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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

April 26, 2019

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Loonie Tunes: What's Up, BoC?

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Bonds say inversion, and bears say recession
Trump says trade war, and Xi says weak yuan
Inversion, recession, trade war, weak yuan
Let's call the whole thing off.

With profound apologies to the Gershwins, but Friday's surprisingly springy 3.2% annualized rise in Q1 U.S. GDP puts a rather large punctuation mark on the many calls for a downturn at the start of the year. While the details were considerably less flashy than the gaudy headline—and bonds rallied on the results, of course—the reality is that **the U.S. economy has also grown 3.2% in the past four quarters**. Aside from a brief period in early 2015, that pace hasn't been topped in the past 13 years. No doubt, inventories flattered the Q1 figure, but final sales managed a 2.5% gain (as we had expected) and are up a sturdy 2.7% y/y. That's despite being weighed down by a government shutdown, a global slowdown, a trade war, and some pretty awful weather. **We continue to look for GDP growth to cool through the rest of this year**, but the Q1 figures show we are **a long way from recession**. And with the Fed taking its foot off the brake and hopes still high for a U.S./China trade deal, near-term risks are fading.

In stark contrast, **the Canadian economy is expected to actually perk up as we move through 2019** after a tough start to the year—at least according to the central bank's latest forecast. Perhaps the single biggest surprise in this week's quarterly Monetary Policy Report was the BoC taking an axe to this year's growth call, chopping it to just 1.2% from 1.7%. In one fell swoop, the Bank has gone from above to below consensus (the latest is at 1.5%, where we reside). Recent surveys suggest that this puts the BoC among the bottom decile of forecasters for this year. However, the Bank claims that much of the big downward revision reflects the carryover from a surprisingly weak showing around the turn of the year, including their dismal call of just 0.3% growth for Q1 GDP (we're at 0.7%, and won't see those official stats for another month). But they also are quite cautious on Q2 at just 1.3% growth. After that, the Bank looks for growth to pick up to the 2%-to-2.2% range through the end of 2020—which actually puts them at the high end of forecasters for next year (at a 2.1% average, while we are at 1.7%).

That pronounced upward swing in Canada's GDP forecast over the next year was just the most debatable of a number of key takeaways from this week's interest rate announcement. Here are some of the most important:

Bias removed: The rate decision itself held little drama—the BoC is incredibly clear that it is on a prolonged pause, barring some kind of shock—but made it official by **removing the lingering mild tightening bias**. In the press conference, Governor Poloz explained that the bias had been meant *"to remind people what policy normalization could look like"*, but that was no longer needed. In an ensuing interview, Poloz opined that **rates could still be hiked *"sometime down the road"*… presumably, the long, and winding road**. We are quite comfortable with our call of no change in the overnight rate through 2020.

Neutral trimmed: Each April, the Bank reassesses its estimate of the neutral interest rate, or the long-run norm, and chose to trim it a quarter ppt to 2.25%-to-3.25%. That implies less headroom for any further rate hikes, i.e., those hikes far down the road. Our only quibble would be that they should have gone another step down; in fact, it wouldn't be that radical to believe that the current 1.75% overnight rate may already be in the zone of neutral. The conventional wisdom is that neutral must be positive in real terms, so it can't possibly be below the 2% inflation target. However, note that since early 2001, the average overnight interest rate has been a snick below average inflation (1.85% versus 1.86%… *hey, I said a snick*). That's 18 years with a negative real overnight rate, so yes neutral may very well be below 2%.

Potential growth unchanged: Each April, the Bank also revisits the estimate for potential GDP growth, and there was some thought that the recent surge in population (1.4% y/y) and the labour force (+1.7% y/y) may provide a boost. Sadly, **what more workers have giveth, less productive workers have taketh away.** Labour productivity has been a damp squib recently (with almost zero growth in the past four quarters), holding the view on potential GDP growth precisely stable at 1.8% for this year. In fact, with the labour "input" expected to calm slightly, the Bank shaved its estimate of potential for the next two years by a tick—albeit still averaging 1.8% in the 2020-22 period.

Output gap boosted: With no significant changes in potential growth, that means that the slowdown in actual growth in the past two quarters has left the economy further from full capacity. The Bank now sees the economy operating somewhere between 0.25% and 1.25% away from full potential as of Q1. In semi-plain English, that means it would take a full year of growth of about 2.5% to close the gap and get the economy back up to capacity. Unless and until that happens, it's pretty tough to see the Bank considering rate hikes again.

Unimpressed by oil: Accentuating the "on-hold" view, the Bank downplayed oil's recent revival. While lifting the assumption for global prices by $10 (to $60 for WTI; it's back down to $63 as we speak), the Bank declined to make a call on WCS. Instead, the MPR flatly stated that Canadian production was *"anchored by transportation capacity"*. While technically correct, the bounce in prices will eventually support incomes and government revenues, if not confidence, in the oil-producing regions. Of course, **the Canadian dollar has also been completely unimpressed by the rebound in oil**, with the currency barely up since the first days of 2019 even as WTI has jumped 40%, and further cut by the Bank's dovish remarks this week. But that seeming disconnect can be partly explained by the fact that **non-energy commodities have been heading south** of late, dragged down especially by sagging lumber and canola prices.

Unimpressed by fiscal stimulus: The Bank's assessment of this year's round of budgets was that whatever Ottawa and a few key provinces (mostly B.C. and Quebec) added, Ontario removed. We don't fully agree with that analysis. Note that Ontario's latest estimate of program spending for the current fiscal year is almost identical to that projected in last year's budget by the prior government, and the deficit is also considerably larger. Meantime, Ottawa essentially spent the bulk of its revenue windfall of the past year, so we judge the overall thrust of policy to have been slightly stimulative this year (see Rob's Feature on page 9). By itself, that explains much of the gap in our respective GDP growth calls. As an aside, today's latest monthly budget figures show that Ottawa's revenues continue to top all expectations, up a whopping 8.5% in the first 11 months of FY18/19 (versus a 6.7% estimate in the Budget).

