

U.S. Manufacturing Some Disappointment

Douglas Porter, CFA, Chief Economist
douglas.porter@bmo.com • 419-359-4887

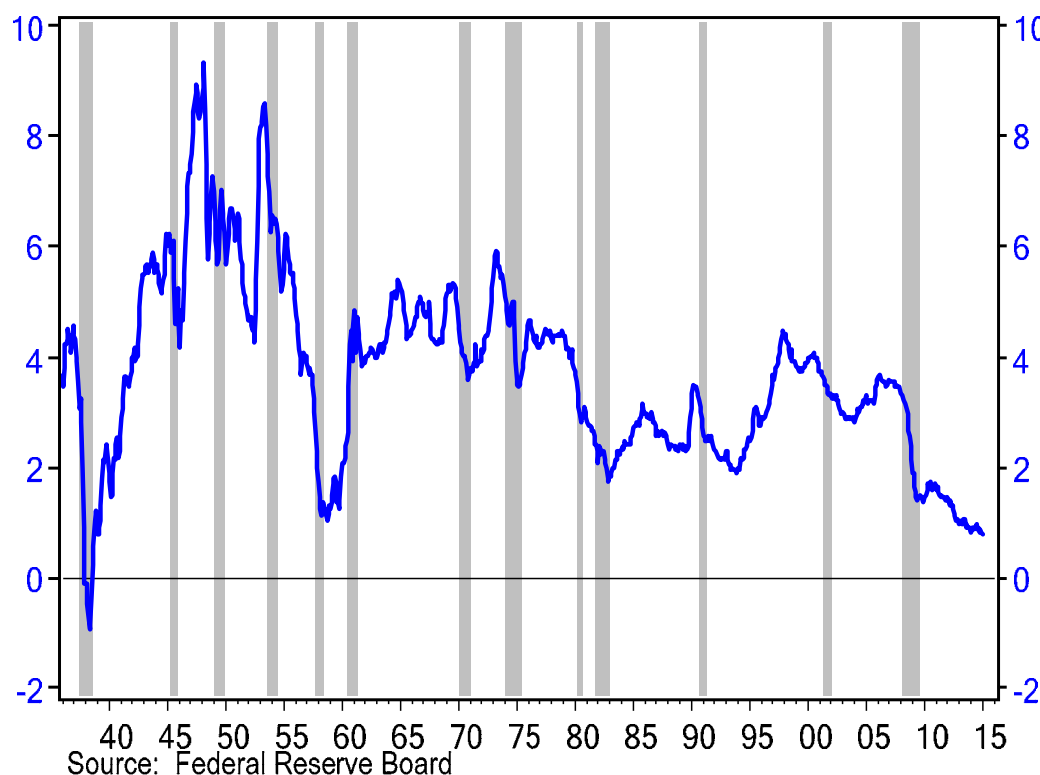


We are now far enough along into 2015 to see some patterns developing for the year, and a distinct one is that the U.S. economy is disappointing on almost every major indicator... except jobs. That held true again Monday, when industrial production managed a meagre 0.1% rise in February and the prior month was chopped down to -0.3% from the initial +0.2%. Notably, manufacturing output alone fell 0.2% last month, marking the third consecutive monthly setback in factory output. We could point to a few temporary restraints, such as the port disruptions and tough weather. The robust dollar is probably also weighing on manufacturing, but that's definitely not a temporary factor.

The bigger picture is that manufacturing simply is not the work horse of the past. Note that factory jobs now account for 8.7% of total payrolls, half the ratio of 30 years ago. Second, underlying growth in manufacturing looks wobbly — the 15-year annualized growth trend in factory output is now just 0.75%, the slowest since the late 1930s.

