

focus

A Weekly Financial Digest

FEATURE ARTICLE, PAGE 5

Canada's Disturbing Productivity Performance

- Canadian Data Strong...
Core Inflation Jumps, Boosted by Olympics
- Loonie Heads to Parity
- Fed on Hold... Policy Language Unchanged
- U.S. Inflation Benign
- Bank of Japan Expands Quantitative Easing
- Debate Over Yuan Heats Up



DOUGLAS PORTER

Riddle me this: What do you call it when Canadian economists underestimate every economic indicator for a month? No, no, no...not par for the course...a trend. Almost since the start of 2010, Canadian economic indicators have consistently surpassed expectations, but the trend really gathered momentum since dawn broke in March. Since then, we first saw Q4 GDP power up 5%, auto sales leap 25% y/y and housing starts hit almost 200k in February, the trade surplus rise to its best level in a year, and full-time jobs jump 60k last month. The good news gained speed this week, with manufacturing sales and wholesale trade posting hefty volume gains in January, ex-auto retail sales surging 1.8% in the same month, home sales still blistering along, and core inflation surprisingly pushing above 2% in February. Even productivity awoke from a three-year slumber with its best rise in years in Q4. While some of these high-side surprises came fully equipped with a “yes, but” caveat—CPI was boosted temporarily by the Olympics—there is simply no mistaking that growth and inflation have more underlying power than even the most strident optimist would have believed just a few short months ago.

The string of robust readings for January suggests that GDP likely rose by around 0.5% in that month, building on December’s powerful 0.6% advance. And with auto sales, housing activity, and employment solid in February, it looks like output was strong again last month. Accordingly, **we have further upgraded our forecast for Q1 GDP to 4.7%** (from 3.7%), **and the full year to 3.2%** (from 3.0%)—and **that may not be the final word**. The conventional wisdom has relentlessly been that this will be a sub-par recovery, and the only debate has been whether we are headed for a U- or W-shaped rebound. And yet, the consensus call on 2010 growth in Canada just keeps climbing after bottoming at 2.0% last May. With the housing sector almost back to pre-recession highs, employment recouping almost 40% of its recession losses and real retail spending and auto sales close to their highs, can we really call this a fragile recovery? It looks more and more V-shaped by the day, and policymakers still have their foot firmly planted on the gas pedal.

The string of robust economic readings added further fuel to the loonie’s rocket ride. The currency has climbed nearly 4 cents since the wave of strong economic data first broke, with another gain this week to just around 99 cents(US). Notably, this month’s advance has been achieved without a significant rise in commodities and without a softening in the U.S. dollar. The loonie’s gains are truly made-in-Canada, with the market increasingly shifting to the view that the Bank of Canada is indeed poised to go it alone on the interest rate hike front later this year. The fact that this week’s FOMC statement barely changed an adjective drove home the point that the Fed is in zero rush to start raising rates. The currency is also benefiting from the perception that Canada’s fiscal landscape is healthier than most other industrialized economies, helping explain the record \$86 bln inflow into Canadian bonds by foreign investors in the past 12 months.




SAL GUATIERI

Spring was in the air for U.S. financial markets this week, as equity and bond markets rallied on signs of continued economic growth and low inflation, with an assist from the Fed’s renewed pledge to keep rates low for at least several more months. Industrial production rose for an eighth straight month (albeit slightly) in February, and healthy manufacturing

reports from the Philadelphia and New York Fed districts suggest continued strength in March. A survey of consumer confidence recorded its biggest weekly gain since Lehman's failure, reflecting resurgent equities and partly explaining a sudden acceleration in auto sales in the first half of March. That said, the economic recovery isn't so much as gaining momentum as grinding along. Housing remains precarious—witness February's 6% pullback in starts and a surprising setback in homebuilder confidence in March (this wasn't supposed to happen until *after* the homebuyer tax credit expired in April). New jobless claims remain perched above 450k, raising doubts on a positive private-sector payrolls print in March (ex-census hiring). After rocketing higher for the better part of last year, the leading indicator cooled its jets early this year; and a key momentum gauge—the coincident-to-lagging indicator ratio—fell for the first time in almost a year. No wonder inflation lies dormant. Core CPI inflation fell to a six-year low of 1.3% in February, further below the Fed's implied 1.7%-to-2% target. Amid a yawning 8 ppts of slack in the industrial sector and 4-to-5 ppts of slack in labour markets, unit labour costs are falling at their fastest rate since at least 1948. Throw in a steadier dollar, and the table is set for inflation to remain "*subdued for some time*", as noted in the Fed's latest missive. All in, the coming months could be ripe for further easy pickings in financial markets, as investors hunt for bargains during the traditional "sweet spot" between the recession's demise and policy tightening.



