ECONOSCOPE

April 2018

UNEMPLOYMENT RATE - LOWEST SINCE MID-1970S IN Q1 2018

TRADE HEADWINDS AND BLUSTER

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FOCUS ON CANADA’S HOUSEHOLD DEBT

ECONOSCOPE

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Paul Ferley, Nathan Janzen, Josh Nye

CANADIAN GDP DOWN IN JANUARY AS MINING AND REAL-ESTATE CONTRACT

LATEST AVAILABLE: JANUARY

RELEASE DATE: MARCH 29, 2018

GDP unexpectedly fell 0.1% in January. Markets expected closer to a 0.1% gain in the month, on balance. The news wasn't all bad, though. The big drop in home resales in January alone subtracted about 0.1 percentage points from headline GDP growth. Home resales have remained soft, but that decline probably won't be repeated to the same extent. Much of a big 7% drop in oil sands production was reportedly the result of transitory maintenance shutdowns that will be unwound in coming months. Outside of those two components, output edged up about 0.2% by our calculation — led by a 0.7% increase in manufacturing output and a 0.5% construction increase.

HIGHLIGHTS

▲ GDP unexpectedly fell 0.1% in January. Markets expected closer to a 0.1% gain in the month.

▲ Despite the 32K rise in job creation in March, the economy posted its first quarterly decline in employment since Q3 2010.

▲ Retail sales rose 0.3% in January, falling short of expectations for an increase closer to 1%.

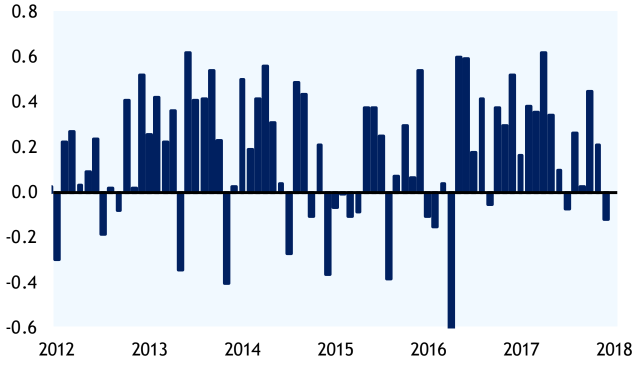
▲ March housing starts dropped 2.5% to 225.2k from an upwardly revised 231.0k in February.

▲ Canada's nominal trade deficit widened to $2.7 billion in February from $1.9 billion in January.

▲ Year-over-year CPI growth bounced up to a 2.2% rate — the highest since October 2014 — after falling to 1.7% the prior month.

Real GDP

% change, month-over-month



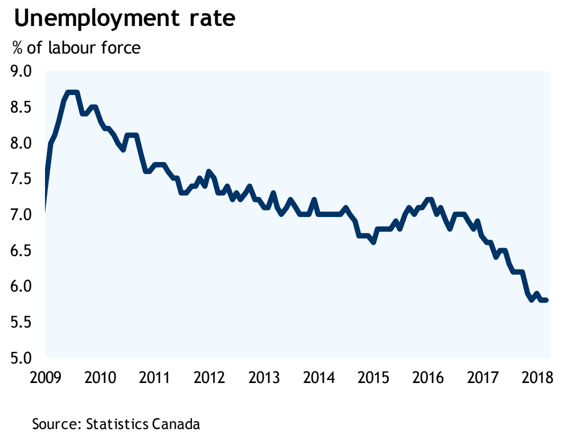
Source: Statistics Canada

CANADA'S UNEMPLOYMENT RATE - LOWEST SINCE MID-1970S IN Q1 2018

LATEST AVAILABLE: MARCH

RELEASE DATE: APRIL 6, 2018

Despite the 32K rise in job creation in March, the economy posted its first quarterly decline in employment since Q3 2010. While disappointing, the details show the number of people employed full-time continued to rise (up 78K) in the first three months of 2018. Part-time employment posted a hefty 118K drop however this was mainly due to January's 137K plunge. The unemployment rate and a broader measure that includes those who are underemployed fell again in the first quarter. The unemployment rate averaged 5.8% in Q1, the lowest since the mid-1970s and the broader U8 measure matched the lowest on record at 8.3%.

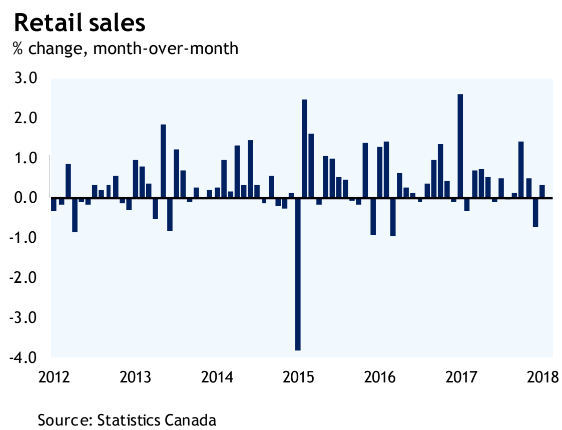


CANADIAN RETAIL SALES EDGED ONLY SLIGHTLY HIGHER TO START THE YEAR

LATEST AVAILABLE: JANUARY

RELEASE DATE: MARCH 23, 2018

Retail sales rose 0.3%, falling short of expectations for an increase closer to 1%. Despite a modest gain, the increase was broadly-based with sales rising in 7 of 11 subsectors. Declines in motor vehicle sales and building supply stores provided the main offset. Gains in a number of sectors represented a rebound from declines in December. E-commerce sales were up just 15% from a year ago. That is down from the nearly 40% year-overyear increase recorded last January.

