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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

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Tame U.S. Inflation Keeps Fed Sidelined

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Next issue of Focus to be released on Thursday, April 18

Nowhere Fast

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The two key U.S. reports this week—CPI and Fed Minutes—confirmed one thing: **neither inflation nor the Fed are going anywhere fast**.

Annual core inflation dipped again in March to its lowest level (2.0%) in 13 months. This time, it was the largest-ever monthly decline in clothing prices that tripped up pundits; while, in February, it was the largest drop in drug costs. The latter retraced in March, and the former will likely do so in April, as it was partly driven by one retailer reporting prices on a new basis. Without the 1.9% m/m plunge in clothing, the core index would have been more in line with expectations (up 0.22% instead of 0.148%). Still, the annualized readings from 3 to 12 months remain firmly wedged between 2.0% and 2.2%.

Core inflation has undershot expectations for several years, despite the tightest job market in half a century. (The 196,000 new jobless claims filed last week were the fewest since October 1969—when the workforce was half the size of today.) Quarterly core inflation peaked around 2.8% in the last two business cycles. This time, it plateaued at just 2.3% and that was way back in 2012. The core PCE rate (the Fed's preferred guide) peaked at 2.5% in the last cycle, and has not averaged above 2% for a single quarter in seven years. It stood at 1.8% in January.

It's **impossible to identify the heaviest weight on inflation**. Automation, globalization, online competition, an uptick in productivity, low inflation expectations and even an aging population are all possible candidates. But, what's clear from the data is that their combined weight is not lessening.

And that has **big implications for the Fed**. We know from official remarks, including the Minutes of the March meeting, that policymakers are reluctant to raise rates this year. To do so would likely require two things. First, the economy would need to grow at least as fast as the FOMC expects; around 2% this year and near potential, thus keeping the jobless rate around 3.8%. Second, core PCE inflation would need to edge higher and, importantly, stay at least at the 2.0% target. Indeed, there might be a third requirement. Powell's remark that the Fed has not *"convincingly achieved the 2% mandate in a symmetrical way"* suggests he is considering a proposal to target average inflation over a cycle. If so, given the steady undershoot of recent years, the Fed would need to temporarily aim for inflation above 2% to more firmly anchor expectations to the long-run target instead of below it.

The corollary is that either an underperforming economy or undershooting inflation could trigger a policy reversal. While there was no explicit mention of a rate cut in the Minutes, *"several"* members said their views *"could shift in either direction based on incoming data and other developments."* So, the Fed will be patient, but only to a point. It will also be flexible and respond to a confluence of events that point in one direction or the other. We believe the policy path will be directionless this year and next. Sal

Canada's Levelling Economic Landscape

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Economic conditions across different regions of Canada are converging in a way that we haven't seen in a long time. Here is a sampling:

Overall economic growth for most provinces is settling in around expected longer-run norms. In fact, the variability of estimated 2018 growth among the provinces was the lowest in at least 25 years, and our current forecast expects an even tighter spread this year. No longer are we in a world where parts of the country are growing 5%, while others are meandering; or, where some provinces are in a deep recession, while others are accelerating.

Labour market performance has converged as well. Notably, every province has posted job growth in the past year. The spread in jobless rates has also narrowed, to 4.7% at the low end (B.C.) and 11.5% at the high end (Newfoundland & Labrador)—the latter is usually an outlier, and the rest of Atlantic Canada now averages a low 7.6%. As a result, the chunky wage differential between high-paying Alberta and the other provinces has compressed significantly since the oil shock.

Migration flows have levelled off with less variable labour market conditions across the country. While a heated Ontario job market drew in 18,000 people in 2018, flows in/out of Alberta have largely stabilized, while Atlantic Canada is no longer bleeding prime-age workers as it recently was.

Housing market performance has become more balanced, consistent with more even economic and job-market conditions. Provincial policy measures in the previously boiling B.C and Southern Ontario markets have also helped to narrow the gap, while BoC rate hikes and OSFI rule changes have dampened activity more broadly. In a nutshell, the weakest situation in Canada is a correction by design (Vancouver), while the strongest are bouts of well-contained 6% price growth (Ottawa and Montreal).

Government finances are largely set for the year, and we've seen a flattening of fiscal conditions across the country, too. Alberta and Saskatchewan (formerly AAA) have moved well down the ratings spectrum, alongside a run of deficits and higher debt. Meantime, the Maritime Provinces have seen credit quality improve (a third year of balanced budgets for all three). In fact, excluding Newfoundland & Labrador (given some unique challenges), the spread between the highest and lowest net debt-to-GDP ratios will be the smallest in 28 years in FY19/20.

For policymakers, one of the ongoing challenges is setting policy for the country as a whole, when each region behaves so differently. It's often the case of having one foot in boiling water and one in ice—the average is just right, but neither foot is particularly comfortable. A recent example is the Bank of Canada cutting rates twice in 2015. Alberta was in recession at that time and needed stimulus, but those moves were major sparks for excessive conditions in B.C. and Ontario housing markets (which arguably could have used *higher* rates). For now, at least, conditions look quite balanced. Rob K.

