ECONOSCOPE

March 2018

Q4 GDP GROWTH IN CANADA REMAINS MODERATE

THE GLOBAL ECONOMY HITS A SWEET SPOT

THE LAURENTIAN AND ROCKY MOUNTAIN CONSENSUS

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Paul Ferley, Dawn Desjardins, Nathan Janzen, Josh Nye

Q4 GDP GROWTH IN CANADA REMAINS MODERATE

LATEST AVAILABLE: DECEMBER

RELEASE DATE: MARCH 2, 2018

The 1.7% (annualized) gain in Q4 GDP and the revised 1.5% gain in Q3 are down significantly from the unexpectedly strong average increase of 3.7% from mid-2016 to mid-2017. This earlier strength resulted from a cessation of sizeable declines in energy investment along with consumers continuing to respond to historically low interest rates. The resulting strong pace of activity had the impact of moving the economy to capacity by mid-2017. Thus the slowdown in growth over the second half of last year is not unwanted and will help ensure the economy does not move too far into excess demand and stoke inflation pressures.

HIGHLIGHTS

▲ The 1.7% (annualized) gain in Q4 GDP and the revised 1.5% gain in Q3 are down significantly from the unexpectedly strong average increase of 3.7% from mid-2016 to mid-2017.

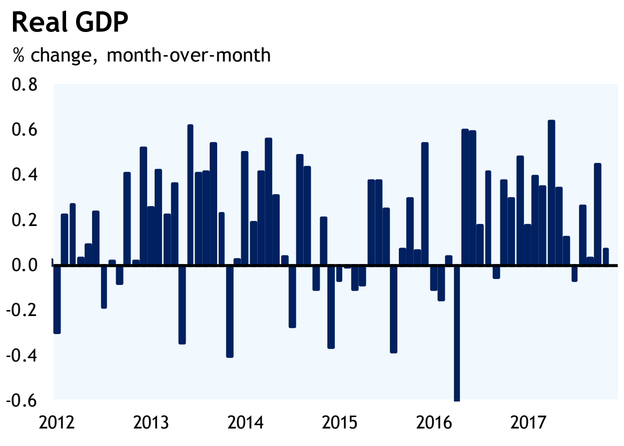
▲ February employment rose 15K which was slightly below the 21K gain expected going into the report.

▲ Retail sales fell 0.8% in both nominal and volume terms in December.

▲ Canadian housing starts continue to surprise on the upside jumping to an annualized 229.7k in February from 215.3k in January.

▲ The headline trade deficit narrowed to $1.9 billion in January from the $3.1 billion shortfall in December but only because of a big 4.3% drop in imports and a big increase in the price of Canadian energy exports.

▲ Year-over-year growth in headline CPI moderated to 1.7% in January from 1.9% in December — but that was still well-above market expectations for a 1.5% increase.



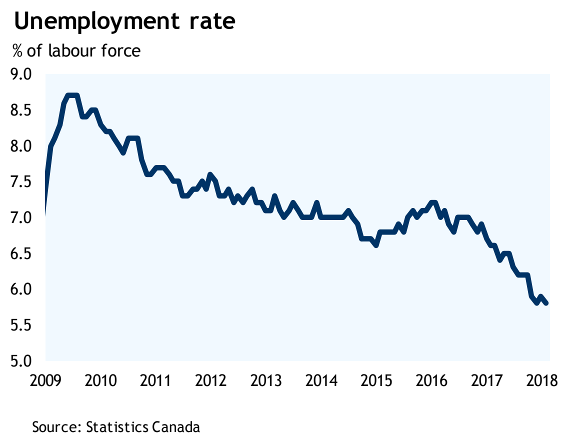
Source: Statistics Canada

CANADIAN EMPLOYMENT WEAKNESS PROVES TEMPORARY

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: MARCH 9, 2018

February employment rose 15K which was slightly below the 21K gain expected going into the report. Full-time employment fell 39k though this followed a 49k jump in January. The 55k rise in part-time followed a 137k drop the previous month. Over the past twelve months full-time employment has increased on average 24k per month with part-time employment unchanged. The unemployment rate unexpectedly dropped to 5.8% from 5.9% in January. Wage growth rose 3.1% down from 3.3% in January but up from the 2017 average of 1.7%.

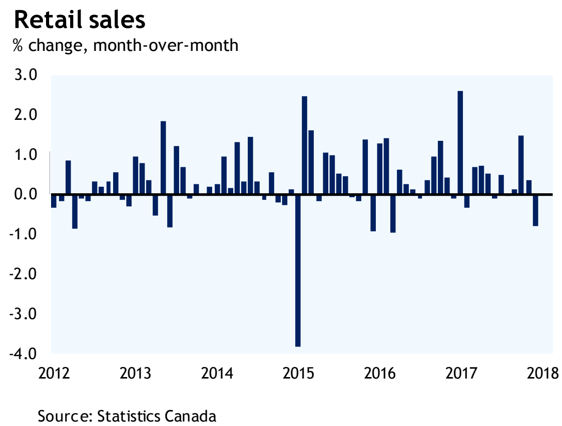


CANADIAN RETAIL SALES PULLED BACK IN DECEMBER

LATEST AVAILABLE: DECEMBER

RELEASE DATE: FEBRUARY 22, 2018

Retail sales fell 0.8% in both nominal and volume terms in December. The decline wasn't exactly broadly-based with 6 of 11 subsectors recording declines. Sales at electronics and appliance stores fell 9% after a double digit gain in November that reflected Black Friday sales as well as a new product launch. E-commerce sales were up just 4% from a year ago in December, though for 2017 as a whole online retailers saw a 30% jump in sales.

