ECONOSCOPE

September 2017

GROWTH IN CANADA JUMPS HIGHER IN Q2

WORLD ECONOMY ON FIRM GLIDE PATH

ALBERTA BACK IN THE SADDLE: TO LEAD ALL PROVINCES IN GROWTH IN 2017

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11 **ALBERTA BACK IN THE SADDLE: TO LEAD ALL PROVINCES IN GROWTH IN 2017**

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CURRENT TRENDS

Paul Ferley, Dawn Desjardins, Nathan Janzen, Josh Nye

GROWTH IN CANADA JUMPS HIGHER IN Q2

LATEST AVAILABLE: JUNE

RELEASE DATE: AUGUST 31, 2017

Canadian Q2 annualized GDP growth rose a very robust, and much stronger-than-expected, 4.5% benefitting from broad-based gains led by consumer spending, business investment and exports. The Canadian economy had been expected to rise strongly in Q2 though the report exceeded those expectations with annualized growth jumping to 4.5% building further onto Q1's already solid 3.7%. Average growth has been more than double the economy's potential rate for four consecutive quarters. Activity is being supported by low interest rates and solid job gains that have been sustaining consumer spending growth of almost 4% over the past year. However, an additional supportive factor has been the cessation of sizeable declines in energy investment as oil prices moved modestly higher. This has contributed to business investment rising on average 10% over the first two quarters of this year.

HIGHLIGHTS

▲ Canadian Q2 annualized GDP growth rose a very robust, and much stronger-than-expected, 4.5% benefitting from broad-based gains led by consumer spending, business investment and exports.

▲ Employment rose 22.2k in August following a 10.9k rise in July.

▲ Nominal retail sales rose 0.4% in July, but removing the impact of prices, the volume of sales edged down by 0.2%.

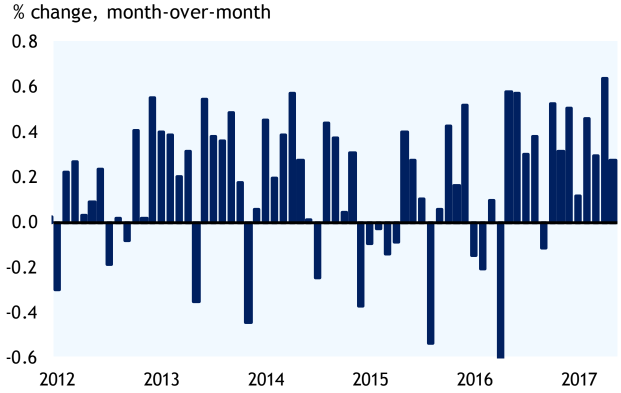
▲ Housing starts were little changed at 223k annualized units in August. Market expectations were for a slight moderation to 215k from July's 222k pace.

▲ Canada's nominal merchandise trade deficit improved to $3.0 billion in July.

▲ The year-over-year rate of headline CPI inflation rose to 1.4% from 1.2% in July.

Real GDP

% change, month-over-month



Source: Statistics Canada

EMPLOYMENT IN CANADA CONTINUED TO RISE IN AUGUST

LATEST AVAILABLE: AUGUST

RELEASE DATE: SEPTEMBER 8, 2017

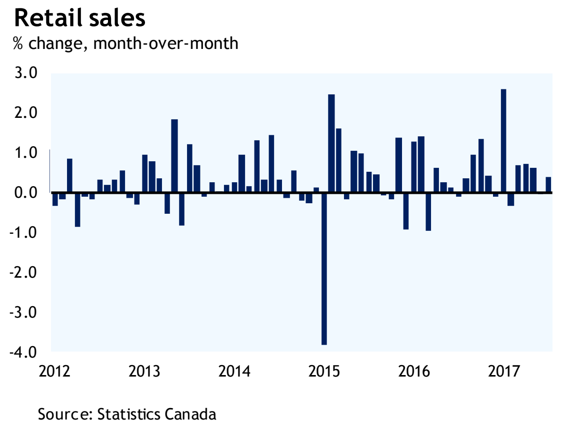
Employment rose 22.2k in August following a 10.9k rise in July. The unemployment rate in August dropped to 6.2% from 6.3% in July. The employment gain was significantly skewed towards part-time employment which soared 110.4k with full-time employment plummeting 88.1k. Despite this weakness in August, earlier strong gains contributed to full-time employment averaging a solid monthly increase of 17.8k over the past year. Manufacturing jobs fell 11.1k in August though it was offset by relatively widespread gains in service producing jobs which increased in aggregate by 35.9k.

CANADIAN RETAIL SPENDING TOOK A BREATHER IN JULY

LATEST AVAILABLE: JULY

RELEASE DATE: SEPTEMBER 22, 2017

Nominal retail sales rose 0.4% in July, but removing the impact of prices, the volume of sales edged down by 0.2%.Higher auto sales and stronger spending at food retailers led the nominal increase. E-commerce sales (not all of which are included in the retail sales totals) were up 47% year-over-year in July though their share of retail trade is just 2.3%.

