ECONOSCOPE

November 2017

PLENTY OF POSITIVES FOR CANADA'S LABOUR MARKET

HIKING, FAST AND SLOW

US POSTS SOLID Q3 GROWTH DESPITE HURRICANE DISRUPTIONS

CANADIAN ACTIVITY GEARED DOWN IN THE THIRD QUARTER

CANADA'S HOUSING MARKET ACTIVITY INCHED HIGHER IN SEPTEMBER

ECONOSCOPE

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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

Josh Nye
ECONOMIST
FINANCIAL MARKETS AND MACROECONOMICS

Gerard Walsh
ECONOMIST
SECTOR ANALYSIS AND PROVINCIAL ECONOMIES

Joseph Allegritti
RESEARCH ASSOCIATE

Mathias Hartpence
ECONOMIST
POLICY LEAD

Rannella Billy-Ochieng'
ECONOMIST

EDITOR
Brian Waterman
rbceconomicsresearch@rbc.com

SUBSCRIPTION INFORMATION
rbceconomicsresearch@rbc.com

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CURRENT TRENDS

Paul Ferley, Dawn Desjardins, Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ August GDP unexpectedly dropped 0.1% following July's disappointing flat reading.

▲ Employment rose 35k in October, the 11th consecutive monthly increase and the best gain since June.

▲ Retail sales unexpectedly dropped 0.3% in August following a 0.4% gain in July.

▲ Housing starts slipped to a still-strong 217k annualized units in September from 226k in August. The year-to-date average of 217k is well above 2016's 198k pace.

▲ Canada's nominal merchandise trade deficit held steady at an elevated $3.2 billion in September.

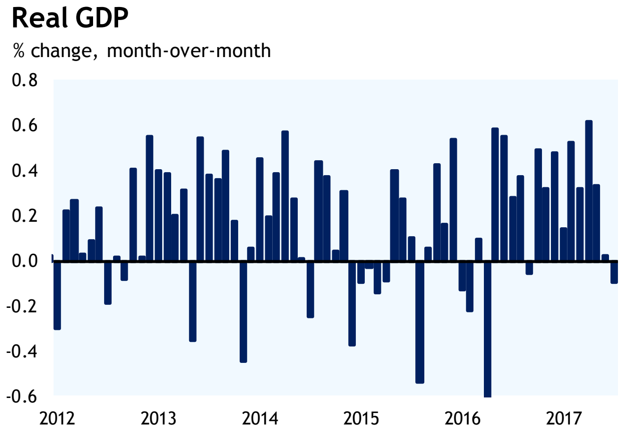
▲ The year-over-year increase in all items CPI rose to 1.6% in September from 1.4% in August.

CANADIAN ECONOMY UNEXPECTEDLY DIPS IN AUGUST

LATEST AVAILABLE: AUGUST

RELEASE DATE: OCTOBER 31, 2017

August GDP unexpectedly dropped 0.1% following July's disappointing flat reading. Expectations going into the report were for a 0.1% increase. A key downward surprise was the 1.0% decline in manufacturing activity with the chemical component particularly weak. Some of the latter weakness was attributed to maintenance shutdowns which will eventually reverse though Statistics Canada also highlighted lower export demand. Mining activity was also weaker than expected dropping 0.8% with conventional oil and gas extraction sinking 5.2%. This weakness was partly attributed to maintenance shutdowns in some Newfoundland and Labrador production facilities. Service-producing industries managed an increase though the 0.1% gain was down from the 0.2% average gain evident over the last three months. Q3 GDP annualized growth is expected to remain positive though dropping to 1.7% from Q2's 4.5%.



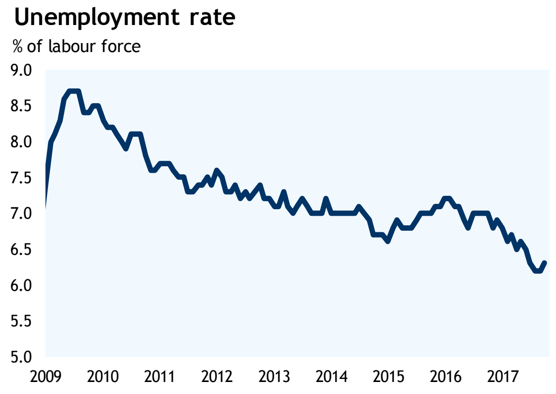
Source: Statistics Canada

PLENTY OF POSITIVES AS CANADA'S LABOUR MARKET CONTINUED TO IMPROVE IN OCTOBER

LATEST AVAILABLE: OCTOBER

RELEASE DATE: NOVEMBER 3, 2017

Employment rose 35K in October, the 11th consecutive monthly increase and the best gain since June. Despite solid hiring, the unemployment rate edged up to 6.3% as more people looked for work. Wage growth picked up to 2.4% year-over-year from as low as 0.5% in April. October's rise was helped by minimum wage hikes in six provinces, all of which were larger than last year's increases. Most of October's job growth reflected a broadly-based increase in goods sector employment, led by the construction industry. The services sector, which has accounted for most of Canada's job growth over the last year, was closer to flat.



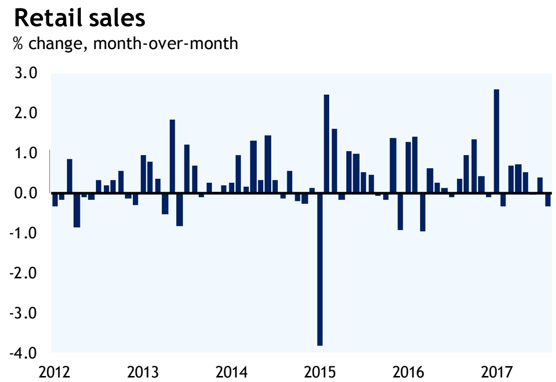
Source: Statistics Canada

CANADIAN RETAIL SPENDING FALTERS IN AUGUST

LATEST AVAILABLE: AUGUST

RELEASE DATE: OCTOBER 20, 2017

Retail sales unexpectedly dropped 0.3% in August following a 0.4% gain in July. The decline in the more recent month was relatively broadly based led by a 2.5% plummet in sales at food stores that almost fully reversed cumulative gains over the previous four months. StatsCan commented on the weakness evident in housing-related sales components with building materials down 1.9% and furniture store sales off 2.4%. Eliminating the impact of overall price changes the volume of retail sales dropped a disappointing 0.7% following the 0.1% decline in July. This represents a sharp shift from the average monthly increase through Q2 of 0.5%. Though the earlier strength will still allow the Q3 consumer spending growth rate to increase, the pace seems likely to drop to 1 1/2% from the 4.7% average gain achieved over the first two quarters of this year.



