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Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

April 18, 2019

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BoC "On Hold for a While"

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...Easing Fears of a Downturn

Stocks near Record Highs

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Actually, Winter is Leaving

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Global growth is stabilizing after a rocky ride around the turn of the year. Financial markets and a wave of recent economic indicators are singing from the same song sheet on that point—albeit long-term bonds are still chirping a tad off-key. But with North American yield curves almost normalizing, equities flirting with record highs, and even commodity prices showing some spark, **fears of a serious economic downturn have faded, at least for now**.

Recession worries were not unreasonable earlier this this year. After all, the global economy was beset by the shock waves from the U.S./China trade war, the delayed impact of Fed tightening and a flat yield curve, a five-week U.S. government shutdown, a particularly harsh winter in North America; and, of course the confidence-shredding slide in equity markets in 2018Q4. Yet, on each one of those fronts, the clouds have either parted or are parting. Equities have flared back with purpose, with the MSCI World Index up in 14 of the past 17 weeks and within 1% of recouping its Q4 declines. Fed rate hikes have come to a full stop, with QT soon to follow, the shutdown ended, and the weather is now nearly normal. And, hope springs eternal on the trade front, with rumours running rampant of a late-May/early-June summit for Presidents Trump and Xi.

With that milder backdrop, **the economic data also are turning a corner**. The first hints came from financial markets and sentiment surveys that conditions were improving, and now the hard economic data are beginning to flag that reality. This week saw a better-than-expected 6.4% y/y print for **China's Q1 GDP**; unchanged from Q4, but near the top end of this year's growth aspiration of 6.0%-to-6.5%. Industrial output and retail sales were also solid in March, each up more than 8% y/y. **Rebounding retail sales was a global theme**, as consumers emerged from deep hibernation almost everywhere. Clearly needing a serious break from Brexit, U.K. sales popped 1.1% in March and 6.7% y/y. U.S. consumers also rushed the malls last month, with a 1.6% jump in sales crushing expectations and finally reversing the nasty December plunge. While tax refunds are skimpy this year, we still expect retail activity to hold up well in coming months, as spending has been well behind labour income growth recently (nudging the savings rate above 7%). Even Canadian sales got into the act with a 0.8% gain in February (i.e., still knee-deep in winter).

No doubt, the upswing in the economic data is **far from uniform**—there have still been quite a few clunkers, including a March dip in U.S. industrial production and a February sag in Canadian manufacturing. But the economic surprise index looks to have bottomed out, with now almost an even split between upside and downside surprises in recent weeks. And, for all the recession chatter earlier this year, it now looks like U.S. Q1 GDP growth will come in close to a 2% pace (we are officially now at 1.8%), not so different from the 2.2% in Q4 and a long way from an outright downturn. Some serious support from trade has led the way, with net exports likely to account for more than half of that growth. The same can't quite be said for Canada, where we believe growth will stay locked below 1% in Q1 (officially at 0.7%) after the tiny 0.4% Q4 rise, with the oil production cuts biting hard. However, in both economies, we fully expect marked improvement in Q2 growth to 2.3%-to-2.5%, and the recent uptick in retail spending provides plenty of comfort on that call.

Speaking of clunkers, it's **not springtime for every economy**. Much of **Europe** continues to struggle, especially on the manufacturing front. Sideswiped by trade wars, hit by the first serious sag in Chinese auto sales in years, and weighed by homegrown political uncertainty, the EU economy has nearly stalled. The German government chopped their GDP growth call for this year in half to just 0.5% (even below where we were), and it looks like the EU will struggle to grow by 1% (after 1.8% in 2018). The flash April PMIs starkly showed where the issue lies, as manufacturing was a weak 47.8 (and just 44.5 in Germany), while services were just okay at 52.5. In a nutshell, while EU consumers are holding up, exporters are struggling. Taking the good—China and the U.S.—with the not-so-good—Europe—leaves the overall global growth outlook steady at 3.2% this year (versus 3.6% last year). Still, that is a far cry from the most dire predictions as 2019 began.

Financial markets led the way out of that early-year gloom initially, but they are now finding a second wind from the firming economic backdrop. Beyond the steady comeback in stocks, **long-term yields** have bounced from the lows hit just over three weeks ago. The most extreme move has been at the long end of the GoC curve, where 10s and 30s are up more than 20 bps even with a pullback late this week. This has pulled 10-year yields just back above the overnight target rate, as well as back above 3-month bills, as is the case in the Treasury market. But perhaps most tellingly, **commodity prices** have been steadily grinding higher, partly on a less-strong US$, but mostly due to the better tone for global growth. Bellwether copper hit a 10-month high this week, while oil just keeps on keeping on, with WTI now back close to last year's average level at just under $64. True, both are still down slightly from a year ago, but both have also mounted Phoenix-like recoveries from the start of the year.