On to the Next One

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Global financial markets are welcoming this extra time granted to the U.K. to figure out what to do with Brexit. But for U.K. citizens and any businesses with U.K. dealings, there is no vacation, no time off. And, for lawmakers, the next few weeks are critical and no one wants to waste time (intentionally). Yes, the 'final' date (insert air quotes) of October 31 has been set, but there are other important dates before that. The goal is to end this extension as early as possible, ideally before the European elections. If the Withdrawal Agreement, which the EU will not renegotiate, is ratified before May 22, then Britain can avoid the dreaded European elections and leave on June 1. If it is not ratified by May 22 and the U.K. refuses to participate in the elections, then it will be shown the door on June 1. (Note that whenever a deal is made, then Brexit will happen on the first day of the next month.) European officials will *"take stock"* of progress made (or lack thereof) during the regular June 20-21 EU Summit. Before all of this, U.K. local elections will be held on May 2 and the results should reveal how much of an appetite remains for leaving, or staying. With this extra six months, PM May will work to win Labour's support, which means agreeing to a customs union, although that is not really a 'true' Brexit. The die-hard Remainers will demand another referendum. General elections may also be held, though that would arguably be a waste of time. Remember: the EU is not renegotiating. Britain may have been given some breathing room, but it could asphyxiate a full Brexit, bringing Eurosceptics' worst nightmare to life.

So to quote Ministry, "*(Every day is) Halloween*".

Meantime, markets can turn their attention elsewhere; so can the EU, particularly as **Italy** hasn't been sitting by idly. With an eye on next month's European elections, **Matteo Salvini** announced the formation of the *European Alliance of Peoples and Nations*, a party made up of populists from all European countries, with the goal of becoming *"the force of government and change in Europe."* He probably wouldn't be averse to leading the party, either. But, he should also focus on his country's economic slump, as the government slashed its 2019 GDP growth forecast to 0.2%, from the prior estimate of 1.0% made in December, and from the *"non-negotiable"* 1.5% target made in November. And, that will lift the budget deficit to 2.4% of GDP, well above the 2.04% that it previously promised. This will not sit well with Brussels. Cue the drama.

Markets can also focus more on **global trade developments**. After over a year of talks, a **U.S./China** trade agreement looks to be within reach. There are little issues that must be worked out, such as what to do with the tariffs currently on the $250 billion worth of Chinese products. Getting this big agreement out of the way will allow U.S. officials to focus on other trading partners. Take the **EU**, for example. Calling the EU a *"brutal trading partner"*, President Trump warned that tariffs could be imposed on $11 bln worth of European goods, such as aircraft, wine and cheese, if they don't stop subsidizing Airbus. The White House is also looking South, where trade between the U.S. and Mexico has been slammed by lengthy waits at **Mexico's** border as border agents were instructed to deal with migrants instead of cargo. The Administration is also looking North of the 49th parallel, as Chrystia Freeland said **Canada** is in no rush to ratify the USMCA and is mulling ways to *"refresh the retaliation list"* of tariffs on U.S. imports, to have an *"even greater impact"*.

JLee

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Region	Good News	Bad News
Canada ▪ Ottawa explores *"next steps"* after WTO sides partially with U.S. in Canadian lumber dispute	**Housing Starts** +15.8% to 192,527 a.r. (Mar.)	**Building Permits** -5.7% (Feb.) **New House Price Index** unch (Feb.) **New Motor Vehicle Sales** -3.3% y/y (Feb.) **Province of Ontario** projects a $10.3 bln deficit (FY19/20)
United States ▪ President Trump plans $11 bln tariffs on EU imports ▪ FOMC Minutes reaffirm *"patient"* policy approach	**Consumer Prices** +0.4%, +1.9% y/y (Mar.) **Producer Prices** +0.6%; **Import Prices** +0.6% (Mar.) **NFIB Small Business Optimism** +0.1 pts to 101.8 (Mar.) **Budget Deficit** narrowed to $146.9 bln (Mar.) **Initial Claims** -8k to 196k (Apr. 6 week)	**Factory Orders** -0.5% (Feb.) **Job Openings** dropped to 7,087k (Feb.) —but still high **U of M Consumer Sentiment** -1.5 pts to 96.9 (Apr. P)
Japan ▪ BoJ Gov. Kuroda sees *"sufficiently high"* global growth next year	**Current Account Surplus** widened to ¥2.7 trln (Feb.) **Bank Lending Ex-Trusts** +2.5% y/y (Mar.) **Producer Prices** +0.3% (Mar.)	**Core Machine Orders** +1.8% (Feb.) —but below expected **Machine Tool Orders** -28.5% y/y (Mar. P) **Consumer Confidence** -1.0 pt to 40.5 (Mar.)
Europe ▪ Dovish ECB on hold with TLTRO-III details coming in *"forthcoming meetings"* ▪ Brexit delayed up to 6½ months	**Germany—Trade Surplus** steady at €18.7 bln (Feb.) **France—Industrial Production** +0.4% (Feb.) **Italy—Industrial Production** +0.8% (Feb.) **Italy—Retail Sales** +0.1% (Feb.) **U.K.—Monthly Real GDP** +0.3% (3 mths to Feb.) —and **Services GDP** +0.4% **U.K.—Industrial Production** +0.6% (Feb.) **U.K.—Trade Deficit** narrowed to £14.1 bln (Feb.) **U.K.—RICS House Price Balance** -24% (Mar.) —above expected	**Euro Area—Industrial Production** -0.2% (Feb.) —but above expected
Other ▪ IMF downgrades global growth to 3.3% in 2019 (prev. 3.5%)	**China—Exports** +14.2% y/y (Mar.) **China—Aggregate Yuan Financing** 2.86 trln (Mar.)—and **New Yuan Loans** 1.69 trln **M2 Money Supply** +8.6% y/y (Mar.) **China—Foreign Reserves** $3.10 trln (Mar.) **China—Consumer Prices** 2.3% y/y; **Producer Prices** +0.4% y/y (Mar.) **Australia—Westpac Consumer Confidence** +1.9% (Apr.)	**China—Imports** -7.6% y/y (Mar.)