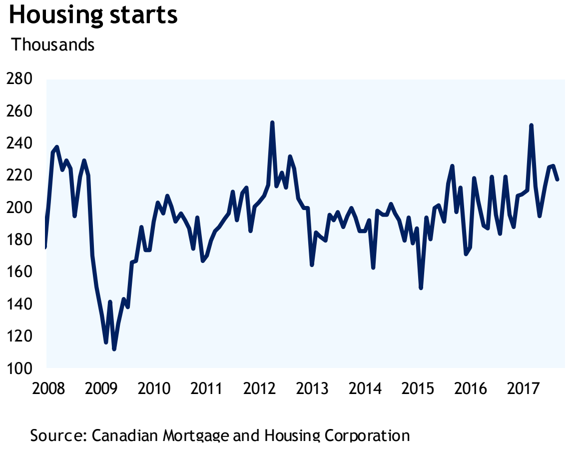
Source: Statistics Canada

CANADIAN HOUSING STARTS REMAIN STRONG IN THE FACE OF SLOWER RE-SALES

LATEST AVAILABLE: SEPTEMBER

RELEASE DATE: OCTOBER 10, 2017

Housing starts slipped to a still-strong 217K annualized units in September from 226K in August. The year-to-date average of 217K is well above 2016's 198K pace. The decline was in multi-unit starts although that component still posted its strongest quarterly pace on record in Q3. Single-unit starts picked up to a six-month high in September. On a regional basis, Ontario accounted for almost all of the monthly decline with starts pulling back following three consecutive monthly gains. In a separate report, building permits fell to 214K annualized units in August from 235K in July.

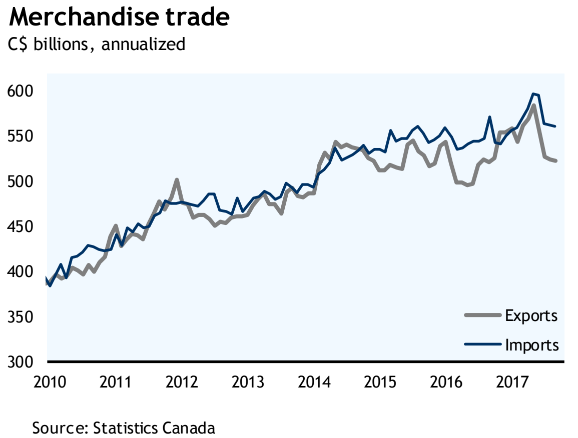


CANADA'S TRADE DEFICIT HELD STEADY AT -$3.2 BILLION IN SEPTEMBER

LATEST AVAILABLE: SEPTEMBER

RELEASE DATE: OCTOBER 5, 2017

Canada's nominal merchandise trade deficit held steady at an elevated $3.2 billion in September. Energy exports rose 4.6% but that was offset by a fourth consecutive monthly drop in non-energy shipments. Import growth has also softened but — unlike exports — not enough to retrace earlier strength. We continue to expect GDP growth in Canada slowed in Q3 from the outsized pace of growth over the past year but still look for slightly 'above-potential'.



CANADIAN INFLATION SHOWED LITTLE DIRECTION IN SEPTEMBER

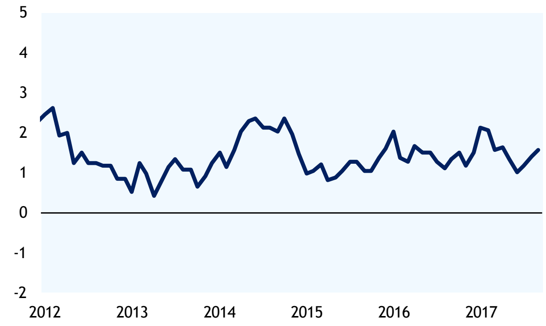
LATEST AVAILABLE: SEPTEMBER

RELEASE DATE: OCTOBER 20, 2017

The year-over-year increase in all items CPI rose to 1.6% in September from 1.4% in August. Much of the increase in headline inflation reflected higher energy prices as hurricane-related refinery shutdowns in the US put upward pressure on gasoline prices. Rising food prices were also a factor with that component continuing to rebound from multi-decade lows earlier this year. Year-over-year inflation excluding food and energy fell to 1.2%, its lowest reading since 2014, as clothing and footwear price deflation intensified. Just one of the Bank of Canada's three preferred core measures rose in September, with the average unchanged at 1.6% after rounding.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Lastest month	Previous month	Year ago
Real GDP	Aug	-0.1	3.5
Industrial production	Aug	-0.9	5.6
Employment	Oct	0.2	1.7
Unemployment rate*	Oct	6.3	7.0
Manufacturing			
Production	Aug	-1.0	3.0
Employment	Oct	0.4	3.0
Shipments	Aug	1.6	4.3
New orders	Aug	4.4	6.8
Inventories	Aug	0.0	5.4
Retail sales	Aug	-0.3	6.9
Car sales	Aug	2.1	7.0
Housing starts (000s)*	Sep	217.3	195.7
Exports	Sep	-0.3	0.3
Imports	Sep	-0.3	-2.0
Trade balance ($billlions)*	Sep	-3.2	-4.3
Consumer prices	Sep	0.2	1.6

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

HIKING, FAST AND SLOW

Josh Nye

"Meanwhile, the Bank of Canada surprised observers by raising rates in July and September, but just when markets caught up to the notion of a tightening cycle, the central bank tapped the brakes in October."

