Focus

Feature Article

Supply Chains Unsnarling, Goods Prices Falling

Our Thoughts

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- Just Because the Fed Is Doing It Doesn't Mean the Rest Will Too

Forecast Changes

- BMO Economics now expects the Fed to raise rates a combined 50 bps at next two meetings rather than 75 bps after subdued inflation report

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All's Well that Starts Well

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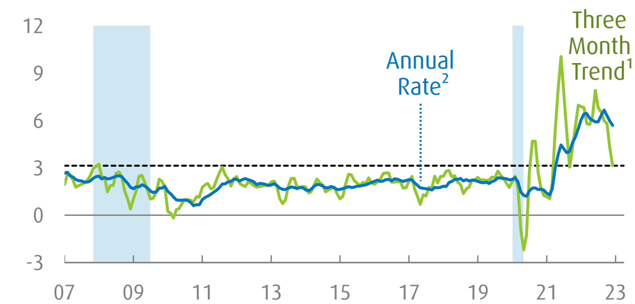
For the first time in three years, the Economic Club of Canada held its annual Economic Outlook event in person this morning—please refrain from commenting on the choice of a Friday the 13th for the shindig. Billed as a meeting of the greatest economic minds in Canada—and me—it features the chief economists from the largest chartered banks, to consider the prospects for the year ahead for the Canadian and global economies and financial markets. The turnout was excellent (over 800), despite challenging weather and what's normally light attendance in the downtown core on Fridays. And that strong turnout likely reflects the exceptionally keen interest in the outlook, given the many cross-currents and headwinds confronting the global economy. Accordingly, below are some of the major issues addressed in the session, and some of the viewpoints.

Chart 1
Goldilocks Calling

United States
Consumer Price Index ex. Food and Energy



Shading marks U.S. recessions; [1] (3-mnth % chng : ann.); [2] (y/y % chng)
Sources: BMO Economics, Haver Analytics

Recession or not

Dealing with the elephant in the room right off the bat, panellists danced around the specific forecasts for GDP, but the consensus was that even if we don't fall into an outright recession, growth will be minimal this year. Our official call is in the shallow recession camp, and we are at the low end of consensus calling for zero GDP growth in both Canada and the U.S. this year (the average call is now 0.4% for Canada, after around 3.5% last year). However, bluntly, the chances of the much-ballyhooed soft landing are rising by the day as U.S. underlying inflation ebbs (*Chart 1*). This week's key release saw core CPI post a moderate rise for the third month in a row, further fuelling talk of a Goldilocks outcome in the wake of last week's friendly employment report (steady job growth, moderating wages).

Will the Bank of Canada (and the Fed) go too far?

The most widely-cited risk was that policymakers would indeed err on the side of tightening too much, rather than too little. Even we—who have been consistently on the high side of the inflation call for the past two years—have been impressed by recent U.S. inflation trends (we chopped our call on U.S. CPI this week, closer to consensus). Still, we don't believe that the central banks have overdone it yet. Short-term interest rates are still below inflation trends, and the ongoing strength in the labour markets certainly gives no sense that rates have gone too far. Having said that, our official call on the Bank of Canada is just one more hike of 25 bps this month, and then a move to the sidelines for the rest of 2023. Similarly, we now look for 25 bp moves from the Fed at its first two meetings (previously we had a 50 bp hike on Feb. 1), and then a pause for the rest of the year. We believe that will be enough to tame inflation—if the central banks feel the need to do more than that, then yes it will eventually be going "too far".

Whose economy is more at risk—Canada or the U.S.?

There was no consensus on this issue, and our forecast happens to have the two economies locked in a tie for growth this year. One very reasonable view was that because of Canada's much higher household debt levels, and its much larger dependence on housing, that it is clearly at greater risk in the wake of the most aggressive rate hikes in decades. The counterpoint was that much stronger population growth flatters Canada's consumer spending outlook, as does the fact that there is still more catch-up to go from the restrictions of the past three years.

I also chimed in that the fiscal outlook may favour Canada in the short-term: finances have recovered quickly here, in part thanks to the commodity boom, and provinces have rolled out impressive support, while Ottawa still has many medium-term spending priorities. On the flip-side, the U.S. budget deficit has widened again to more than $1.4 trillion (or 5.6% of GDP) in the past 12 months, and all eyes are turning to a potential showdown over the debt ceiling later this year—especially after the struggle to even elect a speaker in the House last week.

Why is the loonie struggling, and will it improve?

No commodity currency thrived last year, even when resource prices bolted higher in the wake of the Ukraine invasion. And then they were pummelled in the second half of 2022 as concerns over the global economy mounted and commodities sagged. For the most part, this was a U.S. dollar story, as the greenback simply steamrolled every currency. But the loonie even lost ground against the euro on net last year—not what you would expect given the massive energy challenges facing the European economies. Most commodity currencies have started this year on a slightly better footing, supported by China's reopening and a somewhat more moderate outlook for Fed policy. We look for the Canadian dollar to strengthen modestly further this year, albeit with a year-end target of just around $1.30 (just under 77 cents).

Will commodities provide some support for domestic markets?

This is no normal cycle, and some of the standard playbook assumptions are not going to work this time. And one potential oddity is that commodity prices may hold up surprisingly well even in the face of a much cooler global economy. Some supportive factors for resource prices are: 1) the policy changes in China, both the reopening and the general slant to more growth-friendly measures in recent weeks; 2) a softening U.S. dollar; 3) green-energy-driven demand for some commodities (e.g. copper, nickel, and lithium) and 4) specific supply considerations, such as the Ukraine conflict or OPEC's determination to keep crude prices firm. The recent comeback in copper prices is a particularly notable development, which at the very least raises some doubts on talk of a global recession.

Is Canada in a housing bubble?

The short answer was "not any longer". Nationally, prices are down in the double digits from last February's frenzied high, with much deeper drops in many Ontario cities (which had been the hottest of the hot in the pandemic). While most panellists expected further declines in prices this year, as the market more fully digests the steep rise in interest rates, some were quite optimistic on the medium-term outlook—largely due to relentless strength in population growth. There was some debate over just how much a tight supply situation was the root cause of the price run-up; as usual, we made the case that overheated demand was the driver, and that new supply has actually been quite robust (also noting the record 300,000+ units under construction).

What keeps you awake at night?

Longer-term concerns included Canada's woeful productivity performance, the lack of planning around strong population growth, and the clear possibility that inflation may yet surprise us all to the high side again—which would indeed necessitate much stronger action from the central banks, and the prospect of a much harder landing for the economy. Personally, just to end things on a cheery note, I suggested that all of these economic concerns are minor compared with some of the geopolitical risks the global economy may need to contend with in the years ahead—whether it's from China, Russia, Iran or North Korea.

Anything positive to end on?

Not wanting to end on that sour note, a few pointed to the amazingly healthy job market, as well as the incredible resiliency that many economies displayed during the deep challenges of the past few years. Fully agreeing with those comments, I also noted the robust start to 2023 in financial markets—for both equities, bonds, commodities, and, yes, even crypto—which hints that investors are raising the odds of the economy achieving the elusive soft-landing scenario in the year ahead. While that's not our base case, it is definitely encouraging that underlying inflation does appear to be ebbing, and wage growth remains moderate, raising the odds of a more positive outcome for the economy and markets this year.