On balance, growth took a mighty blow from the many challenges late last year, but managed to stay standing, with a lot of help from the Fed's abrupt policy pivot. What remains is a global economy that has transitioned from two years of above-average growth to a spell of below-average growth—but still growth. The issue now for financial markets is how long this **more subdued growth backdrop** will last; we suspect it **can grind along for a prolonged stretch**, but the slower backdrop is more **vulnerable to shocks**, either trade or geopolitical.

Full disclosure, despite the Game of Thrones reference in the title, I have never seen even a minute of the series. Value of precious/limited time and all that, you understand. Of course, besides absorbing all things economic/financial, there's still plenty of time for the Leafs (*"Still alive!... just keep Drake out of the building"*), and the odd show. On the latter, while there was an amazing mix of massive stories this past week—from the tragic (Notre Dame), to the remarkable (the Masters), to the redacted (Mueller), to the political (Alberta)—note that perhaps the best Jeopardy player ever is currently at work, including winning a record $131,000 in a single game in the latest session; that's akin to firing a 51 in 18 holes of golf. Besides being, literally, a know-it-all, James Holzhauer is also a serious gambler, who likes to bet big. Maybe he's the same guy who took Tiger at 14-1, or the Dow 5000 points ago in late December.

BoC Preview… Polozian Pause

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The Bank of Canada is **universally expected to hold policy rates steady** at 1.75% at the April 24 announcement. It's been a long and winding road for policy expectations since the BoC turned hawkish in mid-2017. That looks poised to change, with policy rates likely on hold for some time. Speaking to the media on the sidelines of the recent G20 meetings, Governor Poloz said that investor expectations are consistent with rates being *"on hold for a while"* (according to Bloomberg). That's certainly our expectation, with rates to hold steady through this year and next.

Despite expectations for a long pause, there are still potential points of intrigue in the policy statement and Monetary Policy Report. Perhaps the biggest is whether the BoC drops its mild tightening bias (perhaps better termed hiking aspiration). The March statement concluded with: *"With increased uncertainty about the timing of future rate increases, Governing Council will be watching closely developments in household spending, oil markets, and global trade policy."* We anticipate the part about rate increases will be dropped, while the need for below-neutral rates (or stimulative policy) will be highlighted. With the Business Outlook Survey suggesting that the output gap is much wider than previously thought, it's clear that **any potential rate hike is a long way off, making any hiking bias unnecessary for now**.

Otherwise, look for the statement to note that the economy is working through a soft patch and a rebound is expected in Q2. The firmer global backdrop will also get a mention, at least partially reversing some of the more cautious language used in March. The continued rise in oil prices will likely be noted as a positive as well, with WTI and WCS up about $10 since March.

Moving to the MPR, the focus will be on: 1) Q1 & Q2 GDP growth; 2) the neutral range/potential growth; and, 3) the output gap. We have nearly two months of Q1 data, but there's still plenty of uncertainty. The oil production cuts should have hit January GDP hard, but they were nothing out of the ordinary, according to Statscan. We'll see if a revision is coming, but that lessened the downside for the quarter. So far the February data have been generally soft, consistent with our expectations as the weather was horrid, so we could see some payback in monthly GDP. And, the international trade figures through the first two months of Q1 were terrible—trade is expected to subtract significantly from growth. All told, even with the better January, the BoC isn't likely to move its 0.8% forecast for Q1 much, if at all.

For Q2, we're looking for growth to rebound into the 2%-to-2.5% range, and expect the BoC to view things similarly. There is some downside risk here, though, as the March statement said *"it now appears that the economy will be weaker in the first half of 2019 than the Bank projected in January."* The better global backdrop should help, and falling interest rates will likely support housing. In addition, the reversal of some oil production cuts are expected to provide a lift.

The neutral range has been an area of contention (at least for us) for some time. The Bank has held neutral at 2.5% to 3.5% since April 2017. With the Fed's long-range mid-point at 2.75%, it's tough to believe Canada's should be higher given long-run productivity differentials. The market is seconding that notion as 30-year yields haven't moved above 2.6% since 2015. Part of this analysis is where potential growth is trending. The immigration surge over the past couple of years supports their latest view of 1.9%, but the sustainability of that inflow is difficult to ascertain. And, once again, the terrible productivity record consistently points to weaker potential output. We look for the neutral range to be trimmed 25 bps (2.25%-to-3.25%), with a decent chance of a 50 bp downgrade (2%-to-3%). However, Governor Poloz and Sr. Dep. Governor Wilkins have downplayed the importance of its neutral range in recent weeks, noting that it's a long-term concept and isn't necessarily applicable to the current environment.

Finally, the output gap was estimated at 0%-to-1% in the January MPR. The latest Business Outlook Survey suggests a much wider output gap. The weak Q4 GDP print and expected Q1 softness certainly point to a wider gap. A move to 0.5%-to-1.5% seems reasonable given that backdrop and will reinforce that potential rate hikes are still a long way off. And, there remains the potential for cuts if a negative shock hits.

