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Focus

A weekly financial digest

Douglas Porter, CFA, Chief Economist

March 14, 2014

Feature Article
Page 8

Alberta Bound... for Another Housing Boom

U.S.-Russia Tensions Mount over Ukraine

China Economic Data Disappoint

North American February Data Showing Signs of Thawing

Canadian Household Debt Ratios Fall

BoJ on Hold, RBNZ Hikes 25 bps

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No Spring, No Break

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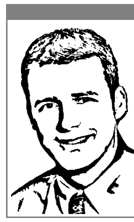
While it may have seemed like many were off in sunnier climes this week, the global news cycle took no break. Between the disappearing Malaysian jet, deepening concerns over China's slowing economy, and the suddenly tighter Quebec election, the **tension in Ukraine** almost took a backseat… for a moment. But, as we warned in this very space a week ago, the markets seemed to have underestimated the downside risks from Ukraine, especially with this Sunday's fast-approaching sham referendum in Crimea. Heightened unrest in eastern Ukraine, Russian troops back on the border, and impending sanctions by the U.S. and the EU prompted a renewed flight to safety this week. Ten-year Treasury yields fell 15 bps, close to the lows for the year, while the S&P 500 dipped nearly 2% from last week's all-time high. Besides bonds, the other big winner from the events in Eastern Europe has been gold, last year's big loser. The yellow metal powered up by more than $35 this week, bringing its year-to-date gain to a cool $175 (or almost 15%).

Gold was very much the outlier in the commodity space this week, as the bigger picture was that most resource prices were punctured by disappointing Chinese economic data. Copper and iron ore in particular were pummeled by the combination of a sharp sag in China's exports in February (with the market disregarding the still-steady 10% import growth) and the first corporate bond default in the country. The fact that both these commodities have been reportedly widely used as financing vehicles in China compounded the sell-off, which took copper to below $3/pound for the first time in almost four years. Given copper's reputation as being a lofty academic when it comes to predicting the economy, its deep drop aggravated concerns about the global growth outlook, even if some of its slide looks to have been driven by special factors.

Copper also happens to be extremely tightly correlated with the Canadian dollar. In fact, we have found that it is the single commodity with the tightest fit with the loonie over the past ten years, even tighter than oil prices. Never mind the fact that Canada's exports of copper are now about $^{1}/_{20}{}^{th}$ the value of oil exports, the red metal has much in common with the loonie—both thrive when the global economy is thriving. Yet, **the Canadian dollar** remained remarkably calm this week, virtually unchanged at just over 90 cents. This is even more notable considering the wave of headlines surrounding the Quebec election, including the entry of Pierre Karl Péladeau into the race on the side of the PQ, as well as Mme Marois' comments on the use of the Canadian dollar. But while the election is in the market's peripheral vision, most seem to be taking a wait-until-April-7 attitude, especially with the latest polls showing a neck-and-neck race between the two leading parties.

Taking Stock of the Global Backdrop



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Two major concerns for equity investors in recent weeks have come in the form of growth concerns in China and political instability in Eastern Europe, while markets are doing their best to look past the soft patch in the North American economic data. Here is a quick survey of what's working in this environment, should it persist:

By region: An optimistic economic outlook for Q2 and beyond have allowed equity markets to hold up well in North America, despite a shaky start to 2014. The MSCI North America Index is up slightly on the year, versus declines of 2% in developed Europe and 5% in emerging markets (in local currency terms). Not surprisingly, emerging Europe, including Russia, is among the worst performing sub groups, down 7% on the year. Growth concerns in China have also tripped up Asian equities more broadly, down 5% on the year, with this week's run of weaker-than-expected data certainly not helping. As spring rolls around and the North American data improve (at least that's our expectation), the U.S. and Canada should continue to perform relatively well.

By sector: Global uncertainty and the soft patch in North America have lifted defensives to the top of the leader board after lagging in 2013. Utilities and health care lead the S&P 500 in 2014, while the gold sector has rebounded sharply in Canada. Rate-sensitives have also fared well, with the shift toward safety pulling down North American bond yields—note that Canadian REITs have pushed modestly higher after sliding more than 10% in 2013 alongside Fed tapering.

By size and type: While value has shown tentative signs of outperforming in recent weeks as tensions have flared, growth has been the clear outperformer in the past year, really turning the tables on value around mid-2013 when the Fed began to seriously talk about tapering. Small- and mid-cap stocks also continue to outperform their big brothers globally, showing little let-up in recent weeks. At this point in the recovery and Fed policy cycle, investors look content with smaller/faster-growing companies. Rob K.

Modifying Forward Guidance... Again

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Next week will be Janet Yellen's first FOMC meeting as Chair and we look for the Statement to modify the Fed's forward guidance—further deemphasizing the unemployment rate as a policy guide. It was as recently as December (which was reiterated in January's meeting) that the guidance concerning the jobless threshold was last modified: *"It likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5%."* Before December, and since the thresholds were introduced a year earlier, the guidance had been that the policy rate would remain near-zero as long as the unemployment rate remained above 6.5% (and, in both versions, conditional on inflation behaving itself).

The FOMC will likely state formally that the policy implications of any level of the unemployment rate are determined in the context of what other key metrics are saying about the health of the labor market. Usually reserved for subsequent press conferences, the Statement might even mention (for the first time) what specific labor market metrics the Fed is employing for this purpose. At this stage, we still judge the Fed will not abandon the unemployment threshold altogether (because it could cast market doubt about the still-effective inflation threshold) or lower the jobless threshold to, say, 6.0% (because the natural rate might meaningfully be on the rise from its presumed 5.5% perch). The bottom line is that the Fed's forward guidance efforts are going to become more convoluted.

