey has only a limited number of options (e.g., capital controls, IMF bailout, U.S. dollar swap lines and higher domestic interest rates) that could be utilized to ward off speculative behaviour and boost the CBRT's small stock of forex reserves. It is often overlooked that the CBRT's 'usable' forex reserves are quite small: we estimate they stood at under US$30 bln (or roughly 1 month of current account payments) in June, compared to the larger gross headline figure of US$98.4 bln.

While it's admittedly difficult to predict what plan of action Turkey could pursue given how unpredictable President Erdogan has proven to be, a return to more orthodox policymaking (aggressively hiking the CBRT's policy rates to lower inflation) would seem to be the path of least resistance. An IMF Stand-By Arrangement is another viable option but we suspect hammering out the specifics of a deal would not be easy, as the Fund would likely demand greater central bank autonomy and/or higher interest rates anyways. As for capital controls, we do not believe it is a wise choice for a country that is heavily reliant on external financing. Implementing controls on non-resident capital outflows could do irrevocable, long-term damage to Turkey's banking system, which has historically proven quite adept at intermediating foreign capital to support the economy's financing requirements. Obtaining swap lines with the world's major central banks also does not seem to be a realistic option either. We doubt the Fed, ECB, BoJ or PBoC would be willing to provide the CBRT this type of facility, which we estimate would need to be in the magnitude of US$50 bln.

Art

Priscilla Thiagamoorthy
Economic Analyst
priscilla.thiagamoorthy@bmo.com
416-359-6229

	Good News	Bad News
Canada ▪ July job gains biggest this year but details less robust ▪ Diplomatic row with Saudi Arabia temporarily dents financial markets	**Employment** +54,100 (July)—but all part-time **Jobless Rate** -0.2 ppts to 5.8% (July) **New Housing Price Index** +0.1% (June)	**Average Hourly Wages** slowed to +3.2% y/y (July) **Housing Starts** -16.2% to 206,314 a.r. (July) **Building Permits** -2.3% (June) **Ivey PMI** -1.3 pts to 61.8 (July)
United States ▪ Tariffs on $16 bln of goods from China will take effect Aug. 23 ▪ U.S. and Mexico get closer to a NAFTA auto deal ▪ President Trump ups the ante with Turkey—doubling metals tariffs	**Job Openings** edged up to 6,662k (June) —above expected **Consumer Credit** +$10.2 bln (June) —but disappointing **Consumer Prices** +0.2% (July) **Producer Prices** unch (July) **Wholesale Inventories** revised up to +0.1% (June) **Initial Claims** -6k to 213k (August 4 week)	
Japan ▪ Economy recovers from Q1 contraction	**Real GDP** +1.9% a.r. (Q2 P) **Current Account Surplus** widened to ¥1.175 trln (June) **Bank Lending Ex. Trusts** +2.0% y/y (July)	**Household Spending** -1.2% y/y (June) **Tertiary Index** -0.5% (June) **Core Machine Orders** -8.8% (June)
Europe ▪ GBP and EUR hammered by Turkey and No-deal Brexit fears	**France—Industrial Production** +0.6% (June) **Italy—Trade Surplus** grew to €5.1 bln (June) **U.K.—Real GDP** +1.5% a.r. (Q2 P)—but June GDP up just 0.1% and Services flat **U.K.—RICS House Prices** +1 ppt to +4% (July P) **U.K.—Industrial Production** +0.4% (June) **U.K.—Trade Deficit** narrowed to £11.4 bln (June)	**Germany—Factory Orders** -4.0% (June) **Germany—Industrial Production** -0.9% (June) **Germany—Trade Surplus** narrowed to €19.3 bln (June) **France—Trade Deficit** widened to €6.2 bln (June)
Other ▪ China's tariffs on $16 bln of U.S. goods to kick in Aug. 23 ▪ RBA on hold ▪ RBNZ sees rates on hold until 2020 and opens door for a rate cut… kiwi drops to 2-yr low ▪ Russian rouble tumbles to 2-yr low on fresh U.S. sanctions ▪ Turkish lira plunges to record low as U.S. tensions intensify ▪ Argentine peso near record low on corruption scandal	**China—Exports** +12.2% y/y; **Imports** +27.3% y/y (July) **China—Consumer Prices** +2.1% y/y; **Producer Prices** +4.6% y/y (July) **China—Foreign Reserves** edged up to $3.12 trln (July)	

