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FINANCIAL MARKETS MONTHLY

April 6, 2018

Trade headwinds and bluster

The Trump administration's protectionist bent dominated headlines again in March. It wasn't all bad—the heavily-opposed steel and aluminum tariffs turned out to be mostly bluster as a number of major export partners were ultimately granted exemptions. But Trump more than made up for that softer stance by proposing tariffs on $50 billion (initially $60 billion) of Chinese imports in an effort to address a growing trade gap. Those who thought China's response would be measured—retaliatory tariffs for US steel and aluminum levies were relatively minor—were disappointed when China announced reciprocal tariffs on $50 billion of US imports. There has been some suggestion these announcements are simply opening positions for future talks, and with the duties not taking effect immediately there is indeed time to negotiate. Both sides, particularly China, have more to lose than gain by going tit-for-tat on tariffs. Still, the risk that protectionist measures devolve into a broader trade war remains. That concern, along with difficulties for a number of tech stocks, left US and global equity benchmarks lower for a second consecutive month in March. Investors retreated to fixed income, pushing government bond yields to two-month lows in a number of major markets.

With the US turning their trade ire toward China, there appears to be an increasing willingness to strike a deal in ongoing Nafta renegotiations—particularly before July 1 when Mexico goes to the polls and Trump's trade promotion authority could expire. The US side has reportedly pulled back on some of their more contentious demands on auto production and dispute resolution. However, Trump once again threatened to erase that progress by tearing up the trade deal—this time if Mexico didn't do more to curb illegal immigration. Negotiators will be hoping that's just more bluster as the next round of talks gets underway this month in Washington.

Central bank near-term bias

Slower growth and trade concerns pared back markets pricing in a near-term rate hike. But rising inflation and wages make the case for the further removal of accommodation. We think another rate hike before mid-year is still on the table.

Consensus at the Fed is shifting toward once-a-quarter rate hikes through the rest of the year. We agree and think the next rate increase will be announced in June.

The Bank of England has signaled that a near-term rate hike is likely. We think the upward trend in wage growth that continued early this year supports a rate increase in May, though future tightening will likely be measured amid lingering Brexit uncertainty.

Flat core inflation is allowing the European Central Bank to continue moving very slowly toward an exit from ultra-accommodative monetary policy. We don't expect a rate increase for at least a year.

The Reserve Bank of Australia sounded slightly more dovish in their latest policy statement, reinforcing our expectation they'll remain on the sidelines throughout this year.

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Highlights

▲ Perennial difficulties seasonally adjusting economic data might be behind a slow start to the year for US growth.

▲ We revised up our annual US GDP forecast after Congress passed higher spending caps.

▲ Consumer prices are rising a bit faster than year-over-year inflation rates indicate.

▲ Jay Powell didn't rock the boat at his first meeting as Fed chair.

US economy slow out of the gate again in 2018…

The US economy is off to a slow start in 2018, but that might reflect the now-familiar difficulty of seasonally adjusting GDP data early in the year rather than an underlying softening in activity. Recall that the economy was also slow out of the gate in 2017 with annualized growth of just 1.2% in Q1. That was followed by three consecutive quarters of 3% gains that made for a pretty solid year overall. And last year was by no means an outlier—since the 2008-09 recession, the first quarter has been the weakest for growth in five of eight years, and three of the last four.

Returning to 2018, disappointing consumer spending data in January and February prompted us to mark down our Q1 growth forecast to 1.4%. Is this simply another case of seasonal adjustment challenges? The fact that consumer spending is tracking its slowest quarterly growth in five years despite a healthy labour market and buoyant confidence is reason enough to discount a soft start to the year. Delays in tax refunds getting out to consumers could also be a factor holding back spending. In any case, we shouldn't have to wait long to find out if the slowdown will persist. In the last few years, on average, about half of the first quarter's growth shortfall has been made up in the following quarter. Our forecast assumes sub-trend activity in Q1 will in fact prove transitory and the US economy will shift into a higher gear with 3.1% growth in Q2.