More constructive on housing: After fretting about how long it was taking housing to stabilize for much of the past year, the Bank sounded a bit more upbeat. The adjustment in Vancouver, in particular, and perhaps Toronto may have a bit further to run, but Poloz noted that many other large markets are *"seeing solid activity"*. The Bank looks for residential construction to start adding to growth again by 2020. Zero debate from us, and it's a drum we've been pounding for a while. In fact, **we also are expecting a lighter hit to growth from housing than the Bank this year**, another reason **we are less downbeat overall on the growth call for 2019**. Today's high-side surprise on U.S. GDP offers a morsel of support for that view.

One other post mortem… there's nothing like viewing Game 7 in hostile terrain for Leafs fans—downtown Montreal, surrounded by instant Bruins supporters. In the Year of the Upset for the NHL, the one series that naturally went absolutely according to script was Boston/Toronto. After all, the Leafs have yet to beat the Bruins in the playoffs in my life-time, so why start now? There's only one thing left to say about the Leafs… Go Raptors!

U.S. Economic Growth: Faster on the Surface but Slower Below


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The U.S. economy expanded at a 3.2% annualized rate in Q1, a surprisingly strong headline result that reversed the figures on the consensus call (2.3%) and topped Q4 growth by a full percentage point. As anticipated, there was a significant cooling of consumer spending (1.2% vs. 2.5%) and business fixed investment (2.7% vs. 5.4%), reflecting the trifecta of the earlier plummet in stock prices, the partial government shutdown and weather-related disruptions. But, if these two sectors (a.k.a. private final domestic demand at 1.3%) halved their Q4 clip and are worth more than 85% of GDP, **what caused overall growth to pick up?** There were three key drivers.

First, imports posted their second largest decrease since the Great Recession, as prior stockpiling ahead of potential tariff hikes proved unnecessary, and reflecting the legacy of tariffs in the first place amid sluggish domestic demand growth. **Second,** the construction of highways and streets paved a large gain in state and local government spending (the investment component surged 20%). **Third,** inventories, mainly in the manufacturing sector, increased sharply. History has shown that all three of these GDP components, when they register outsized gains in one quarter, tend to reverse course or ease back meaningfully the next quarter. This is the rationale for us paring our Q2 projection to 1.5% from 2.5%, despite an expected rebound in private final domestic demand growth from 1.3% to 2.9%.

The latter rebound reflects the fact that stock prices have fully recovered last year's plummet, relegating the 19.8% decrease as a painful but, temporary, correction. This milestone bodes well for any postponed discretionary outlays by consumers and businesses that have yet to be unleashed. Although the stock market began recovering before the start of the year, and earnestly after the Fed's January policy pivot, consumers and businesses were slow to shed their purchasing pessimism. This, in turn, also reflected the government shutdown (now over) and the extreme winter weather (now only partially over given intense spring flooding). This means that private demand will have averaged around 2.1% growth in 2019H1, down from 2.6% in 2018Q4, 3.0% in Q3 and 4.3% in Q2, in a comparable pattern to overall GDP growth.

It is tempting for some to point the finger of blame at the Fed for this slowdown. And while higher borrowing costs were clearly a factor, they aren't the only reason or even the most pressing. The latter distinction goes to the **fading influence of last year's tax cuts and other fiscal stimulus**. Meanwhile, the global economy has been slowing down, abetted by trade restrictions. And, labour shortages and other capacity constraints are increasingly becoming binding. Fed policy has nothing to do with these other reasons, but they'll continue to contribute to slowing growth over the forecast horizon. While we look for the Fed to remain on hold indefinitely, the net risk is that they'll have to cut rates if core PCE inflation falls, or fails to drift up to 2.0%, as the year unfolds. MJG

Why Are Canadian Companies Hiring So Much?

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The release of new jobs data this week highlights an enduring mystery about Canada's economy: **If growth is so weak, why are firms hiring like mad?** The industry survey printed 32,000 new positions in February after a whopping 80,000 increase in January, bringing gains for the past year to 404,500—the most since 2001 and spread widely across industries. The timelier household survey showed employment rose 332,000 in the past year to March (61% are full-time positions), with a third brought on board just this year. The average yearly rate of job growth in the two surveys (2.1%) is almost a full percentage point above the post-recession mean.

The hiring binge reflects several things. First, the nation is seeing the **fastest population increase in over half a century** due to the largest influx of international migrants in more than a century. As a result, the fastest labour force growth this cycle (1.8% y/y to Q1) has allayed worker shortages. Second, **labour is relatively cheap**. Taking an average of two hourly measures shows wages rising around 2%, or close to inflation.

Oddly, employment has outrun GDP, which grew 1.6% y/y in January and an estimated 1.4% in Q1. Hiring usually lags growth because productivity tends to rise over time. But the flip-side of the stellar jobs story is a **dismal productivity tale**, as the business sector posted virtually no increase last year (0.2% y/y to Q4), actually taking a step back from the already listless 0.8% mean of the previous decade. This compares with an upturn for U.S. businesses to 1.9% y/y in Q4 from the prior decade mean of 1.3%. U.S. productivity levels are already much higher than in Canada and that wedge is widening. In a 2016 survey, the Business Development Bank of Canada found that Canadian companies produced just 73% as much as U.S. firms, partly because they spent less on investment, in particular information technology.

True to form, **business investment is slowing**. In fact, spending on machinery and structures fell 4.3% in 2018 on a Q4/Q4 basis. Unlike adding staff, building a new facility or spending millions on new gear and technology requires a long-term commitment. And that's been soured by uncertain trade policies, the lack of pipeline capacity and burdensome regulations, all of which have **chipped away at competitiveness**. On this front, the World Economic Forum tally shows Canada slipping to 12th place among 140 nations, while major trading partner the U.S. moved up to top spot on the back of aggressive tax reform, lighter regulation and a more business-friendly climate.

If companies take the easy route of satisfying demand by adding staff over the initially more expensive path of increasing investment spending, then productivity will likely stay weak. And that can only point to slower growth. Indeed, weaker productivity led the Bank of Canada to **trim its estimate of potential growth**, which now averages a tick below the Fed's central tendency estimate of 1.9%.