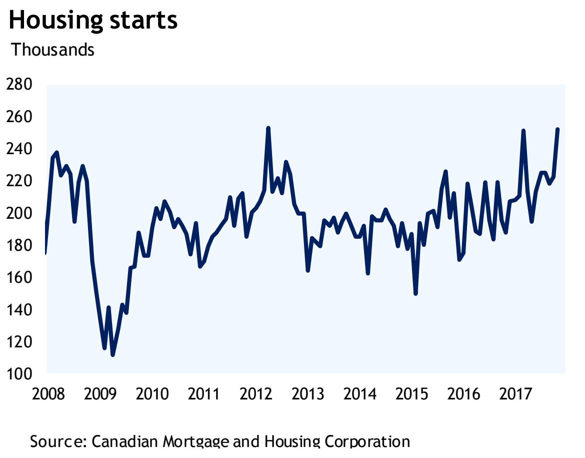


CANADIAN HOUSING STARTS REMAIN HIGH IN FEBRUARY

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: MARCH 8, 2018

Canadian housing starts continue to surprise on the upside jumping to an annualized 229.7k in February from 215.3k in January. Expectations had been for starts in February to remain relatively flat at 216k responding to rising interest rates, more restrictive mortgage lending standards and poor affordability in some markets that have contributed to housing re-sales dropping lower in Q1. Though these restraining factors seemingly had some impact in British Columbia where starts dropped 24% to 33k, they did not prevent starts rising 25% in Ontario to an annualized 107k, which represented the highest level of activity since 2003. The increase in Ontario was fueled by a 40% jump in urban multiples which hit a record high of 78k.

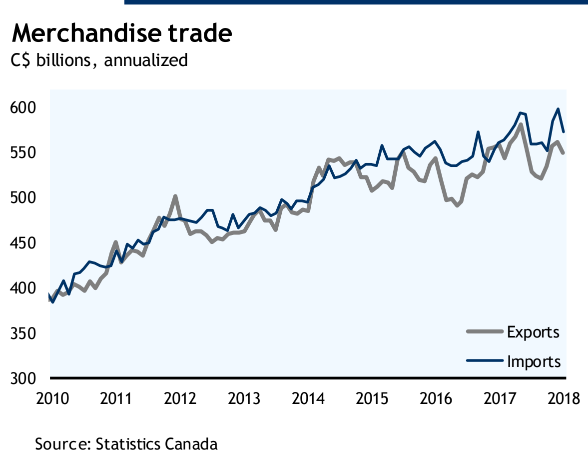


CANADA'S TRADE DEFICIT NARROWED IN JANUARY – BUT WITH DISAPPOINTING DETAILS

LATEST AVAILABLE: JANUARY

RELEASE DATE: MARCH 7, 2018

The headline trade deficit narrowed to $1.9 billion in January from the $3.1 billion shortfall in December but only because of a big 4.3% drop in imports and a big increase in the price of Canadian energy exports. Nominal exports declined 2.1% but controlling for the impact of prices, volume shipments fell 4.0% — exactly matching the drop in import volumes and implying no change in the 'real' trade balance. About half of the drop in export volumes overall came from a 12% plunge in energy shipments. Non-energy exports also declined about 2%, though, and were down 4% from a year ago.

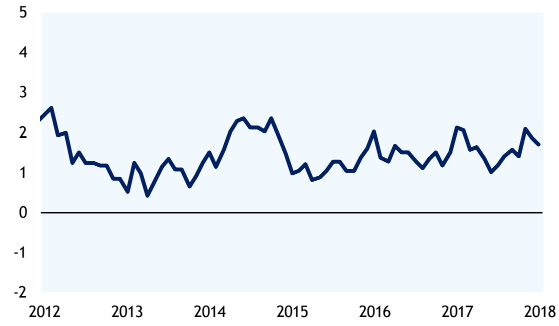


MORE SIGNS OF UNDERLYING FIRMING IN CANADIAN CPI GROWTH IN JANUARY

LATEST AVAILABLE: JANUARY

RELEASE DATE: FEBRUARY 23, 2018

Year-over-year growth in headline CPI moderated to 1.7% in January from 1.9% in December — but that was still well-above market expectations for a 1.5% increase. An unusually large but ultimately transitory month-over-month increase in prices a year ago was supposed to weigh more heavily on the January year-over-year growth rate. Price growth excluding food & energy products also ticked down to 1.5% from 1.7% in December — but that was also a little stronger than we expected given the aforementioned year-ago base effects. The Bank of Canada's core measures actually ticked higher, on balance. The median and trim measures held steady while the CPI-common measure ticked up to 1.8% from 1.6%.



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Lastest month	Previous month	Year ago
Real GDP	Dec	0.1	3.3
Industrial production	Dec	0.0	4.0
Employment	Feb	0.1	1.5
Unemployment rate*	Feb	5.8	6.6
Manufacturing			
Production	Dec	-0.7	2.9
Employment	Feb	-0.9	4.2
Shipments	Dec	-0.3	3.7
New orders	Dec	0.3	5.7
Inventories	Dec	0.1	7.4
Retail sales	Dec	-0.8	5.8
Car sales	Dec	-8.4	-0.4
Housing starts (000s)*	Feb	229.7	209.0
Exports	Jan	-2.1	-1.5
Imports	Jan	-4.3	2.0
Trade balance ($billlions)*	Jan	-1.9	-0.3
Consumer prices	Jan	0.7	1.7

* Levels are shown for the latest period and the same period a year earlier.
Source: Statistics Canada, RBC Economics Research

ECONOMICS AND FINANCIAL MARKETS OUTLOOK

THE GLOBAL ECONOMY HITS A SWEET SPOT

Craig Wright, Dawn Desjardins, Paul Ferley, Nathan Janzen

"We expect Canada, the US and the Euro area economies to post another year of above-potential growth, while the UK is forecast to gear down slightly as Brexit-related concerns weigh."

