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BMO CAPITAL MARKETS ECONOMICS

Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist, BMO Financial Group

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We Gotta Get Out of This Place

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Despite some policymakers' best efforts to seemingly thwart confidence, markets have managed to repair much of the late-2018 damage in the opening weeks of this year. To pick just one example, the S&P 500 has fired back up by more than 13% from its closing low on December 24, thereby recouping more than half of its Q4 losses in less than four weeks. Bond yields have largely followed suit, albeit somewhat more belatedly, with 10-year Treasuries rising 25 bps from the extremes reached in early January. Oil, too, has bounced from December lows, grinding back above $53. But, in all cases, even with impressive recoveries of late, there has still been a notable reset lower from where we stood just three short months ago.

We would make the case that the reset is largely appropriate given the milder outlook for global growth in the coming year. After peaking roughly a year ago, we look for GDP trends to simmer down to around 3¼% in 2019, below long-run norms (of closer to 3.5%)—but far from a heavy-duty braking. But, of course, larded on top of that duller global growth backdrop are at least three—policy-inflicted—weights of massive uncertainty. **In no particular order from the Hall of Shame**, we are dealing with the **U.S. government shutdown**, **Brexit**, and the **U.S./China trade battle**. Only on the latter has there been any sense of optimism, and that likely involves a temporary patch. China has reportedly offered to go on a "six-year buying spree" to eliminate the trade imbalance, but that would not in any way address U.S. concerns on structural issues. Still, any cooling of the harsh rhetoric on the trade file is a welcome respite, especially since it is probably the most important of the three issues from an economic and market standpoint.

Meantime, on both the **shutdown** and **Brexit**, the quagmire simply seemed to deepen this week, with the word **"deadlock"** quite appropriate for both. We, along with almost all others, initially brushed off the economic impact of the U.S. government shutdown, having seen this Kabuki play many times before. However, now stretching into a record four weeks, with no off-ramp in clear sight, the costs are beginning to build. The early guesstimates that the shutdown could shave perhaps 1 tenth from Q1 GDP—maybe 2 at worst—are running into the stark reality that the end is not nigh. And, crucially, the economic data blind spots will widen as releases are heavily delayed. So, ironically, we may not officially know the true economic costs until it is long over. **Even Canadian policymaking will get drawn into the squabble**, with the December **trade data now delayed**, unleashing some fog on the broader GDP figures as well.

Brexit has completely different contours, and implications, but offers even more uncertainty. (At least with the shutdown, there are some very straightforward routes out of the morass.) Jennifer Lee goes into greater detail below, but suffice it to say that the drama-meter was turned up to 11 this week. Between the Brexit bill's inglorious defeat, a failed no-confidence push, and now a quick window on Plan B, there was plenty of grist for the mill. Yet, notably, markets remained remarkably calm through the storm, perhaps inured to the noise over the past three years. The pound actually finished the week slightly higher (even rising 1.3% against the euro), while the FTSE managed to follow the leaders higher (albeit in a more modest fashion than most major indexes). The economic impact of the relentless uncertainty is subtle, but U.K. GDP has lagged the Eurozone for the past two years, and business frustration all but boiled over following this week's impasse.

Circling back to the **U.S./China trade talks**, markets rallied late in the week on a couple sparks of optimism. First, there was a report that the U.S. was floating the idea of relaxing the tariffs to move the talks forward. While that was swiftly denied by Treasury, even the idea seemed to offer faint hope. Next came the report of China's plan to aggressively ramp up imports, and markets found a second wind late in the week. Given that the bilateral trade friction was arguably the single-biggest weight on markets late last year, and perhaps the single-biggest tail risk to the global outlook, the outsized market response to even glimmers of good news is understandable. While we remain beyond sceptical that a "full meal deal" can be reached by March—it took North America more than a year to basically tweak an existing deal with NAFTA—it is indeed encouraging that both sides seem to be finding a way to de-escalate tensions.

Another round of sour Canadian home sales figures, and a further cooling on household borrowing, seems to have awoken some of the big bears on Canadian housing. But before everyone goes all "sell Canada on the coming melt in housing", we would just point to a variety of countering facts. **First**, the reported 11% drop in home sales last year, as well as the 4% drop in average transaction prices, can be seen as Mission Accomplished by policymakers. The triumvirate of tighter mortgage rules, five rate hikes, and foreign-buyer taxes (in B.C. and Ontario) were all aimed at cooling a previously piping hot market. With no further big policy changes in the works, it looks like sales will largely stabilize in 2019, with prices likely to follow suit.

Meantime, there are two factors that could lend some serious support to the housing outlook in the year ahead. As we have pointed out at every available occasion, do not forget that **Canada is currently experiencing the strongest population growth in a generation** (up more than 1.4% y/y). **Second**, even with the rebound in yields in the past two weeks, long-term borrowing costs are still down from the modest levels of a year ago. And that retreat in yields over the past few months is now being reflected in some lower mortgage rates.

No doubt that **Canada's economy still needs** (arguably, desperately) **to rotate away from a massive dependency on consumer spending and housing**, and toward business investment and exports. But that **doesn't mean that housing "needs" or will go into the tank, especially when underlying demand remains so sturdy**.

January 29 is the New January 15, which was the New December 11

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There was plenty of anticipation surrounding the January 15th House of Commons vote on U.K. Prime Minister May's Brexit deal, but you were warned last week by yours truly: don't expect this issue to be over.

And it isn't.

