ECONOSCOPE

August 2017

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THE NOT-SO-ALMIGHTY DOLLAR

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HOUSING PRICES FALL FOR THE FIRST TIME SINCE 2013

ECONOSCOPE

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CURRENT TRENDS

Paul Ferley, Dawn Desjardins, Nathan Janzen, Josh Nye

CANADA'S MAY GDP SOARS DESPITE QUEBEC CONSTRUCTION STRIKE

LATEST AVAILABLE: MAY

RELEASE DATE: July 28, 2017

Canadian GDP jumped a much stronger than expected 0.6% in May marking the 7th consecutive month of increases. The upward surprise was mainly concentrated in the mining sector as it soared 4.6% in the month. There was an expected return of an oil sands upgrader after a temporary shutdown starting in March but the strength went well beyond this factor and occurred despite oil prices remaining moderately weaker than expected. A year ago this sector was hammered by the Alberta wildfires and widespread shutdowns of oil sands production facilities. Eliminating the upward impact of the mining sector GDP growth would still have increased a solid 0.2% despite a one-week construction strike in Quebec that subtracted about 0.1 percentage point from overall monthly growth. Thus today's report is indicative of solid growth persisting in the Canadian economy through the second quarter.

HIGHLIGHTS

▲ Canadian GDP jumped a much stronger than expected 0.6% in May marking the 7th consecutive month of increases.

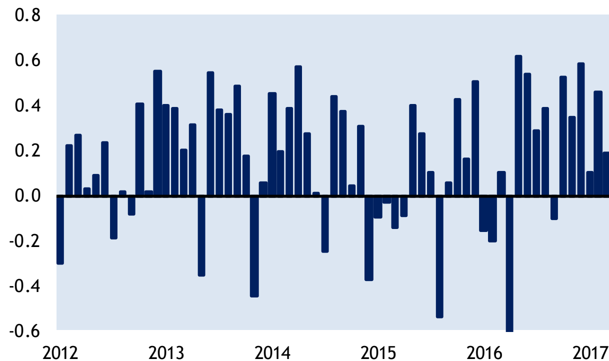
▲ Canadian employment rose consistently over the first half of the year and last month was no different with 11k jobs added in July.

▲ Nominal retail sales in June inched up 0.1% despite a large drop in gasoline prices.

▲ The 222k (annualized rate) housing starts in July was above the average 215k over the first half of the year which already was well-above most estimates of the underlying rate of household formation.

▲ The $3.6 billion June deficit is much larger than expected and within spitting distance of the record $4.3 billion shortfall posted in September 2016.

▲ The year-over-year rate of headline CPI inflation rose to 1.2% in July from 1.0% in June.



CANADA'S ECONOMY CONTINUED TO CREATE JOBS IN JULY

LATEST AVAILABLE: JULY

RELEASE DATE: AUGUST 4, 2017

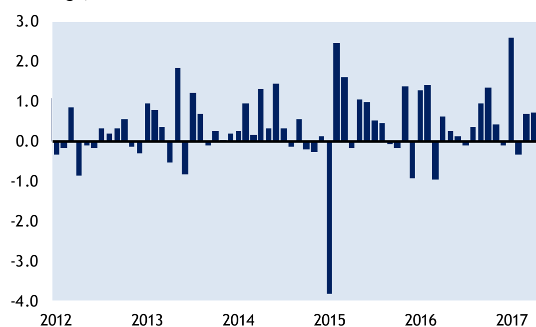
Canadian employment rose consistently over the first half of the year and last month was no different with 11k jobs added in July. The average monthly increase of 28k year-to-date is well above the pace needed to absorb new entrants into the labour force, pushing the unemployment rate down to 6.3% in July from 6.9% at the end of last year. Strong job gains are consistent with above-trend growth in the economy. We are monitoring a 3.7% increase in Q2 GDP, which would match the previous quarter's gain and make Canada the growth leader among its G7 peers.

CANADIAN RETAIL SALES VOLUMES UP AGAIN IN JUNE

LATEST AVAILABLE: JUNE

RELEASE DATE: AUGUST 22, 2017

Nominal retail sales in June inched up 0.1% despite a large drop in gasoline prices. In volume terms, sales rose 0.5% from May and 7.8% from a year-ago. E-commerce sales (not all of which are included in the retail sales totals) were up 43.5% from a year ago in June and 42% year-to-date. Consumer spending in Canada continues to build on levels that already accounted for a record share of overall GDP last year. The 0.5% gain in sale volumes in June was the sixth consecutive monthly increase and the 11th of the last 12.



CANADIAN HOUSING STARTS UNEXPECTEDLY ROSE FURTHER IN JULY

LATEST AVAILABLE: JULY

RELEASE DATE: AUGUST 9, 2017

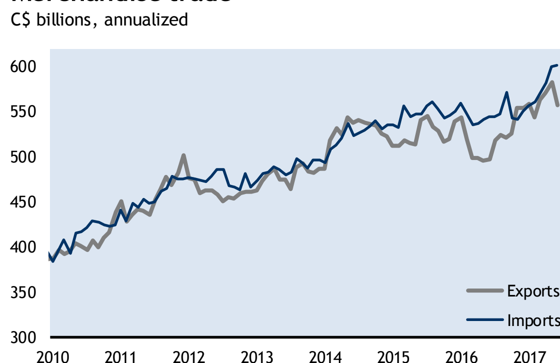
New Canadian homebuilding remained very strong to kick off the second half of 2017. The 222k (annualized rate) housing starts in July was above the average 215k over the first half of the year which already was well-above most estimates of the underlying rate of household formation. Much of the recent strength has been concentrated in B.C. where starts have rebounded back close to record highs after slowing late last year. New building activity has also been trending modestly higher in the prairies, Quebec, and the Atlantic provinces though.

