ECONOSCOPE

July 2017

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HOUSING MARKET FORECAST: SOFT LANDING STILL OUR BASE CASE

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Paul Ferley, Dawn Desjardins, Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ Canadian GDP rose by an on-consensus 0.2% in April to build on a 0.5% gain in March.

▲ Employment rose by a much-stronger-than-expected 45k in June following May's 55k increase. Market expectations were for a 10k gain.

▲ Nominal retail sales in May rose a stronger than expected 0.6% following gains of 0.7% and 0.6% in April and March, respectively.

▲ The bounce-back in June housing starts to 213k retraced most of a decline to 195k in May from 215k in April.

▲ Canada's merchandise trade deficit roughly doubled to $1.1 billion in May from $0.55 billion in April as a jump in imports more than offset higher exports.

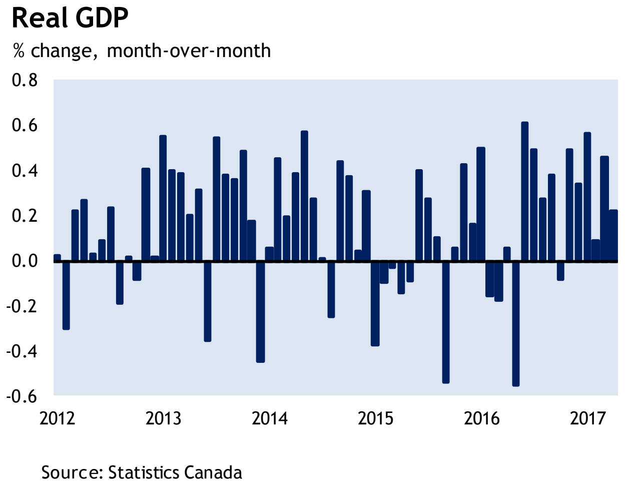
▲ The year-over-year rate of headline CPI inflation fell to its lowest level since October 2015 at 1.0% in June.

CANADA'S APRIL GDP POINTS TO ABOVE-TREND GROWTH CONTINUING IN Q2

LATEST AVAILABLE: APRIL

RELEASE DATE: JUNE 30, 2017

Canadian GDP rose by an on-consensus 0.2% in April to build on a 0.5% gain in March. Goods-producing industries were flat while services activity rose 0.3%. Growth was broadly-based: 14 of 20 subsectors grew in April and 17 of 20 saw higher output relative to a year ago. A fire-related shutdown at an oil sands producer weighed on oil and gas extraction in April. An 11% increase in support activities for mining, oil and gas offset that decline. Arts, entertainment and recreation jumped 2.8% thanks to five of seven Canadian NHL teams making the playoffs.

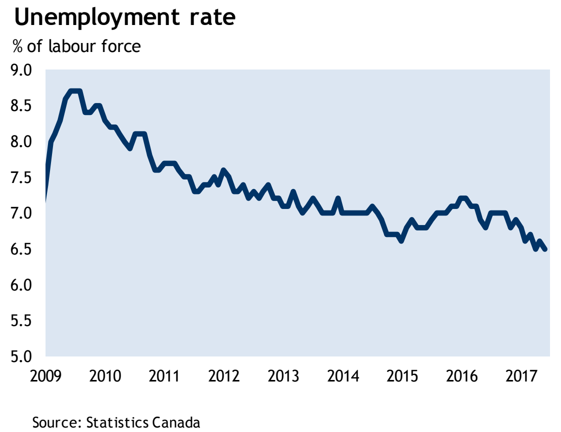


CANADA POSTED ANOTHER WHOPPING JOB GAIN IN JUNE

LATEST AVAILABLE: JUNE

RELEASE DATE: JULY 7, 2017

Employment rose by a much-stronger-than-expected 45k in June following May's 55k increase. Market expectations were for a 10k gain. Much of the increase was in part-time employment though the average increase over the last two months is still skewed toward full-time work. Both goods producing and services industries posted solid gains in June. The goods sector has been punching above its weight in 2017, accounting for 30% of year-to-date job growth. Job growth was concentrated in Quebec and BC, and to a lesser extent Alberta. Relative to a year ago, gains are more widespread with employment up in 8 of 10 provinces. The unemployment rate fell back to a cycle low of 6.5% despite an increase in labour force participation. Wage growth remained a weak point with average hourly earnings for permanent employees up just 1%.

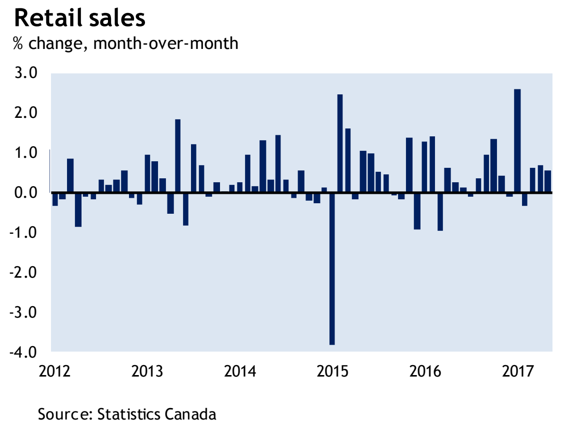


CANADIAN RETAIL SALES CONTINUE TO RISE STRONGLY IN MAY

LATEST AVAILABLE: MAY

RELEASE DATE: JULY 21, 2017

Nominal retail sales in May rose a stronger than expected 0.6% following gains of 0.7% and 0.6% in April and March, respectively. The increase was boosted by a stronger-than-expected 2.4% surge in motor vehicles sales that more than offset gasoline station receipts dropping a smaller than expected 0.6%.Sales volumes rose 1.1% following a 0.2% drop in April and a 1.3% surge in March.