More straightforward in the Statement, we look for the FOMC to announce another (third) tapering action, reducing asset purchases by $10 billion to $55 billon starting next month ($30 billion Treasures, $25 billon MBS). As various Fed officials have said, the bar to deviate from the established taper pace is high. Finally, the Statement's economic assessment could become a bit dourer in acknowledging the extreme weather's (temporary) impact on the economy.

As for the Summary of Economic Projections (SEP), there will likely be some change to the distribution of participants' expectations for policy rate liftoff, if only because former Chair Bernanke will not be participating (leaving 16 of a possible 19 participants). In December the tally was 2 for 2014, 12 for 2015 and 3 for 2016. Nominees Stanley Fisher and Lael Brainard will not be participating, but Jerome Powell probably will because he is an incumbent being re-nominated. We also expect the projected amount of annual tightening, according to the "dots" and the weighted average of the central tendency (December SEP: +59 bps in 2015 and +123 bps in 2016 in addition to the IOER-fed funds spread), might no longer shrink as it has for the past two SEPs. Indeed, it might even increase a bit given worries among some participants about the risk to price stability posed by the fast falling jobless rate. Elsewhere, we look for the central tendency range for real GDP growth (in 2014, owing to the weather) and the unemployment rate (over the full forecast horizon, owing to changing views about the participation rate) to be shaved back a bit. It will be hard for the Fed to reconcile the latter with its "low for long" mantra for policy rates in the minds of many market participants. Enter Ms. Yellen's inaugural presser in which we suspect she will make a concerted effort to downplay the jobless rate. MJG

Weather Woes Waning?

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While the seemingly interminable winter continues, it looks as though the negative weather impact on North American economic data might finally be fading. The data calendar was a bit light this week, but the tidbits we saw appeared unscathed (or at least less impacted) by the weather. U.S. retail sales rose in February, retracing about half of the prior month's weather-related slump. Initial jobless claims, the most timely of indicators, also came in solid, unexpectedly falling 9k to 315k, a 14-week low, suggesting March payroll growth could return to the pre-weather dampened pace of 200k+. Unfortunately, the soft start to 2014 drove small business confidence to an 11-month low in February, and weighed on consumer confidence into March.

In Canada, the story was similar, with housing starts rising a bit more than expected to 192k in February, rebounding from a 9-month low. This coming week will bring some major January indicators and they're expected to show a solid rebound after a brutal end to 2013.

It's still too early to sound the all-clear on the weather impact, but there are early signs it might finally be passing—even if we were digging out of a snowstorm this week in Toronto. The warmth of spring can't come soon enough for the data and the many that have had enough of this apparently never-ending winter. BR

Heading Toward Normal

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Financial markets tossed and turned this week, focussing firstly on developments in **China**, where another company (Haixin Steel) failed to pay its bank loan on time, ramping up default concerns. Yet, the long-term goal of financial deregulation means that the government will not always be there to save the day or troubled businesses. And on the economic front, most of the February data were below expectations—hence, the constant reminders that the government is likely fine with real GDP growth that is modestly below the official 7.5% target this year. In other words, anything in the neighbourhood of 7.5%, give or take 0.3 percentage points, would be enough to help the government achieve its goal of creating 10 million jobs this year, or enough for the anticipated number of university grads and migrant workers who will move to the cities.

Overlooked, it seems, were some positive developments (or a move away from record stimulus) outside of these headline-grabbers, a couple of which took place at or below the Tropic of Capricorn. In **Australia**, there were 47,300 new jobs created in February alone (all full-time), while January's job loss was fully erased to reflect an 18,000 gain. That's the biggest two-month increase since March 2011 and supports the RBA's shift from an easing to a neutral bias earlier this year. And if this keeps up, the RBA will raise rates in 2015. Moving ahead of the RBA was the **Reserve Bank of New Zealand**, which hiked rates 25 bps this week from a record low, becoming the first developed world central bank to tighten. There is more to come, as the statement warned of rising inflationary pressures, the need to keep inflation expectations contained, and that "*To achieve this it is necessary to raise interest rates towards a level at which they are no longer adding to demand*." For both countries, how China evolves will impact their respective economies and, thus, monetary policy, but even 7.2% growth, which is close enough to the official target, will still be respectable. And in Japan, where the **Bank of Japan** is executing one of the Three Arrows, policymakers agree that the economy and prices are moving in line with forecasts.

Bottom Line: While markets focus on admittedly disturbing geopolitical developments and China's step back from previously strong growth trends, the developed world is very slowly inching toward a more normal policy stance. JLee

Canada-Korea Free Trade: A Small Deal That Could Lead to Bigger Things

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Unlike other emerging Asian markets, Canada's trade relationship with South Korea has been stuck in neutral over the past five years, but the Canada-Korea Free Trade Agreement (CKFTA) may jump-start bilateral growth. South Korea ranks 8th for Canadian exports, accounting for $3.4 billion or 0.8% of shipments in 2013, a slight dip from the 1.0% share it held in 2009. Though South Korea has enjoyed a bit more growth, its share of Canadian imports has also held around 1.5% over the same time. For the most part, the relationship has been complimentary, with the vast majority of Canadian exports being inputs, in the form of commodities, while the majority of imports have been finished goods; with electronic handsets and motor vehicles accounting for over 40%.

Some of the biggest changes for Canadian producers will be in the forestry and agriculture sectors. The pact will see tariffs of 5%-to-10% on wood products rolled back, easing the path for exporters who are already seeing strong growth in pulp and plywood. Agricultural sectors under supply management in both countries (namely, poultry, dairy and milk) will continue to enjoy the framework currently in place, but steep declines in duties for beef, grain and pork (which average over 50%) will provide an avenue that was previously unrealistic for distribution, while fisheries and seafood will benefit from a 12.5% rollback.

