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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

April 5, 2019

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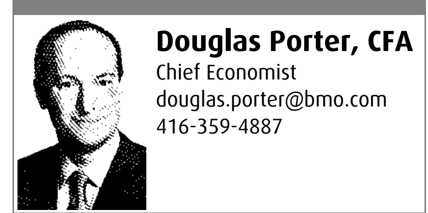
Smells Like Teen Attention Span



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Remind me again why the market is priced for rate cuts over the next year. I mean beyond the fact that the U.S. Administration is openly agitating for a cut, and is seemingly prepared to gradually stack the Fed to eventually get its way. But given how financial conditions have improved since the start of the year, and how the economic data are faring, **the case for a rate cut is paper thin**. Turning back the clock to the opening days of 2019, we were looking at a trade war with China, a U.S. government shutdown, low oil prices, a near-20% correction in the S&P 500, and a wave of weak global PMI readings. Not shockingly, the market aggressively priced out further rate hikes from the Fed, and the Fed obliged with a stream of dovish remarks. So far, so good.

Now, three months hence, we have oil prices right back around last year's average level, and up more than 40% since the start of the year. Equities have pretty much reversed 2018's late-year nastiness, with the S&P less than 2% from its all-time high. While global economic data have been mixed, the overall trend has improved in recent weeks (with the rather clanging exception of European manufacturing). The U.S. government is operating as usual (hold the snide remarks). And, while there are still issues, it appears that a U.S./China deal is on the horizon. Even President Trump's threat to close the Mexico border has been—graciously—granted a year's reprieve.

The one remaining case for even considering Fed easing was that domestic growth appeared to be softening amid the many earlier weights, as well as fading fiscal stimulus and past rate hikes. But that case was cut down to size this week amid a string of generally decent U.S. economic releases. Most importantly, payrolls popped back to their trend rate with a solid 196,000 gain in March, while the ISMs stayed firmly in mid-50s terrain in the month, and auto sales rebounded to 17.5 million in March, salvaging Q1 as a whole. And, jobless claims fell to a 50-year low in the latest week. Note that amid all the noise in the opening months of the year, U.S. employment rose at a sturdy 1.7% annual rate for all of Q1, precisely matching the average rise for all of last year… when the Fed was busily hiking four times by 100 bps, we may add.

After this week's wave of reports on how the real economy fared in March, **the focus for next week will turn to how it's affecting inflation.** The solid jobs report was blunted by the latest instalment of the ongoing saga of surprisingly mild wage gains (+0.1%). However, we would hasten to point out that the annual wage rise of 3.2% is still more than double the latest inflation reading, and is also still above last year's average gain (of 3.0%). No doubt, the path to faster wages has been tortuously slow, but it is indeed heading higher. It's been a broadly similar story for core inflation—a very slow upward grind—and we suspect that March's CPI will echo that theme with a stable 2.1% y/y clip (and up 0.2% m/m). Note, though, that the comeback in oil and gasoline prices will fire up the headline, both on the month (+0.5%) and for the yearly inflation tally (back up to 1.9% y/y). While not exactly an advertisement for rate hikes, this economic backdrop hardly makes the case for rate cuts either.

It's a bit different for the Bank of Canada, largely because the starting point for rates is so much lower—with the overnight rate sitting 62.5 bps below the Fed's mid-point target. In a Monday appearance in Nunavut, Governor Poloz sounded some suitably cautious notes, especially on the trade outlook—appropriately so, given the growing headwinds for the USMCA. But, the overall thrust of his remarks suggested that the Bank remains quietly

confident that growth will revive in the spring and summer, leaving a sliver of odds that rates could still be hiked at some point in the next two years. While March's jobs report did no favours for that view, reporting its first employment drop after six very strong months, the early read on auto and home sales points to modest monthly gains.

Next week is a quiet one on the Canadian economic calendar, highlighted mostly by the **Ontario Budget** on Thursday. Without being overly central-Canada-centric, this is the most important provincial budget of the year, representing the first fully-formed fiscal picture from the Ford government. The message from Finance Minister Fedeli has been that the Province will take a *"responsible"* tack on reining in the budget deficit (last pegged at $13.5 billion, or 1.5% of GDP). That likely translates into a four-year plan to bring it back to balance, with the restraint front-loaded into the first few budgets of the mandate.

For the broader Canadian outlook, moderate restraint from the largest province will largely counter the moderate stimulus from this year's Federal Budget. This leaves us with a sluggish economic growth outlook of 1.5% this year; which, in turn, likely leaves the Bank of Canada also on a prolonged pause. Yet that economic backdrop is also hardly a ringing endorsement of the market's pricing of rate cuts later this year.

Time again for Double Jeopardy:

Answer—Manchester, Munich, Chicago, Brisbane, Lyon, Osaka, Naples, Valencia, Tianjin, Incheon and Vancouver have this in common.

Question—What is the <u>*third*</u> largest city in each of the world's largest economies?

Bonus questions—Does anyone see Osaka or Munich as bellwethers for the Japanese or German housing markets, let alone their economies? Do monthly home sales figures in Lyon and Valencia make front-page reading in France and Spain? Is Bank of England or Bank of Korea policy driven by the path of home prices in Manchester or Incheon? Of course not to all three questions! So, why then the widespread obsession with the Vancouver housing market?

In the wake of another month of weak Vancouver home sales results—sales down 31% y/y, a three-decade low for March, and benchmark prices down 7.7% y/y—we were fielding the usual queries as to how the BoC would respond. First, Vancouver is in no way representative of the broader Canadian housing market, with outer-worldly lack-of-affordability. Second, it accounts for only 7% of overall sales in a good year, and is now down to around 5% of all housing transactions. Third, always recall that the recent weakness in Vancouver's market is largely the result of specific policies, especially at the provincial level, aimed at bringing the market to heel.

