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BMO CAPITAL MARKETS ECONOMICS

# Focus

A weekly financial digest

**Douglas Porter, CFA,** Chief Economist, BMO Financial Group

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## Short Soft Patch, or Game Set Match?

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

The gusher of weak global indicators remained in full force this week, with particular softness in manufacturing and trade reports. It's increasingly apparent that the global economy stumbled heavily around the turn of the year, and the critical question at this point—as alluded to in the title—is whether this is "just" a short stretch of weakness, or the beginning of something much more ominous? The rollicking recovery in global equity markets, which rolled on this week, suggests that Mr. Market thinks it's the former. Given our forecast of roughly 2% growth in North America, and the chance of one more rate hike by both central banks, clearly we, too, lean in that direction. Yet, we are keeping an open mind amid the consistency, breadth, and depth of the weakness, as well as the studious failure of bond yields to follow stocks higher.

Making no bones about it, a number of indicators have been shockingly soft of late. To briefly recap this week's tale of woe, China auto sales were down 18% y/y in January, and recall the largest market in the world by far had regularly posted double-digit annual gains until last year. Stateside, the Philly Fed fell heavily in February, existing home sales continued their year-long descent, and leading indicators dipped at the start of the year. In the rest of the G7, both the Euro Area and Japan saw their PMI for manufacturing drop below the key 50 line in February, while German business confidence fell for a sixth consecutive month to a four-year low. Just to reiterate, the economies that have seen the sharpest deceleration in GDP growth over the past year have been Japan and Germany, both of which are extremely dependent on auto exports.

Frustratingly, the raft of weak global reports arrives at a time of a paucity of official U.S. economic releases, leaving us with second-tier, dated, and even dubious data. But, there can be little doubt that activity at the very least took a deep pause for breath at the start of the year. We would ascribe the deeper-than-expected cooling in global growth to three main factors:

1) The intensifying **trade war** prompted an inventory/production swing, where output ramped up in the Fall, only to sag heavily late last year and into early 2019. Korean exports provide a classic example—they soared 10% in the three months to October, only to then plunge 20% by February.

2) The **financial market volatility and stock slide** late last year crushed almost every measure of sentiment and confidence available; and, given the lack of hard U.S. data, private sector surveys have been especially prominent.

3) The **U.S. government shutdown** likely had at least a passing impact, as well, on sentiment and spending. We suspect it clipped Q1 GDP by 0.3 ppts. It may well have contributed to the deep drop seen in U.S. December retail sales; note that Canadian sales for the same month barely budged (-0.1%, as expected).

If these are the three factors that truly drove the early-year weakness, then it is indeed reasonable to believe that this is just a soft patch, and not the beginning of the end of the cycle. Tackling the three factors in reverse order, and thus going from the least to the most important:

With the shutdown done, and the direct impact over, we will not only soon get caught up on the official statistics, but the small direct weight on growth will be lifted. Of

course, the political drama remains seemingly cranked up to 11 permanently, but markets long ago learned to tune that out.

Second, sentiment may begin to turn, and possibly quickly, with the snap-back in stocks. The S&P 500 is now up an astonishing 18% from its December lows, and there are signs that some of the surveys are now mounting a comeback as well. Early examples of modest turns include the NAHB, ISM for manufacturing (unlike in the Euro Area), and consumer confidence (U of M).

Finally, we and the market have been pleasantly surprised at how the U.S./China talks appear to be progressing—President Trump is set to meet with Vice Premier Liu after our publication deadline. While it's been obvious from the start that they couldn't reach a full deal on structural issues in such a short time frame, news this week that there could be MOUs on six areas has to be viewed as significant progress. The structural issues will be a marathon, not the three-month sprint, but this looks to be an encouraging start. While a better tone on U.S./China trade won't turn back the clock on global weakness in factory activity, it could halt the losses. Now, we'll have to see if there is enough progress for the U.S. to not just delay further tariff increases, but possibly even seek a path back from the 10% tariffs they have imposed. The fate of steel & aluminum tariffs on Mexico and Canada, which are still very much with us despite a signed USMCA, are an excellent test case.

Looking ahead to next week, Friday's March 1 deadline for U.S./China trade talks may be a non-issue as early as this afternoon, but markets will grapple with many other hurdles as well. Chair Powell will testify to Congress on Tuesday and Wednesday morning, with a chance to further explain the Fed's abrupt 90 degree turn to neutral. The U.S. data mill will be playing catch-up, with the first estimate of Q4 GDP on Thursday perhaps the most anticipated. We are at 2.6%, but some are much weaker (the Atlanta Fed's model is at just 1.4%). Much more timely data arrive Friday, with the manufacturing ISM and vehicle sales for February both offering a good test case of whether the lull is ending or extending. The key issue for all indicators is simply if they can pull out of the air pocket as quickly as the financial markets did in the past eight weeks. We highly suspect the workout period will be quite a bit longer for the real economy to rebound.

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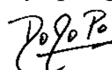
Canada is no island amid the global cooldown, as it has seen its share of weak data recently—as well as one of the most spirited rebounds in stocks. This week's key December releases were uneventful, as both wholesale and retail trade nudged up in volume terms. True, a 0.2% rise in retail volumes won't get too many pulses racing, but that qualifies as a big win in a world of sagging statistics.

The economic calendar cranks up next week as well in Canada, with important news on each of CPI, trade, and GDP for Q4. Governor Poloz was loud and clear in this week's speech that, while he still thinks rates need to eventually get a tad higher, the path to getting there is *"highly uncertain"*. We suspect that a soft CPI result (the headline could droop below 1.5% for January), and a soft end to Q4 for growth (close to 1% for the quarter and at best flat for December GDP) will keep BoC policy in the deep freeze for an extended period… just like most of Canada. On a sidebar to the weather: Memo to Wiarton Willie and Punxsutawney Phil, and your call for an early spring this year—you pampered rodents should leave the forecasting to the experts. 

## Time to Worry?

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

Another week, another weak set of U.S. data. A pattern is emerging, and it's not a pretty one. Still, we are not yet convinced the current sag is anything more nefarious than: 1) the slowdown that everyone (outside the White House) was expecting due to fading fiscal fuel and closing monetary taps; and, 2) some extra sand thrown into the economy's engine from one-off events such as the government shutdown and financial market drama.

On the heels of a gloomy retail sales report, **business spending and manufacturing also appear to be waning**. A fourth decline in core capital goods orders in five months in December, and second straight for machinery, was cause for concern, even if core shipments continue to track higher. Meantime, the Philly Fed Manufacturing index turned negative for the first time in two years in February, suggesting little rebound in nationwide factory output after the prior month's steep 0.8% dive.

The **housing market remains in the cellar**, with resale closings down 1.2% in January to three-year lows. After rising just twice last year, sales are off 8.5% in the past year. To be sure, they are likely to get propped up by the recent decline in mortgage rates, as homebuilders reported a second straight advance in activity in February. Still, it's now unclear whether residential construction will support growth in the first quarter after chipping away last year.

The **leading indicator stepped back** in January, extending a recent setback amid the pullback in equity markets and consumer confidence. The annual rate of increase in the index has nearly halved since September to 3.5%, and is likely headed toward 2% this year. Still, this pace, historically, has been consistent with above-potential GDP growth.

