# February Made Us Shiver...

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...With every release the global economy delivered. But markets basked in the warm glow of a now-neutral Fed and a positive tone on U.S./China trade. Even with a flattish performance this week, the S&P 500 still managed to surge 11.1% in the first two months of the year (+3.0% in February alone), the best 1-2 start to the year since 1991. **Markets stared down not just a batch of weak trade and manufacturing data in the opening months of the year, but also a non-stop parade of geopolitical flashpoints.** There was a time, children, when open conflict between two nuclear-armed nations would cause at least a ripple of angst in financial markets, if not an outright rush to safety. Apparently not in these times—bombarded by endless headlines on Brexit, investigations of the U.S. President, the aborted summit with North Korea, and even a homegrown scandal in Canada, a clash between India and Pakistan barely registered. In fact, stocks, bond yields and oil prices all managed to rise amid this week's cacophony of geopolitical noise, while gold prices sagged $30.

The main driver of resilient financial markets has been **the drip-drip-drip of good news on the U.S./China trade front.** While Trade Representative Lighthizer threw a dash of cold water onto the proceedings at this week's testimony, he was overshadowed by more upbeat remarks by other Administration officials. By week's end, there was the oddly specific chatter about a 150-page deal, to be possibly signed by the middle of this month. Certainly China's markets are behaving as if a deal is nigh, with the CSI 300 sprinting 13% in February alone, and now up almost 25% so far this year—after wallowing at the back of the pack in 2018 with a 25.3% setback.

In contrast to buoyant markets, the economic news was mixed this week, although that is a step up from the sour readings of the past month or so. **Sentiment surveys in the U.S. have sent a confusing message**, with most—but not all—recovering from pronounced weakness around the turn of the year. As just one prime example of the jumbled mix, the Conference Board reported that consumer confidence snapped back in February, with the current conditions portion hitting its highest level since the peak of the tech boom in 2000. Not four days later, but the University of Michigan tells us that consumer sentiment rebounded little last month, with current conditions softening to the lowest ebb in more than two years. What makes that especially weird (to use the technical term) is that the Michigan survey is typically driven more by equity markets than its Conference Board counterpart.

The mixed economic message extends well beyond consumer sentiment, as the regional Fed surveys were all over the map last month. Fortunately, the national ISM for manufacturing cut through the fog on Friday, dipping to its lowest level in more than two years, albeit to a still-healthy 54.2. Elsewhere, good news on Q4 GDP (2.6%) and pending home sales was largely countered by a big drop in December real PCE, housing starts and the trade balance. The overriding message is that **growth is braking after a powerful upswing in 2018**, to something much more sustainable. **The pressing question is whether growth will now stabilize at a pace close to**

**potential** (around 2%), **or will it keep sliding?** The mixed nature of both the hard data and the more up-to-date sentiment surveys suggests it is stabilizing.

The news flow will likely cool down next week, politically and on the economic data front. However, there will still be lots to chew on; both the U.S. and Canada will produce **the ever-important employment figures on Friday**, for February. Nasty weather across much of the continent for much of the month could weigh, although underlying hiring trends have held up very well—most firms are still reporting a lack of skilled workers as their number one headache. Wage measures will be especially important here, as the U.S. and Canada are beginning to report some flickers of life on this front. Both countries also release housing starts on Friday, with the U.S. release worth watching simply to see if December's deep dive can be reversed.

And, finally, the Bank of Canada has an interest rate decision on Wednesday, but given the meagre Q4 GDP growth outcome, that carries all the suspense and drama of a Beverly Hillbillies rerun. In fact, even our (and the new consensus) call of just one rate hike by the BoC much later this year looks a tad aggressive with Canadian growth going into a deep sleep in late 2018 and into early this year.

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**The latest scandal in Ottawa**… and, no, we're not talking about events surrounding the former Attorney General. A few weeks ago, we ranted in this space about how slow StatsCan was in releasing data, citing the fact that even the much-delayed U.S. December retail sales report still managed to arrive 8 days ahead of Canada's version of events. It appears that someone at the statistical agency was listening, but this wasn't quite the speed-up we were thinking about. **Somehow, news of today's important GDP report was circulating almost a half an hour ahead of the 8:30 am release**. For any data point, this is inexcusable, let alone for arguably one of the most important economic reports of the month, which truly moved markets. For example, the loonie sagged a sizeable 0.8% in the aftermath of the news. This simply should never happen again, for any release, even potato production in PEI, let alone quarterly GDP.

The hair-trigger release somewhat overshadowed the fact that the GDP result itself was a disappointment, broadly and deeply. Whether it was the soggy 0.4% headline for Q4, the monthly 0.1% setback for December, the downward revisions to the first half of 2018, the weakness in capital spending, or the fall in GDP prices, the report was 47 shades of grey. As a result of that listless hand-off from December, as well as the dull investment intentions survey (out earlier this week), we chopped our call on 2019 Canadian GDP by half a point to just 1.3%, down from 1.8% last year and fully 3.0% in 2017. Note that annual growth was even slower in the aftermath of the oil shock in both 2015 and 2016; and yet, the BoC was raising interest rates again by mid-2017. Still, to get the Bank back in the tightening mode, we are going to need to see a forceful comeback in the economy over the spring and summer.

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