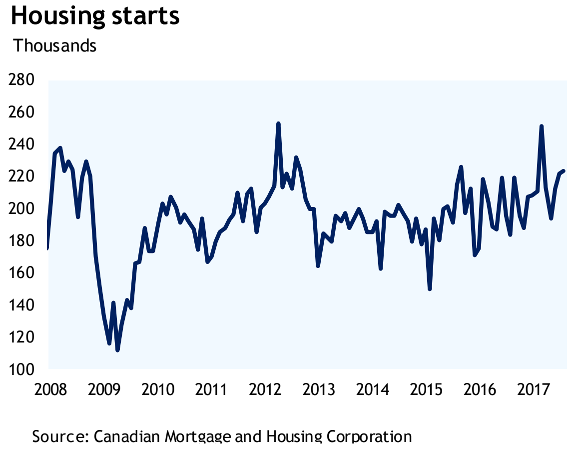


CANADIAN HOMEBUILDING ACTIVITY REMAINED STRONG IN AUGUST

LATEST AVAILABLE: AUGUST

RELEASE DATE: SEPTEMBER 11, 2017

Housing starts were little changed at 223k annualized units in August. Market expectations were for a slight moderation to 215k from July's 222k pace. On a trend basis, starts averaged 220k over the past six months, the strongest pace in nearly five years. Single-unit starts edged lower after having picked up strongly earlier this year. Multi-unit starts rose in August and the six-month trend was the strongest on record. On a regional basis, a jump in Ontario starts was partly offset by a decline in BC. Year-to-date, starts remain elevated in both provinces. Quebec and the Prairies have also seen an improvement in homebuilding activity this year.

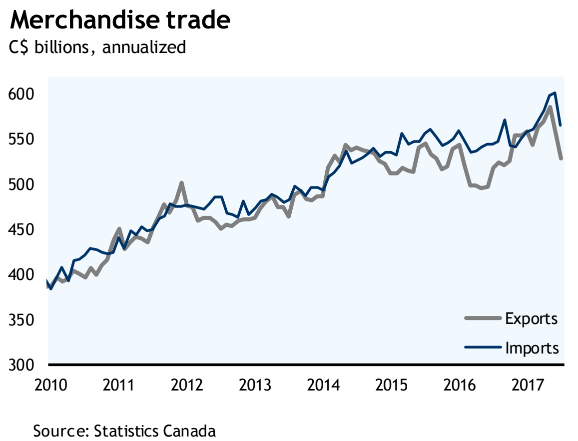


CANADA'S TRADE DEFICIT NARROWED BUT STILL WIDE IN JULY

LATEST AVAILABLE: JULY

RELEASE DATE: SEPTEMBER 6, 2017

Canada's nominal merchandise trade deficit improved to $3.0 billion in July. Much of both a 4.9% export drop and 6.0% import drop reflected lower prices although both also declined in volume terms. Non-energy export volumes were down from a year-ago for the first time since February. Import volumes were still up 5.0% from last July with the year-over-year gain led by the equipment components. The July deficit improved slightly more than markets expected ahead of the report but the $3.0 billion shortfall is still historically large. Part of a 1.6% drop in July export volumes reflected transitory factors with traditional July factory shutdowns in the auto sector lasting longer than usual this year.



CANADIAN CPI INFLATION SHOWS MORE SIGNS OF STABILIZATION IN AUGUST

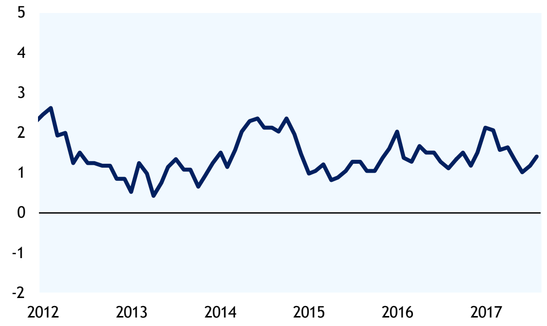
LATEST AVAILABLE: AUGUST

RELEASE DATE: SEPTEMBER 22, 2017

The year-over-year rate of headline CPI inflation rose to 1.4% from 1.2% in July — largely because of an increase in energy prices. 2 of 3 of the Bank of Canada's preferred 'core' measures ticked higher. Year-over-year price growth excluding food & energy prices held steady at 1.5%. There were further tentative signs in August that the puzzling recent underperformance of Canadian inflation measures is gradually coming to an end. To be sure, most of a pop higher in the year-over-year headline inflation rate to 1.4% in August was the result of higher gasoline prices — and the rate itself is still well-below the Bank of Canada's 2% inflation target.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Lastest month	Previous month	Year ago
Real GDP	Jun	0.3	4.3
Industrial production	Jun	0.1	10.0
Employment	Aug	0.1	2.1
Unemployment rate*	Aug	6.2	7.0
Manufacturing			
Production	Jun	0.2	4.0
Employment	Aug	-0.6	2.3
Shipments	Jun	-1.8	6.2
New orders	Jun	-3.0	-1.0
Inventories	Jun	-0.2	5.6
Retail sales	Jun	0.1	7.3
Car sales	Jun	1.5	6.8
Housing starts (000s)*	Aug	223.2	183.7
Exports	Jul	-4.9	2.2
Imports	Jul	-6.0	4.0
Trade balance ($billlions)*	Jul	-3.0	-2.2
Consumer prices	Jul	0.0	1.2

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

Source: Statistics Canada, RBC Economics Research

ECONOMICS AND FINANCIAL MARKETS OUTLOOK

WORLD ECONOMY ON FIRM GLIDE PATH

Craig Wright, Dawn Desjardins, Paul Ferley, Nathan Janzen

“The reacceleration in global trade volumes helped keep the economy on the stronger growth path even as BREXIT and NAFTA negotiations got underway.”

