ECONOSCOPE

May 2017

CANADIAN EMPLOYMENT UP AGAIN IN APRIL

POLITICAL UPS AND DOWNS

SLOWER US CONSUMER SPENDING IN Q1 NOT EXPECTED TO PERSIST

FEBRUARY STALL DOES LITTLE TO DENT CANADA'S Q1 GROWTH

CANADA'S HOUSING MARKET COOLED IN APRIL

ECONOSCOPE

Volume 41, Number 5
May 2017

RBC ECONOMICS RESEARCH

Craig Wright
SENIOR VICE PRESIDENT &
CHIEF ECONOMIST

Dawn Desjardins
VICE PRESIDENT &
DEPUTY CHIEF ECONOMIST

Paul Ferley
ASSISTANT CHIEF ECONOMIST
MARCOECONOMICS

Robert Hogue
SENIOR ECONOMIST
REGIONAL ECONOMIES

Nathan Janzen
SENIOR ECONOMIST
MACROECONOMICS

Laura Cooper
ECONOMIST
PUBLIC POLICY

Josh Nye
ECONOMIST
FINANCIAL MARKETS AND MAC-ROECONOMICS

Gerard Walsh
ECONOMIST
SECTOR ANALYSIS AND PROVIN-CIAL ECONOMIES

Joseph Allegritti
RESEARCH ASSOCIATE

Mathias Hartpence
ECONOMIST
POLICY LEAD

EDITOR
Brian Waterman
rbceconomicsresearch@rbc.com

SUBSCRIPTION INFORMATION
rbceconomicsresearch@rbc.com

IN BRIEF

Highlights This Month

ECONOSCOPE® is published and produced monthly by RBC Economics Research. Address all correspondence to the Editor, RBC Economics Research, RBC, 9th Floor, South Tower, 200 Bay Street, Toronto, Ontario, M5J 2J5.

CURRENT TRENDS

Paul Ferley, Dawn Desjardins, Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ February's flat monthly reading belied an acceleration in the annual pace of growth with real GDP output up 2.5% compared to a year earlier.

▲ Canadian employment up again in April but wages continue to underperform.

▲ The 1.2% jump in March retail sale volumes marked a third consecutive monthly increase — and eighth out of the last nine— to polish off a strong first quarter spending gain.

▲ Housing starts fell to still-strong 214k annualized units in April from a five-year high of 252k in March.

▲ Canadian March merchandise trade deficit unexpectedly shrinks to $0.1B.

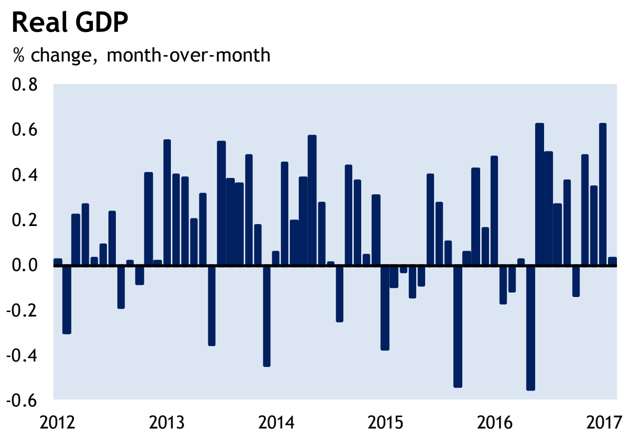
▲ The year-over-year rate of headline CPI inflation was unchanged at 1.6% in April.

CANADIAN GDP UNCHANGED IN FEBRUARY

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: April 28, 2017

February's flat monthly reading belied an acceleration in the annual pace of growth with real GDP output up 2.5% compared to a year earlier. This was the fastest pace of increase since July 2014 and reflects the recovery in the goods-producing sector. Mining production was up 6.4% in line with the recovery in commodity prices, which represents a marked turnaround after two years of decline. Growth in service-producing industries has been steadier though accelerated slightly in February. This broad based strengthening pumped the annual growth in overall GDP higher in February relative to January's 2.3% pace. This report confirmed that the economy continued to grow faster than the Bank of Canada's current estimate of potential of 1.3% for the past six months.



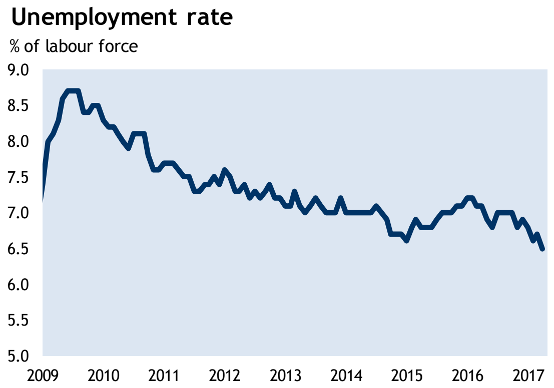
Source: Statistics Canada

CANADIAN EMPLOYMENT UP AGAIN IN APRIL

LATEST AVAILABLE: APRIL

RELEASE DATE: MAY 5, 2017

The headline employment gain was modest in April (a negligible 3k in a monthly survey with very wide confidence bands around spot monthly estimates); however, the tick higher is nonetheless notable in that it continues an unusual streak of positive monthly readings. Employment has now increased in 15 of the last 17 months with growth over the last year averaging a solid 23k per month. The details of the monthly report for April were mixed (with a sharp pullback in full-time jobs offset by stronger part-time employment) but, on average, more than two-thirds of job gains over the last year have been of the full-time variety.