True, putting more people back to work has long-term benefits by way of on-the-job training and incenting workforce participation. In fact, the participation rate of prime-age workers (25-to-54 years) rose to a record high recently after holding steady for several years. But unless workers have new and improved equipment, productivity will sag. **There is some hope on this front**. The Business Outlook Survey found that investment intentions outside the energy patch stayed positive due to low borrowing costs, the need to expand capacity and full expensing allowances from the Federal and Ontario governments. Speeding up regulatory reform would go a long way toward turning intentions into actions.

Sal

Everyone Make Some Room, Shift Over

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Despite a relatively quiet week on the data front, some interesting moves were taking place in the world of central banking:

- **Bank of Japan**… stayed on hold, as expected, but decided to set the record straight about its intentions. For the first time, the BoJ gave a fairly specific timeframe around how long it intends to maintain its accommodative policy, which was *"at least through around spring 2020"*. In other words, stop guessing and assuming it will be done sooner than that. It's going to be awhile.
- **Riksbank**… stayed on hold, as expected, but swung to the dovish side. Not only did it warn that rates will stay where they are *"for a somewhat longer period of time than was forecast in February"*, but it also announced that it would buy government bonds for 18 months, or from July 2019 until December 2020.
- **Bank of Canada**… officially shifted to neutral from its slight hiking bias.

Given the direction that most central banks are moving these days, one central bank still stands out. The **Bank of England**, which is meeting on May 2 (Super Thursday), has held onto the view that, if the economy grows in line with its projections, then *"an ongoing tightening of monetary policy over the forecast period"* would still be *"appropriate"*, though it always clarifies this with a warning that any moves would be *"gradual"* and to a *"limited extent"*. Although the Brexit can was kicked down the road to October 31, this simply prolongs the uncertainty. It's difficult to justify the slight hawkish leaning, so one should not be too surprised if these comments are dropped or revised. (Admittedly, yours truly figured that it could have done this at the last meeting in March, which it did not.)

The **ECB** also swung to the dovish side earlier this year, just as the Euro Area's economic momentum decelerated. **First quarter real GDP** for the Euro Area as a whole, as well as for France, Italy, and Spain, are due out at the end of April. Although some increase in output is expected, and Italy's technical recession will end, the results won't give the central bank a reason not to roll out the new TLTRO in September. And although **Spain's** economy is expected to have had a better start to the year than most of its counterparts (real GDP still over 2% y/y), the country faces its own challenges, particularly with a double-digit jobless rate, the second highest in the region (even Italy), trailing only Greece. And, that is just one of the issues troubling the population (migrants, Catalonia) and spurring some of the new political parties to life. And, these newcomers, such as VOX, could potentially be quite disruptive at this **Sunday's general election**. It will be essentially the left (Socialist Party, or PSOE, and the anti-austerity Unidas Podemos party), versus the right (People's Party, Ciudadanos, and VOX). Although no one party is projected to win the required 176 seats for a majority, it will be interesting to see which parties agree to form a coalition government. And, keep an eye on how the VOX party fares, as it could be a sign of which direction the EU Parliamentary elections take. JLee

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	Good News	Bad News
Canada ▪ BoC on hold and drops tightening bias amid a transitory slowdown in H1 ▪ TSX hits record high	**Wholesale Trade Volumes** +0.3% (Feb.) **Ottawa** posts a $3.1 bln surplus (Apr.-to-Feb.)—versus a $6.0 bln deficit a year ago	**SEPH Wages** slowed to +1.4% y/y (Feb.)
United States ▪ GDP growth shines in Q1, but details less bright ▪ Pres. Trump: trade talks with China *"going very well"* ▪ S&P 500, Nasdaq hit record highs	**Real GDP** +3.2% a.r. (Q1 A) **Durable Goods** +2.7% (Mar.)—and **core** +1.3% **New Home Sales** +4.5% to 692,000 a.r. (Mar.) **Homeowner Vacancy Rate** -0.1 ppts to 1.4% (Q1) **U of M Consumer Sentiment** revised up to 97.2 (Apr.)	**Existing Home Sales** -4.9% to 5.21 mln a.r. (Mar.) **Housing Starts** -0.3% to 1.139 mln a.r. (Mar.) **Building Permits** -1.7% to 1.269 a.r. (Mar.) **FHFA House Prices** slowed to +4.9% y/y (Feb.) **Chicago Fed National Activity Index** -0.15 (Mar.) **Initial Claims** +37k to 230k (Apr. 20 week)
Japan ▪ BoJ on hold until *"at least until the spring of 2020"*… with inflation and GDP outlook downgraded again	**Retail Sales** +0.2% (Mar.) **Department Store Sales** +0.1% y/y (Mar.)	**Industrial Production** -0.9% (Mar. P) **Jobless Rate** +0.2 ppts to 2.5% (Mar.) **All-Industry Activity Index** -0.2% (Feb.)
Europe ▪ PM May ditches plan for another parliamentary vote ahead of local elections	**France—Consumer Confidence** unch at 96 (Apr.) **France—Business Confidence** unch at 105 (Apr.)	**Euro Area—Consumer Confidence** -0.7 pts to -7.9 (Apr. A) **Germany—ifo Business Climate** -0.5 pts to 99.2 (Apr.)
Other ▪ PBoC signals a step back from broader stimulus measures ▪ President Xi says yuan will be at a *"reasonable, equilibrium level"* with markets playing a *"decisive"* role		**Australia—Consumer Prices** slowed to +1.3% y/y; **Producer Prices** slowed to +1.9% y/y (Q1)

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

Canada's Flattening 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, with growth in most provinces settling in around their potential rates. For an economy where regional variation is often extreme (think oil booms and busts), this is a pretty rare situation, with implications for the labour market, real estate and policy.

