

Focus

Feature Article

Our Thoughts

America's Debt Limit Drama

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GDP: Grossly Distorted Picture



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The primary theme in financial markets so far in 2023 is a rising hope of a coveted soft landing for the advanced economies. Firming equities, narrowing credit spreads, fading bond yields and a softer U.S. dollar are all part of the package associated with inflation receding without the messy business of an outright recession. Calmer energy and food prices, along with an improving supply chain and moderating wage growth, are the ingredients that could help smooth the way forward.

But while investors are busily climbing on the soft-landing express, the economic data are not fully aboard. The recent narrative has been mostly about how resilient economies have proven to be, but there are plenty of signs that growth is indeed grinding slower in most major economies while inflation remains uncomfortably lofty.

And, thus, it's far too soon to conclude that a soft landing is at hand.

This week's key economic data point fuelled the optimism, as U.S. real GDP surprised to the high side with a 2.9% advance in Q4, even as the core PCE deflator eased to a 4.4% y/y pace in December. But quarterly GDP is akin to an economist's Rorschach test, with both bulls and bears always able to find something in the data to support their slant. And the bears were all over the fact that final sales to domestic private purchasers almost stalled in the quarter (0.2% a.r.), as consumer spending and business investment chilled while housing fell heavily again.

Suffice it to say that GDP was not a terribly helpful guide to how the U.S. economy was truly faring in 2022. **Almost no one believed that things were nearly as weak as the reported two-quarter drop at the start of the year**—i.e., precisely zero reputable analysts deemed the economy to be in recession at that point. But, by the same token, **the average growth of just above 3% in the second half likely wildly overstated the strength** of the economy. As it turns out, the full-year average growth rate of 2.1% was probably fairly close to the underlying reality, and just happens to be in line with the 20-year average growth rate. And sorting through the ample noise from the monthly data, we continue to expect a grind down in coming quarters under the heavy weight of the rapid rise in borrowing costs.

Yet, despite that coming reality, **we are nudging up our full-year estimate for 2023 U.S. GDP growth half a point, from zero to 0.5%.** Some of that reflects a stronger starting point, courtesy of the solid Q4, but some also is due to more favourable financial conditions and energy prices. While oil prices have backed up to around \$80, natural gas prices are careening lower to below \$3, or less than a third of last summer's peak. But, make no mistake, **a 0.5% rise in real GDP is a very soft outcome**—only four of the past 40 years have seen growth weaker than that: 2020, 2008-09 and 1991. Even the tech wreck recession in 2001 saw GDP rise roughly 1%. And our call continues to look for **two quarters of GDP decline**, so just meeting the short-hand definition of recession.

For broadly similar reasons, we are upgrading our call on Canadian GDP growth by the same tally, from nil to 0.5% for 2023. While the official Q4 data won't be available for another month, we suspect that next week's flash reading will point to growth just over 1% (the BoC estimated 1.3% in its latest MPR), above our earlier estimate of 0.6%. While preliminary results suggest overall activity struggled in December, most indicators point to a milder decline than previously expected heading

into 2023—especially the powerhouse job gains late last year. Still, it’s notable that job vacancies have begun to recede, and layoff notices are mounting by the day. So, we remain comfortable with our core view that **the Canadian economy is still headed for a shallow recession this year.**

The Bank of Canada appears to share at least some of that caution. While the Bank’s growth forecast was actually revised slightly higher for this year (at 1.0%, a half-point above our new call), Governor Macklem did not shy away from discussing the R-word in his press conference. And, the major revelation from this week’s rate announcement was the clarity of the shift to “pause” after the as-expected 25 bp hike. **While a lengthy pause happens to fit our expectation to a T, it’s mildly surprising that the Bank didn’t leave itself a tad more optionality** given the volatile inflation backdrop.

Look for the Fed to also downshift to a 25 bp hike at next week’s FOMC, but to very much keep the door open to further such steps. After all, the prior set of dot plots looked for another 50 bps on top of the presumed hike next week (to a terminal rate of 5.00%-to-5.25%). Our view is that the gratifying moderation in headline and core inflation in recent months, along with fading growth, will be enough to convince the Fed to pull up just short of their earlier view on rates. Notably, the three-month trend on the core PCE deflator dipped to a 2.9% annualized rate, easing into the comfort zone of 1%-to-3% for the first time since the start of 2021 (i.e., even before transitory became a dirty word). Curiously, the University of Michigan survey finds that consumer expectations of five-year inflation also just happens to be 2.9%.

Table 1
Three Paths You Can Go By...

Scenario 1		Scenario 2		Scenario 3	
Soft Landing		Mild Recession		Hard Landing	
• inflation cools quickly		• inflation cools gradually		• inflation persists	
• recession avoided		• shallow recession		• deep recession	
• unemployment steady		• unemployment and credit losses rise		• spike in joblessness and credit losses	
• markets rebound		• markets drift		• markets weaken	
Odds					
3 Months Ago		3 Months Ago		3 Months Ago	
Now		Now		Now	
25%	35% ↑	50%	50%	25%	15% ↓

Source: BMO Economics

Pulling the strands together—markets, growth, inflation, and the rate outlook—what are the prospects for a soft landing? The attached table is a stylized (or simplified) look at the potential major scenarios for the economy in 2023, with a rough sense of the probabilities. **The overriding point is that we continue to view the shallow recession scenario as the most likely outcome, with roughly 50% odds.** However, the other main point is that **the odds of a very bad outcome have receded**, alongside a better inflation backdrop and calmer energy prices (especially in Europe), while the soft landing odds have risen. And, although providing only a glimmer of optimism, that shift may indeed be enough to have largely justified the moderate market recovery since the start of the year following an exceedingly tough 2022.

They say inflation is melting. As a counterpoint, we submit: Justin Bieber selling his song catalogue for US\$200 million. For sure, *Yummy* is alone worth at least \$10 mm, but for a grand total of 290 songs up to the end of 2021, that works out to almost \$700k per pop. One does wonder about the staying power of classics such as *Eenie Meenie*, etc. A bit more seriously, the rally in many asset prices and valuations early this year—perhaps most famously for Bitcoin—does raise questions over whether central banks have done enough to truly quell inflation. Let’s just say that we may be just one energy/food price spike away from finding the answer is “no”.

Fed Rate Rises: The Beginning of the End



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The Fed is expected to raise policy rates by 25 bps on February 1, reining in the tightening tempo from 50 bps in December and a quartet of 75 bp actions before then. This will lift the target range for the fed funds rate to 4½%-to-4¾%, the highest in 15 years and the largest cumulative rate hike (450 bps) since the Fed began targeting fed funds in the 1980s.

