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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

March 1, 2019

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February Made Us Shiver…


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…With every release the global economy delivered. But markets basked in the warm glow of a now-neutral Fed and a positive tone on U.S./China trade. Even with a flattish performance this week, the S&P 500 still managed to surge 11.1% in the first two months of the year (+3.0% in February alone), the best 1-2 start to the year since 1991. Markets stared down not just a batch of weak trade and manufacturing data in the opening months of the year, but also a non-stop parade of geopolitical flashpoints. There was a time, children, when open conflict between two nuclear-armed nations would cause at least a ripple of angst in financial markets, if not an outright rush to safety. Apparently not in these times—bombarded by endless headlines on Brexit, investigations of the U.S. President, the aborted summit with North Korea, and even a homegrown scandal in Canada, a clash between India and Pakistan barely registered. In fact, stocks, bond yields and oil prices all managed to rise amid this week's cacophony of geopolitical noise, while gold prices sagged $20.

The main driver of resilient financial markets has been the drip-drip-drip of good news on the U.S./China trade front. While Trade Representative Lighthizer threw a dash of cold water onto the proceedings at this week's testimony, he was overshadowed by more upbeat remarks by other Administration officials. By week's end, there was the oddly specific chatter about a 150-page deal, to be possibly signed by the middle of this month. Certainly China's markets are behaving as if a deal is nigh, with the CSI 300 sprinting 13% in February alone, and now up almost 25% so far this year—after wallowing at the back of the pack in 2018 with a 25.3% setback.

In contrast to buoyant markets, the economic news was mixed this week, although that is a step up from the sour readings of the past month or so. Sentiment surveys in the U.S. have sent a confusing message, with most—but not all—recovering from pronounced weakness around the turn of the year. As just one prime example of the jumbled mix, the Conference Board reported that consumer confidence snapped back in February, with the current conditions portion hitting its highest level since the peak of the tech boom in 2000. Not four days later, but the University of Michigan tells us that consumer sentiment rebounded little last month, with current conditions softening to the lowest ebb in more than two years. What makes that especially weird (to use the technical term) is that the Michigan survey is typically driven more by equity markets than its Conference Board counterpart.

The mixed economic message extends well beyond consumer sentiment, as the regional Fed surveys were all over the map last month. Fortunately, the national ISM for manufacturing cut through the fog on Friday, dipping to its lowest level in more than two years, albeit to a still-healthy 54.2. Elsewhere, good news on Q4 GDP (2.6%) and pending home sales was largely countered by a big drop in December real PCE, housing starts and the trade balance. The overriding message is that **growth is braking after a powerful upswing in 2018**, to something much more sustainable. **The pressing question is whether growth will now stabilize at a pace close to potential** (around 2%), **or will it keep sliding?** The mixed nature of both the hard data and the more up-to-date sentiment surveys suggests it is stabilizing.

The news flow will likely cool down next week, politically and on the economic data front. However, there will still be lots to chew on; both the U.S. and Canada will produce the ever-important employment figures on Friday, for February. Nasty weather across much of the continent for much of the month could weigh, although underlying hiring trends have held up very well—most firms are still reporting a lack of skilled workers as their number one headache. Wage measures will be especially important here, as the U.S. and Canada are beginning to report some flickers of life on this front. Both countries also release housing starts on Friday, with the U.S. release worth watching simply to see if December's deep dive can be reversed.

And, finally, the Bank of Canada has an interest rate decision on Wednesday, but given the meagre Q4 GDP growth outcome, that carries all the suspense and drama of a Beverly Hillbillies rerun. In fact, even our (and the new consensus) call of just one rate hike by the BoC much later this year looks a tad aggressive with Canadian growth going into a deep sleep in late 2018 and into early this year.

The latest scandal in Ottawa… and, no, we're not talking about events surrounding the former Attorney General. A few weeks ago, we ranted in this space about how slow StatsCan was in releasing data, citing the fact that even the much-delayed U.S. December retail sales report still managed to arrive 8 days ahead of Canada's version of events. It appears that someone at the statistical agency was listening, but this wasn't quite the speed-up we were thinking about. **Somehow, news of today's important GDP report was circulating almost a half an hour ahead of the 8:30 am release**. For any data point, this is inexcusable, let alone for arguably one of the most important economic reports of the month, which truly moved markets. For example, the loonie sagged a sizeable 0.8% in the aftermath of the news. This simply should never happen again, for any release, even potato production in PEI, let alone quarterly GDP.

The hair-trigger release somewhat overshadowed the fact that the GDP result itself was a disappointment, broadly and deeply. Whether it was the soggy 0.4% headline for Q4, the monthly 0.1% setback for December, the downward revisions to the first half of 2018, the weakness in capital spending, or the fall in GDP prices, the report was 47 shades of grey. As a result of that listless hand-off from December, as well as the dull investment intentions survey (out earlier this week), **we chopped our call on 2019 Canadian GDP by half a point to just 1.3%**, down from 1.8% last year and fully 3.0% in 2017. Note that annual growth was even slower in the aftermath of the oil shock in both 2015 and 2016; and yet, the BoC was raising interest rates again by mid-2017. Still, to get the Bank back in the tightening mode, we are going to need to see a forceful comeback in the economy over the spring and summer.

America's December Doldrums Were Profound but not Persistent

The U.S. economy expanded at a 2.6% annualized rate in Q4, slower than the 3.4% tempo in Q3 or 4.2% in Q2, but a solid performance nevertheless. Growth was paced by consumer spending (up a sturdy 2.8%) and business fixed investment (up an even stronger 6.2%). Indeed, these two sectors alone contributed all of the net growth during the period, and then some (2.74 ppts worth). Elsewhere, the negative contributions from net exports and housing slightly edged out the positive

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contributions from inventories and government spending. The leading role of consumer spending and capex was even more impressive given the profoundly weak December for both sectors, especially for households.

Real PCE dropped 0.6% in the final month of 2018, matching the worst reading during the Great Recession. Technically, there was a worse print in September 2009 (-0.9%), a few months into the recovery, but this was related to the end of the "cash for clunkers" program that successfully pulled forward vehicle sales to kick-start the recovery. How does one get 2.8% a.r. for Q4 when December was so dismal? The answer is that consumers were on a tear in the two months prior, sporting back-to-back 0.5% gains (this is the equivalent to 6.0% annualized growth in these two months alone). Before December, consumers were in good shape.

