ECONOSCOPE

June 2017

STRONG AND MORE 'BALANCED' GROWTH IN CANADA IN Q1

UPSWING IN GLOBAL GROWTH UNDERWAY

WESTERN REGION HOLDS THE CARD FOR STRONGER GROWTH IN CANADA

ECONOSCOPE

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Paul Ferley, Dawn Desjardins, Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ Canadian GDP climbed 3.7% in Q1 (at an annualized rate) to build on 2.7% and 4.2% increases in Q4 and Q3 of 2016, respectively.

▲ Employment jumped a much-stronger-than-expected 55k in May. Markets expected a 15k gain.

▲ The rise in April retail sale volumes is the ninth increase in the last ten months.

▲ Housing starts fell to 195k annualized units in May from 213k in April.

▲ The April merchandise trade balance stayed in deficit territory at -$0.4 billion, although this represented an improvement from upwardly revised deficits the prior two months.

▲ The year-over-year rate of headline CPI inflation fell to a six-month low of 1.3% in May.

STRONG AND MORE 'BALANCED' GROWTH IN CANADA IN Q1

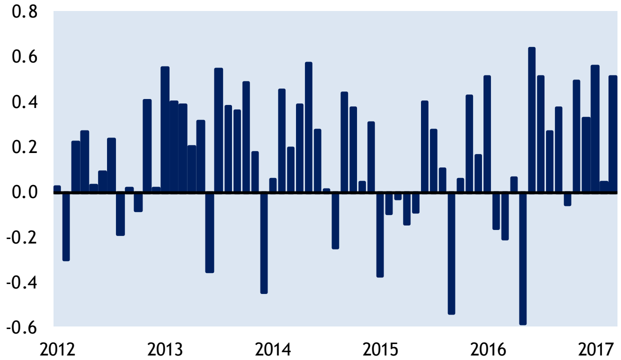
LATEST AVAILABLE: MARCH

RELEASE DATE: MAY 31, 2017

Canadian GDP jumped 3.7% in Q1 (at an annualized rate) to build on 2.7% and 4.2% increases in Q4 and Q3 of 2016, respectively. Household spending remained strong (consumer spending up 4.3%, residential investment up 15.7%) but, unlike earlier quarters, business investment was also a significant support to Q1 growth. Monthly GDP rose a stronger-than-expected 0.5% in March, pointing to strong momentum through the end of the quarter. Strong economic growth in Canada is not really new. The 3.7% GDP jump in Q1 2017 marked a third consecutive gain above our estimate of the economy's 'potential' long-run growth rate and a third consecutive outperformance relative to the U.S. Perhaps the most important takeaway from the Q1 numbers was a strong gain in business investment. The 10.3% annualized quarterly increase was the largest in almost 5 years and followed two years of persistent declines. Business investment has been a missing ingredient from earlier improvements which were driven largely by stronger household expenditures.

Real GDP

% change, month-over-month



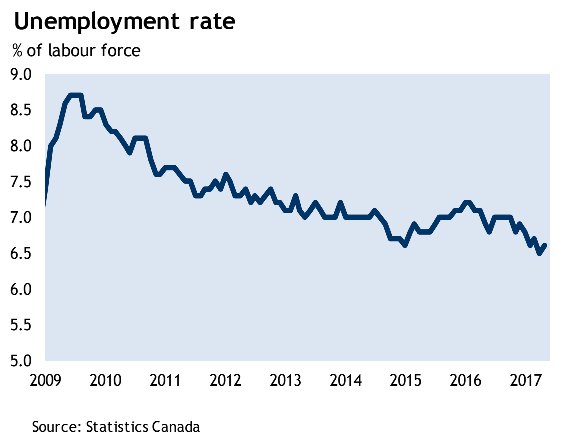
Source: Statistics Canada

CANADIAN EMPLOYMENT SURGED 55K HIGHER IN MAY

LATEST AVAILABLE: MAY

RELEASE DATE: JUNE 9, 2017

Employment jumped a much-stronger-than-expected 55k in May. Full-time employment was up 77k to more-than-offset a 22k drop in part-time. The unemployment rate inched up to 6.6% from 6.5% in April as labour force participation rose. The jump in employment in May continued an unusually long streak of gains for a survey that is typically very volatile. The 55k surge in employment marked the 16th gain out of the last 18 months. Average growth over that period has been 21k. The unemployment rate ticked up to 6.6% from the cycle-low 6.5% in April but because of a jump in the labour force. Wages remain the soft-spot although annual growth in permanent employee wages rose to 1.0% from the all-time low 0.5% increase in April. Other wage measures have, though, been somewhat stronger.

