Searching for signs of spring

Global equity markets performed well in April—and hit record highs in Canada and the US—before stocks were sent lower this week on fresh tariff threats (and ultimately actions) from the Trump administration that seemed to dash hopes of a US-China deal. While trade tensions clearly remain a risk, some green shoots in the latest economic data helped reduce fears of a further global slowdown. US GDP growth surprised to the upside in Q1, and while details of the report were less than stellar, we've seen indications of a pickup in domestic demand heading into Q2. Euro area GDP also came in a bit stronger than expected, and the UK economy grew at a solid pace even as Brexit uncertainty intensified in the first quarter. Canadian data have yet to fully thaw after a winter slowdown, but much of the loss of momentum still reflects transitory factors. We expect growth will start to pick up in Q2.

While economic activity seems to be warming up, central banks aren't ready to shed their extra layers. The Fed remained firmly in neutral in May, balancing an easing in some key risks with a surprising slowdown in inflation. The Bank of Canada dropped their tightening bias given the economy's longer-than-expected "detour" away from full capacity. And despite rumours of potential hawkish dissent, the Bank of England remained unanimous in voting to leave current stimulus in place. The ECB is keeping their foot on the accelerator, while the Reserve Bank of New Zealand opted for more stimulus, lowering their policy rate for the first time since 2016. Low inflation and accommodative central banks are keeping longer-term government bond yields close to recent lows—and back in negative territory in Germany. The Canadian and US yield curves remain very flat, though the recession talk that accompanied March's brief curve inversion has quieted down.

Central bank near-term bias

↔ The BoC marked down its 2019 growth forecast and officially shifted to a neutral bias in April. Governor Poloz noted interest rates could eventually move higher if the bank's forecasts are realized, but we don't expect conditions will warrant further tightening.

↔ The Fed sounded firmly in neutral in May, expressing confidence that the recent inflation slowdown would prove transitory and continuing to espouse a patient approach to setting monetary policy.

↔ The BoE voted unanimously to leave interest rates unchanged in May despite indications that we might see a hawkish dissent. We think they'll remain on hold with Brexit uncertainty now likely to persist though much of this year.

↔ Stronger euro area growth in Q1 is encouraging, but with inflation remaining stuck well short of its target, the ECB is likely to remain comfortable with its more dovish forward guidance issued in March.

↘ We think the RBA's growth forecasts look optimistic, and with inflation moving in the wrong direction, we continue to expect rate cuts over the second half of this year.

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Highlights

▲ US GDP growth picked up in Q1 but domestic spending slowed.

▲ Recent data point to stronger consumer spending and business investment in the second quarter.

▲ Core PCE inflation unexpectedly softened early this year, though declines in a few components are responsible for the slowing.

▲ Chair Powell noted improvement in some of the cross-currents buffeting the US economic outlook.

Strong US GDP report comes with plenty of caveats

US GDP growth surprised to the upside with a 3.2% annualized increase in Q1, defying the pattern of a first quarter slowdown in recent years. But looking under the surface, it was still a soft GDP report. Half the increase came from inventory accumulation and an improving trade deficit, neither of which are likely to be sustained. Meanwhile, domestic spending—a better gauge of underlying demand—grew at its slowest quarterly pace in three years. Both household spending and business fixed investment increased at about half the previous quarter's rate. Meanwhile, federal nondefense spending fell sharply for a second consecutive quarter thanks to the partial government shutdown that began in late-2018 and continued early this year. So while headline growth was impressive, details of the report left much to be desired.

While data for the current quarter is limited, we expect growth will slow from Q1's surprisingly strong pace. Adds from inventory and trade are likely to be at least partially reversed. But there are some indications that underlying demand is picking up. Consumer spending grew at its best pace in two years in March, suggesting solid momentum heading into the second quarter (the opposite of what we saw in Q1). New orders for capital goods also picked up nicely in March, pointing to a rebound in business investment in Q2. And the decline in government spending over the last two quarters should be reversed with the shutdown having ended early this year. All told, we might be looking at slower headline GDP growth in the second quarter, but the composition should be much healthier.

