BMO Capital Markets®
We're here to help.™

BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

April 13, 2018

Feature Article
Page 9

Canadian Capex Redux?

Geopolitical Risks Simmer

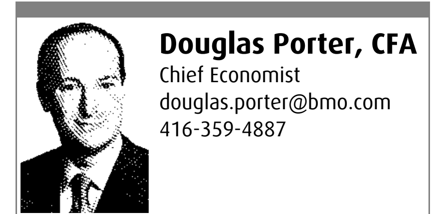
Oil Near Four-year Highs; C$ Strengthens

Global Trade Tensions Cool

Trump Revisits TPP

BMO Capital Markets Economics
economics.bmocapitalmarkets.com • 1-800-613-0205
Please refer to page 18 for important disclosures

The Continuing Story of Bungled-O Bull



Douglas Porter, CFA
Chief Economist
douglas.porter@bmo.com
416-359-4887

He went out trade war hunting with his tariff bill in tow
In case of accidents he always took Kudlow
He's the America-first import-trashing real estate maven one.
All investors sing:
Hey Bungled-O Bull, What did you kill, Bungled-O Bull?

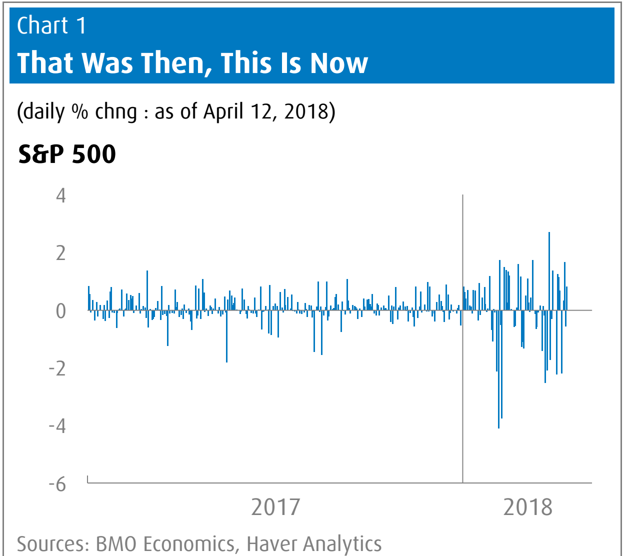
Markets had a comeback week, as trade fears dialled it back a notch or two from 11. The S&P 500 is poised to rise nearly 2%, 10-year yields are marching back above 2.8% and oil hit a near-4-year high above $67. Of course, after last week's rapid escalation in the trade-war of words between the U.S. and China, even a minor calming is a major relief. But volatility remains well beyond recent norms, with daily market moves of 1% or more suddenly becoming commonplace (consider the chart below for the wild difference between last year's extraordinary calm, and this year's plunge back into reality). And, it's doubtful many are under the illusion that the trade file can be safely put to the side, despite some soothing words from both U.S. officials (*"it's not a trade war")* and President Xi (*"China is in a new phase of opening up").*

Despite the bounce this week, the bigger picture reveals the clear disruption that President Trump's tough trade talk has caused for markets. Looking back to the end of February—the day before the steel and aluminum tariffs were first officially announced—shows that stocks have stagnated on balance for those 7+ weeks, bond yields have gone nowhere, and the U.S. dollar is broadly weaker. And, beneath any surface calm this week, there is the underlying sense that the U.S. is actually seeking ways to ratchet up the battle. Even Trump's surprising/shocking newfound interest in TPP can be viewed through the lens of it being used as a vehicle to grapple with China. TPP certainly wasn't the only subject that the President whipsawed with gyrating positions on this week:

1) Syria: From 'get ready, because we are sending missiles', to 'maybe'.

2) NAFTA: From 'negotiations are going very well', to 'we may be negotiating for a long time', to 'maybe we will just terminate it'—all in one sentence. In any event, hopes for a quick agreement (even if it's just an agreement to eventually agree to an agreement) have faded, and apparently the only real progress is a change in tone from the U.S. and a small backing down from the initially harsh auto content proposals. Still, the Canadian dollar (+1.3%) and the Mexican peso (+1.2%) had strong weeks on rising hopes for some kind of deal, wind-aided by the powerful upswing in crude oil. Note that the price of Western Canada Select has quietly roared back almost 50% in just the past four weeks to above $50.

Chart 1
That Was Then, This Is Now



Sources: BMO Economics, Haver Analytics

Turning back to the main event on the fight card, there was a trace of excitement Friday, when China reported a rare decline in exports from a year ago and an even rarer trade deficit for March. However, even a cursory glance at the figures quickly revealed that both were

coming off lofty February levels, with the data heavily polluted by holiday distortions. The much cleaner way to consider the figures is to look at Q1 as a whole, when exports rose 14% y/y and imports were up 19%. Not helping matters, China reported its largest bilateral trade surplus with the U.S. ever for both Q1 ($58 billion) and for the past 12 months ($287 billion). In a nutshell, no matter which figures one uses—unlike the case with Canada—there is little debate that **the trade imbalance between the U.S. and China is massive**. Given this reality, and given the players we are dealing with, any hopes for a quick/simple "solution" to the China/U.S. trade tiff look misplaced. The trade issue has true staying power as a market irritant.

Meanwhile, back at the U.S. economy, the big news was from the inflation and budget deficit front. The headline from the March CPI was close to expectations (core +0.2%), causing no concern. However, we would note the unfriendly fact that core CPI rose at a 3.0% annualized pace in Q1, the fastest quarterly rise in more than a decade. At the same time, the CBO ramped up its estimate of the budget deficit to nearly 1 *trillion* dollars in the next fiscal year (see Michael's Thought for the details). In days of yore—say, two years ago—either of these developments would have been big deals for the market, but are now largely on the undercard, with trade frictions commanding attention.

An item on Toronto housing generated some small buzz this week, as it suggested that the pullback in GTA home prices has outpaced the speed of decline in any U.S. city during the 2006-09 meltdown. The facts here alone are debatable, but can we also have maybe an ounce of perspective? Essentially, the **Toronto market went from lofty expensive, to out-of-the-universe-crazy, back down to just lofty expensive, all within roughly a year**. The gaudy headlines on today's Canadian home sales report for March—sales volumes down 22.7% y/y nationally, average prices down 10.4%—are comparing conditions to the insanity in the Spring of 2017 (when some pundits, *ahem*, were calling the market a bubble). From two years ago, the MLS price index for Toronto and two nearby cities are each still up more than 20%, even for detached homes. The froth was rapidly blown off the top, and some were badly caught offside, but the bigger picture is that the housing market is arguably still too lofty for comfort—at least for policymaker and potential buyer comfort.

The CBO's Uh-Oh

Michael Gregory, CFA
Deputy Chief Economist
michael.gregory@bmo.com
416-359-4747

The Congressional Budget Office released its 10-year projection for the federal deficit this week. Normally, this is released in January, but the CBO's forecast was delayed owing to the Tax Cuts and Jobs Act, which reduced taxes, and the Bipartisan Budget Act (and follow-up Consolidated Appropriations Act), which pumped spending. Even allowing for significant positive economic impacts from tax cuts and spending hikes, the CBO painted America's fiscal prospects in a much bleaker light.

