ECONOSCOPE

April 2019

CANADIAN GDP ROSE IN JANUARY

OH, INVERTED WORLD

HOW CONCERNED SHOULD WE BE ABOUT YIELD CURVE INVERSION?

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RBC

ECONOSCOPE

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Paul Ferley, Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ Canadian GDP rose 0.3% in January, the strongest increase in 8 months.

▲ Headline employment dipped 7k in March, retracing little of the 290k gain over the prior 6 months.

▲ Retail sales rose 0.8% in February, stemming from strength in general merchandise stores and motor vehicle and parts dealers.

▲ Housing starts rose to 193k annualized units in March after slowing to 166k in February.

▲ Canada's trade deficit narrowed to $2.9 billion in February from January's $3.1B shortfall.

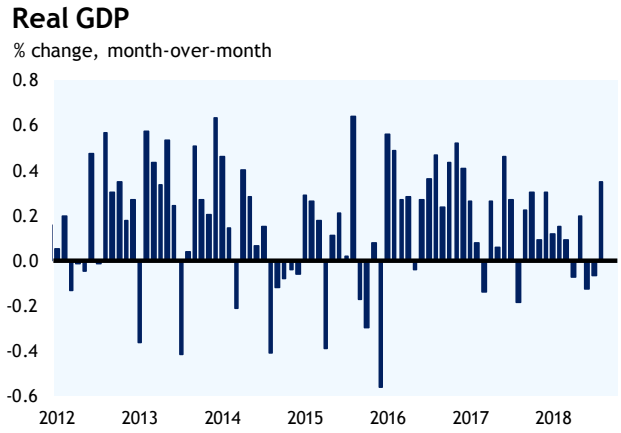
▲ Headline inflation bounced back to nearly 2% in March after starting the year closer to 1.5%.

CANADIAN GDP ROSE IN JANUARY; GAINS BROADLY-BASED

LATEST AVAILABLE: JANUARY

RELEASE DATE: MARCH 29, 2019

After declines in three of the prior four months, we would have been happy just to see a positive number. In the event, January's 0.3% growth was well ahead of expectations and the details were encouraging. Energy and mining was more or less the economy's only weak point, though that was fully expected with mandatory production cuts taking effect at the start of the month. The worst should be over for the energy industry as production curtailments are gradually scaled back and producers benefit from higher prices. Outside of energy, growth picked up nicely with GDP excluding oil and gas up 0.5% in the month and 2% over the last year. Overall, the latest data remain consistent with our view that the economy's soft patch over Q4/18 and Q1/19 will prove transitory.



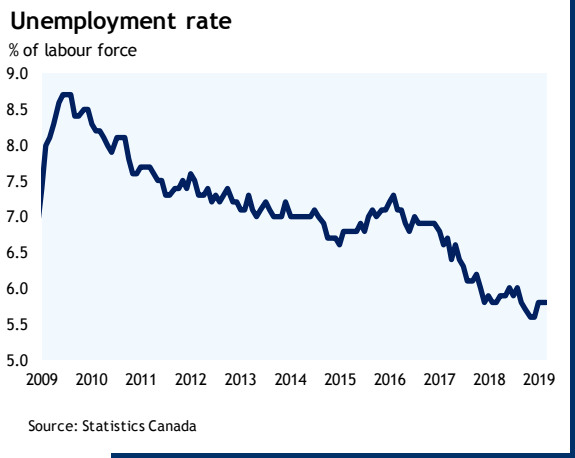
Source: Statistics Canada

CANADA EMPLOYMENT EDGED DOWN 7K IN MARCH AFTER STRONG EARLIER GAINS

LATEST AVAILABLE: MARCH

RELEASE DATE: APRIL 5, 2019

A dip in headline employment is not surprising given what looked like overstated earlier gains – employment was up 290k over the prior 6 months. The 7k drop is small given typical confidence bands around the headline job growth numbers and doesn't do much to change recent trends. The unemployment rate held close to multi-decade lows at 5.8% and wage growth ticked modestly higher, although at 2.4% year-over-year is still lower than one would ordinarily expect given what still look ostensibly like quite tight labour markets. The data should do little to change the broader narrative that labour markets in Canada still look pretty solid, but wage growth is still slower than it should be.

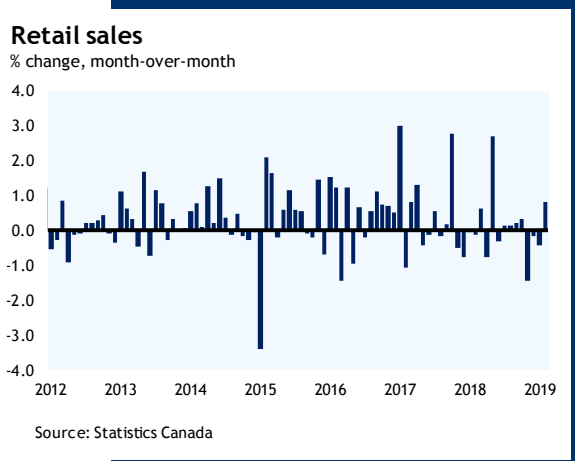


CANADIAN RETAIL SALES EDGED UP IN FEBRUARY

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: APRIL 18, 2019

The February retail numbers came out slightly stronger than expected but part of the increase reflected higher gas prices that pushed up sales at the pump by 1.9%. Volume sales inched up but by a modest 0.2%. Weather might have been a factor slowing sales in some categories, but downward revisions to earlier months also imply overall consumer spending is still slow. We still see much of the softness in overall economic growth in Q1 as transitory in nature, with a bounce-back expected in Q2 as weather related effects wear off and oil production cuts ease. But household spending is unlikely to be the main driver of growth.