The days of rock-bottom interest rates are coming to an end in several economies but that doesn't mean central banks have returned to the relatively consistent, predictable tightening cycles of the past. Take the Federal Reserve—they first raised rates at the end of 2015 but waited a full year before following up with another move. Then after lifting rates at every other meeting earlier this year, the Fed hit pause to begin shrinking their balance sheet. We think they'll get back to raising rates, their main policy tool, in December and look for quarterly increases to resume in 2018. But the committee's 'dot plot' projections show a wide range of views on how much policy should tighten next year, and new leadership at the Fed adds an extra bit of uncertainty.

Meanwhile, the Bank of Canada surprised observers by raising rates in July and September, but just when markets caught up to the notion of a tightening cycle, the central bank tapped the brakes in October. While a tightening bias remains, concerns about Nafta renegotiation and low inflation have markets convinced that monetary policy is on hold into next year. Across the pond, the Bank of England raised their benchmark rate for the first time in a decade but indicated that any additional tightening will be gradual and limited. With lingering Brexit uncertainty weighing on the UK's economic outlook, it looks like it could be 'one and done' for now—we don't see any further moves from the BoE through next year.

Others remain committed to highly stimulative monetary policy. The European Central Bank just extended asset purchases into next year, albeit at a reduced pace, while the Bank of Japan remained firmly on the sidelines with their negative interest rate policy. We're still a ways away from those central banks undertaking their own tightening cycles. But if their global counterparts are anything to go by, the process will be gradual, data dependent, and likely uneven.

FINANCIAL MARKETS

US POSTS SOLID Q3 GROWTH DESPITE HURRICANE DISRUPTIONS

Josh Nye

HIGHLIGHTS

- ▲ The US economy recorded another quarter of 3% growth in Q3 despite hurricane-related disruptions.
- ▲ Severe weather likely weighed on housing in Q3, but the sector was already slowing earlier this year.
- ▲ With the little change in the Fed's November policy statement, we remain of the view that tightening will resume in December.
- ▲ Fed Governor Powell has been nominated to succeed Yellen as chair. His appointment is more status-quo than some of the other names outside the Fed that were floated.

US GDP growth surprised to the upside in Q3 with a 3.0% annualized increase. That was little changed from a 3.1% gain in Q2 despite activity having been weighed down by hurricane-related disruptions in late-August and early-September. Severe weather was likely a factor in declines in residential investment and business spending on structures. Other areas of the economy remained strong with consumer spending up 2.4% and business equipment investment rising by more than 8% for a second consecutive quarter. We expect GDP growth will remain above-trend in Q4, abetted by a modest post-hurricane boost as economic activity returns to normal levels and rebuilding begins in affected areas. There was already some evidence of a bounceback with personal spending jumping in September as a rush to replace flood-damaged cars spurred decade-high auto sales in the month.

HOUSING RECOVERY HITS PAUSE, EXPECTED TO RESUME NEXT YEAR

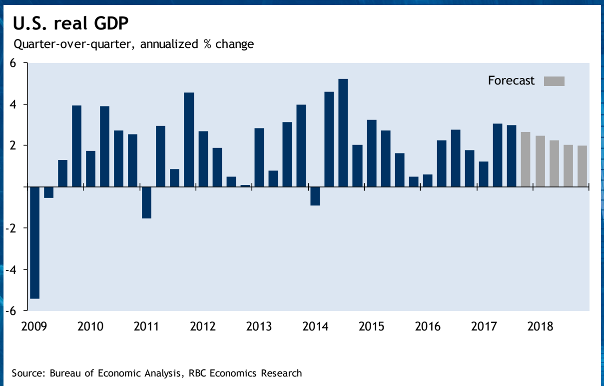
While some of the residential sector's Q3 weakness can be pinned on hurricane-related disruptions, the US economy's multi-year housing recovery appeared to stall prior to any weather effects. Both housing starts and existing home sales declined in each of the last two quarters, with the latter hitting a one-year low in Q3. A dip in pending home sales limits prospects for a near-term rebound, and factors like low inventories and rising interest rates that have crimped resales aren't going away anytime soon. The residential construction outlook is a bit more positive. Homebuilder confidence remains close to cycle highs, and solid permit issuance points to stronger activity in the multi-unit segment that has accounted for all of the recent slowing in housing starts. Construction could also get a near-term boost from rebuilding efforts following recent hurricanes. More generally, a number of factors continue to support the housing outlook—elevated consumer confidence, a strong labour market, and further easing lending standards. As such, we think the housing sector should get back to providing a consistent lift to GDP growth in 2018.

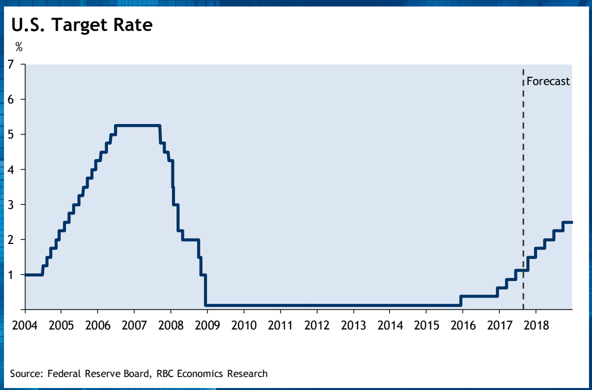
FED APPEARS ON TRACK TO RAISE RATES IN DECEMBER…

The Fed held rates steady in November, once again showing no inclination to change monetary policy at a nonpress-conference meeting. The updated policy statement was plain vanilla with a nod to some transitory hurricane effects—higher inflation and lower employment—and a decent Q3 growth outturn despite weather-related disruptions. The usual themes of a strong labour market and soft inflation were unchanged, with the latter still expected to hit the Fed's 2% objective over the medium term. The policy statement made no overt signal that rates will rise in December but that didn't hurt the odds of such a move. The Fed's forecasts from September remain largely on track—if anything there is a bit of upside to their GDP forecast for the current year after GDP growth held up at 3% in Q3. Inflation continues to be disappointing but is not far from what the Fed has penciled in for the end of the year. All told, we see little reason for the 12 of 16 FOMC members who thought another rate hike would be warranted by end of year to change their minds. Markets are of the same view with a December rate increase almost fully priced in.