Transitory, After All?

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The milder CPI report compelled us to scale back our calls on inflation and the Fed. We now expect the CPI rate to halve to 4.0% in 2023 from precisely 8.0% last year, half a percentage point less than previously thought. The rate should ease further to 2.5% in 2024. Importantly, the PCE deflator, the Fed's preferred measure, could slip below 3% this fall. At 5.5% y/y in November, it is already running a full percentage point below the December CPI rate.

At the last policy meeting, the median FOMC member pencilled in 3.1% y/y PCE price growth for Q4 of this year. If the Fed is also thinking of shaving its inflation forecast, it may also be pondering scaling back the 75 bps of rate hikes it had slotted in for the year. We did, and **now expect a smaller 25 bp increase on February 1 and a final move in March**, taking the policy target rate to 4.75%-to-5.00%. However, we still suspect the Fed will take a cautious approach (not wanting to risk repeating the 70s boom/bust inflation cycles) and wait until early next year to reverse gears.

Powell, it seems, was already leaning toward a smaller rate hike before the CPI report. After the December meeting, he said a further downshift was "*broadly right*" and "*makes a lot of sense*" now that rates are restrictive, though he also said the Fed had not decided on a course of action pending further data. Post CPI, the Fed's Harker (a voter) said 25 bp hikes "*will be appropriate*". Atlanta's Bostic was less committed but seemed to be leaning that way, saying the CPI report may allow the Fed to move more slowly, while also citing "positive" signs of softer wage growth. The

WSJ claims the CPI report will likely weigh toward a quarter point rate increase at the next meeting.

A highly data-driven Fed can't ignore the growing signs of moderation in inflation, even if labour markets remain drum-tight. **Three months of relatively mild CPI prints are starting to form a trend**, one that is becoming more convincing because of the widespread nature of the slowing. The sharp pullback in commodities, the earlier record-strong greenback, and weaker demand for goods have led to three straight monthly declines in core goods prices, chopping the yearly rate to 2.1% from a peak of 12.3% last February. Food costs rose the least (0.3% m/m) since early 2021 and have been climbing down the staircase from 1.2% last May. Supply chain pressures have eased substantially, as Michael discusses in the Feature article. That likely led to the first decline in new vehicle prices since early 2021.

On the **services side**, while wages are still rising smartly, they have likely peaked and might be moderating by the looks of average hourly earnings. Recession fears may have made some workers more hesitant to seek pay increases. Falling prices of airfares and auto rental rates speak to waning pent-up demand for travel. Most importantly, anecdotal and survey evidence suggests consumers are pushing back harder against price hikes, squeezing once-high profit margins. As a result, the services CPI excluding rent of shelter, despite bouncing 0.4% last month on spiking electricity and piped gas costs, has slowed to a 1.2% annualized rate in the past three months from a peak of 12.8% last June. We estimate that this measure, excluding energy services, rose just 0.26% last month or 3.4% annualized—not exactly price stability, but getting closer.

Some of the inflation runup was always going to be transitory. For example, virtually all of the 2.6 ppt decline in CPI inflation from its peak of 9.1% y/y in June to 6.5% in December can be attributed to energy prices slowing from a 41.6% yearly rate to 7.3%. But energy prices were never going to keep rising at that blistering pace. The same can be said for food costs (up 10.4% y/y though moderating) and rent. While the two rent measures that comprise a third of the CPI basket have yet to peak (both rose 0.8% in December, the most in at least three decades and up at least 7.5% y/y), it's just a matter of time before they roll over given falling house prices and market rents. Excluding shelter, the core CPI has fallen three straight months. While this is due to sharply reversing used auto prices, the sizzling 45% y/y rise in June 2021 was never going to be sustained. Excluding used auto prices as well, this core, core, core category rose just 1.8% annualized in the last three months, down from a peak of 8.0% in the three months to June. That might not be substantial progress toward restoring price stability, but it sure is welcome progress.

Bottom Line: While we still see a somewhat slower decline in inflation than the consensus view, we would **consider a more substantial rethink of the outlook if current trends persist**. The Fed still wants to see signs of labour market cooling before letting down its guard, but terminal rates now appear lower than earlier expected, and feared.

To Bear or Not to Bear, That's the 2023 Question

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Equity markets have rallied out of the gate in 2023, offering some hope that the dark days of 2022 are behind us from an asset price perspective. Recall that **last year was historically bad for investors of most risk profiles**. The S&P 500 fell more than 19%; 10-year Treasury total returns were -16.4%; and the combined 60/40 portfolio return of those two assets was the worst on a total return basis since at least 1970. We've simply never seen a year with both sides of the market down in sync like that, let alone punished so significantly.

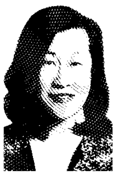
Can it get much worse? Statistically, it's very rare for the 60/40 portfolio to be down two years in a row. We saw one such episode during the mid-1970s amid re-accelerating inflation; and we saw it in the early 2000s as the tech bubble was deflating. But, neither of those cases saw a year as deeply negative as 2022.

For **the bond market side of the portfolio**, this week's inflation data and Fed chatter were supportive. Ten-year Treasury yields have already fallen below 3.5%, down a hefty 75 bps from the October high. Goods inflation is melting, housing pressure is destined to ease sharply later this year, and 3-month annualized core inflation encouragingly slowed to 3.1% in December. The Fed has now effectively guided to a 25 bp rate hike on February 1st, and we now see just 50 bps of further tightening to come with an end to the cycle in near sight.

Equities are more likely, at least historically, to post consecutive negative years—we saw that in the early 2000s and mid-1970s, and it's not lost on us that both of those cycles have some similarities with today. If inflation is in fact melting away because demand is getting destroyed, then that doesn't bode well for earnings and equities in the year ahead. It's also very rare for stocks to bottom before Fed rate cuts are in the bank (the mid-1990s was one exception, but that ended up a non-recession period). That said, the bearish sentiment out there is clear, and setting negative expectations is half the battle in finding a market bottom. Based on AAII data, individual investors have shifted roughly 15% of their portfolio out of stocks/bonds and into cash since the end of 2021. Advisors in the Investors' Intelligence survey are also bearish at levels consistent with past major market lows.

From a bigger picture perspective, **moving from high and rising inflation to disinflation is historically a very positive shift** for both stocks and bonds. Going back to the 1960s, the S&P 500 posted average annualized returns of roughly -5% in periods when inflation was above 3% y/y and accelerating, while 10-year Treasuries have returned -2.4%. Coming down the mountain with inflation still above 3% but falling, stocks have grown at a 9.5% annualized clip while 10-year Treasury returns have clocked at an 8% pace. To be sure, there is probably some nuance with where we also are in the rate hike/cut cycle, but if we are indeed past the peak of inflation, it's very good news at the margin for investment portfolios.

Just Because the Fed Is Doing It Doesn't Mean the Rest Will Too



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Now that the Fed is gaining reassurance that inflation is coming down, attention is turning to other central banks. **Will they or won't they follow the Fed's lead?** After all, the Fed has already begun to moderate its pace of rate hikes, as headline (6.5%) and core (5.7%) inflation looks to have peaked already (versus the highs in June [9.1%] and September [6.6%], respectively).