Meanwhile, **core capital goods orders** dropped at least 1.0% in both November and December, and we can't help wonder whether some of the recent remarkable strength in payrolls reflects elevated caution on the capex front… new hiring being easier to undo than capital goods contracts should business conditions sour.

The arithmetic impact of a deficient December will be to pull down real GDP growth for Q1; we now look for 1.2% a.r. versus 1.6% before. Note that the **government shutdown** was already weighing on the figure, and no doubt December activity as well. The shutdown began on the 22nd but the potentially-impacted parties were probably battening down the spending hatches in the days and weeks before. The shutdown ended January 25. However, just as the shutdown proved to have a temporary impact, so, too, will the two key catalysts of December's debacle.

Recall that **the S&P 500 posted its worst December performance since 1931**. Put another way, if you were an investor back then, you would likely be at least 105 years old today. Thus, for all intents and purposes, December's stock price plummet was unprecedented, and a huge hit to consumer confidence (and not just the measured kind), along with wealth. Most businesses seeing their stock price plummet in unprecedented year-end fashion would probably be thinking more about cash preservation than buying new machines.

Recall also that **businesses were bracing early in Q4 for a January 2nd increase in tariffs**, from 10% to 25%, on $200 billion of Chinese goods, after the 10% tax was first levied in September. While anxiety about tariffs and trade likely stoked some stockpiling (both imports and inventories noticeably picked up in H2), we doubt few firms judged it was a good time to expand physical capacity.

Since then, the stock market has rebounded strongly, with the S&P 500 up over 18% from its Christmas Eve low. This should go a long way in curing the shellshock of December's unprecedented plummet. Not surprisingly, the Conference Board's consumer confidence index spiked by nearly 10 points in February, also supported by the fact that job and wage growth continued undaunted during the past several months. Meanwhile, the tariff hikes were postponed to March 2nd and are now indefinitely delayed; there's even some optimism that a U.S./China trade deal can actually be achieved. So, looking beyond an arithmetically depressed Q1, we see real GDP growth returning to the 2½%-range in Q2, led by, you guessed it, consumer spending and business fixed investment. MJG

BoC Comfortably on Hold

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There's little intrigue heading into the March 6 Bank of Canada policy meeting, with policy clearly on hold. There's just a statement with the next MPR coming in April, though Deputy Governor Patterson will deliver an update on the backdrop and the Bank's view on Thursday March 7.

Since the BoC turned dovish in December, the global economy has weakened sharply and financial markets have turned much more cautious. The Bank has noted two clear worries in recent weeks: global trade and housing/household debt.

The **global trade worries** are entirely driven by the **U.S./China trade war**. The negotiations appear to be moving in the right direction, but judging by the recent data, there's already been **serious damage done** to the global economy. Fortunately, the next round of tariffs has been delayed, but we probably won't see the damage reverse until there's a resolution (which isn't likely to come any time soon). On the bright side, the more positive tone in the talks should help stabilize sentiment and the global backdrop alongside it. The BoC views the U.S./China trade war as a two-sided risk, but so far it's been skewed entirely to the negative. And, while it seems like somewhat of an afterthought for the BoC at present, the **USMCA isn't done yet** and we're a bit more concerned on that front. But that's on the backburner for now.

Housing and household debt are issues that have lingered in some way, shape or form for years. Presently, the **big concern is the housing market**. Sales were hit hard in 2018 due to the B-20 rules and rising rates, and there's some concern that the drop in activity could worsen. The early 2019 housing data have been decent enough, but the Bank will want to see more evidence before these concerns are dampened. It will need at least another few months of data and a look at the spring season.

Another issue likely to be highlighted is the **extreme weakness in business investment** through the second half of last year. The BoC was banking on investment and exports taking the growth reins, but that's hardly been the case. In January, the BoC was still somewhat upbeat on the economic backdrop, but the tone is going to be a bit more cautious. However, job growth has been very strong, the jobless rate is close to record lows and core CPI isn't far from target… which should make policymakers at least somewhat pleased. Those points should keep a few positive lines in the statement.

Key Takeaway: The BoC will likely sound a bit more cautious than in January as growth has meaningfully disappointed its forecast. However, don't expect Poloz to be overly negative as growth is expected to rebound in Q2. Given the weaker growth backdrop, with the trade and housing uncertainties unlikely to be resolved, we look for the BoC to be on hold through most of this year. *B.A.A.R.*

Now Over to Europe

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This past week began on a positive note, with the official word on Twitter that the March 1 deadline for the U.S./China talks had been lifted. However, **the week is ending on a not-so-positive note**, with word now that the U.S. is redirecting some of its attention across the Atlantic. As I mentioned last week in this space, a possible EU trade war with the States is brewing, with threats of U.S.-imposed auto tariffs and EU-retaliatory measures (*"in a swift and adequate manner"*) being tossed about. The EU's refusal to even discuss agriculture has the U.S. up in arms.

Meantime, the U.K. is tied up between trying to leave the EU with a deal in less than a month, and setting up its own trade agreements. A deal with the U.S. is not going to be easy. U.S. Trade Representative Lighthizer, who did a *"fantastic"* job with China, according to Lawrence Kudlow, stated that America wants *"comprehensive market access for U.S. agricultural goods in the U.K. by reducing or eliminating tariffs"*, particularly those that *"discriminate against U.S. agricultural goods"*. And, currency manipulation came up, with the point that the U.K. should avoid doing so to *"gain an unfair competitive advantage"*. So here we go again… first NAFTA, then China, now Europe and the U.K.

All of this comes at a time of great uncertainty for Britain (i.e., **Brexit**), although the likelihood that the U.K. stays in the EU past the March 29th date is rising. This week, two amendments passed the House, one of which was that Parliament will hold a vote on March 14th on whether or not to delay Brexit if PM May's deal is rejected (vote on March 12th) and the idea of leaving without a deal is rejected as well (vote on March 13th). It also helps that hard-core Brexiteer Jacob Rees-Mogg is entertaining the concept of backing PM May's motion by dropping his demand over the Irish backstop, perhaps to avoid extending the country's membership in the EU.

