ECONOSCOPE

July 2019

CANADA'S GDP POSTED STRONG GAIN IN APRIL

AN OUNCE (OR TWO) OF PREVENTION

MIXED US INDICATORS STILL POINT TO 2% GROWTH

A STABLE HOUSING MARKET ISN'T A BAD THING

RBC

ECONOSCOPE

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ Canadian GDP rose 0.3% in April (expectations +0.1%)

▲ Employment slipped 2k in June – but was still up 421k from a year ago

▲ Retail sales inched up 0.1% in April

▲ Total house starts increased to 246k from 197k in May

▲ The trade balance unexpectedly swung to a surplus in May

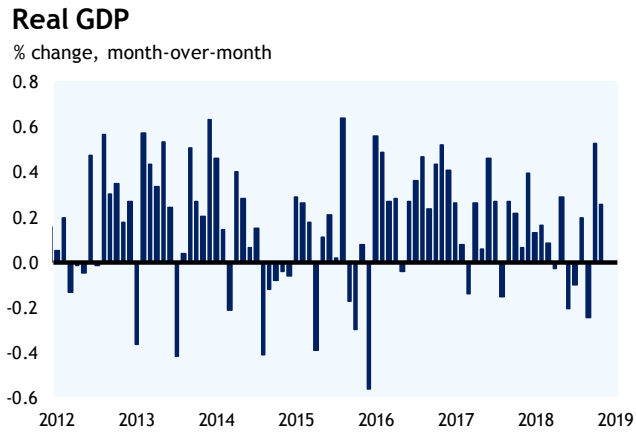
▲ Headline CPI fell back to 2.0% from 2.4% in May

CANADA'S GDP POSTED STRONG GAIN IN APRIL

LATEST AVAILABLE: APRIL

RELEASE DATE: JUNE 28, 2019

GDP rose 0.3% in April (expectations +0.1%). Mining, oil and gas was up 4.5%. GDP ex-mining, oil and gas increased by 0.1%. April's GDP report showed further easing in some of the key head-winds that weighed on Canada's economy in the last two quarters—namely a slowdown in the energy sector and housing. In fact, the mining, oil and gas industry saw one of its strongest monthly increases in recent years as output ramped up alongside higher production limits in Alberta. The key question is whether rising trade tensions and a softer global outlook will result in downward revisions to domestic growth over the second half of the year.



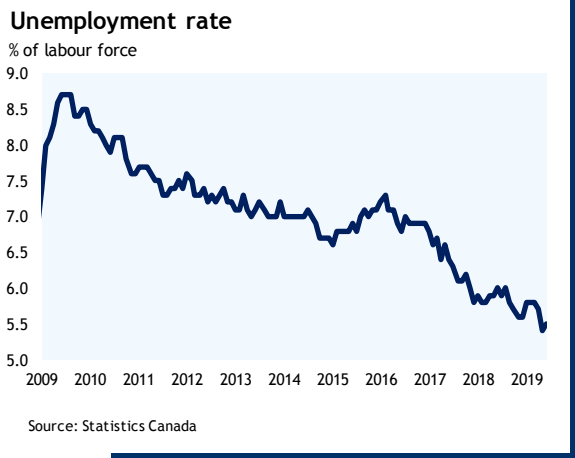
Source: Statistics Canada

CANADA EMPLOYMENT HELD ONTO EARLIER GAINS IN JUNE

LATEST AVAILABLE: JUNE

RELEASE DATE: JULY 5, 2019

The tiny dip in employment – given the size of 'normal' swings in this notoriously volatile report – does nothing to change the narrative that Canadian labour markets still look relatively solid. Employment slipped 2k in June – but was still up 421k from a year ago. The unemployment rate ticked up to 5.5%, but from a new multi-decade low of 5.4% in May, and labour force participation rates are still sitting around all-time highs once controlling for population aging. Probably more importantly, wage growth jumped to 3.8% in June from 2.8% in May.

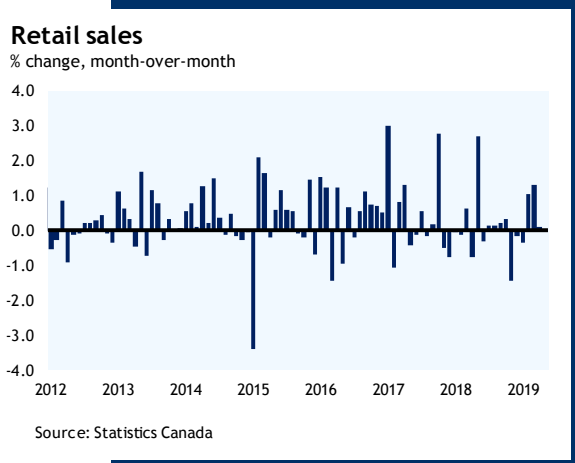


APRIL RETAIL SALES POINT TO SLOW-BUT-STEADY GROWTH IN HOUSEHOLD SPENDING

LATEST AVAILABLE: APRIL

RELEASE DATE: JUNE 21, 2019

Retail sales inched up 0.1% in April. Excluding price-effects, sale volumes edged down 0.2% after stronger gains the prior two months. Looking through monthly wiggles, sale volumes were still up 1.2% versus their Q1 average and 2.2% from a year ago. That year-over-year rate is admittedly modest, but nonetheless the highest since September of last year. The pullback in interest rates in Canada and abroad in recent months mean that household debt payments won't likely increase as much as has been previously feared this year or next. We still expect consumer spending growth to remain relatively unimpressive. An earlier boost to household purchasing power from rapid home price appreciation won't likely be repeated, and the household saving rate is already very low.

