econoscope

March 2017

Canadian Q4 GDP growth rises 2.6%

Can growth momentum trump uncertainty in 2017?

More provinces to participate in the expansion in 2017

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RBC ECONOMICS RESEARCH

Craig Wright
SENIOR VICE PRESIDENT &
CHIEF ECONOMIST

Dawn Desjardins
VICE PRESIDENT &
DEPUTY CHIEF ECONOMIST
Financial Markets & Financial System

Paul Ferley
ASSISTANT CHIEF ECONOMIST
Macroeconomics

Robert Hogue
SENIOR ECONOMIST
Regional Economies

Nathan Janzen
SENIOR ECONOMIST
Macroeconomics

Laura Cooper
ECONOMIST
Public Policy

Josh Nye
ECONOMIST
Financial Markets and Macroeconomics

Gerard Walsh
ECONOMIST
Sector Analysis and Provincial Economies

EDITOR

Brian Waterman
rbceconomicsresearch@rbc.com

SUBSCRIPTION INFORMATION

rbceconomicsresearch@rbc.com

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PAUL FERLEY, DAWN DESJARDINS
NATHAN JANZEN, JOSH NYE

CURRENT TRENDS

CANADIAN Q4 GDP GROWTH RISES 2.6%

HIGHLIGHTS

▲ The Q4 increase was greater than the 2.0% expected going into the report and followed an upwardly revised 3.8% increase in Q3 (previously reported as 3.5%).

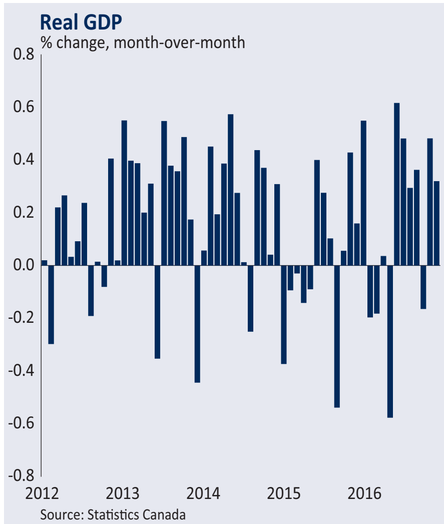
▲ 15K jobs created in February while labour force dipped by 19.6K pushing unemployment rate to 6.6%.

▲ Nominal retail sales surged 2.2% in January following a 0.4% dip in December.

▲ Housing starts inched up to 210.2k in February from an already-elevated 208.9k units in January.

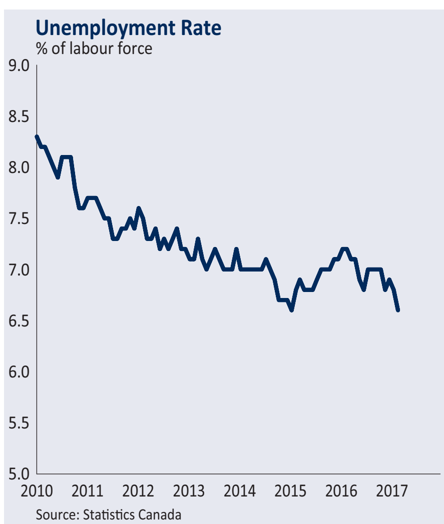
▲ The merchandise trade surplus was $0.8 billion in January, up from a revised $0.4 billion surplus (was $0.9 billion) in December.

▲ The year-over-year rate of headline CPI inflation edged down to 2.0% from 2.1% in January.



LATEST AVAILABLE: DECEMBER
RELEASE DATE: MARCH 2, 2017

The Q4 increase was greater than the 2.0% expected going into the report and followed an upwardly revised 3.8% increase in Q3 (previously reported as 3.5%). December GDP rose a solid 0.3% that was in line with expectations though it followed an upwardly revised 0.5% increase in November (0.4% previously). Activity in the fourth quarter received a significant boost from consumer spending rising 2.6% with a solid increase in the durables component reflecting auto sales being at record highs. Spending in the quarter was helped by wages and salaries rising 5.6%. This income boost was also likely a factor sending residential investment up a strong 4.8%. Government spending was up 2.1% which reversed the 1.9% decline in Q3. A main offset to these increases was a 17.4% plummet in non-residential investment that occurred despite indications of profits rising 28.8%.



CANADA'S JOB MARKET KEEPS ROLLING

LATEST AVAILABLE: FEBRUARY
RELEASE DATE: MARCH 10, 2017

Today's labour market report went some distance to allay concerns about the mix of part-time and full-time job creation with 105K full-time positions created and 89K part-time jobs lost. In the first two months of the year, full-time employment grew 121K. Service sector employment rose 30K while goods producers cut 15K positions. The unemployment rate fell 0.2 ppt to stand at the lowest level since

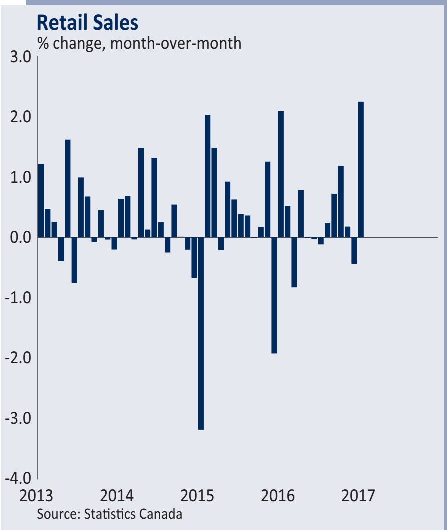
November 2008. Participation in the labour market fell in February however 175K more people were in the labour force than a year earlier. Hours worked rose 0.2% from January; pace of decline from a year ago eased to –0.3% from –0.8%. Wage growth remains tepid, earnings for permanent workers rose 1.1% from February 2016.