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

Canada's Semi-Stealth Population Boomlet


Douglas Porter, CFA
Chief Economist
douglas.porter@bmo.com
416-359-4887

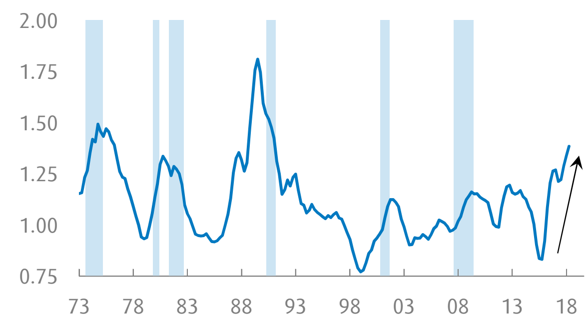

Robert Kavcic
Senior Economist
robert.kavcic@bmo.com
416-359-8329

The latest Canadian population estimates hit some key milestones, with the overall tally pushing above 37 million in Q2, up by a round 500,000 in the past year alone, an increase of 1.4% y/y. The yearly percent change marks the fastest population growth in the country since 1991 and is a significant step-up from the 1.0% average annual trend of the past quarter century (*Chart 1*). **From an economic standpoint**, this has important implications since potential growth is determined by two key building blocks: labour force population and productivity. But rapid population gains have much wider-ranging implications—both positive and negative—from faster consumer spending growth and increased home building, to higher nominal interest rates, home prices, and social spending, not to mention environmental implications.

While the percentage rise in population is impressive as a stand-alone figure, note that the estimated net increase of 506,000 over the past four quarters marks the largest increase in sixty years (*Chart 2*). That takes us all the way back to the late 1950s, a period when the birth rate was especially high (the baby boom was reaching its apex) and Canada saw a wave of immigration—particularly from Hungary at that time. Of course, **the latest gains are driven much more by international inflows**, with a record 380,000 people moving into Canada on net in 2017 (of which just over 50,000 were refugee claimants). The country's annual immigration target will remain hefty in the coming years, set at 310,000 for 2018, rising to 340,000 by 2020. That is up from a typical annual level of around 250,000 in the 10 years through 2015, and poised to add roughly 0.8 ppts to annual population growth. By contrast, the natural increase (i.e., births minus deaths) is running at just over 100,000 per year, adding a modest 0.3 ppts to the tally. While that is above many other developed countries, it is a persistently slowing source of growth in Canada.

Chart 1
The Boomlet in Percent Terms

Canada (y/y % chng)
Population

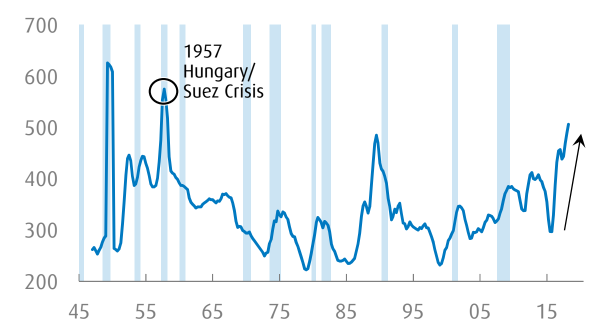


Shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

This combination of elevated immigration and still positive (albeit slowing) natural increases leaves **Canada above its G7 peers** (*Chart 3*) with annualized population growth over the past five years tops in the group. Parts of developed Europe experienced persistent natural declines (or even lower rates of natural increase). Across the broader OECD, Canada's accelerated population growth is solid and well above the 0.7% median annualized 5-year percentage change. But, it is still a few tiers below faster-growing countries such as New Zealand, Australia and Mexico.

Chart 2
The Boomlet in Raw Numbers

Canada (000s : y/y chng)
Population



Shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

Domestically, most provinces have experienced a clear acceleration in population in recent years, but there are still some **very stark demographic differences across the nation** (*Table 1*). Western Canada continues to see relatively strong growth trends, backed by firm immigration levels and, especially in Alberta's case (with a relatively young population), solid natural increases. What has changed recently is that interprovincial migration flows have largely balanced out. Recall that Alberta was drawing in nearly 40,000 people per year (fully 1% of the province's population) at the height of the oil boom, and then losing nearly 20,000 per year after the oil shock. Ontario has arguably seen the largest boost from higher immigration levels, with 1.8% overall growth matching the highest level since the early-1990s. Ontario's relative economic strength has also attracted net interprovincial flows after a decade of outflows. A similar backdrop shows in Quebec, with one key exception—the province persistently loses people to other provinces. Finally, Atlantic Canada totals have seen a big lift from immigration, which has helped to turn around a period of outright population declines. The challenge for the region is now retaining these new Canadians in local (and usually much weaker) labour markets.

With those facts in hand, let's dig a little deeper into **some of the possible economic implications** of the relatively sudden population acceleration (and assuming it is sustained for more than a year):

1. Labour force growth: With Canada's participation rate roughly holding steady over the past year for those aged 15-64, the upswing in overall population has (not surprisingly) translated into a faster expansion in the working-age population. This key building block of potential growth perked up from a meagre 0.4% annualized pace in the three years to 2017, to 0.8% y/y by July 2018—the quickest in more than seven years.