Europe has its own issues as well, including the raft of slower economic data. Interestingly, this week's data actually had a better tone, such as a rebound in German retail sales and France's consumer spending. But this won't change the **ECB's** tone when it holds its monetary policy meeting on March 7th. See last week's Focus for my full Preview. Look for GDP and CPI forecasts to be downgraded, discussion about a new TLTRO (though it may be too soon for a decision to be made); and, who knows, maybe even a change to the rates guidance. JLee

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	Good News	Bad News
Canada ▪ Q4 growth slows more than expected ▪ PM Trudeau shuffles cabinet as scandal heats up ▪ Alberta eases oil production cuts	**SEPH Wages** +3.4% y/y (Dec.) **Province of Alberta** projects a $6.9 bln deficit (FY18/19)—improved from prior estimate	**Real GDP** slowed to +0.4% a.r. (Q4) **Real GDP at Basic Prices** -0.1% (Dec.) **Consumer Prices** slowed to +1.4% y/y (Jan.)—but steady **cores** **Current Account Deficit** widened to $61.9 bln a.r. (Q4) **Markit Manufacturing PMI** -0.4 pts to 52.6 (Feb.)
United States ▪ Downward revision to Q1 real GDP growth after disappointing PCE ▪ President Trump delays March 1st deadline to lift tariffs on China, citing *"substantial progress"* ▪ Fed Chair Powell testifies on Capitol Hill and repeats the theme of patience	**Real GDP** +2.6% a.r. (Q4 P) **Core PCE Deflator** steady at +0.2% (Dec.) **Wholesale Inventories** +1.1%; **Retail Inventories** +0.9% (Dec.) **Building Permits** +0.3% to 1.326 mln a.r. (Dec.) **Pending Home Sales** +4.6% (Jan.) **Conference Board's Consumer Confidence Index** +9.7 pts to 131.4 (Feb.)—3-month high	**Real Personal Spending** -0.6% (Dec.) **Personal Income** -0.1% (Jan.) **Housing Starts** -11.2% to 1.078 mln a.r. (Dec.) **S&P Case-Shiller Home Price Index** slowed to +4.2% y/y (Dec.) **FHFA House Price Index slowed to** +5.6% y/y (Dec.) **Goods Trade Deficit** hit a record $79.5 bln (Dec. A) **Chicago Fed National Activity Index** fell to -0.43 (Jan.) **Factory Orders** +0.1% (Dec.)—below expected **Manufacturing ISM** -2.4 pts to 54.2 (Feb.)—lowest since Nov. '16 **U of M Consumer Sentiment** revised lower to 93.8 (Feb.) **Initial Claims** +8k to 225k (Feb. 23 week)
Japan ▪ Q4 capex suggests upward revision to GDP growth	**Capital Spending** +5.7% y/y (Q4)	**Retail Sales** -2.3% (Jan. P) **Industrial Production** -3.7% (Jan. P) **Jobless Rate** +0.1 ppts to 2.5% (Jan.) **Consumer Confidence** -0.4 pts to 41.5 (Feb.)
Europe ▪ PM May will consider a short, one-time-only extension of Brexit but only if Parliament rejects her deal, and leaving the EU without a deal	**Euro Area—Consumer Prices** +1.5% y/y (Feb. A) **Euro Area—Jobless Rate** steady at 7.8% (Jan.) **Germany—Unemployment** -21,000 (Feb.)—and **Jobless Rate** steady at 5.0% **Germany—Retail Sales** +3.3% (Jan.) **Germany—GfK Consumer Confidence** unch at 10.8 (Mar.) **France—Consumer Spending** +1.2% (Jan.) **France—Consumer Confidence** +3 pts to 95 (Feb.) **France—Jobless Rate** -0.1 ppts to 8.8% (Jan. P) **U.K.—GfK Consumer Confidence** +1 pt to -13 (Feb.)	**Euro Area—Private Credit Growth** slowed to +3.0% y/y (Jan.) **Euro Area—Economic Confidence** -0.2 pts to 106.1 (Feb.) **Italy—Consumer Confidence** -1.5 pts to 112.4 (Feb.) **Italy—Jobless Rate** +0.1 ppts to 10.5% (Jan. P) **U.K.—Manufacturing PMI** -0.6 pts to 52.0 (Feb.) **U.K.—Nationwide House Prices** -0.1% (Feb.)
Other ▪ MSCI to lift weighting of Chinese stocks in benchmark indices	**China—Caixin Manufacturing PMI** +1.6 pts to 49.9 (Feb.)	**China—Manufacturing PMI** -0.3 pts to 49.2 (Feb.) **China—Non-manufacturing PMI** -0.4 pts to 54.3 (Feb.) **China—Composite PMI** -0.8 pts to 52.4 (Feb.) **Mexico—Real GDP** revised down to +0.2% q/q (Q4)—and flat y/y in December **Brazil—Real GDP** +0.1% q/q (Q4)—and slowed to +1.1% y/y **India—Real GDP** slowed to +6.6% y/y (Q4)

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

U.S. Corporate Credit: A Question of Substance

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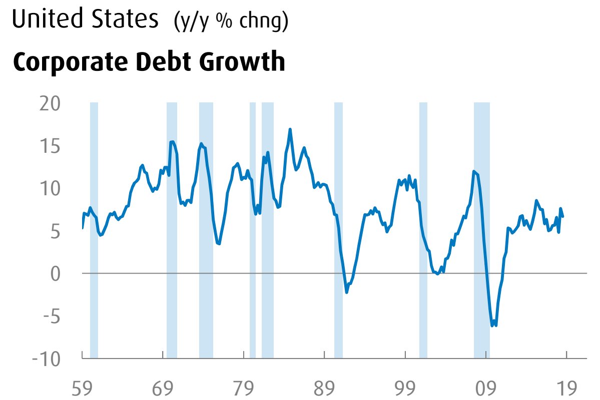
U.S. nonfinancial corporate debt has outrun the economy for most of this decade, raising concerns about sustainability. Growth averaged 6.1% y/y since 2012, a full percentage point faster than the three-decade norm. It even ramped up to 6.7% in the past year as a sharp rise in loans offset slowing securities issuance (*Chart 1*).[1] Total credit is $9.6 trillion or 46% of GDP, both records (*Chart 2*).[2]

The mounting debt was **driven by investment spending.** Growth in private domestic investment averaged 6.7% in the past seven years. It was propelled by several factors, including steady economic growth, low interest rates, looser credit standards (*Chart 3*), the desire to automate to stay competitive, and, in 2018, lower corporate taxes including full expensing. In addition, demand was supported by rising commercial real estate prices (averaging 7% in the past seven years) and the need for warehouse space to serve booming e-commerce. Shale oil drillers also spent and borrowed heavily until recent years.[3] Meantime, **investors greased the credit wheel**, providing relatively generous rates and terms (with more limited protections) that proved irresistible for companies, many of which borrowed to fund acquisitions and share buybacks.