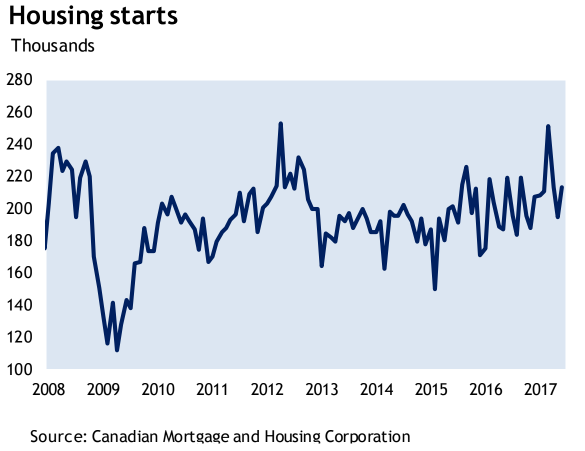


CANADIAN HOUSING STARTS REBOUNDED IN JUNE

LATEST AVAILABLE: JUNE

RELEASE DATE: JULY 11, 2017

The bounce-back in June housing starts to 213k — that retraced most of a decline to 195k in May from 215k in April — polished off the strongest first half of the year in 2017 since 2012. The 215k average over the last 6 months represents a pace of new building activity well-above most estimates of the underlying pace of household formation. Part of the rebound in June likely reflected the end of a large construction strike in Quebec in May; however, the larger factor was a 47% surge in starts in Ontario that also retraced a large decline the prior month. The bounce-back in Ontario starts in particular is in contrast to a recent pullback in the resale market driven by new regulations introduced in the spring that have slowed activity in Toronto. Residential building activity typically follows resales with a lag so that slowing in sales, if sustained, should begin to show up in slower building activity later this year.

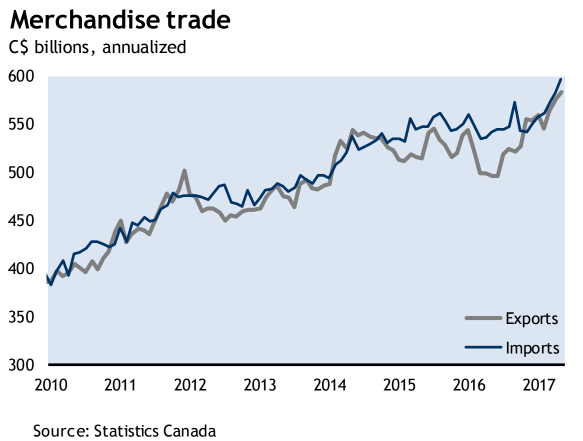


CANADA'S LARGER TRADE DEFICIT IN MAY MASKS A DECENT MONTH FOR EXPORTERS

LATEST AVAILABLE: MAY

RELEASE DATE: JULY 6, 2017

Canada's merchandise trade deficit roughly doubled to $1.1 billion in May from $0.55 billion in April as a jump in imports more than offset higher exports. The 1.3% nominal increase in exports was fairly broad-based with 8 of 11 major subsectors posting gains. Special factors were also at play with an 11% jump in exports of metal and non-metallic mineral products attributed to a transfer of gold assets within the banking sector. That increase was offset by a price-driven drop in crude oil exports. Forestry product export volumes fell 5% in May following imposition of duties on Canadian softwood lumber in late-April. Nominal imports were up 2.4% in May with half of the increase coming from aircraft imports.

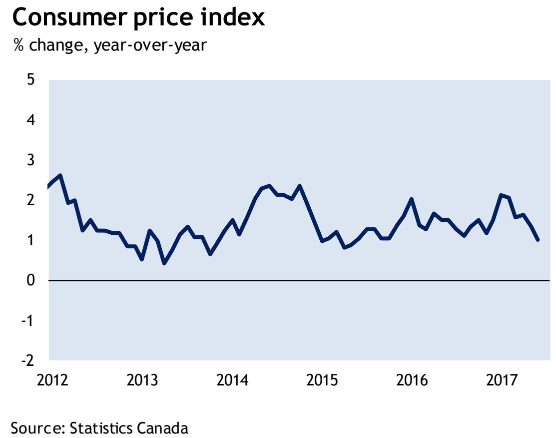


CANADIAN INFLATION SHOWED SOME SIGNS OF STABILIZATION IN JUNE

LATEST AVAILABLE: JUNE

RELEASE DATE: JULY 21, 2017

The year-over-year rate of headline CPI inflation fell to its lowest level since October 2015 at 1.0%. Energy prices declined as the price of gasoline fell. Year-over-year food price growth inched back into positive territory for the first time last September. Excluding the food and energy components, annual price growth held steady at 1.4% marking the first time in five months the measure has not moved lower. Two of the Bank of Canada's three preferred core measures ticked higher but all remained below the bank's 2% inflation target.