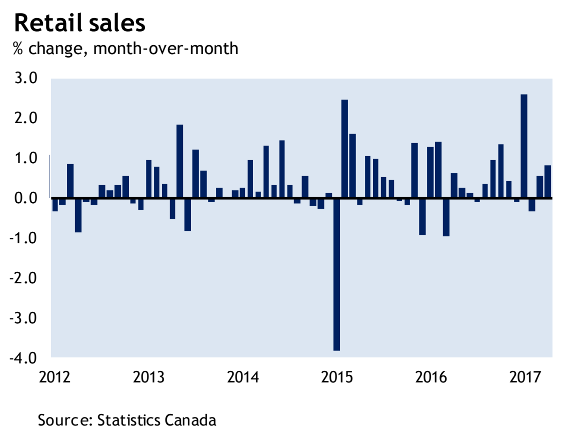


CANADIAN RETAIL SALES RISE YET AGAIN IN APRIL

LATEST AVAILABLE: APRIL

RELEASE DATE: JUNE 22, 2017

The rise in April retail sale volumes is the ninth increase in the last ten months. Nominal retail sales rose 0.8% despite a 1.0% drop in motor vehicle and parts sales. Sales volumes rose but by a more modest 0.3% as higher prices accounted for much of the nominal increase. 'E-commerce' sales, not all of which are included in the headline retail sales numbers, surged 42% from a year ago in April and are up 40% year-to-date.

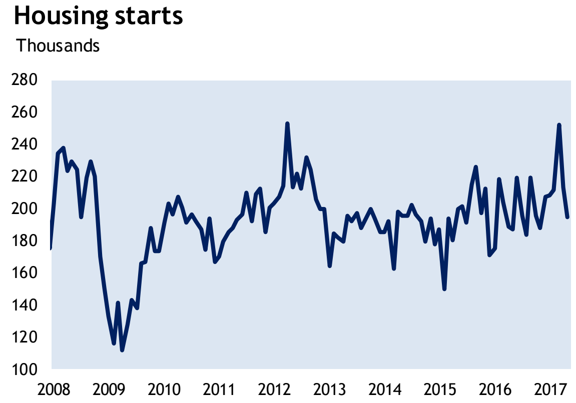


CANADIAN HOUSING STARTS FELL IN MAY AS A WELCOME COOLING TREND BEGINS TO SET IN

LATEST AVAILABLE: MAY

RELEASE DATE: JUNE 8, 2017

Housing starts fell to 195k annualized units in May from 213k in April. Residential investment is set to be a small drag on growth in Q2 following a double digit gain in Q1. Ontario and Quebec recorded sizeable declines but were still higher year-to-date relative to 2016. The Prairies saw an increase in May as homebuilding activity continues to pick up from last year. Both single and multi-unit starts declined in May. On a trend basis, single unit starts edged down from a multi-year high while multis continued to pick up. Building permits edged down to 200k in April, and on a trend basis, narrowed the gap between permit issuance and starts. That implies less upside risk to starts going forward. Five months into 2017 and Canadian housing starts are still running at the strongest pace in five years, but it appears we are entering a cooling phase in the housing market that should see homebuilding activity moderate over the second half of the year.



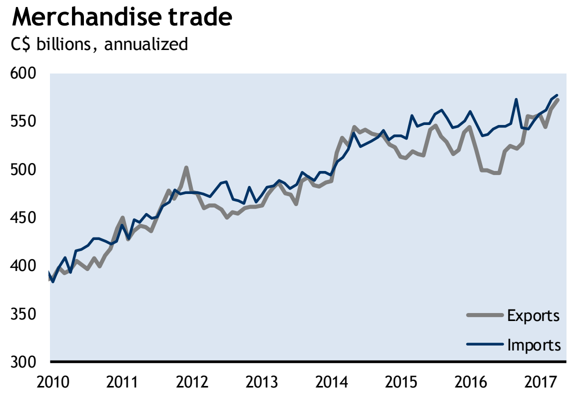
Source: Canadian Mortgage and Housing Corporation

CANADA POSTED A SMALL TRADE DEFICIT IN APRIL

LATEST AVAILABLE: APRIL

RELEASE DATE: JUNE 2, 2017

The April merchandise trade balance stayed in deficit territory at -$0.4 billion, although this represented an improvement from upwardly revised deficits the prior two months. Nominal exports jumped 1.8% to build on a 3.2% March gain and outpace April's 0.6% import increase. Lumber exports declined but not enough to cause a decline in overall forestry product exports. It was probably too early for much of the impact of new U.S. softwood lumber tariffs implemented late in the month to show up with further declines possible going forward. Equipment import volumes rose reflecting a 4.2% jump in electrical equipment purchases.