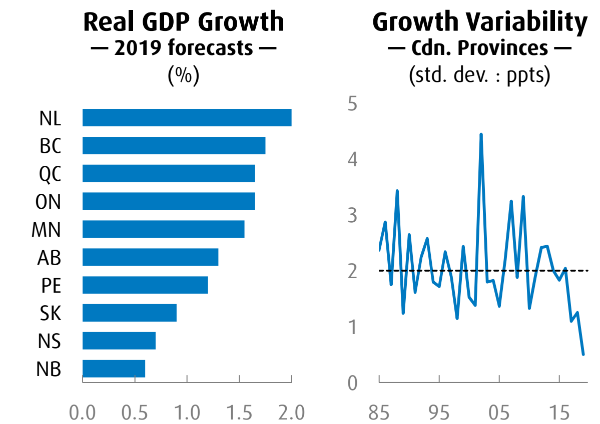
Overall economic growth for most provinces is now running around expected longer-run norms. At the top of the league table, growth is (temporarily) expected at 2% in Newfoundland & Labrador and just slightly below that mark in B.C., Quebec and Ontario. At the low end, New Brunswick and Nova Scotia are expected to post growth of around 0.6%, which is typical in that region. 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 (*Chart 1*). No longer are parts of the country growing 6%, while others are meandering; or, some provinces are in recession, while others are accelerating—that has been the case for much of the past 15 years.

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: The rest of Atlantic Canada now averages a low 7.6%. Jobless rate variability has actually been trending downward over a long period of time, perhaps helped by improved labour mobility (*Chart 2*). But, the latest move reverses the wider disparity seen in the wake of the oil price shock, when Alberta's rate surged, and Central Canada's fell. As a result, the chunky wage differential between high-paying Alberta and the other provinces has compressed since the oil shock.

Less variable labour market conditions across the country have caused interprovincial **migration flows** to balance out in some provinces. While a heated Ontario job market drew in 18,000 people in 2018, net flows in/out of Alberta have largely stabilized after drawing in nearly 40,000 people per year at the height of the boom (*Chart 3*). And, Atlantic Canada is no longer bleeding prime-age workers as it recently was, mainly to Alberta.

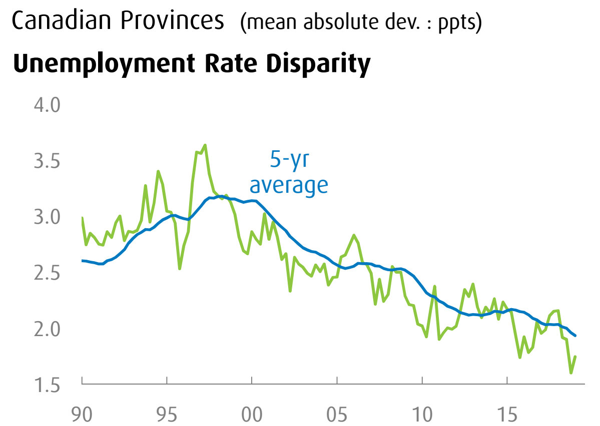
Finally, **housing market performance** has become more balanced, consistent with more even economic, job-market and demographic conditions. Provincial policy measures in the previously boiling B.C., and Southern Ontario markets have also helped to narrow the gap, while past BoC rate hikes and OSFI rule changes have dampened activity more broadly. In a nutshell, the weakest situation

Chart 1
Growth Gap Narrows



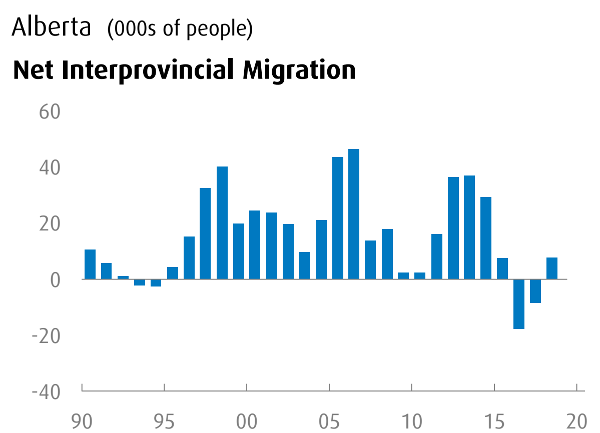
Sources: BMO Economics, Haver Analytics

Chart 2
Less Job Market Disparity



Sources: BMO Economics, Haver Analytics

Chart 3
Migration Flows Neutralizing



Sources: BMO Economics, Haver Analytics

in Canada is a correction by design (Vancouver), while the strongest are bouts of well-contained 6% price growth (Ottawa and Montreal).

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 when the Bank of Canada cut interest rates twice in 2015. Alberta was in recession at that time and needed stimulus, but the rate cuts were sparks for excessive conditions in B.C. and Ontario housing markets (which arguably could have used higher rates—*Chart 4*). For now, at least, conditions look quite balanced, and recent policy changes, such as foreign buyer taxes, have rightfully taken a more targeted approach on top of rate hikes.

Budget Season: Some Spending, Some Restraint

Nine provinces have tabled their FY19/20 budgets or given a meaningful fiscal update (post-election budgets from Alberta and PEI will be coming later). **Overall, this year's budget season doled out modest fiscal stimulus.** At the federal level, net new measures are $4.0 billion in FY19/20 (0.2% of GDP), rising to $5.7 billion in the following year—not big by any stretch, but not immaterial either. But, by letting the spending taps flow, Ottawa stepped deeper into the red ($19.8 billion this fiscal year) after strong revenues drove a better-than-expected FY18/19. At the provincial level, there was a clear mix of stimulus and restraint. Quebec, for example, rolled out $2.3 billion of new measures, lifting program spending by a hefty 5%. Ontario, however, has ratcheted down spending growth and is targeting meaningful restraint in real per-capita terms in the years ahead. Combined, provincial program spending growth is pegged at roughly 2.7% this fiscal year, or a very modest addition in real terms (*Chart 5*). With the exception of a 1 ppt PST reduction in Manitoba, tax changes were minimal (Alberta's pending budget could add further measures on this front). Federal spending growth will slow to below 2%, but that's partly because a big chunk of new spending was pushed out the door before FY18/19 ended.