Canadian retail sales bounced back in January

LATEST AVAILABLE: JANUARY

RELEASE DATE: MARCH 24, 2017

Nominal retail sales surged 2.2% in January following a 0.4% dip in December. Auto sales were, as expected, a large contributor (+3.8%) but sales excluding autos also bounced-back 1.7% following a 0.5% dip in December. Sale volumes posted a strong 1.3% gain to reverse the 1.0% drop in December. 'E-commerce' sales rose 17.2% from a year-ago in January. The 1.3% bounce-back in retail sale volumes in January more-than-reversed the 1.0% decline in December that in turn had marked only the first dip in six months. The measure in January is already 3.3% (at an annualized rate) above its Q4 average.



Canadian housing starts strong again in February

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: MARCH 8, 2017

Housing starts inched up to 210.2k in February from an already-elevated 208.9k units in January (see *Housing Starts* chart on page 4). The monthly increase was led by a 21.5% jump in Quebec urban starts (in large part reflecting a 21.7% jump in the multiple-unit component as a number of large condo buildings in Montreal reportedly began construction). Starts declined 14.9% in Ontario but that only retraced a portion of the outsized 74% surge over the prior two months. Starts inched higher in all other regions, including a 23.3% gain in the prairies, 14.6% increase in Atlantic Canada and a 6.8% gain in B.C. On a year-over-year basis, starts are still down sharply in B.C. but up in all other regions of the country.

Canadian net trade posts third consecutive monthly surplus in January

LATEST AVAILABLE: JANUARY

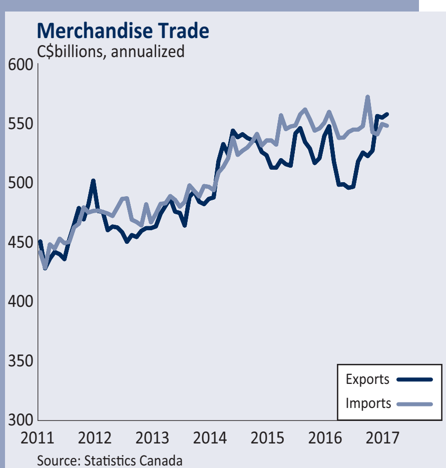
RELEASE DATE: MARCH 7, 2017

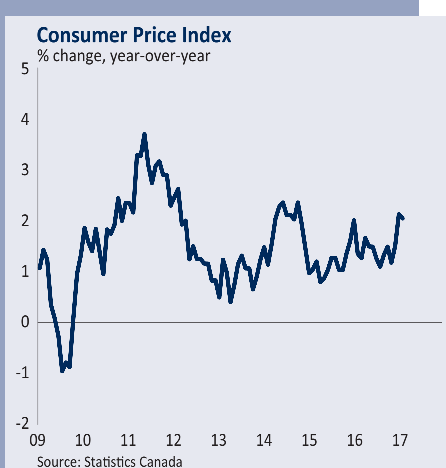
The merchandise trade surplus was $0.8 billion in January, up from a revised $0.4 billion surplus (was $0.9 billion) in December. Exports rose 0.5% (despite a modest dip in energy exports). Imports dipped 0.3%, but entirely due to lower prices. Although encouraging, the

ECONOMY AT A GLANCE

% change from:	Latest month	Previous month	Year ago
Real GDP	Dec	0.3	2.0
Industrial production	Dec	0.4	2.6
Employment	Feb	0.1	1.6
Unemployment rate*	Feb	6.6	7.2
Manufacturing			
Production	Dec	0.4	0.9
Employment	Feb	-0.3	-2.9
Shipments	Jan	0.6	2.7
New orders	Jan	4.6	3.1
Inventories	Jan	1.1	-0.6
Retail sales	Jan	2.2	4.5
Car sales	Jan	5.0	2.4
Housing starts (000s)*	Feb	210.2	218.6
Exports	Jan	0.5	1.8
Imports	Jan	-0.3	-2.1
Trade balance ($billlions)*	Jan	0.8	-1.0
Consumer prices	Feb	0.2	2.0

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





gain in exports in January was not particularly broadly based with declines in 6 of 11 subsectors. The decline in imports was led by a 5.5% decline in metal and non-metallic mineral product purchases that Statistics Canada noted was largely a result of lower gold imports. In volume terms, exports rose 0.8%, although with a somewhat stronger increase of close to 2% in non-energy exports. Import volumes rose 1.1% (significantly stronger than the 0.3% nominal decline) to leave, on balance, a less favourable report in terms of the real trade balance.

Canadian inflation was little changed at 2% in February

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: MARCH 24, 2017

The year-over-year rate of headline CPI inflation edged down to 2.0% from 2.1% in January. The reading fell slightly short of market expectations for an unchanged 2.1% rate but inflation continues to track above the Bank's Q1/17 forecast of 1.8%. The rate of energy price inflation was little changed at 12% as the drop in energy prices in February (including gasoline -5%) was similar to the dip seen a year ago. Food prices were 2.3% lower than a year ago when exchange-rate-driven increases in some food prices were most intense. This continues the most significant period of food price deflation in more than two decades, though base effects should see the pace of decline softening going forward. Excluding food and energy, consumer prices were up 2.0% year-over-year after January's rate (2.2%) was the fastest since 2007.

CRAIG WRIGHT, DAWN DESJARDINS,
PAUL FERLEY, NATHAN JANZEN

ECONOMICS AND FINANCIAL MARKETS OUTLOOK

CAN GROWTH MOMENTUM TRUMP UNCERTAINTY IN 2017?