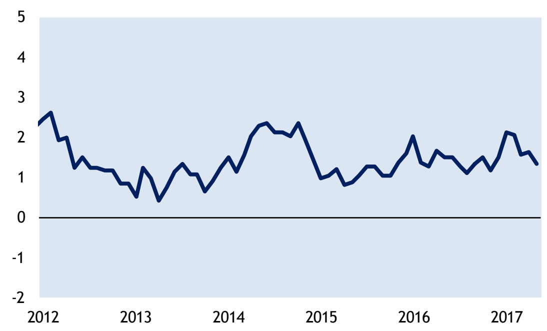
Source: Statistics Canada

CANADIAN INFLATION CONTINUED TO SLOW IN MAY

LATEST AVAILABLE: MAY

RELEASE DATE: JUNE 23, 2017

The year-over-year rate of headline CPI inflation fell to a six-month low of 1.3% in May. Electricity prices fell in May as another round of rebates began rolling out in Ontario. Gasoline prices declined in the month with the year-over-year increase slipping to 6.8% from as high as 23% in February. Year-over-year inflation excluding food and energy prices fell for a fourth consecutive month, hitting three-year low of 1.4% in May. The BoC's three core measures averaged 1.3% after rounding, down from 1.4% in April and 2.0% a year ago. May's average is the lowest since 1999.



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Lastest month	Previous month	Year ago
Real GDP	Mar	0.5	3.2
Industrial production	Mar	1.1	5.4
Employment	May	0.3	1.8
Unemployment rate*	May	6.6	6.9
Manufacturing			
Production	Mar	1.6	3.7
Employment	May	1.5	1.9
Shipments	Apr	1.1	7.6
New orders	Apr	0.4	8.4
Inventories	Apr	0.9	5.6
Retail sales	Apr	0.8	7.0
Car sales	Apr	-7.0	-1.8
Housing starts (000s)*	May	194.6	187.0
Exports	Apr	1.8	14.7
Imports	Apr	0.6	7.4
Trade balance ($billlions)*	Apr	-0.4	-3.2
Consumer prices	May	0.1	1.3

* 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

UPSWING IN GLOBAL GROWTH UNDERWAY

Craig Wright, Dawn Desjardins, Paul Ferley, Nathan Janzen

"The greatest source of uncertainty for the global outlook is what policies the Trump administration will implement in the months ahead."

The global economy continued to build momentum in early 2017 seemingly inured to the uncertain political backdrop. We forecast world GDP growth of 3.5% this year, slightly firmer than our projection of 3.4% in March and well above 2016's 3.1% pace.

The greatest source of uncertainty for the global outlook is what policies the Trump administration will implement in the months ahead. To-date, the new government struggled to enact key planks of the President's policy agenda and there's a lack of clarity about the size and timing of promised tax cuts. Our view is that even with this high uncertainty quotient, solid consumer spending growth and a recovery in investment will underpin a year of stronger growth for the US economy.

Uncertainty about European politics abated somewhat following the French and Dutch elections with the economy maintaining its firm growth momentum. In the UK, conversely, the combination of a snap election and imminent negotiations over the UK's withdrawal from the European Union started to take a toll on the economy. With indications that the strong start in the Euro area continued in the second quarter we revised our 2017 forecast higher. Our view on the UK remains unchanged with the consumer getting squeezed by slowing wage growth and rising inflation and we expect growth in the second half of the year to ratchet lower.

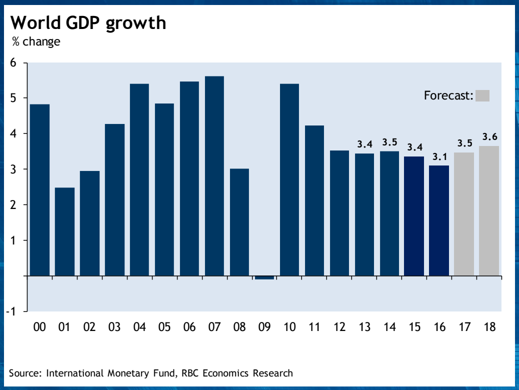
The uncertain policy backdrop in some of Canada's key trading partners did not interrupt the strong cyclical recovery that got underway in mid-2016. Recent activity reports show that growth accelerated in the first quarter of this year. The recovery in commodity prices, a dose of fiscal stimulus and accommodative monetary policy lay the groundwork for Canada's economy to post the strongest annual gain in three years. However we can't discount the risk of a slowdown going forward should the "modernization" of NAFTA chill relations with our largest trading partner or the expected cooling in the housing market turn into something more extreme.

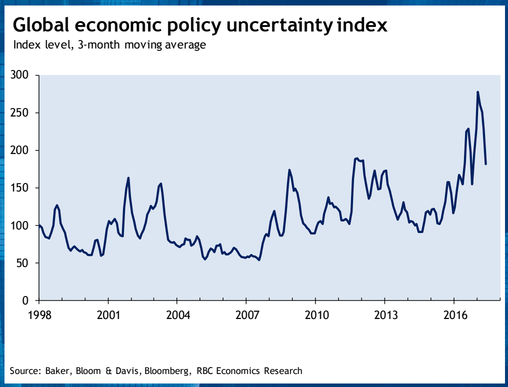
CONDITIONS COMING TOGETHER FOR GROWTH

Growth reports for the first quarter showed strong gains in China, Canada and the Euro area. Accelerating business investment, declining unemployment rates and positive business activity bode well for the stronger growth momentum to persist. Trade volumes, a key ingredient supporting quicker economic activity, rebounded sharply in the first quarter after stumbling through most of 2016.

