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Don’t Even Think About Think About Fighting the Fed

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The pre-historic adage of *don’t fight the Fed* rarely looked truer than this week. Following the rockiest stretch for markets since the March maelstrom, **the Fed promptly unveiled direct purchases of corporate bonds through a basket** on Monday. With an added supportive note on the U.S./China trade front, markets nearly reversed last week’s heavy losses. The S&P 500 rebounded more than 3% for the week, while the Nasdaq pushed back above the 10,000 level. But beyond high-profile equity markets, and perhaps more importantly, commodities continue to grind higher, signalling a broader recovery in global activity. WTI regained the $40 level, while WCS rose above $30, and Dr. Copper regained $2.60—levels last seen in February.

The **prominent hold-out** from this rapid rebound in many markets are **bond yields**, which remain firmly planted in a new low range. For example, after taking a peek at levels just below 1% two weeks ago (after the May jobs data), 10-year Treasuries have settled back below 0.7% in recent days. Squinting very hard, one could detect a very modest upward drift in yields from the April depths, but any rise isn’t in the same league as other markets. In fact, some Canadian bond yields were flirting with fresh record lows earlier this week; even with some back-up since then, they are still locked well below U.S. levels further out the curve.

Economic news this week gave a **mixed picture** on the **reopening phase**, although investors generally are focusing on the positive results. The single most impressive report was the whopping 17.7% snap-back in **U.S. retail sales** in May, more than reversing April’s decline, and leaving them down a not-terrible 6.1% y/y. This quick rebound in retail activity last month was echoed in a number of key economies, with **China’s sales** down a light 2.8% y/y (versus -7.5% in April), while **U.K. sales** popped 12% m/m (after an 18% plunge the prior month), and **Canada** is set to rebound 19% m/m (from a massive 26.4% drop in April). Another sign of a big rebound came from **China’s industrial production** (up 4.4% y/y in May), which ran counter to a sluggish result from U.S. output (up 1.4% in the month, but still down more than 15% y/y). But, upbeat surveys from the **Philly Fed** and **Empire Index** point to much better news for June production.

Offsetting the positive news on the quick rebound in consumer activity was a **still-soft U.S. housing starts** report as well as a **still-lofty read on initial jobless claims**. Despite nationwide reopenings and a bounce in spending, claims remain stuck above 1.5 million, and **continuing claims** are agonizingly sticky above 20 million. While the match between payrolls and claims has weakened in this extremely unusual period, **the claims data cast a cloud on hopes for a further big gain in June jobs** (due Thursday, July 2). However, the relatively generous topped-up UI payments may be slightly exaggerating the weakness in job markets, as there are now more people receiving such payments than the official unemployment tally. That’s never happened before. A similar story has unfolded in Canada, where 8 million are receiving CERB payments, far above the tally of those who have lost jobs or have had their hours cut.

Of course, another factor gnawing on the outlook is the unnerving rise in **new COVID cases** across much of the southern and western states. The number of cases outside of New York state has flattened out at a relatively high level, even as cases continue to descend steadily in much of Europe and Canada. The outbreak in Beijing has also cast some doubt on China's full recovery, as well as reinforcing a cautious note more broadly.

Perhaps the overall conclusion to this week's set of economic data and events was best summed up in a speech by **BoC Deputy Governor Schembri**. In a nutshell, **the Bank believes that the first part of the recovery will be rapid** as businesses reopen (see May retail sales globally), but **getting back to full economic health will be an extremely drawn-out affair**. In his own words (and kudos for such an apt description of the recovery):

*"We expect the recovery in economic activity and household spending to have two phases. The **first phase, the reopening**, will be a relatively rapid and strong pickup as some of the measures are lifted and households consume goods and services they could not buy during the containment period. But the recovery will be only partial. The **second phase, the recuperation**, is highly uncertain and thus will be more prolonged and uneven. Consequently, it will take some time for employment, household income and confidence to return close to the pre-pandemic path."*

This week saw the first public appearance by freshly-minted **BoC Governor Tiff Macklem**, at a testimony to the House Finance Committee. While he didn't quite repeat Jay Powell's line about not even thinking about thinking about raising rates, he came very close. Following a line of questioning from one MP about how many debtors could get into difficulty if/when rates start rising, the Governor said: *"these questions are extremely hypothetical. We have no intention of raising rates."*

In a similar vein, **Finance Minister Morneau** pushed back on concerns about coming tax increases to reduce the deficit. He told a reporter that, because the economy is struggling so much: "*the last thing we would want to do is to raise taxes."* Just how large the deficit is currently running will be officially estimated in the coming fiscal "snapshot" on July 8. Using a slightly more downbeat economic forecast than ours, the PBO is now looking at a $256 billion gap (we're at $250 billion), or more than 11% of GDP, up from an estimated 1.2% shortfall in FY19/20.

What U.S. Consumers Are, and Are Not, Buying

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Apart from the unexpected bounce in May employment, arguably the most welcome U.S. data surprise is an **18% jump in May retail sales**. The rebound was more than twice what analysts expected and retraced half the prior two-month plunge, leaving sales down 7.9% from pre-virus levels (and down 6.7% after adjusting for CPI inflation). Excluding restaurants and bars, receipts were off just 3.2%, which compares with a 13% plunge in the Great Recession.