2. Productivity: The news is less positive for the other growth building block, as labour productivity has actually seen an outright decline in the past year. Given how this metric tends to bounce around, we would focus more on the underlying trend, which looks locked in around 1% (*Chart 4*). There are many factors that drive productivity, but there is some evidence that rapid immigration tends to act as a dampener. The latest country study of Canada by the OECD (July 2018) notes that recent immigrants typically earn less than their forerunners, with wages presumably acting as a proxy for marginal production. Moreover, theory would suggest that unless the capital stock rises as quickly as the labour force, then the capital/labour ratio will decline, also weighing on productivity.

3. Potential growth: Combining items 1 and 2, we believe the first handily outweighs the second, so overall potential GDP will increase with rapid population growth. In its July Monetary Policy Report, the Bank of Canada nudged up its point estimate of potential GDP growth to 1.9% over the next two years, within a broader range of 1.3%-to-2.3%. As recently as two years ago, we would have leaned our estimate to the low end of that range, but the rebound in labour force population would leave us about in sync with the Bank's latest view.

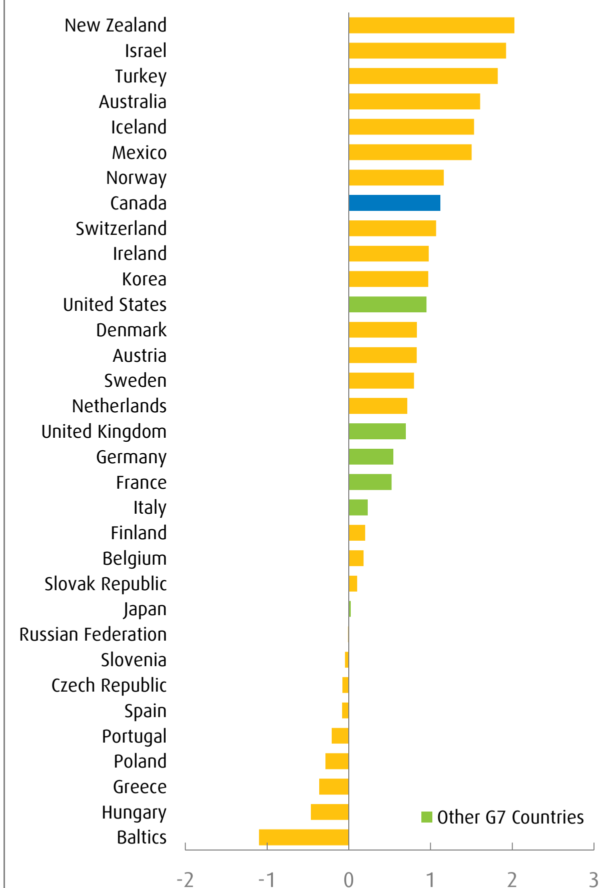
4. Neutral interest rates: In turn, potential growth is a key building block of nominal interest rates, along with inflation expectations. If

Chart 3

In Good Company

Select OECD Countries — 2012-2017 (5-yr % chng : a.r.)

Population Growth



Sources: BMO Economics, Haver Analytics, OECD

Table 1

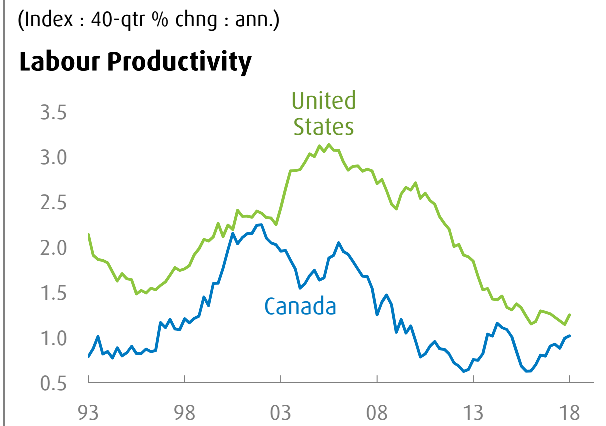
Regional Profile

2018:Q1 (4-qtr total)

	International Immigration	Interprovincial Migration	Births minus Deaths	Total Population
	— (% of population) —			(y/y % chng)
BC	1.1	0.2	0.1	1.4
AB	0.8	0.0	0.7	1.4
SK	1.3	-0.8	0.5	1.0
MB	1.4	-0.7	0.5	1.3
ON	1.3	0.2	0.3	1.8
QC	1.0	-0.1	0.2	1.1
NB	0.5	0.0	-0.1	0.4
NS	0.6	0.2	-0.1	0.7
PEI	2.0	-0.5	0.1	1.6
NL	0.2	-0.6	-0.2	-0.6
Canada	1.0	0.0	0.3	1.3