No doubt, a further cooldown in that market will clip overall growth in the B.C. economy; but, note that even with Vancouver's housing moderation, B.C. still boasts the fastest job growth in the country (up a crackling 3.2% y/y), it still has the lowest jobless rate (4.7%) and we expect it to post the strongest GDP growth among the provinces this year. In other words, if there is any economy that can deal with a housing slowdown, B.C. is it.

Coda: Kurt Cobain, Born Feb 20, 1967, Died April 5, 1994, 25 years ago today, age 27. RIP

U.S. Economy: When Bears and Lions Give Way to Bulls and Lambs

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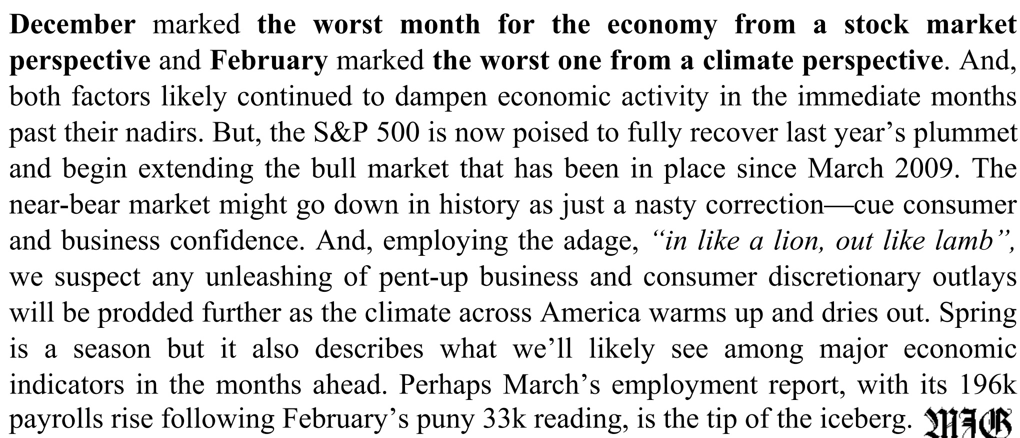
The ending months of 2018 and beginning ones of 2019 were not kind to the U.S. economy, as it contended with a plummet in equity prices to the brink of an "official" bear market along with winter weather conditions that roared like the proverbial lion.

Although the plunge in the S&P 500 from September 20 to Christmas Eve fell just short of 20% (it was 19.8%), this provided little comfort to consumers and businesses, particularly as the stock market registered the worst December since the Great Depression (1931). While the market began rebounding before year-end, the damage to confidence was done—not in how businesses and consumers answered survey questions but in how they postponed discretionary outlays. They were battening-down the hatches in anticipation of rougher economic waters, which was a rational response given that the past seven episodes of 19%-plus stock price drops (since the late 1970s) saw the economy in recession or the risks of one escalating steeply. For example, core capital goods orders decreased in both November and December by a combined 1.9%, and real PCE plummeted 0.6% in December, the largest decrease since the last recession.

Although the stock market continued rebounding, consumers and businesses were slow to shed their purchasing pessimism. Meanwhile, harsh climate conditions were also preventing any meaningful un-battening of the hatches. By the time February registered the second most precipitation on record (we're talking snow in the colder climates and rain in the warmer ones), the December-February tally made this the wettest winter in 125 years. This, in turn, triggered some major flooding, particularly in the Midwest in March. Not surprisingly, many key economic indicators have only posted partial recoveries from their dismal year-end displays. For example, core capital goods orders jumped 0.9% in January but dipped a tenth in February. Real PCE inched up only 0.1% in January and the various retail sales metrics all sported negative signs in February.



December marked **the worst month for the economy from a stock market perspective** and **February** marked **the worst one from a climate perspective**. And, both factors likely continued to dampen economic activity in the immediate months past their nadirs. But, the S&P 500 is now poised to fully recover last year's plummet and begin extending the bull market that has been in place since March 2009. The near-bear market might go down in history as just a nasty correction—cue consumer and business confidence. And, employing the adage, *"in like a lion, out like lamb",* we suspect any unleashing of pent-up business and consumer discretionary outlays will be prodded further as the climate across America warms up and dries out. Spring is a season but it also describes what we'll likely see among major economic indicators in the months ahead. Perhaps March's employment report, with its 196k payrolls rise following February's puny 33k reading, is the tip of the iceberg. MJG

Canadian Dollar on Tight Collar

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It is hard to paint a much bleaker picture for the Canadian dollar. Apart from oil's rally, almost nothing has gone right. The Federal Budget failed to tout meaningful measures to improve competitiveness after tossing firms a full-expensing bone in the fall. **Faded competitiveness** is one reason the country continues to rack up **record trade deficits**. A g**rowing trade spat with China** threatens to take a scythe to crop exports. USMCA ratification seems like a distant and dimming prospect. **Rate spreads against the U.S.** are the widest since at least 1982 with the 10-year Canada note yielding a gaping 80 basis points less than comparable Treasuries. The U.S. economy slowed to a near 1% rate last quarter, but Canada's economy will do well to clear even this low bar after coming to a virtual halt in Q4. True, mandated oil cuts didn't help, but the cuts wouldn't have been needed if an adequate, modern-day distribution system was in place (aka pipelines). Because of the listless economy, the market places 45% odds on a Bank of Canada rate cut by year end. Yet, even with higher odds on a Fed cut (57%), the loonie can't seem to catch a break.