One ray of sunshine among the dark skies was a **hefty retreat in initial jobless claims** toward the half-century lows mined earlier this year. Business leaders may be battening down the hatches, but hiring managers still see relatively calm seas ahead.

The upshot is that, yes **the economy is slowing**, likely from an estimated 3.1% pace in 2018 on a Q4/Q4 basis—the fastest in 13 years—to just 1.6% in the current quarter. But it would be **premature to grab the bailing buckets**. We still expect GDP growth to average just over 2% for the rest of the year—not a bad outcome for an expansion soon to become the longest on record.

## Fed Sees Balance for the Balance Sheet

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

The Minutes of the January 29-30 FOMC meeting released this week revealed the Fed's intention to end balance sheet reduction by the end of 2019. Although Chairman Powell was not as definitive in the post-meeting presser, other Fed officials have been hinting of an end-of-year consensus in the interim, so this was not a complete surprise. The Minutes said: *"Almost all participants thought that it would be desirable to announce before too long a plan to stop reducing the Federal Reserve's asset holdings later this year."* This was in stark contrast to how the Fed sounded just a couple months ago.

On December 19th, amid raising policy rates for the fourth time in 2018, the FOMC signalled that rate hikes would likely continue in 2019 (albeit to a lesser extent), and

that balance sheet reduction would continue on *"autopilot"* (at its current maximum permissible pace of $50 bln/mo). The stock market was not amused.

Up to this point, the market was already suffering from fears about coming U.S./China trade talks, slowing U.S. and global economic growth, a potential U.S. government shutdown and Brexit. Now, adding to this fearsome mix was seemingly unwavering Fed policy normalization and the associated risk that the current business expansion could end the same way all recent expansions have ended—with a lethal dose of Fed tightening. Although the S&P 500 bounced a bit off its Christmas Eve closing low, this still turned out to be the worst December stock market performance (-9.2%) since the Great Depression (1931). The Fed was not amused.

Four days into the New Year, Chairman Powell declared that the Fed was *"listening carefully"* to financial markets, and that *"if we came to the view that the balance sheet normalization plan—or any other aspect of normalization—was part of the problem, we wouldn't hesitate to make a change."* And the FOMC announced a change on January 30th, now being *"patient"* when it came to further rate hikes and adopting the approach that a normalized balance sheet will still have an *"ample supply of reserves"* (which meant that balance sheet shrinking would end sooner than envisaged when it began).

While recent stock market gyrations no doubt augmented the Fed's concerns about *"global economic and financial developments and muted inflation pressures"* in casting policy rates on a more cautious course, a new approach to balance sheet/reserves management had been evolving for some time. However, we wouldn't be surprised if the gyrations caused the announcement to be advanced a bit. The Fed had argued that its process of balance sheet reduction, which did not involve outright sales of securities and only maturities and redemptions (so instead of full-blown quantitative tightening, it was more QT-lite), would have minimal impacts on financial markets. However, as Q4 began and balance sheet reduction ramped up to its maximum permissible pace, the equity market weakness and volatility that unfolded during the period pointed to more than just a coincidence (from its September peak, the S&P 500 had plummeted 19.8% by Christmas Eve).

Working with our fixed-income strategy colleagues, we judge the minimum demand for reserves is around $1 trillion, reflecting projected growth in total banking system assets along with regulatory changes that require banks to hold higher shares of high-quality liquid assets of which interest-earning deposits at the Fed (a.k.a. reserves) are a key component. While reductions in the System Open Market Account (the Fed's holdings of Treasury securities and MBS) directly reduce the amount of reserves in the banking system, any net positive change in other Fed balance sheet items, such as Federal Reserve notes or currency, also act to reduce reserves when the total balance sheet is being held flat or purposely shrunk. The FOMC said that it intends to maintain a *"buffer"* of reserves above the minimum to reflect these latter factors along with the confidence interval around their estimate of the demand for reserves. We reckon this will be about 20%.

This results in a $1.2 trillion target with reserves currently running at just above $1.6 trillion (they were $2.8 trillion at their peak in October 2014 and $2.2 trillion when QT started). Given the current pace of balance sheet/SOMA shrinkage, the $1.2

trillion target will be achieved by year-end, at which time the Fed should cease reducing its balance sheet. However, the process of normalizing the Fed's asset mix will continue. This means substituting Treasuries for MBS as non-reinvestment of up to $20 billion of monthly MBS redemptions continues, and moving the portfolio of Treasuries to mimic more a market weighting. Thus, all Fed purchases of Treasuries to replace MBS, to reinvest maturing Treasuries and to grow the balance over time are going to be T-bills for a while (the Fed currently doesn't hold any bills). MJG

## The ECB Has Its Work Cut Out

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

**The ECB's next monetary policy meeting will be held on March 7;** but, after developments this week, it's not too early to look ahead at what to expect. This is **a key meeting** with a fresh set of GDP and inflation forecasts, which the Governing Council will use to mull over its next steps. Let's look at the last couple of years. In **March 2017,** the Statement dropped the line about how it could act by "*using all the instruments available within its mandate",* because there was no longer a sense of urgency to take more actions. (Of course, the ECB felt a twinge of regret later thinking that markets had over-interpreted what it had done.) Then, in **March 2018**, the ECB finally dropped its easing bias and axed the line about how the Council was *"ready to increase the asset purchase programme (APP) in terms of size and/or duration"*. (President Draghi managed to stem a euro rally by calling the line *"backward looking"*.) But that was the first step to eventually stopping QE, which was finally done this past December. In any event, March is as good a date as any to make some changes to the market's perceptions about the ECB's policy stance. And this year, the Governing Council **will discuss a new TLTRO;** although not every member thinks it is needed, they will likely be outnumbered.

There has also been plenty of debate about whether or not the ECB should have stopped bond purchases last year but that's water under the bridge. I believe there was little choice in the matter, as conditions at that time were ripe. The economy was still expanding, although the pace had moderated. And, inflation was still near the 2% target. Those were not reasons to abruptly change course, waving a white flag. However, at the risk of sounding like a broken record, it wouldn't have been a bad idea to change the **rates guidance** back in December. Instead of saying that rates would stay at current levels *"through the summer of 2019"*, how about another season or heck, another year? How about "through the spring of 2020", or "through the turn of the year"? Or a more vague "until things improve"?

