Econoscope

January 2018

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ECONOSCOPE

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Paul Ferley, Nathan Janzen, Josh Nye

CANADIAN GDP FELL SHORT OF EXPECTATIONS WITH FLAT OCTOBER READING

LATEST AVAILABLE: OCTOBER

RELEASE DATE: DECEMBER 22, 2017

Canadian GDP was unchanged in October following a 0.2% increase in September. Output of goods producing industries fell 0.4% while services growth returned to a trend-like 0.2% pace. Both were short of our expectations. A decline in non-conventional oil extraction due to maintenance shutdowns shaved about 0.1 percentage point from October's GDP growth. The October report is consistent with Q4 growth matching Q3's 1.7% gain.

HIGHLIGHTS

▲ Canadian GDP was unchanged in October following a 0.2% increase in September.

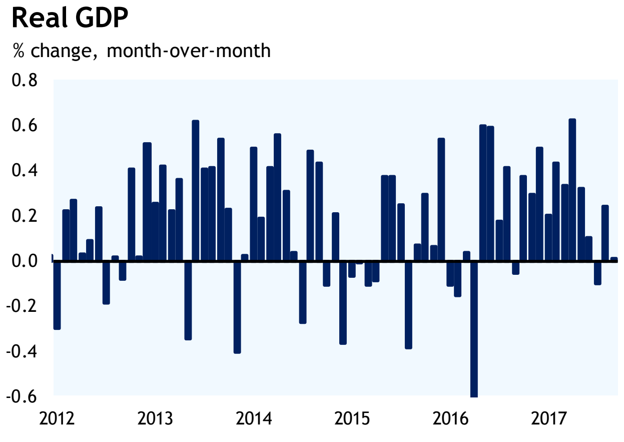
▲ Canadian employment continued to defy gravity, adding nearly 80 thousand jobs for a second consecutive month in December—the best back-to-back gains in five years.

▲ Retail sales jumped 1.5% in October to end a string of three subpar monthly reports.

▲ As was widely expected, housing starts declined 13.8% in December to an annualized 217k units.

▲ Canada's nominal merchandise trade deficit in November unexpectedly rose to $2.5b from October's $1.6b.

▲ Headline CPI inflation picked up to 2.1% year-over-year from 1.4% in October.



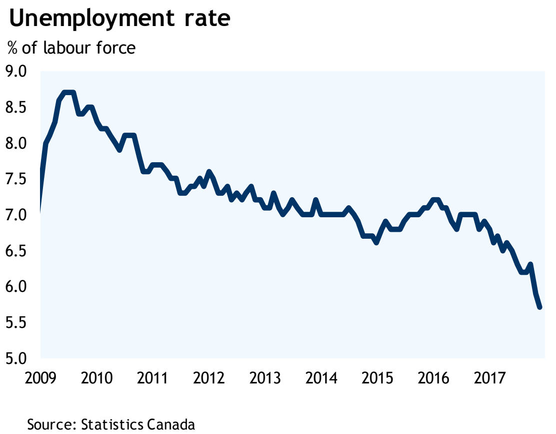
Source: Statistics Canada

ANOTHER IMPRESSIVE JOBS REPORT POINTS TO A BOC MOVE IN JANUARY

LATEST AVAILABLE: DECEMBER

RELEASE DATE: JANUARY 5, 2018

Canadian employment continued to defy gravity, adding nearly 80 thousand jobs for a second consecutive month in December—the best back-to-back gains in five years. That was pretty much the story of Canada's labour market throughout 2017 with jobs added each and every month to push employment up 422k on the year. That is the largest annual increase since 2002. With labour force participation holding steady—and near all-time highs for the 25-54 population—the unemployment rate dropped more than a percentage point over the course of the year. At 5.7% in December, unemployment is at its lowest rate since the 1970s.

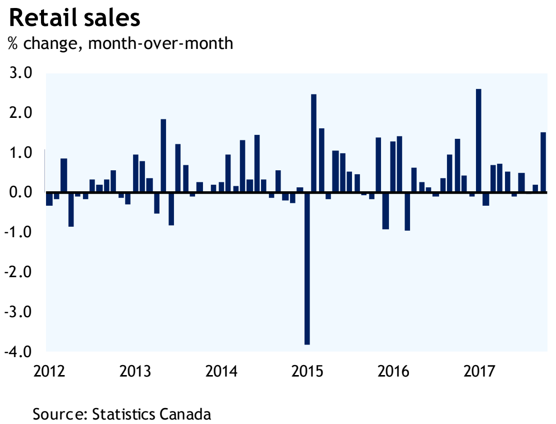


CANADIAN RETAIL SPENDING BOUNCED BACK IN OCTOBER

LATEST AVAILABLE: OCTOBER

RELEASE DATE: DECEMBER 21, 2017

Retail sales jumped 1.5% in October to end a string of three subpar monthly reports. Sale volumes (excluding the impact of prices) rose a similar 1.4% to more than reverse smaller declines over the last three months. Motor vehicle sales jumped 3% in October although sales also rose 0.8% excluding autos. E-commerce sales (not all of which are included in the retail sales totals) were up 19.4% over the past year ending in October. That was much faster than the 7.5% increase in overall retail sales but still down from 40%+ readings earlier this year.

