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Focus

A weekly financial digest

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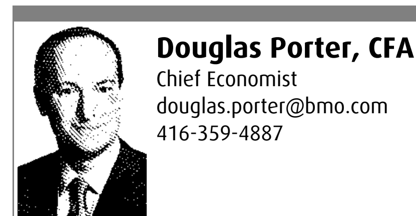
Loonies and Housing and Budget Bears, Oh My!



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While the FOMC's much more dovish-than-expected turn was this week's dominant market driver—taking an axe to yields globally, yet again, and even inverting the Treasury curve—**Canada pried its way into the spotlight as well, and not in a good way**. In a week that normally would have been highlighted domestically by a pre-election Federal Budget, replete with a variety of new spending measures, instead the **headlines were full of sour views on Canada's prospects**. To highlight just a few of the veritable "Sell Canada" stories:

- A strategist at one of the world's largest asset managers predicted that the **Canadian dollar** will return to all-time lows of around 62 cents (last seen in early 2002), citing the lack of a growth driver with an over-extended consumer.
- A hedge fund investor, made famous by **The Big Short** (think Steve Carell), took a similar line of reasoning—that housing had seen its best days—to predict that the domestic banking sector could be challenged as well.
- Fitch Ratings chimed in that even **Canada's fiscal position** may no longer be worthy of its gold-plated reputation (which includes a triple-A rating for the federal government), given overall public sector debt levels.

While these items took a temporary swipe at the loonie—with a surprisingly soft January retail sales report on Friday piling on—it's notable that the currency finished the week down all of 0.5% (at around $1.34, or 74.6 cents). Equities also hung in there, with the TSX almost holding flat on the week. Providing some important ballast for the Canadian dollar and stocks was a **further strengthening in oil prices**, both for WTI and WCS; the former neared US$60 before a Friday retreat, while the latter is now not far from US$50. As well, the **further dovish turn by the Fed** is no foe of the loonie or equities, with the FOMC deciding to slow its balance sheet runoff in May, and halt it in October (sooner than expected) and the latest dot plots showing a clear majority of members now believing no further rate hikes are necessary this year (see Sal's Thought for details).

Addressing the three "Sell Canada" items in order, and why we may beg to somewhat differ on a few of them:

Tin Man: Starting with the currency, note that **the single-biggest driver for the Canadian dollar** over the past 30 years has been **the U.S. dollar** itself. It's zero coincidence that the loonie was plumbing record lows in early 2002 just as the broad-trade weighted greenback was hitting its second highest levels on record (topped only by the mountain in 1985). While it's true that the U.S. dollar has been the best looking horse in the currency glue factory in recent years, suffice it to say that we are not bullish on its prospects—not with the Fed moving to the sidelines and fiscal stimulus winding down. The combination of a drifting U.S. dollar and underlying firmness in oil prices is not the right stuff for a serious drop in the Canadian dollar.

Scarecrow: Turning to the **housing market** concerns, as Rob's Thought below lays out in great detail, **we have heard this song many, many times before**. And while there are no doubt legitimate concerns about the outlook for Canada's housing sector, we can readily point to **three factors that could provide support**. First, the **steep**

drop in bond yields has all but eliminated rising rates as a drag—five-year GoCs plunged below 1.50% this week, down 100 bps in under six months. Second, **population growth** is still running at a pace not seen in decades—up 1.4% y/y in Q1, or a massive increase of 527,000 people in the past year (more than one person per minute). Third, this week's **Budget** was loaded with **housing-supportive elements**; while some will take time to kick in, and many have questioned the need for such measures, they will support demand. Finally, we would just remind that one of the reasons that housing demand looks so soft in some key markets is because **Canadian policymakers have been applying a full-court press for the past two years to dampen activity**; the surprise would have been if housing had *not* cooled.

Cowardly Lion: Last, on Canada's credit rating. This one we have a bit more sympathy for—a few years ago, we penned a piece titled "*CanadAAA?*", openly questioning whether Canada fully deserved its gold-plated credit rating, given the relatively high level of gross public sector debt (combining Ottawa with the provinces). What's notable is that this report by Fitch lands in a week when Ottawa's finances were a tad better than budgeted (even as they spent the bulk of the revenue windfall) and no fewer than three provinces unveiled surplus budgets (Quebec, New Brunswick and Saskatchewan). Combined government debt levels have remained relatively stable at just above 80% of GDP pretty much since the recession ended. While the ratings agencies can decide whether or not that's worthy of triple A status, note that the market is still ready and willing to lend Ottawa money for 10 years at just 1.6%, and for 30 years at 1.9%, both below the Bank of Canada's inflation target. If Canada were to be downgraded at some point, it may be a small blow to national pride; but, in practical terms, the reality would still be exceptionally low borrowing costs for the federal government.

Global bond yields took another giant step down the staircase in barely a week. While the surprisingly **dovish FOMC statement** was the primary driver this week, a particularly weak March reading from Germany's manufacturers delivered another kick at the can on Friday. **Markit's PMI for Germany** fell to just 44.7, an eyebrow archer at the worst of times, and enough to send 10-year bund yields careening back into negative terrain (joining their Swiss and Japanese counterparts). This downdraft, in turn, gave another leg to the seemingly unstoppable Treasury and GoC rallies, carving 10-year U.S. yields to just 2.43% on Friday, a bit below 3-month bills—the Fed views the **10s/bills** spread as the best leading economic indicator, and that is a clear warning bell. In Canada, meanwhile, 10s had even sliced through the overnight rate last week, and the 10s/bills curve also inverted on Friday, with 10-year GoC yields dropping to their lowest level since mid-2017.