With German growth stalling in Q4 (and manufacturing contracting for two months in a row), Italy in a technical recession, ECB officials wanting to "*proceed swiftly*" with the technical analyses behind future liquidity operations but to avoid "*hastily*" making decisions, a possible trade war with the U.S. brewing, well, there will be a lot of deep discussions at the March 7 ECB meeting. JLee

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

| | Good News | Bad News |
|---|---|---|
| **Canada**<br>▪ BoC Gov. Poloz stands by view that rates will rise *"over time"* but the path remains *"highly uncertain"* | **Wholesale Trade Volumes** +0.3% (Dec.)<br>**Retail Sales Volumes** +0.2% (Dec.)<br>**ADP Employment** +35,418 (Jan.)<br>**Ottawa** posts $0.3 bln budget surplus (Apr.-to-Dec.)—from an $8.9 bln deficit a year ago<br>**Province of British Columbia** projects a $274 mln surplus (FY19/20) | |
| **United States**<br>▪ March 1st deadline for U.S./China trade talks nearing… but not a *"magical date"*<br>▪ Fed's Monetary Policy Report cites *"solid"* growth but patient approach to rates still warranted<br>▪ FOMC Minutes: extended pause needed amid muted inflation pressures and global slowdown | **NAHB Housing Market Index** +4 pts to 62 (Feb.)<br>**Initial Claims** -23k to 216k (Feb. 16 week) | **Core Durable Goods Orders** -0.7% (Dec.)<br>**Existing Home Sales** -1.2% to 4.94 mln a.r. (Jan.)<br>**Leading Indicator** -0.1% (Jan.)<br>**Philly Fed Index** -2.5 pts to an ISM-adjusted 51.9 (Feb.)—a 2½-year low |
| **Japan**<br>▪ BoJ Governor Kuroda admits more stimulus may be considered | **Core-Core Consumer Prices** +0.4% y/y (Jan.)—at least up from December's rate | **Manufacturing PMI** -1.8 pts to 48.5 (Feb. P)<br>**All-Industry Activity Index** -0.4% (Dec.)<br>**Exports** -8.4% y/y; **Imports** -0.6% y/y (Jan.)<br>**Core Machine Orders** -0.1% (Dec.)<br>**Department Store Sales** -2.9% y/y (Jan.) |
| **Europe**<br>▪ Various ECB policymakers sounding dovish<br>▪ ECB Minutes: Governing Council warns against acting *"too hastily"*, but may need to *"proceed swiftly"* on any new liquidity operations<br>▪ Turmoil in British Parliament as 12 MPs (Labour and Conservative) step down to join *"The Independent Group"* | **Euro Area—Services PMI** +1.1 pts to 52.3; Composite PMI +0.4 pts to 51.4 (Feb. P) —3-month highs<br>**Euro Area—Consumer Confidence** +0.5 pts to -7.4 (Feb. A )<br>**Germany—ZEW Survey** +1.6 pts to -13.4 (Feb.)<br>**U.K.—Employment** +167,000 (3 mths to Dec.)—**Jobless Rate** steady at 4.0%<br>**U.K.—Average Weekly Earnings (Ex. Bonus)** +3.4% y/y (3 mths to Dec.) | **Euro Area—Manufacturing PMI** -1.3 pts to 5½-year low 49.2 (Feb. P)<br>**Germany—Ifo Business Climate** -0.8 pts to 98.5 (Feb.)<br>**Italy—Industrial Orders** -1.8% (Dec.) |
| **Other**<br>▪ China's Premier Li Keqiang vows not to engage in *"flood-like"* stimulus | **Australia—Employment** +39,100 (Jan.)—**Jobless Rate** steady at 5.0% (Jan.) | |

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

# Canadian Budget Season Preview

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

The 2019 budget season is underway, with the federal document to be tabled on March 19th. This will be closely-watched given it will effectively serve as the final campaign document heading into an election later this year (October 21st). Meantime, while this year is likely to be relatively low on provincial drama, there will still be some key themes to keep an eye on.

**Ottawa's shift back into deficit over the past three years has been noteworthy**. Rewind the clock back to Fall 2015, and Ottawa (in the first fiscal update under the current government) was projecting a minimal $1.4 billion deficit down the road in FY18/19. Today, however, Ottawa is now estimating an $18.1 billion shortfall (*Chart 1*). This evolution has come despite an economy that has performed relatively close to expectations (despite some interim swings) and much lower-than-expected interest rates over that period. In other words, had Ottawa just turned out the lights in 2015 and let the budget evolve on its own, it would quite likely be sitting on a sizable surplus this fiscal year. But, a hefty increase in program spending has swung the balance into the red versus that prior track. This brings up two questions: Is the current fiscal situation troubling? And, what can we expect in the 2019 document?

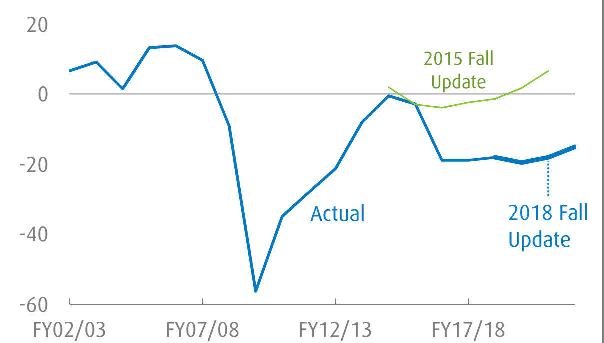
The **fiscal situation is certainly not dire in Canada**, with the $18.1 billion deficit weighing in at a modest 0.8% of GDP. It even looks downright responsible compared to that south of the border. Also, Ottawa's $3 billion risk adjustment is enough, at this point, to absorb some modest downside risk to the near-term economic growth forecast. We currently see 1.8% real GDP growth in 2019 versus 2.0% assumed in the fall update, and a softer deflator as well, but interest rates are tracking meaningfully lower. Finally, while the monthly flows don't always match official annual public accounts, the fiscal year-to-date balance (through December) is running about $9 billion better than the same period a year prior. These factors considered, Ottawa is hardly in bad shape. Meantime, Ottawa has held to its promise of keeping its new fiscal anchor, the debt-to-GDP ratio, steady (it is actually on pace to dip for a second straight year). But, the concern with this measure is that it's an anchor that is destined to break. Given we are late in the economic cycle, the next downturn will immediately weaken the denominator, sending that metric higher. From a longer-term credit perspective, it would be prudent to see this ratio falling more significantly late in the cycle.

**On the policy front**, if history is any guide, Ottawa will likely prioritize program spending over tax relief. While we're not in the game of predicting budget measures, the recent chatter has centred on areas such as expanded universal pharmacare, skills training and measures to help housing affordability. On the latter, there has been some hints that Ottawa could bring back 30-year amortizations for first-time buyers, but the details at this point are minimal. At any rate, these measures could be big 'selling features' in the budget that come with a small immediate dollar figure attached to them—on the last point, we suspect Ottawa will not want to run even deeper deficits at this point in its mandate.

Chart 1
**Red River Runs Deeper**

Federal Government—Canada ($ blns : incl. contingency)