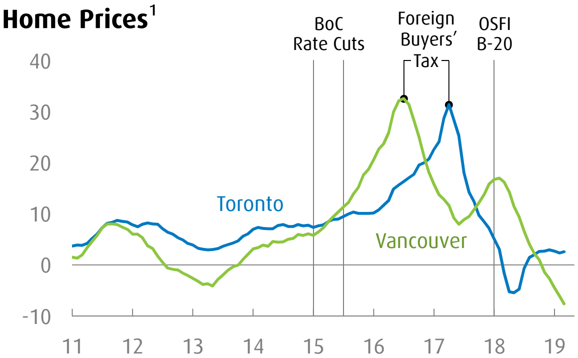
Assuming the fiscal year plays out as forecast, the majority of provinces (six or more) will post balanced budgets for the first time since FY07/08 (*Table 1*). This suggests that **the convergence theme is playing out on the fiscal front as well,** with previously strong credits in oil-producing provinces backtracking in recent years, while Quebec and parts of Atlantic Canada are seeing their debt burdens shrink. In fact, the spread between the highest and lowest net debt-to-GDP ratios will be the smallest in 28 years in FY19/20. The variability in 10-year credit spreads has also come down significantly since the oil shock, when a few provinces saw their spreads move sharply wider versus Ontario.

Chart 4

Home Prices: Tamed by Targeted Measures

Canada (y/y % chng)

Home Prices[1]



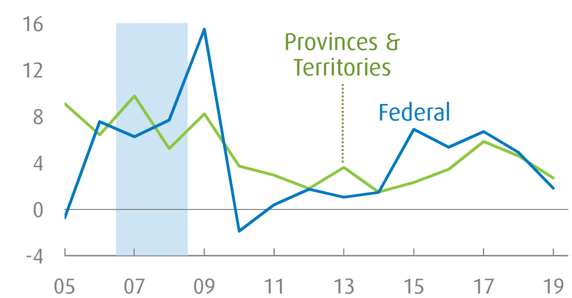
[1] MLS Home Price Index
Sources: BMO Economics, Haver Analytics

Chart 5

Spending Growth Moderates

Canada (y/y % chng)

Program Expenditures



Year marks first year of fiscal period (e.g., 19 = FY19/20)
Shading marks period of Canadian recession
Sources: BMO Economics, Haver Analytics

Table 1

Budget Recap: Deficits Persist

Budget Balance

Region	FY18/19 ($ mlns)	FY19/20 ($ mlns)	FY19/20 (% of GDP)	Net Debt (% of GDP)
British Columbia	374	274	0.1	15.0
Alberta[1]	(6,930)	(7,912)	**(2.2)**	10.7
Saskatchewan	(380)	34	0.0	15.1
Manitoba	(470)	(360)	(0.5)	34.7
Ontario	(11,700)	(10,300)	**(1.2)**	40.7
Quebec	5,606	2,504	0.6	38.8
New Brunswick	5	23	0.1	37.0
Nova Scotia	28	34	0.1	33.8
Prince Edward Island[1]	14	13	0.2	32.4
Newfoundland & Labrador	(522)	(575)[2]	**(1.6)**	39.1
Total	**(13,975)**	**(16,266)**	**(0.7)**	**30.3**
Federal	**(14,900)**	**(19,800)**	**(0.9)**	**30.7**

[1] Latest fiscal update [2] Excl. $2.5 billion Atlantic Accord payment
Sources: BMO Economics, budgets ( ) = deficit

Economic Forecast Summary for April 26, 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 ($blns : a.r.)	-69.0	-63.4	-40.4	-61.9	-54.4	-53.3	-53.3	-55.0	-58.7	-54.0	-52.0
Interest Rates	(average for the quarter : %)										
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.44	1.75	1.75
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.70	1.70	1.70	1.37	1.65	1.70
10-year Bond	2.24	2.28	2.28	2.32	1.86	1.75	1.80	1.85	2.28	1.80	1.75
Canada-U.S. Interest Rate Spreads	(average for the quarter : bps)										
90-day	-44	-66	-61	-70	-79	-75	-75	-75	-60	-76	-72
10-year	-52	-64	-65	-72	-80	-81	-79	-78	-63	-79	-74
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.2	3.2	1.5 ↓	2.0	1.9	2.9	2.5 ↑	1.7
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	2.1	2.1	2.3	2.4	2.0	2.2
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.7	3.6	3.5	3.9	3.7	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.19	1.19	1.22 ↓	1.24	1.22	1.25	1.22 ↓	1.23
Current Account Balance ($blns : a.r.)	-496	-414	-506	-538	-468 ↑	-483 ↑	-499 ↑	-512 ↑	-488	-490 ↑	-535 ↑
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	74.5 ↓	74.8 ↓	75.3 ↓	77.2	75.0 ↓	76.3
C$/US$	1.27	1.29	1.31	1.32	1.33	1.34 ↑	1.34 ↑	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	1.30 ↓	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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Real GDP at Basic Prices

Tuesday, 8:30 am

Feb. (e)	**unch**
Consensus	*unch*
Jan.	+0.3%

The Canadian economy had a shockingly strong start to the year as Alberta's mandated oil production cuts only had a modest impact on GDP. Given the smaller-than-expected drop in mining, oil & gas, we could get some catch-up in February or maybe a downward revision to January, suggesting there's significant downside risk. The rest of the economy looks to have been mixed. Home sales plunged in the month, which will hit real estate, while manufacturing activity softened as well. On the positive side, retail and wholesale trade were a bit firmer. There's also some upside from construction, with Statscan showing firmer activity according to one measure out earlier this week. However, the track record on predicting construction GDP is spotty, February weather was pretty bad and we know housing starts plunged in the month, so we haven't taken that upside into account in our forecast. Even with a flat February GDP reading, Q1 growth could top 1% thanks to the strong start to the year. Unfortunately, net exports look like they'll subtract heavily from Q1 GDP, so we're going to stay on the conservative side here too (at 0.7%). Perhaps we aren't being conservative enough, with the BoC at just 0.3% for the quarter.

