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econoscope

December 2016

Canadian Q3 GDP growth rises 3.5%

After the fireworks: Higher rates in the US and moderate global growth

Both opportunities and risks for provincial economies in 2017

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2 Canadian Q3 GDP growth rises 3.5%

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5 After the fireworks: Higher rates in the US and moderate global growth

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11 Both opportunities and risks for provincial economies in 2017

Barring any unexpected adverse events, all provincial economies are set to grow in 2017 except Newfoundland and Labrador where we anticipate a drop in capital investment and persistent fiscal austerity to cause a further contraction of activity (of 2.2%).

PAUL FERLEY, DAWN DESJARDINS
NATHAN JANZEN, JOSH NYE

CURRENT TRENDS

CANADIAN Q3 GDP GROWTH RISES 3.5%

HIGHLIGHTS

▲ Growth in Q3 GDP was slightly stronger than the 3.4% expected going into the report and more than retraces the Q2 decline of 1.3% (revised from a previously-estimated –1.6%).

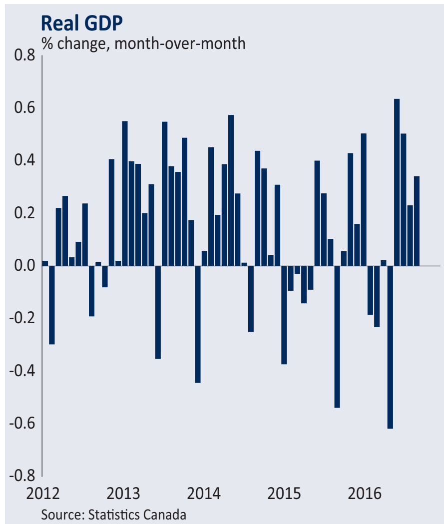
▲ Employers increased employment by 11K jobs in November; labour force shrank by 28K and unemployment rate slipped to 6.8%.

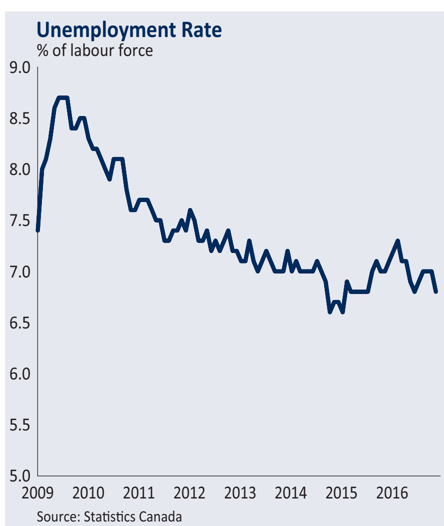
▲ Canadian retail sales jumped 1.1% in October for a solid start to Q4 spending.

▲ Housing starts fell to an annualized 184k annualized units in November, short of market expectations for little change relative to October's 192k pace.

▲ The improvement from September's shortfall of $4.4B, revised from a $4.1B trade deficit previously, resulted largely from imports plummeting 6.3% with exports making a smaller contribution rising 0.5%.

▲ Headline inflation rate slipped to 1.2% in November from 1.5% in October.





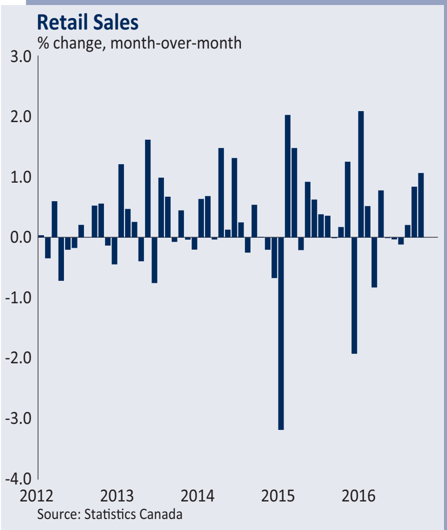
LATEST AVAILABLE: SEPTEMBER
RELEASE DATE: NOVEMBER 30, 2016

Growth in Q3 GDP was slightly stronger than the 3.4% expected going into the report and more than retraces the Q2 decline of 1.3% (revised from a previously-estimated –1.6%). September GDP was up a solid 0.3% that was much stronger than market expectations of 0.1% gain and bodes well for above-average growth continuing in Q4 though down from Q3's outsized increase. The third quarter saw consumer spending encouragingly up a stronger-than-expected 2.6% following a 1.8% increase in Q2. However, it was offset by business investment rising a smaller-than-anticipated 3.5%. The structures component was up an impressive 15.7%, but largely reflecting the arrival of a large 'structure' destined for the Hebron oil fields that was previously flagged as a large import component in the September trade report. Offset came from sizeable declines in M&E (12.2%) and intellectual property (17.0%). As well, government spending unexpectedly declined 1.2%. Exports rose a solid 8.9% with net exports adding an expected 1.5 ppts.

CANADA EMPLOYMENT UNEXPECTEDLY ROSE IN NOVEMBER

LATEST AVAILABLE: NOVEMBER
RELEASE DATE: DECEMBER 2, 2016

Employers increased employment by 11K jobs in November; labour force shrank by 28K and unemployment rate slipped to 6.8%. Canada's labour market report provided an upside surprise as employment rose defying market expectations for a 15k drop. The gain was smaller than in the previous three months and was again skewed toward part-time jobs which increased by 19K while full-time employment fell by 9K. Year to date, the economy generated 160K positions with 22K full-time jobs lost and 182K part-time jobs created. Regionally, the biggest declines in employment were in BC and Alberta while gains in Ontario and Quebec softened the blow. Despite the dip in BC in November, there were 55K jobs created so far this year and BC retained the title of having the lowest unemployment rate in Canada.



