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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

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The Transient Test

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This week's **FOMC statement** called out overall and core inflation, declaring that they *"have declined and are running below 2 percent"*. Overall PCE inflation was 1.5% y/y in March, deemed no longer underperforming *"largely as a result of lower energy prices"* (which was the excuse in the previous statement). Core PCE inflation was 1.6% y/y, having drifted down steadily since December's 2.0% bang-on-target result. In the past three months alone, core inflation ran at a 0.7% annual rate, the slowest in more than four years. After hovering in the 1.8%-to-2.0% range for the 11 months ending January, which made the Fed comfortable enough to hike policy rates four times, core inflation has broken out of the bottom of the range… not the top, as Fed Chair Powell has oft pined for.

In the press conference, Powell said *"we suspect that some transitory factors may be at work"* and employed the *"transitory"* or *"transient"* adjective 10 other times during the Q&A. Despite a strong headline result for Q1 real GDP growth (3.2% annualized), consumers and businesses were battening down the spending hatches during the period, owing to the equity market scare, government shutdown and wicked weather (private final domestic demand expanded only 1.3%), which begot major disinflation. Powell cited some areas where it was especially noticeable such as the cost of portfolio management services, apparel prices and airfares. Interestingly, the Dallas Fed's trimmed-mean PCE was 2.0% y/y in March, the same as in December, indicating that the slip in core inflation was caused more by a collection of outsized price changes than by an economy-wide swath of disinflation. In being *"patient"*, the Fed is going to wait for domestic spending and core inflation to pick up. Both real PCE and capital goods orders were solid in March, serving as a strong handoff for Q2, so the spending side appears to be picking up. Now, **it's up to prices**.

It's unsettling how inflation surprises regularly on the downside, given that the economy is operating at full capacity. It sports the biggest positive output gap in more than 18 years (+0.8% in Q1). The unemployment rate is hovering at a half-century low (3.6% in April). This suggests that secular, rather than cyclical, forces are still driving America's inflation process. To wit, as the jobless rate dropped two-tenths to 3.6% last month, average hourly earnings growth didn't budge from 3.2% y/y, which is the middle of its nine-month 3.0%-to-3.4% range. So, maybe we won't see a ready re-acceleration of core inflation in the months ahead.

In the presser, Chair Powell asserted that *"the Committee is strongly committed to our symmetric 2 percent inflation objective"*. We interpret this to mean that the Fed *"strongly"* wants to get core inflation trekking a bit above 2.0%… to boldly go where no Fed has gone before… since the Great Recession. Core PCE inflation has not printed above 2.1% since August 2008. If the secular forces, such as automation and digitalization, are truly ruling the galaxy, then getting core inflation a bit above 2% might require more monetary policy accommodation. **Bottom Line:** You shouldn't be too dismissive of Q1's core inflation ebb. MJG

Has the Productivity Payoff Arrived?

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We've long talked about the three major structural forces applying a heavy brake on inflation, namely automation, e-commerce and globalization. To this list we might add one more: **productivity**. Among U.S. nonfarm companies, labour productivity grew 2.4% in the year to Q1, the fastest since 2010. Part of the increase reflected one-off boosts from inventory building and import paring. Still, even the four-quarter average rate has climbed to eight-year highs of 1.7%, nearly a full percentage point above the eight-year norm (0.8%). While it's premature to claim that the long-awaited payoff from recent investments in digital technologies and advanced automation has finally arrived, the current productivity trend is promising.

Higher productivity means the economy could grow faster than previously thought without sparking inflation. In fact, **2½% might be the economy's new speed limit** if the productivity trend stays at 1.7% and the labour force expands 0.8% as in the past seven years. This would be materially faster than Patrol Officer Powell and Company's 1.9% estimate. One way to know whether the economy's speed limit has indeed shifted higher is if real GDP grows consistently faster than the current perceived limit, while rates of unemployment and core inflation hold relatively steady… as per the past year for the most part.

There's no doubt **American companies are investing heavily in new automation**. Spending on information processing gear rose 9.5% in 2018 and that on software jumped 10.3% following similar large gains in 2017. True, corporate tax cuts and lighter regulations stoked spending last year, but so did the drive to expand capacity (amid typical late-cycle constraints) and to enhance competitiveness (amid a fierce online battle led by Amazon). More firms are turning to automation to satisfy demand in the face of worker shortages. For instance, Walmart has rolled out robots across its stores (to sweep floors and stock shelves) well ahead of schedule.

If productivity growth stays healthy, inflation will likely stay low. The drive to automate is also heightening *"automation anxiety"*, which is dissuading wage increases. Hourly compensation was subdued at 2.5% y/y in Q1, little changed from the past eight-year mean (2.4%). Normally, wage growth tracks productivity higher. But not today, as more workers across industries fear that more of their day-to-day duties will be eventually done by algorithms and robots. The OECD estimates that 14% of global workers will be displaced by automation within two decades, while another one-third of jobs will be radically changed. Because wages haven't kept pace with productivity, unit labour costs—the biggest driver of inflation along with price expectations—barely rose in the past year (0.1%), far less than the eight-year norm (1.5%). Barring a sharp upturn, core inflation could stay below the Fed's 2% target for some time.