Bottom Line: While a policy rate change isn't on the table at this meeting, there's plenty to watch for to help fine-tune the bigger picture outlook. Expect a cautious BoC with some hints of optimism in an effort to dampen any rate cut speculation. *B.A.A.R.*

Springing Back

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One big reason equities came roaring back this year is ebbing fears of a U.S. recession. And while the economy won't win any races, it's clear **the pace of expansion remains decent** considering the advanced stage of the cycle. Next week's release of Q1 GDP data will likely show the economy slowed only a bit further and largely due to temporary factors, including fierce weather, gyrating equity markets, the federal shutdown and lower tax refunds this season (to the tune of almost 3%, which could carve about half a percentage point from annualized Q1 growth). Moreover, a sharp bounce in retail sales suggests households will lead a rebound this spring.

A surprising **decline in the U.S. trade deficit to eight-month lows** in February suggests **real GDP grew 1.8% annualized in the quarter**, faster than thought previously (1.2%). Trade likely added over one percentage point to growth amid a resumed pickup in exports. It won't be long before the country is running a surplus in petroleum products for the first time on record, as shale-driven export volumes are near all-time highs, while imports are the lowest since the mid-1990s.

After sagging last year, housing is on the mend in response to the 80-bp slide in mortgage rates since November. Homebuilders report steady advances in single-family sales to April, while new mortgage applications are back to cycle highs. New home sales (due next week) are expected to rise for a third straight month in March.

One ongoing soft spot is **manufacturing**, which fell for a third straight month in March and 1.1% annualized in Q1. However, this followed five straight quarterly advances, and the Beige Book finds factory activity remains *"favorable"*, despite *"trade-related uncertainty"* and worker shortages. If U.S./China trade officials can hammer out a deal this Spring, the trade picture will brighten. Moreover, factory output is tightly linked to domestic demand (with a long-run quarterly growth correlation of 81%), so if the latter improves, the former will follow.

Indeed, **domestic demand is already snapping back according to a 1.6% surge in retail sales in March**. While this likely comes too late to prevent consumer spending from slowing to around 1% in Q1 given earlier weakness, it does support our call for a rebound to 2.7% in Q2. The sales report confirms that households are well supported by sturdy employment, rising income and low debt-service costs. A further decline in initial jobless claims to half-century lows of 192,000 in the April payrolls survey period flags another decent gain in employment.

With consumers driving this train, **real GDP is solidly on track for 2.5% growth in Q2, which is actually a snick above the post-recession mean**. This fits with the Beige Book's finding that activity strengthened in a few Districts, though flooding and severe weather curbed crop production in the Midwest. Hopped up on fiscal juice a year ago, the U.S. expansion was like the Energizer Bunny. Today, it's lost its zing but not its drive to keep motoring… likely right into the record books as the longest ever this summer. Sal

Back to Business

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There have been numerous arguments for not extending Brexit, including Nigel Farage's *"Get Britain out and we can all just get on with the rest of our lives!"* Well, in the week since the U.K. was granted a six-month extension, **Europe has indeed been getting on with its business**. Let's see… **Italy** cut its 2019 growth forecast, this time to 0.2% (far, far, from the 1.6% forecast made after the government assumed power). This will push the budget deficit to 2.4% as a share of GDP, above what it agreed to with the EU and setting up for another clash with Brussels. At least Italy won't be alone, as it will be joined by **France**. President Macron had already committed an extra €10 bln to appease the Yellow Vest movement in December, setting the country up to break through the EU's fiscal ceiling. Now, the financial hole will deepen as the President is forced to put aside plans for further economic reforms after vowing to rebuild Notre Dame within five years, at an estimated cost of US$8 bln. In **Germany**, where the fiscal position is much more sound, the government slashed its 2019 growth forecast in half to just 0.5%, citing slower global activity and trade disputes, particularly one that has yet to arise but is in the works. The mere thought of a trade war between the EU and the U.S., as well as tariffs on European cars, is causing German manufacturers to break into a cold sweat. German exports to the U.S. account for nearly 10% of Germany's total, but motor vehicles and machinery are 42% of its exports to America. So a lot is at stake for Germany, at a time when the economy was already struggling (factories shut down auto production for months to deal with new emissions standards).