The deep drop in yields and the partial inversion of the Treasury curve rattled equity markets. After enjoying a one-day rally on the Fed's new dovish garb, the bond market action took the gains right back on Friday. Notably, the latest dive in yields comes in a week when the U.S. economic data were broadly positive (e.g., home sales popped 12% in February), although mostly of the second-tier variety. Next week brings a slew of consumer and housing-related indicators which will give a better sense of whether the U.S. economy is following the downward lead of the Euro Area; our sense is that the answer will be "no".

Canada will not be so fortunate, as the main release domestically is the monthly GDP for January on Friday. While some of the clues have been positive on this one—solid volume gains for manufacturing and wholesale trade—the headline number will be crunched by the mandated cuts in Alberta oil production at the start of the year. As such, we look for GDP to drop 0.2%, its third consecutive monthly setback, and no doubt providing some short-term fodder for the Canada bears.

Fed Watershed

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The Fed took Treasury markets on a wild ride this week with the 5-year rate careening below 2.25%, levels unseen since January 2018 and inverting the yield curve out to this term. After raising rates the past three years, the **FOMC signalled little inclination to do so this year and only modest leanings for next year, a sea-change from the December meeting when the majority still saw three increases over this period**. The Fed also plans to stop shrinking its balance sheet by October 1, at which time all maturing assets will be reinvested, and to slow the runoff of Treasury holdings from up to $30 billion currently to $15 billion starting in May and to zero by October. The futures market now sees above-even odds of a rate *cut* at the turn of the year, up from one-in-four before the announcement. **In our view, while the tightening cycle might be over** (indeed, we are seriously questioning our final rate hike in December), **the odds of an outright easing are likely still limited**. It would require either a weaker economy than the Fed currently expects (the median forecaster sees 2.1% growth this year on a Q4/Q4 basis), or the formal adoption of a less bygones-be-bygones approach to inflation targeting.

It's still more likely that the Fed will extend the tightening cycle than reverse it, though perhaps not this year. While 11 of 17 members expect no rate hike in 2019, an almost similar number (10) see at least one increase next year. Only five members think the tightening cycle is over. An equal number see one rate increase by late 2021, while 7 expect two or more moves (and one lonely hawk is still eyeing five).

Importantly, **none of the 17 Fed officials expect to cut rates** in the next three years. In fact, an easing pivot would contradict their own view that the neutral rate (the rate consistent with price stability) is likely somewhere between 2.5% and 3.5%, with a median call of 2.75%. The current target-rate midpoint (2.38%) is already below this range, and, adjusted for inflation, is well below levels prevailing at the end of other tightening cycles. To boot, the median forecaster expects the jobless rate, though likely to tick up to 3.9% by late 2021, to stay below the so-called natural rate (the one consistent with price stability) of 4.3% (shaved a notch from December). In fact, none of the 16 officials (one member didn't provide an estimate) thinks the natural rate is below 4.0%. Curiously, however, core PCE inflation is still expected to hold steady at 2.0% through 2021, rather than drift up as one might expect if the jobless rate stayed below the natural rate. Seems the Fed doesn't trust Mr. Phillips.

While we don't expect the Fed to cut rates, one clearly can't rule out the possibility. A deeper economic slump that sends the jobless rate higher and inflation lower would easily do the trick. However, recession risks have likely ebbed now that the Fed no longer plans to push rates above neutral. More likely to trigger an easing move is that Chair Powell has become increasingly concerned about persistently

undershooting the inflation target, which risks unmooring inflation expectations (though, so far, there is little sign of such in the TIPS market or consumer surveys). Who would think that a central banker would claim that low inflation is "*one of the major challenges of our time*" with a jobless rate near half-century lows, companies begging for workers, and the expansion soon to become the longest on record. But in his press conference, Powell said: "*We are almost 10 years deep into this expansion and inflation is still not clearly meeting our target*," and followed up with "*I don't feel we have convincingly achieved our 2% mandate in a symmetrical way*." He seems to be leaning toward the "average inflation targeting" regime favoured by New York Fed President Williams. This approach would require the Fed to actively push inflation above 2% for a while to offset the decade-long stretch of undershooting and better anchor expectations on the target. However, amid a slowing economy and downward pull from structural forces, such as automation, this could require not just an end to the current tightening cycle but the start of a new easing cycle. His comments and those of other officials will be eyed closely to see if this approach is gaining credibility on the FOMC. If so, the Treasury rally, especially at the shorter end of the curve, could just be starting.

The Big Short: Canada-Style?

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It was reported this week that one of the characters of 'The Big Short' fame has turned his sights on Canada, betting against the banks in a housing-led downturn. We've heard these bearish calls for much of the past decade, and they've continually been exaggerated (and railed against by us). **While this latest rendition has grabbed a lot of attention** on the Street (mainstream feature film, etc.), **it actually isn't that over the top**, calling for slower economic growth and normalizing credit conditions. We'd actually agree on both counts. Growth has already slowed meaningfully, with weaker consumer spending and residential investment partly to blame. Meantime, household credit growth has slowed to around 3%, which has more or less been the goal of policymakers in recent years, levelling off household debt relative to income.

That said, **could the soft patch evolve into a more significant downturn?** It's not our forecast, but **it absolutely could**. Residential investment had risen to a record-high share of GDP early last year before starting to retrench, and housing has large tentacles that spread widely across the economy. But, would it be a major financial stability event like the U.S. in 2009? Highly unlikely. Keep in mind that, unlike in the U.S. leading up to that period, Canada has been actively *tightening* mortgage lending rules for a whole decade. Flashback: At one point in 2007, you could walk into a Canadian bank and secure a 40-year amortizing mortgage with zero down. But, since the start of 2018, anyone walking into a bank (20% down or not) has been qualifying at a rate 2 ppts higher than they're actually paying—a rate that they probably won't come close to seeing anyway, at least not in this cycle. We'll skip the list of all the mortgage rule changes in this space, but amortization periods, downpayment levels and qualification standards have been gradually tightening in phases for the past decade. As such, credit growth never rebounded to pre-2009 levels this cycle.