Of course, some of the currency's 4% spill against the greenback in the past year simply reflects a 7% rise in the latter's trade-weighted value. The CAD broke even on a similar basis, while rising against several other currencies, notably the Brexit-weary pound and euro. Still, Canadians tend to compare their currency to the big dollar, as the U.S. is, by far, the largest source of imports and most popular travel destination. Canucks are fully aware that a weak currency means less buying power. Not only is the currency miles from parity (last visited in 2013), but it's well below the average since floating in 1970 (82.1 cents US). It's even below the lowly mean of the past three years (76.8 cents). Importantly, the exchange rate is three cents below so-called purchasing power parity, which Statistics Canada pegs at 77.5 cents based on a comparison of tradable-goods prices. Canadians won't find many bargains south of the border.

With so many things stacked against it, it's no wonder the loonie can't fly. The only reason it hasn't tumbled further is the recovery in oil prices, though, even here, the oft-tight friendship between the two has soured of late. When oil prices crashed in 2014-15, the currency joined in sympathy; and when prices recovered in 2016-17, it went along for the uphill ride. But the relationship frayed early last year as oil chugged higher, while the currency sagged in the face of Fed tightening, a hot U.S. economy and NAFTA uncertainty. The two became best buddies again just when crude hit the skids late last year. However, despite 1) oil's leap to five-month highs, 2) the Canadian crude discount's reversal from record levels to half its long-run norm, and 3) the Fed's dovish lurch, the currency is still limping.

Unless a much sharper rise in oil prices can breathe new life into it, the Canadian dollar looks to stay flat on its back this year.

If You Leave

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Apologies to OMD for borrowing from their 1986 hit, but the song is appropriate to describe Britain these days. There are so many questions about not just **when or how the U.K. leaves** the EU; but also, **whether or not it will leave**. PM May is truly stuck between a rock and a hard place. Lacking enough support from her own party, she was forced to reach across the aisle to Jeremy Corbyn, leader of the Opposition Labour Party, in hopes he would back the Withdrawal Agreement, the only deal that the EU will accept. Passing the agreement would ensure that Britain leaves the EU once and for all (which 52% of Brits wanted), and with a deal (which the majority of lawmakers demanded). But Labour is seeking softer elements, such as having a customs union, which involves paying the EU (thus, adding to its budget), taking guidance from the European Court of Justice on trade, and free movement. Those are elements that the U.K. does not want and which prompted the 2016 referendum in the first place. Hence, 'how' the U.K. leaves is completely up in the air (maybe there will be more indicative votes to narrow the scope of options), and 'when' the U.K. leaves is still under debate (PM May asked for another extension, to June 30 instead of April 12), which brings up the question of 'if' it will ever leave. That they may not leave is a possibility that shouldn't be dismissed. The only thing that is certain is that there will be a lot of unhappy people in Britain when this is all over.

Speaking of uncertainty, the Euro Area economy is facing a lot of that as well, which puts the ECB in a tough spot. The **ECB** meets on April 10, the same day as the emergency EU meeting and a couple of days before the G20 central bankers meeting. It was just over a month ago that the Governing Council introduced the new quarterly targeted longer-term refinancing operations (TLTRO-III), which start in September 2019, and revised the forward rate guidance, pushing out rate-hike expectations to next year. However, the Minutes to that key meeting revealed obvious concern among Council members about the *"high"* degree of uncertainty that the Euro Area was facing, due to trade tensions between the U.S. and China, along with the U.S. and the EU. Then, of course, there is Brexit, as well as weaker domestic data. And, the *"incoming data could evolve in very different ways"*, which makes the situation all the more uncertain. So, the ECB will stay on the sidelines for now; but, unlike its counterparts in the U.S. and Canada, this central bank does not have the luxury of being *"patient"*. The economic downturn has been harsher than expected, and inflation has moved further away from the official target. It is only a matter of time before the ECB moves away from calendar-based forward guidance, leaving it data-dependent. JLee

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	Good News	Bad News
Canada ▪ BoC Gov. Poloz sees slowdown as *"temporary"* ▪ Chrystia Freeland says U.S. must lift steel tariffs for USMCA ratification	**Jobless Rate** steady at 5.8% (Mar.) **Average Hourly Wages** +2.4% y/y (Mar.) **Conference Board's Consumer Confidence Index** +6.4 pts to 117.9 (Mar.) **Ivey PMI** +3.7 pts to 54.3 (Mar.)	**Employment** -7,200 (Mar.) **Auto Sales** -2.5% y/y (Mar.)
United States ▪ President Trump talks up the potential for a *"monumental"* trade deal with China ▪ House Speaker Pelosi needs to see Mexico change labour laws for vote on USMCA	**Nonfarm Payrolls** +196,000 (Mar.) **Jobless Rate** steady at 3.8% (Mar.) **Manufacturing ISM** +1.1 pts to 55.3 (Mar.) **Construction Spending** +1.0% (Feb.) **Business Inventories** +0.8% (Jan.) **Auto Sales** 17.45 mln a.r. (Mar.)—3-mth high **Initial Claims** -10k to 202k (Mar. 30 week) —near 50-yr low	**Retail Sales** -0.2% (Feb.) **Average Hourly Earnings** slowed to +0.1% (Mar.) **Core Durable Goods Orders** -0.1% (Feb.) **Non-manufacturing ISM** -3.6 pts to 56.1 (Mar.)
Japan ▪ More signs that consumers could be losing steam	**Manufacturing PMI** revised up to 49.2 (Mar.)—but still contracting	**Household Spending** +1.7% y/y (Feb.) —below expected **Tankan Large Mfg Index** -7 pts to 12 (Q1) **Services PMI** -0.3 pts to 52.0; **Composite PMI** -0.3 pts to 50.4 (Mar.)
Europe ▪ ECB Minutes show concern about side effects from low rates ▪ PM May asks EC President Tusk for a Brexit extension until June 30	**Euro Area—Retail Sales** +0.4% (Feb.) **Euro Area—Jobless Rate** steady at 7.8% (Feb.) **Euro Area—Producer Prices** +3.0% y/y (Feb.) **Euro Area—Services PMI** revised up to 53.3; **Composite PMI** revised up to 51.6 (Mar.) **France—Trade Deficit** narrowed to €4.0 bln (Feb.) **U.K.—Manufacturing PMI** +3.0 pts to 55.1 (Mar.)	**Euro Area—Consumer Prices** eased to +1.4% y/y (Mar. A)—and **core** slowed to +0.8% y/y **Euro Area—Manufacturing PMI** revised lower to 47.5 (Mar.) **Germany—Factory Orders** -4.2% (Feb.)—biggest drop since Jan. '17 **Germany—Manufacturing Production** -0.2% (Feb.) **U.K.—Services PMI** -2.4 pts to 48.9; **Construction PMI** +0.2 pts to 49.7—still contraction; **Composite PMI** -1.5 pts to 50.0 (Mar.) **U.K.—Unit Labour Costs** +3.1% y/y (Q4)
Other ▪ WTO cuts global growth outlook amid trade risks ▪ RBI cuts 25 bps	**China—Manufacturing PMI** +1.3 pts to 50.5; **Non-manufacturing PMI** +0.5 pts to 54.8; **Composite PMI** +1.6 pts to 54.0 (Mar.) **China—Caixin Manufacturing PMI** +0.9 pts to 50.8; **Services PMI** +3.3 pts to 54.4; **Composite PMI** +2.2 pts to 52.9 (Mar.) **Australia—Retail Sales** +0.8% (Feb.) **Australia—Building Approvals** +19.1% (Feb.) **Australia—Trade Surplus** widened to A$4.8 bln (Feb.)	**Australia—NAB Business Confidence** -2 pts to 0 (Mar.)