THE DRIVERS OF GROWTH HAVE BROADENED

After hitting its stride in 2017, the world economy is on track for another year of robust growth. The expected upswing reflects a synchronized acceleration among advanced and emerging-market economies. Trade volumes are growing three times as quickly as in 2016. Tighter labour markets are putting upward pressures on wages and supporting consumer spending, and businesses are investing to meet this demand. Concerns about protectionism are elevated again though measures of business activity and consumer confidence are high, at least for now.

We expect Canada, the US and the Euro area economies to post another year of above-potential growth, while the UK is forecast to gear down slightly as Brexit-related concerns weigh. This year will mark the first time in a decade that all four economies will operate with limited, if any, excess capacity. Canada, the US and UK are close to full employment, and wages are accelerating. Only in the UK, where there has been a currency-driven uptick in inflation, has this failed to translate into real wage gains. The Euro area's unemployment rate has room to drop further as rising employment spreads beyond the stronger regional economies. Still, it is likely to take until 2019 for tightness in the labour market to create meaningful upward pressure on wages on a pan-Euro area basis.

INFLATION CONCERNS HAVE SURFACED

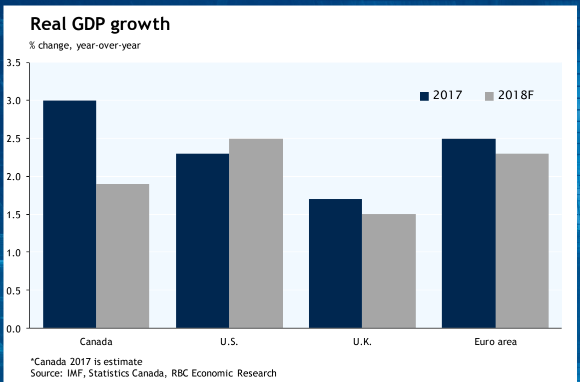
The global economy's momentum has quieted disinflation concerns. Global yields, led by US Treasuries, jumped in early 2018 as markets priced in upside inflation risks. In the US, a robust January labour report and new forecasts incorporating the lift from the Tax Cuts and Jobs Act raised inflation expectations and projections for Fed tightening over the quarters ahead. The upward pressure on yields also reflected concerns about heightened US Treasury issuance to fund spending and tax cuts. Ten-year Treasuries are up 24 bps compared to January 25 while increases elsewhere range from 12 to 19 basis points.

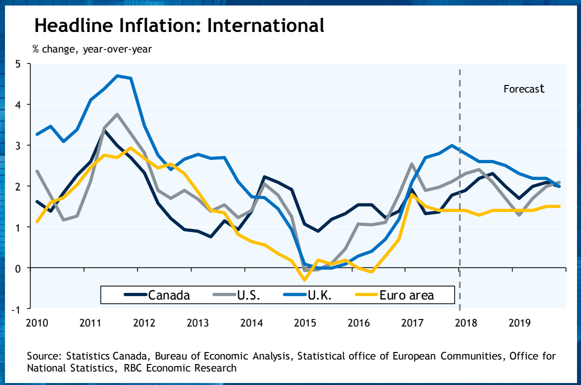
THE STOCK MARKET RALLY HIT A BUMP

Rising interest rates and firming inflation expectations interrupted the stock market rally. In early February, the S&P was down 10% from its January 26 peak and the MSCI world index lost 8.8%. Long-dormant volatility surged, exacerbating the market's decline. While the sell-off clipped 2018 gains, index levels remain well above year-ago levels. As a result, our forecast does not incorporate any negative hit to the global economy from this short sharp interruption in stock market performance.

CENTRAL BANKS WILL DIAL BACK POLICY SUPPORT

The need for aggressive monetary policy support in Canada and the US continues to lessen, with the economies now in the mature stage of the business cycle and governments providing a healthy dose of fiscal stimulus. Both central banks are forecast to continue to gradually raise their policy rate in 2018. The Bank of England has also





voiced concerns about upward domestic pressures on inflation, and it may be more active than we previously thought, with a 25bp rate increase expected in May 2018. Brexit uncertainty will likely delay further action until 2019, when we have penciled in two additional hikes. The ECB is furthest away from rate increases with the next policy shift likely to be the end of its bond-buying program later this year. Rate hikes will follow, though the ECB has been clear that increases will occur "well past" the QE program's termination, which we read as meaning unlikely until the second half of 2019.

THE US ECONOMY IS ON A FIRM FOOTING

The US economy entered 2018 on firm footing which, combined with the boost from the government's stimulus policies, will produce a 2.5% rise in economic output, eclipsing the economy's potential growth rate by a significant margin. The US consumer is positioned to be the key driver in 2018, backed by a robust labour market and healthy balance sheets. Recent stock market volatility presents a risk to the consumer outlook. While the correction cut into gains made early in 2018, the major indexes stand 14½% above year ago levels, leaving us to conclude that the pullback has not gone far enough to make a major impact on the outlook. Housing activity is also expected to firm in 2018 with markets entering the year at historically affordable levels, although future interest rate increases and rising prices could curb activity in 2019.

