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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

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Spring Brake

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Ever been rudely interrupted from an idyllic dream, only to face the hard reality of another brutal winter morning, skidding over endless ice floes, grappling with the local band of wild coyotes, and then dealing with the usual soul-crushing lengthy commute? I mean other than today? Well, that's about how global financial markets felt this week, as the cold slap of clammy economic data awoke them from the nine-week nirvana to start the year. Equity markets struggled through their first serious weekly setback since the middle of December, with the S&P 500 on course for almost a 3% drop and the MSCI falling broadly. Meantime, bond yields sagged anew, as Treasuries slid 10-to-14 bps across the curve, oil receded, and the U.S. dollar broadly strengthened, in a classic risk-off move.

Markets had been sagging steadily all week as **a variety of central banks turned more cautious on the outlook**—hello ECB, BoC and RBA—and then **a pair of key economic reports for February delivered a telling blow** on Friday. A deep drop in China's trade flows in the month was followed by an eye-popping slowdown in U.S. payroll growth. Both reports came loaded with caveats, and a simple two-month average of both China's exports and U.S. job gains would quickly show that growth was cooling, not sliding, at the start of the year. Still, the loud message was that both economies need a trade deal, and soon. Yet, the tone around the U.S./China talks also turned a bit more cautious this week, with President Trump suggesting on Friday that the U.S. could do "*very well*" even without a deal, and other officials claiming there was "*more work to do*" and they will not sign a bad deal.

Turning back to the data, the U.S. February employment report was truly an odd duck. The 20,000 headline job gain was so low that even Canada produced more jobs (55,900) than the U.S. did in the month. However, the meagre gain was likely weather-affected and follows exceptionally strong rises in prior months, so the three-month average payroll rise of 186,000 barely breaks stride from the longer-term trend of around 200,000. Meantime, the household survey zigged as payrolls zagged, reporting a solid 255,000 gain, chopping the jobless rate 2 ticks to 3.8% and slashing the broader U6 measure to a cycle low. As if to emphasize how tight the job market remains, wages hit a cycle high of 3.4% y/y.

The **strange jobs report** completely overshadowed a **snapback in housing starts** in January, which fully reversed the very weak report of the prior month. This is important, since many were busy burying the U.S. housing sector, even as it seems to be reviving. Completing the mixed jumble of conflicting indicators, the ISM for non-manufacturing rebounded in February to a three-month high of 59.7, which left it above the 2018 average, even as auto sales matched a four-year low of 16.5 million units in the month. The blend of confusing indicators suggests that growth is grinding lower, but not braking as hard as in—say—Europe. Next week's two big releases stateside will be January retail sales on Monday and February consumer prices on Tuesday. The retail figure is widely expected to mimic the comeback we just saw in housing starts, at least partially reversing the shocking deep 1.2% dive seen in December. However, the softness in vehicle sales and lower gasoline prices in the month will weigh on the headline.

Meanwhile, **Canadian employment was up to its usual pranking** of markets, analysts, and policymakers alike. Just as the Bank of Canada all but officially turned neutral itself in this week's rate decision announcement, and markets began pricing in the possibility of rate cuts later this year, Canadian jobs casually knocked down yet another robust reading for February. What made this especially notable is that it arrived just as U.S. payrolls struggled mightily, Canadian housing starts were flailing, and amid a very tough weather month—and yet jobs jumped. And, this is no one-month wonder, as employment has just posted its biggest six-month increase in 17 years, and the second strongest such gain in 35 years.

Of course, two big caveats are that Canada's labour force population is also on a tear, so the jobless rate has not improved one iota in the past year (holding steady at 5.8%), and total hours worked are not rising in line with the jobs bonanza. In fact, hours worked have dipped 0.1% in the past year. While harsh weather likely played a role in cutting hours in February, the trend has been sluggish in any event, and reinforces the view that growth stalled in Q1, even with the big employment rise. In other words, while the headline job gains in Canada and the U.S. were almost the polar vortex opposites, the appropriate response should be the same—**largely ignore it**. For instance, even with the jobs whopper, Canadian yields still ended the week down massively from last Friday on the dovish BoC remarks, with 10s dropping 15 bps to below 1.8% (i.e., barely above the Bank's 1.75% overnight target rate). And, the lagging loonie fell 1% to its lowest ebb since the start of the year at 74.5 cents.

Looking more broadly at the overall message from the many moving parts in the economic and financial data, the bottom line is that, while rate hikes are now a very distant prospect, markets were also getting way ahead of themselves pricing in rate cuts this year.

Tomorrow marks the **10-year anniversary of the market bottom** during the financial crisis. Through the many twists and turns in the market over that long spell, the fact is that the S&P 500 now stands a towering four times above the low levels of that dark day. That translates into a massive average annual increase of 15%, even before dividends. The TSX also hit rock bottom the same day, although it's had a much more erratic recovery over the past decade, sidetracked by a variety of energy-related woes. Still, the index has more than doubled over that span, yielding an average annual gain of just under 8% (again, before quite healthy dividends, which would easily lift total returns above 10%).

Notably, looking back on that day a decade ago, while stocks are in a different world, many other financial variables would not look at all out of place even today—the Canadian dollar stood just below $1.30/US$ ($1.343 now), WTI was just above US$47 ($55), and the 10-year Treasury yield closed at 2.89% (2.64%). Curiously, and appropriately enough, the number one song that week was the talented Mr. Flo Rida's *"Right Round"*—who says no one called the bottom at that time?

BoC Hangs on to Tightening Bias

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The Bank of Canada held on to its hiking bias but diluted it as much as possible, keeping it just barely on the hawkish side of neutral. You'd hardly know it by looking at markets, though, which are now pricing slight odds of a rate cut over the next year. Perhaps a case of: "Expect the worst and hope for the best"?