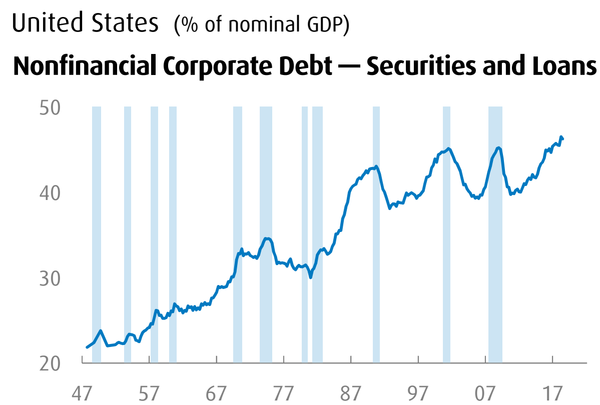
Despite the rapid run-up, corporate **debt is not large relative to assets or profits**.[4] Assets, the wellspring for servicing debt, stood nearly five times taller, and the ratio compares favourably with long-run norms (*Chart 4*). Companies also hold a mountain of cash, deposits and money-market funds that can be readily used to repay debt. Relative to profits, the debt ratio is only modestly above normal and has steadied in recent years (*Chart 5*). Assuming the economy keeps growing and interest rates rise only modestly, most companies should have little trouble servicing debt. In fact, net

Chart 1
Healthy Debt Appetite



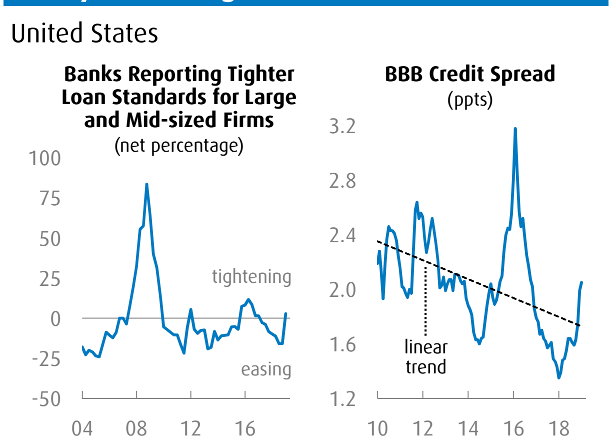
Shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

Chart 2
Climbing



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

Chart 3
Balmy Borrowing Climate



Sources: BMO Economics, Haver Analytics

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1 By comparison, household mortgages and credit have grown just 1.7% on average since 2012, slower than the economy.

2 Loans of nonfinancial unincorporated businesses, which largely tracked those of corporations in the past seven years, hit a record $5.4 trillion in 2018Q3. The combined debt of all nonfinancial businesses equals 72.4% of GDP, just shy of the record in the last recession.

3 https://www.wsj.com/articles/frackers-face-harsh-reality-as-wall-street-backs-away-11551009601

4 Although international debt comparisons are always suspect, the IIF estimates that the U.S. debt ratio is well below the global average. Institute of International Finance. *Global Debt Monitor: Devil in the details*. January 15, 2019. https://www.iif.com/Portals/0/Files/Global%20Debt%20Monitor_January_vf.pdf

interest payments consume a normal share of profits (*Chart 6*).[5] The business default rate is near all-time lows at 0.9%.

Although the amount of business debt should not pose a serious threat to the expansion, a decline in quality could. **High-yield bonds have risen rapidly**, nearly doubling since 2005 to just under $1.2 trillion.[6] More than 40% of the value of U.S. corporate bonds is rated triple-B, the bottom rung of the investment-grade ladder, up from 26% in 2007.[7] Near-junk bonds now account for over half of investment-grade bonds.[8] The growing number of leveraged loans (or loans to firms with high debts) has drawn warnings from the IMF, BIS and ex-Fed Chair Yellen. Some companies, however, are starting to take remedial action to reduce debt, for instance by selling assets.[9]

If the economy stumbles or credit tightens, **many highly-leveraged companies will feel the pain**. Some will be forced to cut staff and spending, aggravating the slowdown. A sharp increase in interest rates would be troublesome for sectors with lower interest-coverage ratios, such as real estate, energy and health care.[10] About 17% of publicly-traded U.S. companies had trouble meeting interest payments in late 2018, compared with less than 10% in 2010, though this share is down from over 20% in 2016.[11] While many are small firms, the large number under duress is worrisome.

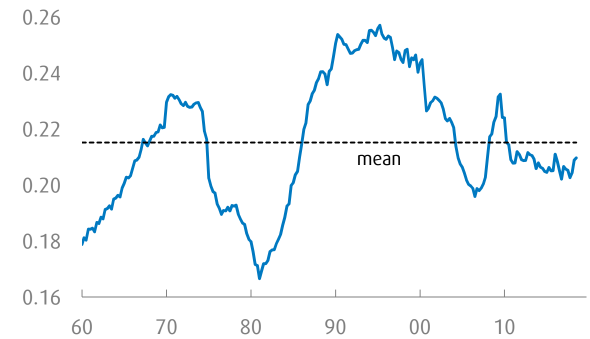
Also of concern is that many investment funds, which are required to hold only investment-grade issues, will be **forced to sell if ratings get cut**, squeezing companies that need credit. This could roil the one-half trillion dollar market for U.S. Collateralized Loan Obligations, which provides the bulk of leveraged loan financing.

Bottom Line: Unlike the lead-up to the financial crisis when both the size and calibre of household debt put the economy at risk, today it's largely **the quality of business debt that poses a threat**. Most U.S. companies are not under financial strain and are unlikely to cut spending. However, a number of leveraged companies with shakier finances could aggravate the next slowdown if they are compelled to retrench.