Canadian retail sales jumped 1.1% in October for a solid start to Q4 spending

LATEST AVAILABLE: OCTOBER
RELEASE DATE: DECEMBER 22, 2016

The increase was well ahead of market expectations for a 0.3% gain and builds on September's upwardly revised 0.8% increase. The gain was broad-based with increases in 9 of 11 subcomponents. Excluding the impact of prices, the volume of sales rose 0.6% in October. Auto sales were unchanged, as expected given earlier indications that unit auto sales were flat in October albeit at a still-strong 1.97 million annualized units. The 3.8% increase in sales at gasoline stations is consistent with a jump in gasoline prices in the month (the largest this year on a seasonally adjusted basis). Excluding those two components, sales were up by a stronger-than-expected 1% in October. The volume of overall retail sales rose for a fourth consecutive month, and October's 0.6% increase leaves the measure an annualized 4.7% above its Q3 average.

Canadian housing starts dipped to a three-month low in November

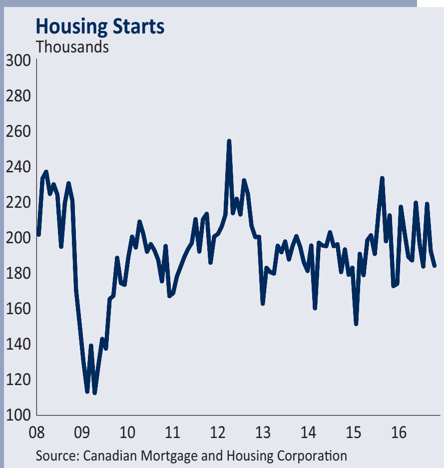
LATEST AVAILABLE: NOVEMBER
RELEASE DATE: DECEMBER 8, 2016

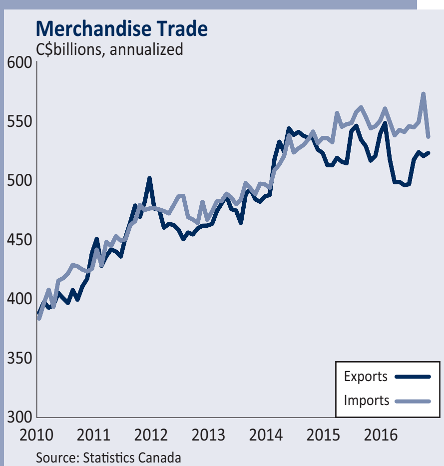
Housing starts fell to an annualized 184k annualized units in November, short of market expectations for little change relative to October's 192k pace (see *Housing Starts* chart on page 4). November's reading marks a second consecutive monthly decline following September's unexpectedly strong increase. The latest dip was concentrated in urban multiples, which fell 7.7% to their lowest level since January. Single detached starts were little changed and remained slightly above their year-to-date pace. Much of the decline in starts was in Ontario, with a 31% drop bringing starts to a year-to-date low for the province. Nonetheless, annual homebuilding in Ontario remains on course to solidly outpace 2015 activity. British Columbia provided significant offset in November with a 67% jump almost fully retracing October's substantial decline.

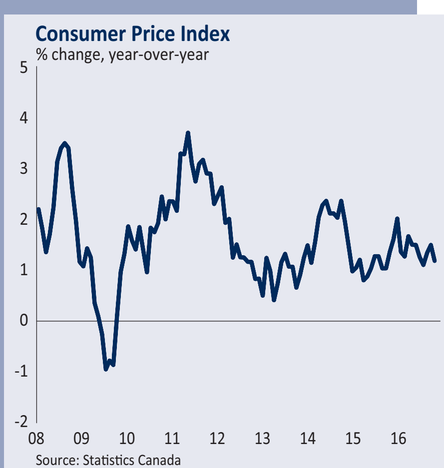
ECONOMY AT A GLANCE

% change from:	Latest month	Previous month	Year ago
Real GDP	Sep	0.3	1.9
Industrial production	Sep	1.2	2.8
Employment	Nov	0.1	1.0
Unemployment rate*	Nov	6.8	7.0
Manufacturing			
Production	Sep	0.5	1.4
Employment	Nov	-0.7	-2.9
Shipments	Oct	-0.8	1.9
New orders	Oct	0.7	6.1
Inventories	Oct	-0.1	-2.1
Retail sales	Oct	1.1	3.8
Car sales	Oct	-3.8	-5.5
Housing starts (000s)*	Nov	184.0	212.3
Exports	Oct	0.5	1.3
Imports	Oct	-6.3	-1.3
Trade balance ($billlions)*	Oct	-1.1	-2.3
Consumer prices	Nov	-0.4	1.2

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







Canadian trade deficit improves sharply to $1.1B

LATEST AVAILABLE: OCTOBER

RELEASE DATE: DECEMBER 6, 2016

The improvement from September's shortfall of $4.4B, revised from $4.1B deficit previously, resulted largely from imports plummeting 6.3% with exports making a smaller contribution rising 0.5%. The improvement in the deficit was slightly better than the $1.7B expected going into the report. Expectations for an improvement were largely premised on the expectation that the 4.4% surge in September imports, due to a sizeable import of a single piece of industrial machinery for the energy sector, would reverse in October. Such was confirmed in today's report with industrial M&E imports dropping 42.0% in the month after a 71.8% surge in September.

Canada's inflation rate fell more than expected in November

LATEST AVAILABLE: NOVEMBER

RELEASE DATE: DECEMBER 22, 2016

Headline inflation rate slipped to 1.2% in November from 1.5% in October. Bank of Canada's new measures of underlying inflation edged lower with readings ranging from 1.3% to 1.9%. This was the first report that showed the three inflations measures that the Bank of Canada has adopted as the "operational guide" to assess the underlying trend in inflation rather than the CPIX. All measures – CPI-trim, CPI-median and CPI-common – edged lower in November with readings ranging from 1.3% for the CPI-common to 1.9% for the CPI-median.

