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

February 8, 2019

Feature Article
Page 8

2021: A Price Oddity

Stocks Dip on Global Growth & Trade Concerns

Cdn Jobs Surprisingly Strong

BoE on Hold amid Brexit Risks

RBI Cuts, Brazil & Mexico on Hold

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

Global Trade is Falling Down, Falling Down

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

Following a crackling six-week surge, global equities took a step back this week on a wave of soft economic data—especially from Europe—and renewed concerns over prospects for the U.S./China trade talks. After brushing up against the 200-day moving average earlier this week, the S&P 500 dipped through the back-half amid trade jitters. In tandem, longer-term Treasury yields revisited levels not seen since the opening days of the year (the 30-year fell below 3%). While the rally in North American bonds has been impressive, it can't hold a candle to the move in German bunds, where the 10-year yield has careened down to just 8 bps (yes, 0.08%) from a peak of 77 bps almost exactly a year ago. Completing the risk-off move this week, the U.S. dollar took a small step forward and oil prices sagged somewhat.

The main driver for this week's moderate market angst was not the State of the Union, it was the **State of the Global Economy**. A suddenly much more subdued tone around the negotiations with China—which resume in Beijing on February 14, at a *"high level"*—rattled the cozy consensus that a half-loaf deal could be reached by the March 1 deadline. It turns out that the Presidents are not going to meet before then, suggesting that an extension of talks may be the best possible outcome at this point.

Suffice it to say that we have long been sceptics on a successful conclusion on the U.S./China file. Consider, for example, the painful NAFTA negotiations: In that case, we had a perfectly good agreement to begin with, a moderate bilateral imbalance (between the U.S. and Mexico), and generally positive relationships between the three, and it took more than a year of hard bargaining. In this case, we have no current deal, a massive bilateral imbalance, the U.S. aiming for structural changes, and two adversaries at the table. Simply, there is no way that a full-meal deal can be reached in a short period of time. Whatever unfolds in the next three weeks, one would suspect that this issue will hover over the market for many, many months to come.

As a brief sidebar on NAFTA/USMCA, note that even this—seemingly uncontroversial—deal is going to face tough sledding in Congress (see Michael's Thought below for some of the procedural details). A piece this week in the New York Times indicated that the USMCA faces serious resistance on both sides of the aisle, and of course it arrives at a time of a Grand Canyon-style political divide. The fact that a number of Republican Senators are warning the President not to terminate NAFTA (in order to force the House's hand on USMCA) is cold comfort; it's a positive that they are prodding him, it's a negative that they feel the need to do so. From Canada's perspective (and Mexico's), the prospect of many more months of uncertainty on the trade file is about as welcome as endless replays of the Super Bowl half-time show. But at least the two NAFTA partners may be spared some of the worst possible protectionist measures, since they won't be responsible for any delays in the new pact.

On top of ongoing concerns about the outlook for trade, we saw a wave of weak trade and production data looking backwards this week. Recall that it was only in late September that the U.S. imposed the latest round of big tariffs on China (10% on $200 billion of imports), and the global data may now only be catching up with the resulting chill in activity. Germany, in particular, has been harshly sideswiped by the cooldown in trade, and in China's economy specifically. As one wag put it, *"another day, another piece of terrible German data"*. The stand-out was a fourth consecutive monthly drop in industrial production in December, leaving it down a hefty 3.9% y/y. That's weaker than in the depths of the Euro crisis, and cannot be explained away by any special factor as many sectors are flagging. This coming week will bring Q4 GDP results for Germany and the EU.

To highlight just some of the sickly figures pointing to a notable slowdown in global trade:

- The Baltic Dry Index fell to its lowest level in almost three years this week and is now down 44% y/y.
- U.S. imports tumbled 2.9% in the (delayed) November trade figures.
- A measure of global trade volumes (from CPB) sagged 1.3% in the three months to November, its biggest slide since mid-2015.

In this environment, there was a wave of downgrades to the 2019 growth outlook in the industrial world, which, in some cases, took an end run around our already subdued forecasts. Most notably, the EU carved its call for GDP this year to 1.3% (from 1.9% as recently as November), while the BoE cut the U.K. call to 1.2% (from 1.7%, also in November). Even the lucky country got into the act, with the RBA slicing its GDP outlook half a point (albeit to a still solid 2.75%—this is, after all, the country that hasn't had a recession since pre-internet days, or around the time the wheel was discovered). While none of the revised forecasts are especially controversial or surprising, the synchronicity of the sudden downgrades is telling, and simply reinforces the point that **we are in a very long pause for interest rate hikes globally.**

The Bank of Canada was arguably at the forefront of the global growth downgrades, having chopped its 2019 call way back in the first full week of the year. At that time, the MPR sliced the GDP outlook to 1.7% (a snick below our current call of 1.8%) and down from the previous 2.1% projection. And recent results such as the 0.1% drop in November GDP and ongoing softness in domestic auto sales (-7.3% y/y in January) seemed to fully reinforce the more subdued outlook.

Of course, in oh-so-typical Canadian fashion, this week's run of data suddenly turned perky, highlighted by a powerful 66,800 jump in January jobs (replete with a record 111,500 surge in private sector positions), as well as solid readings on permits and starts. While we wouldn't call employment a lagging indicator—it's actually a very good co-incident indicator, historically—Canada's jobs figures are about as consistent as the Rams' offence (but the punting, wow). Beyond that unreliability, headline job gains are flattered by the fact that the working age population is soaring as well, up a record 432,000 in the past year (or 36,000 a month). In other words, Canada requires a steady stream of employment gains that appear strong on the surface, just to keep the unemployment rate steady. Even after just reeling off the strongest five-month run of job gains since 2002, the 5.8% unemployment rate is now unchanged from last year's average.