BENJAMIN REITZES

The debate over the Chinese yuan heated up this week, as the U.S. Congress introduced legislation to punish China, while Premier Wen said the currency is not undervalued, a denial that could sow the seed of future crises. The pegged yuan is boosting exports, leading to a massive current account surplus, which is then recycled mostly into U.S. Treasuries. China's surplus necessarily means other countries have current account deficits...with the U.S. the largest. China's surplus averaged about 10% of GDP from 2006-2008. Normally such an imbalance would strengthen a currency, but China strictly controls the yuan's value. While the surplus is theoretically sustainable if the corresponding deficits are spread sufficiently to ensure no country has too large of a burden, this hasn't been the case. The U.S. current account deficit averaged over 5% of GDP from 2004-2008, necessitating heavy borrowing from foreigners. And, with the deficit ratio larger than nominal GDP growth, private-sector debt as a share of GDP grew to unsustainable levels. The result was a private sector debt bubble in the housing market, and its eventual collapse. The government filled the shortfall in private sector spending but the debt woes have now shifted to the public sector. This has ignited the war of words. The U.S. needs to shrink its current account and fiscal deficit and grow out of its debt problem (both private and public). While there are many ways to accomplish this feat, the most obvious is stronger Chinese domestic spending, which would narrow China's surplus and, assuming they import U.S. goods, narrow the U.S. deficit while boosting growth. A stronger yuan is one method of potentially enhancing China's domestic demand (while quelling inflation, which concerns China), but the top priority of Chinese officials seems to still be export competitiveness.



Jennifer Lee, Senior Economist

CANADA

- Q1 growth forecast upgraded on strong data
- CAD nears parity
- Finance Minister Flaherty does not seem too concerned about high CAD... it's "competitive"

UNITED STATES

- FOMC on hold, and continues to wind down special liquidity facilities...
- ...press release a tad more optimistic

EUROPE

- Debate on aid for Greece rages on
- BoE minutes slightly more hawkish, on concern inflation will persist longer than expected

JAPAN

- Cabinet Office lifts economic assessment... first time since July
- BoJ doubles credit facility to ¥20 trln

GOOD NEWS

Labour Productivity +1.4% (Q4)
Existing Home Sales +44.0% y/y (Feb.)
Average Home Prices +18.2% y/y (Feb.)
Retail Sales +0.7% (Jan.)—and +1.8% ex. autos
Manufacturing Sales +2.4% (Jan.)
Manufacturing New Orders +0.2% (Jan.)
Wholesale Trade +3.0% (Jan.)
Foreigners buy a net \$11.8 bln of Canadian securities (Jan.)

Industrial Production +0.1% (Feb.)
Capacity Utilization +0.2 pts to 72.7% (Feb.)
Import Prices -0.3% (Feb.)
Consumer Prices unch (Feb.)
Producer Prices -0.6% (Feb.)
Redbook +0.8% (Mar. 13 wk)
Initial Claims -5,000 to 457,000 (Mar. 13 wk)
Philly Fed Index +1.3 pts to 18.9 (Mar.)
Leading Index +0.1% (Feb.)

Eurozone—Labour Costs slow to +2.2% y/y (Q4)
Eurozone—Consumer Prices +0.3% (Feb. F)
Germany—Producer Prices unch (Feb.)
U.K.—Rightmove House Prices +0.1% (Mar.)
U.K.—Unemployment -32,300 (Feb.)

Consumer Confidence +0.6 pts to 40.0 (Feb.)
All-Industry Index +3.8% (Jan.)
Tertiary Index +2.9% (Jan.)

CANADA

U.S.

EUROPE

JAPAN

BAD NEWS

New Motor Vehicle Sales unch (Jan.)
Consumer Prices +0.4% (Feb.)—big jump in travel costs related to Olympics

NAHB Housing Index -2 pts to 15 (Mar.)
Housing Starts -5.9% to 575,000 a.r. (Feb.)
Building Permits -1.6% to 612,000 a.r. (Feb.)
Empire State Manufacturing Survey -2.1 pts to 22.9 (Mar.)
Current Account Deficit widened to \$462 bln a.r. (Q4)
Foreigners buy a net \$19.1 bln of long-term U.S. securities (Jan.)—smallest inflow since July

Eurozone—Trade Deficit €8.9 bln (Jan.)
Germany—ZEW Survey -0.6 pts to 44.5 (Mar.)
Italy—Industrial Orders -2.8% (Jan.)
U.K.—M4 slowed to +3.6% y/y (Feb. P)

Department Store Sales -5.4% y/y (Feb.)

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

Canada's Disturbing Productivity Performance

Dr. Sherry Cooper, Chief Economist

CHART 1
CANADIAN BUSINESS CONFIDENCE STILL LACKING

Conference Board (Long-term average = 100)

Business Confidence

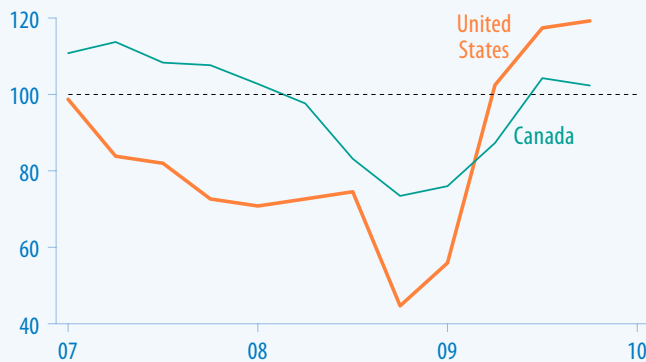
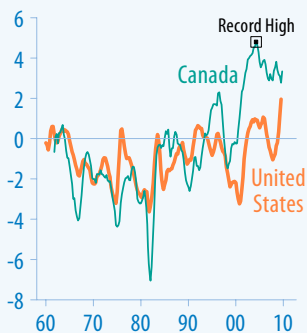
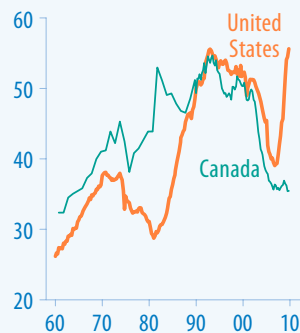


CHART 2
BUSINESSES RISK AVERSE... HOARD CASH

Corporate Savings
(% of GDP : 4-qtr m.a.)