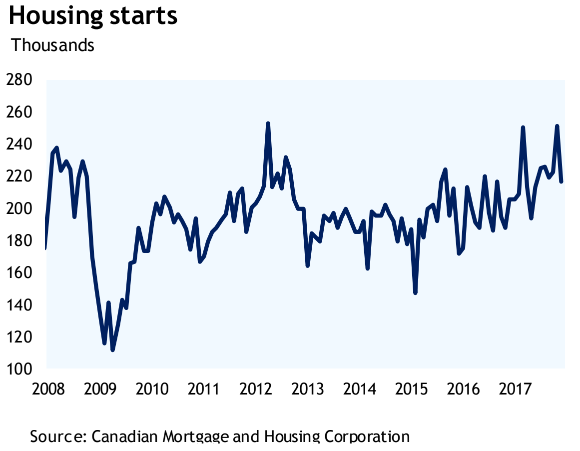


CANADIAN HOUSING STARTS MODERATE IN DECEMBER

LATEST AVAILABLE: DECEMBER

RELEASE DATE: JANUARY 9, 2018

As was widely expected, housing starts declined 13.8% in December to an annualized 217k units from November's outsized 252k with the most recent month's activity more in line with the average level of permits over the last six months of 222k. For 2017 as a whole, starts were up a solid 11.4% to 221k which represented the highest level of activity since 2007. By unit type the December weakness reflected urban multiples dropping 22.0% though this followed strong gains the previous two months of 16.3% and 12.5%. Regionally the weakness was concentrated in Ontario where urban starts dropped 35.1% to 61k largely reflecting weakness in the multiples component. However, the decline failed to fully offset the multiples-driven 67.9% surge in November.

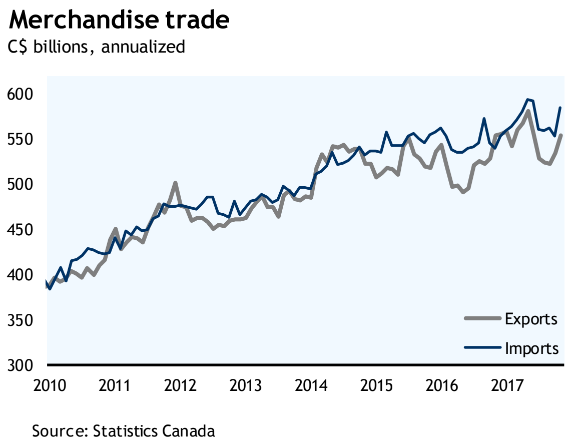


CANADA'S NOVEMBER TRADE DEFICIT UNEXPECTEDLY RISES

LATEST AVAILABLE: NOVEMBER

RELEASE DATE: JANUARY 5, 2018

Canada's nominal merchandise trade deficit in November unexpectedly rose to $2.5b from October's $1.6b. Expectations had been for the deficit to shrink to $1.1b. The deterioration in the November deficit occurred despite exports rising 3.7% as it was more than offset by an unexpectedly large 5.8% surge in imports indicative of solid domestic demand. The export gain was more narrowly based in motor vehicle and parts along with consumer goods. However, these areas of strength did contribute to non-energy exports rising 2.3% after a 0.8% gain in October.



RISING CORE INFLATION JUST WHAT THE BOC WANTS TO SEE HEADING INTO 2018

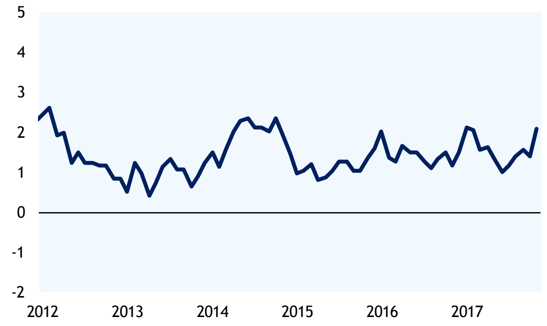
LATEST AVAILABLE: NOVEMBER

RELEASE DATE: DECEMBER 21, 2017

Headline CPI inflation picked up to 2.1% year-over-year from 1.4% in October. November's was just the fourth reading of 2% or more in the last three years. Higher energy prices accounted for almost 1/2 percentage point of the increase in headline inflation. Core inflation also increased in November with the ex food and energy measure picking up to 1.8% year-over-year, a nine-month high. There wasn't much evidence of steeper Black Friday discounting as prices for clothing and footwear fell by less than in recent years. The decline in home entertainment prices was in line with years past. Two of the Bank of Canada's preferred core measures rose in November and an average of the three hit a one-year high of 1.7% in November.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Lastest month	Previous month	Year ago
Real GDP	Oct	0.0	3.4
Industrial production	Oct	-0.6	4.6
Employment	Dec	0.4	2.3
Unemployment rate*	Dec	5.7	6.9
Manufacturing			
Production	Oct	0.1	3.9
Employment	Dec	-0.2	5.1
Shipments	Oct	-0.4	4.3
New orders	Oct	5.3	6.6
Inventories	Oct	1.6	6.1
Retail sales	Oct	1.5	6.7
Car sales	Oct	-2.2	6.9
Housing starts (000s)*	Dec	217.0	205.8
Exports	Nov	3.7	0.0
Imports	Nov	5.8	8.1
Trade balance ($billlions)*	Nov	-2.5	1.1
Consumer prices	Nov	0.3	2.1

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

US TAX CUTS… TO WHAT EFFECT?

Josh Nye

“The market reaction was relatively muted, but that is not to say the US tax cuts won’t have any impact.”

The US government pulled off their first big legislative win of the year, passing a $1.5 trillion tax bill in December that slashed the corporate rate and trimmed personal income taxes—at the expense of higher deficits. But while the prospect of fiscal stimulus helped boost interest rates and the US dollar following Trump’s election, neither yields nor the currency were able to break out of recent ranges after the bill was passed. Treasuries sold off somewhat in mid-December but the move ultimately wasn’t sustained and 10-year yields closed the year around 2.40%—just below where they started 2017. The US dollar, meanwhile, benefited little from the tax bill despite measures that encourage repatriation of foreign profits. The currency effectively treaded water in December and lost about 10% on a trade-weighted basis in 2017 as a whole.