From $665 billion (or 3.5% of GDP) in the fiscal year ended September 2017, the deficit is forecast to increase to $804 billion (4.0%) this year and $981 billion (4.6%) next year. The shortfall hits a high of $1.35 trillion in 2025, the year that individual tax cuts expire, before drifting down but remaining above $1 trillion. Adjusting to

exclude the impact of shifts in the timing of payments (which, technically, lifts deficits in 2022, 2023 and 2028 but lowers it in 2024), as a share of GDP, the deficit peaks at 5.1% in 2022, before drifting back down to around 4½%. Since 1946, this peak deficit ratio has been exceeded in only five years, four of them associated with the Great Recession (the other with the 1981-82 recession).

As these deficits accumulate, debt held by the public will rise from $15.7 trillion at the end of this year (or 78.0% of GDP) to $28.6 trillion (96.2%) by 2028. The latter will be the largest debt ratio since 1946. The CBO did not mince words, concluding that *"such high and rising debt would have serious negative consequences for the budget and the nation"*. It emphasized **four consequences** in particular.

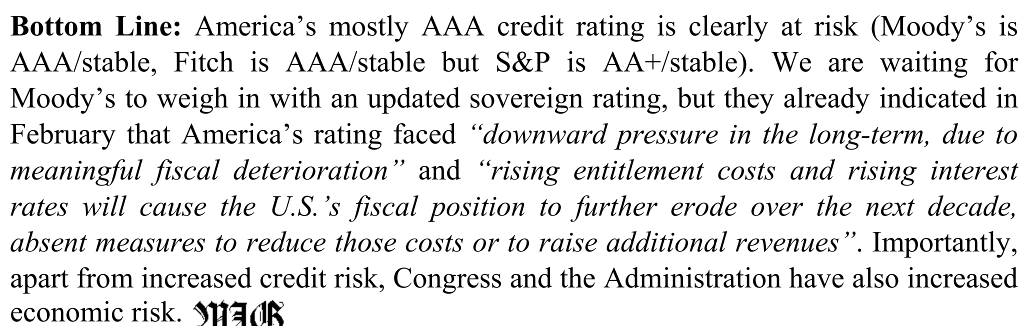
First, **interest payments on the debt will surge substantially** because of both more debt outstanding and rising interest rates (the annual average for 10-year Treasury yields peaks in 2021 at 4.2% before settling back down at 3.7% during the latter half of the decade). Net interest payments nearly triple, surging from $316 billion this year to $915 billion in 2028. As a share of on-budget revenues, which excludes Social Security contributions, net interest payments jump from 9.6% to 16.9% during the coming decade.

Second, the increase in federal borrowing to finance these hefty deficits will **reduce total saving in the economy over time, which reduces the amount of investment** (the capital stock) from what it otherwise would have been. This, in turn, lowers productivity and wages from what they otherwise would have been. Of course, some of this saving shortfall will be covered by increased foreign investment, which will be mirrored in an increased current account deficit.

Third, policymakers will be afforded **less flexibility to use tax and spending measures** in the future. One reason why the Great Recession didn't morph into another Great Depression was because significant countercyclical fiscal policy measures were deployed, which worsened the deficit on top of its cyclical deterioration. In FY2007, the deficit was close to 1% of GDP and it surged to nearly 10% two years later. So, if you're starting with a 5% shortfall come the next economic downturn, how much room remains, on top of any requisite cyclical deterioration, to conduct countercyclical tax cuts and spending hikes?

Fourth, the CBO argues that the likelihood of a *"fiscal crisis"* will increase. This is a situation in which, because of poor and deteriorating federal fiscal conditions, **investors are unwilling to finance government borrowing** unless they are compensated with (sharply) higher interest rates.

Bottom Line: America's mostly AAA credit rating is clearly at risk (Moody's is AAA/stable, Fitch is AAA/stable but S&P is AA+/stable). We are waiting for Moody's to weigh in with an updated sovereign rating, but they already indicated in February that America's rating faced *"downward pressure in the long-term, due to meaningful fiscal deterioration"* and *"rising entitlement costs and rising interest rates will cause the U.S.'s fiscal position to further erode over the next decade, absent measures to reduce those costs or to raise additional revenues"*. Importantly, apart from increased credit risk, Congress and the Administration have also increased economic risk. MJG



Bank of Canada: Keep Calm and Hold On

Benjamin Reitzes
Canadian Rates & Macro Strategist
benjamin.reitzes@bmo.com
416-359-5628

The Bank of Canada is widely expected to hold rates steady at 1.25% at the April 18th policy meeting. A combination of soft economic data and persistent uncertainties clouding the outlook has kept the **Bank cautious**, and there's no reason to expect much deviation at this meeting.

The Canadian economy has cooled since posting a solid run of growth from mid-2016 to mid-2017. Since then, GDP growth has clocked in at about 1.5%, hardly a reason to get more aggressive with policy. First quarter growth looks to come in at a similar pace, which would be 1 ppt below the BoC's January forecast.

The bigger drivers of the BoC's caution are the various uncertainties clouding the outlook. **Housing** is in the spotlight at the moment with home sales down about 13% in Q1 due to the new mortgage rules and tighter foreign-buyer restrictions in B.C. The real test for housing will come in April/May/June, the spring buying season, as that's when most activity occurs. Accordingly, the BoC will likely remain cautious until there are clear signs that housing is at least stabilizing.

The other major areas of uncertainty are trade/NAFTA and household debt. On **NAFTA**, the tone has turned more upbeat, but that changes little for the BoC as there's nothing definitive, providing no reason to dial back the downward bias put into their forecast over the past couple of quarters. And, the recent threat of a U.S.-China trade war reinforces the idea that caution on the trade front is very much warranted. With respect to **household debt burdens**, there's been nothing new on this front. Debt ratios remain elevated, but there are no signs that prior rate hikes have hit households particularly hard. Rather, they are acting as a modest headwind on spending (as one would expect).

The **Monetary Policy Report**, released with the policy statement, is expected to show a downgraded forecast for Q1 GDP growth (as outlined above) to around 1.5%. The BoC's call for Q2 will be particularly interesting, as we'll get some clarity on whether policymakers think this growth slump is temporary and could also shed some light on the expectations for the housing market. On inflation, the Q1 forecast will be revised up markedly (to around 2.1% from 1.7%), though projections further out may only see small changes, if any. Recall that the BoC no longer forecasts core CPI. We'll also be watching closely for any new thoughts on the slack in the labour market. BMO's estimate of the BoC's Labour Market Indicator showed some tightening of conditions in March, but slack remains. Diminishing labour market slack, GDP near potential and core CPI trending higher, will keep the Bank from being overly dovish and should maintain the narrative of slow but steady rate hikes.