CANADA'S TRADE DEFICIT WIDENED SHARPLY IN JUNE BUT DETAILS BETTER

LATEST AVAILABLE: JUNE

RELEASE DATE: AUGUST 4, 2017

The $3.6 billion June deficit is much larger than expected and within spitting distance of the record $4.3 billion shortfall posted in September 2016. Nonetheless, as is often the case with the volatile (and revision prone) trade data, details were significantly 'less-weak' than the headline would suggest. Much of the plunge in exports was concentrated in a price-related 9% decline in energy exports and a 15% decline in metal and non-metallic mineral products. The latter reflected an unwind of a large increase in May that Statistics Canada attributed to increased gold transfers in the banking sector.



CANADIAN INFLATION EDGED HIGHER IN JULY BUT REMAINED WELL SHORT OF 2%

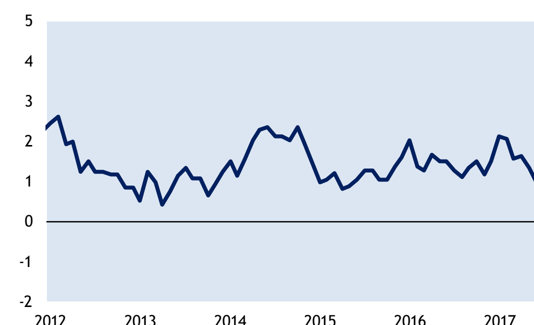
LATEST AVAILABLE: JULY

RELEASE DATE: August 18, 2017

The year-over-year rate of headline CPI inflation rose to 1.2% in July from 1.0% in June. Two of the Bank of Canada's three preferred core measures ticked higher, lifting the average from 1.4% to 1.5% after rounding. Ex food and energy inflation similarly edged up to 1.5%. Another round of electricity price rebates in Ontario left national electricity prices 9% below year-ago levels. That represents a 0.2 percentage point drag on headline inflation. The headline inflation is near the bottom of the Bank of Canada's 1-3% target range and most core indices around 1.5%. Some temporary factors are at play—the central bank has attributed part of the recent decline to lower energy prices and less auto price inflation.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE			
% change from:	Lastest month	Previous month	Year ago
Real GDP	May	0.6	4.6
Industrial production	May	2.5	12.6
Employment	Jul	0.1	2.1
Unemployment rate*	Jul	6.3	7.0
Manufacturing			
Production	May	1.1	5.2
Employment	Jul	0.8	3.1
Shipments	Jun	-1.8	6.2
New orders	Jun	-3.0	-1.0
Inventories	Jun	-0.2	5.6
Retail sales	Jun	0.1	7.3
Car sales	Jun	1.5	6.8
Housing starts (000s)*	Jul	222.3	195.7
Exports	Jun	-4.3	12.4
Imports	Jun	0.3	10.4
Trade balance ($billlions)*	Jun	-3.6	-4.0
Consumer prices	Jul	0.0	1.2

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

THE NOT-SO-ALMIGHTY DOLLAR

Josh Nye

"While the US dollar's woes partly reflect domestic factors, an improving outlook in some of the country's major trading partners has also been at play."

The US dollar's losing streak continued in July with the currency dipping nearly 3% on a trade weighted basis over the month. The US dollar has fallen 9% year-to-date, losing ground in six of the first seven months of 2017. Some of the decline reflects retracement of the currency's post-election bump when markets were eyeing pro-growth and potentially inflationary fiscal policies. But the Trump administration and Congress' inability to advance their legislative agenda has investors trimming back expectations for tax cuts and infrastructure investment. This was underscored by the IMF lowering their US GDP growth forecast to 2.1% this year and next, a cumulative markdown of about 1/2 percentage point. Odds of the Trump administration implementing a border tax, which would be a boon to the US dollar, have also slipped. And markets are skeptical that the Fed will continue to withdraw accommodation amid slowing inflation. Despite raising rates in each of the last three quarters and signaling further hikes are likely, just one more 25 basis point increase is priced in over the next twelve months.

While the US dollar's woes partly reflect domestic factors, an improving outlook in some of the country's major trading partners has also been at play. This has clearly been a factor for the Canadian dollar, which is up nearly 10% against the US dollar over the last two months. Canada's economy has outperformed its G7 peers in recent quarters and the Bank of Canada's hawkish shift, including a rate hike in July, boosted the loonie. With less policy divergence relative to the US, we now expect the Canadian dollar will average just under 80 US cents over our forecast horizon. Not to be outdone, the euro has also rallied strongly in recent months as the currency bloc's economic recovery continues to build momentum and markets look for the European Central Bank to begin scaling back its asset purchases.