The policy statement had plenty of reasons for caution. The usual suspects were there: trade tensions and housing/household debt. On the trade front, the drag on confidence and activity were noted. However, progress in U.S./China talks was mentioned and the Bank continues to see upside risk from a positive resolution to trade conflicts. The housing/household debt worries were more focused on spending than the housing market this time around. While both were noted as weak spots in Q4, the concluding sentence noted household spending rather than the housing market is what the BoC is "*watching closely*". The two are clearly connected, and the uncertainty around the direction for the housing market (we'll get February sales data next week) drives uncertainty for consumer spending.

The new rationale for dovishness was the sharply weaker Q4 GDP report. Governor Poloz has indicated a number of times that GDP is the most important and comprehensive piece of data the Bank sees. Accordingly, when the BoC misses on its GDP forecast by nearly 1 ppt, as was the case in Q4, it is taken very seriously. Even more troubling for policymakers was the steep drop in business investment. The pullback in housing and consumers should come as no surprise given higher rates and regulatory changes. But the Bank was counting on investment to lead growth; yet, the Q4 report showed the exact opposite. Not only did investment record back-to-back double-digit declines, but the rest of 2018 was revised down as well. That hardly bodes well for the growth handoff, although the decline was entirely due to the energy sector. There are some other potentially mitigating factors. The inability of the U.S. to ratify the USMCA could be keeping investment dollars on the sidelines. Oil transportation bottlenecks certainly aren't helping either, with energy industry investment holding at very low levels. And, broader trade tensions (Canada/China, U.S./China, U.S./everyone) are negative for sentiment as well. It's seven weeks until the April policy meeting but the Bank will likely cut the Q1 GDP forecast (from 0.8% in January). However, Q2 will be introduced as well and will likely be above 2%.

The February jobs number should cause policymakers to breathe a sigh of relief after the run of weak data. Despite next to no growth in Q4 and likely Q1, the job market has held up remarkably well (the best six-month gain in 17 years), suggesting the slowdown in broader activity is temporary. That should quiet rate-cut chatter for at least the next week or so, until we get another round of meaningful data. Indeed, if the data deteriorate further ahead of the next policy meeting, the next step for the BoC is to go full neutral and drop its super-soft tightening bias altogether.

Key Takeaway: The Bank of Canada joined its global peers, turning more dovish and putting off rate hikes for the foreseeable future. The next few months will be key as markets watch whether the dovish pivots by central banks provide a lift to growth in Q2, or whether the global economy weakens further. *B.A.A.R.*

This Is What It Sounds Like, When The Doves Cry

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Yes, that intro has been used a number of times in our Economics Department over the years. But, I will shamelessly re-use it given this past week's central bank activity, capped off by the **ECB's** long-awaited decision to **change the forward rates guidance** (forget "*through the summer of 2019*"… rates will stay where they are at least "*through the end of 2019*") and, somewhat surprisingly, to launch a new set of **targeted long-term refinancing operations** (named TLTRO-III). These economy-supporting measures were backed by a much gloomier outlook for the Euro Area growth. The ECB staff 2019 real GDP growth projections were slashed, with fingers pointing to persistent **external factors;** such as, trade uncertainty, Brexit, slower growth in China, and waning U.S. fiscal stimulus. There were also some **domestic factors**, including the German car industry, and the recession in Italy. As such, GDP forecasts for 2019 were sliced (from 1.7% to 1.1%), trimmed a little for 2020 (from 1.6% to 1.5%), but remained the same for 2021 (at 1.5%). Consequently, CPI inflation forecasts were chopped for 2019 (from 1.6% to 1.2%), lowered for 2020 (from 1.7% to 1.5%) and for 2021 (from 1.8% to 1.6%).

Although ECB President Draghi calmly emphasized that the risk of a Euro Area recession was still very low, that the economy was still expanding and was still adding jobs and lifting nominal wages, the market seemed to tune him out. The **euro** hit a 20-month low below $1.12 and the **Eurozone Banks Index** erased its initial rally and closed down 3% on Thursday, a little unsettling given that the banks would benefit from the new round of cheap loans. The bigger issue is the fact that rates are staying exceptionally low for longer.

Also interesting was that rates guidance still roped in 2019; but, apparently there was a reason behind this. After the ECB press conference, as usual, **some insiders spoke to reporters about what was going on behind the scenes.** Reportedly, in order for President Draghi to win unanimous support for the March 7 decision, he allowed the statement to be "*through the end of 2019*" instead of suggesting a month further out, specifically, March or April 2020. This is where the hawks won. As far as TLTRO-III was concerned, its birth was sped up after the **staff projections** for much weaker growth were released Monday. This comes six weeks after the last ECB meeting, when there were warnings against acting too hastily. Some officials weren't yet convinced that more liquidity was needed, and one wanted to "wait and see". Things actually can move pretty fast at the ECB.

Could the ECB be over-compensating? Perhaps. After all, there were a number of **temporary factors** holding growth back last year. And some of the **more recent data carried a better tone:** Euro Area services PMI was at a 3-month high in February; labour markets remain tight; Germany and France's consumer spending measure improved in the latest month; and industrial production in France and Italy rebounded in January.

But there is obviously **more bad news than good news**. The **handoff to 2019 has been weak**: the Euro Area manufacturing PMI contracted in February, and is at its lowest level in 5½ years, Germany just barely avoided a technical recession in Q4 and its factory output took an unexpected dive in January. So it will take much more to soothe the ECB's nerves.

The **other major economies are also facing some uphill battles**, such as China, the U.S., Canada and Australia, enough to put their central banks on the defensive. There is also a dark cloud looming on the horizon; in particular, the uncertainty around the **upcoming EU/U.S. trade talks** as both sides are already clashing on what they want to negotiate. The EU wants to limit the talks to industrials and cars, but the U.S. wants agriculture to be part of the discussions. Oh, and of course, there is Brexit. With all of this in mind, putting the option of cheap loans out there will help, and delaying a rate hike is completely understandable. The ECB will eventually raise rates, but it will be long after Mario Draghi's term ends in October.