Conditions point to a firmer year for the global economy in 2017, backed by accommodative financial conditions, recovering commodity prices and more fiscal spending. With data indicating that the economic momentum of late 2016 continued early this year, we forecast that global growth will hit 3.4%, the best pace since 2014.

Despite a number of uncertainties, our base-case forecasts assume no significant disruption in the workings of the global economy. Growth in the UK and Euro area is forecast to gear down very modestly as Brexit negotiations weigh on business investment. Conversely, in Canada and the US, a recovery in business investment should spur growth.

So what are the uncertainties weighing on the outlook? The direction the Trump Administration takes on trade, tax cuts and deregulation carries with it both upside and downside risks. In Europe, recent polls suggest anti-European Union candidates are gaining traction heading into elections in France and the Netherlands, raising the possibility that more countries will chose to exit the trading block. The impending start of the UK's Brexit negotiations may provide a template of what's to come. The prospect of the dissolution of EU and a shift to more protectionist policies puts at risk any recovery in global trade and any related positive impact on growth.

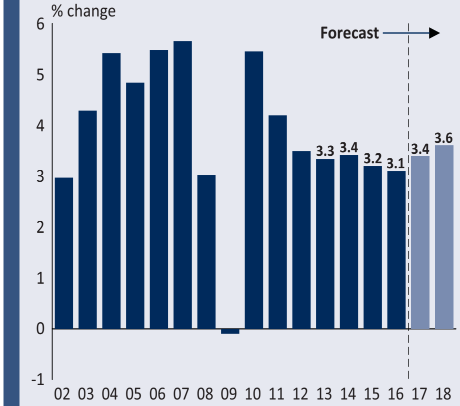
A brighter growth outlook and reduced risk of deflation saw the global stock index hit an all-time high in early 2017 and government bond yields grind higher. Global inflation is poised to rise; however, much of the increase reflects a rebound in energy prices. While inflation rates may exceed central banks' targets in 2017, only countries operating with little slack will see interest rate hikes this year. We expect the ECB, BOE and BOC to leave monetary policy intact while the US Federal Reserve ups the pace of rate hikes as the economy grinds ever-closer to full employment. Interest-rate increases in the US will underpin further gains in the US dollar against other currencies.

US ECONOMIC FUNDAMENTALS ARE SOLID...BUT QUESTION MARKS REMAIN

We expect US growth to rise to 2.3% in 2017 and maintain this pace in 2018. However the US economy will need to overcome several challenges to remain on its firmer growth path.

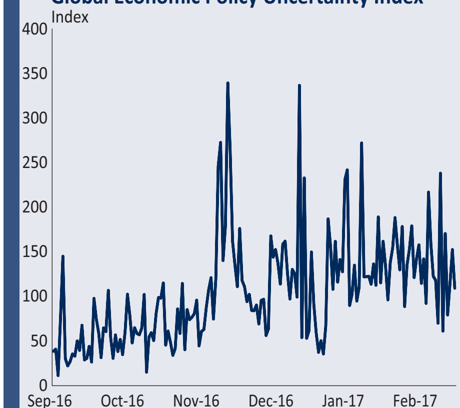
We have made limited assumptions about the new administration's policies. We expect the government to fulfill its campaign pledge to lower personal and corporate income taxes, and estimate tax cuts will boost real GDP by half a percentage point over the next couple of years. That said, there are considerable uncertainties about the timing and configuration of tax policy changes including whether or not they remain a priority for the Trump Administration. We have refrained from making assump-

World GDP Growth



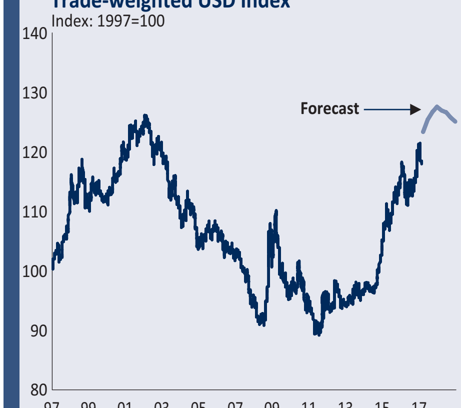
Source: International Monetary Fund, RBC Economics Research

Global Economic Policy Uncertainty Index



Source: Bloomberg, RBC Economics Research

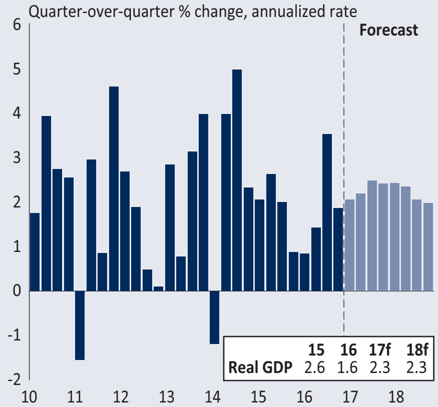
Trade-weighted USD Index



Source: Federal Reserve Board, RBC Economics Research

US Real GDP

Quarter-over-quarter % change, annualized rate

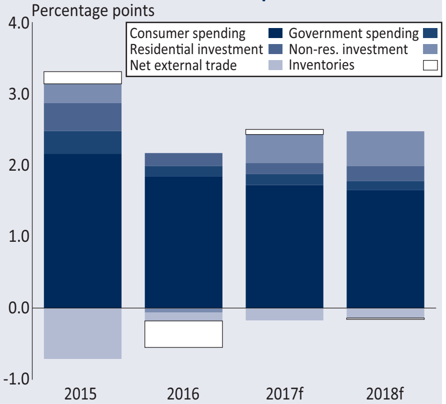


	15	16	17f	18f
Real GDP	2.6	1.6	2.3	2.3

Source: Bureau of Economics Analysis, RBC Economics Research

US Real GDP Growth Composition

Percentage points



Source: Bureau of Economic Analysis, RBC Economics Research

Top US Export Trading Partners

Source: Census Bureau, RBC Economics Research

tions about the impact of changing regulatory, immigration and trade policies as we await further details about what these policies will entail.