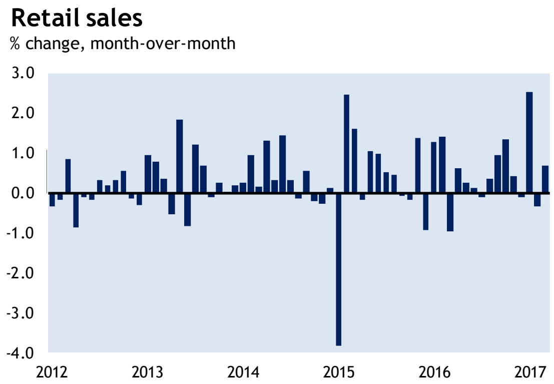
Source: Statistics Canada

CANADIAN RETAIL SALES UP AGAIN IN MARCH

LATEST AVAILABLE: MARCH

RELEASE DATE: MAY 19, 2017

The 1.2% jump in March retail sale volumes marked a third consecutive monthly increase — and eighth out of the last nine— to polish off a strong first quarter spending gain. Sale volumes in Q1/17 were up 8% from Q4 (at an annualized rate), somewhat surprisingly building on a 7.5% increase in Q4. Nominal retail sales rose 0.7%, led by a 3.2% increase in motor vehicle sales with partial offset from lower food sales and a price-led drop in gasoline station receipts. Sales volumes jumped a stronger 1.2% following an upwardly revised 0.2% gain (was a 0.1% decline) in February. 'E-commerce' sales, not all of which are included in the headline retail sales numbers, surged 43% from a year ago, easily outpacing the increase in retail sales.



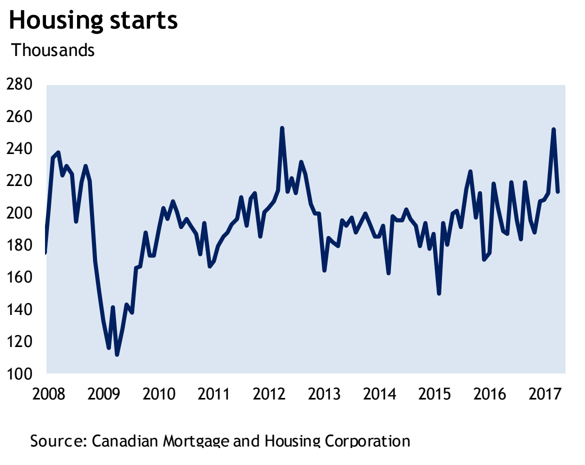
Source: Statistics Canada

CANADIAN HOUSING STARTS MAINTAINED MOMENTUM IN APRIL, BUT WILL IT LAST?

LATEST AVAILABLE: APRIL

RELEASE DATE: MAY 8, 2017

Housing starts fell to still-strong 214k annualized units in April from a five-year high of 252k in March. Both urban multi-unit and single-unit starts came off of multi-year highs but remained above their recent trend. The pullback in urban starts was broadly-based with Ontario, Quebec and the Prairies all recording declines in April. Those regions, led by Ontario, have accounted for the substantial increase in year-to-date housing starts relative to April 2016. Building permits have been quite strong over the past six months; data for March will be released tomorrow.

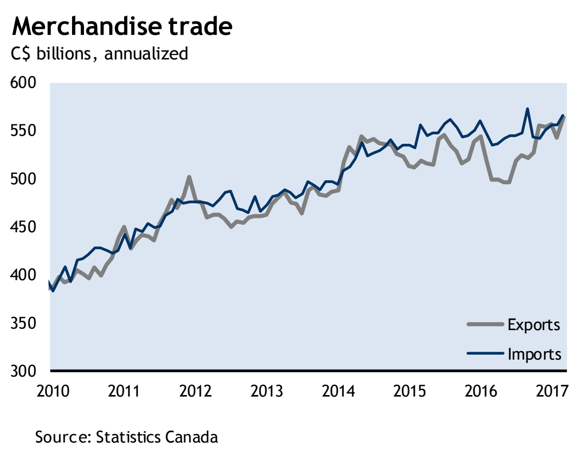


CANADIAN MARCH MERCHANDISE TRADE DEFICIT UNEXPECTEDLY SHRINKS TO $0.1B

LATEST AVAILABLE: MARCH

RELEASE DATE: MAY 4, 2017

Though today's report indicated that the trade balance remained in a deficit position for a second consecutive month, the average shortfall over this period of $0.6B is down sharply from the $2.7B average deficit that prevailed over the same period a year ago. As well, these deficits over the last two months were preceded by three months of surpluses, which were the first since September 2014. The improvement in the trade balance is in large part the result of the nominal value of energy exports recovering helped by rising oil prices.



CANADIAN INFLATION RATE STEADY IN APRIL; CORE RATES EDGED LOWER

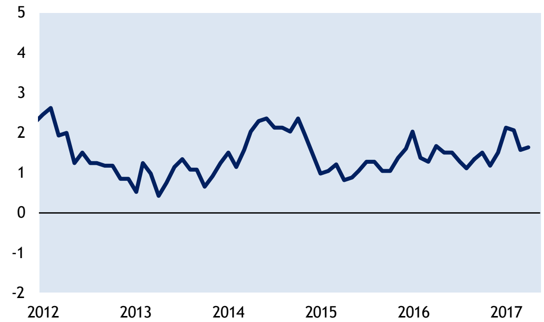
LATEST AVAILABLE: APRIL

RELEASE DATE: MAY 19, 2017

The year-over-year rate of headline CPI inflation was unchanged at 1.6% in April. Expectations were for a modest rise to 1.7%, matching the Bank of Canada's Q2 forecast. Energy price inflation picked up slightly to 9.6% year-over-year as higher gasoline prices continued to put upward pressure on headline inflation. Food prices remained a source of downward pressure, though less so than in recent months as the most significant period of food price deflation in 25 years is gradually coming to a close. Prices excluding food and energy were up just 1.5% from last April, the slowest rate in nearly three years. The BoC's core measures averaged 1.4%, down from 1.5% in March. Both CPI-trim and CPI-median have fallen by 0.3 ppts since the start of the year while CPI-Common is little changed.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE			
% change from:	**Lastest month**	**Previous month**	**Year ago**
Real GDP	Feb	0.0	2.5
Industrial production	Feb	-0.4	3.9
Employment	Apr	0.0	1.5
Unemployment rate*	Apr	6.5	7.1
Manufacturing			
Production	Feb	-0.6	2.6
Employment	Apr	0.0	0.8
Shipments	Mar	1.0	8.2
New orders	Mar	2.6	17.6
Inventories	Mar	1.2	4.0
Retail sales	Mar	0.7	6.9
Car sales	Mar	3.1	7.3
Housing starts (000s)*	Apr	213.1	188.6
Exports	Mar	3.8	12.9
Imports	Mar	1.7	5.6
Trade balance ($billlions)*	Mar	-0.1	-3.0
Consumer prices	Apr	0.4	1.6