OIL PRICES TO STAY ABOVE 2016 LOWS

OPEC's decision to extend production cuts to March 2018 interrupted the month-long price decline with a barrel of West Texas Intermediate rallying to trade around $50.00. US production increases are likely to cap the upside for prices in the near term although we expect lower production from OPEC and Russia will be sufficient to reduce global oversupply later this year. This combination will support WTI prices rising to $56.00 per barrel in the second half of the year. Further price gains in 2018 will be contingent on global demand holding up and producers preventing a rebuilding of oversupply.





MARKETS SANGUINE ON OUTLOOK FOR RATE HIKES

Global financial markets continued to power along in early 2017 and are priced for a very gradual normalization of monetary policy. We think that markets are too sanguine on the outlook for rate increases in the US and Canada over the medium term. A year of stronger US economic growth means the Fed will achieve its dual mandate of full employment and price stability upping the need to reduce policy stimulus in order to cap the risk of the economy overheating. We expect the Fed to increase the fed funds target by an additional 50 bps this year and by a full percentage in 2018. Should the Trump administration implement its pro-growth agenda, the need to rein in monetary policy stimulus will be greater.

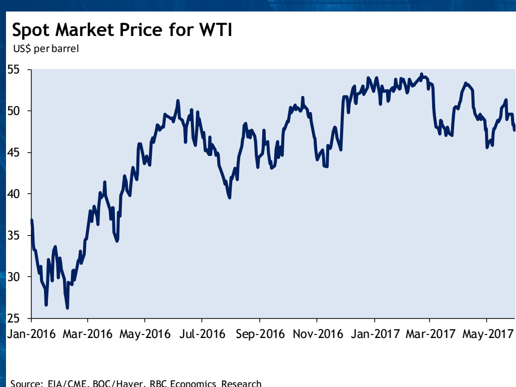
In Canada, the economy cleared the hurdle erected by the oil price shock with three consecutive quarters of very strong growth. The bank is maintaining a neutral policy stance given low underlying inflation and subpar wage growth by some measures while monitoring both domestic and foreign risks to the growth outlook. Our forecast is that the economy will continue to run at an above-average rate creating the potential for upside risks to the inflation outlook and resulting in policy stimulus being removed more quickly than markets assume. This will take some time to materialize and we expect the first move by the bank to come in early 2018 with a total of 75 basis points of increases likely next year.

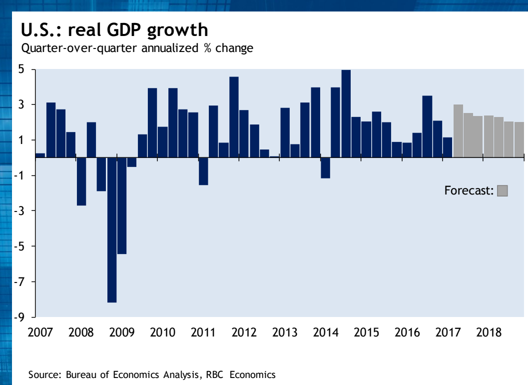
US ECONOMY'S SLOW START MASKS FIRM MOMENTUM

The US economy squeaked out a 1.2% annualized gain in the first quarter with growth tempered by a large adjustment in business inventories and slower consumer spending. We aren't worried that this softening will continue as the combination of rising asset values and persistent gains in hiring set up for consumption activity to recover. Since 2000, growth in the first quarter usually lags all other quarters by a large margin only to be followed by a strong rebound in the second quarter, a pattern we are confident will play out in 2017.

U.S. BUSINESS INVESTMENT – BACK IN THE SADDLE

U.S. businesses grew at the fastest pace since mid-2011 in the first quarter of 2017. The gains were broadly based with the largest increase in spending on non-residential structures as oil producers boosted the number of rigs in operation. Investment in machinery, equipment and intellectual property also grew strongly in the first quarter. While





Q1's oversized gain is unlikely to be repeated, business activity has been heating up, financial conditions are accommodative and lending standards eased modestly supporting US companies who are primed to expand capacity this year.

US TRADE POLICY – LOTS OF QUESTION MARKS

The US government provided mixed signals about trade since the November election. Even as the administration talked about "ripping up NAFTA", pulling out of the Trans Pacific Partnership and punishing countries who run large trade surpluses, world trade activity picked up after stalling for much of 2016. The uptick in global economic activity supported a strong first quarter for US exports with imports rising as business investment recovered. Despite a slight weakening in the US dollar so far this year it remains strong and will likely act as an impediment to robust export growth. Imports are forecast to grow more quickly as US companies take advantage of the relatively strong currency to purchase imported machinery and equipment.