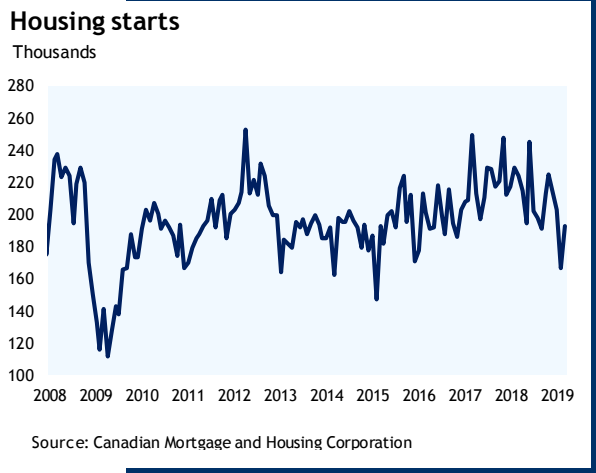


CANADIAN HOUSING STARTS REBOUNDED IN MARCH

LATEST AVAILABLE: MARCH

RELEASE DATE:APRIL 8, 2019

Housing starts rose to 193k annualized units in March after slowing to 166k in February. The rebound was in line with market expectations and supports our view that February's decline was due to wintry weather. Starts for the quarter came in at their slowest pace since 2015, though that speaks more to the strength of homebuilding in recent years than it does weakness to start 2019. In a separate report, building permit issuance slowed in February but remained robust at a 229k annualized pace, suggesting starts could return to above the 200k mark in the near-term.

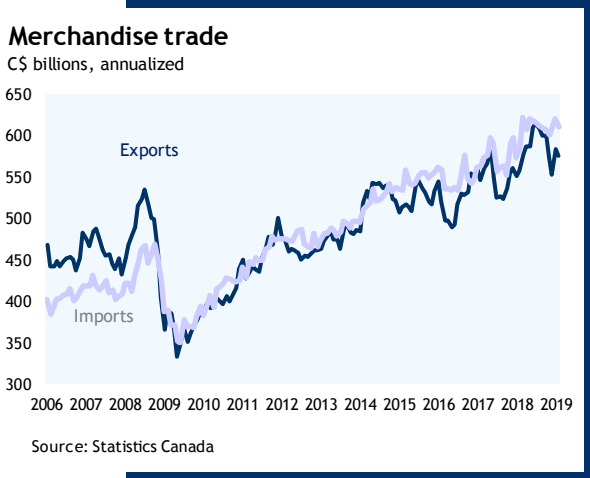


CANADIAN TRADE BALANCE NARROWS MARGINALLY TO $2.9B IN FEBRUARY

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: APRIL 17, 2019

Canada's trade deficit narrowed to $2.9 billion in February from January's $3.1B shortfall (revised from -$4.2B). The latest trade report shows some evidence of softness as both import and export volumes were down on a month-over-month basis. Soft export numbers were largely not unexpected given the mandatory oil production cuts as well as below trend growth that we are expecting for the first quarter of 2019. However, we were a bit disappointed by non-energy exports.



CANADIAN INFLATION RETURNS TO NEARLY 2% AS ENERGY PRICES RISE

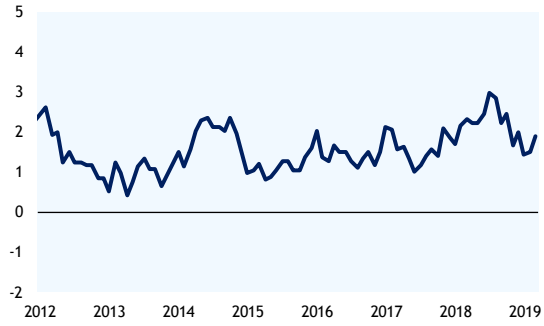
LATEST AVAILABLE: MARCH

RELEASE DATE: APRIL 17, 2019

As expected, headline inflation bounced back to nearly 2% in March after starting the year closer to 1.5%. That's largely an energy story, though, as the decline in gasoline prices late last year (driven by lower global oil prices) continues to be reversed. Rising rent and mortgage interest costs are also serving to boost headline inflation. Otherwise, core inflation remains well behaved, with the BoC's preferred measures averaging 1.9-2.0% for more than a year now. The CPI report isn't the only evidence of limited price pressure. The BoC's Q1 Business Outlook Survey showed little evidence of input or output price inflation, while firms' inflation expectations moderated. We think the BOS, which more broadly showed deteriorating business sentiment early this year, sets up for a dovish tone from the Bank of Canada. The latest CPI report does little to change that.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Latest month	Previous month	Year ago
Real GDP	Jan	0.3	1.6
Industrial production	Jan	0.2	1.2
Employment	Mar	0.0	1.8
Unemployment rate*	Mar	5.8	5.8
Manufacturing			
Production	Jan	1.5	1.9
Employment	Mar	0.3	0.1
Shipments	Feb	-0.2	0.9
New orders	Feb	1.5	-4.4
Inventories	Feb	0.5	8.4
Retail sales	Feb	0.8	1.8
Car sales	Feb	1.3	-3.6
Housing starts (000s)*	Mar	192.5	224.3
Exports	Feb	-1.3	3.3
Imports	Feb	-1.6	4.2
Trade balance ($billions)*	Feb	-2.9	-2.4
Consumer prices	Mar	0.7	1.9

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

OH, INVERTED WORLD

Josh Nye

"The yield curve has earned its reputation as a recession predictor, inverting several months before each of the last three US downturns."