During December's press conference, when asked about the prospects for a further paring of the tightening pace, Chair Powell said that *"having moved so quickly and having now so much restraint that's still in the pipeline, we think that the appropriate thing to do now is to move to a slower pace"*. It takes over a year for the full influence of rate hikes on growth and inflation to unfold. So, from the Fed's risk management perspective, **moving more nimbly now helps mitigate the risk of tightening too much** and causing a deeper economic downturn than is required to return inflation to the 2% target. At the same time, **continuing with at least small rate hikes helps mitigate the risk of not tightening enough** and causing inflation expectations to become unanchored.

Recent economic data support the policy tack of trimming the size of rate hikes. For the Fed-targeted PCE price index, total inflation was 5.0% in December, down from June's 7.0% peak, with both the six- and three-month trends at 2.1%. Core PCE inflation was 4.4%, down from the 5.4% peak in February-March, with the six-month change at 3.7% annualized and three months at 2.9%. Seeing '2 handles' on some of these trends and with indications of further disinflation underscores the meaningful progress already made to restore price stability. Smaller rate hikes are justified.

Although food inflation remains uncomfortably high (with its disproportionate influence on inflation expectations), the annual price gains for energy and core goods have slowed significantly. The same will be the case for housing once falling market prices are reflected in the inflation metrics. The remaining slice of the PCE price index (with its 55% share) is **core services excluding housing**, which is now being emphasized by Chair Powell given its correlation with underlying wage gains. This 'core-core' increased 4.0% y/y in December, down from the 5.1% peak last November-December and has been stuck around a '4-handle' range for the past 21 months. The six-month move was 3.7% annualized with the three-month at 3.9%. The rash of 3¾-to-4% readings points to underlying stickiness and more work to be done to restore price stability. **Although smaller rate hikes are justified, continued rate hikes are required.**

Recent economic data also support this conclusion. Although real GDP advanced at a 2.9% annualized rate in Q4, final domestic demand excluding government (so, consumption and investment) was up only 0.2% annualized, the weakest result since the pandemic plunge. Other key indicators are signalling outright contraction. Industrial production dropped 0.8% in December after falling 0.6% in November. Historically, such a two-month decline (-1.3%) has tended to occur amid recessions. ISM's PMIs for manufacturing and services were both below 50 in December. Housing demand has collapsed under the weight of higher mortgage rates. And, since peaking in February, the venerable Leading Economic Index has dropped 6.0% through December, a descent which has always been associated with recession. Thus, smaller rate hikes are justified.

Meanwhile, the labour market remains stubbornly strong. Although growth in payroll employment hit a two-year low of 223k in December, this is still historically high and marks the sixth month among the past seven registering gains in the 200k-to-300k range (and the one holdout was 537k). In November (the latest data), labour demand (payrolls plus job openings) hit a cycle high. And, we ended 2022 with an unemployment rate that matched the lowest (3.5%) in more than 53 years. Labour demand continues to exceed supply, applying upward pressure on wages. Thus, continued rate hikes are required.

We look for the policy statement to repeat that *“ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time”*. And there will be some new names at the bottom. Chicago President Goolsbee along with Philadelphia’s Harker, Dallas’ Logan and Minneapolis’ Kashkari will replace Cleveland President Mester, along with Boston’s Collins, St. Louis’ Bullard and Kansas City’s George. In normal times, we would be assessing whether the incoming class is any more hawkish or dovish than the outgoing group (for the record, we judge there’s a less-hawkish tilt), and whether we could get a dissent. However, in the Fed’s current fight against inflation there is much more agreement among policymakers about what must be done.

In the press conference, we look for Chair Powell to explain why a slower rate hike cadence was warranted along with why rates will still likely rise further. **So, where is the terminal rate?** In December’s Summary of Economic Projections, 17 of 19 FOMC participants were projecting a 2023-end fed funds rate above 5.00% with a 5.125% median. This implies two more quarter-point hikes after February. Our call is that we’ll get half that, as underlying inflation performance improves a bit further amid broadening signs of a recession.

U.S. Economy: Still Afloat



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For the second straight time, the U.S. economy topped expectations, expanding 2.9% annualized in the fourth quarter. The minimal slowing from the prior 3.2% pace suggests some continued durability, as evident by the still-healthy jobs market. As a result, we **now expect to see some positive growth for all of 2023** (0.5%) instead of a lost year of no growth.

To be sure, we **still suspect the economy will contract mildly in the first half of the year**. More than two-thirds of growth last quarter stemmed from just two factors that are unlikely to repeat: a big jump in government worker compensation and a large build in business inventories. Apparently, fierce discounting by retailers to pare excess stocks wasn't enough to counter rising inventories among manufacturers and other groups. Perhaps more importantly, the economy ended the year with declines in real personal spending, core capital goods orders, aggregate work hours, housing starts and existing home sales. Even if the economy advanced in December, it looks to have lost its stamina. This could explain the weak slate of regional manufacturing and services surveys in January.

At the same time, however, we **trimmed our estimate of how much the economy will contract** to just 1 ppt annualized in the first half of the year. This recognizes that the current tight labour market, substantial excess savings, and even the recent improvement in financial conditions will provide some cushion. Businesses will be

reluctant to shed workers given staffing challenges, thereby supporting incomes. Even though households have already plowed through a third of their cash hoard, they still have a substantial buffer, even if it's now largely held by higher income groups with less propensity to spend. Importantly, the bond rally has chopped a full percentage point from 30-year mortgage rates since November, which will help put a floor under the housing market even if some further price adjustment is required to restore affordability. At the very least, residential construction won't continue to carve 1.3-ppt chunks out of GDP growth as per the fourth quarter.

Fundamentally, our forecast hasn't changed much: **we still foresee a downturn** that raises the unemployment rate to 5%—the bitter medicine required to treat inflation. However, lingering pockets of resilience **increase our confidence that the slump will be mild and short-lived**. There may even be a one-in-three chance of an elusive soft landing, by no means a long shot. The apparent recession now underway in the housing, manufacturing, and information technology sectors, accounting for a quarter of gross industry output, won't carry enough sway with the overall economy if personal consumption and business spending (ex-computer gear), accounting for three quarters of GDP, can stay afloat. What has changed significantly in recent weeks is that the economy now stands a better chance of swimming, rather than sinking, this year despite the choppy waters.

BoC: Are We There Yet?



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Anyone who's been on a road trip with children (or went on one as a kid) knows the question they're inevitably going to hear from the back seat: Are we there yet? In the case of monetary policy, following 425 bps of rate hikes in the span of 10 months, the Bank of Canada believes the answer might be "yes". **Governor Macklem signalled a pause in rate hikes** in order to assess the cumulative impact of tightening already in place. However, before getting carried away, **the BoC highlighted that it is still prepared to lift rates further if necessary** to bring inflation back to the 2% target.