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

Recalculating Canada's Speed Limit

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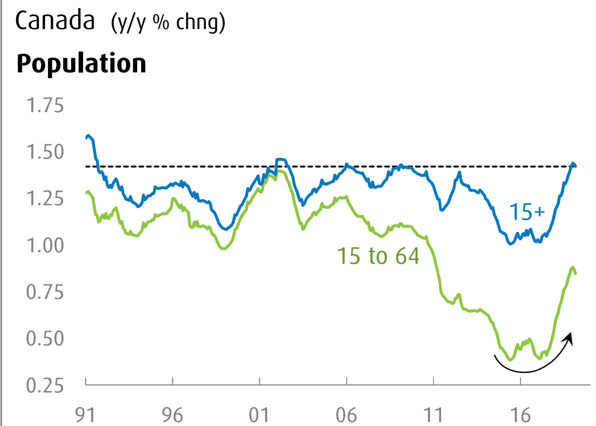
The Bank of Canada has some big announcements in coming weeks, but not on policy rates. In fact, it looks like the Bank will seemingly be on hold for an extended period of time—the last rate hike was almost six months ago already, and it could stay put well beyond this year. Instead, much of the focus in the coming Monetary Policy Report (on April 24) will be trained on two technical assumptions that are reviewed each April: the **estimate of the neutral interest rate** and **potential GDP growth**. We have covered the neutral rate before, and found that the longstanding official estimate of 2.5%-to-3.5% looks high. The low end of the range is likely closer to 2.0%, although Governor Poloz, in Nunavut on April 1, went out of his way to downplay the significance of the neutral rate, suggesting it was more of a guideline rather than a target for policy.

The other big decision will be on a **new estimate of potential GDP growth**. The Bank's point estimate has been drifting up recently to an average of 1.9% for the next few years, although the range is wide (latest estimate for 2020 is between 1.3% and 2.3%). **Changes to the potential growth estimate**—or the economy's speed limit—would be important as they **could drive changes in the estimated output gap**. If, say, potential is revised higher, this would imply that the output gap could widen even further, given that we see actual growth averaging only a bit better than 1.6% over the next two years. A wider output gap would further push out the timeline on possible future rate hikes, and may even raise the possibility of rate cuts at some point next year. On the flip side, a downward revision to potential would suggest a tighter output gap, and still keep rate-hike possibilities alive, even with our modest GDP growth forecast.

One factor that has changed significantly in the past year or so, which could have a big impact on potential—and why this is even an issue—is much faster-than-expected population growth. **Canada's overall population has bounced almost 1.5%** in the past year, **the largest percent increase in almost 30 years**. Even for the core working-age population (those aged 15-64), growth has suddenly popped higher in recent years, reversing a decade-long slide in the potential workforce (*Chart 1*). While this has made only a slight dent in the 10-year trend in the labour force growth rate, Canada's pace has consistently been faster than the U.S. since the turn of the century (*Chart 2*).

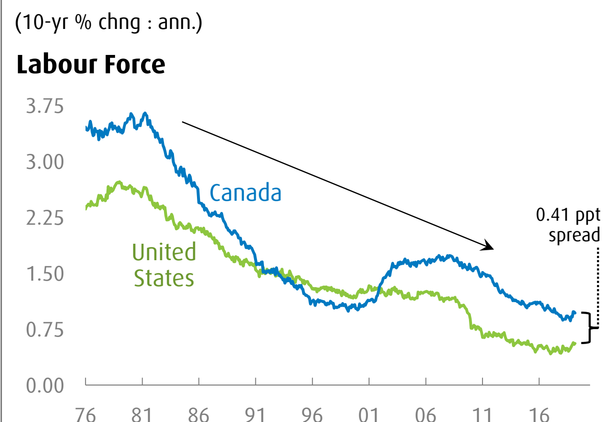
One reason for that faster labour force expansion in Canada is not just due to the pace of the underlying population, but also a **still-robust participation rate** (the share of the population actively in the labour market). While the overall rate has been sliding for a

