Focus

Feature Article

Canadian Industry Revival Mostly Going Well

Our Thoughts

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Up-Tick Talk

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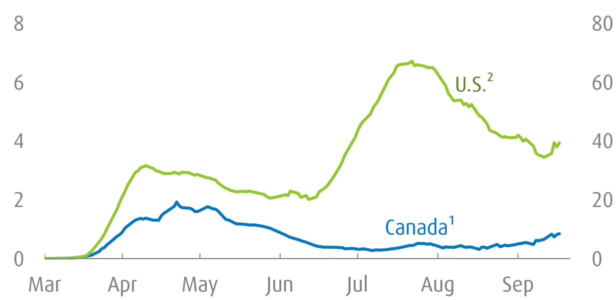
Markets see-sawed this week, searching for direction in stormy waters. An uptick in new virus cases in a variety of important economies is dulling some of the summer optimism over a generally better-than-expected start to the recovery. And even the U.S. saw a stalling out of the recent improvement in new cases from the July highs (*chart*), with real-time economic indicators flashing a resulting cooler rebound. The much-anticipated FOMC meeting fell a bit flat, offering little that wasn't known and providing no move whatsoever in the policy levers. And, the countdown clock on U.S. fiscal stimulus keeps running down with no move there either. Even so, both equity and bond markets looked to end the week roughly where the festivities began—not bad for September, in the middle of a pandemic, with ongoing drama around TikTok, and U.S. fiscal policy caught in gridlock.

On the economic front, the **August data continued to roll in with two main takeaways**. First, despite the mounting concern in some regions over rising virus cases, the **recovery continued to grind ahead**. The other key point is that after the enormously wild swings in data through the spring and early summer—numbers the likes of which none of us have ever previously witnessed—the **economic data are almost now "normal"**. That is, we're starting to see monthly moves in retail sales and industrial production of less than 1%, inflation that's tracking close to zero or slightly above, and even housing activity that appears to be coming back into orbit.

New Virus Cases: Two Solitudes

2020 (000s : 7-day m.a. : as of September 17, 2020)

New Confirmed COVID-19 Cases



[1] (lhs); [2] (rhs)
Sources: BMO Economics, Haver Analytics, John Hopkins University

The U.S. economy, for one, reported decent August gains in industrial production (+0.4%) and retail sales (+0.6%), a pullback in housing starts from lofty levels, and another sag in initial jobless claims (to a still sky-high 860,000). But every single one of these indicators fell shy of expectations, suggesting that the **multi-month run of high-side surprises for U.S. economic data is drawing to a close**. Still, a wave of survey results for September this week uniformly flashed strength, with homebuilder sentiment at a record high, consumer confidence rising, and Fed factory surveys from Philly and the Empire State solid. So, true, the quick summer rebound in activity looks to be cooling, but the widespread sentiment looks firm heading into the fall.

It was a **broadly similar story in Canada**, albeit with slightly more dated data on hand. July's retail report was mildly disappointing (+0.6%); yet, the early August read was better (at +1.1%), and wholesale activity was strong (+4.3%). Combined with an earlier strong read on manufacturing sales for July (+7.0%), and yet another powerful home sales result for August (up 33.5% y/y and a record high in seasonally adjusted terms), our **Business Activity Index** chalked up strength in both months—up 5% in July and 2.7% in August. We estimate that, in turn, this translates to monthly GDP gains of roughly 3% and around 1.5%. With this sturdy momentum in August, **we have modestly nudged up our call on Q3 GDP growth to a whopping 48% annual rate,** but have also **shaved our Q4 call** on some assumed modest rollbacks in openings amid the rising virus cases. Overall, we remain comfortable with our call of a 5.5% GDP drop this year and a 6% snap-back in 2021.

Both of those estimates are a bit firmer than consensus (where we have been for months now), and also a bit stronger than the latest official forecasts from the **OECD**. The latter organization unveiled its most recent outlook this week, and it was significantly stronger across most countries than its June effort. To pick but one example, they now see Canada's economy contracting 5.8% this year versus an earlier call of an 8% drop. Their upward revision to the U.S. was even larger, as the OECD now sees that economy falling 3.8% in 2020, versus the June call of a punishing 7.3% plunge. Two notes on its -3.8% call: 1) It's actually a bit less negative than both our call (-4.5%) and the latest consensus (-4.4%), and 2) it's getting within earshot of the 2009 drop in activity of 2.5%. For the global economy, the OECD upgraded its view to a drop of 4.5% this year and a still-sizeable rebound of 5.0% in 2021. Previously, its calls were -6.0% and +5.2%, and that was the so-called "*optimistic*" forecast.

The **big re-think** by the OECD on the depths of this year's downturn has been repeated across a wide variety of forecasters in recent days, especially official agencies and policymakers. To wit, the Fed heavily upgraded its own GDP forecast for the U.S. economy from its June view. Instead of a 6.5% drop this year, it now sees -3.7%. Notably, the FOMC looks at it on a Q4/Q4 basis, not annual averages like the rest of the numbers quoted above; roughly, they have moved from a call of about a 6% drop this year to around -4.2% as we would report it. While the Bank of Canada didn't offer new numbers in last week's policy statement—an update will come in mid-October—they, too, allowed that activity is coming in better than their latest call of a 7.8% drop this year. Next up will no doubt be the IMF, with a hefty upward revision almost certain there as well. And note that even as the official view on 2020 has been raised almost across the board, the large rebound expected for next year has not been scaled back in kind.