In March, the yield curve jumped from analysts' chartbooks into the headlines and recession chatter grew louder. In both Canada and the US, long-term yields fell below short-term yields for the first time since 2007. The yield curve has earned its reputation as a recession predictor, inverting several months before each of the last three US downturns. Its record in Canada is a bit spottier, sending a few false signals over the years. But sustained periods of yield curve inversion were followed by recessions in the early-1990s and again in 2008.

What's behind the recent flattening and ultimate inversion of the yield curve? In the US, the spread between long- and short-term rates has narrowed steadily over the last year. That initially reflected long-term yields failing to keep up with Fed rate hikes—as we usually see in a tightening cycle. But toward the end of last year, 10-year yields fell sharply as equity markets declined and investors flocked to safety. More recently, a dovish shift from the Fed has weighed on Treasury yields. In fact, it was the March FOMC meeting, combined with some disappointing global data, that finally pushed the curve to inversion. Similar factors have been at play in Canada, though with global developments having greater influence than domestic monetary policy.

As of early April, 10-year yields in Canada and the US were back (slightly) above their 3-month counterparts. But investors are still betting that the Fed and Bank of Canada are more likely to cut rates than hike. We don't think we're at that point, but the pendulum has swung enough that we're now forecasting both central banks are finished raising rates, at least through 2020. And we now see the ECB and Bank of England delaying rate hikes until the middle of next year. For the Reserve Bank of Australia, it looks like rate cuts are on the horizon.

FINANCIAL MARKETS

HOW CONCERNED SHOULD WE BE ABOUT YIELD CURVE INVERSION?

Josh Nye

HIGHLIGHTS

- ▲ US and Canadian yield curves (10-year vs. 3-month) both inverted in late-March, sparking recession fears.
- ▲ We think some structural and global factors make the yield curve a less accurate recession predictor at present.
- ▲ US GDP growth appears to have slowed in Q1, though that's not unusual and we expect a pickup going forward.
- ▲ With the Fed once again sounding surprisingly dovish, we think they've moved to the sidelines for an extended period.

As noted off the top, yield curve inversion has been an accurate recession predictor in the US, flagging each of the last three downturns. But there are reasons to think it might not be as reliable this time around. A number of global and structural factors (think quantitative easing, savings demand, low inflation) have put downward pressure on long-term interest rates. The term premium on 10-year Treasury yields is estimated to be negative, and at its lowest on record. Investors are actually paying to lock their money up for longer—not a normal state of affairs. At the short end, previous periods of yield curve inversion have coincided with restrictive monetary policy. That's not the case now. Even after a 225 basis points of hikes, the fed funds rate remains at the low end of most neutral estimates.

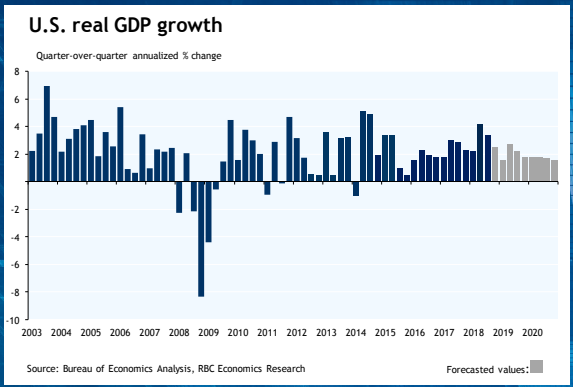
The circumstances of the recent yield curve inversion are different from past episodes, suggesting we should use a degree of caution in extrapolating historical patterns. That said, we shouldn't be dismissive of recession risk. Both the US and Canadian economies are in the late stages of their business cycles, with the former appearing to already be operating beyond its longer-run capacity limits. At this point, it's more likely that growth will surprise to the downside than the upside. But while economic data have been mixed, we don't think the recent loss of momentum is the start of a more significant slowdown.

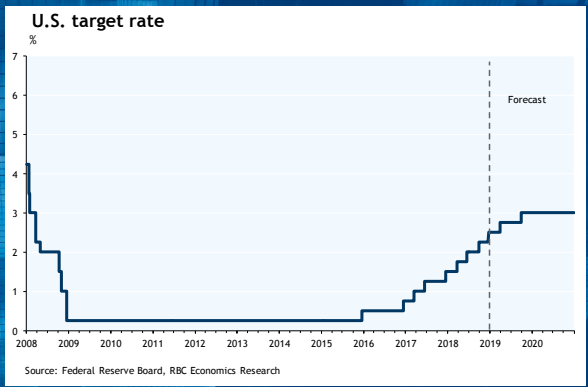
US ECONOMY OFF TO ITS USUAL SLOW START

The US economy has a track record of starting the year slowly—issues with seasonal adjustment acting as the main factor—and 2019 should be no different. This time around, a government shutdown early in the year also weighed on growth. And in a replay of last year, it looks like consumer spending lost momentum in the first quarter. Retail sales still haven't fully recovered from December's sharp slowdown, with wintry weather in some parts of the country likely behind some of the unexpected weakness in February (housing starts also appeared to be weighed down by the weather). As was the case in 2018, we expect household spending will strengthen in the second quarter. A strong labour market and rising wages continue to support incomes, and households have plenty of savings to deploy. However, it's hard to see consumer spending repeating last year's growth with the stimulative effect of tax cuts fading and confidence having rolled over from its multi-decade highs. With business investment also losing its tax cut tailwind, we think the days of 3% GDP growth are behind us.

FOMC MANAGES YET ANOTHER DOVISH SURPRISE

The Fed's about-face continued in March. Having hiked in December then dropped their tightening bias in January, investors were braced for a steady rate decision and cautious tone. But the FOMC's policy statement and updated projections were even more dovish than expected. Most notable was a shift in their dot plot, which now shows a majority of FOMC members (11 of 17) think the current rate setting will remain appropriate through the end of 2019. December's dot plot had shown a median of two rate hikes were expected. Their growth and inflation forecasts were marked down alongside, and the unemployment rate was revised slightly higher. The dot plot median still shows one hike in 2020, but markets are predicting the opposite with a rate cut priced in by early next year.