A key support for US growth this year and next will be the consumer. The steady improvement in labour-market conditions, accelerating wages and a healthy balance sheet underpin our call for consumer spending to increase at a solid clip in 2017. Consumers will also get a boost from the anticipated cut in personal income taxes. Our forecast assumes spending on services and goods will rise this year, with the latter supporting strong auto sales. Home sales and housing starts are also expected to benefit from income growth.

Corporate tax cut has potential to jolt business spending

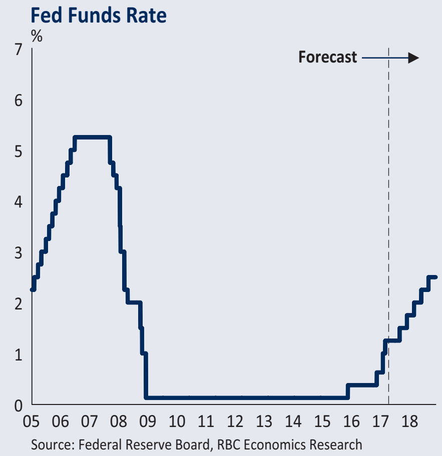
The lower corporate taxes being contemplated have the potential to jolt business spending, particularly given rising demand and businesses' current capacity constraints. Lower corporate taxes will provide businesses with the funds to invest, while accommodative financial conditions will allow non-financial businesses with healthy balance sheets to borrow. Investment by energy companies is also expected to continue to recover as the market moves into an undersupplied state. With production cuts by both OPEC and non-OPEC producers, we look for the price of a barrel of WTI to rise to about US$60 by the end of 2017 and average US$63 next year.

Trade – deal or no deal?

Our baseline forecast is that growth in US exports and imports will be lackluster in 2017 as businesses wait for the administration to flesh out its trade policy. Also weighing on exports will be the strong US dollar and a continued slowing in global trade activity. The Trump Administration's anti-trade rhetoric is not only of concern to the trading partners of the US but also to a large swath of US states who export. Talk of leveling tariffs on imports from Mexico and China to curb the US trade deficit raises the prospects of retaliatory measures and increased costs for US consumers. Our preliminary assessment is that, should the administration levy tariffs on US imports or shift to a border adjustment tax, US GDP would decline and unemployment increase.

Fed rate hike – not if but when

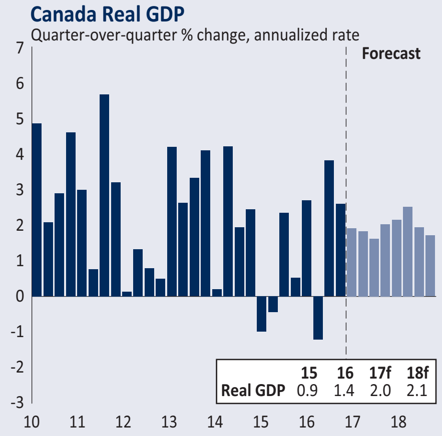
Fed officials now appear to be grappling with "when" a rate hike should occur, rather than "if" one is needed. Certainly, the labour market's performance has convinced the FOMC that the economy is on the cusp of full employment and the faster pace of wage growth highlights that the transition to prices is unlikely to be far behind. Fed officials have also made progress on their inflation goal, although the data is not as clean-cut, with the bump in energy prices compared to a year ago being the largest factor pushing the headline rate to 2.5% in January and the Fed's preferred inflation measure to 2%. That said core measures, which exclude energy prices, also started 2017 close to the 2% objective. The stronger than expected economic data are likely to force the Fed's hand in March when we expect they will raise the policy rate by 25bps. We expect policymakers will stay on a slow-but-steady course in terms of reducing policy support and look for another 50 bps of rate increase this year. As the uncertainty about the administration's agenda eases, the Fed is likely to accelerate the pace of rate hikes to 100 bps in 2018.



Source: Federal Reserve Board, RBC Economics Research

Canada's economy – back on track

Canada's economy is starting the year on firm footing, and we expect real GDP to expand by 2.0% in 2017 and a slightly firmer 2.1% in 2018. After struggling for two years, the economy began to rebound in mid-2016 after the Fort McMurray fire-related decline in the second quarter. Importantly, the momentum continued in the fourth quarter and early data for this year showed strength in employment, housing starts and business sentiment. A slowing in global activity and shift in the drivers of demand for Canadian exports yielded a subpar increase in sales abroad in 2016. Our analysis points to three main reasons: the currency's performance relative to those of other countries competing for US demand; the lack of demand from US businesses for industrial goods, and weaker demand for US finished products which reduced the need for Canadian inputs. In 2017, a pickup in US business investment and modestly firmer US export growth are likely to lift Canadian exports, although the rise will be limited by historical standards.



