FINANCIAL MARKETS MONTHLY

March 15, 2019

Biding time

February saw equity markets recover further, corporate spreads narrow, and longer-term government bond yields holding well below last year's highs. The resulting easing in financial conditions was helped by a number of central banks that have either moved to the sidelines or look set to stay there longer. Policymakers have been true to their data dependent mantras, adjusting the rates outlook amid mixed economic indicators including softer retail sales, industrial production, and business sentiment.

Many of the economies we track have had a slow start to 2019. For the US, a first quarter slowdown has become par for the course and will be exacerbated this time around by the partial government shutdown. But we expect a second quarter rebound that would also be in keeping with recent history. So while the Fed has dropped their tightening bias and appears content with the current policy setting, we continue to think a return to above-trend growth in the coming quarters tilts the odds in favour of another rate hike. In Canada, a greater-than-expected slowdown around the turn of the year had the Bank of Canada all but abandoning their tightening bias in March. They're waiting patiently for evidence that the recent slowing is simply transitory, which will likely keep them on the sidelines for much of 2019.

In Europe, a slowdown across a number of major euro area economies prompted the ECB to push back their forward guidance on the next rate hike (now a 2020 prospect) and extend some of their credit facilities to prevent a tightening in financial conditions. Activity in the UK also softened toward the end of last year and the economy looks sluggish in early-2019. Lack of clarity on Brexit continues to frustrate consumers and businesses, and has left Bank of England policy up in the air.

Central bank near-term bias

↔ Canada's economy slowed more than the BoC expected toward the end of last year. They've maintained a hint of a tightening bias but are unlikely to raise rates until later this year when they have sufficient evidence growth has recovered from the current soft patch.

↔ The Fed sounds comfortable with their current rate setting. Steady inflation is buying them time to evaluate whether the economy can maintain above-trend growth this year. If activity does indeed pick up after Q1, we still think odds favour some further tightening.

↔ The UK economy has softened but not stalled amid intense Brexit uncertainty. The overall backdrop is still fairly positive, which could see the BoE getting back to raising rates if Brexit issues can be resolved.

↔ With the euro area economy slowing, the ECB has pushed back the potential start date for rate hikes and is embarking on another round of TLTROs to maintain ample liquidity. They'll keep monetary policy highly accommodative until inflation shows signs of perking up.

↔ Australia's economy disappointed toward the end of last year and the RBA's growth forecasts for 2019 look too high. We think sub-trend growth this year will keep the central bank on the sidelines.

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Highlights

▲ Solid consumer spending and business investment supported US GDP growth in Q4/18.

▲ Softer data around the turn of the year points to slower growth in Q1/19. The government shutdown early this year also weighed on growth.

▲ We still think businesses and consumers can support a return to above-trend growth later this year.

▲ We'll be watching the Fed's dot plot to see how many committee members still think further rate hikes are appropriate.

Familiar trends resulted in solid US growth in Q4/18

Growth may have peaked over the summer, but the US economy still expanded at a solid pace toward the end of last year. GDP was up an annualized 2.6% in Q4/18, capping off one of the best years for growth since the recession. Consumer spending posted a near-3% gain in the final quarter and growth in business investment rebounded after unexpectedly softening in Q3. For the year as a whole, those two sectors accounted for almost all of the US economy's expansion. They helped offset what have become familiar drags on growth—residential investment fell for a fourth consecutive quarter to close out the year and net trade subtracted modestly from headline GDP.

For 2019, slower doesn't have to mean slow

The question is whether consumer spending and business investment can keep the economy growing at an above-trend rate in 2019, particularly as fiscal stimulus fades. Both sectors have shown some cracks. Retail sales were unexpectedly weak in December, with core spending posting its largest monthly decline in 17 years. Even with a partial rebound in January, it looks like consumer spending got off to a slow start this year. Auto sales, which ticked higher toward the end of last year, are tracking a multi-year low in Q1/19 (harsh winter weather might share some of the blame). In another sign that higher interest rates are impacting consumer spending, purchases of household durables and furnishings slowed in Q4/18. That might also reflect the aforementioned slowdown in housing, which shows few signs of letting up. So the best of consumer spending growth is likely behind us. But we still think households will make a solid contribution to GDP in 2019. Consumer confidence rebounded in February as the government shutdown ended and equity markets have continued to rebound. Job growth remains solid (even with a sharp slowing in February, employment trends are strong) and unemployment is low. And rising wages combined with an energy-driven slowing in headline inflation are boosting real incomes. Consumers won't be feeling the tax cut tailwinds of 2018, but we still think they have the firepower to spend in 2019.