We're taking the middle ground, now expecting the Fed will hold rates steady through 2020. Based on the Fed's projections, it looks like growth and/or inflation will have to surprise to the upside to see a rate hike this year. While we expect a rebound in economic activity in Q2, we don't think it will be strong enough for growth to top the Fed's forecasts. The recent loss of momentum in core inflation also raises the bar for a hike. At the same time, we don't see conditions warranting a reversal of the recent tightening. Our forecast assumes a soft landing, with growth slowing closer to the economy's longer-run trend into next year. With the economy already running beyond its longer-run capacity limits, we don't think that should prompt rate cuts from the Fed, particularly since monetary policy isn't overly restrictive at this stage.

FINANCIAL MARKETS

CANADA'S JANUARY GDP LEADS TO A SIGH OF RELIEF

Josh Nye

HIGHLIGHTS

- ▲ Canadian GDP surprised to the upside in January after declines in three of the prior four months.
- ▲ While the energy sector has been a source of weakness, Canada's non-energy economy is growing near a 2% pace.
- ▲ The federal government's latest budget included some new spending measures but did little to change our growth forecast.
- ▲ Governor Poloz sounded upbeat compared to his global counterparts, but he made no mention of a tightening bias.

GDP came in well ahead of expectations in January, advancing 0.3%—the best pace in eight months. Growth was broadly based with gains in 18 of 20 sectors. Energy and mining was more or less the only source of weakness, which was fully expected as Alberta's mandatory production cuts took effect in the month. We think January was the low water mark for the oil and gas sector—higher prices and shrinking production curtailments should at least see activity stabilize from here. Meanwhile, the non-energy economy had a strong start to the year, making up for underwhelming growth toward the end of 2018. We're wary of over-interpreting a single month of data, but January's GDP supports our view that the economy's recent soft patch will ultimately prove transitory. We might not be out of the woods yet—wintry weather appears to have held back housing activity in February, and some workers lost hours due to the conditions—but we maintain our view that growth will rebound to 2% in the coming quarters after averaging just half that pace in Q4/18 and Q1/19.

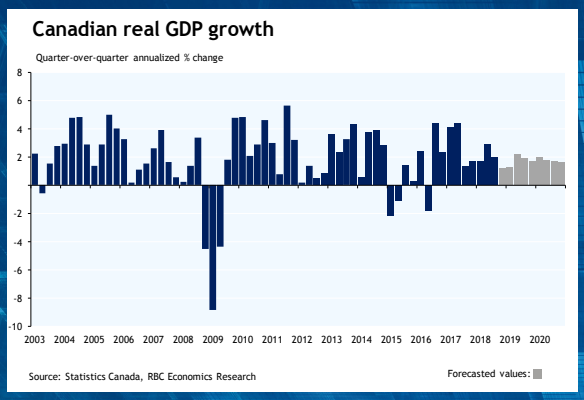
As with the US, our forecast for continued economic expansion goes against the yield curve's recessionary signal. The yield curve has a bit less predictive power in Canada, likely because Canadian rates (particularly for longer maturities) are more heavily influenced by global factors. For instance, when the US yield curve inverted ahead of their 2001 downturn, Canada's yield curve inverted in sympathy but there was no recession north of the border. We think this latest yield curve inversion also reflects global factors (many of the same issues noted earlier), including shifting Fed policy. For what it's worth, Governor Poloz called the recent inversion "innocent" and confirmed the BoC is not forecasting a recession.

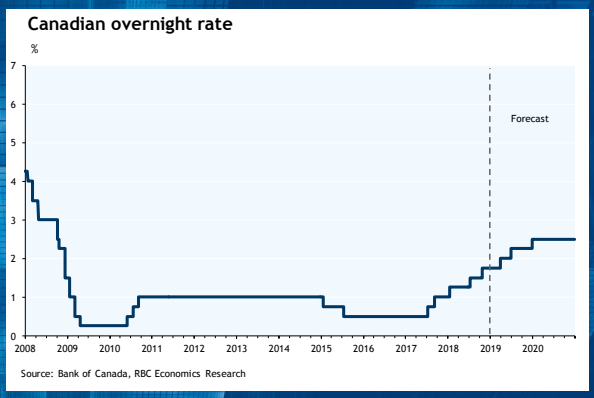
FEDERAL BUDGET HOLDS THE LINE ON DEFICIT SPENDING BOC

The federal government's election-year budget came with $21 billion in new spending over the next five fiscal years. Their deficit profile was little changed, however, as those initiatives were financed by positive fiscal developments since their last plan. The new measures, many of which were telegraphed ahead of time, include funding for training and education, help for first-time homebuyers, and money for low-income seniors. There is some additional money for infrastructure, aimed at getting funds already committed out the door. But on the whole, we don't see this latest budget providing much more of a boost to GDP than we thought going in. As for the housing measures, we think they will provide temporary relief at best for first-time homebuyers struggling to enter the market. They could also distort sales in the coming months, keeping would-be buyers on the sidelines until they

take effect in September. Any delayed purchases would fuel stronger activity in the fall.