This brings us to the punchline. We can't help but wonder aloud **why official agencies and public policymakers were so very dour on the economic outlook during the depths of the shutdowns**. Yes, we all knew during the spring that the numbers were going to be extraordinarily awful this year, but did these agencies really need to compound the gloom with overly downbeat forecasts? True, the private sector consensus has been grinding upward from the spring depths, but the revisions there have been nowhere near as large. For example, the weakest these fell to were a 5.6% drop for the U.S. this year and a 6.8% sag in Canada, all well shy of the depths that the IMF, OECD, or central banks plumbed in their calls. This leads to a broader point that **forecast misses on the downside are every bit as problematic as overly optimistic calls**, yet bears never seem to pay any reputational price when they are dead wrong.

We haven't even touched on one of the biggest forecast "swing-and-a-miss" this year, and that's on **North American housing markets**. Instead of the bearish view that this big-ticket item would be bludgeoned by ultra-weak job markets, deep uncertainty, and the basic issue of transacting in a pandemic, housing has come roaring back on both sides of the border. We now expect home building to increase slightly this year, a rare source of growth for both economies.

In Canada, home sales and starts have completely made up for the lost activity in the spring, with both now up a touch on a year-to-date basis. While new listings are beginning to ramp up again, the resale market is now the tightest since at least 2004. And prices are responding, in a massive fashion. Average transactions prices vaulted 18.5% above year-ago levels in August, with widespread surges across much of central Canada. While that figure is flattered by stronger activity at the high end of the market, even the MLS Home Price Index is up a powerful 9.4% y/y. That's a long way from reported headline CPI inflation last month of just 0.1%, and a long, long way from a certain agency's call of a 9%-to-18% drop in home prices this year.

Fed Policy: Rate Hikes No More 'til 2024

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In its September 16th policy pronouncements, the FOMC mapped out a much longer road ahead with low rates. The new direction reflected the recent changes to the Fed's monetary policy framework along with an *"extraordinarily uncertain"* (Chair Powell's words) outlook as the economy recuperates from the pandemic. With the FOMC's longer-run goals now defined as eliminating shortfalls from maximum employment and achieving inflation that averages 2% over time, the policy statement said the Committee *"expects it will be appropriate to maintain this target range [0%-to-0.25%] until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% percent for some time."* The statement also said the FOMC *"expects to maintain an accommodative stance of monetary policy until these outcomes are achieved."* The Summary of Economic Projections' median forecasts and 'dot plot' suggest an *"achieved"* checkmark might only occur past 2023.

Real GDP: With the economic recovery progressing *"more quickly than generally expected"* (Powell again), 2020's contraction was clipped to -3.7% (Q4/Q4) from -6.5%, with the subsequent growth profile shaved a bit (i.e., smaller drop = smaller bounce). Real GDP expands 4.0% in 2021 and 3.0% in 2022 (compared to 5.0% and 3.5%, respectively, before). The inaugural 2023 call is 2.5%. Note that, with a shallower hole to climb out of, GDP is now expected to completely recover before the end of next year (compared to sometime in 2022 before). Longer-run growth was lifted a tenth to 1.9%. Combined with a CBO-estimated 1.2% positive output gap in 2019Q4, this means that **economic slack will persist after the end of 2023,** providing little fodder for the inflation process.

Unemployment rate: Owing to a lower starting point (8.4% in August) and a quicker GDP recovery, the jobless rate was lowered across the board. It's projected to average 7.6% by the end of this year (Q4), 5.5% in 2021 and 4.5% in 2022 (this compares to 9.3%, 6.5% and 5.5%, respectively, before). For 2023, the call is 4.0%, a tenth below the unchanged 4.1% longer-run or 'natural' rate. Under the new policy framework, **sub-natural jobless rates are no longer the stuff of preemptive or remedial tightening**.

In the presser Powell said: *"We view maximum employment as a broad-based and inclusive goal and do not see a high level of employment [or low level of unemployment] as posing a policy concern unless accompanied by signs of unwanted increases in inflation or the emergence of other risks that could impede the attainment of our goals."* Powell added that there was *"unanimous support"* for this view, no doubt prodded after seeing how the pre-pandemic, 23-month run of sub-natural jobless rates (as low as 3.5%) resulted in a social broadening of employment and wage gains, amid an absence of generalized inflation. While the FOMC is now officially aiming for moderately above 2% inflation for some time, we suspect it is also now 'unofficially' aiming for '3 handles' on the jobless rate again.

Core PCE inflation: Also owing to a quicker economic recovery and, this time, to a higher starting point (1.3% y/y in July), **the entire inflation profile was lifted**. It's projected to average 1.5% this year (Q4), 1.7% in 2021 and 1.8% in 2022 (this compares to 1.0%, 1.5% and 1.7%, respectively, before). The inaugural 2023 call is 2.0%, but it's not clear inflation would be, by then, *"on track to moderately exceed 2% for some time"* given the lingering output gap along with the secular forces of disinflation coming from digitalization and demographics.

Federal funds rate: Consistent with the statement's messaging and the above projections, **the fed funds range midpoint remains at 0.125% through 2023**. The 'dot plot' revealed a high degree of conviction among policymakers. After unanimity over this call for this year and next, only one participant has a rate hike in 2022 and only four have them in 2023.

Finally, in the press conference, Chair Powell said, *"the overwhelming majority of private forecasters who project an ongoing recovery are assuming there will be a substantial additional fiscal support"*, which was an indirect way of saying the FOMC's projections are assuming this as well. Indeed, Powell added, *"my sense is that more fiscal support is likely to be needed."* In addition to **a subtle prod for Congress to get its act together**, this is also a herald that if such support doesn't materialize soon the Fed might have to move to an even more accommodative stance.

Time for Ottawa to Move Out the Curve?

