A Midcycle Night's Dream

by Avery Shenfeld

There are a lot of things for the bond market to worry about. Inflation has heated up a bit (see pages 6-8), and to contain it we'll need rate hikes to slow economic growth. Quantitative easing will be coming to an end overseas, and monetary tightening isn't as far away in those markets as some think (pages 9-11). In turn, that prospect will apply some upward pressure to long corporate spreads (pages 3-5).

Yet our sovereign bond forecast through 2019 isn't that scary, with US 10-year rates plateauing at 3.3%, and Canadian 2s and 5s looking to be reasonably valued at today's levels. Indeed, for a global economy still in the middle of an expansion, that's more of a pleasant midcycle night's dream than a real nightmare. Why are we so sanguine?

First, there's still lots of evidence that nominal neutral rates in this cycle, and therefore the average short rate, will be much lower than in the past. The limited appetite for developed economy industries to engage in capital spending at today's low rates tells us that real yields will have to remain fairly low. The fact that core inflation and wages have seen such a limited rebound implies that nominal neutral rates are also contained.

Moreover, in thinking about 5-year rates, the market has to put some odds on a Fed ease by 2020. Not because a recession is sure to hit that year. We are much too humble about economists' forecasting ability to make that call this far ahead.

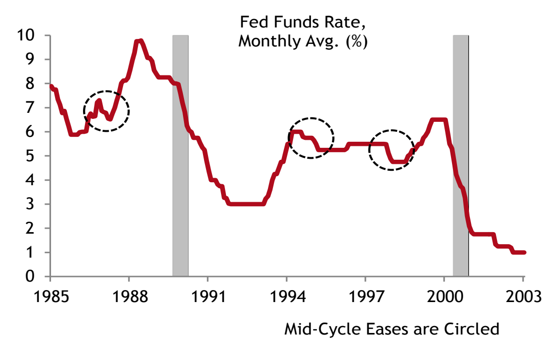
Rather, the end of maximal fiscal stimulus could be enough to reduce the pressure for monetary tightening. A swing from major stimulus to even a small fiscal drag could trim as much as a percentage point off US growth, necessitating a lighter hand on interest rates to keep the economy at full employment.

If we define a mid-cycle ease as a period of rate cuts that didn't come directly ahead of a recession, such mid-cycle eases are a lot more common than those with "only" 20 years on a bond desk might think.

While the cycle from 2001-2007 didn't see a mid-course adjustment, most prior cycles did witness a downward correction in rates between two periods of tightening, with no recession (Chart). The 1987 stock market crash, a temporary slowing in the mid-1990s, and the 1998 Asian crisis each saw the Fed ease by 75 basis points.

So we don't need to fear an impending recession to have short rates hit their peak in 2019, and to see some value in the belly of the curve now that the next year and half of hikes is essentially priced in. It's in the long end, which will feel the brunt of a QE unwind from global central banks, where rates still have some ways to go.

Fed Midcycle Rate Cuts



Source: FRB, CIBC

Economics

Avery Shenfeld
(416) 594-7356
avery.shenfeld@cibc.com

Benjamin Tal
(416) 956-3698
benjamin.tal@cibc.com

Andrew Grantham
(416) 956-3219
andrew.grantham@cibc.com

Royce Mendes
(416) 594-7354
royce.mendes@cibc.com

Katherine Judge
(416) 956-6527
katherine.judge@cibc.com

RATES STRATEGY
Ian Pollick
(416) 594-7057
ian.pollick@cibc.com

http://economics.cibccm.com

MARKET CALL

- The ground seems to be shifting on the trade relations file, with the US trying to mend fences with the EU and its NAFTA partners. Signs that the US is now rushing to get at least a preliminary NAFTA deal done, and its willingness to give Europe an exemption from auto tariffs while it launches trade talks with the EU, reduce the odds that Canada will face an escalating trade war that hits autos, and increase prospects for diminished NAFTA uncertainties.

- That has significant implications for our near-term calls for the Bank of Canada and the Canadian dollar. We've moved up the timetable for the next rate hike to October (from Q1 2019), and also strengthened our target for the loonie in September.

- Beyond that, however, our bond and FX outlook hasn't materially changed, since we had already assumed a NAFTA deal would be reached in 2019. Fed hikes will work to slow US growth next year, taking the wind out of the US dollar against overseas majors, but also dampening the need for more than a 2% overnight rate in Canada, where households will be more sensitive than in the US given higher debt loads and mortgages that reset much sooner. We still see upward pressure on long rates from the unwind of QE in the US and the end of net buying by the ECB.

INTEREST & FOREIGN EXCHANGE RATES

		2018	2018		2019			
END OF PERIOD:		**1-Aug**	**Sep**	**Dec**	**Mar**	**Jun**	**Sep**	**Dec**
CDA	Overnight target rate	1.50	1.50	1.75	1.75	2.00	2.00	2.00
	98-Day Treasury Bills	1.44	1.45	1.70	1.75	1.90	1.95	2.00
	2-Year Gov't Bond	2.09	2.10	2.15	2.15	2.20	2.20	2.25
	10-Year Gov't Bond	2.36	2.50	2.55	2.65	2.70	2.65	2.60
	30-Year Gov't Bond	2.37	2.45	2.60	2.80	2.85	2.90	3.05
U.S.	Federal Funds Rate	1.875	2.125	2.375	2.375	2.625	2.625	2.875
	91-Day Treasury Bills	2.02	2.05	2.25	2.35	2.55	2.65	2.80
	2-Year Gov't Note	2.68	2.60	2.75	2.75	2.80	2.80	2.85
	10-Year Gov't Note	3.01	3.05	3.10	3.20	3.30	3.25	3.15
	30-Year Gov't Bond	3.13	3.25	3.45	3.50	3.50	3.55	3.60
Canada - US T-Bill Spread		-0.58	-0.60	-0.55	-0.60	-0.65	-0.70	-0.80
Canada - US 10-Year Bond Spread		-0.65	-0.55	-0.55	-0.55	-0.60	-0.60	-0.55
Canada Yield Curve (10-Year — 2-Year)		0.27	0.40	0.40	0.50	0.50	0.45	0.35
US Yield Curve (10-Year — 2-Year)		0.32	0.45	0.35	0.45	0.50	0.45	0.30
EXCHANGE RATES	CADUSD	0.77	0.78	0.76	0.76	0.78	0.76	0.77
	USDCAD	1.30	1.28	1.32	1.31	1.28	1.31	1.30
	USDJPY	112	113	111	108	106	104	104
	EURUSD	1.17	1.16	1.18	1.20	1.23	1.25	1.28
	GBPUSD	1.31	1.30	1.33	1.36	1.39	1.42	1.47
	AUDUSD	0.74	0.75	0.78	0.80	0.82	0.81	0.82
	USDCHF	0.99	1.00	0.98	0.97	0.95	0.94	0.94
	USDBRL	3.75	4.10	3.95	3.90	3.80	3.65	3.60
	USDMXN	18.6	18.5	18.3	18.5	18.7	18.8	19.0