United States

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Personal Income & Consumption

Monday, 8:30 am

8:30 am	**Personal Spending**	**Personal Income**
Mar. (e)	**+0.8%**	**+0.4%**
Consensus	*+0.8%*	*+0.4%*
Feb. (e)	**+0.3%**	**n.a.**
Consensus	*+0.4%*	*n.a.*
Feb.	n.a.	+0.2%
Jan.	+0.1%	-0.1%
8:30 am	**Core PCE Price Index**	
Mar. (e)	**+0.1%**	**+1.7% y/y**
Consensus	*+0.1%*	*+1.7% y/y*
Feb. (e)	**+0.1%**	**+1.7% y/y**
Consensus	*+0.1%*	*+1.7% y/y*
Jan.	+0.1%	+1.8% y/y

Based on the first-quarter GDP release and monthly retail sales figures, **personal spending** likely rose 0.3% in February and 0.8% in March, with volumes rising 0.1% and 0.5%, respectively. The upshot is that, after three soggy months that were bogged down by special factors (bad weather, government shutdown, equities scare), consumers are now hopping back into the saddle, supported by steady income gains, record wealth and low debt costs. Personal income is expected to rise 0.4% in March and 4.2% y/y. Meantime, core PCE prices likely rose a mild 0.1% in both February and March (as per its CPI cousin), trimming the yearly rate to 1.7%. This will only heighten rate-cut chatter.

Manufacturing ISM (PMI)

Wednesday, 10:00 am

Apr. (e)	**55.3**
Consensus	*55.0*
Mar.	55.3

Before the **manufacturing ISM index** (PMI) rebounded in March, it had logged the largest six-month slide since the Great Recession, as concerns over an escalating trade war with China, labour shortages and extreme climate conditions checked activity, against the background of slowing U.S. and global economic growth. These concerns persisted to various degrees into the spring months (albeit ebbing on the anxiety scale), and we judge March's move was more an indication of factory activity stabilizing but still expanding (albeit at a slower pace than late last summer). We suspect the stability continued in April with an unchanged PMI. The regional factory metrics released so far were mixed in the month.

FOMC Announcement

Wednesday, 2:00 pm;
press conference at 2:30 pm

The FOMC's policy statement is probably going to sound similar to March's pronouncement, particularly when it comes to the policy guidance and economic forecasts. While the previous assessment of *"slower growth of household spending and business fixed investment in the first quarter"* still holds, there could be some acknowledgement of the more upbeat tone to recent data, let alone the rebound in job gains. The press conference's opening statement could discuss the potential for a technical adjustment in the IOER again, as the effective fed funds rate has been drifting up within its range (setting the stage for a possible 5 bps IOER cut in June). During the Q&A, we expect Chair Powell will preach from the book of policy patience and data dependency, emphasizing that the Fed could be on hold for a long while (at least through the end of 2019 as 11 of 17 FOMC participants projected at the March meeting). We see the balance of risks leaning on the side of a rate cut during this period, which is where the market is pricing things, too.

Nonfarm Payrolls

Friday, 8:30 am

Apr. (e)	**+180,000**	
Consensus	*+185,000*	
Mar.	+196,000	
	Unemployment Rate	
Apr. (e)	**3.8%**	
Consensus	*3.8%*	
Mar.	3.8%	
	Average Hourly Earnings	
Apr. (e)	**+0.3%**	**+3.3% y/y**
Consensus	*+0.3%*	*+3.3% y/y*
Mar.	+0.1%	+3.2% y/y

New half-century lows for jobless claims point to another solid increase in **nonfarm payrolls** in April, likely in the 180,000 ballpark. Though taking a step back from the prior month's print (196,000) and the six-month mean (207,000) due to a slower growing economy and chronic worker shortages, this would be on par with the decent three-month norm while extending the record hiring streak to 103 months. Meantime, the household survey will likely show a solid rebound in both jobs and the participation rate, keeping the jobless rate at 3.8%. After little change in March, average hourly earnings are expected to rise 0.3% and 3.3% y/y. Though returning to the upper end of the cycle range, the yearly rate still implies minimal pressure on inflation. We will have a keen eye on aggregate work hours after a honking 0.5% advance the prior month, as a further material gain would flag strong momentum and an upside risk to our Q2 GDP growth call of 1.5%.

Non-manufacturing ISM (NMI)

Friday, 10:00 am

Apr. (e)	**57.9**
Consensus	*57.2*
Mar.	56.1

The **non-manufacturing ISM index** (NMI) dropped 3.6 points in March to a 19-month low of 56.1, which was the second largest monthly decline this cycle. We reckon this marked the NMI's near-term nadir, after a six-month slide from 13-year highs (60.8) in September. The interval's first half saw escalating trade war fears and plummeting stock prices prod consumers and businesses to postpone discretionary outlays, which were followed in the second half by record winter precipitation, a polar vortex and extreme flooding. Economic activity should now get a boost during the spring months as these pent-up outlays are unleashed. The regional service sector metrics produced by the Philadelphia and Richmond Fed boasted elevated April activity, and we look for the national figure to turn up as well.

Europe

See Jennifer Lee's Thought on page 6.