If anything, **there is even greater uncertainty**. PM May, after surviving a no-confidence vote, will present her other plan (did she have one?), called Plan B, on January 21st. She is requesting input from senior officials in all parties in Parliament (called "cross-party" talks), as well as EU leaders, in hopes that the current deal can be revised to garner enough support from a majority of MPs. The House will debate it and vote… again… on January 29th. Or, exactly two months before Brexit Day. Or is it? The possibility that Plan B is rejected is still very high, despite fears of an accidental cliff-edge Brexit, and Brexit fatigue. And if it is, there will be another confidence vote, there could be another election, and there could be another referendum. But all of that takes time, which the government does not have. **What is becoming more certain is that PM May will be asking Brussels for an extension to Article 50**. Although the official statement is "No, we will not be delaying our departure date", the options are extremely limited. There's really no choice but to delay. And, provided PM May outlines exactly what the British government wants and what they will be deciding on during that extra time, the EU is perfectly willing to give them more time. But the warning stays: the deal is the deal.

It is anyone's guess how this will play out. Although the Netherland's PM Rutte said that the deal cannot be *"tweaked"*, Michel Barnier could soften the language (around the Irish backstop) just enough to satisfy the majority of British MPs to get on board. That would be the smoothest track, versus the alternatives, such as another election, another referendum, which Nigel Farage is preparing for, or, worse, crashing out of the EU without a safety net. JLee

The Fed's Feather Molt

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Kansas City Fed President George is a voting member of the FOMC this year. For the past two years, as a non-voting participant, she lived up to her reputation as being among the most hawkish of policymakers. The last time George voted (not as an alternate which was the case for two meetings last year) was in 2016. In January of that year, after hiking rates for the first time in December 2015, *"global economic and financial developments"* entered the Fed's risk lexicon and a follow-up rate hike remained on hold until December. Among the seven meetings ahead of 2016's final confab, George dissented five times in favour of a rate hike.

Now that *"global economic and financial developments"* are again back on the risk-monitoring agenda (after being absent for the past 1½ years) and George is again voting, the KC President's speech on Tuesday and subsequent interview with the Wall Street Journal was compelling. The past hawk is presently chirping a different song. *"Have we reached the proverbial soft landing where the economy has achieved maximum employment, stable prices, growth at potential, and monetary policy neutrality? In my view, we are not there just yet. However, we are close and for now, it seems to me that we should proceed with caution and be patient as we approach our destination."* She employed the words patient, patience or pause six times in the speech.

Although representing just one of 10 voters and 17 dot-plotters, George's embrace of the p-words probably marks the catharsis of the FOMC's dogmatic approach to monetary policy, at least from the hawkish persuasion. Pragmatism (another key p-word) now rules, prodded by uncertainty about where the neutral policy rate rests and whether rates should still be below nebulous neutrality given current economic and market headwinds along with the absence of more serious wage growth and inflation. Meanwhile, past rate hikes are still working their way through the economy. Yes, the policy hawks are now sleeping; but, stretching the metaphor, remember that birds often sleep with one eye open. MJG

Flying (Almost) Blind

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Besides the 800,000 federal workers struggling to get by without a paycheque, another casualty of the longest-running U.S. government shutdown in history is the data. Consequently, it's now **more difficult to discern which way the economic wind is blowing** given the dearth of numbers from the BEA and Census Bureau. This alone is reason for the Fed to bide its time, as further rate hikes could turn a possible slump into a slide.

Still, there is enough information around to discern a reasonable picture of the economy's health. And, for the most part, it **suggests that real GDP, though decelerating due to the fading fiscal bump, is still outrunning potential** (which the Fed pegs at around 1.9%). The Beige Book reported *"modest to moderate"* expansion in 8 of 12 Districts, little changed from the prior release, though a notable downshift from the summer when 10 of 12 Districts grew at a *"moderate or modest"* rate and one (Dallas) was strong. The report also noted that farmers were struggling with low prices, while business optimism generally had been dulled by financial market turmoil.

Following the strong December jobs release, **manufacturing production also surprised to the upside with a 1.1% pop,** easing concerns flagged by the worst slide in the ISM index since the recession. Arguably, the most important release delayed by the shutdown is retail sales. Still, there is evidence from chain-store figures, credit card transactions and anecdotal reports that **sales stayed strong all through the holiday period**. This suggests a third straight quarter of consumer spending growth in excess of 3% in Q4. Meantime, labour markets aren't slowing in the new year, with initial jobless claims falling recently to 213,000. Furthermore, a spike in new mortgage applications to record highs suggests the housing market is getting a welcome lift from the 50 bp decrease in mortgage rates in the past two months.

Despite the hazier economic lens, **real GDP growth looks to have moderated from 3.4% in Q3 to 2.6% in Q4. It will likely downshift further to 1.9% in Q1** (slightly below the Bloomberg consensus call), with the shutdown already trimming about 0.2 ppts from growth. The closure will shave at least another 0.1 ppts for every two weeks it drags on, and the impact will escalate the longer it lasts given the toll on household spending and the disruptions to private-sector activity. But, assuming it doesn't drag on too long, the subsequent rebound in government services and spending by federal and contract workers will lift growth in Q2, which we currently peg at 2.4%. Although the winds have died down, there is still **enough of a breeze on the economy's back to propel it forward**. Sal