Other factors like full-recourse in almost all markets have historically kept Canadian defaults very low, even during some pretty deep stress tests. In Alberta, after a two-year recession that saw the jobless rate jump almost 5 ppts, the share of mortgages in arrears rose from 0.26% to 0.48% (this is a rare market where non-recourse is an option, but only with 20% down—hence you'd need a bigger decline in prices than we've seen for it to become an issue). And, during the deep and prolonged housing recession in Southern Ontario in the early-1990s, that rate rose from effectively zero to just 0.7%, though bank stocks did fall more than 30% in that episode amid a variety of negative factors (including 10% real interest rates at one point).

All that said, if the downturn deepens, housing-levered equities could fall, and home prices could easily correct further and stagnate for a multi-year period. But that's just about par for the course, and a long way short of a 2009 situation breaking out in Canada. Rob K.

March 29 Is Out; April 12 or May 22 Are In

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Chaos. Confusion. Craziness. All adjectives apply. At least, the final word on Brexit is close.

The EU is giving Britain one *"last chance"* to leave with a deal. Instead of the do-or-die-come-hell-or-high-water date of March 29, the new dates are April 12 or May 22. On **March 25**, there will be a debate and amendments to the PM's current deal. It is rumoured that one amendment from last week, giving Parliament a greater say on the options, will make its way back to the floor and could be passed. (Amendment I was narrowly rejected: 312 for, 314 against.) Of course, that begs the question "What are the options that a majority could live with?" The following day, on **March 26**, PM May's deal will be put to a third vote (shrugging off the Speaker of the House's ruling that the House can't vote on it during the current session). **If it passes**, the country will have until May 22 to vote and pass all of the details needed to depart (which means lots of drama still to come). **If it does not pass**, the U.K. is headed out the door on April 12.

Like it or not, **it is truly up to lawmakers at this point**. The UKIP's Nigel Farage can angrily call it an *"international humiliation"* and threaten to *"tear the Conservatives limb from limb"*. The petition with over three million signatures calling to *"Revoke Article 50 and remain in the EU"* can continue to make the rounds. But, the choice now lies with the MPs. Despite various Brexiteers piping up to say *"highly unlikely"* the deal will pass, support has grown. On January 15 (1st vote), 432 voted against it, 202 were for it; the numbers changed to 391 against, 242 for on March 12 (2nd vote). With the still-apparent threat of staying in the EU for longer (the EU can change its mind that this is the last opportunity), as ERG Head/ultra-Brexiteer Jacob Rees-Mogg put it, a bad deal is better than staying in the EU. To push the deal through, 75 MPs must change their minds and support it. Interestingly, the backstop issue barely made the headlines this week (at least, the ones I saw). It has come down to: Are we leaving with, or without a deal?

It has been two years less one week since Article 50 was triggered, and the strong emotions between the two sides have become abundantly clear, divided not by

political affiliation but by one's view of British sovereignty. It has come at a cost to the economy: 2018 real GDP growth of 1.4% was a decade low. A comment from the head of the British Chambers of Commerce summed it up nicely: *"Political inaction has already had economic consequences, with many firms hitting the brakes on investment and recruitment decisions… Worse still, some companies have moved investment and growth plans as part of their contingency preparations. Some of this investment may never come back to the UK."* While MPs argued and debated, many businesses made contingency plans, and quietly moved various aspects of their operations and employees to other parts of Europe. Even if there is a deal made, **that investment *"may never come back"***. And that is a tough pill to swallow. JLee

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	Good News	Bad News
Canada ▪ Federal deficits to persist for the foreseeable future with no return to balance ▪ Fitch Ratings send warning ▪ Alberta eases oil production limits	**Wholesale Trade Volumes** +0.7% (Jan.) **Consumer Prices** +1.5% y/y (Feb.) **ADP Employment** +36,236 (Feb.) **Global Investors** bought a net $28.4 bln in Canadian securities (Jan.) **Province of Quebec** projects a $2.5 bln surplus (FY19/20) **Province of Saskatchewan** projects a $34 mln surplus (FY19/20) **Province of New Brunswick** projects a $23 mln surplus (FY19/20)	**Retail Sales Volumes** unch (Jan.) **Ottawa** looks for budget deficit to widen to $19.8 bln (FY19/20)
United States ▪ FOMC more dovish than expected with median dots signalling no hike this year ▪ Pres. Trump plans to keep tariffs on China for a *“substantial period of time”*	**Existing Home Sales** +11.8% to 5.51 mln a.r. (Feb.) **Wholesale Inventories** +1.2% (Jan.) **Philly Fed** +2.8 pts to an ISM-adjusted 54.7 (Mar.) **Leading Index** +0.2% (Feb.) **Initial Claims** -9k to 221k (Mar. 16 week)	**Factory Orders** +0.1% (Jan.)—below expected **NAHB Housing Market Index** unch at 62 (Mar.)
Japan ▪ Cabinet office downgrades economic outlook for the first time in three years	**Department Store Sales** +0.4% y/y (Feb.) **Industrial Production** revised up to +0.3% y/y (Jan.) **Manufacturing PMI** unch at 48.9 (Mar. P)	**Exports** -1.2% y/y; **Imports** -6.7% y/y (Feb.) **Core CPI** slowed to +0.7% y/y (Feb.)
Europe ▪ German manufacturing slump clouds Euro Area growth outlook ▪ Brexit delayed until at least April 12 as deal returns to U.K. Parliament for a third vote ▪ BoE on hold amid a cliff-edge outcome	**Euro Area—Trade Surplus** widened to €17.0 bln (Jan.) **Euro Area—Labour Costs** +2.3% y/y (Q4) **Euro Area—Consumer Confidence** +0.2 pts to -7.2 (Mar. A) **Germany—ZEW Survey** +9.8 pts to -3.6 (Mar.) **U.K.—Retail Sales (incl. Fuel)** +0.4% (Feb.) **U.K.—Employment** +222,000 (3 mths to Jan.)—most since 2015 **U.K.—Average Weekly Earnings (Ex. Bonus)** steady at +3.4% y/y (3 mths to Jan.) **U.K.—Jobless Rate** -0.1 ppts to 3.9% (3 mths to Jan.)—lowest since Jan ’75 **U.K.—Consumer Prices** +1.9% y/y (Feb.) **U.K.—Producer Prices (Output)** +2.2% y/y (Feb.) **U.K.—Rightmove House Prices** +0.4% (Mar.)	**Euro Area—Manufacturing PMI** -1.7 pts to 47.6 (Mar. P) **Euro Area—Services PMI** -0.1 pts to 52.7 (Mar. P) **Euro Area—Composite PMI** -0.6 pts to 51.3 (Mar. P)
Other ▪ U.S./China trade talks resume next week in Beijing	**Australia—Jobless Rate** -0.1 ppts to 4.9% (Feb.)	**Australia—Employment** +4,600 (Feb.)—below expected