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

POLITICAL UPS AND DOWNS

Josh Nye

"With that momentum comes lingering uncertainty—political risk in particular continues to cloud the outlook."

Politics were once again in focus over the last month. This year's most anticipated vote, the French presidential election, saw the rising tide of populism stemmed by centrist candidate Emmanuel Macron in a decisive victory over Marine Le Pen on May 7. Markets reacted positively to news that the pro-EU and pro-euro Macron is set to take charge of the currency bloc's second-largest economy. Reduced political uncertainty should help sustain recent improvement in euro area sentiment, paving the way for further economic recovery. Next up is the UK heading to the polls on June 8. Prime Minister May called a snap election just weeks after invoking Article 50 which initiated the Brexit negotiation process. The Conservatives are seeking to strengthen their mandate as divorce proceedings begin, though recent indications are that the process will be contentious with EU officials establishing a tough bargaining position.

Relations have also been less than friendly between North American trading partners. The Trump Administration has stepped up its protectionist rhetoric, recently threatening to unilaterally withdraw from NAFTA and ordering a broad review of US trade agreements. Trump has singled out Canada specifically, slapping tariffs on softwood lumber imports and criticizing supply management in the dairy industry. Tough talk on trade was one of several factors that put downward pressure on the Canadian dollar in April, even as the domestic economy continues to improve.

All of this is unfolding against an improving global economic backdrop. The IMF's latest outlook saw global growth revised up this year for the first time in recent memory. The agency warned, however, that inward-looking policies threaten global integration and any associated reduction in trade and investment flows pose downside risk to the economic outlook.

FINANCIAL MARKETS

SLOWER US CONSUMER SPENDING IN Q1 NOT EXPECTED TO PERSIST…

Josh Nye

HIGHLIGHTS

▲ US Q1 consumer spending growth was the weakest in years but we don't expect the slowdown will last.

▲ Other details in the Q1 GDP report were more encouraging, particularly a pickup in business investment.

▲ The Trump Administration's latest tax proposal called for cuts to personal and corporate income taxes but was light on details.

▲ The Fed indicated slower Q1 growth is likely to prove transitory, leaving the door open to another rate hike in June.

US GDP growth slowed to just 0.7% (annualized) in Q1, marking the weakest quarterly gain in three years. In addition to a pullback in inventories that trimmed nearly a percentage point from the headline rate, much of the slowdown was due to a paltry 0.3% increase in consumer spending. The latter is the slowest since 2009, and is hard to square with a number of factors supporting US households: rising wages and solid job growth, 25-year-high consumer confidence, wealth effects from rising equity and home prices, and low interest rates. Temporary factors were partly to blame—a substantial decline in utilities spending amid unseasonably warm weather early in the year shaved about ½ percentage point from consumer spending growth in the quarter. March's PCE already indicated a partial rebound in utilities spending that should continue as temperatures return to seasonal norms. Another soft spot in consumer spending was auto sales, though that too is showing some signs of reversal with unit sales picking up modestly in April from a two-year-low in March. In addition to reversal of those transitory factors, we expect broad-based strengthening (again reflecting households' positive financial backdrop) will contribute to consumer spending growth returning to the 3% range in the second quarter.

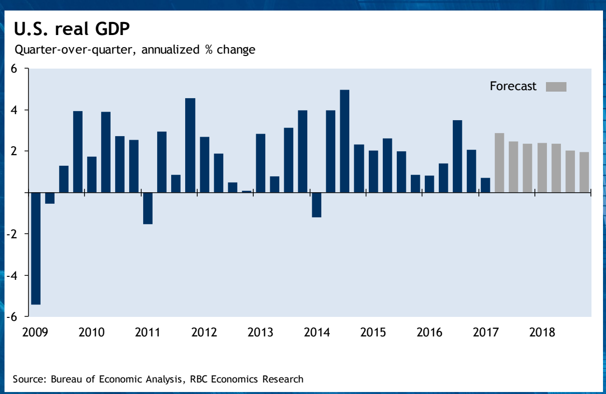
…WHILE STRONGER BUSINESS INVESTMENT SHOULD PERSIST

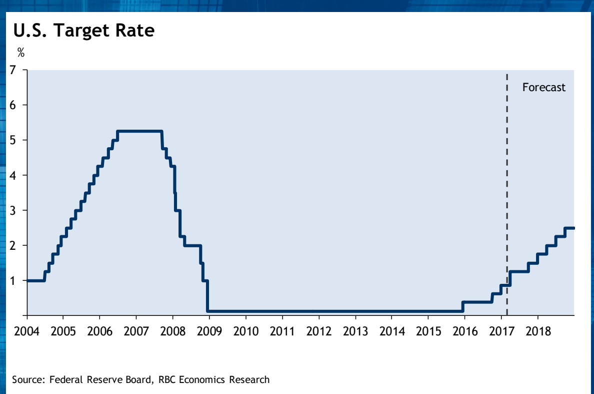
Putting aside the slowdown in consumer spending, there were some encouraging details in the Q1 GDP report. Business investment jumped by nearly 10% (annualized) to start the year after having been more or less flat since the end of 2014. Some of the increase in structures investment was due to a nascent rebound in energy investment after the sector weighed on growth for much of the last two years. With oil prices forecast to return to levels above $50/barrel we expect the improving trend in oil and gas investment will continue—indeed, rig counts continued to rise in the second quarter to-date. And the improvement in Q1 business investment was not confined to the energy sector; equipment investment also saw a broadly-based increase. Adding to that another strong gain in the housing sector, private fixed investment rose at its fastest pace in five years in Q1. We don't expect above-10% investment growth can be sustained, but given improving business and consumer sentiment and accommodative financial conditions, we think the trend will remain positive going forward.