THE US TAX OVERHAUL WILL SPUR SPENDING

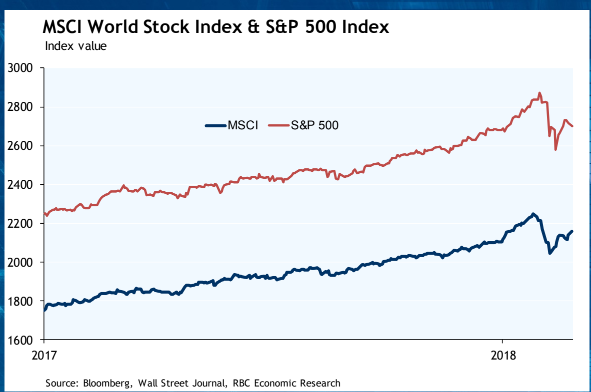
Business investment is the big story, with the turnaround that began in 2017 forecast to continue in 2018, helped by the tax overhaul. Increased activity in the energy sector underpinned some of the pickup in investment last year, although it wasn't the only sector where companies put dollars to work. The firming in demand exerted pressure on capacity with the overall capacity utilization rate rising 2 ppt in 2017. The manufacturing index rose 1.2 ppt and ended the year at the highest level since before the recession. Our forecast is that investment activity will rise at an even stronger pace in 2018 as companies use some of their tax windfall to buy machinery and equipment.

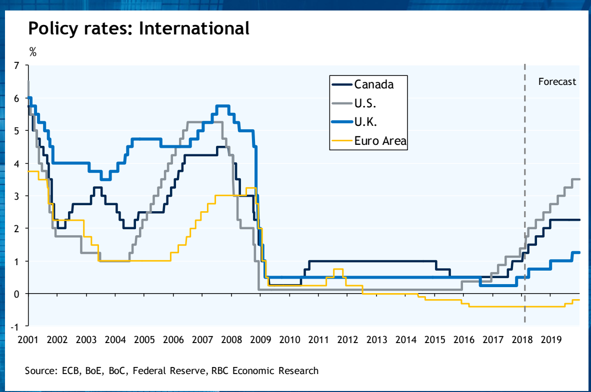
GOVERNMENT STIMULUS: SHORT-TERM GAIN FOR LONG-TERM PAIN?

The US government's Tax Cuts and Jobs Act is estimated to bump up GDP growth by 0.4 ppt in 2018 and an additional 0.3 ppt in 2019. Thereafter we expect the economic impact will be slightly negative. The cost to the bottom line, meanwhile, will be enduring and on net will add $1.0 trillion to the US debt.

A FAMILIAR STANCE FROM A NEW FED CHAIR

Federal Reserve Chair Jerome Powell will likely follow a path similar to the Yellen Fed with rate hikes expected to be announced each quarter in 2018. The strength of the underlying economy will outweigh concerns about the stock market correction, which some recent Fed speakers have referred to as a "healthy correction." Robust job creation continued into 2018 with 200K jobs created in January and the unemployment holding at 4.1%, below the Fed's long





-term range of 4.4% to 4.7%. Wage growth accelerated to 2.9%, well above Q4's 2.5% pace. We anticipate that the tightness in labour market conditions will keep upward pressure on wages in 2018 as the unemployment rate falls to 3.8%. Rising wages and increasingly stressed capacity tees up for inflation to rise sustainably at the Fed's 2% target.

The rise in 10-year yields in early 2018 was expected, although the rapid pace of increase created some upside risk to our forecast for a 2.80% rate at the end of the first quarter. Looking ahead we expect rates to continue to move higher, albeit at a somewhat slower pace and forecast the 10-year yield to end the year at 3.3%.

O CANADA!

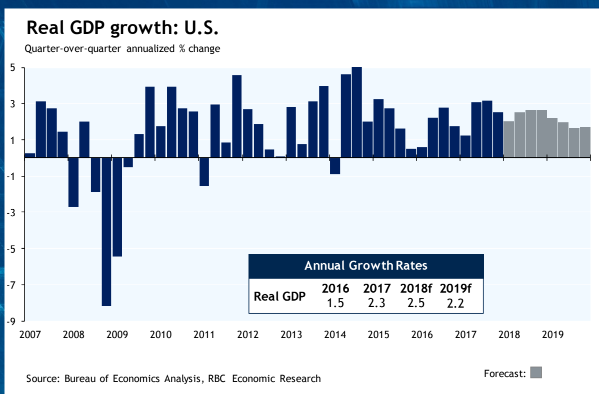
After growing rapidly in 2017, we expect Canada's economy to slow to 1.9%—a pace that is closer to potential, which we estimate at 1.6%. 2018 will mark a shift in the drivers of economic activity, with the Canadian consumer sector likely to pull back after spending strongly last year. Business investment and government outlays conversely are forecast to make bigger contributions. Consumer spending grew 3.5% in 2017, the fastest pace of increase since 2010. Rising interest rates will take a toll on the highly indebted household sector in 2018, but the softening should be limited by support from a healthy labour market and rising wages. Canada's housing market is also expected to come under pressure as interest rates move higher. National and provincial regulatory changes introduced over the last few years contributed to home resales falling by 4.5% in 2017. We expect sales to continue to soften in 2018 although gradual increases by the Bank of Canada and a healthy labour market are likely to prevent a rout in the housing market.

