Charles Dickens’ French Revolution novel, *A Tale of Two Cities*, starts with the famous line, “It was the best of times, it was the worst of times…” This describes well the U.S. and Canadian climates as we enter 2019. Both countries have enjoyed a long period of growth, but with a back-drop of increasingly contentious policies and politics that could negatively impact growth.

Across forecasters, the consensus is for U.S. GDP growth to fall from nearly 3% in 2018 to about 2.5% in 2019. However, the 2.5% forecast is increasingly viewed as a soft number, with more downside risks related to monetary policy uncertainty, trade conflicts, a waning federal tax stimulus, and the federal government shutdown. That said, should the U.S. expansion continue into July, it will be the longest since the 1850s.

For Canada, the 2019 consensus growth expectation is 1.8%, which is slightly lower than 2018’s 2% growth. The lower forecast reflects both ongoing trade conflicts, lower growth in the U.S., housing market weakness, and softer oil prices in 2019. For consumer inflation, the 2019 expectation for both countries is at or near the 2% target maintained by both the Federal Reserve (Fed) and the Bank of Canada (BOC).

Although the Fed and BOC have acknowledged financial markets’ discomfort over recent interest rate increases, they have not firmly ruled out future rate increases. Statements from Jerome Powell and Stephen Poloz strongly suggest that future rate activity will be heavily data driven. Given increasing uncertainty about future economic growth, the emphasis on “data driven” gives them wide flexibility on future rate moves.

In the U.S. Pacific Northwest (PNW), Idaho, Oregon and Washington continued to outperform the U.S. In 2018, PNW employment growth was 2.8% compared to 1.6% nationally. With the PNW growing measurably faster than the U.S. since 2011, regional labor markets have tightened significantly. Leading indicators from the Fed suggest the PNW will likely grow faster than the U.S. in 2019. Therefore, employment growth in 2019 will likely exceed the U.S. consensus forecast of 1.4%. However, given the PNW’s international trade exposure, a worsening conflict with China would cause the gap between PNW and U.S. growth to narrow considerably in 2019.

British Columbia (BC), with employment growth in excess of 3% in 2016 and 2017, saw growth cool to 1.1% in 2018, which was lower than Canada’s 1.3%. BC’s slower growth, driven by a slower housing market and a depleted labor force, was consistent with forecaster expectations. For 2019, the consensus forecast is for BC employment growth to jump to nearly 2% because of LNG Canada’s construction of a new export terminal in Kitimat, BC. LNG Canada estimates that 4,500 to 7,500 construction jobs will be created for the build-out. Given BC’s already tight labor market, this should increase wage pressures and in-migration from other provinces.

At the 2019 American Economic Association meetings, Former Fed Chair Ben Bernanke quipped, “As (former Fed Chair) Janet [Yellen] says, expansions don’t die of old age. I like to say they get murdered instead.” As noted above, a growing number of forecasters see increased downside risks to in 2019—let’s hope it’s not murder.