…but more fiscal help is on the way

Some of our confidence that GDP growth will return to an above-trend pace can be attributed to pro-cyclical fiscal policy. We started the year by revising our US GDP growth forecast higher to incorporate the sizeable corporate and personal income tax cuts passed in late-2017. We are now adding a bit more of a fiscal boost following March's signing of the Bipartisan Budget Act of 2018. Most significantly, the bill raises spending caps for defense and nondefense discretionary spending by nearly $300 billion cumulatively over the next two years. This newly authorized budget room won't necessarily translate one-for-one into additional spending in 2018-19, and our enthusiasm is tempered by potential crowding out of the private sector. Nonetheless, we are penciling in a further add to growth this year and next from higher government outlays. Combined with tax cuts, we could see a fiscal boost of close to one percentage point of GDP by the end of 2019.

This stimulus comes at a time when the US economy is already at or beyond full capacity. Following a year of surprisingly weak inflation, we are just now seeing some signs that price growth is picking up in response to the tight economic and labour market conditions that have been in place for some time. Core CPI inflation remained steady at 1.8% year-over-year in February but was running at a 2.5% annualized pace over the past six months. Core PCE inflation, the Fed's preferred measure ticked up to 1.6% in the latest reading and similarly tracked above 2% over the past half year.

Powell delivers a smooth transition at his first meeting as Chair

As expected, the Fed raised rates by 25 basis points in March at Chair Powell's first meeting as head of the central bank. There were only a handful of changes to the policy statement with most simply incorporating the latest data. The only notable shift in language was the comment that the economic outlook has strengthened in recent months, though that was consistent with recent comments from Chair Powell. The improved outlook, thanks in large part to fiscal stimulus, showed up in the Fed's revised projections—faster growth, lower unemployment, and slightly higher inflation. But even with some sizeable forecast changes, Powell stuck to the Fed's long-held mantra that rate hikes will be gradual. The median projection for the fed funds rate over the next two years barely budged, keeping the hawkishness to a minimum. The Committee is now roughly split on whether two or three further rate hikes will be appropriate this year—our forecast assumes the latter. As the Fed's projections underline, fiscal stimulus is likely to keep the economy growing faster than its longer-run potential, lending some upside risk to the inflation outlook. That should keep the central bank steadily raising rates.

Canada's economy also had a slow to start the year…

Canada's economy unexpectedly stumbled to start the year with January GDP falling 0.1%. The shortfall relative to our forecast (and consensus call) for a 0.1% *increase* largely reflected a pullback in non-conventional oil and gas extraction—due to transitory maintenance shutdowns—that shaved 0.2 percentage points from monthly growth. A less surprising decline in the real estate sector as new housing regulations slowed re-sales also trimmed 0.1 ppt from headline growth. Absent those two factors, the rest of the economy recorded a more trend-like pace of growth. While we await early activity data for February, our expectation is that growth will rebound as energy sector shutdowns reverse. The same won't be true for real estate, with sales having fallen again in February. That decline was less acute, however, and won't provide the same headwind it did in January. All told, we have lowered our Q1 GDP growth forecast to 1.6%. That would represent a fairly sizeable shortfall (for the second consecutive quarter) relative to the Bank of Canada's 2.5% projection.

…but inflation continues to tick higher

While recent growth figures have disappointed relative to the central bank's forecast, inflation has surprised to the upside. The Bank of Canada's three core CPI measures have continued to grind higher and are now averaging 2%—a rate seen only a handful of times in recent years. These year-over-year rates will likely pick up further in the near term as two of the core measures are tracking closer to a 2.5% annualized pace over the past six months. Some of the increase can be attributed to Ontario's minimum wage hike, which has been passed through to a number of expenditure items—most notably food purchased from restaurants and child care and domestic services. But our calculations suggest Ontario has only accounted for half of the recent increase in inflation—punching only slightly above the province's weight in the overall CPI basket.

Wage growth is also picking up—both in Ontario, due to a higher minimum wage, and in a number of other provinces where labour markets are tight. The Bank of Canada has highlighted four wage measures it tracks. The two for which data is available early this year suggest hourly pay is rising slightly faster than 3%. That rate doesn't exactly suggest inflation is about to surge, but is certainly more consistent with a multi-decade low unemployment rate than the pace of wage growth seen through much of last year.