Canadians will enjoy some cheaper electronics and household goods, but the main point of contention is South Korea's biggest export to Canada: automobiles. Despite having a quickly growing footprint in North America, roughly half of Korean vehicles are still imported and subject to a 6.1% tariff. Though some Korean models in lower, more price-sensitive segments are made in the U.S. (and therefore not subject to Canadian duties) there still remains the potential for a slight pricing advantage in some areas with tighter margins. However, Korea's market has been very sensitive to entries into the luxury auto space, and an 8.1% drop in duties could provide an avenue for the export of higher margin Canadian vehicles.

Overall, while the agreement may benefit some industries more than others, it's unlikely to cause a major stir given the current scale of Canada-South Korea trade. What the agreement does accomplish is to forge closer ties in what had been a relatively stagnant trade relationship and set an important precedent for larger-scale bilateral and multilateral trans-pacific agreements down the road. A.K.

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	Good News	Bad News
Canada ▪ Household imbalances appear to be "*evolving constructively*" ▪ Canada agrees to free trade deal with South Korea despite auto sector concerns	**Household Debt-to-PDI ratio** fell to 164.0% (Q4)—from record high 164.2% in Q3 **Housing Starts** +6.4% to 192,094 a.r. (Feb.) **Capacity Utilization** +0.8 ppts to 82.0% (Q4) **New Housing Price Index** +0.3% (Jan.) **New Motor Vehicle Sales** +0.5% (Jan.)	**Manpower Survey** slowed to +9% (Q2)—lowest level since 2010
United States ▪ Another winter storm during the survey period may hamper March nonfarm payrolls	**Retail Sales** +0.3% (Feb.) **Initial Claims** -9k to 315k (Mar. 8 wk) **Business Inventories** +0.4% (Jan.) **Producer Prices** -0.1% (Feb.) **Budget Deficit** narrowed from a year ago to $193.5 bln (Feb.)	**U of M Consumer Sentiment** -1.7 pts to 79.9 (Mar. P) **NFIB Small Business Confidence** -2.7 pts to 91.4 (Feb.) **Manpower Survey** unch at +13% (Q2) **Import Prices** +0.9% (Feb.)
Japan ▪ BoJ on hold... cautions on exports and data distortions ahead of the April sales tax hike	**Tertiary Industry Index** +0.9% (Jan.) **Machine Orders** +13.4% (Jan.)	**Real GDP** revised down to +2.5% y/y (Q4) **Industrial Production** revised down to +3.8% (Jan. F) **Current Account Deficit** widened to ¥1.6 trln (Jan.) **Consumer Confidence** -2.2 pts to 38.3 (Feb.) **Corporate Goods Price Index** -0.2% (Feb.) **Bank Lending (ex. Trusts)** +2.4% y/y (Feb.)—slowing
Europe ▪ ECB President Draghi says the 2½-year high EUR is becoming "*increasingly relevant*" in the ECB's assessment of price stability ▪ EU Finance Ministers unable to agree on bank failure bill but compromise possible	**Germany—Trade Surplus** grew to €15.0 bln (Jan.) **Italy—Industrial Production** +1.0% (Jan.)	**Eurozone—Industrial Production** -0.2% (Jan.) **France—Industrial Production** -0.2% (Jan.) **U.K.—Industrial Production** +0.1% (Jan.)—below expected but manufacturing output +0.4% **U.K.—RICS House Price Balance** -7 ppts to 45% (Feb.) **U.K.—Trade Deficit** widened to £9.8 bln (Jan.)
OTHER ▪ China concerns grow as February data disappoint, and Premier Li Keqiang warns of "*unavoidable*" defaults ▪ RBA likely on hold after strong jobs report ▪ RBNZ tightens	**China—Consumer Prices** slowed to +2.0% y/y (Feb.) **China—Producer Prices** -2.0% y/y (Feb.) **Australia—Employment** +47,300 (Feb.)	**China—Trade Balance** swung to a $23 bln deficit (Feb.)—as exports fell 18.1% y/y **China—Retail Sales** +11.8% y/y (Jan.-to-Feb.) **China—Industrial Production** +8.6% y/y (Jan.-to-Feb.) **China—Foreign Direct Investment** +17.9% y/y (Jan.-to-Feb.) **China—Aggregate Yuan Financing** 938.7 bln (Feb.)—of which new yuan loans were 644.5 bln **Australia—Westpac Consumer Confidence** -0.7% (Mar.) **Australia—NAB Business Confidence** -2 pts to 7 (Feb.)

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

Alberta Bound... for Another Housing Boom

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Canada's housing market continues to look balanced and well behaved overall, with existing home sales almost bang on their 10-year average and housing starts running close to demographic demand. Amazingly, after what now seems like years of batting back the bubble mongers in these pages, even one of the country's national newspapers admitted this week that, yes, maybe some of the bears had it wrong. This affords us a chance to look past that nagging issue and into some other emerging themes in Canada's housing market. Among those is Alberta's rapidly-strengthening market which, like the province's broader economic performance, is quickly decoupling from the rest of the country.

While a number of Canadian economic indicators have stagnated in the past year, Alberta has bucked the trend with improving momentum. In fact, the province sits head-and-shoulders above the rest of the pack on a variety of measures (*Chart 1*). Our 2014 real GDP growth forecast pegs Alberta a hefty 1.2 ppts above the national average, the only province expected to sport a 3-handle on growth this year. Also, **employment growth is running at a firm 3.8% y/y clip, versus next to no growth on balance in the rest of the country, while retail sales growth is more than twice the nearest competitor**. What was traditionally a 'West versus the Rest' comparison has now morphed into 'Alberta versus the Rest'.