ECONOMY AT A GLANCE

% change from:	Lastest month	Previous month	Year ago
Real GDP	Apr	0.2	3.3
Industrial production	Apr	0.1	5.7
Employment	Jun	0.2	1.9
Unemployment rate*	Jun	6.5	6.8
Manufacturing			
Production	Apr	-0.9	2.0
Employment	Jun	0.2	2.6
Shipments	May	1.1	8.7
New orders	May	-3.6	3.7
Inventories	May	-0.2	5.7
Retail sales	May	0.6	7.3
Car sales	May	5.8	11.3
Housing starts (000s)*	Jun	212.7	219.4
Exports	May	1.3	17.8
Imports	May	2.4	10.2
Trade balance ($billlions)*	May	-1.1	-3.8
Consumer prices	Jun	-0.1	1.0

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

CENTRAL BANKERS SET TO REVOKE INSURANCE?

Josh Nye

"We think another hike is likely to follow in October 2017."

A new consensus among central bankers came to light this week: low interest rates have successfully put the economy on firmer footing, tempering the need for extraordinary monetary policy stimulus. At a meeting in Sintra, Portugal, the European Central Bank's Draghi and Bank of Canada's Poloz lauded their banks' aggressive rate cuts as underpinning a pickup in economic activity. Even the Bank of England's Carney, who just weeks earlier voted to maintain the current policy stance, outlined the conditions that could tilt the scales in favour of reducing monetary stimulus. Fed Chair Yellen wasn't present, but the central bank's action earlier in June spoke for itself. The Fed raised rates for the third time in six months and laid out the details of a plan to begin shrinking their balance sheet.

Central bankers' remarks elicited a strong reaction in financial markets which raced to price in rate increases in Canada this year and upped the chances of a Bank of England hike by June 2018. In turn, the Canadian dollar, euro and sterling rallied against the US dollar. Over recent weeks, the most notable change in tone came from Bank of Canada with officials laying the groundwork for the reduction in policy stimulus in speeches and interviews. In Sintra, the Governor took the opportunity to reiterate that the rate cuts implemented to combat the oil price shock "look as though they have done their job." This bold statement alongside the recent run of stronger-than-expected data underpinned their decision to raise the overnight rate in mid July. We think another hike is likely to follow in October 2017.

FINANCIAL MARKETS

FURTHER EVIDENCE THE US ECONOMY PICKED UP IN Q2

Josh Nye

HIGHLIGHTS

▲ Consumer spending growth moderated in Q1 but the slowdown wasn't nearly as significant as initially reported.

▲ The Fed's June rate hike was fully expected and changes to their economic projections were minor.

▲ With inflation slowing, doubt emerges whether the Fed is right to continue with rate hikes.

▲ We think limited slack in the economy will eventually feed through into rising prices, making further withdrawal of accommodation prudent.

The US economy's slowdown to start 2017 was less dramatic than previously thought. Q1 GDP growth was revised up to 1.4% in the third estimate, twice the pace signaled in the first or advance report. Consumption growth in particular was stronger than initially estimated but still slowed relative to average gains of 3% over most of last year. We think consumer spending returned to that stronger pace in Q2 as households continue to reap the benefits of rising incomes. That should be supplemented by further gains in business capex. Durable goods shipments disappointed in May but rising equipment imports and stronger activity in the energy sector remain consistent with increasing non-residential investment. Solid contributions from the consumer and business sectors alongside a reversal of the previous quarter's inventory pullback are expected to boost GDP growth to 3.0% in Q2. We think above-trend growth will be sustained in the second half of the year, even with fiscal stimulus not providing the hoped-for lift to activity. Like the IMF, we now see little prospect of tax cuts and infrastructure spending boosting the US economy this year.

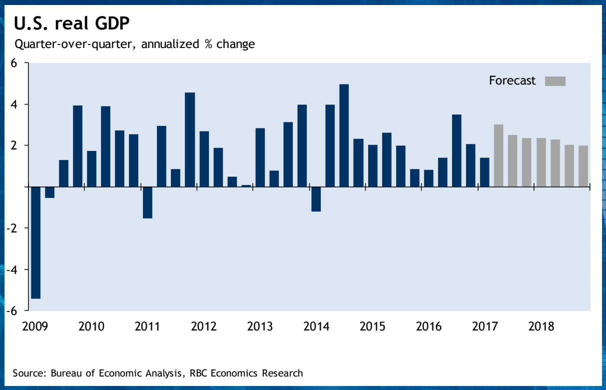
NO SURPRISE AS THE FED RAISED RATES IN JUNE…

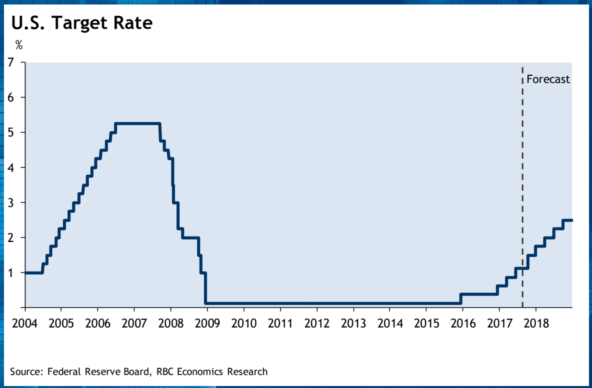
The Fed raised rates for the third time in six months in June, lifting the range for the fed funds rate to 1.00-1.25%. The move was fully expected and the central bank made few waves with their policy statement and updated projections. There were further details on the Committee's plan to begin normalizing the balance sheet, a process they said is likely to start this year. The Fed is going to great lengths to prime markets for a change in their reinvestment policy, likely with 2013's 'taper tantrum' in mind. Their cautious approach is consistent with our view that the central bank will take a pass on raising rates in September when we expect the change in reinvestment policy will be announced. The pace of tapering they outlined is quite conservative, implying less upward pressure on term interest rates than previously expected. We now see the 10-year UST yield rising to 2.65% by the end of 2017 rather than 3%. The latter is just above this year's highs seen in March.