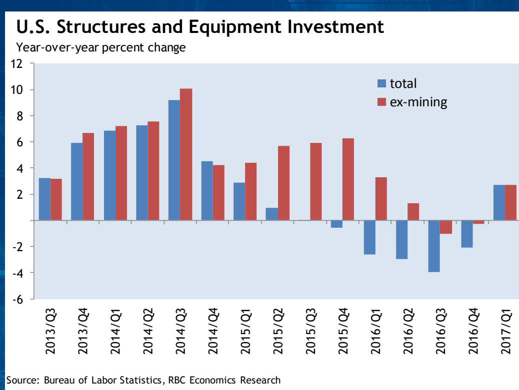
PAUSE IN US CONSUMER SPENDING TO BE SHORT-LIVED

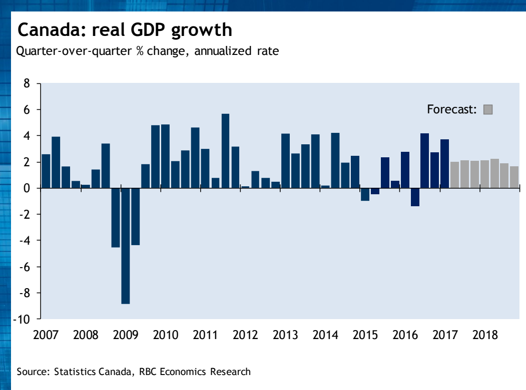
In the first quarter, US consumer spending grew at the slowest pace in more than 7 years. The slackening looks unlikely to continue given a myriad of factors supporting household spending including robust hiring, firmer wage growth and rising confidence. Labour market conditions continue to improve even with payrolls expanding at a slower 121K pace in the latest three months as the unemployment rate continued to edge down to a cycle-low of 4.3% and wage growth held at 2.5%. Similarly, confidence measures are bumping up against recent highs.

After months of strong gains, home sales activity slowed in April although this did not prevent the six-month run rate from hitting a post-recession high. While affordability has worsened in recent months, conditions are still attractive given low interest rates and rising incomes.

RATE HIKES TO DRIVE US DOLLAR UP, CANADA TO WEAKEN

The US dollar fell against the currencies of its major trading partners this year on the back of uncertainty about domestic policies and slower growth in the first quarter. While political uncertainty will likely remain high in the near term, the return of stronger growth and more aggressive tightening by the Fed than markets currently anticipate are expected to result in a strengthening in the US currency. This spells a period of weakening for the Canadian dollar. Even with oil prices forecast to grind higher, the divergence in monetary policy between Canada and the US and unease about the outcome of the NAFTA negotiations are expected to hold sway resulting in Canada's currency





weakening to 1.40 vs its US counterpart. The outlook is brighter for 2018 when the Bank of Canada starts to raise the overnight rate and oil prices continue to gradually march higher.

CANADA – 150 YEARS OLD

With the economy humming along Canada has lots to celebrate heading into its 150th birthday. Growth in the first quarter was 3.7% building on robust gains in the second half of last year. The consumer continued to be the key driver of growth with residential construction posting a double-digit gain early this year. Business investment provided the biggest lift to growth since 2012. The swing in investment is encouraging following two years of significant declines reflecting a marked drop in investment by energy companies. Mixed signals from business spending intentions surveys suggests that future increases will be more muted. Still with business investment turning around and government spending on infrastructure ramping up we project that the economy will grow by 2.6% in 2017, about double the average pace of prior two years.

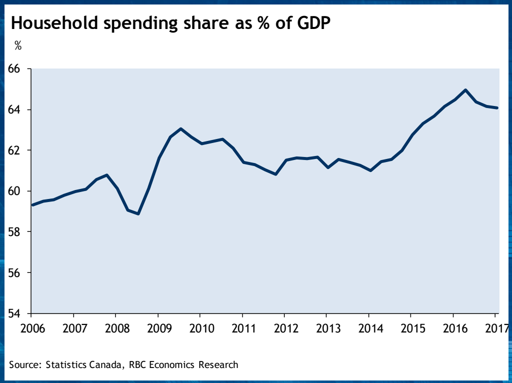
HOW'S THE CANADIAN CONSUMER LOOKING?

For eight years the consumer provided a large lift to the economy. The combination of rapid spending on autos, services and housing resulted in households accounting for almost two-thirds of economic activity. Steady employment gains, low interest rates and rising asset values created the perfect mix for consumers. Consumption is forecast to continue to be the mainstay for growth in 2017 although its contribution is likely to wane. In part this reflects our view that government policy changes will dampen the pace of home sales with knock-on effects on those spending areas that are highly correlated with resale and building activity. Our forecast is that Canadian home sales will fall 5.3% this year with a corresponding dip in housing-related spending.

HOUSING MARKET COMING OFF THE BOIL

Home sales activity continued at an elevated pace in early 2017 although showed signs of easing in April following the Ontario government's unveiling of a suite of policy measures to cool demand and boost supply. Early signs suggest the measures were effective in weighing on sales in April and May amid a surge in new listings and provides some hope that the Ontario market will be able to regain its balance.