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

USMCA: More Name than Game Changer

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After the USMCA was signed in late September, we concluded that the deal implied some upside for Canada's economy by removing a big cloud over businesses.[1] In this note, we turn our sights on the U.S. economy—**assuming, of course, the deal is ratified by all three legislatures**. House Democrats want to change labour, environment and drug provisions, while Canada and Mexico are miffed about ongoing metal tariffs. As a result, the deal is unlikely to be passed this year and may not be until after the 2020 presidential election.[2]

To provide a basis for Congress' ratification vote, the International Trade Commission has been working on a study titled *"Likely Impact on the U.S. Economy and on Specific Industry Sectors"*. The report was scheduled for release in mid-March, but has been delayed, likely due to the immense challenge of adding up the costs and benefits.

Our sense is that the deal will have a **modest positive impact on the U.S. economy**, largely by re-incentivizing some vehicle production and raising agricultural sales, mostly dairy products to Canada. As the new trade agreement is largely a modernized version of the old NAFTA, the full impact should be limited, and the U.S. trade deficit will likely stay large. However, it will remove one avenue of trade-policy uncertainty for businesses.

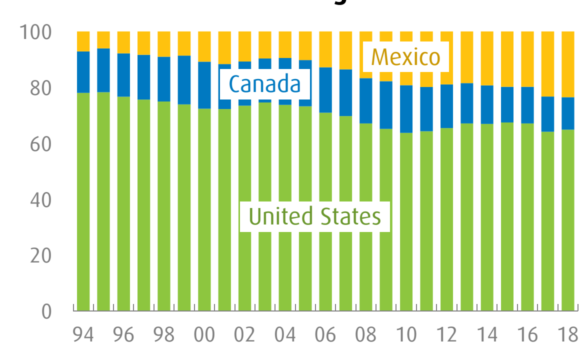
The USMCA's **provisions for the auto industry** are no doubt aimed at Mexico, whose share of the North American market has grown steadily (*Chart 1*). However, the **effectiveness of the provisions** in raising or even preserving American (and Canadian) production is **questionable**. A side letter outlining production thresholds on Mexican passenger vehicle output (to avoid tariffs under Section 232) is a moot point, as the majority of American automakers have cancelled most of their domestic passenger vehicle line-ups in the interim, while some have shuttered plants. Trucks are excluded from the provision, which is arguably a more important segment insofar as future production allocations are concerned. It should also be noted that the threshold placed on Canadian supply is well above current capacity, **so it is highly unlikely to be binding**. Under the deal, content regulations have been tightened, as have standards and supervision. Domestic content thresholds will rise from 65% under the net cost method to 75% by 2023, which should provide some modest support to U.S. parts producers. Steel and aluminum thresholds have also been set at 70% USMCA content; raising costs but ostensibly supporting local producers.

However, the most targeted auto industry measure is the **labour-value content provision**, which will scale from a minimum of 15% of high-wage material and manufacturing expenditures (set at US$16) in 2020 to 25% by 2023. While this could be an issue, note

Chart 1
Mexico Motoring

North America (% of total)

Motor Vehicle Manufacturing Share



Sources: BMO Economics, Wards Intelligence

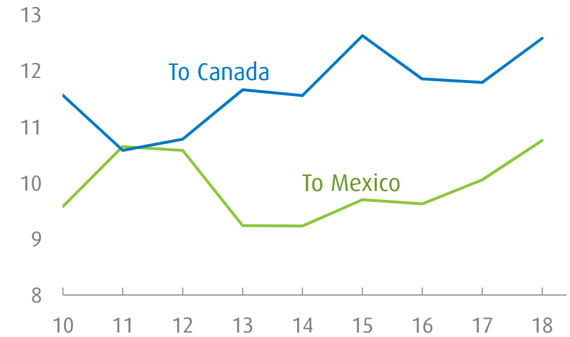
[1] BMO Economics Special Report: *NAFTA 2.0: How Do You Spell Relief? U-S-M-C-A*. October 4, 2018. https://economics.bmocapitalmarkets.com/economics/reports/20181005/sr20181005-usmca.pdf

[2] President Trump has threatened to tear up the old NAFTA if the new deal isn't ratified, so the status quo may not be an option, either.

that Mexican goods (which are exempt from Section 232 tariffs under the side-letter agreement) could still be imported at a very low WTO tariff if they do not meet the threshold. Recent investment activity indicates that Mexico remains an attractive place for truck manufacturing even with the prospect of tightened standards.

The USMCA should be **positive for U.S. agriculture**. Most importantly, it removes the risk of farmers losing preferential access to Canada and Mexico, which together account for nearly one-quarter of U.S. agriculture exports (*Chart 2*). Over time, the deal also opens up 3.6% of the Canadian dairy market and about 1%-to-1.5% of the poultry and egg markets to tariff-free U.S. exports. Canada has further agreed to align its pricing for non-fat milk solids with U.S. benchmarks and curtail exports of such products, which will create opportunities for U.S. dairy producers. In the grain space, Canada has agreed to modify its grading rules in a way that will put U.S. wheat on an equal footing with Canadian product.