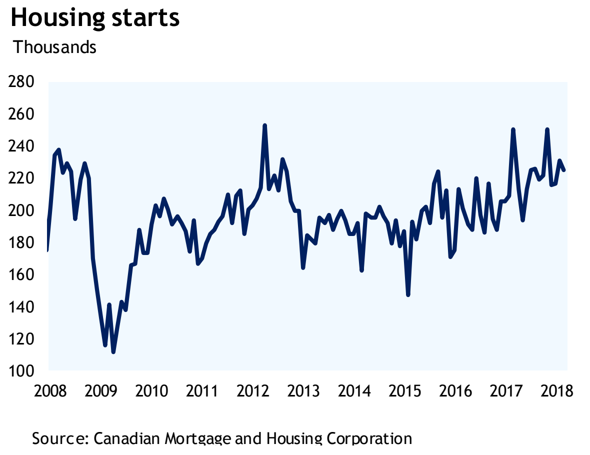


CANADIAN MARCH HOUSING STARTS MODERATE SLIGHTLY

LATEST AVAILABLE: MARCH

RELEASE DATE: APRIL 10, 2018

March housing starts dropped 2.5% to 225.2k from an upwardly revised 231.0k in February. The overall decline mainly reflected urban multiples dropping 7.3% to 144.6k which more than offset urban single-detached units rising 9.5% to 63.7k. Rural starts held steady at 17k. Regionally starts in Ontario dropped 30.4% in March to 71.6k though this only partially reversed a cumulative increase of 68.8% over the prior two months that had left February starts at a robust 102.8k.

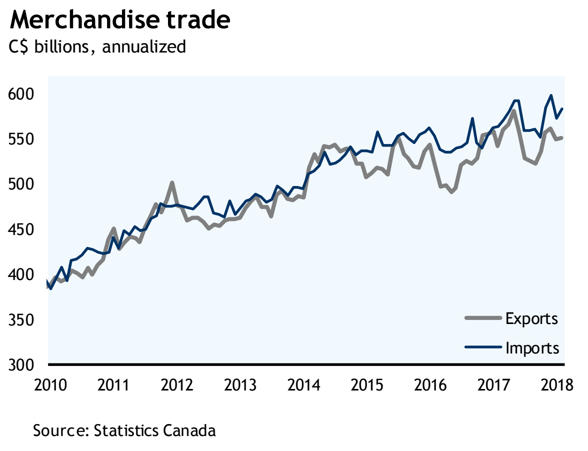


CANADA'S TRADE DEFICIT WIDENED MORE THAN EXPECTED IN FEBRUARY

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: APRIL 5, 2018

Canada's nominal trade deficit widened to $2.7 billion in February from $1.9 billion in January. A modest 0.4% increase in exports was more than offset by a 1.9% jump in imports. The rise in imports was broadly based but led by a significant, volume-driven increase in energy imports. Both aircraft and motor vehicle exports rebounded in February. The latter reflected the end of "atypical plant closures" that weighed on exports in the prior month. A 17% decline in agricultural exports, reportedly due to rail transportation issues in Western Canada, partially offset stronger shipments in the transportation sector. Machinery and equipment import volumes were relatively flat in February. That followed a sizeable decline in January after purchases were brought forward into 2017 ahead of a change in environmental regulation.



CANADIAN INFLATION TRENDS FIRM AGAIN IN FEBRUARY

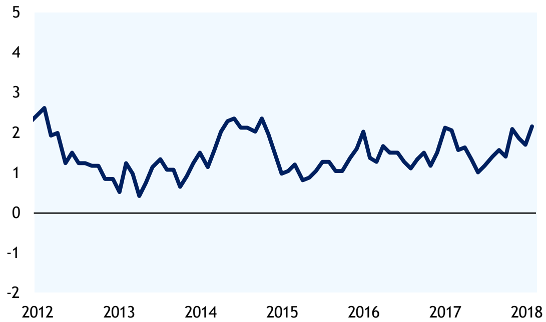
LATEST AVAILABLE: FEBRUARY

RELEASE DATE: MARCH 23, 2018

Year-over-year CPI growth bounced up to a 2.2% rate — the highest since October 2014 — after falling to 1.7% the prior month. A bounce-back in the headline measure was widely expected. The dip the prior month had more to do with unusually high prices in January a year ago than any slowing in underlying inflation trends. Of more interest to policymakers will be the tick higher in the 'core' measures that generally all firmed in February. Excluding food & energy components, CPI is up 1.8% from a year ago vs 1.5% in January. The Bank of Canada's preferred core measures edged above the 2% inflation target, on balance. The CPI-trim and CPI-median rose to 2.1% and the CPI-common rose to 1.9%.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Lastest month	Previous month	Year ago
Real GDP	Jan	-0.1	2.7
Industrial production	Jan	-0.8	2.4
Employment	Mar	0.2	1.6
Unemployment rate*	Mar	5.8	6.6
Manufacturing			
Production	Jan	0.7	3.2
Employment	Mar	-0.5	2.4
Shipments	Jan	-1.0	2.9
New orders	Jan	0.1	4.1
Inventories	Jan	0.9	7.4
Retail sales	Jan	0.3	3.6
Car sales	Jan	10.4	6.2
Housing starts (000s)*	Feb	229.7	250.8
Exports	Feb	0.4	1.5
Imports	Feb	1.9	3.5
Trade balance ($billlions)*	Feb	-2.7	-1.7
Consumer prices	Feb	0.6	2.2

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

TRADE HEADWINDS AND BLUSTER

Josh Nye

"With the US turning their trade ire toward China, there appears to be an increasing willingness to strike a deal in ongoing Nafta renegotiations—particularly before July 1 when Mexico goes to the polls and Trump's trade promotion authority could expire."