Core inflation unexpectedly slowed in Q1

While consumer spending picked up through the first quarter, prices went in the opposite direction. The core PCE deflator slowed to just 1.6% year-over-year in March, a more than one-year low. The decline was surprising after core inflation spent much of 2018 close to the Fed's 2% objective—the most sustained period of on-target inflation this cycle. Lower prices for clothing and jewelry, as well as health care and financial services, were responsible for some of the recent pullback. The Dallas Fed's trimmed PCE inflation measure, which filters out such idiosyncratic moves, remains close to 2%. That suggests policymakers have little reason to be concerned about a broadly-based slowing in inflation. Financial market-based measures of inflation expectations have actually picked up since early this year alongside an increase in in oil prices, while consumers' inflation expectations hardly point to deflationary concerns. So perhaps the biggest takeaway from the recent slowing in inflation is the good news it brings for consumers. Alongside rising wages, slower inflation implies a bump in purchasing power.

FOMC firmly in neutral

As expected, the FOMC held the target range for the fed funds rates steady at 2.25-2.50% in May. They *lowered* the interest on excess reserves (IOER) by 5 basis points but Chair Powell downplayed the move as a technical adjustment that didn't change the stance of monetary policy. Overall, the Fed showed little inclination to deviate from its neutral bias. Powell fielded a number of questions on the aforementioned slowdown in core inflation, but he expressed little concern, indicating inflation should return to the Fed's 2% objective amid sustained economic expansion. He also noted some improvement in a number of cross-currents mentioned earlier this year—an easing in global financial conditions, improving data in China and Europe, and reports of progress in US-China trade talks (that was prior to the latest escalation in tensions). While those earlier developments contributed to the Fed's shift to neutral, recent improvement was still seen as consistent with the Fed's patient approach to setting monetary policy. This sounds like an FOMC that is in no rush to get back to raising rates, and at the same time hardly inclined to move in the direction markets are pricing (almost a full cut still discounted by the end of this year). We think they'll remain on hold through 2020.

Still no "all clear" from Canadian GDP figures

Canadian GDP fell 0.1% in February, the fourth decline in the last six months. That's the worst stretch we've seen since the first half of 2016. As was the case back then, much of the recent slowdown reflects issues in the energy sector, which we expect will exert less downward pressure as 2019 progresses. February was a slightly different story as the oil and gas sector provided less of a headwind but weather appeared to weigh on economic activity. Rail transportation issues and a slowdown in home sales combined to shave 0.1 ppt off monthly growth, and we think other industries might have been less obviously impacted by wintry weather, which led to a drop in hours worked in February. The combination of a slowdown in the energy sector and some transitory weather-related disruptions is expected to limit Q1 GDP growth to just 0.7% annualized—only a minor improvement on the previous quarter's 0.4% increase.

The question is how much of a pickup in growth we can expect as those factors fade. Developments in the household sector will be key. The recent easing in financial conditions might be behind some interest-rate sensitive purchases—auto sales, for example, have picked up early this year after slowing through much of 2018. But it remains the case that Canadians' debt servicing costs have climbed over the last year. On average, households have to dedicate nearly one percentage point more of their disposable incomes to debt payments than they did before the Bank of Canada began raising interest rates. That is likely to keep overall consumer spending growing at a relatively modest pace. On the housing side, we're seeing east-west divergence with the Vancouver and Prairie markets remaining under downward pressure, while activity has stabilized in Toronto and remains solid in markets like Ottawa and Montreal. And after some weather disruptions, homebuilding activity remains strong. On balance, we think the drag on GDP from consumers and housing seen over the second half of last year won't be repeated, but the household sector is unlikely to punch above its weight going forward.

