Focus

Feature Article

Tracking the Fallout from Bank Stress

Our Thoughts

- Strike One!
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- Earnings Season: Mixed Macro Winds
- The Inflation Battle Continues

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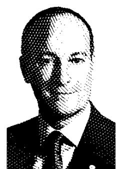
Strike One!



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Just two weeks ago, we intoned that cracks were forming in the foundation of the global expansion. Well, **those cracks are still mostly of the hairline variety**. True, there are increasing indications that **the U.S. economy is losing momentum, but next week's GDP report is likely to reveal a respectable 2% pace for Q1 growth**. And, most of the surprises in the rest of the world continue to land on the high side of downbeat expectations. With growth generally holding up better than expected so far in 2023 for most economies, prospects of rate cuts have been pushed further down the road, and small odds of further near-term rate hikes have been re-priced in for both the Fed and the Bank of Canada. Against this backdrop, markets mostly fought to a draw this week, impressed by a resilient economy, but concerned that it won't last, and encouraged by easing inflation, but fretting that progress is too slow.

One of the more important releases of the week revealed surprisingly sturdy Q1 GDP **growth in China**. The re-opening drove a 2.2% quarterly advance (or roughly 9% annualized), which lifted output 4.5% above year-ago levels. The next quarterly report will have an even friendlier year-on-year comparison, as Shanghai was dealing with lockdowns a year ago, pointing to an even bigger bounce in Q2. Accordingly, we have bumped up our annual forecast for China's growth rate by more than a full point to 5.8%. This solid performance masks a notable split between domestic spending—retail sales fired up 10.6% y/y in March—and industrial production—which only managed a 3.9% y/y rise for the same month.

A slightly different version of that split is evident in many other major economies, running down a 'services versus manufacturing' line. The initial readings from April PMIs in the **Euro Area** flashed a nice upside surprise on services (to a solid 56.6) versus a downbeat factory result (a sickly 45.5). The **U.K.** seconded those emotions at 54.9 (services) versus 46.6 (factories). Even **Japan** showed a similar split (54.9 vs 49.5), albeit with a generally healthier manufacturing backdrop. European consumer confidence is firming, with an assist from much calmer energy prices—Dutch gas prices are now less than a third of last year's average. And, German producer prices are up "only" 7.5% y/y, after hitting a post-war peak of above 40% last summer. Reflecting these less dire conditions, we have further nudged up our forecast for Euro Area GDP growth to 0.9% for 2023, from flat at the start of the year.

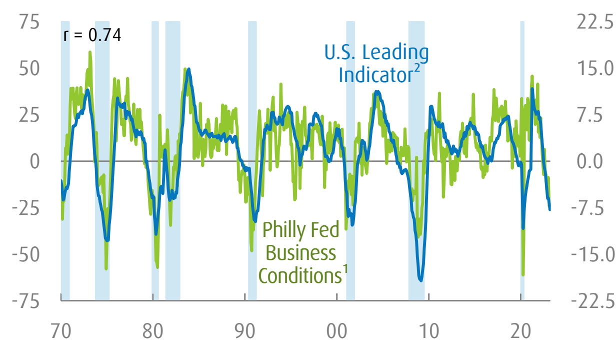
The upward revision to our estimate for European GDP this year largely mimics changes to our call for North America. While we made no changes this week, those forecasts have also been lifted from zero growth at the start of 2023 to 1.0% now for both economies. In combination with the upsized calls on China and the Euro Area, we are **now looking at global growth of 2.7% this year**. That's down from last year's 3.4% advance, and below the medium-term average of 3.25%-to-3.50%. But, given the bountiful talk about recession in the past six months, that's not bad at all.

Even so, our forecast still assumes a shallow downturn in the next two quarters in North America. While current indicators remain surprisingly sturdy, **almost all forward-looking metrics are warning of an impending slowdown**. For example, the Philly Fed's Business Conditions Index, which has a 55-year history, fell to its lowest level since 2009 in April (aside from the depths of the first two months of the pandemic). At -31.3, the index has never been as low at any time outside of recession periods;

for context, the lowest non-recession result was -20.8 in June 1995. The Conference Board's leading indicator is sending an almost identical message, falling 7.8% y/y, or a degree of difficulty never witnessed outside of a recession *(Chart 1)*.

Chart 1
Blue Skies, Storm Warnings

United States



Shading marks U.S. recessions; [1] (lhs : % balance : s.a.); [2] (rhs : y/y % chng)
Sources: BMO Economics, Haver Analytics, Conference Board, Philly FRB

Despite these rather loud warning bells, there is no debate that **this is a truly unique cycle**, and it's entirely possible that many of the traditional economic measures just can't properly capture the underlying realities. To wit, in past cycles, the chart shows that both leading indicators and the Philly Fed were only this weak when the U.S. economy was already knee-deep in recession. And, it's pretty clear to most that we are patently not in a recession yet, whether one looks at the job market, spending patterns, or even the message from financial markets. Putting an exclamation mark on that point, S&P's U.S. PMI rose to its highest level in almost a year in April.

Amid the ongoing resiliency, **Bank of Canada Governor Macklem went so far this week as to mutter the words "soft landing"**, a phrase he has mostly shied away from in recent months. Canada will also get an early read on Q1 GDP when the monthly output figures are released next Friday. While conditions cooled after a blistering January, we still expect a 0.2% rise for February GDP (flash estimate was 0.3%). Even with a small pullback in March—and retail sales look to be down 1.4% that month—we are calling for Q1 growth of around 2.5%, a tad above the decent U.S. trend.

The near-term outlook will be dented by the **massive public sector strike**, which began this week. Those walking off the job account for roughly 0.6% of the Canadian workforce, and spillovers to trade and travel could potentially clip GDP by 1%, depending on how long the job action persists. Presumably, the strike will not go on for long, and will mostly just land a temporary blow on April GDP. However, the very public wage negotiations come at an incredibly delicate time for the inflation backdrop, potentially setting the tone for a vast array of settlements elsewhere. The PSAC union seeks a 13.5% raise over three years (4.5% per year), which is based on inflation for the 2021-23 period, while Ottawa has countered with 9%, with other concessions.