As far as the euro is concerned, our **Stephen Gallo, European Head of FX Strategy**, judges that "*the balance of domestic and international geopolitical and economic risks place the EURUSD at $1.09 over the next three months*." This accounts for the above-consensus probability of a no-deal Brexit and no rollback in U.S./China trade tariffs. He also expects the currency to "*contain a risk discount through the EU parliamentary elections in May while financial vulnerabilities cap global demand for EUR-dominated assets*." JLee

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Region	Good News	Bad News
Canada - BoC on hold but tilts more dovish - Fresh setback for oil patch on another pipeline delay	**Employment** +55,900 (Feb.) **Jobless Rate** steady at 5.8% (Feb.) **Average Hourly Wages** +2.3% y/y (Feb.) **Conference Board's Consumer Confidence Index** +1.8 pts to 111.5 (Feb.) **Province of Manitoba** projects a $360 mln deficit (FY19/20)—slight improvement	**Merchandise Trade Deficit** widened to a record $4.6 bln (Dec.) **Auto Sales** -3.7% y/y (Feb.) **Building Permits** -5.5% (Jan.) **Labour Productivity** -0.4% (Q4) **Capacity Utilization** -1.1 ppts to 81.7% (Q4) **Ivey PMI** -4.1 pts to 50.6 (Feb.)
United States - Cloudy economic outlook amid disappointing job gains	**Jobless Rate** -0.2 ppts to 3.8% (Feb.) **Average Hourly Earnings** +0.4% (Feb.) **New Home Sales** +3.7% to 621,000 a.r. (Dec.) **Housing Starts** +18.6% to 1.230 mln a.r. (Jan.) **Building Permits** +1.4% to 1.345 mln a.r. (Jan.) **Productivity** +1.9% a.r. (Q4 P)—and **Unit Labour Costs** +2.0% a.r **Non-manufacturing ISM** +3.0 pts to 59.7 (Feb.) **Initial Claims** -3k to 223k (Mar. 2 week)	**Nonfarm Payrolls** +20,000 (Feb.)—below expected **Auto Sales** fell to 16.532 mln a.r. (Feb.) **Construction Spending** -0.6% (Dec.) **Goods & Services Trade Deficit** widened to $59.8 bln (Dec.) **Budget Surplus** narrowed to $8.7 bln (Jan.)
Japan - Gov. Kuroda says BoJ "*patiently*" on hold until 2% inflation target reached	**Real GDP** revised up to +0.5% q/q (Q4) **Household Spending** +2.0% y/y (Jan.) **Services PMI** +0.7 pts to 52.3 (Feb.) **Current Account Surplus** widened to ¥600.4 bln (Jan.) **Bank Lending Ex-Trusts** steady at +2.4% y/y (Feb.)	**Composite PMI** -0.2 pts to 50.7 (Feb.)
Europe - ECB on hold but unveils TLTRO-III as GDP outlook slashed - Critical Brexit votes on deck next week as time runs out	**Euro Area—Retail Sales** +1.3% (Jan.) **Euro Area—Producer Prices** +0.4% (Jan.) **Euro Area—Services PMI** revised up to 52.8 (Feb.) **Euro Area—Composite PMI** revised up to 51.9 (Feb.) **France—Industrial Production** +1.3% (Jan.) **Italy—Retail Sales** +0.5% (Jan.) **Italy—Industrial Production** +1.7% (Jan.) **U.K.—Services PMI** +1.2 pts to 51.3; **Composite PMI** +1.2 pts to 51.5 (Feb.)	**Germany—Factory Orders** -2.6% (Jan.) **France—Trade Deficit** widened to €4.2 bln (Jan.) **U.K.—Construction PMI** -1.1 pts to 49.5 (Feb.)
Other - China cuts official growth target to 6.0%-to-6.5% - RBA on hold and joins dovish chorus	**China—Foreign Reserves** $3.09 trln (Feb.) **Australia—Building Approvals** +2.5% (Jan.) **Australia—Trade Surplus** widened to A$4.6 bln (Jan.)	**China—Exports** -20.7% y/y; **Imports** -5.2% y/y (Feb.) **China—Caixin Services PMI** -2.5 pts to 51.1; **Composite PMI** -0.2 pts to 50.7 (Feb.) **Australia—Real GDP** +0.2% q/q (Q4) **Australia—Retail Sales** slowed to +0.1% (Jan.)

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

Will Powell and Poloz Modify Policy Frameworks?

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Last November, the Federal Reserve announced that it will review the *"strategies, tools, and communication practices it uses to pursue its congressionally-assigned mandate of maximum employment and price stability."* The review will include *"outreach to a broad range of interested stakeholders"*, with public events to occur throughout this year. The Fed officially adopted inflation targeting in January 2012, and this will be its first formal review.

The Bank of Canada has been following an inflation-targeting policy framework since February 1991. Eyeing the 2021 renewal of the latest (five-year) agreement with the Government of Canada on the joint commitment to the inflation target, the Bank is, again, engaged in reviewing the framework for potential improvement, as it has done ahead of previous renewals. While the 2% target for the 12-month change in the CPI has not changed for the past 28 years, other aspects of the framework have been tweaked as part of these reviews. For example, in 2001, the BoC changed its guiding core inflation rate from the total CPI excluding food, energy and indirect taxes to the total excluding the eight most volatile components along with indirect taxes. The preferred core inflation rate was changed again in 2016 to the set of three metrics: CPI-common, CPI-median and CPI-trim.

These separate reviews are occurring amid two common major developments that are prodding some serious thinking about (and research on) modifying policy frameworks. First, since the recession, inflation has underperformed persistently relative to the target. Second, estimates of the neutral policy rate have fallen materially.