Job growth powers ahead despite GDP weakness

In sharp contrast to the slowdown in GDP figures, Canadian job growth continues at an impressive pace. The economy added 426,000 positions over the last 12 months, the best run rate in more than a decade. The surge in hiring is being helped by strong population growth and rising labour force participation, though the unemployment rate has still managed to push cycle (and multi-decade) lows. Wage growth remains the fly in the ointment, growing at a slower pace than low unemployment would suggest. The diverging trends in GDP and employment hint at one factor that might be holding back wage growth—weak productivity. Business sector productivity, a key driver of long-run wage growth, was flat in 2018.

BoC lowers 2019 growth forecast, drops tightening bias

The Bank of Canada officially shifted into neutral in April, noting the current degree of monetary policy accommodation is warranted. The change in guidance coincides with a softer global growth outlook and sharp downward revision to the bank's 2019 Canadian growth forecast (now 1.2% vs. 1.7% in January and 2.1% last October). The latest markdown reflects a more significant slowing in housing and business investment than previously assumed, as well as less fiscal support in Ontario. The BoC does, however, expect growth will pick up later this year, returning to a pace around 2% in 2020-21. While dropping an explicit tightening bias, Governor Poloz did indicate that the bank might eventually get back to raising rates if its forecasts are validated. But even in that case, it looks like further rate hikes would be limited—the bank lowered its assumption for the neutral policy rate to 2.25-3.25% in April, only modestly above the current 1.75% overnight rate. With underlying inflation remaining steady around 2% and monetary policy fairly close to neutral, we think the bar is high for another rate increase. But at the same time we don't think the outlook calls for easing, despite market pricing continuing to lean in that direction.

Highlights

- ▲ Canadian GDP fell for the fourth time in six months in February, though wintry weather appeared to be a factor.
- ▲ Drag from the housing market appears to be easing, and the slowdown in consumer spending over H2/18 is expected to become less intense.
- ▲ Canadian employment has surged higher this year despite slower GDP growth.
- ▲ The BoC lowered their 2019 growth forecast to just 1.2% but sees activity rebounding to a 2% pace in the following two years.

Highlights

▲ UK GDP growth picked up in Q1 but the economy lost a bit of momentum late in the quarter.

▲ Euro area GDP was up 0.4% in Q1, doubling the pace seen over the second half of last year.

▲ Unemployment in the currency bloc fell to its lowest level since 2008.

▲ Despite core inflation getting further from its target, the RBA left rates unchanged in May.

UK Q1 GDP defies surveys warning of a slowdown

UK GDP growth picked up to 0.5% in Q1 following a 0.2% gain in the prior quarter. Growing Brexit uncertainty was evident in a run-up in inventories, much of which seemed to come from imports as firms tried to get ahead of potential border delays in the event of a no-deal Brexit. However, concerns about the UK leaving the EU without a deal didn't stop businesses from investing in fixed assets. Consumer spending growth also ticked higher. The economy lost a bit of steam toward the end of the quarter with GDP falling 0.1% in March. That is consistent with business surveys showing uncertainty was most intense in the month before the original Brexit deadline. An extension of that deadline to October 31 has reduced the near-term odds of a no-deal exit but at best it provides a temporary reprieve from uncertainty. Another vote on Prime Minister May's deal is likely in the coming weeks but if an agreement can't be reached a general election or second referendum remain on the table—both of which would absorb most of the extension period. Thus there also remains potential for another extension in October. With Brexit uncertainty set to persist, the Bank of England remains stuck on the sidelines. The MPC unanimous voted to leave rates unchanged in May and provided no signal that they're ready to act on their forward guidance for limited and gradual rate hikes in the coming years.