Business investment is also unlikely to maintain last year's pace as the stimulative effect of tax cuts fades. A decline in new capex orders toward the end of last year has raised concerns that the slowing could be more pronounced. That coincided with a dip in business sentiment around the turn of the year. But while manufacturers' confidence remains subdued (something we've seen in a number of advanced economies amid softening global growth and trade uncertainty), sentiment in other sectors has rebounded nicely to start the year. We think the combination of solid new orders in nonmanufacturing and growing capacity constraints will support investment. And the energy sector doesn't appear to be an impediment to capex. Despite a sharp decline in oil prices in Q4/18, US rig counts have remained steady and production continues to grow.

Fed firmly on hold, but for how long?

Recent comments indicate Fed officials are comfortable with the current policy stance, making a near-term rate hike unlikely. While financial conditions have improved so far this year, some of the other "cross-currents" Chairman Powell mentioned following January's rate decision remain in place. And although we think the economic backdrop remains solid, some mixed indicators of late and steady inflation readings justify a pause in the Fed's tightening cycle. The question is, will a return to above-trend growth (after what looks like a slow start to the year) be enough for the Fed to raise rates further? Minutes from the January FOMC meeting show division on that point—some participants will need to see inflation surprising to the upside to justify raising fed funds, while others think rate hikes will be appropriate as long as the economy evolves as expected. A fresh dot plot in March should give us some idea of the size of those two camps. Our expectation is that a solid economic backdrop will see the Fed raising rates twice more (closer to the midpoint of most neutral estimates) despite core inflation remaining only slightly above 2%. There is a risk that we don't see those rate hikes until the second half of the year when the Fed has solid evidence that Q1's slowing is transitory.

Shades of 2015 in Canada's disappointing GDP report…

There was little to like in Canada's latest GDP figures. Growth for Q4/18 clocked in at an annualized 0.4%—well short of expectations, and the slowest in two and a half years. Details were as discouraging as the headline, with domestic spending falling in back-to-back quarters for just the second time since the 2008-09 recession. Last time that happened, during the 2015 oil price shock, the Bank of Canada cut interest rates twice. Back then it was a sharp decline in energy investment that hammered Canada's economy, and the sector's fingerprints were on this latest slowdown as well. Lower prices and pending production cuts left oil and gas capex down more than 20% year-over-year in Q4/18. But unlike in 2015, we don't think the bleeding will continue. Oil prices have rebounded recently, mandated curtailments are being scaled back, and both StatCan's and our own tracking point to relatively flat energy investment in 2019. Our expectation is that the energy sector will weigh on growth early this year but the pull-back will eventually prove transitory.

…but it can't all be blamed on the energy sector

The latest slowdown isn't just an energy story. Business investment fell an annualized 10% over the second half of last year, suggesting weakness beyond oil and gas spending. Trade tensions and growing uncertainty about the global economic outlook might have restrained spending across a number of industries. Again, surveys point to a better investment outlook for 2019, and government incentives to encourage new capital spending could provide the boost businesses are looking for. But ultimately it might be the intensity of global and trade headwinds that determines whether firms follow through on their spending plans.

Again comparing with 2015, the defining difference this time around is on the household side. While consumer spending and housing held up well back then, those sectors were a combined drag on the economy over the second half of last year. Residential investment declined sharply, particularly in Q4 when home sales faced renewed downward pressure. Meanwhile, consumer spending recorded its slowest two quarters of growth since the recession in the second half of last year. Spending on interest-rate sensitive durable goods was particularly weak—auto sales declined throughout 2018 and housing-related outlays were down.