Markets are less confident in a near-term rate hike

Odds of another near-term rate hike have likely been influenced by trade policy developments and central bank communication. The Trump administration's initial proposal on steel and aluminum tariffs, which would have applied to Canada, had the BoC point to growing trade uncertainty in their March policy statement. A subsequent carve-out for Canada and a number of other allies reduced direct trade risk, though Trump's subsequent announcement of tariffs on $50 billion of Chinese imports means the threat of a global trade war hasn't gone away. On a more positive note, negotiators seem to be making progress in Nafta talks. The US is backing away from some of their more contentious demands in an effort to wrap up negotiations in the next month or two—or at least have an agreement in principle.

But while the key headwind of Nafta uncertainty might be easing, markets aren't rushing to price more tightening by the central bank. Some of that likely has to do with a more dovish tone from Governor Poloz. In a recent speech, he floated the idea that monetary policy needs to remain accommodative to encourage investment and attract more people into the labour force. However, remarks from other Governing Council members were more neutral and consistent with the BoC's tightening bias. On balance we don't think recent developments preclude another rate hike before mid-year, though odds of a move in April have certainly diminished over the past month.

Highlights

- ▲ Canadian GDP fell 0.1% in January though the decline was largely concentrated in mining and real estate.
- ▲ Canadian inflation is trending higher, and not just in Ontario where a minimum wage hike is putting upward pressure on prices.
- ▲ An exemption from US tariffs and positive developments in Nafta renegotiations seem to have reduced concerns about major trade disruptions.
- ▲ Markets are pricing in less than 50/50 odds of another rate hike before mid-year. We think recent inflation and wage data support one.

Highlights

▲ UK real wage growth is returning to positive territory thanks to stronger pay growth and slightly slower inflation.

▲ We think the BoE will raise rates in May, six months after the last increase.

▲ The euro area unemployment rate likely understates the amount of slack left in the economy.

▲ Despite consistent job growth, Australia's unemployment rate has moved sideways in recent months.

Rising wages support BoE rate hike expectations

UK survey data has been choppy to start the year, particularly for the services sector. After an unexpected decline in January, PMI readings rebounded in February only to fall back to fresh lows in March. The latest month was impacted by severe weather so the pullback should prove temporary. On balance, the Q1 readings indicate some downside risk to our forecast for a 0.3% GDP gain, which is already below the Bank of England's 0.4% forecast. But any weather-related shortfall should be made up in Q2 and won't significantly alter our or the BoE's outlook. Outside this volatility, we expect a 0.3-0.4% pace of growth to continue in 2018—about the average gain seen over the last year and close to the UK's longer-run potential. With the economy already operating at or above its longer run capacity limits and unemployment at a multi-decade low, trend-like growth won't be unwelcome to the central bank as it limits upside risks to the inflation outlook.

Inflation surprised to the downside in March but at 2.7% remained solidly above the BoE's 2% target. Where price growth settles after Brexit-related currency depreciation is worked through will be an important determinant of future rate increases. The BoE's latest projections suggested inflation will remain above-target unless monetary policy is tightened further. Recent wage figures seem to support that. Average weekly pay growth picked up to 2.8% year-over-year in January—1/2 percentage point faster than just six months ago. On balance we think recent wage and inflation data, combined with the BoE's forward guidance, is consistent with the central bank acting on their tightening bias with a 25 basis point rate hike in May. We expect further increases will be very gradual, however, given uncertainty surrounding Brexit. While agreement on a transition period—more or less extending UK membership in the EU until the end of 2020 if a longer-term Brexit deal is reached—limits risk of near-term disruption, we think uncertainty about the UK's ultimate relationship with its largest trading partners will keep the central bank cautious in removing accommodation.

Softer euro area surveys still point to solid growth

Euro area survey indicators softened toward the end of Q1, with March's composite PMI hitting a one-year low. That said, the level itself continues to signal solid economic expansion and readings for the quarter as a whole (including January's multi-year high) are consistent with above-trend growth continuing in early-2018. Labour market conditions continued to improve early this year with the unemployment rate edging down to an eight-year low of 8.5% in February. That is in the range of most estimates of full employment, but given still-elevated levels of underemployment, likely understates the amount of economic slack left in the euro area. Price data continues to support that conclusion—wage growth remains stuck below 2% and core inflation has been virtually unchanged at close to 1% over the last year. Balancing ever-improving economic conditions with below-target inflation, the European Central Bank is moving very slowly toward normalizing monetary policy alongside other central banks. March's tweak in forward guidance was part of that shift and we think the ECB will continue to lay the groundwork for an exit from net asset purchases toward the end of this year. That should leave rate hikes off the table until the second half of 2019—a bit later than markets are currently pricing.