Trade Tidbits

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

This week's parade of previously postponed data and events provided several glimpses into the state of U.S. trade and related policy. For example, in the State of the Union Address, President Trump urged Congress to pass the USMCA and cited current trade talks with China.

There are still **several procedural hurdles** to cross before Congress will begin officially considering a USMCA bill. Once the latter process commences, the House Ways and Means Committee and the Senate Finance Committee will each have up to **45 legislative days** to debate and approve the bill. Then, the full House of Representatives and Senate will each have up to **15 days** to debate and approve the bill. Since no amendments are allowed to the final bill under this fast-track process, both congressional bodies can consider it at the same time, although this is not required. Assuming Congress sits three times a week, on average, it **could take over 30 weeks** to pass the USMCA (which could stretch out to over 60 weeks if the Senate waits until the House passes the bill first). Importantly, since the USMCA involves tariffs, it's considered a "money bill", which must be first introduced in the House.

Some House Democrats and Republicans have already voiced their displeasure with the USMCA. These Democrats are calling for stronger language on labour and environmental issues (recall that the original NAFTA required separate side deals with Mexico and Canada on these issues in order to secure House passage). Meanwhile, these Republicans are arguing that the deal went too far in undermining the competitiveness of the North American auto industry or in its worker protections against employment discrimination. As part of the bill-crafting process, the White House still has to provide Congress with a final text of the USMCA (only a draft agreement was signed on November 30), a draft of implementing legislation, and assessments of the labour and environment aspects of the agreement along with an enforcement plan. Also, the International Trade Commission's assessment of the *"Likely Impact on the U.S. Economy and on Specific Industry Sectors"* is due by March 15 (105 days after President Trump signed the draft agreement). It's unclear how the timelines for these various items and the crafting of a final bill were impacted by the partial government shutdown. Even if no political shenanigans interfere with the process (highly unlikely), **it looks like getting the USMCA passed this year will be a challenge.**

On the U.S./China trade deal, a delegation led by U.S. Trade Representative Lighthizer and Treasury Secretary Mnuchin is headed to Beijing next week to continue talks that ended unfruitfully in Washington on January 31, and also to lay the groundwork for a meeting between Presidents Trump and Xi. However, it now looks like that meeting will take place after March 1, which is the last day of postponement of the increase in tariffs from 10% to 25% on $200 billion of Chinese goods. We reckon the postponement will be extended. As long as talks continue, **we expect no further escalation of the U.S./China trade war, but we don't expect any de-escalation either.**

Finally, it was reported that the goods and services trade deficit shrank more than anticipated in November. The shortfall fell to $49.3 billion from $55.7 billion in October. With exports dipping slightly, all of the surprise improvement (and then some) was owing to a 2.9% drop in imports (and this wasn't due to lower oil prices).

The latter was likely payback for the previous six consecutive months of import gains (a cumulative 4.4%) which was partly driven by buying in advance of the application of tariffs. Even allowing for pre-buying and stockpiling, **U.S. imports have held up relatively well, despite the tariffs, reflecting sturdy domestic demand and the beneficial impact of U.S. dollar appreciation.** MJG

Vancouver's Housing Market: Down is the New Up

Sal Guatieri
Senior Economist
sal.guatieri@bmo.com
416-359-5295

Oh, how the mighty have fallen. Of all Canadian housing markets, none have been hit harder in the past year than Vancouver. Existing home sales plunged 39% in January from an easy year-ago comparison (the month the stress tests on uninsured mortgages kicked in) to their lowest level for this month since the recession. To be fair, the rest of the country has also piped down, though sales are off a lesser 17% to December. Even in oil-soaked Alberta and Saskatchewan, sales haven't fallen as fast as in Vancouver.

Meantime, a **flood of new listings has hit the market**, boosting active listings 56% in the past year. The increased supply has given detached home buyers the upper hand, though condos are also veering this way. Not surprisingly, benchmark **prices have fallen 4.5% in the past year**. After peaking at $1.61 million in September 2017, detached property prices are down 9.9% to $1.45 million, close to a three-year low. The slide surpasses the 6.4% decline that followed the non-resident buyers' tax in mid-2016. Condo prices, which peaked at $709,200 in June 2018, are off 7.1% to $658,600. With no sign of steadying, **prices should continue to sag this year**. On the bright side, at least for longer-term owners, detached home prices are still up 45% since punching through $1 million in late 2014. The latest correction also pales compared with earlier ones, including declines of 15%, 17% and 35% in the last three national recessions.

The correction is not difficult to explain. The stress tests, combined with higher mortgage rates, pummeled already **poor affordability**. Meantime, an increase in the non-resident buyers' tax from 15% to 20% a year ago, combined with more stringent capital controls in China, **stemmed the influx of foreign wealth** to the region. Since mortgage payments on the purchase of a benchmark property would gobble up two-thirds (69%) of median-family pay—up from 37% earlier this century, and 84% to qualify under the stress test—wealth is key to sustaining some of the highest priced houses on earth. Even condos are beyond the reach of most families, as mortgage payments would eat up 43% of gross income.

Prices should stabilize next year. Vancouver continues to enjoy solid job growth (1.8% y/y in January) and relatively low unemployment (5.2%). British Columbia is expected to lead the country in job creation this year. Immigration will continue to support household formation, another key driver of demand. On the supply side, housing starts are consistent with population growth after an earlier spike led to a record number of units under construction. The previous building boom addressed a lean supply of new homes and a drum-tight rental market. The vacancy rate for purpose-built apartments is just 1.0% (October 2018), sending rents up 6.2% y/y, while the vacancy rate for condo rentals is a tiny 0.3%.