Earnings Season: Lowering the Bar

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The Q4 earnings season got underway this week and, while it's still very early in the proceedings, the early results have been mixed. We've seen a generally solid performance from the banks, with some headline beats from the likes of Citigroup and Bank of America (though JPMorgan missed for the first time in about four years). Elsewhere, we've seen misses from Ford and Netflix. All told, and with only 10% of the S&P 500 reporting, 79% have beaten earnings expectations, while 56% have beat the mark on revenue—these are right in-line with historical norms, but running a bit less positive than in recent quarters. At any rate, growth expectations have been coming down in advance of this reporting season. The consensus bottom-up earnings growth estimate is currently 14.5% y/y for 2018Q4, according to Thomson Reuters' tally, down from 16% at the start of the year and 20% in early October. Note also that calendar-year 2019 growth expectations have been shaved to 6.5% from above 10% in early October. Sequentially, the trend is clearly toward more subdued earnings growth, with these expectations a marked downshift from better than 20% y/y growth in each of the three quarters through 2018Q3. In other words, the earnings bar has been lowered a few notches, consistent with slower expected global growth (3.3% this year versus 3.6% in 2018), slower U.S. growth (2.0% y/y by 2019Q4 versus 3.1% y/y in 2018Q4) and the recent market volatility.

From a valuation perspective, recent developments have been quite healthy. Note that the forward p/e ratio on the S&P 500 has now compressed to about 15.5, right in the middle of the range seen since the cycle began in 2009—recall that it was pushing the 19 level early last year, or the highest since the early-2000s. Meantime, the forward earnings yield has returned right in-line with the 5-year average relative to 10-year Treasury yields, after stocks were looking quite stretched relative to bonds heading into last fall. All told, the earnings expectations bar has been lowered; valuations have more or less normalized; and any re-test of the recent lows (we're running into plenty of technical resistance right now) could shake out sentiment enough to set up one more late-cycle run should the Fed hold off its tightening campaign—indeed, they're probably the deciding factor at this stage. Rob K.

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	Good News	Bad News
Canada ▪ Political tensions with China flare up	**Consumer Prices** +2.0% y/y (Dec.) **MLS Home Price Index** +1.6% y/y (Dec.) **Global investors** bought $9.5 bln in Canadian securities (Nov.)	**Existing Home Sales** -2.5% (Dec.) **ADP Employment** -13,049 (Dec.)—but big upward revision to prior month
United States ▪ Record long government shutdown impacting economic outlook ▪ Reports that White House pondering China tariffs rollback ▪ Beige Book shows businesses less upbeat	**Industrial Production ex. Utilities** +1.0% (Dec.)—and **Capacity Utilization** +0.1 ppts to 78.7% **Producer Prices** steady at +2.5% y/y (Dec.) **Import Prices** -0.6% y/y (Dec.) **NAHB Housing Market Index** +2 pts to 58 (Jan.) **Initial Claims** -3k to 213k (Jan. 12 week)	**Empire State Manufacturing Survey** -4.3 pts to 51.9; **Philly Fed Index** -0.7 pts to 54.4 (Jan.)—both on an ISM-adjusted basis **U of M Consumer Sentiment** -7.6 pts to 90.7 (Jan. P)—biggest drop since Dec. '12
Japan ▪ Inflation still a long way from BoJ target	**Producer Prices** +1.5% y/y (Dec.)	**Consumer Prices** +0.3% y/y (Dec.) **Machine Tool Orders** -18.3% y/y (Dec. P) **Core Machine Orders** unch (Nov.) **Tertiary Industry Index** -0.3% (Nov.)
Europe ▪ Parliament votes down Brexit deal in historic defeat for PM May… now to Plan B ▪ BoE Gov. Carney says banking system well capitalized for extreme events ▪ ECB Pres. Draghi says Euro Area growth unexpectedly weaker	**Euro Area—Trade Surplus** widened to €15.1 bln (Nov.) **U.K.—Consumer Prices** +2.1% y/y (Dec.) **U.K.—Producer Prices (Output)** +2.5% y/y (Dec.)	**Euro Area—Industrial Production** -1.7% (Nov.) **Italy—Industrial Orders** -0.2% (Nov.) **U.K.—Retail Sales (incl. Fuel)** -0.9% (Dec.) **U.K.—RICS House Price Balance** -19% (Dec.)
Other ▪ China to cut business tax in wake of slowdown ▪ Rumours that China willing to close trade surplus with U.S.	**China—Foreign Direct Investment** +24.9% y/y (Dec.) **China—Aggregate Yuan Financing** 1.59 trln (Dec.)—and **New Yuan Financing** 1.10 trln **China—M2 Money Supply** +8.1% y/y (Dec.)	**China—Exports** -4.4% y/y; **Imports** -7.6% y/y (Dec.) **China—Auto Sales** -4.0% y/y (2018) **Australia—Westpac Consumer Confidence** -4.7% (Jan.)

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

Canada's Other Debt Problem?

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While much ink has been spilled over the rising debt of Canadian households, businesses have drawn far less scrutiny. But if companies are also leveraged to the hilt, the economy will be even more sensitive to interest rate increases and other shocks than we think. Is corporate debt a cause for concern?