The stark economic outperformance is magnified by the pull it is having on population from other regions of the country. Population growth in the province has surged to 3.5% y/y, the fastest pace in more than 30 years, with nearly 50,000 interprovincial migrants flocking to the province in the latest year, or a hefty 1.2% of the population (*Chart 2*). Every province in Canada is now seeing a net outflow of migrants to Alberta—in a nutshell, here's why:

To find a job, if you don't have one: Alberta's unemployment rate, at just 4.3%, is fully 2.7 ppts below the national average, and the employment rate is by far the highest in the country at just under 70%. While the resource sector is the clear strong spot with double-digit year-over-year growth (and a near-record employment level), the spillover from the oil boom has supported other areas such as construction, trade, professional services and hospitality—moving to Alberta doesn't just mean working on a rig.

To grab a better-paying job, if you do have one: Wage differentials between Alberta and the rest of Canada continue to widen. Consider that the average hourly wage rate is $6 higher in

Chart 1
Alberta vs. the Rest

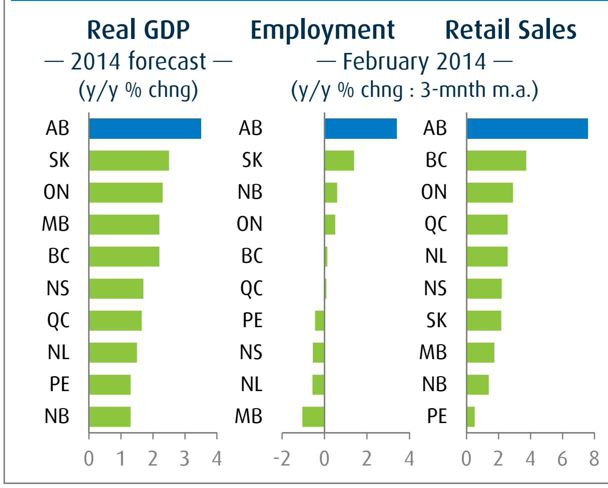


Chart 2
Welcome to Alberta—Population: Surging

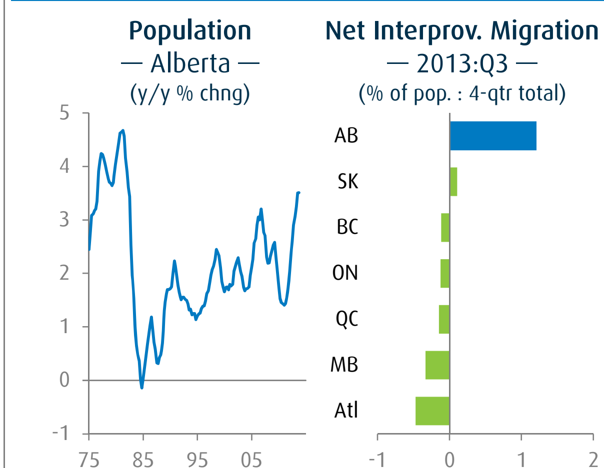
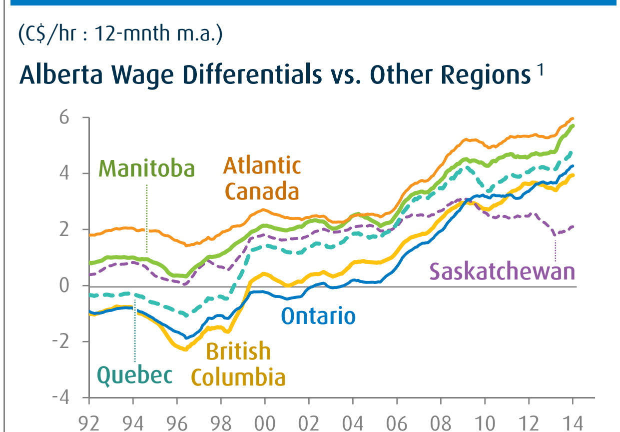


Chart 3
The Alberta Advantage



¹ based on average hourly earnings including overtime

Alberta than in Atlantic Canada, the widest gap in decades (*Chart 3*). A lower tax burden on income and consumption only adds to the appeal, especially at higher income levels with the Province's unique flat 10% rate. As a result, even when job prospects improve in other regions, such as Atlantic Canada, the earnings gap will still be a compelling reason to move (or stay).

The result of these favourable economic and demographic fundamentals is that Alberta's housing market has abruptly tightened, and could well be decoupling from the rest of Canada. Benchmark prices in Calgary are up a strong 9% y/y and recently topped levels seen at the height of the pre-recession energy boom—Edmonton is within a hair of peak levels as well. *Table 1* lays out some of the housing market fundamentals for Calgary and Edmonton, and there are few interesting takeaways.

Table 1
Housing Market Metrics
Based on latest available data

		Latest	10-yr Avg.	2006-07 Peak
Average Prices (C$ 000s : 3-mo. avg.)	**Major Markets**	439		
	Calgary	443	369	437
	Edmonton	344	295	354
Sales/Listings Ratio	**Major Markets**	55.0		
	Calgary	75.0	61.5	90.3
	Edmonton	61.2	61.4	98.0
Months' Supply	**Canada**	6.4		
	Alberta	3.8	4.3	1.2
Price-to-Median Family Income Ratio	**Canada**	5.1		
	Calgary	4.1	3.8	4.7
	Edmonton	3.6	3.3	4.2
Mortgage Payment (% of Median Family Income)[1]	**Canada**	30		
	Calgary	24	24	35
	Edmonton	20	20	33
Completed and Unabsorbed Inventory (units)	**Calgary**	511	895	481
	Edmonton	1251	1258	564
Apartment Rental Vacancy Rate[2]	**Major Markets**	2.7		
	Calgary	1.0	2.3	0.5
	Edmonton	1.4	3.0	2.0

[1] based on 25-year amortization, average of 1- and 5-year posted mortgage rates, average-priced house, down payment of half annual income
[2] 6 units and over, privately initiated

Sellers control Calgary again: The surge in population growth has strengthened demand and, combined with a steady decline in new listings, has lifted the sales-to-new listings ratio more than a full standard deviation above historical norms—and miles above the national average. Edmonton remains relatively balanced. Still, we're a long way away from the extreme conditions seen in 2006/07, when almost all new listings were being immediately absorbed, and it's unlikely that the market is destined to revisit those conditions.