The market reaction was relatively muted, but that is not to say the US tax cuts won’t have any impact. We have upgraded our US GDP forecast by half a percentage point over the next two years as business investment and consumer spending are expected to get a boost from lower tax bills. With the economy already running at full capacity, fiscal stimulus provides even greater reason for the Fed to remain in tightening mode with once-a-quarter hikes in 2018—a faster pace than markets are currently pricing in. Combined with the prospect of greater Treasury supply to fund higher deficits, we think bond yields are set to break to the upside of the range that prevailed in 2017. This year should be a better one for the US dollar as well. We think the Fed will keep pace with the Bank of Canada in raising rates, and we don’t expect much in the way of tightening from the Bank of England or European Central Bank. That will help avoid a repeat of 2017’s US dollar selloff against the Canadian dollar, sterling and euro.

FINANCIAL MARKETS

US DOMESTIC SPENDING PICKED UP TOWARD THE END OF 2017…

Josh Nye

We think US GDP growth remained firm in Q4 following back-to-back gains of more than 3% in the prior two quarters. While earlier increases were helped by inventory investment and net trade, we expect Q4's gain was more domestic demand-driven with final sales rising at a 3% annualized rate for the first time since 2015. Our forecast assumes consumer spending led the charge, while business investment also continued to trend higher through the end of the year. Housing is also getting back in on the action after slowing in the middle of the year. Some of the increase in domestic demand was met by imports, so we expect overall GDP rose at a slightly more moderate 2.4% pace.

HIGHLIGHTS

- ▲ Despite a pickup in domestic spending, US GDP growth was likely a bit more moderate in Q4 relative to 3% gains in Q2 and Q3.
- ▲ We think tax changes will boost US GDP growth by an additional 1/2 percentage point over the next two years relative to our previous forecast.
- ▲ Fiscal stimulus will show up in the form of stronger consumer spending, and to a lesser extent, greater business investment.
- ▲ With fiscal stimulus set to push the US economy beyond its longer run capacity limits, we think the Fed will pick up the pace of tightening in 2018.

…WITH TAX CHANGES SET TO PUSH THE ECONOMY INTO OVERDRIVE

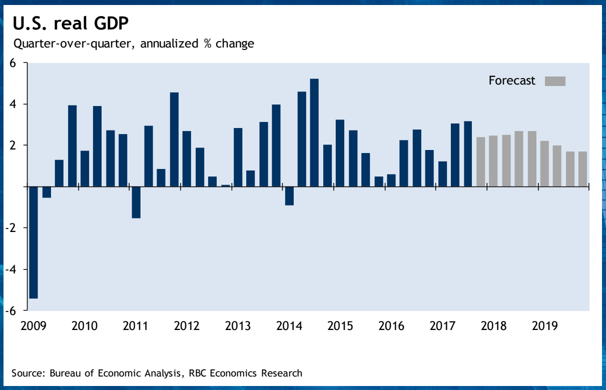
With the economy now operating close to its longer run capacity limits, we thought it would be tough to sustain 2-1/2% to 3% GDP growth in 2018. However, consumers and businesses are getting a shot in the arm from tax breaks that we think will help keep the economy growing at an above-trend pace this year. We assume the tax changes passed in December, including a heavily-reduced corporate rate and lower personal rates, among a host of other changes, will boost GDP by 3/4 of a percentage point over the next two years. That is half a percent more than the modest stimulus we previously assumed as a placeholder. As a result, we have raised our 2018 annual growth forecast to 2.6% from 2.5% and brought our 2019 projection up to 2.2% from 1.9%. The tax cuts for businesses and households are comparable on a dollar basis over that two year period, but we think the lions share of stimulus will show up in consumer spending as lower corporate tax cuts are likely to boost dividend payments and create wealth effects for households. Business investment is also likely to increase as some of the tax savings go to capital spending, reinforcing an improving trend seen over the last year.

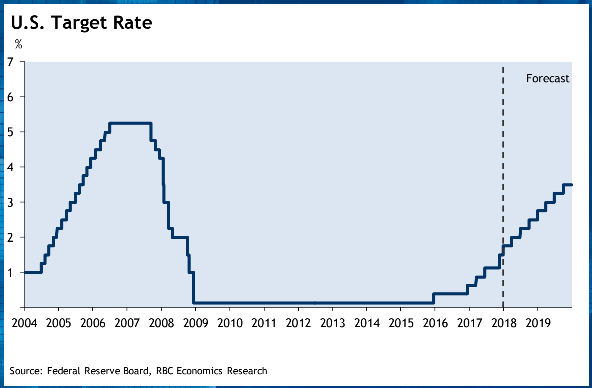
We remain somewhat conservative in our estimates of the stimulative effect of these tax changes for two main reasons. For one, much of the tax savings—both from lower personal and corporate rates—will fall to higher-income households that tend to spend a smaller share of tax cuts than lower-income households. Secondly, with limited spare capacity in the economy, fiscal stimulus is likely to be offset by more restrictive monetary policy. Our forecast assumes the Fed will be less gradual in withdrawing accommodation than the 125 basis points of hikes they have penciled in over the next two years.