Slowing economic growth means that there will be a tough battle in the **upcoming European parliamentary elections**. Euroskeptic populist parties will put up a good fight to win more seats, and push for more reforms. Italy's Matteo Salvini, France's Marine Le Pen, Hungary's Viktor Orban, the Netherlands' Geert Wilders, and perhaps Spain's Santiago Abascal, will team up to fight against a more unified Europe. A recent poll projects more seats could be won by the Europe of Freedom and Direct Democracy (EFDD) and the Europe of Nations and Freedom (ENF), at the expense of the centre-right European People's Party (EPP) and the centre-left Socialist & Democrats (S&D)… not enough for a majority but enough to cause some disruption. JLee

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	Good News	Bad News
Canada ▪ BoC Gov. Poloz signals policy rates *"on hold for a while"* ▪ BOS shows plunging capacity pressures ▪ UCP's Jason Kenney voted Alberta's premier in majority win	**Retail Sales Volumes** +0.2% (Feb.) **Consumer Prices** +1.9% y/y (Mar.) **Manufacturing New Orders** +1.5% (Feb.) **Existing Home Sales** +0.9% (Mar.) **Global Investors** bought a net $12.0 bln in Canadian securities (Feb.) **ADP Employment** +13,227 (Mar.)—but prior month revised down **Province of Newfoundland & Labrador** projects a $1.9 bln surplus (FY19/20)	**Merchandise Trade Deficit** narrowed to $2.9 bln (Feb.)—weak details **Manufacturing Sales Volumes** -0.5% (Feb.) **BOS Indicator** -2.95 pts to -0.64 (Q1)—lowest since 2016Q3 **MLS Home Prices** -0.5% y/y (Mar.)
United States ▪ Beige Book reports some *"strengthening"* in a few districts ▪ Retail bounce eases recession fears	**Retail Sales** +1.6% (Mar.) **NAHB Housing Market Index** +1 pt to 63 (Apr.) **Empire State Manufacturing Survey** +1.7 pts to an ISM-adjusted 54.3 (Apr.) **Goods & Services Trade Deficit** narrowed to $49.4 bln (Feb.) **Wholesale Inventories** +0.2% (Feb.) **Global Investors** bought a net $42.4 bln in U.S. securities (Feb.) **Initial Claims** -5k to 192k (Apr. 13 week) **Business Inventories** +0.3% (Feb.) **Leading Indicator** +0.3% (Feb.)	**Industrial Production** -0.1% (Mar.)—and **Capacity Utilization** -0.2 ppts to 78.8% **Philly Fed Index** -0.6 pts to an ISM-adjusted 54.1 (Apr.)
Japan ▪ JPY strengthens on safe-haven flows	**Manufacturing PMI** +0.3 pts to 49.5 (Apr.)	**Exports** -2.4% y/y (Mar.) **Imports** +1.1% y/y (Mar.)—below expected **Industrial Production** revised down to +0.7% (Feb.) **Tertiary Industry Index** -0.6% (Feb.)
Europe ▪ Few signs of improvement in Euro Area economy ▪ Germany sees just 0.5% GDP growth this year ▪ Spain's Apr. 28 election to be watched closely	**Euro Area—Trade Surplus** widened to €19.5 bln (Feb.) **Germany—ZEW Survey** jumped 6.7 pts to 3.1 (Apr.) **U.K.—Retail Sales (incl. Fuel)** +1.1% (Mar.) **U.K.—Employment** +179,000 (3 mths to Feb.) **U.K.—Average Wkly Earnings Ex. Bonus** +3.4% y/y (3 mths to Feb.) **U.K.—Jobless Rate** steady at 3.9% (3 mths to Feb.) **U.K.—Consumer Prices** steady at +1.9% y/y (Mar.) **U.K.—Producer Prices (Output)** steady at +2.4% y/y (Mar.) **U.K.—Rightmove House Prices** +1.1% (Apr.)	**Euro Area—Manufacturing PMI** +0.3 pts to 47.8 (Apr. P)—below expected **Euro Area—Services PMI** -0.8 pts to 52.5; **Composite PMI** -0.3 pts to 51.3 (Apr. P) **Germany—Producer Prices** -0.1% (Mar.) **Italy—Industrial Orders** -2.7% (Feb.)
Other ▪ U.S. trade team heads to Beijing at month-end ▪ RBA minutes show policy makers mulled over a rate cut	**China—Real GDP** steady at +6.4% y/y (Q1) **China—Industrial Production** +6.5% y/y; **Retail Sales** +8.3% y/y; **Fixed Asset Investment** +6.3% y/y (Jan.-to-Mar.) **China—Foreign Direct Investment** +8.0% y/y (Mar.) **Australia—Employment** +25,700 (Mar.)	**Australia—Jobless Rate** +0.1 ppts to 5.0% (Mar.)—but on higher part. rate

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

Is Slack Back?