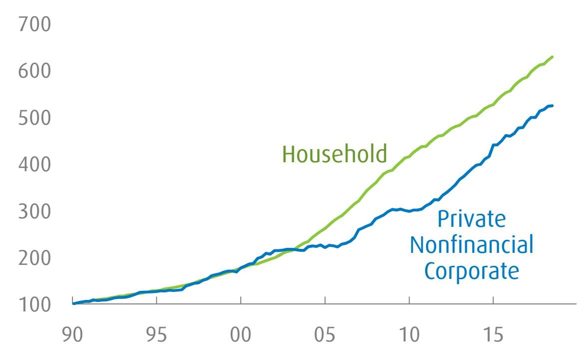
Since 1990, private nonfinancial corporate debt has grown more than five-fold to a record $2.3 trillion.[1] It largely kept pace with household debt until the turn of the century, before the latter accelerated (*Chart 1*).[2] Not until the current decade has corporate debt risen rapidly on a sustained basis, averaging 7.5% per annum in the past seven years versus 6.1% since 1990 (*Chart 2*). As a share of GDP, debt grew from 64% in 1990 to 79% in 2011, before leaping to 105% recently. In fact, the debt ratio has risen faster in Canada than in most other countries, though note that international comparisons can be misleading due to differences in measures.[3]

Along with the need to expand capacity, the increase in corporate credit this decade **reflected the historic decline in interest rates**. Business borrowing costs trended down in the past seven years, plumbing record lows by June 2017. In addition, companies borrowed to finance surging condo construction to meet the needs of a growing population. Credit was also used to finance dividend payouts and foreign investments, notably in the pipeline and utilities space. For instance, Canada's Enbridge assumed about US$22 billion of the debt of Houston's Spectra Energy in a takeover deal in early 2017. Foreign direct investment has tracked corporate credit higher, explaining in part why the latter jumped in 2015 despite an oil-led downturn in investment. On the supply end, investors have been only too eager to lend. As in the U.S., high-yield bond issuance grew rapidly in recent years, as lenders traded risk for return.

Chart 1
Till Debt Do Us Part

Canada (1990:Q1 = 100)

Debt

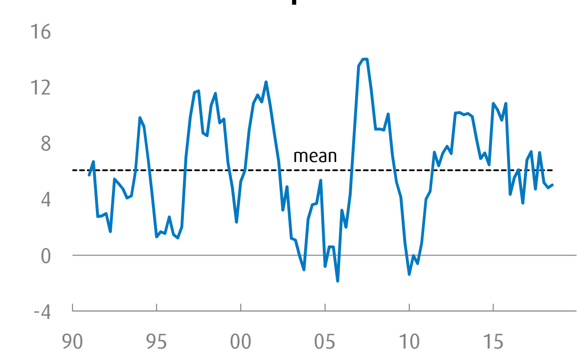


Sources: BMO Economics, Haver Analytics

Chart 2
Giddy Up

Canada (y/y % chng)

Private Nonfinancial Corporate Debt



Sources: BMO Economics, Haver Analytics

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1 Unless otherwise noted, the measure of Canadian corporate credit used in this note is the market value of debt securities and loans (mortgages, non-mortgages and corporate claims, which are loans to affiliated companies) of private nonfinancial corporations. This measure excludes unincorporated business debt, which is included in household debt. The data are published by Statistics Canada in the quarterly National Balance Sheet Accounts. The Bank of Canada also compiles data on corporate credit, though it is less comprehensive (for example, it excludes loans from governments to businesses). The Bank's measure totalled $2.2 trillion in November 2018 compared with Statistics Canada's tally of $2.3 trillion in 2018 Q3. The latter measure has grown slightly faster than the former in the past 27 years (6.1% versus 5.5% per annum), though the growth gap has narrowed this decade. According to Statistics Canada, both data series "*show a similar picture of the indebtedness of Canadian non-financial businesses, currently and in the past*." https://www150.statcan.gc.ca/n1/en/catalogue/13-605-X201800154971.

2 Household and unincorporated business debt is comprised of consumer loans, mortgages and non-mortgages. It tallied $2.2 trillion in 2018 Q3.

3 Institute of International Finance. *Global Debt Monitor: Devil in the details*. https://www.iif.com/Portals/0/Files/Global%20Debt%20Monitor_January_vf.pdf January 15, 2019. Chart 1 on page 1 plots the debt-to-GDP ratio of global non-financial corporations. The increase this decade is much slower than in Canada.

However, **in the past year corporate debt growth has slowed** to 5.0% in response to higher interest rates and a slower economy.[4] Capital-intensive industries, such as resources, agriculture, and transportation, are particularly vulnerable to higher borrowing costs. A further downshift in credit growth is expected due to lower oil prices, which the Bank of Canada believes could lead to a 12% reduction in energy-sector capital spending this year. High office vacancy rates in Calgary and Edmonton will also depress commercial lending long after crude prices have recovered. Providing a partial offset will be the accelerated depreciation allowance, assumed ratification of the USMCA by the U.S. Congress, and very tight office and industrial markets in Toronto and Vancouver.

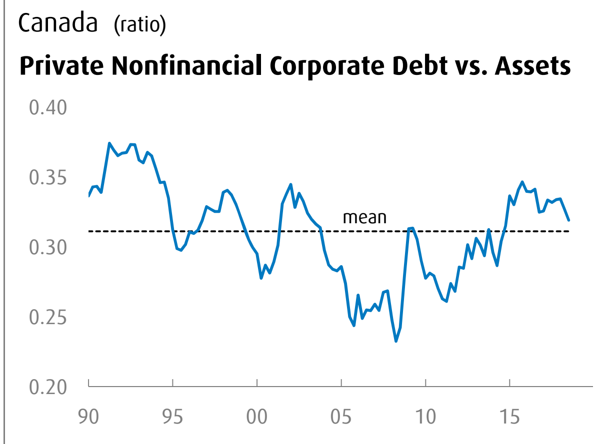
While corporate debt grew rapidly this decade, so too has the other side of the balance sheet. The ratio of debt to assets stood at 0.32 in 2018Q3, close to the long-run norm (*Chart 3*). Although businesses have mostly borrowed to buy assets, one concern is that more credit went into financing the purchase of securities rather than productive assets, like machinery and buildings (*Chart 4*). Of course, this also implies some room to sell securities to repay debt.