Bank of Canada barely clings to tightening bias

While the Bank of Canada was expecting an energy-led slowdown around the turn of the year, weakness in Q4/18 was more significant and broadly-based than they thought. And December's 0.1% GDP decline didn't exactly provide a strong handoff to 2019. Governing Council hinted at downward revisions to their growth forecasts over the first half of this year, and indicated that the outlook continues to warrant accommodative monetary policy. There was no more mention of interest rates eventually getting back to neutral levels, with guidance instead referring to "increased uncertainty about the timing of future rate increases."

What will it take for the Bank of Canada to act on that sliver of a tightening bias? Certainly better non-energy exports and business investment than we saw toward the end of last year. Those sectors are being counted on to offset some of the slowing on the consumer side, so their underperformance is particularly discouraging. We'll also need to see stability on the household side. It's still too early to say whether home resales have found their bottom early this year. And unexpectedly weak consumer spending toward the end of last year might be an indication that households are even more sensitive to rising interest rates than previously thought. But a strong labour market, including robust job gains early this year, suggests solid underpinnings for households. As BoC Deputy Governor Patterson noted in her economic update, more data is needed to determine which factors are exerting the greatest influence on consumers. We think policymakers will be patient in determining whether further tightening is needed, and expect rates to be on hold until late this year.

Highlights

- ▲ Canada's Q4/18 GDP growth fell short of already-low expectations.
- ▲ The energy sector weighed on growth, but the slowdown in consumer spending and housing was also greater than expected.
- ▲ The BoC hinted at downward revisions to their growth forecasts following the disappointing GDP report.
- ▲ We think the BoC will be on the sidelines for even longer now, with another rate hike unlikely until late this year.

Highlights

▲ A rebound in UK GDP to start the year helped allay fears of a more substantial slowing…

▲ …but surveys continue to point to Brexit uncertainty weighing on the UK economy.

▲ The ECB lowered their 2019 growth forecast significantly following the economy's loss of momentum late last year.

▲ Australia's economy slowed over the second half of last year and we expect sub-trend growth to continue in 2019.

Brexit still weighing, but UK to avoid Q1 stall

After a sharp slowing in December, UK GDP rebounded nicely to start 2019. Manufacturing, construction, and services output all increased in January to retrace the previous month's declines. The monthly data can be volatile, but this latest reading will help allay fears that the UK economy is grinding to a halt amid Brexit uncertainty. Still, survey data point to Brexit continuing to weigh on business sentiment. The UK's composite PMI rebounded somewhat after hitting a multi-year low in January, but the manufacturing sector has been flattered by stock-building (ahead of potential border delays) and service-producers cited risk averse clients as a factor weighing on new orders. On balance, our forecast assumes we'll see another quarter of sub-trend 0.2% growth to start this year.

Households and businesses looking for clarity on Brexit have been left wanting. Parliament once again voted down Prime Minister May's deal, instead opting to ask the EU for an extension to the March 29 deadline. That extension could be just a few months if Parliament can decide on a deal by March 20 (PM May's will be voted on for a third time before then). Or it could be a longer delay that keeps the UK in the EU through the end of this year. That would leave the door open to a number of other scenarios, including fresh elections or a second referendum.

ECB punts rate hikes amid soft economic data

It looks like the euro area started 2019 the same way it ended 2018—with sub-trend growth of around 0.2%. That said, there were some signs of stability in the currency bloc's most recent survey indicators. The euro area composite PMI rose to a three-month high in February as an improving services sector more than offset further slowing in manufacturing. The latter has been weak in most major euro area economies, though decent industrial production figures in January at least suggest the sector has stopped contracting. Meanwhile, services PMIs in the largest economies are back in expansionary territory, including in Italy and France where political uncertainty and unrest weighed on activity late last year. So while it looks like the first quarter will be another soft one, there are at least some signs that growth is starting to improve as the year progresses.

Those green shoots weren't enough to prevent the European Central Bank from taking an axe to their GDP forecast, lowering 2019 growth to 1.1% from 1.7% previously. While growth forecasts further out were little changed, it is now expected to take even longer (at least through 2021) for inflation to return to the ECB's target. Those forecast changes underpinned a dovish message from the central bank. Policymakers pushed back their forward guidance to indicate rate hikes should not be expected this year. They also announced a new set of targeted longer-term refinancing operations (TLTROs) that will continue to provide liquidity to banks as similar, earlier programs expire. The bottom line is that the ECB is seeking to maintain highly accommodative financial conditions until there is a clear path back to their inflation target. Consistent with their guidance, our forecast now assumes gradual rate increases will be held off until 2020. The deposit rate is only seen getting back to zero by the end of next year.