For equity investors, **sustained healthy economic and job growth, rising productivity, tame inflation and low interest rates are about as close to nirvana as you can get.** While it's too soon to crack open the champagne, recent trends are worth toasting to.

Sal

Powell Sounds a Bit like Poloz

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The Fed drove some wild market swings this week, but the message in the end was clear: policy rates are on hold until something material changes. Hmmm… where have we heard that before? The **Bank of Canada** delivered a very similar message last week, though the backdrop is a bit different with below-target inflation in the U.S. and a widening output gap up here. And, the impact on the BoC from this week's FOMC meeting only reinforces the view that policymakers will be patient.

This week's data were consistent with the BoC's narrative as well. **February GDP** was below consensus, falling 0.1%, but that's still in-line with the Bank's 0.3% Q1 forecast. There's a bit of a disconnect in the data, currently, with the industry figures (production data) showing growth of slightly below 1% for the quarter. Meantime, demand side data have been materially weaker. Trade, in particular, was exceptionally weak in February, so the March data, out next week, could have a big impact on Q1 tracking (partially because there can be chunky revisions). We'll also get some housing figures and the first data point for Q2 in April jobs next week. Barring something extreme, **the BoC's conservative forecast should remain intact, which means rates aren't going anywhere for a while.** *B.A.A.R.*

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Canada

- BoC Gov. Poloz sees interest rates rising once economic headwinds fade
- China/Canada tensions rise

Good News

Industrial Product Prices +1.3%; **Raw Materials Prices** +2.8% (Mar.)

Bad News

Real GDP at Basic Prices -0.1% (Feb.)

Auto Sales -3.5% y/y (Apr.)

Conference Board's Consumer Confidence -6.0 pts to 112.0 (Apr.)

Markit Manufacturing PMI -0.8 pts to 49.7 (Apr.)

United States

- Less-dovish FOMC on hold as weak inflation pressures seen to be *"transient"*

Good News

Nonfarm Payrolls +263,000 (Apr.)

Jobless Rate -0.2 ppts to 3.6% (Apr.)—lowest since Dec. '69

Average Hourly Earnings +0.2% (Apr.)

Real Personal Spending jumps +0.7%; **Wages & Salaries** +0.4% (Mar.)

Conference Board's Consumer Confidence +5.0 pts to 129.2 (Apr.)

Factory Orders +1.9% (Mar.)

Nonfarm Productivity +3.6% a.r. (Q1 P)

Pending Home Sales +3.8% (Mar.)

S&P Case-Shiller Home Prices +3.0% y/y (Feb.)—gradual increase positive for homebuyers

Bad News

Core PCE Deflator +1.6% y/y (Mar.)—slowest since Sep. '17

Employment Cost Index +2.8% y/y (Q1)—slowing

Unit Labour Costs -0.9% a.r. (Q1)

Auto Sales fell to 4½-year low 16.4 mln a.r. (Apr.)

Construction Spending -0.9% (Mar.)

Goods Trade Deficit widened to $71.4 bln (Mar. A)

Wholesale Inventories unch; **Retail Inventories** -0.3% (Mar. A)

Manufacturing ISM -2.5 pts to 52.8 (Apr.)

Non-manufacturing ISM -0.6 pts to 55.5 (Apr.)

Initial Claims unch at 230k (Apr. 27 week)

Europe

- BoE on hold; raises GDP growth forecasts but trims inflation outlook
- Gov. Carney warns market is underestimating rate hike possibility
- Italy's recession is over
- Minority win for Spain's socialist party PSOE, after general election

Good News

Euro Area—Real GDP +0.4% q/q (Q1 A); **Jobless Rate** -0.1 ppts to decade-low 7.7% (Mar.)

Euro Area—Consumer Prices +1.7% y/y (Apr. A)

Euro Area—Private Sector Credit steady at +3.1% y/y (Mar.)

Germany—Unemployment -12,000 (Apr.)—and **Jobless Rate** steady at 4.9%

Germany—GfK Consumer Confidence steady at 10.4 (May)

France—Real GDP +0.3% q/q (Q1 P); **Jobless Rate** steady at 8.8% (Mar. P)

Italy—Real GDP +0.2% q/q (Q1 P); **Jobless Rate** -0.3 ppts to 10.2% (Mar. P)

U.K.—Services PMI +1.5 pts to 50.4; **Construction PMI** +0.8 pts to 50.5; **Composite PMI** +0.9 pts to 50.9 (Apr.)

U.K.—GfK Consumer Confidence steady at -13 (Apr.)

U.K.—Nationwide House Prices +0.4% (Apr.)

Bad News

Euro Area—Economic Confidence -1.6 pts to 104.0 (Apr.)