Some of the recent improvement in business sentiment likely reflects expectations of lower corporate taxes and a lighter regulatory touch under the Trump Administration. However, there remains considerable uncertainty regarding the timing and scale of any changes in tax policy. The Administration's latest proposal continued to call for a reduction in the corporate tax rate to 15%. But with the plan lacking in detail, including how tax cuts will be financed, it is difficult to say whether it would get through Congress.

FED NOT TOO CONCERNED ABOUT SOFT START TO THE YEAR

The Fed left rates unchanged in May and maintained a balanced tone despite a few recent data hiccups. The statement explicitly indicated that slower growth early this year is "likely to be transitory"—in fact, their take on Q1 growth was similar to ours: the slowdown in consumer spending appears anomalous given solid fundamentals, while other details were a bit more encouraging, including a pickup in business fixed investment. The statement made little mention of March's disappointing payroll figure, recognizing that recent job gains have been solid on average and that the unemployment rate declined. The Committee did, however, make note of softer core inflation in March, though





we would add that the dip in core PCE and CPI inflation was narrowly-based with about half the slowing reflecting lower prices for mobile phone services (something policymakers would be expected to look through). Aside from a mark-to-market of the economic outlook, there were no notable changes in the policy statement. The Committee reiterated their expectation that economic conditions will warrant a gradual removal of accommodation but gave no overt signal on the timing of the next hike. Our forecast assumes the next move will be in June though we think the Committee will want to see evidence of a pickup in economic activity before continuing their tightening cycle. Data releases over the next six weeks supporting our call for GDP growth to rebound to 2.9% in Q2 would help firm up expectations for a hike at the June 13-14 meeting. April's payroll report, showing a rebound in job growth and further decline in the unemployment rate, provided a good start.

FINANCIAL MARKETS

FEBRUARY STALL DOES LITTLE TO DENT CANADA'S Q1 GROWTH

Josh Nye

HIGHLIGHTS

▲ Despite zero growth in February, Canada is on track for a 3.8% gain in Q1 GDP given earlier strength.

▲ We expect business investment picked up to start 2017 following disappointing declines over much of the last two years.

▲ The Ontario government tightened housing regulation amid 30% price growth in Toronto.

▲ The Bank of Canada now expects the economy will reach full capacity in the first half of 2018.

Canada's economy took a breather in February with GDP flattening out following one of the more impressive growth streaks in recent years (gains averaged 0.5% per month between November and January). A slowdown in the goods sector, led by declines in mining and manufacturing, offset a return to more trend-like growth in services industries—including an unsurprisingly robust gain in real estate activity. Despite the pause in February, industry GDP is tracking close to our forecast (and the Bank of Canada's) for growth to have picked up to 3.8% in Q1. On an expenditure basis we expect the gain was broadly-based, with particularly strong growth in domestic demand. Consumer spending looks to have posted another 2½% gain and our forecast assumes government outlays continued to trend higher with federal fiscal stimulus rolling out.

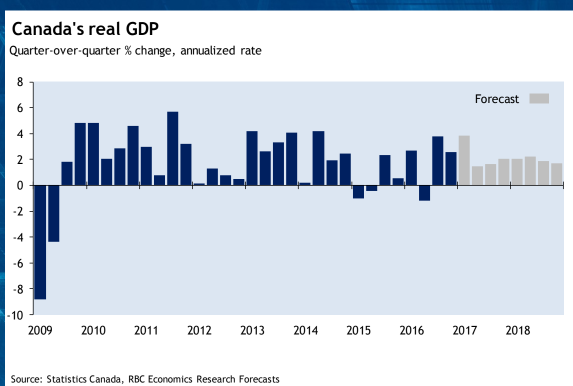
As with the US, investment is expected to be a bright spot in Q1. Our forecast assumes a 7% increase in business investment that would represent just the second quarterly gain since late-2014. A further rebound in drilling activity points to growing energy sector capex, while more broadly, rising capital goods imports in Q1 indicate a reversal of the disappointing declines in M&E investment seen over the second half of last year. Adding to stronger business investment, we expect further strengthening in residential investment given stronger housing starts and resales so far this year. While our forecast assumes nonresidential investment will continue to be a positive contributor to growth throughout 2017, recent strength in the residential sector is less likely to persist.