Major euro area economies back to growth in Q1

Euro area GDP growth was slightly stronger than expected in Q1, picking up to 0.4% from the previous quarter's 0.2% pace. Despite surveys pointing to stagnation, France saw another quarter of modest growth while Italy emerged from technical recession. We expect Germany recorded a moderate increase after losing momentum in the second half of 2018, and Spain's economy likely continued to expand at a solid clip. While PMIs seem to have underestimated growth early this year, we think their story of divergence between domestically- and export-oriented sectors is accurate. Services readings point to a decent domestic demand backdrop, consistent with ongoing improvement in the labour market (unemployment hit a fresh cycle low of 7.7% in March, just half a percent above its pre-recession lows). We think sentiment has also been helped by less political upheaval and loosening fiscal policy in some countries. Meanwhile, confidence in the manufacturing industry has waned amid slowing global industrial production and trade. While the euro area manufacturing PMI continued to slip in April, there are some tentative signs of improvement in actual production—German manufacturing output rose in March, and recent improvement in China's industrial sector should support external demand.

The European Central Bank will likely take some solace in better Q1 data and ongoing improvement in labour markets across the currency bloc. But there are still little evidence of the economy generating inflationary pressure. Labour costs per unit of output rose 1.9% last year, up from 0.7% in 2017, reflecting both stronger wage growth and slower productivity. But core inflation remains stuck near 1%, well short of the ECB's target. Hence the central bank's commitment to keep rates at current levels throughout this year, while also using lending operations and a sizeable balance sheet to keep conditions stimulative.

RBA takes a pass on easing despite inflation dip

Recent data continue to build the case for the Reserve Bank of Australia to provide a bit more accommodation. Retail sales volumes have effectively flat-lined since mid-2018 (and were actually down slightly in Q1 for the first time since 2012) and residential building approvals continue to head south. With the key consumer and housing sectors providing limited support, we expect the Australian economy will grow at a sub-trend pace this year. More significantly from RBA's point of view, inflation is getting further from its 2-3% target range, with core measure slipping to just 1.4% year-over-year in Q1. These data had analysts split on whether the RBA would cut rates in May. In the event they held the cash rate steady at 1.50%, where it has been since August 2016. There was no explicit easing bias either, with the central bank maintaining what we think are optimistic growth forecasts. The RBA is also taking comfort in ongoing strength in the labour market, with the unemployment rate at a seven-year low of 5%. But with the economy likely to grow at a sub-trend pace, we think the future direction will be to a higher jobless rate. We expect soft domestic conditions and low inflation will see the RBA begin to ease policy in the second half of this year, though with the central bank still not shifting to an outright easing bias, risk is skewed toward a later start for rate cuts.