Spain — General Election

Sunday, April 28

Euro Area — Real GDP

Tuesday

Real GDP		
Q1 A (e)	**+0.3%**	**+1.0% y/y**
Q4	+0.2%	+1.1% y/y

BoE Monetary Policy Announcement, Minutes and Quarterly Inflation Report

Thursday, 7:00 am ET;
press conference at 7:30 am ET

		Apr 26 [1]	Apr 19	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	1	4
	United States	2.41	2.41	-1	3	5
	Japan	-0.17	-0.18	1	0	-2
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.83	0.82	0	-2	-9
	Australia	1.57	1.69	-13	-21	-53
2-Year Bonds	Canada	1.54	1.62	-8	0	-32
	United States	2.28	2.38	-10	2	-21
10-Year Bonds	Canada	1.69	1.77	-8	8	-28
	United States	2.50	2.56	-6	9	-19
	Japan	-0.05	-0.04	-1	4	-4
	Germany	-0.02	0.02	-4	6	-26
	United Kingdom	1.14	1.20	-6	14	-14
	Australia	1.78	1.95	-17	0	-54
Risk Indicators	VIX	13.2	12.1	1.1 pts	-0.5 pts	-12.2 pts
	TED Spread	18	17	1	-4	-28
	Inv. Grade CDS Spread [2]	58	57	1	-6	-29
	High Yield CDS Spread [2]	331	325	5	-19	-119
					(percent change)	
Currencies	US¢/C$	74.31	74.68	-0.5	-0.8	1.3
	C$/US$	1.346	1.339	—	—	—
	¥/US$	111.48	111.92	-0.4	0.6	1.6
	US$/€	1.1165	1.1245	-0.7	-0.5	-2.6
	US$/£	1.293	1.299	-0.5	-0.8	1.4
	US¢/A$	70.48	71.52	-1.5	-0.7	0.0
Commodities	CRB Futures Index	184.64	187.13	-1.3	0.5	8.7
	Oil (generic contract)	63.28	64.07	-1.2	5.2	39.4
	Natural Gas (generic contract)	2.54	2.49	1.9	-4.7	-13.7
	Gold (spot price)	1,286.46	1,275.39	0.9	-0.5	0.3
Equities	S&P/TSX Composite	16,525	16,613	-0.5	2.6	15.4
	S&P 500	2,922	2,905	0.6	3.1	16.6
	Nasdaq	8,092	7,998	1.2	4.7	22.0
	Dow Jones Industrial	26,457	26,560	-0.4	2.0	13.4
	Nikkei	22,259	22,201	0.3	5.0	11.2
	Frankfurt DAX	12,303	12,222	0.7	6.7	16.5
	London FT100	7,414	7,460	-0.6	1.9	10.2
	France CAC40	5,565	5,580	-0.3	4.0	17.6
	S&P ASX 200	6,386	6,260	2.0	3.3	13.1

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

Global Calendar
April 29 – May 3

BMO Capital Markets®

	Monday April 29	Tuesday April 30	Wednesday May 1	Thursday May 2	Friday May 3
Japan	**Markets Closed**	**Markets Closed**	**Manufacturing PMI** **Apr. F (e) 49.5** Mar. 49.2		
Euro Area	**EURO AREA** **M3 Money Supply** **Mar. (e) +4.2% y/y** Feb. +4.3% y/y **Economic Confidence** **Apr. (e) 105.0** Mar. 105.5 **Consumer Confidence** **Apr. F (e) -7.9** Mar. -7.2 **SPAIN** **General Election (Sunday, Apr. 28)**	**EURO AREA** **Real GDP** **Q1 A (e) +0.3% +1.0% y/y** Q4 +0.2% +1.1% y/y **Jobless Rate** **Mar. (e) 7.8%** Feb. 7.8% **GERMANY** **Unemploy. Jobless Rate** **Apr. (e) -5,000 4.9%** Mar. -7,000 4.9% **Consumer Price Index** **Apr. P (e) +0.5% +1.7% y/y** Mar. +0.5% +1.4% y/y **GfK Consumer Confidence** **May (e) 10.3** Apr. 10.4 **FRANCE** **Real GDP** **Q1 P (e) +0.3% +1.1% y/y** Q4 +0.3% +1.0% y/y **Consumer Spending** **Mar. (e) +0.5% -1.3% y/y** Feb. -0.4% -1.8% y/y **Consumer Price Index** **Apr. P (e) +0.3% +1.4% y/y** Mar. +0.9% +1.3% y/y **ITALY** **Real GDP** **Q1 P (e) +0.1% -0.1% y/y** Q4 -0.1% unch y/y **Jobless Rate** **Mar. P (e) 10.7%** Feb. 10.7% **Consumer Price Index** **Apr. P (e) +0.8% +1.3% y/y** Mar. +2.3% +1.1% y/y		**EURO AREA** **Manufacturing PMI** **Apr. F (e) 47.8** Mar. 47.5 **GERMANY** **Retail Sales** **Mar. (e) -0.5% +2.9% y/y** Feb. +0.5% +4.7% y/y	**EURO AREA** **Consumer Price Index** **Apr. A (e) +1.5% y/y** Mar. +1.4% y/y **Core CPI** **Apr. A (e) +1.0% y/y** Mar. +0.8% y/y **Producer Price Index** **Mar. (e) +0.1% +3.0% y/y** Feb. +0.1% +3.0% y/y
U.K.		**GfK Consumer Confdience** **Apr. (e) -13** Mar. -13	**Manufacturing PMI** **Apr. (e) 53.1** Mar. 55.1 **Nationwide House Prices** **Apr. (e) +0.1% +0.7% y/y** Mar. +0.2% +0.7% y/y	**Construction PMI** **Apr. (e) 50.3** Mar. 49.7 **7:00 am ET BoE Monetary Policy Announcement, Minutes and Quarterly Inflation Report** **7:30 am ET BoE Governor Carney's Press Conference** **Local Elections**	**Services PMI** **Apr. (e) 50.4** Mar. 48.9 **Composite PMI** **Apr. (e) 50.6** Mar. 50.0
Other		**CHINA** **Mfg. PMI Nonmfg. PMI** **Apr. (e) 50.6 55.0** Mar. 50.5 54.8 **Composite PMI** **Apr.** Mar. 54.0 **MEXICO** **Real GDP** **Q1 P** Q4 +0.2% +1.7% y/y		**CHINA** **Caixin Manufacturing PMI** **Apr. (e) 51.0** Mar. 50.8	**AUSTRALIA** **Building Approvals** **Mar. (e) -12.5% -25.1% y/y** Feb. +19.1% -12.5% y/y

D = date approximate

Upcoming Policy Meetings | BoE: June 20, Aug. 1, Sep. 19 | ECB: June 6, July 25, Sep. 12