Corporate Debt
(ratio to net worth)

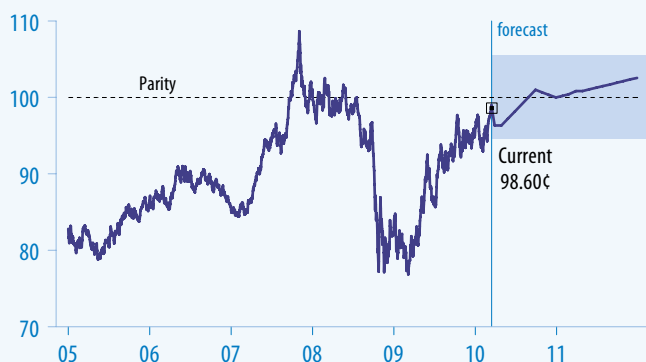


Corp. Savings = Corp. Profits + Non-cash Expenses – Non-residential Investment

CHART 3
CANADIAN DOLLAR TO STAY STRONG

(US¢ : as of March 18, 2010)

Canadian Dollar



The Canadian economy has clearly pulled out of recession with 5% growth in the fourth quarter and good momentum heading into this year. Excluding movements in inventories of unsold goods, final sales were up sharply last quarter, posting 6.5% growth compared to a much slower 1.9% pace in the U.S. Despite the relative strength in our economy, businesses in Canada, in their cautionary fashion, have been reluctant to step up their expenditures on machinery, equipment and innovation to offset the decline in competitiveness resulting from the surge in our dollar (*Chart 1*). A Conference Board survey shows that U.S. CEOs, however, are more confident about current and expected economic conditions than at any time in the past five years, though small businesses are a lot less cheerful.

Healthy balance sheets are one reason for the improved sentiment. But balance sheets are healthy in Canada as well. In fact, Canadian businesses have lower debt ratios and higher savings than their cohorts south of the border (*Chart 2*). Although domestic demand remains soft in the U.S., costs are firmly in check. Over the past three quarters, drastic cost cuts (especially for labour) have led to the fastest productivity gains in half a century for U.S. nonfarm businesses.

Canadian business appears to be spooked by the continued rise in the loonie. Exports, until recently, plunged with the global recession and exporters are under increasing competitive pressure in selling their products in the U.S., U.K., Europe, and the emerging world. The loonie recently hit a 25-year high against pound sterling and a 2-year high versus the euro. We expect that the Canadian dollar will remain strong, straddling parity, for at least the next few years (*Chart 3*). With trade accounting for more than a third of our economy, living standards will decline unless we rebuild our competitiveness. This means a sharp rise in our productivity is essential to our future economic well being.

Using our resources more efficiently and improving the quality and the variety of our products and services boosts our competitiveness. For decades now, hard as we have tried, our performance in this regard has been dismal.

CHART 4
PRODUCTIVITY LAGS IN CANADA
(y/y % chng)

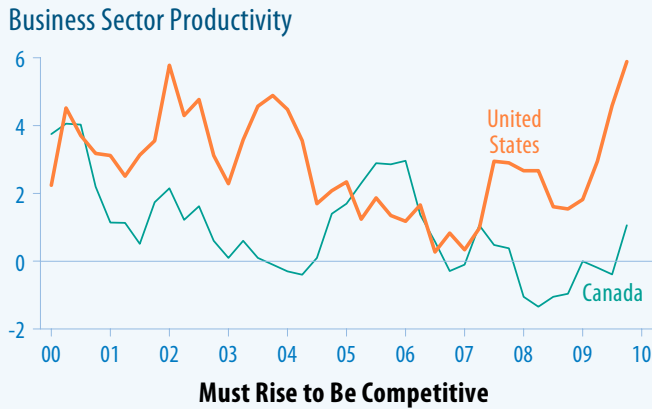
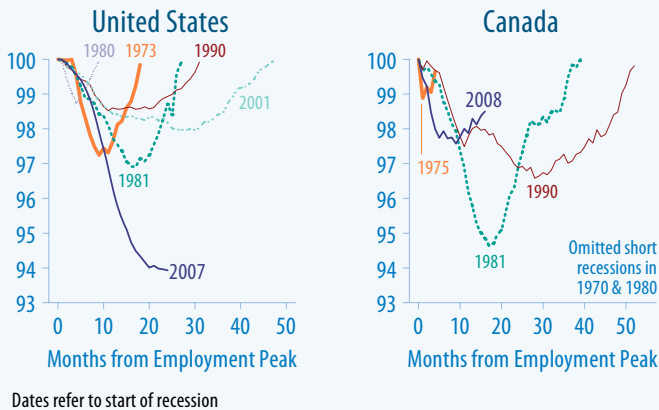


CHART 5
DEEP SLASH IN U.S. PAYROLLS
Employment Change During Recessions (peak = 100)



Canada’s Poor Productivity Performance

In recent years, the yawning gap between productivity growth in the U.S. and Canada has hit near record levels (*Chart 4*). U.S. productivity growth is surging, a precursor to future job growth. Business sector productivity in Canada jumped unexpectedly at a 5.6% annual rate in Q4, its fastest quarterly gain since the late 1990s, but that doesn’t erase the dreadful performance of the past 3+ years, which had seen productivity essentially stagnate. Still, it left output per hour up 1.1% year-over-year, precisely in line with its 25-year average.