Germany—Retail Sales -0.2% (Mar.)

France—Consumer Spending -0.1% (Mar.)

U.K.—Manufacturing PMI -2.0 pts to 53.1 (Apr.)

Other

- China stops pork imports from two Canadian firms

Bad News

China—Manufacturing PMI -0.4 pts to 50.1; **Non-manufacturing PMI** -0.5 pts to 54.3; **Composite PMI** -0.6 pts to 53.4 (Apr.)

China—Caixin Manufacturing PMI -0.6 pts to 50.2 (Apr.)

Australia—Building Approvals -15.5% (Mar.)

Mexico—Real GDP -0.2% q/q (Q1 P)

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

Youth Drivers: Mind the Hype

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Revving below the Redline

You can only redline for so long before overheating; given past experiences, the controlled deceleration being displayed in the North American auto market should be seen as a relatively positive outcome. Combined Canadian and U.S. **sales are poised to slip below a 19 million unit pace for the first time in four years, but should remain quite healthy on a cyclical basis**.

In the U.S., the sugar-high from the Tax Cuts and Jobs Act is wearing off, steering sales out of the passing lane after a late cycle surge last year. **Volumes are expected to fall more closely in line with the multi-year downward glide observed since 2016's cyclical peak, levelling around 16.5 million units**. In Canada, the market has turned, with sales cooling after running red-hot for the past two years. The overarching factor is the broad deceleration in consumer credit growth, which is spilling into the auto segment. On this front, the about-face by both the Federal Reserve and the Bank of Canada on policy tightening reinforces our view that sales will downshift smoothly, rather than hit the hand brake. **Strong demographics should be sufficient to keep Canadian sales humming above the 1.9 million unit mark.**

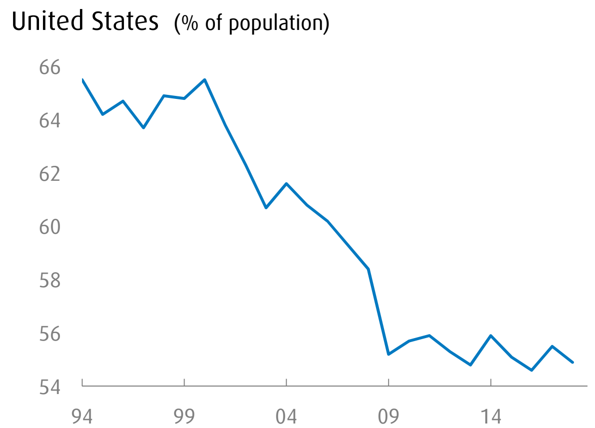
Naturally, lower volumes entail fiercer competition. Dealerships with stronger inventory mixes and superior customer service stand to benefit, while others may experience a more difficult transition. From a macro perspective, lower production and sales volumes in North America will continue to act as a drag on growth.

Ride Bailing?

An inordinate amount of ink has been splashed on the "worrying" driving and buying trends of Millennials and generation-Z. Generally, the gist is that urbanization, "uberfication" and "mindfulness" have dramatically altered the American auto market. But, are we really entering a post-car world? Have Millennials reached a level of mindfulness that has slammed the door shut on the auto industry as we know it?

Evidence suggests that this is not the case; rather, our old friend the invisible hand seems to be playing a much larger role. The much publicized drop in the percentage of young drivers has much more to do with the structural shifts in the domestic economy and the re-alignment of incentives it has entailed, as well as more immediate cyclical factors, than any of the more marketable narratives being floated around.

Chart 1
Participation Rate—Ages 16 to 24



Sources: BMO Economics, Haver Analytics

On a structural basis, it is little wonder that the share of the student aged population with a driver's licence has decreased: far fewer are employed on a full-time basis. The U.S. labour force participation rate of 16-24 year olds has nosedived from 65% in the 1990s to 55% in 2017 (*Chart 1*). This follows the broader trend of the domestic economy's re-orientation towards incentivizing skills-based trades and higher education. Or, put differently, a greater share of the youth population is concentrating on furthering their education and training rather than pursuing full-time employment during or immediately after high school (*Chart 2*).

In this context, the existential crisis caused by the 2013 study from the University of Michigan[1] that first socialized the decline in young drivers seems somewhat overblown, and it becomes even more questionable when examining the details. The researchers asked respondents "What is the main reason you do not currently have a driver's licence", to which the overwhelming response (37.9%) amongst those aged 18 to 19 was that they were "too busy or didn't have enough time to get a driver's licence". This figure dropped significantly in older millennial brackets (20-29), strongly suggesting that students were rationally prioritizing studying over the driver's exam (which has become more difficult to pass, more costly and less accessible, while providing less immediate incentive if one doesn't need to drive to work) rather than eschewing the prospect of vehicle ownership entirely. **There also appears to be a bit of age-ism at play in the popular analysis, as the same study shows a boom of licensed drivers aged 70 and older, with the licensed share skyrocketing from 55% in 1983 to 76% in 2014**! A similar trend can be found through the 55-69 age group; a key reason why the new vehicle market has kept churning despite shifting trends in younger segments.