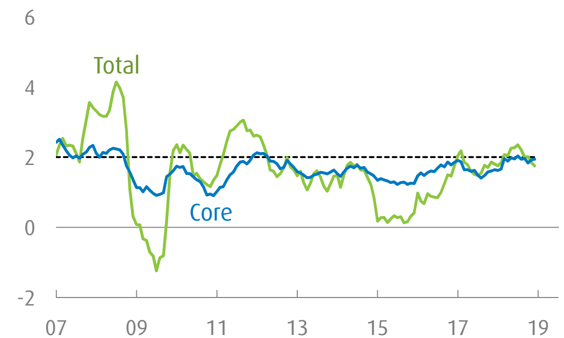
The Fed targets the 12-month change in the PCE price index, with guidance provided by the core measure (the total excluding food and energy). In December, headline inflation was 1.7% y/y, with the core rate at 1.9% (*Chart 1*), once again a bit below the 2% target on both fronts. Indeed, looking at the period beginning one year after the end of the recession (to allow some time for lingering recession-related disinflationary pressures to subside), there have been no core inflation readings above 2.1%, while more than three-quarters of the outcomes have been below 1.9% with nearly 60% under 1.7% (*Table 1*). The average core inflation rate has been 1.6% (the same as the median), with the average headline inflation rate at 1.5% (also the same as the median).

Canada's performance has not been much better. In January, headline CPI inflation was 1.4% y/y (*Chart 2*), with the average of the three preferred core rates at 1.9% (which we'll refer to as the "core"). Identical to the U.S. situation, there have been no core

Chart 1
Fed Having Hard Time Hitting Target

United States (y/y % chng)

PCE Price Index



Sources: BMO Economics, Haver Analytics

Table 1
Asymmetric Outcomes

U.S. PCE Inflation — June 2010 - December 2018
Frequency of Outcomes (% among 103 observations)

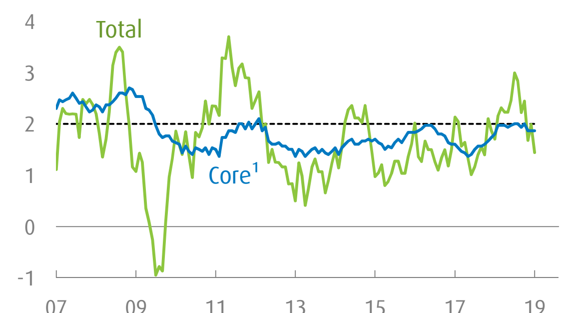
	Range around 2%			
	±0.0 ppts	±0.1 ppts	±0.2 ppts	±0.3 ppts
Total				
Above	19	17	15	13
Within	5	11	22	29
Below	76	73	63	58
Core				
Above	4	0	0	0
Within	6	23	30	42
Below	90	77	70	58

Figures might not add to 100% owing to rounding.
Sources: BMO Economics, Haver Analytics

Chart 2
BoC Having Hard Time Hitting Target, Too

Canada (y/y % chng)

Consumer Price Index



[1] average of the 3 BoC-preferred core inflation measures
Sources: BMO Economics, Haver Analytics

inflation readings above 2.1% since June 2010 (*Table 2*). Meanwhile, more than 70% of the outcomes have been below 1.9% with more than half under 1.7%. The average core inflation rate has been 1.6%, the same as in the U.S. but with a slightly higher median (1.7%). The average headline inflation rate has been 1.5%, also the same as in the U.S. but, again, with a slightly higher median (1.7%).

Table 2
Asymmetric Outcomes — Part 2

Canada CPI Inflation — June 2010 – January 2019
Frequency of Outcomes (% among 104 observations)

	Range around 2%			
	±0.0 ppts	±0.1 ppts	±0.2 ppts	±0.3 ppts
Total				
Above	31	27	22	18
Within	8	14	20	28
Below	62	59	58	54
Core (average of the 3 BoC-preferred measures)				
Above	1	0	0	0
Within	13	28	36	49
Below	86	72	64	51

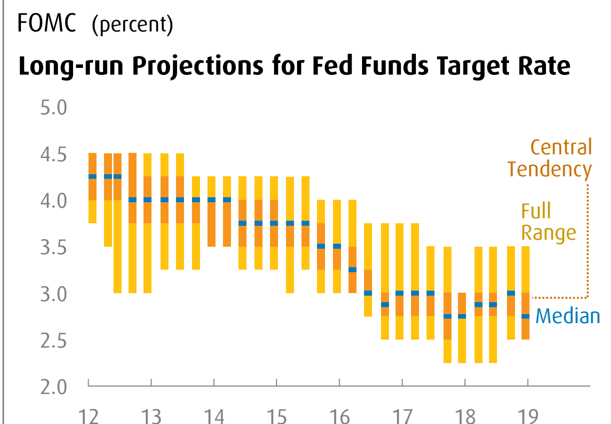
Figures might not add to 100% owing to rounding.
Sources: BMO Economics, Haver Analytics

There are common explanations for inflation's underperformance such as residual economic slack, aging populations and technology-enabled disruption. Although these are credible explanations, the fact that neither country is able to post 2% (or higher) headline or core inflation after approaching a decade of economic expansion—with a legacy of chronic inflation underperformance in tow—is starting to erode confidence in the policy frameworks. Just ask the bond market, which seems to be betting on inflation underperformance persisting indefinitely.

The Fed and BoC reviews are asking the question: Is the current framework of always aiming for 2% inflation over the medium term—regardless of what happened in the past (bygones are bygones)—becoming inadequate to attain 2% outcomes and risking re-anchoring inflation expectations at sub-2% levels? The question becomes more pertinent given the emergence of low neutral policy rates.