This week's 25 bp rate hike was fully anticipated, while the explicit pause was a touch more dovish than expected. Policy rates are now at 4.50%, matching the highest in over 20 years. Given near-record debt ratios, the impact of earlier hikes is going to incrementally weigh on the economy as each month passes. As more mortgages renew, payments are going to push higher (materially so in some cases) and that will be a drag on growth. We've seen some fixed mortgage rates come down, so the potential max pain level has passed, but the economy will still take a hit. It's this type of lagged impact that the Bank of Canada is waiting to see. Indeed, **that wait-and-see narrative effectively takes March off the table for a potential hike**. However, we'll get a lot of data between now and the April meeting (three CPI and employment reports), which have the potential to change the narrative.

Inflation remains the key driver for monetary policy, as it remains well above target. While the Bank of Canada's **Monetary Policy Report** downgraded its headline inflation forecast by about 0.5 ppts for 2023, *"the outlook for core inflation is revised up, reflecting stronger demand"*. With overall inflation poised to rapidly decelerate, lessening the upside risk to inflation expectations, policymakers' focus is going to shift to core inflation. Given the upgraded core CPI forecast, they'll be watching closely for a slowing trend over the next few reports. That means the 3-month annualized rate

(3m a.r.) needs to stay below the yearly rate and preferably trend toward 2%. The latest 3m a.r. for the trim is 3.6%, median 4.3%, old core (CPIX) is 3%, and good old-fashioned ex. food & energy is 3.7%. They've all slowed markedly, but are also still well above target. The BoC isn't going to even consider taking a more dovish tack until those metrics are hovering around 2% and pulling the yearly rates toward the target. And, despite the market pricing 50 bps in cuts by year end, Governor Macklem stated that rate cuts aren't even a topic of discussion at the moment, as rates are more likely to go up than down in the near term.

Key Takeaway: Following the most aggressive rate hike campaign in a generation, the Bank of Canada has pushed the pause button. However, the pause is conditional on inflation continuing to slow toward the 2% target. The BoC doesn't publish core CPI forecasts, so there's no goalpost, but policymakers have made it clear they want to see an improving trend for underlying inflation. If the core trends don't continue to move lower, the pause could be fleeting.

BoE and the ECB: More of the Same. Sort Of.



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The BoE and ECB announcements on February 2 may, once again, be a study of contrasts. Recall their last meetings: both central banks announced a 50 bp hike on December 15, but that's where the similarities ended. The BoE's was dovish given the 3-way vote (one favoured a 75 bp hike; 6 opted for a 50 bp move; and, two didn't want to raise rates at all). The ECB's was hawkish, accompanied by new descriptive words that warned rates would still need to rise "*significantly*" and at a "*steady pace*" to levels that are "*sufficiently restrictive*". And, the Minutes indicated that a "*large number*" of policymakers wanted an even larger 75 bp hike, but finally agreed to 50 bps because of the hawkish language used in the press release. **Next Thursday, we look for another 50 bp hike by the ECB (to 3.00%), but only 25 bps from the BoE (to 3.75%).** Note that consensus is still looking for 50 bps by the BoE.

Inflation has slowed since those meetings. The Euro Area's December CPI is back in single-digit territory at 9.2% (versus October's record 10.7% pace), but core CPI is still at a record-high 5.2%. January's CPI will be released the day before the announcement, and though it may not change the size of the hike, it may influence how the Governing Council communicates its intentions for the path of rates. Britain's inflation rate has been stuck in double-digits for five of the past six months, with December's 10.5% reading still uncomfortably close to October's 42-year high of 11.1%, while the 6.3% core CPI pace is just two-tenths below September's 30-year high. Meantime, wage growth jumped at a record 6.4% pace in the three months to November, adding to the pressure on the Monetary Policy Committee.

So why only 25 bps for the BoE? The economy is struggling mightily. Real GDP already shrank in Q3 and it looks set to contract again in Q4, judging by the PMIs. The composite PMI has been mired below 50 for six consecutive months and hit a 2-year low in January. And, in a sign that the CPI will begin to turn down, December producer prices grew at the slowest pace since last March. Besides, even the uber-hawkish Catherine Mann will find it difficult to defend another 75 bp call. She will likely be resigned to join the majority on the MPC who still see a rate hike as needed, but just a smaller one. Look for a repeat of the line that "*further increases in Bank Rate might be*

required for a sustainable return of inflation to target", which would keep a March hike in play.

Meantime, the persistent message coming from many members of the **ECB** has been for more tightening: 50 bps in February, and more are also looking for 50 bps in March. Then, to make things even more interesting, at least two have spoken of hikes beyond March. And, President Lagarde has not strayed from her notes and has consistently stated that the ECB will *"stay the course"*. In fact, in Davos, she declared that *"'Stay the course' is my mantra for monetary-policy purposes"*. Meanwhile, the Euro Area economy has held up better than anyone expected (the composite PMI has increased for three consecutive months and topped the 50 mark for the first time since last June), helped by the milder winter (so far), which allowed Europe to keep its gas storage tanks filled above the EU's 80% target. Also, key data next week will help shape the view for the Euro Area economy, with **advance Q4 real GDP** results for the region, along with Germany and France and Italy on Tuesday. Spain already reported a 0.2% uptick.



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

Good News

Job Vacancy Rate -0.4 ppts to 4.6% (Nov.)—less wage pressure

Bad News

Manufacturing Sales -1.8% (Dec. A)

Wholesale Trade -1.8% (Dec. A)

New Housing Price Index eased to +3.9% y/y (Dec.)

Ottawa's Budget Deficit widened to \$3.4 bln (Nov.)—from \$1.4 bln a year ago

Canada

- BoC hikes rates 25 bps to 4.5% and if economy evolves as it expects...
- ...will "hold the policy rate at its current level"

United States

- Broader economy slowing, just as the doctor prescribed
- Another potential job vacancy? Fed Vice Chair Brainard on the short list to lead the National Economic Council

Real GDP +2.9% a.r. (Q4 A)—but nearly half from inventories

Business Inventories +0.4% (Dec. A)

Wages & Salaries +0.3% (Dec.)

Pending Home Sales +2.5% (Dec.)

Initial Claims -6k to 186k (January 21st week)

Core PCE Deflator slowed to 4.4% y/y (Dec.)

U of M Consumer Sentiment +5.2 pts to an upwardly revised 64.9 (Jan.)

Leading Index -1.0% (Dec.)

Real Personal Spending -0.3% (Dec.)