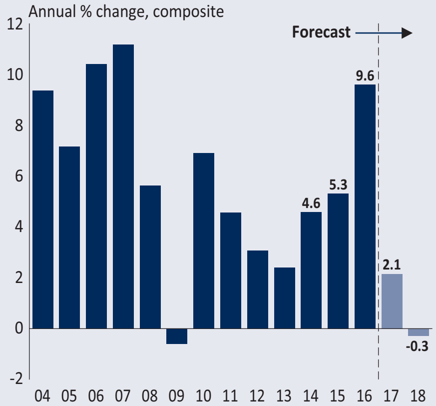
	15	16	17f	18f
Real GDP	0.9	1.4	2.0	2.1

Source: Statistics Canada, RBC Economics Research forecasts

External factors could create bumps in the road

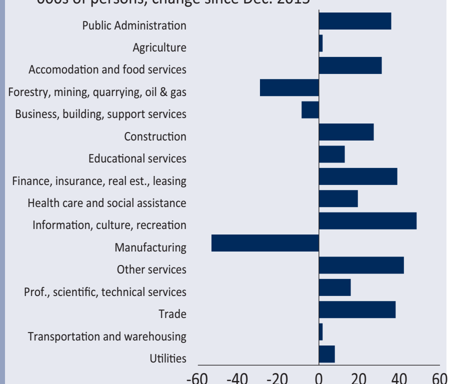
While economic conditions are supportive of Canadian trade, the threat of protectionist policies has the potential to hurt Canada's small, open economy. Canada and the US have a very small trade gap, and the US president's talk of "tweaks" to NAFTA don't sound all that daunting from the Canadian perspective. (Likely the president's relatively collegial tone towards Canada reflects the fact that Canada is the lead destination for 35 US states' exports and supports 9 million US jobs.) We assume US income-tax cuts will be mildly positive for Canada especially if US businesses invest this windfall. A modest increase in US demand for Canadian exports complements our view that the Canadian consumer will (once again) be the driver of growth in 2017. While we anticipate a solid increase in the consumption of goods and services, activity in real estate is likely to swing from helping to hindering economic growth.

Home Prices in Canada
Annual % change, composite



Source: Royal LePage, RBC Economics Research

Employment by Industry
000s of persons, change since Dec. 2015



Source: Statistics Canada, RBC Economics Research

Housing hitting the roof?

Following a record year of housing sales and an almost 10% jump in housing prices, affordability troubles and legislative changes tipped Canada's hot housing market onto a slowing path. As of January 2017, home sales were off 6.8% from their March 2016 peak, and average prices have declined slightly. The weakening in the market was most pronounced in Vancouver, where sales peaked in February 2016. Initially sales sagged because houses were unaffordable, but the downward pressure intensified after the provincial and federal governments moved to cool the market. In Canada's other hot market—Toronto—the cooling is in a much earlier phase. Sales have slowed but prices continue to run at an elevated clip due to limited housing supply. We expect that strained affordability and tighter borrowing rules will reduce demand and slow the pace of price appreciation in Ontario. That said, additional regulatory restraint may be needed to cool the market if red-hot demand persists.

Outside of these hot spots, affordability conditions are more balanced though we expect that regulatory changes will result in slowing sales activity and restrict price increases. On average, home sales in Canada are projected to fall by 11.9% in 2017 and prices to post a modest 2.1% increase.

Labour market – mixed signals

The Bank of Canada contends that there continues to be slack in Canada's labour market, pointing to minimal wage increases and a stalling in hours worked. These facts belie an impressive run of employment gains (276K jobs created) and 0.4ppt dip in the unemployment rate over the past twelve months. The Bank is concerned about the split between part-time and full-time work, even though a large percentage of part-time workers are doing so voluntarily. That said the percentage of full-time workers fell to 80.4% from a post-recession peak of 81.2% and wage increases have slowed. Job losses were concentrated in the goods-producing sector where industries tend to pay above-average wages. Service sector wages are more of a mixed bag but 44% of jobs created in 2016 were in industries that paid above-average wages. We expect that as some goods-producing industries recover and the services sector expansion continues, upward pressure on wages will emerge.

Does the Canadian consumer have the stamina?

Bloated debt levels have driven up the debt-to-income ratio for Canadian households in the post-recession period largely due to increased mortgage debt. Importantly, the debt has been accompanied by an even larger increase in assets values such that the net worth of the household sector topped $10 trillion. While debt-service costs remain contained at 14 cents per dollar of disposable income, we expect that as interest rates grind higher these costs will rise to eat up 16 cents of each dollar of income by the end of 2018. This increase along with rising energy costs tee up for a slowing in consumer spending growth next year.

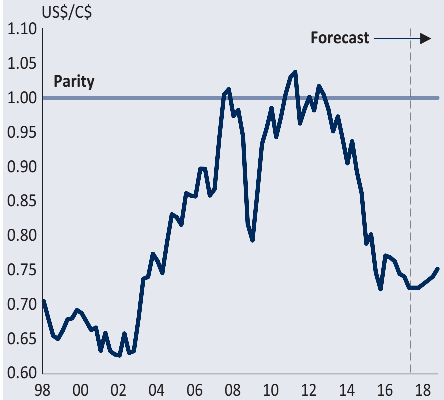
Shovel-worthy not shovel-ready

The stimulus contained in the federal government's March 2016 budget has been slow to materialize. The changes to personal income taxes and the increased child care benefit implemented in July 2016 likely played a part in fueling stronger consumer spending in the latter part of the year. However, spending on infrastructure has yet to make any discernable impact on growth. This is likely to change in 2017 when projects that have been under consideration by the government get started and boost economic growth by 0.4 ppts.

Currency – tug of war!

Canada's dollar has been remarkably well behaved so far this year, trading in a tight range around 76 US cents. Interest-rate differentials will become increasingly negative for the currency as the Fed steps up the pace of rate hikes while the Bank of Canada stays on the sidelines. Conversely, a steady, albeit modest, increase in energy prices is positive for Canada's dollar. In the near term, the rate spread is likely to dominate the currency pair. In fact the US dollar is likely to appreciate against most major currencies in 2017 as the Fed raises rates and the pace of economic growth accelerates. 2018 is likely to see a change in the fortunes for the US dollar with currencies, like the Canadian dollar, regaining ground. Our forecast is for the Canadian dollar to end 2017 at 72.5 US cents and 2018 at 75 US cents.