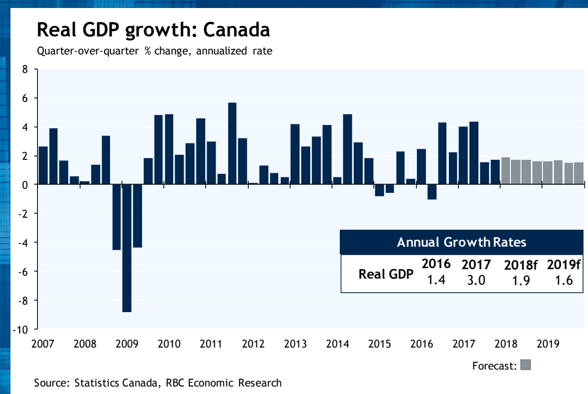
The softening in resale activity and pickup in new listings resulted in demand-supply conditions becoming more balanced in the majority of local markets. The improvement is likely to maintain some degree of support for home prices although considerably less than what the super-tight conditions provided in the early stages of 2017. Accordingly, we project a sharp deceleration in price increases, from 11.1% in 2017 to just 2.2% nationwide in 2018.

Conversely, the economy will get a lift as the federal and provincial governments ramp up spending on infrastructure projects. Investment outside of the public sector will shift away from residential construction toward spending on machinery and equipment as businesses expand.

RISKS TO BUSINESS INVESTMENT OUTLOOK

Despite the heightened talk of a rewrite of NAFTA, the Bank of Canada's survey of Canadian businesses showed a broad-based increase in spending intentions. Canadian businesses pointed to stronger demand causing heightened capacity pressures with some looking to begin multi-year projects. Others need to catch up after a period of low investment. We expect spending by Canadian companies on machinery and equipment to increase 3.5% this year, building on 2017's 6% increase. Uncertainty from the renegotiation of NAFTA; talk of US tariffs broadening out to steel and aluminium and the loss of competitiveness after the U.S. cut tax rates are factors that are likely keeping business investment lower than it otherwise would be. Further, even companies facing capacity pressures might pull-back in the absence of progress on these competitiveness challenges.





FOR CANADIAN OIL PRODUCERS, THE PRICE RECOVERY HAS FALLEN SHORT

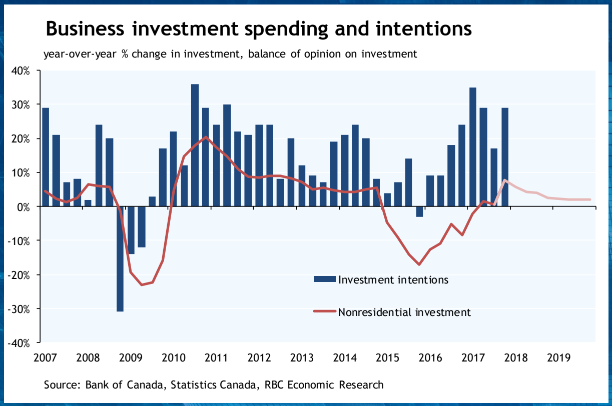
Due to transportation bottlenecks, Canadian oil producers are not benefitting to the same degree as other producers from the increase in prices that started in December 2017. With pipeline capacity tapped out, moving oil by rail—at a higher cost—hit Canadian producers' bottom line. Western Canada's oil exports are expected to materially exceed export pipeline capacity throughout the first quarter of 2018, meaning transportation costs will remain high until new oil export pipeline capacity is built. While Alberta's crude-by-rail loading capacity will ensure barrels get to market, it will be at higher cost, crimping oil sands producers' margin.

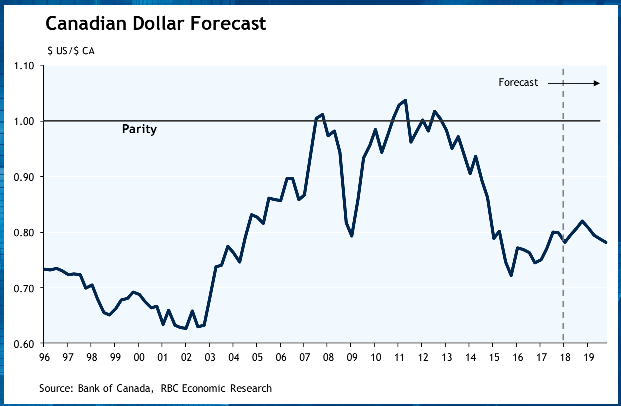
That said, higher energy exports were the key driver of the modest increase in overall export growth in 2017. The volume of non-commodity exports fell 1.9% in 2017 after hitting the highest level in close to a decade the previous year. We expect a modest turnaround this year as demand for Canadian goods by US companies rises in line with the pickup in investment activity.