Canada's CPI was right on consensus expectations this week at 4.3% y/y for March, one of the lowest rates in the OECD, and apparently headed for 3% in coming months. But getting inflation sustainably back into the 1%-to-3% target zone could be a challenge, as even short-term metrics of core inflation are stuck above 3%. A wave of wage settlements in the zone of 4% or higher across the economy, at a time of almost no productivity growth (0.2% over the past five years), **could put a hard floor under inflation and make the Bank of Canada's job of getting back to target that much more difficult**. That reality, along with signs that the economy retains much of its surprising resiliency, reinforces our point that rate cuts are probably not a story for this year.

U.S. Economy: Misleading Indicators

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This week's parade of U.S. economic indicators marched to a mixed drumbeat. While there's an unmistakable cadence slowdown occurring, whether the parade route is heading to a 'soft landing', a historically mild downturn or a more typical recession is still a mystery. This week's clues were all over the map.

The manufacturing sector is already in contraction mode, with the ISM PMI registering sub-50 results in each of the five months ending March. The latest at 46.3, according to the ISM folks, would be consistent with -0.9% annualized contraction in real GDP. This week, on an ISM basis, the **NY Fed's Empire State manufacturing metric** leaped to 54.9 in April from 44.5 in March and two other sub-50 readings before that. Not only is this a nine-month high, but the monthly change is the second largest on record (the survey started 22 years ago). The **Philadelphia Fed's factory metric** remained in sub-50 territory for the eighth consecutive month (it was 42.2 in April).

The housing sector has been mired in recession for seven consecutive quarters starting 2021Q2, with a cumulative contraction of more than 20%. This is a sectoral outcome that has been associated, more times than not, with an economy-wide recession. This week's home construction and sales data for March all sported negative signs, reversing what they donned in February. Included were **housing starts** -0.8% vs. +7.3%, **building permits** -8.8% vs. +15.8% and **existing home sales** -2.4% vs. +13.8%.

Apart from permits, there wasn't much payback for what were clearly outsized gains in February, resulting in still-strong two-month moves. Indeed, the prior month's jump in home sales matched the second largest on record (back to 1999) and was the third largest in history for single-family transactions alone (back to 1968), resulting in comparable extremes for the two-month change. Meanwhile, the **NAHB Housing Market Index** improved in April for the fourth straight month (to 45) but has remained below the 50 mark since August. These all hint at a stabilizing housing sector.

The Fed's **Beige Book** concluded that *"overall economic activity was little changed in recent weeks… Expectations for future growth were mostly unchanged as well."* We suspect that the FOMC found some comfort in this result as it strongly indicates a 'soft landing' (for now).

The big surprise of the week, however, was the Conference Board's venerable **Leading Economic Index (LEI)**. It decreased 1.2% in March, when -0.7% was expected. Since 1959, there have been eight episodes when such a monthly magnitude was registered, seven of them were during or briefly before a recession (the one outlier was January 1996). March's move also marked the 12th consecutive decline. Compared to a year ago, the LEI is down 7.8%, which has only occurred when a recession was well underway. The U.S. economy is not currently in a recession. Most of the critical indicators tracked by the official business-cycle arbiter, the NBER, have not yet even peaked, including the extra-important payroll employment and real personal income. So, the LEI has clearly lost some of its past predictive power.

We end this week with economic prospects still as mysterious as when we began. Next week we get GDP data for Q1 along with personal income and spending, and durable goods orders, for March. Perhaps we'll get better clues then.

Earnings Season: Mixed Macro Winds

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All eyes are on the Q1 **earnings season** with notable hits (big banks) and misses (Tesla) already on the books. Based on the latest tally from Refinitiv, S&P 500 earnings are expected to fall 5% y/y in the quarter, marking a second consecutive quarter below year-ago levels. Results so far have been decent, with just under 70% of companies topping analyst expectations—the bar has been lowered since the start of the year. At the sector level, solid gains in consumer discretionary, energy and industrials compared to a year ago can't quite offset declines in technology, communication services and health care. From a macro perspective, here are a few **factors that are shaping the path for corporate profits**:

Revenues: S&P 500 revenue growth is slowing markedly to the low single-digit range from a year ago, after clocking double-digit gains through 2021 and most of 2022. That's consistent with slowing growth in both real spending (see both consumer durables and services) and cooling inflation, at least for durable consumer goods. Revenues map relatively well with final domestic demand, and the latter slowed to just 4.4% annualized as of 2022Q4.

Margins: Firms have generally been able to pass higher input costs onto consumers, part of which is just the reality of where we are in the cycle—later stages with the economy at capacity. Profit margins appear to have peaked in 2021 based either on S&P 500 results or corporate profits as a share of GDP, with an acceleration in unit labour costs likely taking a bite. That said, the level still remains elevated by historical standards.

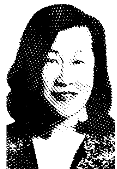
U.S. dollar: Many firms hedge out currency exposure to some extent, but moves in the U.S. dollar still drive earnings at the macro level. A strong dollar can crimp foreign demand for U.S. products, and impact the conversion of foreign earnings back into domestic currency. The good news is that, after surging more than 20% y/y through the middle of last year, the recent pullback has left the currency little-changed from a year ago. That should remove a stiff headwind from overall earnings momentum.

Oil prices: While overall S&P 500 earnings are expected to be down 5% y/y, profits excluding the energy sector are pegged at -6% y/y. That's not a meaningful gap at all, but declines in oil and gasoline prices since last summer look to drag going forward.

The yield curve: A flatter yield curve tends to correlate with weaker earnings growth, especially six-to-twelve months down the road. Part of that is felt directly in the financial sector (i.e., tighter lending margins), but part of it likely reflects the fact that a flattening or inverted curve portends weaker economic conditions ahead. The deep inversion still in the bond market today is indeed a risk for the earnings outlook.

All told, earnings momentum has slowed, but we're not seeing big cracks yet that would point to a much deeper downturn. From a macro perspective, the mixed winds should, on net, weigh further on profit growth, but our expectation of a relatively mild downturn in the economy would contain the depth of any deterioration.

The Inflation Battle Continues



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Nearly two months have gone by since SVB collapsed and CS folded into the arms of its big competitor. Markets have calmed significantly and **monetary policymakers have turned their full attention back to more mundane matters, such as inflation**. And inflation has cooled, but the process is relative. Netherlands, for example, saw its latest inflation rate slashed in half last month to a 1½-year low of 4.5%, only to be beat by Canada's near 2-year low of 4.3%. Both countries are likely breathing a sign of relief.