Chart 3
Low for the Long Run

FOMC (percent)



Sources: BMO Economics, Haver Analytics

The FOMC's range of projections for the longer-run, or neutral, fed funds target rate has fallen considerably since first published in 2012 (*Chart 3*). From a 3.75%-to-4.50% range with a 4.25% median, it has dropped to 2.50%-to-3.50% with a 2.75% median. The longer-run median projection has fallen 150 bps in just seven years. The Bank of Canada estimates the neutral rate also runs in a 2.50%-to-3.50% range, which is nearly 200 bps below what was estimated in the early 2000s. The issue surrounding low neutral rates is that during economic downturns and central bank easing cycles, you are more likely to hit the effective lower bound (ELB) for policy rates (which now seems to be a small negative rate rather than zero) and, potentially, not provide sufficient monetary accommodation to readily return inflation to target, even allowing for less-precise unconventional tools such as quantitative easing. This could result in chronic inflation underperformance —which smacks of the current situation.

There are frameworks that address this issue, such as "average-inflation targeting" or "price-level targeting". In them, any persistent undershoot of the 2% target caused by policy rates being constrained by the ELB or secular disinflationary forces would be made up by promoting a controlled overshoot of the target in future years. Bygones would no longer be bygones. The Bank of Canada studied these frameworks leading up to the 2011 renewal and concluded that they would, theoretically, make monetary policy more effective, but it would be hard to build credibility (convincing individuals that a controlled overshoot would never become uncontrolled). But that was a decade ago, and the BoC will be studying these history-dependent frameworks again, as will the Fed, as part of their current reviews. Stay tuned.

Economic Forecast

BMO Capital Markets

Economic Forecast Summary for March 8, 2019

BMO Capital Markets Economic Research

	2018				2019				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
CANADA											
Real GDP (q/q % chng : a.r.)	1.3	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	202 ↓	211 ↑	206 ↑	200	220	214	205
Current Account Balance ($blns : a.r.)	-69.0	-63.4	-40.4	-61.9	-57.3	-57.7	-59.1	-60.0	-60.1	-58.7	-58.5
Interest Rates					(average for the quarter : %)						
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.83	0.71	1.44	1.77
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.65	1.65	1.85	0.69	1.37	1.70
10-year Bond	2.24	2.28	2.28	2.32	1.90 ↓	1.90 ↓	2.00 ↓	2.05 ↓	1.78	2.28	1.95 ↓
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	-44	-66	-61	-70	-79 ↓	-81 ↓	-81 ↓	-79 ↓	-26	-60	-80 ↓
10-year	-52	-64	-65	-72	-80 ↓	-84 ↓	-80 ↓	-76 ↓	-55	-63	-80 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.6	1.2	2.5	2.0	1.9	2.2	2.9	2.3
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	1.7	1.7	1.9	2.1	2.4	1.7
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.7	3.5 ↓	3.5	4.4	3.9	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.15	1.22 ↑	1.24	1.23	1.21	1.21	1.24	1.23 ↑
Current Account Balance ($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	2.45 ↑	2.45 ↑	2.45 ↑	2.65 ↑	0.95	1.97	2.50 ↑
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	74.8 ↓	75.1 ↓	75.4	77.1	77.2	75.1 ↓
C$/US$	1.27	1.29	1.31	1.32	1.33	1.34 ↑	1.33	1.33	1.30	1.30	1.33
¥/US$	108	109	112	113	110	112 ↑	111 ↑	111 ↑	112	110	111 ↑
US$/Euro	1.23	1.19	1.16	1.14	1.13 ↓	1.13 ↓	1.14 ↓	1.15 ↓	1.13	1.18	1.14 ↓
US$/£	1.39	1.36	1.30	1.29	1.30 ↑	1.32	1.32	1.31	1.29	1.34	1.31

Blocked areas represent BMO Capital Markets forecasts

Up and down arrows indicate changes to the forecast ↑↓ Spreads may differ due to rounding

Canada

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National Balance Sheet and Financial Flow Accounts (Q4)
Thursday, 8:30 am

Canada's household debt ratio was likely flat to slightly lower in Q4, as slowing debt growth was offset by softening income gains. The housing market slowed dramatically last year and we're waiting to see signs of stability in the early part of 2019. That's driven credit growth substantially lower to the slowest pace in 35 years. Meantime, income growth was mediocre, pushing the annual increase down, limiting any potential improvement in debt ratios. Note, that there's no clear seasonality in Q4; though, along with Q1, it tends to see the smallest increases (or even declines). With housing unlikely to bounce and consumer spending expected to remain soft, look for the debt ratio to trend lower in 2019, assuming income growth holds up (far from certain). This release also includes details on household assets. Net worth as a share of disposable income has been relatively flat since 2017Q1 amid slowing asset gains, though the sharp drop in equities in Q4 suggests we could see a notable dip this time around.

Existing Home Sales
Friday, 9:00 am (expected)

		Avg. Prices
Feb. (e)	**-4.0% y/y**	**-5.0% y/y**
Jan.	-4.0% y/y	-5.5% y/y
	MLS Home Price Index	
Feb. (e)	**+0.3% y/y**	
Jan.	+0.8% y/y	

It's been a tough run for the housing market over much of the past year, with tightening mortgage rules, foreign buyers' taxes and rising mortgage rates. February sales are expected to be down 4% y/y, matching the prior month's drop. However, given the inclement weather in chunks of the country, it probably could have been worse. Even so, it prolongs the uncertainty around the health of the broader market and whether activity will start to stabilize after the steep pullback through most of 2018. Looking at the major cities: Vancouver continues to struggle and is in full correction mode. The Prairies remain under pressure as the hangover from energy price volatility persists and broader activity in the region is relatively soft. Ottawa and Montreal continue to be the bright spots amid decent affordability and firm economic activity. Toronto was modestly weaker in February, but weather was a big factor in the month (as my many flight delays and school closures can attest to). Average prices look to fall 5% y/y, while the quality-adjusted MLS HPI is expected to decelerate further to 0.3% y/y, the weakest in just under a decade.