Australia's economy also losing momentum

Like a number of its advanced economy counterparts, Australia saw slower GDP growth over the second half of last year. A disappointing 0.2% increase in Q4/18 was flattered by higher government spending. Consumer spending posted another sub-trend increase while business investment edged only slightly higher. Meanwhile, a sharp decline in residential investment and drop in exports restrained growth. Some of the H2/18 weakness represents payback for a strong start to the year. But a softer household backdrop and loss of global momentum also appear to be weighing on Australia's economy. We think the slowdown extended into this year with GDP growth expected to come in at 2.1%, down from 2.8% in 2018. That would be well short of what the Reserve Bank of Australia has penciled in for 2019. As such, we think risks to their forecast for flat unemployment are skewed to the upside. We've said that labour market developments will be key to the monetary policy outlook—a deterioration in conditions could test the RBA's patience. Our forecast assumes the cash rate will continue to be held steady through this year, though we agree with market pricing that a rate cut is looking more likely than a hike at this point.

Interest rate outlook

%, end of period

	Actuals				Forecast							
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Canada												
Overnight	1.25	1.25	1.50	1.75	1.75	1.75	1.75	2.00	2.25	2.25	2.25	2.25
Three-month	1.10	1.26	1.59	1.64	1.65	1.65	1.65	1.90	2.20	2.20	2.15	2.15
Two-year	1.78	1.91	2.21	1.86	1.75	1.75	1.90	2.10	2.30	2.25	2.25	2.25
Five-year	1.97	2.07	2.34	1.89	1.80	1.85	2.00	2.15	2.40	2.35	2.30	2.30
10-year	2.09	2.17	2.43	1.97	1.95	2.05	2.20	2.35	2.50	2.50	2.45	2.45
30-year	2.23	2.20	2.42	2.18	2.20	2.25	2.35	2.50	2.60	2.60	2.55	2.55
United States												
Fed funds**	1.75	2.00	2.25	2.50	2.50	2.75	2.75	3.00	3.00	3.00	3.00	3.00
Three-month	1.73	1.93	2.19	2.45	2.40	2.65	2.65	2.90	2.90	2.90	2.90	2.90
Two-year	2.27	2.52	2.81	2.48	2.65	2.85	3.05	3.10	3.10	3.10	3.05	3.05
Five-year	2.56	2.73	2.94	2.51	2.70	2.90	3.10	3.15	3.15	3.15	3.10	3.10
10-year	2.74	2.85	3.05	2.69	2.85	3.05	3.25	3.30	3.25	3.25	3.20	3.15
30-year	2.97	2.98	3.19	3.02	3.20	3.30	3.40	3.45	3.40	3.40	3.35	3.30
United Kingdom												
Bank rate	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Two-year	0.82	0.72	0.82	0.75	0.80	0.85	1.10	1.15	1.30	1.40	1.45	1.55
10-year	1.34	1.28	1.57	1.27	1.40	1.60	1.85	2.00	2.10	2.15	2.20	2.20
Euro area												
Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20	-0.10	0.00
Two-year	-0.59	-0.69	-0.55	-0.59	-0.50	-0.50	-0.50	-0.45	-0.30	-0.20	-0.10	0.00
10-year	0.50	0.31	0.47	0.25	0.30	0.40	0.50	0.60	0.80	0.90	1.00	1.00
Australia												
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Two-year	2.00	2.00	2.02	1.89	1.75	1.80	1.70	1.65	1.50	1.50	1.60	1.75
10-year	2.60	2.63	2.67	2.32	2.45	2.65	2.65	2.70	2.55	2.65	2.70	2.75
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	1.75
Two-year swap	2.21	2.14	2.02	1.96	1.85	1.75	1.70	1.60	1.60	1.60	1.70	1.80
10-year swap	3.06	3.02	2.89	2.64	2.60	2.70	2.70	2.70	2.70	2.70	2.75	2.80
Yield curve*												
Canada	31	26	22	11	20	30	30	25	20	25	20	20
United States	47	33	24	21	20	20	20	20	15	15	15	10
United Kingdom	52	56	75	52	60	75	75	85	80	75	75	65
Eurozone	109	100	102	84	80	90	100	105	110	110	110	100
Australia	60	63	65	43	70	85	95	105	105	115	110	100
New Zealand	85	88	87	68	75	95	100	110	110	110	105	100