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

2019 Federal Budget Recap

Pre-Election Prescription: Another Dose of Spending

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The fourth budget of the current federal government has been overshadowed by events, but is quite important in its own right as it will serve double-duty as the pre-election economic document. Stronger-than-expected revenues over the past year provided some fiscal leeway to fund yet another spending boost. **Ottawa is again projecting a string of double-digit budget deficits as far as the eye can see, widening to $19.8 billion in the coming fiscal year** (*Chart 1*)**, while the key debt-to-GDP ratio continues to gradually drift lower—it's pegged at 30.7% in FY19/20** (*Chart 2*). This outlook comes as little surprise, as a fading debt ratio has become the de facto anchor for fiscal policy. The major new measures in this year's document also did not come as a shock, and include moves to address housing affordability, skills training, support for seniors and a wide spattering of spending programs on other priorities.

A firmer-than-expected revenue backdrop provided a big tailwind for finances, although that favourable trend has likely just about run its course with economic growth cooling markedly late last year and into early 2019 (*Chart 3*). While the FY18/19 deficit is tracking $3.2 billion better than what was expected in the 2018 Fall Statement (effectively the now-removed risk adjustment), the upcoming two fiscal years will run with slightly deeper shortfalls. There remains no plan to balance the books, with a $9.8 billion deficit persisting by FY23/24. Beneath the surface, **a stronger-than-expected revenue base in FY18/19 has helped lift underlying finances by roughly $5 billion per year through the forecast horizon, but that gain has been almost precisely offset by increased spending across a wide range of initiatives**. In other words, Ottawa has chosen to let it flow rather than improving the bottom line, clearly revealing the fiscal priority. This is notable, given that the economic outlook has quickly deteriorated. For example, we now expect this year's real GDP growth to come in 0.5 ppts below the budget assumption, and nominal growth a full percentage point lower.

A contingency of $3 billion per year remains in place through the forecast horizon (*Table 1*), but **we judge that the current downside risk from the economy carves into the entire FY19/20 reserve**. And, we'd just reiterate that we are observing some tell-tale late-cycle conditions in North America, often a period that governments should build fiscal capacity.

The net fiscal impact of new measures proposed in this year's budget is $4.0 billion (or 0.2% of GDP) for FY19/20, rising to $5.7 billion in the following year—not big by any stretch, but not immaterial either. Here's a recap of some of the many new initiatives:

- **Housing affordability:** The headline measure is the **CMHC First-Time Home Buyer Incentive**, expected by September 2019. Effectively, CMHC will contribute 5% of the purchase price of an existing home (10% on a new build), to be repaid later on sale of the property (not yet clear is whether CMHC will share in home value changes—both on the way up and down). The program will only apply to those with household income below $120,000, and with a maximum mortgage and incentive amount of 4-times

Chart 1
Deficits Persist

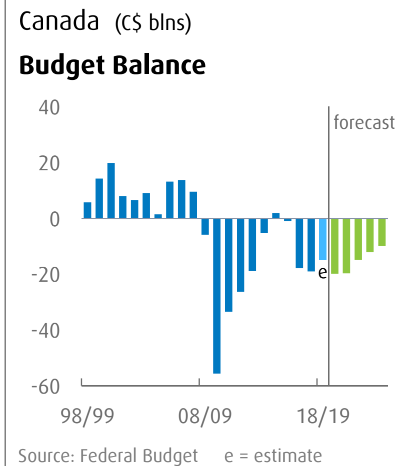


Chart 2
Debt Ratio Tracking Lower

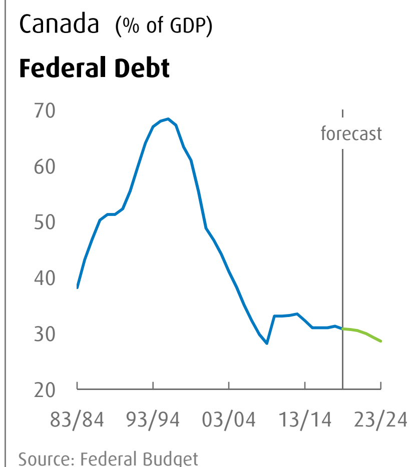
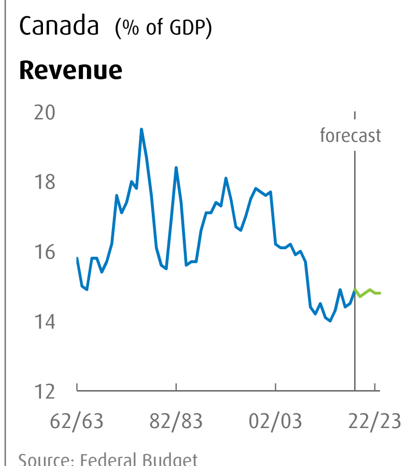


Chart 3
Revenues Grow with GDP



income. As such, the impact will be contained to the lower end of the market below roughly $500,000 and, arguably, that's the level where affordability challenges only really begin. For example, the most acute affordability problems surround larger units or single-detached homes in the GTA and GVA; yet, most of these are beyond the price range covered by this program. The impact, of course, would be broader in other regions, but affordability in many of those cities is historically quite normal. The biggest impact will be in low-priced new builds. More fundamentally, this measure runs counter to the many other recent policy measures to cool housing demand.