Credit Spreads: This Time Will Be (A Bit) Different

by Avery Shenfeld, Chief Economist and
Ian Pollick, Head of North American Rates Strategy

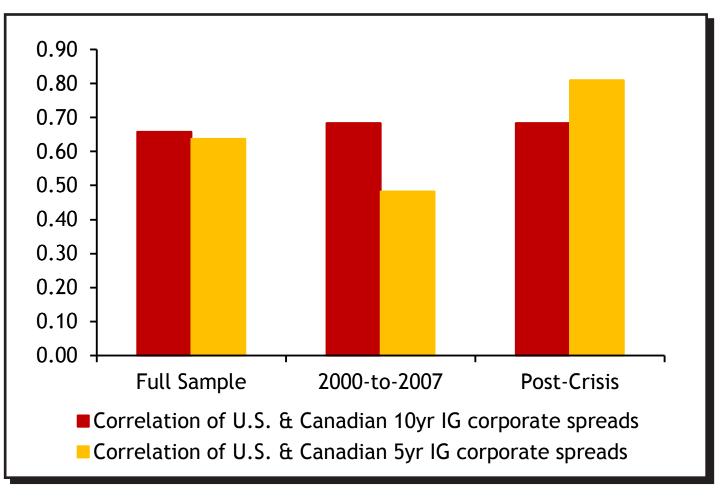
They say that the most dangerous phrase for investors is that "this time will be different", but that may well be the case for how corporate, provincial and other bond spreads behave in the next year. As long as you believe that quantitative easing had its intended impacts on fixed income markets, and we're in that camp, its unwind in the US, and subsequent phase out overseas, will also play out in a somewhat different story for spreads than we've seen in comparable phases of prior cycles.

Some of our readers would like us to narrow in on Canadian spread product, but we're limited by the shorter length of some of the key time series. That's not really an issue, however, since Canadian spreads move in such close concert with global trends. Past correlations are tight enough that in broad terms, the fate of Canadian corporate or provincial spreads will be dictated by US or global developments (Chart 1).

Cyclical Norms Would Be Bullish

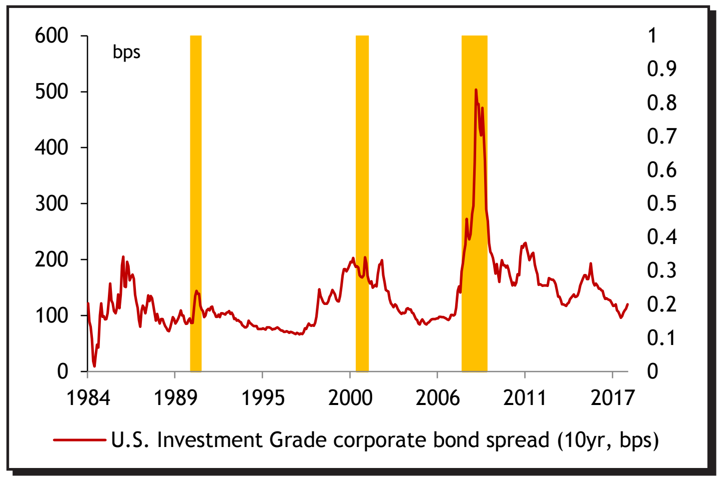
While global growth may be slowing a bit, there's nothing in the crystal ball that spells a recession this year or next. The US economy is enjoying the fruits of fiscal stimulus, and the more moderate pace of growth in Europe and Japan is still fast enough to gradually tighten labour markets. Since the biggest spikes in corporate spreads have been associated with recessions (Chart 2), and losses also mount on actual defaults in such periods, there's no outright calamity in the year ahead for spread products.

Chart 1
Canadian Spreads Tightly Follow US Spreads



Source: Haver Analytics, Bloomberg, CIBC

Chart 2
Spreads See Greatest Spikes in Recessions



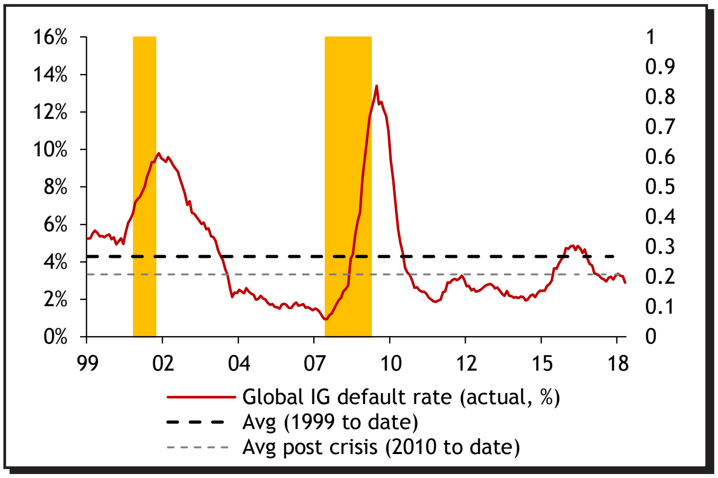
Source: Haver Analytics, CIBC

In the past, the stage of the business cycle in which sovereign yields rise typically sees corporate and other spreads narrow There's no mystery in that linkage. When the economy is strong enough for central banks to begin raising rates, it's also strong enough to generate solid corporate profits and improving sub-sovereign government revenues.

Default rates are typically tumbling as we move deeper into an expansion cycle globally (Chart 3), comforting for investors in credit products. Note that the lows in global investment grade default rates came towards the very end of the last expansion cycle in 2007, and well into the Fed's rate hike cycle. (It's worth noting that recent default rates are above those of 2007, so we can't conclude that spreads are attractive at these levels because they are wider than back then.)