Cyclical economic factors have also played an important role. Over the 2011-2013 period of the study, the unemployment rate for 16-19 year olds averaged well over 20% (after hitting an eye-watering peak of 27% in 2009), by far the worst job market on record for this age segment, negating any imperative to pursue a licence (if one could even afford to). College-aged students and graduates didn't fare much better, facing the worst job market in a generation while being saddled with record levels of student debt. As these factors subsided, **the driver's licence uptake in the 19-24 year old bracket improved, helping to bring the share of the licenced driving-age population in line with recent historic norms** (*Chart 3*).

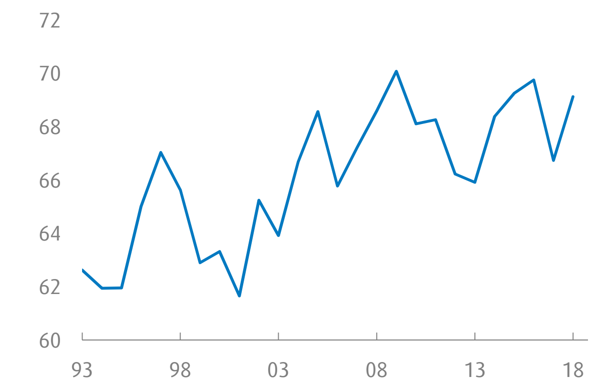
With respect to demographics**, it may surprise some that the share of the urban population has remained flat over the past sixteen years**. A Pew Research Center study of U.S. Census data[2] found that suburban communities were the ones to enjoy the largest population flows, growing 16% from 2000 to 2016, and seeing their share of the population rise from 53% to 55% (*Chart 4*). **While the urban**

[1] Schoettle, B., & Sivak, M. (2013, August). The Reasons for the Recent Decline in Young Driver Licensing in the U.S. Retrieved from https://deepblue.lib.umich.edu/bitstream/handle/2027.42/99124/102951.pdf

[2] Parker, K., Horowitz, J. M., & Brown, A. (2018, May). Demographic and economic trends in urban, suburban and rural communities. Retrieved from https://www.pewsocialtrends.org/2018/05/22/demographic-and-economic-trends-in-urban-suburban-and-rural-communities/

Chart 2
High School Graduates Enrolled in College

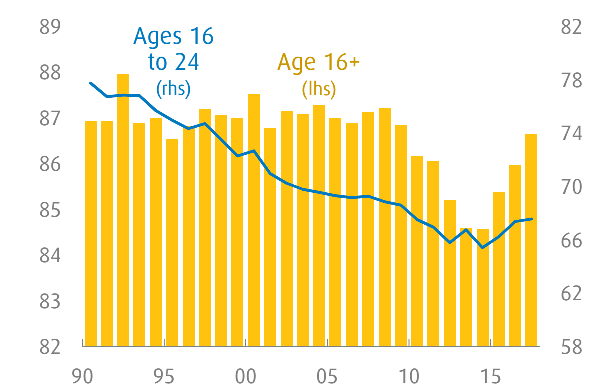
United States (percent)



Sources: BMO Economics, Haver Analytics

Chart 3
Share of Population with a Driver's License

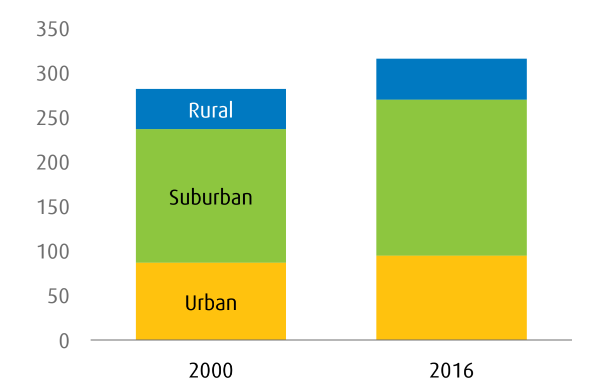
United States (percent)



Sources: BMO Economics, Haver Analytics

Chart 4
Population

United States (millions)



Sources: BMO Economics, Haver Analytics

population is indeed rising (+13% over the same period), its importance in the scheme of the domestic auto market has not changed materially, negating the notion that urbanization is depressing sales. It is true that suburban commuters have become more conscientious, as evidenced by an increase in public transit ridership, but this has mostly served to ebb the growth rate of vehicle miles travelled. Indeed, a car is still a necessity for many to get to a transit station or to run daily errands.