Chart 4
Assets Have Your Back

United States (ratio)

Corporate Debt vs. Assets

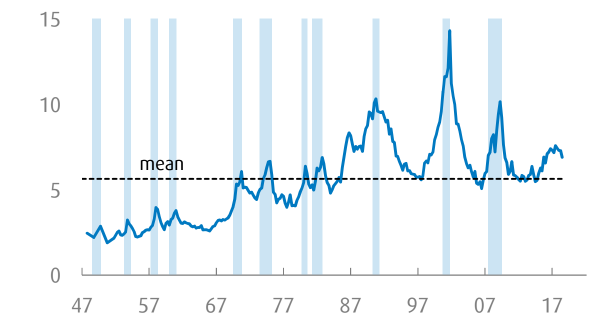


Sources: BMO Economics, Haver Analytics

Chart 5
Profits Help

United States (ratio)

Debt vs. Profits — Nonfinancial Corporations

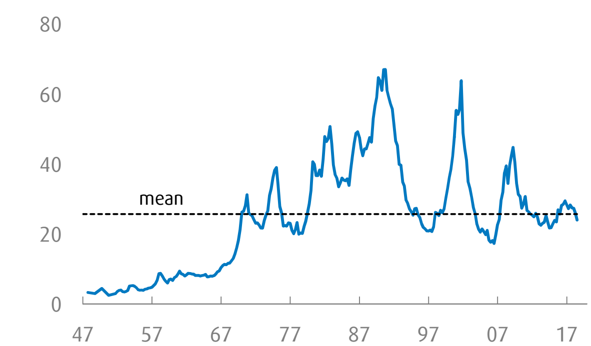


Shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

Chart 6
Got You Covered

United States (% of pre-tax profits)

Net Interest Payments



Sources: BMO Economics, Haver Analytics

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5 It would be more accurate to compare payments to EBITDA, or earnings before interest, taxes, depreciation and amortization, but this series is unavailable.

6 https://www.marketwatch.com/story/the-next-wreck-in-high-yield-bonds-will-be-bigger-longer-and-uglier-2018-06-04

7 https://www.wsj.com/articles/there-have-never-been-so-many-bonds-that-are-almost-junk-1537466036

8 https://www.wsj.com/articles/taking-stock-of-the-worlds-debt-11545906600

9 https://www.bloomberg.com/news/articles/2019-02-27/corporate-america-goes-on-debt-diet-after-a-3-trillion-binge

10 Global Debt Monitor Insights: Growing risks in the U.S. corporate sector. January 8, 2019. Institute of International Finance. http://files.clickdimensions.com/iifcom-ai7nn/files/gdminsightu.s.corporatedebt_vf.pdf

11 https://www.reuters.com/article/us-usa-debt-leveraged-analysis/loose-money-era-leaves-trail-of-u-s-corporate-debt-junkies-idUSKCN1PU0DA

Economic Forecast Summary for March 1, 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.)	1.3	2.6	2.0	0.4	0.0 ↓	2.5	2.2	1.9	3.0	1.8	1.3 ↓
Consumer Price Index (y/y % chng)	2.1	2.3	2.7	2.0	1.5	1.7 ↓	1.6 ↓	1.8 ↓	1.6	2.3	1.6 ↓
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 ($blns : a.r.)	-69.0	-63.4	-40.4	-61.9	-57.3 ↓	-57.7 ↓	-59.1 ↓	-60.0 ↓	-60.1	-58.7	-58.5 ↓
Interest Rates					(average for the quarter : %)						
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.83	0.71	1.44	1.77
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.65	1.65	1.85	0.69	1.37	1.70
10-year Bond	2.24	2.28	2.28	2.32	1.95	2.00	2.05	2.10	1.78	2.28	2.00
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	-44	-66	-61	-70	-77	-76	-76	-76	-26	-60	-76
10-year	-52	-64	-65	-72	-77	-76	-76	-75	-55	-63	-76
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.6	1.2 ↓	2.5	2.0	1.9	2.2	2.9	2.3 ↓
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	1.7	1.7	1.9	2.1	2.4	1.7
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.7	3.6	3.5	4.4	3.9	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.17	1.21 ↓	1.24	1.23	1.21	1.21	1.24	1.22 ↓
Current Account Balance ($blns : a.r.)	-487	-405	-499	-528 ↓	-566 ↓	-579 ↓	-592 ↓	-602 ↓	-449	-480 ↓	-585 ↓
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

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Merchandise Trade Deficit

Wednesday, 8:30 am

Dec. (e)	**$3.0 bln**
Consensus	*$1.8 bln*
Nov.	$2.1 bln

After much delay, the December merchandise trade figures are finally upon us. Unfortunately, the Q4 current account report (which is already in hand) suggests it won't be pretty. For all of Q4, the goods deficit exploded to $7.2 bln, at the wider end of the range over the past few years. Assuming no revisions (and it's fair to expect some chunky ones), that would put the December trade deficit at over $4 bln. Our estimate assumes some downward revisions. The positives in this report will be few, if any.

BoC Policy Announcement

Wednesday, 10:00 am

Please see Benjamin Reitzes' Thought on page 5.

Building Permits

Thursday, 8:30 am

Jan. (e)	**-6.0%**
Dec.	+6.0%

Housing Starts

Friday, 8:15 am

Feb. (e)	**210,000 a.r. (+1.0%)**
Consensus	*214,100 a.r. (+3.0%)*
Jan.	207,895 a.r. (-2.7%)

Building permits are expected to drop 6% in January, retracing the prior month's move. Back-to-back months of big gains in non-residential permits (commercial in particular) point to a pullback to start the new year. We're looking for a small decline in residential permits as well. Meantime, housing starts are projected to continue hovering around the 210k level, fuelled by strong population growth.