But that is not the case in the **U.K.**, home to Western Europe's highest inflation rate. It stayed above 10% for the eighth time in the past nine months, more than five times the target. The core reading was stuck at 6.2%, not far from last summer's 30-year highs. Given that these exceedingly stubborn prices run a big risk of feeding into inflation expectations and wage negotiations, we no longer see the **BoE** stopping after the May 11 meeting at 4.50%. Instead, **we see its Bank Rate reaching 5.00% this summer**, before Governor Bailey et al call it a day. (Uber-dove and outgoing Silvana Tenreyro will be ignored, particularly after the insulting comments she made against her less dovish colleagues.) And, the latest composite PMI reading suggests that the economy can handle tighter policy as it reached a one-year high of 53.9 in April, the third consecutive month of expansion.

No one is breathing easier in the **Euro Area** either, even with inflation off its highs, according to the **Minutes** from the **ECB's** March policy meeting. They were a fascinating read, even though we already knew that a "*very broad majority*" backed the 50 bp rate hike, that the debate centred around 50 or nothing, and that the Staff projections were old. The cutoff date for the projections was mid-February, and much had happened since then, but "*a number of members*" still expressed disbelief about the call for inflation to slow (which was attributed to lower energy, a stronger EUR, and tighter credit conditions). In fact, those members saw upside risks for inflation over the entire horizon and "*argued that there was only a small probability that inflation would fall back to low levels as quickly as suggested in the March ECB staff projections, which gave the impression of an **'immaculate disinflation'** (i.e. a return of inflation to target with very low cost in terms of lost output)*". Oh, to have been a fly on the wall that day!

We continue to **look for two more 25 bp rate hikes by the ECB** (May and June), which would bring the refi rate to 4.00%. Indeed, the tone of most policymakers has remained hawkish, particularly so for the most important one. President Lagarde recently warned that inflation was too strong and that "*we need to do all we can to bring inflation back to our 2% target*". Meantime, the Netherlands' Klaas Knot (a famous hawk) pointed out that **April CPI is the factor that will determine the size of a May 4 hike**. That report will not be released until May 2 (two days before the ECB announcement), but, next week, the **German April CPI** will give a strong hint of what to expect. As of March, German inflation hit a one-year low of 7.8%, down nearly 4 ppts from November's record high of 11.3%. But, just to complicate matters, the **German core CPI** rose in March to a record high 8%. And where was Euro Area core CPI in March? Oh yes, also at a record 5.7%. **How sticky the German figure is will determine if we see 25 bps or 50 bps.**

Then there is the other central bank, who sits on the opposite side of the table. Actually never mind the table, it is in another room, in another wing, across town. The **Bank of Japan** is meeting next week, and it will be the first one presided over by Governor Kazuo Ueda. Back in the day (around the turn of the year), we had looked for a bold move by the BoJ, either at Haruhiko Kuroda's final meeting or in the early months of his replacement. However, that may not be coming anytime soon, as Governor Ueda has emphasized that policy will remain easy and that there is no rush to tighten. Just last week, the former academic said that "*there's no need for an immediate review*" of the Bank's policies, which implied that, well, there is no rush for change. Of course, the latest inflation data may argue otherwise. **Core core CPI** (which excludes fresh food & energy) jumped 3.8% y/y in March, the fastest pace since December 1981. How long can this be ignored?

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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 ▪ BoC Gov. Macklem *"can't rule out that interest rates may need to go higher"* ▪ Inflation eases to the lowest since August 2021	**Consumer Prices** slowed to +4.3% y/y (Mar.)—and core measures moderate **Industrial Product Prices** -1.8% y/y; **Raw Materials Prices** -16.5% y/y (Mar.) **Residential Mortgage Credit** slows to +6.0% y/y (Feb.) **New Motor Vehicle Sales** +3.7% y/y (Feb.) **Global Investors** bought a net $4.6 bln of Canadian securities (Feb.)	**Retail Sales Volumes** -0.7% (Feb.)—and nominal sales fell 1.4% in March **Wholesale Trade Volumes** -1.8% (Feb.) **Housing Starts** -11.2% to 213,865 a.r. (Mar.)
United States ▪ Beige Book: economic activity *"little changed"* ▪ TS Yellen: trade relationship with China must be *"fair on both sides"*	**Empire State Manufacturing Survey** +10.4 pts to 54.9 to and ISM-adjusted (Apr.) **NAHB Housing Market Index** +1 pt to 45 (Apr.)	**Existing Home Sales** -2.4% to 4.44 mln a.r. (Mar.) **Housing Starts** -0.8% to 1.42 mln a.r. (Mar.) **Building Permits** -8.8% to 1.41 mln a.r. (Mar.) **Initial Claims** +5k to 245k (Apr. 15 week) **Philly Fed Index** +2.8 pts to an ISM-adjusted 42.2 (Apr.)—but still contracting **Leading Indicator** -1.2% (Mar.) **Global Investors** sold a net $63.6 bln in U.S. securities (Mar.)
China ▪ Consumer spending fuels growth	**Real GDP** +2.2% (Q1)—or +4.5% y/y **Retail Sales** +10.6% y/y (Mar.) **Industrial Production** +3.9% y/y (Mar.) **Fixed Asset Investments** +5.1% y/y (Jan.-to-Mar.)	
Japan ▪ BoJ on deck next week as Gov. Ueda makes his debut	**Consumer Prices** +3.2% y/y (Mar.)—eased to 6-mth low, but **core** persistent at +3.1% y/y **Exports** +4.3% y/y (Mar.) **Manufacturing PMI** +0.3 pts to 49.5 (Apr. P) **Services PMI** -0.1 pts to 54.9 (Apr. P)—but still expanding	
Europe ▪ ECB Minutes: Some policymakers doubt possibility of *"immaculate disinflation"* ▪ U.K. has the highest inflation rate in Western Europe	**Euro Area—Services PMI** +1.6 pts to 56.6 (Apr. P) **Euro Area—Trade Deficit** narrowed sharply to €0.1 bln (Feb.) **Euro Area—Consumer Confidence** +1.6 pts to -17.5 (Apr. P) **Germany—Producer Prices** +7.5% y/y (Mar.)—slowest in 2 yrs **U.K.—Employment** +169,000 (3 mths to Feb.) **U.K.—Producer Prices (Output)** +8.7% y/y (Mar.)—slowest in 1½ yrs **U.K.—Services PMI** +2.0 pts to 54.9 (Apr. P) **U.K.—GfK Consumer Confidence** +6 pts to -30 (Apr.)—highest in over a year	**Euro Area—Manufacturing PMI** -1.8 pts to 45.5 (Apr. P) **Germany—ZEW Survey** -8.9 pts to 4.1 (Apr.) **France—Retail Sales** -5.6% y/y (Mar.) **France—Business Confidence** -1 pt to 102 (Apr.) **U.K.—Consumer Prices** +10.1% y/y (Mar.)—and **core** sticky at +6.2% y/y **U.K.—Jobless Rate** +0.1 ppts to 3.8% (3 mths to Feb.) **U.K.—Average Weekly Earnings ex. Bonus** +6.6% y/y (3 mths to Feb.) **U.K.—Retail Sales (incl. Fuel)** -0.9% (Mar.) **U.K.—Manufacturing PMI** -1.3 pts to 46.6 (Apr. P)
Other ▪ Sweeping reforms within the RBA to take place next year ▪ Oil falls below $80	**Australia—CBA Household Spending** +8.0% (Mar.) **New Zealand—Consumer Prices** +6.7% y/y (Q1)—slowed more than expected	