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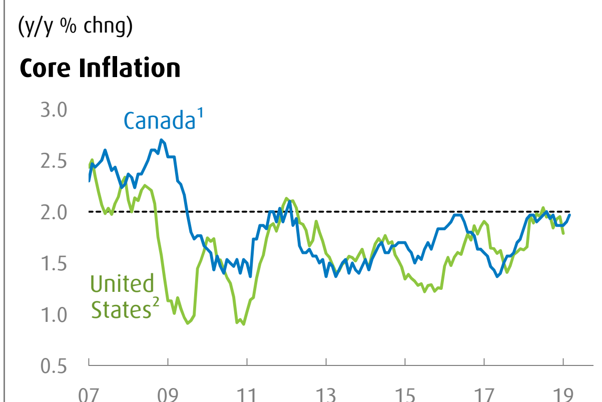
The Bank of Canada's three preferred core inflation metrics averaged 2.0% in March, back at the target after a four-month run below. South of the border, core CPI inflation inched down a tenth to 2.0% in March, indicating that the Fed's preferred measure, the core PCE price index, is likely to drift further below the 2% target, to 1.7% by March from 1.8% in January (the latest available data). Since June 2010 (a year after the end of the recession), both central banks have had a hard time hitting their targets *(Chart 1)*[1]. Allowing a one-tenth range around 2.0%, the Bank of Canada has achieved it 29% of the time and has come up short 71%. Average core CPI inflation has never exceeded 2.1% this cycle. The Fed has achieved the target 23% of the time and has come up short 77%. Core PCE inflation has, also, never exceeded 2.1% this cycle. Note the complete lack of symmetry within a very narrow range around the targets.

The fact that both central banks have had similar disappointing core inflation performances, despite differently-constructed price indices and differently-structured economies, emphasizes the common disinflationary forces they are facing. These include an aging population, automation and digitalization. These secular forces have effectively countered the cyclical inflation pressures that accumulated as economic slack was taken in and output gaps shrank. And, in the oscillating tug-of-war between cyclical inflation pressures and secular disinflation forces, it now seems that the cyclical side might not be as strong as originally posited. The output gap appears to be getting larger in Canada, as America's budding positive output gap is proving to lack net inflationary punch.

Back in January, the Bank of Canada judged the output gap was between -1% and 0% for Q4, representing an increase from the range-around-zero October estimate as real GDP growth was expected to be weak in the period (it turned out to be just 0.4% annualized) *(Chart 2)*.[2] However, most of the economy was deemed to be operating *"close to capacity"* with the increase in slack occurring in the oil-producing regions as that sector reacted to low prices. Not only has the latter slack escalated subsequently, but it appears to have spread to non-oil sectors.

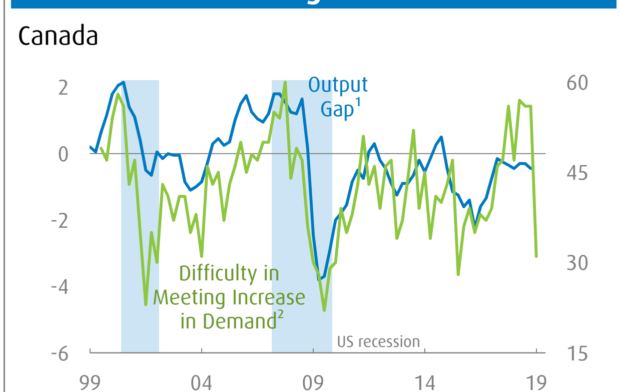
One metric that factors into the Bank's output gap judgement is the quarterly Business Outlook Survey's assessment of capacity pressures. For Spring 2019, the share of firms perceiving difficultly in meeting unanticipated increases in demand dropped sharply to 31% from a cycle-high run of 56%-to-57% in the prior three periods. This was the largest quarterly decrease since the survey

Chart 1
Hard Time Hitting Target



[1] avg. of BoC's 3 preferred core measures [2] core PCE price index
Sources: BMO Economics, Haver Analytics

Chart 2
Economic Slack Coming Back



[1] avg. of two methodologies (ppts : lhs)
[2] BoC BOS [capacity pressure proxy] (% of firms : rhs)
Sources: BMO Economics, Haver Analytics

[1] Officially, the 2% target is meant for headline inflation but both central banks employ core inflation as an operational guide.

[2] This was consistent with the -0.5% average of the BoC's two point estimates, which is what we show in Chart 2.

commenced in 1999, with the share now hovering at a level last seen during the oil-led downturn in 2015 and, before then, the first quarters following the recession. We reckon the key culprit was the Alberta government's mandated oil production cuts, but the negative spending responses on both sides of the border to last year's plummet in equity prices and extreme winter weather (record precipitation across the U.S. and in parts of Canada, not to mention a polar vortex) were also factors.

We estimate real GDP expanded at a 0.7% annual rate in Q1, posting a second consecutive quarter well under the Bank's 1.8% estimate of potential economic growth, and increasing the output gap again. While we look for the economy to expand above potential during the middle quarters of this year (around 2.3%), this won't be sufficient to re-close the output gap.

The U.S. economy currently sports a positive output gap of 0.6%, according to the CBO *(Chart 3)*. It first emerged in 2018 Q2 as annualized real GDP growth topped 4% owing to fiscal stimulus. However, the emergence and persistence of a positive output gap has done little to visibly drive the inflation process. As recently as last July, core inflation was 2.0% with the shorter-term trends (3- and 6-month changes) pointing to some acceleration. The latest reading was 1.8% with the shorter-term trends pointing to further deceleration.