…BUT SLOWING INFLATION HAS MARKETS DOUBTING FURTHER HIKES

Just hours ahead of the Fed announcing their latest move on rates, May's CPI report showed inflation falling short of expectations for a third consecutive month. Less upward pressure from energy prices left headline inflation below 2% for the first time in six months. Meanwhile, ex food and energy inflation dipped to a two-year low of 1.7%. Falling oil prices and disappointing inflation readings have contributed to market-based inflation expectations falling back to pre-election levels. The Fed's hike set against a softening inflation backdrop and slow growth to start the year has led some market observers to question whether the central bank will continue to raise rates. In our view, however, the Fed is right to continue gradually removing monetary policy accommodation. Keep in mind that inflation is just one half of the central bank's dual mandate. The other half, maximum employment, is by several measures already being achieved. The unemployment rate is now below the previous cycle's lows and a broader indicator of slack has declined sharply year-to-date. Wage growth, currently at 2.5%, hasn't picked up much this year but as we saw in the last cycle wages can rise fairly rapidly amid tight labour market conditions.

As for inflation, it often lags the cycle and even the latest readings show the Fed isn't far from its 2% objective. The recent downward trend is surprising, though as Chair Yellen emphasized in her press conference, one-off factors





have been responsible for some of the slowing. And we are with the Chair in continuing to expect that limited economic slack will translate into upward pressure on prices. Given monetary policy's lagged impact on the economy, that argues for raising rates before inflation accelerates above 2%. It is also worth keeping in mind that policy remains quite stimulative—rate hikes to date have left the fed funds below its neutral level. We think the Fed's pause in September will give policymakers time to confirm that inflation is indeed moving higher. That would help convince markets that further removal of accommodation is indeed warranted.

FINANCIAL MARKETS

CANADA'S ECONOMY KEEPS ON ROLLING

Josh Nye

Canadian GDP rose 0.2% in April to build on a 0.5% increase in March. There was further evidence of broadening growth across sectors with 14 of 20 industries posting an increase in the month and all but three seeing higher output relative to a year ago. The report also pointed to continued recovery in the energy sector, supporting the bank's contention that adjustment to lower oil prices is largely complete. Solid momentum to start the quarter supports our forecast for a 2.7% annualized gain in Q2 GDP. That would be consistent with the Bank of Canada's view that growth slowed relative to Q1's outsized 3.7% increase but remained above trend.

HIGHLIGHTS

▲ A decent start to the quarter is consistent with Canada's economy growing at a 2.7% annualized pace in Q2.

▲ The BoC's survey of businesses showed strong hiring and investment intentions.

▲ The Bank of Canada took a hawkish turn in June.

▲ We now expect the BoC will reverse the 50 basis points of 'insurance' cuts over the second half of this year.

BOC SURVEY SHOWS RISING BUSINESS CONFIDENCE

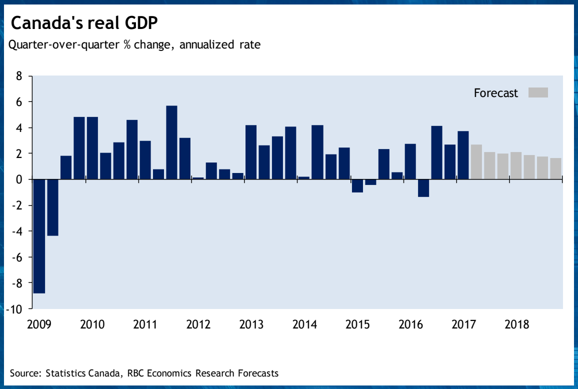
The Bank of Canada's latest Business Outlook Survey showed broad-based improvement in business sentiment in Q2. Expected future sales growth and hiring intentions both rose with the latter easily hitting a record high. Investment intentions dipped but from a very strong Q1 reading. And encouraging comments from the bank suggest that firms have "become more focused on expanding capacity to accommodate stronger demand." Consistent with the need to expand capacity, the share of businesses saying they would have difficulty meeting an unexpected increase in demand rose sharply as did the reported intensity of labour shortages. The survey will have increased the Bank of Canada's confidence that an upward trend in business investment can be sustained even as uncertainty around US trade policy clouds the outlook.