Still, **since February, consumers have slashed spending on most items**. Worst off is apparel, still down 63.3%, as fewer people need to dress up either because they are working from home or not working at all. As well, restaurant and bar receipts are off 40.9%, despite jumping 29% in May, as increased take-out orders during the lockdowns didn't compensate for the loss of in-house dining. Receipts at furniture and appliance stores are still down 26.3%, despite a 70% rebound in May. And gas stations are off 28.8% amid lower fuel prices and fewer drivers. Facing less pressure are health and personal care stores, down 10.1%, as drugstores stayed open during the pandemic and benefitted from earlier stockpiling. As well, despite accelerating last month, auto sales are down 7.4%.

And what are people buying? Well, a lot more **food from grocery stores**, which remained open during the lockdowns and racked up a 12.9% increase in receipts since February—as much as in the prior five years. Also prospering are hobbies, toys and books, a category that is up 3.3%, as people found themselves with more spare time and fewer places to spend it. As well, sales of building materials and garden equipment rose 9.0% in the past three months—if you're going to spend more time at home, why not spruce it up? In essence, savings from cancelled vacations and summer camps and less outside dining are being plowed into home renovations, pools and Jacuzzis.

The one category to outperform everything was the method of shopping. **Receipts at non-store retailers (mostly online) have soared 25.4% since February**, with May's pace (9.0%) almost as strong as April's, despite the reopening of traditional stores. The online share of retail sales averaged 17% in the past three months, up from 13% in the prior three. Virtual shopping will fade somewhat as more stores turn on the lights, but it's likely to stay well above pre-virus levels given that many previous non-users have become converts.

Higher-frequency data on chain-store sales and retail mobility suggest spending was juiced in late April and early May by the one-time $1,200 CARES Act payments to most adults (and $500 to children), but cooled somewhat in the first half of June. While we raised our call on Q2 real consumer spending, both it and **real GDP will likely contract about 40% annualized in the quarter**. However, the May bounce in retail sales signals a nice snapback in Q3 that should mark the first step in a likely 1½-year long journey back to pre-virus levels for the economy.

Recession Depth Becoming Clear

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We got a few notable data points this week in Canada and, not surprisingly, they all pointed in the same direction; sharply lower. April manufacturing, wholesale and retail activity plunged more than 20%. We won't get **April monthly GDP** for two weeks, but it looks as though **StatsCan's flash estimate of an 11% drop is facing a downward revision**. Given the total shutdown in a number of sectors and only about half of that impact in March, it's unlikely that services sectors (which we don't get much advanced data on) will be able to keep April from a downward revision.

Despite April looking worse, the **bright side** is that **we'll also likely get a larger rebound in May, June, and July**. That will keep us from moving our Q2 forecast for a 40% annualized drop in GDP. Indeed, the more important question is how quickly things will rebound. That answer remains subject to the pace of reopenings, though most of the country has largely moved ahead, while Ontario (and Toronto specifically) has lagged. Expect May to see a solid rebound outside Ontario, while June/July will be strong in Ontario depending on the region. Anecdotally (and Toronto-centric), there's little doubt that traffic has worsened and there are many more people heading to whichever stores are actually open. And, once Toronto joins most of the rest of the world in Phase 2, conditions will likely normalize further.

On a related note, we heard from newly-installed **Bank of Canada Governor Macklem** this week when he testified to the House Finance Committee. He provided very little insight into whether he has a policy bias at the moment. It seemed as though Mr. Macklem is still in the learning or information-gathering stage. We'll hear from him again on Monday in a speech that will be followed by a press conference. Perhaps we'll get a bit more information from the Governor given the forum and title of his speech "*Monetary Policy in the Context of COVID*".

Summer Daze, Fiscal Haze

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Ottawa announced this week that the flagship COVID-19 support program, **the Canada Emergency Response Benefit (CERB) will be extended by 8 weeks, to 24 weeks**. The concern was that those who began the program as of March 15th would run off a payment cliff after the original term ended in early July. The alternate concern is that a $2,000/mo. benefit, extended through the summer, will create a significant disincentive to re-enter the job market right as businesses are allowed to open back up—that could be especially true in industries, like accommodation & food, where positions tend to be less permanent in nature. Ottawa has acknowledged this, but beyond ticking a box on the application form, there's little to prevent such behaviour. At any rate, as of June 4th, there have been 8.4 mln unique applications approved, worth a total of $43.5 bln. Meantime, **Canada Emergency Wage Subsidy (CEWS)** take-up has been low versus wide use of the CERB program. Peak CEWS employment coverage was 2.7 mln earlier in the pandemic. Notably, that coverage has fallen sharply in recent weeks, likely as small businesses have reopened and jobs have started to come back, or as some have presumably just shifted into CERB.

From a fiscal perspective, **Ottawa's latest cost estimates peg the CERB at $53.4 bln** for FY20/21, before accounting for the extension, **and the CEWS at $55.6 bln**. On the latter, the cost has run at only $13.3 bln about halfway through the program, and use has fallen sharply in recent weeks. So there could ultimately be ample available dollars there to cover the lengthened CERB program, leaving the deficit in-line with recent projections. On that note, the PBO's updated scenario, released this week, pegs the deficit at $256 bln, little changed from its April scenario. Below the surface, ramped-up program costs have been largely offset by less-negative economic assumptions—the PBO now assumes a 6.8% decline in real GDP in 2020, which is closer to our -6.0% call than the -12.0% assumed in April. We judge that about $250 bln on the deficit, or just over 11% of GDP, is roughly the number we'll see when Ottawa publishes a fiscal outlook on July 8th.