Corporate debt is not high compared with profits (*Chart 5*). The current ratio is just modestly above the two-decade mean and well below peaks reached in the last recession and oil-price downturns of 1998 and 2015.

Most companies should have little difficulty juggling a moderate increase in interest rates.[5] To be fair, Canadian firms have the fourth highest debt-service ratio among 32 countries.[6] And, interest payments by nonfinancial corporations have almost doubled in the past seven years. However, payments are down from a year ago and remain low relative to assets, at 1.3% in 2018Q3 versus a long-run mean of 1.5%. They also consume a normal share of operating revenue (2.0% in Q3) and operating profits (25.8%). This means most companies are generating sufficient cash to service debt, and should have little trouble doing so provided the economy stays reasonably healthy.

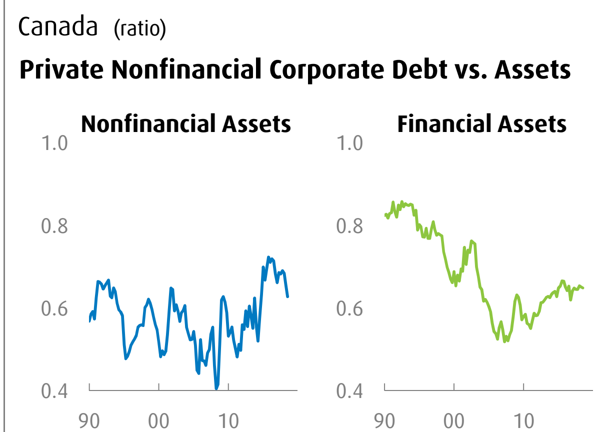
One possible exception is the oil industry, where interest payments gobbled up 6.2% of operating revenue in Q3, above the long-run

Chart 3
Tracking Assets



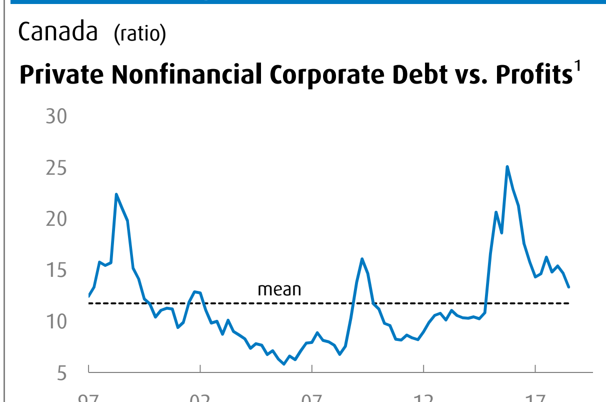
Sources: BMO Economics, Haver Analytics

Chart 4
Buying Security



Sources: BMO Economics, Haver Analytics

Chart 5
Ample Coverage



Sources: BMO Economics, Haver Analytics
1 Nonfinancial corporate after-tax profits (s.a.a.r.)

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4 Bank of Canada corporate credit data show a moderation in growth to 5.9% y/y in November from the seven-year average of 7.2%, with continued double-digit gains in loans (11.7%) offset by slower issuance. Household debt has decelerated even faster to the slowest rate (3.2% y/y in November) since 1983.

5 We expect the Bank of Canada to lift policy rates another 50 basis points this cycle to a still-historically low 2.25%.

6 BIS. https://stats.bis.org/statx/srs/table/g1 Note that other capital-intensive resource-producing countries, such as Australia and Norway, also have high corporate debt-service ratios.

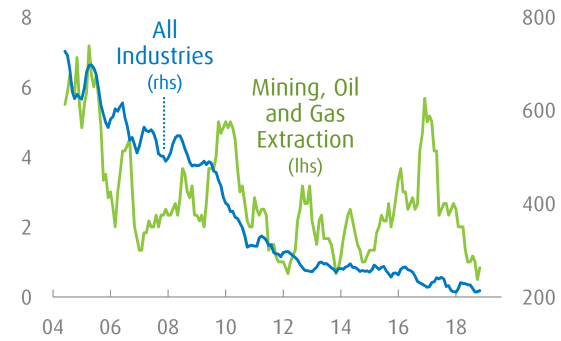
norm of 5.5%, and that's before the recent drop in prices. Still, the massive oil sands investments of the past two decades required a large amount of credit, but now that those projects are completed, they are cash-flow positive, even with relatively low oil prices as operating costs are also very low.

To date, there is little sign of financial strain, with **business bankruptcies near record lows**, even accounting for the long-term structural decline (*Chart 6*). Bankruptcies remain low in the energy patch, too, after spiking in 2016.

Bottom Line: The increase in Canadian business debt is worth monitoring but is not a cause for alarm. Moderately high debt levels may leave less room for firms to invest, while increasing the economy's sensitivity to higher interest rates. Still, corporate debt is not high relative to assets or profits, while interest coverage appears adequate. Companies took advantage of unusually low credit costs this decade to grow assets (and dividends), which will be used to service debt in the wake of more normal, though still-low, borrowing costs.