North American Calendar
April 29 – May 3

BMO Capital Markets®

Canada

Monday April 29

Tuesday April 30

8:30 am **Real GDP at Basic Prices**
Feb. (e) **unch**
Consensus *unch*
Jan. +0.3%

8:30 am **Industrial Product Price Index** | **Raw Materials Price Index**
Mar. (e) **+0.3%** | **+3.0%**
Feb. +0.3% | +4.6%

11:00 am **BoC Governor Poloz and Senior Deputy Governor Wilkins appear before the House Standing Committee on Finance in Ottawa**

10:30 am 3-, 6- & 12-month bill auction $12.0 bln (new cash -$1.9 bln)

Wednesday May 1

9:30 am **Markit Manufacturing PMI**
Apr.
Mar. 50.5

4:15 pm **BoC Governor Poloz and Senior Deputy Governor Wilkins appear before the Senate Committee on Banking, Trade and Commerce in Ottawa**

Auto Sales[D]
Apr.
Mar. -2.5% y/y

Thursday May 2

Noon 2-year bond auction $3.0 bln

5-year bond auction announcement

Friday May 3

United States

Monday April 29

8:30 am **Personal Spending** | **Personal Income**
Mar. (e) **+0.8%** | **+0.4%**
Consensus *+0.8%* | *+0.4%*
Feb. (e) **+0.3%** | **n.a.**
Consensus *+0.4%* | *n.a.*
Feb. n.a. | +0.2%
Jan. +0.1% | -0.1%

8:30 am **Core PCE Price Index**
Mar. (e) **+0.1%** **+1.7% y/y**
Consensus *+0.1%* *+1.7% y/y*
Feb. (e) **+0.1%** **+1.7% y/y**
Consensus *+0.1%* *+1.7% y/y*
Jan. +0.1% +1.8% y/y

10:30 am **Dallas Fed Mfg. Activity (and revisions)**
Apr. (e) **10.0**
Mar. 8.3

11:30 am 13- & 26-week bill auction $75 bln

Tuesday April 30

8:30 am **Employment Cost Index**
Q1 (e) **+0.7%** **+2.8% y/y**
Consensus *+0.8%* *+2.9% y/y*
Q4 +0.7% +2.9% y/y

9:00 am **S&P Case-Shiller Home Price Index (20 city)**
Feb. (e) **+0.4%** **+3.1% y/y**
Consensus *+0.4%* *+3.1% y/y*
Jan. +0.1% +3.6% y/y

9:45 am **Chicago PMI**
Apr. (e) **59.0**
Consensus *59.0*
Mar. 58.7

10:00 am **Conference Board Consumer Confidence Index**
Apr. (e) **126.0**
Consensus *126.8*
Mar. 124.1

10:00 am **Pending Home Sales**
Mar. (e) **+0.7%**
Consensus *+0.5%*
Feb. -1.0%

FOMC Meeting Begins

U.S./China trade talks resume in Beijing

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

Wednesday May 1

7:00 am **MBA Mortgage Apps**
Apr. 26
Apr. 19 -7.3%

8:15 am **ADP National Employment Report**
Apr. (e) **+180,000**
Consensus *+180,000*
Mar. +129,000

9:45 am **Markit Manufacturing PMI (Apr. F)**

10:00 am **Manufacturing ISM (PMI)**
Apr. (e) **55.3**
Consensus *55.0*
Mar. 55.3

10:00 am **Construction Spending**
Mar. (e) **+0.1%**
Consensus *+0.3%*
Feb. +1.0%

2:00 pm **FOMC Announcement**

2:30 pm **Fed Chair Powell's Press Briefing**

Ward's Total Vehicle Sales[D]
Apr. (e) **17.1 mln a.r.**
Consensus *17.0 mln a.r.*
Mar. 17.5 mln a.r.

8:30 am 3- & 10-year note, 30-year bond auction and other quarterly refinancing announcements

Thursday May 2

7:30 am **Challenger Layoff Report**
Apr.
Mar. +0.4% y/y

8:30 am **Initial Claims**
Apr. 27 (e) **215k (-15k)**[C]
Apr. 20 230k (+37k)

8:30 am **Continuing Claims**
Apr. 20
Apr. 13 1,655k (+1k)

8:30 am **Productivity** | **Unit Labour Costs**
Q1 P (e) **+2.0% a.r.** | **+1.0% a.r.**
Consensus *+1.2% a.r.* | *+2.1% a.r.*
Q4 +1.9% a.r. | +2.0% a.r.

10:00 am **Factory Orders**
Mar. (e) **+1.4%**
Consensus *+1.1%*
Feb. -0.3%

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

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

Friday May 3

8:30 am **Nonfarm Payrolls**
Apr. (e) **+180,000**
Consensus *+185,000*
Mar. +196,000

8:30 am **Unemployment Rate**
Apr. (e) **3.8%**
Consensus *3.8%*
Mar. 3.8%

8:30 am **Average Hourly Earnings**
Apr. (e) **+0.3%** **+3.3% y/y**
Consensus *+0.3%* *+3.3% y/y*
Mar. +0.1% +3.2% y/y

8:30 am **Goods Trade Deficit**
Mar. A (e) **$74.0 bln**
Consensus *$73.5 bln*
Feb. $70.9 bln

8:30 am **Wholesale and Retail Inventories (Mar. A)**

9:45 am **Markit Services/Composite PMI (Apr. F)**

10:00 am **Non-manufacturing ISM (NMI)**
Apr. (e) **57.9**
Consensus *57.2*
Mar. 56.1

Fed Speakers: Chicago's Evans (10:15 am); Vice Chair Clarida (11:30 am); New York's Williams (1:45 pm); Gov. Bowman (3:00 pm); St. Louis' Bullard, San Francisco's Daly, Dallas' Kaplan, Cleveland's Mester (7:45 pm)

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

Upcoming Policy Meetings | Bank of Canada: May 29, July 10, Sep. 4 | FOMC: June 18-19, July 30-31, Sep. 17-18