…AS A NEW CHAIR IS SET TO TAKE OVER IN FEBRUARY

We continue to think steady but gradual rate hikes are in store next year. However, the Fed's 'dot plot' shows a wide range of views on how much tightening will likely be appropriate. A change of leadership at the Fed adds an extra dose of uncertainty, though the nomination of Jerome Powell as chair is certainly more status-quo than some of the





other names outside the Fed that were floated. Powell has been a member of the Fed's Board of Governors since 2012, with most of that tenure under Chair Yellen's leadership. The two are seen as favouring a similar monetary policy prescription. That is, Powell is likely to continue with a gradual approach to normalizing interest rates and a slow, predictable shrinking of the Fed's balance sheet. The main difference between Chair Yellen and Governor Powell is in regards to financial system regulation, with the latter favouring a lighter regulatory touch. All told, we haven't changed our interest rate outlook based on Powell assuming the role of chair next February though we will watch his comments closely for any indications of a break from Yellen's thinking on monetary policy.

FINANCIAL MARKETS

CANADIAN ACTIVITY GEARED DOWN IN THE THIRD QUARTER

Josh Nye

HIGHLIGHTS

- ▲ An unexpected decline in August GDP trimmed our Q3 forecast. We now expect a near-trend 1.7% increase in the latest quarter, down from a 4% pace in H1/17.
- ▲ Thanks to stronger growth earlier this year, the federal government was able to increase spending while still projecting smaller budget deficits.
- ▲ The BoC held interest rates steady as expected following consecutive rate hikes at the prior two meetings.
- ▲ Despite the economy running close to full capacity, the BoC remains concerned about downside risks to the inflation outlook.

Canadian GDP surprised on the downside in August, slipping 0.1% following a flat reading in July. Growth has clearly come off the boil following an average annualized pace of more 4% over the first half of the year. Current data points to a near-trend increase of 1.7% in Q3. We think the slowdown reflects a more sustainable pace of consumer spending, which would be consistent with a moderation in job growth last quarter. Trade is expected to have been a drag on activity with exports retracing Q2's 10% gain. More encouragingly, business investment likely remained strong with sales and imports of machinery and equipment continuing to post solid gains. Exports and capex will be relied on to return growth to an above-potential pace as contributions from consumers and housing are hampered by higher interest rates and housing policy changes.

STRONG ECONOMY ALLOWS FOR SMALLER DEFICITS, MORE SPENDING

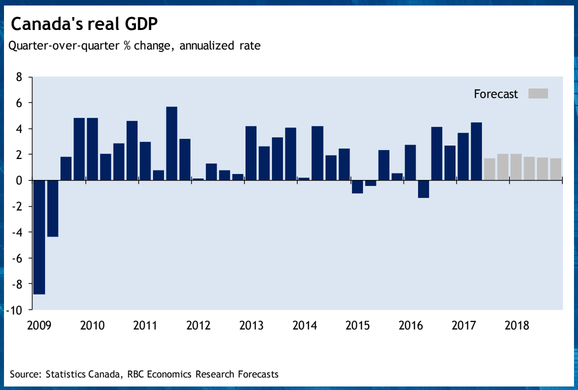
The federal government issued its fall economic statement in late-November, providing an update on the state of finances between official budgets. Thanks to the country's G7-beating growth over the last year, higher government revenues provided a fiscal dividend that could be spent on programs and tax cuts, or saved through smaller deficits. In the end the government opted for a combination of the two, spending about a third of the $46.6 billion in additional fiscal room while still showing $33 billion less in cumulative borrowing over the next five years. There were no big ticket spending items—rather, a few billion dollars went to earlier indexation of Canada Child Benefit payments, support for lower-income workers and the earlier-announced small business tax cuts.

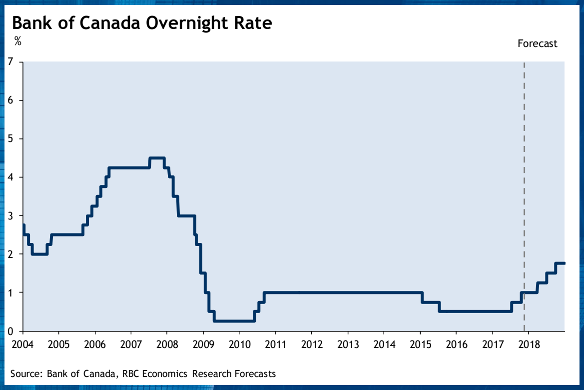
Even with stronger growth trimming the government's deficit projections, there is no return to balance in sight with a $12.5 billion shortfall penciled in for fiscal year 2022/23. A growing economy will help reduce the overall debt burden, with the federal debt-to-GDP ratio expected to trend lower in the coming years. But it is still a bit surprising for the government to refrain from targeting a return to balance, particularly at this stage in the business cycle when government revenues are high, the economy is close to full capacity and pro-cyclical fiscal policy isn't needed to shore up growth. So while there were some positives to take away from the fall update, we would prefer to see a bit more discipline in the form of even smaller deficits and a timetable for a return to balance.