New supply still contained: One legacy of the prior boom/bust was a period of excess building started just before the recession, which left a substantial inventory overhang upon completion during the downturn and early in the recovery. That overhang has now all but vanished, with the unabsorbed inventory in Calgary a paltry 511 units in January (and just 51 condos). Adjusted for the size of the population, that's the lowest in at least 20 years. Apartment vacancy rates in the city have also fallen to just 1%. Edmonton is not as tight. Looking ahead for Alberta, tight supply and continued population growth should lead to a pick-up in construction.

Valuations might surprise you: Despite the strong rebound in prices, various valuation metrics check in near 10-year averages and comfortably below levels seen during the 2006/07 frenzy. For example, mortgage payments on the average priced home make up about 24% of median family income in Calgary, versus 35% at the height of the prior boom. Interestingly, despite far superior demographic, economic and supply fundamentals, valuations also fall comfortably below the national average with affordability better than in Vancouver and Toronto, and on par with Montreal. From this perspective, there appears to be room for prices to run higher still.

The Bottom Line: Alberta's (and more specifically, Calgary's) housing market is quickly heating up again. Barring a sudden drop in oil markets, home prices have further to run and homebuilders will get busier in the year ahead, but a throwback to 2006/07 is still a stretch. For policymakers, this is clearly a case of superior economic and demographic fundamentals at work, not a bubble rearing its head.

Economic Forecast Summary for March 14, 2014

BMO Capital Markets Economic Research

	2013				2014				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2012	2013	2014
CANADA											
Real GDP (q/q % chng : a.r.)	2.9	2.2	2.7	2.9	1.2	2.6	2.5	2.3	1.7	2.0	2.3
Consumer Price Index (y/y % chng)	0.9	0.8	1.1	0.9	1.2	1.6	1.5	1.8	1.5	0.9	1.5
Unemployment Rate (percent)	7.1	7.1	7.1	7.0	7.0	6.9	6.9	6.8	7.3	7.1	6.9
Housing Starts (000s : a.r.)	170	190	195	195	185	180	175	180	215	187	180
Current Account Balance ($blns : a.r.)	-58.7	-60.8	-59.2	-64.0	-58.5	-54.8	-50.2	-46.5	-62.2	-60.7	-52.5
Interest Rates					(average for the quarter : %)						
Overnight Rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
3-month Treasury Bill	0.95	1.00	1.00	0.93	0.88	0.88	0.88	0.88	0.94	0.97	0.88
10-year Bond	1.92	1.96	2.58	2.58	2.49	2.66	2.90	3.16	1.87	2.26	2.80
Canada-U.S. Interest Rate Spreads					(average for the quarter : bps)						
90-day	86	95	96	86	83	84	84	84	85	91	84
10-year	-3	-3	-13	-16	-30	-29	-29	-27	7	-9	-29
UNITED STATES											
Real GDP (q/q % chng : a.r.)	1.1	2.5	4.1	2.4	1.7	3.0	2.9	3.0	2.8	1.9	2.7
Consumer Price Index (y/y % chng)	1.7	1.4	1.5	1.2	1.6	1.9	1.8	2.0	2.1	1.5	1.8
Unemployment Rate (percent)	7.7	7.5	7.3	7.0	6.6	6.4	6.3	6.1	8.1	7.4	6.4
Housing Starts (mlns : a.r.)	0.96	0.87	0.88	1.02	0.91	1.02	1.14	1.22	0.78	0.93	1.07
Current Account Balance ($blns : a.r.)	-420	-386	-379	-354	-356	-362	-361	-361	-440	-385	-360
Interest Rates					(average for the quarter : %)						
Fed Funds Target Rate	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
3-month Treasury Bill	0.09	0.05	0.03	0.06	0.05	0.04	0.04	0.04	0.09	0.06	0.04
10-year Note	1.95	2.00	2.71	2.75	2.79	2.95	3.19	3.42	1.80	2.35	3.09
EXCHANGE RATES					(average for the quarter)						
US¢/C$	99.1	97.7	96.3	95.3	90.5	87.8	88.0	89.5	100.1	97.1	88.9
C$/US$	1.009	1.023	1.038	1.050	1.105	1.139	1.137	1.117	0.999	1.030	1.125
¥/US$	92	99	99	100	103	104	106 ↓	109	80	98	105 ↓
US$/Euro	1.32	1.31	1.33	1.36	1.37 ↑	1.37 ↑	1.34	1.33	1.29	1.33	1.35
US$/£	1.55	1.54	1.55	1.62	1.65	1.65 ↑	1.61	1.61	1.59	1.56	1.63 ↑

Blocked areas represent BMO Capital Markets forecasts
Up and down arrows indicate changes to the forecast ↑↓

Canada

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Existing Home Sales, MLS Home Price Index

Monday, 9:00 am (expected)

	Existing Home Sales	Average Prices
Feb. (e)	**+2.0% y/y**	**+8.5% y/y**
Jan.	+0.4% y/y	+9.5% y/y
	MLS Home Price Index	
Feb. (e)	**+4.9% y/y**	
Jan.	+4.8% y/y	

Existing home sales are expected to climb 2% y/y in February, continuing the decelerating trend seen over the prior four months. Our call would leave sales about flat month over month and modestly below the 10-year average for the month. Vancouver (+40% y/y) continues to lead the pack, recovering from soft sales a year ago, while Saskatoon (+14%) and Calgary (+16%) remain very healthy. Toronto sales climbed a modest 2.1%, following a similar-sized decline in the prior month, while Ottawa and London both saw weaker activity. Despite easing momentum on the national sales front, average prices look to be up a solid 8.5% y/y, though the increasing share of Vancouver homes is creating an upward bias. The quality-adjusted MLS house price index, a better representation of market conditions, looks to accelerate to 4.9% y/y, a 26-month high. Price gains remain solid despite cooling activity, reflecting relatively tight supply in major markets. In addition, pricing tends to lag sales, so we could see prices come under pressure toward the middle of the year.

