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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

June 7, 2019

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Fed's Rate-Cut Finger Getting Itchy as Global Trade Risks Rise

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In his opening remarks to the Fed's confab on Monetary Policy Strategy, Tools and Communication Practices this week in Chicago, and before touching on the theoretical and longer-term topics the conference was considering, Chairman Powell revealed, definitely, that global trade risks were now on the FOMC's policy radar. The Fed's head said: *"We do not know how or when these issues [recent developments involving trade negotiations and other matters] will be resolved. We are closely monitoring the implications of these developments for the U.S. economic outlook and, as always, we will act as appropriate to sustain the expansion…"*

Last month's escalation of the U.S./China trade war was a tipping point as far as the U.S. economic outlook was concerned. For us, it shifted our growth forecast from a slightly above-potential track to a slightly below-potential profile, cementing our call for Fed policy being on hold indefinitely. The negative shock from tit-for-tat tariff hikes and hoisted non-tariff barriers was going to have a direct economic impact, lessening U.S. exports and imports. The annual change in both nominal goods exports and imports was already negative in April. But, it was also going to have an indirect impact, depressing business confidence. Relatively low hiring in May could be a sign of the latter, after core capital goods orders dropped in April.

However, the escalation was also a game-changer as far as the risks surrounding the outlook were concerned. It significantly lifted the odds of additional tit-for-tat actions with China and a broadening of America's trade war to cover non-North American automotive imports, which would elicit retaliation from the likes of the EU and Japan. It also appears to have emboldened the Administration to employ tariffs as a tool for something other than trade policy, in the case of looming duties on Mexico (owing to which Mexico will surely retaliate).

At some point, the combination of trade-war dampened economic performance and trade-risk dimmed growth prospects will compel the Fed to ease policy. The on-the-ground evidence is not yet compelling (see Sal Guatieri's Thought on page 3). Indeed, a slightly below-potential pace at this very late stage of the business cycle—with the economy boasting the largest positive output gap since 2000 and the lowest jobless rate in 50 years—could even be considered welcomed. Perhaps the trade war is now doing what FOMC-projected rate hikes were supposed to do back in December.

Unless the economy deteriorates rapidly, a Fed move is more likely to be elicited by the intensification of risks to the outlook. Markers on this journey could come as early as when *"emergency powers"* tariffs actually get put on Mexican goods or the June 28-29 G20 meeting should Presidents Trump and Xi not play nice in the sandbox (possibly followed by a Trump tweet proclaiming Section 301 tariffs on all remaining Chinese goods).

Tariffs (like other taxes) are inherently growth-sapping; but, they are also, potentially, inflation-boosting. However, the secular forces of disinflation driven by technology-enabled disruption and demographics appear not only to be effectively checking the cyclical inflation pressures prodded by full employment, but also ensuring that tariff hikes, so far, haven't fuelled the inflation process. Core PCE inflation was 1.6% y/y in April, with the shorter-term trends suggesting little upward pressure ahead. The subdued readings also reflect the impact of turn-of-the-year weakness in the economy if the Dallas Fed's trimmed-mean PCE inflation metric is any guide.

On balance, **between sub-target core inflation prints persisting despite tariffs and full employment and the risks of significantly slower economic growth owing to the global trade war, the chances of "risk-mitigating" Fed rate cuts are increasing sharply**. The Fed has temporarily eased policy on past occasions to address acute shocks facing the U.S. economy (1987 and 1998 were examples). They could do so again.

The **Bank of Canada is already on alert**, stating that *"global trade risks have increased"* in its May 29 policy announcement. However, unless Fed easing coincides with the U.S. economy deteriorating rapidly, we doubt the Bank is going to immediately match the Fed's initial risk-mitigating rate cuts. The BoC's core inflation measures are much closer to the 2% target (they averaged 1.9% y/y in April) and the policy rate, at 1.75%, is currently negative in real terms (the Fed's is positive). Also, having brought a semblance of stability to the housing market (Vancouver aside… see Robert Kavcic's Feature on page 7) with a tandem of multi-jurisdictional macro-prudential policy and central bank rate hikes, **we suspect the Bank will be careful about risking some of this stability with rate cuts.** We also suspect how the Canadian dollar fares amid initially-unmatched Fed rate hikes will likely be a key determinant of the timing of any subsequent Bank of Canada action.

Finally, this week, the Reserve Bank of Australia cut its policy rate in the face of slowing domestic economic growth, persistent sub-target inflation and, for the global economy, the fact that *"downside risks stemming from the trade disputes have increased."* Could this be a Fed omen? MJG

U.S. Economy: D-Day Approaches

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We are on the **cusp of lowering our U.S. growth outlook,** with the only question being: by how much? The answer largely depends on the outcome of current U.S./Mexico immigration talks. The hope is that enough progress can be made to forestall the trade war opening up on an entirely new and worrisome front. There's no doubt that the current battle, mostly with China, is already chipping away at the U.S. expansion. Factories, which are on the front lines, have cut output this year. **Employment is slowing**, with payroll gains averaging 151,000 in the past three months compared with 198,000 in the prior three-month period and 223,000 in 2018. Trade could subtract from Q2 GDP, as goods export volumes careened 3.4% in April, fully erasing earlier gains. China's retaliatory actions, a stronger dollar and slower global economy are weighing. Fewer imports of capital goods hint at softness in business spending, despite rampant borrowing by nonfinancial corporations (8.1% y/y in Q1).