The April MPR also brings a **re-evaluation of potential growth and the neutral policy rate**. The BoC has the middle of the range for potential growth for 2018 and 2019 at 1.4% and 1.5%, respectively. While we're not particularly upbeat on long-term potential growth given demographics and historically poor productivity, the near-term outlook could be a bit higher due to very strong immigration lifting population growth. Watch for any changes to the neutral policy rate on the back of any potential growth moves. Notably, the BoC's 2.5%-to-3.5% neutral range they estimated in April 2017 seems relatively high compared to the Fed's long-range

median dots of 2.88%. We wouldn't be surprised to see the BoC's range come down 25 bps.

Key Takeaways: The Bank of Canada is expected to maintain a cautious tone driven by the various uncertainties clouding the outlook. However, with underlying inflation creeping higher, the economy at capacity and the labour market continuing to firm, the BoC will stay on its cautious tightening path. We continue to expect the next hike will come in July. B.A.A.R.

A Convenient Truth

Jennifer Lee
Senior Economist
jennifer.lee@bmo.com
416-359-4092

For the first time in about a month, global trade wars did not dominate headlines this week; at least, not completely. Instead of appearing on the front page, they were pushed off to page 2. I say that tongue in cheek. But, make no mistake, growing protectionism and a possible trade war are still very much the biggest economic risks that the global economy faces. See the warnings from the **IMF** (*"governments need to steer clear of protectionism in all its forms"*) and the **World Bank** (*"…cycle of retaliation is the last thing the world economy needs"*). The growing risks are not lost on the various central banks, either. That was evident in the **minutes** released from the latest **FOMC** and **ECB** meetings. In the U.S., a *"strong majority"* saw retaliatory trade actions as "*downside risk*"; in Europe, there was *"widespread concern"* within the Governing Council that the risk of trade conflicts had *"increased"*.

Focusing on the ECB, which has already begun the slow process of heading toward the exits, dragging its feet along the way, these concerns are another reason to make the process gradual. Back in June 2017, as a first step, the ECB finally dropped its easing bias on rates. In October, an announcement was made that the pace of purchases would be reduced. Then, in March 2018, it dropped the easing bias on purchases, although President Draghi downplayed the move. We fully expect the central bank to carry on buying bonds until September, then cut the amount further from the current €30 bln pace before wrapping things up around the turn of the year. However, most of the Governing Council remains quite cautious (not all of them are… Austria's Nowotny has a pretty detailed exit plan, from winding down purchases to moving up the deposit rate a couple of times before raising the refi rate), citing the still-subdued rate of underlying inflation and the lack of convincing signs of a sustained upward trend. Trade concerns are a conveniently legitimate reason to extend the walk to the exits. JLee

Stocks: Recharging an Aging Battery

Robert Kavcic
Senior Economist
robert.kavcic@bmo.com
416-359-8329

Equity markets caught some relief this week, but the bigger theme early in the year has been ramped-up volatility and corrections across most global markets. That has given valuations a chance to catch their breath after running hot through the end of 2017. Importantly in the U.S., earnings expectations have held up well during the correction, with Q1 profit growth expected to come in around 18% y/y for the S&P 500, and a still-strong 16% excluding the rebound in the energy sector based on Thomson Reuters' bottom-up tally (the earnings season unofficially kicks off next week). That's up from around 12% expected for the quarter at the start of the year.

Growth estimates for Q2 through Q4 have also improved over that period, at least partly reflecting a stronger-than-expected Q4 starting point. Still, with business investment and consumer spending rolling along, and unit labour costs contained, the underlying earnings environment still looks favourable.

Rather than a deterioration in those fundamentals, it looks more like we're seeing valuations consolidate their aggressive run through 2017, and that's probably not a bad thing. Keep in mind that the forward price-to-earnings ratio entered the year at the highest level in roughly 15 years, juiced up on fiscal policy optimism, little sign of inflation and widely-appealing narratives in the technology sector. Most sentiment measures were also flashing extremely bullish. For example, the share of respondents in the Conference Board's consumer survey expecting stock prices to rise over the next year hit a record high in January, a pretty good proxy that bull market enthusiasm was spreading to Main Street. That was also corroborated by more institutional-based surveys, such as that from Investors' Intelligence. While earnings growth has held firm, as discussed, the narrative has changed somewhat—think budget deficit reality, trade spats and Washington zeroing in on the tech sector. As such, the forward p/e on the S&P 500 is down almost two full multiple points since the start of the year, and the earnings yield spread over Treasuries has stabilized after compressing meaningfully last year—firm bond yields have prevented more re-widening. Inflation has also firmed and, while hardly breaking out, core CPI pushed back above 2% this week (March reading), reinforcing the view that the Federal Reserve will continue its quarter-per-quarter rate-hike cadence. If so, that will be nine rate hikes by the end of 2018, along with quantitative tightening, leaving us well into the latter stages of the cycle by that point—perhaps markets, always looking 6-to-12 months down the road, are mindful of this, too, right now. Rob K.

Priscilla Thiagamoorthy
Economic Analyst
priscilla.thiagamoorthy@bmo.com
416-359-6229

	Good News	Bad News
Canada ▪ C$ strengthens as oil prices climb to three-year highs on geopolitical tensions	**Existing Home Sales** +1.3% (Mar.) **MLS Home Price Index** +4.6% y/y (Mar.) **Housing Starts** -2.5% to 225,213 a.r. (Mar.)—firmer than expected **Province of Saskatchewan** projects a smaller $365 million deficit (FY18/19)	**BOS Indicator** -0.52 pts to 1.96 (Q1)—but firms still upbeat **Building Permits** -2.6% (Feb.) **New Housing Price Index** -0.2% (Feb.)
United States ▪ Possible military action against Syria creates a fresh wave of market volatility ▪ President Trump reconsiders TPP ▪ FOMC Minutes show policy normalization on track as inflation outlook brightens	**Initial Claims** -9k to 233k (Apr. 7 week)	**Consumer Prices** +2.4% y/y (Mar.) **Producer Prices** +3.0% y/y; **Import Prices** +3.6% y/y (Mar.) **Budget Deficit** widened to $208.7 bln (Mar.) **Job Openings** fell to 6,052k (Feb.)—but still elevated **NFIB Small Business Optimism Index** -2.9 pts to 104.7 (Mar.) **U of M Consumer Sentiment** -3.6 pts to 97.8 (Apr. P)
Japan ▪ BoJ Gov. Kuroda is pleased with growth in regional economies	**Producer Prices** +2.1% y/y (Mar.) **Bank Lending Ex. Trusts** +1.9% y/y (Mar.)	**Current Account Surplus** narrowed to ¥2.1 trln (Feb.) **Consumer Confidence** unch at 44.3 (Mar.)
Europe ▪ ECB Minutes reveal concerns over trade war… ▪ …emphasize patience, prudence and persistence	**Euro Area—Trade Surplus** widened to €21.0 bln (Feb.) **Italy—Retail Sales** +0.4% (Feb.) **U.K.—Trade Deficit** narrowed to £10.2 bln (Feb.)	**Euro Area—Industrial Production** -0.8% (Feb.) **Germany—Trade Surplus** narrowed to €19.2 bln (Feb.) **France—Manufacturing Production** -0.6% (Feb.) **Italy—Industrial Production** -0.5% (Feb.) **U.K.—Industrial Production** slowed to +0.1% (Feb.) **U.K.—RICS House Price Balance** 0% (Mar.)
Other ▪ China's President Xi eases fears of a trade war ▪ PBoC Gov. Yi says solid economic activity in Q1 is a *"good sign for this year's growth agenda"* ▪ Russian ruble weakens on political tensions with the U.S. ▪ Central Bank of Mexico on hold ▪ IEA reports global oil glut almost diminished	**China—Imports** +14.4% y/y (Mar.) **China—Consumer Prices** +2.1% y/y; **Producer Prices** +3.1% y/y (Mar.) **China—Foreign Direct Investment** +0.4% y/y (Mar.) **China—Foreign Reserves** steady at $3.1 trln (Mar.)	**China—Exports** -2.7% y/y (Mar.)—but up solidly in Q1 **China—Aggregate Yuan Financing** 1.3 trln (Mar.)—and **New Yuan Loans** 1.1 trln **China—M2 Growth** slowed to +8.2% y/y (Mar.) **Australia—NAB Business Confidence** -2 pts to 7 (Mar.) **Australia—Westpac Consumer Confidence** -0.6% (Apr.)