Core Durable Goods Orders -0.2% (Dec.)

Goods Trade Deficit grew to \$90.3 bln (Dec. A)

New Home Sales +2.3% to 616,000 a.r. (Dec.) —but large downward revisions to prior 3 months

Chicago Fed National Activity Index -0.49 (Dec.)

Japan

- BoJ under more pressure with Tokyo CPI at 42-year highs

Services PMI +1.3 pts to 3-mth high of 52.4 (Jan. P)

Department Store Sales +4.0% y/y (Dec.)

Tokyo Core CPI +4.35 y/y (Jan.)

Manufacturing PMI unch at 48.9 (Jan. P)—3rd month in a row <50

Europe

- Awaiting next week's ECB and BoE policy decisions
- U.K. Chancellor Hunt declares top priority is fighting inflation, not tax cuts

Euro Area—Manufacturing PMI +1.0 pts to 48.8; **Services PMI** +0.9 pts to 50.7 (Jan. P)

Euro Area—Consumer Confidence +1.1 pts to -20.9 (Jan. P)

Germany—ifo Business Climate +1.6 pts to 90.2 (Jan.); **GfK Consumer Confidence** +3.7 pts to -33.9 (Feb.)

Spain—Real GDP +0.2% q/q, +2.7% y/y (Q4 P)

U.K.—Manufacturing PMI +1.4 pts to 46.7 (Jan. P)

U.K.—Producer Prices eased to 14.7% y/y (Dec.)

Euro Area—Private Sector Credit slowed to +5.3% y/y (Dec.)

France—Consumer Confidence -1 pt to 80; **Business Confidence** -1 pt to 102 (Jan.)

Italy—Consumer Confidence -1.6 pts to 100.9 (Jan.)

U.K.—Services PMI -1.9 pts to 48.0 (Jan. P)

Other

- RBA and RBNZ need to do more to fight inflation

Australia—NAB Business Confidence +3 pts to -1 (Dec.)

Australia—Consumer Prices +7.8% y/y (Q4)—a near 33-year high

New Zealand—Consumer Prices +7.2% y/y (Q4)

America's Debt Limit Drama



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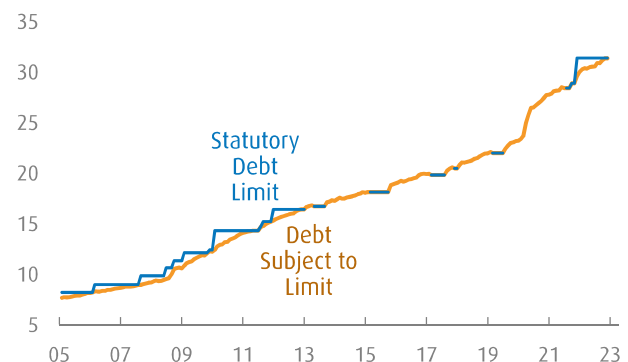
The U.S. reached its \$31.38 trillion **debt limit** on January 19. The debt limit places a statutory maximum on the amount of money that Treasury may borrow to fund federal operations (often referred to as the “*debt ceiling*”). It’s worth pointing out that the debt ceiling doesn’t control the amount of new spending. It is an after-the-fact measure that constricts Treasury’s ability to borrow to pay for the decisions already enacted by Congress and the President. Hence, **when the debt limit was reached net new debt could no longer be issued** despite being required to finance the shortfall between receipts and outlays. As such, “*extraordinary measures*” began. These measures allow net new marketable debt to continue being issued without increasing total debt (see the appendix, “*Extraordinary Measures*”). Many of the available options amount to suspending investments in federal employee retirement funds.

However, **these measures are not unlimited**; and when they run out, Treasury will no longer have the resources to cover its net obligations including interest payments on debt outstanding. **This would put the U.S. government in default.** In the past, such “*extraordinary measures*” have delayed required action on the debt limit from periods ranging from a few weeks to several months. Hence, when this so-called “*X Date*” occurs cannot be determined with precision given the uncertainty surrounding the exact timing of daily receipts and outlays. **Treasury Secretary Yellen informed Congress that the current X Date was estimated to be June 5.** That being said, at least \$140 bln of the potential extraordinary measures won’t be available until June 30. Between now and then, legislation to either lift or suspend the debt ceiling must be passed, as we begin yet another episode of America’s debt limit drama.

When the debt limit is lifted by a specific amount, Congress has two things in mind. The first is the projected cumulative budget deficit that must be financed (based on a budget or continuing resolution which Congress has already approved). The second is the preferred timing of the next debate about lifting the limit. Each time the debt ceiling is raised, the consequent large gap with debt outstanding starts to steadily narrow, eventually necessitating a need to raise it again (*Chart 1*). Suspending the debt limit (for a specific period) means that Treasury can issue any amount of debt but under a constraint that its cash balance at the end of suspension must be the same as it was at the beginning, so **no pre-financing is allowed before the debt limit is reactivated.** The new, higher debt ceiling is set at the current level of debt outstanding (also for a specific period) meaning that the limit is immediately hit and must be raised or suspended again.

Chart 1
The Sky Isn’t the Limit

United States — Federal Government (\$ trlns)



Sources: BMO Economics, Haver Analytics

Past Seasons' Synopsis

Congress has the 'power of the purse' and legislates the U.S. government's receipts and outlays. **Separately, and since 1939, Congress has legislated the total amount of debt that can be issued** to finance the implied shortfalls. Although the notion of a separately approved debt limit was designed to act as a sort of check on the already approved paths for receipts and outlays, it was treated more as a **rubber-stamping exercise** for four decades. There was no drama.

Then, in April 1979, an impasse over the budget delayed the subsequent lifting of the debt limit, and it went down to the wire for the first time... to within days of default (extraordinary measures weren't used back then). To help avoid a repeat situation, **legislation was then passed to combine the approval of the budget and debt limit into one vote**. But this kept the limit's lifting at the mercy of the budget approval process and congressional members looking to alter the course of fiscal policy. In September 1985, another budget impasse (the outcome being the famous Gramm-Rudman-Hollings deficit reduction law) led to the debt limit being hit and Treasury unilaterally (without Congressional approval) using extraordinary measures for the first time to avoid default. A year later, Congress approved Treasury's use of such measures. The debt limit was hit, and extraordinary measures were implemented several other times after that, including in 1995-1996, 2002, 2003, 2004 and 2006.