* 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	
United States	Fed funds	2.25-2.50	2.00-2.25	December 19, 2018
Canada	Overnight rate	1.75	1.50	October 24, 2018
United Kingdom	Bank rate	0.75	0.50	August 1, 2018

		Current	Last	
Eurozone	Deposit rate	-0.40	-0.30	March 10, 2016
Australia	Cash rate	1.50	1.75	August 3, 2016
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

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019F	2020F
Canada*	1.3	2.6	2.0	0.4	0.9	2.1	2.1	1.8	1.8	1.7	1.7	1.6	3.0	1.8	1.5	1.8
United States*	2.2	4.2	3.4	2.6	1.5	2.7	2.2	1.8	1.8	1.8	1.7	1.5	2.2	2.9	2.4	1.9
United Kingdom	0.1	0.4	0.6	0.2	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.3	1.8	1.4	1.3	1.6
Euro area	0.4	0.4	0.1	0.2	0.2	0.3	0.4	0.4	0.3	0.4	0.3	0.3	2.5	1.8	1.1	1.4
Australia	1.1	0.8	0.3	0.2	0.7	0.6	0.7	0.7	0.6	0.5	0.6	0.7	2.4	2.8	2.1	2.5

*annualized

Inflation outlook

% change, year-over-year

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019F	2020F
Canada*	2.1	2.3	2.7	2.0	1.4	1.6	1.4	2.0	2.3	2.5	2.5	2.3	1.6	2.3	1.6	2.4
United States*	2.2	2.7	2.6	2.2	1.6	1.8	1.8	2.1	2.4	2.4	2.5	2.3	2.1	2.4	1.8	2.4
United Kingdom	2.7	2.4	2.5	2.3	2.3	2.3	2.0	2.0	2.2	2.1	2.1	2.1	2.7	2.5	2.2	2.1
Euro area	1.3	1.7	2.1	1.9	2.0	1.9	1.7	1.5	1.5	1.5	1.6	1.6	1.5	1.8	1.8	1.6
Australia	1.9	2.1	1.9	1.8	1.5	1.7	1.8	1.8	2.1	2.1	2.1	2.1	1.9	1.9	1.7	2.1

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]	Jan	-0.2	1.9	2.1	1.9
United States	Core PCE[1,2]	Dec	0.2	1.9	1.7	1.8
United Kingdom	All-items CPI	Jan	-0.7	1.8	0.8	2.4
Euro area	All-items CPI[1]	Feb	0.2	1.5	-0.5	1.5
Australia	Trimmed mean CPI[1]	Q4	0.4	1.8	N/A	N/A
New Zealand	All-items CPI	Q4	0.1	1.9	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							
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Canadian dollar	1.29	1.31	1.29	1.36	1.34	1.34	1.33	1.33	1.34	1.33	1.31	1.30
Euro	1.23	1.17	1.16	1.15	1.12	1.10	1.13	1.16	1.17	1.18	1.20	1.21
U.K. pound sterling	1.40	1.32	1.30	1.28	1.30	1.26	1.28	1.32	1.33	1.34	1.36	1.38
Chinese Renminbi	6.3	6.6	6.9	6.9	6.8	7.0	7.3	7.4	7.5	7.5	7.6	7.7
Japanese yen	106.3	110.8	113.7	109.7	111.0	113.0	117.0	120.0	119.0	118.0	117.0	116.0
Australian dollar	0.77	0.74	0.72	0.70	0.71	0.69	0.68	0.67	0.67	0.67	0.66	0.66