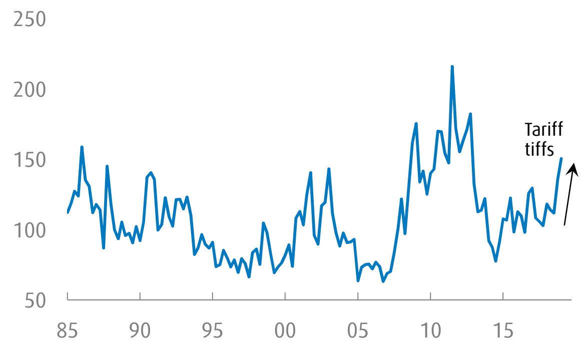
Chart 2
Hey, Big Spenders
United States (% of total agricultural exports)
Agricultural Exports



Sources: BMO Economics, Office of Trade and Economic Analysis

U.S. retailers, especially online sellers, could benefit somewhat from higher duty-free limits on Canadian and Mexican purchases of American goods. Retailers would see both higher sales and lower administrative costs for customs clearance. The deal raised the threshold value of Canadian imported goods purchased online or via mail order that qualify for duty-free access from C$20 to C$150, with goods valued at less than C$40 also exempt from sales taxes.[3] However, given the low-valued Canadian dollar (below so-called purchasing power parity), it's unlikely that Canadians will be in any hurry to crank up purchases.

Chart 3
Tariff-ic Uncertainty
United States (1985-2009 = 101)
Economic Policy Uncertainty Index



Sources: BMO Economics, Haver Analytics

No doubt, the **best thing about the deal is that—if and when it's ratified—some uncertainty over trade policies will ease** (*Chart 3*). Surveys of U.S. business leaders suggest the broad trade war has delayed investments and led to supply delays and disruptions. However, it's not possible to isolate the impact of uncertainty arising from NAFTA last year (and delayed ratification since then) and other trade battles, in particular tariffs imposed on China and threatened actions against the European Union. Moreover, the impact of uncertainty has been allayed by the strong push from tax reform and deregulation. In fact, real private non-residential investment rose 7.2% in 2018 (Q4/Q4), faster than in the prior three years. With the lift from tax reform fading, USMCA ratification would bolster confidence and help temper an expected slowing in investment this year.

Bottom Line: The USMCA would provide a modest lift to the U.S. economy via firmer exports of dairy products and grains, improved business confidence, and support for the domestic auto industry as it adjusts production amid late-cycle conditions. While it's not a game changer by any means, ratification would clearly mark a step in the right direction given the many other risks on the trade-policy front.

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[3] Mexico agreed to a US$117 tariff-free threshold (up from $50) and a $50 tax-free threshold.

Economic Forecast Summary for April 12, 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	187	213 ↑	210 ↑	208 ↑	214	205	200
Current Account Balance ($blns : a.r.)	-69.0	-63.4	-40.4	-61.9	-56.8	-57.0	-58.2	-60.0	-58.7	-58.0	-57.0
Interest Rates					(average for the quarter : %)						
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.44	1.75	1.75
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.65	1.65	1.65	1.37	1.65	1.65
10-year Bond	2.24	2.28	2.28	2.32	1.86	1.70 ↑	1.80 ↑	1.85	2.28	1.80 ↑	1.75
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	-44	-66	-61	-70	-79	-77 ↓	-77 ↓	-77 ↓	-60	-77 ↓	-73 ↓
10-year	-52	-64	-65	-72	-80	-80 ↓	-78 ↓	-77 ↓	-63	-79 ↓	-74 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.2	1.2	2.5	2.1	1.9	2.9	2.3	1.7
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	2.1 ↑	2.1 ↑	2.3 ↑	2.4	2.0 ↑	2.2 ↑
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.7	3.6	3.5	3.9	3.7	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.19	1.21	1.24	1.24	1.22	1.25	1.23	1.23
Current Account Balance ($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	2.45 ↑	2.45 ↑	2.45 ↑	1.97	2.45 ↑	2.40
10-year Note	2.76	2.92	2.93	3.03	2.65	2.50 ↑	2.55 ↑	2.60	2.91	2.60 ↑	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	1.31 ↑	1.34	1.31	1.33 ↑

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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Existing Home Sales, MLS Home Price Index

Monday, 9:00 am (expected)

	Existing Home Sales	Average Prices
Mar. (e)	**-3.5% y/y**	**-1.0% y/y**
Feb.	-4.4% y/y	-5.2% y/y
	MLS Home Price Index	
Mar. (e)	**-0.6% y/y**	
Feb.	-0.1% y/y	

The housing market likely had a mild rebound in March following the prior month's severe slump. Better weather definitely helped, as February was brutal, but the extent of the rebound is a bit disappointing and suggests the market continues to struggle. We look for **home sales** to be down 3.5% y/y, which translates to about a 2% m/m increase in seasonally-adjusted terms. The current market is very localized, with different dynamics in different locations. Vancouver, and B.C. generally, is quite weak as high prices and policy measures to cool the market continue to weigh heavily. The softness isn't expected to ease anytime soon and we wouldn't be shocked to see the market remain weak through at least the rest of this year. Commodity-producing regions have been soft since oil prices first collapsed in 2014, and that's persisted for the most part. Calgary showed a bit of life in March, but it's premature to say the slump is over, while Edmonton remains quite weak. Toronto sales were about flat from a year ago, but that's a bit disappointing after February's slump. Montreal remained a strong spot, while Ottawa cooled after a solid run. One supportive factor for the broader market is the strong population growth driven by immigration; absent that, and we'd be more downbeat on housing and the economy in general. Average prices look to fall 1% y/y (an improvement from recent months), while the quality-adjusted HPI is expected to decelerate further to -0.6% y/y, the weakest in just under a decade.