Chart 3

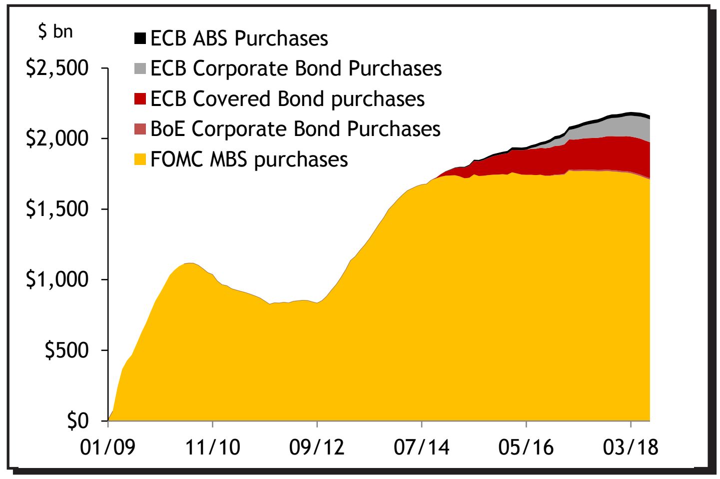
Defaults Hit Their Lows Late in the Cycle



Source: Moodys, CIBC

Chart 5

Central Bank Holdings Of Spread Products



Source: ECB, Fed, Haver Analytics, CIBC Capital Markets

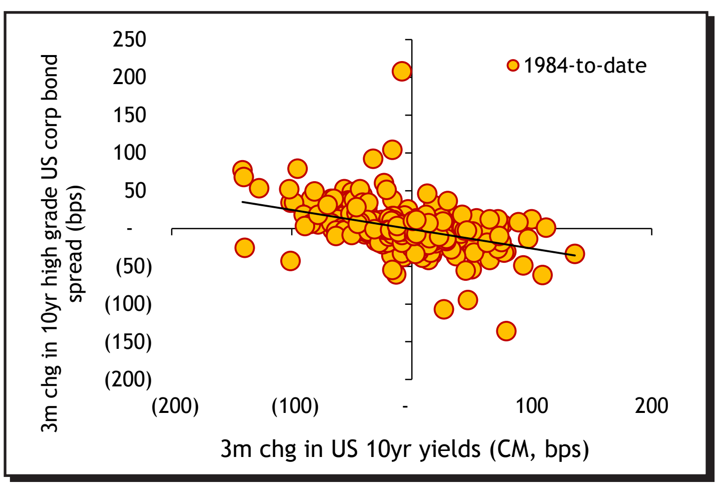
Overall, the norm is that sovereign bond yields and corporate spreads typically move in opposite directions through the business cycle. Low bond yields are associated with wider spreads, higher bond yields with tighter spreads (Chart 4). Since we expect a further climb in long rates in the US, Canada and Europe, the normal stance would be to be bullish on spread product across the curve.

What's Changed

But, if you have kept the faith that quantitative easing, and in particular, the part of that program known as "credit easing" was effective, then there's a reason to think that the credit spread response in this cycle to rising sovereign yields could be different. We now have central banks holding over $2 trillion in spread product (Chart 5), in addition to trillions in sovereign bonds. These purchases were directly aimed at reducing spreads. In the US, it was hoped they would help shore up mortgage financing, while elsewhere, the objective was to also ignite business financing by redirecting portfolio allocations towards riskier assets.

Chart 4

Bond Yields and Spreads Are Negatively Correlated



Source: HaverAnalytics, CIBC

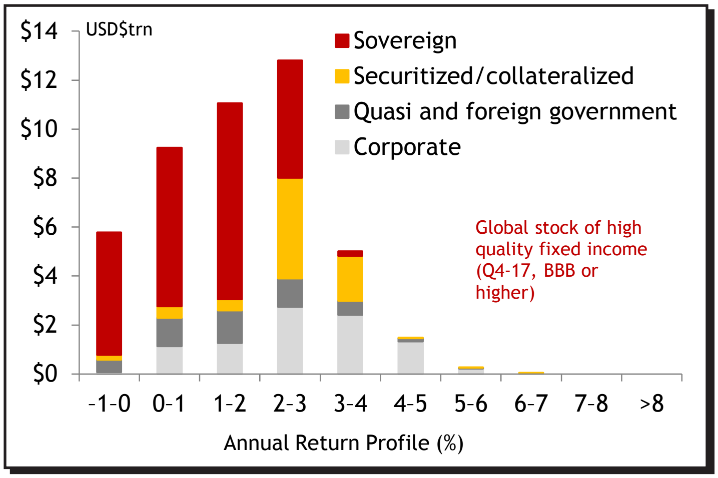
But, indirectly, central bank buying of trillions in sovereign bonds also had the impact of pulling in corporate spreads, by drying up the yields available to investors that would typically have focused on government bonds. Although yields on sovereigns are now well off their lows, an investor looking to lock in a yield of anything more than 3% simply has to look at spread product (Chart 6). The hunt for an acceptable yield in a world in which sovereigns offer so little has thereby distorted spreads to the downside.

Where Credit Spreads are At Risk...And Not

That logically implies that as investors start to build in expectations for the ECB ending its net buying after this year, and down the road, joining the US in an unwind of holdings, both sovereign yields and spreads should climb together. It also suggests that since it's at the long end where sovereign yields could look attractive enough to substitute for spread product, it's in that part of the curve where sovereign spreads will see more of the widening, resulting in a steeper credit spread curve.

Chart 6

Annual Yields Above 3%
Almost All in Spread Products



Source: IMF, Haver Analytics, CIBC

Spreads in the five years and under part of the curve are much more likely to hold ground, because, with central banks moving so slowly, sovereign yields will continue to look very unattractive. Keep your credit overweights for yield, but do so in this more protected part of the curve, not at the long end.

That also jibes with the likely timetable for default risks. At least through 2019, global economic performance should be healthy enough to limit adverse news to isolated stories in certain sectors or politically troubled emerging markets. Fiscal stimulus in the US, and still-stimulative monetary conditions overseas, will keep markets confident about the near term.

By late 2019, our forecast has yields on Treasuries and Canadas moderating somewhat. That won't, however, be a positive development for spreads, as it reflects our view that slowing economic growth, and a potential fiscal tightening in the US in 2020 and beyond, starts to put downward pressure on Fed rate expectations. The negative impact on credit products from growth concerns and default risk should stand in the way of a rally in spread products in that climate.