FED CAN'T TARRY WITH FISCAL BOOST IN THE PIPELINE

The Fed met expectations by raising the fed funds rate by 25 basis points in December, their third rate increase of the year. There were few changes to the policy statement but updated economic projections pointed to greater confidence in the economic outlook. The committee raised their GDP growth projections over the next three years, with 2018 in particular being lifted to 2.5% from 2.1% previously. Chair Yellen indicated that expected changes in tax policy (the meeting occurred prior to final passage of the tax bill) were responsible for some of the upward revision to growth forecasts. Despite stronger growth projections, inflation is forecast to remain close to the Fed's 2% objective and the 'dot plot' continued to show a median of three rate hikes are seen as appropriate in 2018.

Minutes from the meeting revealed diverging views among committee members. Some thought the three rate hikes implied in the 2018 dot plot were overly aggressive, citing limited inflationary pressure and concerns that the fed funds rate might already be close to its current neutral level. Others, however thought the Fed might have to move even faster this year. They pointed to little tightening in financial conditions since the Fed started raising rates and expressed concern that persistently interest rates would raise financial stability risks. We are with the latter camp in thinking the Fed will raise rates slightly faster than their latest dot plot indicated. We expect once-a-quarter increases





in 2018 as policymakers try to get ahead of the inflationary impact of fiscal stimulus. Our forecast also assumes wages and inflation respond more to tight economic conditions than they did in 2017, providing the Fed with greater reason to tighten further.

FINANCIAL MARKETS

CANADIAN GDP SETTLED IN AT A MORE TREND-LIKE PACE IN H2/17…

Josh Nye

HIGHLIGHTS

- ▲ Canada's 1.7% GDP growth over the second half of 2017 is less than half the pace of H1 but still marginally above the economy's longer run speed limit.
- ▲ It was hard to find fault with December's strong employment report.
- ▲ Inflation and wages are finally starting to respond to tight economic and labour market conditions.
- ▲ With unemployment hitting multi-decade lows we don't think the BoC will delay further rate hikes, even as Nafta concerns persist.

Canadian GDP was unexpectedly flat in October following a 0.2% increase in September. As was the case over the summer when the economy appeared to hit a soft patch, temporary shutdowns in one industry (energy this time around) were responsible for some of October's weakness. Nonetheless, GDP growth clearly shifted to a more modest trend after 4% gains in the fist half of 2017. A soft start to Q4 points to GDP growth coming in closer to Q3's 1.7% increase than the Bank of Canada's 2.5% forecast.

On an expenditure basis it looks like consumer spending and business investment were once again the main drivers of domestic growth. We think the former slowed relative to the 4% pace seen earlier this year, though persistently strong job growth in Q4 argues against too much moderation. Business spending on machinery and equipment is expected to have posted another solid increase. But with much of that demand coming from imported capital goods, it looks like net trade won't provide much of a lift in the quarter—though that will represent an improvement from the sizeable drag in Q3. The add from trade has been disappointing all year, though recent export data does show a pickup in non-energy products that raises our hopes for the export sector in 2018—as long as trade isn't disrupted by a particularly bad outcome in Nafta negotiations.

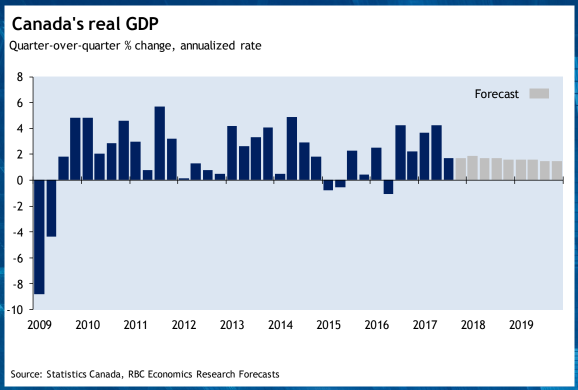
…BUT JOB GROWTH SHOWED NO SIGNS OF SLOWING

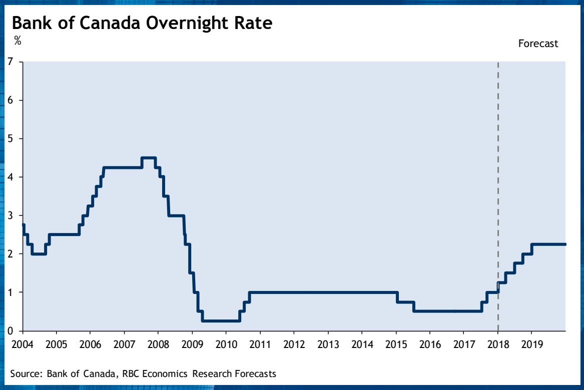
Canadian employment continued to defy gravity, adding nearly 80 thousand jobs for a second consecutive month in December—the best back-to-back gains in five years. That was pretty much the story of Canada's labour market throughout 2017 with jobs added each and every month to push employment up 422k on the year—the largest annual increase since 2002. With labour force participation holding steady, and near all-time highs for the 25-54 population, the unemployment rate dropped more than a percentage point over the course of the year. At 5.7% in December, unemployment is at its lowest rate since the 1970s. Even a broader measure of unemployment that includes discouraged and marginally attached workers and those in part-time jobs for economic reasons, is just above last cycle's lows—providing little evidence of 'hidden' labour market slack. Average hours worked, often watched by the Bank of Canada, also improved.

Perhaps more significantly, tight labour market conditions are finally starting to feed through to higher wages. Average hourly pay for permanent employees was up 2.9% from a year ago, having accelerated in each of the last six months. Wages will likely take another step higher in January with Ontario having raised the province's minimum wage by 20% at the start of the year. The Bank of Canada will likely look through the inflationary impact of that increase, but it is hard to deny that broader wage pressures are beginning to emerge. Along with the recent increase in several measures of core inflation, we think that argues for the central bank to not wait on the sidelines too long.