Ride-sharing presents another interesting issue. First, an important caveat: at the time of the initial University of Michigan study, ride-sharing platforms were not nearly as prevalent as they are today, so their effects during the sample period were likely limited. Insofar as the current situation is concerned, **research has shown that ride sharing has become a substitute to public transit use, rather than a replacement for vehicle ownership**. A study conducted by UC Davis[3] found that 90% of ride-sharing users have not been influenced to change their vehicle ownership decision, a finding backed by trip data which showed that the majority of rides were to restaurants, bars, parties or cafes. Furthermore, the study found that the majority of these trips would have alternatively been made by transit, cycling or walking, suggesting that ride-sharing is actually adding to congestion. A more recent survey conducted by the Pew Research Center[4] found that while adoption of ride sharing services has more than doubled in the past five years (to 36% of the population), over two thirds of users utilize the service less than once per month. In fact, only 4% of the U.S. adult population use ride-sharing apps on a weekly basis, largely unchanged from the last poll conducted in 2015. Therefore, **ride-sharing doesn't yet appear to be a significant factor in the vehicle market**, though advances in autonomous driving could drive structural change in the next decade.

Bottom Line: Structural and cyclical economic factors have altered the behaviour of young drivers, but a sea-change in vehicle ownership trends is unlikely in the near-term. Simply put, millennials and generation-Z are pushing the pursuit of a license and the purchase of a vehicle later in life based on the employment opportunities available. On the other hand, older drivers are driving for longer, keeping the aggregate driving population roughly in line with historical norms. This helps to explain the steady upward creep in luxury sales and general shift in composition towards the higher-end being witnessed across all brands. **More broadly, the focus on shifting trends between demographic brackets isn't what's most important; rather the fact that U.S. population growth is at its lowest level in modern history presents a far greater issue for industry prospects in the medium term**.

3 Clewlow, R. R., & Mishra, G. S. (2017, October). Disruptive Transportation: The Adoption, Utilization, and Impacts of Ride-Hailing in the United States. Retrieved from https://steps.ucdavis.edu/new-research-ride-hailing-impacts-travel-behavior/

4 Jiang, J. (2019, January). More Americans are using ride-hailing apps. Retrieved from https://www.pewresearch.org/fact-tank/2019/01/04/more-americans-are-using-ride-hailing-apps

Economic Forecast Summary for May 3, 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 ($blns : a.r.)	-69.0	-63.4	-40.4	-61.9	-54.4	-53.3	-53.3	-55.0	-58.7	-54.0	-52.0
Interest Rates (average for the quarter : %)											
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.44	1.75	1.75
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.70	1.70	1.70	1.37	1.70 ↑	1.70
10-year Bond	2.24	2.28	2.28	2.32	1.86	1.75	1.80	1.85	2.28	1.80	1.75
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-44	-66	-61	-70	-79	-77 ↓	-76 ↓	-76 ↓	-60	-77 ↓	-72
10-year	-52	-64	-65	-72	-80	-80 ↑	-78 ↑	-77 ↑	-63	-78 ↑	-74
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.2	3.2	1.5	2.0	1.9	2.9	2.5	1.7
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	2.1	2.1	2.3	2.4	2.0	2.2
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.6 ↓	3.6	3.5	3.9	3.6 ↓	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.19	1.19	1.22	1.24	1.22	1.25	1.22	1.23
Current Account Balance ($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$/Euro	1.23	1.19	1.16	1.14	1.14	1.12 ↓	1.13 ↓	1.14	1.18	1.13 ↓	1.16
US$/£	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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Housing Starts
Wednesday, 8:15 am

Apr. (e)	**200,000 a.r. (+3.9%)**	
Consensus	*194,500 a.r. (+1.0%)*	
Mar.	192,489 a.r. (+15.8%)	

New Housing Price Index
Thursday, 8:30 am

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

Building Permits
Friday, 8:30 am

Mar. (e)	**+2.5%**
Feb.	-5.7%

Building permits are expected to climb 2.5% in March after steep back-to-back monthly declines. Look for gains in the residential and non-residential sectors. While the trend in the value of residential permits has dipped in recent months, the number of permits over the past year is still close to 240k. That suggests we'll see housing starts perk back up to 200k or higher in April. Lastly, new home prices are expected to be flat in March for the seventh time in eight months, leaving prices up a snick from a year ago.

Merchandise Trade Deficit
Thursday, 8:30 am

Mar. (e)	**$2.5 bln**
Consensus	*$2.3 bln*
Feb.	$2.9 bln

The **trade deficit** narrowed sharply to start the year, retracing a chunk of the oil price plunge-driven record shortfall recorded in December. Oil prices have rebounded, which has helped, and looks to narrow the trade gap a bit further in March. While the headline deficit improved in February, the details of the report were horrendous. Exports plunged almost across the board, which is a bit of an oddity, suggesting we'll either see a reversal or some upward revisions. Imports were quite soft as well, though there wasn't the same breadth of weakness as in exports. Even so, look for an increase here too. Indeed, volumes will likely rebound as well, but if not, that would be a big red flag on trade. 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.