**Budget Balance**



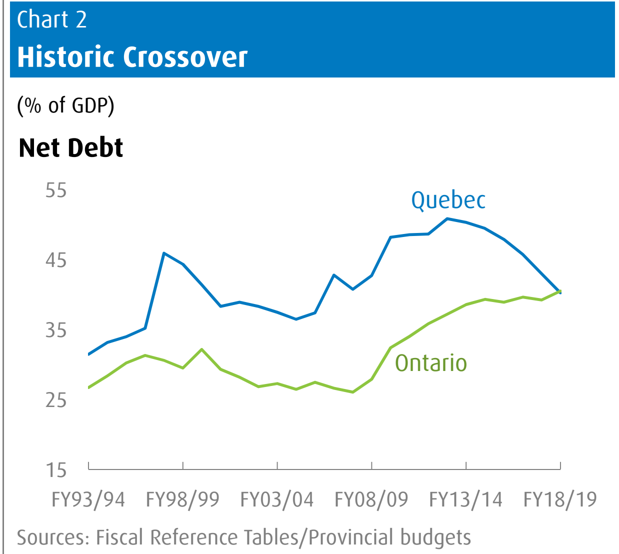

Sources: BMO Economics, Federal budgets

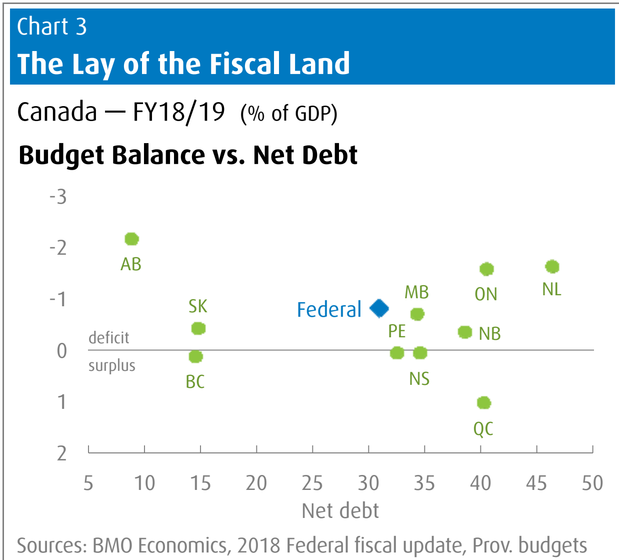
**At the provincial level**, **Ontario** will likely be the most closely watched, not only because it is the benchmark for the group, but also since the new government, despite two rounds of fiscal updates, has yet to give any guidance beyond the current fiscal year. That said, the initial $14.5 billion deficit assessment was clearly setting the bar low to begin with, and the Province has already trimmed that total by $1 billion, with more improvement likely coming before the year is up. The medium-term fiscal plan will be key, including any guidance on the timing of promised tax relief—we suspect that will be a story for the second half of the current mandate. **Quebec's** recently-elected government already served up a budget-like fall fiscal update, with the recent fiscal strength in that province firmly in place. Notably, the net debt-to-GDP ratio in Quebec has now dipped below that of Ontario for the first time on record (*Chart 2*).

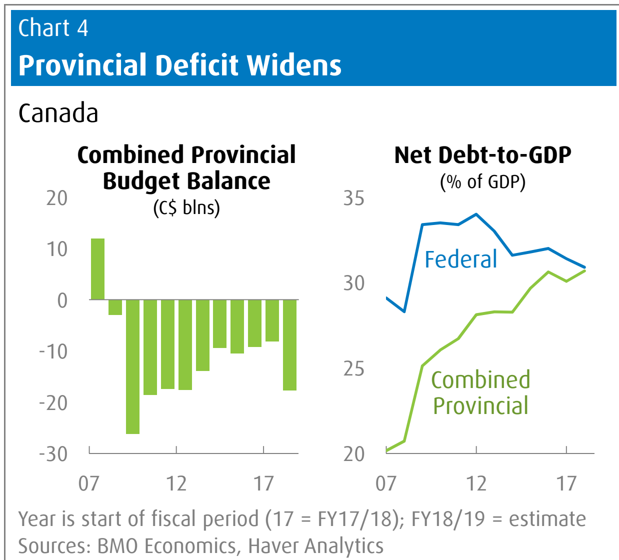
Meantime, **Alberta** has quietly posted better-than-expected numbers this year despite the oil price drama. At last check, the Province was estimating a $7.5 billion deficit, $1.3 billion better than expected in the original budget plan. And, assuming WTI, the WCS differential, and the loonie hold around current levels through March, the Province could be looking at a further $1.5 billion of bottom-line improvement this year, with FY19/20 not far off the mark either. The 2019 budget will be of the pre-election variety (vote expected in May), and the incumbent NDP would surely like to publish an earlier return to balance, currently not planned until FY23/24. **Newfoundland & Labrador** and **Saskatchewan** have been more aggressive with their oil price assumptions, so they probably won't see as much positive momentum heading into 2019.

Finally, the **Maritimes** have quietly been riding stronger population and economic growth, with all three provinces running balanced budgets for the first time in more than a decade. **Nova Scotia's** net debt is down almost 4 percentage points from its recent high as a share of GDP. In fact, relative to Ontario, the net debt burden (5 ppts lower on average for the three provinces) is the most favourable on record going back to the late-1980s (*Chart 3*). That said, these Provinces do still face far less favourable medium-term demographic trends, so we'll see if the group chooses to use the current strength to build fiscal capacity for down the road.

All told, the **combined provincial deficit** is currently on track to widen to $17.7 billion in FY18/19 (or 0.8% of GDP), more than twice year-ago levels (*Chart 4*). But, that is entirely Ontario-driven, as the ex-Ontario deficit has narrowed for a third straight year—the overall combined shortfall should begin to shrink again in FY19/20. Net debt could also edge down as a share of GDP, after rising to a record high in FY18/19, now matching the federal total for the first time on record.



## Economic Forecast Summary for February 22, 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 ($blns : a.r.) | -69.3 | -66.7 | -41.4 | -56.4 | -55.8 | -56.2 | -57.5 | -58.4 | -60.1 | -58.5 | -57.0 |
| **Interest Rates** (average for the quarter : %) | | | | | | | | | | | |
| Overnight Rate | 1.25 | 1.25 | 1.50 | 1.75 | 1.75 | 1.75 | 1.75 | 1.83 | 0.71 | 1.44 | 1.77 |
| 3-month Treasury Bill | 1.14 | 1.21 | 1.47 | 1.66 | 1.65 | 1.65 | 1.65 | 1.85 | 0.69 | 1.37 | 1.70 |
| 10-year Bond | 2.24 | 2.28 | 2.28 | 2.32 | 1.95 | 2.00 | 2.05 | 2.10 | 1.78 | 2.28 | 2.00 |
| **Canada-U.S. Interest Rate Spreads** (average for the quarter : bps) | | | | | | | | | | | |
| 90-day | -44 | -66 | -61 | -70 | -77 | -76 | -76 | -76 | -26 | -60 | -76 |
| 10-year | -52 | -64 | -65 | -72 | -77 | -76 | -76 | -75 | -55 | -63 | -76 |
| **UNITED STATES** | | | | | | | | | | | |
| Real GDP (q/q % chng : a.r.) | 2.2 | 4.2 | 3.4 | 2.6 | 1.6 | 2.5 | 2.0 | 1.9 | 2.2 | 2.9 | 2.4 |
| Consumer Price Index (y/y % chng) | 2.2 | 2.7 | 2.6 | 2.2 | 1.6 | 1.7 | 1.7 | 1.9 | 2.1 | 2.4 | 1.7 |
| Unemployment Rate (percent) | 4.1 | 3.9 | 3.8 | 3.8 | 3.9 | 3.7 | 3.6 | 3.5 | 4.4 | 3.9 | 3.6 |
| Housing Starts (mlns : a.r.) | 1.32 | 1.26 | 1.23 | 1.24 | 1.26 | 1.24 | 1.23 | 1.21 | 1.21 | 1.26 | 1.24 |
| Current Account Balance ($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 | 110 | 110 | 110 | 110 | 112 | 110 | 110 |
| 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 | 1.29 | 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