A HOT LABOUR MARKET MEANS THE BOC WON'T BE TOO CAUTIOUS

The Bank of Canada left monetary policy unchanged at their final meeting of 2017 and continued to emphasize caution. But in a subsequent speech, Governor Poloz sounded a bit less dovish, indicating the central bank is "increasingly confident" that less stimulus will be required over time. That raised the odds of a hike in early-2018, and we think December's employment report sealed the deal for a move in January. The bank was concerned about lingering labour market slack even after November's solid jobs numbers, but with the unemployment rate falling again to a 40-year low in December, that is becoming increasingly hard to argue. We previously thought concerns about Nafta,





and a desire to see the impact of earlier rate hikes and new mortgage regulations, would leave the BoC holding rates steady until April—and those issues remain. But with wages and inflation picking up, we think the central bank will be increasingly concerned about falling behind the curve in tightening monetary policy. We now look for a move in January and once-a-quarter hikes through the rest of the year, leaving the overnight rate at 2.00% by the end of 2018 rather than the 1.75% rate we previously expected.

FINANCIAL MARKETS

UK ECONOMY EXPECTED TO MUDDLE THROUGH 2018

Josh Nye

HIGHLIGHTS

- ▲ We expect the UK economy will grow 1.4% this year following a 1.8% increase in 2017.
- ▲ Broadly-based growth in the euro area continued in late-2017 but inflation is showing no signs of life.
- ▲ Australia's labour market is also on an impressive streak that, if continued, could see wage growth starting to pick up.

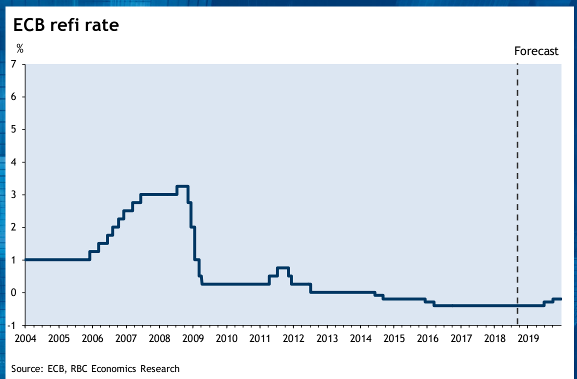
The UK economy expanded at a not-too-hot, not-too-cold pace of 0.3-0.4% through the first three quarters of 2017 and we expect that continued through the end of the year. The latest survey data would put Q4 GDP growth in the upper end of that narrow range—manufacturing sentiment picked up in Q4 and the services PMI retraced the previous quarter's decline. But while improving factory readings jibe with a currency-related boost for exporters, higher import prices remain a sore point for households. So while the services sector appeared to improve in Q4, we aren't so sure that Q3's increase in consumer spending can be repeated. We continue to expect a 0.3% GDP gain in the final quarter of 2017, which would leave growth for the year as a whole at 1.5%—the slowest pace since 2012. We don't expect 2018 will be much better with the economy expanding 1.4% as consumer headwinds are slow to ease and Brexit-related uncertainty weighs on businesses. Near-trend growth should keep the economy from bumping up against capacity limits and will limit underlying inflationary pressures. Meanwhile, we think headline inflation readings are set to slip back from the 3% mark this year as earlier currency weakness is worked through. That will take some of the pressure off the Bank of England to follow up on November's rate hike. We continue to expect the bank rate will be held at 0.50% this year amid a middling macroeconomic environment and no shortage of uncertainty regarding the outlook.

EURO AREA ECONOMY REMAINS ON THE UP AND UP

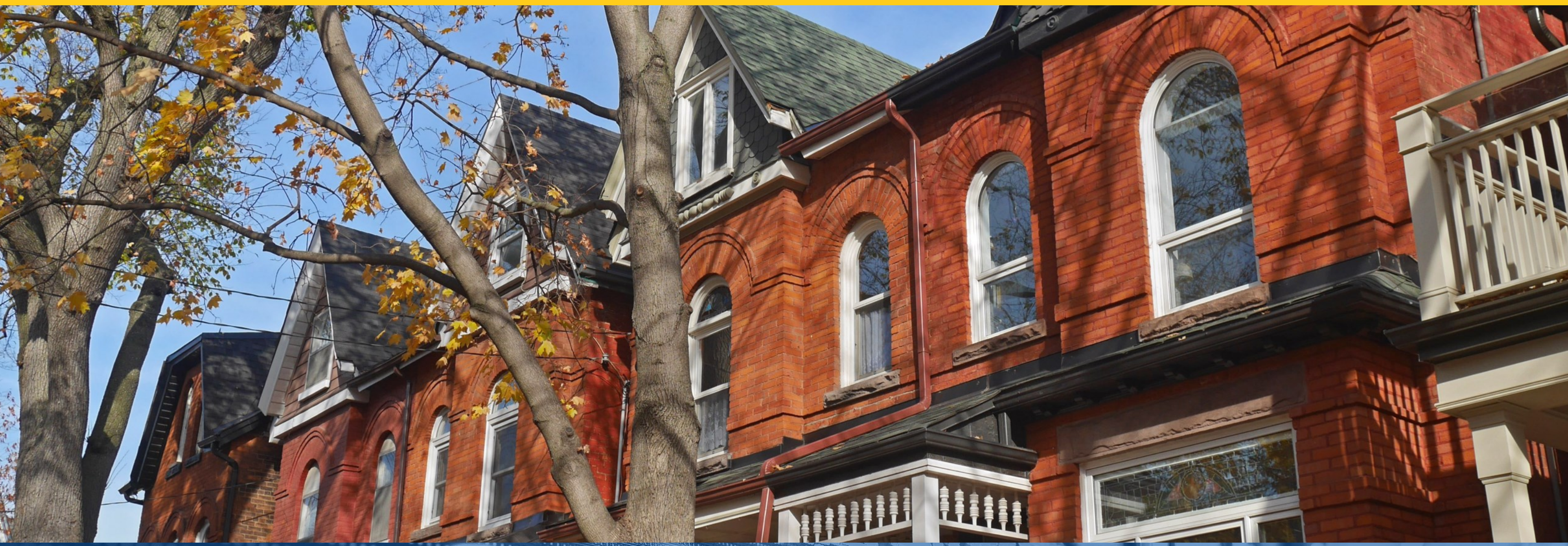
The euro area economy appears to have maintained solid momentum in Q4 after stringing together the strongest four quarters of growth since 2011. December's purchasing managers' index readings built on November's increase to push the composite measure to a fresh multi-year high. Survey readings in Germany and France, in particular, posted solid gains in the final quarter of 2017 while Italy's readings have stabilized at a solid level after picking up earlier this year. Spain saw confidence dip somewhat in Q4, likely in response to political uncertainty in Catalonia. But overall the euro area remains on a solid growth track and we expect another above-trend 0.6% increase in Q4 GDP. We think 2018 will look much the same with the economy expanding 2.2%, nearly matching 2017's 2.3% gain. Inflation remains slow to respond to the improved macroeconomic backdrop, and while market-based measures of inflation expectations are beginning to creep higher, we think the European Central Bank will remain concerned with spot core inflation remaining around 1%. Thanks to improving growth there are already rumblings about an end to the central bank's QE program. But we think any talk of tapering won't begin in earnest until the summer. For now, the ECB is committed to asset purchases of €30 billion per month at least through September 2018. We think that keeps interest rate hikes off the table through this year.