Table 1
Fiscal Outlook

(C$ blns, except where noted)

	Est.	— Forecast —		
	18/19	19/20	20/21	21/22
Revenues	332.2	338.8	351.4	366.7
Expenditures	347.1	355.6	368.2	378.4
Program Spending	323.5	329.4	339.7	348.3
Public Debt Charges	23.6	26.2	28.5	30.2
Adjustment for Risk	—	(3.0)	(3.0)	(3.0)
Budget Balance	(14.9)	(19.8)	(19.7)	(14.8)
Federal Debt	685.6	705.4	725.1	739.8
As a percent of GDP:				
Budget Balance	(0.7)	(0.9)	(0.8)	(0.6)
Federal Debt	30.8	30.7	30.5	30.0

Source: Federal Budget ( ) = deficit

- Ottawa will also modify the **Home Buyers' Plan**, which allows tax-free withdrawal from an RRSP (repaid over time). The withdrawal limit will rise from $25,000 to $35,000.
- **Pharmacare:** Ottawa will continue to progress toward a national pharmacare program. While the advisory process is still underway, this budget takes three steps: 1) Create a Canadian Drug Agency to negotiate prescription drug prices on behalf of all drug plans, targeting $3 billion per year in long-term savings; 2) Develop a national list of prescribed drugs; and, 3) National strategy for high-cost drugs for rare diseases.
- **Program spending** will rise 1.8% in FY19/20 after a 4.9% jump in FY18/19. A big chunk of the new announcements in this budget ($4.2 billion) will be rolled out before FY18/19 ends. One of the key features is just how wide a range of areas the spending increases have been spread across.
- **Infrastructure spending:** One of the chunkier dollar amounts is an immediate $2.2 billion transfer to municipalities to top up their infrastructure funding (through the Gas Tax Fund), and $1 billion for energy efficiency. These costs were loaded into the fiscal year that ends in March 2019, effectively using up a large portion of the extra revenues for the year. Municipalities will have 12 months to use the money.
- **Support for supply-managed farmers** totalling $3.9 billion in the wake of CETA and CPTPP ratification.
- **Skills training:** The **Canada Training Benefit** will provide a means-tested tax credit for skills training that accumulates at $250 per year, up to $5,000 over a lifetime. Income support will also be offered through the EI program.
- **Lower interest rate on student loans**, to prime from prime plus 2.5 percentage points (on the much more popular variable rates) and to prime plus 2.0 ppts from prime plus 5.0 ppts (for fixed). This meaningful reduction will cost Ottawa $345 million by FY20/21.
- **GIS** full earnings exemption increase for seniors, from $3,500 to $5,000 and a 50% partial exemption is introduced up to $10,000.
- **Electric Vehicle subsidies:** Will provide $5,000 on cars with a purchase price of less than $45,000.
- **Stock option taxation:** Will limit the future benefit of the employee stock option deduction for high-income individuals at mature (i.e., not start-up) firms by applying a $200,000 annual cap—further details pending, as was the case for many measures.

Economic Forecast Summary for March 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.)	1.3	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	1.8 ↑	1.7 ↑	1.9 ↑	1.6	2.3	1.7 ↑
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 ($blns : a.r.)	-69.0	-63.4	-40.4	-61.9	-57.3	-57.7	-59.1	-60.0	-60.1	-58.7	-58.5
Interest Rates (average for the quarter : %)											
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.83	0.71	1.44	1.77
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.65	1.65	1.85	0.69	1.37	1.70
10-year Bond	2.24	2.28	2.28	2.32	1.90	1.90	2.00	2.05	1.78	2.28	1.95
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-44	-66	-61	-70	-79	-81	-81	-79	-26	-60	-80
10-year	-52	-64	-65	-72	-80	-84	-80	-76	-55	-63	-80
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.6	1.2	2.5	2.0	1.9	2.2	2.9	2.3
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	1.6	1.7	1.8	2.1	2.4	1.7
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.7	3.5	3.5	4.4	3.9	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.15	1.22	1.24	1.23	1.21	1.21	1.24	1.23
Current Account Balance ($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	111 ↓	110 ↓	110 ↓	112	110	110 ↓
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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Merchandise Trade Deficit

Wednesday, 8:30 am

Jan. (e)	**$2.0 bln**
Dec.	$4.6 bln

The trade deficit ballooned at the end of 2018, in large part due to the collapse in Canadian oil prices. But prices bounced back in January which is expected to cut the trade gap by more than half to $2 bln. Refinery maintenance contributed to the wider shortfall in the prior month as well, as it prompted increased imports of refined products. Expect that to unwind. Despite the anticipated improvement in the trade deficit, the gap remains wide, reflecting global trade uncertainty and a relatively weak Canadian competitive backdrop.