Chart 1
Short Term: More Potential Workers



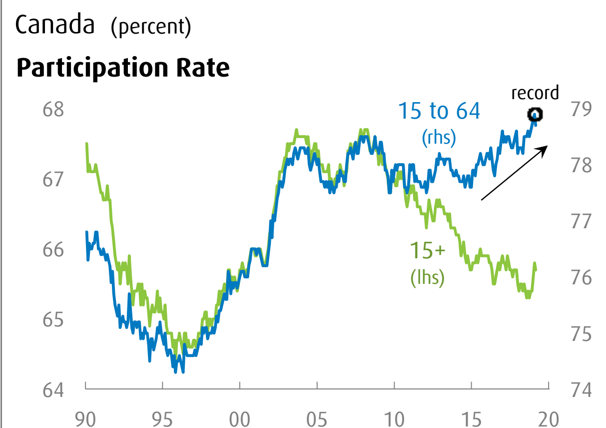
Sources: BMO Economics, Haver Analytics

Chart 2
Long Term: Fewer Potential Workers



Sources: BMO Economics, Haver Analytics

Chart 3
Partici-paction!



Sources: BMO Economics, Haver Analytics

decade, this is entirely a demographics story—it reflects the rapidly growing share of the population aged 65 and over, whom have a much lower part rate. Meantime, the part rate for those aged 15-64 has been grinding consistently higher to record heights in this cycle (*Chart 3*). Combining these two forces—a rapidly growing population and solid participation—has prompted a **recent burst in the overall labour force** (up 1.7% y/y in March; *Chart 4*). That represents an increase of nearly 30,000 per month, setting a much higher bar for job gains to hurdle each month, just to keep the unemployment rate from rising. Thus, in stark contrast to repeated warnings about Canada's possible decline in labour force population, we have just witnessed one of the largest increases in decades in the past year.

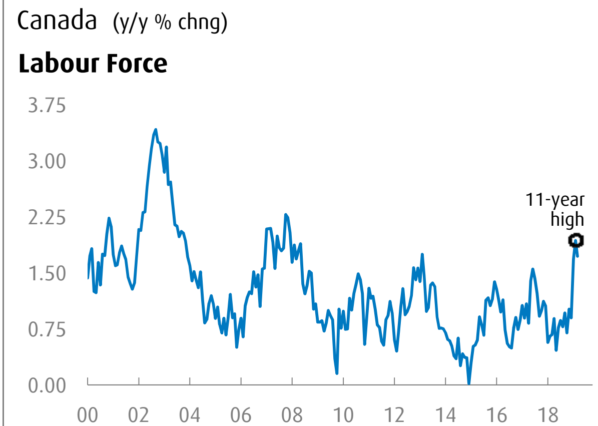
Given the much faster rise in the size of the workforce, does this alone raise the speed limit of the economy? Normally, yes; but, the rub is that productivity gains—the other major building block of potential growth—have been deeply disappointing. In the past four quarters, Canada has managed a meagre 0.2% gain in output per hour. And, hours worked per person have been slowly grinding lower over the past 20 years. That means **almost all of Canada's GDP growth has been driven by the brute force of rising employment**. Looking over a longer stretch, productivity gains have been a bit firmer at just above 0.8% per year in the past decade (*Chart 5*). But that still trails the U.S. pace by roughly half a point, effectively erasing Canada's head start from a faster-rising population.

Combining the two potential building blocks—labour force population and productivity—leaves Canada and the U.S. amazingly neck-and-neck in terms of overall growth over the past 20 years (*Chart 6*). Curiously, adding the long-run trends in productivity (just above 0.8%) and labour force population (just above 1.0%) gives us almost precisely the BoC's latest point estimate of potential growth.

For the Bank to meaningfully boost that estimate, it must also believe that the recent burst in population will be sustained, and/or productivity can improve meaningfully. We suspect that it will hold quite close to the latest estimates, with perhaps a slightly higher top-side to growth in the next few years. However, **longer term, the weight of demographics will bear down more heavily** on labour force growth; and, absent a serious revival in productivity, that means **the economy's speed limit will actually fall**, not rise, as we move into the 2020s.

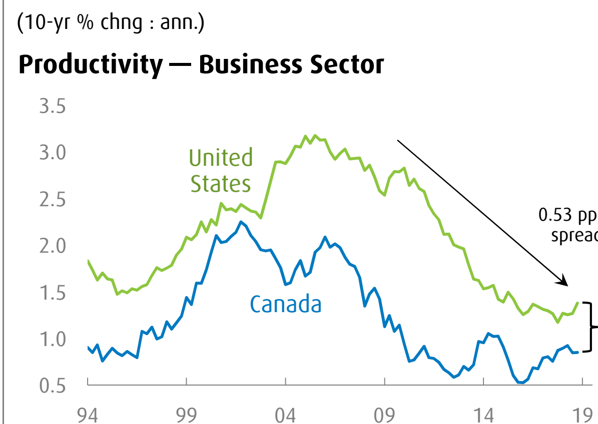
Bottom Line: Even with the sudden surge in Canada's labour force population, it appears that the economy's growth potential has barely budged from just under 2%, owing to paltry productivity. Further out, demographics will likely skew that figure even lower.