Vancouver is the only Canadian city now deemed "highly overvalued" by the CMHC, after the housing watchdog recently dropped this rating for Toronto and

Victoria. However, if prices weaken further this year while demand and supply fundamentals remain solid, **Vancouver should also see a slow improvement in affordability and steadier prices next year**. Sal

The Winds of Change in Europe

Jennifer Lee
Senior Economist
jennifer.lee@bmo.com
416-359-4092

It was early 2018. There was much pride about how far Europe's economies had come. In particular, real GDP in France surged 2.5% annualized in 2017Q4, (or 1.8% for all of 2017, the best performance in six years), just ahead of the European powerhouse that is Germany, while also besting Italy, the U.K., Japan, and Canada. Only the U.S. beat France's quarterly growth rate, but just barely. That was great news for President Macron, bolstering his confidence as he looked ahead to the 2019 European parliamentary elections, citing room for European reform.

It is now 2019. That sense of pride is no longer evident. The French President has reluctantly shifted his attention away from the global arena in order to deal with **domestic unrest** (Yellow Vests); and, now, a disagreement with neighbouring Italy. There is some good news as France's economy somehow managed to avoid getting hammered in Q4 by the weekly demonstrations (real GDP rose 1.1% a.r.). And, unlike in Germany, Italy and Spain, industrial production actually rose in France at year-end.

But President Macron made a pricey misstep. In December, to appease the protestors, he promised to not only delay a planned gas hike, but would raise the minimum wage and postpone a tax hike for pensioners, all at a cost of €10 bln. That expensive price tag pushed France's 2019 budget deficit target to over 3% as a share of GDP, well beyond the EC's limit. This resulted in a hand slap from Brussels, and a warning from the state auditor. But it also caught Italy's attention; still smarting from the EU's threat to impose penalties as its spending plans pushed the budget deficit ratio sharply higher. Why wasn't France receiving the same treatment? After all, "*The rules should apply to all.*" The EU defended this seeming double-standard ("*The situations are totally different. The European Commission has been monitoring the Italian debt for several years; we have never done that for France.*"), which made Italy's populist government livid. Stirring the pot, Deputy PM Luigi Di Maio threw his support behind the Yellow Vest protestors, and even met with their leader, Alessandro Di Battista. Mr. Di Maio called it a "*beautiful meeting*" (why does that sound familiar?) and warned that "*the wind of change has crossed the Alps.*" Now, for the first time since WWII, France recalled its ambassador from Rome.

Where am I going with this? This May's European parliamentary elections will be very interesting. Chancellor Merkel is no longer seen as the leader of Europe, and President Macron, who fancied himself as her #2, has also seen his power weakened. Then there is Britain, which may or may not still be part of the EU.

Bottom Line: There is an opening at the top and it is clear that far-right parties in countries such as Italy (Salvini), France (Le Pen) and the Netherlands (Wilders), as well as Hungary (Orban), will pounce. JLee

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

	Good News	Bad News
Canada ▪ BoC Dep. Gov. Lane says C$ weakness will help support the economy	**Employment** +66,800 (Jan.) **Average Hourly Wages** +2.0% y/y (Jan.) **Building Permits** +6.0% (Dec.)	**Jobless Rate** +0.2 ppts to 5.8% (Jan.)—but on higher part. rate **Housing Starts** -2.7% to 207,968 a.r. (Jan.) **Ivey PMI** -5.0 pts to 54.7 (Jan.)
United States ▪ Pres. Trump won't meet Pres. Xi before tariff deadline ▪ Equity market rally fades on trade fears ▪ Fed Chair Powell sounds more upbeat with economy "*in a good place*"	**Trade Deficit** narrowed to $49.3 bln (Nov.) **Consumer Credit** +$16.6 bln (Dec.) **Initial Claims** -19k to 234k (Feb. 2 week)	**Factory Orders** -0.6% (Nov.) **Non-manufacturing ISM** -1.3 pts to 56.7 (Jan.)
Japan ▪ Mixed data help BoJ's easy-policy stance	**Household Spending** +0.1% y/y (Dec.) **Services PMI** +0.6 pts to 51.6 (Jan.) **Bank Lending Ex-Trusts** +2.4% y/y (Jan.)	**Current Account Surplus** narrowed to ¥452.8 bln (Dec.) **Composite PMI** -1.1 pts to 50.9 (Jan.)
Europe ▪ EC cuts Euro Area growth outlook to 1.3% this year (from 1.9%) ▪ BoE on hold and cuts growth outlook amid Brexit	**Germany—Trade Surplus** widened to €19.4 bln (Dec.) **France—Trade Deficit** narrowed to €4.6 bln (Dec.) **France—Industrial Production** +0.8% (Dec.)	**Euro Area—Retail Sales** -1.6% (Dec.)—biggest drop in 7½ yrs **Euro Area—Producer Prices** -0.8% (Dec.) **Euro Area—Services PMI** revised up to 51.2; **Composite PMI** revised up to 51.0 (Jan.)—but still low **Germany—Factory Orders** -1.6% (Dec.) **Germany—Industrial Production** -0.4% (Dec.) **Italy—Retail Sales** -0.7% (Dec.) **Italy—Industrial Production** -0.8% (Dec.) **Italy—Consumer Prices** -1.7% (Jan. P) **U.K.—Services PMI** -1.1 pts to 50.1; **Construction PMI** -2.2 pts to 50.6; **Composite PMI** -1.1 pts to 50.3 (Jan.)
Other ▪ RBA on hold and shifts to neutral policy stance ▪ RBI cuts 25 bps to 6.25% ▪ Brazil and Mexico on hold	**Australia—Trade Surplus** widened to A$3.7 bln (Dec.)	**China—Caixin Services PMI** -0.3 pts to 53.6; **Composite PMI** -1.3 pts to 50.9 (Jan.) **Australia—Retail Sales** -0.4% (Dec.) **Australia—Building Approvals** -8.4% (Dec.)