We can at least take some comfort from the fact that the **expansion is still alive and kicking** at the ripe old age of 10 years. **Households are soldiering on**, leading the charge. Sales of new motor vehicles accelerated to above a 17 million rate in May.

This, alongside firmer chain-store receipts, suggests consumer spending amped up in Q2 after hitting a few speed bumps earlier. Household confidence remains high due to low joblessness (the unemployment rate stayed at 3.6% in May), and equities led a rebound in net worth to record highs in Q1. Household debt (mortgages and loans) is rising only moderately (3.3% y/y) and less than income, reducing the debt ratio to the lowest level (90.4%) since 2001 and well below the peak (124.2%) reached during the credit craze. So, the debt burden is lessening. Continued solid consumer spending on services likely explains an improvement in the ISM non-manufacturing index to 3-month highs in May (56.9). As well, the Fed's Beige Book reported a *"slight improvement"* in activity to mid-May and a *"solidly positive"* near-term outlook, even if growth was described as *"modest"*. Importantly, the supply side of the economy is on the mend, with labour productivity up a crackling 3.4% annualized in Q1 and 2.4% from a year ago, an 8½-year high. This is taking some strain off companies looking for workers, keeping wages firmly in check. Although new mortgage applications have retreated from cycle highs, last month was the second wettest since at least 1921. Lower mortgage rates should provide ongoing support to housing markets.

The U.S. expansion appears healthy enough to weather past tariff measures that are taking an estimated 0.4% toll on GDP. Still, returning even to potential growth (of around 1.9%) will be a challenge for the rest of this year and in 2020. Worse, the **trade war could merely be starting**, as the President is teeing up potential tariffs on more than $800 billion worth of imports from China and Mexico and on motor vehicles. Considering likely retaliatory moves, this could slice another 1.0% from GDP. We should know next week whether a more dangerous attack on the economy will occur due to tariffs on Mexico. After the June 28-29 G20 Summit, we will see if the battle with China mushrooms. All in, there will be few fireworks to celebrate the expansion's 10th birthday this month and, presumably, record-breaking longevity in July.

Sal

This Wasn't Supposed to Happen

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I gather that **this wasn't how he envisioned his final five months on the job**. Let's go back to November 2011. Mario Draghi had been ECB President for just three days when he startled markets with an across-the-board 25 bp rate cut, even with inflation at a 3-year high of 3.0%. But, Europe was going through an historic sovereign-debt crisis, Greece was on the verge of being ushered out the door of the Euro Area, Italy's government was unravelling, France was trying to hang onto its AAA rating… you get the picture. Nine months later, on July 26, 2012, President Draghi gave that famous speech. *"Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough."* And that vow is what he will be remembered for. The Euro Area is still intact, and the EUR is still alive and well (more or less). The region's economy recovered from the crisis; in fact, real GDP climbed 2.5% in 2017, the best reading in a decade. Things understandably cooled somewhat in 2018 from such a performance, while some special factors also weighed (such as new emissions testing procedures). But, there was enough improvement for the ECB to head toward the exits. Hints were dropped throughout last year that the bond buying program would be coming to an end, and those hints grew louder as the weeks went by. The death knell for the Asset Purchase

Program (APP) was officially sounded on December 13th. But, in the background, a dark cloud loomed eerily over the celebrations, under the guise of slower economic data, and plenty of uncertainty around Italy (fiscal fight with Brussels), France (Yellow Vests) and Brexit. Not surprisingly, waffling on the next step, a rate hike, began.

That brings us to the here and now. A U.S./China trade war is in the works, the U.S. is starting one with Mexico, and there is a potential battle brewing between the U.S. and Europe. Germany's economy is struggling and Italy is barely growing. There are political headwinds blowing with the new makeup of the European Parliament. With all of this in mind, the ECB was forced to not just delay its rate hike plans (until mid-2020, which sounds early to me) but to re-open discussions on rate cuts and (shudder) bringing back the APP, if things worsen. And it's not alone; the RBA and the RBI already eased this week, the RBNZ did so in May.

Bottom Line: It wasn't supposed to end this way. Alas, any moves to normalization will be made under the next ECB president's watch. JLee