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

### Consumer Price Index
Wednesday, 8:30 am

| | | |
|---|---|---|
| **Jan. (e)** | **+0.1% (unch sa)** | **+1.4% y/y** |
| *Consensus* | *+0.1%* | *+1.4% y/y* |
| Dec. | -0.1% | +2.0% y/y |

| | **Core CPI Measures** (y/y) | | |
|---|---|---|---|
| | **Trimmed Mean** | **Weighted Median** | **Common Comp.** |
| **Jan. (e)** | **+1.9%** | **+1.8%** | **+1.9%** |
| Dec. | +1.9% | +1.8% | +1.9% |

Over the past five years, January consumer prices have averaged the third fastest monthly gains of the year, topped only by February and March. However, there's a new seasonal issue to take into account this time: StatsCan has changed the way it measures air fares, and that's driving even larger seasonal swings. Accordingly, December saw a huge spike (the 21.7% jump was the largest monthly rise in 30 years), consistent with elevated holiday travel prices. Expect some payback in January, with a further decline next month. The anticipated drop in air fares is a big reason January won't see its "usual" seasonal strength. In addition, gasoline prices dropped 3% m/m, versus a 3% rise a year ago, also weighing on the headline result. Despite those two negatives, prices still look to be up 0.1%, with seasonally adjusted CPI roughly flat. Other notable factors include mortgage interest costs, which should be strong again but have limited further upside amid the recent retreat in long-term interest rates. Our call for CPI would chop annual inflation to 1.4% y/y, as last January was particularly strong.

The Bank of Canada's core CPI measures have hovered at or just below the 2% target for the past year, with all three under that bar in the last report. We're looking for them to hold steady in January, with the risks tilted to the downside given firmer core prices a year ago. Between fading headline inflation and stable core, there's precious little here to prompt the BoC off the sidelines anytime soon.

Perhaps the most interesting aspect of the release will be an update of the CPI basket. New additions include prices for recreational cannabis (at a 0.55% weighting), as well as ride sharing and online vacation property rentals.

### Current Account Deficit
Thursday, 8:30 am

| | |
|---|---|
| **Q4 (e)** | **$14.1 bln ($56.4 bln a.r.)** |
| *Consensus* | *$14.0 bln ($56.0 bln a.r.)* |
| Q3 | $10.3 bln ($41.4 bln a.r.) |

Estimating the quarterly current account figure is a tad trickier than usual for Q4, since the December trade figures are not yet out, due to the U.S. government shutdown. (Canada builds its exports from U.S. import data, and December trade figures are not out until March 6.) Based on the data on hand, we look for the current account deficit to widen out again to a $56 billion annual rate (or $14 billion actual) from a relatively moderate $41.4 billion ($10.3 billion) shortfall the prior quarter. Pretty much the entire deterioration will be due to the Q4 collapse in oil prices, both global and Canadian (WCS plunged 38% q/q), which triggered a significant re-widening in the trade deficit. In volume terms, the preliminary figures suggest that trade actually added slightly to growth in Q4, with imports flat and exports nudging up a touch. Even with the current account deterioration, the Q4 deficit will be very close to last year's average (which we peg at $58.5 billion) and will clock in at a manageable 2.5% of GDP.

Full capital account figures for Q4 and 2018 will be released at the same time, and much of the focus will fall on foreign direct investment (FDI) flows. Canada has seen net outflows in 11 of the past 12 quarters and for five consecutive years, and we doubt Q4 will represent a break in that very clear trend. In the first three quarters of 2018, there was a net FDI outflow of $23.5 billion, which was actually less of a torrent of red ink than the record $71 billion outflow in 2017. While foreign buying of Canadian bonds and stocks usually plugs the gap, even that source waned notably last year (to a net inflow of $11 billion).

### Real GDP
Friday, 8:30 am

| | | Chain Prices |
|---|---|---|
| **Q4 (e)** | **+1.2% a.r.** | **-1.9% a.r.** |
| *Consensus* | *+1.0% a.r.* | *n.a.* |
| Q3 | +2.0% a.r. | +3.0% a.r. |
| | **Real GDP at Basic Prices** | |
| **Dec. (e)** | **unch** | |
| *Consensus* | *unch* | |
| Nov. | -0.1% | |

Not unlike the current account figures, even quarterly GDP is missing a key piece of the puzzle in December trade flows, and faces a bit more uncertainty than usual. Still, there is little debate that growth cooled notably around the turn of the year, with GDP likely struggling to hold above a 1% annual rate in Q4. After a very strong run in the prior year, domestic spending cooled broadly late last year, with both of the big wheels of consumer spending and housing braking hard. The long-awaited transition of the economy to depending more on exports and investment is happening, but unfortunately the baton has been passed to a much slower runner (and comes at a time when global growth is fading). Government spending is also expected to add modestly to growth in Q4 and in 2019, although restraint at the provincial level (especially in Ontario) will partially offset increases at the federal level. Overall, we look for Q4 growth to come in at 1.2% versus 2.0% in Q3, keeping growth for all of 2018 at a mild 2.0% pace (down from 3.0% in 2017).

The monthly figure for December looks like it is headed for a flat reading after the 0.1% setback in November. The end of the postal strike in late November will give a tiny bump (maybe +0.02%), while wholesale trade eked out a decent 0.3% gain. Retail sales were up 0.2% and housing starts popped. However, manufacturing sales fell a heavy 1.2% and home sales dropped 2.0%, a classic mixed bag. As is so often the case, the important (and tough to gauge) resource sector may well be the deciding factor on whether growth stays out of the red for the month. If oil output is weaker than expected, that could be enough to tip monthly GDP into a second straight decline and exposes the quarterly call to downside risk as well.

## United States

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

### Housing Starts
Tuesday, 8:30 am

| | |
|---|---|
| **Dec. (e)** | **1.250 mln a.r. (-0.5%)** |
| *Consensus* | *1.253 mln a.r. (-0.4%)* |
| Nov. | 1.256 mln a.r. (+3.2%) |

A likely pullback in lumpy multiple-units construction should clip housing starts in December. An expected 0.5% decline to 1.25 million units (annualized) and just below the 2018 average would cap a year-long slide in construction. On a more positive note, a recent upturn in mortgage applications and homebuilders' sentiment in response to lower mortgage rates flags some near-term rebound.

### Fed Chair Powell testifies to Congress
Senate Banking Committee: Tuesday, 10:00 am; House Financial Services Committee: Wednesday, 10:00 am

Pastor Powell will deliver a sermon from the Book of Patience before Congress, the one message both parties actually agree on. Global "*cross-currents*", "*muted inflation pressures*" and earlier rate hikes have lessened the need for further tightening. We look for just one more quarter-point increase this cycle, and not until December. Of interest is whether the Chair details a plan to end the rundown of the Fed's balance sheet this year, as signalled by the minutes of the January meeting, which will help to keep long-term rates down.

### Real GDP
Thursday, 8:30 am

| | | GDP Deflator |
|---|---|---|
| **Q4 P (e)** | **+2.6% a.r.** | **+2.3% a.r.** |
| *Consensus* | *+2.5% a.r.* | *+1.7% a.r.* |
| Q3 | +3.4% a.r. | +1.8% a.r. |

Fading fiscal juice, slower global demand and the government shutdown likely slowed real GDP to a 2.6% annualized rate in Q4 from 3.4% in Q3. Although growth in consumer and business spending are expected to top 3% (the former despite a big retreat in December retail sales), residential construction should contract for a fourth straight quarter and exports likely stayed weak. The shutdown probably shaved a tenth from growth. Despite the year-end fade, 2018 should mark the fastest growth since 2005, with GDP expanding 3.1% on a Q4/Q4 basis, a third of which was due to the fiscal fillip.