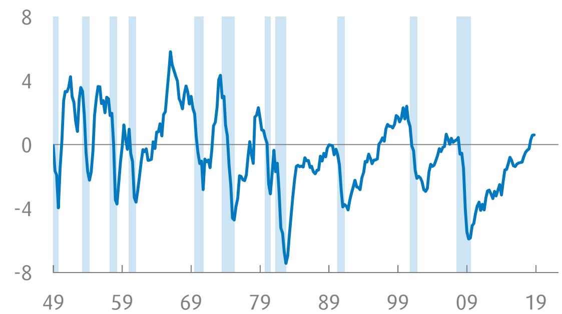
It may simply be too soon to expect an inflation reaction, or the reaction is being overwhelmed by the secular disinflation forces, but the positive output gap will probably get a bit smaller in Q1 anyway. In addition to the stock market and winter weather headwinds mentioned above, the government shutdown will act as a drag on economic growth. We estimate U.S. real GDP expanded at a 1.8% annual rate, slightly below the CBO's 2.2% estimate of (quarterly) potential economic growth. Like in Canada, the U.S. economy will probably rebound in Q2 but we doubt the positive output gap will get any bigger than what it has been, which has already proven, so far, to be ineffective in fuelling inflation.

Capacity utilization rates provide another perspective on economic slack. The latest readings dipped below their medians on both sides of the border, and remain well below the levels attained in previous business cycles *(Chart 4)*. Whether seen in below-median and decreasing industrial capacity utilization rates, increasing output gaps or impotent positive output gaps, cyclical inflation pressures could be losing steam. For the Bank of Canada and Fed, this would be another reason to be "patient" in the period ahead.

Chart 3
America's Budding Positive Output Gap

United States (% of potential GDP)

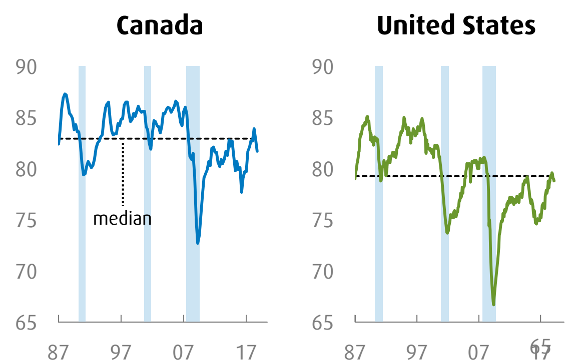
Output Gap



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

Chart 4
Cap U Capped

Capacity Utilization (% of capacity)



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

Economic Forecast Summary for April 18, 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	1.6	2.0 ↑	1.9 ↑	2.2 ↑	2.3	1.9 ↑	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 ($blns : a.r.)	-69.0	-63.4	-40.4	-61.9	-54.4 ↑	-53.3 ↑	-53.3 ↑	-55.0 ↑	-58.7	-54.0 ↑	-52.0 ↑
Interest Rates					(average for the quarter : %)						
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.44	1.75	1.75
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.70 ↑	1.70 ↑	1.70 ↑	1.37	1.65	1.70 ↑
10-year Bond	2.24	2.28	2.28	2.32	1.86	1.75 ↑	1.80	1.85	2.28	1.80	1.75
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	-44	-66	-61	-70	-79	-75 ↑	-75 ↑	-75 ↑	-60	-76 ↑	-72 ↑
10-year	-52	-64	-65	-72	-80	-81 ↓	-79 ↓	-78 ↓	-63	-79	-74
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.2	1.8 ↑	2.5	2.0 ↓	1.9	2.9	2.3	1.7
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	2.1	2.1	2.3	2.4	2.0	2.2
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.7	3.6	3.5	3.9	3.7	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.19	1.21	1.24	1.24	1.22	1.25	1.23	1.23
Current Account Balance ($blns : a.r.)	-496	-414	-506	-538	-477 ↑	-492 ↑	-508 ↑	-522 ↑	-488	-500 ↑	-545 ↑
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	2.55 ↑	2.60 ↑	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	111 ↑	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

See Benjamin Reitzes' Thought on page 4.

BoC Policy Announcement and Monetary Policy Report
Wednesday, 10:00 am;
Press conference at 11:15 am

United States

Sal Guatieri
Senior Economist
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Existing Home Sales
Monday, 10:00 am

Mar. (e)	**5.40 mln a.r.**	**(-2.0%)**
Consensus	*5.33 mln a.r.*	*(-3.4%)*
Feb.	5.51 mln a.r.	(+11.8%)

New Home Sales
Tuesday, 10:00 am

Mar. (e)	**674,000 a.r.**	**(+1.0%)**
Consensus	*650,000 a.r.*	*(-2.6%)*
Feb.	667,000 a.r.	(+4.9%)

Despite big gains so far this year, new home sales should climb moderately further in March given rising mortgage applications and a further advance in homebuilders' reported sales that month. An 80-bp plunge in mortgage rates since November and less severe winter weather than in February should provide support. The expected 1% increase would lift sales to their loftiest level (674,000 annualized) in 1½ years. By contrast, **existing home sales** (which largely capture transactions undertaken earlier) likely fell 2% to 5.4 million annualized amid an earlier pullback in pending sales. This would still mark a modest retreat after February's 12% surge, keeping resale activity above last year's soggy levels.