BoC Business Outlook Survey and Senior Loan Officer Survey (Q1)

Monday, 10:30 am

The Bank of Canada's spring **Business Outlook Survey (BOS)**, likely compiled in mid-February to mid-March, is expected to show an economy in decent shape, though hardly anything to get excited about. While financial markets have perked up since the rough turn of the year, the domestic economic backdrop remains challenging amid high household debt, trade uncertainty and pending political uncertainty. The BOS indicator (a summary measure for the survey) pulled back in the back half of last year and a further dip is expected, though the level looks to remain consistent with decent growth.

Employment has been a strong spot for Canada, with gains over the past few quarters running at the fastest pace in over a decade, facilitated by strong population growth. That's consistent with employment expectations running above average for over two years in the BOS. Some slippage wouldn't be a surprise, but look for another above-average print to continue the streak. Similarly, investment expectations have held above the long-term mean for 10 straight quarters, but that's despite actual investment falling in the final three quarters of 2018. Here too, some decline in sentiment is expected, but it will likely still remain above average, especially with the bounce in oil prices. And, credit conditions in the BOS and **Senior Loan Officer Survey** should stay pretty loose amid easing financial conditions.

Capacity pressures are a key barometer for the BoC to assess where the economy is operating relative to potential. Given the weak Q4 GDP print and expected softness in Q1, some decrease in capacity pressures seems likely. With respect to the labour market, shortages look to be little changed amid big gains in employment, with immigration feeding the labour force.

The inflation questions (input and output) could show increasing pressures amid rebounding oil prices. The impact will likely be greater in input prices. And, inflation expectations aren't expected to move much, holding around 2%. Overall, the tone of the survey is expected to be cautious but with a positive undertone, consistent with expectations of a growth rebound in Q2.

Merchandise Trade Deficit

Wednesday, 8:30 am

Feb. (e)	**$2.5 bln**
Jan.	$4.2 bln

The **trade deficit** ballooned to end 2018 as Canadian oil prices collapsed. While prices climbed a bit in January, they were meaningfully stronger in February and should drive significant improvement in the headline. There were chunky aerospace imports to start the year as well, and some pullback there should trim the trade shortfall. All told, we're looking for the trade deficit to narrow to $2.5 bln. Despite the anticipated improvement, the gap remains relatively wide, reflecting global trade uncertainty and a relatively weak Canadian competitive backdrop.

Consumer Price Index

Wednesday, 8:30 am

Mar. (e)	**+0.8% (+0.3% sa)**	**+2.0% y/y**
Feb.	+0.7%	+1.5% y/y

Core CPI Measures (y/y)

	Trimmed Mean	**Weighted Median**	**Common Comp.**
Mar.			
Feb.	+1.9%	+1.8%	+1.8%

Canadian **inflation** is expected to be up sharply for a second straight month in March. Our call for a 0.8% increase would mark the strongest monthly increase in just over two years. Gasoline is the key culprit, with prices surging 12% in the month, reversing most of the decline seen since October. March is a seasonally strong month as well (second only to February), which will limit the seasonally adjusted increase to 0.3%. Beyond energy, airfares, travel services, mortgage costs, and alcohol & tobacco are expected to be sources of upward pressure. Last March was the first month with the updated airfare methodology, but it was only up 2.9%, and there could be more upside there (just ask any March-break traveller). In addition, since the rent methodology change at the start of this year, we've seen two solid prints. This is another source of potential upside. All told, we believe there's even further upside risk to our already strong headline forecast. Our call would push annual inflation up to 2% for the first time since October.

The Bank of Canada's core CPI measures have dipped below 2% over the past few months, but that's expected to reverse in March, with at least two of three measures expected to climb a tick, including an outside chance of a two-tick move. That would push an average of the core measures closer to 2%, though with Q4 GDP barely growing and Q1 likely soft, don't be shocked if we get some softness in underlying inflation through the middle of this year.

Retail Sales

Thursday, 8:30 am

		Ex. Autos
Feb. (e)	**unch**	**-0.3%**
Consensus	*+0.5%*	*+0.3%*
Jan.	-0.3%	+0.1%

Retail sales likely struggled again in February after falling in five of the prior six months. We're calling for flat sales overall, as the weather was pretty brutal in the month potentially keeping some shoppers cooped up at home. An expected increase in auto sales looks to keep the headline from falling into negative territory, but sales ex. autos are projected to fall 0.3%. Gasoline prices were slightly higher as well, providing a bit of upside. Lastly, goods prices were up 0.7% in February, suggesting we'll get another drop in volumes which would be the seventh in nine months. Part of the expected weakness is weather; but, certainly not all, as high debt service costs are weighing heavily on spending.