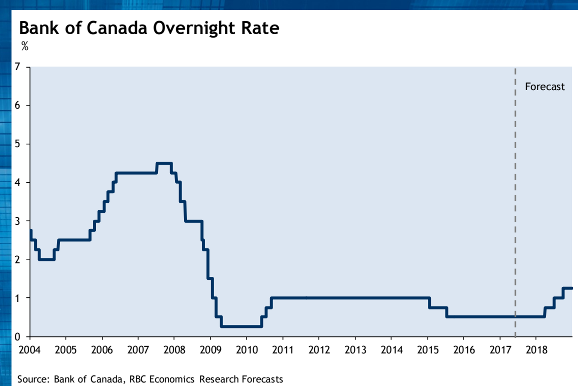
ONTARIO TAKES MEASURES TO COOL THE HOUSING MARKET

In The federal government's tightening of mortgage insurance rules late last year only had a brief impact at the national level and there was virtually no sign of policy-induced cooling in Southern Ontario's hottest markets. Tight demand-supply conditions kept sellers in the driver's seat, pushing Toronto home prices up roughly 30% from a year earlier. Upward pressure has spilled over with several markets outside the GTA now seeing 20% price growth. Faced with deteriorating housing affordability in the province and increasing evidence that real estate activity is being fueled by speculation, the Ontario government stepped in with new regulations that could help cool things down. The hallmark of their Fair Housing Plan is a 15% tax on foreign speculators in the GTA and surrounding markets. A similar policy in Vancouver helped curb price growth, although the share of foreign buyers in that city was likely larger than in Toronto. Nonetheless, the government's efforts to cool the market could have a psychological impact. Indeed, the latest data show new listings in Toronto surged in April, potentially pushing demand-supply conditions closer to balanced territory. That provides some early support to our forecast that policy tightening will be a factor in slowing the resale market in 2017, resulting in less support to growth from housing than in recent years.

BOC SHIFTS TO “DECIDEDLY NEUTRAL” BUT STILL HAS CONCERNS

The Bank of Canada held the overnight rate steady at 0.50% in April and shifted to a “decidedly neutral” policy stance. The Bank acknowledged recent strengthening in economic indicators (which prompted an upward revision to their growth projections for the current year) but noted it is too early to conclude that stronger growth will be sustained. Uncertainty and downside risks, particularly surrounding US trade policy, were once again highlighted. The Bank continues to see signs of material excess capacity, but given an upgraded growth forecast, now projects the economy will reach full capacity in the first half of 2018—slightly earlier than previously expected. Our forecast also assumes slack will gradually be absorbed over the coming year, with the Bank likely to begin tightening monetary policy in the second quarter of 2018.





A degree of caution from the Bank seems warranted, particularly in light of increasingly protectionist rhetoric from the Trump Administration. Canada in particular has been a target recently with Trump singling out the country’s lumber, dairy and energy industries. And it isn’t all talk—the Congress Department slapped tariffs on Canadian softwood lumber exports, reigniting the decades-old debate and possibly signaling a tough stance on other trade issues. That concern, in addition to housing worries and a dip in oil prices, led investors to shy away from the Canadian dollar, which fell to a one-year low of 73 US cents in early-May. While we expect a return to gradually rising oil prices will provide some support to the currency, further US-Canada monetary policy divergence and trade threats are likely to keep CAD on the defensive. As such we have lowered our end of year forecast by a cent to 71.5.

FINANCIAL MARKETS

UK GROWTH SLOWED IN Q1 AS HOUSEHOLD INCOMES FLATTENED OUT

Josh Nye

HIGHLIGHTS

▲ UK inflation is set to overtake wage growth, putting pressure on household income and weighing on spending.

▲ Euro area survey data have improved strongly but the pickup in GDP growth has been a bit more modest.

▲ Australia's headline inflation rate rose to 2.1% in Q1 but core measures remain below the RBA's target range.

▲ With inflation now rising gradually we have removed the final rate cut from our RBNZ cash rate forecast.

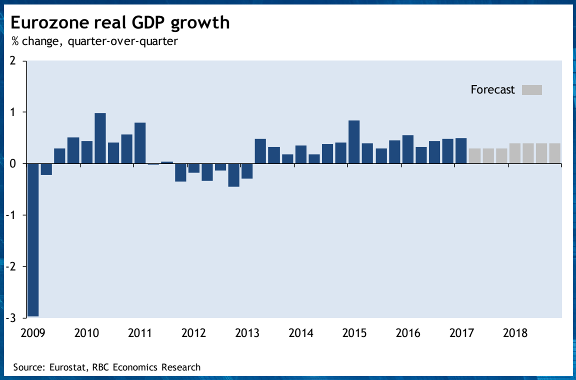
The advance estimate of Q1 UK GDP confirmed some loss of momentum to start 2017 with growth slowing to 0.3%, just half the pace recorded over the second half of last year. The slowdown is generally consistent with survey indicators that softened early in the year (particularly in the services sector) before rebounding somewhat in March and picking up further to start Q2. On an expenditure basis, some of the slowing likely reflected weaker consumer spending growth as moderate wage gains are now being fully offset by rising inflation, leaving real incomes flat. We expect consumers will continue to struggle this year, while business investment is also likely to soften as ongoing Brexit negotiations fuel uncertainty. Prime Minister May invoked Article 50 in late-March and early indications are that the divorce process will be contentious. May called an election, set for June 8, in an effort to strengthen the ruling Conservatives' mandate for Brexit negotiations. Polls indicating the Conservatives could secure a larger majority than in the last election have helped boost Sterling to multi-month highs, though we don't see that result having much impact on either the Brexit process or implications for the economic outlook.