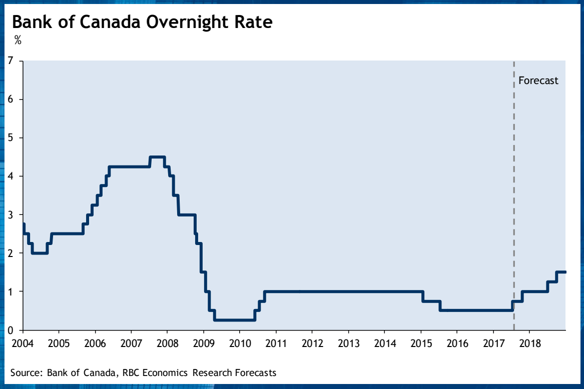
BANK OF CANADA'S FULL COURT PRESS RESULTED IN JULY HIKE

Last month we discussed a subtle shift by the Bank of Canada that we thought might be the first step in policymakers adopting a tightening bias. The bank's change in tone since then has been much more dramatic than anticipated. Their rapid transition toward tightening began in earnest with Senior Deputy Governor Wilkins's speech on June 12. She once again emphasized that growth in the economy has broadened across sectors and regions and noted policymakers "will be assessing whether all of the considerable monetary policy stimulus presently in place is still required." Wilkins was dismissive of lower inflation readings, noting some transitory factors are weighing on prices and emphasizing that inflation lags the cycle, meaning recent slowing likely reflects earlier widening in economic slack. And while she continued to express concern about US trade policy, “life goes on” and the central bank has to make decisions in the meantime.

Wilkins’s hawkish tone led markets to re-evaluate the timing of the bank’s first rate hike. Investors jumped at the prospect of higher interest rates, putting upward pressure on the Canadian dollar. In subsequent interviews, Governor Poloz didn’t push back against rising odds of a move this year. Rather, he doubled down on the hawkish rhetoric by noting that the bank’s ‘insurance’ cuts have done their job and policymakers will need to consider raising rates now that excess capacity is being steadily eroded. Strong growth over the last three quarters has absorbed a good deal of slack in the economy, and while more moderate gains are expected going forward, we see activity continuing at an above-trend pace. Business investment is increasing alongside improving sentiment and exporters appear to be taking the upcoming NAFTA renegotiation in stride.

We think financial stability concerns are also behind the bank’s shift in tone. Following the latest Financial System Review, Governor Poloz noted that Canada’s improving economic backdrop is reducing the conflict between needing ac-





commodative monetary to support growth and not wanting to exacerbate imbalances. With macroeconomic and financial stability objectives now lined up, the central bank raised the policy rate on July 12, 2017. Our updated forecast now assumes the Bank of Canada will follow with another 25 bps increase in October. We then see a pause as the bank evaluates the impact of that tightening before restarting the process to gradually remove accommodation in 2018. Less monetary policy divergence relative to the US will support the Canadian dollar. We think CAD will strengthen further over the second half of this year, rising as high as 79 US cents as the Bank of Canada moves on rates.

FINANCIAL MARKETS

BANK OF ENGLAND DIVIDED ON STIMULUS REMOVAL

Josh Nye

HIGHLIGHTS

▲ The Bank of England's latest meeting ended with a narrow 5-3 decision not to raise rates.

▲ ECB President Draghi's upbeat comments on the economy were seen as hawkish but we think the bank will continue easing into next year via asset purchases.

▲ Australia's strong job growth indicates the economy isn't as weak as growth over the first half of the year implies.

▲ The RBNZ's tone was little changed in June as the central bank appears to be happy with its current stance.

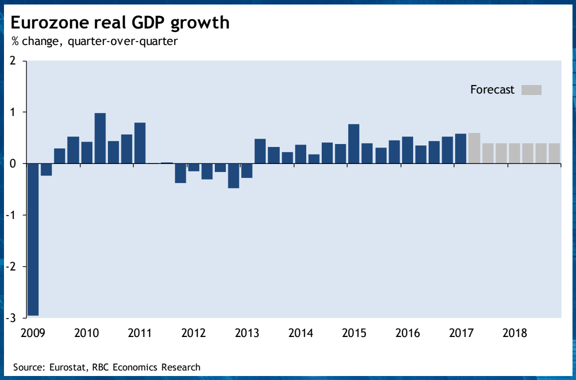
UK survey data generally improved in April and May. Manufacturing sentiment strengthened while services activity saw more modest gains, consistent with headwinds facing consumer-oriented sectors. On balance, we expect GDP growth picked up to 0.4% in Q2 from 0.2% in Q1, although that would remain below the trend seen in recent years. We think softer conditions, particularly negative income growth that will weigh on household spending, argue for the Bank of England to keep monetary policy stimulative. That stance is becoming increasingly difficult, however, with inflation rising even more rapidly than expected to 2.9% in May. The unemployment rate is also at historic lows. With limited economic slack and rising inflation being balanced against Brexit-related headwinds, some BoE policymakers now see less need for stimulus. The central bank's latest rate decision unexpectedly showed three of eight members voting for a hike. Governor Carney tried to distance himself from those hawkish members, noting that now is not the time to begin adjusting policy given mixed signals on spending and investment. But in a subsequent appearance, Carney didn't completely rule out reversing last year's rate cut. Our forecast assumes the central bank will hold policy steady this year as growth shifts to a slower pace. But given upward pressure on inflation from exchange rate pass-through and some policymakers' discomfort with higher readings, we might continue to see dissent against a steady rate verdict.