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

Canadian Capex Redux?

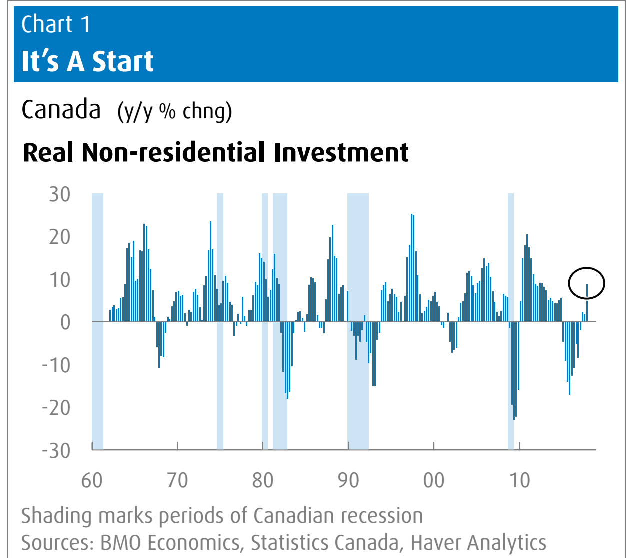
Sal Guatieri
Senior Economist
sal.guatieri@bmo.com
416-359-5295

Competitiveness, long an after-thought on the Canadian political scene, has crept back on the radar. A growing concern is that businesses, faced with an uncertain trade outlook and costly domestic policies, will delay or even forgo investments, reducing competitiveness and living standards. Yet, investment spending partially rebounded last year (*Chart 1*). **Is Canada on the cusp of an investment boom (similar to the U.S.) or is spending more likely to downshift this year**?

Let's start by putting the capex rebound in perspective. The 8.8% upturn in real non-residential investment in 2017 (on a four quarter basis) is less impressive when stacked against the stomach-churning 24% plunge in 2015/16. Moreover, the investment share of GDP (at 9.6%) is a full percentage point below long-run norms, suggesting the **level of spending remains weak**.

Drilling down, the improvement was led by a 12.7% gain in machinery and equipment (notably autos, computers and telecom), while spending on structures rose a lesser 6.3%. The latter was a moderate bounce after a 28% plunge the prior two years, possibly reflecting a **lack of commitment on the part of businesses to undertake expensive, long-term plans**.

Chart 1
It's A Start



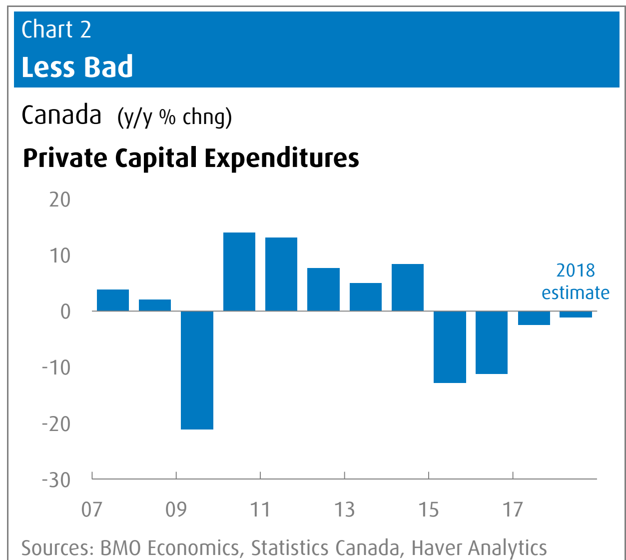
Shading marks periods of Canadian recession
Sources: BMO Economics, Statistics Canada, Haver Analytics

Less drag from the energy sector helped. Based on preliminary data (in current dollars and on an annual average basis rather than Q4/Q4) from the Capital and Repair Expenditures Survey (CRES), investment in the oil and gas industry fell just slightly following massive declines in the previous two years. The energy dip can't explain the **2.5% decline in total private-sector investment**. Nearly half of industries cut spending, led by recreation, mining, professional services and manufacturing.

Regionally, the decline in private-sector investment in 2017 was driven by Newfoundland and Labrador (-15%), Alberta (-9%) and Ontario (-4%), offset partly by large gains in PEI, British Columbia and Manitoba. Lingering softness in oil-producing regions suggests prices have not risen enough to launch new developments, especially given uncertainty surrounding pipeline construction.

Weakness in private-sector structures bodes ill for 2018.[1] If businesses are reluctant to commit to major projects when the economy is strong, they are unlikely to change tack when growth slows. Indeed, based on the CRES, **private-sector firms plan to reduce spending again this year**, albeit modestly (*Chart 2*). The decline is all in structures (-3.6%), with a partial offset from increased M&E (2.4%). Cutbacks in energy extraction and professional services

Chart 2
Less Bad



Sources: BMO Economics, Statistics Canada, Haver Analytics

[1] The survey was undertaken between September 2017 and January 2018, when uncertainty about NAFTA talks was high, but before the U.S. government threatened to impose tariffs on steel and aluminum products.

are partly offset by increased spending on education services, health care, recreation, real estate, manufacturing and retail.

The private sector plans to reduce spending this year in Newfoundland and Labrador (by almost a third, though note that this largely reflects major projects reaching completion in 2017), Nova Scotia and Alberta, while increasing spending in Manitoba, Quebec and, to a lesser extent, Ontario. The Canadian Federation of Independent Business (CFIB) survey found near record-high confidence in Quebec, where firms are basking in the limelight of improved fiscal finances and tax relief, contrasting with sagging sentiment in Ontario (*Chart 3*).