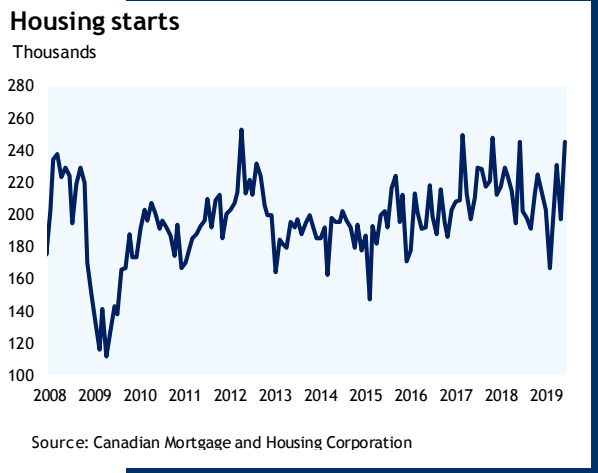


CANADA HOMEBUILDING BOUNCED HIGHER IN JUNE

LATEST AVAILABLE: JUNE

RELEASE DATE: JULY 9, 2019

Total housing starts increased to 246k from 197k in May. Gains were widespread across regions. Permit issuance slowed 234k in May after April surge. Canadian homebuilding continues to chug along at elevated levels – still suggesting that significantly slower resale markets over the last year have had limited spillovers into homebuilding activity. We still think that homebuilding will ultimately drift lower going forward given the earlier easing in resale markets. At a minimum, the housing data has been in line with our economic reports for Canada that broadly suggest economic growth has bounced back somewhat after bad weather and disruptions to oil production weighed on growth over the winter.

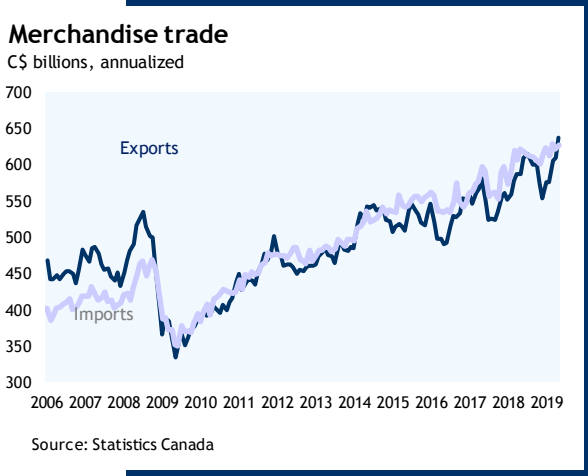


CANADIAN TRADE BACK IN SURPLUS IN MAY

LATEST AVAILABLE: MAY

RELEASE DATE: JULY 3, 2019

The trade balance unexpectedly swung to a surplus in May. Exports surged 4.6%, 4.4% excluding price impacts. Import volumes rose 1.3% as equipment imports rose. Part of the swing in the trade balance to a $0.8 billion surplus – the first positive balance since July 2018 – was due to one-off factors that won't be repeated. Still, the recovery in export volumes over the last couple of months just adds to the list of evidence that economic growth bounced-back in Q2 after transitory factors (bad weather, Alberta oil production curtailments) held back growth over the winter. The unpredictability of the US approach to international trade negotiations still leaves significant uncertainty about the future trade backdrop, but the economic data in Canada has also looked significantly better recently – and that is a big reason why markets are pricing in significantly lower odds of interest rate cuts from the Bank of Canada than elsewhere.



ON-TARGET INFLATION BUYS TIME FOR BOC

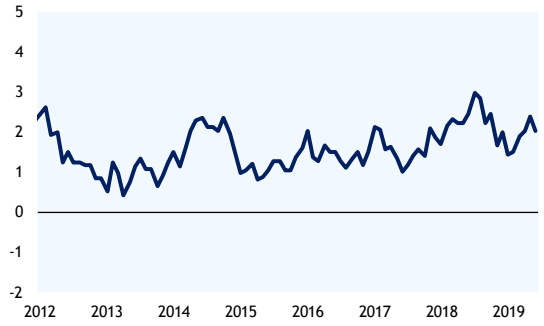
LATEST AVAILABLE: JUNE

RELEASE DATE: JULY 17, 2019

Headline CPI fell back to 2.0% from 2.4% in May, with falling energy prices providing more offset against stronger food price inflation (particularly for fresh vegetables, which StatCan has attributed to inclement weather and supply disruptions in some regions). BoC core measures averaged 2.0%. The BoC sees some scope for core readings to dip below target in the coming quarters (the lagged effect of the economy's recent slowdown) but thinks inflation will be sustainably at 2% by the middle of next year. That is contingent on the economy returning to near-2% growth—which is where the BoC's concerns about the global backdrop enter the picture.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Latest month	Previous month	Year ago
Real GDP	Apr	0.3	1.5
Industrial production	Apr	0.6	0.7
Employment	Jun	0.0	2.3
Unemployment rate*	Jun	5.5	6.0
Manufacturing			
Production	Apr	-0.8	1.1
Employment	Jun	-0.9	0.5
Shipments	Apr	-0.6	3.1
New orders	Apr	-1.4	0.5
Inventories	Apr	1.3	9.1
Retail sales	Apr	0.1	3.7
Car sales	May	0.7	-6.2
Housing starts (000s)*	Jun	245.7	245.6
Exports	May	4.6	8.6
Imports	May	1.0	1.1
Trade balance ($billions)*	May	0.8	-2.8
Consumer prices	May	0.4	2.4

* Levels are shown for the latest period and the same period a year earlier.

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

AN OUNCE (OR TWO) OF PREVENTION

Josh Nye

"While June's G-20 meetings turned down the temperature on the US-China trade dispute, recent tariff increases remain in place."

The central bank tide continued to turn over the past month with policymakers lowering rates (RBA), signaling near-term cuts (Fed, ECB) or simply sounding more dovish (BoC, BoE). The common thread is rising trade tensions and slowing global growth, which is already having a notable impact on some economies (particularly in Asia and Europe) and generating a good deal of uncertainty in others. While June's G-20 meetings turned down the temperature on the US-China trade dispute, recent tariff increases remain in place. And simmering US trade tensions with the EU and Japan have curbed enthusiasm about broader de-escalation.