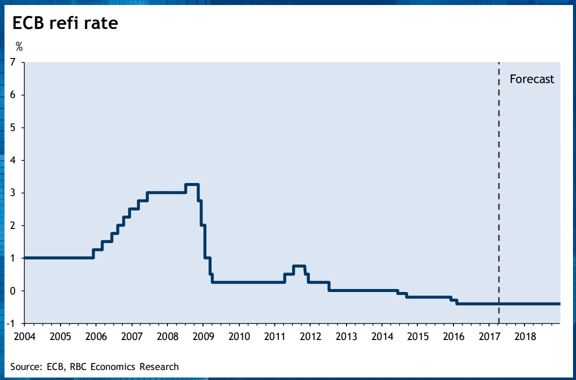
EURO AREA Q1 GDP CONFIRMS A SOLID START TO 2017

The preliminary 'flash' estimate of euro area GDP showed activity remained firm in Q1 with 0.5% growth matching the previous quarter's pace. Details are sparse in the initial release though available country-level data indicate France's rate of expansion slowed a bit (despite sharp improvement in PMI readings year-to-date) while Spain's economy maintained good momentum. Recent euro area survey data provide early evidence of modestly above-trend growth continuing in the second quarter—April's composite PMI picked up to a post-recession high while overall economic sentiment reached its best level in a decade. The improvement in sentiment so far this year should be sustained as political uncertainty wanes. The French presidential election—the most significant in a fairly busy political year for Europe—handed an important victory to pro-euro and pro-EU candidate Emmanuel Macron, greatly reducing the tail risk of EU disintegration. At the ECB's latest meeting, President Draghi took note of improving economic momentum but emphasized that conditions under which the ECB could begin to consider tightening policy, namely a sustained pickup in inflation across the currency bloc, have yet to be realized. There has been some chatter regarding policymakers' continued easing bias, though we think expectations of a change in language as early as June will go unrealized with the ECB unlikely to soften their stance amid little traction in core inflation.

RBA SOUNDING A BIT MORE OPTIMISTIC

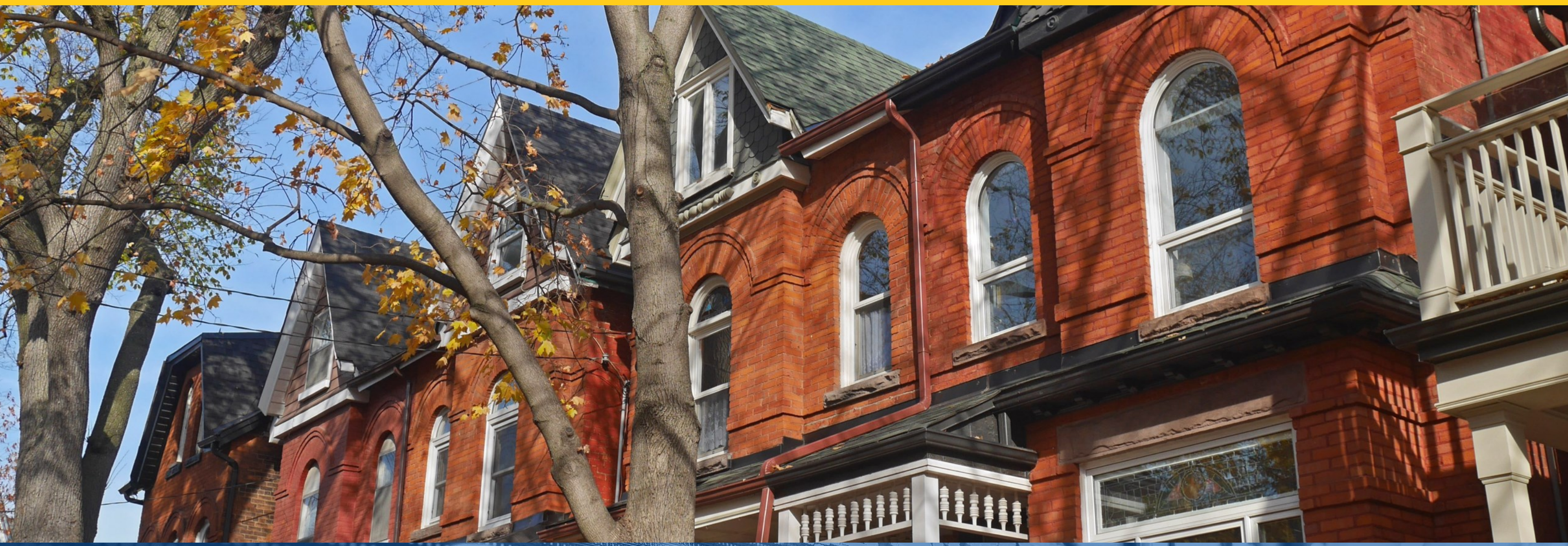
The RBA has shifted to a more positive tone in recent communications, clearly pleased with a strengthening global outlook and further recovery in Australia's terms of trade. The central bank is also encouraged by a solid streak of job gains over the last six months. However, with labour force participation picking up, the unemployment rate remains stuck at a one-year high. That is keeping wage growth muted, something the RBA sees as "likely to remain the case for a while yet" as GDP growth struggles to exceed potential. Core inflation is also showing little sign of capacity pressure; the RBA's preferred measures ticked up to 1.8% on average in Q1, though largely due to base effects. We are with the RBA in expecting underlying inflation will remain below the 2-3% target range well into next year. We think the persistence of sub-trend growth and below-target inflation will eventually lead to another rate cut, though the RBA will likely wait for housing to cool some (recent macroprudential tightening should help) before adding further monetary policy stimulus.





RBNZ EASING LIKELY DONE WITH INFLATION FINALLY PICKING UP

New Zealand's inflation rate jumped to 2.2% in Q1 from 1.3% in the prior quarter, marking the first time in seven years (excluding a policy-induced spike in 2010-11) that headline inflation has exceed the 2% midpoint of the RBNZ's target range. A good deal of the increase was in some of the more volatile components—higher food and energy prices pushed tradables inflation into positive territory after years of deflation—though underlying price pressure also appears to have picked up somewhat. The latter suggests above-trend growth last year helped remove some of the economy's excess capacity. That said, we don't expect a significant acceleration in core inflation anytime soon—employment growth has been strong but with the labour force keeping up the unemployment rate has struggled to break through cycle lows and wage growth remains muted. Nonetheless, strong activity growth and a gradual firming in underlying inflation will make it difficult for the RBNZ to maintain their mild easing bias. We now expect the current cash rate of 1.75% will prove to be the cycle low, having removed the Q4 rate cut from our forecast profile.