Canadian Inflation: A Drift to the High Side

by Benjamin Tal and Katherine Judge

A former Bank of Canada Governor once said that monetary policy is nothing more than *Economics 101*—you react to what you see. But Governor Poloz might argue that, these days, deciding what you're seeing isn't that easy. Inflation has accelerated, but the wage picture in unclear, trade issues are still somewhat uncertain, and the household debt burden could still weigh on growth.

So far, the Bank is telling us that inflation concerns "would probably dominate" policy decisions. Our assessment presented below is that inflation will remain elevated enough to support another hike this year, as long as the trade story goes well. But how hard you lean against inflation with other growth risks still present won't be that straightfoward. Do you fight inflation like there are no growth risks, or do you fight to preserve growth like there is no inflation?

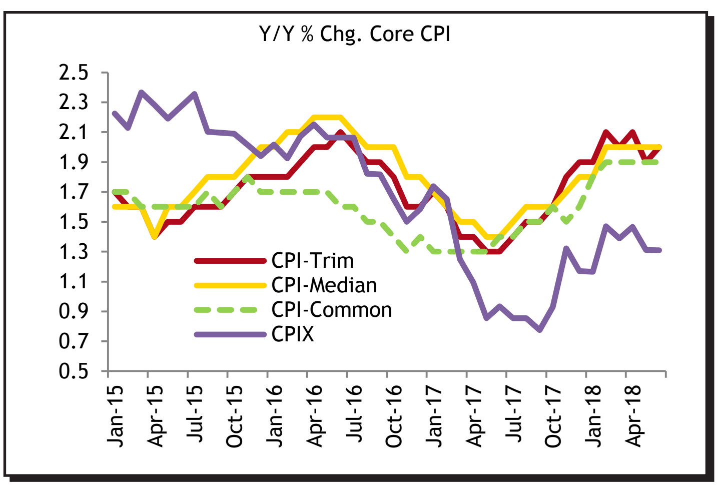
Inflation Right Where Capacity Measures Suggest it Should Be

For now, the BoC has little choice but to focus on one of the only things it can see—inflation. All measures of inflation have shown a clear acceleration trajectory since mid-2017 (Chart 1).

And as for the level, even here the picture is getting clearer. Yes, the old CPIX index (inflation minus 8 most volatile components)—that was used by the BoC for many years as a measure of core inflation, is still misbehaving as it registers an inflation reading well below the level we have seen in past cycles, given the current level of capacity measures.

Chart 1

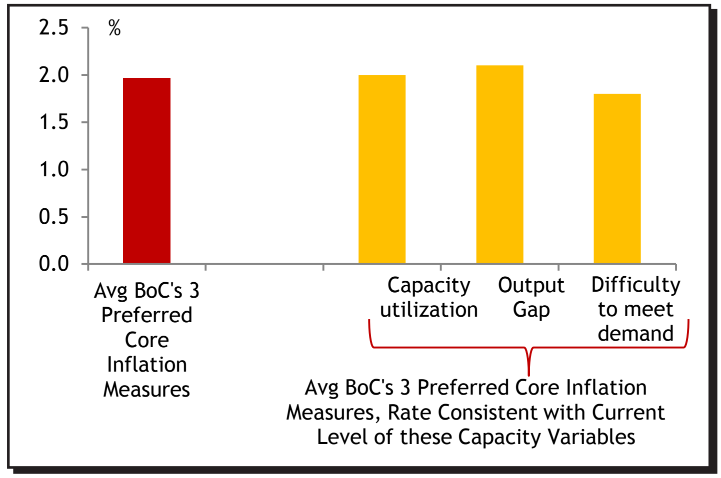
All Inflation Indicators Have Accelerated



Source: Bank of Canada, Statistics Canada, CIBC

Chart 2

New BoC Measures Show That Inflation is Right Where it Should Be



Source: Bank of Canada, Statistics Canada,, CIBC

But the Bank's new and improved measures of core inflation all behave as expected, showing core inflation at around 2%—exactly where past data suggest it should be (Chart 2). So in retrospect, the decision by the Bank to reduce its reliance on CPIX was justifiable.

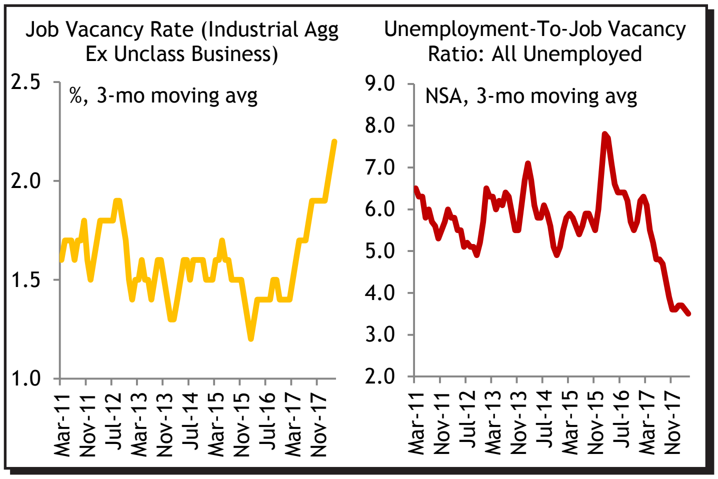
Wages Sending Mixed Signals

How sustainable is the upward trend? Part of the answer should be in the wage mechanism. But that mechanism is as clear as mud. The Labour Force Survey wage indicator is clearly pointing to rapidly accelerating wage inflation, but other measures of wage inflation are not as robust, leaving all of us scratching our heads regarding the underlying trend.

Wage indicators are volatile and must be considered within a broader context. Minimum wage increases have bolstered price gains in categories including childcare services and restaurants, on top of recent annual LFS wage growth readings having been flattered by soft prints from the prior year. The SEPH survey data showed more

Chart 3

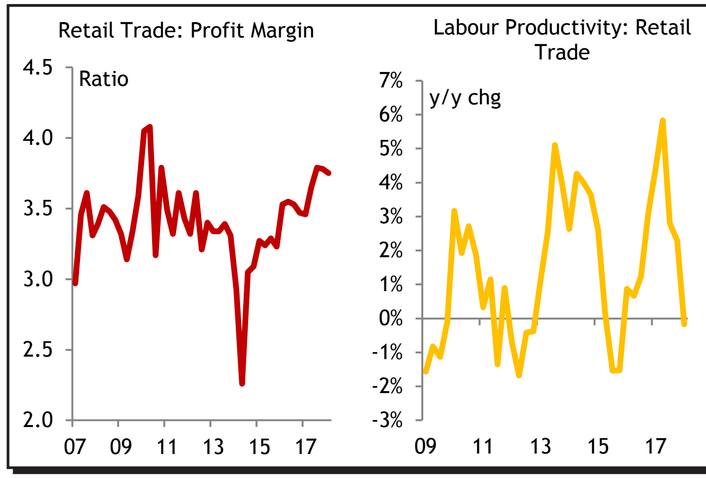
Rising Job Vacancies (L), Not Too Many Takers (R)