Real GDP at Basic Prices

Friday, 8:30 am

Jan. (e)	**-0.2%**
Dec.	-0.1%

The headlines for January GDP aren't going to be pretty, as we're looking for GDP to drop the most in a year. However, the details might be a bit more encouraging. The bulk of the decline in activity is expected to come from the mandated oil production cuts in Alberta. That alone will cut 0.3 to 0.4 ppts from GDP. While this will have a very real impact on the growth numbers for Q1 and 2019, it's expected to be temporary. Indeed, the production cuts have already been rolled back 125k bpd as of June 1. Gains in manufacturing and wholesale activity are expected to provide some positive offset and suggest the broader economy held up well in the face of oil production cuts. Retail spending, however, hasn't shown any improved momentum. Home sales picked up, and should keep real estate positive, though construction likely printed its eighth consecutive monthly drop. The anticipated drop in January GDP is the driver behind our call for flat Q1 growth.

United States

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Housing Starts

Tuesday, 8:30 am

Feb. (e)	**1.190 mln a.r. (-3.0%)**
Consensus	*1.220 mln a.r. (-0.8%)*
Jan.	1.230 mln a.r. (+18.6%)
	Building Permits
Feb. (e)	**1.300 mln a.r. (-1.3%)**
Consensus	*1.320 mln a.r. (+0.2%)*
Jan.	1.317 mln a.r. (-0.7%)

New Home Sales

Friday, 10:00 am

Feb. (e)	**609,000 a.r. (+0.3%)**
Consensus	*620,000 a.r. (+2.1%)*
Jan.	607,000 a.r. (-6.9%)

The recent slide in mortgage rates should help steady housing activity this year following last year's big sag. However, we likely won't see much improvement in February, as activity was walloped by a near record amount of snowfall. New home sales are expected to increase just slightly to 609,000 annualized after pulling back 7% in January from strong gains late last year. Although homebuilders reported better sales this year, housing starts likely retreated 3% to 1.19 million annualized in February after surging 19% the prior month. Still, loftier building permits and firmer sales bode well for the spring building season.

Trade Balance, Current Account

Wednesday, 8:30 am

	Goods & Services Trade Deficit
Jan. (e)	**$57.0 bln**
Consensus	*$57.5 bln*
Dec.	$59.8 bln
	Current Account Deficit
Q4 (e)	**$132.1 bln**
Consensus	*$130.4 bln*
Q3	$124.8 bln

The U.S. trade deficit is expected to narrow to $57 billion in January after spiking to nine-year highs of $59.8 billion in December. Exports likely rose after three monthly declines, while import growth should slow after spiking in December. Still, trade will remain a drag on the economy in Q1, with exports undercut by the strong dollar, soft global demand and China's tariffs. A record trade gap with China will remain a thorn in the side of U.S. trade officials, as will an expected $528 billion (annualized) current account shortfall in Q4. The latter weighs in at 2.5% of GDP, well below the 2005 record (6.3%) and little changed in recent years, but likely to grind higher.

Real GDP

Thursday, 8:30 am

	Real GDP	GDP Deflator
Q4 F (e)	**+2.0% a.r.**	**+1.8% a.r.**
Consensus	*+2.4% a.r.*	*+1.8% a.r.*
Q4 P	+2.6% a.r.	+1.8% a.r.
Q3	+3.4% a.r.	+1.8% a.r.

The BEA's initial tally of Q4 GDP growth (2.6% annualized) will likely get chopped down to 2.0% due to a downward revision in retail sales and weaker prints for construction spending, exports and services. While consumer spending growth likely retained a two-handle in the quarter after the tax-cut-stoked gains of near 3½% in the prior two periods, the weaker handoff, together with the government shutdown, means GDP growth will likely downshift further to 1.2% in Q1.

Personal Spending and Income

Friday, 8:30 am

8:30 am	**Personal Spending (Jan.)**	**Personal Income (Feb.)**
Estimate	**+0.4%**	**+0.3%**
Consensus	*+0.3%*	*+0.3%*
Prior Month	-0.5%	-0.1%

	Core PCE Price Index	
Jan. (e)	**+0.2%**	**+1.9% y/y**
Consensus	*+0.2%*	*+1.9% y/y*
Dec.	+0.2%	+1.9% y/y

A big reversal in autos and limited rebound in core retail sales suggest personal spending rose only 0.4% in January after a very un-merry end to the holiday shopping season. Bad weather, the government shutdown and the earlier equity trauma had shoppers retaining a firm grip on the purse strings. An expected similar-sized gain in volumes could see consumer spending slow to a 1.6% annualized rate in Q1, the weakest in a year. However, personal income likely rose 0.3% in February, in line with the past year's norm, which will provide underlying support. Core PCE prices should rise 0.2% in January, keeping the annual rate at 1.9%.

		Mar 22 [1]	Mar 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	1.65	1.64	1	-2	1
	United States	2.45	2.43	1	0	9
	Japan	-0.17	-0.15	-2	4	-2
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.83	0.84	-1	-3	-8
	Australia	1.81	1.85	-3	-8	-28
2-Year Bonds	Canada	1.56	1.62	-6	-22	-30
	United States	2.37	2.44	-6	-12	-12
10-Year Bonds	Canada	1.60	1.71	-11	-29	-36
	United States	2.49	2.59	-10	-16	-20
	Japan	-0.08	-0.04	-3	-3	-7
	Germany	-0.02	0.08	-10	-12	-26
	United Kingdom	1.05	1.21	-16	-11	-23
	Australia	1.83	1.98	-15	-26	-48
Risk Indicators	VIX	15.0	12.9	2.1 pts	1.5 pts	-10.5 pts
	TED Spread	16	19	-3	-4	-29
	Inv. Grade CDS Spread [2]	65	58	7	3	-23
	High Yield CDS Spread [2]	334	340	-6	-13	-116
					(percent change)	
Currencies	US¢/C$	74.63	74.99	-0.5	-2.0	1.8
	C$/US$	1.340	1.334	—	—	—
	¥/US$	110.06	111.48	-1.3	-0.6	0.3
	US$/€	1.1285	1.1326	-0.4	-0.4	-1.6
	US$/£	1.318	1.329	-0.9	0.9	3.3
	US¢/A$	70.99	70.85	0.2	-0.4	0.7
Commodities	CRB Futures Index	184.04	183.87	0.1	0.0	8.4
	Oil (generic contract)	58.93	58.82	0.2	2.9	29.8
	Natural Gas (generic contract)	2.77	2.80	-0.8	2.1	-5.7
	Gold (spot price)	1,312.74	1,302.48	0.8	-1.2	2.4
Equities	S&P/TSX Composite	16,140	16,140	0.0	0.8	12.7
	S&P 500	2,831	2,822	0.3	1.4	12.9
	Nasdaq	7,774	7,689	1.1	3.3	17.2
	Dow Jones Industrial	25,755	25,849	-0.4	-1.1	10.4
	Nikkei	21,627	21,451	0.8	0.9	8.1
	Frankfurt DAX	11,452	11,686	-2.0	0.0	8.5
	London FT100	7,235	7,228	0.1	0.8	7.5
	France CAC40	5,299	5,405	-2.0	1.6	12.0
	S&P ASX 200	6,195	6,175	0.3	0.5	9.7