Chart 6
Piper Paid

Canada (6-mnth m.a.)
Bankruptcies



Sources: BMO Economics, Haver Analytics

Economic Forecast Summary for January 18, 2019

BMO Capital Markets Economic Research

	2018				2019				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019
CANADA											
Real GDP (q/q % chng : a.r.)	1.7	2.9	2.0	1.5	1.0	2.5	2.2	1.9	3.0	2.1	1.8
Consumer Price Index (y/y % chng)	2.1	2.3	2.7	2.0	1.5 ↑	1.8 ↑	1.7 ↑	2.0	1.6	2.3	1.8 ↑
Unemployment Rate (percent)	5.8	5.9	5.9	5.7	5.6	5.7	5.7	5.7	6.3	5.8	5.7
Housing Starts (000s : a.r.)	224	218	197	217	210	207	204	200	220	214	205
Current Account Balance ($blns : a.r.)	-69.3	-66.7	-41.4	-55.7	-55.3	-55.7	-57.0	-57.9	-60.1	-58.3	-56.5
Interest Rates (average for the quarter : %)											
Overnight Rate	1.25	1.25	1.50	1.75	1.75	1.75	2.00	2.08	0.71	1.44	1.90
3-month Treasury Bill	1.14	1.21	1.47	1.66	1.65	1.70	1.90	2.05	0.69	1.37	1.85
10-year Bond	2.24	2.28	2.28	2.32	2.00	2.05	2.15	2.20	1.78	2.28	2.10
Canada-U.S. Interest Rate Spreads (average for the quarter : bps)											
90-day	-44	-66	-61	-70	-81	-91	-83	-83	-26	-60	-85
10-year	-52	-64	-65	-72	-75	-74	-74	-73	-55	-63	-74
UNITED STATES											
Real GDP (q/q % chng : a.r.)	2.2	4.2	3.4	2.6	1.9	2.4	2.0	1.9	2.2	2.9	2.4
Consumer Price Index (y/y % chng)	2.3	2.6	2.6	2.2	1.8	2.0	2.0	2.1	2.1	2.4	2.0
Unemployment Rate (percent)	4.1	3.9	3.8	3.8	3.7	3.6	3.5	3.5	4.4	3.9	3.6
Housing Starts (mlns : a.r.)	1.32	1.26	1.23	1.24	1.26	1.24	1.23	1.21	1.21	1.26	1.24
Current Account Balance ($blns : a.r.)	-487	-405	-499	-509	-535	-547	-563	-573	-449	-475	-555
Interest Rates (average for the quarter : %)											
Fed Funds Target Rate	1.46	1.71	1.96	2.21	2.38	2.46	2.63	2.71	1.00	1.83	2.54
3-month Treasury Bill	1.58	1.87	2.08	2.36	2.45	2.65	2.70	2.90	0.95	1.97	2.65
10-year Note	2.76	2.92	2.93	3.03	2.75	2.80	2.90	2.95	2.33	2.91	2.85
EXCHANGE RATES (average for the quarter)											
US¢/C$	79.1	77.5	76.5	75.7	75.1	75.2	75.3	75.4	77.1	77.2	75.2
C$/US$	1.27	1.29	1.31	1.32	1.33	1.33	1.33	1.33	1.30	1.30	1.33
¥/US$	108	109	112	113	109	109	110	110	112	110	110
US$/Euro	1.23	1.19	1.16	1.14	1.15 ↑	1.15	1.16	1.17	1.13	1.18	1.15
US$/£	1.39	1.36	1.30	1.29	1.30 ↑	1.33 ↑	1.32 ↑	1.31 ↑	1.29	1.34	1.31 ↑

Blocked areas represent BMO Capital Markets forecasts

Up and down arrows indicate changes to the forecast ↑↓

Spreads may differ due to rounding

Canada

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Retail Sales

Wednesday, 8:30 am

		Ex. Autos
Nov. (e)	**-0.4%**	**-0.1%**
Consensus	*-0.7%*	*-0.4%*
Oct.	+0.3%	unch

Auto sales continued to pull back in November, as rising interest rates and a slowing housing market took a toll. Indeed, the weakening trend in vehicle sales highlights that households are retrenching after driving broader growth for much of the past decade. Gasoline prices are the bigger driver in this retail sales report, though, plunging over 8% on a seasonally-adjusted basis in the month. That's going to weigh heavily on headline and ex-auto sales, pulling them both into negative territory. Core sales look to rebound after a drop in October, with Black Friday sales helping juice activity. Lastly, goods prices were down 0.4% in November, suggesting volumes were modestly higher after being flat or down in four of the past five months. Our call would leave real sales slightly above year-ago levels as consumers cope with higher interest rates, elevated debt levels and a slowing housing market.

United States

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Existing Home Sales

Tuesday, 10:00 am

Dec. (e)	**5.29 mln a.r.**	**(-0.6%)**
Consensus	*5.23 mln a.r.*	*(-0.9%)*
Nov.	5.32 mln a.r.	(+1.9%)

New Home Sales

Friday, 10:00 am
(This report will likely be delayed by the government shutdown)

Dec. (e)	**552,000 a.r.**	**(-1.5%)**
Nov. (e)	**560,000 a.r.**	**(+3.0%)**
Consensus	*567,000 a.r.*	*(+4.2%)*
Oct.	554,000 a.r.	(-8.9%)

Home sales mostly ebbed last year, as the factors pressing down on activity more than offset those pushing it up. The former included deteriorating affordability, dwindling pent-up demand and diminished tax advantages. The latter included sturdy job growth, elevated consumer confidence and healthy household balance sheets. However, the recent drop in mortgage rates (about 50 bps for 30-year maturities since mid-November) should help stabilize the housing market to start this year, but not before another down month to end last year.

After falling for six straight months through September (a cumulative 8.0%), existing home sales rebounded in both October and November (a combined 3.3%). But, the brief rebound likely ended in December (-0.6% to 5.29 mln units), despite a slightly higher average for new mortgage applications, as the pipeline of transactions preparing to close drifted down again in November. Meanwhile, new home sales could get postponed again, owing to the partial government shutdown. Once these data are released, we expect they'll reveal a partial November recovery (+3.0%) to the prior month's hurricanes-hurled plunge (-8.9%), followed by another drop in December (-1.5%). The current sales component of the NAHB's Housing Market Index declined sharply in both November and December, posting the worst two-month drop since 2001, before nudging up in January.