Source: Statistics Canada, CIBC

Chart 4

Retail Profit Margins Remain Wide (L), But Aren't Being Helped by Labour Productivity (R)



Source: Statistics Canada, CIBC

robust wage growth in May, but has shown high volatility. While some of the softness in wage growth since the recession can be explained by an aging workforce, the increased international integration of supply chains has also limited gains as competition has become fiercer. But that trend has started to shift, as goods-producing industries have seen wage growth accelerate recently, and that should catalyze stronger aggregate wage growth.

We believe that the current fundamentals of the labour market suggest that if there is a bias it should be toward some gradual acceleration in wage growth. The job vacancy rate has risen notably recently and currently sits at a record high level, while the unemployment-to-job vacancy rate is hovering around an all-time low (Chart 3). And as we suggested in our detailed look at the labour market, in many cases the trend beneath the headline numbers is even stronger.

Increased Retail Competition Not Limiting Inflation

The potential disinflationary impact of heightened competition in the retail sector was highlighted by the Bank of Canada on many occasions as a factor behind the disconnect between economic activity and inflation. We do not buy that argument. The average net profit margin in the retail sector has risen in the past few years, suggesting a very limited impact of competition on margins (Chart 4, left). That also helps dispel the theory that a rise in e-commerce activity has been a significant barrier to price gains. Indeed, e-commerce still accounts for a relatively small share of spending in Canada compared to other major economies.

Margins, of course, can mask improved efficiencies in an environment of slower price increases. But a quick glance at Chart 4, right suggests otherwise. Not only did productivity in the retail sector soften notably in the period that coincided with the acceleration of inflation, but it softened faster than the rate seen in the economy as a whole.

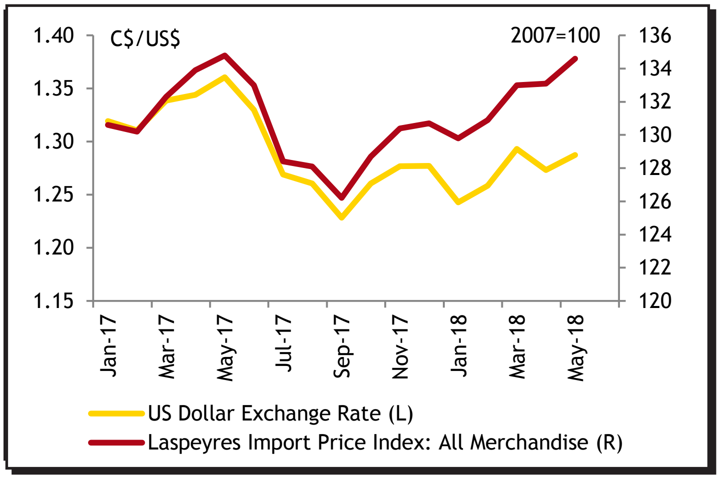
Therefore we do not see retail competition as a factor limiting price inflation in the near future. This is reinforced by the import-exposed nature of the retail industry, which could expose it to rising global prices as slack diminishes elsewhere.

The pickup in import price indices since the end of 2017 has coincided with the acceleration in Canadian price pressures. A 6% decline in CADUSD since September fully explains the 3% rise in import prices at the consumer level. But that cannot be said for the economy as a whole.

As illustrated in Chart 5, overall import prices rose much faster than the Canadian dollar can explain, and that isn't all due to a rise in energy costs. The uptick in the cost of intermediate goods is broad-based with metals, industrial machinery, chemicals, plastics and rubbers all exhibiting pronounced strength. Although producer cost increases tend to translate through to consumer prices with a lag, this presents additional upside to the inflation outlook.

Chart 5

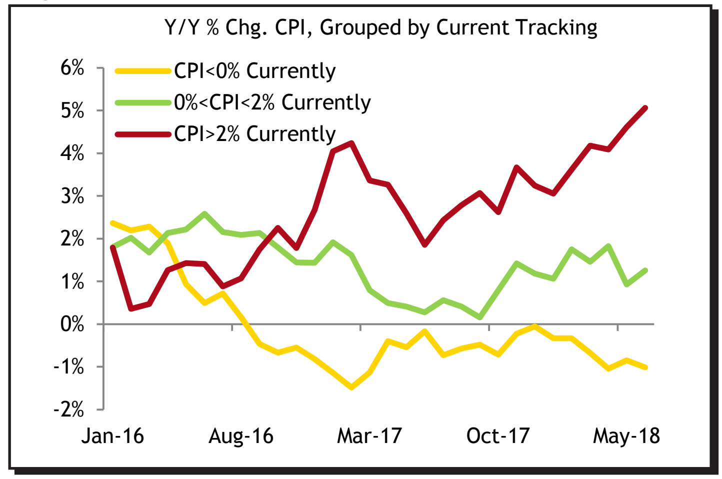
Price Gains in Imports Higher Than Weaker CAD Implies



Source: Statistics Canada, CIBC

Chart 6

High and Low CPI Items Have Been Stable



Source: Statistics Canada, CIBC

Given that durable goods in particular have been holding back inflation in Canada, the recently imposed retaliatory tariffs on goods imported from the US could also work to boost price growth. The $16.6 bn worth of imported goods affected by tariffs represents 6% of the value of goods imported annually from the US. Assuming a 50% pass-through of these costs to consumers and inelastic demand, that translates into an additional 0.1%-pt increase in CPI—not much, but something. So as long as we avoid an auto trade war, the tariff issue won't mean much to inflation rates.

Do Inflationary Pressures Have Staying Power?

Inflation components are signaling a gradual diffusion of price pressures in the economy. The share of CPI items registering negative price gains has fallen since a year ago, adding notably to the share of components in the 0-2% CPI range. Importantly, the growing inflationary pressures are not concentrated in a few categories, as 80% of the CPI basket is experiencing positive price pressures, up from a year ago.