[1] = as of 11 am [2] = One day delay

Global Calendar
March 25 – March 29

BMO Capital Markets

Japan

Monday March 25

All-Industry Activity Index

Jan. (e)	**-0.4%**
Dec.	-0.4%

Tuesday March 26

BoJ Summary of Opinions from Mar. 14-15 meeting

Friday March 29

Jobless Rate

Feb. (e)	**2.5%**
Jan.	2.5%

Industrial Production

Feb. P (e)	**+1.3%**	**-1.2% y/y**
Jan.	-3.4%	+0.3% y/y

Retail Sales

Feb. P (e)	**+0.8%**	**+0.9% y/y**
Jan.	-1.8%	+0.6% y/y

Euro Area

Monday March 25

GERMANY

Ifo Business Climate

Mar. (e)	**97.5**
Feb.	98.5

Tuesday March 26

GERMANY

GfK Consumer Confidence

Apr. (e)	**10.8**
Mar.	10.8

FRANCE

Real GDP

Q4 F (e)	**+0.3%**	**+0.9% y/y**
Q4 P	+0.3%	+0.9% y/y
Q3	+0.3%	+1.3% y/y

Business Confidence

Mar. (e)	**103**
Feb.	103

Wednesday March 27

FRANCE

Consumer Confidence

Mar.	
Feb.	95

ITALY

Consumer Confidence

Mar. (e)	**112.5**
Feb.	112.4

Thursday March 28

EURO AREA

M3 Money Supply

Feb.	**+3.9% y/y**
Jan.	+3.8% y/y

Economic Confidence

Mar. (e)	**105.9**
Feb.	106.1

Consumer Confidence

Mar. F (e)	**-7.2**
Feb.	-7.4

GERMANY

Consumer Price Index

Mar. P (e)	**+0.6%**	**+1.6% y/y**
Feb.	+0.5%	+1.7% y/y

Friday March 29

GERMANY

Retail Sales

Feb. (e)	**-1.0%**	**+2.2% y/y**
Jan.	+2.9%	+2.6% y/y

	Unemploy.	Jobless Rate
Mar. (e)	**-10,000**	**4.9%**
Feb.	-21,000	5.0%

FRANCE

Consumer Spending

Feb. (e)	**+0.2%**	**-1.2% y/y**
Jan.	+1.2%	+1.0% y/y

Consumer Price Index

Mar. P (e)	**+1.0%**	**+1.4% y/y**
Feb.	+0.1%	+1.6% y/y

ITALY

Consumer Price Index

Mar. P (e)	**+2.1%**	**+1.0% y/y**
Feb.	-0.3%	+1.1% y/y

U.K.

Tuesday March 26

Parliamentary vote on Brexit tentatively scheduled

Thursday March 28

Nationwide House Prices [D]

Mar. (e)	**unch**	**+0.6% y/y**
Feb.	-0.1%	+0.4% y/y

Friday March 29

Real GDP

Q4 F (e)	**+0.2%**	**+1.3% y/y**
Q4 P	+0.2%	+1.3% y/y
Q3	+0.6%	+1.6% y/y

GfK Consumer Confidence

Mar. (e)	**-15**
Feb.	-13

Other

Wednesday March 27

NEW ZEALAND

RBNZ Monetary Policy Meeting

Thursday March 28 – Friday March 29

CHINA

U.S./China trade talks in Beijing (Mar. 28-29)

Thursday March 28

MEXICO

Central Bank of Mexico Monetary Policy Meeting

[D] = date approximate

Upcoming Policy Meetings | BoE: May 2, June 20, Aug. 1 | ECB: Apr. 10, June 6, July 25

North American Calendar
March 25 – March 29

BMO Capital Markets

Canada

Monday March 25

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

Tuesday March 26

Nova Scotia Budget

Wednesday March 27

8:30 am	**Merchandise Trade Deficit**
Jan. (e)	**$2.0 bln**
Dec.	$4.6 bln

8:30 am — **Survey of Employment, Payrolls, and Hours (Jan.)**

Noon — 3-year bond auction $2.0 bln

Thursday March 28

5-year auction announcement

Friday March 29

8:30 am	**Real GDP at Basic Prices**	
Jan. (e)	**-0.2%**	
Dec.	-0.1%	
8:30 am	**Industrial Product Price Index**	**Raw Materials Price Index**
Feb. (e)	**+0.8%**	**+2.5%**
Jan.	-0.3%	+3.8%

United States

Monday March 25

8:30 am	**Chicago Fed National Activity Index**
Feb. (e)	**+0.10**
Jan.	-0.43
10:30 am	**Dallas Fed Mfg. Activity**
Mar. (e)	**10.0**
Feb.	13.1

High-level U.S./China trade talks resume this week

Fed Speakers: Chicago's Evans (1:00 am); Philadelphia's Harker (6:00 am); Boston's Rosengren (8:30 pm)