We expect a slowing in price gains at the national level from almost 10% in 2016 to about 5% this year. The deceleration is forecast to continue in 2018 with price gains of 1% as rising interest rates dampen demand and sales fall by another 4%.



PROVINCIAL OUTLOOK

WESTERN REGION HOLDS THE CARD FOR STRONGER GROWTH IN CANADA

Paul Ferley, Robert Hogue, Gerard Walsh

Turnaround story: Alberta and Saskatchewan back in growth mode in 2017, ending two year-long recessions.

BC outlook upgraded: to lead the country in growth for a third-straight year.

Steady pace in Central Canada: solid momentum in Ontario and Quebec to continue.

Mixed picture in Manitoba: growth to moderate slightly.

Slow grind in Atlantic region: last year's growth drivers lack follow-up.

Western Canada holds the card for the stronger rate of growth that we project for the national economy in 2017. We expect recoveries in Alberta and Saskatchewan to be the primary factor that will boost Canada's growth from 1.5% last year to 2.6% this year. These recoveries along with continued expansion in British Columbia and Manitoba will allow western provinces as a group to contribute to Canada's economic growth for the first time in three years. Our outlook for British Columbia remains upbeat. In fact, we have boosted our growth forecast for 2017, maintaining the province at the top of our provincial growth rankings for the third consecutive year. Our view on Manitoba's prospects is not as bullish as it was last year but we continue to expect a respectable rate of expansion this year sustained by vigour in the farming and construction sectors.

STEADY AS SHE GOES IN CENTRAL CANADA

We see little that would throw the economies of Ontario and Quebec off last year's course. We expect consumers, who have been a force to reckon with lately, to continue to be a significant source of growth. Governments will also pitch in with significant infrastructure investment and other spending and tax measures, while exporters will find growing opportunities abroad. We expect sanity to return in Ontario's housing market.

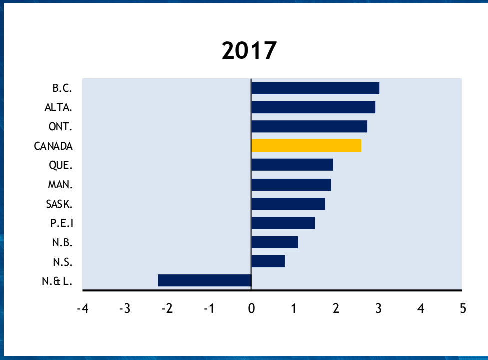
DEMOGRAPHIC BOOST TO FADE IN ATLANTIC CANADA

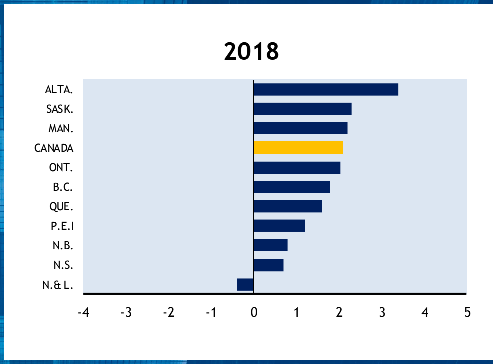
Our outlook has growth slowing across the Atlantic region with Newfoundland and Labrador seeing activity contracting again after a short break last year. The projected slowing of the pace in some cases reflects a diminishing contribution from major capital projects as construction work winds down. More generally, it reflects our view that the boosting effect of last year's immigration wave across the region will fade this year.

RISKS STILL ABOUND

It's great to be looking at a broad-based expansion across provinces this year after two very difficult years in some parts of the country. But much of our turnaround story in Alberta and Saskatchewan rests on oil prices continuing to recover. These provinces' recoveries could be derailed if global oil prices weaken again. Increased protectionist sentiments in the US pose a substantial risk to all provinces. The upcoming renegotiation of NAFTA no doubt will generate a lot of uncertainty which could affect trade and investment decisions across Canada. The softwood lumber trade dispute poses a more immediate threat to forest-dependent communities in BC and Quebec in particular.