Employment
Friday, 8:30 am

Apr. (e)	**+0.1% (+20,000)**
Consensus	*+0.1% (+15,000)*
Mar.	-0.04% (-7,200)
8:30 am	**Unemployment Rate**
Apr. (e)	**5.7%**
Consensus	*5.8%*
Mar.	5.8%
8:30 am	**Average Hourly Wages**
Apr. (e)	**+2.4% y/y**
Mar.	+2.4% y/y

March was a dose of reality for the **Canadian jobs** data, with a negative print after the strongest six-month run since 2002. Following that setback, we're looking for employment to bounce back with a 20,000 increase. Our call would bring us back to the prior positive trend, boosted by the surge in population/labour force growth. On a sector basis, look for health care to rebound after the fifth-largest drop on record in March, while hotels/restaurants may see a turnaround as well. On the downside, public administration stands out as ripe for some payback, after seeing the biggest quarterly increase is just over two years. The labour force is expected to resume growing in April, but not by enough to keep the jobless rate from ticking down to 5.7%. And, wage growth looks to be flat at 2.4% y/y. However, there have been solid wage gains over the past four months and we'll be watching if that becomes a trend.

United States

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Goods & Services Trade Deficit
Thursday, 8:30 am

Mar. (e)	**$50.0 bln**
Consensus	*$51.3 bln*
Feb.	$49.4 bln

Based on the advance report on goods trade, the **overall deficit** looks to rise modestly to $50.0 bln in March after falling to eight-month lows. The earlier tumble reflected pronounced weakness in imports, largely due to previous efforts by American firms to stockpile Chinese goods ahead of expected new tariffs that did not materialize. But with consumer spending rebounding sharply in March, imports are bouncing back. A further advance in goods exports tempered the increase in the deficit, as the downturn in the global economy (and notably Europe) seems to be steadying. In tallying the advance estimate of Q1 GDP, the BEA assumed little change in the March trade balance, so the expected modest deterioration will shave the headline rate of 3.2%.

Consumer Prices

Friday, 8:30 am

Apr. (e)	**+0.4%**	**+2.1% y/y**
Consensus	*+0.4%*	*+2.1% y/y*
Mar.	+0.4%	+1.9% y/y
	Ex. Food & Energy	
Apr. (e)	**+0.2%**	**+2.1% y/y**
Consensus	*+0.2%*	*+2.1% y/y*
Mar.	+0.1%	+2.0% y/y

Another big spike in gasoline prices will likely boost **consumer prices** 0.4% in April, raising the yearly rate to 2.1% from 1.9%. Amazon's price cuts at Whole Foods could take some pressure off recently higher food costs, though Mexican border delays may work the other way. After a couple of tame months, core prices are expected to rise 0.2% amid a partial retracement of a record decline in clothing prices (as one department store used a new method to report prices to the BLS). This could lift the yearly core rate a tenth to 2.1%, which is where the shorter-term metrics have been coalescing around. That's a half percentage point above the core PCE rate (1.6% in March), partly due to the greater importance of shelter costs in the CPI (which are up 3.4% y/y). There is some downside risk if businesses need to aggressively discount items to unwind a recent inventory bulge that reflected earlier stockpiling of China's goods ahead of possible new tariffs. Given the recent tumble in the core PCE measure, a downside miss in the CPI would raise more eyebrows on the FOMC and the odds of a rate cut. Chair Powell believes much of the recent decline reflects transitory factors, such as the drop in clothing prices. We'll see how temporary the decline is in coming months.

		May 3 [1]	Apr 26	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	0	-1	5
	Japan	-0.17	-0.17	0	-2	-2
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.81	0.83	-1	-1	-10
	Australia	1.54	1.57	-2	-19	-55
2-Year Bonds	Canada	1.63	1.55	9	4	-23
	United States	2.32	2.28	4	-2	-17
10-Year Bonds	Canada	1.77	1.69	8	7	-20
	United States	2.52	2.50	2	3	-16
	Japan	-0.05	-0.05	0	-1	-4
	Germany	0.02	-0.02	4	2	-22
	United Kingdom	1.20	1.14	6	9	-7
	Australia	1.79	1.78	1	-12	-53
Risk Indicators	VIX	12.9	12.7	0.2 pts	0.1 pts	-12.5 pts
	TED Spread	15	17	-2	-2	-30
	Inv. Grade CDS Spread [2]	60	58	2	-1	-28
	High Yield CDS Spread [2]	333	326	6	-7	-118
					(percent change)	
Currencies	US¢/C$	74.58	74.32	0.4	-0.2	1.7
	C$/US$	1.341	1.346	—	—	—
	¥/US$	111.18	111.58	-0.4	-0.5	1.4
	US$/€	1.1196	1.1151	0.4	-0.2	-2.4
	US$/£	1.315	1.292	1.8	0.9	3.1
	US¢/A$	70.23	70.42	-0.3	-1.2	-0.4
Commodities	CRB Futures Index	182.46	184.66	-1.2	-2.8	7.5
	Oil (generic contract)	62.37	63.30	-1.5	-1.1	37.3
	Natural Gas (generic contract)	2.57	2.58	-0.3	-3.4	-12.5
	Gold (spot price)	1,281.71	1,286.25	-0.4	-0.8	-0.1
Equities	S&P/TSX Composite	16,463	16,613	-0.9	0.4	14.9
	S&P 500	2,937	2,940	-0.1	1.5	17.2
	Nasdaq	8,140	8,146	-0.1	2.5	22.7
	Dow Jones Industrial	26,460	26,543	-0.3	0.1	13.4
	Nikkei	22,259	22,259	0.0	2.1	11.2
	Frankfurt DAX	12,399	12,315	0.7	3.2	17.4
	London FT100	7,389	7,428	-0.5	-0.8	9.8
	France CAC40	5,547	5,569	-0.4	1.3	17.2
	S&P ASX 200	6,336	6,386	-0.8	2.5	12.2