The global economy’s strong momentum over the summer shifted some of the focus away from geopolitics. Canada, the US and the euro area recorded above-potential gains in the second quarter, although a shy UK consumer kept that economy on a slower growth trajectory. Within the emerging-market economies, China posted another solid increase in the second quarter. On balance, we are maintaining our forecast for world GDP growth of 3.5% in 2017 and 3.6% in 2018.

The firm growth backdrop provided support to equity markets and commodity prices, which remain well above year-ago levels. The reacceleration in global trade volumes helped keep the economy on the stronger growth path even as BREXIT and NAFTA negotiations got underway.

The accelerating pace of growth has measurably reduced spare capacity, with Canada and the US likely to see slack eliminated by the end of this year. Labour-market conditions have correspondingly tightened with unemployment rates at or below full-employment levels. The euro area’s output gap remains outsized and the unemployment rate elevated, although both measures indicate that excess supply is dissipating. Despite the tightening in economic conditions, wages are growing at a subpar pace and inflation measures remain below central bank targets.

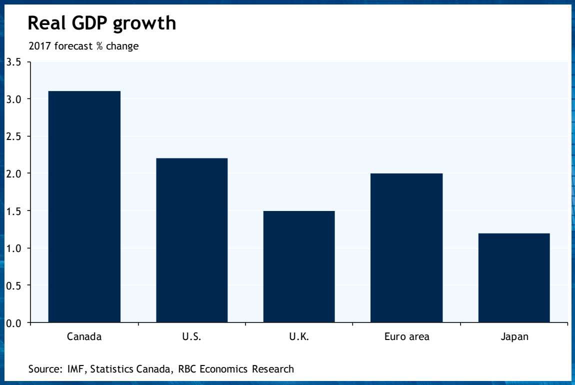
INFLATION – ENERGY AND OTHER TEMPORARY FACTORS

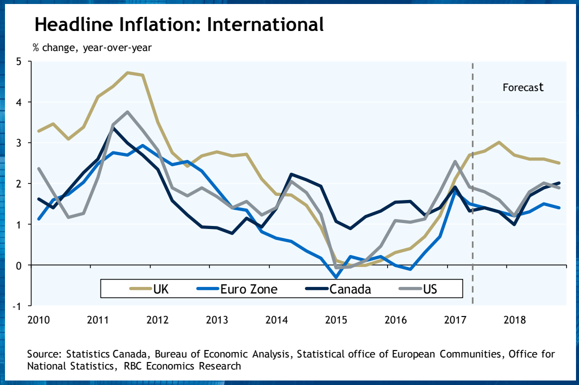
Part of the subdued inflation story reflects unexpected inertia in energy prices. In Canada and the US the low level of inflation is also a result of transitory factors that we expect to have less impact in 2018. Both the Bank of Canada and US Fed forecast inflation will rise to the 2% target over the medium term, underpinning their willingness to gradually reduce monetary-policy stimulus.

Our forecast is for the euro-area economy to only gradually absorb excess capacity and the inflation rate to run at about 1½% over the intervening period. Against this backdrop, the ECB is likely to hold the policy rate at -0.4%. In the UK, the inflation rate is running above the BOE's target, although much of the rise reflects the lagged impact of the weakening in sterling on UK import prices, an effect that will recede over time and will likely see the BOE keep policy unchanged. In Canada, the BOC's more upbeat assessment of the economy's performance, combined with two swift rate hikes in July and September, resulted in the addition of three more 25 bps rate hike to our forecast by the end of 2018. Our view on the outlook for the US Federal Reserve is unchanged with five more 25bps hikes expected by the end of 2018 and the reduction in the size of the Fed's balance sheet likely to begin in October 2017 .

CANADA RATE HIKES ON THE RADAR

The most notable change in market expectations for central bank policy that occurred over the past quarter was a rise in expectations for hikes in Canada. Currently markets are priced for the overnight rate to rise to 1.50% by the end of 2018, significantly more than the 75bps implied in June 2017. In the US, expectations for Fed rate hikes were trimmed modestly over the past three months with just one more 25 bps increase priced in by the end of 2018, well





below our forecast. Market expectations are little changed for both the BOE and ECB with less than a full hike priced in for the UK by the end of next year and the ECB largely projected to remain on hold.

US DOLLAR LIKELY TO REVERSE COURSE

The US dollar significantly underperformed other major currencies so far this year. Part of the dollar's decline reflected disappointment about the Trump Administration's inability to implement tax cuts or an infrastructure spending budget, with additional pressure coming on worries about the passage of the debt ceiling legislation. Also weighing on the US dollar was the shift in market expectations about future central bank action. We expect the US dollar to recover, with the Fed likely to hike more than markets anticipate as the economy continues to grow at a solid clip and inflation picks up.