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	1.75	1.75	1.75	1.75	1.75
Three-month	1.10	1.26	1.59	1.64	1.67	1.65	1.65	1.65	1.65	1.65	1.65	1.65
Two-year	1.78	1.91	2.21	1.86	1.55	1.70	1.70	1.75	1.80	1.80	1.80	1.80
Five-year	1.97	2.07	2.34	1.89	1.52	1.75	1.80	1.90	1.95	2.00	2.00	2.05
10-year	2.09	2.17	2.43	1.97	1.62	1.85	1.95	2.05	2.15	2.25	2.25	2.30
30-year	2.23	2.20	2.42	2.18	1.89	2.10	2.20	2.25	2.35	2.45	2.45	2.45
United States												
Fed funds**	1.75	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Three-month	1.73	1.93	2.19	2.45	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
Two-year	2.27	2.52	2.81	2.48	2.27	2.40	2.45	2.50	2.55	2.55	2.55	2.60
Five-year	2.56	2.73	2.94	2.51	2.23	2.40	2.50	2.60	2.70	2.75	2.75	2.85
10-year	2.74	2.85	3.05	2.69	2.41	2.55	2.65	2.75	2.90	3.00	3.05	3.15
30-year	2.97	2.98	3.19	3.02	2.81	2.95	3.00	3.10	3.20	3.40	3.50	3.65
United Kingdom												
Bank rate	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00
Two-year	0.82	0.72	0.82	0.75	0.63	0.70	0.70	0.75	0.85	1.00	1.00	1.00
10-year	1.34	1.28	1.57	1.27	0.99	1.20	1.25	1.35	1.40	1.50	1.55	1.55
Euro area												
Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20	-0.10
Two-year	-0.59	-0.69	-0.55	-0.59	-0.60	-0.55	-0.55	-0.50	-0.45	-0.35	-0.30	-0.20
10-year	0.50	0.31	0.47	0.25	-0.07	0.20	0.35	0.45	0.50	0.60	0.75	0.75
Australia												
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.00	1.00	1.00	1.00	1.00
Two-year	2.00	2.00	2.02	1.89	1.47	1.35	1.15	1.10	1.15	1.25	1.35	1.50
10-year	2.60	2.63	2.67	2.32	1.78	1.80	1.85	1.90	2.05	2.20	2.30	2.45
New Zealand												
Cash target rate	1.75	1.75	1.75	1.75	1.75	1.50	1.25	1.25	1.25	1.25	1.25	1.25
Two-year swap	2.21	2.14	2.02	1.96	1.62	1.55	1.40	1.40	1.45	1.55	1.65	1.80
10-year swap	3.06	3.02	2.89	2.64	2.15	2.10	2.10	2.20	2.35	2.50	2.60	2.75
Yield curve*												
Canada	31	26	22	11	7	15	25	30	35	45	45	50
United States	47	33	24	21	14	15	20	25	35	45	50	55
United Kingdom	52	56	75	52	36	50	55	60	55	50	55	55
Eurozone	109	100	102	84	53	75	90	95	95	95	105	95
Australia	60	63	65	43	31	45	70	80	90	95	95	95
New Zealand	85	88	87	68	53	55	70	80	90	95	95	95

* 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	1.50	1.75	May 8, 2019

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	0.7	2.2	2.2	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	2.2	3.2	1.8	2.0	1.8	1.8	1.8	1.7	1.5	2.2	2.9	2.6	1.8
United Kingdom	0.1	0.4	0.7	0.2	0.5	0.3	0.3	0.4	0.4	0.4	0.4	0.3	1.8	1.4	1.6	1.5
Euro area	0.4	0.4	0.1	0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.3	2.5	1.8	1.2	1.5
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	1.6	2.1	1.9	2.2	2.3	2.0	2.1	2.1	1.6	2.3	2.0	2.1
United States*	2.2	2.7	2.6	2.2	1.6	2.1	2.1	2.1	2.4	1.9	2.0	2.1	2.1	2.4	2.0	2.1
United Kingdom	2.7	2.4	2.5	2.3	1.8	2.2	1.9	1.8	2.2	2.1	2.1	2.1	2.7	2.5	1.9	2.1
Euro area	1.3	1.7	2.1	1.9	1.4	1.0	0.7	1.0	1.2	1.4	1.4	1.4	1.5	1.8	1.0	1.3
Australia	1.9	2.1	1.9	1.8	1.3	1.5	1.5	1.4	1.9	1.9	2.0	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]	Mar	0.2	1.9	1.9	2.1
United States	Core PCE[1,2]	Mar	0.0	1.6	1.3	1.6
United Kingdom	All-items CPI	Mar	0.2	1.9	-0.9	1.6
Euro area	All-items CPI[1]	Apr	0.4	1.7	1.2	0.9
Australia	Trimmed mean CPI[1]	Q1	0.3	1.6	N/A	N/A
New Zealand	All-items CPI	Q1	0.1	1.5	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	1.33	1.34	1.34	1.35	1.35	1.36	1.36	1.37
Euro	1.23	1.17	1.16	1.15	1.12	1.10	1.13	1.15	1.15	1.17	1.18	1.18
U.K. pound sterling	1.40	1.32	1.30	1.28	1.30	1.26	1.28	1.31	1.31	1.33	1.34	1.34
Chinese Renminbi	6.3	6.6	6.9	6.9	6.7	7.0	7.3	7.4	7.5	7.5	7.6	7.7
Japanese yen	106.3	110.8	113.7	109.7	110.9	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	1.51	1.55	1.55	1.59	1.60	1.62
GBP/CAD	1.81	1.73	1.68	1.74	1.74	1.69	1.72	1.76	1.76	1.81	1.82	1.84
CAD/CNY	4.86	5.04	5.32	5.04	5.03	5.22	5.41	5.48	5.56	5.51	5.59	5.62
CAD/JPY	82.4	84.3	88.1	80.4	83.0	84.3	87.3	88.9	88.1	86.8	86.0	84.7
AUD/CAD	0.99	0.97	0.93	0.96	0.95	0.92	0.91	0.90	0.90	0.91	0.90	0.90