GOVERNOR POLOZ NOT RINGING THE ALARM BELL





In the wake of Canada's solid GDP report, Governor Poloz said recent data have been consistent with the BoC's expectation that the economy's period of below-potential growth will be temporary. While global growth has slowed more than expected, and Canada is feeling the effects, Poloz also noted clear signs the country is adjusting to domestic and global challenges. But while his tone was relatively upbeat, there was no mention of the tightening bias we saw in March's policy statement. Poloz simply reiterated that the outlook continues to warrant a below-neutral policy rate. Our forecast assumes the economy will rebound somewhat in the coming quarters, but that growing business investment and exports won't be enough to sustain above-trend growth amid a slowing household sector. Without the economy pushing clearly beyond its capacity limits—and generating more inflationary pressure—its hard to see the BoC raising rates further, particularly when the global tightening cycle is losing momentum. Our forecast now assumes the overnight rate will be held steady through next year. If anything, we think risks are still tilted toward a hike, not the cut markets are partially pricing in.

FINANCIAL MARKETS

BREXIT DISARRAY CONTINUES TO CLOUD THE UK OUTLOOK

Josh Nye

HIGHLIGHTS

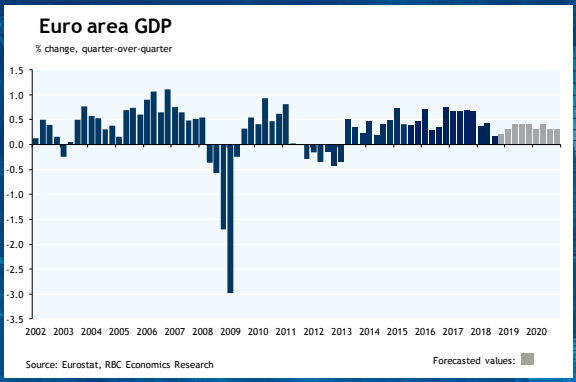
- ▲ Brexit remains up in the air after an agreement couldn't be reached by the March 29 deadline.
- ▲ Uncertainty has weighed on the UK economy, but labour market trends remain positive.
- ▲ The euro area should get a boost this year from expansionary fiscal policy in a few major countries.
- ▲ A softening global and domestic backdrop are likely to spell easing from the RBA.

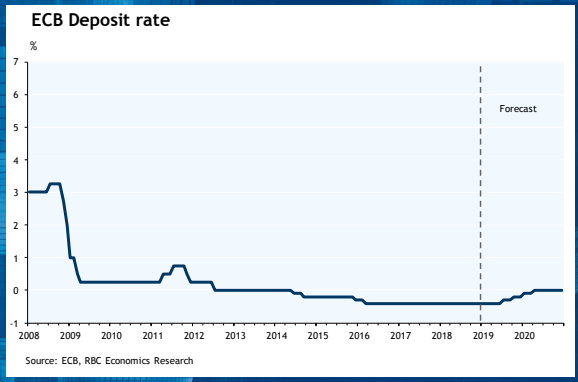
The inability of the British parliament to agree on how the country should exit the EU resulted in yet another extension of the Brexit deadline—this time until the end of October 2019. There are still two clauses that would allow for an earlier departure, though we cannot see a clear path to this happening.

All of this uncertainty is weighing on the UK economy—the composite PMI for March points to activity effectively stagnating ahead of the original Brexit deadline. GDP figures haven't been as dire, but year-over-year growth is now running at its slowest pace since 2013. Capacity constraints may also be a factor in the economy's slowdown since 2017. Despite surveys pointing to a decline in hiring intentions, job growth remains strong and unemployment is now below 4% for the first time since the mid-1970s. That backdrop underpins the Bank of England's "gradual and limited" tightening bias, which remains contingent on a smooth Brexit transition. But with a longer extension looking more likely, we now think Brexit uncertainty will keep the central bank on hold until the middle of next year, with only one rate increase envisioned by the end of 2020.

EURO AREA DATA SENDING MIXED SIGNALS

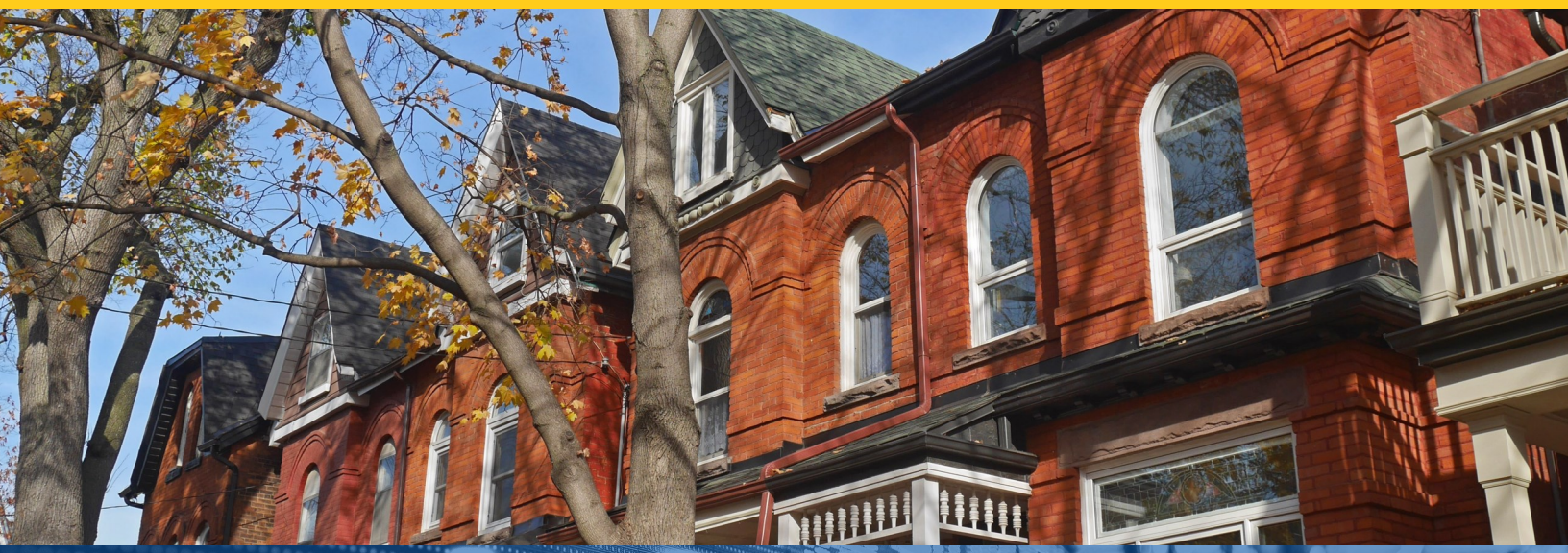
Recent survey data point to the euro area struggling to regain momentum after growth slowed over the second half of 2018. The manufacturing sector remains under pressure, particularly in Germany where the industry's PMI fell deeper into contractionary territory in April. French and Italian manufacturing readings are also underwater. It looks like a softer global industrial sector and slowing global trade are weighing particularly heavily on European manufacturers. Services industries are faring a bit better, with Germany actually leading the way in that respect. And hard data have been a bit more positive, with decent industrial production and retail sales figures so far this year. On balance, we think the euro area grew at a sub-trend 0.2% pace again in Q1. We expect a pickup in activity over the second half of the year, helped by a more supportive fiscal stance in Germany, France and Italy. Monetary policy is also set to remain stimulative, with the ECB deploying a new round of long-term financing, maintaining a sizeable balance sheet, and keeping the deposit rate below zero. They have ruled out hikes until 2020, and we now see them holding rates steady until the middle of next year. Any tightening thereafter should be very gradual. It's hard to see the ECB moving rates back into positive territory unless they are confident inflation is heading toward their target. There has been little evidence of that recently, and investors remain doubtful with longer term inflation expectations at least 1/2 percentage point below target.