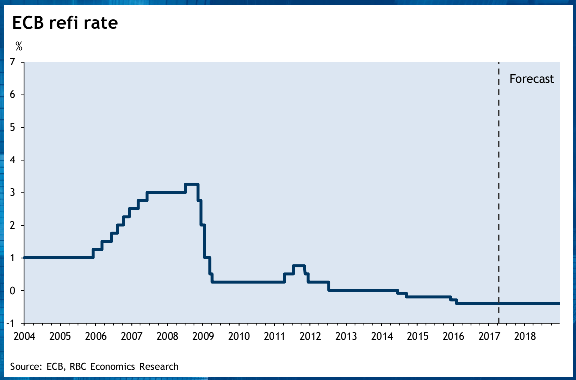
ECB SOUNDING MORE OPTIMISTIC BUT STILL FAR FROM TIGHTENING

The euro area's economic recovery picked up steam in Q1 as growth spread across the currency bloc. Survey data point to broadly-based improvement continuing and we look for a 0.4% increase in Q2 GDP. With less political uncertainty following several pro-EU election results, particularly in France, we think stronger business investment will help sustain that above-trend pace over the second half of the year. The European Central Bank is sounding increasingly confident in the economic outlook. In recent comments, ECB President Draghi seemed more convinced that inflation will eventually return to target. However, we think markets went too far in interpreting his remarks as hawkish. The ECB remains committed to keeping monetary policy highly stimulative until there is evidence of self-sustaining inflation. Despite an improving growth backdrop, there is no sign of that yet—core inflation remains close to 1%, as it has over the last three years, thanks to significant excess capacity. As such, we continue to expect the central bank will add further stimulus with asset purchases being extended into next year. We think an exit from negative policy rates will be held off until after the ECB's bond-buying tapers off.

WILL THE RBA SWIM AGAINST THE GLOBAL TIDE?

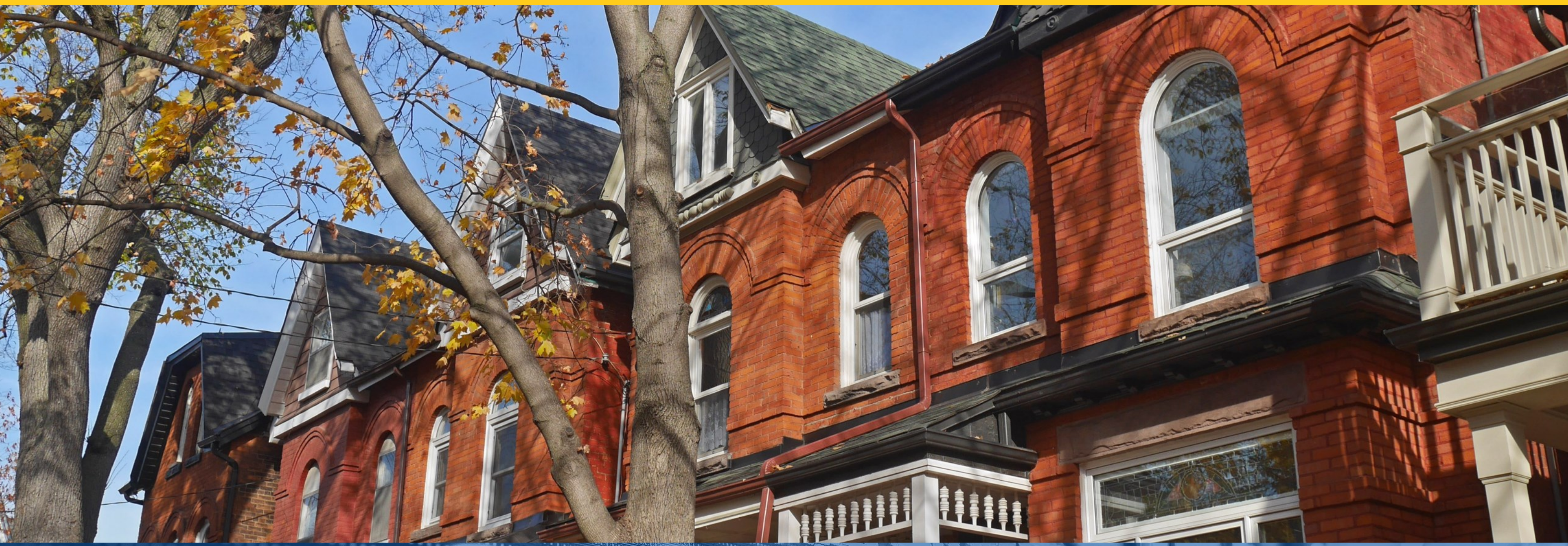
Australia's economy got off to a slow start this year with GDP growth slipping to just 0.3% in Q1. The impact of Cyclone Debbie ruled out a quick rebound and we think activity was close to flat in Q2. The pace of increase over the first half of the year isn't reflective of the economy's underlying growth pulse. Indeed, the labour market has performed well over that stretch with solid gains in full-time employment helping push the unemployment rate down to a four-year low in May. Underutilization remains elevated, however, leaving both wages and unit labour costs subdued. The recent data should bolster the Reserve Bank of Australia's confidence in the labour market, which has been the focus of policymakers' more dovish comments recently. But we think that it will be soft wage and inflation dynamics that impact monetary policy more significantly. Until there is evidence that reduced slack is feeding through to rising inflation, we see risk that the RBA lowers the cash rate in the face of a soft domestic backdrop.





RBNZ REMAINS FIRMLY IN NEUTRAL

The Reserve Bank of New Zealand held monetary policy steady as expected just a month after refreshing their economic forecasts. The statement continued to note a positive growth outlook despite a softer-than-expected Q1 GDP figure. Rhetoric on inflation was unchanged with gradual increases in wages and non-tradable goods prices expected to return the headline rate to target over the medium term. Even the central bank's comments on the currency lacked their usual strength. The RBNZ once again concluded that "numerous uncertainties remain and policy may need to adjust accordingly." But we see their comfort with the current policy stance as consistent with a central bank that will be on hold through next year.