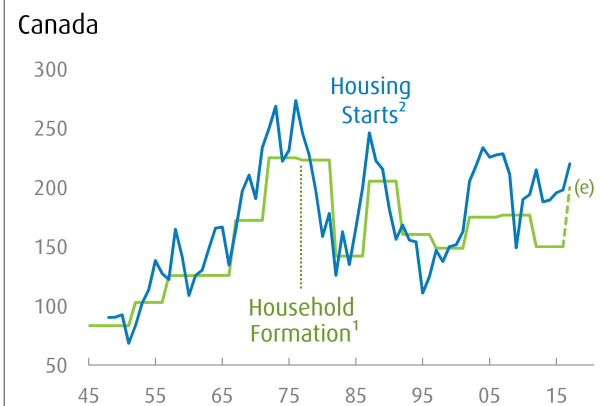
Sources: BMO Economics, Statistics Canada estimates of potential GDP are lifted, it would also boost where the Bank would see neutral interest rates. Officially, the BoC has maintained its view that the neutral policy rate is between 2.5% and 3.5%. Again, we would have been at the very bottom of that range until recently, but the sudden upswing in labour force population leans the estimate now slightly higher (albeit still below 3%, and probably still below the FOMC's estimate for the U.S. of 2.75%-to-3.0%).

Chart 4
Productivity Restrained?



Sources: BMO Economics, Haver Analytics

Chart 5
Somewhere to Live



¹ (000s of units/year) ² (000s of units : a.r.) (e) = estimate
Sources: BMO Economics, Haver Analytics

5. Consumer spending, incomes, and savings: By sheer dint of numbers, more rapid population growth will boost almost all forms of spending, and nominal income tallies. As just one example, Canadian vehicle sales have pushed above the 2 million mark in the past few years, a level that was unthinkable a decade ago. The ratio of U.S./Canadian vehicles sales has ebbed to just a bit above 8:1, from a sustained ratio of more than 10:1 from the mid-1960s up until the mid-2000s.

6. Home prices, home building, and borrowing: In a similar vein, strong population gains will also drive housing activity. The rise of more than 500,000 in the past year translates into roughly 180,000-to-200,000 additional households, and the demand for a similar number of housing units. As a result, our estimate of the baseline demographic driver for housing starts has also shifted higher—a level of 200,000 units should be viewed almost as a floor, rather than a high-side outlier (*Chart 5*). And with population inflows still so heavily concentrated in the major cities, it has also reinforced upward pressure on home prices in the priciest and more supply constrained markets.

7. Wages: This is an area of much contention, and the evidence is mixed. The one conclusion that the OECD draws from the extensive research on the subject is that robust immigration does tend to weigh on wages for low-skilled workers, certainly in relation to more highly trained workers.

8. Unemployment rate: The evidence is also mixed on this front. But we would simply note that Canada has posted its lowest jobless rate in more than four decades in the past year—while also stressing that many factors are at play, especially an aging workforce. One possibility though is that the so-called natural rate of unemployment may drift lower amid strong population increases, especially if that growth tends to dampen wages. Our best estimate of Canada's NAIRU is between 5.5%-to-6.0%, with recent mild wage gains suggesting that it may well be closer to the low end of that range.

9. Government finances: Again, by numbers alone, a rapidly rising population will pressure social spending costs (e.g., health care). The flip side, of course, is that rising employment and spending will support revenue growth. Again, the evidence is mixed, although the OECD asserts that strong immigration trends will have only a modest negative impact on government finances.