Business intentions to increase M&E spending this year are supported by the recent Business Outlook Survey (BOS, *Chart 4*). Expected stronger U.S. demand is said to outweigh concerns about trade protectionism, competitiveness and capacity pressures.

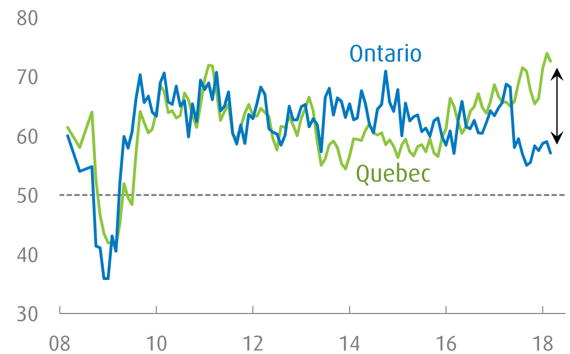
The latter reflects an economy operating close to full employment, with the jobless rate at four-decade lows and the industrial capacity utilization rate above long-run norms (*Chart 5*). But capacity pressures and labour shortages are a double-edged sword for investment. They impede production, as mentioned in the CFIB survey, but they also encourage firms to invest to add capacity .

Although Canadian firms are investing in equipment to maintain or expand near-term capacity, they appear **less willing to build costlier plants and facilities to accommodate longer-term production**. This hesitancy might reflect:

- **Slower economic growth**: The economy downshifted to a sub-2% pace in recent quarters and is unlikely to perform much better in coming years.
- **Less competitiveness:** Business competitiveness took a hit when the U.S. government reduced corporate taxes, allowed full expensing and pared regulations, effectively lowering U.S. business costs. Notably, the tax reforms erased an earlier large advantage for Canadian firms. Rubbing salt, domestic policies have increased business costs and red tape in some jurisdictions. These include higher climate protection charges, minimum wage hikes, and new salary rules for part-time/casual workers in Ontario. A recent survey found that two-thirds of accounting leaders think Canada has become a less competitive place to invest than the U.S. The BOS cited taxes and regulatory differences as reasons for reducing or delaying investments. The CFIB survey found that small businesses are having increased difficulty juggling taxes and regulations. Despite a cheaper loonie and firmer global demand, non-resource export volumes

Chart 3
Mind the Gap

Business Barometer Index[1]

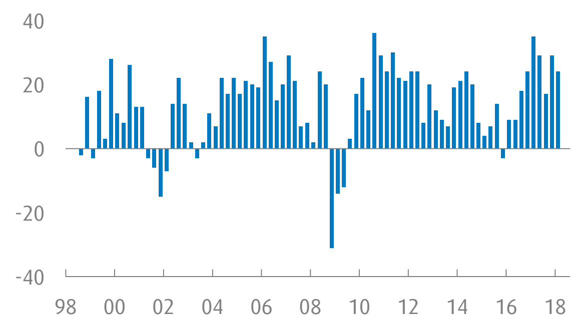


[1] > 50 means expect stronger performance in year ahead
Sources: BMO Economics, CFIB, Haver Analytics

Chart 4
In Gear

Canada (percent balance)

Business Outlook for Investment in M&E

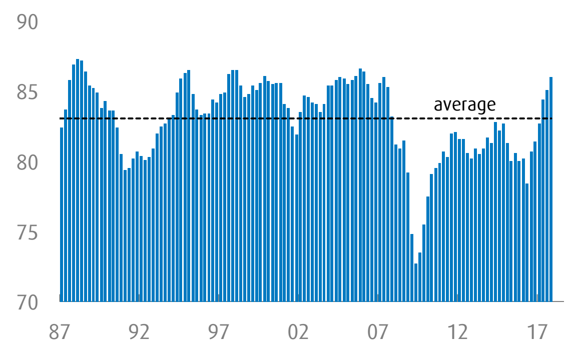


Sources: BMO Economics, Bank of Canada, Haver Analytics

Chart 5
Pushing The Limits

Canada (percent)

Industrial Capacity Utilization Rate



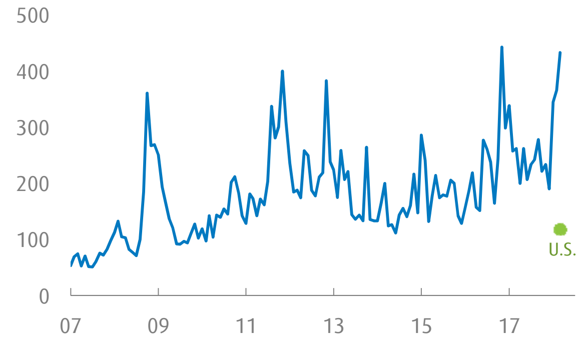
Sources: BMO Economics, Statistics Canada, Haver Analytics

have stalled in recent years, possibly due to a loss of competitiveness and reluctance to add new capacity.

- **More uncertainty**: Canada's news-based Policy Uncertainty Index soared in March to its second highest level since 1985—more than four standard deviations above its long-run mean (*Chart 6*). The Bank of Canada says uncertain trade policies are one reason businesses are delaying investments. While most companies would readily survive the end of NAFTA, you could easily paint a far bleaker picture should the U.S. government impose broad, punitive tariffs on Canadian goods. Made-in-Canada policies are also a factor, as the level of U.S. policy uncertainty remains relatively low.

Bottom Line: A cooler economy, uncertain trade ties and more burdensome domestic policies are expected to weigh on business investment this year, slowing it to a sub-3% pace.