CURRENT ANALYSIS

CANADIAN HOUSING MARKET FORECAST

ROBERT HOGUE

2017 MID-YEAR UPDATE

Our overall thesis for Canada's national housing market is little changed from our previous forecast in March: we continue to expect a 'soft landing' scenario. However, we've made a few notable changes at the provincial level. We reduced our resale forecast for Ontario in light of significant provincial government policy changes. On the other hand, we boosted our forecast for the BC market to reflect a quicker-than-expected rebound from the earlier policy-induced cooling.

NATIONAL PERSPECTIVE: SOFT LANDING STILL OUR BASE CASE

We continue to expect a soft landing in Canada driven by policy changes, poor affordability in some markets and rising interest rates. Our view is that this will translate into a modest decline in home resales and moderation in the rate of price increases.

Because activity and prices have been stronger than expected in the first quarter of 2017, our updated forecast shows slightly less of a decline in home resales and a faster rate of price increases in Canada in 2017 compared to our previous forecast.

Nonetheless, we expect recent policy intervention in Ontario to weigh on activity in the near term and some interest rate headwinds to emerge in the latter part of 2017. We brought forward our call for the launch of the Bank of Canada's rate normalization cycle from the first half of 2018 to mid-2017. This latter factor will contribute to accelerate the market's cooling in 2018.

MAIN CHANGES AFFECTING OUR FORECAST SINCE THE PREVIOUS UPDATE IN MARCH 2017

- Our updated forecast assumes a stronger economic backdrop: GDP growth was boosted and the unemployment rate profile was lowered.
- We now expect the interest rate hiking cycle to begin earlier (in mid-2017) rather than in the first half of 2018. Yet the cumulative rate increase by the end of 2018 was boosted by only 25 basis points.
- Our updated forecast takes into account stronger-than-expected resale activity and prices in Q1 of this year.
- It also takes into account new policy measures announced in Ontario on April 20, 2017.

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	2.4	2.1	1.7	1.7	1.5	1.4	1.7	1.9	2.4	3.0	1.7
Durables	5.9	-3.1	0.2	10.2	9.9	2.5	1.5	1.0	1.5	1.3	1.3	1.3	2.8	4.1	4.8	1.4
Semi-Durables	6.0	-2.3	2.9	5.0	8.6	3.0	2.8	1.8	1.8	1.5	1.4	2.0	2.3	3.4	4.3	1.9
Non-durables	3.6	5.2	2.1	0.9	3.2	3.0	2.8	2.0	1.8	1.5	1.3	2.0	0.8	2.1	2.6	1.9
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	-3.1	-5.5	-2.6	-2.9	-1.9	-0.6	3.8	3.0	2.9	-3.1
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	2.2	1.9	1.4	1.8	1.7	1.6	1.8	0.3	1.0	2.2	1.7
Exports	8.4	-13.6	9.2	0.8	-0.3	5.5	3.5	3.8	3.7	3.8	2.3	1.6	3.4	1.0	1.9	3.5
Imports	3.5	1.4	4.3	-11.3	13.7	0.5	2.0	2.3	2.7	2.7	2.3	1.9	0.3	-0.9	2.1	2.3
Inventories (change in $b)	-5.9	1.3	5.4	-2.5	12.3	7.3	6.2	6.6	6.9	6.5	7.3	7.1	3.9	-0.4	8.1	7.0
Real gross domestic product	2.8	-1.4	4.2	2.7	3.7	2.7	2.1	2.0	2.1	1.9	1.7	1.7	0.9	1.5	2.7	2.0
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.4	1.2	1.3	2.1	2.8	2.1	2.1	1.3	1.2	1.2	1.2	-0.2	0.7	2.3	1.2
Pre-tax corporate profits	-11.1	-16.6	-3.3	14.6	27.1	42.3	25.2	15.1	4.4	5.2	1.2	1.0	-19.5	-4.5	26.6	2.9
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.7	6.6	6.5	6.4	6.3	6.3	6.2	6.2	6.9	7.0	6.6	6.3
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	1.9	1.4	1.7	1.7	1.5	2.3	2.3	2.5	1.1	1.4	1.7	2.2
Core CPI	2.0	2.1	1.9	1.6	1.5	1.0	1.2	1.6	1.7	2.1	2.1	2.1	2.2	1.9	1.3	2.0
External trade																
Current account balance ($b)	-70.8	-75.4	-74.6	-47.1	-56.2	-50.2	-36.4	-32.6	-30.3	-26.7	-26.4	-24.9	-67.6	-67.0	-43.8	-27.1
% of GDP	-3.5	-3.8	-3.7	-2.3	-2.7	-2.4	-1.7	-1.5	-1.4	-1.2	-1.2	-1.1	-3.4	-3.3	-2.0	-1.2
Housing starts (000s)*	199	198	199	197	225	208	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	2.07	2.00	1.91	1.90	1.90	1.90	1.90	1.94	1.98	2.02	1.90
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	0.65	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	1.08	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	1.35	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	1.71	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	2.12	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	1.27	1.30	1.31	1.32	1.35	1.33	1.38	1.34	1.30	1.33