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	Good News	Bad News
Canada ▪ Beijing to scrutinize meat imports from Canada as trade tensions intensify ▪ Oil rebounds after falling into bear market; C$ strengthens	**Employment** +27,700 (May) **Jobless Rate** -0.3 ppts to 5.4% (May)—45-yr low **Average Hourly Wages** +2.8% y/y (May) **Merchandise Trade Deficit** narrowed to $1.0 bln (Apr.) **Labour Productivity** +0.3% (Q1) **Ivey PMI** steady at 55.9 (May)	**Auto Sales** -5.9% y/y (May) **Capacity Utilization** -0.9 ppts to 80.9% (Q1)—lowest since 2017Q1 **Markit Manufacturing PMI** -0.6 pts to 49.1 (May)
United States ▪ Washington delays tariffs on some Chinese imports even as President Trump raises possibility of even more levies ▪ Fed Chair Powell leaves rate cut on the table if needed ▪ Beige Book improves slightly	**Jobless Rate steady** at 3.6% (May) **Average Hourly Earnings** +0.2% (May) **Auto Sales** jumped to 17.3 mln a.r. (May) **Goods & Services Trade Deficit** narrowed to $50.8 bln (Apr.) **ISM Non-manufacturing** +1.4 pts to 56.9 (May) **Household Net Worth** rose to $108.6 trln (Q1) **Wholesale Inventories** revised up to 0.8% (Apr.) **Initial Claims** steady at 218k (June 1 week)	**Nonfarm Payrolls** +75,000 (May)—well below expected, with downward revisions **Construction Spending** unch (Apr.) **Factory Orders** -0.8% (Apr.) **ISM Manufacturing** -0.7 pts to 52.1 (May)—2½-yr low **Productivity** revised down to +3.4% a.r. (Q1)—and **Unit Labour Costs** -1.6% a.r.
Japan ▪ Policymakers debate modern monetary theory with some favouring more stimulus	**Capital Spending** +6.1% y/y (Q1) **Manufacturing PMI** revised up to 49.8 (May)—but still contracting	**Household Spending** slowed to +1.3% y/y (Apr.) **Services PMI** -0.1 pts to 51.7; **Composite PMI** -0.1 pts to 50.7 (May)
Europe ▪ ECB to keep rates low *"at least through the first half of 2020"* but *"determined"* to add more stimulus if needed ▪ Italy's coalition government unites to defy EU budget rules amid disciplinary proceedings ▪ Race begins for new Tory leader as PM May steps down	**Euro Area—Jobless Rate** -0.1 ppts to 7.6% (Apr.) **Euro Area—Services PMI** revised up to 52.9; **Composite PMI** revised up to 51.8 (May) **Germany—Factory Orders** +0.3% (Apr.) **France—Industrial Production** +0.4% (Apr.) **France—Jobless Rate** steady at 8.7% (Apr. P) **France—Trade Deficit** narrowed to €5.0 bln (Apr.) **Italy—Jobless Rate** steady at 10.2% (Apr. P) **U.K.—Services PMI** +0.6 pts to 51.0; **Composite PMI** steady at 50.9 (May)	**Euro Area—Consumer Prices** slowed to +1.2% y/y (May A)—and **Core** to +0.8% y/y **Euro Area—Retail Sales** -0.4% (Apr.) **Germany—Industrial Production** -1.9% (Apr.) **Germany—Trade Surplus** narrowed to €17.0 bln (Apr.) **Italy—Retail Sales** unch (Apr.) **U.K.—Manufacturing PMI** -3.7 pts to 49.4; **Construction PMI** -1.9 pts to 48.6 (May)
Other ▪ IMF cuts China's 2019 GDP growth a tick to 6.2% ▪ Mexico makes *"progress"* with U.S. in trade talks, but still no deal… peso slumps ▪ RBA cuts 25 bps to record-low 1.25%; RBI cuts 25 bps to 9-year low 5.75%	**China—Caixin Manufacturing PMI** steady at 50.2 (May)	**China—Caixin Services PMI** -1.8 pts to 52.7; **Composite PMI** -1.2 pts to 51.5 (May) **Australia—Real GDP** +1.8% y/y (Q1)—slowest since 2009 **Australia—Retail Sales** -0.1% (Apr.) **Australia—Trade Surplus** narrowed slightly to A$4.9 bln (Apr.) **Mexico** downgraded by Fitch and Moody's

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

Is Vancouver's Housing Illness Contagious?

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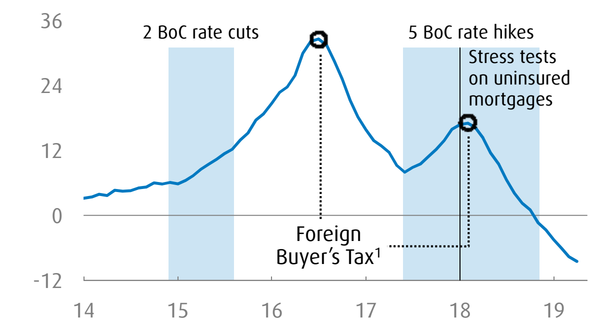
Canada's housing market has been on a wild ride this cycle, with many local markets still adjusting to various policy changes and economic conditions. Vancouver is closely watched right now given the widespread correction across that previously-soaring market. This begs the question: Will the decline in Vancouver's market spill over, pulling down the broader Canadian housing market and economy? The short answer is we don't think so.

Vancouver's recent housing market history has been unique within Canada (echoed less extremely in Toronto). Fundamental supply-demand conditions were driving home prices through much of the cycle until around early-2015. At that point, two major factors worked to detach prices (which took off at a 30% y/y clip) from those fundamentals (*Chart 1*). First, **nonresident demand** was pouring onto an already drum-tight market. While the data history is limited, BC Finance figures show that nonresident demand accounted for as much as 15% of residential sales activity in the GVA by mid-2016. Meantime, the Bank of Canada's two rate cuts in the first half of 2015 changed the **psychology** in Canada with respect to rate expectations, opening the door to a flood of speculative buying in hotter markets like Vancouver (and Toronto). Indeed, the share of properties turned over within a 12-month period in the GVA showed a jump in flipping activity shortly after those rate cuts (*Chart 2*)—a classic case of expectations of higher prices driving demand and lifting prices further.