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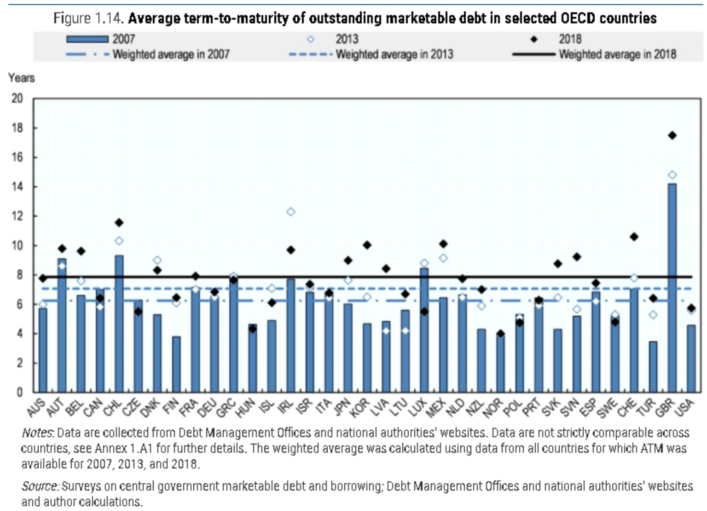
With the Bank of Canada announcing this week that **Debt Management Strategy (DMS) Consultations** for FY21/22 will begin in the fall along with some accompanying questions, it's an ideal time to look at the structure of Canada's outstanding debt relative to its global peers. In the lead-up to COVID, Canada stood out as one of the few countries in the OECD to have shortened the average term-to-maturity of its debt since 2007 (see attached 2019 chart from the OECD).

This shift was driven by two factors: 1) A relatively rapid return to a balanced budget in the aftermath of the 2008/09 financial crisis; and, 2) A fully thought-out decision to focus on shorter-term bond issuance when deficits returned in 2016 and beyond. On an outright basis, Canada went into this crisis with a below average term-to-maturity, relative to both recent history and to other major economies, presenting a clear opportunity and space to issue more long-term debt. In contrast to the drop in Canada's average term-to-maturity of its debt stock, the weighted-average term across the OECD has instead risen from 6.2 years in 2007 to almost 8 years now.

Time to Extend?



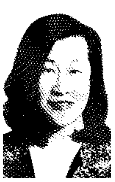
Source: OECD

The DMS Consultations ask **whether the government should consider new debt terms** (i.e., 7-year, 20-year, 100-year) or whether they should focus on building out current maturities and further develop the 50-year sector. Given where interest rates are, it's tough to argue against issuing ultra-long bonds. The 7-year and 20-year sectors don't appear to be great options, with the provinces already moving into 7s, while the 20-year was historically the cheapest sector on the curve until the BoC came in to buy a chunky portion of the off-the-run bonds. An earlier foray into the sector (issuing $4.75 billion of 2064 bonds from 2014 through 2017) was well-received by markets. Indeed, the biggest hurdle for the 2064 bonds is the lack of liquidity due to the small issue size. Meantime, 100-year bonds should be worth a thought after some European countries have seen extremely strong demand and performance.

It’s notable that the current Debt Management Strategy has already moved to **increase issuance at the longer end of the curve**. For this fiscal year, 10-year issuance is up 465% and 30-year issuance is up 662% from last year, which will already begin to increase the average term-to-maturity. But we believe that more can be done on this front at these abnormally low long-term borrowing costs. For the rest of the curve, 2-year issuance is up 183%, 3-year 236%, and 5-year 165%.

One reason the government shied away from consistently issuing 2064s is that they viewed the cost as being too high relative to focusing on shorter durations. While that decision proved to be correct in light of the more recent collapse in yields, **interest rates are at or near record lows currently**, and it’s questionable whether rates can fall materially further. That’s especially the case with the Bank of Canada seemingly unwilling to move policy rates into negative territory. Accordingly, issuing additional 2064s (now a 44-year bond) at just above 1% interest rates—below core inflation trends—appears to be an excellent opportunity to lock in low long-term rates and help diversify the maturity calendar further.

BoE... If Pushed Too Far...



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There was much ado about the Fed meeting this week, but it wasn’t the only central bank in town. The Bank of England also met, did nothing, but pulled the equivalent of a mic drop as markets perused the 10-page Minutes. Buried at the bottom of the second last page was a pretty strong hint of what tool could be brandished if push came to shove. Point #52 (out of 53) stated that the Monetary Policy Committee, or MPC, had been “*briefed on the Bank of England’s plans to explore how a negative Bank Rate could be implemented effectively, should the outlook for inflation and output warrant it at some point during this period of low equilibrium rates. The Bank of England and the Prudential Regulation Authority will begin structured engagement on the operational considerations in 2020 Q4.*”

Wow. **So negative rates *are* under serious consideration!** It seems to have been a source of debate within the MPC for some time now. **Governor Andrew Bailey**, who just celebrated his 6-month anniversary as head of the BoE, hasn't been shy about the issue and tried back in May to push out the possibility of using it, stating that it was a "*very big step*" and "*not something we are currently planning or contemplating*". **Chief Economist Andrew Haldane** let the cat out of the bag just a few days later, admitting that "*it's something we'll need to look at... are looking at... with somewhat greater immediacy*". When called out about the divergence in views, the Governor said, somewhat confusingly, "*We're not ruling it in, but we're not ruling it out.*"

The **BoE has already rolled out a massive amount of stimulus** to cushion the economy: rates are at record lows, the Asset Purchase Facility has grown to £745 bln, the Countercyclical Capital Buffer Rate is at 0%, and there are various funding programs and facilities to support businesses and financial markets. There's the **government's fiscal support**, in the form of the soon-to-end Coronavirus Job Retention Scheme, or the month-long Eat Out to Help Out program. And economic activity is recovering, but the outlook remains "*unusually uncertain*", an adjective that has been used by probably all central bankers. Still, the BoE is also keeping a wary eye on domestic developments. Its forecasts are based on a number of assumptions which include: that the impact of COVID-19 will "*dissipate gradually*" and that a trade deal with the EU will be hammered out by December 31. Does anyone need a reminder that there is a huge uncertainty around how those will play out? I didn't think so.