FINANCIAL MARKETS

UPDATED US GDP FIGURES SHOW DOMESTIC STRENGTH IN H1…

Josh Nye

HIGHLIGHTS

▲ The uptick in Q2 GDP growth reflected less drag from inventories as domestic spending remained strong.

▲ Inflation and wage growth have failed to pick up despite tighter economic and labour market conditions.

▲ Rising commodity prices and a weaker US dollar should put upward pressure on import prices.

▲ The Fed is set to announce tapering of reinvestment in September.

US GDP growth met expectations in Q2, rebounding to 2.6% following the previous quarter's disappointing 1.2% annualized increase. That sharp acceleration belies fairly consistent demand growth over the first half of the year—domestic spending rose an annualized 2.4% in both quarters with a drawdown in inventories in Q1 accounting for much of the difference in production figures. The previously-reported slowing in consumer spending, which looked out of sync with solid employment growth and improving sentiment, was softened after revisions and Q2 still recorded a healthy pickup. The second quarter saw another solid gain in business investment, with both energy and non-energy capex increasing. Residential investment slowed, however, and we think some of Q1's double-digit gain was due to activity being pulled forward amid unseasonably warm winter weather. Housing is expected to return as a positive contributor over the second half of the year, helping sustain the first half's strength in domestic spending. Overall we look for the economy to continue growing at an above-trend 2.5% annualized pace into next year as both households and businesses contribute to the expansion.

…BUT STILL FEW SIGNS OF INFLATION

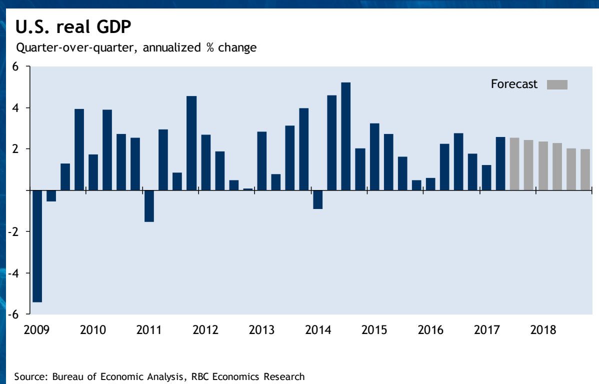
The return to above-trend growth in Q2 should allay concerns that the Fed is tightening monetary policy just as the economy is beginning to lose momentum. But another criticism of the Fed's rate hikes remains—absence of inflationary pressure. After picking up above 2% on rising energy prices, headline inflation has consistently disappointed in recent months while core CPI slipped to a two-year low in May and June. The story has been much the same for the Fed's preferred PCE price deflators. Wage pressures are also failing to materialize despite tight labour market conditions. Average hourly earnings growth is a healthy 2.5% but that is little change from a year and a half ago despite a 1/2 percentage point decline in the unemployment rate an even greater improvement in broader measures of slack.

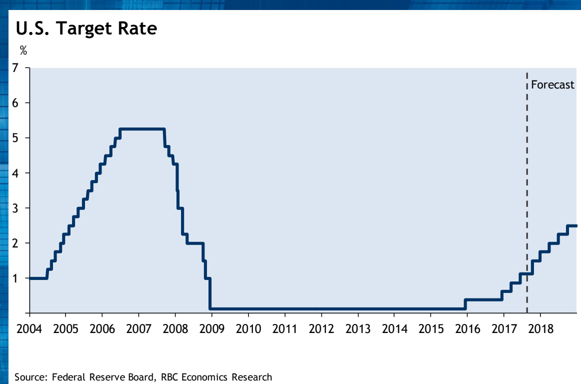
The Fed continues to hold the view that inflation will pick up toward 2% over the medium term, even with further gradual rate hikes. We agree that a temporary shift into excess demand next year should ultimately be inflationary, even if, as the Fed has noted, the relationship between economic slack and inflation has weakened somewhat. Policymakers have pointed to temporary factors weighing on inflation—particularly a sharp drop in wireless phone service prices that shaved 0.2 percentage points from headline inflation—so the recent slowing is likely overstated.

Meanwhile, some of the sources of disinflation encountered in recent years might be turning around. Imported goods prices are beginning to pick up, and the US dollar's recent depreciation as well as some increase in key commodity prices could further lift import costs. All told, while our forecast assumes inflation will remain low in the near-term, we are with the Fed in seeing inflation settle around their 2% objective toward the end of next year when transitory factors have dissipated and tight economic conditions begin to feed into higher prices.

FED TEEING UP FOR CHANGE IN BALANCE SHEET POLICY

The Fed left interest rates unchanged in July and made few changes to their policy statement. The sole development was a shift in language on balance sheet normalization. The Fed is now indicating that the planned change in their reinvestment policy, which was outlined in June, will begin "relatively soon." We think their updated guidance is consistent with our long-held assumption that tapering will be announced in September and implemented in October. The pace of tapering laid out by policymakers is gradual but we still think they will want to see how the market reacts. As such, we look for interest rates to be held steady once again in September, breaking the recent trend of one hike per quarter. Holding off on further rate increases until December will also give the Fed some time to evaluate





inflation developments. We don't think the Fed has to see 2% inflation to continue tightening, but at least some evidence that core inflation is trending higher would bolster their confidence in a return to target over the next year. Firmer inflation readings would also help convince markets that the Fed will actually follow through on projected tightening—three more hikes next year as implied in their June forecast. But until investors are convinced that is the case, the US dollar likely won't get much help from expectations about monetary policy.