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

2021: A Price Oddity

Sal Guatieri
Senior Economist
sal.guatieri@bmo.com
416-359-5295

"This mission is too important for me to allow you to jeopardize it"
—HAL 9000 to Dave in *2001: A Space Odyssey*

"I would want to see a need for further rate increases, and for me a big part of that would be inflation"
—Federal Reserve Chair Powell, January 30, 2019

When even the Fed Chair questions the need to lift interest rates further, despite the lowest jobless rate in nearly half a century, you know something odd is happening with inflation. That something is largely due to the restraining effect of automation and digital technologies. Advanced automation is raising business efficiencies, suppressing wage demands of workers anxious about displacement,[1] and lowering the cost of information and communications gear (*Chart 1*). In fact, **automation has the potential to reduce inflation on a wide number of fronts**.[2]

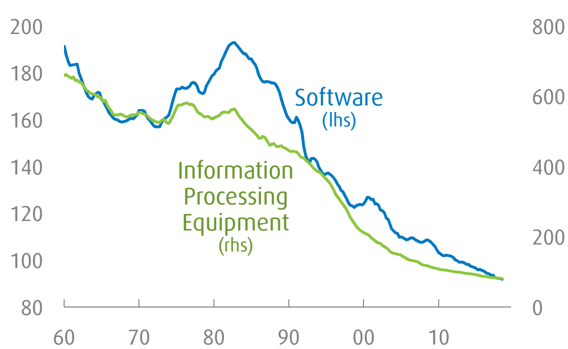
Robots are routinely used in factories to cut costs. World-wide sales of industrial robots jumped 30% to over 381,000 units in 2017.[3] The average number per 100 factory workers rose 15% to 0.9. South Korea led the way with 7.1 robots per 100 workers followed by Singapore (6.6) and Germany (3.2), while the U.S. and Canada placed seventh and thirteenth. Although robots account for a small share of productive capacity, their use is growing and will accelerate as they get cheaper and more useful. Today, "smart manufacturing" uses robots equipped with sensors, 3D printing and artificial intelligence (AI) to streamline the factory process, from supply chains to fabrication to quality control. Sensors are reducing downtime arising from equipment failure and parts shortages, while giving robots increased mobility. Robotic arms are approaching the versatility of a human hand.

Automation is also lowering retail prices. By automating almost every facet of its massive distribution centres, Amazon uses just one minute of human labour (and falling) after a product is ordered to get it onto a delivery truck. Using robots that can carry up to 750 pounds and AI to choose the correct package size, goods are quickly sourced, boxed and delivered. The largest of its 24 fulfillment centres in North America can process one million orders a day, giving a sense of the magnitude of savings. Using an advanced logistics system, U.K. online grocery store Ocado can deliver groceries at about the same

Chart 1
Always On Sale

United States (2012 = 100)

Private Non-res. Investment Chain Price Index



Sources: BMO Economics, Haver Analytics

1 June 16, 2017 *Focus Feature* "Wage Against the Machine". https://economics.bmocapitalmarkets.com/economics/focus/20170616/feature.pdf

2 However, there is likely still an inflection point in the economy where joblessness becomes so low that price pressures emerge. We currently believe this point is around 3.5% in the U.S. and 5.5% in Canada, though it could be lower.

3 International Federation of Robots. "Executive Summary World Robotics 2018 Industrial Robots" https://ifr.org/downloads/press2018/Executive_Summary_WR_2018_Industrial_Robots.pdf

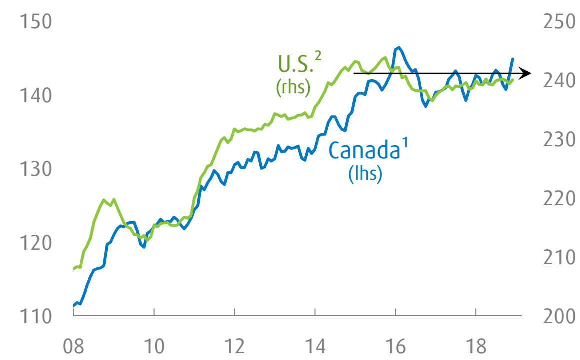
cost as provided in a store. Technological advances in growing and processing food are one reason groceries, on average, cost little more today than three years ago (*Chart 2*). The ultimate goal of retailers is to store and process physical goods about as efficiently as digital data, providing faster service at lower cost.

The next major source of cost savings from automation is delivery. Just as the internet transformed the distribution of financial services and digital entertainment, advanced robots, self-driven vehicles and AI will revolutionize the transportation of physical goods, cutting costs in the process. In coming decades, robots will load goods onto self-driven trucks and drones, while AI-driven apps will mine data on traffic, weather conditions and road closures to calculate the optimal delivery route.[4] In fact, drones may even deliver hot coffee as you walk to work (don't laugh, IBM has a patent on it!). The aim is to deliver products super-fast, say within an hour, dealing a further blow to bricks-and-mortar stores—few of which will be inclined to hike prices.

Chart 2

On A Diet

CPI for Food Purchased from Stores



¹ 2002 = 100 ² 1982-84 = 100

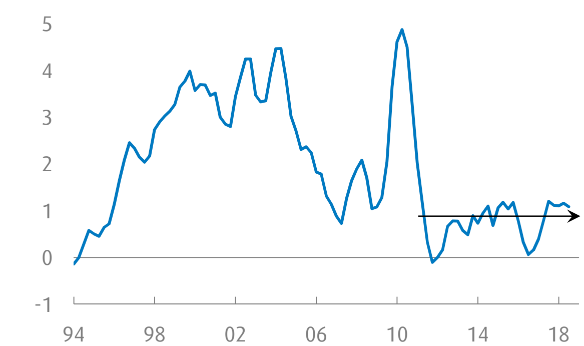
Sources: BMO Economics, Haver Analytics

Chart 3

Where's The Payoff?

United States (y/y % chng : 4-qtr m.a.)