CRAIG WRIGHT, DAWN DESJARDINS,
PAUL FERLEY, NATHAN JANZEN

ECONOMICS AND FINANCIAL MARKETS OUTLOOK

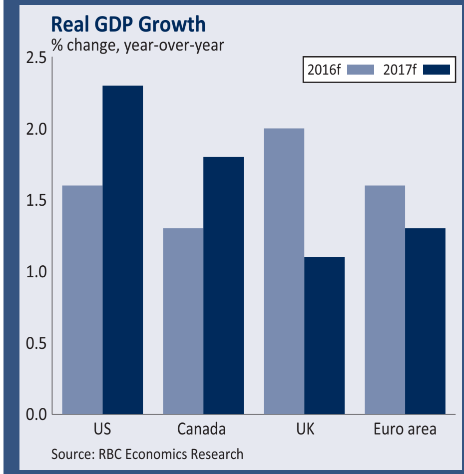
After the fireworks: Higher rates in the US and moderate global growth

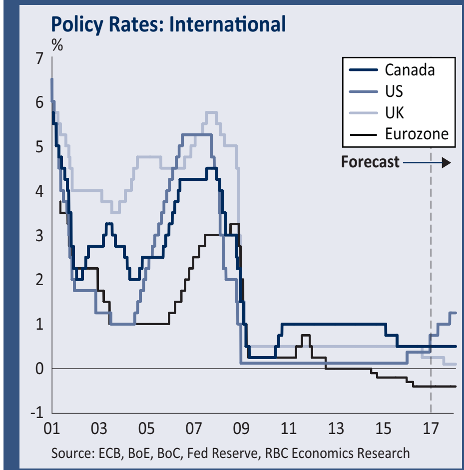
2016 was a year of surprises – the UK decided to leave the European Union and Donald Trump was elected President of the United States. These developments – and the elevated levels of uncertainty they bring – will shape 2017. For the global economy, the challenge will be expanding in an environment of uncertainty and rising interest rates. In the US, growth could get a boost if the government, as promised, implements stimulative fiscal policies. While specific announcements will have to wait until the Trump Administration takes office, our working assumption is that stimulus measures introduced in 2017 will boost US growth by 0.5 ppt starting in second half of 2017. For Canada, the spectre of rising US protectionism may temporarily weigh on business investment, though stronger US growth could spur exports. Meanwhile, the housing market – long a growth driver – is expected to slow markedly in 2017. In the UK, we expect weaker growth, with the government slated to start the process of withdrawing from the EU early in the year. The Brexit negotiation process, combined with question marks related to some key election outcomes on the continent, will likely temper growth in the European Union as well.

Financial markets interpreted Trump's election, combined with a Republican-controlled Congress, as opening the door to tax cuts and spending increases. The prospect of more stimulative US fiscal policy underpinned a rally in stocks and a rise in US Treasury yields towards the end of 2016. Stimulus is also anticipated to fuel a pickup in inflation, resulting in a more aggressive tightening by the Federal Reserve. The as-expected 25 bps hike by the Fed on December 14, 2016 is expected to be followed with two more rate hikes in 2017. Rising US rates will pressure market rates higher in other G7 countries and support a strengthening in the US dollar.

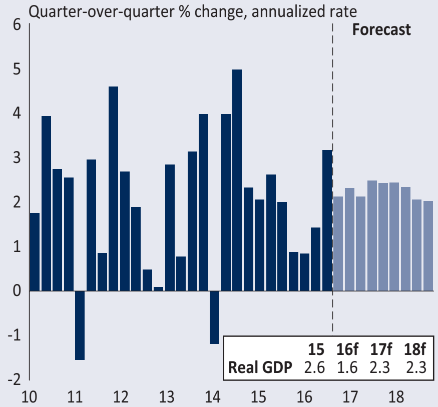
Global economy to accelerate modestly in 2017

While policy shifts in the UK and US bring uncertainty that could affect confidence, our baseline forecast assumes that the global economy will gain momentum in 2017. Our view reflects the following assumptions: even though interest rates will rise, they will remain historically low; commodity prices will increase but remain below recent highs; and fiscal policy will be more stimulative than in previous years. Of the major markets we monitor, only the US is expected to raise interest rates next year, with risks favouring rate cuts in the UK, Australia and New Zealand, and no change to official policy rates in Canada and the Euro area. Fiscal stimulus is on tap in Canada and is likely to be a factor in the US as well. Against this backdrop, we expect the pace of world growth to accelerate modestly, to 3.4% in 2017 and 3.6% in 2018, from an estimated 3.1% in 2016.



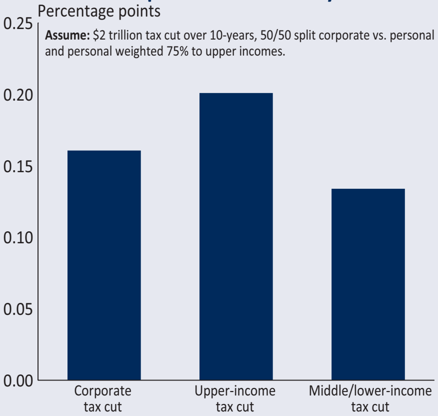


US Real GDP
Quarter-over-quarter % change, annualized rate



Source: Bureau of Economics Analysis, RBC Economics Research

Assumed Impact on GDP Level by Mid-2018
Percentage points



Source: RBC Economics Research

Recalibrating expectations

One of the hallmarks of the post-recession period has been the downgrading of economic growth forecasts. Downward revisions in recent years reflected cyclical factors like the drop in commodity prices and lacklustre business investment. However, there were also structural factors at play: lower working-age participation rates and sliding productivity in both advanced and emerging-market economies. As the baby boom generation retires, there will likely be even greater downside pressure on labour market participation. Barring a pickup in productivity, global growth is unlikely to return to the 4%+ recorded before the recession.

Also weighing on the global outlook is slowing growth in emerging-market economies. China's economy is forecast to continue to gear down amid softer global trade activity and the unwinding of excess industrial capacity. Chinese service-sector growth, however, is expected to be robust, and a shift to growth driven by consumption remains on track. On balance, we expect China's economy to grow by 6.2% in 2017, slower than 2016's 6.6% pace. Meanwhile, recessions in Brazil and Russia are forecast to end in 2017, lending some support to global growth.