Chart 6
Nervous Times



Sources: BMO Economics, Baker/Bloom/Davis, Haver Analytics

Economic Forecast Summary for April 13, 2018

BMO Capital Markets Economic Research

	2017				2018				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
CANADA											
Real GDP (q/q % chng : a.r.)	4.0	4.4	1.5	1.7	1.5	2.3	2.1	1.9	3.0	2.0	1.8
Consumer Price Index (y/y % chng)	1.9	1.3	1.4	1.8	2.0	2.3	2.4	2.2	1.6	2.2	2.1
Unemployment Rate (percent)	6.6	6.5	6.2	6.0	5.8	5.8	5.7	5.5	6.3	5.7	5.5
Housing Starts (000s : a.r.)	222	207	223	229	224	220 ↑	220 ↑	218 ↑	220	220 ↑	210 ↑
Current Account Balance ($blns : a.r.)	-54.6	-61.3	-74.4	-65.4	-64.1	-60.2	-58.5	-57.1	-63.9	-60.0	-56.0
Interest Rates					(average for the quarter : %)						
Overnight Rate	0.50	0.50	0.83	1.00	1.25	1.25	1.50	1.75	0.71	1.44	2.31
3-month Treasury Bill	0.47	0.54	0.81	0.92	1.14	1.10	1.30	1.55	0.69	1.30	2.10
10-year Bond	1.71	1.51	1.95	1.96	2.24	2.20	2.30	2.45	1.78	2.30	2.80
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	-13	-36	-25	-30	-44	-73	-67	-61	-26	-61	-42
10-year	-73	-75	-30	-41	-52	-62	-61	-58	-55	-59	-50
UNITED STATES											
Real GDP (q/q % chng : a.r.)	1.2	3.1	3.2	2.9	2.3	2.8	2.9	2.9	2.3	2.8	2.5
Consumer Price Index (y/y % chng)	2.6	1.9	2.0	2.1	2.3	2.7 ↓	2.8	2.5 ↓	2.1	2.6	2.1
Unemployment Rate (percent)	4.6	4.3	4.3	4.1	4.1	4.0	3.8	3.7	4.4	3.9	3.5
Housing Starts (mlns : a.r.)	1.24	1.17	1.17	1.26	1.28	1.28	1.30	1.28	1.21	1.28	1.28
Current Account Balance ($blns : a.r.)	-451	-495	-406	-513	-539	-561	-580	-600	-466	-570	-630
Interest Rates					(average for the quarter : %)						
Fed Funds Target Rate	0.71	0.96	1.13	1.21	1.46	1.71	1.96	2.21	1.00	1.83	2.73
3-month Treasury Bill	0.60	0.90	1.06	1.23	1.58	1.80	2.00	2.15	0.95	1.90	2.55
10-year Note	2.44	2.26	2.24	2.37	2.76	2.85	2.90	3.05	2.33	2.90	3.30
EXCHANGE RATES					(average for the quarter)						
US¢/C$	75.6	74.4	79.9	78.6	79.1	77.9	78.8	79.7	77.1	78.9	81.1
C$/US$	1.32	1.34	1.25	1.27	1.27	1.28	1.27	1.25	1.30	1.27	1.23
¥/US$	114	111	111	113	108	106	105	105	112	106	104
US$/Euro	1.07	1.10	1.18	1.18	1.23	1.23	1.24	1.25	1.13	1.24	1.27
US$/£	1.24	1.28	1.31	1.33	1.39	1.40	1.42	1.43	1.29	1.41	1.45

Blocked areas represent BMO Capital Markets forecasts

Up and down arrows indicate changes to the forecast ↑↓

Spreads may differ due to rounding

Canada

See Benjamin Reitzes' Thought on page 5.

Benjamin Reitzes
Canadian Rates &
Macro Strategist
benjamin.reitzes@bmo.com
416-359-5628

BoC Policy Announcement and BoC Monetary Policy Report

Wednesday, 10:00 am
Press conference at 11:15 am

Consumer Price Index

Friday, 8:30 am

Mar. (e)	**+0.4% (+0.2% sa)**	**+2.4% y/y**
Feb.	+0.6%	+2.2% y/y
	Trimmed Mean Core CPI	
Mar.		
Feb.	+2.1% y/y	
	Weighted Median Core CPI	
Mar.		
Feb.	+2.1% y/y	
	Common Component Core CPI	
Mar.		
Feb.	+1.9% y/y	

Consumer prices likely rose another 0.4% in March, which would mark a third consecutive sizeable increase. Unlike in February, energy prices were mostly higher in the month, with gasoline climbing about 3%, which will contribute to the anticipated solid headline. Clothing and recreation are the other sectors that look to see chunky increases, while a drop in new home prices will restrain the shelter component. Seasonality is solid for March, so adjusted prices will be up a milder 0.2%. Our call will push annual inflation up two ticks to 2.4% y/y, a six-year high.

The Bank of Canada's core CPI measures have all trended higher in recent months, averaging 2% for the first time since mid-2016. There's upside risk for the trim and median measures (about a tick) as both saw very modest gains a year ago, which would push the average above 2% for the first time since 2012. While this report is out after the April 18 BoC meeting, it could make things a bit more interesting for the next confab in May.

Retail Sales

Friday, 8:30 am

		Ex. Autos
Feb. (e)	**+0.5%**	**+0.4%**
Jan.	+0.3%	+0.9%

Retail sales are expected to rise 0.5% in February, building on January's rebound from December's steep drop. Auto sales likely rose modestly in the month, providing support to the headline. Gasoline prices were slightly lower in the month on a seasonally-adjusted basis, so that will weigh on overall sales. We look for sales ex. autos to climb 0.4%, while sales ex. autos & gas are expected to gain about 0.5%. The latter could be dragged down a bit by electronics which remain at an elevated level after some wild spikes (up and down) in recent months. And, the sharp pullback in housing activity to start 2018 could dampen activity in related sectors. Lastly, goods prices were slightly higher in the month, suggesting volumes will see a decent gain, building on January's small increase.

United States

Michael Gregory, CFA
Deputy Chief Economist
michael.gregory@bmo.com
416-359-4747

Retail Sales

Monday 8:30 am

		Ex. Autos
Mar. (e)	**+0.5%**	**+0.4%**
Consensus	*+0.4%*	*+0.2%*
Feb.	-0.1%	+0.2%
	Ex. Autos/Gas	
Mar. (e)	**+0.5%**	
Consensus	*+0.4%*	
Feb.	+0.3%	

After a trio of -0.1% readings (during which time consumers caught their breath after a three-month spending spree that averaged more than 1% monthly gains), retail sales likely increased a respectable 0.5% in March. The headline was helped by higher unit vehicle sales (0.4% ex-autos) but hindered by lower (seasonally adjusted) gasoline prices (0.5% ex-autos and gas). This year's early Easter (April 1st) probably provided a boost, and imparts upside risk to March's result. Johnson Redbook's sales aggregate grew at its strongest monthly rate since last June. Meanwhile, tax cuts and continued solid job creation trends (3- and 6-month averages still topping 200,000) should also contribute to shaking consumers out of their recent slumber.

Housing Starts

Tuesday, 8:30 am

Mar. (e)	**1.31 mln a.r. (+5.9%)**
Consensus	*1.27 mln a.r. (+2.8%)*
Feb.	1.24 mln a.r. (-7.0%)
	Building Permits
Mar. (e)	**1.34 mln a.r. (+1.2%)**
Consensus	*1.33 mln a.r. (+0.7%)*
Feb.	1.32 mln a.r. (-4.1%)

Housing starts should rise 5.9% to 1.31 million units (annualized) in March, after falling 7.0% in February (which was partly payback for the prior month's surge in multifamily starts). The demand for homes is still supported by historically attractive affordability (albeit deteriorating) and a strong job growth trend. But, on the supply side, existing homes for sale hit record lows to end last year (back to 1982 for single-family units alone). Although inventories have risen a bit to start the year, they remain historically lean. This is channelling activity to the new home segment. The present sales component of the National Association of Home Builders' Housing Market Index matched its third-highest level in 18½ years in March, despite slipping slightly to start the year. Meanwhile, building permits have been outpacing starts, pointing to a pick-up in the latter, as long as the weather and construction worker availability cooperate.