As an aside, **Saskatchewan**, **Prince Edward Island** and **Quebec** all posted updated budgets/fiscal updates this week. It's looking increasingly likely that **most provinces will be running deficits in the 2%-to-3% of GDP range** this year, as expected—mileage will vary, of course, with some chunkier deficits out there, too.

Not All Clear Yet

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In case anyone was worried that all of the encouraging signals from the global economy would prompt central banks to pull back some of their stimulus....don't sweat it. It's going to take a whole lot more before that happens. Federal Reserve Chair Powell made that pretty clear recently, as his biggest concern is the labour market, and what will "*likely be a significant portion*" still without a job even once the recovery takes hold. Remember, they're "*not even thinking about thinking about raising rates*".

And it is not just the Fed. This week saw a few central banks stay on the sidelines, including the Norges Bank, the SNB, and the BoJ. However, not the **Bank of England**. It left the official lending rate at 0.10%, but raised the target for asset purchases by £100 bln to £745 bln, even as the economy reopens and a recovery is tentatively taking place. This is the second time this year that it did just that; in March, during the height of the coronavirus, the Bank jumpstarted the facility by £200 bln to £645 bln. The market looked for the latest move after the recent GDP report showed that the economy was hammered by a record 20.4% in April. But, Governor Bailey didn't seem too perturbed, acknowledging that it was a "*dramatic and big number, but actually it's not a surprising number.*"

However, four-year low inflation, along with a whole host of generally negative jobs data likely cemented the Bank's decision. The Minutes from the MPC's meeting seemed to delve into the labour market more than usual, possibly given the murky nature of the data in the current situation. The **jobless rate** remained at a low 3.9% in April, but this likely reflected workers being unable to look for work due to social-distancing restrictions, or because some were "*disincentivised*" from looking. But other indicators, such as **jobless claims** (up 1.5 million in April and May), a 428,908 dive in April **employment**, the most in 6½ years, and a record 165,000 plunge in **job vacancies** in the three months to April, point to a labour market that has "*weakened materially*". But, the true nature of the state of employment has been masked by the many government programs that were rolled out during the pandemic. These include the **Coronavirus Job Retention Scheme** (CJRS), which has furloughed over six million workers, while the **Self-Employment Income Support Scheme** has covered 2.5 million; the combined 8.5 million workers is 25% of total employment.

When these programs end (CJRS runs until the end of October), the U.K. government will have a much clearer picture of the labour market's health. Don't be surprised if some of the programs are extended. That is likely why the committee isn't planning to boost the APF further. "*The Committee expected the new asset purchase programme to be completed, and the total stock of purchases to reach £745 bln, around the turn of the year.*"

Bottom Line: Government programs designed to support businesses and workers are clearly helping. But they're also masking, or possibly delaying, the inevitable. Central banks will keep a watchful eye on these developments.

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

Canada

- Bracing for a massive drop in April GDP
- BoC Gov. Macklem: *"it's going to be a long way out of this hole"*

Good News

- **Existing Home Sales** +56.9% (May)
- **MLS Home Price Index** +5.3% y/y (May)
- **New Housing Price Index** +0.1% (May)
- **ADP Employment** +208,364 (May)—but prior month revised down massively
- **Global Investors** bought a net $49.0 bln of Canadian securities (Apr.)

Bad News

- **Retail Sales** -26.4% (Apr.)—but May estimate +19.1%
- **Retail Sales Volumes** -25.2% (Apr.)
- **Wholesale Trade Volumes** -21.5% (Apr.)
- **Manufacturing Sales Volumes** -26.0% (Apr.)
- **Manufacturing New Orders** -31.3% (Apr.)
- **Consumer Prices** -0.4% y/y (May)—slowest pace in 11 years

United States

- Hopes for more fiscal stimulus push stocks up...
- ...even as new virus cases climb
- Fed to start buying individual corporate bonds
- Chair Powell vows to leave *"foot on the gas"*

Good News

- **Retail Sales** +17.7% (May)
- **Industrial Production** +1.4% (May)—and **Capacity Utilization** +0.8 ppts to 64.8%
- **Housing Starts** +4.3% to 974,000 a.r. (May)
- **Building Permits** +14.4% to 1.22 mln a.r. (May
- **NAHB Housing Market Index** +21 pts to 58 (June)
- **New Mortgage Applications** +3.5% (June 12 week)—9th increase in a row
- **Empire State Manufacturing Survey** +9.5 pts to 50.0; **Philly Fed Index** +11 pts to 53.7 (June) —both on an ISM-adjusted basis
- **Leading Indicator** +2.8% (May)

Bad News

- **Continuing Claims** down only 62k to 20,544k (June 6 week)—very disappointing
- **Business Inventories** -1.3% (Apr.)
- **Global Investors** sold a net $150.2 bln of U.S. securities (Apr.)
- **Current Account Deficit** little changed at $104.2 bln (Q1)

Japan

- BoJ increases loans to help firms from ¥75 trln to ¥110 trln
- Tokyo raises economic outlook for the first time since 2018

Bad News

- **Exports** -28.3% y/y; **Imports** -26.2% y/y (May)
- **Consumer Prices** +0.1% y/y (May)—and **core** -0.2% y/y
- **Tertiary Industry Index** -6.0% (Apr.)