Since mid-2016, however, a trio of policy measures removed the froth, and contributed to the downturn that the market is still enduring today. First, the Province of British Columbia's 15% **tax on nonresident buyers**—implemented in June 2016, then expanded and increased to 20% in early-2018—chilled foreign investment demand. The share of activity is now stable in the 3%-to-4% range at just over 100 transactions per month, down from more than 1,000 per month (15% of activity) at the high (*Chart 3*). Also, five **Bank of Canada rate hikes** not only dinged affordability, but also changed the message on interest rates. This, along with the tax on nonresident buyers, likely contributed to lower price growth expectations and a decline in speculative psychology. Finally, the **OSFI stress test** on uninsured mortgages, introduced in January 2018, further eroded affordability through a higher qualification hurdle, effectively pulling many would-be buyers down the price ladder.

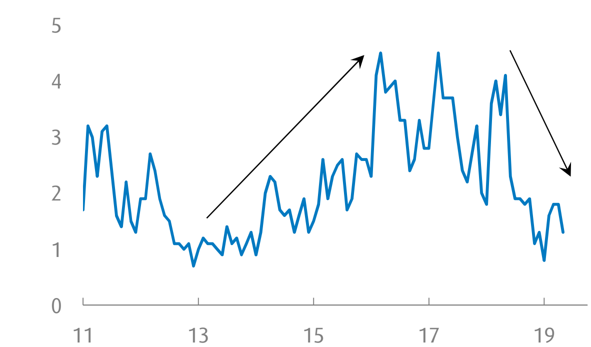
All in, the unwinding of earlier froth has pulled prices down almost 10% overall, with all segments seeing a downdraft (anecdotal declines have been as much as a third in some high-end pockets). While the May sales figures encouragingly showed a solid month-over-month gain, the market balance is still historically loose and FOMO psychology has been replaced by an environment where buyers are holding back waiting for prices to stabilize. And, investors who were banking on price gains to make their calculus

Chart 1
Housing Reacts to Policy



[1] 15% in June 2016; 20% in February 2018
Sources: BMO Economics, Haver Analytics

Chart 2
Speculation Comes and Goes



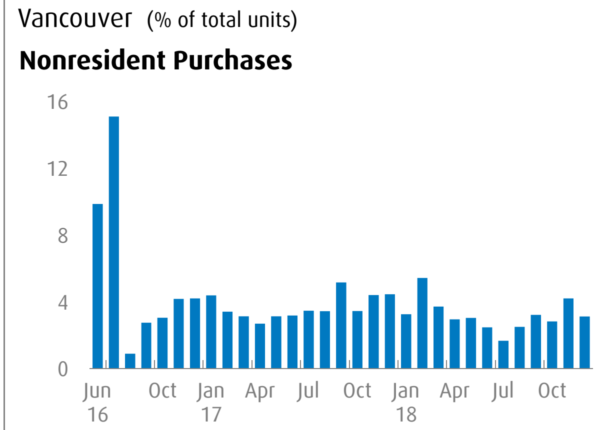
Sources: BMO Economics, Steve Saretsky Realty work (since positive cash flow was nonexistent at recent cap rates with 20% down) could be selling into any strength or as current development projects reach completion. As such, the market will likely remain soggy for some time still.

Despite Vancouver's challenging conditions, there are a number of reasons to believe that the weakness won't spread more broadly across Canada's housing market and economy:

- There is really **no such thing as a 'Canadian housing market'**, but rather a collection of unique and independent markets that run on much different fundamentals. The GVA only made up 7% of Canadian sales volumes on average over the past five years, compared to 19% in Toronto and 15% in Quebec. And, while Vancouver prices are falling, and Calgary and Regina are drifting down because of the oil sector, Montreal and Ottawa are seeing the strongest conditions in more than a decade (*Chart 4*). Combined, this leaves the 'Canadian housing market' still very well balanced.
- The **GTA and Southwestern Ontario** markets carry a much bigger weight, and have also experienced many of the same swings as Vancouver in recent years. But, because the excesses were smaller and demographic and job fundamentals remain strong, the market has already begun to find support. Toronto home sales were up a solid 18.9% y/y in May, and the market balance has almost returned to normal. Single-detached prices have steadied, up 0.8% y/y, and condos (which never corrected anyway) are up 6.8% y/y. In fact, we wouldn't be surprised to see more positive momentum in the GTA market through the summer and into the fall.
- **Credit growth has stabilized**. After decelerating sharply from almost 6% y/y in 2017, growth has stabilized right around 3% annualized (*Chart 5*). This is good news given that an outright contraction in credit would be a major headwind for the economy more broadly. The flip side is that the Bank of Canada is probably quite happy seeing growth steady just below the rate of income growth, thereby tugging down the debt-to-income ratio gradually over time—call it an ideal soft landing at this point.
- Finally, **five-year fixed mortgage rates have fallen** 50 bps since peaking in late-2018, partly because of a more dovish BoC, and partly because of a broader downdraft in global bond yields. This will only reinforce the floor in the Toronto market and, although further down the road, help stabilize Vancouver as well.

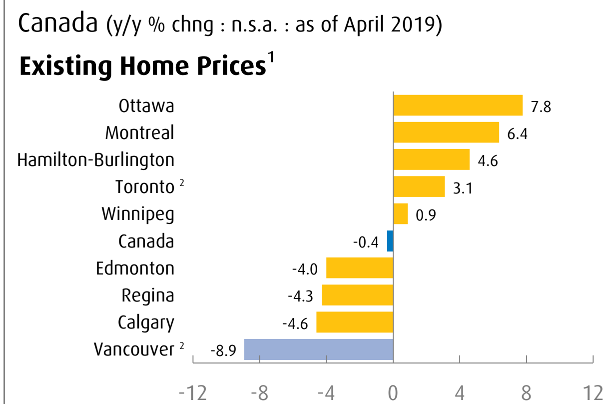
The Bottom Line: Vancouver's housing situation is unique to that market, one that is very familiar with big swings. There's little reason to suspect broader contagion and a rate-cut response as a result, even though the best years for credit growth, home prices and consumer spending are now behind us.