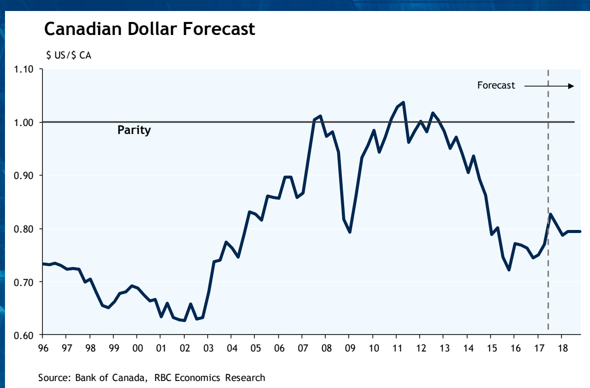
One of the beneficiaries of the weaker US dollar was the Canadian currency which rose almost 11% from its early May low. The bulk of the move came after members of the central bank's governing council gave an upbeat read on the economy's performance and outlook and signaled that rate increases were on the way. The Bank's decision to hike the policy rate in mid-July, for the first time in almost 7 years, and follow-up with an increase in September cemented the Canadian dollar's gains swamping the weight from the moribund performance of oil prices. The repricing in the C$ and heightened expectations of additional Bank of Canada hikes led us to revise our forecast for the currency such that we now expect CAD to average just shy of 80 US cents over the forecast horizon.

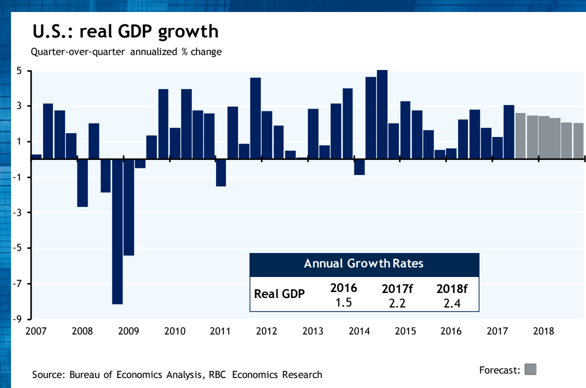
ECONOMIC OPTIMISM HOLDS SWAY

The US economy is forecast to grow by 2.2% in 2017 and 2.4% in 2018. Our 2017 forecast assumes the Trump Administration will implement some small net tax reduction though this won't provide a material lift to the economy this year. We remain optimistic about the US economy even though the level of political uncertainty remains elevated. Financial markets have been able to ignore much of the political rhetoric and focus on earnings and the persistence of support from easy financial conditions and low volatility. Strong financial market performance and hiring activity are providing a solid backdrop for another year of solid US consumer spending.

While the consumer will largely continue to underwrite growth, a recovery in business investment (in part due to oil producers coming back online) will also make a material contribution. Further, we see the sharp pullback in inventories early in the year as opening the door to a mild inventory rebuild in the second half of the year.

Barring a major interruption as the NAFTA negotiations unfold, US exports and imports are forecast to grow at a firmer pace in 2017. The 7½% decline in the trade-weighted US dollar so far this year will likely provide some lift to exports when combined with the rise in global trade volumes. Imports are also likely to rise given the anticipated increase in U.S. business investment.





FED'S GAME PLAN UNDERWAY

The constructive growth backdrop and tight labour market underpin the Fed's game-plan to gradually reduce monetary policy support. After ramping up the pace of rate hikes in 2017, we expect the next step will be to begin reducing the size of the central bank's balance sheet in October. Given the protracted time needed to reduce its holdings of securities, the Fed is unlikely to view this action as an alternative to interest rate increases. That said, we expect the Fed will pause and wait until December to raise the funds target to 1.5% in order to assess the impact on financial markets and then resume tightening on a quarterly basis in 2018. Our forecast is that the fed funds target will reach 2.5% at the end of 2018 with the 10-year forecast to increase about 125bps to 3.4%.

The Fed's decision to very gradually reduce policy stimulus ensured that overall financial conditions remain supportive. FOMC vice-chair Dudley recently pointed to the extent of accommodative financial conditions as providing policymakers with room to continue to remove policy accommodation even with inflation holding below the 2% objective.

CANADA'S ECONOMY BATTING 1000

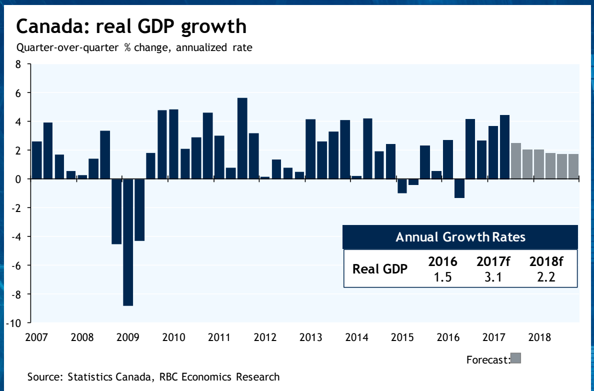
Canada's economy continued to grow substantially faster than its potential in the second quarter of 2017, keeping up the run of outperformance for the fourth consecutive quarter. The strong momentum led us to upgrade our 2017 growth forecast to 3.1% from our 2.6% estimate in June 2017. The economy is likely to grow at a slightly above-potential 2.2% pace in 2018.