BANK OF CANADA: THE DOVE IS IN THE DETAILS

After two consecutive rate hikes over the summer, a less hawkish tone from Governor Poloz and crew trimmed the odds of a follow-up move in October. Market expectations were vindicated with the Bank of Canada holding their benchmark interest rate at 1%. The bones of the policy statement and updated projections weren't all that dovish—the economy is operating close to capacity, above-trend growth is expected to continue and thus "less monetary policy stimulus will likely be required over time." But there was little evidence of the urgency that saw policymakers rush to raise rates in Q3. While maintaining a positive view on the economic outlook, Governor Poloz noted risks surrounding Nafta renegotiation, as well as uncertainty about how highly-indebted households would respond to the bank's recent tightening.

The theme of uncertainty was even more prevalent with regards to the inflation outlook. The bank investigated whether technology and globalization are weighing on inflation, and while finding little evidence that structural factors are at play, policymakers fell short of dismissing those issues entirely. Governor Poloz also noted that, even though businesses are running near full capacity, there is still some slack in labour markets to be absorbed that is preventing wag-





es from growing faster. The bank thinks productivity-boosting business investment will provide a bit more room to grow without generating inflationary pressure. And thanks to a stronger currency, policymakers now see inflation remaining below their 2% target well into next year. Their audible concerns about the inflation outlook further reduced market expectations for near-term rate hikes and pushed the Canadian dollar 1% lower. We agree that it looks like the bank will be a bit more patient in removing accommodation but continue to think a near-capacity economy calls for higher interest rates. Our forecast now assumes the BoC will remain on the sidelines for the next couple of meetings before resuming a tightening cycle in the second quarter of 2018. A slightly slower pace of hikes prompted us to lower our Canadian dollar forecast, with the currency now expected to dip to 75 US cents early next year before recovering as the BoC resumes raising rates.

FINANCIAL MARKETS

BOE RAISES RATES, BUT DON'T EXPECT A FOLLOW-UP ANYTIME SOON

Josh Nye

HIGHLIGHTS

- ▲ The UK economy's upside surprise in Q3 further paved the way for the BoE to raise rates in November.
- ▲ The euro area economy was characterized by familiar themes in Q3: above-trend growth and below-target inflation.
- ▲ With their inflation objective nowhere in sight, the ECB announced asset purchases will continue next year.
- ▲ Australia's inflation data continued to show few signs of underlying price pressure, reinforcing the RBA's accommodative stance.

The Bank of England voted 7-2 to raise their policy rate in November, the first 25 basis point increase in a decade. The move undid last year's rate cut that followed the Brexit referendum. With the economy operating near capacity—the unemployment rate of 4.3% is below estimates of its longer run level—the central bank had been signaling it might soon be appropriate to withdraw some stimulus. That view was reinforced by an upside surprise in GDP, with growth picking up to 0.4% in Q3 from 0.3% in each of the prior two quarters. While Brexit uncertainty continued to weigh on the economy, a strengthening industrial sector, particularly manufacturing activity, helped lift growth in the latest quarter.

The Bank of England's November move was seen as a dovish hike with Sterling falling 1% after the announcement. The market reaction can be attributed to the BoE's forward guidance, which indicates any further moves will be gradual and "to a limited extent." They also dropped an earlier reference to markets under-pricing future tightening. And policymakers were a bit more explicit in their concerns about Brexit, which is weighing on domestic activity and constraining investment and labour supply. With little progress in negotiations thus far, we remain of the view that Brexit risks will keep the BoE cautious in removing accommodation, even as inflation remains above target and the economy near capacity. We don't see any follow up to November's rate hike next year.

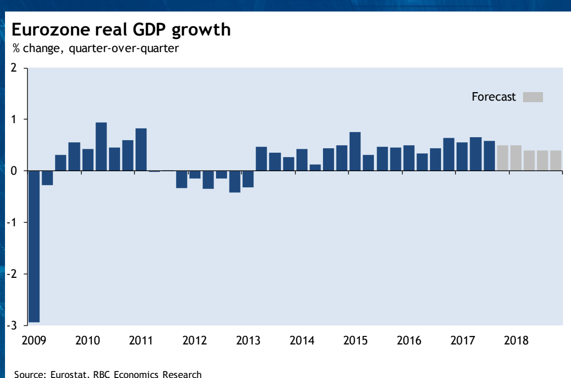
ECB EXTENDS QE AS STRONGER GROWTH YET TO LIFT INFLATION

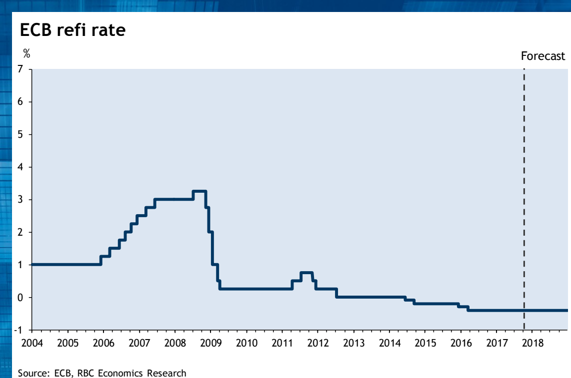
Euro area GDP surprised to the upside with a 0.6% non-annualized increase in Q3. A similar, above-trend pace over the prior three quarters left output 2.5% above its year-ago level, the strongest increase since 2011 when activity rebounded following the global recession. Above-trend growth appears to have continued into Q4—early survey data for October showed some signs of moderation but are consistent with activity remaining only slightly below Q3's pace. Some of the softening in sentiment likely reflects less optimism in Spain amid political upheaval in Catalonia. Those developments bear watching as Spain has been one of the euro area's fastest-growing economies in recent quarters. Solid growth continues to be accompanied by a strengthening labour market. The euro area unemployment rate fell to 8.9% in September, the first sub-9% reading since the start of 2009. Wage growth remains muted, however, and in a familiar theme, there is little evidence of above-trend activity translating into higher inflation. In fact, inflation surprised to the downside in October, with the year-over-year rate of core inflation falling below 1% for the first time since May.