RBA GRADUALLY SHIFTING TOWARD AN EASING BIAS, RATE CUTS EXPECTED

The Reserve Bank of Australia's dovish shift continued at the beginning of April with some subtle but notable changes to their policy statement. The final paragraph, largely unchanged since they stopped easing in 2016, now hints at the central bank potentially becoming more active to support growth and achieve their inflation target. They also noted weaker global trade and investment, and a softening domestic backdrop led by challenges in the household sector. We've noted global developments are key for the RBA, and given the loss of momentum in the global tightening cycle and slowing growth, we wouldn't be surprised to see the central bank shifting to an easing bias in May. We think actually lowering rates remains contingent on developments in the labour market. While the official unemployment rate has declined recently, underemployment remains elevated and job growth has slowed. We expect unemployment will begin to rise amid sub-trend growth, prompting the RBA to lower their cash rate over the second half of this year.



CURRENT ANALYSIS

ROBERT HOGUE

NO BREAK IN MARCH FROM CANADA'S HOUSING MARKET SLUMP

- **Home resales ticked only marginally higher in March from storm-struck February:** The level of activity remained soft across Canada last month but a 0.9% month-to-month advance indicated that things didn't get any softer. The national benchmark price fell 0.5% from a year ago—marking the first back-to-back annual declines in almost 10 years.
- **Slump getting deeper in Vancouver, Calgary, Edmonton**: All three markets saw further sales and price declines in March. Demand-supply conditions in Vancouver are now the weakest since the 2008-09 recession.
- **Slight pick-up in Toronto**: Yet the 1.8% sales gain recorded last month reversed just a fraction of the outsized 9.0% drop in February. A sixth-straight decline in new listings might have been a restraining factor. The benchmark price re-accelerated after its pace of increase slowed in the prior two months.
- **Activity rebounds in Ottawa, stays flat in Montreal**: Both markets—along with Halifax—still boast the tightest demand-supply conditions in Canada. Benchmark prices continue to track higher at solid rates.
- **Any market improvement likely to be gradual overall**: While there's scope for further rebound from weather-weakened activity this winter, the all-important spring season is shaping up to be a quiet affair in most of Canada. Not much action should be expected from first-time home buyers until more details are provided on the federal government's new First-Time Home Buyer Incentive that will go live in September.

THE END OF WINTER DIDN'T SPARK A FLURRY OF HOME-BUYING ACTIVITY

March data released by the Canadian Real Estate Association (CREA) in a way brought some clarity on the sharp 7.3% drop in home resales in February—poor weather probably wasn't the main culprit. With temperatures and precipitations mostly back to normal in March, resales did increase by 0.9% overall in Canada last month but this was far from enough to shake the slump off. The level of activity (437,600 units sold, on an annualized basis) still stood near a six-year low in Canada with few signs of a turnaround in sight in hard-hit Vancouver, Calgary and Edmonton. Weak demand-supply conditions in these markets continued to weigh on prices. Canada's composite MLS Home Price Index fell for a second-straight month on a year-over-year basis by 0.5%. And further small declines are probably on the way in the near term. Buyers hold a strong hand in several of Canada's large markets at this stage, while policy makers will view lower prices as (good) signs of improving affordability that require no further intervention.