Europe

- BoE ups bond buying by £100 bln to £745 bln
- PM Johnson hints at a *"very good"* chance of EU/UK trade deal by July

Good News

- **Germany—ZEW Survey** +12.4 pts to 63.4 (June) —14-yr high
- **U.K.—Retail Sales (incl. fuel)** +12.0% (May)
- **U.K.—GfK Consumer Confidence** +6 pts to -30 (June P)

Bad News

- **Euro Area—Trade Surplus** shrank to €1.2 bln (Apr.)
- **Italy—Industrial Orders** -32.2% (Apr.)
- **U.K.—Jobless Claims** +528,900 (May)—following April's 1,032,700 surge
- **U.K.—Jobless Rate** steady at 3.9% (3 mths to Apr.)—but due to workers unable to look for work (lockdown), or disincentivized from looking
- **U.K.—Consumer Prices** slowed to +0.5% y/y (May)—slowest in four years
- **U.K.—Average Weekly Earnings (ex. Bonus)** eased to +1.7% y/y

Other

- China to increase U.S. agricultural purchases
- PBoC adds more liquidity for the first time since February
- Brazil cuts Selic rate 75 bps to a record low 2.25%

Good News

- **China—Industrial Production** +4.4% y/y (May) —but below expected
- **China—Foreign Direct Investment** +7.5% y/y (May)

Bad News

- **China—Retail Sales** -2.8% y/y (May)
- **China—Fixed Asset Investment** -6.3% y/y (Jan.-to-May)
- **Australia—Employment** -227,700 (May)—and **Jobless Rate** +0.7 ppts to 18½-year high of 7.1%
- **New Zealand—Real GDP** -1.6% q/q (Q1)—first decline in a decade

Digital Immunity

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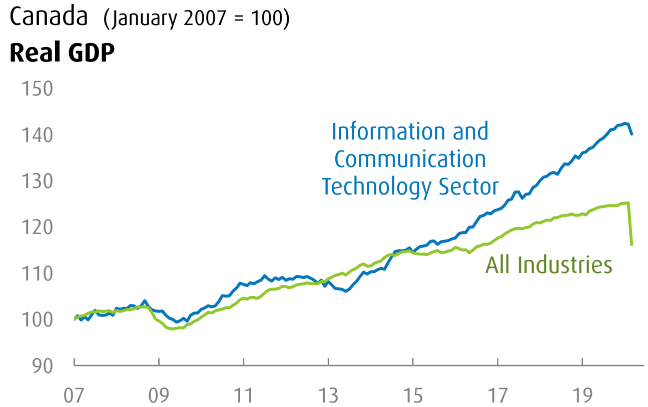
With Canada's economy and workers crushed by COVID-19 and low energy prices, there has **never been a better time for the high-tech sector to carry the torch.** Though still relatively small, the sector is growing rapidly and can only benefit from an acceleration in online shopping and remote working, activities that rely on efficient, high-speed digital technology. While industries such as leisure, hospitality and travel will struggle well after the peak of the pandemic has passed, the high-tech sector appears set to thrive, partly immunizing the economy.

Few sectors have grown faster than Information and Communications Technologies (ICT). Led by a number of high-flying homegrown companies (most notably Shopify) and a rapid expansion of U.S. technology giants north of the border, it has consistently outperformed the national economy in recent years (*Chart 1*). From 2014 to 2019, ICT expanded 4.3% per year, more than double aggregate growth (2.0%) and almost twice as fast as all services-producing industries (2.2%). Even as the economy decelerated in 2018 and 2019, the sector strengthened to a near 5% pace. And, while real GDP contracted 8.2% annualized in the first quarter of this year, the ICT sector slipped just 0.4%.

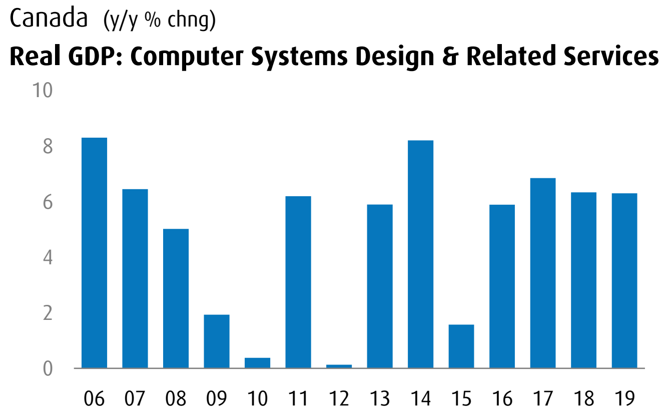
ICT accounted for 4.8% of Canada's GDP in 2019, up from 4.2% in 2007. That's more than twice the size of the hard-hit accommodation and food services sector. Though smaller than the energy sector (9.2%), the latter share has made no headway since 2007.