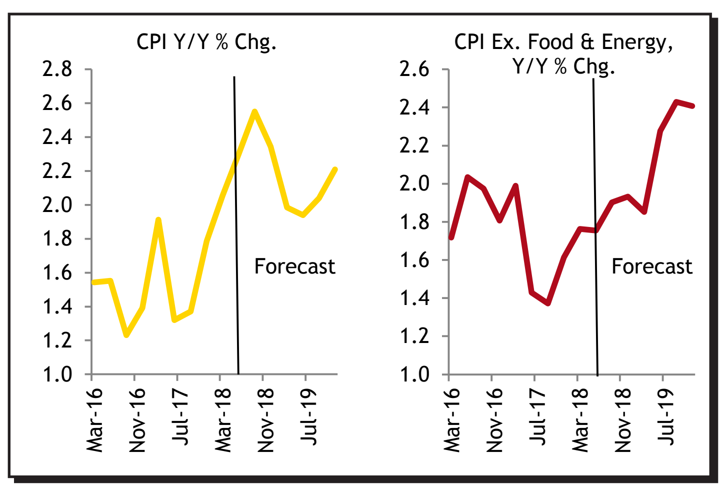
While items that are currently seeing price pressures of more than 2% have exhibited a pattern of sustainability, so too have those in the below 0% category (Chart 6). As a result, the Bank of Canada's core common measure which strips out the most volatile components hasn't headed above 2% yet.

But with tightening pressures on capacity and labour markets in Canada and abroad, look for a modest upward drift in core inflation over the coming months. As a result, both core and headline inflation will be running a shade above the Bank of Canada target in upcoming quarters (Chart 7).

While that would give a green light to additional rate hikes, our bet is that the Bank of Canada will look beyond what it can see in the here and now, eyeing issues that could slow growth, and therefore inflation pressures ahead. Those include a monetary-policy-induced slowdown stateside, and the risks to housing and consumption inherent in an indebted Canadian household sector. We'll end up living with a bit of upside to inflation as a result, a fact that real return bond investors need to consider.

Chart 7

Prices on the Rise



Source: Statistics Canada, CIBC

EZ and Japan: Approaching The End of An Era

by Andrew Grantham

The end of the negative interest rate era for Japan and Europe may be approaching faster than financial markets currently expect. Even though inflation remains low and stubbornly below stated targets, tightening labour markets and faster credit growth could spark the ECB and BoJ to start withdrawing stimulus even with only limited further progress on the inflation front.

Inflation: How Low is Too Low?

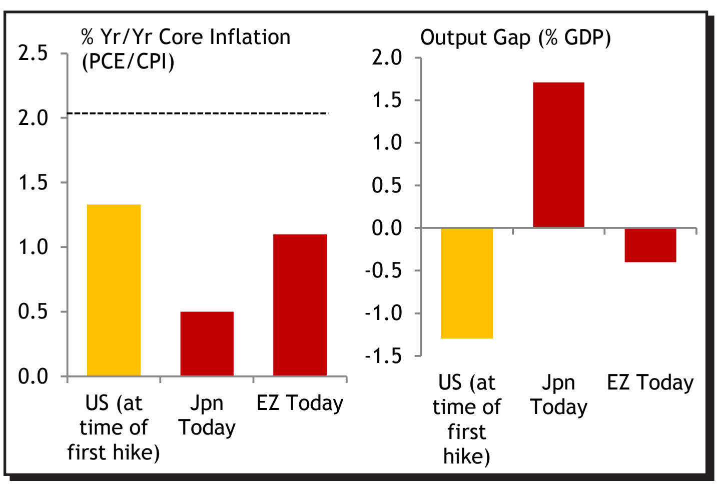
It's clear that, stripping out energy prices, inflation is still well below 2% in both Japan and the Eurozone. However, core PCE was also well below 2% when the Federal Reserve hiked interest rates for the first time in 2015 (Chart 1, left), yet strong growth and tightening labour markets gave policymakers the comfort that inflation would heat up in the future. One key indicator of economic slack, the output gap, is already pointing to less room for non-inflationary growth in Japan and Europe (Chart 1, right).

So will that limited economic slack eventually result in higher inflation? The good news for policymakers in Europe and Japan is that there is still a very clear positive correlation between the output gap and future (one year ahead) inflation (Chart 2). That's not always the case, particularly for economies such as the UK where exchange rate movements, resulting in import price fluctuations, play a bigger role in even core inflation.

However, because of cultural, demographic and other differences, zero output gaps don't always drive the same pace of inflation in every region, even when the targeted pace of inflation is similar (Chart 3). This either means that the economies of Europe and Japan have more slack

Chart 1

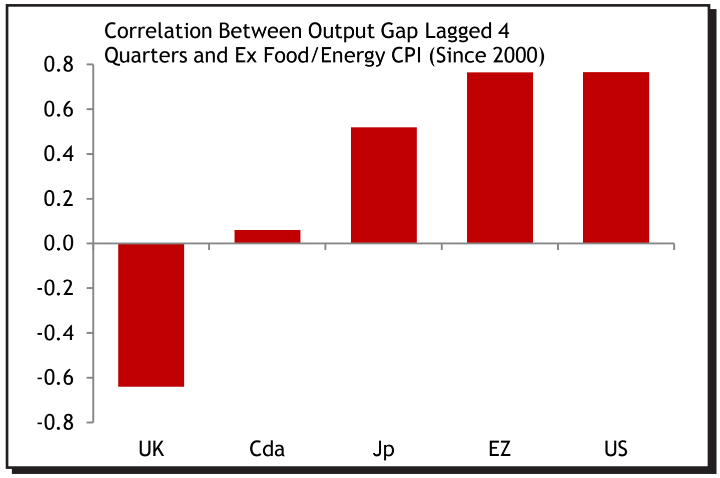
Inflation Low (L) But Output Gap May Have Closed (R)



Source: BLS, BoJ, CIBC

Chart 2

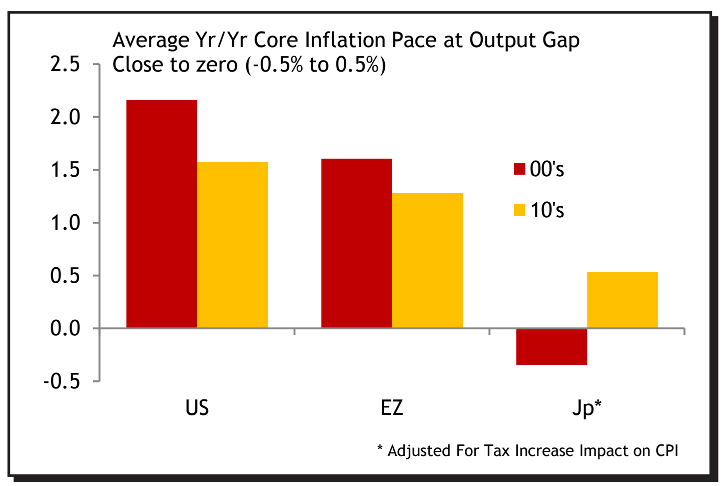
Output Gaps Still Highly Correlated With Inflation in EZ, Jpn



Source: National Statistics Agencies, Bloomberg, CIBC

Chart 3

Zero Output Gaps Not Driving Much Inflation in EZ, Jpn



Source: National Statistics Agencies, Bloomberg, CIBC than the output gap estimates suggest, or they can run their economies much hotter before having to worry about inflation overshooting their targets.