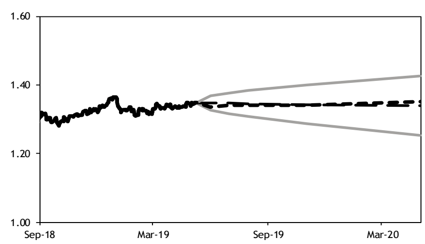
Rates are expressed in currency units per US dollar and currency units per Canadian dollar, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US dollars per currency unit and Canadian dollars per currency unit.

Source: Bloomberg, RBC Economics Research

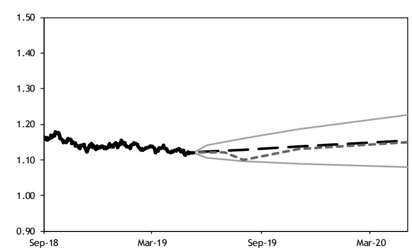
RBC Economics outlook compared to the market

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.

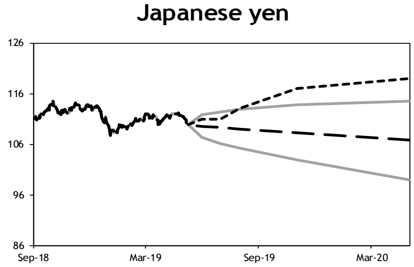
Canadian dollar



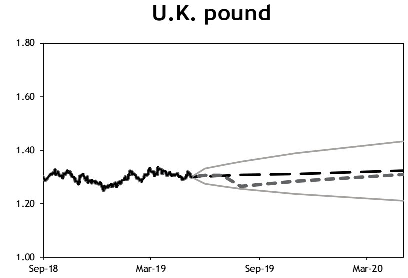
Euro



Japanese yen



U.K. pound

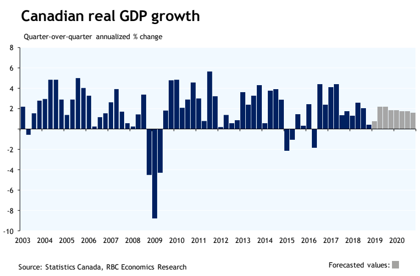


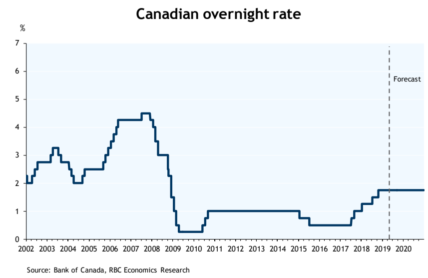
Central bank watch

Bank of Canada

Canadian GDP fell 0.1% in February, the fourth decline in the last six months. Whereas earlier weakness was concentrated in the energy sector, February's slowdown appeared to be weather-related.

Activity is expected to rebound in the coming quarters, but we think growth will ultimately fall short of the BoC's forecast for sustained above-trend gains. That should keep the bank sidelined through 2020.