Chart 4
A Surprising Bounce



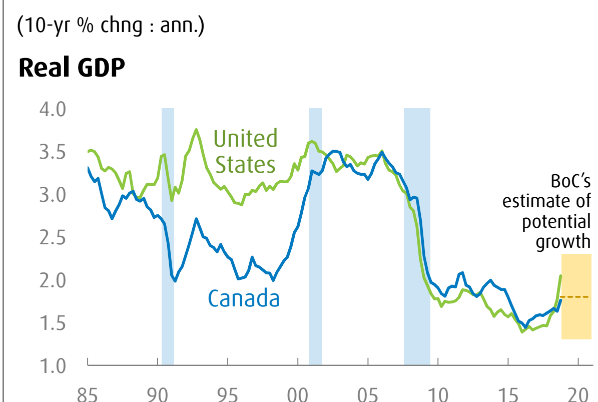
Sources: BMO Economics, Haver Analytics

Chart 5
Productivity: There's the Rub



Sources: BMO Economics, Haver Analytics

Chart 6
Long-term Growth—Staggeringly Similar



Full-height shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

Economic Forecast Summary for April 5, 2019

BMO Capital Markets Economic Research

	2018				2019				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019	2020
CANADA											
Real GDP (q/q % chng : a.r.)	1.3	2.6	2.0	0.4	0.7	2.3	2.2	1.5	1.8	1.5	1.7
Consumer Price Index (y/y % chng)	2.1	2.3	2.7	2.0	1.5	1.8	1.7	1.9	2.3	1.7	2.1
Unemployment Rate (percent)	5.8	5.9	5.9	5.7	5.8	5.7 ↓	5.7	5.7	5.8	5.7	5.6
Housing Starts (000s : a.r.)	224	218	197	217	202	211	206	200	214	205	200
Current Account Balance ($blns : a.r.)	-69.0	-63.4	-40.4	-61.9	-56.8	-57.0	-58.2	-60.0	-58.7	-58.0	-57.0
Interest Rates					(average for the quarter : %)						
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.44	1.75	1.75
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.65	1.65	1.65	1.37	1.65	1.65
10-year Bond	2.24	2.28	2.28	2.32	1.86	1.65 ↑	1.75 ↑	1.85 ↑	2.28	1.75	1.75
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	-44	-66	-61	-70	-79	-73 ↑	-73 ↑	-73 ↑	-60	-74 ↑	-72
10-year	-52	-64	-65	-72	-80	-79 ↑	-77 ↑	-76 ↑	-63	-78 ↑	-73
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.2	1.2	2.5	2.1	1.9	2.9	2.3	1.7
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	1.6	1.7	1.8	2.4	1.7	2.0
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.7	3.6 ↑	3.5	3.9	3.7 ↑	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.19	1.21	1.24	1.24	1.22	1.25	1.23	1.23
Current Account Balance ($blns : a.r.)	-496	-414	-506	-538	-506	-526	-538	-548	-488	-530	-575
Interest Rates					(average for the quarter : %)						
Fed Funds Target Rate	1.46	1.71	1.96	2.21	2.38	2.38	2.38	2.38	1.83	2.38	2.38
3-month Treasury Bill	1.58	1.87	2.08	2.36	2.44	2.40 ↓	2.40 ↓	2.40 ↓	1.97	2.40 ↓	2.40
10-year Note	2.76	2.92	2.93	3.03	2.65	2.45 ↑	2.50	2.60	2.91	2.55	2.50
EXCHANGE RATES					(average for the quarter)						
US¢/C$	79.1	77.5	76.5	75.7	75.2	74.9 ↑	75.2 ↑	75.4	77.2	75.2 ↑	76.3
C$/US$	1.27	1.29	1.31	1.32	1.33	1.33 ↓	1.33	1.33	1.30	1.33	1.31
¥/US$	108	109	112	113	110	111	111 ↑	110	110	110	109
US$/Euro	1.23	1.19	1.16	1.14	1.14	1.13	1.14	1.14 ↓	1.18	1.14	1.16
US$/£	1.39	1.36	1.30	1.29	1.30	1.31	1.31	1.30	1.34	1.31	1.32

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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Housing Starts
Monday, 8:15 am

Mar. (e)	**195,000 a.r. (+11.6%)**
Consensus	*193,000 a.r. (+11.5%)*
Feb.	173,153 a.r. (-16.3%)

Building Permits
Monday, 8:30 am

Feb. (e)	**+2.0%**
Jan.	-5.5%

Housing starts are expected to rise to 195k annualized in March, rebounding after sliding to 173k in the prior month. Recall that February was hit hard by bad weather, particularly in Central Canada, so activity should see a bounce back. Fundamentally, the strongest rate of population growth since the early-1990s and millennial household formation are supporting unit demand, even as some markets are seeing prices (especially at the higher end) back off after strong runs. The value of building permits is expected to rise 2% in February.

Ontario Budget
Thursday, 4:00 pm

The first full budget under the new Ontario government is without a doubt the most hotly-anticipated of the 2019 season. That's partly because **Ontario has one of the most challenging fiscal situations in Canada at the moment**, and because the current government represents a complete U-turn versus the prior government from a policy perspective—that is, promising spending restraint and tax relief. We've already seen a number of measures taken, including scrapping of the cap-and-trade program and some modest taxation tweaks, but it's most likely that the biggest election promises on the tax front will be reserved for years three and four of the mandate. The deficit was pegged at $13.5 billion in the latest Q3 fiscal update, improved from $14.5 billion set out at mid-year—we suspected all along that the initial bar was set quite low, and the Province has already begun to step over it. The big question is: when will the budget be balanced? This document will lay out the plan on that front.

United States

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Consumer Prices
Wednesday, 8:30 am

Mar. (e)	**+0.5%**	**+1.9% y/y**
Consensus	*+0.3%*	*+1.8% y/y*
Feb.	+0.2%	+1.5% y/y
8:30 am	**CPI Ex. Food & Energy**	
Mar. (e)	**+0.2%**	**+2.1% y/y**
Consensus	*+0.2%*	*+2.1% y/y*
Feb.	+0.1%	+2.1% y/y

Higher fuel costs could add three-tenths to the March **CPI,** propelling it 0.5% and lifting the yearly rate four big notches to 1.9%. Core prices should rise a more moderate 0.2%, holding the annual rate at the bottom end of its range of the past year (2.1%). Prescription drug prices likely gained adrenaline after a record drop the prior month, which slashed medical care goods the most since the early 60s. Some offset should emerge from higher food costs, as record flooding in several Midwest states led to bloated meat prices. The CPI report should confirm that **inflation pressures are both stable and tame**, one reason the Fed is unlikely to change course this year.