Consumer Price Index

Friday, 8:30 am

	m/m (nsa)	y/y
Feb. (e)	**+0.6% (+0.1% sa)**	**+1.0%**
Consensus	*+0.6%*	*+0.9%*
Jan.	+0.3%	+1.5%
	Core CPI	
Feb. (e)	**+1.2% y/y**	
Consensus	*+1.1% y/y*	
Jan.	+1.4% y/y	

Canadian consumer prices likely jumped 0.6% in February, modestly above the average gain for the month over the past five years. Higher energy prices and the initial pass-through of Canadian dollar weakness are expected to lift the headline. Despite our call for a big rise in total CPI, the annual rate is still expected to decelerate to 1.0% y/y, from 1.5% in the prior month, as prices rose even more firmly in February 2013. Core prices also look to be up a hefty 0.7%, trimming the yearly rate a couple of ticks to 1.2% y/y. Look for some impact from the loonie in food (large grocers announced they would be raising prices due to the currency in February), travel services, and perhaps recreational vehicle and auto prices might be firmer than normal. While inflation is expected to slow, January's stronger-than-expected readings lessened the likelihood of a sub-1% print for headline and core inflation (though we could still see it). Either way, February is expected to be the nadir for inflation which should keep speculation of potential BoC rate cuts at bay.

Retail Sales

Friday, 8:30 am

		Ex. Autos
Jan. (e)	**+1.0%**	**+1.1%**
Consensus	*+0.8%*	*+0.9%*
Dec.	-1.8%	-1.4%

Canadian retail sales cratered at the end of 2013 as shoppers took advantage of Black Friday, pulling activity into November. The weakest retail categories in December were electronics, furniture and building materials, prime discounted items on Black Friday. Indeed, electronics had its weakest December (nsa) on record, while furniture dropped (nsa) for the first time since 1991. The relatively new arrival of Black Friday discounting in Canada is an issue StatsCan's seasonal adjustment has yet to capture. Very stormy winter weather (Southern Ontario's ice storm) no doubt added to the weakness. So, look for sales to bounce back 1%, retracing a significant chunk of the prior month's big drop. Excluding autos, sales likely rose 1.1%, though lower gasoline prices will weigh a bit. Sales ex-autos & gas look to climb 1.1% as well. Goods prices fell slightly in the month, pointing to a solid gain in volumes. We'll get manufacturing and wholesale trade figures as well this week, which, along with retail, will provide an idea of how much the Canadian economy rebounded from December's very poor showing. The size of the rebound will play a big role in determining Q1 GDP growth.

United States

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Industrial Production, Capacity Utilization

Monday, 9:15 am

	Industrial Production	Capacity Utilization
Feb. (e)	**+0.1%**	**78.5%**
Consensus	*+0.2%*	*78.6%*
Jan.	-0.3%	78.5%

Using energy usage for heating as a guide, last month was the second coldest February in the past 16 years (following the coldest January) and this should provide a huge boost to utilities output (January was up 4.1% and February should be comparable). However, a plummeting production component in February's ISM index, to below 50 for the first time since the recession, along with lower aggregate factory hours point to a weather-influenced drop in manufacturing output (a weighty -0.4%). Meantime, there's nothing like a cold snap to warm up desires to mine even more shale gas and tight oil. Overall, industrial production should still manage to inch up 0.1% in February, which should keep the capacity utilization rate unchanged at 78.5%.

NAHB Housing Market Index

Monday, 10:00 am

Mar. (e)	**51**
Consensus	*50*
Feb.	46

Housing Starts

Tuesday, 8:30 am

Feb. (e)	**900,000 a.r. (+2.3%)**
Consensus	*914,000 a.r. (+3.9%)*
Jan.	880,000 a.r. (-16.0%)

Existing Home Sales

Thursday, 10:00 am

Feb. (e)	**4.60 mln a.r. (-0.4%)**
Consensus	*4.62 mln a.r. (unch)*
Jan.	4.62 mln a.r. (-5.1%)

The combination of last year's spike in mortgage rates, this winter's extremely cold weather and this year's implementation of the "qualified mortgage rule" (which is expected to make "unqualified" mortgages more expensive and less available) have taken its toll on the housing sector. We judge that warmer temperatures, against the background of improved household financing, firming household formation, sturdier job and income growth along with unleashing pent-up demand should help housing rebound, starting in March and continuing during the spring selling season.

Among this week's indicators, March's NAHB Housing Market Index is expected to recover half of February's 10-point plunge to 46 (which was the worst monthly move in this metric's 29-year history). Although February's climate was still unfriendly for construction, housing starts fell so sharply in January (-16.0%) that the month should benefit from some technical rebound. Together, recent down-trending mortgage applications for purchases along with a tiny +0.1% move in pending home sales in January point to a slight decline in existing home sales for February.

Consumer Price Index

Tuesday, 8:30 am

Feb. (e)	**+0.1%**	**+1.1% y/y**
Consensus	*+0.1%*	*+1.2% y/y*
Jan.	+0.1%	+1.6% y/y
	Ex. Food & Energy	
Feb. (e)	**+0.1%**	**+1.6% y/y**
Consensus	*+0.1%*	*+1.6% y/y*
Jan.	+0.1%	+1.6% y/y

Falling gasoline prices, along with food prices following their recent benign pattern, should help keep headline CPI inflation running at 0.1% m/m in February. This will pull down the annual change a notch to 1.1% y/y. This call incorporates a trend-like 0.1% gain in core CPI prices, which will leave the core inflation rate at 1.6% y/y.