United States

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Retail Sales
Monday, 8:30 am

		Ex. Autos
Jan. (e)	**+0.2%**	**+0.4%**
Consensus	*-0.1%*	*+0.2%*
Dec.	-1.2%	-1.8%
	Ex. Autos/Gas	
Jan. (e)	**+0.5%**	
Consensus	*+0.6%*	
Dec.	-1.4%	

Lower chain-store receipts, a hefty reversal in auto sales, and another price-led decline in service-station receipts suggest little bounce in January retail spending following the biggest slide in nearly a decade. The longest-running government shutdown (which ended January 25th) didn't help, as salaries were delayed for 800,000 federal workers. We look for a mild 0.2% advance in the month, though a firmer 0.5% gain excluding autos and gas stations. The increase, coupled with a likely gain in services spending due to solid job growth and bouncing confidence, suggests real personal spending improved in the month after cratering 0.6% in December. Still, even assuming some possible upward revision to the weak December sales print, Q1 consumer spending growth looks to downshift to a sub-2% rate for the first time in a year.

Consumer Prices
Tuesday, 8:30 am

Feb. (e)	**+0.2%**	**+1.6% y/y**
Consensus	*+0.2%*	*+1.6% y/y*
Jan.	unch	+1.6% y/y
	Ex. Food & Energy	
Feb. (e)	**+0.2%**	**+2.2% y/y**
Consensus	*+0.2%*	*+2.2% y/y*
Jan.	+0.2%	+2.2% y/y

A modest rebound in average gasoline prices (after a 20%-plus three-month plunge), a continuation of the recent picked-up pace for food prices (the fastest in 4½ years over the past three months), and another 0.2% increase in the core CPI (for the sixth consecutive month) should cause the total CPI to increase 0.2% in February. This follows three straight flat readings fuelled by falling gasoline prices. The headline inflation rate should remain at 1.6% y/y, with core inflation also unchanged at a 2.2% rate. The latter will have been at this level for six of the past seven months, with the shorter-term metrics pointing to the potential for a pick-up (2.5% annualized for 3 months and 2.4% for 6 months). However, nothing here to address the Fed's concern about "*muted inflation pressures*".

Durable Goods Orders
Wednesday, 8:30 am

		Ex. Transport
Jan. (e)	**-1.0%**	**+0.1%**
Consensus	*-0.5%*	*+0.1%*
Dec.	+1.2%	+0.1%
	Nondef. Capital Goods ex. Air	
Jan. (e)	**+0.1%**	
Consensus	*-0.1%*	
Dec.	-1.0%	

A swoon in Boeing orders and reversal in auto assemblies suggest durable goods orders fell 1.0% in January. Excluding aircraft, nondefense capital goods orders look to increase only 0.1% following back-to-back declines, as several regional manufacturing surveys indicated fewer bookings in the month. The previous tumult in financial markets and ongoing concern about trade policies likely weighed on business sentiment and orders, though both should improve in February.

New Home Sales
Thursday, 10:00 am

Jan. (e)	**621,000 a.r. (unch)**
Consensus	*625,000 a.r. (+0.6%)*
Dec.	621,000 a.r. (+3.7%)

We look for flat new home sales in January, after a surprising two-month surge of over 13%. In November and December, the NAHB Housing Market Index registered the second-largest back-to-back decline on record (since 1985 and the worst reading was during the 2001 recession, not the Great Recession). Meanwhile, amid the confidence-jarring December stock market performance, consumers pulled back sharply on total outlays during the month, particularly on durable goods. But they bought more new homes? New home sales are notoriously volatile and we suspect they are going to live up to their reputation—brace for some downward revisions. Indeed, our forecast for a 621,000 figure might end up representing a gain, which would be in line with the broader rebound in housing activity we're expecting given the drop in 30-year mortgage rates since mid-November's peak (>50 bps).

Industrial Production
Friday, 9:15 am

		Capacity Utilization
Feb. (e)	**+0.4%**	**78.4%**
Consensus	*+0.4%*	*78.5%*
Jan.	-0.6%	78.2%

A modest rebound from January's 0.8% drop in manufacturing output (despite falling factory hours and an ISM production index) should lead a 0.4% gain in February industrial production. Also helping will be record-high oil production (greasing mining output) and colder temperatures (lifting utilities output). The expected 0.4% advance in total output should raise the capacity utilization rate two tenths to 78.4%.

United Kingdom

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Brexit Votes
Tuesday to Thursday

A series of votes on Brexit is scheduled for the coming week. On March 12, Parliament will vote on PM May's deal. If it is rejected, then lawmakers will vote on March 13 if they want to leave the EU without a deal. If the majority votes "no", then they will vote on March 14 to ask Brussels for more time. Ahead of this, PM May warned of more uncertainty if her deal is rejected. At that point, "*no one knows what will happen*." The likelihood of getting to the March 14 vote is high. But having Brussels approve the extension is another story. They will not, unless the U.K. outlines exactly how the extra time will be used.