Durable Goods Orders
Thursday, 8:30 am

		Ex. Transport
Mar. (e)	**+0.8%**	**+0.4%**
Consensus	*+0.8%*	*+0.3%*
Feb.	-1.6%	-0.1%

	Nondef. Capital Goods ex. Air
Mar. (e)	**+0.4%**
Consensus	*+0.1%*
Feb.	-0.1%

Durable goods orders likely took flight in March (+0.8%) amid firmer aircraft sales and a bounce in machinery bookings. Core capital goods orders are expected to climb 0.4% after retreating in three of the past four months. Business sentiment has firmed amid hopes of an end to the U.S./China trade war, and many firms continue to report strength in household demand. There's much riding on this report, as another setback would cast serious doubt on an expected pickup in manufacturing after contracting in Q1 for the first time in 1½ years.

Real GDP
Friday, 8:30 am

		GDP Deflator
Q1 A (e)	**+1.8% a.r.**	**+1.1% a.r.**
Consensus	*+2.0% a.r.*	*+1.3% a.r.*
Q4	+2.2% a.r.	+1.7% a.r.

In like a lamb… **Real GDP** likely slowed further to 1.8% annualized in Q1 from 2.2% in Q4 and 3.4% in Q3. Fading tax support shared the blame with a slew of one-off factors, including an earlier swoon in equities and consumer confidence, the partial government shutdown, a near 3% decline in tax refunds from last year, and weather-related disruptions stemming from the polar vortex, severe snowstorms and flooding. Lingering residual seasonality may also weigh. Both consumer and business spending likely downshifted sharply to around 1% and 2%, respectively. However, there are a couple of bright spots. Residential construction likely rose for the first time since late 2017 in response to lower mortgage rates. Trade will also add hugely, as exports bolted higher after two soft quarters, while imports sagged amid payback from an earlier move by businesses to get ahead of expected new tariffs on China's goods (since deferred). The even better news is that all of the temporary factors have ended (with the exception of the still lousy weather this month), while retail sales came roaring back in March. This flags a decent rebound in growth to 2.5% in Q2.

		Apr 18 [1]	Apr 12	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	1.68	0	4	4
	United States	2.42	2.42	0	-2	6
	Japan	-0.18	-0.20	1	-1	-3
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.82	0.83	-1	-1	-9
	Australia	1.69	1.70	0	-12	-40
2-Year Bonds	Canada	1.63	1.64	0	10	-23
	United States	2.38	2.39	-2	6	-11
10-Year Bonds	Canada	1.77	1.78	-1	17	-20
	United States	2.55	2.57	-1	11	-13
	Japan	-0.03	-0.06	2	4	-3
	Germany	0.02	0.05	-3	4	-22
	United Kingdom	1.20	1.21	-1	18	-8
	Australia	1.95	1.88	7	12	-37
Risk Indicators	VIX	12.5	12.0	0.5 pts	-4.0 pts	-12.9 pts
	TED Spread	16	18	-2	-1	-29
	Inv. Grade CDS Spread [2]	57	57	0	-10	-31
	High Yield CDS Spread [2]	326	327	-1	-21	-124
					(percent change)	
Currencies	US¢/C$	74.72	75.06	-0.5	0.3	1.9
	C$/US$	1.338	1.332	—	—	—
	¥/US$	111.90	112.02	-0.1	1.8	2.0
	US$/€	1.1244	1.1299	-0.5	-0.5	-1.9
	US$/£	1.301	1.307	-0.5	-1.5	2.0
	US¢/A$	71.52	71.73	-0.3	1.0	1.5
Commodities	CRB Futures Index	186.67	188.36	-0.9	1.4	9.9
	Oil (generic contract)	63.75	63.89	-0.2	8.0	40.4
	Natural Gas (generic contract)	2.49	2.66	-6.3	-9.5	-15.2
	Gold (spot price)	1,275.63	1,290.35	-1.1	-2.9	-0.5
Equities	S&P/TSX Composite	16,577	16,481	0.6	3.0	15.7
	S&P 500	2,898	2,907	-0.3	3.5	15.6
	Nasdaq	7,958	7,984	-0.3	4.1	19.9
	Dow Jones Industrial	26,480	26,412	0.3	3.8	13.5
	Nikkei	22,090	21,871	1.0	2.1	10.4
	Frankfurt DAX	12,203	12,000	1.7	7.4	15.6
	London FT100	7,460	7,437	0.3	3.5	10.9
	France CAC40	5,579	5,503	1.4	5.9	17.9
	S&P ASX 200	6,260	6,251	0.1	1.0	10.9