Don't expect the **ECB** to be so quick to change gears: it was only in December that **headline CPI** slipped back to single-digit territory and is still at a towering 9.2%, not too far from October's record 10.6% rate. And **core CPI** (of 5.2%) is still the highest since records began in 1990. What's the target? Oh yes, 2%. Not there yet! Certainly, the dive in **natural gas prices** to pre-invasion times is helping, big time (thank you, Mother Nature) but nearly every Governing Council member who spoke to reporters this week continued to sound hawkish. They ranged from **Executive Board member Isabel Schnabel** (hawk), who warned that rates "*will still have to rise significantly at a steady pace*" to return to 2%, to the less hawkish types, such as **Spain's Pablo Hernandez de Cos** and **Greece's Yannis Stournaras**, who stressed that rates need to keep rising "*significantly*". But a severe recession may have been avoided.

Then there is the **BoE**. It has the extra weight of knowing that the economy shrank already (by 1.2% a.r.) in Q3 and it looks like things probably worsened a bit in Q4. Yes, **real GDP** actually firmed for the second month in a row (surprise!), up 0.1% in November; but it fell after smoothing out the monthly wiggles, or down 0.3% in the **three months to November**, following a downward revision to the prior period (to -0.4%, instead of -0.3%). The boost came from **services**, which rose for the second straight month, or by 0.2% in November, although it slipped 0.1% on a **3-month moving average basis**. The monthly rise was due to the World Cup. Meantime, the slowdown still hasn't made a real dent yet in inflation. At last check, U.K. inflation increased at a record pace of 11.1% in October, and only slowed ever-so-slightly to 10.7% in November. That works out to 4 out of the past 5 months of over 10% inflation readings, or 5x the official target. **Next week**, watch for **November wage growth** and **December CPI**, to help settle the decision for the next rate meeting.

Note that, once again, the ECB and the BoE will make their monetary policy announcements on the same day (February 2). And once again, we look for both to raise rates 50 bps. Their time to moderate the pace of rate hikes, though, is coming.

The **BoJ** is also holding its 2-day monetary policy meeting next week. After tweaking the band around the 10-year JGB yield (now +/-0.5 ppts around 0%), markets are no longer ignoring this still-dovish-but-not-to-the-same-extreme-as-it-once-was central bank. At that time, the JPY swung from ¥137 to ¥132, and 10-year yields jumped from 0.25% to nearly 0.5%. What is discussed next week will be of great interest, particularly as **Tokyo CPI** hit a 40-year high of 4% in December, **Uniqlo** will raise salaries by as much as 40% come March, and the Bank raised its **economic assessment** for four of Japan's nine regions (the rest were maintained). It is possible that the debate around **Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control** will result in more fine-tuning of policy.

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

	Good News	Bad News
Canada ▪ Ottawa and Mexico win auto trade dispute against U.S.	**Building Permits** +14.1% (Nov.)	
United States ▪ Cooling inflation likely to slow the pace of Fed rate hikes	**Consumer Prices** +6.5% y/y (Dec.)—slowest pace since Oct. '21 **Initial Claims** -1k to 205k (Jan. 7 week) **Consumer Credit** +$28.0 bln (Nov.) **U of M Consumer Sentiment** +4.9 pts to 64.6 (Jan. P)—and year-ahead inflation expectations fell to 4.0%	**NFIB Small Business Optimism** -2.1 pts to 89.8 (Dec.) **Budget Deficit** widened to $85.0 bln (Dec.) **Import Prices** +3.5% y/y (Dec.)
China ▪ Easing COVID curbs lift consumer price inflation	**Producer Prices** -0.7% y/y (Dec.) **Foreign Reserves** steady at $3.1 trln (Dec.)	**Consumer Prices** picked up to +1.8% y/y (Dec.) **Aggregate Yuan Financing** slowed to 1.3 trln (Dec.)—and **New Yuan Loans** 1.4 trln **M2 Money Supply** eased to +11.8% y/y (Dec.)
Japan ▪ BoJ policy meeting next week as Tokyo inflation hits multi-decade highs	**Current Account Surplus** widened to ¥1.8 trln (Nov.) **Bank Lending Ex-Trusts** steady at +3.0% y/y (Dec.)	**Household Spending** -1.2% y/y (Nov.) **Tokyo CPI** +4.0% y/y (Dec.)
Europe ▪ ECB Economic Bulletin: unlikely to hit inflation target before 2025	**Euro Area—Jobless Rate** steady at 6.5% (Nov.) **Euro Area—Trade Deficit** narrowed to €15.2 bln (Nov.) **Euro Area—Industrial Production** +1.0% (Nov.) **Germany—Industrial Production** +0.2% (Nov.) **France—Industrial Production** +2.0% (Nov.) **France—Jobless Rate** -0.1 ppts to 7.0% (Nov.) **Italy—Jobless Rate** -0.1 ppts to 7.8% (Nov.) **Italy—Retail Sales** +0.8% (Nov.) **U.K.—Monthly Real GDP** +0.1% (Nov.)—and **Index of Services** +0.2%	**France—Trade Deficit** widened to $13.8 bln (Nov.) **Italy—Industrial Production** -0.3% (Nov.) **U.K.—Industrial Production** -0.2% (Nov.) **U.K.—Trade Deficit** widened to £15.6 bln (Nov.)
Other ▪ WTI climbs on global demand optimism	**Australia—Retail Sales** +1.4% (Nov.) **Australia—Trade Surplus** widened to A$13.2 bln (Nov.)	**Australia—Consumer Prices** +7.3% y/y (Nov.) **Australia—Building Approvals** -9.0% (Nov.)

Supply Chains Unsnarling, Goods Prices Falling

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U.S. consumer goods prices, excluding food and energy, dropped 0.3% in December, falling for a third consecutive month. Since September, **core goods prices have decreased at a 4.8% annualized rate, the most ever over a three-month interval** since data commenced 65 years ago. Core goods inflation is now just 2.1% y/y, down from record-high readings over 12% hit last February and for a few months in 1975 (*Chart 1*).

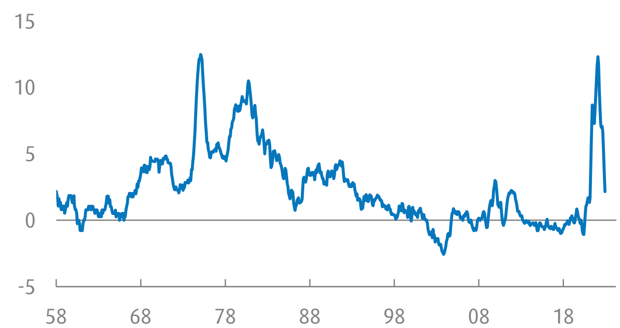
The steep descent reflects the **steadily improving balance between strong demand for goods and constrained supply of products** that caused the steep climb in the first place. In April 2021, core goods inflation jumped a record 2.7 ppts to 4.4% y/y, the latter being a 30-year high at the time (May and June also followed with monthly extremes resulting in a record-high three-month annualized gain of 26.3%). The jump was partly owing to base effects; a year earlier, there was a string of negative monthly moves during the onset of the pandemic and economic restrictions. But it was mostly due to the surge in spending as past and current policy stimulus came home to roost, and the final stages of domestic economic reopening unfolded.