Adding to the uncertain global backdrop, policymakers are growing frustrated with their inability to hit inflation targets. The ECB stands out most in this regard with core inflation stuck around 1% and inflation expectations worryingly low. The central bank has shifted back to an easing bias, and we now see its deposit rate being lowered over the second half of the year. US inflation is closer to the Fed's objective but has been below 2% for much of the last decade. With inflation pressures remaining "muted," the Fed has the flexibility to introduce a bit of accommodation. We now expect fed funds will be lowered in July and September to offset the negative impact of trade tensions and slowing global growth. The BoC and BoE have had more success on inflation over the last year, contributing to a more neutral policy stance for now. But we expect trade issues at home and abroad will have both central banks lowering rates modestly in the next six months.

Central bank actions and intentions have boosted both equity and bond markets—a sign that investors think monetary policy support will be sufficient to offset trade headwinds. They seem to share Fed Chair Powell's view that an ounce of prevention is worth a pound of cure.

FINANCIAL MARKETS

MIXED US INDICATORS STILL POINT TO 2% GROWTH

Josh Nye

HIGHLIGHTS

- ▲ Stronger consumer spending likely helped US GDP growth remain above-trend in Q2.
- ▲ Both manufacturing and non-manufacturing sentiment fell to near-term lows in June.
- ▲ The Fed seems to be growing impatient with inflation undershooting its 2% objective.
- ▲ We now expect the Fed will lower rates in July and September.

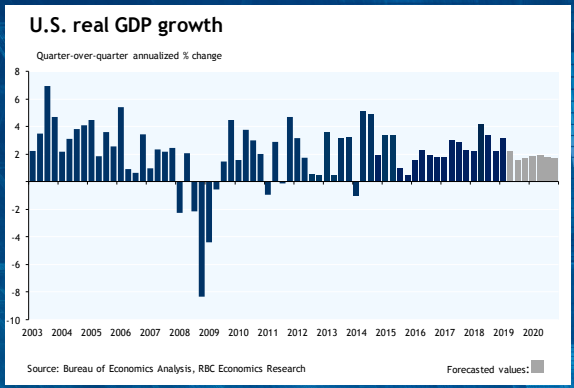
Recent US economic data have been mixed but don't make an overwhelming case for lower rates at this stage. Q2 growth is looking solid—we continue to track a 2.2% annualized increase, down from 3.1% in Q1 but with a healthier composition. The US consumer's slow start to the year is proving to be a temporary blip with spending growth likely getting back to a 3.5% pace in the latest quarter. Housing activity, after softening for more than a year as the Fed raised rates, has shown signs of life thanks to an easing in financial conditions more recently. And business investment is poised to increase in Q2, albeit at a relatively slow rate. There is little to be concerned about in the labour market. Job growth rebounded nicely in June and the average pace of hiring this year, while down from 2018, has been enough to put downward pressure on the unemployment rate. Wages continue to rise at a healthy (but not inflationary) rate.

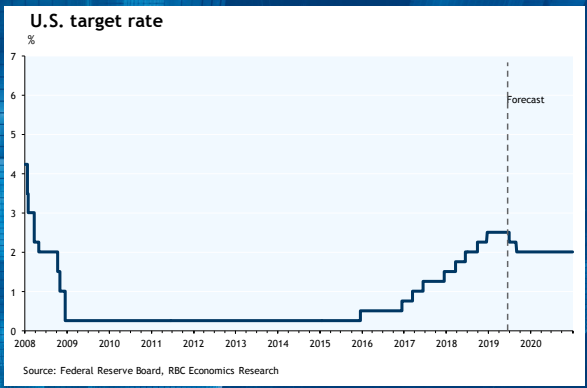
There are soft spots, though. The US industrial sector is losing momentum and manufacturing sentiment is slipping (two themes that are being observed globally). Even the latest ISM non-manufacturing report featured complaints about trade uncertainty or tariff-related cost increases (though overall sentiment remained close to its long-run average). And while business investment will add to growth in Q2, capex orders point to less momentum going forward. At the same time (and to no surprise) tariffs have done little to rein in the US trade deficit. A surge in imports in May suggests net trade was a drag on growth in Q2, and we see little prospect of the trade balance improving in a slower global growth environment. We don't think these data signal the beginning of the end for the current economic expansion, which is now the longest in US history. But it looks like they've been enough to convince the Fed that a bit of accommodation is needed.

INFLATION MAKING THE CASE FOR CUTS?

The case for lower rates has also been built on "muted" inflation pressures. The PCE deflator, the Fed's preferred measure, held below 2% for a seventh consecutive month in May and core inflation remained stuck at 1.6%. Chair Powell was somewhat dismissive of low inflation readings after the Fed's May meeting—saying the recent slowdown should be transitory—but has been less emphatic on that point recently. It's hard to see what has changed. Core inflation actually appears to have a bit more momentum, running at a 2% annualized rate in the last three months. And the Dallas Fed's trimmed inflation measure, which Powell pointed to back in May, remains at 2%.

It could be that policymakers are growing impatient with their inability to get inflation back to target on a sustained basis. Core PCE has been 2% or higher for just six months in the last decade. This persistent undershoot might be weighing on inflation expectations. Market-based inflation compensation remains low (five-year breakevens around 1.5-1.6%) and survey-based measures of expected inflation (also over the next five years) are at record lows. That has some of the FOMC thinking a period of above-2% inflation might be needed to push inflation expectations higher.