There is no guarantee that the BoE will resort to NIRP, but the **trigger** will be the **trade talks**. And the fact that negative rates are under such serious consideration reflects what could be a harsh reality come January 2021, if no trade arrangement is mapped out between the U.K. and the EU. As far as what will happen to the currency, our **Stephen Gallo, European Head of FX Strategy**, notes that the U.K.'s floating currency will be an important tool for maintaining competitiveness and attracting inward investment in the months and years after Brexit. Even if a simple UK/EU FTA is ultimately agreed upon, he believes that the broad value of the GBP will remain closer to the lower end than the higher end of its 5-year range for some time to come.

Recap

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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 ▪ COVID cases climbing ▪ White House cancels 10% tariffs on Canadian aluminum... for now	**BMO Business Activity Index** +5.0% (July); +2.7% (Aug. P) **Retail Sales** +0.6% (July); +1.1% (Aug. P) **Retail Sales Volumes** +0.4% (July) **Wholesale Trade Volumes** +4.2% (July) **Manufacturing Sales Volumes** +6.1% (July) **Manufacturing New Orders** +9.0% (July) **Existing Home Sales** +33.5% y/y (Aug.)—and **MLS Home Prices** +9.4% y/y	**Consumer Prices** +0.1% y/y (Aug.) **Global investors** sold a net $8.5 bln of Canadian securities (July) **ADP Employment** -205,433 (Aug.) **New Motor Vehicle Sales** -10.5% y/y (July)
United States ▪ FOMC signals rates on hold through 2023	**NAHB Housing Market Index** +5 pts to 83 (Sep.) **Initial Claims** -33k to 860k (Sep. 12 week) **Empire State Manufacturing Survey** +2.7 pts to 52.5; **Philly Fed Index** +3.2 pts to 57.3 (Sep.) —both on an ISM-adjusted basis **Capacity Utilization** +0.3 ppts to 71.4% (Aug.) **Leading Indicator** +1.2% (Aug.) **U of M Consumer Sentiment Index** +4.8 pts to 78.9 (Sep. P)	**Retail Sales** +0.6% (Aug.)—disappointing **Industrial Production** +0.4% (Aug.)—below expected but prior months revised up **Housing Starts** -5.1% to 1.416 mln a.r.; **Building Permits** -0.9% to 1.470 mln a.r. (Aug.) **Import Prices** -1.4% y/y (Aug.) **Current Account Deficit** widened to $170.5 bln (Q2) **Global investors** sold a net $26.7 bln of U.S. securities (July) **Business Inventories** +0.1% (July)—revised down
Japan ▪ Yoshihide Suga wins LDP leadership race ▪ BoJ on hold; raises economic assessment		**Consumer Prices** +0.2% y/y (Aug.)—and **core** -0.4% y/y **Exports** -14.8% y/y; **Imports** -20.8% y/y (Aug.) **Tertiary Industy Index** -0.5% (July)
Europe ▪ BoE on hold, but looking at effectiveness of negative rates	**Euro Area—Industrial Production** +4.1% (July) **Euro Area—Trade Surplus** widened to €20.3 bln (July) **Germany—ZEW Survey** +5.9 pts to 20-year high 77.4 (Sep.) **Italy—Industrial Orders** +3.7% (July) **U.K.—Retail Sales** +0.8% (Aug.) **U.K.—Average Weekly Earnings ex. Bonus** +0.2% y/y (3 mths to July)	**U.K.—Employment** -12,000; **Jobless Rate** +0.2 ppts to 4.1% (3 mths to July) **U.K.—Consumer Prices** slowed to +0.2% y/y (Aug.)
Other ▪ China consumer recovering ▪ Central Bank of Brazil on hold	**China—Industrial Production** +5.6% y/y; **Retail Sales** +0.5% y/y (Aug.) **Australia—Employment** +111,000; **Jobless Rate** -0.7 ppts to 6.8% (Aug.)	**China—Fixed Asset Investment** -0.3% y/y (Jan.-to-Aug.) **New Zealand—Real GDP** -12.2% q/q (Q2)

Canadian Industry Revival Mostly Going Well

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Earlier this year, BMO Economics released its outlook for 31 major industries [1]. As shown in *Table 1*, many were not expected to fully recover even by late 2021, when the economy, as a whole, was expected to fully retrace its historic losses. Sectors dependent on close personal contact, such as travel, leisure and hospitality, were expected to fare the worst. We also identified six industries that stood a good chance of outperforming, with warehousing, grocery stores and information technology actually profiting from an increase in demand due to the pandemic. In this note, we use recent data to assess the current status of each industry, providing an early warning of which might surpass our earlier expectations and which could disappoint. We also take a bottom-up approach to assess the economy's progress since the shutdowns.

Table 1 shows an estimate of current **recovery ratios** that measure performance in August relative to February. The ratios are based largely on monthly data on real GDP to June and work hours to August, with additional guidance from higher-frequency data.

A comparison of current ratios with those expected in late 2021 yields three takeaways. **First**, nearly half of industries (14) are tracking expectations. **Second**, an almost equal number (13) have surprised to the upside, and could well surpass our earlier call barring a second wave of the virus. **Third**, only a handful of industries (4) are disappointing our earlier views.