The Trump administration's protectionist bent dominated headlines again in March. It wasn't all bad—the heavily-opposed steel and aluminum tariffs turned out to be mostly bluster as a number of major export partners were ultimately granted exemptions. But Trump more than made up for that softer stance by proposing tariffs on $50 billion (initially $60 billion) of Chinese imports in an effort to address a growing trade gap. Those who thought China's response would be measured—retaliatory tariffs for US steel and aluminum levies were relatively minor—were disappointed when China announced reciprocal tariffs on $50 billion of US imports. There has been some suggestion these announcements are simply opening positions for future talks, and with the duties not taking effect immediately there is indeed time to negotiate. Both sides, particularly China, have more to lose than gain by going tit-for-tat on tariffs. Still, the risk that protectionist measures devolve into a broader trade war remains. That concern, along with difficulties for a number of tech stocks, left US and global equity benchmarks lower for a second consecutive month in March. Investors retreated to fixed income, pushing government bond yields to two-month lows in a number of major markets.

With the US turning their trade ire toward China, there appears to be an increasing willingness to strike a deal in ongoing Nafta renegotiations—particularly before July 1 when Mexico goes to the polls and Trump's trade promotion authority could expire. The US side has reportedly pulled back on some of their more contentious demands on auto production and dispute resolution. However, Trump once again threatened to erase that progress by tearing up the trade deal—this time if Mexico didn't do more to curb illegal immigration. Negotiators will be hoping that's just more bluster as the next round of talks gets underway this month in Washington.

FINANCIAL MARKETS

US ECONOMY SLOW OUT OF THE GATE AGAIN IN 2018…

Josh Nye

HIGHLIGHTS

- ▲ Perennial difficulties seasonally adjusting economic data might be behind a slow start to the year for US growth.
- ▲ We revised up our annual US GDP forecast after Congress passed higher spending caps.
- ▲ Consumer prices are rising a bit faster than year-over-year inflation rates indicate.
- ▲ Jay Powell didn't rock the boat at his first meeting as Fed chair.

The US economy is off to a slow start in 2018, but that might reflect the now-familiar difficulty of seasonally adjusting GDP data early in the year rather than an underlying softening in activity. Recall that the economy was also slow out of the gate in 2017 with annualized growth of just 1.2% in Q1. That was followed by three consecutive quarters of 3% gains that made for a pretty solid year overall. And last year was by no means an outlier—since the 2008-09 recession, the first quarter has been the weakest for growth in five of eight years, and three of the last four.

Returning to 2018, disappointing consumer spending data in January and February prompted us to mark down our Q1 growth forecast to 1.4%. Is this simply another case of seasonal adjustment challenges? The fact that consumer spending is tracking its slowest quarterly growth in five years despite a healthy labour market and buoyant confidence is reason enough to discount a soft start to the year. Delays in tax refunds getting out to consumers could also be a factor holding back spending. In any case, we shouldn't have to wait long to find out if the slowdown will persist. In the last few years, on average, about half of the first quarter's growth shortfall has been made up in the following quarter. Our forecast assumes sub-trend activity in Q1 will in fact prove transitory and the US economy will shift into a higher gear with 3.1% growth in Q2.

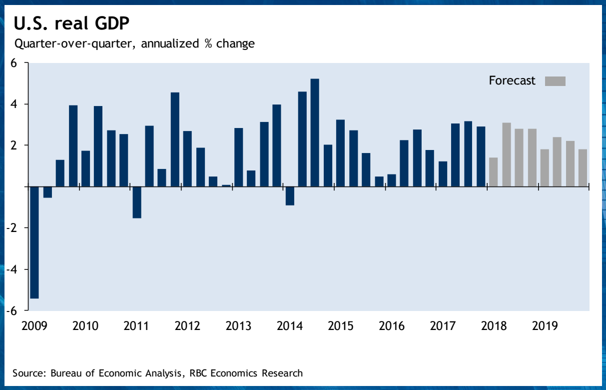
…BUT MORE FISCAL HELP IS ON THE WAY

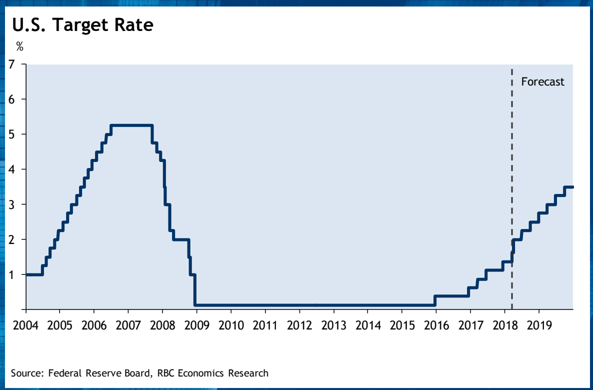
Some of our confidence that GDP growth will return to an above-trend pace can be attributed to pro-cyclical fiscal policy. We started the year by revising our US GDP growth forecast higher to incorporate the sizeable corporate and personal income tax cuts passed in late-2017. We are now adding a bit more of a fiscal boost following March's signing of the Bipartisan Budget Act of 2018. Most significantly, the bill raises spending caps for defense and nondefense discretionary spending by nearly $300 billion cumulatively over the next two years. This newly authorized budget room won't necessarily translate one-for-one into additional spending in 2018-19, and our enthusiasm is tempered by potential crowding out of the private sector. Nonetheless, we are penciling in a further add to growth this year and next from higher government outlays. Combined with tax cuts, we could see a fiscal boost of close to one percentage point of GDP by the end of 2019.

This stimulus comes at a time when the US economy is already at or beyond full capacity. Following a year of surprisingly weak inflation, we are just now seeing some signs that price growth is picking up in response to the tight economic and labour market conditions that have been in place for some time. Core CPI inflation remained steady at 1.8% year-over-year in February but was running at a 2.5% annualized pace over the past six months. Core PCE inflation, the Fed's preferred measure ticked up to 1.6% in the latest reading and similarly tracked above 2% over the past half year.