MARKETS PREPPED FOR A POWELL PUT

The Fed has done little to push back against growing expectations for cuts. The central bank's June meeting was more dovish than expected, with the dot plot showing roughly half of committee members think two rates cuts will be appropriate by the end of the year. Even those not calling for a move thought the case for easing had strengthened. The post-meeting statement—dropping reference to being "patient" and instead saying the committee would "act as appropriate" to sustain the expansion—was seen as an indication that rates could be lowered as soon as July. With a relatively positive G-20 outcome and strong payroll report doing little to change Powell's view, we now expect a 25 basis point cut in July and a follow-up move in September. We don't think this is the start of a full-on easing cycle; rather, these cuts are about providing a bit more accommodation to offset trade headwinds. 50 basis points of easing (in total) would fall short of what markets are currently pricing in over the next year, but should be enough to placate investors that are concerned monetary policy has become a bit too restrictive.

FINANCIAL MARKETS

CANADA'S ENERGY SLOWDOWN CONTINUES TO EASE

Josh Nye

Despite rising global headwinds, recent Canadian data have been broadly positive and there is growing evidence of the economy emerging from its Q4/18-Q1/19 slowdown. April GDP was up 0.3%, handily beating expectations for a second consecutive month. Unlike in March, growth was concentrated in the energy sector, which was a major drag on activity over the winter. Some of the increase is likely to be temporary—oil companies ramped up production rather than undertaking usual maintenance, so we should see some give-back in the coming months—but rising drilling activity and further easing in production restrictions suggest the energy sector's recovery is becoming entrenched.

HIGHLIGHTS

- ▲ Canadian GDP growth likely rebounded to a 2.2% pace in Q2 after limited gains in the prior two quarters.
- ▲ A pickup in the energy sector contributed to stronger growth and exports in Q2.
- ▲ Business sentiment improved in the second quarter despite growing trade tensions.
- ▲ The BoC remains in neutral (officially) but sounded more concerned about the global outlook.

Canada's non-energy economy continues to chug along. Housing hasn't exactly turned from headwind to tailwind like the energy sector, but recent stabilization is encouraging. Consumer spending is also emerging from a winter slump with retail sales up an annualized 3% in the last three months. Other services sectors like wholesale trade, hospitality, and tech continue to expand at a solid rate. Manufacturing has shown some signs of weakness, though not to the extent seen in other economies. While exports jumped higher in May, the increase isn't likely to be sustained—manufacturing sentiment has fallen sharply amid rising trade tensions and slowing global industrial production. Overall, however, Q2 GDP growth is tracking a 2.2% annualized pace with healthy contributions from both energy and non-energy industries.

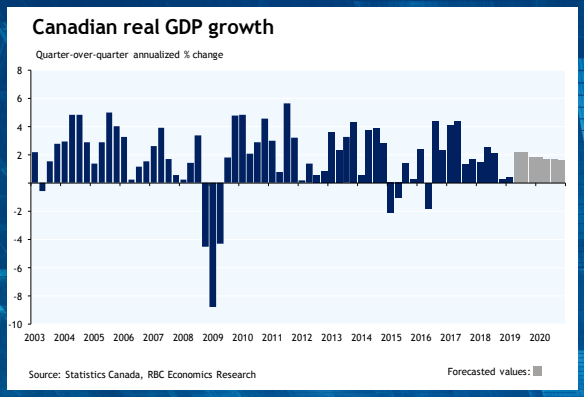
BUSINESS OUTLOOK SURVEY BETTER THAN EXPECTED (FEARED) IN Q2

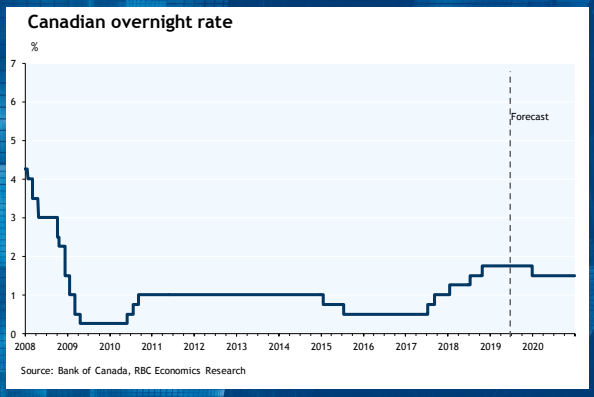
Business confidence fell sharply in Q1; rising trade tensions and a decline in manufacturing sentiment had us concerned about a further slip in Q2. But the BoC's latest Business Outlook Survey was stronger than expected with overall sentiment moving back above its longer-term average (though only slightly). The future sales indicator posted a solid increase, with foreign sales likely to see modest growth even as firms expect global trade headwinds and uncertainty will restrain exports. In fact, concerns about global trade tensions were less prevalent than expected—among factors restraining sales, capacity pressures and domestic regulation ranked higher than trade policy. With domestic demand remaining supportive, hiring and investment intentions remained slightly above longer-term levels. Overall, the Q2 BOS was about as good as the BoC could have hoped for given global developments during the May survey period.

BOC SOUNDING MORE CONCERNED ABOUT GLOBAL RISKS

With a run of positive economic data and a less worrying Business Outlook Survey in hand, we thought the Bank of Canada would come out with a neutral tone again in July. They did maintain a neutral bias—saying current accommodation remains appropriate—but sounded more concerned about global developments than in May. Whereas the last policy statement put an improving domestic economy front and centre, July's led with rising trade tensions and a deteriorating global outlook. The BoC lowered its global growth forecast this year and next, and said escalating trade conflicts are the biggest downside risk to the outlook globally and in Canada. And while marking up its Q2 growth forecast, Governing Council pointed out that some of the increase will be from temporary factors, and growth is expected to moderate somewhat in Q3. GDP growth was revised lower for 2020, largely due to less contribution from business investment and exports, but is still expected to average around 2%.

Overall, the BoC thinks trade conflicts and uncertainty will reduce the level of GDP by up to 2% by the end of 2021. Given that sizeable headwind, it's no surprise policymakers were sounding more cautious in July. For now, though, the BoC looks set to diverge from the Fed, holding rates steady while the US central bank cuts. Firmer core inflation in Canada (close to 2% for the last year) and an already more-accommodative stance give the BoC some leeway in that regard. But its latest comments suggest further deterioration in the global outlook, or an increase in trade tensions, would see the BoC joining its global peers in lowering rates. We have penciled in a 25 basis point rate cut in early-2020 that should help take some pressure off the Canadian dollar, which has increased 2.5 cents in the last six weeks thanks to the Fed's dovish shift.