Tracking the Fallout from Bank Stress

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With the risks of imminent bank failures fading, markets have settled down, but that doesn't mean the economy is off scot-free. Here's what to look for to track the situation and its impact on the U.S. economy.

Is the stress getting better or worse?

Bank deposits: Bank deposits have been shrinking for the past year, as Fed tightening spurred a flight to money-market funds and households depleted some pandemic savings. But the decline accelerated after the failure of three regional banks in early March (*Chart 1*). Deposits of domestically chartered banks shrank by $384 billion (or 2.4%) in the four weeks to March 29. This was partly due to the closure of the three banks. Clients also shifted some deposits from smaller lenders to institutions deemed too-big-to-fail. However, both small and large banks reported an upturn in deposits in the week of April 5, implying stability. Moreover, deposits remain about $4 trillion (or 30%) higher than at the start of the pandemic, meaning **the banking system remains flush with liquidity**.

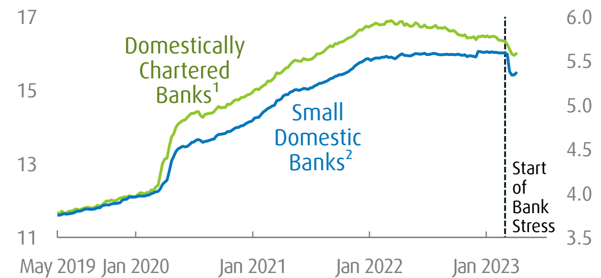
Bank loans: To date, the drop in deposits **has not led to a material pullback in credit**. Bank loans fell just $34 billion (or 0.3%) in the first four weeks of the turmoil, before turning up more recently, including at smaller lenders (*Chart 2*). The decline in credit was directed at businesses rather than consumers and homeowners. Total loans are still up $900 billion (or 9%) in the past year.

Fed support: Federal Reserve loans to banks shot up $303 billion in the first week of the turmoil and by an additional $36 billion in the following week (*Chart 3*). Banks borrowed from the discount window and the new Bank Term Funding Program. The emergency aid was rivaled only in the Great Recession. However, the Fed's credit to banks fell by $29 billion in the four weeks to April 19, suggesting the **stresses in the banking system are stabilizing**.

Share prices: The S&P Banks index dove 18% initially, before recovering about a third of its losses on the quick response by policymakers to prevent contagion and some better-than-expected Q1 bank results. However,

Chart 1
Deposits Diminish

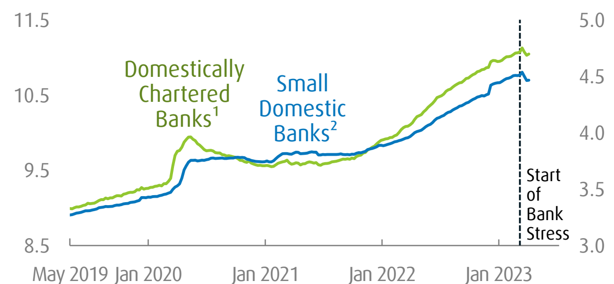
United States ($ trlns : s.a.)
Commercial Bank Deposits



1 (lhs); 2 all domestically chartered banks outside of the top 25 by asset size (rhs)
Sources: BMO Economics, Haver Analytics, FRB

Chart 2
Lending Lessens

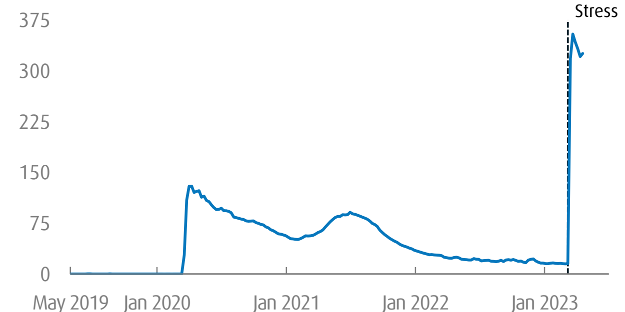
United States ($ trlns : s.a.)
Commercial Bank Loans and Leases



1 (lhs); 2 all domestically chartered banks outside of the top 25 by asset size (rhs)
Sources: BMO Economics, Haver Analytics, FRB

Chart 3
To the Rescue

United States ($ trlns : s.a.)
Federal Reserve Bank Loans



Sources: BMO Economics, Haver Analytics, FRB

investors remain wary, as the sector lags a moderate gain in the Composite Index. This nervousness is captured in the Cleveland Fed's Systemic Risk Indicator, a daily measure of investor perceptions of default risk. It showed a large increase in insolvency risk to mid-March, though it has since retraced about half of the rise, and remains well below the peaks reached in the financial crisis and pandemic shutdowns.

Is the fallout getting better or worse?

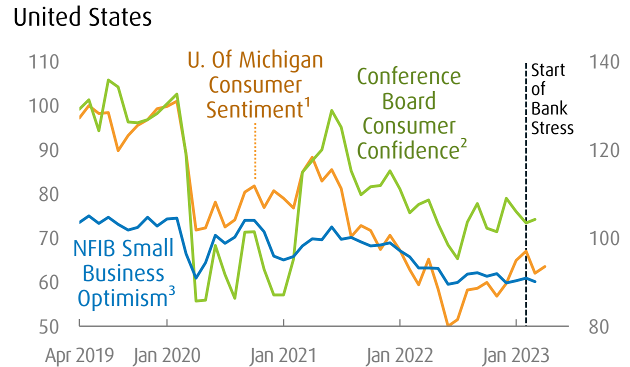
Confidence: The banking stress has had **limited effect on sentiment** (*Chart 4*). Small business confidence sagged a bit in March, while two consumer sentiment indexes were mixed. The Conference Board's measure surprisingly turned up in March, though the University of Michigan's index fell sharply before steadying in April.