CURRENT ANALYSIS

MONTHLY HOUSING MARKET UPDATE

ROBERT HOGUE

CANADA’S HOUSING MARKET COOLED IN APRIL AS SUPPLY SURGED IN ONTARIO

- The preliminary verdict is in: Ontario’s Fair Housing Plan announced on April 20 appears to have had a noticeable rebalancing effect on that province’s market.
- Sellers came out of the woodwork in Ontario last month as new listings surged by 21.6% from April, the strongest increase on record.
- Despite sellers listing their properties in record numbers amid slower home resale activity (down 6.7% from March), Toronto-area prices continued to accelerate to a year-over-year rate of 31.7% in April.
- Persistent strength in Ontario prices drove the national index higher to 19.8% from 18.6% in March and 10.6% in April 2016.
- In the Vancouver area, on the other hand, price increases eased further to 11.4%, although this could be approaching a cyclical bottom given growing evidence that the restraining effects of earlier government measures are waning.
- Last month’s developments were consistent with our forecast of a moderation in home resales and price increases this year, although there is a fair degree of uncertainty about the impact of policy measures announced in April.

HOME RESALES EASED IN CANADA IN APRIL;...

Statistics from the Canadian Real Estate Association released this morning showed that home resales in Canada fell by 1.7% in April to 549,000 units (seasonally adjusted and annualized) from a record level of 558,400 units in March. Most of the decline occurred in Ontario, where activity dropped by 5.7%—the steepest monthly decline more than three years in that province—although a 9.9% rise in British Columbia provided some offset.

...HOWEVER, A SURGE IN LISTINGS WAS THE BIGGER NEWS

The more noteworthy market development in April was a sharp 10% rise in new listings in Canada, thereby representing the third significant increase in a row. Once again, it was Ontario (where new listings surged by 21.6% from the March level) that accounted for most of this increase. Within Ontario, the Toronto area saw an all-time high of 18,318 properties added to the for-sale inventory in April, or close to 5,000 more units than the monthly average during the past three years.

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	2.4	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	2.5	1.5	1.5	1.0	1.5	1.3	1.3	1.3	2.8	3.6	2.4	1.3
Semi-Durables	9.7	-1.8	2.9	5.9	2.8	2.4	2.0	1.8	1.8	1.8	1.8	2.0	2.3	4.4	2.9	1.9
Non-durables	3.4	3.5	2.0	0.7	2.8	2.5	2.3	2.0	1.8	1.8	1.8	2.0	0.8	1.7	2.2	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	10.0	-2.9	-4.5	-6.2	-3.3	-3.0	-1.6	-0.8	3.8	2.9	1.1	-3.6
Business investment	-8.6	-3.6	3.0	-17.4	8.5	2.9	3.0	3.6	3.9	3.8	2.6	2.4	-11.5	-8.4	-0.3	3.4
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	11.5	2.0	2.8	3.0	3.2	3.1	2.0	2.0	-3.3	-5.0	0.0	2.8
Final domestic demand	1.8	1.8	0.9	0.4	3.6	1.9	1.7	1.4	1.7	1.8	1.7	1.8	0.3	0.9	1.9	1.7
Exports	9.3	-14.8	9.4	1.3	1.4	2.4	2.8	3.8	3.7	4.4	2.3	1.6	3.4	1.1	1.8	3.3
Imports	3.5	1.1	4.8	-13.5	12.0	-1.0	2.8	3.0	2.7	2.7	2.3	1.9	0.3	-1.0	1.1	2.4
Inventories (change in $b)	-7.5	0.4	7.4	-4.4	12.0	4.9	4.8	6.4	6.5	6.1	6.7	6.7	3.9	-1.0	7.0	6.5
Real gross domestic product	2.7	-1.2	3.8	2.6	3.8	1.5	1.6	2.0	2.1	2.2	1.9	1.7	0.9	1.4	2.4	2.0
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.4	1.1	1.3	1.4	1.9	1.2	1.2	1.1	1.2	1.3	1.3	-0.2	0.6	1.4	1.2
Pre-tax corporate profits	-10.2	-15.3	-3.0	12.0	17.7	30.1	12.2	5.9	0.7	3.3	3.2	2.9	-19.5	-4.5	15.8	2.5
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.7	6.6	6.6	6.6	6.5	6.5	6.4	6.4	6.9	7.0	6.6	6.5
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	1.9	2.2	2.5	2.5	2.3	2.3	2.1	2.2	1.1	1.4	2.3	2.2
Core CPI	2.0	2.1	1.9	1.6	1.5	1.6	1.7	2.1	2.1	2.1	2.2	2.2	2.2	1.9	1.7	2.2
External trade																
Current account balance ($b)	-71.3	-77.6	-79.0	-42.9	-52.7	-45.6	-43.5	-40.9	-37.3	-31.4	-29.0	-27.0	-67.6	-67.7	-45.7	-31.2
% of GDP	-3.6	-3.9	-3.9	-2.1	-2.5	-2.1	-2.0	-1.9	-1.7	-1.4	-1.3	-1.2	-3.4	-3.3	-2.1	-1.4
Housing starts (000s)*	199	198	199	197	225	203	200	194	188	182	179	175	196	198	205	181
Motor vehicle sales (mill., saar)*	2.02	1.99	1.95	1.99	2.11	1.98	1.91	1.90	1.90	1.90	1.89	1.89	1.94	1.98	1.98	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	0.52	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	0.80	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	1.12	1.20	1.45	1.75	2.05	2.30	2.45	2.60	0.73	1.15	1.75	2.60
10-year	1.23	1.06	1.00	1.80	1.62	1.80	2.05	2.30	2.55	2.80	2.95	3.10	1.40	1.80	2.30	3.10
30-year	2.00	1.72	1.66	2.35	2.30	2.35	2.60	2.85	3.00	3.20	3.30	3.45	2.15	2.35	2.85	3.45
Canadian dollar	1.30	1.29	1.31	1.34	1.33	1.38	1.39	1.40	1.38	1.36	1.35	1.33	1.38	1.34	1.40	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	0.3	2.8	2.5	2.4	2.6	2.4	2.1	2.0	3.2	2.7	2.4	2.4
Durables	-0.6	9.8	11.6	11.4	-2.5	4.5	3.1	3.1	3.0	2.7	2.1	2.1	6.9	5.8	4.8	2.9
Non-durables	2.1	5.7	-0.5	3.3	1.5	1.9	2.8	2.8	3.1	2.8	2.2	2.0	2.6	2.5	2.2	2.7
Services	1.9	3.0	2.7	2.4	0.4	2.8	2.3	2.2	2.4	2.2	2.1	2.0	2.8	2.3	2.0	2.3
Government spending	1.6	-1.7	0.8	0.2	-1.7	1.2	1.2	1.0	0.6	0.4	0.4	0.4	1.8	0.8	0.0	0.7
Residential investment	7.8	-7.8	-4.1	9.6	13.7	3.6	3.0	5.5	5.7	6.4	6.6	6.3	11.7	4.9	5.4	5.5
Business investment	-3.4	1.0	1.4	0.9	9.4	4.4	4.3	4.4	4.3	3.9	3.1	2.8	2.1	-0.5	4.3	4.0
Non-residential structures	0.1	-2.1	12.0	-1.9	22.1	3.2	4.0	4.5	4.5	3.8	2.9	2.3	-4.4	-2.9	7.5	3.9
Non-residential equipment	-9.5	-3.0	-4.5	2.0	9.1	5.4	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-2.9	3.7	4.4
Intellectual property	3.8	9.0	3.2	1.3	2.0	3.9	3.8	3.7	3.4	3.3	3.2	3.0	4.8	4.7	3.1	3.5
Final domestic demand	1.2	2.4	2.1	2.8	1.5	2.8	2.5	2.5	2.6	2.4	2.1	2.0	3.1	2.1	2.3	2.4
Exports	-0.7	1.8	10.0	-4.5	5.8	-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	8.9	4.1	3.5	1.2	2.5	3.1	2.9	3.5	3.0	4.6	1.1	3.9	2.8
Inventories (change in $b)	40.7	-9.5	7.1	49.6	10.3	37.0	35.0	33.0	28.0	28.0	28.0	27.0	84.0	22.0	28.8	27.8
Real gross domestic product	0.8	1.4	3.5	2.1	0.7	2.9	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.1	2.3
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	0.1	-0.3	0.1	1.2	1.0	1.5	0.9	0.6	1.4	1.3	1.2	1.2	0.8	0.3	1.0	1.3
Pre-tax corporate profits	-6.6	-4.3	2.1	9.3	5.7	7.2	2.1	2.3	3.1	3.0	2.7	2.4	-3.0	-0.1	4.3	2.8
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.5	4.5	4.5	4.5	4.5	4.4	4.4	5.3	4.9	4.5	4.5
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	2.4	2.5	2.3	2.0	2.3	2.2	2.2	0.1	1.3	2.4	2.2
Core CPI	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.2	2.1	2.2	2.1	2.1	1.8	2.2	2.1	2.1
External trade																
Current account balance ($b)	-532	-479	-464	-450	-454	-482	-489	-500	-509	-517	-525	-530	-463	-481	-481	-520
% of GDP	-2.9	-2.6	-2.5	-2.4	-2.4	-2.5	-2.5	-2.5	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.5	-2.6
Housing starts (000s)*	1151	1159	1145	1248	1253	1230	1241	1271	1300	1333	1362	1396	1108	1176	1249	1348
Motor vehicle sales (millions, saar)*	17.3	17.1	17.5	18.0	17.2	17.3	17.7	17.9	18.0	18.2	18.1	18.2	17.4	17.5	17.5	18.1
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	1.00	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	1.27	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	1.93	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	3.02	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	113	120	120	110	100	100	90	80	121	130	110	80