FINANCIAL MARKETS

BOC RAISES RATES, FOLLOWING THROUGH ON GUIDANCE

Josh Nye

HIGHLIGHTS

▲ Canada's unexpectedly strong May GDP report led us to revise Q2 growth up to 3.7%.

▲ Stronger growth implies the economy could reach capacity even earlier than the end of the year as the Bank of Canada projected in July.

▲ Lack of inflationary pressure could keep the central bank from removing accommodation too quickly.

▲ Further rate hikes will still leave monetary policy in a stimulative positon, even if households are more sensitive to higher rates than in the past.

The Bank of Canada followed through on their forward guidance, raising interest rates for the first time in nearly seven years on July 12. The 25 basis point hike, which brought the overnight rate to 0.75%, was clearly telegraphed by members of the Governing Council over the month prior to the meeting. In justifying the move, the central bank noted broadening growth across industries and regions as well as evidence that the energy sector's adjustment to lower oil prices is largely complete. With above-trend growth looking more sustainable and excess capacity being absorbed, policymakers saw less need for ultra-low interest rates. The statement provided little guidance on when we might expect another hike, though it is worth noting that July's increase was not necessarily framed as simply walking back some of the stimulus provided in 2015. Rather, we think their forecast for the output gap to close later this year tees up for a gradual tightening cycle to begin in earnest. But at what pace will the bank proceed?

STRONG GDP GROWTH SUPPORTS THE CASE FOR FURTHER RATE HIKES…

Canada's strong growth figures argue for the Bank of Canada to continue raising rates. GDP increased by a much stronger than expected 0.6% in May, the third monthly gain of 1/2% or more so far this year. Much of the unanticipated increase was in oil and gas output, though a broad range of industries also contributed to growth. The gain was also despite a temporary drag on construction activity related to a strike in Quebec, a factor that should be reversed in June. Given an unexpectedly strong trend in the monthly figures, we have revised our Q2 GDP growth forecast up to 3.7% from 2.7% previously. That would be stronger than the central bank's revised Q2 forecast of 3.0%, raising the prospect that the economy might reach potential output before the end of the year. An earlier-than-expected shift into excess demand might necessitate a slightly faster pace of rate hikes than the bank envisioned as recently as July.

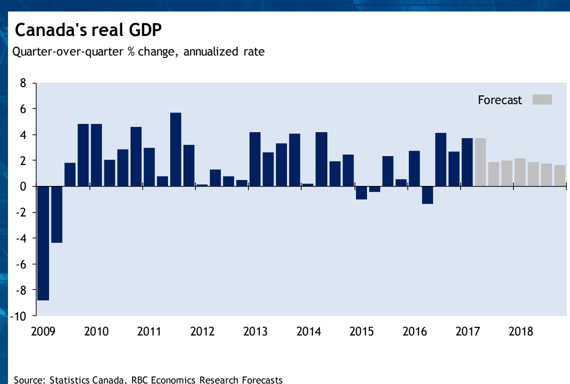
…BUT INFLATION REMAINS ABSENT FROM THE PICTURE

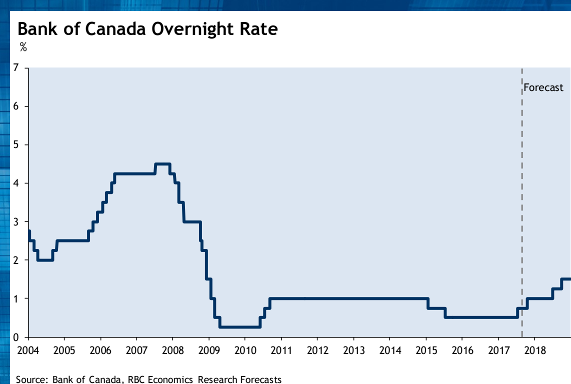
While the economy is approaching full capacity, as in the US there are few signs that limited slack is translating into upward pressure on consumer prices. Headline inflation has spent much of the last five years in the lower half

of the Bank of Canada's 1-3% target range and slipped to just 1% in June as energy prices returned to deflationary territory. The bank's three new core measures have trended lower over the last year and averaged 1.4% in June, close to a 20-year low. The central bank has attributed much of the recent slowing to transitory factors, particularly food price competition, electricity price rebates in Ontario and slower growth in motor vehicle prices. As those factors fade and slack in the economy is absorbed, the bank expects inflation will return to their 2% target on a sustained basis. However, as the Fed has observed in the US, it appears the link between resource utilization and inflation has weakened. With that in mind, we think policymakers might want to see some progress toward 2% inflation before raising interest rates more substantially—even if they think the output gap is closed.

TIGHTENING POLICY OR SCALING BACK ACCOMMODATION?