Canadian Dollar Forecast

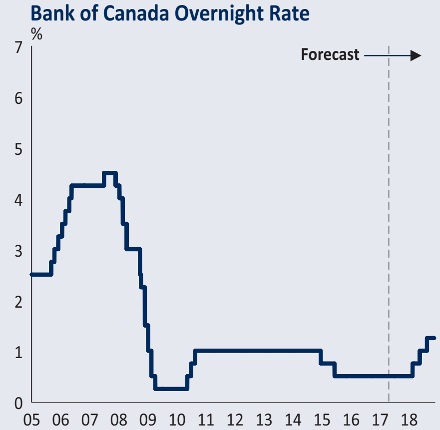


Source: Bank of Canada, RBC Economics Research Forecasts

Bank of Canada – cautiously optimistic with the emphasis on caution

The Bank of Canada has a relatively upbeat growth forecast for 2017, and anticipates a narrowing in the output gap sufficient to bring the economy back into equilibrium and inflation to 2.0% on a sustained basis starting in the middle of next year. The Bank said the risks around the forecast are balanced, however until the US Administration's policy stance on trade is clearer, policymakers are likely to remain cautious. Even without a disruption in trade due to policy changes south of the border, we expect the Bank of Canada to hold the overnight rate at 0.5% this year. Two years of subpar growth has increased the amount of slack in the economy, and even though we may not agree with the Bank on just how much slack there is, we still think policy needs to remain stimulative to ensure it is eliminated. In 2018, the Bank is likely to begin to reduce policy stimulus.

Bank of Canada Overnight Rate



Source: Bank of Canada, RBC Economics Research forecasts

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PAUL FERLEY, ROBERT HOGUE,
GERARD WALSH

PROVINCIAL OUTLOOK

More provinces to participate in the expansion in 2017

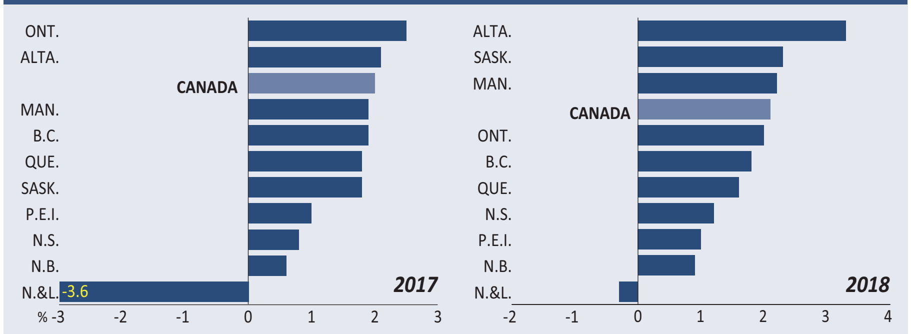
Positive swings in Alberta and Saskatchewan to be the highlight of 2017

Continued expected recovery in global energy prices—RBC projects the WTI benchmark to average US$56 per barrel in 2017 compared to US$43 per barrel in 2016—in our view will bring about the biggest change in provincial economic performance between 2016 (or 2015 for that matter) and 2017. We expect improved prospects for the energy sector to contribute strongly to significant positive growth swings in Alberta and Saskatchewan in 2017. There was evidence of such in Statistics Canada's CAPEX survey published at the end of February, which showed increases in capital investment intentions in the oil and gas extraction industry in both provinces in 2017, following two years of dramatic declines. These growth swings in Alberta and Saskatchewan, in fact, explain almost entirely the projected acceleration in growth at the national level between 2016 and 2017.

Ontario to take the lead

For the first time since 2000, we expect Ontario to lead all other provinces in the provincial growth rankings in 2017. Ontario will benefit from a many sources of growth, including a ramping up of capital investment by public administration. We expect British Columbia's economy—Canada's provincial growth leader in the past two year—to slow down its pace somewhat amid a significant cooling in the provincial housing market.

REAL GDP GROWTH



Source: Statistics Canada, RBC Economics Research

HIGHLIGHTS

- ▲ 2017 is set to mark the return to positive growth for two of Canada's oil-producing provinces—Alberta and Saskatchewan—after back-to-back economic contractions in 2015 and 2016.
- ▲ Canada's third oil-producing province—Newfoundland and Labrador—is unlikely to meet a similar upbeat fate. Quite the contrary, we expect economic activity in the province to decline the most (-3.6%) since 2012 as a result of a winding down of construction on capital projects.
- ▲ The outlook for other provincial economies is generally bright (by today's lower standards) with growth still quite modest in the Maritime Provinces but comparatively more vigorous in the central and western parts of the country.
- ▲ We expect Ontario to lead all provinces in growth in 2017 for the first time since 2000 with a rate of 2.5%, followed by Alberta with a rate of 2.1%.
- ▲ Manitoba (1.9%), British Columbia (1.9%), Quebec (1.8%) and Saskatchewan (1.8%) are projected to grow at rates just shy of the national average of 2.0%.
- ▲ In the Atlantic region, we expect the Prince Edward Island economy to expand by 1.0% in 2017, Nova Scotia by 0.8% and New Brunswick by 0.6%.
- ▲ The swing to positive growth by Alberta and Saskatchewan will account for most of the acceleration in growth in Canada from 1.4% to 2.0% between 2016 and 2017, with small contributions from slightly faster paces in Manitoba and New Brunswick. We expect growth to either moderate or remain unchanged in all other provinces in 2017 relative to 2016.