Canadian dollar cross-rates

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
EUR/CAD	1.59	1.53	1.50	1.56	1.50	1.47	1.50	1.54	1.57	1.57	1.57	1.57
GBP/CAD	1.81	1.73	1.68	1.74	1.75	1.69	1.71	1.75	1.78	1.78	1.79	1.79
CAD/CNY	4.86	5.04	5.32	5.04	5.07	5.22	5.45	5.56	5.60	5.64	5.80	5.92
CAD/JPY	82.4	84.3	88.1	80.4	82.8	84.3	88.0	90.2	88.8	88.7	89.3	89.2
AUD/CAD	0.99	0.97	0.93	0.96	0.95	0.92	0.90	0.89	0.90	0.89	0.86	0.86

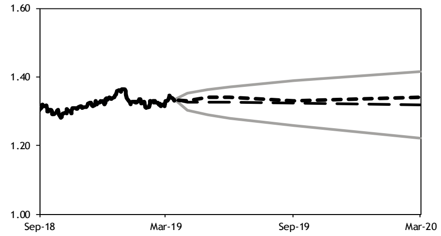
Rates are expressed in currency units per US dollar and currency units per Canadian dollar, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US dollars per currency unit and Canadian dollars per currency unit.

Source: Bloomberg, RBC Economics Research

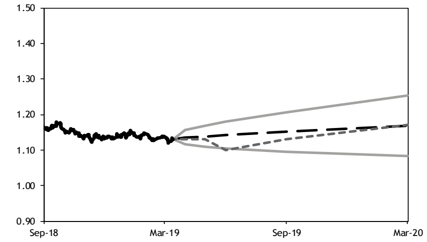
RBC Economics outlook compared to the market

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.

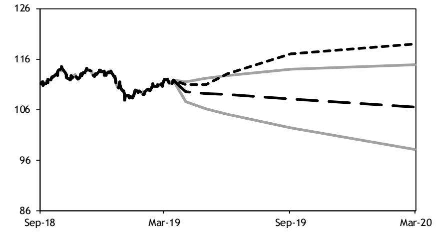
Canadian dollar



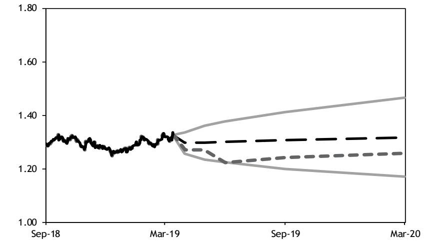
Euro



Japanese yen



U.K. pound

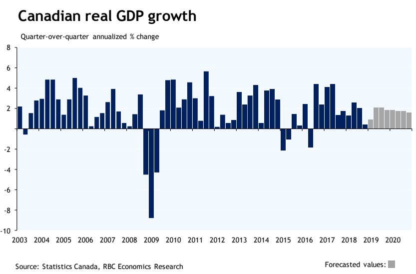


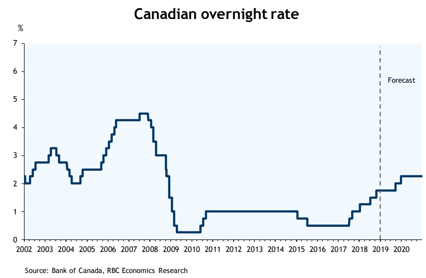
Central bank watch

Bank of Canada

Canada's Q4/18 GDP fell short of expectations and it looks like Q1/19 will be another soft quarter. The Bank of Canada hinted they'll be revising near-term growth forecasts lower in April.

A greater-than-expected slowdown will keep the BoC on the sidelines for longer. We have pushed back our overnight rate forecast, expecting the next rate increase in Q4/19.

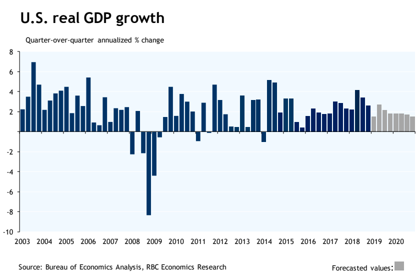


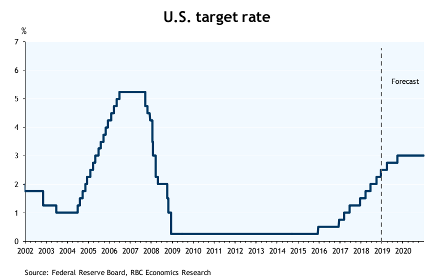


Federal Reserve

Disappointing Q1 GDP growth has become par for the course in the US. This year should be no different, especially with a government shutdown shaving about 1/4 ppt from annualized growth.