FINANCIAL MARKETS

BOE SHIFTING FROM TIGHTENING BIAS TO EASING

Josh Nye

HIGHLIGHTS

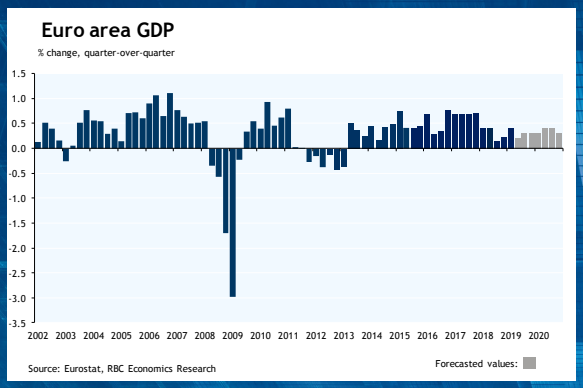
- ▲ It looks like UK GDP was flat in Q2 after Brexit-related stockpiling boosted Q1 growth.
- ▲ We think extension of the October 31 Brexit deadline is the most likely scenario, but a no-deal exit can't be ruled out.
- ▲ The euro area's manufacturing sector remains under pressure.
- ▲ We think the RBA will pause to evaluate the impact of new fiscal and monetary stimulus.

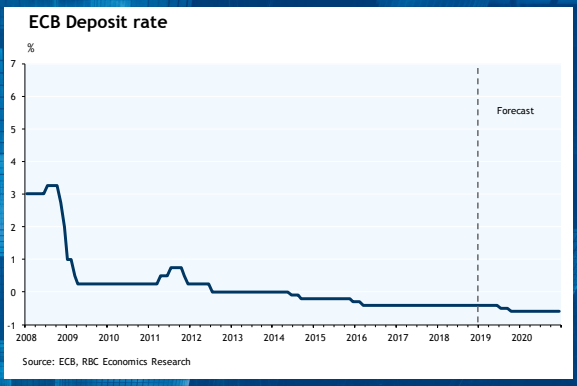
Recent data show the UK economy struggling amid Brexit uncertainty and a softening European and global growth backdrop. Manufacturing output has been volatile due to Brexit-related stockpiling and unusual seasonal shutdowns in the auto sector. Overall production was flat year-over-year in May—likely a good indication of the underlying trend—and the latest PMI readings show little momentum heading into Q3. Growth in services industries (80% of the UK economy) has also geared down, posting just a single monthly gain in the last three. That's consistent with services PMIs that have bounced around the 50 'no change' mark since late last year. On balance, it looks like GDP was flat in Q2 after a 1/2% gain in Q1. The economy should return to growth over the second half of this year, but we expect a sub-trend pace of around 1/4%, on average. Growing external headwinds and an increase in Brexit tensions (heading toward October 31) are expected to weigh on activity. Odds of a no-deal Brexit have increased, though we think the likeliest scenario is that parliament pushes back against that strategy, potentially triggering a general election. That would require a further extension of the Article 50 deadline, effectively prolonging this period of uncertainty for UK businesses. Given Governor Carney's growing concerns about the impact of trade and Brexit tensions, we think such a scenario (now our base case) will see the Bank of England joining the Fed and ECB in lowering rates. Our forecast assumes a 25 basis point cut to the bank rate in November.

ECB SET TO ADD MORE STIMULUS

Recent data suggests the euro area's pickup in growth early this year was short-lived. A slowdown in the manufacturing sector is becoming entrenched, particularly in Germany. Industrial production likely returned to drag on growth in Q2, and recent PMI data show little momentum heading into Q3. Retail sales have also softened in recent months, though data for the broader services sector has been more positive. Services PMIs ticked higher in all major euro area economies in June, with the overall index hitting a year-to-date high. Easing in political uncertainty and less unrest in France and Italy has likely helped in that regard. But despite signs of domestic resilience, growing external headwinds are likely to keep the euro area from growing at an above-trend rate. We have lowered our 2019 GDP forecast for the currency bloc to 1.1%, which would be the slowest in six years. A subdued growth outlook, along with persistently low inflation and declining inflation expectations, has the ECB contemplating further easing. In particular, President Draghi noted that more stimulus should be expected unless economic conditions improve (he previously said conditions would need to deteriorate to warrant further action). We now expect the ECB will lower its deposit rate