Financial conditions: Financial stress is never good for markets. But equity prices are moderately higher and long-term Treasury yields lower than at the start of the turmoil. While the Chicago Fed's National Financial Conditions Index weakened slightly to April 14, conditions remain better than normal and much stronger than in past crises (*Chart 5*). Similarly, the Office of Financial Research's Financial Stress Index, after an initial spike higher, has slipped below normal levels. The St. Louis Fed's Financial Stress Index also tells a similar tale of stability. The upshot is that **stress in the banking system has had little effect on financial conditions**.

Cost of credit: Corporate **credit costs were little changed** by the bank failures. Ten-year triple-B spreads versus Treasury yields initially widened modestly, but have fully retraced the increase (*Chart 6*). At 1.7 ppts, the gap pales against the near 5 ppt gulf reached in the pandemic and the 7 ppt chasm in the financial crisis.

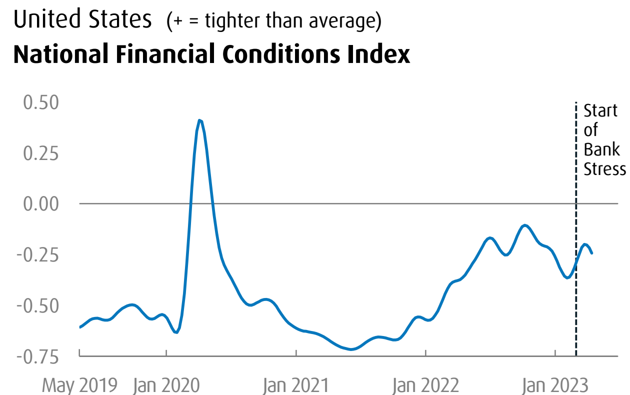
Availability of credit: Stable credit costs are cold comfort if you can't get a loan. Rising deposit rates have increased bank funding costs and pressured lending margins, reducing the incentive to lend. Small businesses are feeling the pinch, as loan availability fell in March to the lowest level since at least 2018 (*Chart 7*). The Dallas Fed's Banking Conditions Survey also reported stricter lending standards in the region. On May 8, the Fed's quarterly Senior Loan Officer Survey will likely report a fourth consecutive quarter of tightening loan standards, as the Beige Book found that banks in several Districts (notably San Francisco) tightened their loan standards due to "*increased uncertainty and concerns*

Chart 4
What's All the Fuss About?



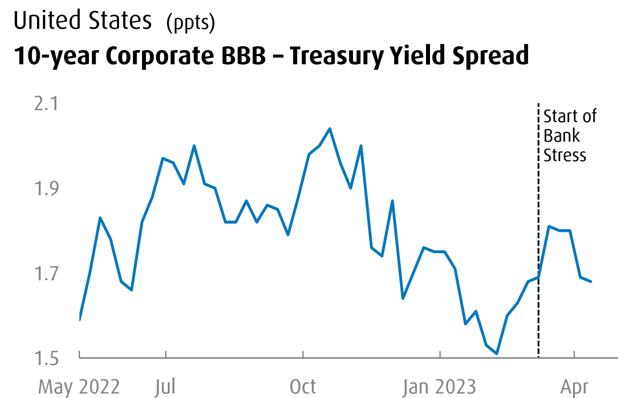
[1] (lhs : n.s.a. : 1966 Q1 = 100); [2] (rhs : s.a. : 1985 = 100); [3] (rhs : s.a. : 1986 = 100)
Sources: BMO Economics, Haver Analytics, NFIB, U. of Michigan, Conference Board

Chart 5
Financial Conditions Tighten (a Bit)



Sources: BMO Economics, Haver Analytics, Chicago FRB

Chart 6
Credit Costs Little Changed



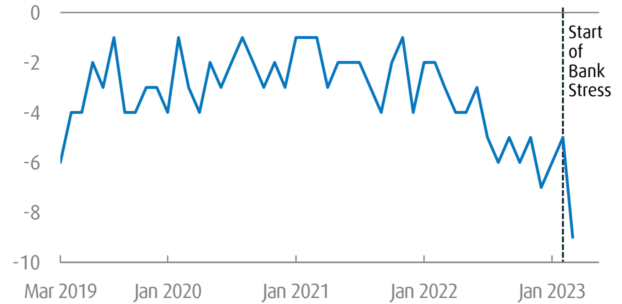
Sources: BMO Economics, Haver Analytics, S&P/GFIR, FRB

about liquidity", resulting in a general decline in loan volumes. Of the many ways that banking stress can hurt the economy, **restricted access to credit is the most concerning**. Smaller banks will likely feel the most pressure to scale back lending, pinching smaller businesses, rural regions, and the commercial real estate sector.

Bottom Line: Barring further trouble, the economic impact of the bank failures could be muted, meaning the most anticipated recession in history might get another reprieve. Still, tighter lending conditions will only compound the lagged effect of tighter monetary policy, keeping a downturn on the table.

Chart 7
But Harder to Get a Loan

United States (percent)
Small Business Loan Availability vs. Three Months Ago — Net