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	2.3	2.1	2.7	2.6	2.2	2.1	2.0	1.7	1.7	1.7	1.6	1.7	1.9	2.2	2.3	1.7
Durables	3.9	-1.2	-1.2	8.1	2.3	1.5	1.5	1.0	1.5	1.3	1.3	1.3	2.8	3.6	2.3	1.3
Semi-Durables	9.7	-1.8	2.9	5.9	2.2	2.4	2.0	1.8	1.8	1.8	1.8	2.0	2.3	4.4	2.7	1.9
Non-durables	3.4	3.5	2.0	0.7	2.2	2.5	2.3	2.0	1.8	1.8	1.8	2.0	0.8	1.7	2.0	2.0
Services	0.6	2.7	3.9	1.8	2.1	2.1	1.9	1.8	1.7	1.7	1.6	1.6	2.1	1.9	2.3	1.7
Government expenditures	3.3	5.9	-1.9	2.1	1.8	1.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.5	2.1
Residential investment	10.3	-0.1	-4.7	4.8	-2.4	-6.6	-5.7	-4.0	-2.8	-0.3	1.4	2.6	3.8	2.9	-2.6	-2.3
Business investment	-8.6	-3.6	3.0	-17.4	1.8	1.9	3.0	3.6	3.9	3.8	2.6	2.4	-11.5	-8.4	-2.0	3.3
Non-residential structures	-12.6	-7.1	14.9	-21.7	6.5	3.5	3.2	4.0	4.4	4.2	3.0	2.7	-16.0	-10.7	-0.5	3.8
Machinery & equipment	-2.5	1.5	-12.5	-10.3	-5.0	-0.5	2.8	3.0	3.2	3.1	2.0	2.0	-3.3	-5.0	-4.4	2.6
Final domestic demand	1.8	1.8	0.9	0.4	2.0	1.6	1.6	1.6	1.8	2.0	2.0	2.1	0.3	0.9	1.4	1.8
Exports	9.3	-14.8	9.4	1.3	1.4	1.6	2.8	3.8	3.7	4.4	2.3	1.6	3.4	1.1	1.6	3.3
Imports	3.5	1.1	4.8	-13.5	4.0	3.5	3.7	3.0	2.7	2.7	2.3	2.7	0.3	-1.0	0.2	2.9
Inventories (change in $b)	-7.5	0.4	7.4	-4.4	-0.9	3.0	4.5	5.4	5.7	5.6	5.5	5.5	3.9	-1.0	3.0	5.6
Real gross domestic product	2.7	-1.2	3.8	2.6	1.9	1.8	1.6	2.0	2.1	2.5	1.9	1.7	0.9	1.4	2.0	2.1
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.4	1.1	1.3	1.2	1.9	1.1	1.1	1.3	1.3	1.4	1.4	-0.2	0.6	1.3	1.3
Pre-tax corporate profits	-10.2	-15.3	-3.0	12.0	12.3	26.5	8.9	2.9	2.9	4.1	4.9	4.9	-19.5	-4.5	12.0	4.2
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.9	6.9	6.8	6.8	6.7	6.6	6.5	6.5	6.9	7.0	6.9	6.6
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	2.2	2.4	2.6	2.6	2.2	2.0	2.2	2.3	1.1	1.4	2.5	2.2
Core CPI	2.0	2.1	1.9	1.6	1.8	1.9	1.9	2.2	2.2	2.0	2.2	2.1	2.2	1.9	1.9	2.1
External trade																
Current account balance ($b)	-71.3	-77.6	-79.0	-42.9	-43.5	-43.4	-43.1	-40.3	-36.0	-29.6	-26.0	-24.2	-67.6	-67.7	-42.6	-29.0
% of GDP	-3.6	-3.9	-3.9	-2.1	-2.1	-2.0	-2.0	-1.9	-1.6	-1.3	-1.2	-1.1	-3.4	-3.3	-2.0	-1.3
Housing starts (000s)*	199	198	199	197	196	186	183	180	174	175	175	175	196	198	186	175
Motor vehicle sales (mill., saar)*	2.02	1.99	1.95	1.99	2.05	1.92	1.91	1.90	1.90	1.90	1.89	1.89	1.94	1.98	1.95	1.90
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	1.00	1.25	0.50	0.50	0.50	1.25
Three-month	0.45	0.48	0.53	0.46	0.50	0.50	0.55	0.60	0.65	0.85	1.15	1.40	0.51	0.46	0.60	1.40
Two-year	0.54	0.52	0.52	0.80	0.75	0.85	0.95	1.05	1.20	1.40	1.60	1.80	0.48	0.80	1.05	1.80
Five-year	0.67	0.57	0.62	1.15	1.15	1.30	1.55	1.85	2.05	2.30	2.45	2.60	0.73	1.15	1.85	2.60
10-year	1.23	1.06	1.00	1.80	1.70	1.90	2.15	2.45	2.60	2.80	2.95	3.10	1.40	1.80	2.45	3.10
30-year	2.00	1.72	1.66	2.35	2.40	2.45	2.70	2.95	3.05	3.20	3.30	3.45	2.15	2.35	2.95	3.45
Canadian dollar	1.30	1.29	1.31	1.34	1.35	1.38	1.38	1.38	1.37	1.36	1.35	1.33	1.38	1.34	1.38	1.33