United States

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Industrial Production
Tuesday, 9:15 am

	Industrial Production	Capacity Utilization
Mar. (e)	**+0.3%**	**79.2%**
Consensus	*+0.2%*	*79.2%*
Feb.	unch	79.1%

After stalling the past two months, **industrial production** should climb 0.3% in March. While factory payrolls fell for the first time in almost two years, a firmer ISM survey suggests the sector rebounded from successive declines. Higher equipment output should lead the gain. However, longer delays of supplies at the Mexican border risk crimping production. Both mining and utilities should advance, as crude oil output averaged above 12 million barrels per day for the first time ever, while heating demand was lifted by cooler-than-normal temperatures. The capacity utilization rate should return to a cycle-high of 79.2%, though that's still shy of levels (above 80%) that presaged earlier periods of price pressure.

Beige Book
Wednesday, 2:00 pm

Prepared for the April 30-May 1 FOMC meeting, the **Beige Book** should sound a bit more upbeat than the last one, in which 10 Districts showed *"slight-to-moderate"* growth while two were *"flat"*. The previous report reflected information collected from January 8 to February 25, which marked the high point of the three economic headwinds responsible for the dismal turn-of-the-year data. First, there was the negative-confidence/wealth legacy of the worst December stock market since the Great Depression, which capped a near-20% price plummet. Second, there was the dampening impact of the wettest winter on record, which also sported an activity-freezing polar vortex. Third, there was the 35-day government shutdown. These headwinds have now either ended or ebbed. Unfortunately, winter's record precipitation triggered record spring flooding in the Midwest. The last Beige Book also mentioned *"moderately"* growing wages and *"modest-to-moderate"* price hikes. We're on the watch for any adjective adjustments.

Retail Sales
Thursday, 8:30 am

		Ex. Autos
Mar. (e)	**+0.8%**	**+0.5%**
Consensus	*+0.9%*	*+0.7%*
Feb.	-0.2%	-0.4%

	Ex. Autos/Gas
Mar. (e)	**+0.4%**
Consensus	*+0.5%*
Feb.	-0.6%

Accelerating autos and costlier fuel should pump **retail sales** 0.8% in March. However, steadier chain-store receipts suggest sales ex-autos and gas rose a moderate 0.4%. Consumer spending was whipsawed at the turn of the year by snowstorms, equity market gyrations, the federal shutdown and lower tax refunds. However, despite diminished support from tax cuts, the spring period should mark a renewal amid supportive fundamentals, including sturdy employment, rising income, low debt service costs and elevated confidence. Growth in real consumer spending likely downshifted to about 1% annualized in Q1 from an average 3.3% the prior three quarters, but we still see a decent rebound above 2% in Q2.

Housing Starts
Friday, 8:30 am

Mar. (e)	**1.250 mln a.r. (+7.6%)**
Consensus	*1.230 mln a.r. (+5.9%)*
Feb.	1.162 mln a.r. (-8.7%)

	Building Permits
Mar. (e)	**1.309 mln a.r. (+1.4%)**
Consensus	*1.300 mln a.r. (+0.7%)*
Feb.	1.291 mln a.r. (-2.0%)

The second month of this year saw the most precipitation on record, for a February, apart from 1998. Think snow in the colder parts of the country and rain in the warmer areas. And, the month also began with a polar vortex. Such weather conditions are not constructive for **home construction**, and starts dropped 8.7% in the month. We look for almost a complete recovery in March (+7.6%), with Midwest flooding preventing a fuller rebound. Building permits hovered more than 11% above housing starts in February, emphasizing the backlog of projects. Meanwhile, homebuilders are seeing some improvement in sales activity—Q1 recovered half of Q4's slide in the Housing Market Index—assisted by a more than 80-bps drop in 30-year mortgage rates since mid-November.

		Apr 12 [1]	Apr 5	Week Ago	4 Weeks Ago	Dec. 31, 2018
					(basis point change)	
Canadian Money Market	Call Money	1.75	1.75	0	0	0
	Prime Rate	3.95	3.95	0	0	0
U.S. Money Market	Fed Funds (effective)	2.50	2.50	0	0	0
	Prime Rate	5.50	5.50	0	0	0
3-Month Rates	Canada	1.68	1.67	1	4	4
	United States	2.42	2.42	0	-2	6
	Japan	-0.20	-0.15	-5	-5	-5
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.83	0.82	1	-2	-8
	Australia	1.70	1.73	-4	-15	-40
2-Year Bonds	Canada	1.63	1.59	4	1	-23
	United States	2.39	2.34	5	-5	-10
10-Year Bonds	Canada	1.77	1.70	7	6	-19
	United States	2.54	2.50	5	-5	-14
	Japan	-0.06	-0.04	-2	-2	-5
	Germany	0.04	0.00	4	-4	-20
	United Kingdom	1.20	1.12	8	-1	-8
	Australia	1.88	1.91	-2	-10	-44
Risk Indicators	VIX	12.3	12.8	-0.5 pts	-0.6 pts	-13.1 pts
	TED Spread	18	17	1	-1	-27
	Inv. Grade CDS Spread [2]	59	60	-1	1	-29
	High Yield CDS Spread [2]	335	339	-5	-6	-116
					(percent change)	
Currencies	US¢/C$	75.02	74.72	0.4	0.1	2.3
	C$/US$	1.333	1.338	—	—	—
	¥/US$	111.88	111.73	0.1	0.4	2.0
	US$/€	1.1317	1.1216	0.9	-0.1	-1.3
	US$/£	1.312	1.304	0.6	-1.3	2.8
	US¢/A$	71.87	71.05	1.2	1.4	2.0
Commodities	CRB Futures Index	188.12	187.68	0.2	2.3	10.8
	Oil (generic contract)	64.12	63.08	1.6	9.6	41.2
	Natural Gas (generic contract)	2.68	2.66	0.4	-4.3	-9.0
	Gold (spot price)	1,294.13	1,291.75	0.2	-0.6	0.9
Equities	S&P/TSX Composite	16,484	16,396	0.5	2.1	15.1
	S&P 500	2,908	2,893	0.5	3.0	16.0
	Nasdaq	7,983	7,939	0.6	3.8	20.3
	Dow Jones Industrial	26,388	26,425	-0.1	2.1	13.1
	Nikkei	21,871	21,808	0.3	2.0	9.3
	Frankfurt DAX	12,003	12,010	-0.1	2.7	13.7
	London FT100	7,425	7,447	-0.3	2.7	10.4
	France CAC40	5,506	5,476	0.5	1.9	16.4
	S&P ASX 200	6,251	6,181	1.1	1.2	10.7