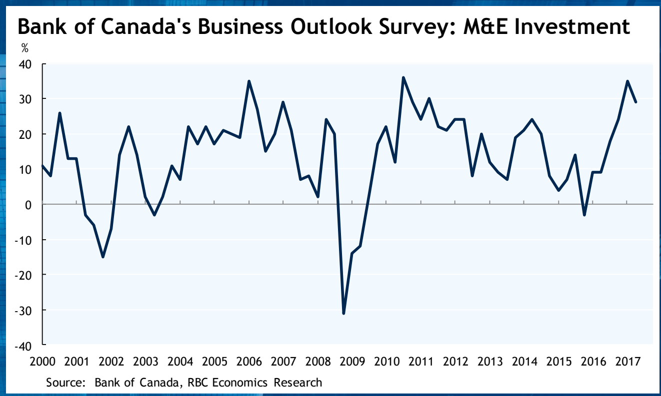
The Canadian consumer isn't showing signs of flagging with financial conditions remaining accommodative and hiring activity strong. Housing activity, however, has started to fall off as the market adjusts to several rounds of regulatory changes and modestly higher interest rates. Overall consumer spending is likely to remain the key driver of growth again in 2017 with support lessening somewhat in 2018.

Business investment is expected to add to growth every quarter this year, an improvement following two years of exerting downward pressure on the economy. Recent surveys point to business investment picking up in the year ahead as firm demand sees companies brush up against capacity limits. The economy will also get a lift from government spending with approximately $9 billion of the $186 billion infrastructure funding on tap this year.

CANADIAN BUSINESSES SOLDIER ON DESPITE NAFTA UNCERTAINTY

The outlook for investment spending is brighter when compared to the past two years. In the first quarter business investment posted the fastest increase in almost five years with another solid outlay in the second quarter. In July the Bank of Canada's outlook survey showed a near-record level of companies intend to invest in the year ahead.





Other encouraging signs include higher imports of machinery and equipment, rising machinery sales by Canadian companies and a pickup in hiring of engineering construction workers.

We have adjusted our oil price forecast lower to reflect recent price action and the persistence of elevated OPEC inventories despite production cuts. We now expect prices to average less than $50 a barrel in the second half of 2017. Despite increased US production, the OPEC cuts are expected to push global inventory levels lower in the second half of 2017 which combined with an anticipated extension of the OPEC production cuts beyond March 2018, will likely see prices move above US$50 in 2018. The impact of Hurricane Harvey presents a wildcard for near term prices although we assume any impact will prove transitory. With energy prices expected to hold relatively steady, our forecast assumes limited increases in investment by oil and gas companies though this follows two years of marked declines. Outside of the energy sector, the sharp rise in domestic demand in the first half of 2017 is likely to result in businesses spending to expand capacity.

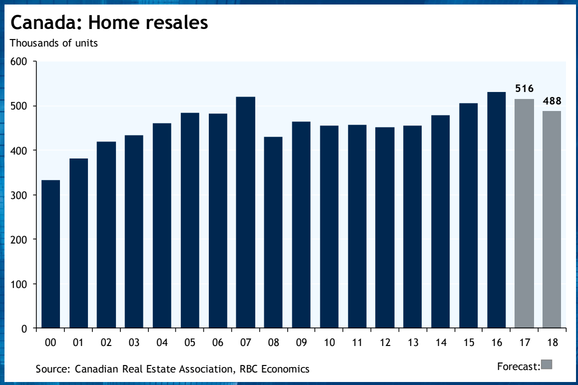
MOMENTS OF DRAMA

Canada’s trade performance has been volatile with the sector exerting significant downward pressure on the economy's growth rate in the first quarter as weak exports faced off with a sharp rise in import activity. The balance swung back in Canada's favour in the second quarter with exports recovering and imports rising at a slower pace. The recovery in business spending on capital goods boosted imports and we expect further increases will likely keep import growth positive. Exports rebounded in the second quarter. A stronger CAD doesn’t help Canadian competitiveness but with the recovery in global trade activity and stronger US demand we expect exports will continue to trend higher on average. All said, net exports will be a small drag for the economy in 2017 although is expected to provide a modest boost in 2018. Our forecast assumes that the NAFTA negotiations won't yield a significantly negative outcome however as Canadian Foreign Minister Freeland cautioned "be prepared for some moments of drama".

HOUSING SHIFT GEARS

It may have taken several rounds of regulatory changes by several different agencies but the long-awaited cooling in Canada's housing market is underway. Home sales fell in five of the past seven months and in July stood 15% below the March peak. The decline in housing-market activity accelerated following Ontario's release of its 16-point Fair Housing Plan.