Productivity in the U.S. over the last three quarters of 2009 jumped at a remarkable 7.4% annual rate. At the first sign of crisis and economic slowdown in 2007, American business slashed labour to the bone, which apparently forced the remaining workforce to do the jobs of many that left. Businesses cut payrolls far more deeply than in any other recession in the postwar period (*Chart 5*). Even with the big layoffs in the auto sector and the surge in the Canadian dollar, the job losses in Canada were mild in comparison to the losses in the 1981 and 1990 recessions and trivial in comparison to the U.S. and other countries during the latest downturn.

This substantially reduced business expenses in the U.S. as unit labour costs plunged 4.7% last year, the fastest in at least six decades. This compares to a 1.1% increase in Canada (*Chart 6*). Profits are soaring at American businesses and decision-makers are confident enough to invest in capital equipment. U.S. business spending on equipment and software jumped 18% annualized in Q4,

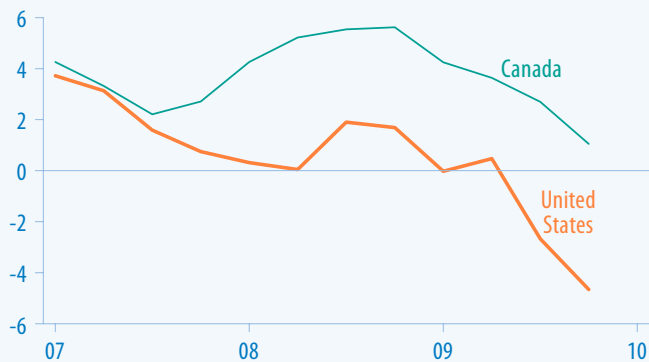
the fastest rate since the giddy tech-boom days of early 2000. A good chunk of the spending was on computer gear, which is driving the productivity gains¹. In comparison, Canadian business investment in machinery and equipment contracted 9.2% even though the strong loonie reduces the cost of imported technology. Ottawa is keen to address this deficiency, eliminating all tariffs on imported capital goods and other products used in manufacturing in the latest budget.

¹ U.S. business investment is likely to remain strong. According to a recent Duke University survey, U.S. CFOs expect earnings to increase 14.3% and capex to rise 8.9% this year. Employment is expected to rise only 0.2%, resulting in strong productivity growth this year as well. Even so, leading indicators of job growth in the U.S., such as temporary jobs and the PMI surveys for manufacturing and nonmanufacturing businesses, are showing encouraging signs.

Business spending, however, cannot be the sole driver of U.S. expansion this year. As capex accounts for just 6% of U.S. GDP (compared with a 71% personal consumption share), it can’t possibly drive the recovery by itself, barring another tech bubble. In addition, business spending on new buildings is likely to retrench further in the face of high vacancy rates and tight credit standards. The U.S. recovery’s best hope is if companies start to spend their cash on new workers. With credit still so tight, the current recovery, perhaps more than any in the post-war era, likely depends on employment and income growth to propel consumer spending and residential construction.

CHART 6
U.S. LABOUR COSTS PLUNGE
(y/y % chng)

Unit Labour Costs



Causes of Canada's Productivity Problem

The reasons for the great productivity disparity between Canada and the U.S. are not fully understood. Productivity growth is the most important long-term determinant of living standards (along with the terms of trade and labour force participation rates). For decades, economists have studied the Canadian productivity problem and governments have corrected, at least in part, many of the structural contributors such as relatively high corporate tax rates, insufficient capital availability, relatively high interest rates, too much regulation and red tape, government subsidies to declining industries, inter-provincial trade barriers and impediments to foreign investment. The secular decline in the loonie also contributed to the problem by pushing up the cost of imported capital and encouraging the over-use of relatively cheap labour.

Readily available credit is also an important competitive advantage. Financial institution regulators must be careful not to stifle potential growth and improvement in living standards by over-regulating our already-strong banking system. Canadian banks have an enduring competitive advantage in fostering business development and education and training for the decade to come.

Canada's debt burden is the lowest among the G7 and our economy has recovered relatively well from the Great Recession. Corporate tax rates have declined significantly and are slated to fall further. However, business sector productivity growth has deteriorated further over the past decade.

Confusingly, according to independent assessors, Ontario's auto manufacturing facilities were the most productive in North America, so measurement problems might be part of the disparity. Measuring output and factor inputs is very difficult, both conceptually and in practice. In the retail sector, for example, margins have been the conventional output measure. Increased competition has driven down these margins, but 'output' in retailing has not declined. The rise in the quality and variety of goods has been a major source of economic growth, but this is not accounted for in output statistics. Price declines for most tech products further exacerbate the measurement problems. On the input side, there are analogous problems, particularly with respect to human and physical capital.

Bottom Line: Canada is in a much better competitive position to attract skilled labour and foreign investment than it was 15 years ago. Many of our structural employment and government tax and spending problems have been addressed. Moreover, the Internet and other communication technologies have spurred the growth of medium-sized cities and facilitated the development of small- and medium-sized businesses where employment growth has been the biggest.