Sources: BMO Economics, Haver Analytics, NFIB

Economic Forecast Summary for April 21, 2023

	2022				2023				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023	2024
CANADA											
Real GDP (q/q % chng : a.r.)	2.4	3.6	2.3	0.0	2.5	-0.5	-0.7	1.0	3.4	1.0	1.3
Consumer Price Index (y/y % chng)	5.8	7.5	7.2	6.7	5.1	3.5 ↓	3.3	3.0 ↑	6.8	3.8	2.5
Unemployment Rate (percent)	5.7	5.1	5.1	5.1	5.0	5.2	5.5	5.7	5.3	5.4	5.6
Housing Starts (000s : a.r.)	243	270	281	259	223	245 ↑	232 ↑	220	263	230	220
Current Account Balance ($blns : a.r.)	11.0	22.0	-33.7	-42.6	-33.5	-33.7	-39.6	-41.5	-10.8	-37.0	-42.0
Interest Rates (average for the quarter : %)											
Overnight Rate	0.33	1.17	2.75	3.92	4.50	4.50	4.50	4.50	2.04	4.50	3.88
3-month Treasury Bill	0.39	1.43	2.91	3.96	4.39	4.35	4.35	4.35	2.17	4.35	3.75
10-year Bond	1.92	2.98	3.01	3.16	3.04	3.15 ↑	3.15 ↑	3.10 ↑	2.77	3.10 ↑	2.95
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	9	33	16	-22	-39	-69 ↓	-74 ↓	-74 ↓	9	-64 ↓	-87 ↓
10-year	-2	5	-10	-67	-61	-52 ↑	-52	-51	-18	-54	-44
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-1.6	-0.6	3.2	2.6	2.0	-1.0	-1.0	0.8	2.1	1.0	1.3
Consumer Price Index (y/y % chng)	8.0	8.6	8.3	7.1	5.8	4.3	3.7	3.3	8.0	4.2	2.5
Unemployment Rate (percent)	3.8	3.6	3.5	3.6	3.5	3.7	4.5	4.8	3.6	4.1	4.7
Housing Starts (mlns : a.r.)	1.72	1.65	1.45	1.40	1.40	1.38	1.34	1.37	1.55	1.37	1.41
Current Account Balance ($trlns : a.r.)	-1.12	-0.95	-0.88	-0.83	-0.86 ↑	-0.87 ↑	-0.87 ↑	-0.88 ↑	-0.94	-0.87 ↑	-0.89 ↑
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	0.21	0.96	2.63	3.79	4.63	5.04	5.13	5.13	1.90	4.98	4.67
3-month Treasury Bill	0.30	1.10	2.75	4.18	4.78	5.05	5.10 ↑	5.10 ↑	2.08	5.00	4.65 ↑
10-year Note	1.94	2.93	3.10	3.83	3.65	3.65 ↑	3.70 ↑	3.60 ↑	2.95	3.65 ↑	3.40
EXCHANGE RATES (average for the quarter)											
US¢/C$	79.0	78.4	76.6	73.7	74.0	74.4	75.5	76.6	76.9	75.1	77.7
C$/US$	1.27	1.28	1.31	1.36	1.35	1.34	1.33	1.31	1.30	1.33	1.29
¥/US$	116	130	138	141	132	133	132	130	131	132	127
US$/Euro	1.12	1.06	1.01	1.02	1.07	1.09	1.11	1.12	1.05	1.10	1.14
US$/£	1.34	1.26	1.18	1.17	1.22	1.24	1.26	1.27	1.24	1.25	1.28

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

Friday, 8:30 am

Feb. (e)	**+0.2%**
Consensus	*+0.2%*
Jan.	+0.5%

The Canadian economy has held up well in the face of higher interest rates, but there were some cracks in February. **Real GDP** is expected to post a 0.2% increase in the month, but the risk is lower, and it could thus be meaningfully below StatCan's initial flash reading of a 0.3% gain. As the monthly data rolled in, manufacturing sales volumes were down 2.4%, wholesale volumes fell 1.8%, and retail sales were down 0.7% in real terms, but the job market remained strong with a 0.6% jump in work hours. Output in the oil & gas sector is always a wildcard, but StatCan's early read pointed to growth in the month. StatCan will also provide an early look at GDP for March and Q1. Assuming March is tracking flat to slightly negative, our call for 2.5% growth in the first quarter looks firmly on track.

United States

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Durable Goods Orders

Wednesday, 8:30 am

	Durable Orders	Core Orders
Mar. (e)	**+1.0%**	**-0.2%**
Consensus	*+0.7%*	*+0.2%*
Feb.	-1.0%	-0.1%

Durable goods orders look to climb 1.0% in March, despite tighter financial conditions that ensued following the banking sector turmoil. Boeing bookings took flight in the month, shoring up the headline figure. The details, however, are likely to be soft, with core capital goods orders declining for the second straight month. Meantime, the control measure of shipments, an input for GDP, will likely fall again, all but confirming that weakness in equipment spending continued into the first quarter. Durable goods orders showed remarkable strength in 2022, but should reverse this year as manufacturing continues to face major headwinds.

Real GDP

Thursday, 8:30 am

	Real GDP	GDP Deflator
Q1 A (e)	**+2.0% a.r.**	**+3.8% a.r.**
Consensus	*+2.0% a.r.*	*+3.7% a.r.*
Q4	+2.6% a.r.	+3.9% a.r.

We expect the **economy to expand** at a 2.0% annualized rate in Q1, paced by a 4.5% increase in personal consumption expenditures (PCE) and strong gains in some business investment components (nonresidential construction, intellectual property). With respect to real PCE, growth momentum was fading as the quarter unfolded; all the strength was concentrated in January. Weighing in at more than two-thirds of GDP, this fading is setting the stage for a broader (but historically mild) economic downturn. Nonresidential construction is benefitting from federal government support for infrastructure and clean energy investment. Lower inventory investment is projected to chop 1.3 ppts from GDP growth, with another tenth coming from deteriorating net exports, resulting in a 3.3% advance for final domestic demand. Meanwhile, the GDP price index is expected to increase 3.8% annualized, the slowest since 2020Q4. This means that outside of the 4.8% expected increase in the PCE price index, disinflation was a theme amid the remaining one-third of economic activity.

Personal Spending & Income

Friday, 8:30 am

	Personal Spending	Personal Income
Mar. (e)	**+0.1%**	**+0.3%**
Consensus	*-0.1%*	*+0.2%*
Feb.	+0.2%	+0.3%

	Core PCE Price Index	
Mar. (e)	**+0.3%**	**+4.5% y/y**
Consensus	*+0.3%*	*+4.5% y/y*
Feb.	+0.3%	+4.6% y/y

Nominal PCE probably managed to inch up 0.1% in March, despite a 1.0% pullback in retail sales (and a 0.3% decrease in the 'control' metric). Spending on services (mostly higher prices) fully offset the weakness in outlays on goods. **Personal income** likely increased 0.3%, reflecting the month's rise in average hourly earnings and dip in aggregate hours. This mix of income and spending will push up the personal saving rate by three-tenths to 4.9%. This is still below the 7½% pre-pandemic trend, meaning that consumers were again drawing from their excess savings. Over the 18 months starting March 2020, when the saving rate was above the norm, $2.4 trillion of excess savings were amassed. Since October 2021, consumers have been tapping this cache to the cumulative tune of almost $900 billion, meaning that there's still $1.5 trillion left to help households offset higher prices and borrowing costs.