Slightly dovish RBA points to steady cash rate persisting

Australian employment rose for a seventeenth consecutive month in February, extending the longest streak of job gains on record. But with the labour force also consistently expanding, the unemployment rate remained stuck in its recent range and a broader measure of underemployment ticked higher for the first time in a year. The latter remains historically elevated and signals a bit more slack in the labour market than the headline figure suggests. So while it looks like Australian wage growth has troughed, job creation will likely have to shift into a higher gear before we see any significant upward pressure on wages. Acknowledging as much, the Reserve Bank of Australia noted that slow growth in labour costs, along with retail competition, is likely to keep inflation low for some time. A few additional changes to their policy statement—noting some tightening in financial conditions and increasing trade tensions—lent it a somewhat dovish tone. These developments reinforce our forecast for the RBA to remain on the sidelines throughout this year.

Interest rate outlook

%, end of period

	Actuals					Forecast						
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4
Canada												
Overnight	0.50	0.50	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.25	2.25	2.25
Three-month	0.52	0.71	1.00	1.06	1.10	1.35	1.65	1.90	2.15	2.20	2.15	2.10
Two-year	0.75	1.10	1.52	1.69	1.78	1.95	2.15	2.30	2.50	2.50	2.40	2.30
Five-year	1.12	1.40	1.75	1.87	1.97	2.15	2.35	2.55	2.75	2.80	2.75	2.65
10-year	1.62	1.76	2.10	2.04	2.09	2.35	2.55	2.75	2.90	3.00	3.00	2.90
30-year	2.30	2.14	2.47	2.27	2.23	2.50	2.75	2.90	3.05	3.15	3.15	3.10
United States												
Fed funds**	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50
Three-month	0.76	1.03	1.06	1.39	1.73	1.90	2.15	2.35	2.65	2.90	3.15	3.35
Two-year	1.27	1.38	1.47	1.89	2.27	2.35	2.55	2.75	3.00	3.25	3.40	3.55
Five-year	1.93	1.89	1.92	2.20	2.56	2.70	2.90	3.05	3.25	3.45	3.55	3.65
10-year	2.40	2.31	2.33	2.40	2.74	3.00	3.15	3.30	3.45	3.60	3.70	3.75
30-year	3.02	2.84	2.86	2.74	2.97	3.35	3.50	3.60	3.70	3.75	3.80	3.85
United Kingdom												
Bank rate	0.25	0.25	0.25	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00	1.25
Two-year	0.12	0.36	0.46	0.45	0.82	0.80	0.85	0.95	1.00	1.05	1.10	1.15
10-year	1.14	1.26	1.38	1.19	1.34	1.75	1.85	1.90	2.00	2.10	2.20	2.30
Euro area												
Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20
Two-year	-0.74	-0.57	-0.69	-0.63	-0.59	-0.65	-0.60	-0.50	-0.50	-0.50	-0.40	-0.30
10-year	0.33	0.47	0.47	0.43	0.50	0.65	0.70	0.80	1.00	1.05	1.25	1.25
Australia												
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00	2.00
Two-year	1.76	1.78	1.94	2.00	2.00	2.10	2.25	2.40	2.50	2.60	2.60	2.60
10-year	2.70	2.60	2.84	2.63	2.60	2.75	3.05	3.30	3.70	4.10	4.10	4.05
New Zealand												
Cash target rate	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00
Two-year swap	2.31	2.32	2.19	2.20	2.21	2.30	2.40	2.50	2.60	2.75	2.80	2.80
10-year swap	3.41	3.35	3.24	3.13	3.06	3.40	3.50	3.60	3.75	3.85	4.10	4.25
Yield curve*												
Canada	87	66	58	35	31	40	40	45	40	50	60	60
United States	113	93	86	51	47	65	60	55	45	35	30	20
United Kingdom	102	90	92	74	52	95	100	95	100	105	110	115
Eurozone	107	104	116	106	109	130	130	130	150	155	165	155
Australia	94	82	90	63	60	65	80	90	120	150	150	145
New Zealand	110	103	105	93	85	110	110	110	115	110	130	145