Chart 1
Digital Power



Sources: BMO Economics, Haver Analytics

Chart 2
Strength By Design



Sources: BMO Economics, Haver Analytics

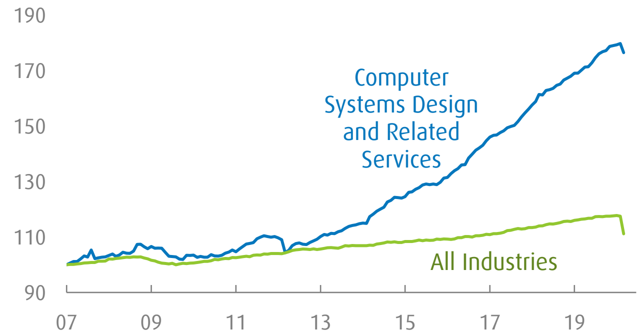
About **90% of Canadian ICT firms produce software and computer services** and another 3.4% provide communications services, while wholesalers and manufacturers round out the rest. The sector is comprised of over 41,000 companies (in 2018) that employ 652,000 workers (3.5% of total) who earn an average salary 49% above the national norm [1]. With average growth of 5.8% between 2014 and 2019, computer systems design (and related services) leads the sector (*Chart 2*). This industry, which includes software programmers, has been one of the fastest growing in the past six years. Only a few much smaller industries, such as airlines and film, have expanded faster.

It's not hard to understand why ICT has flourished even as the rest of the economy faded in recent years—it **thrives on innovation**. Digital devices are not only much sought after by nearly everyone but often trigger ideas that lead to new goods and services. Innovation also attracts investors in search of big profits. Unlike the energy sector, digital firms are less challenged to reduce an often-smaller carbon footprint. Moreover, businesses are compelled to invest in digital technologies such as AI and robotics to remain competitive.

ICT has been a stable source of jobs for Canadians. Employment in **computer systems design and related services expanded 7.5% on average** between 2014 and 2019 *(Chart 3)*. The quarter million workers in this industry accounted for 1.5% of all industry jobs in 2019. While other industries shed 5.4% of their staff in March 2020, computer-systems design lost a lesser 1.9%.

Chart 3
Computing Jobs

Canada (January 2007 = 100)
Employment



Sources: BMO Economics, Haver Analytics

Most Canadian ICT companies are small. About 85% have fewer than 10 workers (in 2018), though 102 employ over 500 people [2]. Many are subsidiaries of multinational firms based in the U.S. Foreign firms are attracted to Canada's welcoming immigration policies, stable political system, well-educated population and relatively low industry wages. A streamlined visa system —Global Skills Strategy—has cut application times to as little as two weeks for some high-tech positions. By contrast, increased restrictions have impeded U.S. companies from filling a surplus of high-tech jobs. The average salary of a high-tech worker was US$74,000 in Toronto in 2019, compared with $133,000 in New York and $145,000 in San Francisco [3].

Many large U.S. technology firms have expanded in Canada, including Google, Microsoft, Intel, Twitter, Uber, Facebook and Amazon. The latter is building an office tower in Vancouver that will house 3,000 more workers. Toronto, Vancouver, Montreal, Ottawa and Kitchener-Waterloo have vibrant technology clusters. Toronto is ranked third in North America for high-tech talent, after San Francisco and Seattle, while Vancouver and Montreal filled the number 12 and 13 spots [4]. From 2013 to 2018, Toronto was the second fastest creator of high-tech jobs (80,100), behind only San Francisco (88,500), and it ranked first in percentage terms (+54%).

Though growing fast, **Canada's ICT sector lags behind many advanced countries.** Ireland, South Korea, and Japan have ICT shares in excess of 7% of GDP (at least based on 2012 data), while the U.S. and the U.K. are above 6% [5]. This may, in part, explain the nation's lagging productivity, as ICT tends to generate big gains in output per worker.

The Bottom Line: One of the fastest growing sectors of the Canadian economy is about to get a booster shot, as more shopping and work moves online. Though currently too small to meaningfully drive the economy, the ITC sector is a beacon of light in a very cloudy economic outlook.

Endnotes:

[1] Statistics Canada. Canadian ICT Sector Profile 2018. https://www.ic.gc.ca/eic/site/ict-tic.nsf/eng/h_it07229.html [^]

[2] Statistics Canada. Ibid. [^]

[3] Hired. "2019 State of Salaries Report" https://hired.com/page/state-of-salaries/average-tech-salary-by-city [^]

[4] CBRE Limited. "2019 Scoring Tech Talent" https://www.cbre.ca/en/about/media-center/torontos-tech-trajectory-sees-the-city-rise-to-no-3-in-cbres-north-american-talent-ranking [^]

[5] IMF. "Measuring the Digital Economy" February 28, 2018. Page 8. https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/04/03/022818-measuring-the-digital-economy [^]