*Quarterly averages, level

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

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATORS

	Canada: FROM PRECEDING MONTH	Canada: FROM YEAR AGO	Canada: YEAR-TO-DATE	Canada: LATEST MONTH	US: FROM PRECEDING MONTH	US: FROM YEAR AGO	US: YEAR-TO-DATE	US: LATEST MONTH
Business								
Industrial production*	-0.4	3.9	-0.1	Feb.	1.0	2.1	-0.8	Apr.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Mar.	1.4	1.4	1.4	Mar.
New orders in manufacturing	2.6	17.6	-1.1	Mar.	0.5	6.3	-3.8	Mar.
Business loans - Banks	1.7	1.1	7.5	Mar.	0.5	2.6	9.3	Apr.
Index of stock prices**	0.2	11.7	0.0	Apr.	-0.3	13.7	5.8	Apr.
Households								
Retail sales	0.7	6.9	4.3	Mar.	0.4	4.5	2.7	Apr.
Auto sales	3.1	7.3	2.8	Mar.	1.9	-9.6	-6.6	Apr.
Total consumer credit***	0.4	3.6	3.0	Feb.	0.4	6.0	6.6	Mar.
Housing starts	-15.5	13.0	2.5	Apr.	-2.6	0.7	7.5	Apr.
Employment	0.0	1.5	0.9	Apr.	0.1	1.4	1.6	Apr.
Prices								
Consumer price index	0.4	1.6	1.3	Apr.	0.2	2.2	1.00	Apr.
Producer price index****	0.8	5.1	0.0	Mar.	0.6	3.9	-1.3	Apr.
Interest rates								
Policy rate	0.5	0.5	0.5	Apr.	0.88	0.88	0.75	Apr.
90-day commercial paper rates	0.8	0.8	0.9	Apr.	0.9	0.9	0.9	Apr.
Government bonds - (10 years)	1.6	1.6	1.8	Apr.	2.2	2.2	2.4	Apr.

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