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

Global Calendar
April 22 – April 26

BMO Capital Markets®

	Monday April 22	Tuesday April 23	Wednesday April 24	Thursday April 25	Friday April 26
Japan		**Department Store Sales** **Mar.** Feb. +0.4% y/y **Machine Tool Orders** **Mar. F (e) -28.5% y/y** Feb. -29.3% y/y	**All-Industry Activity Index** **Feb. (e) -0.1%** Jan. -0.2% BoJ Monetary Policy Meeting & Outlook Report (Apr. 24-25)		**Jobless Rate** **Mar. (e) 2.4%** Feb. 2.3% **Industrial Production** **Mar. P (e) +0.1% -3.8% y/y** Feb. +0.7% -1.1% y/y **Retail Sales** **Mar. (e) +0.2% +1.0% y/y** Feb. +0.4% +0.6% y/y Prime Minister Abe meets with President Trump at the White House to discuss trade and North Korea
Euro Area	EURO AREA Markets Closed	EURO AREA **Consumer Confidence** **Apr. A (e) -7.0** Mar. -7.2	GERMANY **ifo Business Climate** **Apr. (e) 99.9** Mar. 99.6 FRANCE **Business Confidence** **Apr. (e) 105** Mar. 105	EURO AREA ECB Economic Bulletin	FRANCE **Consumer Confidence** **Apr. (e) 97** Mar. 96 SPAIN General Election (Sunday Apr. 28)
U.K.	Markets Closed				
Other	AUSTRALIA Markets Closed		AUSTRALIA **Consumer Price Index** **Q1 (e) +0.2% +1.5% y/y** Q4 +0.5% +1.8% y/y	AUSTRALIA Markets Closed	AUSTRALIA **Producer Price Index** **Q1** Q4 +0.5% +2.0% y/y

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

North American Calendar
April 22 – April 26

BMO Capital Markets®

Canada

Monday April 22

Tuesday April 23

8:30 am **Wholesale Trade**
Feb. (e) **-0.5%**
Jan. +0.6%

Prince Edward Island Election

Wednesday April 24

10:00 am **BoC Policy Announcement and Monetary Policy Report; Press Conference at 11:15 am**

Thursday April 25

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

Noon 30-year bond auction
2-year bond auction announcement

Friday April 26

Ottawa's Budget Balance[D]
Feb. '19
Feb. '18 +$2.8 bln

United States

Monday April 22

8:30 am **Chicago Fed National Activity Index**
Mar. (e) **-0.10**
Feb. -0.29

10:00 am **Existing Home Sales**
Mar. (e) **5.40 mln a.r. (-2.0%)**
Consensus *5.33 mln a.r. (-3.4%)*
Feb. 5.51 mln a.r. (+11.8%)

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

Tuesday April 23

9:00 am **FHFA House Price Index**
Feb. (e) **+0.6%** **+5.1% y/y**
Jan. +0.6% +5.6% y/y

10:00 am **New Home Sales**
Mar. (e) **674,000 a.r. (+1.0%)**
Consensus *650,000 a.r. (-2.6%)*
Feb. 667,000 a.r. (+4.9%)

10:00 am **Richmond Fed Manufacturing Index**
Apr. (e) **11**
Mar. 10

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 April 24

7:00 am **MBA Mortgage Apps**
Apr. 19
Apr. 12 -3.5%

11:30 am 2-year FRN auction $20 bln
1:00 pm 5-year note auction $41 bln

Thursday April 25

8:30 am **Initial Claims**
Apr. 20
Apr. 13 192k (-5k)

8:30 am **Continuing Claims**
Apr. 13
Apr. 6 1,653k (-63k)

8:30 am **Durable Goods**
	Orders	**Ex. Transport**
Mar. (e)	**+0.8%**	**+0.4%**
Consensus	*+0.8%*	*+0.3%*
Feb.	-1.6%	-0.1%

8:30 am **Nondef. Capital Goods ex. Air**
Mar. (e) **+0.4%**
Consensus *+0.1%*
Feb. -0.1%

10:00 am **Homeowner Vacancy Rate**
Q1 (e) **1.5%**
Q4 1.5%

11:00 am **Kansas City Fed Manufacturing Activity**
Apr. (e) **11**
Mar. 10

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 April 26

8:30 am
	Real GDP	**GDP Deflator**
Q1 A (e)	**+1.8% a.r.**	**+1.1% a.r.**
Consensus	*+2.0% a.r.*	*+1.3% a.r.*
Q4	+2.2% a.r.	+1.7% a.r.

10:00 am **University of Michigan Consumer Sentiment**
Apr. F (e) **97.0**
Consensus *97.0*
Apr. P 96.9
Mar. 98.4

Prime Minister Abe of Japan meets with President Trump at the White House to discuss trade and North Korea

[D] = date approximate

Upcoming Policy Meetings | Bank of Canada: May 29, July 10, Sep. 4 | FOMC: Apr. 30-May 1, June 18-19, July 30-31