Economic Forecast Summary for June 19, 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	-40.0	42.0	10.0	7.0	4.2	2.5	2.5	1.7	-6.0	6.0
Consumer Price Index (y/y % chng)	1.8	-0.2	0.1	0.2	0.5	2.1	1.8	1.7	1.9	0.4	1.5
Unemployment Rate (percent)	6.3	12.9	9.7	9.2	8.6	8.1	7.7	7.4	5.7	9.5	8.0
Housing Starts (000s : a.r.)	208	182	183	189	205	205	220	228	209	190	215
Current Account Balance ($blns : a.r.)	-44.4	-72.8	-71.4	-67.5	-64.1	-62.5	-60.2	-59.2	-47.0	-64.0	-61.5
Interest Rates	(average for the quarter : %)										
Overnight Rate	1.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	1.75	0.50	0.25
3-month Treasury Bill	1.29	0.20	0.20	0.20	0.20	0.20	0.20	0.20	1.65	0.45	0.20
10-year Bond	1.20	0.60	0.70	0.80	0.90	1.00	1.05	1.15	1.59	0.80	1.00
Canada-U.S. Interest Rate Spreads	(average for the quarter : bps)										
90-day	16	7	1	1	1	1	1	1	-45	6	1
10-year	-18	-10	-17	-15	-14	-13	-11	-10	-56	-15	-12
UNITED STATES											
Real GDP (q/q % chng : a.r.)	-5.0	-40.0	36.0	7.0	5.9	5.2	4.1	3.2	2.3	-5.5	5.0
Consumer Price Index (y/y % chng)	2.1	0.5	0.7	0.6	0.8	2.0	1.7	1.6	1.8	1.0	1.5
Unemployment Rate (percent)	3.8	13.0	9.8	9.0	8.1	7.3	6.6	6.2	3.7	8.9	7.0
Housing Starts (mlns : a.r.)	1.48	1.00 ↑	1.25 ↑	1.31 ↓	1.28	1.29	1.29	1.30	1.30	1.26 ↑	1.29
Current Account Balance ($blns : a.r.)	-417	-442 ↓	-475 ↓	-486 ↓	-496 ↓	-500 ↓	-508 ↓	-515 ↓	-480	-455 ↓	-505 ↓
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	0.15	0.15	0.15	0.15	0.15	0.15	0.15	2.10	0.40	0.15
10-year Note	1.38	0.70	0.85	0.95	1.05	1.10	1.15	1.25	2.14	0.95	1.15
EXCHANGE RATES	(average for the quarter)										
US¢/C$	74.4	72.1	73.7	74.0	74.3	74.5	74.8	75.1	75.4	73.6	74.7
C$/US$	1.34	1.39	1.36	1.35	1.35	1.34	1.34	1.33	1.33	1.36	1.34
¥/US$	109	108	108	110	111	112	113	115	109	109	113
US$/Euro	1.10	1.10	1.14	1.15	1.15	1.15	1.16	1.16	1.12	1.12	1.16
US$/£	1.28	1.24	1.26	1.25	1.26	1.27	1.28	1.30	1.28	1.26	1.28

Blocked areas mark BMO Capital Markets forecasts; up and down arrows (↑↓) indicate forecast changes; spreads may differ due to rounding

Canada

There are no key events for this coming week.

United States

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Existing Home Sales

Monday, 10:00 am

May (e)	**4.00 mln a.r. (-7.6%)**
Consensus	*4.15 mln a.r. (-4.2%)*
Apr.	4.33 mln a.r. (-17.8%)

New Home Sales

Tuesday, 10:00 am

May (e)	**660,000 a.r. (+5.9%)**
Consensus	*630,000 a.r. (+1.1%)*
Apr.	623,000 a.r. (+0.6%)

Mortgage applications for purchases jumped more than 36% in May (on average), after falling to a five-year low in April, as housing demand rebounded as the lockdowns were lifted. However, **existing home sales** for May, because they are measured at the time of closing and not at contract signing, will still mostly reflect lockdown-dampened activity. Note that pending home sales in April dropped 21.8%. As such, existing sales should test the 4.0 million mark (-7.6%) in May, the lowest level in 9½ years. Concurrently measured **new home sales** should jump 5.9% to 660,000. The NAHB's metric that measures present sales increased to 42 in May and 63 in June, after more than halving to an 8½-year low of 36 in April. With incomes rebounding and mortgage borrowing costs at record low levels, new and existing home sales should continue recovering in the months ahead despite more cautious (post-pandemic) consumers.

Durable Goods Orders

Thursday, 8:30 am

		Ex. Transport
May (e)	**+9.2%**	**+7.9%**
Consensus	*+10.3%*	*+2.8%*
Apr.	-17.7%	-7.7%

	Nondef. Cap. Goods ex. Air
May (e)	**+1.6%**
Consensus	*+1.5%*
Apr.	-6.1%

As factories reopened in May, aggregate production picked up 3.8% after tumbling 20.0% during March-April. Although the ISM's new orders metric registered a lacklustre increase in May (it was 31.8 vs. 27.1 in April), this was probably dampened by the preponderance of smaller firms. Apart from those in the aircraft sector, we suspect larger firms ramped up their ordering pace more steeply, bracing for "make-up" production schedules during the summer months. **Total durable goods orders** should increase 9.2% in May, after falling 31.5% during March-April, and 7.9% ex-transportation. Beyond a decent summer rebound, orders momentum might slow amid more post-pandemic caution concerning capex.

Personal Spending & Income

Friday, 8:30 am

	Personal Spending	**Personal Income**
May (e)	**+9.9%**	**-6.0%**
Consensus	*+8.9%*	*-6.0%*
Apr.	-13.6%	+10.5%

	Core PCE Price Index	
May (e)	**unch**	**+0.9% y/y**
Consensus	*unch*	*+1.0% y/y*
Apr.	-0.4%	+1.0% y/y

Personal income should drop 6.0% in May, after jumping 10.5% in April. The CARES Act's $300 billion in tax rebates was mostly paid in April. So, this income boost will drop sharply in May, to $84 billion (assuming a 100% total payout) from $216 billion in April. However, the average number of unemployment insurance beneficiaries increased to 22.0 million in May from 17.0 million in April, lifting total UI payments. Meanwhile, reflecting the 2.5 million rise in payroll employment, employee compensation should increase 1.4%, after falling 7.7% in April (-20.7 million jobs) and 3.2% in March (-1.4 million jobs). With lots of savings to draw down, and with May retail sales more than recovering the record April drop, we expect **personal consumption expenditures** to increase 9.9% after plummeting a record 13.6% in April. And, with the CPI as a guide (headline and core both down 0.1%), we look for flat readings for the headline and core PCE price indices, which will pull the annual change in the latter down to 0.9% y/y from 1.0% in April.