### Personal Spending (Dec.)
### Personal Income (Dec., Jan.)

Friday, 8:30 am

| | Personal Spending | Personal Income |
|---|---|---|
| **Jan. (e)** | (later release) | **+0.4%** |
| **Dec. (e)** | **-0.1%** | **+0.4%** |
| *Consensus* | *+0.2%* | *n.a.* |
| Nov. | +0.4% | +0.2% |

The earlier Q4 GDP report will provide some clarity on consumer spending in December after the questionable retail sales release landed with a heavy thud, declining the most (-1.2%) since around the 2009 recession. That report, though flying in the face of more positive news from chain stores, credit card firms, and retail giants Amazon and Walmart, suggests that consumers retrenched in the month. Still, given earlier strength, real spending likely topped 3% annualized for a third straight quarter, even as it is set to downshift in Q1. Strong employment has underpinned demand, and we look for sturdy 0.4% advances in personal income in both December and January. Meantime, a 0.2% increase in PCE prices, excluding food and fuel, should keep the annual core rate at 1.9%.

### Manufacturing ISM (PMI)

Friday, 10:00 am

| | |
|---|---|
| **Feb. (e)** | **55.0** |
| *Consensus* | *56.0* |
| Jan. | 56.6 |

Rising concerns about the trade war, global slowdown, labour shortages and political instability are starting to chip away at business confidence and production. Manufacturing output sank 0.8% in January, fully retracing the prior month's gain, and likely stayed soft in February. The ISM index is expected to decline to 55.0, based on softer regional prints. The export sub-index is at a two-year low, with the strong greenback and retaliatory tariffs piling on. Overall, factory output looks to downshift this year after tracking the economy at a near 3% rate in 2018.

| | | Feb 22 [1] | Feb 15 | 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 | 1.68 | 1.68 | 0 | 5 | 4 |
| | United States | 2.44 | 2.42 | 2 | 7 | 8 |
| | Japan | -0.21 | -0.22 | 1 | 0 | -6 |
| | Eurozone | -0.31 | -0.31 | 0 | 0 | 0 |
| | United Kingdom | 0.86 | 0.87 | -1 | -6 | -5 |
| | Australia | 1.89 | 1.97 | -8 | -19 | -20 |
| 2-Year Bonds | Canada | 1.77 | 1.78 | 0 | -11 | -9 |
| | United States | 2.52 | 2.52 | 0 | -9 | 3 |
| 10-Year Bonds | Canada | 1.89 | 1.89 | -1 | -9 | -8 |
| | United States | 2.68 | 2.66 | 2 | -8 | 0 |
| | Japan | -0.04 | -0.03 | -2 | -4 | -4 |
| | Germany | 0.10 | 0.10 | 0 | -9 | -14 |
| | United Kingdom | 1.17 | 1.16 | 2 | -13 | -10 |
| | Australia | 2.10 | 2.10 | 0 | -12 | -22 |
| Risk Indicators | VIX | 14.0 | 14.9 | -1.0 pts | -3.5 pts | -11.5 pts |
| | TED Spread | 21 | 26 | -6 | -17 | -25 |
| | Inv. Grade CDS Spread [2] | 62 | 63 | -1 | -11 | -26 |
| | High Yield CDS Spread [2] | 347 | 345 | 2 | -27 | -103 |
| | | | | | (percent change) | |
| Currencies | US¢/C$ | 75.77 | 75.51 | 0.3 | 0.2 | 3.3 |
| | C$/US$ | 1.320 | 1.324 | — | — | — |
| | ¥/US$ | 110.69 | 110.47 | 0.2 | 1.0 | 0.9 |
| | US$/€ | 1.1338 | 1.1296 | 0.4 | -0.6 | -1.1 |
| | US$/£ | 1.304 | 1.289 | 1.2 | -1.2 | 2.2 |
| | US¢/A$ | 71.32 | 71.41 | -0.1 | -0.7 | 1.2 |
| Commodities | CRB Futures Index | 184.25 | 181.33 | 1.6 | 2.0 | 8.5 |
| | Oil (generic contract) | 57.61 | 55.98 | 2.9 | 7.3 | 26.9 |
| | Natural Gas (generic contract) | 2.69 | 2.63 | 2.4 | -15.4 | -8.6 |
| | Gold (spot price) | 1,330.23 | 1,321.55 | 0.7 | 2.1 | 3.7 |
| Equities | S&P/TSX Composite | 16,032 | 15,838 | 1.2 | 4.3 | 11.9 |
| | S&P 500 | 2,785 | 2,776 | 0.3 | 4.5 | 11.1 |
| | Nasdaq | 7,494 | 7,472 | 0.3 | 4.6 | 12.9 |
| | Dow Jones Industrial | 25,970 | 25,883 | 0.3 | 5.0 | 11.3 |
| | Nikkei | 21,426 | 20,901 | 2.5 | 3.1 | 7.0 |
| | Frankfurt DAX | 11,461 | 11,300 | 1.4 | 1.6 | 8.5 |
| | London FT100 | 7,185 | 7,237 | -0.7 | 5.5 | 6.8 |
| | France CAC40 | 5,213 | 5,153 | 1.2 | 5.8 | 10.2 |
| | S&P ASX 200 | 6,167 | 6,066 | 1.7 | 4.4 | 9.2 |

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

# Global Calendar
# February 25 – March 1

BMO Capital Markets®

## Monday February 25

### Other

**MEXICO**

**Real GDP**

| | | |
|---|---|---|
| **Q4 F (e)** | **+0.3%** | **+1.7% y/y** |
| Q3 | +0.8% | +2.5% y/y |

## Tuesday February 26

### Euro Area

**GERMANY**

**GfK Consumer Confidence**

| | |
|---|---|
| **Mar. (e)** | **10.8** |
| Feb. | 10.8 |

**FRANCE**

**Consumer Confidence**

| | |
|---|---|
| **Feb. (e)** | **92** |
| Jan. | 91 |

### U.K.

**PM May statement on Brexit**

**BoE Governor Carney speaks to Treasury Committee on the Inflation Report**

## Wednesday February 27

### Euro Area

**EURO AREA**

**M3 Money Supply**

| | |
|---|---|
| **Jan. (e)** | **+4.0% y/y** |
| Dec. | +4.1% y/y |

**Economic Confidence**

| | |
|---|---|
| **Feb. (e)** | **106.0** |
| Jan. | 106.2 |

**Consumer Confidence**

| | |
|---|---|
| **Feb. F (e)** | **-7.4** |
| Jan. | -7.9 |

**ITALY**

**Consumer Confidence**

| | |
|---|---|
| **Feb. (e)** | **113.0** |
| Jan. | 114.0 |

### U.K.

**Parliament votes on Brexit motion**

## Thursday February 28

### Japan

**Industrial Production**

| | | |
|---|---|---|
| **Jan. P (e)** | **-2.5%** | **+1.3% y/y** |
| Dec. | -0.1% | -1.9% y/y |