* Quarterly averages, level

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

March 2017

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	3.0	1.6	2.3	2.5	2.4	2.6	2.4	2.1	2.0	3.2	2.7	2.5	2.4
Durables	-0.6	9.8	11.6	11.5	2.5	3.5	3.1	3.1	3.0	2.7	2.1	2.1	6.9	5.8	6.0	2.8
Non-durables	2.1	5.7	-0.5	2.8	1.6	1.9	2.8	2.8	3.1	2.8	2.2	2.0	2.6	2.5	2.1	2.7
Services	1.9	3.0	2.7	1.8	1.5	2.3	2.3	2.2	2.4	2.2	2.1	2.0	2.8	2.3	2.1	2.2
Government spending	1.6	-1.7	0.8	0.3	1.5	1.2	1.2	1.0	0.6	0.4	0.4	0.4	1.8	0.8	0.9	0.7
Residential investment	7.8	-7.8	-4.1	9.6	8.5	3.6	3.0	5.5	5.7	6.4	6.6	6.3	11.7	4.9	4.2	5.5
Business investment	-3.4	1.0	1.4	1.3	5.1	3.3	4.3	4.4	4.3	3.9	3.1	2.8	2.1	-0.5	3.2	3.9
Non-residential structures	0.1	-2.1	12.0	-4.4	4.1	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	-4.5	1.9	6.4	3.4	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-2.9	2.7	4.3
Intellectual property	3.8	9.0	3.2	4.5	3.9	3.9	3.8	3.7	3.4	3.3	3.2	3.0	4.8	4.9	4.2	3.5
Final domestic demand	1.2	2.4	2.1	2.6	2.3	2.3	2.5	2.5	2.6	2.4	2.1	2.0	3.1	2.1	2.4	2.4
Exports	-0.7	1.8	10.0	-4.0	5.5	-0.5	1.0	1.5	2.5	2.8	3.2	3.2	0.1	0.4	2.0	2.1
Imports	-0.6	0.2	2.2	8.5	4.0	1.5	1.2	2.5	3.1	2.9	3.5	3.0	4.6	1.1	3.4	2.7
Inventories (change in $b)	40.7	-9.5	7.1	46.2	31.0	35.0	33.0	33.0	30.0	30.0	30.0	29.0	84.0	21.1	33.0	29.8
Real gross domestic product	0.8	1.4	3.5	1.9	2.0	2.2	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.3	2.3
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	0.1	-0.3	0.1	1.2	1.5	1.8	1.1	1.0	1.2	1.3	1.3	1.2	0.8	0.3	1.4	1.2
Pre-tax corporate profits	-6.6	-4.3	2.1	9.3	6.5	7.8	2.6	2.8	2.9	3.0	2.9	2.4	-3.0	-0.1	4.9	2.8
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.7	4.6	4.6	4.5	4.5	4.4	4.4	5.3	4.9	4.7	4.5
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.6	2.4	2.6	2.2	2.1	2.1	2.2	2.2	0.1	1.3	2.4	2.2
Core CPI	2.2	2.2	2.2	2.2	2.2	2.0	2.0	2.1	2.1	2.1	2.1	2.1	1.8	2.2	2.1	2.1
External trade																
Current account balance ($b)	-527	-473	-452	-530	-542	-561	-565	-575	-586	-594	-605	-612	-463	-495	-561	-599
% of GDP	-2.9	-2.6	-2.4	-2.8	-2.8	-2.9	-2.9	-2.9	-3.0	-3.0	-3.0	-3.0	-2.6	-2.7	-2.9	-3.0
Housing starts (000s)*	1151	1159	1145	1249	1240	1217	1241	1271	1300	1333	1362	1396	1108	1176	1242	1348
Motor vehicle sales (millions, saar)*	17.3	17.1	17.5	18.0	17.6	17.9	18.0	18.1	18.2	18.2	18.3	18.4	17.4	17.5	17.9	18.3
INTEREST 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	0.70	1.00	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	1.30	1.45	1.60	1.90	2.15	2.40	2.60	2.80	1.06	1.25	1.90	2.80
Five-year	1.21	1.01	1.14	2.00	1.90	2.10	2.25	2.50	2.65	2.90	3.05	3.20	1.76	2.00	2.50	3.20
10-year	1.78	1.49	1.60	2.55	2.40	2.65	2.80	3.00	3.15	3.40	3.50	3.60	2.27	2.55	3.00	3.60
30-year	2.61	2.30	2.32	3.15	3.00	3.20	3.35	3.50	3.60	3.75	3.80	3.90	3.01	3.15	3.50	3.90
Yield curve (10s-2s)	105	91	83	130	110	120	120	110	100	100	90	80	121	130	110	80

* Quarterly averages, level

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

March 2017

CURRENT ECONOMIC INDICATORS

Canada - US Comparisons

	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[1]	0.4	2.6	-0.3	Dec.	0.0	0.3	-0.4	Feb.
Mfg. inventory - shipments ratio (level)	1.3	1.3	1.4	Jan.	1.3	1.3	1.4	Jan.
New orders in manufacturing	4.6	3.1	-2.4	Jan.	1.4	4.0	-3.7	Jan.
Business loans - Banks	-0.5	5.9	8.0	Jan.	-0.1	5.3	9.9	Feb.
Index of stock prices[2]	0.1	19.7	-1.4	Feb.	2.4	22.3	5.0	Feb.
Households								
Retail sales	2.2	4.5	2.9	Jan.	0.1	5.7	2.4	Feb.
Auto sales	5.0	2.4	2.6	Jan.	-0.8	-12.4	-6.3	Feb.
Total consumer credit[3]	0.3	3.4	3.0	Dec.	0.2	6.3	6.6	Jan.
Housing starts	0.6	-3.8	2.2	Feb.	3.0	6.2	7.8	Feb.
Employment	0.1	1.6	0.8	Feb.	0.3	1.0	1.7	Feb.
Prices								
Consumer price index	0.2	2.0	1.3	Feb.	0.1	2.8	0.89	Feb.
Producer price index[4]	0.4	2.3	-0.3	Jan.	0.1	3.9	-1.7	Feb.
Interest rates								
Policy rate	0.5	0.5	0.5	Feb.	0.63	0.38	0.63	Feb.
90-day commercial paper rates	0.9	0.8	0.9	Feb.	0.8	0.5	0.8	Feb.
Government bonds (10 years)	1.8	1.2	1.4	Feb.	2.4	1.8	1.9	Feb.

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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