Business Sector Labour Productivity



Sources: BMO Economics, Haver Analytics

The **use of advanced automation to cut costs is extensive**. AI-driven conversational skills will allow kiosks to better interact with people. Enhanced vision will allow robots to recognize obstacles (like people) and work safely around employees and customers. Walmart plans to roll out AI-driven robots to clean its floors. More retailers will use robots to roam aisles and scan shelves for real-time inventory monitoring. AI can now recognize images, objects and faces better than humans. As a result, farmers can apply pesticides directly on weeds instead of crops, reducing the amount used (and ingested by people). Kiosks using facial recognition technology will check guests into hotels and greet customers in stores. AI will one day replace almost all customer service (no more repeating the same gripe to a parade of representatives). Real-time language translation will facilitate business travel. As automation performs more non-routine tasks, companies will potentially gain further leverage in controlling wages, keeping a lid on roughly 70% of operating costs.

Technology is relentless in fostering competition. Workers vie with robots, bricks-and-mortar stores contend with online sellers, hotels compete with Airbnb landlords, and taxi drivers go toe-to-toe with Uber drivers. The end result is that more companies and workers are reluctant to seek higher prices for their wares. Wages are being held back for all but a small group of workers developing and operating advanced automation and AI, or those using the technology to become more efficient. This, in part, explains the downward lurch in labour's share of income.[5]

To be sure, **automation hasn't done much for productivity this decade** (*Chart 3*). That's because it hasn't made large inroads outside of manufacturing, in sectors such

4 Google Maps and Waze are already highly proficient at mapping out routes.

5 U.S. labour compensation averaged 56.8% of nominal output in the past decade to 2018Q3, compared with the previous post-war norm of 62.8%.

as health care, education, housing and labour-intensive services (think restaurants, hotels and nursing homes). Consequently, the share of robots to workers remains small, held back by their high cost, lack of skilled operators and safety concerns. Automation may even be depressing aggregate productivity growth by displacing some highly efficient workers and pushing them into lower productivity (and lower paying) services, while creating relatively few very-high productivity positions. Furthermore, companies are inclined to retain staff as backup for machines that can't perform all tasks and are prone to failure, or simply because many customers still prefer a human touch. However, given rapid advances in robotic vision, mobility and dexterity, it's likely a **matter of time before some productivity payoff emerges**. AI is even trying to give robots the ability to express empathy (or at least fake sincerity).

Bottom Line: By enhancing competition, suppressing wages and lowering costs, advanced automation is clamping down on inflation from many angles. As robots multiply in the workplace, machine learning gets smarter, and digital technology rolls out to more sectors, the dampening effect on inflation will intensify, reinforcing low interest rates. The internet and digital technologies have conditioned people to want things faster and cheaper, forcing companies to automate or die—essentially creating a virtuous cycle for consumers, and inflation.

Economic Forecast Summary for February 8, 2019

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.)	1.7	2.9	2.0	1.2	1.0	2.5	2.2	1.9	3.0	2.0	1.8
Consumer Price Index (y/y % chng)	2.1	2.3	2.7	2.0	1.5	1.8	1.7	2.0	1.6	2.3	1.8
Unemployment Rate (percent)	5.8	5.9	5.9	5.7	5.8 ↑	5.8 ↑	5.7	5.7	6.3	5.8	5.7
Housing Starts (000s : a.r.)	224	218	197	217	209 ↓	207	204	200	220	214	205
Current Account Balance ($blns : a.r.)	-69.3	-66.7	-41.4	-56.4	-55.8	-56.2	-57.5	-58.4	-60.1	-58.5	-57.0
Interest Rates					(average for the quarter : %)						
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.83	0.71	1.44	1.77
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.65	1.65	1.85 ↑	0.69	1.37	1.70 ↑
10-year Bond	2.24	2.28	2.28	2.32	1.95	2.00	2.05	2.10	1.78	2.28	2.00
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	-44	-66	-61	-70	-77 ↑	-76 ↑	-76 ↑	-76 ↑	-26	-60	-76 ↑
10-year	-52	-64	-65	-72	-77 ↓	-76	-76 ↓	-75	-55	-63	-76
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.6	1.6	2.5	2.0	1.9	2.2	2.9	2.4
Consumer Price Index (y/y % chng)	2.3	2.6	2.6	2.2	1.8	2.0	2.0	2.1	2.1	2.4	2.0
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.7	3.6	3.5	4.4	3.9	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.24	1.26	1.24	1.23	1.21	1.21	1.26	1.24
Current Account Balance ($blns : a.r.)	-487	-405	-499	-490 ↑	-521 ↑	-535 ↑	-547 ↑	-557 ↑	-449	-470 ↑	-540 ↑
Interest Rates					(average for the quarter : %)						
Fed Funds Target Rate	1.46	1.71	1.96	2.21	2.38	2.38	2.38	2.46	1.00	1.83	2.40
3-month Treasury Bill	1.58	1.87	2.08	2.36	2.40	2.40	2.40	2.60	0.95	1.97	2.45
10-year Note	2.76	2.92	2.93	3.03	2.70	2.75	2.80	2.85	2.33	2.91	2.75 ↓
EXCHANGE RATES					(average for the quarter)						
US¢/C$	79.1	77.5	76.5	75.7	75.2	75.3	75.4	75.4	77.1	77.2	75.3
C$/US$	1.27	1.29	1.31	1.32	1.33	1.33	1.33	1.33	1.30	1.30	1.33
¥/US$	108	109	112	113	109	109	110	110	112	110	109
US$/Euro	1.23	1.19	1.16	1.14	1.14	1.15	1.16	1.17	1.13	1.18	1.15
US$/£	1.39	1.36	1.30	1.29	1.30 ↓	1.32 ↓	1.32	1.31	1.29	1.34	1.31 ↓

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
Friday, 9:00 am (expected)