FOMC Minutes from March 19-20 meeting
Wednesday, 2:00 pm

The **Minutes** will be scoured for clues to answer a burning question: What will it take to get the Fed to either cut rates or hike them again, and how long should we plan on the Fed staying *"patient"*? January's policy pivot put it on a stand-pat path *"as it determines what future adjustments to the target range for the federal funds rate may be appropriate"*. The market has been betting that the next move is more likely to be a cut than a hike. However, the Summary of Economic Projections sported a median forecast for no rate moves in 2019 and one hike in 2020, based on the economic outlook unfolding along the lines of the median call (2019 & 2020: Real GDP growth (Q4/Q4) 2.1% & 1.9%, unemployment rate (Q4) 3.7% & 3.8%, and steady core PCE inflation at 2.0%). We know what the catalysts for a rate change, or lack thereof, will be: changes to current *"global economic and financial developments"* and *"muted inflation pressures"*. We judge the former dons the greater weight for the Fed (assuming inflation doesn't fall), but this shifts to the latter in the medium term.

		Apr 5 [1]	Mar 29	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	1.67	1.67	0	3	3
	United States	2.42	2.38	4	-2	7
	Japan	-0.15	-0.17	2	-3	0
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.82	0.85	-3	-3	-9
	Australia	1.73	1.77	-4	-13	-36
2-Year Bonds	Canada	1.58	1.55	4	-7	-28
	United States	2.36	2.26	9	-11	-13
10-Year Bonds	Canada	1.69	1.62	7	-8	-28
	United States	2.54	2.41	13	-9	-15
	Japan	-0.04	-0.09	6	0	-3
	Germany	0.00	-0.07	7	-7	-24
	United Kingdom	1.13	1.00	13	-6	-15
	Australia	1.91	1.78	13	-13	-41
Risk Indicators	VIX	13.0	13.7	-0.7 pts	-3.1 pts	-12.4 pts
	TED Spread	17	22	-5	1	-28
	Inv. Grade CDS Spread [2]	62	64	-2	-3	-26
	High Yield CDS Spread [2]	345	350	-5	-23	-105
					(percent change)	
Currencies	US¢/C$	74.74	74.91	-0.2	0.3	1.9
	C$/US$	1.338	1.335	—	—	—
	¥/US$	111.66	110.86	0.7	0.4	1.8
	US$/€	1.1230	1.1218	0.1	0.0	-2.1
	US$/£	1.303	1.304	0.0	0.1	2.2
	US¢/A$	71.04	70.96	0.1	0.8	0.8
Commodities	CRB Futures Index	186.95	183.75	1.7	3.5	10.1
	Oil (generic contract)	62.52	60.14	4.0	11.5	37.7
	Natural Gas (generic contract)	2.65	2.66	-0.3	-7.4	-9.8
	Gold (spot price)	1,291.81	1,292.30	0.0	-0.5	0.7
Equities	S&P/TSX Composite	16,377	16,102	1.7	2.4	14.3
	S&P 500	2,889	2,834	1.9	5.3	15.3
	Nasdaq	7,932	7,729	2.6	7.1	19.5
	Dow Jones Industrial	26,418	25,929	1.9	3.8	13.3
	Nikkei	21,808	21,206	2.8	3.7	9.0
	Frankfurt DAX	11,999	11,526	4.1	4.7	13.6
	London FT100	7,453	7,279	2.4	4.9	10.8
	France CAC40	5,477	5,351	2.4	4.7	15.8
	S&P ASX 200	6,181	6,181	0.0	-0.4	9.5

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

Global Calendar
April 8 – April 12

BMO Capital Markets®

Japan

Monday April 8

Current Account Surplus
Feb. '19 (e) ¥2.6 trln
Feb. '18 ¥2.1 trln

Consumer Confidence Index
Mar. (e) 41.5
Feb. 41.5

Wednesday April 10

Producer Price Index
Mar. (e) +0.2% +1.0% y/y
Feb. +0.2% +0.8% y/y

Core Machine Orders
Feb. (e) +2.9% -4.6% y/y
Jan. -5.4% -2.9% y/y

Bank Lending Ex-Trusts
Mar.
Feb. +2.4% y/y

Machine Tool Orders
Mar. P
Feb. -29.3% y/y

Euro Area

Monday April 8

GERMANY

Trade Surplus
Feb.
Jan. €18.5 bln

Tuesday April 9

EURO AREA

EU/China Summit in Brussels

ITALY

Retail Sales
Feb.
Jan. +0.5% +1.3% y/y

Wednesday April 10

EURO AREA

ECB Monetary Policy Meeting

EU Summit in Brussels

FRANCE

Industrial Production
Feb. (e) -0.5% -0.2% y/y
Jan. +1.3% +1.7% y/y

Manufacturing Production
Feb.
Jan. +1.0% +0.9% y/y

ITALY

Industrial Production
Feb. (e) -0.8% -0.9% y/y
Jan. +1.7% -0.8% y/y

Thursday April 11

GERMANY

Consumer Price Index
Mar. F (e) +0.5% +1.4% y/y
Feb. +0.5% +1.7% y/y

FRANCE

Consumer Price Index
Mar. F (e) +0.9% +1.3% y/y
Feb. +0.1% +1.6% y/y

Friday April 12

EURO AREA

Industrial Production
Feb. (e) -0.6% -1.0% y/y
Jan. +1.4% -1.1% y/y

U.K.