AUSTRALIA'S JOB BOOM CONTINUES BUT WON'T PUSH THE RBA INTO ACTION

Australia's labour market once again bested expectations with an impressive 62 thousand jobs added in November—the largest monthly increase in two years. The economy has now posted employment gains in each of the last fourteen months. And much of the 3.7% job growth over that period was in full-time positions. The increase is more a reflection of rising labour force participation than falling unemployment, though November's 5.4% jobless rate is still among the lowest in the last five years. We have previously argued that unemployment will need to fall below the 5-1/2% to 6-1/2% range seen in recent years to get any upward pressure on wages. So if the recent trend in job growth is sustained, we could see that dynamic starting to play out in 2018. We think the process will be gradual, however, as has been the case in other advanced economies. And with additional headwinds facing the household sector, we remain cautious on the outlook for consumer spending. Rising business investment and exports underpin our forecast for trend



-like GDP growth in 2018 but we don't think that will be enough to bring the Reserve Bank of Australia off the sidelines this year. We continue to see a steady cash rate into early 2019.



CURRENT ANALYSIS

MONTHLY HOUSING MARKET UPDATE

ROBERT HOGUE

CANADIAN HOMEBUYERS HURRIED TO MAKE DEALS IN NOVEMBER AHEAD OF IMPENDING MORTGAGE RULE CHANGE

- Home resales in Canada rose at their fastest rate between October and November in nine months.
- A surge in Toronto accounted for most of the increase. Activity fell modestly in Vancouver for a second-straight month.
- More stringent mortgage lending rules coming into effect in January no doubt prompted many buyers to advance their purchasing decisions.
- Sellers were motivated as well in November. New listings rose in tandem with sales—again, led by a sharp increase in the Toronto-area market.
- Overall price pressures eased for a seventh-consecutive month in Canada, primarily reflecting a higher inventory of homes for sale in Toronto.
- We see limited downside risks to prices in the near term in Canada because the majority of local markets—including Toronto—are in balance.
- We expect some market volatility over the next few months as the new mortgage rules are implemented. Our outlook for 2018 calls for further moderation in home resale activity and slower price increases in Canada.

MORTGAGE RULE CHANGES PROVIDED PLENTY OF MOTIVATION FOR BUYERS

November housing market statistics released by the Canadian Real Estate Association were generally consistent with our view that the upcoming tightening of rules for uninsured mortgages will boost near-term activity. We expect many buyers to bring forward their purchasing decisions to qualify under the existing rules before changes take effect on January 1, 2018. Resales rose by 3.9% in Canada between October and November. This was the strongest monthly advance since February. Much of the strength was concentrated in the Toronto area where activity surged by 16.0%. Victoria, Ottawa and Regina also recorded strong gains, while Calgary, Edmonton and Montreal posted modest increases. Not all markets participated in the rally, though. Vancouver was among the few holdouts. Resales fell for a second-straight month by 3.7% in the Vancouver area where affordability strains represent a major issue for buyers.