Economic Forecast Summary for August 10, 2018

BMO Capital Markets Economic Research

	2018				2019				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
CANADA											
Real GDP (q/q % chng : a.r.)	1.3	3.3	1.3	2.2	1.8	1.7	1.7	1.6	3.0	2.0	1.8
Consumer Price Index (y/y % chng)	2.1	2.3	2.3	2.1	1.8	2.1	2.2	2.1	1.6	2.2	2.1
Unemployment Rate (percent)	5.8	5.9	5.8 ↓	5.7	5.7	5.6 ↓	5.6	5.5 ↓	6.3	5.8	5.6
Housing Starts (000s : a.r.)	225	219	209 ↓	208	208	207	204	200	220	215	205
Current Account Balance ($blns : a.r.)	-78.0	-62.5	-64.3	-63.2	-62.8	-62.9	-63.1	-63.2	-63.3	-67.0	-63.0
Interest Rates	(average for the quarter : %)										
Overnight Rate	1.25	1.25	1.50	1.75	1.75	2.00	2.25	2.25	0.71	1.44	2.06
3-month Treasury Bill	1.14	1.21	1.45	1.70	1.70	1.95	2.15	2.15	0.69	1.35	2.00
10-year Bond	2.24	2.28	2.35	2.50	2.60	2.65	2.75	2.80	1.78	2.35	2.70
Canada-U.S. Interest Rate Spreads	(average for the quarter : bps)										
90-day	-44	-66	-62	-59	-74	-70	-60	-60	-26	-58	-66
10-year	-52	-64	-64	-58	-55	-51	-47	-44	-55	-60	-49
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.1	2.8	2.9	2.6	2.2	2.0	1.8	2.2	2.8	2.5
Consumer Price Index (y/y % chng)	2.3	2.6	2.6 ↓	2.4	2.1 ↓	2.2	2.2	2.1	2.1	2.5	2.2
Unemployment Rate (percent)	4.1	3.9	3.8	3.7	3.7	3.6	3.6	3.5	4.4	3.9	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.29	1.28	1.27	1.28	1.28	1.28	1.21	1.29	1.28
Current Account Balance ($blns : a.r.)	-496	-391	-448	-467	-476	-488	-502	-514	-449	-450	-495
Interest Rates	(average for the quarter : %)										
Fed Funds Target Rate	1.46	1.71	1.96	2.21	2.46	2.71	2.88	2.88	1.00	1.83	2.73
3-month Treasury Bill	1.58	1.87	2.10	2.25	2.45	2.65	2.75	2.75	0.95	1.95	2.65
10-year Note	2.76	2.92	2.95	3.10	3.15	3.20	3.20	3.25	2.33	2.95	3.20
EXCHANGE RATES	(average for the quarter)										
US¢/C$	79.1	77.5	76.6	78.0	78.7	79.1	79.5	79.9	77.1	77.8	79.3
C$/US$	1.27	1.29	1.31	1.28	1.27	1.26	1.26	1.25	1.30	1.29	1.26
¥/US$	108	109	111	110	110	109	109	108	112	110	109
US$/Euro	1.23	1.19	1.16 ↓	1.18	1.18	1.20	1.22	1.24	1.13	1.19	1.21
US$/£	1.39	1.36	1.30 ↓	1.29	1.26	1.30	1.34	1.39	1.29	1.34	1.32

Blocked areas represent BMO Capital Markets forecasts

Up and down arrows indicate changes to the forecast ↑↓

Spreads may differ due to rounding

Canada

Benjamin Reitzes
Canadian Rates & Macro Strategist
benjamin.reitzes@bmo.com
416-359-5628

Existing Home Sales, MLS Home Price Index

Wednesday, 9:00 am (expected)

	Existing Home Sales	Average Prices
July (e)	**-1.0% y/y**	**+1.0% y/y**
June	-10.7% y/y	-1.3% y/y
	MLS Home Price Index	
July (e)	**+2.5% y/y**	
June	+0.9% y/y	

After a very difficult start to the year, the housing market is showing signs that conditions are broadly stabilizing. Despite the less negative overall picture, the market remains very segmented. Vancouver (and B.C. in general) continues to struggle, adjusting to the new mortgage regulations and tightened foreign-buyer rules. The Prairies are also struggling to gain any traction but at least activity is flattening out. However, if oil prices stay elevated, that should support Alberta and, to a lesser extent, Saskatchewan. Toronto activity bounced back in July, but remains well below frothy 2016 levels. And, sales in Montreal and Ottawa pressed higher after taking a breather in the prior month. Overall, July sales are expected to fall 1% y/y. Average prices look to be up 1% y/y, while the quality-adjusted MLS HPI is expected to climb 2.5% y/y, as a heavy drop a year ago falls out of the calculation.

Consumer Price Index

Friday, 8:30 am

July (e)	**+0.1% (+0.1% sa)**	**+2.5% y/y**
Consensus	*unch*	*+2.5% y/y*
June	+0.1%	+2.5% y/y
	Trimmed Mean Core CPI	
July		
June	+2.0% y/y	
	Weighted Median Core CPI	
July		
June	+2.0% y/y	
	Common Component Core CPI	
July		
June	+1.9% y/y	

Consumer prices likely rose a modest 0.1% in July, consistent with generally soft inflation prints in the second half of the year. Our call would put seasonally adjusted prices up just 0.1%, largely due to an unseasonal rise in gasoline prices. There's also the wild card of Canada's tariffs on about $16 bln of U.S. products which may have pushed prices slightly higher. That could be worth about 0.1 ppts on CPI at most, as consumers won't be forced to absorb all of the increase in prices. Our call for CPI will keep annual inflation steady at 2.5% y/y, a six-year high.

The Bank of Canada's core CPI measures have hovered around 2% over the past five months, consistent with its target. We're looking for the core measures to hold steady, with the risks balanced.