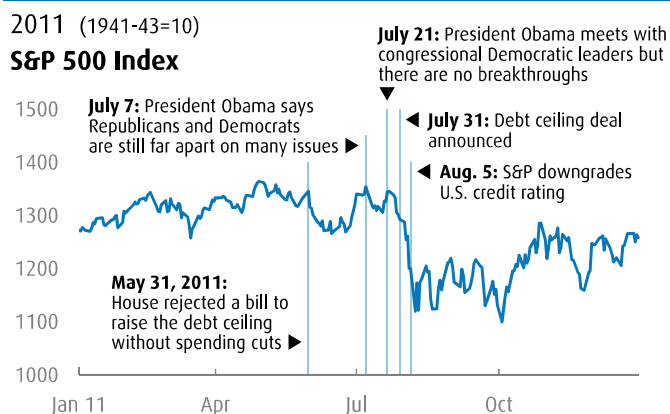
Congress repealed the one-vote legislation in 2011, which is when the next episode occurred and this one went down to the wire. **The situation prompted S&P to downgrade the U.S. government's credit rating**. Afterwards, the debt limit was hit, and extraordinary measures were implemented in 2013 (began late 2012), 2015, 2017 (ended early 2018) and 2019. Given the frequency of these episodes, particularly since 2011, the market has probably become somewhat accustomed to them. However, there is a bit more buzz this time about the potential for it going down to the wire (shades of 2011) or worse, given the current rancour in Congress.

There is always a degree of brinkmanship with a divided Congress, but the last major episode around the debt ceiling, as mentioned above, was in 2011. The Republicans took control of the House and threatened not to extend the debt limit unless President Obama and Democrats agreed to cut program spending. The resulting **Budget Control Act** ultimately led to around \$1.3 trillion in reduced spending over a decade (roughly 8.2% of GDP at the time or 0.8% of GDP per year).

That drama exacted its toll on the economy, particularly for financial markets. They were still recovering from the global financial crisis and were more susceptible to volatility. The **S&P 500** dropped 17% in the period around the debt limit debate and didn't recover to its average over the first half of 2011 until 2012 (*Chart 2*). In addition to the price effects, volatility also increased, with the daily average of the **VIX** pushing above 30 in the last five months of the year compared to 18 in the first half of 2011. This is highlighted by all the head fakes

Chart 2

Brinkmanship Sinks Markets



Sources: BMO Economics, Haver Analytics

that took place from April through to the end of July until an agreement to lift the debt ceiling was reached. The agreement wasn't enough to prevent S&P from downgrading the U.S. credit rating on August 5 of that year, which likely contributed to the protracted weakness in markets. Credit spreads also widened with **corporate BBB spreads** jumping 56 basis points and remaining elevated into 2012. Additionally, households also felt further pressure from the brinkmanship as spreads on **conventional mortgages** widened by as much as 70 bps. That may have spilled over into **consumer confidence** as it fell 22% at the time and took months to fully recover.

Amid this, **Treasuries** were no worse for wear, as the European sovereign debt crisis helped push down Treasury yields at the time (*Chart 3*). Given that the USD accounts for the lion's share of global reserves (roughly 60%), in times of greater uncertainty, global flows toward safer assets help lead to a rally in Treasuries. With elevated geopolitical risk and the slowing global economy at play this time around, we could see a similar pattern play out if brinkmanship pushes Congress to another debt limit dilemma.

Given the real consequences that political drama can have on the economy, **did this episode achieve its alleged objective of controlling government spending?** The answer is fuzzy at best (*Chart 4*). Spending (as a percent of GDP) soared at the beginning of 2009 as the U.S. government rolled out temporary fiscal measures to support the economy. As those measures faded and the economy recovered, spending eventually fell to around 20% of GDP. The Budget Control Act likely contributed to that path, but pales in comparison to the cuts to defense spending and welfare that took place in the 1990s alongside a strong economy that boosted revenues. The lesson being that **last-minute debt drama isn't a replacement for more sober consideration of fiscal restraint.**

History often rhymes, and one has to acknowledge there are some similarities between 2011 and now. For one, pandemic-related spending led to an even larger surge in government spending than in the financial crisis. Second, there is a similar wave of anger around economic developments, although this time over inflation. Those factors likely helped propel Republicans to take a narrow (9-seat) lead in the House in November (in 2011 they held a 49-seat majority) and leave them poised to attempt a similar sortie come June. Partisanship has also become further amplified in

Chart 3 Running for Safety

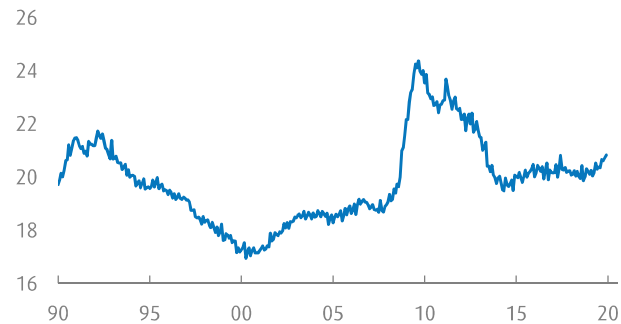
United States — 2011–2012 (percent)
10-year Treasury Yield



Sources: BMO Economics, Haver Analytics

Chart 4 Does Debt Drama Work?

United States — 1990–2019
Government Outlays¹ as a Percent of Nominal GDP



Sources: BMO Economics, Haver Analytics

¹ (12-mnth m.a. : ann.)

the meantime and **Speaker McCarthy** has to deliver on the spending and debt ceiling promises he made to secure his speakership, raising the risks of reaching X date.

On X Date

If Congress fails to lift or suspend the debt limit and extraordinary measures are running out, **there have been several proposals made since 2011 on how to avoid X Date**. These include selling assets such as gold (Treasury has said there won't be any 'fire sales') and invoking the 14th Amendment which some argue give the President the power to issue debt ("The validity of the public debt of the United States... shall not be questioned."). Another is to issue IOUs (scrip) to cover unpaid or partially unpaid obligations. The IOUs would be honoured once the debt ceiling stops being an issue and some say a secondary market in IOUs would develop (California issued IOUs during one of its past budget crises). Yet another is to mint a trillion-dollar platinum coin to be deposited in the government's account at the Fed. Treasury Secretary (and former Fed Chair) Yellen said recently that the Fed wouldn't accept such a coin.

These proposals have been **deemed impractical** and, instead, the focus has been on how to avoid default on U.S. Treasury securities after X Date by **prioritizing payments**. Fed transcripts released five years after 2011 reveal that this was the strategy Treasury and the Fed came up with; essentially to pay bondholders first. Indeed, as it has in the past, Congress is currently crafting legislation to compel Treasury to do just that.