Enhancing the productivity of labour now depends on business capital expenditures, which are far more affordable with our strong and rising currency.

| CANADA | 2009 | | | | 2010 | | | | ANNUAL | | |
|-----------------------------------------------------------------------------|-------|-------|-------|-------|---------|---------|---------|---------|--------|-------|---------|
| | I | II | III | IV | I | II | III | IV | 2008 | 2009 | 2010 |
| Real GDP (q/q % chng : a.r.) | -7.0 | -3.5 | 0.9 | 5.0 | 4.7 ↑ | 3.4 | 2.9 ↓ | 3.0 ↑ | 0.4 | -2.6 | 3.2 ↑ |
| Consumer Price Index (y/y % chng) | 1.2 | 0.1 | -0.9 | 0.8 | 1.8 | 2.1 | 2.6 | 2.1 ↑ | 2.4 | 0.3 | 2.1 |
| Unemployment Rate (%) | 7.8 | 8.4 | 8.5 | 8.4 | 8.3 | 8.2 | 8.1 | 8.0 | 6.1 | 8.3 | 8.2 |
| Housing Starts (000s : a.r.) | 132 | 128 | 156 | 180 | 191 | 183 | 170 | 176 | 212 | 149 | 180 |
| Current Account Balance (\$blns : a.r.) | -27.1 | -43.8 | -55.2 | -39.1 | -36.9 ↑ | -36.7 ↑ | -33.6 ↑ | -32.9 ↑ | 8.1 | -41.3 | -35.0 ↑ |
| Interest Rates (average for the quarter : %) | | | | | | | | | | | |
| Overnight Rate | 0.83 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.58 | 1.08 | 2.96 | 0.40 | 0.54 |
| 3-month Treasury Bill | 0.64 | 0.25 | 0.22 | 0.21 | 0.17 | 0.25 | 0.77 | 1.24 | 2.33 | 0.33 | 0.61 |
| 10-year Bond | 2.89 | 3.20 | 3.42 | 3.41 | 3.43 | 3.44 | 3.52 | 3.65 | 3.61 | 3.23 | 3.51 |
| Canada/U.S. Interest Rate Spreads (average for the quarter : bps) | | | | | | | | | | | |
| 90-day | 43 | 8 | 6 | 15 | 7 | 12 | 51 | 49 | 94 | 18 | 30 |
| 10-year | 15 | -11 | -10 | -5 | -24 | -23 | -25 | -28 | -6 | -3 | -25 |
| UNITED STATES | | | | | | | | | | | |
| Real GDP (q/q % chng : a.r.) | -6.4 | -0.7 | 2.2 | 5.9 | 3.2 | 2.2 | 2.3 | 2.7 | 0.4 | -2.4 | 3.0 |
| Consumer Price Index (y/y % chng) | -0.2 | -1.0 | -1.6 | 1.5 | 2.4 ↓ | 2.4 ↓ | 2.0 ↓ | 1.8 ↓ | 3.8 | -0.3 | 2.2 ↓ |
| Unemployment Rate (%) | 8.2 | 9.3 | 9.7 | 10.0 | 9.7 | 9.7 | 9.6 | 9.5 | 5.8 | 9.3 | 9.6 |
| Housing Starts (mlns : a.r.) | 0.53 | 0.54 | 0.59 | 0.56 | 0.59 ↓ | 0.60 ↓ | 0.69 | 0.76 | 0.90 | 0.55 | 0.66 ↓ |
| Current Account Balance (\$blns : a.r.) | -417 | -391 | -409 | -462 | -480 ↑ | -484 ↑ | -485 ↑ | -491 ↑ | -706 | -420 | -485 ↑ |
| Interest Rates (average for the quarter : %) | | | | | | | | | | | |
| Fed Funds Target Rate | 0.13 | 0.13 | 0.13 | 0.13 | 0.13 | 0.13 | 0.25 | 0.75 | 1.86 | 0.13 | 0.31 |
| 3-month Treasury Bill | 0.21 | 0.17 | 0.16 | 0.06 | 0.10 | 0.13 | 0.26 | 0.76 | 1.39 | 0.15 | 0.31 |
| 10-year Note | 2.74 | 3.31 | 3.52 | 3.46 | 3.68 | 3.67 | 3.77 | 3.93 | 3.67 | 3.26 | 3.76 |
| EXCHANGE RATES (average for the quarter) | | | | | | | | | | | |
| US¢/C\$ | 80.3 | 85.6 | 91.1 | 94.7 | 95.3 | 97.2 | 100.0 | 100.3 | 94.3 | 88.0 | 98.2 |
| C\$/US\$ | 1.245 | 1.168 | 1.097 | 1.056 | 1.050 | 1.028 | 1.000 | 0.997 | 1.067 | 1.141 | 1.019 |
| ¥/US\$ | 94 | 97 | 94 | 90 | 90 | 92 | 96 | 99 | 103 | 94 | 94 |
| US\$/Euro | 1.30 | 1.36 | 1.43 | 1.48 | 1.38 | 1.39 | 1.41 | 1.44 | 1.47 | 1.39 | 1.41 |
| US\$/£ | 1.44 | 1.55 | 1.64 | 1.63 | 1.57 | 1.55 | 1.58 | 1.60 | 1.85 | 1.57 | 1.57 |

Note: Blocked areas represent BMO Capital Markets forecasts
Up and down arrows indicate changes to the forecast ↑↓

CANADA

Douglas Porter, CFA, Deputy Chief Economist

Provincial Budgets

Manitoba: Tuesday

Saskatchewan: Wednesday

Ontario: Thursday

Provincial budget season kicks into a higher gear next week, with three provinces on tap. It will be a bit like feast to famine, as two of the provinces in the best fiscal shape will report, followed by the province that arguably faces the biggest fiscal challenge in the next few years. Ontario is looking at a budget deficit of \$24.7 billion in the fiscal year that ends on March 31, or 4.3% of GDP, both record highs. The news is unlikely to get much better in the coming fiscal year, as the latest projection of the FY10/11 gap was \$21.1 billion. Press reports indicate that the Province is not planning on aiming for a balanced budget until 2017, at the earliest, and restraint will not figure high on the list of priorities in this year's document. According to the Toronto Star, a source said "Finance Minister Dwight Duncan is "not going to spend as if there's no deficit," nor will he recklessly slash programs next week." The first priority will be dealing with the implementation of the HST on July 1.