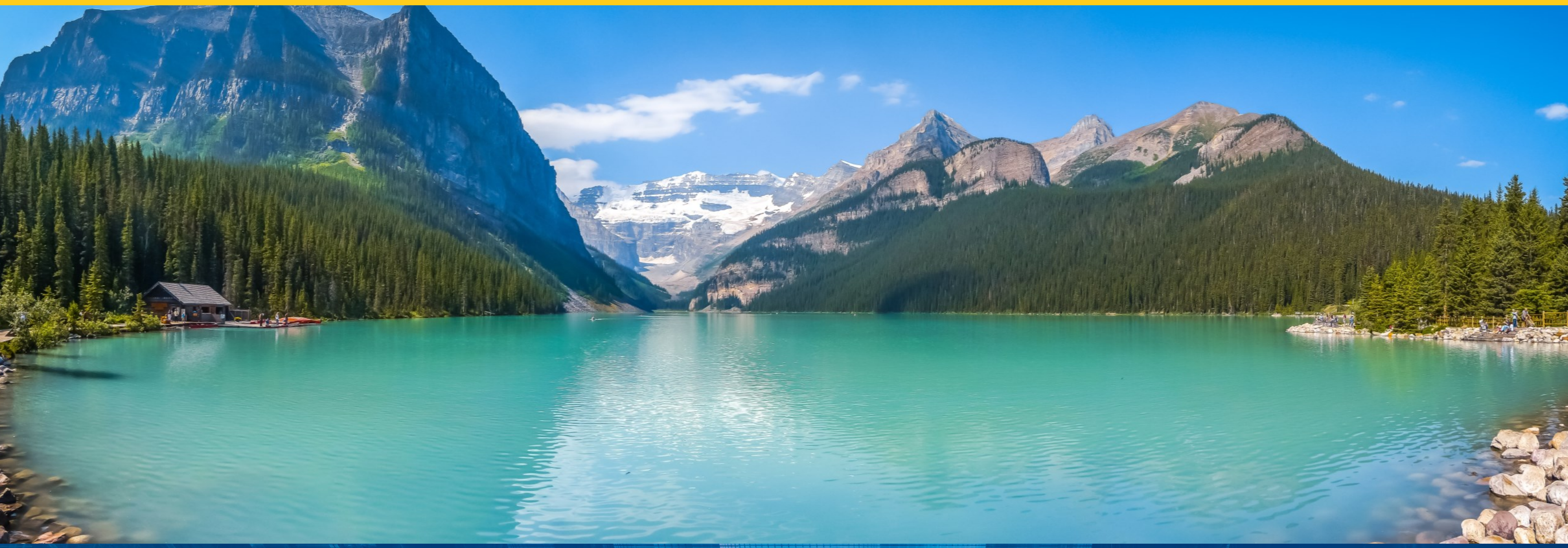
The weakening of home resale activity and deceleration of price gains in Canada are consistent with our view that the market is in the process of cooling overall. We project home resales in Canada to ease by 3.7% this year from 2016's record pace. Housing policy changes, poor affordability in some markets and rising interest rates will likely



continue to dampen activity in 2018 and we expect sales to drop by a further 5.3%. Correspondingly we look for the pace of price appreciation to slow. Rapid increases early in 2017 set up for prices to rise 7.8%. Price gains are forecast to moderate further in 2018 to 1.2%.

BANK OF CANADA TURNS UPBEAT

The Bank of Canada significantly changed its assessment of the state of the economy in mid-June pointing to the stronger, more broadly based gains as the basis for hiking rates at the July and September meetings, sooner than we previously expected. Further, the Bank forecasted the output gap will close by the end of this year. We have updated our forecast and now look for the Bank to raise the overnight rate again in the fourth quarter of 2017. In 2018, we expect the Bank to reduce policy stimulus further with three 25 bps rate increases. The Bank will proceed cautiously with an eye to inflation moving closer to the 2% target. Ten-year yields are forecast to rise about 100bps ending 2018 near 3%.



PROVINCIAL OUTLOOK

ALBERTA BACK IN THE SADDLE: TO LEAD ALL PROVINCES IN GROWTH IN 2017

Paul Ferley, Robert Hogue, Gerard Walsh

"The good news is that most provincial economies have stepped up their pace relative to last year."

Canada's economy is now forecast to grow by 3.1% in 2017 and the good news is that most provincial economies have stepped up their pace relative to last year. This includes welcome turnarounds in Alberta and, to a lesser extent, Saskatchewan. Yet, provincial economic performance remains quite uneven. This year's brisk momentum is concentrated in Alberta, British Columbia, Ontario, Quebec and Prince Edward Island. Growth remains more moderate in the remaining provinces with the exception of Newfoundland and Labrador where activity is expected to decline.

ENERGY SECTOR REBOUND PROPELS ALBERTA'S ECONOMY

We've made several changes to our provincial 2017 growth forecast—the majority of which were to the upside. The biggest revision was for Alberta. We now expect the rebound in the province's energy sector to contribute much more to growth this year and boosted our 2017 forecast from 2.9% to 4.2%. This puts Alberta at the top our provincial growth rankings. We lowered our 2018 forecast for Alberta to a still-robust 2.9%, however, to reflect slower projected recovery in global oil prices than we previously anticipated.

QUEBEC ECONOMY TAKES OFF

Another notable change to our forecast was a significant upgrade to Quebec's growth. The provincial economy had a stellar start to the year—with most economic sectors contributing—and is set to grow this year at its strongest rate (2.8%) in 15 years.

ONTARIO AND BC STILL POWERFUL ENGINES OF GROWTH

Ontario and British Columbia are still in the midst of vigorous, broad-based economic expansions. Both remain among the faster growing provinces, benefiting from healthy labour markets, strong consumer confidence and heavy infrastructure spending. But both also face challenges posed by housing market corrections, the NAFTA renegotiations and, in the case of BC, the softwood lumber trade dispute.

DRY WEATHER AFFECTS THE PRAIRIES

Unusually dry weather in the Prairies this summer has been one of the few negative developments since our June Provincial Outlook. Poor crop growing conditions prompted us to revise our 2017 forecast for Saskatchewan and Manitoba downwardly. Nonetheless, in the case of Saskatchewan, we don't expect this snag to impede the return to positive

REAL GDP GROWTH

growth. In Atlantic Canada, we see Prince Edward Island leading the region for a second-straight year. We forecast a slight acceleration of growth in both New Brunswick and Nova Scotia.