Global and domestic supply chains, still reeling from the pandemic, couldn't keep up, worsening the demand-supply balance and snarling supply chains further with inflationary consequences. To help monitor the situation, the Federal Bank of New York introduced the **Global Supply Chain Pressure Index** (GSCPI) in January 2022 (*Chart 2*). Before the pandemic, the GSCPI signalled global supply chain pressures owing to natural disasters such as 2011's tsunami in Japan and separate flooding in Thailand. It also signalled supply chain disruptions resulting from the Trump Administration's tariffs and the U.S.-China trade war, beginning in 2017.

The pandemic's onset and related **economic restrictions** in 2020 caused the GSCPI, not surprisingly, to spike. Early efforts to relax restrictions saw pressures ease, but the virus's subsequent resurgence resulted in restrictions being reinstituted and more **absenteeism** among production workers, both domestically and globally. Against this supply background, as 2021 unfolded and domestic spending strengthened, supply chain pressures escalated along with goods prices. Through the end of the year and start of 2022, the surging Omicron variant wreaked further havoc on supply chains, owing to absenteeism rather than restrictions domestically, and the combination of both globally. The GSCPI reached its pinnacle in December 2021.

Chart 1
The Goods on Core Inflation

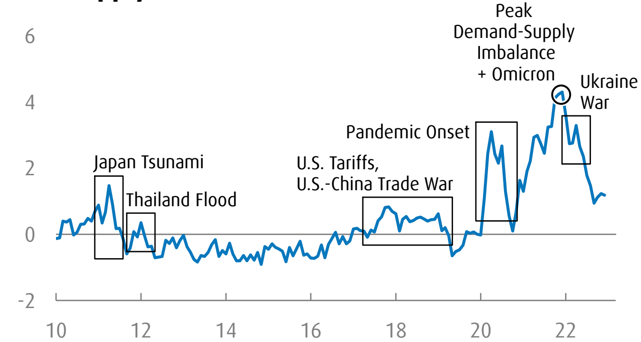
United States (y/y % chng)
CPI — Commodities Less Food & Energy



Sources: BMO Economics, Haver Analytics

Chart 2
Supply Chains Unsnarling

(standard deviations from average value)
Global Supply Chain Pressure Index



Sources: BMO Economics, Haver Analytics, Federal Reserve Bank of New York

The worst imbalance between strong domestic demand for goods and constrained supply of products, along with the peak in U.S. core goods inflation, occurred during the months surrounding the GSCPI's pinnacle. A prime example is the array of consumer goods impacted by the global shortage of **semiconductors**. Inflation rates peaked at 13.3% in August 2021 for televisions (a record 71-year high); 8.5% in September 2021 for computers, peripherals and smart home assistant devices (a record 35-year high); 8.5% in January 2022 for appliances (also a record 35-year high); and, 13.2% in April for new vehicles (the highest in 73 years).

High and rising prices, broadly, and the consequent erosion of purchasing power was poised to dampen demand. Then came the start of **monetary policy tightening** in March 2022, designed to restore economy-wide demand-supply balance along with price stability by weakening demand. By December, the Fed had 425 bps of rate hikes and about $350 billion of quantitative tightening in the hopper. Meanwhile, the supply of goods continued catching up. In turn, supply chains started unsnarling.

Russia's invasion of Ukraine at the end of February 2022 caused the GSCPI to turn up again. These countries are major producers and/or exporters of energy, metals and agricultural products. Between the ravages of war on Ukraine's production and distribution capacity along with the impact of sanctions on Russia, supply concerns pushed some commodity prices to record highs. Concerns soon shifted to there being adequate demand amid the tightening efforts among the world's major central banks and inflation's erosion of purchasing power. Commodity prices subsequently backed off, many to below pre-invasion levels.

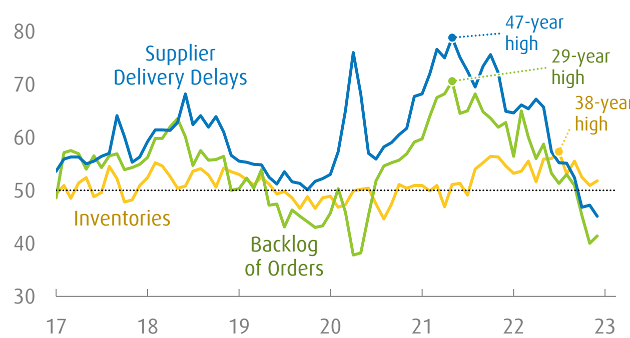
The GSCPI resumed its downtrend, reaching a 22-month low in September before drifting higher by the end of the year. The latter reflected the disruption to supply chains, particularly among Asian nations, caused by **China's zero-COVID policy** and related economic restrictions. These have since been relaxed, with increasing Chinese infections now posing their own challenge for global supply chains.

The GSCPI is composed of 27 variables. Six measure cross-border **goods transportation costs** via both sea and air. They include the Baltic Dry Index (raw materials shipping) and the Harpex index (container costs), along with inbound and outbound airfreight costs between the U.S. and Asia and the U.S. and Europe. The pandemic caused waves of absenteeism among crews, port workers and truck drivers, which gummed up the global distribution of goods and, particularly, the containers they're shipped in. Look back to last summer when container cost increases were approaching 500% y/y and there were record numbers of ships at berth or anchor at America's two largest container ports in Los Angeles and Long Beach. Although transportation costs have since subsided, they remain above their pre-pandemic levels, partly pushed by elevated diesel fuel prices and wages.

The remaining 21 metrics are all derived from indices in **purchasing managers' surveys**. Included are supplier deliveries, backlog of orders, and inventories for U.S.

Chart 3
Bottlenecks Ebbing

United States (50+ = increasing)
ISM Manufacturing Indices



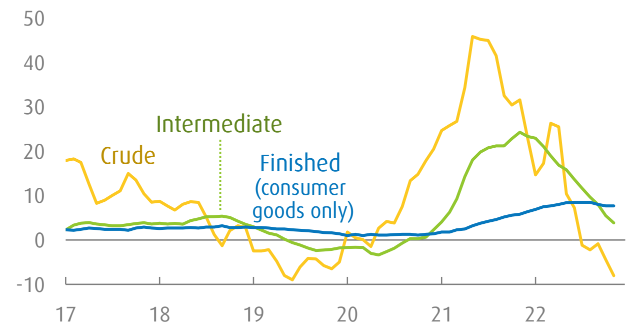
Sources: BMO Economics, Haver Analytics manufacturers along with those in the Euro Area, China, Japan, South Korea, Taiwan, and the U.K. For American factories (*Chart 3*), supplier delivery delays hit a 47-year high in May 2021 as the backlog of orders (with a shorter history) hit a record or 29-year high. Through the final three months of last year, both metrics slipped below the 50 mark, meaning most manufacturers were facing falling backlogs and delivery delays. In the wake of 2021's constrained supply of production inputs, there was a push to secure adequate inventories. This metric peaked later in July 2022, hitting a 38-year high. There was a slight majority of firms still looking to supplement inventories by December 2022.