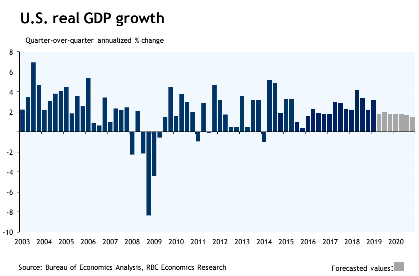


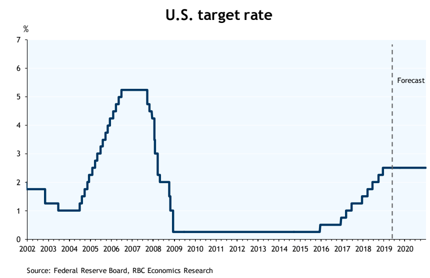


Federal Reserve

US GDP growth surprised to the upside in Q1 but half the increase came from trade and inventories. The Fed took note of slower growth in household spending and business fixed investment.

The Fed has done little to validate market expectations for a rate cut later this year. At the same time, they appear to be in no rush to get back to raising interest rates.

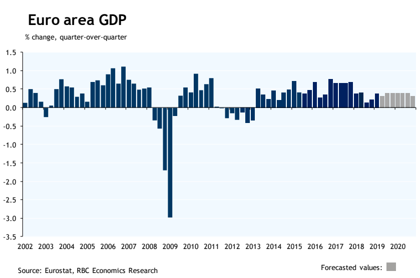


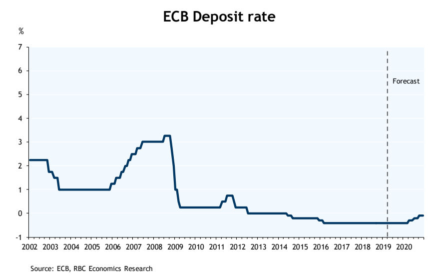


European Central Bank

Euro area GDP growth rebounded to 0.4% in Q1 as Italy and Germany recovered from a H2/18 slowdown. Surveys had pointed to softer activity, particularly in the manufacturing sector.

ECB policy appears to be in cruise control for now. Rate hikes have been ruled out until next year, and the central bank is maintaining the size of its balance sheet by rolling over maturing assets.

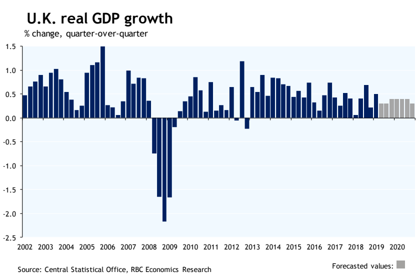


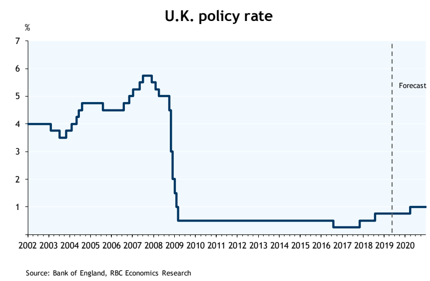


Bank of England

The UK economy grew at a decent pace in Q1 despite business surveys showing a deterioration in sentiment as the original Brexit deadline approached.

While growth has held up in the face of uncertainty, the BoE is unlikely to begin raising rates until its assumption of a smooth Brexit transition is confirmed. We don't see a move until 2020.

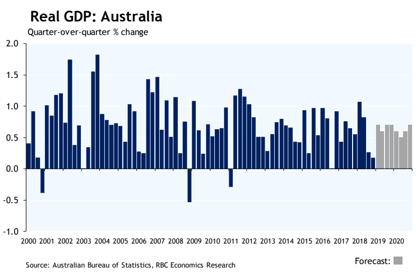


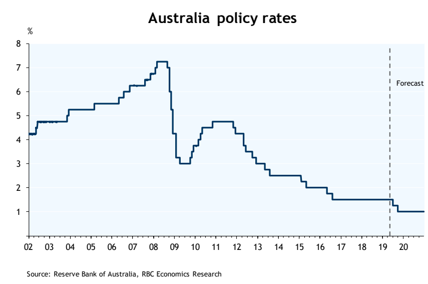


Reserve Bank of Australia

With the consumer and housing sectors losing momentum, we think the RBA's forecast for near-trend growth is optimistic. Slower activity could see unemployment rise from its current, low rate.