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	2.3	1.7	1.5	1.4	1.4	1.5	1.9	2.4	3.5	1.8
Durables	5.9	-3.1	0.2	10.2	13.6	9.4	2.5	1.0	1.5	1.3	1.3	1.3	2.8	4.1	7.1	1.9
Semi-Durables	6.0	-2.3	2.9	5.0	7.1	16.5	3.0	1.8	1.4	1.3	1.4	1.5	2.3	3.4	6.4	2.5
Non-durables	3.6	5.2	2.1	0.9	2.9	4.5	3.0	2.0	1.4	1.3	1.3	1.5	0.8	2.1	2.8	1.9
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	-0.4	-4.2	-3.0	-5.0	-3.0	-1.1	3.8	3.0	2.3	-3.3
Business investment	-10.3	-4.4	9.5	-22.0	13.7	7.1	7.3	3.6	3.9	3.7	2.6	2.4	-11.5	-8.6	1.8	4.1
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	9.0	3.0	3.2	3.1	2.0	2.0	-3.3	-5.3	5.7	3.6
Final domestic demand	1.8	1.8	1.7	0.1	5.1	3.5	2.6	1.6	1.7	1.5	1.5	1.7	0.3	1.0	2.7	1.8
Exports	8.4	-13.6	9.2	0.8	1.5	9.6	-2.5	8.0	4.3	3.5	2.3	2.0	3.4	1.0	2.6	3.9
Imports	3.5	1.4	4.3	-11.3	15.6	7.4	1.5	0.4	1.8	2.5	2.1	1.9	0.3	-0.9	3.6	2.0
Inventories (change in $b)	-5.9	1.3	5.4	-2.5	10.6	11.1	16.5	7.1	5.0	5.2	6.0	6.0	3.9	-0.4	11.3	5.6
Real gross domestic product	2.8	-1.4	4.2	2.7	3.7	4.5	2.5	2.0	2.0	1.8	1.7	1.7	0.9	1.5	3.1	2.2
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.4	1.2	1.3	2.1	2.3	1.5	1.5	0.8	1.1	1.1	1.2	-0.2	0.7	1.9	1.0
Pre-tax corporate profits	-11.1	-16.6	-3.3	14.6	25.8	38.5	18.8	9.2	-0.4	2.2	0.8	0.0	-19.5	-4.5	22.1	0.7
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.7	6.5	6.3	6.2	6.2	6.2	6.1	6.1	6.9	7.0	6.4	6.2
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	1.9	1.3	1.4	1.3	1.0	1.7	1.9	2.0	1.1	1.4	1.5	1.7
Core CPI	1.7	2.0	2.0	1.8	2.0	1.4	1.6	1.7	1.6	1.9	1.9	2.0	1.8	1.9	1.7	1.9
External trade																
Current account balance ($b)	-70.8	-75.4	-74.6	-47.1	-51.7	-65.3	-60.5	-51.9	-51.2	-47.6	-47.6	-47.0	-67.6	-67.0	-57.3	-48.3
% of GDP	-3.5	-3.8	-3.7	-2.3	-2.4	-3.1	-2.8	-2.4	-2.3	-2.1	-2.1	-2.1	-3.4	-3.3	-2.7	-2.2
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	1.25	1.25	1.50	1.75	2.00	0.50	0.50	1.25	2.00
Three-month	0.45	0.48	0.53	0.46	0.52	0.71	1.00	1.30	1.25	1.55	1.80	2.05	0.51	0.46	1.30	2.05
Two-year	0.54	0.52	0.52	0.80	0.75	1.10	1.50	1.70	1.80	1.90	2.15	2.35	0.48	0.80	1.70	2.35
Five-year	0.67	0.57	0.62	1.15	1.12	1.40	1.75	2.00	2.15	2.40	2.55	2.70	0.73	1.15	2.00	2.70
10-year	1.23	1.06	1.00	1.80	1.62	1.76	2.05	2.40	2.50	2.65	2.85	3.00	1.40	1.80	2.40	3.00
30-year	2.00	1.72	1.66	2.35	2.30	2.14	2.40	2.75	2.85	3.00	3.15	3.30	2.15	2.35	2.75	3.30
Canadian dollar	1.30	1.29	1.31	1.34	1.33	1.30	1.21	1.24	1.27	1.26	1.26	1.26	1.38	1.34	1.24	1.26