POWELL DELIVERS A SMOOTH TRANSITION AT HIS FIRST MEETING AS CHAIR

As expected, the Fed raised rates by 25 basis points in March at Chair Powell's first meeting as head of the central bank. There were only a handful of changes to the policy statement with most simply incorporating the latest data. The only notable shift in language was the comment that the economic outlook has strengthened in recent months, though that was consistent with recent comments from Chair Powell. The improved outlook, thanks in large part to fiscal stimulus, showed up in the Fed's revised projections—faster growth, lower unemployment, and slightly higher inflation. But even with some sizeable forecast changes, Powell stuck to the Fed's long-held mantra that rate hikes will be gradual. The median projection for the fed funds rate over the next two years barely budged, keeping the hawkishness to a minimum. The Committee is now roughly split on whether two or three further rate hikes will be





appropriate this year—our forecast assumes the latter. As the Fed's projections underline, fiscal stimulus is likely to keep the economy growing faster than its longer-run potential, lending some upside risk to the inflation outlook. That should keep the central bank steadily raising rates.

FINANCIAL MARKETS

CANADA'S ECONOMY ALSO HAD A SLOW TO START THE YEAR…

Josh Nye

HIGHLIGHTS

- ▲ Canadian GDP fell 0.1% in January though the decline was largely concentrated in mining and real estate.
- ▲ Canadian inflation is trending higher, and not just in Ontario where a minimum wage hike is putting upward pressure on prices.
- ▲ An exemption from US tariffs and positive developments in Nafta renegotiations seem to have reduced concerns about major trade disruptions.
- ▲ Markets are pricing in less than 50/50 odds of another rate hike before mid-year. We think recent inflation and wage data support one.

Canada's economy unexpectedly stumbled to start the year with January GDP falling 0.1%. The shortfall relative to our forecast (and consensus call) for a 0.1% increase largely reflected a pullback in non-conventional oil and gas extraction—due to transitory maintenance shutdowns—that shaved 0.2 percentage points from monthly growth. A less surprising decline in the real estate sector as new housing regulations slowed resales also trimmed 0.1 ppt from headline growth. Absent those two factors, the rest of the economy recorded a more trend-like pace of growth. While we await early activity data for February, our expectation is that growth will rebound as energy sector shutdowns reverse. The same won't be true for real estate, with sales having fallen again in February. That decline was less acute, however, and won't provide the same headwind it did in January. All told, we have lowered our Q1 GDP growth forecast to 1.6%. That would represent a fairly sizeable shortfall (for the second consecutive quarter) relative to the Bank of Canada's 2.5% projection.

…BUT INFLATION CONTINUES TO TICK HIGHER

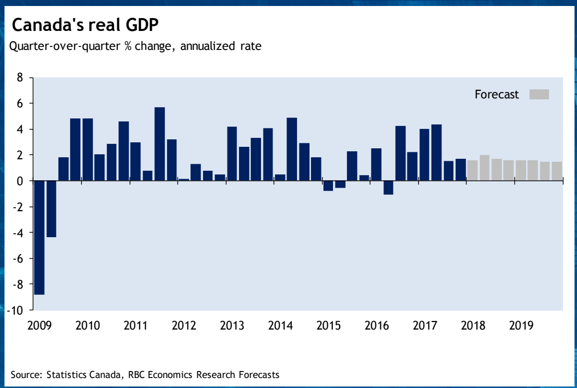
While recent growth figures have disappointed relative to the central bank's forecast, inflation has surprised to the upside. The Bank of Canada's three core CPI measures have continued to grind higher and are now averaging 2% —a rate seen only a handful of times in recent years. These year-over-year rates will likely pick up further in the near term as two of the core measures are tracking closer to a 2.5% annualized pace over the past six months. Some of the increase can be attributed to Ontario's minimum wage hike, which has been passed through to a number of expenditure items—most notably food purchased from restaurants and child care and domestic services. But our calculations suggest Ontario has only accounted for half of the recent increase in inflation—punching only slightly above the province's weight in the overall CPI basket.

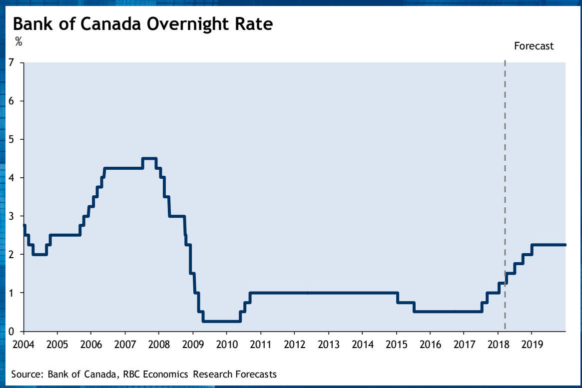
Wage growth is also picking up—both in Ontario, due to a higher minimum wage, and in a number of other provinces where labour markets are tight. The Bank of Canada has highlighted four wage measures it tracks. The two for which data is available early this year suggest hourly pay is rising slightly faster than 3%. That rate doesn't exactly suggest inflation is about to surge, but is certainly more consistent with a multi-decade low unemployment rate than the pace of wage growth seen through much of last year.

MARKETS ARE LESS CONFIDENT IN A NEAR-TERM RATE HIKE

Odds of another near-term rate hike have likely been influenced by trade policy developments and central bank communication. The Trump administration's initial proposal on steel and aluminum tariffs, which would have applied to Canada, had the BoC point to growing trade uncertainty in their March policy statement. A subsequent carve-out for Canada and a number of other allies reduced direct trade risk, though Trump's subsequent announcement of tariffs on $50 billion of Chinese imports means the threat of a global trade war hasn't gone away. On a more positive note, negotiators seem to be making progress in Nafta talks. The US is backing away from some of their more contentious demands in an effort to wrap up negotiations in the next month or two—or at least have an agreement in principle.

But while the key headwind of Nafta uncertainty might be easing, markets aren't rushing to price more tightening by the central bank. Some of that likely has to do with a more dovish tone from Governor Poloz. In a recent speech, he floated the idea that monetary policy needs to remain accommodative to encourage investment and attract more people into the labour force. However, remarks from other Governing Council members were more neutral and consistent with the BoC's tightening bias. On balance we don't think recent developments preclude another rate hike before mid-year, though odds of a move in April have certainly diminished over the past month.