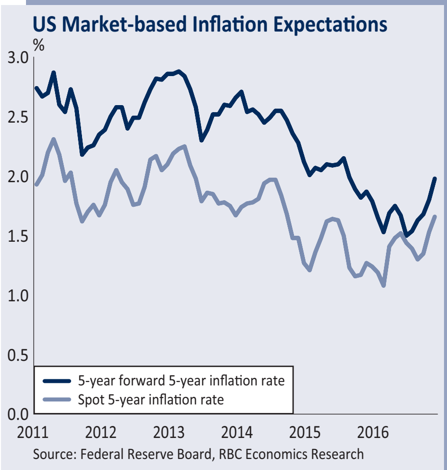
US economy – a modest dose of stimulus in 2017

The US economy had a lacklustre 2016 as businesses pulled back on investment and adjusted inventories, taking half a percentage point off the annual growth rate. Another year of solid consumer spending and a modest gain in residential construction kept the economy growing, with real GDP on track to post a 1.6% increase in 2016. We expect US growth to accelerate to 2.3% in 2017 as business investment recovers and fiscal stimulus supplements solid consumer spending. Robust employment gains and quicker wage increases as the labour market reached full employment will underpin consumption and a pickup in housing market activity.

We have incorporated a modest dose of fiscal stimulus into our 2017 growth forecast. Our assumption is that the Trump Administration will implement personal and corporate tax cuts to the tune of $2 trillion that will come into effect in mid-2017, increasing real GDP growth by 0.5 ppts in the following four quarters. This is in line with the amount contained in the House Republicans' proposals, and less than the amount Trump pledged in his campaign. While increased spending on infrastructure could be announced in 2017, we expect that it will be spread over five years with the initial lift to the economy from that effort likely to come in 2018.

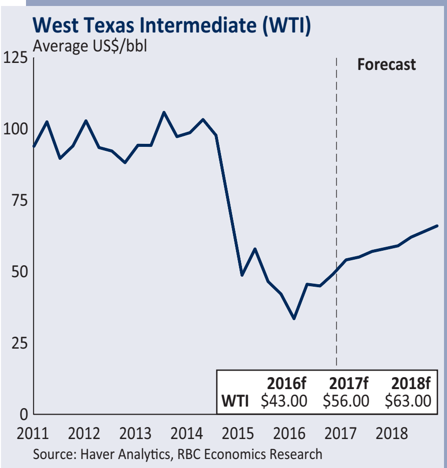
Trade at a cross-roads

Campaign-trail rhetoric raised the prospect that the US will implement protectionist policies, slowing global trade activity after a negligible increase in 2016. US withdrawal from the Trans-Pacific Partnership and changes to NAFTA would disrupt not only the US but its trading partners as well. However, our forecast assumes that, at least in the early days of the Trump Administration, withdrawal from the TPP is likely but changes to NATFA are not. Nonetheless, US trade will likely weigh on growth in 2017, as the strong US dollar hurts exports. Import growth could also be stilted by the uncertainty about possible implementation of tariffs.

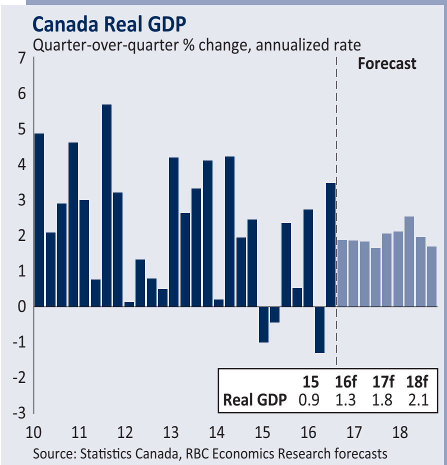


Inflation expectations reverse course

After several years of decline, measures of inflation expectations reversed course following the US election, as markets began to anticipate that Trump's fiscal plans will boost growth. The uptick also reflects the anticipation of an easing in the weight on the headline inflation rate as energy prices rise commensurate with the recovery in oil prices. Our forecast assumes that oil prices will grind higher in the months ahead, after OPEC reached an agreement on production cuts in late November. We anticipate the price of a barrel of WTI will end 2016 at around $50.00 with a further $10 price increase in 2017.

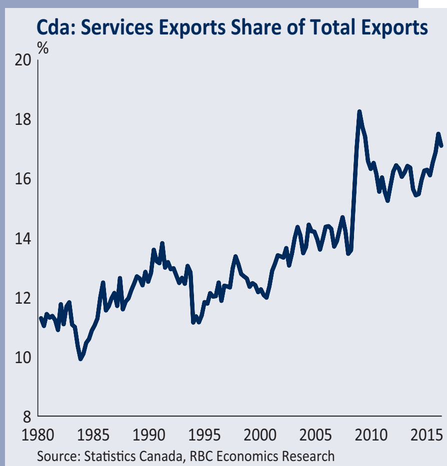


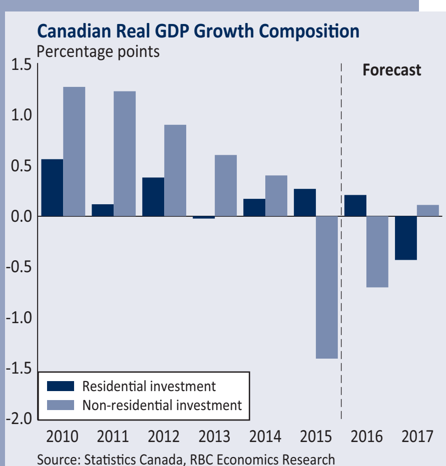
The recovery in energy prices will be partly responsible for headline inflation rising above 2% in 2017. Core prices are also expected to remain close to the Fed's 2% target as rising wages fuel price increases. The Fed will be closely monitoring how this rise in inflation affects expectations. With the labour market already close to full employment and inflation heading higher, we expect the Fed will be more aggressive in reducing monetary stimulus than they were over the previous twelve months. After boosting the fed funds target by 25 bps in mid-December we expect the Fed will follow up with two more rate hikes in 2017. Longer-term yields have already repriced to incorporate faster inflation and are likely to drift higher in 2017 albeit to still historically low levels.