Durable Goods Orders

Friday, 8:30 am
(This report will likely be delayed by the government shutdown)

		Ex. Transport
Dec. (e)	**+1.0%**	**+0.4%**
Consensus	*+1.0%*	*+0.1%*
Nov.	+0.8%	-0.3%

	Nondef. Capital Goods ex. Air
Dec. (e)	**+0.5%**
Consensus	*-0.3%*
Nov.	-0.6%

The release of final durable goods orders for November was postponed owing to the shutdown and the same fate could be in store for December's preliminary figures. Still, we expect new orders to grow 1.0%, propelled by Boeing's bookings. Allowing for another slight braking of motor vehicle-related orders, total transportation orders likely increased 2.2% but only 0.4% ex-transportation. Nondefense capital goods orders ex-aircraft likely gained 0.5%, supported by late-cycle capacity constraints and the drive for automation amid tax incentives. However, there is little doubt capex has downshifted in the face of trade and domestic economic uncertainty. After growing at a 16.1% annualized rate during the four months ending July, in the wake of tax cut announcements, the next four months saw core capital goods orders contract 2.4% (annualized).

		Jan 18 [1]	Jan 11	Week Ago	4 Weeks Ago	Dec. 31, 2018
					(basis point change)	
Canadian Money Market	Call Money	1.75	1.75	0	0	0
	Prime Rate	3.95	3.95	0	0	0
U.S. Money Market	Fed Funds (effective)	2.50	2.50	0	0	0
	Prime Rate	5.50	5.50	0	0	0
3-Month Rates	Canada	1.60	1.62	-2	-7	-4
	United States	2.40	2.41	-2	2	4
	Japan	-0.21	-0.17	-4	3	-6
	Eurozone	-0.31	-0.31	0	0	0
	United Kingdom	0.93	0.92	1	2	2
	Australia	2.07	2.06	1	0	-2
2-Year Bonds	Canada	1.93	1.89	4	-1	7
	United States	2.58	2.54	4	-6	9
10-Year Bonds	Canada	2.02	1.96	7	0	6
	United States	2.77	2.70	6	-3	8
	Japan	0.01	0.01	0	-3	1
	Germany	0.26	0.24	2	1	2
	United Kingdom	1.36	1.29	7	4	8
	Australia	2.32	2.31	1	-7	0
Risk Indicators	VIX	17.6	18.2	-0.6 pts	-12.5 pts	-7.8 pts
	TED Spread	36	37	-1	-8	-9
	Inv. Grade CDS Spread [2]	76	78	-2	-15	-12
	High Yield CDS Spread [2]	397	405	-8	-73	-53
					(percent change)	
Currencies	US¢/C$	75.44	75.37	0.1	2.6	2.9
	C$/US$	1.326	1.327	—	—	—
	¥/US$	109.65	108.48	1.1	-1.4	0.0
	US$/€	1.1366	1.1469	-0.9	-0.1	-0.9
	US$/£	1.290	1.284	0.4	2.0	1.2
	US¢/A$	71.91	72.15	-0.3	2.1	2.0
Commodities	CRB Futures Index	181.32	178.08	1.8	5.3	6.8
	Oil (generic contract)	53.47	51.59	3.6	17.3	17.7
	Natural Gas (generic contract)	3.28	3.10	5.8	-14.1	11.5
	Gold (spot price)	1,283.33	1,287.50	-0.3	2.2	0.1
Equities	S&P/TSX Composite	15,295	14,939	2.4	9.8	6.8
	S&P 500	2,656	2,596	2.3	9.9	6.0
	Nasdaq	7,132	6,971	2.3	12.6	7.5
	Dow Jones Industrial	24,539	23,996	2.3	9.3	5.2
	Nikkei	20,666	20,360	1.5	2.5	3.3
	Frankfurt DAX	11,153	10,887	2.4	4.9	5.6
	London FT100	6,960	6,918	0.6	3.6	3.5
	France CAC40	4,873	4,781	1.9	3.8	3.0
	S&P ASX 200	5,880	5,775	1.8	7.5	4.1

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

Global Calendar
January 21 – January 25

BMO Capital Markets®

Japan

Tuesday January 22 – Wednesday January 23

BoJ Monetary Policy Meeting and Outlook Report (Jan. 22 to 23)

Wednesday January 23

Trade Balance
Dec. '18 (e) -¥35.3 bln
Dec. '17 +¥737.7 bln

All-Industry Activity Index
Nov. (e) -0.4%
Oct. +1.9%

Department Store Sales
Dec.
Nov. -0.6% y/y

Machine Tool Orders
Dec. F (e) -18.3% y/y
Nov. -17.0% y/y

Thursday January 24

Manufacturing PMI
Jan. P
Dec. 52.6

Euro Area

Tuesday January 22

GERMANY

ZEW Survey—Expectations
Jan. (e) -17.0
Dec. -17.5

Wednesday January 23

EURO AREA

Consumer Confidence
Jan. A (e) -6.5
Dec. -6.2

FRANCE

Business Confidence
Jan. (e) 102
Dec. 102

Thursday January 24

EURO AREA

Manufacturing PMI
Jan. P (e) 51.4
Dec. 51.4

Services PMI
Jan. P (e) 51.5
Dec. 51.2

Composite PMI
Jan. P (e) 51.4
Dec. 51.1

ECB Monetary Policy Meeting

Friday January 25

GERMANY

Ifo Business Climate
Jan. (e) 100.6
Dec. 101.0

U.K.