We think July's rate increase should be viewed as scaling back accommodation rather than tightening monetary policy. The current overnight rate of 0.75% is just 50 basis points above the emergency level it hit during the recession.





With the policy rate remaining at or below 1% over the eight years since the financial crisis, it is easy to forget that these are not normal interest rates. Granted the neutral interest rate—the rate that is neither expansionary nor contractionary and keeps the economy growing close to potential—has declined in recent years. But the Bank of Canada estimates neutral is now 3%, well above the current policy setting. Even if, as Governor Poloz noted, households will be more sensitive to higher interest rates given elevated debt levels, it will take a number of increases before monetary policy shifts from tailwind to headwind. Given the contrast between highly stimulative monetary policy and limited economic slack, we think the bank will raise rates again in October and continue removing accommodation next year. We still see the bank pausing its tightening cycle in the first half of 2018 to evaluate the trend in inflation and see how households respond to rising rates before hikes continue in the second half of 2018. Policymakers will also be keeping an eye on the currency, which has strengthened significantly in recent months and contributed to tightening in broader financial conditions.

FINANCIAL MARKETS

ANOTHER DIVIDED VOTE AT THE BANK OF ENGLAND

Josh Nye

HIGHLIGHTS

▲ The Bank of England marked down their near-term growth forecasts as slower consumer spending won't be fully offset by investment and trade.

▲ The euro area's 2.1% year-over-year growth in Q2 is the best pace since 2011.

▲ We no longer expect the RBA will lower its cash rate further.

UK GDP growth edged up to 0.3% in Q2 from the previous quarter's 0.2% non-annualized pace. However, that is still down from an average quarterly increase of 0.6% in the second half of last year. The services sector accounted for all of the economy's growth in Q2 as industrial production and construction activity declined. Another subdued GDP gain is consistent with purchasing managers' index readings moderating toward the middle of the year. July's survey data provide early evidence that sub-trend growth is continuing in Q3. Indeed, we expect GDP growth will remain subdued over the second half of the year as declining real incomes and an already-low household savings rate limit the pace of consumer spending. The Bank of England has been counting on business investment and exports to offset slower consumption, but their recently marked-down growth forecasts acknowledged that those factors won't be enough to lift activity above potential in the near-term.

Given the softening economic backdrop, the central bank is using its discretion and not responding to above-target inflation. The Bank of England's latest policy decision once again saw some dissent, however, with two of eight members voting for a rate increase in August. Those more hawkish members will likely continue to favour higher rates as headline inflation picks up toward 3% by the end of the year. But we expect the majority will continue to vote for maintaining current policy given concerns about consumer spending, soft wage growth and Brexit uncertainty. We previously projected a rate cut early next year, but with the BoE's centre of gravity shifting more in the direction of tightening, we no longer expect additional stimulus but rather see the Bank Rate on hold through next year.

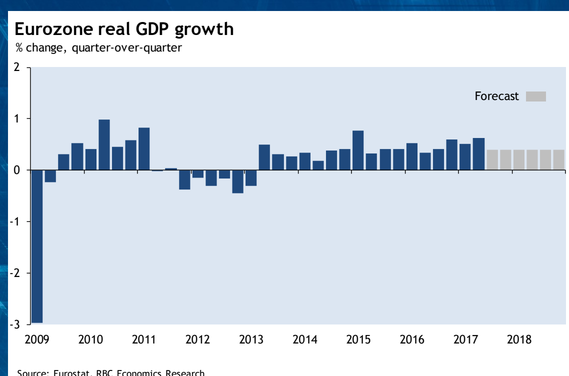
ECB LIKELY TO ANNOUNCE EXTENSION AND TAPERING OF BOND BUYING

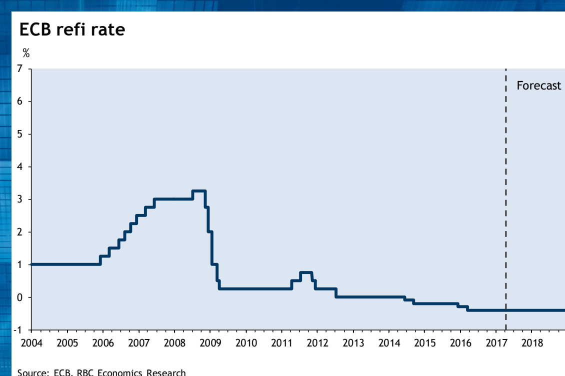
The euro area continued to build momentum in Q2 with GDP growth matching our 0.6% non-annualized forecast following a downwardly revised 0.5% increase in Q1. Year-over-year growth picked up above 2% for the first time in the currency bloc's ongoing recovery. Purchasing managers' index readings moderated somewhat to start Q3 after hitting six-year highs in April and May but continued to signal an above-trend pace of expansion. The euro area's improving growth picture reflects broadening activity across countries as well as sectors, with business investment in particular rising at a faster pace than in recent years. Policymakers at the European Central Bank have continued to express confidence in the economic outlook and are optimistic that stronger growth will eventually help inflation return to target. However, there are few signs of upward price pressure at present; core inflation has picked up slightly in recent months but remains well short of 2%. As such, we think the ECB will keep stimulus flowing into 2018. The central

bank is set to re-evaluate their bond-buying program in the autumn, and we think September's meeting will see purchases extended beyond December but at a pace that tapers off by the middle of next year. Given forward guidance that rates will remain at current levels well past the end of QE, that would likely leave rate hikes off the table until 2019.