Trump election's impact on Canada: The jury is still out

Falling energy prices (and more recently, wildfires in Alberta) have battered Canada's economy in the past two years. Growth in 2015 was a subpar 0.9% and is expected to have improved only modestly this year to 1.3%. The anticipated recovery in energy prices in 2017 sets up for the economy to grow at a firmer clip as the weight from falling investment eases and Ottawa steps up the pace of fiscal stimulus. The fly in the ointment is the rise in protectionist sentiment, which may hurt demand for Canadian exports. While President-elect Trump did not reference NAFTA in his





plans for his first hundred days in office, concerns that the US may push for new trade terms may induce Canadian exporters to hold off making investments. On the upside, with no imminent changes to NAFTA and the prospect of a fiscal package spurring stronger US growth, we are forecasting a modest uptick in Canadian exports next year. Export growth disappointed in 2016, mainly due to falling goods exports. Services exports increased 3.6% in the first three quarters of the year to make up an increasing share of the total. Sales of services abroad increased in all but one of the past 13 quarters, and we expect this trend to continue in 2017.

Passing the baton

Since 2010, residential investment boosted growth in Canada in all years but one, and is on track to add 0.2 ppts in 2016. However, we expect the combined effect of several housing policy measures to dampen home-resale activity, slow down the pace of new home building, and curb price increases across the country. Overall, this will result in a 0.4 ppt drag on 2017's growth rate. Conversely, business investment is expected to recover modestly, after weighing significantly on growth for the past two years. The recovery will mainly reflect the end of the retrenchment by energy companies, as well as increased investment by service sector companies. The latest Bank of Canada Business outlook survey indicated a rising share of service-sector firms plan to increase investment in information technology, with some exporters looking to increase spending on research and development. We expect business investment to provide a small lift to GDP growth next year.

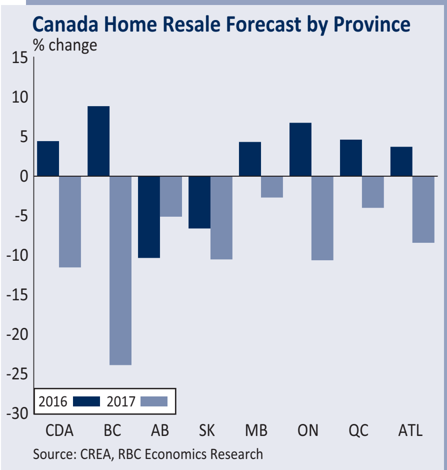
Counting on the Consumer

The Canadian consumer drove growth again in 2016 with spending forecast to have increased by 2.2%. Conditions continue to be favourable for consumers, with Canada adding 160,000 jobs in the first eleven months of the year and the unemployment rate averaging 7%. That said, the jobs created in 2016 were part-time, a shift following two years where full-time employment accounted for most if not all the gains. Regionally, full-time job cuts were concentrated in the oil-producing provinces. Ontario saw a rise in part-time employment accompanied by a fall in the number of self-employed workers. That said, on balance, the percentage of people working full-time is still in line with the long-term average.

Rising employment combined with changes to the federal Canada Child Benefit that came into effect on July 1 will underpin disposable income growth in both 2016 and 2017. Consumers also saw an increase in household net worth, which topped $10 trillion in the third quarter of 2016. While Canadians' debt levels are elevated, the debt-to-net worth ratio posted a third consecutive decline and owners' equity in real estate remained encouragingly high at 74%.

Housing market headed for a bumpy 2017

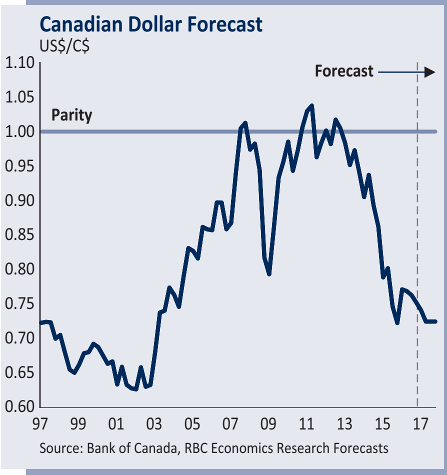
Regulatory changes at both the federal and provincial levels are expected to exert downward pressure on Canada's housing market in the near term, and slow the pace of debt accumulation. In light of the regulatory changes, we revised our housing market outlook, and forecast an 11.5% decline in home resales and a significantly slower pace of price increase in 2017 of 1.6%. This would follow a solid 4.4% rise in sales and 9.5% jump in prices in 2016. Underlying the 2017 forecast is our estimate that the tightening of mortgage insurance criteria implemented by Ottawa in October 2016 will cut home resales by close to 8% relative to our previous forecast and slow the pace of price increase by approximately 0.5 percentage points in 2017. Our base case scenario also assumes that the impact will vary across the country – with the more significant effect on home resales being felt in high-priced markets in Ontario and British Columbia.



Another factor that may slow activity in the housing market is the recent uptick in interest rates. Expectations of stronger growth, rising inflation and a more aggressive Federal Reserve have pushed US Treasury yields higher with Canadian long-term rates following suit. However, the rise in government bond yields in Canada in the post-election sell-off was more muted with the 10-year yield gaining about 55bps compared to more than 70bps in the US. The yield on the two-year bond also rose modestly in Canada while jumping in the US as the case for rising US policy rates strengthened. We expect the Bank of Canada to maintain the overnight rate at 50bps throughout 2017 curbing the increase in Canadian bond yields although rates are likely to drift higher in line with US Treasury rates. With the economy expanding at an above-potential pace and the headline inflation rate topping the 2% target as energy prices rebound the Bank is likely to shift into tightening mode in the second quarter of 2018.