[1] = as of 11:10 am   [2] = One day delay

Global Calendar
May 6 – May 10

BMO Capital Markets

Japan

Monday May 6
Markets Closed

Tuesday May 7
Manufacturing PMI
Apr. F (e) **49.5**
Mar. 49.2

Wednesday May 8
Services PMI
Apr.
Mar. 52.0

Composite PMI
Apr.
Mar. 50.4

BoJ Minutes from Mar. 14-15 meeting

Thursday May 9
Consumer Confidence Index
Apr. (e) **40.4**
Mar. 40.5

Friday May 10
Household Spending
Mar. (e) **+1.7% y/y**
Feb. +1.7% y/y

BoJ Summary of Opinions from Apr. 24-25 meeting

Euro Area

Monday May 6
EURO AREA

Services PMI
Apr. F (e) **52.5**
Mar. 53.3

Composite PMI
Apr. F (e) **51.3**
Mar. 51.6

Retail Sales
Mar. (e) **-0.1%** **+1.6% y/y**
Feb. +0.4% +2.8% y/y

Tuesday May 7
GERMANY

Factory Orders
Mar. (e) **+1.5%** **-5.4% y/y**
Feb. -4.2% -8.4% y/y

FRANCE

Trade Deficit
Mar.
Feb. €4.0 bln

Wednesday May 8
GERMANY

Industrial Production
Mar. (e) **-0.5%** **-2.6% y/y**
Feb. +0.7% -0.4% y/y

Friday May 10
GERMANY

Trade Surplus
Mar.
Feb. €18.6 bln

FRANCE

Industrial Production
Mar. (e) **-0.5%** **unch y/y**
Feb. +0.4% +0.6% y/y

Manufacturing Production
Mar.
Feb. +1.1% +2.8% y/y

ITALY

Industrial Production
Mar.
Feb. +0.8% +0.9% y/y

Retail Sales
Mar. (e) **+0.1%** **+0.7% y/y**
Feb. +0.1% +0.9% y/y

U.K.

Monday May 6
Markets Closed

Friday May 10
Real GDP
Q1 P (e) **+0.5%** **+1.8% y/y**
Q4 +0.2% +1.4% y/y

Monthly Real GDP **3m/3m**
Mar. (e) **unch** **n.a.**
Feb. +0.2% +0.4%

Index of Services 3m/3m
Mar. (e) **+0.4%**
Feb. +0.4%

Industrial Production
Mar. (e) **+0.1%** **+0.4% y/y**
Feb. +0.6% +0.1% y/y

Manufacturing Production
Mar. (e) **unch** **+1.1% y/y**
Feb. +0.9% +0.6% y/y

Trade Deficit **Non-EU**
Mar. (e) **£13.8 bln** **£14.1 bln**
Feb. £14.1 bln £5.8 bln

Other

Monday May 6
CHINA

Caixin Services PMI
Apr. (e) **54.2**
Mar. 54.4

Caixin Composite PMI
Apr.
Mar. 52.9

Foreign Reserves [D]
Apr. (e) **$3.1 trln**
Mar. $3.1 trln

Tuesday May 7
CHINA

Trade Surplus [D]
in USD **in CNY**
Apr. (e) **$33.7 bln** **n.a.**
Mar. $32.6 bln 221.2 bln

AUSTRALIA

Trade Surplus
Mar. (e) **A$4.5 bln**
Feb. A$4.8 bln

Retail Sales
Mar. (e) **+0.2%**
Feb. +0.8%

RBA Monetary Policy Meeting

Wednesday May 8
CHINA

U.S./China trade talks resume in Washington, D.C.