FOMC Announcement

Wednesday, 2:00 pm

For Janet Yellen's first FOMC meeting as Chair, we look for the Fed to modify its forward guidance—further deemphasizing the unemployment rate as a policy guide—while tapering its asset purchases by another $10 billion starting next month. For more details, see *Our Thoughts*.

		Mar 14 [1]	Mar 7	Week Ago	4 Weeks Ago	Dec. 31, 2013
					(basis point change)	
Canadian Money Market	Call Money	1.00	1.00	0	0	0
	Prime Rate	3.00	3.00	0	0	0
U.S. Money Market	Fed Funds (effective)	0.25	0.25	0	0	0
	Prime Rate	3.25	3.25	0	0	0
3-Month Rates	Canada	0.83	0.83	0	-5	-8
	United States	0.04	0.05	-1	3	-3
	Japan	0.04	0.03	1	-1	-3
	Eurozone	0.30	0.30	0	2	2
	United Kingdom	0.52	0.52	0	0	0
	Australia	2.67	2.65	2	2	6
2-Year Bonds	Canada	1.01	1.05	-5	-1	-13
	United States	0.34	0.37	-3	3	-4
10-Year Bonds	Canada	2.38	2.52	-14	-8	-38
	United States	2.64	2.79	-15	-10	-39
	Japan	0.62	0.62	0	3	-12
	Germany	1.54	1.65	-11	-14	-39
	United Kingdom	2.66	2.79	-13	-13	-36
	Australia	4.04	4.17	-13	-7	-20
Risk Indicators	VIX	16.4	14.1	2.3 pts	2.8 pts	2.6 pts
	TED Spread	19	19	0	-3	1
	Inv. Grade CDS Spread [2]	67	63	4	3	5
	High Yield CDS Spread [2]	330	315	16	11	24
					(percent change)	
Currencies	US¢/C$	90.26	90.20	0.1	-0.9	-4.1
	C$/US$	1.108	1.109	–	–	–
	¥/US$	101.43	103.28	-1.8	-0.4	-3.7
	US$/€	1.3924	1.3875	0.4	1.7	1.3
	US$/£	1.663	1.671	-0.5	-0.7	0.4
	US¢/A$	90.42	90.68	-0.3	0.1	1.4
Commodities	CRB Futures Index	302.85	307.19	-1.4	3.3	8.1
	Oil (generic contract)	98.81	102.58	-3.7	-1.5	0.4
	Natural Gas (generic contract)	4.42	4.62	-4.4	-15.3	4.4
	Gold (spot price)	1,384.21	1,339.98	3.3	5.0	14.8
Equities	S&P/TSX Composite	14,276	14,299	-0.2	1.6	4.8
	S&P 500	1,849	1,878	-1.6	0.5	0.0
	Nasdaq	4,262	4,336	-1.7	0.4	2.0
	Dow Jones Industrial	16,130	16,453	-2.0	-0.2	-2.7
	Nikkei	14,328	15,274	-6.2	0.1	-12.1
	Frankfurt DAX	9,025	9,351	-3.5	-6.6	-5.5
	London FT100	6,532	6,713	-2.7	-2.0	-3.2
	France CAC40	4,208	4,366	-3.6	-3.0	-2.0
	S&P ASX 200	5,329	5,462	-2.4	-0.5	-0.4

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

Global Calendar: March 17 – March 21

BMO Capital Markets

Japan

Wednesday March 19

Merchandise Trade Deficit
Feb. '14 (e) ¥601 bln
Feb. '13 ¥773 bln

All Industry Activity Index
Jan. (e) +1.2%
Dec. -0.1%

Leading Index
Jan. F (e) 112.2
Dec. 111.7

Department Store Sales
Feb.
Jan. +2.9% y/y

Friday March 21

Markets Closed (Holiday)

Euro Area

Monday March 17

EURO AREA
Consumer Price Index
Feb. F (e) +0.4% +0.8% y/y
Jan. -1.1% +0.8% y/y

Core CPI
Feb. F (e) +1.0% y/y
Jan. +0.8% y/y

T-Bill Auctions: Netherlands, France

Tuesday March 18

EURO AREA
Trade Surplus
Jan. (e) €13.0 bln
Dec. €13.7 bln

GERMANY
ZEW Survey
Mar. (e) 52.0
Feb. 55.7

T-Bill Auctions: Spain, Greece, Malta

Wednesday March 19

EURO AREA
Labour Costs
Q4
Q3 +1.0% y/y

T-Bill Auction: Portugal
Bond Auction: Germany

Thursday March 20

GERMANY
Producer Price Index
Feb. (e) +0.1% -0.9% y/y
Jan. -0.1% -1.1% y/y

Bond Auctions: Spain, France

Friday March 21

EURO AREA
Consumer Confidence
Mar. A (e) -12.3
Feb. -12.7

ITALY
Industrial Orders
Jan.
Dec. -4.9% +1.9% y/y

U.K.