Meanwhile, Saskatchewan is likely to be the only province to report a budget surplus for FY09/10, albeit with a little help from the fiscal stabilization fund (i.e. rainy day fund). But even before that transfer, the expected deficit is now just \$86 million. Next in line, Manitoba probably had the second smallest shortfall in the country, with the latest estimate of a \$525 mln deficit in FY09/10 a relatively moderate 1.1% of GDP—and that's despite \$146 mln of one-time expenses related to flood relief and H1N1. The Province's debt load sits comfortably below all provinces to the east on a per-capita basis and as a share of GDP. Starting in such a relatively solid position, we don't expect either of the two prairie provinces to embark on any major changes at this stage.

Leading Indicator

Tuesday, 8:30 am

Feb. (e) +1.0%

Consensus +0.7%

Jan. +0.9%

Since hitting rock-bottom lows in March 2009, Canada's leading indicator has come roaring back with the second strongest 10-month advance in the past 50 years. (It was topped only by a sprint in 1983, which presaged an economic boom in 1984, replete with GDP growth of almost 6%. Again, perhaps that 5% jump in Q4 GDP was no fluke.) Notably, there has only been a mild let-up in recent months, adding a bit more upside risk to Canada's near-term growth outlook. For the latest reading, a slower U.S. leading indicator will likely be more than offset by a rebound in the TSX and another strong month for housing starts.

UNITED STATES

Benjamin Reitzes, Economist

Existing Home Sales

Tuesday, 10:00 am

Feb. (e) 4.95 mln a.r. (-2.0%)

Consensus 5.00 mln a.r. (-1.0%)

Jan. 5.05 mln a.r. (-7.2%)

New Home Sales

Wednesday, 10:00 am

Feb. (e) 309,000 a.r. (unch)

Consensus 315,000 a.r. (+1.9%)

Jan. 309,000 a.r. (-11.2%)

Already showing cracks, blustery February weather didn't help the U.S. housing market. Existing home sales plunged 22% over December and January, but the carnage may not be over, as January pending home sales recorded another steep decline. Look for sales to fall below the 5 mln level for the first time since June 2009. The first homebuyer tax credit clearly brought sales forward, while the current credit is apparently providing little boost.

New home sales are likely to fare only marginally better, holding flat at January's record low 309,000. While the small increase in the NAHB index in February points to

some potential gain, it was likely overwhelmed by the poor weather. And, with the NAHB falling in March, the outlook for housing remains negative. Indeed, until the employment situation improves markedly, new and existing home sales are unlikely to see consistent gains.

Durable Goods

Wednesday, 8:30 am

| | | Ex. Transport |
|------------------|--------------|----------------------|
| Feb. (e) | +0.6% | +0.4% |
| <i>Consensus</i> | +0.5% | +0.5% |
| Jan. | +2.6% | -1.0% |

Durable goods orders look to rise 0.6% in February, boosted by a jump in Boeing orders. However, lower auto production likely acted as a slight headwind. Excluding transportation, orders are expected to retrace part of the prior month's 1% decline. Core capital goods orders (a good proxy for business capital spending) which were particularly weak in January, plunging 4.1%, likely also rebounded, but probably not enough to erase the earlier decline. The big drop in core capital goods orders in January was a tough start to the year, but business spending is still expected to contribute to real GDP growth in Q1.

CHANGE FROM: (BASIS POINTS)