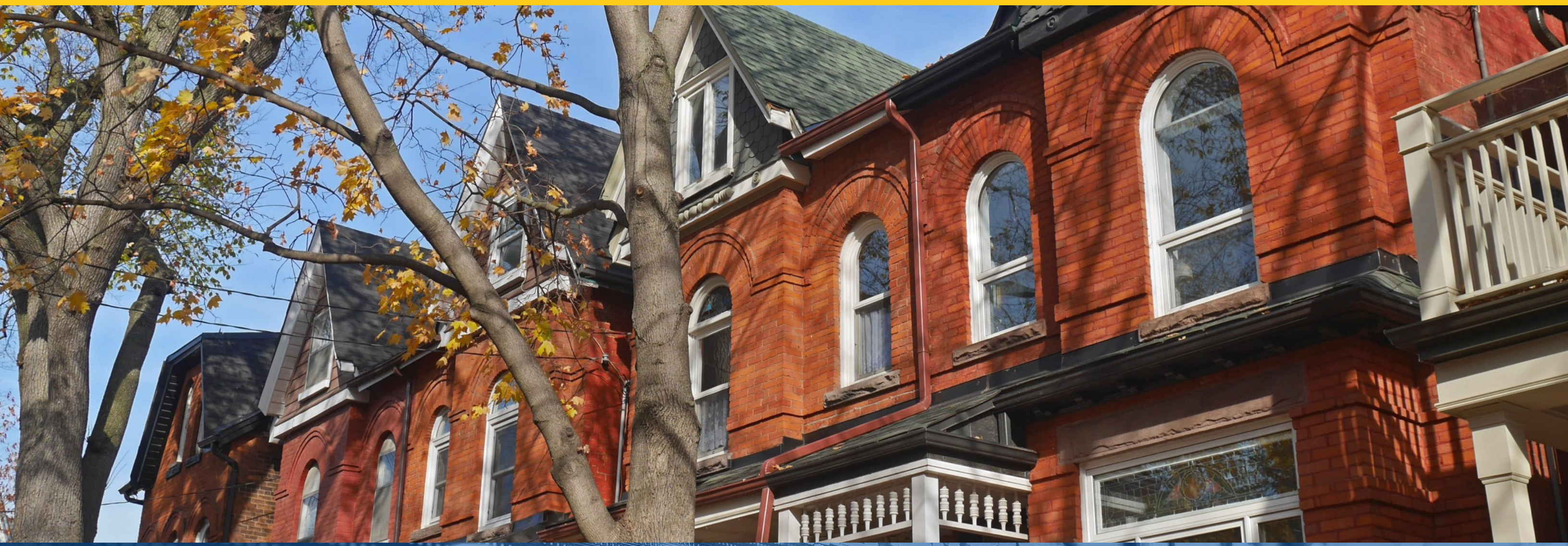
With few signs that inflation is heading toward their target, the European Central Bank remains committed to stimulative monetary policy. As expected, the central bank announced in October that their asset purchase program would be extended into next year. Quantitative easing is now scheduled to continue at least through September 2018, albeit with the monthly pace of purchases being trimmed to €30 billion starting in January from €60 billion currently. Given the ECB's forward guidance that interest rates will remain at present levels well beyond the horizon of net asset purchases, higher policy rates remain off the table at least through 2018.

ANOTHER WEAK INFLATION REPORT WILL KEEP THE RBA SIDELINED

Australia's headline inflation rate edged down to 1.8% year-over-year in Q3, falling short of both market and central bank expectations. The decline was despite upward pressure from a regulated increase in utility prices. In fact, regulated services prices continue to provide much of the impetus for inflation, with nontradables up more than 3% from a year ago. That was offset by renewed downward pressure on tradables inflation in Q3 due to a stronger Australian dollar. Core price measures remained weak, averaging slightly below the Reserve Bank of Australia's 2-3% target range—as has been the case for two years now. We see little prospect of inflation picking up in the near-term given slow wage growth and relatively flat unit labour costs. While the trough in wage growth is likely behind us, we'll need to see a continuation of strong job gains and a decline in the unemployment rate below its recent range for labour market conditions to begin feeding through to consumer prices. Until then, the RBA is likely to see underlying inflation remaining on the low side of target and thus little need to raise the cash rate from its current, record-low.







CURRENT ANALYSIS

MONTHLY HOUSING MARKET UPDATE

ROBERT HOGUE

CANADA'S HOUSING MARKET ACTIVITY INCHED HIGHER IN SEPTEMBER; PRICE PRESSURES CONTINUE TO EASE

- September's statistics provided more evidence that Canada's housing market isn't falling apart.
- Home resales rose modestly for the second-straight month in September, led by gains in Vancouver and Toronto.
- A strong increase in new listings tempered demand-supply conditions slightly—but conditions remained balanced overall.
- Price appreciation continued to moderate on a year-over-year basis.
- In Toronto, there was positive news for both sellers and buyers. Resales advanced for a second-consecutive month and new listings surged. Prices remained under downward pressure though this pressure is now easing.
- Developments in Vancouver favoured sellers. A sharp increase in resales tightened the market further, providing more fuel for prices to accelerate.
- September market results are generally consistent with our view that Canada's housing market is adjusting constructively to policy actions taken in the past year. We expect further cooling to take place next year in the face of rising interest rates and poor affordability in certain regions.

SEPTEMBER OFFERED WHAT WE WANTED TO SEE

Two months may not make a trend but give a strong indication that Canada's housing market isn't caught in a downward spiral. Statistics published by the Canadian Real Estate Association (CREA) this morning showed that home resales rose for a second-straight month by 2.1% in Canada in September on a seasonally-adjusted basis. This increase provides early evidence that the four-month slide that occurred between April and July has run its course. At the same time, it signals that the ongoing moderation in prices—a positive development—will remain under control. In short, both are pretty much what we were hoping to see: signs of market stability and further price relief.