Monday March 17

Rightmove House Prices
Mar.
Feb. +3.3% +6.9% y/y

Wednesday March 19

Jobless Claims
Feb. (e) -25,000
Jan. -27,600

Claimant Count Rate
Feb. (e) 3.5%
Jan. 3.6%

Avg. Weekly Earnings ex. bonus (3mma)
Jan. (e) +1.2% y/y
Dec. +1.0% y/y

Jobless Rate (3m avg.)
Jan. (e) 7.2%
Dec. 7.2%

Minutes from the March 5-6 Bank of England Monetary Policy Meeting

Other

Monday March 17

AUSTRALIA
New Motor Vehicle Sales
Feb.
Jan. -3.5% -3.0% y/y

Friday March 21

MEXICO
Bank of Mexico Monetary Policy Meeting

North American Calendar: March 17 – March 21

BMO Capital Markets®

Monday March 17

Canada

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

	Inflows	Outflows
Jan.		
Dec.	-$4.3 bln	$3.7 bln

9:00 am — **Existing Home Sales[D]** / **Average Prices**

	Existing Home Sales[D]	Average Prices
Feb. (e)	+2.0% y/y	+8.5% y/y
Jan.	+0.4% y/y	+9.5% y/y

9:00 am — **MLS Home Price Index[D]**

Feb. (e)	+4.9% y/y
Jan.	+4.8% y/y

United States

8:30 am — **Empire State Manufacturing Survey**

Mar. (e)	6.5[C]
Feb.	4.5

9:00 am — **Net TIC Flows**

	Total	Long Term
Jan.		
Dec.	-$119.6 bln	-$45.9 bln

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

	Industrial Production	Capacity Utilization
Feb. (e)	+0.1%	78.5%
Consensus	*+0.2%*	*78.6%*
Jan.	-0.3%	78.5%

10:00 am — **NAHB Housing Market Index**

Mar. (e)	51
Consensus	*50*
Feb.	46

11:00 am — 4-week bill auction announcement

11:00 am — Fed buying $2.25-$2.75 bln notes (Dec. 2019-Feb. 2021)

11:30 am — 13- & 26-week bill auction $48.0 bln

Tuesday March 18

Canada

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

	Mfg. Sales	Mfg. New Orders
Jan. (e)	+1.3%	+0.3%
Consensus	*+1.0%*	*n.a.*
Dec.	-0.9%	+4.5%

11:40 am — BoC Governor Poloz speaks to the Halifax Chamber of Commerce (press conference at 1:00 pm EDT)

United States

7:45 am — **ICSC Same-Store Sales**

Mar. 15		
Mar. 8 (mtd)	+1.8%	+2.1% y/y

8:55 am — **Redbook Same-Store Sales**

Mar. 15		
Mar. 8 (mtd)	-0.7%	+2.5% y/y

8:30 am — **Housing Starts**

Feb. (e)	900,000 a.r. (+2.3%)
Consensus	*914,000 a.r. (+3.9%)*
Jan.	880,000 a.r. (-16.0%)

8:30 am — **Building Permits**

Feb. (e)	945,000 a.r. (unch)
Consensus	*960,000 a.r. (+1.6%)*
Jan.	945,000 a.r. (-4.6%)

8:30 am — **CPI**

Feb. (e)	+0.1%	+1.1% y/y
Consensus	*+0.1%*	*+1.2% y/y*
Jan.	+0.1%	+1.6% y/y

8:30 am — **CPI Ex. Food & Energy**

Feb. (e)	+0.1%	+1.6% y/y
Consensus	*+0.1%*	*+1.6% y/y*
Jan.	+0.1%	+1.6% y/y

11:00 am — **Business Roundtable CEO Economic Outlook Survey (Q1)**

FOMC Meeting Begins

11:00 am — Fed buying $1.00-$1.25 bln bonds (Feb. 2036-Feb. 2044)

11:30 am — 4-week bill auction

Wednesday March 19

Canada

8:30 am — **Wholesale Trade**

Jan. (e)	+1.0%
Dec.	-1.4%

Saskatchewan Budget

12:05 pm — 2-year bond auction $3.3 bln (new cash $3.3 bln)

United States

7:00 am — **MBA Mortgage Apps**

Mar. 14	
Mar. 7	-2.1%

8:30 am — **Current Account Deficit**

Q4 (e)	$88.4 bln
Consensus	*$87.5 bln*
Q3	$94.8 bln

2:00 pm — FOMC Announcement and Summary of Economic Projections

2:30 pm — Fed Chair Yellen's Quarterly Press Briefing

Thursday March 20

United States

8:30 am — **Initial Claims**

Mar. 15 (e)	322k (+8k)[C]
Mar. 8	315k (-9k)

8:30 am — **Continuing Claims**

Mar. 8 (e)	2,880k (+25k)[C]
Mar. 1	2,855k (-48k)

10:00 am — **Existing Home Sales**

Feb. (e)	4.60 mln a.r. (-0.4%)
Consensus	*4.62 mln a.r. (unch)*
Jan.	4.62 mln a.r. (-5.1%)

10:00 am — **Philadelphia Fed Index**

Mar. (e)	4.0[C]
Feb.	-6.3

10:00 am — **Leading Indicator**

Feb. (e)	+0.2%[C]
Jan.	+0.3%

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

11:00 am — Fed buying $2.25-$2.75 bln notes (May 2021-Feb. 2024)

1:00 pm — 10-year[R] TIPS auction $13.0 bln

Friday March 21

Canada

8:30 am — **Consumer Price Index**

	m/m (nsa)	y/y
Feb. (e)	+0.6% (+0.1% sa)	+1.0%
Consensus	*+0.6%*	*+0.9%*
Jan.	+0.3%	+1.5%

8:30 am — **Core CPI**

Feb. (e)	+1.2% y/y
Consensus	*+1.1% y/y*
Jan.	+1.4% y/y

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

	Retail Sales	Ex. Autos
Jan. (e)	+1.0%	+1.1%
Consensus	*+0.8%*	*+0.9%*
Dec.	-1.8%	-1.4%

United States

Fed Speakers: St. Louis' Bullard (11:45 am); Dallas' Fisher (1:45 pm); Minneapolis' Kocherlakota (4:30 pm); Governor Stein (6:30 pm)

11:00 am — Fed buying $1.00-$1.25 bln bonds (Feb. 2036-Feb. 2044)

[C] = consensus [R] = reopening

Upcoming Policy Meetings | **Bank of Canada:** Apr. 16, June 4, July 16 | **FOMC:** Apr. 29-30, June 17-18, July 29-30