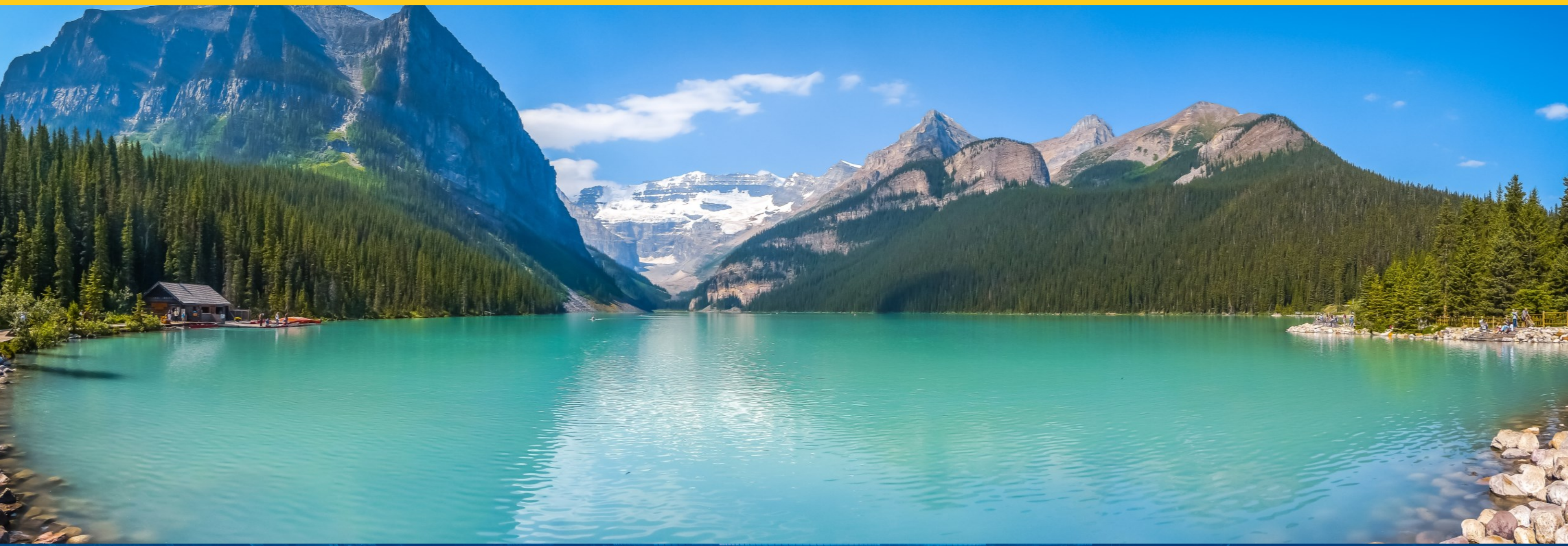
The Canadian dollar appreciated over the course of 2017 on the back of strong economic news that was followed up by the Bank of Canada raising the overnight rate. The currency's appreciating trend continued into January 2018 after the central bank lifted the overnight rate to 1.25%, the highest level in the post-recession period. Looking forward, Canada's dollar will take its direction from monetary policy with movements in oil prices acting as an influence over the medium term. We look for NAFTA-related uncertainty to pressure the Canadian dollar mid-year. That said, with both short-term interest rate spreads and oil prices working in favour of Canada's currency the weakening trend is likely to prove short-lived barring a negative NAFTA outcome.

THE BANK OF CANADA IS KEEPING A WATCHFUL EYE

We expect the Bank of Canada to raise the overnight rate each quarter in 2018 against the backdrop of solid domestic activity and more robust global trade flows. But it's likely to move at a measured pace. That's due to the impact that NAFTA uncertainty could have on exports and investment, as well as concerns about the ability of Canadian households to finance their elevated debt at higher rates. Inflation in Canada is forecast to reach the bank's 2% target this year which combined with rising short term rates will pressure 10-year yields higher.







PROVINCIAL OUTLOOK

THE LAURENTIAN AND ROCKY MOUNTAIN CONSENSUS

Gerard Walsh, Paul Ferley

“Since our December Provincial Outlook, we upgraded our view on economic growth in several provinces in the wake of stronger-than-expected data — most conspicuously in Quebec where growth continued to surprise to the upside in 2017.”

Canada’s economic expansion is entering its 9th year and growth is becoming more balanced across the country. Since our December Provincial Outlook, we upgraded our view on economic growth in several provinces in the wake of stronger-than-expected data — most conspicuously in Quebec where growth continued to surprise to the upside in 2017. Yet as the economy reaches capacity constraints over the next two years, we expect growth to slow across the country toward its long-run potential rate. For Central Canada, the Maritimes, and British Columbia this means growth will soon ratchet lower, whereas for oil producers growth will remain stronger for longer as they continue to take up the slack that developed during the recent oil price shock.

TOWERING ECONOMIES IN THE ROCKIES

We forecast the long boom in British Columbia’s economy to abate gradually over the next two years. Far from being a sign of weakness however, it reflects the economy’s strength: there is little slack left to take up in an economy which boasts a record low unemployment rate, strong consumer spending, and a buoyant housing market. Our forecast has growth clocking in at 2.3% in 2018 and 1.7% in 2019 as new spending from the provincial government provides additional lift. Across the Rockies, Alberta’s economic recovery remains well in hand. After rocketing ahead by an estimated 4.2% in 2017, we are expecting somewhat slower growth in 2018 and 2019 but at a pace above the national average. Rising oil production will add to growth and help with an eye-watering provincial deficit, and a pickup in jobs portends stronger growth ahead. While the auspices are generally good for Wild Rose Country, a Statistics Canada survey suggesting that investment spending may drop in 2018 is a reminder that the economy has not fully righted. The province’s difficulty getting its oil to market may be affecting the investment outlook as highlighted by a widening spread between the price of Albertan oil and international benchmarks.