Tight or Not?

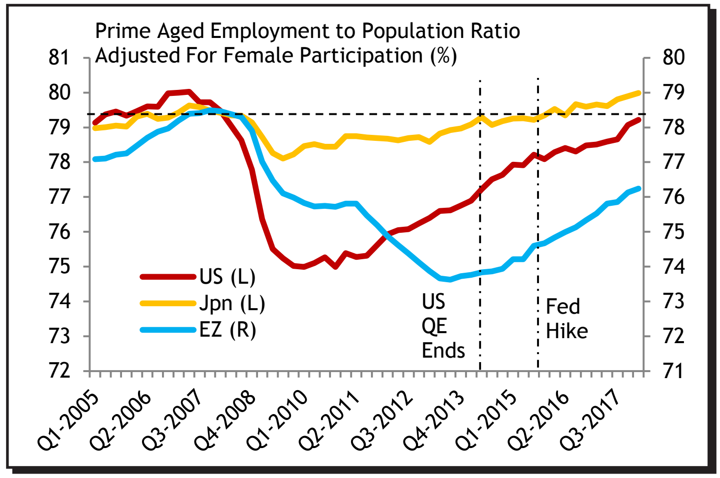
Whether the output gaps in Japan and Europe are accurate can be investigated by looking at measures of labour market tightness in the two countries compared with where the US was when it hiked interest rates for the first time. Unfortunately, as we've discussed in depth previously, finding a perfect measure of labour market slack can be difficult. The unemployment rate in the US, for example, was flattered by potential workers dropping out of the labour pool. As such, the labour market likely hadn't healed as much as the jobless rate suggested at the time of the first hike (Chart 4, left).

However, our preferred measure of slack for the US economy, the 25-54 or "prime-age" employment rate, has issues when using it to determine slack in Europe and Japan. Because of tax incentives and cultural shifts, there has been a significant trend higher in women's participation rates in both regions. That represents a positive for potential growth, not a closing of economic slack. As such, the shift in prime-age employment rates exaggerates the amount of slack that remains in the labour market (Chart 4, right).

A fairer representation, therefore, is to adjust the prime-aged employment rate for the change in female participation. On this measure, the labour markets in both Japan and the US have healed compared to the pre-crisis average, yet there's still some work to do in Europe (Chart 5). However, even in the Eurozone, the degree of labour market slack is lower than it was in the US when the Fed ended its QE program, and only slightly greater than when policymakers stateside raised rates for the first time (Chart 6). With the ECB continuing QE, albeit at a reduced rate, until year end and suggesting no rate hike until after next summer, it is clearly behind the Fed's timeline.

Chart 5

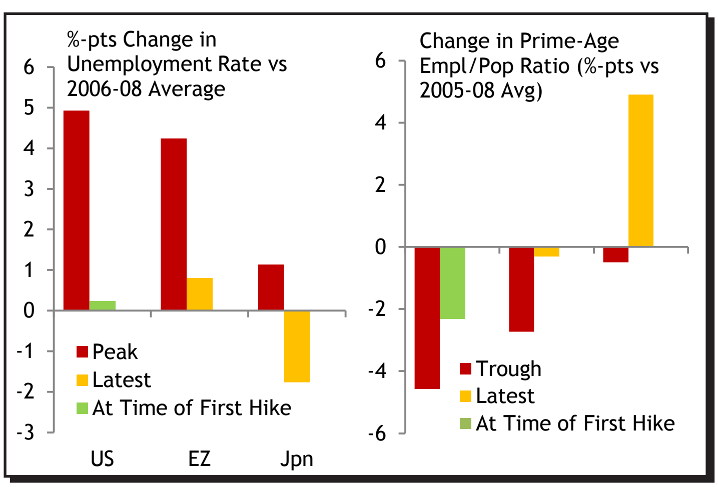
Adjusted Employment Ratios—A Better Signal of Improvement



Source: OECD, CIBC

Chart 4

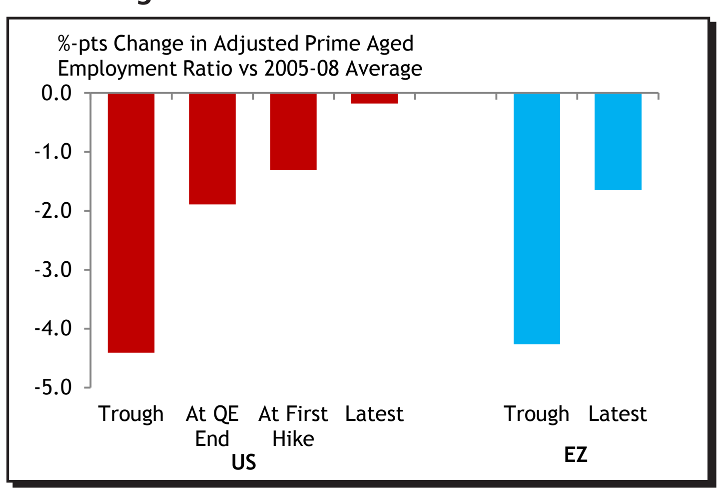
Unemployment (L) and Employment Rates (R) Tell Differing Stories on Labour Market



Source: BLS, Eurostat, BoJ, CIBC

Chart 6

ECB Behind Fed's Timeline Despite Some Remaining Slack



Source: OECD, Bloomberg, CIBC

Credit Karma

As we've seen even in the US, tight labour markets aren't driving the kind of wage inflation we were used to seeing in prior cycles. However, as we've shown before for the US, demographics could be playing an important role in keeping aggregate wage growth muted, and as such that doesn't mean economies in Europe and Japan aren't closing in on full employment and able to cope with higher interest rates.