Canadian dollar – Tug of war

Canada's dollar traded in an 11 cent range against the US dollar in 2016 buffeted by volatility in oil prices and changing expectations about central bank policy. In 2017, these factors will run in opposite directions with rising oil prices positive for the Canadian dollar but monetary policy running in favour of the US. Concerns about the US government rewriting the NAFTA agreement may exert some downward pressure on the Canadian dollar and we anticipate a mild depreciation in the currency in 2017 to 72.5 US cents. We expect the currency to recover in 2018 as oil prices continue to rise and the Bank of Canada begins to scale back stimulus by increasing the policy rate.



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PAUL FERLEY, ROBERT HOGUE,
GERARD WALSH

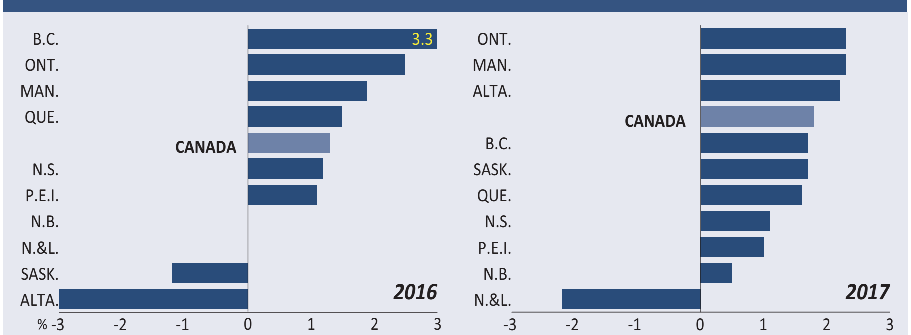
PROVINCIAL OUTLOOK

Both opportunities and risks for provincial economies in 2017

Brighter prospects for Alberta and Saskatchewan key for stronger growth nationally

To be sure, 2016 has been quite an eventful year with many expected and unexpected developments – both at home and on the international scene – that shaped the performance of provincial economies. Some of these developments will continue to play a role in 2017. Among them will be the federal government fiscal stimulus plan, the recent tightening of mortgage insurance rules, a new 15% tax on foreign homebuyers in Metro Vancouver, Brexit, the election of Donald Trump as US President and OPEC's announcement of oil production cuts, which will exert varying and complex influences across the country, as well as maintain a high degree of uncertainty. Amidst it all, we expect an improved outlook for global energy prices – we forecast WTI to rise from an average of US$43 per barrel in 2016 to US$56 per barrel in 2017 – to be particularly positive for oil-producing regions of Canada. Along with the ramping up in federal infrastructure spending, we believe that brighter prospects in Alberta and Saskatchewan will be a key contributor to stronger expected growth of 1.8% in Canada in 2017 compared to 1.3% in 2016. Such a strengthening in growth, however, clearly is contingent on our outlook for oil prices being realized.

REAL GDP GROWTH



Source: Statistics Canada, RBC Economics Research

HIGHLIGHTS

▲ Barring any unexpected adverse events, all provincial economies are set to grow in 2017 except Newfoundland and Labrador where we anticipate a drop in capital investment and persistent fiscal austerity to cause a further contraction of activity (of 2.2%).

▲ We expect Alberta (+2.2%) and Saskatchewan (+1.7%) to return to positive growth as energy revenues begin to recover and confidence starts to rebuild following two very difficult years in 2015 and 2016.

▲ We project Ontario and Quebec to deviate very little from the growth paths each pursued in 2016. In the case of Ontario (+2.3%), we see a slight slowing in the pace in 2017 in part due to our anticipation of a moderation in the provincial housing market. For Quebec (+1.6%), our forecast shows a marginal acceleration owing to an easing in fiscal restraint in the province.

▲ Our growth rankings for 2017 show Manitoba (+2.3%) standing with Ontario at the number one spot. We expect Manitoba's economy to receive a boost from construction projects and broader strength in the provincial manufacturing sector.

▲ Giving up the top spot it held in 2016 will be British Columbia, where we expect the recent cooling in home resale activity to be largely sustained in 2017, thereby quieting off a powerful source of growth in the province during the past few years. Our GDP forecast for British Columbia (+1.7%) would be weaker than the national average (1.8%) for the first time in six years.

▲ We project weak but steady growth in most of Atlantic Canada. Our forecast calls for rates of expansion of 1.1% for Nova Scotia, 1.0% for Prince Edward Island and 0.5% for New Brunswick. These provinces will continue to face challenging demographic trends and dim capital investment prospects that restrain their potential rate of growth.