Employment

Friday, 8:30 am

Feb. (e)	**+0.1% (+10,000)**
Consensus	*+0.1% (+11,200)*
Jan.	+0.3% (+66,800)
	Unemployment Rate
Feb. (e)	**5.8%**
Consensus	*5.7%*
Jan.	5.8%
	Average Hourly Wages
Feb. (e)	**+1.9% y/y**
Jan.	+2.0% y/y

It's been quite the run for jobs in Canada, surging 234k in the five months to January, the best spurt since 2002. The headline for the LFS is always a crapshoot but there's one major factor to keep in mind: **population growth has surged over the past year, boosted by booming immigration.** That means **job growth needs to be around 20k-to-30k to keep the jobless rate steady**. Accordingly, don't be shocked if trend job growth continues to be stronger than what was thought as "normal" a couple of years ago (~15k). On a sector basis, some rebound on the goods side looks likely after all five sectors fell in January. And, services could reverse some of the prior month's huge gain. In the event, we wouldn't be shocked to see a negative headline print.

Our call for employment growth of 10k is expected to keep the jobless rate steady at 5.8%. Wage growth looks to slow a tick to 1.9% y/y. However, there have been solid wage gains over the past couple of months and we'll be watching if that becomes a trend.

United States

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New Home Sales
Tuesday, 10:00 am

Dec. (e)	**591,000 a.r.**	**(-10.0%)**
Consensus	*583,000 a.r.*	*(-11.3%)*
Nov.	657,000 a.r.	(+16.9%)

Housing Starts
Friday, 8:30 am

Jan. (e)	**1.15 mln a.r. (+6.2%)**
Consensus	*1.17 mln a.r. (+8.5%)*
Dec.	1.08 mln a.r. (-11.2%)
	Building Permits
Jan. (e)	**1.30 mln a.r. (-2.0%)**
Consensus	*1.26 mln a.r. (-5.0%)*
Dec.	1.33 mln a.r. (+0.3%)

The end of 2018 was horrendous for housing, but the start of 2019 is looking much better. Mortgage rates (Freddie Mac's 30-year tenor) have dropped nearly 60 bps from mid-November peaks, which, in turn, were 7¾-year highs. These turnarounds are bolstering consumer confidence, especially since job and wage growth continued undaunted in recent months. This all bodes well for housing activity, particularly if the recent rebounds in the NAHB homebuilders' index, mortgage applications and pending home sales are any guides.

Unfortunately, new home sales look to slide 10% in December to 591,000 units (annualized), reflecting the period's financial-market-prodded doldrums along with payback from November's 16.9% surge (living up to its volatile series reputation). Importantly, we get January new home sales just nine days later, and they should show an improvement. Housing starts are expected to increase 6.2% in January to 1.15 million units (annualized), after a double-digit drop in December. Building permits ended 2018 some 23% above the level of starts, which was the second largest gap in history (since 1960), portending a powerful pickup. Indeed, the largest gap occurred in February 2015 (at 28%) and housing starts subsequently surged a combined 35% in the two months that followed.

Non-manufacturing ISM (NMI)
Tuesday, 10:00 am

Feb. (e)	**57.0**
Consensus	*57.3*
Jan.	56.7

An improvement in several regional services-sector surveys suggest the ISM index rose for the first time in three months in February (to 57.0). Oil output hit new highs this month, while a recent decline in mortgage rates looks to hoist home building. Though slipping in December, consumer spending on services is healthy amid solid income growth, and will get a lift from the recent bounce in confidence. Overall, the ISM index should continue to flag above-potential economic growth.

Goods & Services Trade Deficit
Wednesday, 8:30 am

Dec. (e)	**$56.5 bln**
Consensus	*$56.9 bln*
Nov.	$49.3 bln

December will likely register the largest goods and services trade deficit in more than a decade, at about $56.5 billion. With the surplus in services trade likely staying comfortably above $22 billion, this reflects a record $78.8 billion shortfall in goods trade (on a balance of payments basis). As global economic growth has slowed, dampening U.S. exports, domestic demand has remained sturdy, supporting imports. Meanwhile, U.S. dollar appreciation has helped offset some of the impact of tariffs on imports. However, the strong greenback has magnified the impact of retaliatory tariffs, dampening exports. We look for goods exports to decrease in December for the 6th time in 7 months, while goods imports increase for the 7th time in 8 months, with the latter boosted by stockpiling ahead of prospective tariff hikes on Chinese goods (that were postponed until March 2nd and now delayed indefinitely).

Beige Book
Wednesday, 2:00 pm

The anecdotal evidence compiled in the Beige Book will cover the period from January 8 to roughly late-February, when financial markets had already started to turn around but the government shutdown was in effect until January 25th. With some official economic reports delayed due to the backlog after the shutdown, the Beige Book takes on added significance in assessing whether the economy's December doldrums were transitory. In the last survey, 8 of 12 districts reported "modest to moderate" growth, so this should be at least matched. With the Fed in "patient" mode, it's going to take signs of "muted inflation pressures" becoming unmuted for it to start pounding the rate hike drum again. In the previous survey, the majority of Districts reported "modest to moderate increases in prices", but more sided on the "modest" side when it came to wage growth, despite all Districts noting that "*labor markets were tight and that firms were struggling to find workers at any skill level*."

Nonfarm Payrolls
Friday, 8:30 am

Feb. (e)	**+170,000**	
Consensus	*+185,000*	
Jan.	+304,000	
	Unemployment Rate	
Feb. (e)	**3.8%**	
Consensus	*3.9%*	
Jan.	4.0%	
	Average Hourly Earnings	
Feb. (e)	**+0.3%**	**+3.4% y/y**
Consensus	*+0.3%*	*+3.3% y/y*
Jan.	+0.1%	+3.2% y/y

After expanding 2.7 million in 2018 and another 304,000 in January, nonfarm payrolls look to simmer down to a 170,000 rate in February. That's still a healthy gain, which, along with the return of furloughed federal workers in the household survey, will slice the jobless rate by two-tenths to 3.8%, just a tick above the 49-year low reached in November. After a mild advance in January, average hourly earnings likely rose 0.3%, lifting the yearly rate to a near-decade high of 3.4%, but not high enough to push inflation above target given firmer productivity.

Europe

ECB Policy Announcement
Thursday, 7:45 am

Please see Jennifer Lee's Thought on page 5.