DROPPING OUR LAST RATE CUT AS RBA LOOKS SET TO SIT ON THE SIDELINES

Australia's recent employment and inflation trends have generally mirrored global developments. Job gains have been fairly strong in recent months, pushing the unemployment rate lower but failing to put upward pressure on wages. Inflation, in turn, remains well-contained with most core measures stuck below the RBA's 2-3% target range. Meanwhile, domestic activity data continue to be mixed. We think sub-trend GDP growth and below-target inflation still support the argument for easier monetary policy. However, with the global easing cycle coming to an end, we don't see the RBA swimming against the tide and have thus removed the last rate cut from our forecast. Nonetheless, we don't expect Australia's central bank will be joining any of its global counterparts in tightening monetary policy in the near-term—we look for the cash rate to be on hold at 1.50% through the end of next year. That is consistent with policymakers' recent





push-back against market expectations that interest rates might be heading higher. We see the RBA maintaining that stance in order to keep a lid on the stubbornly rising Australian dollar. As the central bank pointed out in August, further appreciation would result in slower growth and an even more gradual pickup in inflation than currently expected.

CURRENT ANALYSIS

MONTHLY HOUSING MARKET UPDATE

ROBERT HOGUE

FALLING ACTIVITY IN ONTARIO IN JULY EXTENDS THE MARKET CORRECTION IN CANADA; PRICES FALL FOR THE FIRST TIME SINCE 2013

- The cooling of Ontario's housing market continued last month, causing Canada's housing market to correct for a fourth-straight month.
- The correction appears to be easing, however. The 2.1% monthly drop in home resales nationwide marked a significant moderation from the 6.3% average rate of decline in the previous two months.
- Toronto resales fell by a further 5.4% m/m in July, extending the correction since the March peak to -44%. Activity also fell in Vancouver for a third-straight month by 1.7% .
- The national aggregate benchmark price fell month-over-month by 1.5% for the first time since late 2013. The year-over-year increase moderated further to 12.9% from a recent peak of 19.7% in April.
- Toronto's benchmark price fell for the second consecutive month by 4.7%. Further monthly declines—albeit more modest—are likely in the near term.
- The number of homes newly listed for sale in Canada fell by 1.8% in July, which helped stabilized the sales-to-new listings ratio at 0.53—consistent with a balanced market.
- Housing market developments in July are consistent with our view that Canada's market is in the process of moderating to a more sustainable level of activity. Much of the ongoing cooling is taking place in Ontario where recent policy changes by the provincial government have contributed to a welcome shift in market psychology toward more caution.

VERY QUIET MONTH IN ONTARIO

Ontario home buyers in July stayed on the sidelines as they continued to mull over their options in light of the Fair Housing Plan introduced in April. This resulted in the slowest activity recorded for a month of July since 2010 in the province, according to statistics released this morning by the Canadian Real Estate Association (CREA). Home resales were weak in the Greater Toronto Area (down 31% versus the 10-year average for the month) and in the vast majority of other markets in southern Ontario. Market psychology clearly has changed since April in the region. Gone is the earlier frenzy. It has been replaced by a great deal of caution—which is a healthy market development in our view.