Chart 3
Foreign Investment Fades



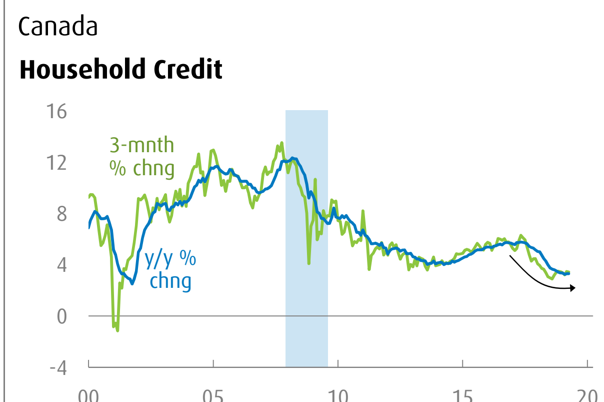
Sources: BMO Economics, BC Finance

Chart 4
Location, Location, Location



[1] HPI composite benchmark where available; [2] May 2019
Sources: BMO Economics, Haver Analytics

Chart 5
Credit Growth Stabilizing



Shading marks periods of Canadian recession
Sources: BMO Economics, Haver Analytics

Economic Forecast Summary for June 7, 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.)	1.5	2.5	2.1	0.3	0.4	2.3	2.1	1.4	1.9	1.4	1.7
Consumer Price Index (y/y % chng)	2.1	2.3	2.7	2.0	1.6	2.2	2.0	2.3	2.3	2.0	2.1
Unemployment Rate (percent)	5.8	5.9	5.9	5.7	5.8	5.5 ↓	5.5 ↓	5.5 ↓	5.8	5.6 ↓	5.6 ↓
Housing Starts (000s : a.r.)	224	218	197	217	188	218	209	208	214	205	200
Current Account Balance ($blns : a.r.)	-65.5	-61.5	-40.6	-66.5	-69.4	-59.3	-56.8	-58.6	-58.5	-61.0	-57.0
Interest Rates (average for the quarter : %)											
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.44	1.75	1.75
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.65	1.65	1.65	1.37	1.65	1.65
10-year Bond	2.24	2.28	2.28	2.32	1.86	1.60 ↓	1.55 ↓	1.70 ↓	2.28	1.65 ↓	1.75 ↓
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-44	-66	-61	-70	-79	-71 ↑	-66 ↑	-66 ↑	-60	-71 ↑	-68 ↑
10-year	-52	-64	-65	-72	-80	-73	-66 ↑	-66	-63	-71 ↑	-65
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.2	3.1	1.3	1.8	1.9	2.9	2.5	1.7
Consumer Price Index (y/y % chng)	2.2	2.7	2.6	2.2	1.6	1.9	2.0	2.2	2.4	1.9	2.2
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.5	3.9	3.6	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.19	1.20	1.23	1.24	1.22	1.25	1.22	1.23
Current Account Balance ($blns : a.r.)	-496	-414	-506	-538	-472	-497 ↓	-500	-513	-488	-495	-530
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	1.46	1.71	1.96	2.21	2.38	2.38	2.38	2.38	1.83	2.38	2.38
3-month Treasury Bill	1.58	1.87	2.08	2.36	2.44	2.40	2.35 ↓	2.35 ↓	1.97	2.35 ↓	2.35 ↓
10-year Note	2.76	2.92	2.93	3.03	2.65	2.35 ↓	2.20 ↓	2.35 ↓	2.91	2.40 ↓	2.40 ↓
EXCHANGE RATES (average for the quarter)											
US¢/C$	79.1	77.5	76.5	75.7	75.2	74.5	74.4	74.6	77.2	74.7	75.1
C$/US$	1.27	1.29	1.31	1.32	1.33	1.34	1.34	1.34	1.30	1.34	1.33
¥/US$	108	109	112	113	110	110	109	108	110	110	109
US$/Euro	1.23	1.19	1.16	1.14	1.14	1.12 ↑	1.12 ↑	1.12	1.18	1.12	1.13
US$/£	1.39	1.36	1.30	1.29	1.30	1.29 ↑	1.24	1.25	1.34	1.27	1.28

Blocked areas represent BMO Capital Markets forecasts

Up and down arrows indicate changes to the forecast ↑↓ Spreads may differ due to rounding

Canada

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Housing Starts
Monday, 8:15 am

May (e)	**205,000 a.r. (-12.9%)**	
Apr.	235,460 a.r. (+22.6%)	

Building Permits
Monday, 8:30 am

Apr. (e)	**+3.0%**	
Mar.	+2.1%	

New Housing Price Index
Thursday, 8:30 am

Apr. (e)	**+0.1%**	**+0.2% y/y**
Mar.	unch	+0.1% y/y

Building permits look to rise 3% in April, adding to the prior month's gain, with residential permits expected to rebound after back-to-back monthly declines. Non-residential permits should be little changed. Meantime, following a weather-induced slump, starts rebounded strongly in April, so we anticipate a retracement to more normal levels in May (205k). Lastly, new home prices are expected to be up 0.1% in April, which would be the first increase since July, lifting the annual increase a snick to +0.2%.