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	4.8	4.6	1.5	1.7	1.5	1.4	1.4	1.5	1.9	2.4	3.4	1.7
Durables	5.9	-3.1	0.2	10.2	13.6	9.4	1.0	1.0	1.5	1.3	1.3	1.3	2.8	4.1	6.9	1.7
Semi-Durables	6.0	-2.3	2.9	5.0	7.1	16.5	1.3	1.8	1.4	1.3	1.4	1.5	2.3	3.4	6.2	2.3
Non-durables	3.6	5.2	2.1	0.9	2.9	4.5	1.0	2.0	1.4	1.3	1.3	1.5	0.8	2.1	2.6	1.6
Services	0.7	2.9	4.1	2.0	3.4	2.1	1.9	1.8	1.7	1.5	1.5	1.6	2.1	2.0	2.6	1.7
Government expenditures	3.9	4.7	-1.7	1.3	1.1	2.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.3	2.2
Residential investment	9.8	1.1	-5.1	6.3	12.3	-4.7	0.0	0.4	-3.0	-5.9	-4.4	-2.8	3.8	3.0	2.6	-2.8
Business investment	-10.3	-4.4	9.5	-22.0	13.7	7.1	5.6	3.6	3.9	3.7	2.6	2.4	-11.5	-8.6	1.6	3.9
Non-residential structures	-14.7	-8.4	30.5	-32.5	3.9	9.8	6.0	4.0	4.4	4.2	3.0	2.7	-16.0	-10.8	-0.9	4.5
Machinery & equipment	-3.6	1.4	-15.8	-3.2	28.9	3.6	5.0	3.0	3.2	3.1	2.0	2.0	-3.3	-5.3	5.2	3.2
Final domestic demand	1.8	1.8	1.7	0.1	5.1	3.5	2.0	1.9	1.7	1.4	1.4	1.6	0.3	1.0	2.6	1.8
Exports	8.4	-13.6	9.2	0.8	1.5	9.6	-11.0	9.4	4.9	3.5	2.3	2.0	3.4	1.0	1.6	3.1
Imports	3.5	1.4	4.3	-11.3	15.6	7.4	-1.0	0.5	0.0	2.3	1.8	1.6	0.3	-0.9	3.3	1.2
Inventories (change in $b)	-5.9	1.3	5.4	-2.5	10.6	11.1	24.3	11.3	5.4	5.7	6.6	6.6	3.9	-0.4	14.3	6.1
Real gross domestic product	2.8	-1.4	4.2	2.7	3.7	4.5	1.7	2.0	2.0	1.8	1.7	1.7	0.9	1.5	3.0	2.1
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.4	1.2	1.3	2.1	2.3	1.3	1.2	0.4	0.8	1.1	1.2	-0.2	0.7	1.7	0.9
Pre-tax corporate profits	-11.1	-16.6	-3.3	14.6	25.8	38.5	19.6	10.8	1.4	3.0	0.8	-0.6	-19.5	-4.5	22.8	1.2
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.7	6.5	6.2	6.2	6.2	6.2	6.1	6.1	6.9	7.0	6.4	6.2
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	1.9	1.3	1.4	1.5	1.3	1.8	1.9	1.9	1.1	1.4	1.5	1.7
Core CPI	1.7	2.0	2.0	1.8	2.0	1.4	1.4	1.4	1.4	1.7	1.9	2.0	1.8	1.9	1.5	1.8
External trade																
Current account balance ($b)	-70.8	-75.4	-74.6	-47.1	-51.7	-65.3	-72.7	-55.7	-46.2	-44.9	-43.9	-42.7	-67.6	-67.0	-61.3	-44.4
% of GDP	-3.5	-3.8	-3.7	-2.3	-2.4	-3.1	-3.4	-2.6	-2.1	-2.0	-2.0	-1.9	-3.4	-3.3	-2.9	-2.0
Housing starts (000s)*	199	198	199	197	223	207	213	202	194	185	181	178	196	198	211	185
Motor vehicle sales (mill., saar)*	2.00	1.99	1.95	2.00	2.09	2.10	2.05	2.00	1.97	1.95	1.90	1.90	1.94	1.98	2.06	1.93
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.00	1.00	1.25	1.50	1.75	0.50	0.50	1.00	1.75
Three-month	0.45	0.48	0.53	0.46	0.52	0.71	1.00	0.90	1.05	1.30	1.55	1.80	0.51	0.46	0.90	1.80
Two-year	0.54	0.52	0.52	0.75	0.75	1.10	1.52	1.45	1.70	1.95	2.15	2.35	0.48	0.75	1.45	2.35
Five-year	0.67	0.57	0.62	1.12	1.12	1.40	1.75	1.80	2.10	2.35	2.55	2.70	0.73	1.12	1.80	2.70
10-year	1.23	1.06	1.00	1.71	1.62	1.76	2.10	2.10	2.40	2.65	2.85	3.00	1.40	1.71	2.10	3.00
30-year	2.00	1.72	1.66	2.31	2.30	2.14	2.47	2.45	2.75	3.00	3.15	3.30	2.15	2.31	2.45	3.30
Canadian dollar	1.30	1.29	1.31	1.34	1.33	1.30	1.25	1.27	1.33	1.30	1.27	1.24	1.38	1.34	1.27	1.24