The Fed's current pause is likely to continue until they have evidence the economy has returned to above-trend growth. Our forecast assumes a rate hike in June but odds are tilting toward a later move.

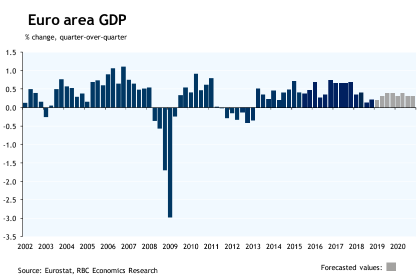


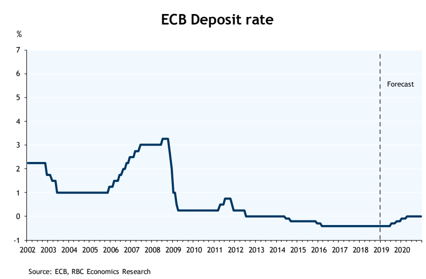


European Central Bank

It looks like the first quarter was another soft one for the euro area. But the latest survey indicators raise the prospect of a pickup in activity in the coming quarters.

Having lowered their growth and inflation forecasts, the ECB pushed back their forward guidance to indicate rate hikes are unlikely before 2020. A new round of TLTROs will also keep conditions stimulative.

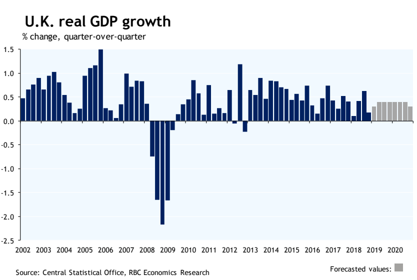


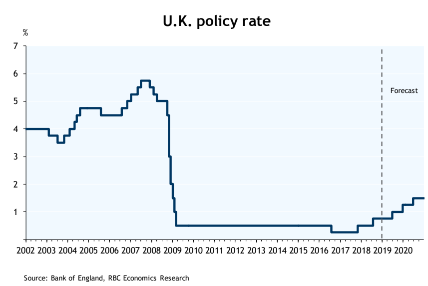


Bank of England

A rebound in January GDP allayed fears of a more substantial slowdown, but it looks like Q1 GDP growth will remain stuck at a sub-trend 0.2% pace.

Despite slower growth in recent quarters, the UK labour market remains strong and wages are rising. Those conditions could see the BoE get back to raising interest rates once Brexit uncertainty has been resolved.

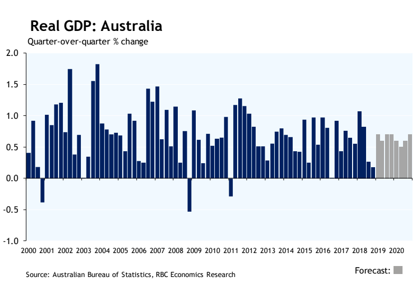


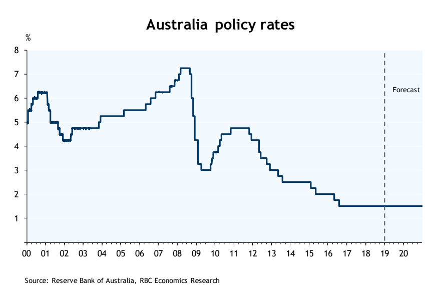


Reserve Bank of Australia

Australian GDP growth slowed over the second half of last year, with weaker consumer spending and a pullback in housing weighing on the domestic economy. Growth is likely to remain below trend this year as those sectors continue to face challenges.