Five-of-six industries that were expected to operate above pre-virus levels in late 2021 seem to be **tracking our earlier expectations. Warehousing** has already almost fully recovered amid booming online sales, while **grocery stores** continue to feast on less indoor dining. **Professional services** have profited from the ability of staff to work remotely, while **information** technology has thrived as work and education shift online. Among previously-judged "underperformers", the **accommodation** and **entertainment** sectors are still operating at less than half of pre-virus levels. Although **food services** (*Chart 1*) have improved due to take-out, patio service and an easing in seating restrictions,

Table 1
Industry Performance
Real GDP (relative to pre-virus levels)

		Recovery Ratio Aug. 2020 (%)	Recovery Ratio Late 2021[1] (%)	Share (%)
Previously Expected Underperformers				
Air transportation	↓	**20**	70	0.52
Accommodation	—	**48**	70	0.70
Arts, entertainment and recreation	—	**45**	70	0.79
Food services	—	**62**	70	1.57
Oil and gas extraction	↑	**93**	85	5.53
Mining and quarrying	↑	**94**	90	1.83
Pipelines	↑	**92**	95	0.50
Transit and other ground transport.	↓	**45**	95	0.48
General merchandise stores	↑	**110**	95	0.54
Motor vehicle and parts dealers	↑	**94**	95	0.84
Other retailers	↑	**100**	95	2.82
Durable manufacturing	—	**89**	95	5.43
Real estate and rental and leasing	↑	**102**	95	12.85
Previously Expected Business as Usual				
Truck transportation	—	**90**	100	1.12
Other transportation	—	**90**	100	1.69
Agriculture, forestry, fishing & hunting	↑	**102**	100	2.03
Utilities	↑	**100**	100	2.20
Other services (ex. public admin.)	↓	**81**	100	1.92
Mgmt. of companies & enterprises	—	**90**	100	0.47
Administrative, waste mgmt., etc.	—	**86**	100	2.66
Construction	↑	**99**	100	7.20
Nondurable manufacturing	↑	**98**	100	4.63
Educational services	—	**94**	100	5.31
Finance and insurance	↑	**102**	100	6.73
Public administration	↑	**98**	100	6.75
Previously Expected Outperformers				
Wholesale trade	—	**95**	105	5.18
Professional, scientific & tech. services	—	**95**	105	6.09
Warehousing and storage	—	**99**	110	0.19
Food and beverage stores	—	**104**	115	0.97
Information and cultural industries	—	**97**	115	3.28
Health care and social assistance	↓	**94**	115	7.16
Total		**94.5**	100	100.00

Expectations: ↑= exceeding; ↓ = below; — = as expected
[1] previous expectation from our June 2020 report
Sources: BMO Economics, Haver Analytics

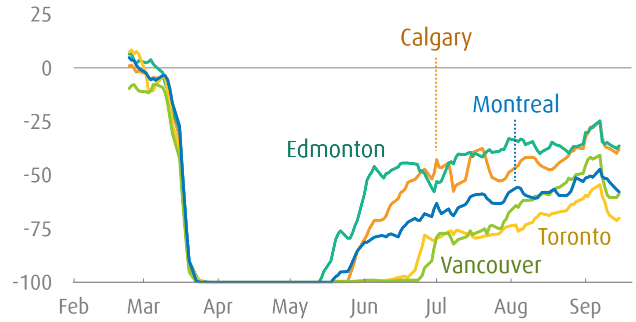
restaurants and bars will face heady challenges with the return of colder weather. They could still be operating at just 70% of pre-pandemic levels by late next year, barring an effective vaccine.

Nearly half of industries stand a good chance of exceeding our expectations, including a large contingent of previously-judged "underperformers". **Energy and mining** companies have benefited from a partial recovery in oil and natural gas prices and rising metal prices, though they will face risks from fragile global demand. **Non-durable manufacturing** has been led by gains in the food industry, while strong crop and animal production has helped **agriculture**.

A surprising V-shaped rebound in retail sales (*Chart 2*) in response to substantial income-support programs and surging online sales has supported **general merchandise stores,** a prime candidate to jump two categories to the "outperformers" camp. Another big outperformer is **residential real estate** amid record home sales and double-digit price growth in some regions. Low mortgage rates and shifting demands of teleworkers (for more space away from the urban core) have countered steep declines in employment and immigration. Sturdy homebuilding has lifted **construction**, despite an uncertain outlook for offices and malls. Meantime, a relatively hot summer has fanned air conditioning and **utilities**. The **finance and insurance sector** has hardly missed a beat amid solid demand for residential mortgages and the ability of staff to work remotely. **Public administration** has also made a quick comeback.

Chart 1
Less Than Full Stomach

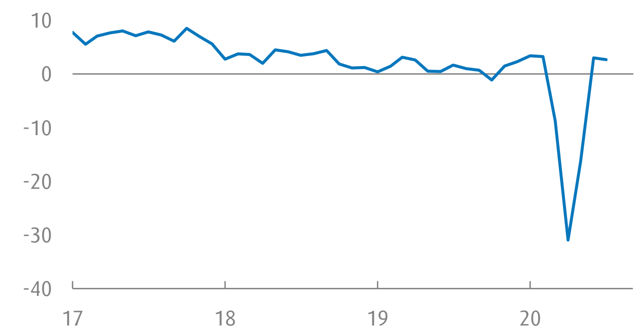
2020 (5-day m.a. : y/y % chng : as of September 15, 2020)
Seated Restaurant Diners



Sources: BMO Economics, OpenTable

Chart 2
Retail ReViVal

Canada (y/y % chng)
Retail Sales



Sources: BMO Economics, Haver Analytics

Alas, four industries are lagging expectations. **Air transportation** is cruising at just 20% of pre-virus levels due to weak international and business travel. A drop-off in tourism explains why **ground transportation** is having a hard time getting off the tarmac, with a recovery ratio of just 45%. This presents a risk to local government finances where transit systems rely heavily on user fees to make ends meet. The broad **other services** sector is operating at just 81% of pre-pandemic levels, with personal-care businesses undermined by virus fears, and dry-cleaners waiting for workers to shed T-shirts and head back to the office. **Health care**, though improved amid a backlog in elective procedures and deferred patient visits, has been restrained by virus concerns.