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

Global Calendar
April 15 – April 19

BMO Capital Markets®

Japan

Tuesday April 16

Tertiary Industry Index

Feb. (e)	**-0.2%**	
Jan.	+0.4%	

Department Store Sales D

Mar.		
Feb.	+0.4% y/y	

Wednesday April 17

Trade Surplus

Mar. '19 (e)	**¥367.7 bln**
Mar. '18	¥784.2 bln

Industrial Production

Feb. F (e)	**+1.4%**	**-1.0% y/y**
Jan.	-3.4%	+0.3% y/y

Friday April 19

	CPI	Core CPI
Mar. (e)	**+0.5% y/y**	**+0.7% y/y**
Feb.	+0.2% y/y	+0.7% y/y

CPI ex. Food & Energy

Mar. (e)	**+0.4% y/y**
Feb.	+0.4% y/y

Euro Area

Tuesday April 16

GERMANY

ZEW Survey—Expectations

Apr. (e)	**0.8**
Mar.	-3.6

Wednesday April 17

EURO AREA

Trade Surplus

Feb.	
Jan.	€17.0 bln

Consumer Price Index

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

Core CPI

Mar. F (e)	**+0.8% y/y**
Feb.	+1.0% y/y

ITALY

Consumer Price Index

Mar. F (e)	**+2.3%**	**+1.1% y/y**
Feb.	-0.3%	+1.1% y/y

Thursday April 18

EURO AREA

Manufacturing PMI

Apr. P (e)	**48.0**
Mar.	47.5

Services PMI

Apr. P (e)	**53.1**
Mar.	53.3

Composite PMI

Apr. P (e)	**51.8**
Mar.	51.6

GERMANY

Producer Price Index

Mar. (e)	**+0.2%**	**+2.7% y/y**
Feb.	-0.1%	+2.6% y/y

ITALY

Industrial Orders

Feb.		
Jan.	+1.8%	-1.2% y/y

Friday April 19

EURO AREA

Markets Closed

ITALY

Consumer Confidence Index D

Apr. (e)	**111.3**
Mar.	111.2

U.K.

Monday April 15

Rightmove House Prices

Apr.		
Mar.	+0.4%	-0.8% y/y

Tuesday April 16

Employment (3m/3m)

Feb. (e)	**+181,000**
Jan.	+222,000

Avg. Wkly Earnings Ex. Bonus (3 mma)

Feb. (e)	**+3.5% y/y**
Jan.	+3.4% y/y

Jobless Rate (3 mma)

Feb. (e)	**3.9%**
Jan.	3.9%

	Jobless Claims	Claimant Count Rate
Mar.		
Feb.	+27,000	2.9%

Wednesday April 17

Consumer Price Index

Mar. (e)	**+0.2%**	**+2.0% y/y**
Feb.	+0.5%	+1.9% y/y

Core CPI

Mar. (e)	**+1.9% y/y**
Feb.	+1.8% y/y

Producer Price Index (Output)

Mar. (e)	**+0.2%**	**+2.1% y/y**
Feb.	+0.1%	+2.2% y/y

Thursday April 18

Retail Sales (incl. Fuel)

Mar. (e)	**-0.3%**	**+4.5% y/y**
Feb.	+0.4%	+4.0% y/y

Friday April 19

Markets Closed

Other

Monday April 15

CHINA

Foreign Direct Investment D

Mar.	
Feb.	+6.6% y/y

Tuesday April 16

AUSTRALIA

RBA Minutes from Apr. 2 meeting

Wednesday April 17

CHINA

Real GDP

Q1 (e)	**+1.4%**	**+6.3% y/y**
Q4	+1.5%	+6.4% y/y

Industrial Production (YTD)

Mar. (e)	**+5.6% y/y**
Feb.	+5.3% y/y

Retail Sales (YTD)

Mar. (e)	**+8.3% y/y**
Feb.	+8.2% y/y

Fixed Asset Investment (YTD)

Mar. (e)	**+6.3% y/y**
Feb.	+6.1% y/y

Thursday April 18

AUSTRALIA

Employment

Mar. (e)	**+15,000**
Feb.	+4,600

Jobless Rate

Mar. (e)	**5.0%**
Feb.	4.9%

Friday April 19

AUSTRALIA

Markets Closed

D = date approximate

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

North American Calendar
April 15 – April 19

BMO Capital Markets®

Canada

Monday April 15

9:00 am	Existing Home Sales[D]	Average Prices	
Mar. (e)	**-3.5% y/y**	**-1.0% y/y**	
Feb.	-4.4% y/y	-5.2% y/y	
9:00 am	MLS Home Price Index[D]		
Mar. (e)	**-0.6% y/y**		
Feb.	-0.1% y/y		