Industrial Production

Tuesday, 9:15 am

		Capacity Utilization
Mar. (e)	**+0.6%**	**78.0%**
Consensus	*+0.3%*	*77.9%*
Feb.	+0.9%	77.7%

Factory output likely cooled in March, following a red-hot February (in which production jumped 1.3%, matching the second fastest pace in nearly a decade), mimicking the one-tenth dip in aggregate hours in the sector. However, overall industrial production will still register a solid 0.6% gain, with oil production hitting new highs in March (boosting mining output) and colder weather causing a surge in energy usage (boosting utilities output). The capacity utilization rate should get a three-tenths bump to 78.0%, hitting a three-year high.

Beige Book

Wednesday, 2:00 pm

Prepared for the May 1-2 FOMC meeting, the Beige Book will be scanned for anecdotal evidence on whether the *"softness"* in first-quarter economic performance is indeed proving to be *"transitory"* (descriptions from the latest Minutes). The previous report mentioned a *"modest to moderate"* pace of economic expansion across the 12 Fed Districts, with most of them seeing *"employers raise wages and expand benefit packages in response to tight labor market conditions"*, and several of them reporting *"continued worker shortages across most sectors"*. But, inflation was still mostly *"moderate"*. It will be interesting to see whether concerns about tariffs and other trade issues are escalating among the Fed's regional contacts.

		Apr 13 [1]	Apr 6	Week Ago	4 Weeks Ago	Dec. 31, 2017
					(basis point change)	
Canadian Money Market	Call Money	1.25	1.25	0	0	25
	Prime Rate	3.45	3.45	0	0	25
U.S. Money Market	Fed Funds (effective)	1.75	1.75	0	25	25
	Prime Rate	4.75	4.75	0	25	25
3-Month Rates	Canada	1.15	1.12	3	8	9
	United States	1.75	1.71	4	-2	38
	Japan	-0.18	-0.14	-4	-2	-2
	Eurozone	-0.33	-0.33	0	0	0
	United Kingdom	0.78	0.76	2	17	26
	Australia	2.07	2.04	3	12	29
2-Year Bonds	Canada	1.88	1.79	10	12	20
	United States	2.35	2.27	8	6	47
10-Year Bonds	Canada	2.26	2.14	12	12	22
	United States	2.82	2.77	4	-3	41
	Japan	0.03	0.04	-1	0	-1
	Germany	0.51	0.50	2	-6	9
	United Kingdom	1.43	1.39	4	0	24
	Australia	2.74	2.66	8	4	11
Risk Indicators	VIX	17.8	21.5	-3.7 pts	2.0 pts	6.7 pts
	TED Spread	60	63	-3	17	28
	Inv. Grade CDS Spread [2]	62	64	-2	7	13
	High Yield CDS Spread [2]	342	352	-10	12	36
					(percent change)	
Currencies	US¢/C$	79.41	78.24	1.5	4.0	-0.2
	C$/US$	1.259	1.278	—	—	—
	¥/US$	107.55	106.93	0.6	1.5	-4.6
	US$/€	1.2327	1.2281	0.4	0.3	2.7
	US$/£	1.425	1.409	1.1	2.2	5.4
	US¢/A$	77.80	76.84	1.2	0.9	-0.4
Commodities	CRB Futures Index	200.10	192.25	4.1	2.9	3.2
	Oil (generic contract)	67.37	62.06	8.6	8.1	11.5
	Natural Gas (generic contract)	2.74	2.70	1.4	1.9	-7.2
	Gold (spot price)	1,344.48	1,333.65	0.8	2.3	3.2
Equities	S&P/TSX Composite	15,273	15,207	0.4	-2.8	-5.8
	S&P 500	2,669	2,604	2.5	-3.0	-0.2
	Nasdaq	7,116	6,915	2.9	-4.9	3.1
	Dow Jones Industrial	24,444	23,933	2.1	-2.0	-1.1
	Nikkei	21,779	21,568	1.0	0.5	-4.3
	Frankfurt DAX	12,464	12,241	1.8	0.6	-3.5
	London FT100	7,264	7,184	1.1	1.4	-5.5
	France CAC40	5,323	5,258	1.2	0.8	0.2
	S&P ASX 200	5,829	5,789	0.7	-2.0	-3.9

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

Global Calendar
April 16 – April 20

BMO Capital Markets

Japan

Tuesday April 17

Industrial Production

Feb. F (e)	**+4.1%**	**+1.4% y/y**
Jan.	-6.8%	+2.5% y/y

Wednesday April 18

Trade Surplus

Mar. '18 (e)	**¥499.2 bln**
Mar. '17	¥139.3 bln

Friday April 20

	CPI	Core CPI
Mar. (e)	**+1.1% y/y**	**+0.9% y/y**
Feb.	+1.0% y/y	+1.5% y/y

CPI ex. Food & Energy

Mar. (e)	**+0.5% y/y**
Feb.	+0.5% y/y

Tertiary Industry Index

Feb. (e)	**unch**
Jan.	-0.6%

Department Store Sales

Mar.	
Feb.	-0.9% y/y

Euro Area

Tuesday April 17

GERMANY

ZEW Survey—Expectations

Apr. (e)	**-1.0**
Mar.	5.1

ITALY

Consumer Price Index

Mar. F (e)	**+2.5%**	**+1.1% y/y**
Feb.	-0.5%	+0.5% y/y

Wednesday April 18

EURO AREA

Consumer Price Index

Mar. F (e)	**+1.0%**	**+1.4% y/y**
Feb.	+0.2%	+1.1% y/y

Core CPI

Mar. F (e)	**+1.0% y/y**
Feb.	+1.0% y/y

ITALY

Industrial Orders

Feb.		
Jan.	-4.5%	+9.6% y/y

Friday April 20

EURO AREA

Consumer Confidence

Apr. A (e)	**-0.1**
Mar.	0.1

GERMANY

Producer Price Index

Mar. (e)	**+0.2%**	**+2.0% y/y**
Feb.	-0.1%	+1.8% y/y

U.K.

Monday April 16

Rightmove House Prices

Apr.		
Mar.	+1.5%	+2.1% y/y

Tuesday April 17

	Jobless Claims	Claimant Count Rate
Mar.		
Feb.	+9,200	2.4%

Avg. Wkly Earnings Ex. Bonus (3 mma)

Feb. (e)	**+3.0% y/y**
Jan.	+2.6% y/y

Jobless Rate (3 mma)

Feb. (e)	**4.3%**
Jan.	4.3%

Wednesday April 18

Consumer Price Index

Mar. (e)	**+0.3%**	**+2.7% y/y**
Feb.	+0.4%	+2.7% y/y

Core CPI

Mar. (e)	**+2.5% y/y**
Feb.	+2.4% y/y

Producer Price Index (Output)

Mar. (e)	**+0.1%**	**+2.3% y/y**
Feb.	unch	+2.6% y/y

Thursday April 19

Retail Sales (incl. Fuel)

Mar. (e)	**-0.5%**	**+1.9% y/y**
Feb.	+0.8%	+1.5% y/y

Other

Tuesday April 17

CHINA

Real GDP

Q1 (e)	**+1.5%**	**+6.8% y/y**
Q4	+1.6%	+6.8% y/y

Industrial Production (ytd)

Mar. (e)	**+6.9% y/y**
Feb.	+7.2% y/y

Retail Sales (ytd)

Mar. (e)	**+9.7% y/y**
Feb.	+9.7% y/y

Fixed Asset Investment (ytd)

Mar. (e)	**+7.7% y/y**
Feb.	+7.9% y/y

AUSTRALIA

RBA Minutes from Apr. 3 meeting

Thursday April 19

AUSTRALIA

Employment

Mar. (e)	**+20,000**
Feb.	+17,500

Jobless Rate

Mar. (e)	**5.5%**
Feb.	5.6%

Friday April 20

G20 Finance Ministers and Central Bank Governors meet in Washington, D.C.