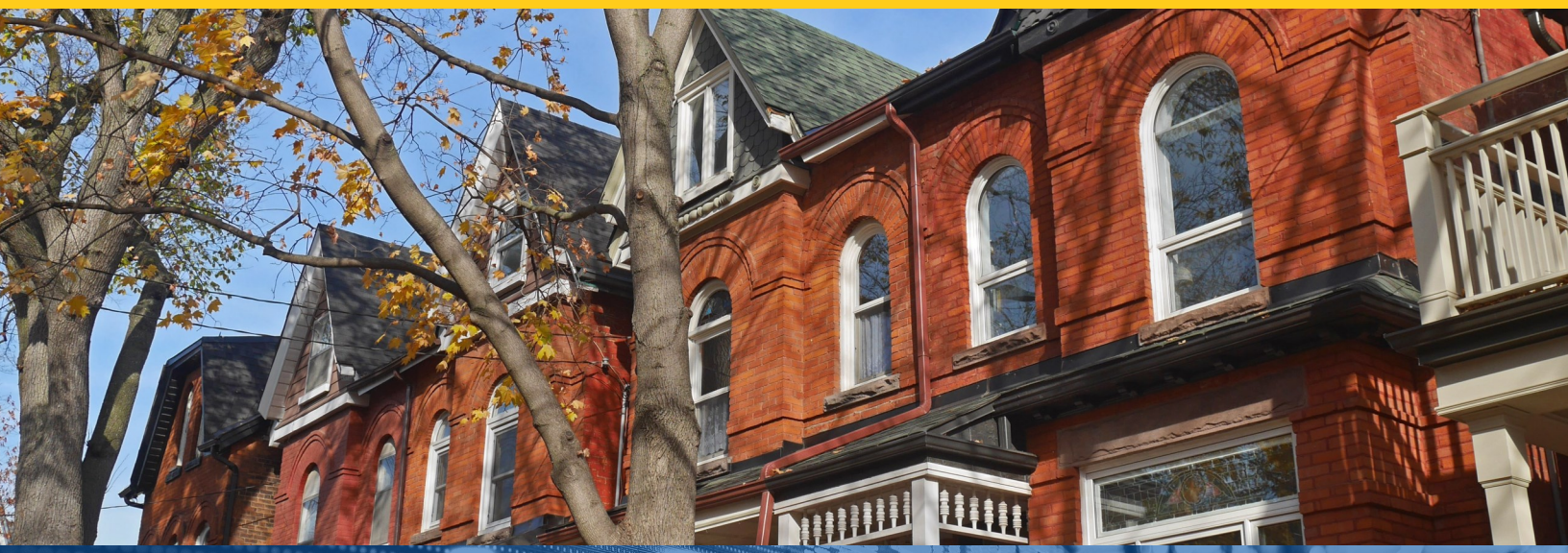
from -0.4% to -0.6% over the second half of this year via 10 basis point rate cuts in September and December. It is also likely to signal that further QE is on the table, though we don't think asset purchases will restart in the near-term.





RBA PAUSING ITS EASING CYCLE, FOR NOW

The Reserve Bank of Australia was first out of the gate (second to the RBNZ, actually) in the nascent, global shift toward lower rates. It followed up its May cut with another move at the beginning of July. A tweak to its policy statement—monetary policy will be adjusted "if needed" to support growth—seems to signal a pause for now. We think the RBA will want to evaluate the impact of its latest moves, as well as fiscal measures (including income tax cuts) before contemplating further easing. That said, the RBA has left the door open to more cuts if the labour market softens further or inflation continues to disappoint. The unemployment rate has ticked up to 5.2% in Q2, about 3/4 percent above what the RBA views as consistent with full employment, and the underemployment rate is less than 1/2 percent from its record high. Without a return to above-trend growth, which we don't anticipate, it's hard to see inflation moving back into the middle of the RBA's 2-3% target. Combined with a softening in the global economic backdrop and (expected) easing from other central banks, we don't think the RBA will be on the sidelines for long. Our forecast now assumes the cash rate will be lowered by 50 basis points over the first half of next year, bringing it to a new low of 0.50%.



CURRENT ANALYSIS

ROBERT HOGUE

A STABLE MARKET ISN'T A BAD THING

- **Home resale market stays in a holding pattern in June:** Overall resale activity in Canada was essential flat compared to May (down marginally by 0.2%) and June 2018 (up just 0.3%). This provided further evidence that the market has passed its cyclical bottom.
- **National benchmark price taking a vacation**: It's been tracking very close to year-ago levels for the past six months. In June it was down 0.3% y/y, slightly less than the 0.6% y/y decline recorded in May.
- **Two (or three) steps forward, one step back in Western Canada:** Vancouver, Victoria, Calgary and Edmonton rolled back part of previous months' sales increases. June levels were generally weak but well above recent cyclical lows, however. Downward price pressure intensified in Vancouver but let up slightly in Calgary and Edmonton.
- **Most markets in Central Canada still doing well:** Montreal saw further gains in resales and prices, and Toronto's slow recovery remained on track. Activity fell in Ottawa though the level was still strong and prices continued to accelerate.
- **A pleasing sight for policy-makers:** The last two months have painted the picture Canadian policy-makers want to see—generally soft but stable conditions in previously overheated markets, with prices continuing to correct in Vancouver where affordability remains a big issue.

THOSE HOPING FOR A SNAPBACK IN ACTIVITY WILL BE DISAPPOINTED

The June market results published by the Canadian Real Estate Association (CREA) looked a lot like those in May. And that's a good thing. It means that signs indicating we've passed the cyclical bottom have been sustained last month. The green shoots that emerged in Western Canada are still around. Toronto is still in a (slow) recovery mode. At the same time, minor setbacks in Vancouver, Calgary and Edmonton in June after encouraging gains (from low levels) in previous months are a reminder that the path forward is poised to be flat-ish for a while. We see little in the near term—not even recent drops in mortgage rates—to fire up the market significantly. We expect demand-suppressing policy measures, as well as stretched affordability in key markets to keep things relatively cool. This is sure to disappoint those hoping for a snapback in activity, especially out west. But it should be viewed as part of the solution to address issues of affordability and household debt in this country.