Monday January 21

Rightmove House Prices
Jan.
Dec. -1.5% +0.7% y/y

Brexit Plan B presented in Parliament

Tuesday January 22

Employment Change (3m/3m)
Nov. (e) +90,000
Oct. +79,000

Avg. Wkly Earnings Ex. Bonus (3 mma)
Nov. (e) +3.3% y/y
Oct. +3.3% y/y

Jobless Rate (3 mma)
Nov. (e) 4.1%
Oct. 4.1%

	Jobless Claims	**Claimant Count Rate**
Dec.		
Nov.	+21,900	2.8%

Other

Monday January 21

CHINA

Real GDP
Q4 (e) +1.5% +6.4% y/y
Q3 +1.6% +6.5% y/y

Industrial Production
Dec. (e) +5.3% y/y (+6.2% YTD)
Nov. +5.4% y/y (+6.3% YTD)

Retail Sales
Dec. (e) +8.1% y/y (+9.0% YTD)
Nov. +8.1% y/y (+9.1% YTD)

Fixed Asset Investment (YTD)
Dec. (e) +6.0% y/y
Nov. +5.9% y/y

Thursday January 24

AUSTRALIA

Employment
Dec. (e) +18,000
Nov. +37,000

Jobless Rate
Dec. (e) 5.1%
Nov. 5.1%

Upcoming Policy Meetings | BoE: Feb. 7, Mar. 21, May 2 | ECB: Mar. 7, Apr. 10, June 6

North American Calendar
January 21 – January 25

BMO Capital Markets®

Canada

Monday January 21

Tuesday January 22

8:30 am	**Mfg. Sales**	**Mfg. New Orders**
Nov. (e)	**-1.5%**	**-1.5%**
Consensus	*-0.5%*	*n.a.*
Oct.	-0.1%	+2.4%

8:30 am	**Wholesale Trade**
Nov. (e)	**-0.5%**
Oct.	+1.0%

10:30 am 3-, 6- & 12-month bill auction $10.0 bln (new cash $0.4 bln)

Wednesday January 23

8:30 am	**Retail Sales**	**Ex. Autos**
Nov. (e)	**-0.4%**	**-0.1%**
Consensus	*-0.7%*	*-0.4%*
Oct.	+0.3%	unch

Noon 10-year bond auction $3.0 bln

Thursday January 24

Friday January 25

Ottawa's Budget Balance[D]	
Nov. '18	
Nov. '17	-$2.8 bln

United States

Monday January 21

Martin Luther King, Jr. Day (markets closed)

Releases marked by * will be delayed by the U.S. government shutdown

Previous Data Delayed by Shutdown

- New Home Sales—Nov.
- Construction Spending—Nov.
- Factory Orders—Nov.
- Goods & Services Trade Deficit—Nov.
- Wholesale Inventories—Nov. F
- Budget Balance—Dec.
- Retail Sales—Dec.
- Business Inventories—Nov.
- Net TIC Flows—Nov.
- Housing Starts—Dec.
- Building Permits—Dec.

Tuesday January 22

10:00 am	**Existing Home Sales**
Dec. (e)	**5.29 mln a.r. (-0.6%)**
Consensus	*5.23 mln a.r. (-0.9%)*
Nov.	5.32 mln a.r. (+1.9%)

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

11:30 am 13- & 26-week bill auction $81 bln

Wednesday January 23

7:00 am	**MBA Mortgage Apps**
Jan. 18	
Jan. 11	+13.5%

9:00 am	**FHFA House Price Index**	
Nov. (e)	**+0.3%**	**+5.5% y/y**
Consensus	*+0.2%*	*+5.4% y/y*
Oct.	+0.3%	+5.7% y/y

10:00 am	**Richmond Fed Manufacturing Index**
Jan. (e)	**-5**
Consensus	*-2*
Dec.	-8

Thursday January 24

8:30 am	**Initial Claims**
Jan. 19 (e)	**215k (+2k)**[C]
Jan. 12	213k (-3k)

8:30 am	**Continuing Claims**
Jan. 12	
Jan. 5	1,737k (+18k)

8:30 am **Real GDP by Industry (Q3)***

9:45 am **Markit PMI (Jan. P)**

10:00 am	**Leading Indicator**
Dec. (e)	**-0.2%**
Consensus	*-0.1%*
Nov.	+0.2%

11:00 am	**Kansas City Fed Manufacturing Activity**
Jan. (e)	**1**
Dec.	3

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

11:30 am 4- & 8-week bill auction

Friday January 25

8:30 am	**Durable Goods Orders***	**Ex. Transport***
Dec. (e)	**+1.0%**	**+0.4%**
Consensus	*+1.0%*	*+0.1%*
Nov.	+0.8%	-0.3%

8:30 am	**Nondef. Capital Goods ex. Air***
Dec. (e)	**+0.5%**
Consensus	*-0.3%*
Nov.	-0.6%

10:00 am	**New Home Sales***
Dec. (e)	**552,000 a.r. (-1.5%)**
Nov. (e)	**560,000 a.r. (+3.0%)**
Consensus	*567,000 a.r. (+4.2%)*
Oct.	554,000 a.r. (-8.9%)

[C] = consensus [D] = date approximate

Upcoming Policy Meetings | Bank of Canada: Mar. 6, Apr. 24, May 29 | FOMC: Jan. 29-30, Mar. 19-20, Apr. 30-May 1