FORECAST DETAIL - CANADA

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2017				2018				2019				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Household consumption	3.7	5.0	4.0	2.0	1.5	1.4	1.4	1.5	1.4	1.3	1.3	1.4	2.4	3.7	2.1	1.4
Durables	11.0	9.8	4.2	1.5	1.5	1.3	1.3	1.3	1.3	1.2	1.2	1.1	4.5	7.3	2.3	1.3
Semi-Durables	2.6	8.5	2.1	2.5	1.4	1.3	1.4	1.5	1.4	1.2	1.4	1.4	2.2	3.9	2.1	1.4
Non-durables	2.2	6.5	1.6	2.5	1.4	1.3	1.3	1.5	1.4	1.3	1.3	1.4	1.7	2.9	1.9	1.4
Services	2.8	2.9	5.3	1.8	1.7	1.5	1.5	1.6	1.4	1.4	1.3	1.4	2.2	3.1	2.1	1.4
Government expenditures	1.0	4.0	3.0	1.5	2.5	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.2	1.8	2.5	2.2
Residential investment	11.7	-3.6	-1.4	5.5	-0.4	-6.0	-6.9	-5.4	-1.2	0.8	2.0	2.0	3.3	2.9	-1.9	-2.1
Business investment	10.6	8.2	3.7	5.4	2.8	2.8	2.3	2.1	2.0	2.0	2.0	2.0	-9.4	1.6	3.6	2.1
Non-residential structures	0.5	9.1	2.2	1.0	2.8	2.8	2.5	2.2	2.0	2.0	2.0	2.0	-11.5	-1.2	2.7	2.1
Machinery & equipment	28.1	6.8	6.1	12.0	2.8	2.8	2.0	2.0	2.0	2.0	2.0	2.0	-6.0	6.0	5.0	2.0
Final domestic demand	4.0	4.2	3.7	2.6	1.8	1.3	1.2	1.4	1.4	1.5	1.6	1.6	1.1	2.9	2.1	1.4
Exports	2.4	6.1	-10.2	3.0	4.0	3.5	2.5	2.5	3.3	1.7	1.8	2.0	1.0	0.9	1.7	2.5
Imports	13.7	6.6	-0.2	2.8	2.3	2.2	1.5	1.5	2.8	1.5	2.1	2.5	-1.0	3.3	2.2	2.0
Inventories (change in $b)	10.8	11.9	17.1	12.6	10.7	11.0	11.9	11.9	11.9	11.8	11.8	11.8	1.0	13.1	11.4	11.8
Real gross domestic product	3.7	4.3	1.7	1.7	1.9	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4	2.9	1.9	1.6
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	2.1	2.2	0.7	0.2	-0.6	-0.2	0.5	0.9	0.9	0.9	0.9	0.8	0.6	1.3	0.1	0.9
Pre-tax corporate profits	25.8	35.7	14.6	7.8	-0.3	0.9	1.2	-1.1	-1.2	-0.7	-0.5	-0.5	-1.9	20.0	0.2	-0.7
Unemployment rate (%)*	6.7	6.5	6.2	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	7.0	6.4	5.9	5.9
Inflation																
Headline CPI	1.9	1.3	1.4	1.8	1.7	2.2	2.3	2.0	1.9	2.0	2.0	2.0	1.4	1.6	2.1	2.0
Core CPI	2.0	1.4	1.4	1.6	1.6	1.9	2.2	2.2	2.1	2.1	2.0	2.0	1.9	1.6	2.0	2.0
External trade																
Current account balance ($b)	-54.5	-62.3	-77.4	-60.3	-57.0	-55.2	-53.0	-50.3	-47.8	-45.4	-43.6	-42.6	-65.4	-63.6	-53.9	-44.8
% of GDP	-2.6	-2.9	-3.6	-2.8	-2.6	-2.5	-2.4	-2.2	-2.1	-2.0	-1.9	-1.8	-3.2	-3.0	-2.4	-2.0
Housing starts (000s)*	223	207	223	224	211	201	187	182	184	184	185	185	198	219	195	185
Motor vehicle sales (mill., saar)*	2.09	2.10	2.08	2.05	2.00	1.97	1.96	1.95	1.94	1.93	1.92	1.92	1.72	2.08	1.97	1.93
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.25	2.25	2.25	0.50	1.00	2.00	2.25
Three-month	0.52	0.71	1.00	1.06	1.20	1.45	1.70	2.05	2.25	2.15	2.15	2.15	0.46	1.06	2.05	2.15
Two-year	0.75	1.10	1.52	1.69	1.75	2.05	2.25	2.45	2.60	2.50	2.40	2.30	0.75	1.69	2.45	2.30
Five-year	1.12	1.40	1.75	1.87	2.00	2.30	2.55	2.75	2.90	2.75	2.60	2.55	1.12	1.87	2.75	2.55
10-year	1.62	1.76	2.10	2.04	2.20	2.50	2.75	2.95	3.10	3.00	2.90	2.80	1.71	2.04	2.95	2.80
30-year	2.30	2.14	2.47	2.27	2.45	2.75	3.05	3.15	3.25	3.25	3.20	3.15	2.31	2.27	3.15	3.15
Canadian dollar	1.33	1.30	1.25	1.26	1.33	1.30	1.27	1.24	1.25	1.26	1.27	1.27	1.34	1.26	1.24	1.27