United States

Michael Gregory, CFA
Deputy Chief Economist
michael.gregory@bmo.com
416-359-4747

Retail Sales

Wednesday, 8:30 am

		Ex. Autos
July (e)	**+0.2%**	**+0.4%**
Consensus	*+0.1%*	*+0.3%*
June	+0.5%	+0.4%
	Ex. Autos/Gas	
July (e)	**+0.5%**	
Consensus	*+0.4%*	
June	+0.3%	

Given solid growth in jobs and incomes, relatively healthy household balance sheets, elevated confidence levels along with the lingering effects of tax cuts, retail sales grew at their strongest gait in more than six years in June, at 6.6% y/y. We reckon July's reading will be comparable. Vehicle sales braked in the month so this will drag down the result. So too will gasoline prices and potentially gasoline station receipts. But, continued sturdy chain-store sales should add to the total. On balance, we look for total retail sales to rise 0.2% in July (or 6.5% y/y), 0.4% ex-autos and a respectable 0.5% ex-autos & gas.

Industrial Production

Wednesday, 9:15 am

	Industrial Production	Capacity Utilization
July (e)	**+0.7%**	**78.5%**
Consensus	*+0.3%*	*78.2%*
June	+0.6%	78.0%

In the manufacturing sector, with unfilled orders piling up for the past five consecutive months (ending in June) and aggregate hours up in July (when the ISM's production index was just a bit below 60), output looks to increase modestly in July. Why only modestly? While production is being bolstered by capex incented by late-cycle capacity constraints and corporate tax cuts, along with the spillover from rising oil production, recovering farm capex and sturdy consumer demand, it is also being wobbled by a plateauing housing sector and rising trade restrictions. Meanwhile, oil production hit record highs in July (boosting mining output), and the tag-team of a warmer-than-usual June and July caused air conditioner energy usage to surge (boosting utilities output). On balance, industrial production looks to increase 0.7%, with the capacity utilization rate rising five-tenths to 78.5%, a 3½-year high.

Housing Starts

Thursday, 8:30 am

July (e)	**1.271 mln a.r. (+8.3%)**
Consensus	*1.260 mln a.r. (+7.4%)*
June	1.173 mln a.r. (-12.3%)

After plunging more than 12% in June, we look for housing starts to rebound more than 8% in July, with both singles and the more volatile multiples bouncing back, and across the four regions as well. Despite this broad-based recovery, the underlying trend in new home construction is still more about converging to some steady state than constantly climbing to catch up with pent-up demand and unfolding demographics. Harvard's Joint Center for Housing Studies estimates household formation will average 1.35 million per annum out to 2025; and, in the past year, housing starts have averaged 1.25 million—not too far off. Meanwhile, with respect to new home demand, affordability is becoming more of an issue owing to rising home prices and mortgage rates, and even previously record-low inventories of existing homes for sale have bounced back (by more than 7%, seasonally adjusted, since hitting all-times lows in December).

		Aug 10 [1]	Aug 3	Week Ago	4 Weeks Ago	Dec. 31, 2017
					(basis point change)	
Canadian Money Market	Call Money	1.50	1.50	0	0	50
	Prime Rate	3.70	3.70	0	0	50
U.S. Money Market	Fed Funds (effective)	2.00	2.00	0	0	50
	Prime Rate	5.00	5.00	0	0	50
3-Month Rates	Canada	1.46	1.42	4	4	40
	United States	2.04	2.00	4	7	66
	Japan	-0.16	-0.17	1	-1	0
	Eurozone	-0.32	-0.32	0	0	1
	United Kingdom	0.81	0.81	0	7	28
	Australia	1.96	1.97	-1	-7	18
2-Year Bonds	Canada	2.11	2.10	1	19	42
	United States	2.61	2.64	-3	3	73
10-Year Bonds	Canada	2.31	2.35	-4	18	27
	United States	2.89	2.95	-6	6	48
	Japan	0.10	0.10	-1	6	5
	Germany	0.32	0.41	-8	-1	-10
	United Kingdom	1.25	1.33	-8	-2	6
	Australia	2.59	2.73	-14	-4	-4
Risk Indicators	VIX	12.8	11.6	1.2 pts	0.7 pts	1.8 pts
	TED Spread	28	34	-6	-9	-4
	Inv. Grade CDS Spread [2]	58	60	-1	-3	9
	High Yield CDS Spread [2]	324	330	-6	-11	18
					(percent change)	
Currencies	US¢/C$	76.38	76.98	-0.8	0.5	-4.0
	C$/US$	1.309	1.299	—	—	—
	¥/US$	110.81	111.25	-0.4	-1.4	-1.7
	US$/€	1.1427	1.1568	-1.2	-2.2	-4.8
	US$/£	1.277	1.300	-1.8	-3.4	-5.5
	US¢/A$	73.09	74.04	-1.3	-1.5	-6.4
Commodities	CRB Futures Index	192.36	193.23	-0.5	-0.7	-0.8
	Oil (generic contract)	67.48	68.49	-1.5	-5.0	11.7
	Natural Gas (generic contract)	2.94	2.85	3.0	6.8	-0.4
	Gold (spot price)	1,215.74	1,213.65	0.2	-2.1	-6.7
Equities	S&P/TSX Composite	16,313	16,420	-0.7	-1.5	0.6
	S&P 500	2,835	2,840	-0.2	1.2	6.0
	Nasdaq	7,852	7,812	0.5	0.3	13.7
	Dow Jones Industrial	25,302	25,463	-0.6	1.1	2.4
	Nikkei	22,298	22,525	-1.0	-1.3	-2.1
	Frankfurt DAX	12,419	12,616	-1.6	-1.0	-3.9
	London FT100	7,675	7,659	0.2	0.2	-0.2
	France CAC40	5,405	5,479	-1.4	-0.5	1.7
	S&P ASX 200	6,278	6,235	0.7	0.2	3.5