FORECAST DETAIL - CANADA

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2018				2019				2020				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Household consumption	1.3	1.9	1.3	1.0	3.5	1.4	1.5	1.5	1.6	1.6	1.6	1.6	3.6	2.1	1.9	1.5
Durables	-0.1	-1.8	-0.6	-1.9	4.9	1.4	1.0	1.0	1.0	1.0	1.0	1.0	7.1	1.0	1.1	1.0
Semi-Durables	0.6	1.8	3.1	-0.1	4.9	1.4	1.5	1.5	2.0	2.0	2.0	2.0	3.1	1.4	2.2	1.8
Non-durables	-0.1	1.6	2.0	0.5	2.7	1.4	1.5	1.5	1.6	1.6	1.6	1.6	2.7	1.6	1.6	1.6
Services	2.3	2.9	1.3	2.0	3.3	1.4	1.7	1.6	1.6	1.6	1.6	1.6	3.3	2.6	2.1	1.6
Government expenditures	2.0	4.3	2.7	2.1	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.9	2.3	2.0
Residential investment	-8.4	-0.3	-3.2	-10.4	-6.1	9.1	1.8	2.0	-2.0	0.9	1.4	2.2	2.4	-1.5	-2.1	1.1
Business investment	7.3	-0.9	-11.8	-9.5	13.5	-1.1	8.3	6.0	3.4	2.2	2.2	2.0	2.5	1.9	0.8	3.7
Non-residential structures	-1.3	-4.1	-8.6	-14.2	-2.6	3.5	10.0	6.0	3.0	2.0	2.0	2.0	1.1	-0.9	-2.7	4.0
Machinery & equipment	22.0	4.0	-16.3	-2.3	39.5	-7.0	6.0	6.0	4.0	2.5	2.5	2.0	4.7	6.1	5.8	3.3
Final domestic demand	1.4	1.6	-0.1	-1.0	3.4	1.9	2.3	2.1	1.6	1.6	1.7	1.7	3.1	2.0	1.5	1.8
Exports	3.6	12.0	0.8	0.3	-4.1	9.0	1.0	2.2	2.2	2.2	2.0	2.0	1.1	3.2	1.7	2.4
Imports	4.2	6.2	-8.9	-0.7	7.7	-0.5	2.0	3.2	2.5	1.5	2.0	2.3	4.2	2.9	1.3	2.1
Inventories (change in $b)	16.6	13.3	7.2	13.9	17.7	3.8	5.0	5.5	7.5	6.5	6.5	6.5	17.6	12.7	8.0	6.8
Real gross domestic product	1.5	2.5	2.1	0.3	0.4	2.2	2.2	1.8	1.8	1.7	1.7	1.6	3.0	1.9	1.4	1.8
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.1	0.7	0.1	-0.3	-0.9	-0.6	0.0	1.0	1.4	1.1	1.0	1.7	0.1	-0.5	1.1
Pre-tax corporate profits	-1.4	2.2	6.9	-5.7	-4.4	-4.9	-7.2	5.6	4.9	3.4	2.8	1.0	20.1	0.5	-2.9	3.0
Unemployment rate (%)*	5.8	5.9	5.9	5.6	5.8	5.5	5.6	5.7	5.8	5.8	5.9	5.9	6.3	5.8	5.7	5.9
Inflation																
Headline CPI	2.1	2.3	2.7	2.0	1.6	2.2	2.0	2.4	2.5	2.1	2.2	2.0	1.6	2.3	2.1	2.2
Core CPI	1.8	1.8	2.1	2.0	1.9	2.3	2.1	2.2	2.1	2.1	2.1	2.0	1.6	1.9	2.1	2.1
External trade																
Current account balance ($b)	-65.5	-61.5	-40.6	-66.5	-69.4	-53.1	-53.1	-51.4	-49.4	-45.5	-42.9	-44.2	-60.1	-58.5	-56.7	-45.5
% of GDP	-3.0	-2.8	-1.8	-3.0	-3.1	-2.3	-2.3	-2.2	-2.1	-1.9	-1.8	-1.8	-2.8	-2.6	-2.6	-2.0
Housing starts (000s)*	224	218	197	217	188	224	207	205	201	201	200	200	220	213	205.9	200.5
Motor vehicle sales (mill., saar)*	2.10	2.07	2.02	1.96	2.02	1.94	1.94	1.93	1.93	1.92	1.92	1.92	2.08	2.04	2.0	1.9
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.00	1.75	1.75	1.50
Three-month	1.10	1.26	1.59	1.64	1.67	1.66	1.65	1.60	1.40	1.40	1.40	1.40	1.06	1.64	1.60	1.40
Two-year	1.78	1.91	2.21	1.86	1.55	1.47	1.60	1.45	1.35	1.40	1.45	1.50	1.69	1.86	1.45	1.50
Five-year	1.97	2.07	2.34	1.89	1.52	1.39	1.60	1.55	1.45	1.50	1.55	1.65	1.87	1.89	1.55	1.65
10-year	2.09	2.17	2.43	1.97	1.62	1.47	1.70	1.70	1.60	1.60	1.70	1.80	2.04	1.97	1.70	1.80
30-year	2.23	2.20	2.42	2.18	1.89	1.69	1.85	1.85	1.90	1.95	2.00	2.00	2.27	2.18	1.85	2.00
Canadian dollar	1.29	1.31	1.29	1.36	1.33	1.31	1.28	1.29	1.30	1.31	1.32	1.33	1.26	1.36	1.29	1.33