10:30 am BoC Business Outlook Survey and Senior Loan Officer Survey (Q1)

Tuesday April 16

8:30 am	Mfg. Sales	Mfg. New Orders
Feb. (e)	**-0.5%**	**+2.0%**
Jan.	+1.0%	-11.9%
8:30 am	Int'l Securities Transactions Inflows	Outflows
Feb.		
Jan.	$28.4 bln	-$8.8 bln

Alberta Election

Newfoundland & Labrador Budget

10:30 am 3-, 6- & 12-month bill auction $10.0 bln (new cash $1.1 bln)

Wednesday April 17

8:30 am	Merchandise Trade Deficit	
Feb. (e)	**$2.5 bln**	
Jan.	$4.2 bln	
8:30 am	Consumer Price Index	
Mar. (e)	**+0.8% (+0.3% sa)**	**+2.0% y/y**
Feb.	+0.7%	+1.5% y/y
8:30 am	Trimmed Mean Core CPI	
Mar.		
Feb.	+1.9% y/y	
8:30 am	Weighted Median Core CPI	
Mar.		
Feb.	+1.8% y/y	
8:30 am	Common Component Core CPI	
Mar.		
Feb.	+1.8% y/y	

Noon 10-year bond auction $3.3 bln

Thursday April 18

8:30 am	Retail Sales	Ex. Autos
Feb. (e)	**unch**	**-0.3%**
Consensus	*+0.5%*	*+0.3%*
Jan.	-0.3%	+0.1%
8:30 am	ADP Employment Report	
Mar.		
Feb.	+36,236	

30-year bond auction announcement

Friday April 19

Good Friday (markets closed)

United States

Monday April 15

8:30 am	Empire State Manufacturing Survey	
Apr. (e)	**9.0**	
Consensus	*8.0*	
Mar.	3.7	
4:00 pm	Net TIC Flows Total	Long Term
Feb.		
Jan.	-$143.7 bln	-$7.2 bln

Fed Speakers: Chicago's Evans (1:00 pm); Boston's Rosengren (8:00 pm)

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

Tuesday April 16

9:15 am	Industrial Production	Capacity Utilization
Mar. (e)	**+0.3%**	**79.2%**
Consensus	*+0.2%*	*79.2%*
Feb.	unch	79.1%
10:00 am	NAHB Housing Market Index	
Apr. (e)	**63**	
Consensus	*64*	
Mar.	62	

Fed Speaker: Dallas' Kaplan (2:00 pm)

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

Wednesday April 17

7:00 am	MBA Mortgage Apps
Apr. 12	
Apr. 5	-5.6%
8:30 am	Goods & Services Trade Deficit
Feb. (e)	**$54.0 bln**
Consensus	*$53.5 bln*
Jan.	$51.1 bln
10:00 am	Wholesale Inventories
Feb. (e)	**+0.2%**
Consensus	*+0.4%*
Jan.	+1.4%

2:00 pm Beige Book

Fed Speakers: Philadelphia's Harker (12:30 pm); St. Louis' Bullard (12:45 pm)

Thursday April 18

8:30 am	Initial Claims	
Apr. 13 (e)	**206k (+10k)[C]**	
Apr. 6	196k (-8k)	
8:30 am	Continuing Claims	
Apr. 6		
Mar. 30	1,713k (-13k)	
8:30 am	Retail Sales	Ex. Autos
Mar. (e)	**+0.8%**	**+0.5%**
Consensus	*+0.9%*	*+0.7%*
Feb.	-0.2%	-0.4%
8:30 am	Retail Sales ex. Autos/Gas	
Mar. (e)	**+0.4%**	
Consensus	*+0.5%*	
Feb.	-0.6%	
8:30 am	Philadelphia Fed Index	
Apr. (e)	**11.0**	
Consensus	*11.0*	
Mar.	13.7	
9:45 am	Markit PMI (Apr. P)	
10:00 am	Business Inventories	
Feb. (e)	**+0.2%**	
Consensus	*+0.3%*	
Jan.	+0.9%	
10:00 am	Leading Indicator	
Mar. (e)	**+0.2%**	
Consensus	*+0.4%*	
Feb.	+0.2%	

Fed Speaker: Atlanta's Bostic (12:10 pm)

11:00 am 13-, 26- & 52-week bill, 2-, 5- & 7-year note, 2-year FRN auction announcements

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

1:00 pm 5-year TIPS auction $17 bln

Friday April 19

Good Friday (stock markets closed, limited bond market activity)

8:30 am	Housing Starts
Mar. (e)	**1.250 mln a.r. (+7.6%)**
Consensus	*1.230 mln a.r. (+5.9%)*
Feb.	1.162 mln a.r. (-8.7%)
8:30 am	Building Permits
Mar. (e)	**1.309 mln a.r. (+1.4%)**
Consensus	*1.300 mln a.r. (+0.7%)*
Feb.	1.291 mln a.r. (-2.0%)
8:30 am	Real GDP by Industry (Q4)

[C] = consensus [D] = date approximate

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