The Bottom Line: While it's still early in the game to make firm conclusions, most of Canada's industries are progressing as well as, or even better than, we expected. **Almost four times as many industries have surprised to the upside than the downside**. This supports our recent upward revision, with GDP likely to return to pre-virus levels a quarter sooner than thought earlier. Based on industry shares, **GDP appears to be operating at almost 95% of pre-virus levels,** which is close to our official call for the current quarter, and marks good progress after an 18% slide during the shutdowns. The faster progress of many "underperforming" industries could add backbone to the expansion. Still, the recovery remains very much K-shaped, with air travel, accommodation, entertainment and food services facing a long battle with the virus. Governments might want to target future assistance at these struggling sectors that account for nearly 4% of GDP.

Endnotes:

[1] BMO Economics. Industry Prospects a Year after the Pandemic. April 24, 2020. https://economics.bmo.com/en/publications/detail/c5958002-6329-43fb-afff-ddef461b885d/

BMO Economics. America's Post-Pandemic Economic Prospects. June 29, 2020. https://economics.bmo.com/en/publications/detail/2bac702c-7e82-42fc-a25f-38985dc200d8/ While the analysis in the report focused on the U.S., it applies similarly to Canada's industries. [^]

Economic Forecast Summary for September 18, 2020

	2020				2021				Annual		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	2021
CANADA											
Real GDP (q/q % chng : a.r.)	-8.2	-38.7	48.0 ↑	3.9 ↓	7.0 ↑	5.3 ↑	4.0	3.2	1.7	-5.5	6.0
Consumer Price Index (y/y % chng)	1.8	0.0	0.4	0.3	0.6	1.9	1.6	1.7	1.9	0.6	1.4
Unemployment Rate (percent)	6.3	13.0	10.2	8.9	8.4	8.1	7.9	7.5	5.7	9.6	8.0
Housing Starts (000s : a.r.)	209	191	236	205	210	206	202	202	209	210	205
Current Account Balance ($blns : a.r.)	-52.9	-34.5	-31.5 ↑	-31.3 ↓	-33.2 ↓	-33.7 ↓	-33.8 ↓	-35.3 ↓	-47.0	-37.5 ↓	-34.0 ↓
Interest Rates				(average for the quarter : %)							
Overnight Rate	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.50	0.25
3-month Treasury Bill	1.29	0.22	0.15	0.15	0.15	0.15	0.15	0.15	1.65	0.45	0.15
10-year Bond	1.20	0.59	0.55	0.60	0.70	0.75 ↓	0.80 ↓	0.90 ↓	1.59	0.75	0.80 ↓
Canada-U.S. Interest Rate Spreads				(average for the quarter : bps)							
90-day	16	8	5	3	3	3	3	3	-45	8	3
10-year	-18	-10	-10	-12	-11	-11	-10	-10	-56	-12	-10 ↑
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-5.0	-31.7	25.0	2.5	5.8	5.7	4.1	3.2	2.2	-4.5	4.0
Consumer Price Index (y/y % chng)	2.1	0.4	1.2	1.2	1.4	2.6	1.9	1.9	1.8	1.2	1.9
Unemployment Rate (percent)	3.8	13.0	9.0	8.2	7.6	7.0	6.4	6.0	3.7	8.5	6.8
Housing Starts (mlns : a.r.)	1.48	1.08	1.43	1.33	1.30	1.31	1.31	1.32	1.30	1.33	1.31
Current Account Balance ($blns : a.r.)	-446	-682	-654 ↑	-659 ↑	-677 ↑	-685 ↑	-695 ↑	-703 ↑	-480	-610	-690 ↑
Interest Rates				(average for the quarter : %)							
Fed Funds Target Rate	1.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	2.13	0.38	0.13
3-month Treasury Bill	1.13	0.14	0.10	0.10	0.10	0.10	0.10	0.10	2.10	0.40	0.10
10-year Note	1.38	0.69	0.65	0.75	0.80 ↓	0.85 ↓	0.90 ↓	1.00 ↓	2.14	0.85	0.90 ↓
EXCHANGE RATES				(average for the quarter)							
US¢/C$	74.4	72.2	75.1	75.8 ↑	75.9	76.2	76.5	76.8	75.4	74.4	76.4
C$/US$	1.34	1.39	1.33	1.32	1.32	1.31	1.31	1.30	1.33	1.35	1.31
¥/US$	109	108	106	105	105	106	106	107	109	107	106
US$/Euro	1.10	1.10	1.17	1.20	1.20	1.21	1.21	1.22	1.12	1.14	1.21
US$/£	1.28	1.24	1.29	1.29	1.30	1.31	1.32	1.33	1.28	1.28 ↑	1.31

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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Parliament Throne Speech
Wednesday, 2:00 pm (expected)

The highly anticipated **Throne Speech** will be delivered on Wednesday afternoon. This Throne Speech has likely garnered more attention than almost any other in recent memory, but keep in mind that it is just a speech—a statement of broad intentions, and not specific pledges, and certainly not a budget. Probably the most important thing for the Speech would be a clear set of priorities for the new session, especially for fiscal policy given the appointment of Finance Minister Chrystia Freeland last month.

United States

Michael Gregory, CFA,
Deputy Chief Economist
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Existing Home Sales
Tuesday, 10:00 am

Aug. (e)	**6.00 mln a.r. (+2.4%)**
Consensus	*6.02 mln a.r. (+2.7%)*
July	5.86 mln a.r. (+24.7%)

New Home Sales
Thursday, 10:00 am

Aug. (e)	**901,000 a.r. (unch)**
Consensus	*891,000 a.r. (-1.1%)*
July	901,000 a.r. (+13.9%)

Housing is hot. Demand is being prodded by post-pandemic preferences for bigger abodes and less densely populated areas (suburban and rural over urban), along with record-low mortgage rates. Thirty-year tenors averaged below 3% in August for the first time since Freddie Mac's survey started 49 years ago. Also last month, mortgage originations for purchases averaged around their highest level in nearly a dozen years, along with June and July. Meanwhile, seasonally-adjusted existing homes for sale hit a record low in July (as far back as 1982 for single-family units). This, in turn, is stoking activity in the new home segment. The NAHB Index matched its record high in August and established a new one in September.