*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	1.6	4.3	3.0	3.5	1.1	3.0	2.5	2.4	2.6	2.4	2.1	2.0	3.2	2.7	2.6	2.4
Durables	-0.6	9.8	11.6	11.4	-1.6	6.4	3.1	3.1	3.0	2.7	2.1	2.1	6.9	5.8	5.4	3.0
Non-durables	2.1	5.7	-0.5	3.3	1.6	3.6	2.8	2.8	3.1	2.8	2.2	2.0	2.6	2.5	2.5	2.8
Services	1.9	3.0	2.7	2.4	1.4	2.3	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	0.8	0.2	-0.9	1.2	1.2	1.0	0.6	0.4	0.4	0.4	1.8	0.8	0.2	0.7
Residential investment	7.8	-7.8	-4.1	9.6	12.9	3.5	3.9	5.5	6.1	6.6	6.3	6.6	11.7	4.9	5.3	5.7
Business investment	-3.4	1.0	1.4	0.9	10.4	3.9	4.3	4.4	4.3	3.9	3.1	2.8	2.1	-0.5	4.5	4.0
Non-residential structures	0.1	-2.1	12.0	-1.9	22.5	1.0	4.0	4.5	4.5	3.8	2.9	2.3	-4.4	-2.9	7.2	3.7
Non-residential equipment	-9.5	-3.0	-4.5	2.0	7.8	5.4	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-2.9	3.4	4.4
Intellectual property	3.8	9.0	3.2	1.3	6.4	3.9	3.8	3.7	3.4	3.3	3.2	3.0	4.8	4.7	4.2	3.5
Final domestic demand	1.2	2.4	2.1	2.8	2.3	2.8	2.5	2.5	2.6	2.4	2.1	2.0	3.1	2.1	2.5	2.5
Exports	-0.7	1.8	10.0	-4.5	7.0	0.2	1.0	1.5	2.5	2.8	3.2	3.2	0.1	0.4	2.4	2.2
Imports	-0.6	0.2	2.2	8.9	4.0	4.0	1.2	2.5	3.3	3.3	3.5	3.0	4.6	1.1	4.0	2.9
Inventories (change in $b)	40.7	-9.5	7.1	49.6	2.6	31.0	29.0	27.0	22.0	22.0	22.0	21.0	84.0	22.0	22.4	21.8
Real gross domestic product	0.8	1.4	3.5	2.1	1.4	3.0	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.3	2.3
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	0.1	-0.3	0.1	1.2	1.2	1.7	1.1	0.8	1.4	1.3	1.2	1.2	0.8	0.3	1.2	1.3
Pre-tax corporate profits	-6.6	-4.3	2.1	9.3	3.3	4.9	0.0	0.2	3.2	3.2	2.9	2.6	-3.0	-0.1	2.0	3.0
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.4	4.4	4.4	4.4	4.4	4.3	4.3	5.3	4.9	4.5	4.4
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	1.9	2.1	2.0	1.8	2.4	2.2	2.1	0.1	1.3	2.1	2.1
Core CPI	2.2	2.2	2.2	2.2	2.2	1.8	1.8	1.8	1.7	2.1	2.1	2.0	1.8	2.2	1.9	2.0
External trade																
Current account balance ($b)	-477	-433	-441	-456	-467	-495	-502	-513	-523	-534	-542	-547	-435	-452	-494	-536
% of GDP	-2.6	-2.4	-2.4	-2.4	-2.5	-2.6	-2.6	-2.6	-2.6	-2.7	-2.7	-2.7	-2.4	-2.4	-2.6	-2.7
Housing starts (000s)*	1153	1158	1150	1248	1238	1220	1241	1271	1300	1333	1362	1396	1107	1177	1242	1348
Motor vehicle sales (millions, saar)*	17.3	17.1	17.5	18.0	17.2	17.0	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	1.04	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	1.85	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	2.27	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	2.82	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	89	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*	0.1	5.7	0.2	Apr.	0.4	2.0	-0.7	Jun.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	May.	1.4	1.4	1.4	May.
New orders in manufacturing	-3.6	3.7	-0.7	May.	-0.8	4.2	-3.2	May.
Business loans - Banks	0.1	4.4	7.3	May.	0.2	2.1	8.8	Jun.
Index of stock prices**	-1.1	7.9	1.0	Jun.	1.6	16.8	6.6	Jun.
Households								
Retail sales	0.6	7.3	4.5	May.	-0.2	2.8	2.7	Jun.
Auto sales	5.8	11.3	2.9	May.	-4.6	-13.9	-7.0	Jun.
Total consumer credit***	0.4	3.7	0.0	Apr.	0.5	5.8	6.5	May.
Housing starts	9.4	-2.8	3.7	Jun.	8.3	2.1	7.0	Jun.
Employment	0.2	1.9	1.0	Jun.	0.2	1.4	1.6	Jun.
Prices								
Consumer price index	-0.1	1.0	1.4	Jun.	0.0	1.6	1.05	Jun.
Producer price index****	-0.2	4.9	0.4	May.	0.2	2.2	-1.0	Jun.
Interest rates								
Policy rate	0.5	0.5	0.5	Jun.	1.01	0.38	0.79	Jun.
90-day commercial paper rates	1.0	0.8	0.9	Jun.	1.1	0.5	0.9	Jun.
Government bonds - (10 years)	1.5	1.2	1.7	Jun.	2.2	1.6	2.4	Jun.

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