Industrial Production: Manufacturing

180-month %Change-ann SA, 2007=100



Source: Federal Reserve Board

U.S. Oil and Gas Drilling Probes Depths

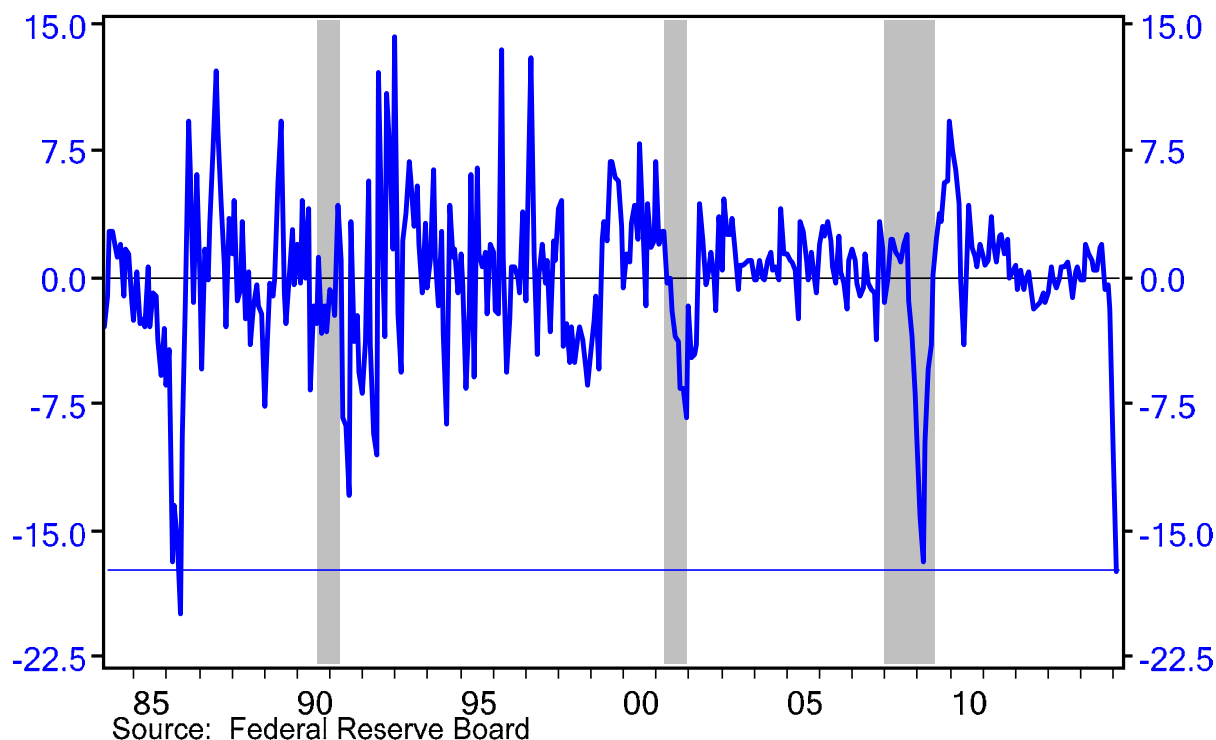


Michael Gregory, CFA, Deputy Chief Economist
michael.gregory@bmo.com • 416-359-4747

U.S. oil and gas drilling activity plummeted 17.4% in February, the second worst monthly result in history (back to 1972). The cumulative collapse in oil prices since their recent peak is now the third worst in history, following what occurred during the Great Recession (#1) and the mid-1980s (#2). The latter was also the last time OPEC waged a major market share war. February's plummet (roughly a 0.1 ppt drag on overall industrial production) follows a double-digit drop in January and a run of relatively small declines since October. Over the past five months, the cumulative decline in drilling activity has been nearly 28%, with more likely to come. WTI crude oil prices are now weakening again (below \$44) in the wake of reports of bloated domestic inventories.

Industrial Production: Oil and Gas Well Drilling

% Change - Period to Period SA, 2007=100



Canadian Regional Job Market: Pop Goes the Divergence?



Douglas Porter, CFA, Chief Economist
douglas.porter@bmo.com • 419-359-4887

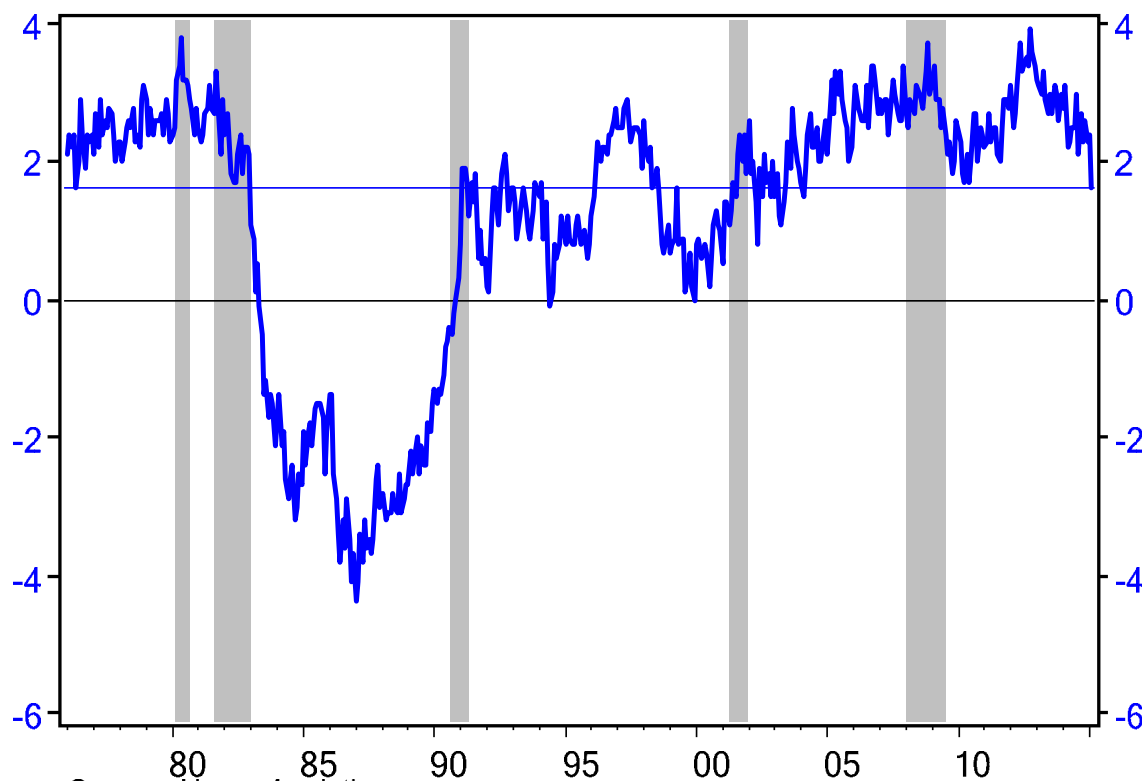
The gap between Ontario's unemployment rate and Alberta's has narrowed sharply in recent months, with the spread plunging to 1.6 percentage points in February. (In the month, Ontario's rate was steady at 6.9%, while Alberta's spiked to 5.3%.) This marks the narrowest gap in more than a decade, and is now below the 25-year average spread (of almost 2 pts).