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		Mar 1 [1]	Feb 22	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	1.67	-1	0	2
	United States	2.44	2.44	-1	5	8
	Japan	-0.18	-0.21	3	8	-3
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.85	0.86	-1	-6	-6
	Australia	1.87	1.89	-2	-18	-22
2-Year Bonds	Canada	1.75	1.78	-2	-8	-11
	United States	2.53	2.50	3	2	4
10-Year Bonds	Canada	1.93	1.89	4	-3	-4
	United States	2.74	2.65	9	5	5
	Japan	-0.01	-0.04	3	1	-1
	Germany	0.19	0.09	10	3	-5
	United Kingdom	1.31	1.16	16	7	4
	Australia	2.15	2.10	6	-5	-17
Risk Indicators	VIX	14.3	13.5	0.8 pts	-1.9 pts	-11.2 pts
	TED Spread	16	20	-4	-19	-29
	Inv. Grade CDS Spread [2]	60	62	-2	-6	-28
	High Yield CDS Spread [2]	345	347	-3	-9	-105
					(percent change)	
Currencies	US¢/C$	75.54	76.13	-0.8	-1.0	3.0
	C$/US$	1.324	1.314	—	—	—
	¥/US$	111.75	110.69	1.0	2.1	1.9
	US$/€	1.1388	1.1335	0.5	-0.6	-0.7
	US$/£	1.326	1.305	1.6	1.4	4.0
	US¢/A$	71.00	71.29	-0.4	-2.1	0.7
Commodities	CRB Futures Index	182.99	184.06	-0.6	1.4	7.8
	Oil (generic contract)	57.14	57.26	-0.2	3.4	25.8
	Natural Gas (generic contract)	2.84	2.74	3.7	3.8	-3.4
	Gold (spot price)	1,306.59	1,328.25	-1.6	-0.8	1.9
Equities	S&P/TSX Composite	16,106	16,013	0.6	3.9	12.4
	S&P 500	2,800	2,793	0.3	3.4	11.7
	Nasdaq	7,567	7,528	0.5	4.2	14.0
	Dow Jones Industrial	25,992	26,032	-0.2	3.7	11.4
	Nikkei	21,603	21,426	0.8	3.9	7.9
	Frankfurt DAX	11,622	11,458	1.4	4.0	10.1
	London FT100	7,116	7,179	-0.9	1.4	5.8
	France CAC40	5,270	5,216	1.0	5.0	11.4
	S&P ASX 200	6,193	6,167	0.4	5.6	9.7

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

Global Calendar
March 4 – March 8

BMO Capital Markets

	Monday March 4	Tuesday March 5	Wednesday March 6	Thursday March 7	Friday March 8
Japan		**Services PMI** **Feb.** Jan. 51.6 **Composite PMI** **Feb.** Jan. 50.9			**Household Spending** **Jan. (e) -0.6% y/y** Dec. +0.1% y/y **Real GDP** **Q4 F (e) +0.4% unch y/y** Q4 P +0.3% unch y/y Q3 -0.7% +0.1% y/y **Current Account Surplus** **Jan. '19 (e) ¥161.0 bln** Jan. '18 ¥592.4 bln **Bank Lending Ex-Trusts** **Feb.** Jan. +2.4% y/y
Euro Area	EURO AREA **Producer Price Index** **Jan. (e) +0.3% +2.9% y/y** Dec. -0.8% +3.0% y/y	EURO AREA **Services PMI** **Feb. F (e) 52.3** Jan. 51.2 **Composite PMI** **Feb. F (e) 51.4** Jan. 51.0 **Retail Sales** **Jan. (e) +1.0% +1.9% y/y** Dec. -1.6% +0.8% y/y ITALY **Real GDP** **Q4 F (e) -0.2% +0.1% y/y** Q4 P -0.2% +0.1% y/y Q3 -0.1% +0.6% y/y		EURO AREA **Real GDP** **Q4 F (e) +0.2% +1.2% y/y** Q4 P +0.2% +1.2% y/y Q3 +0.2% +1.6% y/y ECB Monetary Policy Meeting ITALY **Retail Sales** **Jan.** Dec. -0.7% -0.6% y/y	GERMANY **Factory Orders** **Jan. (e) +0.3% -4.0% y/y** Dec. -1.6% -7.0% y/y FRANCE **Trade Deficit** **Jan. (e) €5.0 bln** Dec. €4.7 bln
U.K.	**Construction PMI** **Feb. (e) 50.5** Jan. 50.6	**Services PMI** **Feb. (e) 50.0** Jan. 50.1 **Composite PMI** **Feb. (e) 50.1** Jan. 50.3 BoE Governor Carney speaks to House of Lords			**Industrial Production** **Jan. (e) +0.1% +0.6% y/y** Dec. +0.8% -1.4% y/y **Manufacturing Production** **Jan. (e) -0.2% unch y/y** Dec. +1.0% -1.0% y/y ITALY **Industrial Production** **Jan. (e) +0.1% -3.0% y/y** Dec. -0.8% -5.5% y/y
Other	AUSTRALIA **Building Approvals** **Jan. (e) +1.5% -28.9% y/y** Dec. -8.4% -22.5% y/y	CHINA **Caixin Services PMI** **Feb. (e) 53.5** Jan. 53.6 **Caixin Composite PMI** **Feb.** Jan. 50.9 AUSTRALIA RBA Monetary Policy Meeting	CHINA **Foreign Reserves [D]** **Feb. (e) $3.1 trln** Jan. $3.1 trln AUSTRALIA **Real GDP** **Q4 (e) +0.5% +2.7% y/y** Q3 +0.3% +2.8% y/y	CHINA **Trade Surplus [D]** **in USD in CNY** **Feb. (e) $27.2 bln 122.0 bln** Jan. $39.2 bln 271.2 bln AUSTRALIA **Trade Surplus** **Jan. (e) A$2.9 bln** Dec. A$3.7 bln **Retail Sales** **Jan. (e) +0.3%** Dec. -0.4%	CHINA **CPI PPI** **Feb. (e) +1.5% y/y +0.2% y/y** Jan. +1.7% y/y +0.1% y/y

[D] = date approximate

Upcoming Policy Meetings | BoE: Mar. 21, May 2, June 20 | ECB: Apr. 10, June 6, July 25

North American Calendar
March 4 – March 8

Canada

Monday March 4

Tuesday March 5

10:30 am — 3-, 6- & 12-month bill auction $10.5 bln (new cash -$2.6 bln)

Wednesday March 6

8:30 am	**Merchandise Trade Deficit**
Dec. (e)	**$3.0 bln**
Consensus	*$1.8 bln*
Nov.	$2.1 bln
8:30 am	**Labour Productivity**
Q4 (e)	**-0.3%**
Q3	+0.3%
10:00 am	**Ivey Purchasing Managers Index (s.a.)**
Feb.	
Jan.	54.7