Wednesday April 10

Monthly Real GDP 3m/3m
Feb. (e) unch +0.2%
Jan. +0.5% +0.2%

Index of Services 3m/3m
Feb. (e) +0.4%
Jan. +0.5%

Industrial Production
Feb. (e) +0.1% -0.8% y/y
Jan. +0.6% -0.9% y/y

Manufacturing Production
Feb. (e) +0.2% -0.7% y/y
Jan. +0.8% -1.1% y/y

Trade Deficit Non-EU
Feb. (e) £12.9 bln £4.5 bln
Jan. £13.1 bln £5.0 bln

Thursday April 11

RICS House Price Balance
Mar. (e) -29%
Feb. -28%

Other

Monday April 8

CHINA

Foreign Reserves [D]
Mar. (e) $3.09 trln
Feb. $3.09 trln

Tuesday April 9

CHINA

Aggregate Yuan Financing [D]
Mar. (e) 1850 bln
Feb. 703 bln

New Yuan Loans [D]
Mar. (e) 1225 bln
Feb. 886 bln

M2 Money Supply [D]
Mar. (e) +8.2% y/y
Feb. +8.0% y/y

Wednesday April 10

AUSTRALIA

Westpac Consumer Confidence
Apr.
Mar. -4.8%

Thursday April 11

CHINA

	CPI	PPI
Mar. (e)	**+2.3% y/y**	**+0.4% y/y**
Feb.	+1.5% y/y	+0.1% y/y

Foreign Direct Investment [D]
Mar.
Feb. +6.6% y/y

Trade Surplus [D]

	in USD	in CNY
Mar. (e)	**$8.1 bln**	**0.0 bln**
Feb.	$4.1 bln	34.5 bln

G20 Finance Ministers and Central Bank Governors meet in Washington, D.C. (April 11-12)

[D] = date approximate

Upcoming Policy Meetings | BoE: May 2, June 20, Aug. 1 | ECB: June 6, July 25, Sep. 12

North American Calendar
April 8 – April 12

BMO Capital Markets®

Canada

Monday April 8

8:15 am — **Housing Starts**
- **Mar. (e)**: **195,000 a.r. (+11.6%)**
- *Consensus*: *193,000 a.r. (+11.5%)*
- Feb.: 173,153 a.r. (-16.3%)

8:30 am — **Building Permits**
- **Feb. (e)**: **+2.0%**
- Jan.: -5.5%

Tuesday April 9

Wednesday April 10

Noon — 2-year bond auction $3.0 bln

Thursday April 11

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

4:00 pm — **Ontario Budget**

10-year bond auction announcement

Friday April 12

8:30 am — **New Motor Vehicle Sales**[D]
- **Feb. (e)**: **-3.7% y/y**
- Jan.: -6.9% y/y

United States

Monday April 8

10:00 am — **Factory Orders**
- **Feb. (e)**: **-0.8%**
- *Consensus*: *-0.5%*
- Jan.: +0.1%

11:30 am — 13- & 26-week bill auction $78 bln

Tuesday April 9

6:00 am — **NFIB Small Business Economic Trends Survey**
- **Mar. (e)**: **103.0**
- *Consensus*: *101.2*
- Feb.: 101.7

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

Fed Speaker: Gov. Clarida (6:45 pm)

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

1:00 pm — 3-year note auction $38 bln

Wednesday April 10

7:00 am — **MBA Mortgage Apps**
- **Apr. 5**
- Mar. 29: +18.6%

8:30 am — **Consumer Prices**
- **Mar. (e)**: **+0.5%** | **+1.9% y/y**
- *Consensus*: *+0.3%* | *+1.8% y/y*
- Feb.: +0.2% | +1.5% y/y

8:30 am — **CPI Ex. Food & Energy**
- **Mar. (e)**: **+0.2%** | **+2.1% y/y**
- *Consensus*: *+0.2%* | *+2.1% y/y*
- Feb.: +0.1% | +2.1% y/y

2:00 pm — **Budget Deficit**
- **Mar. '19**
- Mar. '18: $208.7 bln

2:00 pm — **FOMC Minutes from March 19-20 meeting**

Fed Speakers: Gov. Quarles (11:50 am); Chair Powell speaks at closed-door session of House Democrats' annual policy retreat scheduled for Apr. 10-12

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

Thursday April 11

8:30 am — **Initial Claims**
- **Apr. 6 (e)**: **210k (+8k)**[C]
- Mar. 30: 202k (-10k)

8:30 am — **Continuing Claims**
- **Mar. 30**
- Mar. 23: 1,717k (-38k)

8:30 am — **PPI Final Demand**
- **Mar. (e)**: **+0.4%** | **+2.0% y/y**
- *Consensus*: *+0.3%* | *+1.9% y/y*
- Feb.: +0.1% | +1.9% y/y

8:30 am — **PPI Final Demand ex. F&E**
- **Mar. (e)**: **+0.2%** | **+2.4% y/y**
- *Consensus*: *+0.2%* | *+2.4% y/y*
- Feb.: +0.1% | +2.5% y/y

G20 Finance Ministers and Central Bank Governors meet in Washington, D.C. (April 11-12)

Fed Speakers: Gov. Clarida (9:30 am); St. Louis' Bullard (9:40 am); Gov. Bowman (4:00 pm)

11:00 am — 13- & 26-week bill, 5-year TIPS auction announcements

11:30 am — 4- & 8-week bill auction

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

Friday April 12

8:30 am — **Import Prices**
- **Mar. (e)**: **+0.3%** | **-0.8% y/y**
- *Consensus*: *+0.4%* | *-0.4% y/y*
- Feb.: +0.6% | -1.3% y/y

10:00 am — **University of Michigan Consumer Sentiment**
- **Apr. P (e)**: **98.4**
- *Consensus*: *98.0*
- Mar.: 98.4

[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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