FINANCIAL MARKETS

RISING WAGES SUPPORT BOE RATE HIKE EXPECTATIONS

Josh Nye

HIGHLIGHTS

- ▲ UK real wage growth is returning to positive territory thanks to stronger pay growth and slightly slower inflation.
- ▲ We think the BoE will raise rates in May, six months after the last increase.
- ▲ The euro area unemployment rate likely understates the amount of slack left in the economy.
- ▲ Despite consistent job growth, Australia's unemployment rate has moved sideways in recent months.

UK survey data has been choppy to start the year, particularly for the services sector. After an unexpected decline in January, PMI readings rebounded in February only to fall back to fresh lows in March. The latest month was impacted by severe weather so the pullback should prove temporary. On balance, the Q1 readings indicate some downside risk to our forecast for a 0.3% GDP gain, which is already below the Bank of England's 0.4% forecast. But any weather-related shortfall should be made up in Q2 and won't significantly alter our or the BoE's outlook. Outside this volatility, we expect a 0.3-0.4% pace of growth to continue in 2018—about the average gain seen over the last year and close to the UK's longer-run potential. With the economy already operating at or above its longer run capacity limits and unemployment at a multi-decade low, trend-like growth won't be unwelcome to the central bank as it limits upside risks to the inflation outlook.

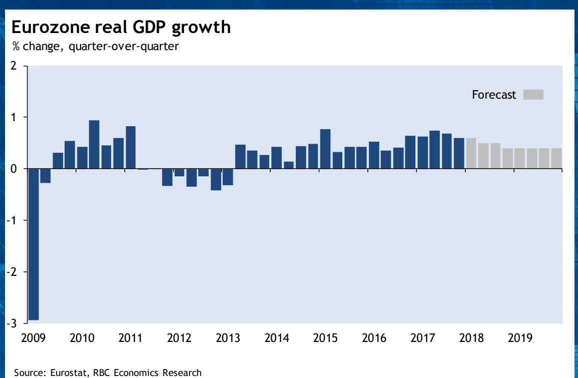
Inflation surprised to the downside in March but at 2.7% remained solidly above the BoE's 2% target. Where price growth settles after Brexit-related currency depreciation is worked through will be an important determinant of future rate increases. The BoE's latest projections suggested inflation will remain above-target unless monetary policy is tightened further. Recent wage figures seem to support that. Average weekly pay growth picked up to 2.8% year-over-year in January—1/2 percentage point faster than just six months ago. On balance we think recent wage and inflation data, combined with the BoE's forward guidance, is consistent with the central bank acting on their tightening bias with a 25 basis point rate hike in May. We expect further increases will be very gradual, however, given uncertainty surrounding Brexit. While agreement on a transition period—more or less extending UK membership in the EU until the end of 2020 if a longer-term Brexit deal is reached—limits risk of near-term disruption, we think uncertainty about the UK's ultimate relationship with its largest trading partners will keep the central bank cautious in removing accommodation.

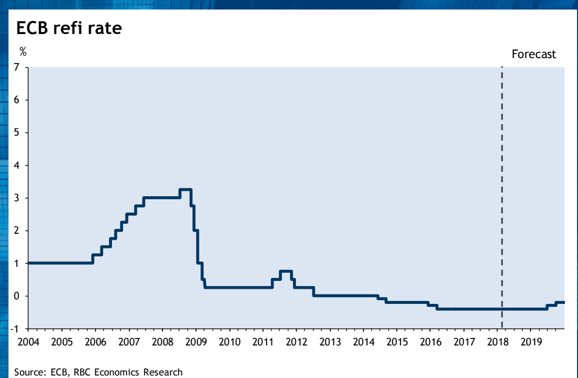
SOFTER EURO AREA SURVEYS STILL POINT TO SOLID GROWTH

Euro area survey indicators softened toward the end of Q1, with March's composite PMI hitting a one-year low. That said, the level itself continues to signal solid economic expansion and readings for the quarter as a whole (including January's multi-year high) are consistent with above-trend growth continuing in early-2018. Labour market conditions continued to improve early this year with the unemployment rate edging down to an eight-year low of 8.5% in February. That is in the range of most estimates of full employment, but given still-elevated levels of underemployment, likely understates the amount of economic slack left in the euro area. Price data continues to support that conclusion—wage growth remains stuck below 2% and core inflation has been virtually unchanged at close to 1% over the last year. Balancing ever-improving economic conditions with below-target inflation, the European Central Bank is moving very slowly toward normalizing monetary policy alongside other central banks. March's tweak in forward guidance was part of that shift and we think the ECB will continue to lay the groundwork for an exit from net asset purchases toward the end of this year. That should leave rate hikes off the table until the second half of 2019—a bit later than markets are currently pricing.