National Balance Sheet and Financial Flow Accounts (Q1)
Thursday, 8:30 am

Canada's household debt ratio likely dropped in Q1 as debt growth continued to decelerate and income growth picked up modestly. The anticipated decline in debt ratios should come as no surprise, as they have fallen in Q1 in eight of the past nine years. That seasonality is consistent with slower home sales in the early part of the year, which was clearly the case this year amid a brutal winter and the lingering impact of prior policy changes. With credit growth slowing further to start Q2, expect the debt ratio to trend flat to lower, even with home sales improving through the current quarter. This release also includes details on household assets. Net worth as a share of disposable income saw its biggest decline since the Great Recession in Q4. Look for some rebound in Q1 as stocks rallied and home prices were up modestly.

United States

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Consumer Prices
Wednesday, 8:30 am

May (e)	**+0.2%**	**+2.0% y/y**
Consensus	*+0.1%*	*+1.9% y/y*
Apr.	+0.3%	+2.0% y/y
	Ex. Food & Energy	
May (e)	**+0.2%**	**+2.0% y/y**
Consensus	*+0.2%*	*+2.1% y/y*
Apr.	+0.1%	+2.1% y/y

We look for lots of 2s and 0s in May's CPI results. The headline metric is expected to rise 0.2% m/m, keeping the annual change at 2.0%, with food and energy prices both up 0.2% m/m. Core prices are expected to (barely) round up to 0.2%, after a three-month run of 0.1s, which will lower the core inflation rate a tenth to 2.0% y/y. We'll be watching several items that pose risks of lower results. Food prices dipped 0.1% in April as Whole Foods lowered some prices. If competitors' responses spilled into May, the resumption of the pre-April trend (0.2%) could be postponed. After matching the largest drop on record in March (-1.8%), mostly owing to some methodological changes, apparel prices fell further in April (-0.8%). This suggests aggressive discounting was also at play, and might have not died down in May. Finally, actual rents rose 0.4% in April, matching 18-year highs. This was the highest over the period (taken to two decimal places), which was the legacy of the national rental vacancy rate falling to its lowest level in 33½ years (6.6%) in Q4. However, it drifted up to 7.0% in Q1, which could cool rent increases depending on how long the lags last.

Retail Sales

Friday, 8:30 am

		Ex. Autos
May (e)	**+0.6%**	**+0.5%**
Consensus	*+0.7%*	*+0.4%*
Apr.	-0.2%	+0.1%

	Ex. Autos/Gas
May (e)	**+0.4%**
Consensus	*+0.6%*
Apr.	-0.2%

Accelerating new auto sales and a solid advance in Johnson-Redbook receipts suggest retail sales rebounded 0.6% in May after reversing in April. Ex-cars, sales likely rose 0.5%. Consumer spending is on track for a near 3% annual increase in Q2 after gearing down to a 1.3% pace in Q1 amid several speed bumps. We will have an eye on restaurant receipts (up a strong 5.7% in the past year) as this highly-discretionary item could be the first to turn if households lose confidence in job prospects. Despite a fading lift from tax cuts, spending remains well supported by income gains, and should keep the expansion going so long as trade tensions do not seriously erode business sentiment and hiring.

Industrial Production

Friday, 9:15 am

		Capacity Utilization
May (e)	**+0.2%**	**78.0%**
Consensus	*+0.2%*	*78.0%*
Apr.	-0.5%	77.9%

Industrial production is expected to retrace modestly higher in May (+0.2%) as factories continue to groan under the weight of tariffs, U.S./Mexico border delays and a slower global economy. The ISM production sub-index fell to a near 3-year low (51.3), suggesting factory output is little improved after falling this year. Thankfully, oil output continues to rise, while utilities demand will likely bounce higher after the prior month's plunge. The expected mild advance in industrial output should lift the capacity utilization rate slightly to 78.0%, still well below the cycle-high (79.6%) hit in November.