Reflecting the above, **existing home sales** are expected to increase 2.4% in August and hit the six million mark for the first time since December 2006. Existing sales are measured at the time of closing, not contract signing, and pending sales were up 5.5% in July. New home sales rose 13.9% in July to top the 900,000 mark, also for the first time since December 2006. Unfortunately, **new home sales** are notoriously volatile; and, after surging during the past three months (a cumulative 56% or the second most on record back to 1963), we could see some payback. But, given the vigour of underlying demand, we'll call it unchanged at 901,000.

Durable Goods Orders
Friday, 8:30 am

		Ex. Trans.
Aug. (e)	**+1.1%**	**+1.7%**
Consensus	*+1.3%*	*+1.0%*
July	+11.4%	+2.6%

	Nondef. Cap. Goods ex. Air
Aug. (e)	**+1.3%**
Consensus	*+1.0%*
July	+1.9%

The recovery in the durable goods manufacturing sector continued in August, but at a slower pace than in the prior three months. Production inched up only 0.7% last month after a three-month 8.5% average clip, as automotive output slipped. Motor vehicle and parts production hit a 19-month high in July; but, with domestic sales still well short of pre-pandemic levels, a pause was not a surprise. This overall pattern should be reflected in new orders, after the automotive segment racked up record-high levels in July. Meanwhile, Boeing booked eight planes in August, after none in July, but order cancellations are distorting the data; there were negative dollar amounts for new aircraft and parts orders in four of the past five months. We look for total durable goods orders to advance 1.1% (after a three-month 11.3% average pace) or 1.7% ex-transportation, with core capital goods orders (non-defense ex-aircraft) increasing 1.3%.

Financial Markets Update for September 18, 2020

		Sep 18 [1]	Sep 11	Week Ago	4 Weeks Ago	Dec 31, 2019
					(basis point change)	
Canadian	Call Money	0.25	0.25	0	0	-150
Money Market	Prime Rate	2.45	2.45	0	0	-150
U.S. Money	Fed Funds (effective)	0.25	0.25	0	0	-150
Market	Prime Rate	3.25	3.25	0	0	-150
3-Month Rates	Canada	0.14	0.15	-1	-1	-152
	United States	0.09	0.11	-2	0	-146
	Japan	-0.12	-0.12	0	-2	-1
	Eurozone	-0.50	-0.48	-2	-2	-12
	United Kingdom	0.05	0.06	-1	-2	-74
	Australia	0.09	0.09	0	-1	-82
2-Year Bonds	Canada	0.26	0.26	0	-2	-143
	United States	0.13	0.13	0	-1	-144
10-Year Bonds	Canada	0.58	0.55	3	4	-112
	United States	0.69	0.67	2	6	-123
	Japan	0.02	0.02	0	-1	4
	Germany	-0.49	-0.48	-1	2	-30
	United Kingdom	0.18	0.18	0	-2	-64
	Australia	0.89	0.91	-2	1	-48
Risk Indicators	VIX	26.2	26.9	-0.7 pts	3.6 pts	12.4 pts
	TED Spread	14	14	0	-2	-23
	Inv. Grade CDS Spread [2]	69	70	0	2	24
	High Yield CDS Spread [2]	343	355	-12	-48	63
					(percent change)	
Currencies	US¢/C$	75.87	75.88	0.0	0.0	-1.4
	C$/US$	1.318	1.318	—	—	—
	¥/US$	104.42	106.16	-1.6	-1.3	-3.9
	US$/€	1.1857	1.1846	0.1	0.5	5.7
	US$/£	1.295	1.280	1.2	-1.1	-2.4
	US¢/A$	73.08	72.84	0.3	2.1	4.1
Commodities	CRB Futures Index	151.47	146.41	3.5	1.0	-18.5
	Oil (generic contract)	41.29	37.33	10.6	-2.5	-32.4
	Natural Gas (generic contract)	2.03	2.27	-10.6	-17.2	-7.4
	Gold (spot price)	1,951.66	1,940.55	0.6	0.6	28.6
Equities	S&P/TSX Composite	16,265	16,222	0.3	-1.5	-4.7
	S&P 500	3,341	3,341	0.0	-1.7	3.4
	Nasdaq	10,796	10,854	-0.5	-4.6	20.3
	Dow Jones Industrial	27,834	27,666	0.6	-0.3	-2.5
	Nikkei	23,360	23,406	-0.2	1.9	-1.3
	Frankfurt DAX	13,159	13,203	-0.3	3.1	-0.7
	London FT100	6,022	6,032	-0.2	0.3	-20.2
	France CAC40	4,989	5,034	-0.9	1.9	-16.5
	S&P ASX 200	5,865	5,859	0.1	-4.0	-12.3