		Mar 8 [1]	Mar 1	Week Ago	4 Weeks Ago	Dec. 31, 2018
					(basis point change)	
Canadian Money Market	Call Money	1.75	1.75	0	0	0
	Prime Rate	3.95	3.95	0	0	0
U.S. Money Market	Fed Funds (effective)	2.50	2.50	0	0	0
	Prime Rate	5.50	5.50	0	0	0
3-Month Rates	Canada	1.66	1.67	-1	1	2
	United States	2.44	2.43	1	3	9
	Japan	-0.12	-0.18	6	13	3
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.85	0.85	-1	-4	-7
	Australia	1.86	1.87	-1	-15	-23
2-Year Bonds	Canada	1.66	1.76	-10	-11	-20
	United States	2.46	2.56	-9	0	-3
10-Year Bonds	Canada	1.78	1.94	-16	-10	-19
	United States	2.64	2.76	-11	1	-4
	Japan	-0.04	-0.01	-3	-1	-3
	Germany	0.07	0.18	-11	-2	-17
	United Kingdom	1.19	1.30	-11	4	-9
	Australia	2.03	2.15	-12	-7	-29
Risk Indicators	VIX	18.0	13.6	4.4 pts	2.2 pts	-7.5 pts
	TED Spread	15	17	-1	-13	-30
	Inv. Grade CDS Spread [2]	63	60	3	-6	-25
	High Yield CDS Spread [2]	361	345	15	-8	-90
					(percent change)	
Currencies	US¢/C$	74.47	75.20	-1.0	-1.1	1.5
	C$/US$	1.343	1.330	—	—	—
	¥/US$	111.07	111.89	-0.7	1.2	1.3
	US$/€	1.1231	1.1365	-1.2	-0.8	-2.1
	US$/£	1.304	1.320	-1.3	0.7	2.2
	US¢/A$	70.44	70.79	-0.5	-0.6	-0.1
Commodities	CRB Futures Index	178.90	181.50	-1.4	0.5	5.4
	Oil (generic contract)	54.73	55.80	-1.9	3.8	20.5
	Natural Gas (generic contract)	2.87	2.86	0.3	11.0	-2.4
	Gold (spot price)	1,296.88	1,293.40	0.3	-1.3	1.1
Equities	S&P/TSX Composite	15,903	16,068	-1.0	1.7	11.0
	S&P 500	2,728	2,804	-2.7	0.7	8.8
	Nasdaq	7,366	7,595	-3.0	0.9	11.0
	Dow Jones Industrial	25,338	26,026	-2.6	0.9	8.6
	Nikkei	21,026	21,603	-2.7	3.4	5.1
	Frankfurt DAX	11,437	11,602	-1.4	4.9	8.3
	London FT100	7,104	7,107	0.0	0.5	5.6
	France CAC40	5,227	5,265	-0.7	5.3	10.5
	S&P ASX 200	6,204	6,193	0.2	2.2	9.9

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

Global Calendar
March 11 – March 15

BMO Capital Markets

Japan

Monday March 11

Machine Tool Orders

Feb. P		
Jan.	-18.8% y/y	

Wednesday March 13

Producer Price Index

Feb. (e)	**+0.1%**	**+0.7% y/y**
Jan.	-0.6%	+0.6% y/y

Core Machine Orders

Jan. (e)	**-1.5%**	**-2.1% y/y**
Dec.	-0.1%	+0.9% y/y

Tertiary Industry Index

Jan. (e)	**-0.3%**
Dec.	-0.3%

Friday March 15

BoJ Monetary Policy Meeting

Euro Area

Monday March 11

GERMANY

Industrial Production

Jan. (e)	**+0.4%**	**-3.4% y/y**
Dec.	-0.4%	-3.9% y/y

Trade Surplus

Jan.	
Dec.	€19.4 bln

Wednesday March 13

EURO AREA

Industrial Production

Jan. (e)	**+1.0%**	**-2.1% y/y**
Dec.	-0.9%	-4.2% y/y

Thursday March 14

GERMANY

Consumer Price Index

Feb. F (e)	**+0.5%**	**+1.7% y/y**
Jan.	-1.0%	+1.7% y/y

FRANCE

Consumer Price Index

Feb. F (e)	**+0.1%**	**+1.5% y/y**
Jan.	-0.6%	+1.4% y/y

Friday March 15

EURO AREA

Consumer Price Index

Feb. F (e)	**+0.3%**	**+1.5% y/y**
Jan.	-1.0%	+1.4% y/y

Core CPI

Feb. F (e)	**+1.0% y/y**
Jan.	+1.1% y/y

ITALY

Industrial Orders

Jan.		
Dec.	-1.8%	-5.3% y/y

Consumer Price Index

Feb. F (e)	**-0.2%**	**+1.2% y/y**
Jan.	-1.7%	+0.9% y/y

U.K.

Tuesday March 12

Monthly Real GDP

		3m/3m
Jan. (e)	**+0.2%**	**+0.2%**
Dec.	-0.4%	+0.2%

Index of Services 3m/3m

Jan. (e)	**+0.5%**
Dec.	+0.4%

Industrial Production

Jan. (e)	**-0.2%**	**-1.3% y/y**
Dec.	-0.5%	-0.9% y/y

Manufacturing Production

Jan. (e)	**-0.2%**	**-1.9% y/y**
Dec.	-0.7%	-2.1% y/y

Trade Deficit

		Non-EU
Jan. (e)	**£12.2 bln**	**£3.7 bln**
Dec.	£12.1 bln	£3.6 bln

Parliamentary vote on Brexit deal

Wednesday March 13

Possible vote on a no-deal exit

Thursday March 14

RICS House Price Balance

Feb. (e)	**-24%**
Jan.	-22%

Possible vote on Mar. 29 deadline extension

Other

Monday March 11

CHINA

	CPI	PPI
Feb. (e)	**+1.5% y/y**	**+0.2% y/y**
Jan.	+1.7% y/y	+0.1% y/y

Aggregate Yuan Financing [D]

Feb. (e)	**1.3 trln**
Jan.	4.6 trln

New Yuan Loans [D]

Feb. (e)	**0.9 trln**
Jan.	3.2 trln

M2 Money Supply [D]

Feb. (e)	**+8.4% y/y**
Jan.	+8.4% y/y

Tuesday March 12

CHINA

Foreign Direct Investment [D]

Feb.	
Jan.	+4.8% y/y

AUSTRALIA

NAB Business Confidence

Feb.	
Jan.	4

Wednesday March 13

AUSTRALIA

Westpac Consumer Confidence

Mar.	
Feb.	+4.3%

Thursday March 14

CHINA

Industrial Production (YTD)

Feb. (e)	**+5.5% y/y**
Jan.	+6.2% y/y

Retail Sales (YTD)

Feb. (e)	**+8.1% y/y**
Jan.	+9.0% y/y

Fixed Asset Investment (YTD)

Feb. (e)	**+6.0% y/y**
Jan.	+5.9% 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 11 – March 15

BMO Capital Markets

Canada

Monday March 11

New dates for previously delayed releases:
Mar. 27: Merchandise Trade Balance (Jan.)
Apr. 17: Merchandise Trade Balance (Feb.)
May 9: Merchandise Trade Balance (Mar.)