A SOLID PERFORMANCE ON THE PRAIRIE

We expect Saskatchewan to buck the national trend this year as growth picks up to a chart-topping 2.9% followed by another solid year in 2019. A number of tailwinds are propelling the province's economy including rising oil production, a recovery from weather-related weakness in agricultural production in 2017, and greater momentum in the manufacturing sector heading into this year. A dark spot on an otherwise bright outlook is a pullback in capital spending. Our view on Manitoba is largely unchanged from last quarter with growth gradually slowing to 2.0% in 2018 and 1.6% in 2019. Weakening construction activity will weigh on the outlook for the next two years as a drop in housing starts adds to the winding down of work on major projects including the Keeyask Generating Station.

THE LAURENTIAN ENGINES ARE FIRING

We estimate that Ontario's economy delivered 2.8% growth in 2017 on the back of consumers and public-sector and residential investments. Going forward, we think recent regulations which are putting a chill in the housing market will flow through to new building and 2017's rapid expansion of retail sales and employment are unlikely to continue at their

REAL GDP GROWTH

current pace. That said, a healthy job market, solid wage gains, and accelerating capital spending will power Ontario's economy in the years ahead. We are forecasting growth of 2.0% in 2018 before slowing to the national average of 1.6% in 2019. Neighbouring Quebec looks better still and we expect the final numbers to show real GDP grew by 3.0% in 2017, more than twice the average growth rate of 1.3% over the past five years. While we don't expect this swift pace to continue, the auspices for Quebec's economy remain good. Vibrant consumer spending will be supported by accelerating wage gains and a record low unemployment rate, exports are up on the back of metals and minerals, and the province's housing market supports new building. We are forecasting Quebec's economic growth to slow to near the national average in 2018 and 2019 at 1.9% and 1.5% respectively.

SLUGGISH GROWTH IN THE EAST

After a fairly strong 2017, we expect growth in the three Maritime Provinces in 2018 and 2019 that is more in line with their lower long-run potential. While this may seem unwelcome, the outlook for individual workers is improving. In both New Brunswick and Nova Scotia, economic growth is driving down the unemployment rate as modest job gains accompany a shrinking workforce. With fewer potential workers on the sidelines, workers' bargaining position is improving and both provinces have solid gains in employee compensation with positive implications for residential investment, retail sales and consumer spending. On Prince Edward Island, we expect the economy to create enough jobs to absorb a recent uptick in immigration and make the province the fastest growing in the Maritimes through 2019. Outside of the Maritimes, Newfoundland and Labrador, by contrast, remains in the grip of an economic contraction. Rising oil production is staving off a deeper decline in headline growth figures as the province faces the double whammy of fiscal austerity and a severe drop in capital spending.