Prices paid (for production inputs) also slipped below the 50 level during the final three months of last year after hitting a 43-year high of 92.1 in June 2021. This performance partly reflects the slide in core intermediate and crude producer prices (*Chart 4*). Inflation for the former peaked above 24% in November 2021 (a 46-year high) and has since dropped under 4%. Core crude PPI inflation peaked at almost 46% in May 2021 (a 47-year high apart from April 2010's print) before heading steadily south except for the brief blip after Russia invaded Ukraine. It moved into negative territory during 2022H2 and is currently -8%. However, despite these input price trends, the annual change in core finished consumer goods prices has spent the last 10 months running in a 7.5%-to-8.5% range. The stubbornness probably reflects still-sturdy price gains for inputs other than core goods (such as wages and energy) along with still-double-digit annual increases in trade, transportation and warehousing costs.

Chart 4
Down the Production Pipeline

United States (y/y % chng)

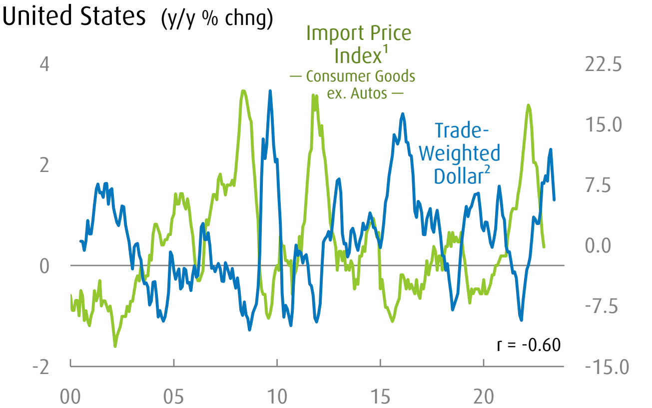
PPI — Goods less Food & Energy



Sources: BMO Economics, Haver Analytics

Chart 5
Greenback Greasing Disinflation

United States (y/y % chng)



Sources: BMO Economics, Haver Analytics [1] *(lhs);* [2] *(rhs : advanced 6 months)*

With core consumer goods inflation noticeably slowing at the retail level, this indicates that import prices were having more of an influence. The annual change in imported consumer goods prices (excluding automotive products) peaked at 3.2% in March 2022 which is among the quickest clips in 30 years (*Chart 5*). It has since slowed to 0.4%, as global supply chains unsnarled, and the trade-weighted U.S. dollar appreciated. The greenback hit record highs in October, up nearly 12% y/y. And despite depreciating more than 4% through December, it takes about six months for the dollar's annual changes to influence the pricing of imported consumer goods.

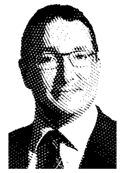
Bottom Line: Consumer core goods inflation has slowed sharply and appears poised to wade into negative waters. This reflects the lagged influence of U.S. dollar appreciation on import prices and recent stubborn inflation at the domestic producer level relenting as weakening consumer demand allows disinflation on the production input front to better filter through. And, it reflects the continued unsnarling of global and domestic supply chains as weakening demand also allows supply to better catch up.

Economic Forecast Summary for January 13, 2023

	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	Annual 2021	Annual 2022	Annual 2023
CANADA											
Real GDP (q/q % chng : a.r.)	2.8	3.2	2.9	0.6	-1.5	-1.8	0.0	1.5	5.0	3.5	0.0
Consumer Price Index (y/y % chng)	5.8	7.5	7.2	6.8	5.7 ↓	3.9 ↓	3.8 ↓	3.3 ↓	3.4	6.8	4.2
Unemployment Rate (percent)	5.8	5.1	5.2	5.1	5.4	5.9	6.2	6.4	7.4	5.3	6.0
Housing Starts (000s : a.r.)	244	271	282	261	229	226	223	220	277	264	225
Current Account Balance ($blns : a.r.)	3.7	10.6	-44.4	-40.0	-36.4	-36.4	-38.6	-40.6	-6.7	-17.5	-38.0
Interest Rates (average for the quarter : %)											
Overnight Rate	0.33	1.17	2.75	3.92	4.50	4.50	4.50	4.50	0.25	2.04	4.50
3-month Treasury Bill	0.39	1.43	2.91	3.96	4.40	4.45	4.45	4.45	0.11	2.17	4.40
10-year Bond	1.92	2.98	3.01	3.16	3.15 ↓	3.25 ↓	3.15	3.05	1.36	2.77	3.15 ↓
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	9	33	16	-22	-34 ↑	-39 ↑	-39 ↑	-39 ↑	7	9	-37 ↑
10-year	-2	5	-10	-67	-53 ↑	-52 ↑	-51 ↑	-50 ↑	-8	-18	-52 ↑
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-1.6	-0.6	3.2	2.0	-1.4	-2.0	0.0	0.5	5.9	2.0	0.0
Consumer Price Index (y/y % chng)	8.0	8.6	8.3	7.1	5.5 ↓	3.9 ↓	3.3 ↓	3.2 ↓	4.7	8.0	4.0 ↓
Unemployment Rate (percent)	3.8	3.6	3.5	3.6	3.7	4.3	4.8	5.1	5.4	3.6	4.5
Housing Starts (mlns : a.r.)	1.72	1.65	1.45	1.42	1.37	1.35	1.34	1.37	1.61	1.56	1.36
Current Account Balance ($trlns : a.r.)	-1.13	-0.95	-0.87	-0.89	-0.91	-0.92	-0.94	-0.95	-0.85	-0.96	-0.93
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	0.21	0.96	2.63	3.79	4.63 ↓	4.88 ↓	4.88 ↓	4.88 ↓	0.13	1.90	4.81 ↓
3-month Treasury Bill	0.30	1.10	2.75	4.18	4.70 ↓	4.80 ↓	4.80 ↓	4.80 ↓	0.05	2.08	4.80 ↓
10-year Note	1.94	2.93	3.10	3.83	3.70 ↓	3.75 ↓	3.65 ↓	3.55	1.44	2.95	3.65 ↓
EXCHANGE RATES (average for the quarter)											
US¢/C$	79.0	78.4	76.6	73.7	74.1	75.0	75.8	76.6	79.8	76.9	75.4
C$/US$	1.27	1.28	1.31	1.36	1.35	1.33	1.32	1.30	1.25	1.30	1.33
¥/US$	116	130	138	141	130 ↓	129 ↓	129 ↓	128 ↓	110	131	129 ↓
US$/Euro	1.12	1.06	1.01	1.02	1.07	1.08	1.09	1.11 ↑	1.18	1.05	1.09 ↑
US$/£	1.34	1.26	1.18	1.17	1.23	1.24	1.25	1.27	1.38	1.24	1.25

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

Canada



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Existing Home Sales

Monday, 9:00 am (expected)

	Existing Home Sales	Average Prices
Dec. (e)	**-39.5% y/y**	**-11.5% y/y**
Nov.	-38.9% y/y	-12.0% y/y

MLS Home Price Index	
Dec. (e)	**-7.5% y/y**
Nov.	-4.4% y/y

Canada's **housing market** slowed again in December, in what is normally a quiet month for sales. Still, we look for sales to fall 39.5% below year-ago levels, with the largest drops in B.C. and Ontario. We expect an 11.5% y/y decline in average prices, and a 7.5% y/y drop in the quality-adjusted MLS HPI. The latter would be the largest year-over-year decline since 2009. Sales activity is now running below pre-pandemic norms. We expect the housing market correction will continue well into 2023 as the economy absorbs the cumulative impact of the Bank of Canada's aggressive rate hikes.