NEW ZEALAND

RBNZ Monetary Policy Meeting

BRAZIL

Central Bank of Brazil Monetary Policy Meeting

Thursday May 9
CHINA

CPI **PPI**
Apr. (e) **+2.5% y/y** **+0.6% y/y**
Mar. +2.3% y/y +0.4% y/y

Aggregate Yuan Financing [D]
Apr. (e) **1.7 trln**
Mar. 2.9 trln

New Yuan Loans [D]
Apr. (e) **1.2 trln**
Mar. 1.7 trln

M2 Money Supply [D]
Apr. (e) **+8.5% y/y**
Mar. +8.6% y/y

Friday May 10
CHINA

Foreign Direct Investment [D]
Apr.
Mar. +8.0% y/y

AUSTRALIA

RBA Statement on Monetary Policy

[D] = date approximate

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

North American Calendar
May 6 – May 10

BMO Capital Markets®

Monday May 6

Canada

1:45 pm **BoC Governor Poloz speaks to the Canadian Credit Union Association and Winnipeg Chamber of Commerce**

United States

Fed Speaker: Philadelphia's Harker (9:30 am)

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

Tuesday May 7

Canada

10:00 am	**Ivey Purchasing Managers Index (s.a.)**
Apr.	
Mar.	54.3

United States

10:00 am	**Job Openings & Labor Turnover Survey (Mar.)**	
10:00 am	**MBA Mortgage Delinquencies (Q1)** [D]	
3:00 pm	**Consumer Credit**	
Mar. (e)	**+$16.0 bln**	
Consensus	*+$16.0 bln*	
Feb.	+$15.2 bln	

Fed Speakers: Dallas' Kaplan (7:00 am); Vice Chair of Supervision Quarles (11:35 am)

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

1:00 pm 3-year note auction $38 bln

Wednesday May 8

Canada

8:15 am	**Housing Starts**
Apr. (e)	**200,000 a.r. (+3.9%)**
Consensus	*194,500 a.r. (+1.0%)*
Mar.	192,489 a.r. (+15.8%)

Noon 5-year bond auction $4.0 bln

United States

7:00 am	**MBA Mortgage Apps**
May 3	
Apr. 26	-4.3%

U.S./China trade talks resume in Washington, D.C.

Fed Speaker: Gov. Brainard (8:30 am)

1:00 pm 10-year note auction $27 bln

Thursday May 9

Canada

8:30 am	**Merchandise Trade Deficit**	
Mar. (e)	**$2.5 bln**	
Consensus	*$2.3 bln*	
Feb.	$2.9 bln	
8:30 am	**New Housing Price Index**	
Mar. (e)	**unch**	**+0.1% y/y**
Feb.	unch	+0.1% y/y

3-year bond auction announcement

United States

8:30 am	**Initial Claims**	
May 4 (e)	**220k (-10k)** [C]	
Apr. 27	230k (unch)	
8:30 am	**Continuing Claims**	
Apr. 27		
Apr. 20	1,671k (+17k)	
8:30 am	**Goods & Services Trade Deficit**	
Mar. (e)	**$50.0 bln**	
Consensus	*$51.3 bln*	
Feb.	$49.4 bln	
8:30 am	**PPI Final Demand**	
Apr. (e)	**+0.2%**	**+2.3% y/y**
Consensus	*+0.2%*	*+2.3% y/y*
Mar.	+0.6%	+2.2% y/y
8:30 am	**PPI Final Demand ex. F&E**	
Apr. (e)	**+0.2%**	**+2.4% y/y**
Consensus	*+0.2%*	*+2.4% y/y*
Mar.	+0.3%	+2.4% y/y

8:30 am **Fed Chair Powell gives opening remarks at the 2019 Federal Reserve Community Development Research Conference in Washington, D.C.**

10:00 am	**Wholesale Inventories**
Mar. F (e)	**unch**
Feb.	+0.1%

Fed Speakers: Atlanta's Bostic (9:45 am); Chicago's Evans (1:15 pm)

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

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

1:00 pm 30-year bond auction $19 bln

Friday May 10

Canada

8:30 am	**Employment**
Apr. (e)	**+0.1% (+20,000)**
Consensus	*+0.1% (+15,000)*
Mar.	-0.04% (-7,200)
8:30 am	**Unemployment Rate**
Apr. (e)	**5.7%**
Consensus	*5.8%*
Mar.	5.8%
8:30 am	**Average Hourly Wages**
Apr. (e)	**+2.4% y/y**
Mar.	+2.4% y/y
8:30 am	**Building Permits**
Mar. (e)	**+2.5%**
Feb.	-5.7%

United States

8:30 am	**Consumer Prices**	
Apr. (e)	**+0.4%**	**+2.1% y/y**
Consensus	*+0.4%*	*+2.1% y/y*
Mar.	+0.4%	+1.9% y/y
8:30 am	**CPI Ex. Food & Energy**	
Apr. (e)	**+0.2%**	**+2.1% y/y**
Consensus	*+0.2%*	*+2.1% y/y*
Mar.	+0.1%	+2.0% y/y
2:00 pm	**Budget Balance**	
Apr. '19		
Consensus	*+$165.0 bln*	
Apr. '18	+$214.3 bln	

Fed Speakers: Gov. Brainard (8:30 am); Atlanta's Bostic (9:08 am); New York's Williams (10:00 am)

[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