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	2.4	2.3	3.0	3.0	4.3	2.8	2.1	1.7	1.7	1.5	1.4	1.7	1.9	2.4	3.1	1.8
Durables	5.9	-3.1	0.2	10.2	9.9	3.3	2.2	1.0	1.5	1.3	1.3	1.3	2.8	4.1	5.1	1.5
Semi-Durables	6.0	-2.3	2.9	5.0	8.6	4.0	2.5	1.8	1.8	1.5	1.4	2.0	2.3	3.4	4.5	1.9
Non-durables	3.6	5.2	2.1	0.9	3.2	4.0	2.6	2.0	1.8	1.5	1.3	2.0	0.8	2.1	2.7	2.0
Services	0.7	2.9	4.1	2.0	3.0	2.1	1.9	1.8	1.7	1.5	1.5	1.6	2.1	2.0	2.5	1.7
Government expenditures	3.9	4.7	-1.7	1.3	0.5	1.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.0	2.1
Residential investment	9.8	1.1	-5.1	6.3	15.7	-3.0	-3.0	-5.3	-2.5	-2.9	-1.9	-0.6	3.8	3.0	3.0	-3.0
Business investment	-10.3	-4.4	9.5	-22.0	10.3	3.7	3.0	3.6	3.9	3.7	2.6	2.4	-11.5	-8.6	-0.1	3.4
Non-residential structures	-14.7	-8.4	30.5	-32.5	0.7	3.5	3.2	4.0	4.4	4.2	3.0	2.7	-16.0	-10.8	-3.1	3.8
Machinery & equipment	-3.6	1.4	-15.8	-3.2	25.3	4.0	2.8	3.0	3.2	3.1	2.0	2.0	-3.3	-5.3	4.3	2.9
Final domestic demand	1.8	1.8	1.7	0.1	4.7	2.4	1.9	1.5	1.8	1.7	1.6	1.8	0.3	1.0	2.3	1.7
Exports	8.4	-13.6	9.2	0.8	-0.3	10.5	4.0	5.2	3.7	3.8	2.3	1.6	3.4	1.0	3.0	4.1
Imports	3.5	1.4	4.3	-11.3	13.7	5.3	2.0	2.3	2.7	2.7	2.3	1.9	0.3	-0.9	3.0	2.6
Inventories (change in $b)	-5.9	1.3	5.4	-2.5	12.3	11.0	7.9	6.1	6.4	6.0	6.8	6.6	3.9	-0.4	9.3	6.5
Real gross domestic product	2.8	-1.4	4.2	2.7	3.7	3.7	1.9	2.0	2.1	1.9	1.7	1.7	0.9	1.5	2.9	2.0
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.4	1.2	1.3	2.1	2.9	2.0	1.9	1.2	1.0	1.2	1.2	-0.2	0.7	2.2	1.1
Pre-tax corporate profits	-11.1	-16.6	-3.3	14.6	27.1	46.0	23.9	14.2	3.3	1.5	1.4	0.6	-19.5	-4.5	26.8	1.7
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.7	6.5	6.5	6.4	6.3	6.3	6.2	6.2	6.9	7.0	6.5	6.3
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	1.9	1.3	1.3	1.3	1.1	1.8	2.2	2.3	1.1	1.4	1.5	1.9
Core CPI	2.0	2.1	1.9	1.6	1.5	1.0	1.1	1.5	1.5	2.1	2.1	2.1	2.2	1.9	1.3	1.9
External trade																
Current account balance ($b)	-70.8	-75.4	-74.6	-47.1	-56.2	-48.4	-42.8	-35.9	-34.6	-30.6	-30.2	-29.5	-67.6	-67.0	-45.8	-31.2
% of GDP	-3.5	-3.8	-3.7	-2.3	-2.7	-2.3	-2.0	-1.7	-1.6	-1.4	-1.3	-1.3	-3.4	-3.3	-2.1	-1.4
Housing starts (000s)*	199	198	199	197	223	207	203	197	191	185	181	178	196	198	208	184
Motor vehicle sales (mill., saar)*	2.01	1.99	1.95	2.00	2.10	2.10	2.05	2.00	1.97	1.95	1.90	1.90	1.94	1.98	2.06	1.93
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.00	1.25	1.50	0.50	0.50	1.00	1.50
Three-month	0.45	0.48	0.53	0.46	0.52	0.71	0.85	1.10	1.10	1.15	1.35	1.60	0.51	0.46	1.10	1.60
Two-year	0.54	0.52	0.52	0.80	0.75	1.10	1.20	1.40	1.50	1.60	1.85	2.10	0.48	0.80	1.40	2.10
Five-year	0.67	0.57	0.62	1.15	1.12	1.40	1.50	1.75	1.90	2.05	2.25	2.45	0.73	1.15	1.75	2.45
10-year	1.23	1.06	1.00	1.80	1.62	1.76	1.85	2.05	2.25	2.45	2.65	2.85	1.40	1.80	2.05	2.85
30-year	2.00	1.72	1.66	2.35	2.30	2.14	2.25	2.45	2.70	3.00	3.15	3.25	2.15	2.35	2.45	3.25
Canadian dollar	1.30	1.29	1.31	1.34	1.33	1.30	1.25	1.28	1.31	1.29	1.28	1.27	1.38	1.34	1.28	1.27