Tuesday March 12

Manpower Survey—Net Outlook
Q2 (e) **+12%**
Q1 +12%

Thursday March 14

8:30 am **New Housing Price Index**
Jan. (e) **-0.1%** **-0.1% y/y**
Dec. unch unch y/y

8:30 am **New Motor Vehicle Sales**[D]
Jan. (e) **-7.0% y/y**
Dec. -7.5% y/y

8:30 am **National Balance Sheet and Financial Flow Accounts (Q4)**

6:50 pm **BoC Senior Deputy Governor Wilkins speaks to the Vancouver School of Economics and CFA Society Vancouver on "risks to global growth in a time when leverage and protectionist sentiment are running high"**

Friday March 15

8:30 am	Mfg. Sales	Mfg. New Orders
Jan. (e)	**-0.5%**	**-0.3%**
Consensus	*+0.5%*	*n.a.*
Dec.	-1.3%	-0.8%

9:00 am	Existing Home Sales[D]	Average Prices
Feb. (e)	**-4.0% y/y**	**-5.0% y/y**
Jan.	-4.0% y/y	-5.5% y/y

9:00 am **MLS Home Price Index**[D]
Feb. (e) **+0.3% y/y**
Jan. +0.8% y/y

United States

Sunday March 10

7:00 pm **Fed Chair Powell interviewed on CBS**

Monday March 11

8:30 am	Retail Sales	Ex. Autos
Jan. (e)	**+0.2%**	**+0.4%**
Consensus	*-0.1%*	*+0.2%*
Dec.	-1.2%	-1.8%

8:30 am **Retail Sales ex. Autos/Gas**
Jan. (e) **+0.5%**
Consensus *+0.6%*
Dec. -1.4%%

10:00 am **Business Inventories**
Dec. F (e) **+0.6%**
Consensus *+0.6%*
Nov. unch

7:00 pm **Fed Chair Powell gives welcome remarks at a conference in Washington**

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

1:00 pm 3-year note auction $38 bln

New dates for previously delayed releases:
Mar. 19: Factory Orders (Jan.)
Mar. 22: Wholesale Trade (Jan.)
Mar. 26: Housing Starts, Building Permits (Feb.)
Mar. 27: Goods & Services Trade (Jan.); Current Account (Q4)
Mar. 29: New Home Sales (Feb.)

Tuesday March 12

6:00 am **NFIB Small Business Economic Trends Survey**
Feb. (e) **102.0**
Consensus *102.5*
Jan. 101.2

8:30 am	Consumer Prices	
Feb. (e)	**+0.2%**	**+1.6% y/y**
Consensus	*+0.2%*	*+1.6% y/y*
Jan.	unch	+1.6% y/y

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

Manpower Survey—Net Outlook
Q2 (e) **+20%**
Q1 +20%

Fed Speaker: Gov. Brainard (8:45 am)

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

1:00 pm 10[R]-year note auction $24 bln

Wednesday March 13

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

8:30 am	PPI Final Demand	
Feb. (e)	**+0.3%**	**+2.0% y/y**
Consensus	*+0.2%*	*+1.9% y/y*
Jan.	-0.1%	+2.0% y/y

8:30 am	PPI Final Demand ex. F&E	
Feb. (e)	**+0.2%**	**+2.5% y/y**
Consensus	*+0.2%*	*+2.6% y/y*
Jan.	+0.3%	+2.6% y/y

8:30 am	Durable Goods Orders	Ex. Transport
Jan. (e)	**-1.0%**	**+0.1%**
Consensus	*-0.5%*	*+0.1%*
Dec.	+1.2%	+0.1%

8:30 am **Nondef. Capital Goods ex. Air**
Jan. (e) **+0.1%**
Consensus *-0.1%*
Dec. -1.0%

10:00 am **Construction Spending**
Jan. (e) **+0.4%**
Consensus *+0.4%*
Dec. -0.6%

1:00 pm 30[R]-year bond auction $16 bln

Thursday March 14

2-year bond auction announcement

8:30 am **Initial Claims**
Mar. 9 (e) **225k (+2k)**[C]
Mar. 2 223k (-3k)

8:30 am **Continuing Claims**
Mar. 2
Feb. 23 1,755k (-50k)

8:30 am **Import Prices**
Feb. (e) **+0.4%**
Consensus *+0.3%*
Jan. -0.5%

10:00 am **New Home Sales**
Jan. (e) **621,000 a.r. (unch)**
Consensus *625,000 a.r. (+0.6%)*
Dec. 621,000 a.r. (+3.7%)

11:00 am 13- & 26-week bill, 10[R]-year TIPS auction announcements

11:30 am 4- & 8-week bill auction

Friday March 15

8:30 am **Empire State Manufacturing Survey**
Mar. (e) **10.0**
Consensus *10.0*
Feb. 8.8

9:15 am	Industrial Production	Capacity Utilization
Feb. (e)	**+0.4%**	**78.4%**
Consensus	*+0.4%*	*78.5%*
Jan.	-0.6%	78.2%

10:00 am **University of Michigan Consumer Sentiment**
Mar. P (e) **94.5**
Consensus *95.6*
Feb. 93.8

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

4:00 pm	Net TIC Flows Total	Long Term
Jan.		
Dec.	-$48.3 bln	-$33.1 bln

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

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