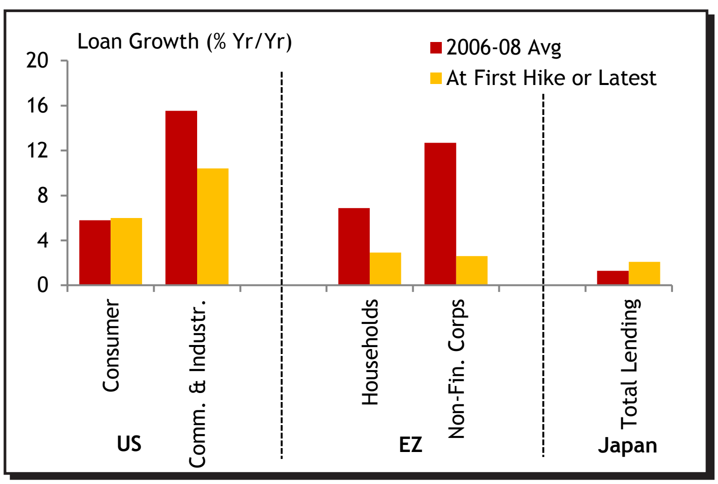
In addition to labour market improvements, other metrics such as credit growth in Europe and Japan are showing that sub-zero interest rates are working, and that policy may not need to be as stimulative going forward. While credit growth in Europe hasn't recovered as close to pre-crisis levels as was the case in the US (Chart 7), it is gradually accelerating (Chart 8, left) and policymakers likely won't want it reaching those bubbly rates again. Meanwhile even though lending growth still looks low in Japan compared to other areas, it is towards the top end of the range seen since the early 1990's (Chart 8, right).

The ECB has already signaled an end to its QE program by December, and the BoJ has widened its tolerance for slightly higher bond yields. While it's true that those decisions are based partly on a dwindling supply of bonds for the central banks to purchase, they also reflect improvements in growth, labour markets and to a lesser extent inflation.

The next big decision for bond and currency markets will be when the ECB and BoJ decide sub-zero rates are no longer necessary. And while a sudden spike in inflation that forces the hand of policymakers is unlikely, continued improvements in terms of labour markets and credit growth could tip the scales towards earlier hikes than markets currently expect. That's a big part of our call for 10-year bond yields in Canada and the US to rise around 40bp from current levels by mid-2019 and for the euro and yen to make gains against the US$.

Chart 7

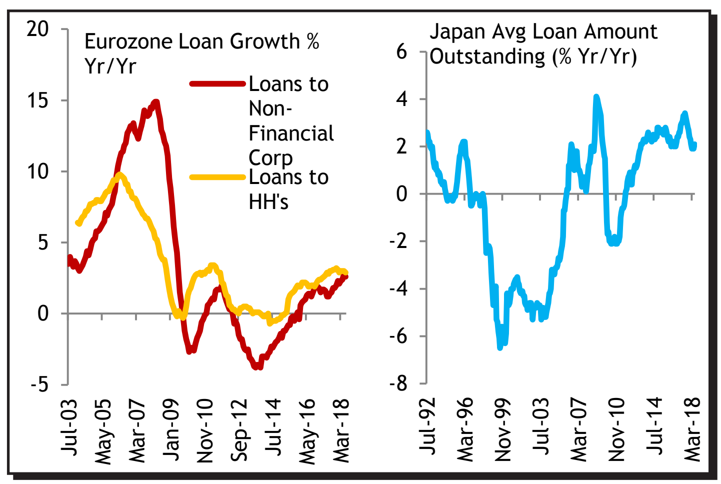
Loan Growth Still Below Prior Levels in EZ, Japan



Source: Bloomberg, CIBC

Chart 8

But Loan Growth Accelerating in Europe (L), Towards Top of Range in Japan (R)



Source: ECB, BoJ, Bloomberg, CIBC

ECONOMIC UPDATE

CANADA	17Q4A	18Q1A	18Q2F	18Q3F	18Q4F	19Q1F	19Q2F	2017F	2018F	2019F
Real GDP Growth (AR)	1.7	1.3	3.0	1.4	2.1	1.4	1.5	3.0	2.0	1.6
Real Final Domestic Demand (AR)	4.1	2.1	3.1	1.7	1.9	1.6	1.2	3.0	2.9	1.6
Household Consumption (AR)	2.2	1.1	3.0	1.7	2.2	1.7	1.3	3.5	2.2	1.7
All Items CPI Inflation (Y/Y)	1.8	2.1	2.3	2.6	2.3	2.0	1.9	1.6	2.3	2.0
Unemployment Rate (%)	6.0	5.8	5.9	5.9	5.8	5.8	5.8	6.3	5.8	5.7

U.S.	17Q4A	18Q1A	18Q2F	18Q3F	18Q4F	19Q1F	19Q2F	2017A	2018F	2019F
Real GDP Growth (AR)	2.3	2.2	4.1	3.0	1.9	1.3	1.7	2.2	2.8	2.0
Real Final Sales (AR)	3.2	1.9	5.1	2.0	1.9	1.3	1.7	2.2	2.8	1.9
All Items CPI Inflation (Y/Y)	2.1	2.2	2.7	2.8	2.8	2.5	2.5	2.1	2.6	2.5
Core CPI Inflation (Y/Y)	1.8	1.9	2.2	2.4	2.5	2.3	2.4	1.8	2.2	2.4
Unemployment Rate (%)	4.1	4.1	3.9	3.7	3.6	3.5	3.4	4.4	3.8	3.4

CANADA

After a blowout May GDP report, the economy is on pace for roughly 3% growth in the second quarter. Still, upcoming monthly readings might not look so rosy. A temporary outage at a major oil producing facility will be a drag on GDP in the final month of Q2 and the first month of Q3. That will be one factor restraining growth over the rest of the year to between 1½% and 2%, decent enough for another rate hike, but not exactly evidence of an economy that's racing ahead.

UNITED STATES

Tax cuts helped drive a stellar second quarter of growth in the US economy and a respectable handoff ensures that consumption, along with business investment will continue to propel above-trend growth in the third quarter. A cooling down in exports should contain growth over the rest of the year, but still allowing the economy to post just under 3% growth for 2018 as a whole. Rate hikes will prompt a more meaning deceleration as the economy reaches full employment in 2019.