Financial Markets Update for June 19, 2020

		Jun 19 [1]	Jun 12	Week Ago	4 Weeks Ago	Dec 31, 2019
					(basis point change)	
Canadian Money Market	Call Money	0.25	0.25	0	0	-150
	Prime Rate	2.45	2.45	0	0	-150
U.S. Money Market	Fed Funds (effective)	0.25	0.25	0	0	-150
	Prime Rate	3.25	3.25	0	0	-150
3-Month Rates	Canada	0.19	0.18	1	-6	-147
	United States	0.15	0.15	0	3	-140
	Japan	-0.13	-0.12	-1	0	-3
	Eurozone	-0.41	-0.37	-4	-13	-2
	United Kingdom	0.17	0.20	-3	-9	-63
	Australia	0.10	0.10	0	0	-81
2-Year Bonds	Canada	0.30	0.28	2	2	-139
	United States	0.19	0.19	-1	2	-138
10-Year Bonds	Canada	0.55	0.53	2	5	-115
	United States	0.71	0.71	1	5	-121
	Japan	0.01	0.01	0	2	3
	Germany	-0.42	-0.44	3	8	-23
	United Kingdom	0.24	0.21	3	7	-58
	Australia	0.86	0.91	-5	-1	-51
Risk Indicators	VIX	31.2	36.1	-4.9 pts	3.0 pts	17.4 pts
	TED Spread	16	17	-1	-10	-21
	Inv. Grade CDS Spread [2]	74	80	-6	-13	29
	High Yield CDS Spread [2]	482	504	-22	-143	202
					(percent change)	
Currencies	US¢/C$	73.68	73.59	0.1	3.1	-4.3
	C$/US$	1.357	1.359	—	—	—
	¥/US$	106.99	107.38	-0.4	-0.6	-1.5
	US$/€	1.1185	1.1256	-0.6	2.6	-0.2
	US$/£	1.236	1.254	-1.4	1.5	-6.8
	US¢/A$	68.63	68.66	0.0	5.0	-2.3
Commodities	CRB Futures Index	138.88	134.32	3.4	7.2	-25.2
	Oil (generic contract)	40.00	36.26	10.3	20.3	-34.5
	Natural Gas (generic contract)	1.68	1.73	-3.1	-3.1	-23.4
	Gold (spot price)	1,739.16	1,730.75	0.5	0.3	14.6
Equities	S&P/TSX Composite	15,595	15,257	2.2	4.6	-8.6
	S&P 500	3,135	3,041	3.1	6.1	-3.0
	Nasdaq	10,027	9,589	4.6	7.5	11.7
	Dow Jones Industrial	26,233	25,606	2.4	7.2	-8.1
	Nikkei	22,479	22,305	0.8	10.3	-5.0
	Frankfurt DAX	12,353	11,949	3.4	11.6	-6.8
	London FT100	6,292	6,105	3.1	5.0	-16.6
	France CAC40	4,990	4,839	3.1	12.3	-16.5
	S&P ASX 200	5,943	5,848	1.6	8.1	-11.1

[1] = as of 10:55 am *[2] = One day delay*

Global Calendar — June 22–June 26

	Monday June 22	Tuesday June 23	Wednesday June 24	Thursday June 25	Friday June 26
Japan		**Manufacturing PMI** **June P** May 38.4 **Services PMI** **June P** May 26.5 **Composite PMI** **June P** May 27.8 **Department Store Sales** **May** Apr. -72.8% y/y **Machine Tool Orders** **May F (e) -52.8% y/y** Apr. -48.3% y/y	**BoJ Summary of Opinions from June 15-16 meeting**	**All-Industry Activity Index** **Apr. (e) -6.6%** Mar. -3.8%	
Euro Area	**EURO AREA** **Consumer Confidence** **June A (e) -15.0** May -18.8	**EURO AREA** **Manufacturing PMI** **June P (e) 43.5** May 39.4 **Services PMI** **June P (e) 40.5** May 30.5 **Composite PMI** **June P (e) 41.0** May 31.9	**GERMANY** **ifo Business Climate** **June (e) 85.0** May 79.5 **FRANCE** **Business Confidence** **June (e) 73** May 59	**EURO AREA** **ECB Minutes from June 4 meeting** **GERMANY** **GfK Consumer Confidence** **July (e) -11.0** June -18.9	**EURO AREA** **M3 Money Supply** **May (e) +8.6% y/y** Apr. +8.3% y/y **GERMANY** **Retail Sales**[D] **May (e) +3.3%**[c] **-4.0% y/y**[c] Apr. -6.5% -6.4% y/y **FRANCE** **Consumer Confidence** **June (e) 94** May 93 **ITALY** **Consumer Confidence** **June (e) 97.5** May 94.3
U.K.		**Manufacturing PMI** **June P (e) 45.0** May 40.7 **Services PMI** **June P (e) 38.0** May 29.0 **Composite PMI** **June P (e) 40.5** May 30.0			
Other			**NEW ZEALAND** **RBNZ Monetary Policy Meeting** **GLOBAL** **IMF's revised forecasts expected**	**CHINA** **Markets Closed** **MEXICO** **Central Bank of Mexico Monetary Policy Meeting**	**CHINA** **Markets Closed**