BoC Business Outlook Survey and Survey of Consumer Expectations (Q4)

10:30 am, Monday

The **Bank of Canada's Business Outlook Survey (BOS)** for Q4 was likely compiled around mid/late-November to mid-December. In its December 7th meeting, the BoC signalled it was nearing the end of its aggressive rate hike cycle, and we expect the survey to capture ongoing concerns of an economic slowdown as previous rate hikes make their way through the economy. Look for the BOS indicator to weaken further in Q4 after declining from all-time highs in the previous three quarters.

We'll be keeping an eye on **inflation expectations** as headline inflation continued to step down from recent highs through the quarter. In the previous survey, the share of firms expecting inflation to be above 3% over the next year slipped a tick to a still-elevated 77%. More encouragingly, the largest share of firms since the GFC expected growth in both input and output prices to slow over the next year. We'll be looking for indications of additional progress here, notwithstanding further upward pressure on labour costs.

Labour shortages were reported by 46% of firms in Q3, the highest share since 2005; however, the intensity of those shortages fell, as did wage expectations, though both metrics remain high. We expect labour shortages and wage expectations to remain elevated as the labour market tightened further in the fourth quarter. The survey's measures of **capacity pressure** slipped a couple of ppts in Q3; we'll look for additional relief here indicating below-potential growth around the turn of the year.

The outlook for future **sales growth** will likely remain weak as recession concerns continue to weigh, though fewer supply chain disruptions should provide some offset. We expect **hiring** and **investment intentions** to fall further from elevated levels given the downbeat outlook.

Additionally, the balance of opinion on **credit conditions** likely took another step down as the Bank announced a pair of smaller 50 bp rate hikes in Q4, following more aggressive moves in the previous two quarters.

The Bank's **Consumer Expectations Survey** will be released at the same time and is expected to reflect similar concern about the cumulative impact of rate hikes. The previous survey showed inflation expectations maintaining or hitting new record highs over almost all time horizons, so we will be looking for signs of easing on that front as headline CPI continued to slow in Q4.

Consumer Price Index
Tuesday, 8:30 am

Dec. (e)	**-0.5% (-0.1% sa)**	**+6.4% y/y**
Consensus	*-0.6%*	*+6.3% y/y*
Nov.	+0.1%	+6.8% y/y

CPI Core (% y/y)

	Trim	Median	ex. F&E
Dec. (e)	**+5.1**	**+4.8**	**+5.4**
Nov.	+5.3	+5.0	+5.4

December is seasonally the weakest month of the year for Canadian **inflation**, with prices falling in the month in nine of the past 10 years. We expect that trend to continue, with a larger-than-usual 0.5% decline driven by the 13% plunge in gasoline prices. Other energy prices softened as well, but it's really about gasoline. We're looking for momentum in food prices to continue, leaving them up more than 10% y/y. Shelter costs are a mixed bag, with lower home prices partially offsetting the increase in mortgage interest costs and higher rents. Seasonal discounting is expected to drive clothing, furniture and electronics prices lower, while travel costs spike as usual for the holidays. Finally, the weaker Canadian dollar likely drove reading material prices higher and with imports also seeing some upward pressure. Overall, we anticipate the CPI fell 0.5% in December, pulling annual inflation down four ticks to 6.4%.

The Bank of Canada's **core inflation** metrics (trim and median) are expected to slow a couple of ticks. Our call for a soft print will likely also drive the 3-month annualized rates, which the BoC is watching closely, lower after coming in flat-to-higher in November. The more traditional core inflation metric, ex. food & energy, looks to hold steady at 5.4% y/y, with some upside risk. With inflation still elevated, the job market performing well, and the economy surprisingly resilient, this report isn't likely to deter the Bank of Canada from a 25 bp rate hike at the January 25 meeting.

Retail Sales
Friday, 8:30 am

		Ex. Autos
Nov. (e)	**-0.6%**	**-2.0%**
Oct.	+1.4%	+1.7%

Retail sales likely slipped again in November, marking the third decrease in the past five months. StatCan's initial estimate pointed to a 0.5% drop; we look for a slightly deeper decline, weighed in part by lower gasoline prices. Auto sales look to have risen in November, suggesting that sales ex-autos declined a larger 2.0%. On a volume basis, higher goods prices point to an even sharper decline than the headline.

United States

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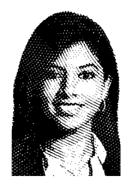

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Retail Sales
Wednesday, 8:30 am

		Ex. Autos
Dec. (e)	**-0.7%**	**-0.4%**
Consensus	*-0.8%*	*-0.5%*
Nov.	-0.6%	-0.2%

	Ex. Autos/Gas
Dec. (e)	**unch**
Consensus	*-0.1%*
Nov.	-0.2%

After a merry discount-led start to the holiday shopping season, consumers appear to have tightened their belts amid rising loan costs, high inflation and recession fears. **Retail sales** are expected to drop 0.7% in December, though much of the slide will reflect lower prices, led by an 8% dive in gasoline. New vehicle sales reversed more than 5% in the month, likely on a combination of weaker demand and still-low (albeit improving) inventories. Excluding autos and parts, sales should fall 0.4%. The "control" measure, which also strips out service stations, building materials and food services and feeds into the BEA's measure of personal expenditures, probably held steady after slipping the prior month. Assuming some moderation in services spending, real personal consumption was likely unchanged for a second straight month. Due to October's splurge, however, consumption should still rise about 3.0% annualized in Q4, the most in a year.

Beige Book
Wednesday, 2:00 pm

The **Fed's regional report card** is expected to show an economy losing steam, perhaps repeating the November phrase that activity "*was about flat or up slightly*" since the prior period. An even weaker assessment is possible given the soggy ISM results last month. The report should also note that inflation is moderating amid improved supply chains, but is still pressured by tight labour markets. The report should cite moderating job growth given the recent wave of layoffs in the tech space, and hints of a broader downshift would be much welcomed by the Fed.

Industrial Production

Wednesday, 9:15 am

	Industrial Production	Capacity Utilization
Dec. (e)	**-0.2%**	**79.5%**
Consensus	*-0.1%*	*79.6%*
Nov.	-0.2%	79.7%

Industrial production is expected to decline 0.2% in December, extending losses for a third straight month. Manufacturing—the biggest component—looks to falter amid declining new orders. Meanwhile, the ISM manufacturing survey showed the sector firmly entrenched in contraction territory. Mining looks to contract again on lower crude output, while choppy utilities could decline amid unseasonably warmer temperatures. Capacity utilization is expected to fall a couple of ticks to 79.5%.