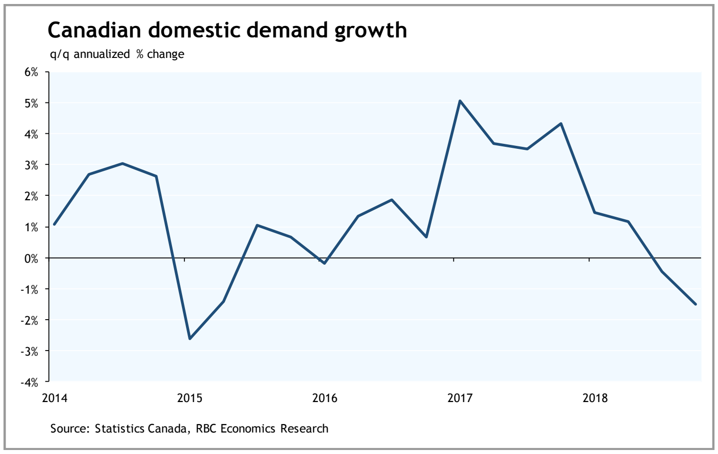
The RBA has shifted to neutral and we expect them to hold policy steady this year. Any deterioration in the labour market could open the door to a cut.



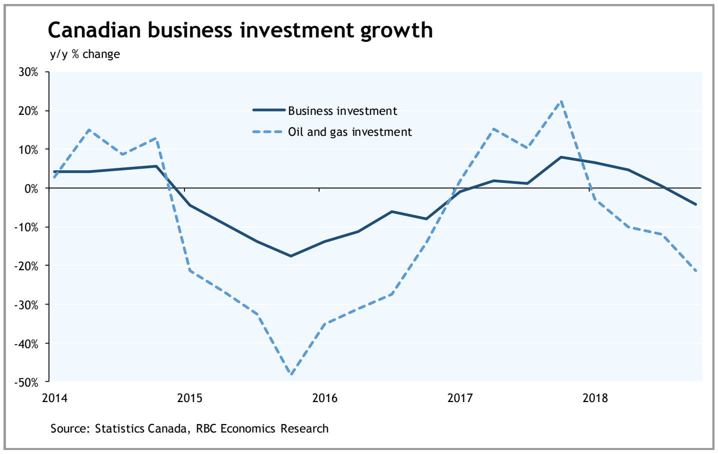


Comparing Canada's current slowdown with 2015

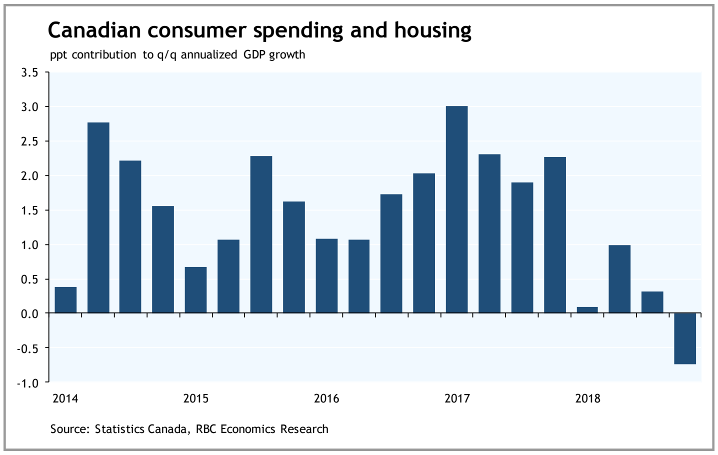
A slowdown over the second half of last year saw Canadian domestic demand fall in back-to-back quarters for the first time since 2015. Recall that the Bank of Canada cut rates twice back then. This time around they've maintained a mild tightening bias, expecting the slowdown will prove transitory.



A decline in oil and gas investment was the major factor behind slower growth in 2015. We're seeing that again, though to a lesser extent. And the sector now represents a much smaller share of business investment than it did in 2015.



Slower consumer spending and a decline in housing activity were also behind the recent slowdown. Back in 2015 those sectors supported growth. But higher interest rates and tighter housing regulations have made for a different story this time around.



Canadian auto sales trended lower throughout 2018 as rising interest rates made 2017's record sales pace unsustainable. Purchases of housing related items have also taken a hit as the resale market slows.