We thought slowing inflation might have prompted the RBA to lower its cash rate in May, but they took a pass. Our forecast assumes cuts in August and November, though risk is tilted toward a later move.

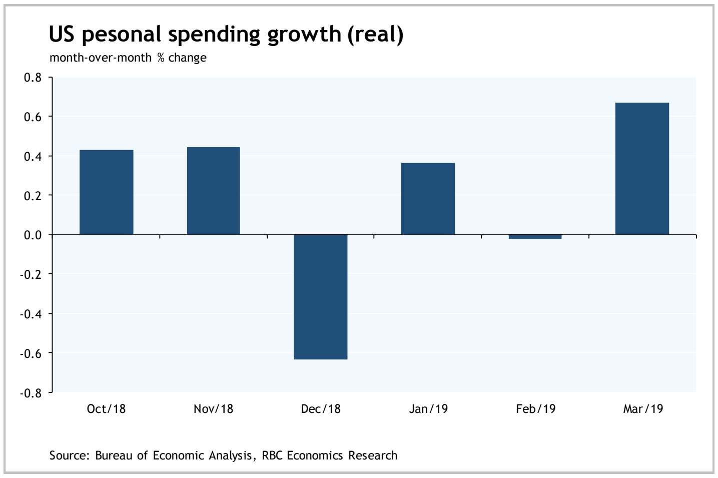




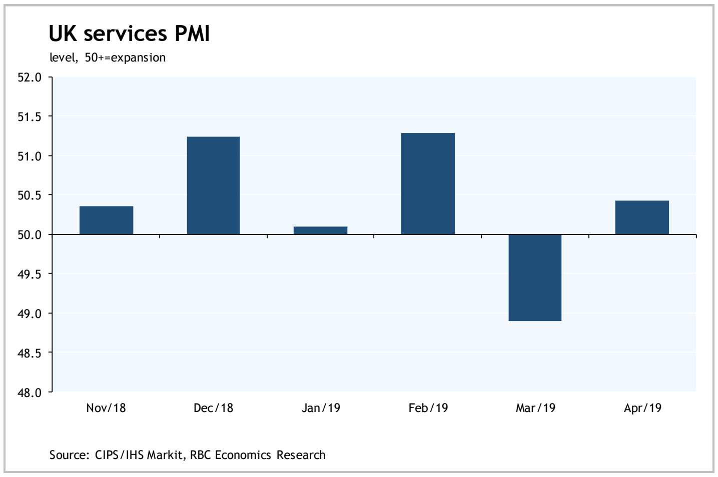
Key economic data to keep an eye on

Canada's economy has gone through a rough patch with GDP falling in four of the last six months. A slowdown in the energy sector, and more recently weather disruptions, have been major factors. Activity should pick up as those headwinds ease, so expect to see a return to growth in the coming months.

US GDP growth picked up in Q1 but the details were soft, including a slowdown in consumer spending. We saw evidence of a pickup in spending in March, but we'll need to see consistent gains from this important sector to keep the US economy growing at or above its trend growth rate.



UK business sentiment, particularly in the domestically-oriented services sector, deteriorated in recent months and hit a recent low in March. With the Brexit deadline extended until October 31, we'll be watching to see if April's uptick in confidence persists or if lingering uncertainty continues to weigh on sentiment.



Germany's manufacturing sector contracted over the second half of last year amid slower global growth and transitory issues in the auto sector. Activity seemed to stabilize in Q1, and we'll be watching to see if a pickup in China's industrial sector helps the heart of European manufacturing in the coming months.