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

Global Calendar
August 13 – August 17

BMO Capital Markets®

Japan

Tuesday August 14

Industrial Production

June F (e)	**-2.1%**	**-1.2% y/y**
May	-0.2%	+4.2% y/y

Thursday August 16

Trade Balance

July '18 (e)	**-¥41.2 bln**
July '17	+¥406.6 bln

Department Store Sales [D]

July	
June	+3.1% y/y

Euro Area

Monday August 13

ITALY

Consumer Price Index

July F (e)	**-1.4%**	**+1.9% y/y**
June	+0.2%	+1.4% y/y

Tuesday August 14

EURO AREA

Real GDP

Q2 P (e)	**+0.3%**	**+2.1% y/y**
Q2 A	+0.3%	+2.1% y/y
Q1	+0.4%	+2.5% y/y

Industrial Production

June (e)	**-0.5%**	**+2.5% y/y**
May	+1.3%	+2.4% y/y

GERMANY

Real GDP

Q2 P (e)	**+0.4%**	**+2.1% y/y**
Q1	+0.3%	+2.3% y/y

Consumer Price Index

July F (e)	**+0.4%**	**+2.1% y/y**
June	+0.1%	+2.1% y/y

ZEW Survey—Expectations

Aug. (e)	**-20.7**
July	-24.7

FRANCE

Consumer Price Index

July F (e)	**-0.1%**	**+2.6% y/y**
June	unch	+2.3% y/y

Thursday August 16

EURO AREA

Trade Surplus

June (e)	**€16.5 bln**
May	€16.9 bln

Friday August 17

EURO AREA

Consumer Price Index

July F (e)	**+0.1%**	**+2.1% y/y**
June	+0.1%	+2.0% y/y

Core CPI

July F (e)	**+1.1% y/y**
June	+0.9% y/y

U.K.

Tuesday August 14

	Jobless Claims	**Claimant Count Rate**
July		
June	+7,800	2.5%

Avg. Wkly Earnings Ex. Bonus (3 mma)

June (e)	**+2.7% y/y**
May	+2.7% y/y

Jobless Rate (3 mma)

June (e)	**4.2%**
May	4.2%

Wednesday August 15

Consumer Price Index

July (e)	**unch**	**+2.5% y/y**
June	unch	+2.4% y/y

Core CPI

July (e)	**+1.9% y/y**
June	+1.9% y/y

Producer Price Index (Output)

July (e)	**+0.1%**	**+3.0% y/y**
June	+0.1%	+3.1% y/y

Thursday August 16

Retail Sales (incl. Fuel)

July (e)	**+0.2%**	**+3.0% y/y**
June	-0.5%	+2.9% y/y

Other

Monday August 13

CHINA

Foreign Direct Investment [D]

July	
June	+0.3% y/y

Aggregate Yuan Financing [D]

July (e)	**1.10 trln**
June	1.18 trln

New Yuan Loans [D]

July (e)	**1.28 trln**
June	1.84 trln

M2 Money Supply [D]

July (e)	**+8.2% y/y**
June	+8.0% y/y

Tuesday August 14

CHINA

Industrial Production

July (e)	**+6.3% y/y (+6.6% YTD)**
June	+6.0% y/y (+6.7% YTD)

Retail Sales

July (e)	**+9.1% y/y (+9.4% YTD)**
June	+9.0% y/y (+9.4% YTD)

Fixed Asset Investment (YTD)

July (e)	**+6.0% y/y**
June	+6.0% y/y

AUSTRALIA

NAB Business Confidence

July	
June	6

Wednesday August 15

AUSTRALIA

Westpac Consumer Confidence

Aug.	
July	+3.9%

Thursday August 16

AUSTRALIA

Employment

July (e)	**+15,000**
June	+50,900

Jobless Rate

July (e)	**5.4%**
June	5.4%

[D] = date approximate

Upcoming Policy Meetings | BoE: Sep. 13, Nov. 1, Dec. 20 | ECB: Sep. 13, Oct. 25, Dec. 13

North American Calendar
August 13 – August 17

BMO Capital Markets

Monday August 13

United States

11:00 am	4-week bill auction announcement	
11:30 am	13- & 26-week bill auction $96 bln	