The **PCE price index** (PCEPI) is expected to increase 0.1% in March (mirroring the CPI), resulting in unchanged real PCE and headline inflation plummeting 0.9 ppts to 4.1% y/y thanks to a favourable year-ago comparison. This is the slowest since May 2021. The core PCEPI should increase 0.3% (also mirroring the CPI), allowing core inflation to ebb a tenth to 4.5% y/y and post the slowest pace in 17 months. The **supercore** PCEPI might follow the CPI-mirroring theme, rising 0.4% and keeping the annual change at 4.6% y/y. Unlike the market's CPI proxy, the supercore includes the cost of food services, which was up 0.6% (nsa) in the month.

Employment Cost Index

Friday, 8:30 am

Q1 (e)	**+1.0%**	**+4.7% y/y**
Consensus	*+1.1%*	*+4.8% y/y*
Q4	+1.0%	+5.1% y/y

The **Employment Cost Index** (ECI) likely climbed 1.0% for the second straight quarter in Q1. This would be enough to cut the annual rate to 4.7% y/y, after Q4's 5.1% increase—which was the fastest pace since 1990. The labour market, although still tight, has shown some signs of moderating. The ECI is the Fed's preferred wage metric because it adjusts for compositional changes in employment, unlike the average hourly earnings measure from the nonfarm payrolls report. The central bank desperately wants to see wage growth slow, which would give policymakers more leeway to pause the aggressive rate hike campaign after likely hiking by 25 bps in May.

Overseas

BoJ Monetary Policy Announcement and Outlook Report

Friday

See Jennifer Lee's Thought on page 6.

Euro Area Real GDP

Friday

Q1 A (e)	**+0.2%**	**+1.4% y/y**
Q4	unch	+1.8% y/y

Germany CPI

Friday

Apr. P (e)	**+0.8%**	**+7.8% y/y**
Mar.	+1.1%	+7.8% y/y

Financial Markets Update for April 21, 2023

		Apr 21 [1]	Apr 14	Week Ago	4 Weeks Ago	Dec 31, 2022
					(basis point change)	
Canadian Money Market	Call Money	4.50	4.50	0	0	25
	Prime Rate	6.70	6.70	0	0	25
U.S. Money Market	Fed Funds (effective)	5.00	5.00	0	0	50
	Prime Rate	8.00	8.00	0	0	50
3-Month Rates	Canada	4.40	4.34	6	11	17
	United States	5.06	4.99	7	45	72
	Japan	-0.18	-0.21	2	9	-1
	United Kingdom	4.46	4.49	-3	11	59
	Australia	3.68	3.66	3	-2	42
2-Year Bonds	Canada	3.77	3.82	-4	36	-28
	United States	4.20	4.10	9	43	-23
10-Year Bonds	Canada	2.98	3.03	-5	24	-32
	United States	3.58	3.52	6	20	-30
	Japan	0.47	0.46	1	19	5
	Germany	2.49	2.44	6	37	-7
	United Kingdom	3.76	3.66	10	48	10
	Australia	3.46	3.32	14	24	-59
Risk Indicators	VIX	17.4	17.1	0.4 pts	-4.3 pts	-4.2 pts
	Inv. Grade CDS Spread [2]	77	75	2	-10	-5
	High Yield CDS Spread [2]	475	463	12	-55	-9
					(percent change)	
Currencies	US¢/C$	73.91	74.77	-1.2	1.6	0.2
	C$/US$	1.353	1.337	—	—	—
	¥/US$	134.39	133.79	0.4	2.8	2.5
	US$/€	1.0973	1.0992	-0.2	2.0	2.5
	US$/£	1.240	1.241	-0.1	1.4	2.6
	US¢/A$	66.88	67.07	-0.3	0.6	-1.8
Commodities	CRB Futures Index	271.91	276.22	-1.6	5.2	-2.1
	Oil (generic contract)	77.71	82.43	-5.7	12.2	-3.2
	Natural Gas (generic contract)	2.20	2.11	4.1	-0.7	-50.8
	Gold (spot price)	1,978.74	2,004.17	-1.3	0.0	8.5
Equities	S&P/TSX Composite	20,611	20,580	0.2	5.7	6.3
	S&P 500	4,118	4,138	-0.5	3.7	7.3
	Nasdaq	12,037	12,123	-0.7	1.8	15.0
	Dow Jones Industrial	33,740	33,886	-0.4	4.7	1.8
	Nikkei	28,564	28,493	0.2	4.3	9.5
	Frankfurt DAX	15,866	15,808	0.4	6.1	14.0
	London FT100	7,904	7,872	0.4	6.7	6.1
	France CAC40	7,559	7,520	0.5	7.7	16.8
	S&P ASX 200	7,330	7,362	-0.4	5.4	4.1

[1] = as of 11:05 am *[2] = One day delay*

Global Calendar — April 24–April 28

	Monday April 24	Tuesday April 25	Wednesday April 26	Thursday April 27	Friday April 28
Japan		**Department Store Sales** **Mar.** Feb. +20.4% y/y		**BoJ Monetary Policy Meeting & Outlook Report (Apr. 27-28)**	**Jobless Rate** **Mar. (e) 2.5%** Feb. 2.6% **Industrial Production** **Mar. P (e) +0.4% -1.2% y/y** Feb. +4.6% -0.5% y/y **Retail Sales** **Mar. (e) +0.3% +6.5% y/y** Feb. +2.1% +7.3% y/y
Europe	**GERMANY** **ifo Business Climate** **Apr. (e) 93.5** Mar. 93.3		**GERMANY** **GfK Consumer Confidence** **May (e) -28.0** Apr. -29.5 **FRANCE** **Consumer Confidence** **Apr. (e) 80** Mar. 81	**EURO AREA** **Economic Confidence** **Apr. (e) 99.9** Mar. 99.3 **Consumer Confidence** **Apr. F (e) -17.5** Mar. -19.1 **ITALY** **Consumer Confidence** **Apr. (e) 105.0** Mar. 105.1	**EURO AREA** **Real GDP** **Q1 A (e) +0.2% +1.4% y/y** Q4 unch +1.8% y/y **GERMANY** **Real GDP** **Q1 P (e) +0.2% +0.3% y/y** Q4 -0.4% +0.9% y/y **Consumer Price Index** **Apr. P (e) +0.8% +7.8% y/y** Mar. +1.1% +7.8% y/y **Unemploy. Jobless Rate** **Apr. (e) +9,000 5.6%** Mar. +16,000 5.6% **FRANCE** **Real GDP** **Q1 P (e) +0.1% +0.8% y/y** Q4 +0.1% +0.5% y/y **Consumer Price Index** **Apr. P +0.4% +6.7% y/y** Mar. +1.0% +6.7% y/y **Consumer Spending** **Mar. (e) +0.6% -2.1% y/y** Feb. -0.8% -4.1% y/y **ITALY** **Real GDP** **Q1 P (e) +0.2% +1.4% y/y** Q4 -0.1% +1.4% y/y
Other		**AUSTRALIA** **Markets closed**	**AUSTRALIA** **Consumer Price Index** **Mar. (e) +6.6% y/y** Feb. +6.8% y/y		**MEXICO** **Real GDP** **Q1 P (e) +0.8% +3.3% y/y** Q4 +0.5% +3.6% y/y