*Quarterly averages, level

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

FORECAST DETAIL - UNITED STATES

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2016				2017				2018				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	1.8	3.8	2.8	2.9	1.9	3.3	2.4	2.7	2.6	2.4	2.1	2.0	3.6	2.7	2.7	2.5
Durables	1.0	8.5	9.4	9.2	-0.1	7.6	8.3	5.1	3.3	2.7	2.1	2.1	7.8	5.5	6.1	4.2
Non-durables	2.6	4.7	0.1	2.5	1.1	4.2	2.1	3.1	2.7	2.8	2.2	2.0	3.1	2.8	2.3	2.7
Services	1.7	2.8	2.7	2.1	2.5	2.3	1.5	2.2	2.4	2.2	2.1	2.0	3.2	2.3	2.3	2.1
Government spending	1.8	-0.9	0.5	0.2	-0.6	-0.2	-0.1	1.3	0.6	0.4	0.4	0.4	1.4	0.8	-0.1	0.5
Residential investment	13.4	-4.8	-4.5	7.1	11.1	-7.3	-6.0	8.0	8.0	6.7	6.4	6.7	10.2	5.5	1.3	4.6
Business investment	-4.0	3.3	3.4	0.2	7.1	6.7	3.9	5.5	4.6	3.9	3.1	2.8	2.3	-0.6	4.5	4.4
Non-residential structures	2.2	0.5	14.3	-2.2	14.8	7.0	-5.2	1.0	6.0	3.8	2.9	2.3	-1.8	-4.1	5.5	2.6
Non-residential equipment	-13.1	-0.6	-2.1	1.8	4.4	8.8	8.6	9.0	4.8	4.3	3.2	2.9	3.5	-3.4	4.4	5.9
Intellectual property	6.3	11.1	4.2	-0.4	5.8	3.7	4.3	3.7	3.4	3.3	3.2	3.0	3.8	6.3	4.0	3.5
Final domestic demand	1.5	2.6	2.2	2.3	2.4	2.7	1.8	3.0	2.7	2.4	2.1	2.0	3.3	2.1	2.4	2.5
Exports	-2.6	2.8	6.4	-3.8	7.3	3.5	2.3	1.5	3.0	2.8	3.2	3.2	0.4	-0.3	3.1	2.7
Imports	-0.2	0.4	2.7	8.1	4.3	1.5	-0.8	3.4	2.9	3.0	3.5	3.0	5.0	1.3	3.3	2.5
Inventories (change in $b)	40.6	12.2	17.6	63.1	1.2	5.5	35.8	31.0	22.0	18.0	18.0	17.0	100.6	33.4	18.4	18.8
Real gross domestic product	0.6	2.2	2.8	1.8	1.2	3.1	3.0	2.6	2.5	2.3	2.0	2.0	2.9	1.5	2.2	2.5
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.2	-0.4	-0.1	1.0	1.1	1.3	1.5	1.4	1.9	1.9	1.3	1.2	1.1	0.1	1.3	1.6
Pre-tax corporate profits	-6.2	-8.2	-1.6	8.7	3.3	6.4	2.4	1.0	3.8	3.5	2.6	1.6	-1.1	-2.1	3.2	2.8
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.4	4.3	4.2	4.2	4.2	4.1	4.1	5.3	4.9	4.4	4.2
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	1.9	2.0	2.0	1.6	2.0	1.9	1.5	0.1	1.3	2.1	1.7
Core CPI	2.2	2.2	2.2	2.2	2.2	1.8	1.7	1.7	1.7	2.0	2.1	2.0	1.8	2.2	1.8	2.0
External trade																
Current account balance ($b)	-477	-433	-441	-456	-454	-493	-464	-484	-489	-493	-499	-503	-435	-452	-474	-496
% of GDP	-2.6	-2.3	-2.4	-2.4	-2.4	-2.6	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5	-2.4	-2.4	-2.4	-2.5
Housing starts (000s)*	1153	1158	1150	1248	1238	1167	1165	1271	1300	1333	1362	1396	1107	1177	1210	1348
Motor vehicle sales (millions, saar)*	17.3	17.2	17.5	17.8	17.1	16.8	17.1	17.5	17.5	17.9	17.9	18.1	17.4	17.5	17.1	17.8
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Fed funds	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.50	0.75	1.50	2.50
Three-month	0.21	0.26	0.29	0.51	0.76	1.03	1.06	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	1.20	1.27	1.38	1.47	1.85	2.05	2.35	2.55	2.70	1.06	1.20	1.85	2.70
Five-year	1.21	1.01	1.14	1.93	1.93	1.89	1.92	2.25	2.45	2.65	2.85	3.00	1.76	1.93	2.25	3.00
10-year	1.78	1.49	1.60	2.45	2.40	2.31	2.33	2.65	2.85	3.00	3.20	3.40	2.27	2.45	2.65	3.40
30-year	2.61	2.30	2.32	3.06	3.02	2.84	2.86	3.15	3.30	3.45	3.60	3.75	3.01	3.06	3.15	3.75
Yield curve (10s-2s)	105	91	83	125	113	93	86	80	80	65	65	70	121	125	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*	-0.9	5.6	1.2	Aug.	0.3	1.6	-0.4	Sep.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Aug.	1.4	1.4	1.4	Sep.
New orders in manufacturing	4.4	6.8	-0.2	Aug.	1.4	7.0	-1.8	Sep.
Business loans - Banks	-0.6	5.7	6.7	Sep.	0.5	2.0	8.1	Sep.
Index of stock prices**	2.5	8.4	1.4	Oct.	2.6	19.3	7.5	Oct.
Households								
Retail sales	-0.3	6.9	4.8	Aug.	1.6	4.4	2.9	Sep.
Auto sales	2.1	7.0	3.2	Aug.	-4.4	-7.7	-7.5	Oct.
Total consumer credit***	0.2	4.7	3.7	Sep.	0.3	5.5	5.1	Aug.
Housing starts	-3.9	-0.7	4.5	Sep.	-4.7	6.1	6.4	Sep.
Employment	0.2	1.7	1.1	Oct.	-0.3	1.3	1.6	Oct.
Prices								
Consumer price index	0.2	1.6	1.4	Sep.	0.5	2.2	1.14	Sep.
Producer price index****	-0.3	1.5	0.7	Sep.	0.8	3.2	-0.7	Sep.
Interest rates								
Policy rate	1.0	0.5	0.6	Oct.	1.13	0.38	0.93	Oct.
90-day commercial paper rates	1.3	0.8	1.0	Oct.	1.2	0.6	1.0	Oct.
Government bonds - (10 years)	2.1	1.3	1.8	Oct.	2.4	1.8	2.3	Oct.

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