*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

	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	1.8	3.8	2.8	2.9	1.9	2.8	2.5	2.4	2.6	2.4	2.1	2.0	3.6	2.7	2.6	2.4
Durables	1.0	8.5	9.4	9.2	-0.1	6.3	3.1	3.1	3.0	2.7	2.1	2.1	7.8	5.5	5.1	3.0
Non-durables	2.6	4.7	0.1	2.5	1.1	3.8	2.8	2.8	3.1	2.8	2.2	2.0	3.1	2.8	2.3	2.8
Services	1.7	2.8	2.7	2.1	2.5	1.9	2.3	2.2	2.4	2.2	2.1	2.0	3.2	2.3	2.3	2.2
Government spending	1.8	-0.9	0.5	0.2	-0.6	0.7	1.2	1.0	0.6	0.4	0.4	0.4	1.4	0.8	0.2	0.7
Residential investment	13.4	-4.8	-4.5	7.1	11.1	-6.8	0.5	5.1	6.0	6.7	6.4	6.7	10.2	5.5	2.1	4.5
Business investment	-4.0	3.3	3.4	0.2	7.1	5.2	3.5	4.4	4.3	3.9	3.1	2.8	2.3	-0.6	4.1	3.9
Non-residential structures	2.2	0.5	14.3	-2.2	14.8	4.9	0.5	4.5	4.5	3.8	2.9	2.3	-1.8	-4.1	6.1	3.5
Non-residential equipment	-13.1	-0.6	-2.1	1.8	4.4	8.2	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-3.4	3.5	4.6
Intellectual property	6.3	11.1	4.2	-0.4	5.8	1.4	3.8	3.7	3.4	3.3	3.2	3.0	3.8	6.3	3.5	3.3
Final domestic demand	1.5	2.6	2.2	2.3	2.4	2.4	2.3	2.5	2.6	2.4	2.1	2.0	3.3	2.1	2.4	2.4
Exports	-2.6	2.8	6.4	-3.8	7.3	4.1	1.0	1.5	2.5	2.8	3.2	3.2	0.4	-0.3	3.0	2.4
Imports	-0.2	0.4	2.7	8.1	4.3	2.1	3.0	3.4	3.3	3.3	3.5	3.0	5.0	1.3	3.9	3.2
Inventories (change in $b)	40.6	12.2	17.6	63.1	1.2	-0.3	20.0	27.0	22.0	22.0	22.0	21.0	100.6	33.4	12.0	21.8
Real gross domestic product	0.6	2.2	2.8	1.8	1.2	2.6	2.5	2.4	2.4	2.3	2.0	2.0	2.9	1.5	2.1	2.3
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	0.1	-0.3	0.1	1.2	1.2	1.5	0.9	0.7	1.3	1.3	1.2	1.2	0.8	0.3	1.1	1.2
Pre-tax corporate profits	-6.2	-8.2	-1.6	8.7	3.3	6.0	1.5	-0.3	2.9	3.2	2.6	2.3	-1.1	-2.1	2.6	2.7
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.4	4.4	4.4	4.4	4.4	4.3	4.3	5.3	4.9	4.5	4.4
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	1.9	1.7	1.5	1.3	1.8	2.1	2.0	0.1	1.3	1.9	1.8
Core CPI	2.2	2.2	2.2	2.2	2.2	1.8	1.7	1.7	1.6	2.0	2.1	2.0	1.8	2.2	1.8	1.9
External trade																
Current account balance ($b)	-477	-433	-441	-456	-467	-456	-467	-486	-495	-506	-515	-519	-435	-452	-469	-509
% of GDP	-2.6	-2.4	-2.4	-2.4	-2.5	-2.4	-2.4	-2.5	-2.5	-2.5	-2.6	-2.5	-2.4	-2.4	-2.4	-2.5
Housing starts (000s)*	1153	1158	1150	1248	1238	1164	1241	1271	1300	1333	1362	1396	1107	1177	1228	1348
Motor vehicle sales (millions, saar)*	17.3	17.2	17.5	17.8	17.1	16.8	17.3	17.5	17.7	17.9	17.9	18.1	17.4	17.5	17.2	17.9
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Fed funds	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.50	0.75	1.50	2.50
Three-month	0.21	0.26	0.29	0.51	0.76	1.03	1.05	1.30	1.55	1.80	2.05	2.30	0.16	0.51	1.30	2.30
Two-year	0.73	0.58	0.77	1.25	1.27	1.38	1.60	1.85	2.05	2.35	2.55	2.70	1.06	1.25	1.85	2.70
Five-year	1.21	1.01	1.14	2.00	1.93	1.89	2.05	2.25	2.45	2.65	2.85	3.00	1.76	2.00	2.25	3.00
10-year	1.78	1.49	1.60	2.55	2.40	2.31	2.45	2.65	2.85	3.00	3.20	3.40	2.27	2.55	2.65	3.40
30-year	2.61	2.30	2.32	3.15	3.02	2.84	2.95	3.15	3.30	3.45	3.60	3.75	3.01	3.15	3.15	3.75
Yield curve (10s-2s)	105	91	83	130	113	93	85	80	80	65	65	70	121	130	80	70

*Quarterly averages, level

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

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATORS

	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*	2.5	12.6	0.6	May.	0.2	2.2	-0.5	Jul.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Jun.	1.4	1.4	1.4	Jun.
New orders in manufacturing	-3.0	-1.0	-0.7	Jun.	3.0	9.8	-2.8	Jun.
Business loans - Banks	1.0	5.5	7.1	Jun.	0.1	1.8	8.5	Jul.
Index of stock prices**	-0.3	3.8	1.1	Jul.	0.8	14.2	6.9	Jul.
Households								
Retail sales	0.1	7.3	4.6	Jun.	0.6	4.2	2.8	Jul.
Auto sales	1.5	6.8	3.0	Jun.	3.3	-13.8	-7.2	Jul.
Total consumer credit***	0.6	4.3	3.4	Jun.	0.3	5.7	6.5	Jun.
Housing starts	4.4	13.6	4.1	Jul.	-4.8	-5.6	6.5	Jul.
Employment	0.1	2.1	1.0	Jul.	0.2	1.3	1.6	Jul.
Prices								
Consumer price index	0.0	1.2	1.4	Jul.	0.1	1.7	1.07	Jul.
Producer price index****	-1.0	3.3	0.5	Jun.	-0.2	2.2	-0.9	Jul.
Interest rates								
Policy rate	0.7	0.5	0.5	Jul.	1.13	0.38	0.84	Jul.
90-day commercial paper rates	1.2	0.8	0.9	Jul.	1.2	0.5	0.9	Jul.
Government bonds - (10 years)	1.9	1.1	1.7	Jul.	2.3	1.5	2.3	Jul.

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