*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

	2017				2018				2019				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	1.9	3.3	2.2	2.8	2.8	3.2	3.2	2.7	2.3	1.9	1.8	1.8	2.7	2.7	2.9	2.4
Durables	-0.1	7.6	8.6	8.0	3.3	3.5	4.5	2.8	2.3	1.8	1.6	1.6	5.5	6.3	5.2	2.5
Non-durables	1.1	4.2	2.3	4.3	3.5	4.8	4.5	3.5	2.5	2.0	1.8	1.8	2.8	2.4	3.9	2.8
Services	2.5	2.3	1.1	1.5	2.5	2.6	2.6	2.5	2.3	1.9	1.8	1.8	2.3	2.2	2.2	2.2
Government spending	-0.6	-0.2	0.7	1.3	0.6	0.4	0.4	0.6	0.8	0.8	0.8	0.8	0.8	0.0	0.6	0.7
Residential investment	11.1	-7.3	-4.7	12.0	8.7	3.7	3.8	3.4	1.8	0.9	1.9	1.2	5.5	1.7	4.6	2.3
Business investment	7.1	6.7	4.7	5.0	5.3	5.9	6.5	5.7	2.8	2.8	2.6	2.6	-0.6	4.6	5.5	3.9
Non-residential structures	14.8	7.0	-7.0	-1.0	6.0	6.0	6.5	5.2	4.0	4.0	2.0	2.0	-4.1	5.2	3.0	4.3
Non-residential equipment	4.4	8.8	10.8	9.0	4.8	6.3	7.2	6.5	3.5	3.5	0.7	0.1	-3.4	4.6	7.2	4.1
Intellectual property	5.8	3.7	5.2	3.7	5.4	5.3	5.2	5.0	4.8	3.6	2.6	2.6	6.3	4.1	4.9	4.3
Final domestic demand	2.4	2.7	1.9	3.2	3.0	3.1	3.1	2.8	2.3	1.9	1.6	1.5	2.1	2.4	2.9	2.3
Exports	7.3	3.5	2.1	7.5	3.0	2.8	3.2	3.2	3.0	2.8	2.8	2.8	-0.3	3.4	3.7	3.0
Imports	4.3	1.5	-0.7	10.0	4.5	6.5	6.6	4.5	4.3	2.1	2.1	2.3	1.3	3.7	5.3	3.9
Inventories (change in $b)	1.2	5.5	38.5	25.7	17.7	18.7	23.7	27.7	35.7	35.7	35.7	40.7	33.4	17.7	22.0	37.0
Real gross domestic product	1.2	3.1	3.2	2.4	2.5	2.5	2.7	2.7	2.2	2.0	1.7	1.7	1.5	2.2	2.6	2.2
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.1	1.3	1.5	1.3	1.8	1.8	1.3	1.4	1.3	1.3	1.1	0.9	0.1	1.3	1.6	1.1
Pre-tax corporate profits	3.3	6.4	5.4	4.0	7.1	6.7	3.4	2.7	2.5	2.6	1.9	1.2	-2.1	4.7	4.9	2.0
Unemployment rate (%)*	4.7	4.3	4.3	4.1	4.1	4.1	3.9	3.8	3.8	3.8	3.8	3.8	4.9	4.4	4.0	3.8
Inflation																
Headline CPI	2.5	1.9	2.0	2.1	1.7	2.1	2.0	1.5	1.7	1.9	2.0	2.1	1.3	2.1	1.8	1.9
Core CPI	2.2	1.8	1.7	1.7	1.6	2.0	2.1	2.0	2.0	2.1	2.1	2.1	2.2	1.8	1.9	2.1
External trade																
Current account balance ($b)	-454	-498	-402	-440	-455	-484	-512	-527	-543	-544	-545	-547	-452	-449	-494	-545
% of GDP	-2.4	-2.6	-2.1	-2.2	-2.3	-2.4	-2.5	-2.6	-2.6	-2.6	-2.6	-2.6	-2.4	-2.3	-2.4	-2.6
Housing starts (000s)*	1238	1167	1172	1270	1275	1285	1300	1315	1315	1315	1325	1325	1177	1212	1294	1320
Motor vehicle sales (millions, saar)*	17.1	16.8	17.1	17.5	17.5	17.9	17.9	18.1	18.1	18.3	18.2	18.4	17.5	17.1	17.8	18.2
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Fed funds	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	0.75	1.50	2.50	3.50
Three-month	0.76	1.03	1.06	1.39	1.55	1.80	2.05	2.30	2.55	2.80	3.05	3.30	0.51	1.39	2.30	3.30
Two-year	1.27	1.38	1.47	1.89	2.10	2.35	2.55	2.75	3.00	3.25	3.40	3.55	1.20	1.89	2.75	3.55
Five-year	1.93	1.89	1.92	2.20	2.50	2.70	2.90	3.05	3.25	3.45	3.55	3.65	1.93	2.20	3.05	3.65
10-year	2.40	2.31	2.33	2.40	2.80	3.00	3.15	3.30	3.45	3.60	3.70	3.75	2.45	2.40	3.30	3.75
30-year	3.02	2.84	2.86	2.74	3.20	3.35	3.50	3.60	3.70	3.75	3.80	3.85	3.06	2.74	3.60	3.85
Yield curve (10s-2s)	113	93	86	51	70	65	60	55	45	35	30	20	125	51	55	20

*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*	-0.6	4.6	1.3	Oct.	0.3	3.4	-0.2	Nov.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Oct.	1.4	1.4	1.4	Nov.
New orders in manufacturing	5.3	6.6	0.1	Oct.	1.3	8.0	-1.5	Nov.
Business loans - Banks	2.4	8.4	7.0	Nov.	-0.2	0.9	7.6	Nov.
Index of stock prices**	0.9	6.0	1.8	Dec.	2.7	18.6	8.4	Dec.
Households								
Retail sales	1.5	6.7	4.9	Oct.	0.8	5.8	3.1	Nov.
Auto sales	-2.2	6.9	3.5	Oct.	-3.7	-14.8	-7.6	Dec.
Total consumer credit***	0.5	5.5	3.8	Nov.	0.7	5.3	5.1	Nov.
Housing starts	-13.8	5.4	5.5	Dec.	3.3	12.9	6.3	Nov.
Employment	0.4	2.3	1.2	Dec.	0.1	1.2	1.6	Dec.
Prices								
Consumer price index	0.3	2.1	1.4	Nov.	0.4	2.2	1.20	Nov.
Producer price index****	1.4	2.7	0.7	Nov.	1.4	4.3	0.0	Nov.
Interest rates								
Policy rate	1.0	0.5	0.7	Dec.	1.3	0.5	0.9	Dec.
90-day commercial paper rates	1.4	0.8	1.1	Dec.	1.4	0.7	1.0	Dec.
Government bonds - (10 years)	2.0	1.9	1.8	Dec.	2.4	2.5	2.3	Dec.

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