*Quarterly averages, level

Source: Bank of Canada, Statistics Canada, RBC Economics Research forecasts

FORECAST DETAIL - UNITED STATES

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2018				2019				2020				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	0.5	3.8	3.5	2.5	0.9	3.5	2.1	1.8	2.1	2.1	1.9	1.9	2.5	2.6	2.4	2.1
Durables	-2.0	8.6	3.7	3.6	-2.4	11.0	2.0	1.6	2.0	2.0	1.9	1.9	6.8	5.5	3.4	2.4
Non-durables	0.1	4.0	4.6	2.1	2.3	3.5	2.0	1.8	2.0	2.0	1.8	1.8	2.1	2.8	2.8	2.0
Services	1.0	3.0	3.2	2.4	1.0	2.3	2.1	1.8	2.2	2.2	2.0	2.0	2.0	2.1	2.1	2.1
Government spending	1.5	2.5	2.6	-0.4	2.8	4.0	2.4	2.0	1.0	0.5	0.5	0.5	-0.1	1.5	2.3	1.4
Residential investment	-3.4	-1.4	-3.5	-4.7	-2.0	4.5	-1.0	0.9	0.9	1.2	2.0	1.4	3.3	-0.3	-1.2	1.1
Business investment	11.5	8.7	2.5	5.4	4.4	2.3	0.9	1.2	1.4	2.4	2.3	1.0	5.3	6.9	3.6	1.6
Non-residential structures	13.9	14.5	-3.4	-3.9	4.4	-4.0	0.0	1.0	1.0	2.5	2.3	2.0	4.6	5.0	0.0	1.1
Non-residential equipment	8.5	4.6	3.4	6.6	-1.0	4.5	0.5	0.5	1.0	2.5	2.3	2.0	6.1	7.4	2.6	1.2
Intellectual property	14.1	10.5	5.6	10.7	12.0	3.6	2.0	2.2	2.3	2.3	2.3	2.0	4.6	7.5	7.3	2.3
Final domestic demand	1.9	4.0	2.9	2.1	1.6	3.4	1.9	1.7	1.8	1.9	1.7	1.7	2.5	2.9	2.4	1.9
Exports	3.6	9.3	-4.9	1.8	5.4	-0.5	2.2	2.2	2.8	2.5	2.5	2.5	3.0	4.0	1.9	2.3
Imports	3.0	-0.6	9.3	2.0	-1.9	1.0	3.0	1.8	1.5	1.5	1.0	2.0	4.6	4.5	1.6	1.7
Inventories (change in $b)	30.3	-36.8	89.8	96.8	122.8	70.0	58.0	55.0	48.0	46.0	40.0	36.0	22.5	45.0	76.5	42.5
Real gross domestic product	2.2	4.2	3.4	2.2	3.1	2.2	1.5	1.7	1.8	1.9	1.8	1.7	2.2	2.9	2.6	1.8
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.1	1.5	1.2	1.8	2.4	1.8	1.5	1.4	0.7	0.5	0.9	0.9	1.1	1.4	1.8	0.8
Pre-tax corporate profits	5.9	7.3	10.4	7.4	3.4	1.0	-2.3	-1.8	1.1	0.9	1.1	1.3	3.2	7.8	0.0	1.1
Unemployment rate (%)*	4.1	3.9	3.8	3.8	3.9	3.6	3.7	3.6	3.6	3.6	3.6	3.6	4.4	3.9	3.7	3.6
Inflation																
Headline CPI	2.2	2.7	2.6	2.2	1.6	1.8	1.8	1.9	2.2	2.1	2.2	2.1	2.1	2.4	1.8	2.1
Core CPI	1.9	2.2	2.2	2.2	2.1	2.0	2.1	2.1	2.0	2.2	2.2	2.2	1.8	2.1	2.1	2.2
External trade																
Current account balance ($b)	-456	-429	-503	-576	-522	-535	-545	-551	-549	-549	-544	-543	-4	-5	-538	-546
% of GDP	-2.3	-2.1	-2.4	-2.8	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.4	0.0	0.0	-2.5	-2.5
Housing starts (000s)*	1321	1260	1233	1185	1213	1250	1295	1295	1300	1300	1310	1310	1209	1250	1263	1305
Motor vehicle sales (millions, saar)*	17.1	17.2	16.9	17.5	16.8	17.1	17.2	17.2	17.2	17.2	17.1	17.1	17.1	17.2	17.1	17.2
INTEREST RATES %, END OF PERIOD																
Fed funds	1.75	2.00	2.25	2.50	2.50	2.50	2.00	2.00	2.00	2.00	2.00	2.00	1.50	2.50	2.00	2.00
Three-month	1.73	1.93	2.19	2.45	2.40	2.12	1.90	1.90	1.90	1.90	1.90	1.90	1.39	2.45	1.90	1.90
Two-year	2.27	2.52	2.81	2.48	2.27	1.75	1.85	1.90	1.95	2.00	2.10	2.15	1.89	2.48	1.90	2.15
Five-year	2.56	2.73	2.94	2.51	2.23	1.76	1.85	1.95	2.00	2.10	2.20	2.30	2.20	2.51	1.95	2.30
10-year	2.74	2.85	3.05	2.69	2.41	2.00	2.05	2.15	2.25	2.30	2.35	2.45	2.40	2.69	2.15	2.45
30-year	2.97	2.98	3.19	3.02	2.81	2.52	2.55	2.60	2.65	2.70	2.75	2.80	2.74	3.02	2.60	2.80
Yield curve (10s-2s)	47	33	24	21	14	25	20	25	30	30	25	30	51	21	25	30

*Quarterly averages, level

Source: Bank of Canada, Statistics Canada, RBC Economics Research forecasts

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATOR

	CANADA			US		
	FROM PRECEDING MONTH	FROM YEAR AGO	LATEST MONTH	FROM PRECEDING MONTH	FROM YEAR AGO	LATEST MONTH
Business						
Industrial production*	0.6	0.7	Apr.	0.0	1.3	Jun.
Manufacturing inventory - shipments ratio (level)	1.5	1.5	May.	1.4	1.4	May.
New orders in manufacturing	2.9	-0.8	May.	-0.7	-1.2	May.
Business loans - Banks	3.4	19.1	May.	0.3	6.8	Jun.
Index of stock prices**	2.1	0.6	Jun.	1.2	4.9	Jun.
Households						
Retail sales	0.1	3.7	Apr.	0.4	3.4	Jun.
Auto sales	0.7	-6.2	May.	1.8	-5.4	Jun.
Total consumer credit***	0.2	3.4	May.	0.4	5.2	May.
Housing starts	24.8	0.0	Jun.	-0.9	6.2	Jun.
Employment	0.0	2.3	Jun.	0.2	0.9	Jun.
Prices						
Consumer price index	-0.2	2.0	Jun.	0.1	1.7	Jun.
Producer price index****	0.1	0.6	May.	-0.4	0.5	Jun.
Interest rates						
Policy rate [1]	1.75	1.25	Jun.	2.50	2.00	Jun.
Government bonds - (10 years)	1.4	2.2	Jun.	2.1	2.9	Jun.

[1] latest available

Seasonally adjusted % changes unless otherwise indicated. Interest rates are levels.

*The U.S. series is an index.

**Canada = S&P/TSX; United States = S&P 500

***Excludes credit unions and caisses populaires

****Canada's producer price index is not seasonally adjusted