| | MAR 19 * | MAR 12 | WEEK AGO | 4 WEEKS AGO | DEC. 31/09 |
|--------------------------------|----------|---------|----------|-------------|------------|
| Canadian Money Market | | | | | |
| Call Money | 0.25 | 0.25 | 0 | 0 | 0 |
| Prime Rate | 2.25 | 2.25 | 0 | 0 | 0 |
| U.S. Money Market | | | | | |
| Fed Funds (effective) | 0.25 | 0.25 | 0 | 0 | 0 |
| Prime Rate | 3.25 | 3.25 | 0 | 0 | 0 |
| 3-Month Rates | | | | | |
| Canada | 0.22 | 0.21 | 1 | 5 | 3 |
| United States | 0.15 | 0.14 | 0 | 5 | 10 |
| Japan | 0.20 | 0.12 | 8 | 8 | 8 |
| Eurozone | 0.64 | 0.65 | -1 | -2 | -6 |
| United Kingdom | 0.65 | 0.64 | 0 | 0 | 4 |
| Australia | 4.19 | 4.20 | -2 | 14 | 16 |
| Bond Markets | | | | | |
| 2-year Bond | | | | | |
| Canada | 1.62 | 1.59 | 3 | 22 | 14 |
| United States | 0.96 | 0.95 | 1 | 4 | -18 |
| 10-year Bond | | | | | |
| Canada | 3.45 | 3.54 | -9 | -5 | -17 |
| United States | 3.66 | 3.70 | -4 | -11 | -18 |
| Japan | 1.36 | 1.35 | 1 | 2 | 7 |
| Germany | 3.11 | 3.17 | -6 | -18 | -28 |
| United Kingdom | 3.95 | 4.10 | -15 | -22 | -6 |
| Australia | 5.67 | 5.68 | 0 | 11 | 3 |
| Risk Indicators | | | | | |
| VIX | 16.9 | 17.6 | -0.7 pts | -3.1 pts | -4.8 pts |
| TED Spread | 13 | 12 | 2 | -3 | -7 |
| Inv. Grade CDS Spread ** | 84 | 83 | 1 | -7 | -2 |
| High Yield CDS Spread ** | 505 | 507 | -2 | -60 | -12 |
| Currencies | | | | | |
| | | | | (% CHANGE) | |
| US\$/C\$ | 98.59 | 98.11 | 0.5 | 2.4 | 3.8 |
| C\$/US\$ | 1.014 | 1.019 | — | — | — |
| ¥/US\$ | 90.46 | 90.56 | -0.1 | -1.2 | -2.8 |
| US\$/Euro | 1.3525 | 1.3769 | -1.8 | -0.6 | -5.6 |
| US\$/£ | 1.507 | 1.520 | -0.9 | -2.6 | -6.8 |
| US\$/A\$ | 91.49 | 91.52 | 0.0 | 1.8 | 1.9 |
| Commodities | | | | | |
| CRB Futures Index | 273.64 | 273.31 | 0.1 | -1.5 | -3.4 |
| Oil (generic contract) | 80.89 | 81.24 | -0.4 | 1.4 | 1.9 |
| Natural Gas (generic contract) | 4.09 | 4.40 | -7.0 | -18.9 | -26.5 |
| Gold (spot price) | 1108.59 | 1101.90 | 0.6 | -0.9 | 1.1 |
| Equities | | | | | |
| S&P/TSX Composite | 11945 | 12014 | -0.6 | 2.0 | 1.7 |
| S&P 500 | 1160 | 1150 | 0.9 | 4.6 | 4.0 |
| Nasdaq | 2374 | 2368 | 0.3 | 5.8 | 4.6 |
| Dow Jones Industrial | 10746 | 10625 | 1.1 | 3.3 | 3.1 |
| Nikkei | 10825 | 10751 | 0.7 | 6.9 | 2.6 |
| Frankfurt DAX | 6012 | 5945 | 1.1 | 5.1 | 0.9 |
| London FT100 | 5661 | 5626 | 0.6 | 5.7 | 4.6 |
| France CAC40 | 3935 | 3927 | 0.2 | 4.4 | 0.0 |
| S&P ASX 200 | 4872 | 4818 | 1.1 | 5.1 | 0.0 |

* as of 10:30 am ** One day delay

JAPAN

EUROZONE

U.K.

OTHER

MONDAY MARCH 22

Markets Closed

EUROZONE
Consumer Confidence

 Mar. A (e) -17
 Feb. -17

TUESDAY MARCH 23

 Minutes from the February 17-18
 BoJ Monetary Policy Meeting

WEDNESDAY MARCH 24
Merchandise Trade Surplus

 Feb. '10 (e) ¥561 bln
 Feb. '09 ¥83 bln

EUROZONE
Manufacturing PMI

 Mar. A (e) 54.0
 Feb. 54.2

Services PMI

 Mar. A (e) 52.0
 Feb. 51.8

Industrial New Orders

 Jan. (e) +2.0% +14.4% y/y
 Dec. +1.0% +9.8% y/y

GERMANY
Ifo Survey

 Mar. (e) 95.8
 Feb. 95.2

THURSDAY MARCH 25
EUROZONE
M3 Money Supply (smoothed)

 Feb. (e) -0.1% y/y
 Jan. -0.1% y/y

GERMANY
GfK Consumer Confidence

 Apr. (e) 3.1
 Mar. 3.2

FRANCE
Consumer Spending

 Feb. (e) unch +2.9% y/y
 Jan. -2.7% +1.5% y/y

ITALY
Retail Sales

 Jan. (e) +0.1% +0.8% y/y
 Dec. unch +0.7% y/y

FRIDAY MARCH 26

| | CPI | Core CPI |
|----------|-----------|-----------|
| Feb. (e) | -1.1% y/y | -1.2% y/y |
| Jan. | -1.3% y/y | -1.3% y/y |

Consumer Price Index

 Feb. (e) +0.5% +3.1% y/y
 Jan. -0.2% +3.5% y/y

Consumer Price Index—Core

 Feb. (e) +3.1% y/y
 Jan. +3.1% y/y

Retail Sales

 Feb. (e) +0.8% +3.3% y/y
 Jan. -1.8% +0.9% y/y

AUSTRALIA
New Motor Vehicle Sales

 Feb. -3.4% +15.6% y/y
 Jan. -3.4% +15.6% y/y

MEXICO
Retail Sales

 Jan. (e) +2.5% y/y
 Dec. +1.6% y/y

MEXICO
Trade Deficit

 Feb. P
 Jan. \$333 mln

MEXICO
Jobless Rate

 Feb. (e) 5.8%
 Jan. 5.9%

AUSTRALIA

RBA Financial Stability Review

 RBA Governor Stevens
 Speaks in Sydney

CANADA

UNITED STATES

MONDAY MARCH 22
Ottawa's Budget Balance *
Jan. '10
 Jan. '09 +\$0.04 bln

**4:30 pm Treasury Secretary
Geithner addresses the
American Enterprise
Institute in Washington**
**1:00 pm 3 & 6-month T-bill
auction \$56.0 bln
(New cash -\$3.0 bln)**
TUESDAY MARCH 23
8:30 am Leading Indicator
Feb. (e) +1.0%
Consensus +0.7%
 Jan. +0.9%