*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	2.7	2.4	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	9.0	7.1	3.1	3.0	2.7	2.1	2.1	7.8	5.5	6.1	3.6
Non-durables	2.6	4.7	0.1	2.5	1.1	4.3	2.2	2.8	3.1	2.8	2.2	2.0	3.1	2.8	2.3	2.8
Services	1.7	2.8	2.7	2.1	2.5	2.1	2.1	2.2	2.4	2.2	2.1	2.0	3.2	2.3	2.3	2.2
Government spending	1.8	-0.9	0.5	0.2	-0.6	-0.3	1.2	1.0	0.6	0.4	0.4	0.4	1.4	0.8	0.0	0.6
Residential investment	13.4	-4.8	-4.5	7.1	11.1	-6.5	0.5	5.1	6.0	6.7	6.4	6.7	10.2	5.5	2.2	4.6
Business investment	-4.0	3.3	3.4	0.2	7.1	6.9	3.9	4.4	4.3	3.9	3.1	2.8	2.3	-0.6	4.5	4.1
Non-residential structures	2.2	0.5	14.3	-2.2	14.8	6.2	-1.0	4.5	4.5	3.8	2.9	2.3	-1.8	-4.1	6.2	3.4
Non-residential equipment	-13.1	-0.6	-2.1	1.8	4.4	8.8	6.5	4.8	4.8	4.3	3.2	2.9	3.5	-3.4	3.8	4.8
Intellectual property	6.3	11.1	4.2	-0.4	5.8	4.9	3.8	3.7	3.4	3.3	3.2	3.0	3.8	6.3	4.2	3.5
Final domestic demand	1.5	2.6	2.2	2.3	2.4	2.7	2.5	2.5	2.6	2.4	2.1	2.0	3.3	2.1	2.5	2.4
Exports	-2.6	2.8	6.4	-3.8	7.3	3.7	1.0	1.5	2.5	2.8	3.2	3.2	0.4	-0.3	2.9	2.4
Imports	-0.2	0.4	2.7	8.1	4.3	1.6	3.0	3.4	3.3	3.3	3.5	3.0	5.0	1.3	3.8	3.2
Inventories (change in $b)	40.6	12.2	17.6	63.1	1.2	1.8	16.0	23.0	18.0	18.0	18.0	17.0	100.6	33.4	10.5	17.8
Real gross domestic product	0.6	2.2	2.8	1.8	1.2	3.0	2.6	2.4	2.4	2.3	2.0	2.0	2.9	1.5	2.2	2.4
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.2	-0.4	-0.1	1.0	1.1	1.3	0.9	0.7	1.2	1.2	1.2	1.2	1.1	0.1	1.0	1.2
Pre-tax corporate profits	-6.2	-8.2	-1.6	8.7	3.3	7.0	2.3	0.3	3.4	2.6	2.4	2.1	-1.1	-2.1	3.1	2.6
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.4	4.4	4.4	4.4	4.4	4.3	4.3	5.3	4.9	4.5	4.4
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	1.9	1.8	1.6	1.2	1.8	2.0	1.9	0.1	1.3	2.0	1.7
Core CPI	2.2	2.2	2.2	2.2	2.2	1.8	1.6	1.7	1.6	1.9	2.1	2.0	1.8	2.2	1.8	1.9
External trade																
Current account balance ($b)	-477	-433	-441	-456	-467	-455	-466	-485	-494	-506	-514	-518	-435	-452	-468	-508
% of GDP	-2.6	-2.4	-2.4	-2.4	-2.5	-2.4	-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	1165	1241	1271	1300	1333	1362	1396	1107	1177	1229	1348
Motor vehicle sales (millions, saar)*	17.3	17.2	17.5	17.8	17.1	16.8	16.7	17.3	17.5	17.9	17.9	18.1	17.4	17.5	17.0	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	1.05	1.30	1.55	1.80	2.05	2.30	0.16	0.51	1.30	2.30
Two-year	0.73	0.58	0.77	1.25	1.27	1.38	1.45	1.85	2.05	2.35	2.55	2.70	1.06	1.25	1.85	2.70
Five-year	1.21	1.01	1.14	2.00	1.93	1.89	1.85	2.25	2.45	2.65	2.85	3.00	1.76	2.00	2.25	3.00
10-year	1.78	1.49	1.60	2.55	2.40	2.31	2.25	2.65	2.85	3.00	3.20	3.40	2.27	2.55	2.65	3.40
30-year	2.61	2.30	2.32	3.15	3.02	2.84	2.80	3.15	3.30	3.45	3.60	3.75	3.01	3.15	3.15	3.75
Yield curve (10s-2s)	105	91	83	130	113	93	80	80	80	65	65	70	121	130	80	70

*Quarterly averages, level

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

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATORS

	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*	0.1	10.0	0.8	Jun.	-0.9	1.6	-0.5	Aug.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Jul.	1.4	1.4	1.4	Jul.
New orders in manufacturing	-1.7	1.0	-0.4	Jul.	-3.3	4.9	-2.6	Jul.
Business loans - Banks	1.6	6.9	7.1	Jul.	0.3	2.4	8.3	Aug.
Index of stock prices**	0.4	4.2	1.2	Aug.	0.1	12.8	7.1	Aug.
Households								
Retail sales	0.4	7.8	4.7	Jul.	-0.2	3.2	2.8	Aug.
Auto sales	-5.3	5.2	3.1	Jul.	-3.5	-13.2	-7.4	Aug.
Total consumer credit***	0.6	4.4	3.5	Jul.	0.5	5.9	5.1	Jul.
Housing starts	0.6	21.5	4.6	Aug.	-0.8	1.4	6.5	Aug.
Employment	0.1	2.1	1.1	Aug.	0.0	1.2	1.6	Aug.
Prices								
Consumer price index	0.1	1.4	1.4	Aug.	0.4	1.9	1.10	Aug.
Producer price index****	-1.5	1.3	0.5	Jul.	0.5	2.9	-0.8	Aug.
Interest rates								
Policy rate	0.8	0.5	0.6	Aug.	1.13	0.38	0.88	Aug.
90-day commercial paper rates	1.2	0.8	0.9	Aug.	1.2	0.5	1.0	Aug.
Government bonds - (10 years)	1.9	1.1	1.7	Aug.	2.2	1.6	2.3	Aug.

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