* Two-year/10-year spread in basis points, **Top of 25 basis point range

Source: Reuters, RBC Economics Research

Central bank policy rate

%, end of period

		Current	Last				Current	Last	
United States	Fed funds	1.50-1.75	1.25-1.50	March 21, 2018	Eurozone	Deposit rate	-0.40	-0.30	March 10, 2016
Canada	Overnight rate	1.25	1.00	January 17, 2018	Australia	Cash rate	1.50	1.75	August 3, 2016
United Kingdom	Bank rate	0.50	0.25	November 2, 2017	New Zealand	Cash rate	1.75	2.00	November 10, 2016

Source: Bloomberg, Reuters, RBC Economics Research

Economic outlook

Growth outlook

% change, quarter-over-quarter in real GDP

	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018F	2019F
Canada*	4.0	4.4	1.5	1.7	1.6	2.0	1.7	1.6	1.6	1.6	1.5	1.5	1.4	3.0	1.9	1.6
United States*	1.2	3.1	3.2	2.9	1.4	3.1	2.8	2.8	1.8	2.4	2.2	1.8	1.5	2.3	2.6	2.4
United Kingdom	0.3	0.2	0.5	0.4	0.3	0.4	0.3	0.4	0.3	0.4	0.3	0.4	1.9	1.8	1.5	1.4
Euro area	0.6	0.7	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4	1.8	2.5	2.3	1.9
Australia	0.5	0.8	0.7	0.4	0.8	0.8	0.7	0.6	0.7	0.7	0.8	0.9	2.6	2.3	2.7	2.8
New Zealand	0.7	0.9	0.6	0.6	1.0	0.8	0.8	0.7	0.7	0.7	0.7	0.7	4.0	2.9	3.4	2.9

*annualized

Inflation outlook

% change, year-over-year

	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018F	2019F
Canada	1.9	1.3	1.4	1.8	2.2	2.7	2.9	2.6	2.0	1.9	1.8	1.8	1.4	1.6	2.6	1.9
United States	2.5	1.9	2.0	2.1	2.3	2.7	2.6	2.1	1.7	1.7	1.8	1.9	1.3	2.1	2.4	1.8
United Kingdom	2.2	2.8	2.8	3.0	2.8	2.6	2.6	2.5	2.3	2.2	2.2	2.0	0.6	2.7	2.7	2.2
Euro area	1.8	1.5	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.5	1.5	0.2	1.5	1.4	1.5
Australia	2.1	1.9	1.8	1.9	2.1	2.5	2.4	2.3	2.1	2.5	2.4	2.3	1.3	1.9	2.3	2.3
New Zealand	2.1	1.7	1.9	1.6	1.4	2.0	2.1	2.0	2.0	2.0	2.0	2.0	0.6	1.9	2.0	2.0

Source: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics, Office for National Statistics, Statistical Office of the European Communities, Australian Bureau of Statistics, Statistics New Zealand, RBC Economics Research

Inflation tracking

Inflation Watch

	Measure	Current period	Period ago	Year ago	Three-month trend	Six-month trend
Canada	CPI ex food & energy[1]	Feb	0.3	1.8	2.9	1.8
United States	Core PCE[1,2]	Feb	0.2	1.6	2.3	1.8
United Kingdom	All-items CPI	Feb	0.5	2.7	1.7	2.6
Euro area	All-items CPI[1]	Mar	0.1	1.4	2.1	1.6
Australia	Trimmed mean CPI[1]	Q4	0.4	1.8	N/A	N/A
New Zealand	All-items CPI	Q4	0.1	1.6	N/A	N/A

1 Seasonally adjusted measurement.
2 Personal consumption expenditures less food and energy price indices.

Source: Statistics Canada, Bureau of Labor Statistics, Office for National Statistics, Statistical Office of the European Communities, Australian Bureau of Statistics, Statistics New Zealand, RBC Economics Research

Currency outlook

Level, end of period

	Actuals					Forecast						
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4
Canadian dollar	1.33	1.30	1.25	1.26	1.29	1.26	1.24	1.22	1.24	1.26	1.27	1.28
Euro	1.07	1.14	1.18	1.20	1.23	1.20	1.16	1.18	1.20	1.22	1.24	1.26
U.K. pound sterling	1.26	1.30	1.34	1.35	1.40	1.32	1.26	1.27	1.29	1.31	1.33	1.35
New Zealand dollar	0.70	0.73	0.72	0.71	0.72	0.74	0.73	0.71	0.69	0.69	0.69	0.69
Japanese yen	111.4	112.4	112.5	112.7	106.3	105.0	107.0	109.0	112.0	115.0	118.0	120.0
Australian dollar	0.76	0.77	0.78	0.78	0.77	0.78	0.75	0.73	0.73	0.73	0.73	0.73