[1] = as of 11:40 am *[2] = One day delay*

Global Calendar — September 21–September 25

	Monday September 21	Tuesday September 22	Wednesday September 23	Thursday September 24	Friday September 25
Japan	**Markets Closed**	**Markets Closed**	**Manufacturing PMI** **Sep. P** Aug. 47.2 **Services PMI** **Sep. P** Aug. 45.0 **Composite PMI** **Sep.** Aug. 45.2 **All-Industry Activity Index** **July (e) +1.3%** June +6.1%	**Department Store Sales** **Aug.** July -20.3% y/y **BoJ Minutes from July 14-15 meeting**	
Euro Area		**EURO AREA** **Consumer Confidence** **Sep. A (e) -14.6** Aug. -14.7	**EURO AREA** **Manufacturing PMI** **Sep. P (e) 51.9** Aug. 51.7 **Services PMI** **Sep. P (e) 50.5** Aug. 50.5 **Composite PMI** **Sep. P (e) 51.7** Aug. 51.9 **GERMANY** **GfK Consumer Confidence** **Oct. (e) -1.0** Sep. -1.8	**EURO AREA** **ECB Economic Bulletin** **GERMANY** **ifo Business Climate** **Sep. (e) 93.8** Aug. 92.6 **FRANCE** **Business Confidence** **Sep. (e) 94** Aug. 91	**EURO AREA** **M3 Money Supply** **Aug. (e) +10.2% y/y** July +10.2% y/y **ITALY** **Consumer Confidence** **Sep. (e) 100.8** Aug. 100.8
U.K.	**Rightmove House Prices** **Sep.** Aug. -0.2% +4.6% y/y		**Manufacturing PMI** **Sep. P (e) 54.0** Aug. 55.2 **Services PMI** **Sep. P (e) 55.9** Aug. 58.8 **Composite PMI** **Sep. P (e) 56.1** Aug. 59.1		**GfK Consumer Confidence** **Sep. (e) -27** Aug. -27
Other			**NEW ZEALAND** **RBNZ Monetary Policy Meeting**	**MEXICO** **Central Bank of Mexico Monetary Policy Meeting**	

D = date approximate

Upcoming Policy Meetings | Bank of England: Nov. 5, Dec. 17, Feb. 4 | European Central Bank: Oct. 29, Dec. 10, Jan. 21

North American Calendar — September 21–September 25

	Monday September 21	Tuesday September 22	Wednesday September 23	Thursday September 24	Friday September 25
Canada	**8:30 am New Housing Price Index**[D] **Aug. (e) +0.1% +1.7% y/y** July +0.4% +1.7% y/y BoC Buyback: 30-year sector	10:30 am 3-, 6- & 12-month bill auction \$10.0 bln (new cash -\$2.8 bln) BoC Buyback: Under 2-year sector	**2:00 pm**[E] **Parliament Throne Speech** Noon 3-year bond auction \$5.0 bln BoC Buyback: 2-year sector	**8:30 am Survey of Employment, Payrolls, and Hours (July)** Noon 10-year bond auction \$5.0 bln 2-year bond auction announcement BoC Buyback: 10-year sector	**Ottawa's Budget Balance**[D] **July '20** July '19 -\$1.5 bln BoC Buyback: 5-year sector
United States	**8:30 am Chicago Fed National Activity Index** **Aug. (e) +1.19**[C] July +1.18 **12:00 pm Flow of Funds (Q2)** Fed Speakers: Governor Brainard (1:00 pm), New York's Williams (6:00 pm), Dallas' Kaplan (6:00 pm) 11:30 am 13- & 26-week bill auctions \$105 bln	**10:00 am Existing Home Sales** **Aug. (e) 6.00 mln a.r. (+2.4%)** *Consensus 6.02 mln a.r. (+2.7%)* July 5.86 mln a.r. (+24.7%) **10:00 am Richmond Fed Manufacturing Index** **Sep. (e) 12**[C] Aug. 18 **10: 30 am Fed Chair Powell and Treasury Secretary Mnuchin testify on CARES Act Report to House Financial Services Committee** Fed Speaker: Chicago's Evans (10:00 am) 11:00 am 4- & 8-week bill auction announcements 11:30 am 119-day CMB \$30 bln 11:30 am 42-day CMB \$30 bln 1:00 pm 2-year note auction \$52 bln	**7:00 am MBA Mortgage Apps** **Sep. 18** Sep. 11 -2.5% **9:00 am FHFA House Price Index** **July (e) +0.3% +5.4% y/y** *Consensus +0.5% +5.6 % y/y* June +0.9% +5.7% y/y **9:45 am Markit PMIs (Sep. P)** **10: 00 am Fed Chair Powell appears before House panel on COVID crisis** Fed Speakers: Cleveland's Mester (9:00 am), Chicago's Evans (11:00 am), Boston's Rosengren (noon), Governor Quarles (2:00 pm), San Francisco's Daly (3:00 pm) 1:00 pm 5-year note auction \$53 bln 1:00 pm 2[R]-year FRN auction \$22 bln	**8:30 am Initial Claims** **Sep. 19 (e) 840k (-20k)**[C] Sep. 12 860k (-33k) **8:30 am Continuing Claims** **Sep. 12** Sep. 5 12,628k (-916k) **10:00 am New Home Sales** **Aug. (e) 901,000 a.r. (unch)** *Consensus 891,000 a.r. (-1.1%)* July 901,000 a.r. (+13.9%) **10: 00 am Fed Chair Powell and Treasury Secretary Mnuchin testify on CARES Act Report to Senate Banking Committee** **11:00 am Kansas City Fed Manufacturing Activity** **Sep. (e) 14**[C] Aug. 14 Fed Speakers: St. Louis' Bullard (noon), Chicago's Evans (1:00 pm), New York's Williams (2:00 pm) 11:00 am 13- & 26-week bill auction announcements 11:30 am 4- & 8-week bill auctions 1:00 pm 7-year note auction \$50 bln	**8:30 am Durable Goods** **Orders / Ex. Transport** **Aug. (e) +1.1% +1.7%** *Consensus +1.3% +1.0%* July +11.4% +2.6% **8:30 am Nondef. Cap. Goods ex. Air** **Aug. (e) +1.3%** *Consensus +1.0%* July +1.9% Fed Speaker: New York's Williams (9:00 am and 3:10 pm)

[C] = consensus [D] = date approximate [E] = expected time [R] = reopening

Upcoming Policy Meetings | Bank of Canada: Oct. 28, Dec. 9, Jan. 20 | FOMC: Nov. 4-5, Dec. 15-16, Jan. 26-27

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