Forecast detail – Canada

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2016				2017				2018				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Household consumption	2.5	1.8	2.6	2.2	2.2	2.1	2.0	1.7	1.7	1.7	1.6	1.7	1.9	2.2	2.1	1.7
Durables	4.0	-2.5	-2.4	2.8	2.3	1.5	1.5	1.0	1.5	1.3	1.3	1.3	2.8	2.9	1.2	1.3
Semi-Durables	8.4	-0.2	1.9	2.2	2.2	2.4	2.0	1.8	1.8	1.8	1.8	2.0	2.3	3.6	0.8	1.9
Non-durables	3.8	3.1	3.0	2.2	2.2	2.5	2.3	2.0	1.8	1.8	1.8	2.0	0.8	2.0	2.4	2.0
Services	0.9	2.6	3.7	2.1	2.1	2.1	1.9	1.8	1.7	1.7	1.6	1.6	2.1	1.8	1.9	1.7
Government expenditures	3.3	5.3	-1.2	2.0	1.8	1.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.6	2.1
Residential investment	10.2	0.3	-5.5	-2.2	-6.5	-7.1	-4.9	-2.4	-0.5	1.1	1.1	2.3	3.8	2.4	-4.9	-1.2
Business investment	-8.5	-0.9	3.5	-10.6	4.5	3.3	3.0	3.6	3.9	3.8	2.6	2.4	-11.5	-7.4	0.6	3.4
Non-residential structures	-12.7	-4.3	15.7	-14.2	3.8	3.5	3.2	4.0	4.4	4.2	3.0	2.7	-16.0	-9.6	0.9	3.8
Machinery & equipment	-2.2	4.1	-12.2	-5.0	5.5	3.0	2.8	3.0	3.2	3.1	2.0	2.0	-3.3	-4.1	0.1	2.9
Final domestic demand	1.8	2.0	0.9	0.9	1.9	1.7	1.7	1.7	2.0	2.1	1.9	2.0	0.3	1.0	1.5	1.9
Exports	9.0	-14.8	8.9	-2.0	3.4	2.6	2.4	3.4	3.7	4.4	2.3	1.6	3.4	0.7	1.5	3.2
Imports	2.3	1.4	3.3	-8.5	5.3	3.8	3.4	2.9	3.3	2.9	2.2	2.3	0.3	-1.1	1.4	3.0
Inventories (change in $b)	-8.2	1.0	4.6	-1.0	1.7	4.3	5.8	6.7	7.0	6.9	6.8	6.2	3.9	-0.9	4.6	6.7
Real gross domestic product	2.7	-1.3	3.5	1.9	1.9	1.8	1.6	2.0	2.1	2.5	1.9	1.7	0.9	1.3	1.8	2.1
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.1	0.5	1.1	1.0	1.2	1.6	0.8	1.2	1.1	1.3	1.4	1.4	-0.2	0.6	1.2	1.3
Pre-tax corporate profits	-10.4	-15.1	-1.5	8.1	8.2	21.5	3.2	2.7	3.3	4.4	5.2	5.0	-19.5	-5.0	8.4	4.5
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.9	6.9	6.8	6.8	6.7	6.6	6.5	6.5	6.9	7.0	6.9	6.6
Inflation																
Headline CPI	1.5	1.6	1.2	1.5	2.2	2.4	2.7	2.7	2.4	2.2	2.2	2.2	1.1	1.5	2.5	2.2
Core CPI	2.0	2.1	1.9	1.8	1.9	1.9	2.1	2.3	2.3	2.1	2.2	2.1	2.2	1.9	2.0	2.2
External trade																
Current account balance ($b)	-68.2	-76.1	-73.2	-55.3	-56.8	-55.7	-55.3	-53.0	-49.7	-43.9	-40.1	-37.7	-67.6	-68.2	-55.2	-42.8
% of GDP	-3.4	-3.8	-3.6	-2.7	-2.7	-2.6	-2.6	-2.5	-2.3	-2.0	-1.8	-1.7	-3.4	-3.4	-2.6	-1.9
Housing starts (000s)*	198	198	200	190	183	180	177	176	175	175	173	174	196	197	179	175
Motor vehicle sales (mill., saar)*	2.01	1.99	1.94	1.98	1.92	1.87	1.84	1.82	1.83	1.83	1.84	1.84	1.94	1.98	1.86	1.83
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	0.50	0.50	0.50	1.00
Three-month	0.45	0.48	0.53	0.50	0.50	0.50	0.55	0.60	0.65	0.85	0.90	1.10	0.51	0.50	0.60	1.10
Two-year	0.54	0.52	0.52	0.80	0.75	0.80	0.85	0.90	1.05	1.15	1.25	1.40	0.48	0.80	0.90	1.40
Five-year	0.67	0.57	0.62	1.15	1.05	1.30	1.55	1.75	1.85	2.00	2.10	2.25	0.73	1.15	1.75	2.25
10-year	1.23	1.06	1.00	1.80	1.70	1.90	2.15	2.30	2.40	2.50	2.70	2.90	1.40	1.80	2.30	2.90
30-year	2.00	1.72	1.66	2.35	2.30	2.40	2.60	2.80	2.90	3.05	3.20	3.40	2.15	2.35	2.80	3.40
Canadian dollar	1.30	1.29	1.31	1.33	1.35	1.38	1.38	1.38	1.29	1.29	1.28	1.28	1.38	1.33	1.38	1.28