	Existing Home Sales	Average Prices
Jan. (e)	**-8.0% y/y**	**-1.0% y/y**
Dec.	-19.0% y/y	-4.9% y/y
	MLS Home Price Index	
Jan. (e)	**+1.3% y/y**	
Dec.	+1.6% y/y	

January home sales are going to look less weak on an easy comparison, as the first month of 2018 was ugly with the B-20 mortgage rules coming into effect. The double-digit year-over-year drop we saw in December is expected to improve to -8% y/y to start 2019. Vancouver continues to struggle and appears to be in full correction mode. The Prairies remain under pressure as oil prices had a tough run late last year and broader activity in the region is relatively soft. Ottawa and Montreal are expected to be the bright spots amid decent affordability and firm economic activity. Toronto rebounded nicely in January with sales showing their best monthly increase since July. Accompanying better activity figures, average prices look to fall just 1% y/y. The quality-adjusted MLS HPI is expected to decelerate further to 1.3% y/y.

United States

Michael Gregory, CFA
Deputy Chief Economist
michael.gregory@bmo.com
416-359-4747
Sal Guatieri
Senior Economist
sal.guatieri@bmo.com
416-359-5295

Consumer Prices
Wednesday, 8:30 am

Jan. (e)	**unch**	**+1.3% y/y**
Consensus	*+0.1%*	*+1.5% y/y*
Dec.	-0.1%	+1.9% y/y
	CPI Ex. Food & Energy	
Jan. (e)	**+0.2%**	**+2.0% y/y**
Consensus	*+0.2%*	*+2.1% y/y*
Dec.	+0.2%	+2.2% y/y

Another large decline in gasoline prices should offset increases elsewhere to keep the CPI unchanged in January. But, given the monthly gain a year ago, this will pull down the headline rate to 1.3% y/y, a near-2½-year low, from 1.9% y/y in December. Indeed, the inflation rate has been cut almost in half over the past three months (it was 2.5% y/y in October) due to plunging gasoline prices. Meanwhile, we look for another 0.2% gain in the core CPI (the third in a row). But, again, given the monthly move a year ago, this will pull down the annual core rate to 2.0% y/y from 2.2% y/y (the shorter-term trends should, however, remain at 2.5% annualized for 3 months and 2.1% for 6 months). Despite cost pressures from wages and tariffs, businesses are having a hard time passing these along to retail customers.

Retail Sales
Thursday, 8:30 am

		Ex. Autos
Dec. (e)	**unch**	**-0.1%**
Consensus	*+0.1%*	*unch*
Nov.	+0.2%	+0.2%
	Ex. Autos & Gas	
Dec. (e)	**+0.4%**	
Consensus	*+0.4%*	
Nov.	+0.5%	

Sliding gas station receipts will gouge December retail sales, masking an otherwise merry holiday shopping season, according to chain-store and credit-card receipts. New auto sales also held to the fast lane, cruising above the full-year tally of 17.2 million. While total retail sales were likely unchanged in December, sales excluding autos and gas stations should rise a solid 0.4% following an even larger gain the prior month. With business investment and exports downshifting, households are now fully in the driver's seat of the expansion, and they seem to have plenty of gas left in the tank.

Industrial Production
Friday, 9:15 am

	Industrial Production	Capacity Utilization
Jan. (e)	**+0.4%**	**78.9%**
Consensus	*+0.2%*	*78.8%*
Dec.	+0.3%	78.7%

We look for a solid 0.4% increase in January industrial production, in line with the two-month average and despite a likely slight setback in factory output. Although the ISM production index rebounded from the prior month's sharp drop, aggregate hours worked in manufacturing ebbed. However, this should be more than offset by output gains in the mining sector (reflecting record-high crude oil production) and utilities (as more "normal" winter temperatures emerged and, later, a polar vortex). An expected 0.4% advance in total output should raise the capacity utilization rate two tenths to 78.9%, the highest in more than four years.

		Feb 8 [1]	Feb 1	Week Ago	4 Weeks Ago	Dec. 31, 2018
					(basis point change)	
Canadian Money Market	Call Money	1.75	1.75	0	0	0
	Prime Rate	3.95	3.95	0	0	0
U.S. Money Market	Fed Funds (effective)	2.50	2.50	0	0	0
	Prime Rate	5.50	5.50	0	0	0
3-Month Rates	Canada	1.66	1.66	0	4	2
	United States	2.41	2.39	3	0	6
	Japan	-0.25	-0.26	2	-8	-10
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.88	0.91	-3	-4	-3
	Australia	2.01	2.05	-4	-5	-8
2-Year Bonds	Canada	1.77	1.83	-6	-12	-9
	United States	2.46	2.51	-5	-9	-3
10-Year Bonds	Canada	1.89	1.96	-7	-7	-8
	United States	2.63	2.69	-6	-7	-6
	Japan	-0.03	-0.02	-1	-5	-3
	Germany	0.09	0.17	-8	-15	-15
	United Kingdom	1.15	1.25	-10	-14	-13
	Australia	2.10	2.21	-10	-20	-21
Risk Indicators	VIX	17.0	16.1	0.9 pts	-1.2 pts	-8.4 pts
	TED Spread	28	35	-6	-9	-17
	Inv. Grade CDS Spread [2]	68	66	2	-9	-19
	High Yield CDS Spread [2]	365	354	12	-39	-85
					(percent change)	
Currencies	US¢/C$	75.38	76.32	-1.2	0.0	2.8
	C$/US$	1.327	1.310	—	—	—
	¥/US$	109.73	109.50	0.2	1.2	0.0
	US$/€	1.1329	1.1456	-1.1	-1.2	-1.2
	US$/£	1.293	1.308	-1.1	0.7	1.4
	US¢/A$	70.96	72.50	-2.1	-1.6	0.7
Commodities	CRB Futures Index	177.88	180.55	-1.5	-0.1	4.8
	Oil (generic contract)	52.58	55.26	-4.8	1.9	15.8
	Natural Gas (generic contract)	2.58	2.73	-5.6	-16.7	-12.2
	Gold (spot price)	1,315.01	1,317.65	-0.2	2.1	2.5
Equities	S&P/TSX Composite	15,587	15,506	0.5	4.3	8.8
	S&P 500	2,689	2,707	-0.7	3.6	7.3
	Nasdaq	7,248	7,264	-0.2	4.0	9.2
	Dow Jones Industrial	24,971	25,064	-0.4	4.1	7.0
	Nikkei	20,333	20,788	-2.2	-0.1	1.6
	Frankfurt DAX	10,907	11,181	-2.4	0.2	3.3
	London FT100	7,071	7,020	0.7	2.2	5.1
	France CAC40	4,962	5,019	-1.1	3.8	4.9
	S&P ASX 200	6,071	5,863	3.6	5.1	7.5