Housing Starts

Thursday, 8:30 am

Dec. (e)	**1.36 mln a.r. (-4.7%)**
Consensus	*1.36 mln a.r. (-4.7%)*
Nov.	1.43 mln a.r. (-0.5%)

	Building Permits
Dec. (e)	**1.37 mln a.r. (+1.4%)**
Consensus	*1.37 mln a.r. (+1.4%)*
Nov.	1.35 mln a.r. (-10.6%)

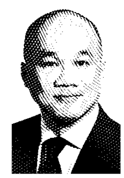
Existing Home Sales

Friday, 10:00 am

Dec. (e)	**3.93 mln a.r. (-4.0%)**
Consensus	*3.95 mln a.r. (-3.4%)*
Nov.	4.09 mln a.r. (-7.7%)

U.S. housing starts are expected to drop 4.7% to 1.36 mln a.r. in December. That would extend losses for a fourth straight month, dragged down by lower construction of single-family units. Home builders continue to face many headwinds including tighter financial conditions, worker shortages, and fading housing demand. **Building permits** are expected to climb 1.4% to 1.37 mln a.r., but that is likely due to a partial rebound in permits for multi-unit structures. In contrast, permits for single-family units have faltered and are expected to extend declines for a tenth straight month. Meantime, **existing home sales** look to fall 4.0% to 3.93 mln annualized. That would mark the lowest level in 12 years—even worse than in the 2020 shutdowns. Looking ahead, although the Fed will likely further slow the pace of rate hikes amid a combination of easing inflation and inflation expectations, mortgage rates are still holding above 6%. As such, the highly interest-sensitive housing market is poised to remain depressed in 2023 as buyers face affordability challenges.

China



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Real GDP

Tuesday

Q4 (e)	**+0.5%**	**+3.0% y/y**
Consensus	*-1.2%*	*+1.6% y/y*
Q3	+3.9%	+3.9% y/y

Given the abrupt end to the country's zero-COVID restrictions, assessing the upcoming batch of data releases from China is trickier. Our official forecast for China's **real GDP** growth is 3.0% y/y in Q4, compared to 3.9% in Q3. However, we acknowledge that there is a (strong) possibility it may end up much lower given the spillover effects of surging COVID cases and work stoppages last month. Thus, December retail sales may have posted a double-digit drop (forecast: -10.0% y/y), while industrial production could also have declined (forecast: -1.0% y/y). Note that December merchandise trade (in USD terms) suggested that the economy continued to struggle at the end of the year with imports declining 7.5% y/y and exports contracting 9.9% y/y.

Financial Markets Update for January 13, 2023

		Jan 13 [1]	Jan 6	Week Ago	4 Weeks Ago	Dec 31, 2022
					(basis point change)	
Canadian	Call Money	4.25	4.25	0	0	0
Money Market	Prime Rate	6.45	6.45	0	0	0
U.S. Money	Fed Funds (effective)	4.50	4.50	0	0	0
Market	Prime Rate	7.50	7.50	0	0	0
3-Month Rates	Canada	4.31	4.20	11	17	8
	United States	4.59	4.58	2	34	25
	Japan	-0.17	-0.12	-5	-2	1
	United Kingdom	3.86	3.93	-7	8	-2
	Australia	3.31	3.32	-1	13	5
2-Year Bonds	Canada	3.76	3.97	-21	10	-29
	United States	4.17	4.25	-8	-1	-26
10-Year Bonds	Canada	2.86	3.09	-23	5	-43
	United States	3.45	3.56	-11	-4	-43
	Japan	0.50	0.50	0	25	9
	Germany	2.15	2.21	-6	0	-42
	United Kingdom	3.34	3.47	-13	1	-33
	Australia	3.59	3.82	-23	14	-46
Risk Indicators	VIX	18.4	21.1	-2.8 pts	-4.2 pts	-3.3 pts
	Inv. Grade CDS Spread [2]	71	76	-5	-13	-11
	High Yield CDS Spread [2]	425	458	-32	-71	-59
					(percent change)	
Currencies	US¢/C$	74.58	74.38	0.3	2.2	1.1
	C$/US$	1.341	1.344	—	—	—
	¥/US$	127.65	132.08	-3.4	-6.6	-2.6
	US$/€	1.0820	1.0644	1.7	2.2	1.1
	US$/£	1.220	1.209	0.9	0.5	1.0
	US¢/A$	69.50	68.77	1.1	4.0	2.0
Commodities	CRB Futures Index	273.77	264.82	3.4	0.9	-1.4
	Oil (generic contract)	79.43	73.77	7.7	6.9	-1.0
	Natural Gas (generic contract)	3.61	3.71	-2.7	-45.3	-19.3
	Gold (spot price)	1,911.88	1,865.69	2.5	6.6	4.8
Equities	S&P/TSX Composite	20,303	19,815	2.5	4.4	4.7
	S&P 500	3,977	3,895	2.1	3.2	3.6
	Nasdaq	10,995	10,569	4.0	2.7	5.1
	Dow Jones Industrial	34,241	33,631	1.8	4.0	3.3
	Nikkei	26,120	25,974	0.6	-5.1	0.1
	Frankfurt DAX	15,114	14,610	3.5	8.8	8.6
	London FT100	7,852	7,699	2.0	7.1	5.4
	France CAC40	7,029	6,861	2.4	8.9	8.6
	S&P ASX 200	7,328	7,110	3.1	2.5	4.1

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

	Monday January 16	Tuesday January 17	Wednesday January 18	Thursday January 19	Friday January 20
China		**Real GDP** **Q4 (f) +0.5% +3.0% y/y** *Q4 (e) -1.2% +1.6% y/y* Q3 +3.9% +3.9% y/y **Industrial Production** **Dec. (e) +0.2% y/y** Nov. +2.2% y/y **Retail Sales** **Dec. (e) -9.5% y/y** Nov. -5.9% y/y **Fixed Asset Investment (YTD)** **Dec. (e) +5.0% y/y** Nov. +5.3% y/y			
Japan	**Machine Tool Orders** **Dec. P** Nov. -7.7% y/y	BoJ Monetary Policy Meeting and Outlook Report (January 17–18)	**Core Machine Orders** **Nov. (e) -1.3% +1.8% y/y** Oct. +5.4% +0.4% y/y **Industrial Production** **Nov. F (e) -0.1% -1.3% y/y** Oct. -3.2% +3.0% y/y	**Trade Deficit** **Dec. '22 (e) ¥1653.3 bln** Dec. '21 ¥603.1 bln	**CPI / Core CPI** **Dec. (e) +4.0% y/y +4.0% y/y** Nov. +3.8% y/y +3.7% y/y **CPI Ex. Food & Energy** **Dec. (e) +3.1% y/y** Nov. +2.8% y/y
Euro Area		**GERMANY** **Consumer Price Index** **Dec. F (e) -1.2% +9.6% y/y** Nov. unch +11.3% y/y **ZEW Survey—Expectations** **Jan. (e) -15.0** Dec. -23.3 **ITALY** **Consumer Price Index** **Dec. F (e) +0.2% +12.3% y/y** Nov. +0.7% +12.6% y/y	**EURO AREA** **Consumer Price Index** **Dec. F (e) -0.3% +9.2% y/y** Nov. -0.1% +10.1% y/y **Core CPI** **Dec. F (e) +5.2% y/y** Nov. +5.0% y/y		**GERMANY** **Producer Price Index** **Dec. (e) -1.2% +20.9% y/y** Nov. -3.9% +28.2% y/y **FRANCE** **Retail Sales** **Dec.** Nov. -3.1% y/y
U.K.		**Payrolls** **Dec. (e) +63,000** Nov. +107,000 **Employment (3m/3m) / Jobless Rate** **Nov. (e) +5,000 3.7%** Oct. +27,000 3.7% **Avg. Wkly Earnings ex. Bonus (3m/3m)** **Nov. (e) +6.3% y/y** Oct. +6.1% y/y	**Consumer Price Index** **Dec. (e) +0.3% +10.5% y/y** Nov. +0.4% +10.7% y/y **Core CPI** **Dec. (e) +6.3% y/y** Nov. +6.3% y/y		**GfK Consumer Confidence** **Jan. (e) -41** Dec. -42 **Retail Sales (incl. Fuel)** **Dec. (e) +0.5% -4.0% y/y** Nov. -0.4% -5.9% y/y
Other		**AUSTRALIA** **Westpac Consumer Confidence** **Jan.** Dec. +3.0%		**AUSTRALIA** **Employment / Jobless Rate** **Dec. (e) +22,500 3.4%** Nov. +64,000 3.4%	