* Quarterly averages, level

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

December 2016

Forecast detail – United States

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2016				2017				2018				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	1.6	4.3	2.8	2.4	2.2	2.1	2.5	2.4	2.6	2.4	2.1	2.0	3.2	2.6	2.5	2.4
Durables	-0.6	9.8	11.6	4.5	4.0	3.5	3.1	3.1	3.0	2.7	2.1	2.1	6.9	5.3	5.1	2.8
Non-durables	2.1	5.7	-0.6	2.1	1.8	1.9	2.8	2.8	3.1	2.8	2.2	2.0	2.6	2.4	2.0	2.7
Services	1.9	3.0	2.5	2.2	2.0	2.0	2.3	2.2	2.4	2.2	2.1	2.0	2.8	2.3	2.2	2.2
Government spending	1.6	-1.7	0.2	2.0	1.5	1.2	1.2	1.0	0.6	0.4	0.4	0.4	1.8	0.9	1.1	0.7
Residential investment	7.8	-7.8	-4.4	9.2	6.6	3.8	3.9	4.0	4.5	4.8	5.0	5.2	11.7	4.8	3.7	4.5
Business investment	-3.4	1.0	0.1	2.6	3.3	3.3	4.3	4.4	4.3	3.9	3.1	2.8	2.1	-0.6	2.8	3.9
Non-residential structures	0.1	-2.1	10.1	-1.0	2.1	2.2	4.0	4.5	4.5	3.8	2.9	2.3	-4.4	-3.0	2.6	3.8
Non-residential equipment	-9.5	-3.0	-4.7	3.3	3.4	3.4	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-2.9	2.2	4.3
Intellectual property	3.8	9.0	1.0	3.9	3.9	3.9	3.8	3.7	3.4	3.3	3.2	3.0	4.8	4.6	3.8	3.5
Final domestic demand	1.2	2.4	1.7	2.6	2.4	2.2	2.5	2.5	2.5	2.3	2.1	1.9	3.1	2.0	2.3	2.4
Exports	-0.7	1.8	10.1	-1.0	1.8	1.8	1.9	2.0	2.9	3.2	3.2	3.2	0.1	0.6	2.3	2.7
Imports	-0.6	0.2	2.1	2.3	5.0	4.0	2.1	2.5	3.1	2.9	3.1	2.5	4.6	0.7	3.1	2.8
Inventories (change in $b)	40.7	-9.5	7.6	3.0	20.0	30.0	28.0	28.0	25.0	24.8	24.6	24.4	84.0	10.5	26.5	24.7
Real gross domestic product	0.8	1.4	3.2	2.1	2.3	2.1	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.3	2.3
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	0.1	-0.3	0.0	0.8	1.3	1.7	1.2	1.4	1.4	1.5	1.5	1.4	0.8	0.1	1.4	1.5
Pre-tax corporate profits	-6.6	-4.3	2.8	10.6	7.7	9.0	3.1	2.9	2.9	2.7	2.7	2.4	-3.0	0.4	5.6	2.7
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.7	4.6	4.6	4.5	4.5	4.4	4.4	5.3	4.9	4.7	4.5
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	2.4	2.6	2.2	2.1	2.1	2.2	2.2	0.1	1.3	2.4	2.2
Core CPI	2.2	2.2	2.2	2.2	2.1	2.0	2.0	2.1	2.1	2.1	2.1	2.1	1.8	2.2	2.0	2.1
External trade																
Current account balance ($b)	-527	-473	-437	-475	-497	-509	-515	-522	-530	-536	-543	-546	-463	-478	-511	-539
% of GDP	-2.9	-2.6	-2.4	-2.5	-2.6	-2.6	-2.7	-2.7	-2.7	-2.7	-2.7	-2.7	-2.6	-2.6	-2.6	-2.7
Housing starts (000s)*	1151	1159	1145	1180	1190	1202	1218	1236	1257	1279	1302	1327	1108	1159	1212	1291
Motor vehicle sales (millions, saar)*	17.3	17.1	17.5	17.8	17.9	18.0	18.1	18.2	18.2	18.3	18.3	18.4	17.4	17.4	18.1	18.3
INTEREST RATES %, END OF PERIOD																
Fed funds	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75	0.50	0.75	1.25	1.75
Three-month	0.21	0.26	0.29	0.50	0.50	0.75	0.85	1.00	1.10	1.30	1.40	1.65	0.16	0.50	1.00	1.65
Two-year	0.73	0.58	0.77	1.25	1.20	1.40	1.60	1.75	1.85	1.90	1.95	2.05	1.06	1.25	1.75	2.05
Five-year	1.21	1.01	1.14	2.00	1.90	2.10	2.25	2.35	2.45	2.50	2.60	2.70	1.76	2.00	2.35	2.70
10-year	1.78	1.49	1.60	2.55	2.45	2.60	2.75	2.85	2.95	3.05	3.15	3.25	2.27	2.55	2.85	3.25
30-year	2.61	2.30	2.32	3.15	3.10	3.15	3.25	3.35	3.45	3.60	3.70	3.80	3.01	3.15	3.35	3.80
Yield curve (10s-2s)	105	91	83	130	125	120	115	110	110	115	120	120	121	130	110	120

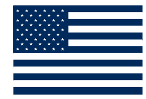
* Quarterly averages, level

Source: US Bureau of Economic Analysis, RBC Economics Research forecasts

December 2016

CURRENT ECONOMIC INDICATORS

Canada - US Comparisons



	Canada: From Preceding Month	Canada: From Year Ago	Canada: Year-To-Date	Canada: Latest Month	US: From Preceding Month	US: From Year Ago	US: Year-To-Date	US: Latest Month
Business								
Industrial production[1]	1.2	2.8	-0.6	Sep.	-0.4	-0.6	-0.6	Nov.
Mfg. inventory - shipments ratio (level)	1.4	1.4	1.4	Oct.	1.3	1.3	1.4	Oct.
New orders in manufacturing	0.7	6.1	-3.2	Oct.	2.8	1.4	-4.5	Oct.
Business loans - Banks	0.5	6.9	8.4	Oct.	0.2	8.1	10.3	Nov.
Index of stock prices[2]	2.0	12.0	-3.0	Nov.	1.0	4.1	3.5	Nov.
Households								
Retail sales	1.1	3.8	2.7	Oct.	0.1	3.8	2.0	Nov.
Auto sales	-3.8	-5.5	2.5	Oct.	1.3	-8.6	-5.9	Nov.
Total consumer credit[3]	0.2	3.1	3.0	Sep.	0.4	6.1	6.6	Oct.
Housing starts	-4.3	-13.3	1.5	Nov.	-18.7	-6.9	7.5	Nov.
Employment	0.1	1.0	0.8	Nov.	0.1	1.8	1.7	Nov.
Prices								
Consumer price index	-0.4	1.2	1.3	Nov.	0.2	1.7	0.68	Nov.
Producer price index[4]	0.7	0.8	-0.7	Oct.	0.0	0.5	-2.3	Nov.
Interest rates								
Policy rate	0.5	0.5	0.5	Nov.	0.38	0.13	0.38	Nov.
90-day commercial paper rates	0.8	0.8	0.8	Nov.	0.6	0.2	0.6	Nov.
Government bonds (10 years)	1.5	1.8	1.3	Nov.	2.1	2.3	-	Nov.

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

[1] The U.S. series is an index.

[2] Canada = S&P/TSX; United States = S&P 500

[3] Excludes credit unions and caisses populaires.

[4] Canada's producer price index is not seasonally adjusted.

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