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	1.5	1.7	1.3	0.7	1.7	1.7	1.5	1.5	1.4	1.4	1.4	1.4	3.6	2.1	1.4	1.4
Durables	0.7	-1.4	-1.8	-2.0	1.6	1.3	1.0	1.0	0.5	0.5	0.5	0.5	7.1	1.1	0.1	0.7
Semi-Durables	0.1	2.3	3.7	-1.3	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	3.1	1.4	1.3	1.4
Non-durables	0.5	0.8	1.9	0.0	1.8	1.7	1.5	1.5	1.4	1.3	1.3	1.3	2.7	1.6	1.3	1.4
Services	2.4	2.7	1.5	2.0	1.8	1.8	1.7	1.6	1.6	1.6	1.6	1.6	3.3	2.6	1.8	1.6
Government expenditures	2.4	2.4	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.5	2.0	2.0
Residential investment	-9.7	0.6	-5.5	-14.7	0.5	-0.4	-0.8	1.1	1.0	1.6	2.4	2.7	2.4	-2.3	-3.6	1.1
Business investment	7.0	-1.4	-10.8	-10.9	1.1	4.0	8.3	6.0	4.0	3.0	3.0	3.0	2.5	1.7	-1.3	4.5
Non-residential structures	-2.2	-3.2	-8.0	-15.0	-3.0	4.0	10.0	6.0	4.0	3.0	3.0	3.0	1.1	-0.9	-2.7	4.7
Machinery & equipment	22.7	1.3	-14.7	-4.8	7.0	4.0	6.0	6.0	4.0	3.0	3.0	3.0	4.7	5.8	0.7	4.2
Final domestic demand	1.5	1.2	-0.5	-1.5	1.7	1.8	2.1	2.0	1.7	1.7	1.7	1.7	3.1	1.9	0.9	1.8
Exports	1.0	14.6	3.3	-0.2	1.5	3.0	2.8	3.0	2.5	2.2	2.0	2.0	1.1	3.3	2.7	2.5
Imports	4.7	5.2	-8.6	-1.1	1.2	0.8	3.2	3.1	2.3	2.0	2.0	2.3	4.2	2.9	0.0	2.4
Inventories (change in $b)	21.3	15.4	5.4	13.4	10.5	7.5	7.7	6.7	6.5	6.5	6.5	6.5	17.6	13.9	8.1	6.5
Real gross domestic product	1.3	2.6	2.0	0.4	1.2	2.0	2.0	1.8	1.8	1.7	1.7	1.6	3.0	1.8	1.5	1.8
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.1	0.7	0.1	-0.1	-0.2	0.1	0.7	1.4	1.3	1.1	1.0	1.7	0.1	0.2	1.2
Pre-tax corporate profits	-1.3	2.1	6.9	-5.8	-9.1	-9.7	-12.4	-0.2	4.0	2.8	3.4	1.7	20.1	0.5	-8.0	3.0
Unemployment rate (%)*	5.8	5.9	5.9	5.6	5.8	5.8	5.9	5.9	5.9	5.9	6.0	6.0	6.3	5.8	5.9	6.0
Inflation																
Headline CPI	2.1	2.3	2.7	2.0	1.6	1.8	1.5	2.0	2.1	2.1	2.3	2.2	1.6	2.3	1.7	2.2
Core CPI	1.8	1.8	2.1	2.0	2.0	2.2	2.0	2.1	2.0	2.1	2.1	2.1	1.6	1.9	2.1	2.1
External trade																
Current account balance ($b)	-69.0	-63.4	-40.4	-61.9	-69.0	-61.6	-62.0	-59.4	-59.9	-55.8	-52.1	-53.0	-60.1	-58.7	-63.0	-55.2
% of GDP	-3.1	-2.9	-1.8	-2.8	-3.1	-2.7	-2.7	-2.6	-2.6	-2.4	-2.2	-2.2	-2.8	-2.6	-2.8	-2.4
Housing starts (000s)*	224	218	197	217	208	199	194	193	191	191	192	192	220	213	198.5	191.5
Motor vehicle sales (mill., saar)*	2.11	2.06	2.02	1.95	1.94	1.94	1.94	1.93	1.93	1.92	1.92	1.92	2.08	2.04	1.9	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	1.75	1.75	1.75	1.75	1.00	1.75	1.75	2.75
Three-month	1.10	1.26	1.59	1.64	1.67	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.06	1.64	1.65	2.75
Two-year	1.78	1.91	2.21	1.86	1.55	1.70	1.70	1.75	1.80	1.80	1.80	1.80	1.69	1.86	1.75	3.00
Five-year	1.97	2.07	2.34	1.89	1.52	1.75	1.80	1.90	1.95	2.00	2.00	2.05	1.87	1.89	1.90	3.15
10-year	2.09	2.17	2.43	1.97	1.62	1.85	1.95	2.05	2.15	2.25	2.25	2.30	2.04	1.97	2.05	3.30
30-year	2.23	2.20	2.42	2.18	1.89	2.10	2.20	2.25	2.35	2.45	2.45	2.45	2.27	2.18	2.25	3.30
Canadian dollar	1.29	1.31	1.29	1.36	1.34	1.34	1.34	1.35	1.35	1.36	1.36	1.37	1.26	1.36	1.35	1.37