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	-4.4	3.5	2.1	2.0	2.5	1.0	1.7	2.1	-1.0	3.6	1.5	2.0
Inventories (change in $b)	10.2	14.0	16.9	13.8	16.7	13.5	11.9	11.9	11.9	11.8	11.8	11.8	1.0	13.7	13.5	11.8
Real gross domestic product	4.0	4.4	1.5	1.7	1.9	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4	3.0	1.9	1.6
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	2.2	2.5	1.1	1.0	0.3	0.5	1.1	1.2	0.9	0.9	0.9	0.9	0.6	1.7	0.8	0.9
Pre-tax corporate profits	26.0	35.5	14.2	8.9	3.7	3.0	3.1	-0.8	-3.8	-1.2	-0.4	-0.4	-1.9	20.2	2.2	-1.5
Unemployment rate (%)*	6.6	6.5	6.2	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	7.0	6.3	5.9	5.9
Inflation																
Headline CPI	1.9	1.3	1.4	1.8	1.9	2.2	2.3	2.0	1.7	2.0	2.1	2.0	1.4	1.6	2.1	1.9
Core CPI	2.0	1.4	1.4	1.6	1.6	1.9	2.2	2.2	2.1	2.1	2.0	2.0	1.9	1.6	2.0	2.0
External trade																
Current account balance ($b)	-54.6	-61.3	-74.4	-65.4	-50.4	-55.4	-54.1	-51.3	-48.3	-45.8	-44.1	-43.0	-65.4	-63.9	-52.8	-45.3
% of GDP	-2.6	-2.9	-3.5	-3.0	-2.3	-2.5	-2.4	-2.3	-2.1	-2.0	-1.9	-1.8	-3.2	-3.0	-2.4	-2.0
Housing starts (000s)*	222	207	223	229	211	204	200	193	191	191	189	189	198	220	202	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	1.20	1.45	1.70	2.05	2.25	2.15	2.15	2.15	0.46	1.06	2.05	2.15
Two-year	0.75	1.10	1.52	1.69	1.75	2.05	2.25	2.45	2.60	2.50	2.40	2.30	0.75	1.69	2.45	2.30
Five-year	1.12	1.40	1.75	1.87	2.00	2.30	2.55	2.75	2.90	2.85	2.85	2.80	1.12	1.87	2.75	2.80
10-year	1.62	1.76	2.10	2.04	2.20	2.50	2.75	2.95	3.10	3.10	3.05	3.05	1.71	2.04	2.95	3.05
30-year	2.30	2.14	2.47	2.27	2.45	2.75	3.05	3.15	3.25	3.25	3.30	3.30	2.31	2.27	3.15	3.30
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	3.8	2.1	3.2	3.2	2.7	2.3	1.9	1.8	1.8	2.7	2.7	2.9	2.4
Durables	-0.1	7.6	8.6	13.8	-1.5	3.5	4.5	2.8	2.3	1.8	1.6	1.6	5.5	6.7	5.0	2.5
Non-durables	1.1	4.2	2.3	4.3	2.5	4.8	4.5	3.5	2.5	2.0	1.8	1.8	2.8	2.4	3.7	2.8
Services	2.5	2.3	1.1	2.1	2.5	2.6	2.6	2.5	2.3	1.9	1.8	1.8	2.3	2.2	2.3	2.2
Government spending	-0.6	-0.2	0.7	2.9	0.6	0.4	0.4	0.6	0.8	0.8	0.8	0.8	0.8	0.1	0.9	0.7
Residential investment	11.1	-7.3	-4.7	13.1	5.5	3.7	3.8	3.4	1.8	0.9	1.9	1.2	5.5	1.8	4.0	2.3
Business investment	7.1	6.7	4.7	6.6	3.9	5.5	6.5	5.7	2.8	2.8	2.6	2.6	-0.6	4.7	5.4	3.9
Non-residential structures	14.8	7.0	-7.0	2.5	2.0	4.0	6.5	5.2	4.0	4.0	2.0	2.0	-4.1	5.4	2.3	4.1
Non-residential equipment	4.4	8.8	10.8	11.8	4.8	6.3	7.2	6.5	3.5	3.5	0.7	0.1	-3.4	4.8	7.7	4.1
Intellectual property	5.8	3.7	5.2	2.5	4.0	5.3	5.2	5.0	4.8	3.6	2.6	2.6	6.3	4.0	4.3	4.3
Final domestic demand	2.4	2.7	1.9	4.3	2.2	3.0	3.1	2.8	2.3	1.9	1.6	1.5	2.1	2.5	2.9	2.3
Exports	7.3	3.5	2.1	7.1	1.0	2.8	3.2	3.2	3.0	2.8	2.8	2.8	-0.3	3.4	3.2	3.0
Imports	4.3	1.5	-0.7	14.0	3.5	6.0	6.6	4.5	4.3	2.1	2.1	2.3	1.3	3.9	5.6	3.9
Inventories (change in $b)	1.2	5.5	38.5	8.0	15.0	15.0	16.0	20.0	28.0	28.0	28.0	33.0	33.4	13.3	16.5	29.3
Real gross domestic product	1.2	3.1	3.2	2.5	2.0	2.5	2.7	2.7	2.2	2.0	1.7	1.7	1.5	2.3	2.5	2.2
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.1	1.3	1.5	0.8	1.1	1.0	0.5	1.0	1.2	1.1	1.0	0.8	0.1	1.2	0.9	1.0
Pre-tax corporate profits	3.3	6.4	5.4	3.9	6.7	6.9	3.2	2.6	2.5	2.1	1.9	1.2	-2.1	4.7	4.8	1.9
Unemployment rate (%)*	4.7	4.3	4.3	4.1	4.1	4.1	3.9	3.8	3.8	3.8	3.8	3.8	4.9	4.4	4.0	3.8
Inflation																
Headline CPI	2.5	1.9	2.0	2.1	2.3	2.4	2.1	1.7	1.3	1.7	2.0	2.1	1.3	2.1	2.1	1.8
Core CPI	2.2	1.8	1.7	1.8	1.9	2.2	2.2	2.2	2.0	2.1	2.1	2.1	2.2	1.8	2.1	2.1
External trade																
Current account balance ($b)	-454	-498	-402	-458	-486	-504	-530	-546	-562	-563	-564	-567	-452	-453	-516	-564
% of GDP	-2.4	-2.6	-2.1	-2.3	-2.4	-2.5	-2.6	-2.7	-2.7	-2.7	-2.7	-2.7	-2.4	-2.3	-2.6	-2.7
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	17.3	17.4	17.5	17.5	17.5	17.6	17.6	17.6	17.5	17.1	17.4	17.6
INTEREST AND EXCHANGE 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	1.55	1.80	2.05	2.30	2.55	2.80	3.05	3.30	0.51	1.39	2.30	3.30
Two-year	1.27	1.38	1.47	1.89	2.10	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	2.50	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	2.80	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	3.20	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	70	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*	0.0	4.0	1.4	Dec.	-0.1	3.6	0.0	Jan.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Dec.	1.4	1.4	1.4	Jan.
New orders in manufacturing	0.3	5.7	0.5	Dec.	-1.4	6.6	-1.0	Jan.
Business loans - Banks	-1.3	6.5	7.0	Jan.	0.1	1.5	7.1	Feb.
Index of stock prices**	-3.2	0.3	1.8	Feb.	-3.0	16.1	9.1	Feb.
Households								
Retail sales	-0.8	5.8	5.0	Dec.	-0.3	3.6	3.1	Jan.
Auto sales	-8.4	-0.4	3.2	Dec.	-0.5	-12.6	-7.8	Feb.
Total consumer credit***	0.1	5.5	3.9	Jan.	0.4	5.3	5.1	Jan.
Housing starts	6.7	9.9	5.6	Feb.	9.7	7.3	6.0	Jan.
Employment	0.1	1.5	1.2	Feb.	0.5	1.8	1.6	Feb.
Prices								
Consumer price index	0.7	1.7	1.4	Jan.	0.5	2.1	1.25	Jan.
Producer price index****	0.3	2.0	0.8	Jan.	0.7	3.2	0.0	Jan.
Interest rates								
Policy rate	1.3	0.5	-	Feb.	1.4	0.6	-	Feb.
90-day commercial paper rates	1.5	0.9	-	Feb.	1.7	0.8	-	Feb.
Government bonds - (10 years)	2.4	1.8	-	Feb.	2.9	2.4	-	Feb.

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