Canadian dollar cross-rates

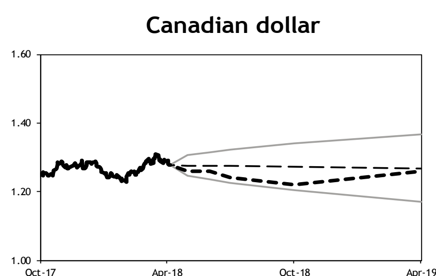
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4
EUR/CAD	1.42	1.48	1.47	1.51	1.42	1.51	1.44	1.44	1.49	1.54	1.57	1.61
GBP/CAD	1.67	1.69	1.67	1.70	1.81	1.66	1.56	1.55	1.60	1.65	1.69	1.73
NZD/CAD	0.93	0.95	0.90	0.89	0.93	0.93	0.91	0.87	0.86	0.87	0.88	0.88
CAD/JPY	83.7	86.7	90.2	89.6	82.4	83.3	86.3	89.3	90.3	91.3	92.9	93.8
AUD/CAD	1.02	1.00	0.98	0.98	0.99	0.98	0.93	0.89	0.91	0.92	0.93	0.93

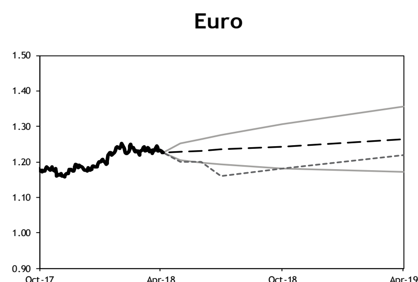
Rates are expressed in currency units per US dollar and currency units per Canadian dollar, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US dollars per currency unit and Canadian dollars per currency unit.

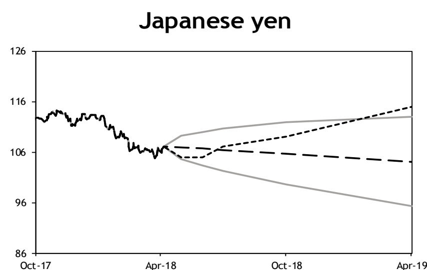
Source: Bloomberg, RBC Economics Research

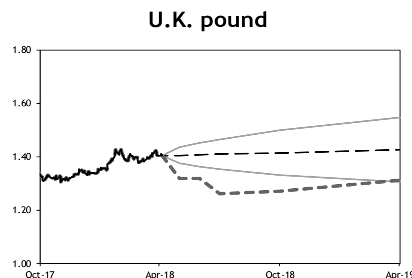
RBC Economics outlook compared to the market

The following charts track historical exchange rates plus the forward rate (dashed line) compared to the RBC Economics forecast (dotted line) out one year. The cone for the forecast period frames the forward rate with confidence bounds using implied option volatilities as of the date of publication.







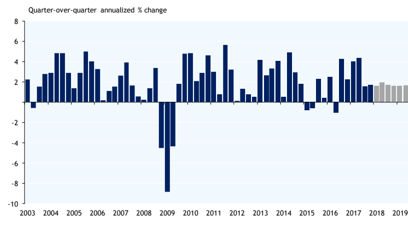


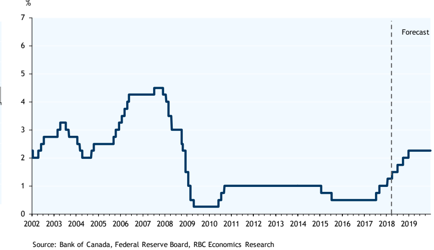
Central bank watch

Bank of Canada

With a disappointing start to the year, Canada's Q1 GDP growth is tracking below the Bank of Canada's forecast for a second consecutive quarter.

More trend-like growth shouldn't be unwelcome with the economy already at full capacity and wages and inflation trending higher. We still see scope for a Q2 rate hike, particularly if a positive Nafta outcome is achieved.