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

Sunday March 24

Fed Speaker: Chicago's Evans (9:45 pm)

New dates for previously delayed releases:
- **Apr. 1:** Retail Sales (Feb.), Business Inventories (Jan.)
- **Apr. 2:** Durable Goods Orders (Feb.)
- **Apr. 8:** Factory Orders (Feb.)
- **Apr. 17:** Goods & Services Trade Balance (Feb.), Wholesale Trade (Feb.)
- **Apr. 18:** Retail Sales (Mar.), Business Inventories (Feb.)
- **Apr. 19:** Housing Starts, Building Permits (Mar.)
- **Apr. 29:** Personal Income (Feb.), Personal Spending (Jan.)
- **May 3:** Advanced Indicators (Mar.) [Jan.-Feb. cancelled]
- **May 9:** Goods & Services Trade (Mar.)

Tuesday March 26

8:30 am	**Housing Starts**	
Feb. (e)	**1.190 mln a.r. (-3.0%)**	
Consensus	*1.220 mln a.r. (-0.8%)*	
Jan.	1.230 mln a.r. (+18.6%)	
8:30 am	**Building Permits**	
Feb. (e)	**1.300 mln a.r. (-1.3%)**	
Consensus	*1.320 mln a.r. (+0.2%)*	
Jan.	1.317 mln a.r. (-0.7%)	
9:00 am	**S&P Case-Shiller Home Price Index (20 city)**	
Jan. (e)	**+0.3%**	**+3.8% y/y**
Consensus	*+0.3%*	*+3.8% y/y*
Dec.	+0.2%	+4.2% y/y
9:00 am	**FHFA House Price Index**	
Jan. (e)	**+0.4%**	**+5.1% y/y**
Consensus	*+0.4%*	*+5.0% y/y*
Dec.	+0.3%	+5.6% y/y
10:00 am	**Conference Board Consumer Confidence Index**	
Mar. (e)	**131.8**	
Consensus	*132.0*	
Feb.	131.4	
10:00 am	**Richmond Fed Manufacturing Index**	
Mar. (e)	**11**	
Feb.	16	

Fed Speakers: Philadelphia's Harker (3:45 am); Chicago's Evans (6:30 am); San Francisco's Daly (3:00 pm)

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

11:30 am — 52-week bill auction $26 bln

1:00 pm — 2-year note auction $40 bln

Wednesday March 27

7:00 am	**MBA Mortgage Apps**
Mar. 22	
Mar. 15	+1.6%
8:30 am	**Goods & Services Trade Deficit**
Jan. (e)	**$57.0 bln**
Consensus	*$57.5 bln*
Dec.	$59.8 bln
8:30 am	**Current Account Deficit**
Q4 (e)	**$132.1 bln**
Consensus	*$130.4 bln*
Q3	$124.8 bln
Noon	**Revisions to Industrial Production and Capacity Utilization**

Fed Speaker: Kansas City's George (5:30 pm)

11:30 am — 2[R]-year FRN auction $18 bln

1:00 pm — 5-year note auction $41 bln

Thursday March 28

8:30 am	**Initial Claims**	
Mar. 23 (e)	**225k (+4k)**[C]	
Mar. 16	221k (-9k)	
8:30 am	**Continuing Claims**	
Mar. 16		
Mar. 9	1,750k (-27k)	
8:30 am	**Real GDP**	**GDP Deflator**
Q4 F (e)	**+2.0% a.r.**	**+1.8% a.r.**
Consensus	*+2.4% a.r.*	*+1.8% a.r.*
Q4 P	+2.6% a.r.	+1.8% a.r.
Q3	+3.4% a.r.	+1.8% a.r.
8:30 am	**Pre-Tax Corporate Profits**	
Q4 (e)	**+9.1% y/y**	
Q3	+10.4% y/y	
10:00 am	**Pending Home Sales**	
Feb. (e)	**-1.0%**	
Consensus	*unch*	
Jan.	+4.6%	
11:00 am	**Kansas City Fed Manufacturing Activity**	
Mar. (e)	**4**	
Feb.	1	

Fed Speakers: Vice Chair of Supervision Quarles (7:15 am); Vice Chair Clarida (9:30 am); Gov. Bowman (10:00 am); New York's Williams (1:15 pm); St. Louis' Bullard (5:20 pm)

11:00 am — 13- & 26-week bill auction announcements

11:30 am — 4- & 8-week bill auction

1:00 pm — 7-year note auction $32 bln

Friday March 29

8:30 am	**Personal Spending (Jan.)**	**Personal Income (Feb.)**
Estimate	**+0.4%**	**+0.3%**
Consensus	*+0.3%*	*+0.3%*
Prior Month	-0.5%	-0.1%
8:30 am	**Core PCE Price Index**	
Jan. (e)	**+0.2%**	**+1.9% y/y**
Consensus	*+0.2%*	*+1.9% y/y*
Dec.	+0.2%	+1.9% y/y
9:45 am	**Chicago PMI**	
Mar. (e)	**60.0**	
Consensus	*61.0*	
Feb.	64.7	
10:00 am	**New Home Sales**	
Feb. (e)	**609,000 a.r. (+0.3%)**	
Consensus	*620,000 a.r. (+2.1%)*	
Jan.	607,000 a.r. (-6.9%)	
10:00 am	**University of Michigan Consumer Sentiment**	
Mar. F (e)	**97.8**	
Consensus	*97.8*	
Mar. P	97.8	
Feb.	93.8	

Fed Speakers: Dallas' Kaplan (10:30 am); Vice Chair of Supervision Quarles (12:05 pm)

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

Upcoming Policy Meetings | Bank of Canada: Apr. 24, May 29, July 10 | FOMC: Apr. 30-May 1, June 18-19, July 30-31

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