REAL GDP GROWTH





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	4.3	2.1	2.1	1.7	1.7	1.7	1.6	1.7	1.9	2.4	2.9	1.8
Durables	5.9	-3.1	0.2	10.2	9.9	1.5	1.5	1.0	1.5	1.3	1.3	1.3	2.8	4.1	4.6	1.3
Semi-Durables	6.0	-2.3	2.9	5.0	8.6	2.4	2.8	1.8	1.8	1.8	1.8	2.0	2.3	3.4	4.2	2.0
Non-durables	3.6	5.2	2.1	0.9	3.2	2.5	2.8	2.0	1.8	1.8	1.8	2.0	0.8	2.1	2.5	2.0
Services	0.7	2.9	4.1	2.0	3.0	2.1	1.9	1.8	1.7	1.7	1.6	1.6	2.1	2.0	2.5	1.7
Government expenditures	3.9	4.7	-1.7	1.3	0.5	1.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.0	2.1
Residential investment	9.8	1.1	-5.1	6.3	15.7	-3.0	-3.1	-5.5	-2.6	-2.9	-1.9	-0.6	3.8	3.0	2.9	-3.1
Business investment	-10.3	-4.4	9.5	-22.0	10.3	3.7	3.0	3.6	3.9	3.7	2.6	2.4	-11.5	-8.6	-0.1	3.4
Non-residential structures	-14.7	-8.4	30.5	-32.5	0.7	3.5	3.2	4.0	4.4	4.2	3.0	2.7	-16.0	-10.8	-3.1	3.8
Machinery & equipment	-3.6	1.4	-15.8	-3.2	25.3	4.0	2.8	3.0	3.2	3.1	2.0	2.0	-3.3	-5.3	4.3	2.9
Final domestic demand	1.8	1.8	1.7	0.1	4.7	2.0	1.9	1.4	1.8	1.8	1.7	1.8	0.3	1.0	2.2	1.7
Exports	8.4	-13.6	9.2	0.8	-0.3	5.5	3.5	3.8	3.7	4.4	2.3	1.6	3.4	1.0	1.9	3.6
Imports	3.5	1.4	4.3	-11.3	13.7	0.5	2.8	3.0	2.7	2.7	2.3	1.9	0.3	-0.9	2.2	2.5
Inventories (change in $b)	-5.9	1.3	5.4	-2.5	12.3	4.9	5.0	6.6	6.9	6.5	7.3	7.1	3.9	-0.4	7.2	7.0
Real gross domestic product	2.8	-1.4	4.2	2.7	3.7	2.0	2.1	2.0	2.1	2.2	1.9	1.7	0.9	1.5	2.6	2.1
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.4	1.2	1.3	2.1	2.6	1.9	1.9	1.2	1.3	1.3	1.3	-0.2	0.7	2.1	1.3
Pre-tax corporate profits	-11.1	-16.6	-3.3	14.6	27.1	42.3	22.2	12.4	2.4	4.1	3.4	3.0	-19.5	-4.5	25.0	3.2
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.7	6.6	6.5	6.4	6.3	6.3	6.2	6.2	6.9	7.0	6.6	6.3
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	1.9	1.6	2.2	2.3	2.1	2.5	2.2	2.1	1.1	1.4	2.0	2.2
Core CPI	2.0	2.1	1.9	1.6	1.5	1.3	1.6	2.0	2.1	2.2	2.1	2.0	2.2	1.9	1.6	2.1
External trade																
Current account balance ($b)	-70.8	-75.4	-74.6	-47.1	-56.2	-46.8	-43.6	-41.1	-37.4	-31.5	-29.1	-27.1	-67.6	-67.0	-46.9	-31.2
% of GDP	-3.5	-3.8	-3.7	-2.3	-2.7	-2.2	-2.0	-1.9	-1.7	-1.4	-1.3	-1.2	-3.4	-3.3	-2.2	-1.4
Housing starts (000s)*	199	198	199	197	225	208	203	197	191	185	181	178	196	198	208	184
Motor vehicle sales (mill., saar)*	2.01	1.99	1.95	2.00	2.10	2.07	2.00	1.91	1.90	1.90	1.90	1.90	1.94	1.98	2.02	1.90
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	0.50	0.50	0.50	1.25
Three-month	0.45	0.48	0.53	0.46	0.52	0.50	0.55	0.60	0.65	0.85	1.15	1.40	0.51	0.46	0.60	1.40
Two-year	0.54	0.52	0.52	0.80	0.75	0.75	0.90	1.05	1.20	1.40	1.60	1.80	0.48	0.80	1.05	1.80
Five-year	0.67	0.57	0.62	1.15	1.12	1.05	1.35	1.65	1.95	2.25	2.45	2.60	0.73	1.15	1.65	2.60
10-year	1.23	1.06	1.00	1.80	1.62	1.55	1.90	2.25	2.55	2.80	2.95	3.10	1.40	1.80	2.25	3.10
30-year	2.00	1.72	1.66	2.35	2.30	2.15	2.45	2.80	3.00	3.20	3.30	3.45	2.15	2.35	2.80	3.45
Canadian dollar	1.30	1.29	1.31	1.34	1.33	1.38	1.39	1.40	1.38	1.36	1.35	1.33	1.38	1.34	1.40	1.33