For Treasury, picking and choosing which obligations to pay each day would be problematic **given that there are over 80 million payments per month**; and, it's debatable whether Treasury's accounting system is robust enough. The Federal Reserve of New York has stated that it could potentially handle debt service payments, presumably leaving Treasury the task of prioritizing all other payments. According to government studies after 2011, the only practical way to do this would be to pay invoices and other obligations with remaining funds as they are received. Those unpaid by the end of the day would move to the front of the line for next day (which is still a form of 'default'). But with Treasury running a trillion-dollar (plus) budget deficit, the ranks of the unpaid at the end of each day would swell over time. So too would the lawsuits from businesses and individuals who aren't getting paid. And what if these disgruntled vendors and benefit recipients won their cases, could this undermine prioritization?

Besides, how would investors react to such an unprecedented display of fiscal paralysis? Could this mean persistently higher yields this time, unlike 2011? After all, it was the risk of reaching X Date that compelled S&P to downgrade the U.S. government that year. In the event of potential downgrades, some investors would no longer be able to invest in Treasuries, applying upward pressure on yields. Then there's also the economic impacts of reduced investor, business and consumer confidence, along with the ripple effects of businesses and individuals not getting paid. Even if technical default doesn't occur, **the economic costs would still likely be meaningful**. The added uncertainty from geopolitical risks and China's reopening, could amplify market turbulence related to the debt limit brinkmanship in the meantime. There is unanimity among analysts that X Date is best avoided.

Appendix: Extraordinary Measures

Instrument	Description	Potential Headroom Savings through June 2023
		(US\$ blns)
Civil Service Retirement and Disability Fund (CRSDF) and Postal Service Retiree Health Benefits Fund (PSRHBF)	Declaring a debt issuance suspension period related to these two retirement funds and on June 30, 2023, redeeming investments in the CRSDF and PSRHBF that will mature along with their interest payments.	186.5
Government Securities Investment Fund (G Fund)	Suspending daily reinvestment of all or part of the balance of Treasury securities held by the G Fund of the Federal Employees' Retirement System Thrift Savings Plan.	294.0
Exchange Stabilization Fund (ESF)	The USD portion of the ESF is invested in special-issue Treasury securities, which don't count against the debt limit. The entire USD balance matures daily and Treasury can suspend investment to create debt limit headroom.	17.0
State and Local Government Series Securities (SLGS)	SLGS are special-purpose securities used to assist state and local governments to comply with Federal tax laws, but these can be suspended. The monthly amounts can be volatile.	30.0
	<i>Total</i>	527.5

Economic Forecast Summary for January 27, 2023

	2022				2023				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2021	2022	2023
CANADA											
Real GDP (q/q % chng : a.r.)	2.8	3.2	2.9	1.5 ↑	-1.0 ↑	-1.2 ↑	0.0	1.5	5.0	3.6 ↑	0.5 ↑
Consumer Price Index (y/y % chng)	5.8	7.5	7.2	6.7	5.7	3.7	3.4	3.0	3.4	6.8	4.0
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.)	243	270	281	259	245	235	223	218	274	263	230
Current Account Balance (\$blns : a.r.)	3.7	10.6	-44.4	-49.7 ↓	-45.3 ↓	-44.5 ↓	-44.6 ↓	-45.7 ↓	-6.7	-20.0 ↓	-45.0 ↓
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	3.10 ↓	3.20 ↓	3.10 ↓	3.05	1.36	2.77	3.10 ↓
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	-59 ↓	-56 ↓	-53 ↓	-51 ↓	-8	-18	-55 ↓
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-1.6	-0.6	3.2	2.9	-1.0 ↑	-1.0 ↑	0.0	0.5	5.9	2.1	0.5 ↑
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	5.0 ↓	5.4	3.6	4.4 ↓
Housing Starts (mlns : a.r.)	1.72	1.65	1.45	1.40	1.36	1.33	1.34	1.37	1.61	1.56	1.35
Current Account Balance (\$trlns : a.r.)	-1.13	-0.95	-0.87	-0.87	-0.83 ↑	-0.85	-0.85 ↑	-0.85 ↑	-0.85	-0.96	-0.85 ↑
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	4.75 ↑	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	1.08	1.09	1.10	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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Monthly Real GDP

Tuesday, 8:30 am

Nov. (e) +0.1%

Consensus +0.1%

Oct. +0.1%

The **Canadian economy** likely expanded 0.1% for a second consecutive month in November, in line with the flash estimate. Note that StatCan's flash estimate has underestimated growth by at least a tick in six straight months. It wasn't a banner month, with only modest gains in wholesale activity, while manufacturing was mixed (higher sales, lower inventories) and retail sales volumes slipped due to higher prices. Home sales dipped, more than reversing the prior month's gain and hitting a new cycle low on a seasonally-adjusted basis. Utilities and finance are expected to be positives, offsetting declines in mining/oil/gas and construction. Also watch for the December and Q4 flash estimates. If December activity is flat-to-slightly higher, Q4 GDP growth will be poised to come in around 1.5% a.r.

United States



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Employment Cost Index

Tuesday, 8:30 am

Q4 (e) +1.2% +5.2% y/y

Consensus +1.1% +5.1% y/y

Q3 +1.2% +5.0% y/y

The **employment cost index** likely rose 1.2% in Q4, similar to the prior quarter and down from a cycle high of 1.4%. The increase should lift the yearly rate a couple tenths to a 32-year peak of 5.2%. Most surveys continue to flag robust wage growth, albeit with pockets of weakness. The ECI is a Fed favourite as it adjusts for job shifts, and the Q4 report will take on added importance given its release the day before the FOMC's policy decision.

ISM Manufacturing PMI

Wednesday, 10:00 am

Jan. (e) 48.0

Consensus 48.0

Dec. 48.4

Despite a substantial easing in global supply chain disruptions, manufacturers have struggled with the pullback in goods demand, a strong dollar, and higher loan costs. The **ISM index** likely fell for a fifth straight month to 48.0 in January, the lowest level since the 2020 shutdowns. Regional surveys paint a grim picture of the sector, while the Fed's Beige Book reported a modest decline in factory activity. There's better news on the inflation front though, as the last three ISM surveys showed declines in vendor delivery times and material prices.

FOMC Policy Announcement

Wednesday, 2:00 pm

Press briefing at 2:30 pm

See Michael Gregory's Thought on page 4.