10:00 am BoC Policy Announcement

Thursday March 7

8:30 am	**Building Permits**
Jan. (e)	**-6.0%**
Dec.	+6.0%

12:30 pm BoC Deputy Governor Patterson gives an Economic Progress Report to the Hamilton Chamber of Commerce

Manitoba Budget

Friday March 8

8:15 am	**Housing Starts**
Feb. (e)	**210,000 a.r. (+1.0%)**
Consensus	*214,100 a.r. (+3.0%)*
Jan.	207,895 a.r. (-2.7%)
8:30 am	**Employment**
Feb. (e)	**+0.1% (+10,000)**
Consensus	*+0.1% (+11,200)*
Jan.	+0.3% (+66,800)
8:30 am	**Unemployment Rate**
Feb. (e)	**5.8%**
Consensus	*5.7%*
Jan.	5.8%
8:30 am	**Average Hourly Wages**
Feb. (e)	**+1.9% y/y**
Jan.	+2.0% y/y
8:30 am	**Capacity Utilization**
Q4 (e)	**82.0%**
Q3	82.6%

United States

Monday March 4

10:00 am	**Construction Spending**
Dec. (e)	**+0.3%**
Consensus	*+0.2%*
Nov.	+0.8%

11:30 am — 13- & 26-week bill auction $87 bln

New dates for previously delayed releases:

- **Mar. 11:** Retail Sales (Jan.); Business Inventories (Dec.)
- **Mar. 13:** Durable Goods Orders (Jan.); Construction Spending (Jan.)
- **Mar. 14:** New Home Sales (Jan.)
- **Mar. 19:** Factory Orders (Jan.)
- **Mar. 22:** Wholesale Trade (Jan.)
- **Mar. 26:** Housing Starts, Building Permits (Feb.)
- **Mar. 27:** Goods and Services Trade Balance (Jan.)
- **Mar. 29:** New Home Sales (Feb.)
- **Apr. 1:** Retail Sales (Feb.), Business Inventories (Jan.)
- **Apr. 2:** Durable Goods Orders (Feb.)
- **Apr. 8:** Factory Orders (Feb.)
- **Apr. 17:** Goods and Services Trade Balance (Feb.), Wholesale Trade (Feb.)
- **Apr. 18:** Retail Sales (Mar.), Business Inventories (Feb.)
- **Apr. 19:** Housing Starts, Building Permits (Mar.)
- **May 3:** Advanced Indicators (Mar.) [Jan-Feb cancelled]
- **May 9:** Goods and Services Trade Balance (Mar.)

Tuesday March 5

9:45 am	**Markit Services/Composite PMI (Feb. F)**
10:00 am	**New Home Sales**
Dec. (e)	**591,000 a.r. (-10.0%)**
Consensus	*583,000 a.r. (-11.3%)*
Nov.	657,000 a.r. (+16.9%)
10:00 am	**Non-manufacturing ISM (NMI)**
Feb. (e)	**57.0**
Consensus	*57.3*
Jan.	56.7
2:00 pm	**Budget Balance**
Jan. '19	
Jan. '18	+$49.2 bln

Fed Speaker: Richmond's Barkin (11:30 am)

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

Wednesday March 6

7:00 am	**MBA Mortgage Apps**
Mar. 1	
Feb. 22	+5.3%
8:15 am	**ADP National Employment Report**
Feb. (e)	**+170,000**
Consensus	*+190,000*
Jan.	+213,000
8:30 am	**Goods & Services Trade Deficit**
Dec. (e)	**$56.5 bln**
Consensus	*$56.9 bln*
Nov.	$49.3 bln

2:00 pm Beige Book

Fed Speakers: New York's Williams (noon); Cleveland's Mester (noon)

Thursday March 7

7:30 am	**Challenger Layoff Report**	
Feb.		
Jan.	+18.7% y/y	
8:30 am	**Initial Claims**	
Mar. 2 (e)	**225k (unch)[c]**	
Feb. 23	225k (+8k)	
8:30 am	**Continuing Claims**	
Feb. 23		
Feb. 16	1,805k (+79k)	
8:30 am	**Productivity**	**Unit Labour Costs**
Q4 P (e)	**+1.5% a.r.**	**+1.4% a.r.**
Consensus	*+1.7% a.r.*	*+1.8% a.r.*
Q3	+2.2% a.r.	+0.9% a.r.
12:00 pm	**Flow of Funds (Q4)**	
3:00 pm	**Consumer Credit**	
Jan. (e)	**+$17.0 bln**	
Consensus	*+$16.8 bln*	
Dec.	+$16.6 bln	

Fed Speaker: Gov. Brainard (12:15 pm)

11:00 am — 13- & 26-week bill, 3- & 10[R]-year note, 30[R]-year bond auction announcements

11:30 am — 4- & 8-week bill auction

Friday March 8

8:30 am	**Nonfarm Payrolls**	
Feb. (e)	**+170,000**	
Consensus	*+185,000*	
Jan.	+304,000	
8:30 am	**Unemployment Rate**	
Feb. (e)	**3.8%**	
Consensus	*3.9%*	
Jan.	4.0%	
8:30 am	**Average Hourly Earnings**	
Feb. (e)	**+0.3%**	**+3.4% y/y**
Consensus	*+0.3%*	*+3.3% y/y*
Jan.	+0.1%	+3.2% y/y
8:30 am	**Housing Starts**	
Jan. (e)	**1.15 mln a.r. (+6.2%)**	
Consensus	*1.17 mln a.r. (+8.5%)*	
Dec.	1.08 mln a.r. (-11.2%)	
8:30 am	**Building Permits**	
Jan. (e)	**1.30 mln a.r. (-2.0%)**	
Consensus	*1.26 mln a.r. (-5.0%)*	
Dec.	1.33 mln a.r. (+0.3%)	

10:00 pm Fed Chair Powell speaks on "Monetary Policy Normalization and Review" at the 2019 Stanford Institute for Economic Policy Research

[c] = consensus [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Apr. 24, May 29, July 10 | FOMC: Mar. 19-20, Apr. 30-May 1, June 18-19