[c] = consensus [D] = date approximate

Upcoming Policy Meetings | Bank of England: Aug. 6, Sep. 17, Nov. 5 | European Central Bank: July 16, Sep. 10, Oct. 29

Canada

Monday June 22

11:00 am **BoC Governor Macklem speaks on "Monetary Policy in the Context of COVID" in videoconference with the Canadian Clubs and Cercles canadiens (questions from press at 12:20 pm)**

BoC Buyback: 30-year sector

Tuesday June 23

10:30 am — 3-, 6- & 12-month bill auction $15.0 bln (new cash $2.6 bln)

BoC Buyback: Under 2-year sector

Wednesday June 24

BoC Buyback: 2-year sector

Thursday June 25

8:30 am — **Survey of Employment, Payrolls, and Hours (Apr.)**

Noon — 5-year bond auction $5.5 bln

BoC Buyback: 5-year sector

Friday June 26

BoC Buyback: 10-year sector

United States

Monday June 22

8:30 am — **Chicago Fed National Activity Index**

May	
Apr.	-16.74

10:00 am — **Existing Home Sales**

May (e)	**4.00 mln a.r. (-7.6%)**
Consensus	*4.12 mln a.r. (-5.0%)*
Apr.	4.33 mln a.r. (-17.8%)

Fed Speaker: Minneapolis' Kashkari (6:30 pm)

11:30 am — 13- & 26-week bill auctions $111 bln

Tuesday June 23

9:45 am — **Markit PMIs (June P)**

10:00 am — **New Home Sales**

May (e)	**660,000 a.r. (+5.9%)**
Consensus	*630,000 a.r. (+1.1%)*
Apr.	623,000 a.r. (+0.6%)

10:00 am — **Richmond Fed Manufacturing Index**

June (e)	**-11** [c]
May	-27

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

11:30 am — 119-day cash management bill auction $40 bln

11:30 am — 42-day cash management bill auction $40 bln

1:00 pm — 2-year note auction $46 bln

1:00 pm — 273-day cash management bill auction $20 bln

Wednesday June 24

7:00 am — **MBA Mortgage Apps**

June 19	
June 12	+8.0%

9:00 am — **FHFA House Price Index**

Apr. (e)	**+0.1%**	**+5.5% y/y**
Consensus	*+0.1%*	*+5.5% y/y*
Mar.	+0.1%	+5.9% y/y

Fed Speakers: Chicago's Evans (12:30 pm); St. Louis' Bullard (3:00 pm)

1:00 pm — 5-year note auction $47 bln

1:00 pm — 2[R]-year FRN auction $20 bln

Thursday June 25

8:30 am — **Initial Claims**

June 20 (e)	**1,400k (-108k)**
June 13	1,508k (-58k)

8:30 am — **Continuing Claims**

June 13	
June 6	20,544k (-62k)

8:30 am

	Real GDP	GDP Deflator
Q1 F (e)	**-5.0% a.r.**	**+1.4% a.r.**
Consensus	*-5.0% a.r.*	*+1.4% a.r.*
Q1 P	-5.0% a.r.	+1.4% a.r.
Q4	+2.1% a.r.	+1.3% a.r.

8:30 am — **Pre-Tax Corporate Profits**

Q1 F (e)	**-8.5% y/y**
Q1 P	-8.5% y/y
Q4	+2.2% y/y

8:30 am — **Goods Trade Deficit**

May A (e)	**$68.0 bln** [c]
Apr.	$70.7 bln

8:30 am — **Wholesale and Retail (May A)**

8:30 am

	Durable Goods Orders	Ex. Transport
May (e)	**+9.2%**	**+7.9%**
Consensus	*+10.5%*	*+2.5%*
Apr.	-17.7%	-7.7%

8:30 am — **Nondef. Cap. Goods ex. Air**

May (e)	**+1.6%**
Consensus	*+1.5%*
Apr.	-6.1%

11:00 am — **Kansas City Fed Manufacturing Activity**

June (e)	**-10** [c]
May	-19

Fed releases results of Comprehensive Capital Analysis and Review

Fed Speaker: Atlanta's Bostic (11:00 am)

11:00 am — 13- & 26-week bill auction announcements

11:30 am — 4- & 8-week bill auctions

1:00 pm — 7-year note auction $41 bln

Friday June 26

8:30 am

	Personal Spending	Personal Income
May (e)	**+9.9%**	**-6.0%**
Consensus	*+8.9%*	*-6.0%*
Apr.	-13.6%	+10.5%

8:30 am — **Core PCE Price Index**

May (e)	**unch**	**+0.9% y/y**
Consensus	*unch*	*+1.0% y/y*
Apr.	-0.4%	+1.0% y/y

10:00 am — **University of Michigan Consumer Sentiment**

June F (e)	**78.9** [c]
June P	78.9
May	72.3

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

Upcoming Policy Meetings | Bank of Canada: July 15, Sep. 9, Oct. 28 | FOMC: July 28-29, Sep. 15-16, Nov. 4-5

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