D = date approximate

Upcoming Policy Meetings | Bank of England: May 11, June 22, Aug. 3 | European Central Bank: May 4, June 15, July 27

North American Calendar — April 24–April 28

Canada

Monday April 24

Time	Release		
8:30 am	**New Housing Price Index**		
Mar. (e)	**-0.2%**	**unch**	
Feb.	-0.2%	+1.4% y/y	
8:30 am	**Wholesale Trade**		
Mar. A			
Feb.	-1.7%		
Noon	3-year bond auction $3.0 bln		

Tuesday April 25

Time	Release
10:30 am	3-, 6- & 12-month bill auction $22.0 bln (new cash $6.4 bln)
11:15 am	Cash management bond buybacks $0.5 bln

Wednesday April 26

Time	Release
8:30 am	**Manufacturing Sales**
Mar. A	
Feb.	-3.6%
1:30 pm	**BoC Summary of Deliberations for the Apr. 12 decision**
Noon	30-year bond auction $1.25 bln

Thursday April 27

Time	Release
8:30 am	**Survey of Employment, Payrolls, and Hours (Feb.)**

Friday April 28

Time	Release
8:30 am	**Monthly Real GDP**
Feb. (e)	**+0.2%**
Consensus	*+0.2%*
Jan.	+0.5%
	Ottawa's Budget Balance[D]
Feb. '23	
Feb. '22	+$5.5 bln

United States

Monday April 24

Time	Release
8:30 am	**Chicago Fed National Activity Index**
Mar. (e)	**-0.15**
Feb.	-0.19
10:30 am	**Dallas Fed Mfg. Activity**
Apr.	
Mar.	-15.7
11:30 am	13- & 26-week bill auctions $105 bln

Tuesday April 25

Time	Release	
9:00 am	**S&P CoreLogic Case-Shiller Home Price Index (20 city)**	
Feb. (e)	**-0.5%**	**-0.3% y/y**
Consensus	*-0.4%*	*-0.2% y/y*
Jan.	-0.4%	+2.5% y/y
9:00 am	**FHFA House Price Index**	
Feb. (e)	**-0.4%**	**+3.2% y/y**
Consensus	*-0.2%*	*+3.4% y/y*
Jan.	+0.2%	+5.3% y/y
10:00 am	**New Home Sales**	
Mar. (e)	**630,000 a.r. (-1.6%)**	
Consensus	*632,000 a.r. (-1.3%)*	
Feb.	640,000 a.r. (+1.1%)	
10:00 am	**Conference Board Consumer Confidence Index**	
Apr. (e)	**104.5**[c]	
Mar.	104.2	
10:00 am	**Richmond Fed Manufacturing Index**	
Apr.		
Mar.	-5	
11:00 am	4-, 8- & 17-week bill auction announcements	
1:00 pm	2-year note auction $42 bln	

Wednesday April 26

Time	Release	
7:00 am	**MBA Mortgage Apps**	
Apr. 21		
Apr. 14	-8.8%	
8:30 am	**Goods Trade Deficit**	
Mar. A (e)	**$90.0 bln**[c]	
Feb.	$92.0 bln	
8:30 am	**Wholesale and Retail Inventories (Mar. A)**	
8:30 am	**Durable Orders**	**Core Orders**
Mar. (e)	**+1.0%**	**-0.2%**
Consensus	*+0.7%*	*+0.2%*
Feb.	-1.0%	-0.1%
11:30 am	17-week bill auction	
11:30 am	2[R]-year FRN auction $24 bln	
1:00 pm	5-year note auction $43 bln	

Thursday April 27

Time	Release	
8:30 am	**Initial Claims**	
Apr. 22 (e)	**250k (+5k)**[c]	
Apr. 15	245k (+5k)	
8:30 am	**Continuing Claims**	
Apr. 15		
Apr. 8	1,865k (+61k)	
8:30 am	**Real GDP**	**GDP Deflator**
Q1 A (e)	**+2.0% a.r.**	**+3.8% a.r.**
Consensus	*+2.0% a.r.*	*+3.7% a.r.*
Q4	+2.6% a.r.	+3.9% a.r.
10:00 am	**Pending Home Sales**	
Mar. (e)	**-0.5%**	
Consensus	*+1.0%*	
Feb.	+0.8%	
11:00 am	**Kansas City Fed Manufacturing Activity**	
Apr.		
Mar.	0	
11:00 am	13- & 26-week bill auction announcements	
11:30 am	4- & 8-week bill auctions	
1:00 pm	7-year note auction $35 bln	

Friday April 28

Time	Release	
8:30 am	**Personal Spending**	**Personal Income**
Mar. (e)	**+0.1%**	**+0.3%**
Consensus	*-0.1%*	*+0.2%*
Feb.	+0.2%	+0.3%
8:30 am	**Core PCE Price Index**	
Mar. (e)	**+0.3%**	**+4.5% y/y**
Consensus	*+0.3%*	*+4.5% y/y*
Feb.	+0.3%	+4.6% y/y
8:30 am	**Employment Cost Index**	
Q1 (e)	**+1.0%**	**+4.7% y/y**
Consensus	*+1.1%*	*+4.8% y/y*
Q4	+1.0%	+5.1% y/y
9:45 am	**Chicago PMI**	
Apr. (e)	**43.5**[c]	
Mar.	43.8	
10:00 am	**University of Michigan Consumer Sentiment**	
Apr. F (e)	**63.5**[c]	
Apr. P	63.5	
Mar.	62.0	

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

Upcoming Policy Meetings | Bank of Canada: June 7, July 12, Sep. 6 | FOMC: May 2-3, June 13-14, July 25-26

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