**Retail Sales**

| | | |
|---|---|---|
| **Jan. P (e)** | **-0.9%** | **+1.5% y/y** |
| Dec. | +0.9% | +1.3% y/y |

### Euro Area

**GERMANY**

**Consumer Price Index**

| | | |
|---|---|---|
| **Feb. P (e)** | **+0.6%** | **+1.7% y/y** |
| Jan. | -1.0% | +1.7% y/y |

**FRANCE**

**Consumer Spending**

| | | |
|---|---|---|
| **Jan. (e)** | **+1.0%** | **+0.8% y/y** |
| Dec. | -1.5% | -2.3% y/y |

**Consumer Price Index**

| | | |
|---|---|---|
| **Feb. P (e)** | **+0.4%** | **+1.7% y/y** |
| Jan. | -0.6% | +1.4% y/y |

**Real GDP**

| | | |
|---|---|---|
| **Q4 P (e)** | **+0.3%** | **+0.9% y/y** |
| Q4 A | +0.3% | +0.9% y/y |
| Q3 | +0.3% | +1.3% y/y |

**ITALY**

**Consumer Price Index**

| | | |
|---|---|---|
| **Feb. P (e)** | **-0.2%** | **+1.1% y/y** |
| Jan. | -1.7% | +0.9% y/y |

### U.K.

**GfK Consumer Confidence**

| | |
|---|---|
| **Feb. (e)** | **-15** |
| Jan. | -14 |

**Nationwide House Prices** [D]

| | | |
|---|---|---|
| **Feb. (e)** | **-0.1%** | **+0.3% y/y** |
| Jan. | +0.3% | +0.1% y/y |

### Other

**CHINA**

| | Mfg PMI | Nonmfg PMI |
|---|---|---|
| **Feb. (e)** | **49.5** | **54.5** |
| Jan. | 49.5 | 54.7 |

**Composite PMI**

| | |
|---|---|
| **Feb.** | |
| Jan. | 53.2 |

**BRAZIL**

**Real GDP**

| | | |
|---|---|---|
| **Q4 (e)** | **+0.3%** | **+1.5% y/y** |
| Q3 | +0.8% | +1.3% y/y |

**INDIA**

**Real GDP**

| | |
|---|---|
| **Q4 (e)** | **+6.7% y/y** |
| Q3 | +7.1% y/y |

## Friday March 1

### Japan

**Jobless Rate**

| | |
|---|---|
| **Jan. (e)** | **2.4%** |
| Dec. | 2.4% |

**Capital Spending**

| | |
|---|---|
| **Q4 (e)** | **+4.5% y/y** |
| Q3 | +4.5% y/y |

**Manufacturing PMI**

| | |
|---|---|
| **Feb. F (e)** | **48.5** |
| Jan. | 50.3 |

**Consumer Confidence**

| | |
|---|---|
| **Feb. (e)** | **41.6** |
| Jan. | 41.9 |

### Euro Area

**EURO AREA**

**Consumer Price Index**

| | |
|---|---|
| **Feb. A (e)** | **+1.5% y/y** |
| Jan. | +1.4% y/y |

**Core CPI**

| | |
|---|---|
| **Feb. A (e)** | **+1.1% y/y** |
| Jan. | +1.1% y/y |

**Jobless Rate**

| | |
|---|---|
| **Jan. (e)** | **7.9%** |
| Dec. | 7.9% |

**Manufacturing PMI**

| | |
|---|---|
| **Feb. F (e)** | **49.2** |
| Jan. | 50.5 |

**GERMANY**

| | Unemploy. | Jobless Rate |
|---|---|---|
| **Feb. (e)** | **-5,000** | **5.0%** |
| Jan. | -2,000 | 5.0% |

**Retail Sales**

| | | |
|---|---|---|
| **Jan. (e)** | **+1.9%** | **+1.2% y/y** |
| Dec. | -3.1% | -2.1% y/y |

**ITALY**

**Jobless Rate**

| | |
|---|---|
| **Jan. P (e)** | **10.4%** |
| Dec. | 10.3% |

### U.K.

**Manufacturing PMI**

| | |
|---|---|
| **Feb. (e)** | **52.0** |
| Jan. | 52.8 |

### Other

**CHINA**

**Caixin Manufacturing PMI**

| | |
|---|---|
| **Feb. (e)** | **48.7** |
| Jan. | 48.3 |

**Deadline for Higher U.S. Tariffs on China's Goods**

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[D] = date approximate

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

# North American Calendar
# February 25 – March 1

BMO Capital Markets®

## Monday February 25

### Canada

**New date for previously delayed release:**

**Mar. 6:** Merchandise Trade (Dec.)

### United States

| | | |
|---|---|---|
| **8:30 am** | **Chicago Fed National Activity Index** | |
| **Jan. (e)** | **+0.10** | |
| Dec. | +0.27 | |
| **10:00 am** | **Wholesale Inventories** | |
| **Dec. (e)** | **+0.3%** | |
| *Consensus* | *+0.4%* | |
| Nov. | +0.3% | |
| **10:30 am** | **Dallas Fed Mfg. Activity** | |
| **Feb. (e)** | **6.0** | |
| Jan. | 1.0 | |

Fed Speaker: Vice Chair Clarida (11:00 am)

| | |
|---|---|
| 11:30 am | 26-week bill auction $39 bln |
| 11:30 am | 2-year note auction $40 bln |
| 1:00 pm | 13-week bill auction $48 bln |
| 1:00 pm | 5-year note auction $41 bln |

**New dates for previously delayed releases:**

**Mar. 4:** Construction Spending (Dec.)

**Mar. 5:** New Home Sales (Dec.), Budget Balance (Jan.)

**Mar. 6:** Goods & Services Trade Deficit (Dec.)

**Mar. 11:** Business Inventories (Dec.)

**Mar. 21:** Services Survey (Q4)

**Releases to be rescheduled:**

Retail Sales (Jan.)

Construction Spending (Jan.)

New Home Sales (Jan.)

Durable Goods Orders (Jan.)

Advanced Indicators (Jan.)

Personal Spending (Jan.)

### ◀ Saturday February 23

Fed Speaker: Gov. Brainard (9:00 am)

## Tuesday February 26

### United States

| | | |
|---|---|---|
| **8:30 am** | **Housing Starts** | |
| **Dec. (e)** | **1.250 mln a.r. (-0.5%)** | |
| *Consensus* | *1.253 mln a.r. (-0.4%)* | |
| Nov. | 1.256 mln a.r. (+3.2%) | |
| **8:30 am** | **Building Permits** | |
| **Dec. (e)** | **1.296 mln a.r. (-2.0%)** | |
| *Consensus* | *1.290 mln a.r. (-2.9%)* | |
| Nov. | 1.322 mln a.r. (+4.5%) | |
| **9:00 am** | **S&P Case-Shiller Home Price Index (20 city)** | |
| **Dec. (e)** | **+0.3%** | **+4.4% y/y** |
| *Consensus* | *+0.4%* | *n.a.* |
| Nov. | +0.3% | +4.7% y/y |
| **9:00 am** | **FHFA House Price Index** | |
| **Dec. (e)** | **+0.3%** | **+5.5% y/y** |
| *Consensus* | *+0.5%* | *n.a.* |
| Nov. | +0.4% | +5.8% y/y |
| **10:00 am** | **Conference Board Consumer Confidence Index** | |
| **Feb. (e)** | **124.0** | |
| *Consensus* | *124.2* | |
| Jan. | 120.2 | |
| **10:00 am** | **Richmond Fed Manufacturing Index** | |
| **Feb. (e)** | **3** | |
| Jan. | -2 | |