This is quite a reversal from less than three years ago, when the gap hit an all-time high of 3.9 percentage points. With oil prices and the Canadian dollar sagging anew, the spread looks set to narrow further in coming months.

Unfortunately, more of the narrowing has been due to Alberta deteriorating than Ontario improving. That could change if the U.S. economy finally finds a higher gear this year.

Jobless rates: Ontario - Alberta

(pts, Ontario rate less Alberta rate)



Source: Haver Analytics

Canadian Housing Market Scorecard



Robert Kavcic, Senior Economist
 robert.kavcic@bmo.com • 416-359-8329

While Canada's housing market balance has turned slightly weaker overall, location has become increasingly important.

Market balance on the prairies is very weak (resource prices), and prices in most markets there have begun to slip alongside elevated supply and a drop in confidence.

Ditto for Atlantic Canada, though poor demographics are playing a bigger role there (at least outside Newfoundland).

That leaves B.C. and Ontario to carry the weight. Note that Vancouver's market balance is within rounding error of being classified as "strong", while Toronto's balanced market reflects an extremely tight detached segment, offset by much more supply in the condo sector.

Housing Market Scorecard	Average Prices	Existing Sales	Sales vs. 10-yr avg.	Historical Market Balance	Price/Family Income
As of February 2015	3-mo avg: y/y %	3-mo avg: y/y %	3-mo avg: %	Condition vs. 20-year avg*	Ratio**
Vancouver	3.3	13.6	14.3	Balanced	11.0
Victoria	0.4	14.4	-3.0	Balanced	5.4
Calgary	-0.7	-27.0	-17.8	Very Weak	4.0
Edmonton	3.5	-15.5	-13.7	Very Weak	3.3
Regina	-3.0	-3.2	-5.0	Very Weak	2.9
Saskatoon	4.6	-14.7	9.1	Very Weak	3.6
Winnipeg	-3.1	-1.0	-0.4	Very Weak	3.1
Hamilton-Burlington	7.6	4.9	4.8	Strong	4.9
Kingston	2.1	-2.3	-10.5	Very Weak	3.3
Kitchener-Waterloo	0.8	2.7	-3.9	Weak	3.7
London	2.6	13.7	1.7	Balanced	2.9
Ottawa	1.4	2.5	-2.1	Very Weak	3.3
St. Catharines	8.6	4.2	-0.4	Very Strong	3.6
Sudbury	-2.2	-3.8	-12.5	Balanced	2.5
Toronto	6.6	8.6	5.2	Balanced	7.5
Thunder Bay	3.5	2.7	14.2	Balanced	2.2
Windsor	0.5	16.7	5.0	Very Strong	2.3
Montreal	2.8	2.0	-11.9	Weak	4.2
Saint John	-7.4	18.8	-1.5	Weak	2.2
Halifax	0.5	3.9	-20.8	Very Weak	3.8
Prince Edward Island	4.4	15.2	-39.2	Very Weak	2.2
Newfoundland	-4.4	3.4	-3.4	Very Weak	3.5
Canada	4.5	2.8	-0.7	Weak	5.2

*Market balance is relative to each city's own 20-year average (13 for Montreal). Weak market if sales/new listings ratio minus 0.5-to-minus 1.0 standard deviations from 20-yr avg.; Very weak market if < -1.0; Strong market if 0.5-to-1.0; Very strong market if > 1.0.

** Family income is estimated after 2012

General Disclosure

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Research

Our publications are disseminated via email and may also be available via our web site <http://www.bmonesbittburns.com/economics>. Please contact your BMO Financial Group Representative for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., Member FDIC. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets. BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A, BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) and BMO Capital Markets GKST Inc. (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Corporation Limited, used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

© COPYRIGHT 2015 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group