Upcoming Policy Meetings | BoE: May 10, June 21, Aug. 2 | ECB: Apr. 26, June 14, July 26

North American Calendar
April 16 – April 20

BMO Capital Markets

Monday April 16

Canada

8:30 am — **New Motor Vehicle Sales**[D]
- **Feb. (e)**: **+2.5% y/y**
- Jan.: +6.4% y/y

United States

8:30 am — **Retail Sales** / **Ex. Autos**

	Retail Sales	Ex. Autos
Mar. (e)	**+0.5%**	**+0.4%**
Consensus	*+0.4%*	*+0.2%*
Feb.	-0.1%	+0.2%

8:30 am — **Retail Sales ex. Autos/Gas**
- **Mar. (e)**: **+0.5%**
- *Consensus*: *+0.4%*
- Feb.: +0.3%

8:30 am — **Empire State Manufacturing Survey**
- **Apr. (e)**: **20.0**
- *Consensus*: *18.2*
- Mar.: 22.5

10:00 am — **NAHB Housing Market Index**
- **Apr. (e)**: **70**
- *Consensus*: *70*
- Mar.: 70

10:00 am — **Business Inventories**
- **Feb. (e)**: **+0.6%**
- *Consensus*: *+0.6%*
- Feb. P: +0.6%
- Jan.: +0.7%

4:00 pm — **Net TIC Flows**

	Total	Long Term
Feb.		
Jan.	$119.7 bln	$62.1 bln

Fed Speaker: Atlanta's Bostic (1:15 pm)

11:00 am — 4-week bill auction announcement

11:30 am — 13- & 26-week bill auction $90 bln

Tuesday April 17

Canada

8:30 am — **Mfg. Sales** / **Mfg. New Orders**

	Mfg. Sales	Mfg. New Orders
Feb. (e)	**+0.5%**	**+0.5%**
Jan.	-1.0%	+0.1%

8:30 am — **Int'l Securities Transactions**

	Inflows	Outflows
Feb.		
Jan.	$5.7 bln	$13.3 bln

10:30 am — 3-, 6- & 12-month bill auction $10.5 bln (new cash $2.4 bln)

United States

8:30 am — **Housing Starts**
- **Mar. (e)**: **1.31 mln a.r. (+5.9%)**
- *Consensus*: *1.27 mln a.r. (+2.8%)*
- Feb.: 1.24 mln a.r. (-7.0%)

8:30 am — **Building Permits**
- **Mar. (e)**: **1.34 mln a.r. (+1.2%)**
- *Consensus*: *1.33 mln a.r. (+0.7%)*
- Feb.: 1.32 mln a.r. (-4.1%)

9:15 am — **Industrial Production** / **Capacity Utilization**

	Industrial Production	Capacity Utilization
Mar. (e)	**+0.6%**	**78.0%**
Consensus	*+0.3%*	*77.9%*
Feb.	+0.9%	77.7%

Fed Speakers: San Francisco's Williams (9:15 am); Gov. Quarles (10:00 am); Philadelphia's Harker (11:00 am); Chicago's Evans (1:10 pm); Atlanta's Bostic (5:40 pm)

11:30 am — 4-week bill auction

Wednesday April 18

Canada

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

United States

7:00 am — **MBA Mortgage Apps**
- **Apr. 13**
- Apr. 6: -1.9%

2:00 pm — **Beige Book**

Fed Speakers: New York's Dudley (3:00 pm); Gov. Quarles (4:15 pm)

Thursday April 19

Canada

8:30 am — **ADP Employment Report**
- **Mar.**
- Feb.: +32,700

Noon — 2-year bond auction $3.0 bln

10-year bond auction announcement

United States

8:30 am — **Initial Claims**
- **Apr. 14 (e)**: **226k (-7k)**[C]
- Apr. 7: 233k (-9k)

8:30 am — **Continuing Claims**
- **Apr. 7**
- Mar. 31: 1,871k (+53k)

8:30 am — **Philadelphia Fed Index**
- **Apr. (e)**: **21.0**
- *Consensus*: *20.0*
- Mar.: 22.3

8:30 am — **Real GDP by Industry (Q4)**

10:00 am — **Leading Indicator**
- **Mar. (e)**: **+0.3%**
- *Consensus*: *+0.3%*
- Feb.: +0.6%

Fed Speakers: Gov. Brainard (8:00 am); Gov. Quarles (9:30 am); Cleveland's Mester (6:45 pm)

11:00 am — 13-, 26- & 52-week bill, 2-, 5- & 7-year note, 2-year FRN auction announcements

1:00 pm — 5-year TIPS auction $16 bln

Friday April 20

Canada

8:30 am — **Consumer Price Index**
- **Mar. (e)**: **+0.4% (+0.2% sa)**; **+2.4% y/y**
- Feb.: +0.6%; +2.2% y/y

8:30 am — **Trimmed Mean Core CPI**
- **Mar.**
- Feb.: +2.1% y/y

8:30 am — **Weighted Median Core CPI**
- **Mar.**
- Feb.: +2.1% y/y

8:30 am — **Common Component Core CPI**
- **Mar.**
- Feb.: +1.9% y/y

United States

8:30 am — **Retail Sales** / **Ex. Autos**

	Retail Sales	Ex. Autos
Feb. (e)	**+0.5%**	**+0.4%**
Jan.	+0.3%	+0.9%

G20 Finance Ministers and Central Bank Governors meet in Washington, D.C.

Fed Speaker: Chicago's Evans (9:40 am)

[C] = consensus [D] = date approximate

Upcoming Policy Meetings | Bank of Canada: May 30, July 11, Sep. 5 | FOMC: May 1-2, June 12-13, July 31-Aug. 1

General Disclosure

"BMO Capital Markets" is a trade name used by the BMO Financial Group for the wholesale banking businesses of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. This document is issued and distributed in Hong Kong by Bank of Montreal ("BMO"). BMO is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution with the Securities and Futures Commission (CE No. AAK809) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such Information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor's particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Research

Our publications are disseminated via email and may also be available via our web site http://economics.bmocapitalmarkets.com. Please contact your BMO Financial Group Representative for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., Member FDIC. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets. BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A, BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Inc., used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

™ Trademark Bank of Montreal in the United States and Canada.

© COPYRIGHT 2018 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group