**10:00 am — Fed Chair Powell testifies to the Senate Banking Committee**

| | |
|---|---|
| 11:00 am | 4- & 8-week bill auction announcements |
| 11:30 am | 52-week bill auction $26 bln |
| 1:00 pm | 7-year note auction $32 bln |

## Wednesday February 27

### Canada

| | | |
|---|---|---|
| **8:30 am** | **Consumer Price Index** | |
| **Jan. (e)** | **+0.1% (unch sa)** | **+1.4% y/y** |
| *Consensus* | *+0.1%* | *+1.4% y/y* |
| Dec. | -0.1% | +2.0% y/y |
| **8:30 am** | **Trimmed Mean Core CPI** | |
| **Jan. (e)** | **+1.9% y/y** | |
| Dec. | +1.9% y/y | |
| **8:30 am** | **Weighted Median Core CPI** | |
| **Jan. (e)** | **+1.8% y/y** | |
| Dec. | +1.8% y/y | |
| **8:30 am** | **Common Component Core CPI** | |
| **Jan. (e)** | **+1.9% y/y** | |
| Dec. | +1.9% y/y | |
| **8:30 am** | **Survey of Employment, Payrolls, and Hours (Dec.)** | |
| Noon | 2-year bond auction $3.0 bln | |

### United States

| | | |
|---|---|---|
| **7:00 am** | **MBA Mortgage Apps** | |
| **Feb. 22** | | |
| Feb. 15 | +3.6% | |
| **8:30 am** | **Goods Trade Deficit** | |
| **Dec. A (e)** | **$74.0 bln** | |
| *Consensus* | *$75.7 bln* | |
| Nov. | $70.5 bln | |
| **8:30 am** | **Wholesale and Retail Inventories (Dec. A)** | |
| **10:00 am** | **Factory Orders** | |
| **Dec. (e)** | **+0.8%** | |
| *Consensus* | *+1.4%* | |
| Nov. | -0.5% | |
| **10:00 am** | **Pending Home Sales** | |
| **Jan. (e)** | **+1.0%** | |
| *Consensus* | *+1.0%* | |
| Dec. | -2.2% | |

**10:00 am — Fed Chair Powell testifies to the House Financial Services Committee**

**10:00 am — USTR Lighthizer testifies on U.S./China trade to the House Ways and Means Committee**

## Thursday February 28

### Canada

| | | |
|---|---|---|
| **8:30 am** | **Current Account Deficit** | |
| **Q4 (e)** | **$14.1 bln ($56.4 bln a.r.)** | |
| *Consensus* | *$14.0 bln ($56.0 bln a.r.)* | |
| Q3 | $10.3 bln ($41.4 bln a.r.) | |
| **8:30 am** | **Industrial Product Price Index** | **Raw Materials Price Index** |
| **Jan. (e)** | **+0.3%** | **+3.0%** |
| Dec. | -0.7% | +3.8% |

**Capital Expenditures Survey (2017-19)**

### United States

| | | |
|---|---|---|
| **8:30 am** | **Initial Claims** | |
| **Feb. 23 (e)** | **225k (+9k)[c]** | |
| Feb. 16 | 216k (-23k) | |
| **8:30 am** | **Continuing Claims** | |
| **Feb. 16** | | |
| Feb. 9 | 1,725k (-55k) | |
| **8:30 am** | **Real GDP** | **GDP Deflator** |
| **Q4 P (e)** | **+2.6% a.r.** | **+2.3% a.r.** |
| *Consensus* | *+2.5% a.r.* | *+1.7% a.r.* |
| Q3 | +3.4% a.r. | +1.8% a.r. |
| **9:45 am** | **Chicago PMI** | |
| **Feb. (e)** | **57.0** | |
| *Consensus* | *58.0* | |
| Jan. | 56.7 | |
| **11:00 am** | **Kansas City Fed Manufacturing Activity** | |
| **Feb. (e)** | **6** | |
| Jan. | 5 | |

**8:15 pm — Fed Chair Powell speaks on "Recent Economic Developments and Longer-Term Challenges"**

Fed Speakers: Vice Chair Clarida (8:00 am); Atlanta's Bostic (8:50 am); Philadelphia's Harker (11:00 am); Dallas' Kaplan (1:00 pm); Cleveland's Mester (7:00 pm)

| | |
|---|---|
| 11:00 am | 13- & 26-week bill auction announcements |
| 11:30 am | 4- & 8-week bill auction |

## Friday March 1

### Canada

| | | |
|---|---|---|
| **8:30 am** | **Real GDP** | **Chain Prices** |
| **Q4 (e)** | **+1.2% a.r.** | **-1.9% a.r.** |
| *Consensus* | *+1.0% a.r.* | *n.a.* |
| Q3 | +2.0% a.r. | +3.0% a.r. |
| **8:30 am** | **Real GDP at Basic Prices** | |
| **Dec. (e)** | **unch** | |
| *Consensus* | *unch* | |
| Nov. | -0.1% | |
| **9:30 am** | **Markit Manufacturing PMI** | |
| **Feb.** | | |
| Jan. | 53.0 | |
| **Auto Sales[D]** | | |
| **Feb.** | | |
| Jan. | -7.3% y/y | |

### United States

| | | |
|---|---|---|
| **8:30 am** | **Personal Spending** | **Personal Income** |
| **Jan. (e)** | (later release) | **+0.4%** |
| **Dec. (e)** | **-0.1%** | **+0.4%** |
| *Consensus* | *+0.2%* | *n.a.* |
| Nov. | +0.4% | +0.2% |
| **8:30 am** | **Core PCE Price Index** | |
| **Dec. (e)** | **+0.2%** | **+1.9% y/y** |
| *Consensus* | *+0.2%* | *+1.9% y/y* |
| Nov. | +0.1% | +1.9% y/y |
| **9:45 am** | **Markit Manufacturing PMI (Feb. F)** | |
| **10:00 am** | **Manufacturing ISM (PMI)** | |
| **Feb. (e)** | **55.0** | |
| *Consensus* | *56.0* | |
| Jan. | 56.6 | |
| **10:00 am** | **University of Michigan Consumer Sentiment** | |
| **Feb. F (e)** | **95.7** | |
| *Consensus* | *96.0* | |
| Feb. P | 95.5 | |
| Jan. | 91.2 | |
| **Ward's Total Vehicle Sales[D]** | | |
| **Feb. (e)** | **16.8 mln a.r.** | |
| *Consensus* | *16.8 mln a.r.* | |
| Jan. | 16.6 mln a.r. | |

**Deadline for Higher U.S. Tariffs on China's Goods**

Fed Speaker: Atlanta's Bostic (12:50 pm)

### Saturday March 2 ▶

**Federal Debt Ceiling Reinstated**

[c] = consensus [D] = date approximate

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

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