		Jun 7 [1]	May 31	Week Ago	4 Weeks Ago	Dec. 31, 2018
					(basis point change)	
Canadian Money Market	Call Money	1.75	1.75	0	0	0
	Prime Rate	3.95	3.95	0	0	0
U.S. Money Market	Fed Funds (effective)	2.50	2.50	0	0	0
	Prime Rate	5.50	5.50	0	0	0
3-Month Rates	Canada	1.67	1.68	-1	-1	3
	United States	2.26	2.34	-8	-16	-10
	Japan	-0.14	-0.16	2	3	1
	Eurozone	-0.32	-0.32	0	-1	-1
	United Kingdom	0.78	0.80	-1	-2	-13
	Australia	1.37	1.42	-5	-28	-72
2-Year Bonds	Canada	1.38	1.43	-4	-26	-48
	United States	1.80	1.92	-12	-47	-69
10-Year Bonds	Canada	1.45	1.49	-4	-28	-52
	United States	2.07	2.13	-6	-40	-62
	Japan	-0.13	-0.10	-3	-7	-12
	Germany	-0.26	-0.20	-5	-21	-50
	United Kingdom	0.82	0.89	-7	-31	-46
	Australia	1.47	1.46	1	-26	-85
Risk Indicators	VIX	16.0	18.7	-2.8 pts	-0.1 pts	-9.5 pts
	TED Spread	19	16	3	8	-26
	Inv. Grade CDS Spread [2]	64	69	-5	1	-23
	High Yield CDS Spread [2]	374	389	-15	27	-77
					(percent change)	
Currencies	US¢/C$	75.26	73.99	1.7	1.0	2.6
	C$/US$	1.329	1.352	—	—	—
	¥/US$	108.06	108.29	-0.2	-1.7	-1.5
	US$/€	1.1339	1.1169	1.5	0.9	-1.1
	US$/£	1.274	1.263	0.9	-2.0	-0.1
	US¢/A$	70.10	69.38	1.0	0.1	-0.6
Commodities	CRB Futures Index	174.04	175.36	-0.8	-2.7	2.5
	Oil (generic contract)	53.28	53.50	-0.4	-13.6	17.3
	Natural Gas (generic contract)	2.34	2.45	-4.8	-10.8	-20.5
	Gold (spot price)	1,342.47	1,305.45	2.8	4.4	4.7
Equities	S&P/TSX Composite	16,264	16,037	1.4	-0.2	13.6
	S&P 500	2,877	2,752	4.5	-0.2	14.8
	Nasdaq	7,740	7,453	3.9	-2.2	16.7
	Dow Jones Industrial	25,997	24,815	4.8	0.2	11.4
	Nikkei	20,885	20,601	1.4	-2.2	4.3
	Frankfurt DAX	12,053	11,727	2.8	-0.1	14.1
	London FT100	7,330	7,162	2.3	1.8	8.9
	France CAC40	5,370	5,208	3.1	0.8	13.5
	S&P ASX 200	6,444	6,397	0.7	2.1	14.1

[1] = as of 11:30 am   [2] = One day delay

Global Calendar
June 10 – June 14

BMO Capital Markets

	Monday June 10	Tuesday June 11	Wednesday June 12	Thursday June 13	Friday June 14
Japan	**Real GDP** **Q1 F (e) +0.6% +0.8% y/y** Q1 P +0.5% +0.8% y/y Q4 +0.4% +0.2% y/y **Bank Lending Ex-Trusts** **May** Apr. +2.5% y/y **Current Account Surplus** **Apr. '19 (e) ¥1.5 trln** Apr. '18 ¥1.9 trln	**Machine Tool Orders** **May P** Apr. -33.4% y/y	**Producer Price Index** **May (e) unch +0.7% y/y** Apr. +0.3% +1.2% y/y **Core Machine Orders** **Apr. (e) -0.8% -5.3% y/y** Mar. +3.8% -0.7% y/y	**Tertiary Industry Index** **Apr. (e) +0.4%** Mar. -0.4%	**Industrial Production** **Apr. F (e) +0.6% -1.1% y/y** Mar. -0.6% -4.3% y/y
Euro Area	**GERMANY** Markets Closed **ITALY** **Industrial Production** **Apr. (e) +0.1% -0.5% y/y** Mar. -0.9% -1.4% y/y			**EURO AREA** **Industrial Production** **Apr. (e) -0.4% -0.4% y/y** Mar. -0.3% -0.6% y/y **GERMANY** **Consumer Price Index** **May F (e) +0.3% +1.3% y/y** Apr. +1.0% +2.1% y/y	**FRANCE** **Consumer Price Index** **May F (e) +0.2% +1.1% y/y** Apr. +0.4% +1.5% y/y **ITALY** **Industrial Orders** **Apr.** Mar. +2.2% -3.6% y/y **Consumer Price Index** **May F (e) +0.1% +0.9% y/y** Apr. +0.5% +1.1% y/y
U.K.	**Monthly Real GDP 3m/3m** **Apr. (e) -0.1% +0.4%** Mar. -0.1% +0.5% **Index of Services 3m/3m** **Apr. (e) n.a. +0.2%** Mar. -0.1% +0.3% **Industrial Production** **Apr. (e) -1.0% +0.9% y/y** Mar. +0.7% +1.3% y/y **Manufacturing Production** **Apr. (e) -1.4% +2.0% y/y** Mar. +0.9% +2.6% y/y **Trade Deficit Non-EU** **Apr. (e) £13.0 bln £4.5 bln** Mar. £13.7 bln £4.4 bln	**Employment (3m/3m)** **Apr. (e) +4,000** Mar. +99,000 **Avg. Wkly Earnings Ex. Bonus (3 mma)** **Apr. (e) +3.2% y/y** Mar. +3.3% y/y **Jobless Rate (3 mma)** **Apr. (e) 3.8%** Mar. 3.8% **Jobless Claims / Claimant Count Rate** **May** Apr. +24,700 3.0%		**RICS House Price Balance** **May (e) -21%** Apr. -23%	
Other	**CHINA** **Aggregate Yuan Financing [D]** **May (e) 1.4 trln** Apr. 1.4 trln **New Yuan Loans [D]** **May (e) 1.3 trln** Apr. 1.0 trln **M2 Money Supply [D]** **May (e) +8.6% y/y** Apr. +8.5% y/y **Trade Surplus [D]** **in USD / in CNY** **May (e) $23.3 bln 136.0 bln** Apr. $13.8 bln 93.6 bln **Foreign Direct Investment [D]** **May** Apr. +6.3% y/y **Foreign Reserves [D]** **May (e) $3.1 trln** Apr. $3.1 trln **AUSTRALIA** Markets Closed	**AUSTRALIA** **NAB Business Confidence** **May** Apr. 0	**CHINA** **CPI / PPI** **May (e) +2.7% y/y +0.6% y/y** Apr. +2.5% y/y +0.9% y/y **AUSTRALIA** **Westpac Consumer Confidence** **June** May +0.6%	**AUSTRALIA** **Employment** **May (e) +16,000** Apr. +28,400 **Jobless Rate** **May (e) 5.1%** Apr. 5.2%	**CHINA** **Industrial Production** **May (e) +5.4% y/y** Apr. +5.4% y/y **Retail Sales** **May (e) +8.0% y/y** Apr. +7.2% y/y **Fixed Asset Investment (YTD)** **May (e) +6.1% y/y** Apr. +6.1% y/y