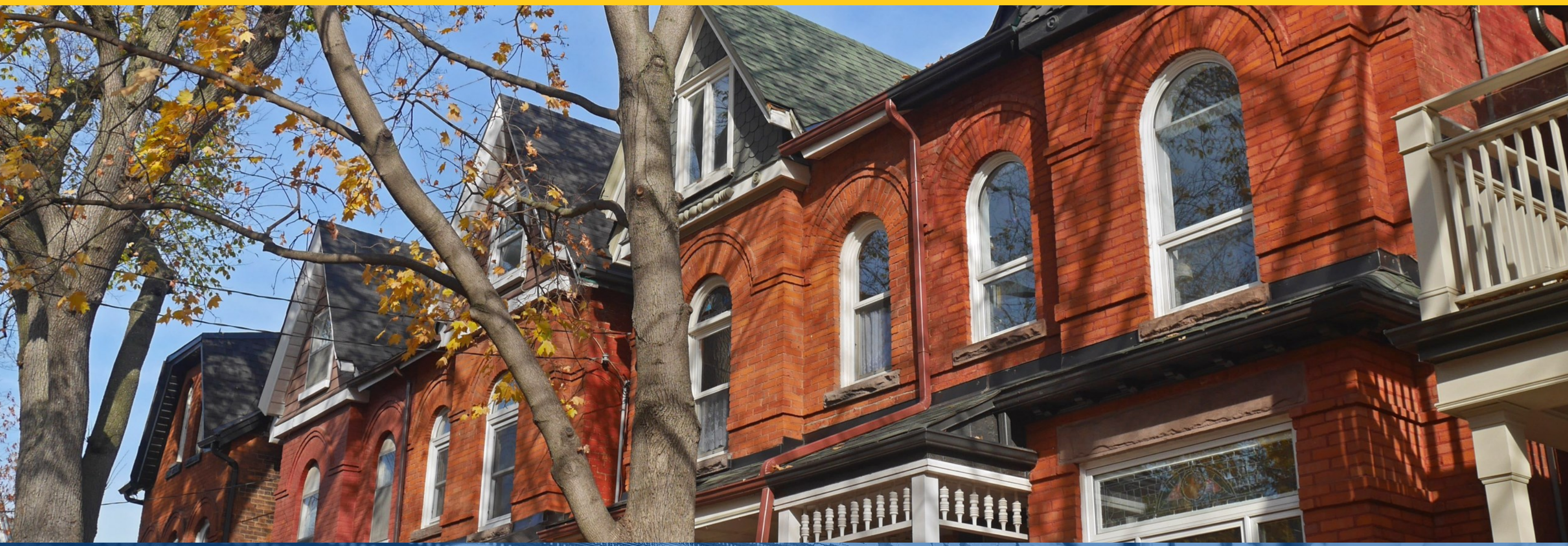
SLIGHTLY DOVISH RBA POINTS TO STEADY CASH RATE PERSISTING

Australian employment rose for a seventeenth consecutive month in February, extending the longest streak of job gains on record. But with the labour force also consistently expanding, the unemployment rate remained stuck in its recent range and a broader measure of underemployment ticked higher for the first time in a year. The latter remains historically elevated and signals a bit more slack in the labour market than the headline figure suggests. So while it





looks like Australian wage growth has troughed, job creation will likely have to shift into a higher gear before we see any significant upward pressure on wages. Acknowledging as much, the Reserve Bank of Australia noted that slow growth in labour costs, along with retail competition, is likely to keep inflation low for some time. A few additional changes to their policy statement—noting some tightening in financial conditions and increasing trade tensions—lent it a somewhat dovish tone. These developments reinforce our forecast for the RBA to remain on the sidelines throughout this year.



CURRENT ANALYSIS

FOCUS ON CANADA'S HOUSEHOLD DEBT

ROBERT HOGUE

ALBERTA HOUSEHOLDS WILL FEEL THE MOST PRESSURE FROM INTEREST RATE HIKES

Interest rates are on their way up, as a Canadian economy that's nudging up against capacity limits reduces the need for policy stimulus. But not all parts of the country will be affected equally. Given expensive housing markets in BC and Ontario, it would be natural to assume that households in those provinces would be the most vulnerable. However, our research shows that Albertans would see the biggest increase in debt-service payments in Canada—more than $1,200 a year, on average—if interest rates rose by 1 percentage point. Households in BC and Ontario are also more indebted than the national average, but Albertans carry the heaviest debt loads. A booming provincial economy and strong income gains between 2011 and 2014 emboldened households in Alberta to buy homes (sales growth averaged over 10% per year in that period) and accumulate significant debt, leaving them with high debt loads when incomes dropped following the plunge in global oil prices. Albertans are also holding more shorter-term mortgage debt than other Canadian households, although higher-than-average incomes offer them some breathing room.

How much debt are we talking about? Albertans' total liabilities rose from $164,000 per household on average in 2010 to $192,000 in 2016. These numbers include households who are debt-free, so actual outstanding balances for those carrying debt are even higher. Mortgages took up the lion's share of Albertans' household debt. The average household was carrying a mortgage of $124,000 in 2016, up from $96,000 in 2010. Other debt such as term loans, lines of credit and leases amounted to $68,000 in 2016, unchanged from 2010.

BC households carried the second-heaviest average debt load in the country in 2016 at $174,000, followed by Ontario households at $154,000. Mortgages made up 69% and 67% of those totals, respectively, and accounted for three-quarters of the increase since 2010. In all other provinces, smaller mortgage liabilities substantially lighten total debt loads, and average liabilities per household are well below the national average of $141,000.

The fact that Albertans—along with British Columbians and Ontarians—carry the heaviest debt loads on a per household basis in Canada inherently makes them more sensitive to interest rate increases. Their debt-service bills will get bigger, and possibly sooner than elsewhere in the country, when interest rates rise. It's bound to cause many households to spend more cautiously on other goods and services. That could potentially restrain economic growth more in Alberta—and in BC and Ontario—than in other provinces. How much more? That's hard to say because the net economic impact of higher rates will also reflect the benefits received by saver-households on the asset side of the balance sheet.