Nonfarm Payrolls

Friday, 8:30 am

Jan. (e) +170,000

Consensus +188,000

Dec. +223,000

With the economy losing traction and tech companies downsizing, **payroll** gains look to slow to a more normal 170,000 in January from 223,000 in December and an average of 375,000 last year. Annual revisions could raise the overall level through last March, indicating even more excess demand than is currently the case. Look for some cooling in household survey jobs after December's 717,000 fireball (mostly part-time), which should bump the unemployment rate from its half-century low to 3.6%. The labour market still has a long way to go before achieving "a better balancing of supply and demand" as desired by the Fed. A possible third straight monthly decline in aggregate work hours would be a bad sign for the economy. Average hourly earnings should rise 0.3% m/m as per the prior month. This would carve three tenths from the

Unemployment Rate

Jan. (e) 3.6%

Consensus 3.6%

Dec. 3.5%

Average Hourly Earnings

Jan. (e) +0.3% +4.3% y/y

Consensus +0.3% +4.3% y/y

Dec. +0.3% +4.6% y/y

Key for Next Week

ISM Services PMI

Friday, 10:00 am

Jan. (e) **50.0**

Consensus 50.5

Dec. 49.6

yearly rate to 4.3%, also down from the 5.6% peak last March and a step closer to the roughly 3½% rate that's consistent with price stability.

The **ISM services index** is expected to rebound slightly to the neutral 50 mark in January after plunging nearly 7 points in December, the third-largest drop on record. Although the economy is expected to contract modestly in the first half of the year, it's not expected to drop off a cliff given support from excess savings. Some further deceleration in the prices sub-index would indicate a continued moderation in wage growth. This index is down from an all-time high of 84.6 in April 2022, but the current level (67.6) still suggests intense cost pressure in the labour-intensive services sector. However, supplier delivery times sped up the most since late 2015 in December and further progress is likely in January.

Central Banks

BoE Monetary Policy Announcement

Thursday, 7:00 am ET

ECB Monetary Policy Announcement

Thursday, 8:15 am ET

Press conference at 8:45 am ET

See Jennifer Lee's Thought on page 7.

Financial Markets Update for January 27, 2023

		Jan 27 ¹	Jan 20	Week Ago	4 Weeks Ago	Dec 31, 2022
		(basis point change)				
Canadian Money Market	Call Money	4.50	4.25	25	25	25
	Prime Rate	6.70	6.45	25	25	25
U.S. Money Market	Fed Funds (effective)	4.50	4.50	0	0	0
	Prime Rate	7.50	7.50	0	0	0
3-Month Rates	Canada	4.38	4.33	5	15	15
	United States	4.66	4.63	3	32	32
	Japan	-0.18	-0.17	0	0	0
	United Kingdom	3.98	4.06	-7	11	11
	Australia	3.38	3.27	11	12	12
2-Year Bonds	Canada	3.69	3.59	10	-36	-36
	United States	4.22	4.17	5	-21	-21
10-Year Bonds	Canada	2.92	2.84	8	-38	-38
	United States	3.53	3.48	5	-34	-34
	Japan	0.48	0.38	11	7	7
	Germany	2.25	2.17	7	-32	-32
	United Kingdom	3.34	3.37	-3	-32	-32
	Australia	3.56	3.40	16	-49	-49
Risk Indicators	VIX	18.2	19.9	-1.6 pts	-3.4 pts	-3.4 pts
	Inv. Grade CDS Spread ²	71	75	-4	-11	-11
	High Yield CDS Spread ²	432	453	-21	-52	-52
		(percent change)				
Currencies	US¢/C\$	75.06	74.73	0.4	1.7	1.7
	C\$/US\$	1.332	1.338	—	—	—
	¥/US\$	129.89	129.60	0.2	-0.9	-0.9
	US\$/€	1.0844	1.0856	-0.1	1.3	1.3
	US\$/£	1.236	1.240	-0.3	2.3	2.3
	US¢/A\$	70.98	69.63	1.9	4.2	4.2
Commodities	CRB Futures Index	279.55	278.46	0.4	0.6	0.6
	Oil (generic contract)	81.39	81.64	-0.3	1.4	1.4
	Natural Gas (generic contract)	2.92	3.17	-8.0	-34.7	-34.7
	Gold (spot price)	1,921.77	1,926.08	-0.2	5.4	5.4
Equities	S&P/TSX Composite	20,706	20,503	1.0	6.8	6.8
	S&P 500	4,070	3,973	2.4	6.0	6.0
	Nasdaq	11,545	11,140	3.6	10.3	10.3
	Dow Jones Industrial	33,919	33,375	1.6	2.3	2.3
	Nikkei	27,383	26,554	3.1	4.9	4.9
	Frankfurt DAX	15,132	15,034	0.7	8.7	8.7
	London FT100	7,761	7,771	-0.1	4.1	4.1
	France CAC40	7,089	6,996	1.3	9.5	9.5
	S&P ASX 200	7,494	7,452	0.6	6.5	6.5