[D] = date approximate

Upcoming Policy Meetings | BoE: June 20, Aug. 1, Sep. 19 | ECB: July 25, Sep. 12, Oct. 24

North American Calendar
June 10 – June 14

BMO Capital Markets®

Canada

Monday June 10

8:15 am	**Housing Starts**	
May (e)	**205,000 a.r. (-12.9%)**	
Apr.	235,460 a.r. (+22.6%)	
8:30 am	**Building Permits**	
Apr. (e)	**+3.0%**	
Mar.	+2.1%	

Tuesday June 11

Manpower Survey—Net Outlook		
Q3 (e)	**+10%**	
Q2	+10%	
10:30 am	3-, 6- & 12-month bill auction $11.5 bln (new cash $1.8 bln)	

Wednesday June 12

Noon	3-year bond auction $2.4 bln

Thursday June 13

8:30 am	**New Housing Price Index**	
Apr. (e)	**+0.1%**	**+0.2% y/y**
Mar.	unch	+0.1% y/y
8:30 am	**National Balance Sheet and Financial Flow Accounts (Q1)**	

Friday June 14

8:30 am	**New Motor Vehicle Sales**[D]
Apr.	
Mar.	-2.0% y/y

United States

Monday June 10

10:00 am	**Job Openings & Labor Turnover Survey (Apr.)**
U.S. Tariffs on Mexico may take effect	
11:30 am	13- & 26-week bill auction $72 bln

Tuesday June 11

6:00 am	**NFIB Small Business Economic Trends Survey**	
May (e)	**102.0**	
Consensus	*101.8*	
Apr.	103.5	
8:30 am	**PPI Final Demand**	
May (e)	**+0.2%**	**+2.0% y/y**
Consensus	*+0.1%*	*+1.9% y/y*
Apr.	+0.2%	+2.2% y/y
8:30 am	**PPI Final Demand ex. F&E**	
May (e)	**+0.2%**	**+2.3% y/y**
Consensus	*+0.2%*	*+2.3% y/y*
Apr.	+0.1%	+2.4% y/y
Manpower Survey—Net Outlook		
Q3 (e)	**+18%**	
Q2	+19%	
11:00 am	4- & 8-week bill auction announcements	
1:00 pm	3-year note auction $38 bln	

Wednesday June 12

7:00 am	**MBA Mortgage Apps**	
June 7		
May 31	+1.5%	
8:30 am	**Consumer Prices**	
May (e)	**+0.2%**	**+2.0% y/y**
Consensus	*+0.1%*	*+1.9% y/y*
Apr.	+0.3%	+2.0% y/y
8:30 am	**CPI Ex. Food & Energy**	
May (e)	**+0.2%**	**+2.0% y/y**
Consensus	*+0.2%*	*+2.1% y/y*
Apr.	+0.1%	+2.1% y/y
2:00 pm	**Budget Deficit**	
May '19		
May '18	$146.8 bln	
1:00 pm	10[R]-year note auction $24 bln	

Thursday June 13

8:30 am	**Initial Claims**	
June 8 (e)	**215k (-3k)**[C]	
June 1	218k (unch)	
8:30 am	**Continuing Claims**	
June 1		
May 25	1,682k (+20k)	
8:30 am	**Import Prices**	
May (e)	**-0.3%**	**-1.3% y/y**
Consensus	*-0.3%*	*-1.3% y/y*
Apr.	+0.2%	-0.2% y/y
11:00 am	13-, 26- & 52-week bill, 5[R]-year TIPS auction announcements	
11:30 am	4- & 8-week bill auction	
1:00 pm	30[R]-year bond auction $16 bln	

Friday June 14

8:30 am	**Retail Sales**	**Ex. Autos**
May (e)	**+0.6%**	**+0.5%**
Consensus	*+0.7%*	*+0.4%*
Apr.	-0.2%	+0.1%
8:30 am	**Retail Sales ex. Autos/Gas**	
May (e)	**+0.4%**	
Consensus	*+0.6%*	
Apr.	-0.2%	
9:15 am	**Industrial Production**	**Capacity Utilization**
May (e)	**+0.2%**	**78.0%**
Consensus	*+0.2%*	*78.0%*
Apr.	-0.5%	77.9%
10:00 am	**Business Inventories**	
Apr. (e)	**+0.5%**	
Consensus	*+0.4%*	
Mar.	+0.1%	
10:00 am	**University of Michigan Consumer Sentiment**	
June P (e)	**99.0**	
Consensus	*98.0*	
May	100.0	

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

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