[1] = as of 12:30 pm [2] = One day delay

Global Calendar

February 11 – February 15

BMO Capital Markets®

Monday February 11

Japan

Markets Closed

U.K.

Real GDP

Q4 P (e)	**+0.3%**	**+1.4% y/y**
Q3	+0.6%	+1.5% y/y

Monthly Real GDP

		3m/3m
Dec. (e)	**unch**	**+0.3%**
Nov.	+0.2%	+0.3%

Index of Services 3m/3m

Dec. (e)	**+0.4%**
Nov.	+0.3%

Industrial Production

Dec. (e)	**+0.1%**	**-0.5% y/y**
Nov.	-0.4%	-1.5% y/y

Manufacturing Production

Dec. (e)	**+0.2%**	**-1.1% y/y**
Nov.	-0.3%	-1.1% y/y

Trade Deficit

		Non-EU
Dec. (e)	**£12.0 bln**	**£3.8 bln**
Nov.	£12.0 bln	£3.9 bln

Other

CHINA

Aggregate Yuan Financing [D]

Jan. (e)	**3.30 trln**
Dec.	1.59 trln

New Yuan Loans [D]

Jan. (e)	**2.97 trln**
Dec.	1.08 trln

M2 Money Supply [D]

Jan. (e)	**+8.2% y/y**
Dec.	+8.1% y/y

Foreign Direct Investment [D]

Jan.	
Dec.	+24.9% y/y

Foreign Reserves [D]

Jan. (e)	**$3.08 trln**
Dec.	$3.07 trln

Tuesday February 12

Japan

Tertiary Industry Index

Dec. (e)	**-0.1%**
Nov.	-0.3%

Machine Tool Orders

Jan. P	
Dec.	-18.3% y/y

Other

AUSTRALIA

NAB Business Confidence

Jan.	
Dec.	3

Wednesday February 13

Japan

Producer Price Index

Jan. (e)	**-0.2%**	**+1.0% y/y**
Dec.	-0.6%	+1.5% y/y

Euro Area

EURO AREA

Industrial Production

Dec. (e)	**-0.4%**	**-3.2% y/y**
Nov.	-1.7%	-3.3% y/y

U.K.

Consumer Price Index

Jan. (e)	**-0.7%**	**+2.0% y/y**
Dec.	+0.2%	+2.1% y/y

Core CPI

Jan. (e)	**+1.9% y/y**
Dec.	+1.9% y/y

Producer Price Index

Jan. (e)	**unch**	**+2.2% y/y**
Dec.	-0.3%	+2.5% y/y

Other

CHINA

Trade Surplus [D]

	in USD	**in CNY**
Jan. (e)	**$32.0 bln**	**236.0 bln**
Dec.	$57.1 bln	395.0 bln

AUSTRALIA

Westpac Consumer Confidence

Feb.	
Jan.	-4.7%

NEW ZEALAND

RBNZ Monetary Policy Meeting

Thursday February 14

Japan

Real GDP

Q4 P (e)	**+0.4%**	**+0.1% y/y**
Q3	-0.6%	unch y/y

Euro Area

EURO AREA

Real GDP

Q4 P (e)	**+0.2%**	**+1.2% y/y**
Q4 A	+0.2%	+1.2% y/y
Q3	+0.2%	+1.6% y/y

GERMANY

Real GDP

Q4 P (e)	**+0.1%**	**+0.8% y/y**
Q3	-0.2%	+1.1% y/y

U.K.

RICS House Price Balance

Jan. (e)	**-20%**
Dec.	-19%

Parliament debates and votes on additional Brexit amendments

Other

U.S./China Trade Talks in Beijing (Feb. 14-15)

Friday February 15

Japan

Industrial Production

Dec. F (e)	**-0.1%**	**-1.9% y/y**
Nov.	-1.0%	+1.5% y/y

Euro Area

EURO AREA

Trade Surplus

Dec. (e)	**€16.3 bln**
Nov.	€15.1 bln

U.K.

Retail Sales (incl. Fuel)

Jan. (e)	**+0.2%**	**+3.4% y/y**
Dec.	-0.9%	+3.0% y/y

Other

CHINA

	CPI	**PPI**
Jan.		
Dec.	+1.9% y/y	+0.9% y/y

[D] = date approximate

Upcoming Policy Meetings | BoE: Mar. 21, May 2, June 20 | ECB: Mar. 7, Apr. 10, June 6

North American Calendar
February 11 – February 15

BMO Capital Markets®

Canada

Monday February 11

Cdn. Merchandise Trade Balance (originally scheduled for Tuesday, Feb. 5) will be rescheduled due to the U.S. government shutdown

Tuesday February 12

Wednesday February 13

Noon — 5-year bond auction $3.0 bln

Thursday February 14

8:30 am	**Mfg. Sales**	**Mfg. New Orders**
Dec. (e)	**-0.5%**	**unch**
Nov.	-1.4%	-2.9%