Tuesday August 14

United States

6:00 am	**NFIB Small Business Economic Trends Survey**	
July (e)	**107.1**	
Consensus	*106.7*	
June	107.2	
8:30 am	**Import Prices**	
July (e)	**+0.3%**	**+4.8% y/y**
Consensus	*+0.1%*	*+4.5% y/y*
June	-0.4%	+4.3% y/y
11:30 am	4-week bill auction	
11:30 am	52-week bill auction $26 bln	

Wednesday August 15

Canada

8:30 am	**New Motor Vehicle Sales[D]**	
June (e)	**-1.0% y/y**	
May	-0.1% y/y	
9:00 am	**Existing Home Sales[D]**	**Average Prices**
July (e)	**-1.0% y/y**	**+1.0% y/y**
June	-10.7% y/y	-1.3% y/y
9:00 am	**MLS Home Price Index[D]**	
July (e)	**+2.5% y/y**	
June	+0.9% y/y	
Noon	30-year bond auction $1.0 bln	

United States

7:00 am	**MBA Mortgage Apps**	
Aug. 10		
Aug. 3	-3.0%	
8:30 am	**Productivity**	**Unit Lab. Costs**
Q2 P (e)	**+1.7% a.r.**	**-0.5% a.r.**
Consensus	*+2.4% a.r.*	*+0.2% a.r.*
Q1	+0.4% a.r.	+2.9% a.r.
8:30 am	**Retail Sales**	**Ex. Autos**
July (e)	**+0.2%**	**+0.4%**
Consensus	*+0.1%*	*+0.3%*
June	+0.5%	+0.4%
8:30 am	**Retail Sales ex. Autos/Gas**	
July (e)	**+0.5%**	
Consensus	*+0.4%*	
June	+0.3%	
8:30 am	**Empire State Manufacturing Survey**	
Aug. (e)	**21.3**	
Consensus	*20.0*	
July	22.6	
9:15 am	**Industrial Production**	**Capacity Utilization**
July (e)	**+0.7%**	**78.5%**
Consensus	*+0.3%*	*78.2%*
June	+0.6%	78.0%
10:00 am	**NAHB Housing Market Index**	
Aug. (e)	**67**	
Consensus	*67*	
July	68	
10:00 am	**Business Inventories**	
June F (e)	**+0.1%**	
May	+0.3%	
4:00 pm	**Net TIC Flows Total**	**Long Term**
June		
May	$69.9 bln	$45.6 bln

Thursday August 16

Canada

8:30 am	**ADP Employment Report**	
July		
June	-10,521	
8:30 am	**Mfg. Sales**	**Mfg. New Orders**
June (e)	**+1.0%**	**+0.5%**
Consensus	*+1.1%*	*n.a.*
May	+1.4%	+4.9%
	5-year bond auction announcement	

United States

8:30 am	**Initial Claims**	
Aug. 11 (e)	**215k (+2k)[C]**	
Aug. 4	213k (-6k)	
8:30 am	**Continuing Claims**	
Aug. 4		
July 28	1,755k (+29k)	
8:30 am	**Housing Starts**	
July (e)	**1.271 mln a.r. (+8.3%)**	
Consensus	*1.260 mln a.r. (+7.4%)*	
June	1.173 mln a.r. (-12.3%)	
8:30 am	**Building Permits**	
July (e)	**1.316 mln a.r. (+1.9%)**	
Consensus	*1.310 mln a.r. (+1.4%)*	
June	1.292 mln a.r. (-0.7%)	
8:30 am	**Philadelphia Fed Index**	
Aug. (e)	**23.8**	
Consensus	*22.0*	
July	25.7	
10:00 am	**MBA Mortgage Delinquencies (Q2)**	
11:00 am	13- & 26-week bill, 5[R]-year TIPS auction announcements	

Friday August 17

Canada

8:30 am	**Consumer Price Index**	
July (e)	**+0.1% (+0.1% sa)**	**+2.5% y/y**
Consensus	*unch*	*+2.5% y/y*
June	+0.1%	+2.5% y/y
8:30 am	**Trimmed Mean Core CPI**	
July		
June	+2.0% y/y	
8:30 am	**Weighted Median Core CPI**	
July		
June	+2.0% y/y	
8:30 am	**Common Component Core CPI**	
July		
June	+1.9% y/y	
8:30 am	**Int'l Securities Transactions Inflows**	**Outflows**
June		
May	$2.2 bln	$5.7 bln

United States

10:00 am	**University of Michigan Consumer Sentiment**	
Aug. P (e)	**97.9**	
Consensus	*98.0*	
July	97.9	
10:00 am	**Leading Indicator**	
July (e)	**+0.4%**	
Consensus	*+0.4%*	
June	+0.5%	

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

Upcoming Policy Meetings | Bank of Canada: Sep. 5, Oct. 24, Dec. 5 | FOMC: Sep. 25-26, Nov. 7-8, Dec. 18-19