3:30 pm Manitoba Budget
8:55 am Redbook
Mar. 20
 Mar. 13 +0.8%

10:00 am Existing Home Sales
Feb. (e) 4.95 mln a.r. (-2.0%)
Consensus 5.00 mln a.r. (-1.0%)
 Jan. 5.05 mln a.r. (-7.2%)

10:00 am FHFA House Price Index
Jan. (e) -2.6% y/y
 Dec. -1.5% y/y

**5:00 pm ABC News/Washington Post
Consumer Comfort Index**
Mar. 21
 Mar. 14 -43

**1:00 pm 2-year note auction
\$44.0 bln
(New cash \$12.0 bln)**
WEDNESDAY MARCH 24
**1:00 pm BoC Governor Carney
addresses OEA and CBE in
Ottawa (remarks available
online at 12:45pm)**
4:15 pm Saskatchewan Budget
**12:05 pm 3-year bond auction
\$3.2 bln
(New cash \$3.2 bln)**
NHA MBS Auction
8:30 am Durable
Goods Ex.
Orders Transport
Feb. (e) +0.6% +0.4%
Consensus +0.5% +0.5%
 Jan. +2.6% -1.0%

10:00 am New Home Sales
Feb. (e) 309,000 a.r. (unch)
Consensus 315,000 a.r. (+1.9%)
 Jan. 309,000 a.r. (-11.2%)

**10:30 am DoE's Petroleum Status
Report (Mar. 19 week)**
**1:00 pm 5-year note auction
\$42.0 bln
(New cash \$42.0 bln)**
THURSDAY MARCH 25
4:00 pm Ontario Budget
8:30 am Initial Claims
Mar. 20 (e) 450,000 (-7,000)
Consensus 450,000 (-7,000)
 Mar. 13 457,000 (-5,000)

**10:00 am Bernanke testifies at
House Financial Services
Committee Hearing**
**10:30 am DoE's Natural Gas Status
Report (Mar. 19 week)**
**1:00 pm 7-year note auction
\$32.0 bln
(New cash \$32.0 bln)**
FRIDAY MARCH 26
8:30 am Real GDP
Q4 F (e) +5.9% a.r. +0.4% a.r.
Consensus +5.9% a.r. +0.4% a.r.
 Q4 R +5.9% a.r. +0.4% a.r.
 Q3 +2.2% a.r. +0.4% a.r.

8:30 am Pre-Tax Corporate Profits
Q4 (e) +24.1% y/y
 Q3 -6.6% y/y

**10:00 am Univ. of Michigan
Consumer Sentiment**
Mar. F (e) 73.0
Consensus 73.0
 Mar. P 72.5
 Feb. 73.6

The information, opinions, estimates, projections and other materials contained herein are provided as of the date hereof and are subject to change without notice. Some of the information, opinions, estimates, projections and other materials contained herein have been obtained from numerous sources and Bank of Montreal ("BMO") and its affiliates make every effort to ensure that the contents thereof have been compiled or derived from sources believed to be reliable and to contain information and opinions which are accurate and complete. However, neither BMO nor its affiliates have independently verified or make any representation or warranty, express or implied, in respect thereof, take no responsibility for any errors and omissions which may be contained herein or accept any liability whatsoever for any loss arising from any use of or reliance on the information, opinions, estimates, projections and other materials contained herein whether relied upon by the recipient or user or any other third party (including, without limitation, any customer of the recipient or user). Information may be available to BMO and/or its affiliates that is not reflected herein. The information, opinions, estimates, projections and other materials contained herein are not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information, opinions, estimates, projections and other materials be considered as investment advice or as a recommendation to enter into any transaction. Additional information is available by contacting BMO or its relevant affiliate directly. BMO and/or its affiliates may make a market or deal as principal in the products (including, without limitation, any commodities, securities or other financial instruments) referenced herein. BMO, its affiliates, and/or their respective shareholders, directors, officers and/or employees may from time to time have long or short positions in any such products (including, without limitation, commodities, securities or other financial instruments). BMO Nesbitt Burns Inc. and/or BMO Capital Markets Corp., subsidiaries of BMO, may act as financial advisor and/or underwriter for certain of the corporations mentioned herein and may receive remuneration for same. "BMO Capital Markets" is a trade name used by the Bank of Montreal Investment Banking Group, which includes the wholesale/institutional arms of Bank of Montreal, BMO Nesbitt Burns Inc., BMO Nesbitt Burns Ltée/Ltd., BMO Capital Markets Corp. and Harris N.A., and BMO Capital Markets Limited.

TO U.S. RESIDENTS: BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd., affiliates of BMO NB, furnish this report to U.S. residents and accept responsibility for the contents herein, except to the extent that it refers to securities of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Capital Markets Corp. and/or BMO Nesbitt Burns Securities Ltd.

TO U.K. RESIDENTS: The contents hereof are not directed at investors located in the U.K., other than persons described in Part VI of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001.

™ - "BMO (M-bar roundel symbol) Capital Markets" is a trade-mark of Bank of Montreal, used under licence. © Copyright Bank of Montreal.