World Economic Forum in Davos (January 16–20)

D = date approx.; (e) = Bloomberg consensus; (f) = BMO forecast **Upcoming Policy Meetings** | Bank of England: Feb. 2, Mar. 23, May 11 | European Central Bank: Feb. 2, Mar. 16, May 4

North American Calendar — January 16–January 20

Monday January 16

Canada

8:30 am	Mfg. Sales	Mfg. New Orders
Nov. (e)	**+0.5%**	**+0.6%**
Consensus	*+0.5%*	*n.a.*
Oct.	+2.8%	-2.7%

8:30 am	Construction Investment	
Nov.		
Oct.	+0.2%	+13.0% y/y

9:00 am	Existing Home Sales[D]	Average Prices
Dec. (e)	**-39.5% y/y**	**-11.5% y/y**
Nov.	-38.9% y/y	-12.0% y/y

9:00 am	MLS Home Price Index[D]
Dec. (e)	**-7.5% y/y**
Nov.	-4.4% y/y

10:30 am BoC Business Outlook Survey and Survey of Consumer Expectations (Q4)

United States

Martin Luther King, Jr. Day (markets closed)

Tuesday January 17

Canada

8:15 am	Housing Starts
Dec. (e)	**260,000 a.r. (-1.6%)**
Consensus	*257,500 a.r. (-2.5%)*
Nov.	264,159 a.r. (-0.2%)

8:30 am	Consumer Price Index	
Dec. (e)	**-0.5% (-0.1% sa)**	**+6.4% y/y**
Consensus	*-0.6%*	*+6.3% y/y*
Nov.	+0.1%	+6.8% y/y

8:30 am	CPI Core (% y/y) Trim	Median	ex. F&E
Dec. (e)	**+5.1**	**+4.8**	**+5.4**
Nov.	+5.3	+5.0	+5.4

8:30 am	Int'l Securities Transactions Inflows	Outflows
Nov.		
Oct.	$8.5 bln	-$1.7 bln

10:30 am 3-, 6- & 12-month bill auction $16.0 bln (no new cash)

11:15 am Cash management bond buybacks $0.5 bln

United States

8:30 am	Empire State Manufacturing Survey
Jan. (e)	**-8.3[C]**
Dec.	-11.2

Fed Speaker: New York's Williams (3:00 pm)

11:00 am 4-, 8- & 17-week bill auction announcements

11:30 am 13- & 26-week bill auctions $108 bln

Wednesday January 18

Canada

8:30 am	Indus. Prod. Price Index	Raw Mat'ls Price Index
Dec. (e)	**unch**	**-3.0%**
Nov.	-0.4%	-0.8%

Noon 3-year bond auction $2.0 bln

United States

7:00 am	MBA Mortgage Apps
Jan. 13	
Jan. 6	+1.2%

8:30 am	Retail Sales	Ex. Autos
Dec. (e)	**-0.7%**	**-0.4%**
Consensus	*-0.8%*	*-0.5%*
Nov.	-0.6%	-0.2%

8:30 am	Retail Sales ex. Autos/Gas
Dec. (e)	**unch**
Consensus	*-0.1%*
Nov.	-0.2%

8:30 am	PPI Final Demand	
Dec. (e)	**unch**	**+6.8% y/y**
Consensus	*-0.1%*	*+6.7% y/y*
Nov.	+0.3%	+7.4% y/y

8:30 am	PPI Final Demand ex. F&E	
Dec. (e)	**+0.2%**	**+5.7% y/y**
Consensus	*+0.1%*	*+5.6% y/y*
Nov.	+0.4%	+6.2% y/y

9:15 am	Industrial Production	Capacity Utilization
Dec. (e)	**-0.2%**	**79.5%**
Consensus	*-0.1%*	*79.6%*
Nov.	-0.2%	79.7%

10:00 am	NAHB Housing Market Index
Jan. (e)	**31[C]**
Dec.	31

10:00 am	Business Inventories
Nov. F (e)	**+0.4%[C]**
Nov. P	+0.4%
Oct.	+0.2%

2:00 pm Beige Book

4:00 pm	Net TIC Flows Total	Long Term
Nov.		
Oct.	$179.9 bln	$67.8 bln

Fed Speakers: Atlanta's Bostic (9:00 am); St. Louis' Bullard (9:30 am); Philadelphia's Harker (2:00 pm); Dallas' Logan (5:00 pm)

1:00 pm 20[R]-year bond auction $12 bln

Thursday January 19

Canada

8:30 am	Wholesale Trade
Nov. (e)	**+1.9%**
Oct.	+2.1%

8:30 am	Household Credit	Mortgage Credit
Nov.		
Oct.	+7.1% y/y	+8.3% y/y

8:30 am	New Motor Vehicle Sales
Nov. (e)	**+6.0% y/y**
Oct.	+0.8% y/y

30-year bond auction announcement

United States

8:30 am	Initial Claims
Jan. 14 (e)	**212k (+7k)[C]**
Jan. 7	205k (-1k)

8:30 am	Continuing Claims
Jan. 7	
Dec. 31	1,634k (-63k)

8:30 am	Housing Starts
Dec. (e)	**1.36 mln a.r. (-4.7%)**
Consensus	*1.36 mln a.r. (-4.7%)*
Nov.	1.43 mln a.r. (-0.5%)

8:30 am	Building Permits
Dec. (e)	**1.37 mln a.r. (+1.4%)**
Consensus	*1.37 mln a.r. (+1.4%)*
Nov.	1.35 mln a.r. (-10.6%)

8:30 am	Philadelphia Fed Index
Jan. (e)	**-11.0[C]**
Dec.	-13.7

Fed Speakers: Boston's Collins (9:00 am); Vice Chair Brainard (1:15 pm); New York's Williams (6:35 pm)

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

1:00 pm 10-year TIPS auction $17 bln

Friday January 20

Canada

8:30 am	Retail Sales	Ex. Autos
Nov. (e)	**-0.6%**	**-2.0%**
Oct.	+1.4%	+1.7%

United States

10:00 am	Existing Home Sales
Dec. (e)	**3.93 mln a.r. (-4.0%)**
Consensus	*3.95 mln a.r. (-3.4%)*
Nov.	4.09 mln a.r. (-7.7%)

Fed Speakers: Philadelphia's Harker (9:00 am); Governor Waller (1:00 pm)

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

Upcoming Policy Meetings | Bank of Canada: Jan. 25, Mar. 8, Apr. 12 | FOMC: Jan. 31-Feb. 1, Mar. 21-22, May 2-3

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