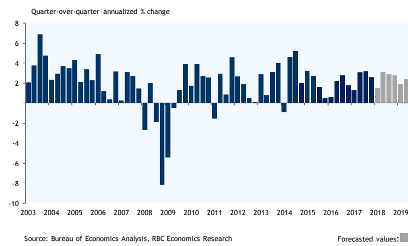


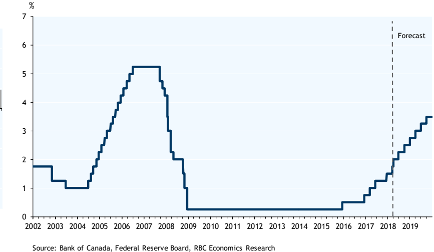


Federal Reserve

Another month of disappointing consumer spending led us to further mark down our Q1 GDP forecast. We think the slowing will prove transitory, as has been the case in years past.

The Fed likely won't be too discouraged by soft Q1 GDP, particularly given the sizeable fiscal boost on the way. We think they'll keep raising rates once a quarter though the end of next year.

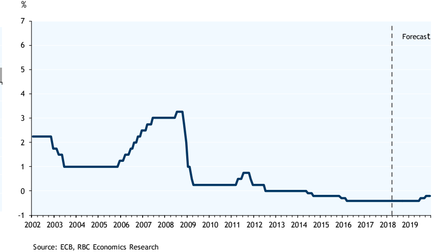




European Central Bank

Euro area PMI readings have fallen back to earth but remain consistent with above-trend growth in the currency bloc. Unemployment continues to decline but there's likely more slack in the economy than headline readings suggest.

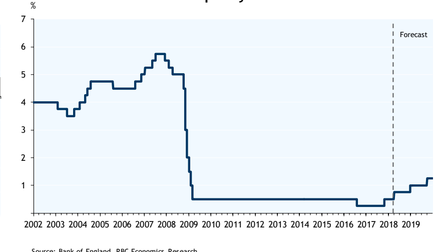
The ECB is in no rush to follow other central banks in removing accommodation. Rates should remain on hold until the second half of 2019.



Bank of England

Severe weather in the UK lends some downside risk to Q1 GDP but the impact should be transitory. Outside this volatility we expect growth of 0.3-0.4% will keep the economy close to full capacity.

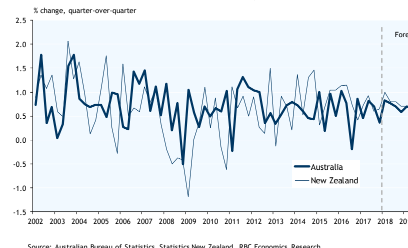
The Bank of England assumes that, without further rate increases, inflation will remain above their target over the medium term. We think that sets up for another rate hike in May.

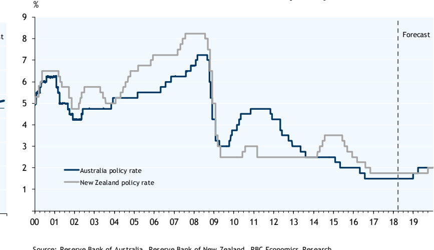


Australia

Australia's economy continues to create jobs but the pace of hiring has slowed recently and isn't enough to absorb lingering labour market slack.

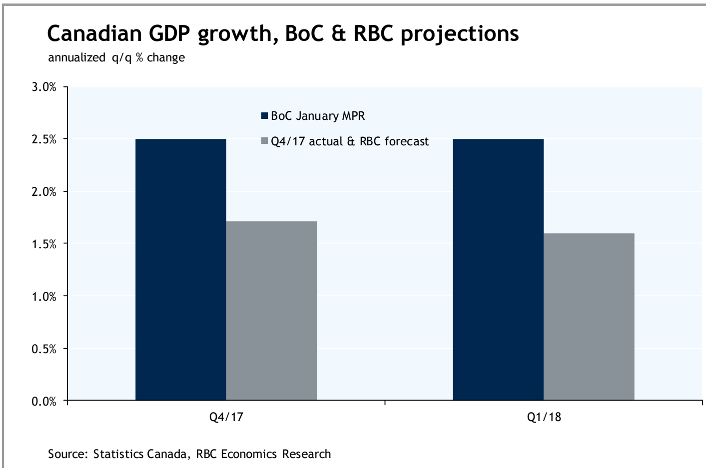
Muted wage growth is likely to keep a lid on Australian inflation. Along with increasing concern about global trade and tightening financial conditions, that should keep the RBA on the sidelines this year.