¹ = as of 10:45 am ² = One day delay

Global Calendar — January 30–February 3

	Monday January 30	Tuesday January 31	Wednesday February 1	Thursday February 2	Friday February 3
China		PMI Jan. (e) 50.1 Dec. 47.0 Mfg. 52.0 Dec. 41.6 Non-Mfg. n.a. Dec. 42.6 Comp. n.a. Dec. 42.6	Caixin Manufacturing PMI Jan. (e) 49.8 Dec. 49.0		Caixin PMI Jan. (e) 51.6 Dec. 48.0 Services 51.6 Dec. 48.0 Composite n.a. Dec. 48.3
		Jobless Rate Dec. (e) 2.5% Nov. 2.5%	Jibun Manufacturing PMI Jan. F (e) 48.9 Dec. 48.9		Jibun PMI Jan. F (e) 52.4 Dec. 51.1 Services 52.4 Dec. 51.1 Composite 50.8 Dec. 49.7
Japan		Retail Sales Ind. Prod. Dec. (e) +0.8% Nov. -1.3% Ind. Prod. -1.2% Dec. +0.2%			
Europe	EURO AREA Economic Confidence Jan. (e) 97.0 Dec. 95.8 Consumer -20.9 Dec. -22.0	EURO AREA Real GDP Q4 A (e) -0.1% Q3 +0.3% Jan. (e) +5,000 Dec. -13,000 Unemployment 5.5% Dec. 5.5% Jobless Rate 5.5% Dec. 5.5% Retail Sales Dec. (e) -0.5% Nov. +1.7% Ind. Prod. -2.6% y/y Dec. -5.1% y/y	EURO AREA Consumer Prices Jan. P (e) +9.0% y/y Dec. +9.2% y/y Core CPI +5.1% y/y Dec. +5.2% y/y Jobless Rate Dec. (e) 6.5% Nov. 6.5%	EURO AREA 8:15 am ET ECB Monetary Policy Meeting (8:45 am Press Conference)	EURO AREA PMI Jan. F (e) 50.7 Dec. 49.8 Services 50.7 Dec. 49.3 Composite 50.2 Dec. 49.3
	GERMANY Real GDP Q4 A (e) unch Q3 +0.4% Jan. (e) +1.3% y/y Dec. +1.3% y/y	GERMANY Unemployment Jan. (e) +5,000 Dec. -13,000 Jobless Rate 5.5% Dec. 5.5% Retail Sales Dec. (e) -0.5% Nov. +1.7% Ind. Prod. -2.6% y/y Dec. -5.1% y/y	GERMANY Consumer Prices Jan. P (e) +1.4% Dec. -1.2% Core CPI +10.2% y/y Dec. +9.6% y/y Jobless Rate 5.5% Dec. 5.5% Manufacturing PMI Jan. F (e) 48.8 Dec. 47.8	GERMANY Trade Surplus Dec. (e) €8.0 bln Nov. €10.9 bln	FRANCE Producer Prices Dec. (e) -0.5% Nov. -0.9% Ind. Prod. +22.4% y/y Dec. +27.1% y/y
	FRANCE Real GDP Q4 A (e) unch Q3 +0.2% Jan. (e) +0.5% y/y Dec. +1.0% y/y Consumer Spending Dec. (e) +0.1% Nov. +0.5% Ind. Prod. -4.2% y/y Dec. -5.2% y/y	FRANCE Consumer Prices Jan. P (e) +0.4% Dec. -0.1% Core CPI +6.1% y/y Dec. +6.7% y/y	ITALY Consumer Prices Jan. P (e) -1.5% Dec. +0.2% Core CPI +10.5% y/y Dec. +12.3% y/y Jobless Rate 6.5% Dec. 6.5% Manufacturing PMI Jan. F (e) 46.7 Dec. 45.3	UNITED KINGDOM 7:00 am ET BoE Monetary Policy Announcement	FRANCE Industrial Production Dec. +2.0% Nov. +0.7% y/y Manufacturing Production Dec. +2.4% Nov. +4.2% y/y
Other		AUSTRALIA Retail Sales Dec. (e) -0.2% Nov. +1.4%	BRAZIL Banco Central Do Brasil Monetary Policy Meeting	AUSTRALIA Building Approvals Dec. (e) +1.0% Nov. -9.0%	

⁰ = date approximate

Upcoming Policy Meetings | Bank of England: Mar. 23, May 11, June 22 | European Central Bank: Mar. 16, May 4, June 15

North American Calendar — January 30–February 3

	Monday January 30	Tuesday January 31	Wednesday February 1	Thursday February 2	Friday February 3
Canada		8:30 am Monthly Real GDP Nov. (e) +0.1% <i>Consensus</i> +0.1% Oct. +0.1% 10:30 am 3-, 6- & 12-month bill auction \$18.0 bln (new cash \$2.4 bln)	9:30 am S&P Global Manufacturing PMI Jan. 49.2 Dec. 49.2 Auto Sales^D Jan. +5.5% y/y Dec. +5.5% y/y	8:30 am Building Permits Dec. (e) -0.5% Nov. +14.1% Noon 10-year bond auction \$4.0 bln 2-year bond auction announcement	
United States	10:30 am Dallas Fed Mfg. Activity Jan. (e) -15.0^C Dec. -18.8 11:30 am 13- & 26-week bill auctions \$108 bln	8:30 am Employment Cost Index Q4 (e) +1.2% +5.2% y/y <i>Consensus</i> +1.1% +5.1% y/y Q3 +1.2% +5.0% y/y 9:00 am S&P CoreLogic Case-Shiller Home Price Index (20 city) Nov. (e) -0.7% +6.6% y/y <i>Consensus</i> -0.5% +6.8% y/y Oct. -0.5% +8.6% y/y 9:00 am FHFA House Price Index Nov. (e) -0.5% +8.0% y/y <i>Consensus</i> -0.5% +8.0% y/y Oct. unch +9.8% y/y 9:45 am Chicago PMI Jan. (e) 45.3 ^C Dec. 45.1 10:00 am Conference Board Consumer Confidence Index Jan. (e) 109.0 ^C Dec. 108.3 FOMC Meeting begins 11:00 am 4-, 8- & 17-week bill auction announcements	7:00 am MBA Mortgage Apps Jan. 27 Jan. 20 +7.0% 8:15 am ADP National Employment Report Jan. (e) +160,000 <i>Consensus</i> +170,000 Dec. +235,000 9:45 am S&P Global Manufacturing PMI (Jan. F) 10:00 am ISM Manufacturing PMI Jan. (e) 48.0 <i>Consensus</i> 48.0 Dec. 48.4 10:00 am Construction Spending Dec. (e) -0.5% <i>Consensus</i> unch Nov. +0.2% 10:00 am Job Openings & Labor Turnover Survey (Dec.) 2:00 pm FOMC Announcement 2:30 pm Fed Chair Powell's Press Briefing Autodata Total Vehicle Sales^D Jan. (e) 15.8 mln a.r. Dec. 13.6 mln a.r. 8:30 am 3- & 10-year note, 30-year bond auction and other quarterly refinancing announcements 11:00 am 13- & 26-week bill auction announcements 11:30 am 17-week bill auction	7:30 am Challenger Layoff Report Jan. Dec. +129.1% y/y 8:30 am Initial Claims Jan. 28 (e) 200k (+14k)^C Jan. 21 186k (-6k) 8:30 am Continuing Claims Jan. 21 (e) 1,684k (+9k)^C Jan. 14 1,675k (+20k) 9:45 am S&P Global Services/Composite PMI (Jan. F) 8:30 am Productivity Unit Labour Costs Q4 P (e) +2.4% a.r. +1.6% a.r. <i>Consensus</i> +2.5% a.r. +1.5% a.r. Q3 +0.8% a.r. +2.4% a.r. 10:00 am Factory Orders Dec. (e) +3.0% <i>Consensus</i> +2.4% Nov. -1.6% 11:30 am 4- & 8-week bill auctions	8:30 am Nonfarm Payrolls Jan. (e) +170,000 <i>Consensus</i> +188,000 Dec. +223,000 8:30 am Unemployment Rate Jan. (e) 3.6% <i>Consensus</i> 3.6% Dec. 3.5% 8:30 am Average Hourly Earnings Jan. (e) +0.3% +4.3% y/y <i>Consensus</i> +0.3% +4.3% y/y Dec. +0.3% +4.6% y/y 10:00 am ISM Services PMI Jan. (e) 50.0 <i>Consensus</i> 50.5 Dec. 49.6

^C = consensus ^D = date approximate ^R = reopening

Upcoming Policy Meetings | Bank of Canada: Mar. 8, Apr. 12, June 7 | FOMC: Mar. 21-22, May 2-3, June 13-14

General Disclosures

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