*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	0.8	2.3	2.3	1.8	1.9	1.9	1.7	1.7	2.5	2.6	2.2	1.9
Durables	-2.0	8.6	3.7	3.6	-8.0	2.3	2.2	1.6	1.6	1.5	1.2	1.4	6.8	5.5	0.3	1.6
Non-durables	0.1	4.0	4.6	2.1	2.5	2.5	2.4	1.8	1.8	1.8	1.5	1.5	2.1	2.8	2.7	1.9
Services	1.0	3.0	3.2	2.4	1.6	2.3	2.3	1.8	2.0	2.0	1.9	1.8	2.0	2.1	2.3	2.0
Government spending	1.5	2.5	2.6	-0.4	0.3	3.7	2.4	2.0	1.0	0.5	0.5	0.5	-0.1	1.5	1.6	1.3
Residential investment	-3.4	-1.4	-3.5	-4.7	2.0	5.1	4.1	2.2	1.7	1.2	2.0	1.5	3.3	-0.3	0.6	2.2
Business investment	11.5	8.7	2.5	5.4	3.4	3.6	1.6	1.6	2.1	2.5	2.3	2.0	5.3	6.9	3.7	2.1
Non-residential structures	13.9	14.5	-3.4	-3.9	0.0	4.0	2.0	2.0	2.5	2.5	2.3	2.0	4.6	5.0	0.8	2.4
Non-residential equipment	8.5	4.6	3.4	6.6	4.0	3.5	0.7	0.7	1.5	2.5	2.3	2.0	6.1	7.4	3.7	1.7
Intellectual property	14.1	10.5	5.6	10.7	4.8	3.6	2.6	2.6	2.5	2.5	2.3	2.0	4.6	7.5	5.7	2.5
Final domestic demand	1.9	4.0	2.9	2.1	1.1	2.8	2.3	1.8	1.8	1.7	1.6	1.5	2.5	2.9	2.2	1.9
Exports	3.6	9.3	-4.9	1.8	4.0	2.8	2.8	2.8	2.8	2.5	2.5	2.5	3.0	4.0	2.3	2.7
Imports	3.0	-0.6	9.3	2.0	-0.8	0.0	1.5	3.2	2.3	2.3	2.0	2.0	4.6	4.5	1.6	2.2
Inventories (change in $b)	30.3	-36.8	89.8	96.8	85.0	60.0	48.0	54.0	54.0	58.0	58.0	54.0	22.5	45.0	61.8	56.0
Real gross domestic product	2.2	4.2	3.4	2.2	1.5	2.7	2.2	1.8	1.8	1.8	1.7	1.5	2.2	2.9	2.4	1.9
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.0	1.4	1.1	1.9	1.6	1.2	1.2	0.9	1.2	0.8	0.8	0.8	1.1	1.4	1.2	0.9
Pre-tax corporate profits	5.9	7.3	10.4	7.4	6.0	3.9	1.2	2.0	2.5	2.1	1.5	1.2	3.2	7.8	3.2	1.8
Unemployment rate (%)*	4.1	3.9	3.8	3.8	3.9	3.8	3.7	3.6	3.6	3.6	3.6	3.7	4.4	3.9	3.8	3.6
Inflation																
Headline CPI	2.2	2.7	2.6	2.2	1.6	1.9	1.8	2.0	2.2	2.0	2.2	2.2	2.1	2.4	1.8	2.1
Core CPI	1.9	2.2	2.2	2.2	2.1	2.1	2.2	2.2	2.1	2.2	2.2	2.2	1.8	2.1	2.2	2.2
External trade																
Current account balance ($b)	-496	-414	-506	-538	-506	-506	-511	-523	-523	-531	-536	-536	-449	-488	-511	-531
% of GDP	-2.5	-2.0	-2.5	-2.6	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.3	-2.4	-2.4	-2.4
Housing starts (000s)*	1317	1261	1234	1185	1285	1315	1325	1325	1330	1330	1340	1340	1208	1249	1313	1335
Motor vehicle sales (millions, saar)*	17.1	17.2	16.9	17.5	17.0	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	2.50	2.50	2.50	2.50	2.50	2.50	1.50	2.50	2.50	4.00
Three-month	1.73	1.93	2.19	2.45	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	1.39	2.45	2.40	3.85
Two-year	2.27	2.52	2.81	2.48	2.27	2.40	2.45	2.50	2.55	2.55	2.55	2.60	1.89	2.48	2.50	3.90
Five-year	2.56	2.73	2.94	2.51	2.23	2.40	2.50	2.60	2.70	2.75	2.75	2.85	2.20	2.51	2.60	3.95
10-year	2.74	2.85	3.05	2.69	2.41	2.55	2.65	2.75	2.90	3.00	3.05	3.15	2.40	2.69	2.75	4.00
30-year	2.97	2.98	3.19	3.02	2.81	2.95	3.00	3.10	3.20	3.40	3.50	3.65	2.74	3.02	3.10	4.00
Yield curve (10s-2s)	47	33	24	21	14	15	20	25	35	45	50	55	51	21	25	55

*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	YEAR-TO-DATE	LATEST MONTH	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH
Business								
Industrial production*	0.2	1.2	1.7	Jan.	-0.1	2.7	0.1	Mar.
Manufacturing inventory - shipments ratio (level)	1.5	1.5	1.4	Feb.	1.4	1.4	1.4	Feb.
New orders in manufacturing	1.5	-4.4	1.6	Feb.	-0.5	1.5	-0.8	Feb.
Business loans - Banks	0.1	14.9	7.2	Feb.	0.6	10.0	6.8	Mar.
Index of stock prices**	0.6	4.8	2.2	Mar.	1.8	3.7	9.6	Mar.
Households								
Retail sales	0.8	1.8	4.8	Feb.	1.6	3.6	3.5	Mar.
Auto sales	1.3	-3.6	2.9	Feb.	4.4	-5.3	-8.0	Mar.
Total consumer credit***	0.2	3.3	4.0	Feb.	0.4	5.0	5.1	Feb.
Housing starts	15.8	-14.2	4.9	Mar.	-8.7	-9.9	6.5	Feb.
Employment	0.0	1.8	1.2	Mar.	-0.1	1.0	1.6	Mar.
Prices								
Consumer price index	0.7	1.9	1.5	Mar.	0.4	1.9	1.37	Mar.
Producer price index****	0.3	1.2	0.9	Feb.	1.4	1.4	0.1	Mar.
Interest rates								
Policy rate [1]	1.75	1.25	-	Mar.	2.50	1.75	-	Mar.
Government bonds - (10 years)	1.7	2.2	-	Mar.	2.6	2.8	-	Mar.

[1] latest available

Seasonally adjusted % changes unless otherw ise 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