8:30 am	**New Housing Price Index**	
Dec. (e)	**unch**	**unch y/y**
Nov.	unch	unch y/y

8:30 am	**New Motor Vehicle Sales**[D]
Dec. (e)	**-7.5% y/y**
Nov.	-7.8% y/y

30-year real return bond auction announcement

Friday February 15

8:30 am	**Int'l Securities Transactions Inflows**	**Outflows**
Dec.		
Nov.	$9.5 bln	-$4.1 bln

9:00 am	**Existing Home Sales**[D]	**Average Prices**
Jan. (e)	**-8.0% y/y**	**-1.0% y/y**
Dec.	-19.0% y/y	-4.9% y/y

9:00 am	**MLS Home Price Index**[D]
Jan. (e)	**+1.3% y/y**
Dec.	+1.6% y/y

United States

Monday February 11

8:30 am — **Consumer Price Index (benchmark revisions)**

10:00 am — **MBA Mortgage Delinquencies**[D] **(Q4)**

Fed Speaker: Governor Bowman (11:15 am)

11:30 am — 13- & 26-week bill auction $84 bln

New dates for previously delayed releases:

- Durable Goods Orders (Dec.); Real GDP by Industry (Q3) — Feb. 21
- Wholesale Trade (Dec.) — Feb. 25
- Housing Starts/Building Permits (Dec.); State Real GDP (Q3) — Feb. 26
- Factory Orders; Advanced Indicators (Dec.) — Feb. 27
- Real GDP (Q4 A); Homeowner Vacancy Rate (Q4) — Feb. 28
- Personal Income & Spending (Dec.); Personal Income only (Jan.) — March 1
- Construction Spending (Dec.) — March 4
- New Home Sales (Dec.) — March 5
- Goods & Services Trade Deficit (Dec.) — March 6
- Business Inventories (Dec.) — March 11
- Services Survey (Q4) — March 21

Tuesday February 12

6:00 am	**NFIB Small Business Optimism Index**
Jan. (e)	**103.0**[C]
Dec.	104.4

8:30 am — **Producer Price Index (benchmark revisions)**

10:00 am — **Job Openings & Labor Turnover Survey (Dec.)**

12:45 pm — Fed Chair Powell speaks on Economic Development in High Poverty Rural Communities

Fed Speakers: Cleveland's Mester (6:30 pm), Kansas City's George (7:30 pm)

11:00 am — 4- & 8-week bill announcements

Wednesday February 13

7:00 am	**MBA Mortgage Apps**
Feb. 8	
Feb. 1	-2.5%

8:30 am	**Consumer Prices**	
Jan. (e)	**unch**	**+1.3% y/y**
Consensus	*+0.1%*	*+1.5% y/y*
Dec.	-0.1%	+1.9% y/y

8:30 am	**CPI Ex. Food & Energy**	
Jan. (e)	**+0.2%**	**+2.0% y/y**
Consensus	*+0.2%*	*+2.1% y/y*
Dec.	+0.2%	+2.2% y/y

2:00 pm	**Budget Balance**
Dec. '18	
Dec. '17	-$23.2 bln

Fed Speakers: Cleveland's Mester (8:50 am); Atlanta's Bostic (8:50 am); Philadelphia's Harker (noon)

Thursday February 14

8:30 am	**Initial Claims**
Feb. 9 (e)	**225k (-9k)**[C]
Feb. 2	234k (-19k)

8:30 am	**Continuing Claims**
Feb. 2	
Jan. 26	1,736k (-42k)

8:30 am	**Retail Sales**	**Ex. Autos**
Dec. (e)	**unch**	**-0.1%**
Consensus	*+0.1%*	*unch*
Nov.	+0.2%	+0.2%

8:30 am	**Retail Sales ex. Autos & Gas**
Dec. (e)	**+0.4%**
Consensus	*+0.4%*
Nov.	+0.5%

8:30 am	**PPI Final Demand**	
Jan. (e)	**+0.2%**	**+2.2% y/y**
Consensus	*+0.1%*	*+2.1% y/y*
Dec.	-0.2%	+2.5% y/y

8:30 am	**PPI Final Demand ex. F&E**	
Jan. (e)	**+0.2%**	**+2.5% y/y**
Consensus	*+0.2%*	*+2.5% y/y*
Dec.	-0.1%	+2.7% y/y

10:00 am	**Business Inventories**
Nov. (e)	**+0.2%**
Oct.	+0.6%

U.S./China Trade Talks in Beijing (Feb. 14-15)

Fed Speaker: Philadelphia's Harker (11:00 am)

11:00 am — 13- & 26-week bill, 2-year FRN[R], 30-year TIPS auction announcements

11:30 am — 4- & 8-week bill auction

Friday February 15

8:30 am	**Import Prices**
Jan. (e)	**unch**
Consensus	*-0.1%*
Dec.	-1.0%

8:30 am	**Empire State Manufacturing Survey**
Feb. (e)	**5.0**
Consensus	*7.5*
Jan.	3.9

9:15 am	**Industrial Production**	**Capacity Utilization**
Jan. (e)	**+0.4%**	**78.9%**
Consensus	*+0.1%*	*78.8%*
Dec.	+0.3%	78.7%

10:00 am	**University of Michigan Consumer Sentiment**
Feb. P (e)	**94.0**
Consensus	*94.0*
Jan.	91.2

4:00 pm	**Net TIC Flows**[D] **Total**	**Long Term**
Dec.		
Nov.	$31.0 bln	$37.6 bln

Temporary Federal government funding expires

Fed Speaker: Atlanta's Bostic (9:55 am)

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

Upcoming Policy Meetings | Bank of Canada: Mar. 6, Apr. 24, May 29 | FOMC: Mar. 19-20, Apr. 30-May 1, June 18-19