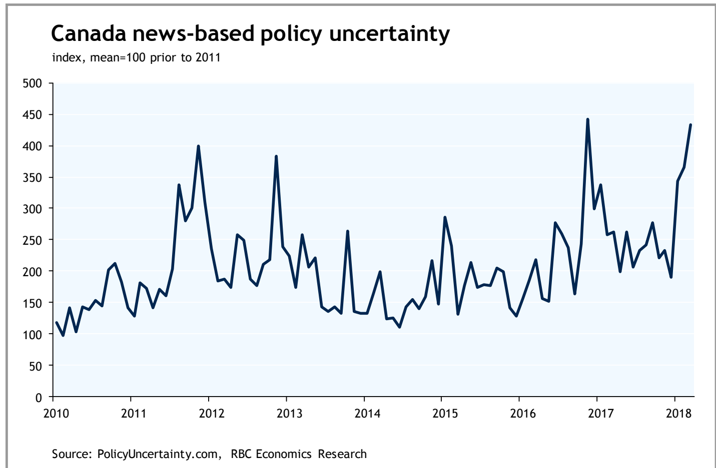


Bank of Canada's balancing act

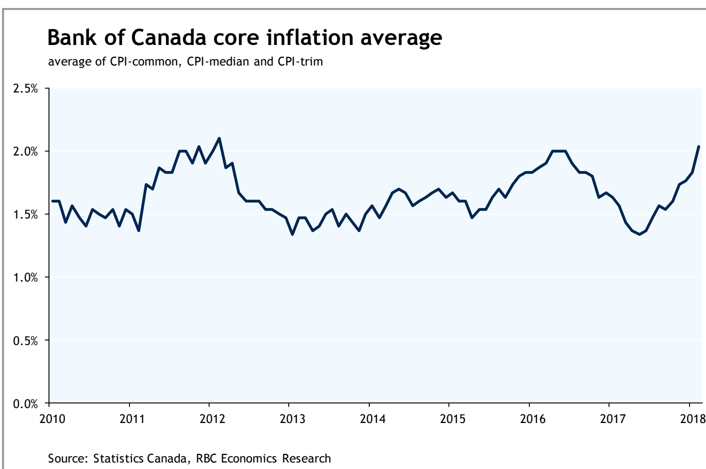
It looks like GDP growth will fall short of the Bank of Canada's forecast for a second consecutive quarter in Q1/18. Investors think this disappointment could keep the central bank on the sidelines, with odds of a hike before mid-year now below 50/50.



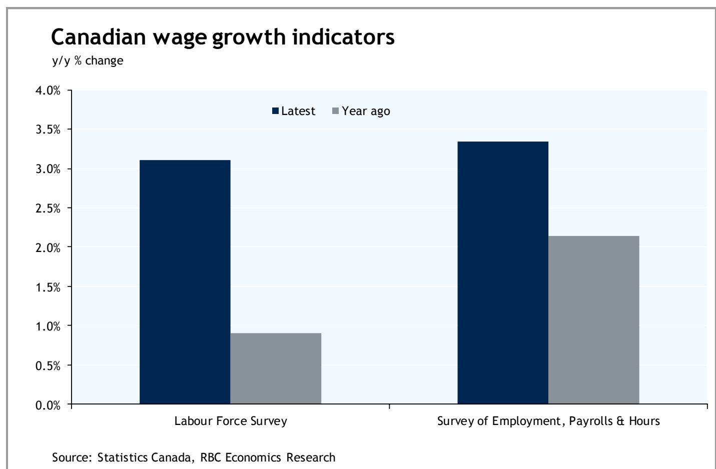
Heightened policy uncertainty, particularly surrounding US protectionism, is also keeping the Bank of Canada cautious. More recent developments, however, have raised the prospect of a preliminary deal on Nafta in the coming weeks.



While growth has disappointed, Canadian inflation has surprised to the upside. The average of the BoC's three preferred core measures continues to trend higher and just hit 2% for the first time in more than a year.



Wage growth has also picked up recently with two measures the BoC keeps an eye now running at 3% or faster. We think the upward trend in wages and inflation should keep the central bank in tightening mode.



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