FORECAST DETAIL - CANADA

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2017				2018				2019				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Household consumption	3.5	4.6	3.7	2.1	1.6	1.4	1.4	1.5	1.4	1.3	1.3	1.4	2.4	3.5	2.1	1.4
Durables	10.9	7.6	1.1	1.6	1.5	1.3	1.3	1.3	1.3	1.2	1.2	1.1	4.5	6.4	1.8	1.3
Semi-Durables	1.4	7.3	3.2	1.2	1.4	1.3	1.4	1.5	1.4	1.2	1.4	1.4	2.2	3.4	1.9	1.4
Non-durables	1.7	6.1	0.6	1.8	1.4	1.3	1.3	1.5	1.4	1.3	1.3	1.4	1.7	2.6	1.6	1.4
Services	2.8	3.0	5.7	2.5	1.7	1.5	1.5	1.6	1.4	1.4	1.3	1.4	2.2	3.2	2.3	1.4
Government expenditures	3.9	1.4	3.6	2.8	2.5	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.2	2.2	2.6	2.2
Residential investment	9.4	-2.9	-0.2	13.4	-6.3	-2.7	-4.8	-3.7	-2.1	-0.5	0.3	1.2	3.3	3.1	-0.8	-2.0
Business investment	12.1	9.5	5.4	8.2	0.9	2.8	2.3	2.1	2.0	2.0	2.0	2.0	-9.4	2.6	3.9	2.1
Non-residential structures	2.0	10.8	7.2	5.4	2.8	2.8	2.5	2.2	2.0	2.0	2.0	2.0	-11.5	0.3	4.2	2.1
Machinery & equipment	29.3	7.7	2.8	12.6	-2.0	2.8	2.0	2.0	2.0	2.0	2.0	2.0	-6.0	6.0	3.5	2.0
Final domestic demand	4.5	3.6	3.9	3.9	1.1	1.5	1.3	1.5	1.4	1.4	1.5	1.6	1.1	3.0	2.3	1.4
Exports	2.7	6.3	-10.4	3.0	-4.5	6.5	4.5	2.5	3.3	1.7	1.8	2.0	1.0	1.0	0.3	2.9
Imports	13.9	6.2	0.3	6.3	-0.8	3.5	2.1	2.0	2.5	1.0	1.7	2.1	-1.0	3.6	2.4	2.0
Inventories (change in $b)	10.2	14.0	16.9	13.8	21.1	19.1	17.5	17.5	17.5	17.4	17.4	17.4	1.0	13.7	18.8	17.4
Real gross domestic product	4.0	4.4	1.5	1.7	1.6	2.0	1.7	1.6	1.6	1.6	1.5	1.5	1.4	3.0	1.9	1.6
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	2.2	2.5	1.1	1.0	0.3	0.4	1.1	1.2	1.0	0.9	0.9	0.9	0.6	1.7	0.7	0.9
Pre-tax corporate profits	26.0	35.5	14.2	8.9	3.7	5.5	6.2	3.6	1.5	2.2	1.9	0.2	-1.9	20.2	4.7	1.5
Unemployment rate (%)*	6.6	6.5	6.2	6.0	5.8	5.9	5.9	5.9	5.9	5.9	5.9	5.9	7.0	6.3	5.9	5.9
Inflation																
Headline CPI	1.9	1.3	1.4	1.8	2.2	2.7	2.9	2.6	2.0	1.9	1.8	1.8	1.4	1.6	2.6	1.9
Core CPI	2.0	1.4	1.4	1.6	1.8	2.0	2.1	2.3	2.1	2.2	2.1	2.1	1.9	1.6	2.1	2.1
External trade																
Current account balance ($b)	-54.6	-61.3	-74.4	-65.4	-55.2	-50.1	-45.8	-45.4	-44.5	-42.6	-42.1	-41.9	-65.4	-63.9	-49.1	-42.8
% of GDP	-2.6	-2.9	-3.5	-3.0	-2.5	-2.2	-2.0	-2.0	-1.9	-1.8	-1.8	-1.8	-3.2	-3.0	-2.2	-1.9
Housing starts (000s)*	222	207	223	229	219	204	200	193	191	191	189	189	198	220	204	190
Motor vehicle sales (mill., saar)*	2.08	2.10	2.08	2.04	2.05	2.00	1.98	1.97	1.94	1.93	1.92	1.92	1.72	2.08	2.00	1.93
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.25	2.25	2.25	0.50	1.00	2.00	2.25
Three-month	0.52	0.71	1.00	1.06	1.10	1.35	1.65	1.90	2.15	2.20	2.15	2.10	0.46	1.06	1.90	2.10
Two-year	0.75	1.10	1.52	1.69	1.78	1.95	2.15	2.30	2.50	2.50	2.40	2.30	0.75	1.69	2.30	2.30
Five-year	1.12	1.40	1.75	1.87	1.97	2.15	2.35	2.55	2.75	2.80	2.75	2.65	1.12	1.87	2.55	2.65
10-year	1.62	1.76	2.10	2.04	2.09	2.35	2.55	2.75	2.90	3.00	3.00	2.90	1.71	2.04	2.75	2.90
30-year	2.30	2.14	2.47	2.27	2.23	2.50	2.75	2.90	3.05	3.15	3.15	3.10	2.31	2.27	2.90	3.10
Canadian dollar	1.33	1.30	1.25	1.26	1.28	1.26	1.24	1.22	1.24	1.26	1.27	1.28	1.34	1.26	1.22	1.28

*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

	2017				2018				2019				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	1.9	3.3	2.2	4.0	1.2	3.6	3.2	2.7	1.7	2.3	2.3	1.8	2.7	2.8	2.8	2.4
Durables	-0.1	7.6	8.6	13.7	-2.0	4.0	4.5	2.8	2.2	2.3	2.2	1.6	5.5	6.7	4.9	2.7
Non-durables	1.1	4.2	2.3	4.8	-0.5	5.8	4.5	3.5	1.9	2.5	2.4	1.8	2.8	2.4	3.2	2.9
Services	2.5	2.3	1.1	2.3	2.2	2.8	2.6	2.5	1.6	2.3	2.3	1.8	2.3	2.2	2.3	2.2
Government spending	-0.6	-0.2	0.7	3.0	0.6	2.2	2.4	2.7	2.4	2.4	2.4	2.4	0.8	0.1	1.7	2.4
Residential investment	11.1	-7.3	-4.7	12.8	5.5	3.7	3.8	3.4	1.8	0.9	1.9	1.2	5.5	1.8	3.9	2.3
Business investment	7.1	6.7	4.7	6.8	4.4	5.5	6.5	5.7	2.8	2.8	2.6	2.6	-0.6	4.7	5.6	3.9
Non-residential structures	14.8	7.0	-7.0	6.3	2.0	4.0	6.5	5.2	4.0	4.0	2.0	2.0	-4.1	5.6	3.0	4.1
Non-residential equipment	4.4	8.8	10.8	11.5	5.8	6.3	7.2	6.5	3.5	3.5	0.7	0.1	-3.4	4.8	8.0	4.1
Intellectual property	5.8	3.7	5.2	0.9	4.0	5.3	5.2	5.0	4.8	3.6	2.6	2.6	6.3	3.9	4.0	4.3
Final domestic demand	2.4	2.7	1.9	4.5	1.6	3.6	3.5	3.1	2.1	2.5	2.2	1.8	2.1	2.5	3.0	2.6
Exports	7.3	3.5	2.1	7.0	1.0	3.8	3.2	3.2	3.0	2.8	2.8	2.8	-0.3	3.4	3.3	3.0
Imports	4.3	1.5	-0.7	14.1	4.8	6.0	7.4	6.0	5.4	3.0	2.8	3.2	1.3	4.0	6.2	4.9
Inventories (change in $b)	1.2	5.5	38.5	15.6	31.0	26.0	25.0	29.0	33.0	33.0	33.0	38.0	33.4	15.2	27.8	34.3
Real gross domestic product	1.2	3.1	3.2	2.9	1.4	3.1	2.8	2.8	1.8	2.4	2.2	1.8	1.5	2.3	2.6	2.4
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.1	1.3	1.5	0.8	0.9	0.9	0.5	1.1	1.3	1.2	1.2	1.0	0.1	1.2	0.9	1.2
Pre-tax corporate profits	3.3	6.4	5.4	2.7	5.3	5.6	2.0	2.8	2.8	2.4	2.2	1.5	-2.1	4.4	3.9	2.2
Unemployment rate (%)*	4.7	4.3	4.3	4.1	4.1	4.1	3.9	3.8	3.8	3.7	3.7	3.7	4.9	4.4	4.0	3.7
Inflation																
Headline CPI	2.5	1.9	2.0	2.1	2.3	2.7	2.6	2.1	1.7	1.7	1.8	1.9	1.3	2.1	2.4	1.8
Core CPI	2.2	1.8	1.7	1.8	1.9	2.2	2.3	2.2	2.0	2.1	2.2	2.2	2.2	1.8	2.2	2.1
External trade																
Current account balance ($b)	-451	-495	-406	-513	-544	-585	-620	-645	-667	-673	-677	-684	-452	-466	-598	-675
% of GDP	-2.4	-2.6	-2.1	-2.6	-2.7	-2.9	-3.0	-3.1	-3.2	-3.2	-3.2	-3.2	-2.4	-2.4	-3.0	-3.2
Housing starts (000s)*	1238	1167	1172	1256	1275	1285	1300	1315	1315	1315	1325	1325	1177	1208	1294	1320
Motor vehicle sales (millions, saar)*	17.1	16.8	17.1	17.7	17.2	17.3	17.3	17.3	17.3	17.3	17.4	17.4	17.5	17.1	17.3	17.4
INTEREST RATES %, END OF PERIOD																
Fed funds	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	0.75	1.50	2.50	3.50
Three-month	0.76	1.03	1.06	1.39	1.73	1.90	2.15	2.35	2.65	2.90	3.15	3.35	0.51	1.39	2.35	3.35
Two-year	1.27	1.38	1.47	1.89	2.27	2.35	2.55	2.75	3.00	3.25	3.40	3.55	1.20	1.89	2.75	3.55
Five-year	1.93	1.89	1.92	2.20	2.56	2.70	2.90	3.05	3.25	3.45	3.55	3.65	1.93	2.20	3.05	3.65
10-year	2.40	2.31	2.33	2.40	2.74	3.00	3.15	3.30	3.45	3.60	3.70	3.75	2.45	2.40	3.30	3.75
30-year	3.02	2.84	2.86	2.74	2.97	3.35	3.50	3.60	3.70	3.75	3.80	3.85	3.06	2.74	3.60	3.85
Yield curve (10s-2s)	113	93	86	51	47	65	60	55	45	35	30	20	125	51	55	20

*Quarterly averages, level

Source: Bank of Canada, Statistics Canada, RBC Economics Research forecasts December 2016

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATOR

	CANADA				US			
	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH
Business								
Industrial production*	-0.8	2.4	1.4	Jan.	0.9	4.2	-0.4	Feb.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Jan.	1.4	1.4	1.4	Feb.
New orders in manufacturing	0.1	4.1	0.6	Jan.	1.2	7.1	-0.8	Feb.
Business loans - Banks	0.1	8.5	7.0	Feb.	0.1	1.2	7.1	Feb.
Index of stock prices**	-0.5	-1.2	1.8	Mar.	-0.1	14.2	9.3	Mar.
Households								
Retail sales	0.3	3.6	5.0	Jan.	-0.1	4.0	3.2	Feb.
Auto sales	10.4	6.2	3.3	Jan.	-1.2	-11.6	-7.9	Mar.
Total consumer credit***	0.4	5.4	4.0	Feb.	0.3	5.1	5.2	Feb.
Housing starts	6.7	9.9	5.5	Feb.	-7.0	-4.0	5.7	Feb.
Employment	0.2	1.6	1.2	Mar.	0.0	1.4	1.6	Mar.
Prices								
Consumer price index	0.6	2.2	1.4	Feb.	0.2	2.3	1.28	Feb.
Producer price index****	0.1	1.9	0.8	Feb.	-0.3	2.8	-0.1	Feb.
Interest rates								
Policy rate	1.3	0.5	-	Mar.	1.5	0.8	-	Mar.
90-day commercial paper rates	1.6	0.8	-	Mar.	1.9	0.9	-	Mar.
Government bonds - (10 years)	2.2	1.8	-	Mar.	2.8	2.5	-	Mar.

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