*Quarterly averages, level

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

FORECAST DETAIL - UNITED STATES

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2016				2017				2018				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	1.6	4.3	3.0	3.5	0.6	3.0	2.5	2.4	2.6	2.4	2.1	2.0	3.2	2.7	2.5	2.4
Durables	-0.6	9.8	11.6	11.4	-1.4	6.4	3.1	3.1	3.0	2.7	2.1	2.1	6.9	5.8	5.5	3.0
Non-durables	2.1	5.7	-0.5	3.3	1.2	3.6	2.8	2.8	3.1	2.8	2.2	2.0	2.6	2.5	2.4	2.8
Services	1.9	3.0	2.7	2.4	0.8	2.3	2.3	2.2	2.4	2.2	2.1	2.0	2.8	2.3	2.0	2.2
Government spending	1.6	-1.7	0.8	0.2	-1.1	1.2	1.2	1.0	0.6	0.4	0.4	0.4	1.8	0.8	0.2	0.7
Residential investment	7.8	-7.8	-4.1	9.6	13.7	3.5	3.9	5.5	6.1	6.6	6.3	6.6	11.7	4.9	5.5	5.7
Business investment	-3.4	1.0	1.4	0.9	11.4	3.9	4.3	4.4	4.3	3.9	3.1	2.8	2.1	-0.5	4.7	4.0
Non-residential structures	0.1	-2.1	12.0	-1.9	28.3	1.0	4.0	4.5	4.5	3.8	2.9	2.3	-4.4	-2.9	8.4	3.7
Non-residential equipment	-9.5	-3.0	-4.5	2.0	7.2	5.4	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-2.9	3.3	4.4
Intellectual property	3.8	9.0	3.2	1.3	6.7	3.9	3.8	3.7	3.4	3.3	3.2	3.0	4.8	4.7	4.3	3.5
Final domestic demand	1.2	2.4	2.1	2.8	2.0	2.8	2.5	2.5	2.6	2.4	2.1	2.0	3.1	2.1	2.5	2.5
Exports	-0.7	1.8	10.0	-4.5	5.9	0.2	1.0	1.5	2.5	2.8	3.2	3.2	0.1	0.4	2.1	2.2
Imports	-0.6	0.2	2.2	8.9	3.8	4.0	1.2	2.5	3.3	3.3	3.5	3.0	4.6	1.1	3.9	2.9
Inventories (change in $b)	40.7	-9.5	7.1	49.6	4.3	31.0	29.0	27.0	22.0	22.0	22.0	21.0	84.0	22.0	22.8	21.8
Real gross domestic product	0.8	1.4	3.5	2.1	1.2	3.0	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.2	2.3
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	0.1	-0.3	0.1	1.2	1.0	1.6	1.0	0.7	1.4	1.3	1.2	1.2	0.8	0.3	1.1	1.3
Pre-tax corporate profits	-6.6	-4.3	2.1	9.3	3.7	5.6	0.3	0.8	3.2	3.0	2.9	2.3	-3.0	-0.1	2.5	2.8
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.4	4.4	4.4	4.4	4.4	4.3	4.3	5.3	4.9	4.5	4.4
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	2.3	2.5	2.3	2.0	2.3	2.2	2.2	0.1	1.3	2.4	2.2
Core CPI	2.2	2.2	2.2	2.2	2.2	1.9	2.0	2.0	1.9	2.2	2.1	2.1	1.8	2.2	2.0	2.1
External trade																
Current account balance ($b)	-532	-479	-464	-450	-453	-480	-488	-498	-509	-519	-527	-532	-463	-481	-480	-521
% of GDP	-2.9	-2.6	-2.5	-2.4	-2.4	-2.5	-2.5	-2.5	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.5	-2.6
Housing starts (000s)*	1153	1158	1150	1248	1242	1220	1241	1271	1300	1333	1362	1396	1107	1177	1243	1348
Motor vehicle sales (millions, saar)*	17.3	17.1	17.5	18.0	17.2	17.0	17.3	17.5	17.7	17.9	17.9	18.1	17.4	17.5	17.2	17.9
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Fed funds	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.50	0.75	1.50	2.50
Three-month	0.21	0.26	0.29	0.51	0.76	1.00	1.05	1.30	1.55	1.80	2.05	2.30	0.16	0.51	1.30	2.30
Two-year	0.73	0.58	0.77	1.25	1.27	1.40	1.60	1.90	2.15	2.40	2.60	2.80	1.06	1.25	1.90	2.80
Five-year	1.21	1.01	1.14	2.00	1.93	1.85	2.15	2.50	2.65	2.90	3.05	3.20	1.76	2.00	2.50	3.20
10-year	1.78	1.49	1.60	2.55	2.40	2.30	2.65	3.00	3.15	3.40	3.50	3.60	2.27	2.55	3.00	3.60
30-year	2.61	2.30	2.32	3.15	3.02	2.95	3.20	3.50	3.60	3.75	3.80	3.90	3.01	3.15	3.50	3.90
Yield curve (10s-2s)	105	91	83	130	113	90	105	110	100	100	90	80	121	130	110	80

*Quarterly averages, level

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

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATORS

	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH
Business								
Industrial production*	1.1	5.4	0.0	Mar.	0.0	2.1	-0.7	May.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Apr.	1.4	1.4	1.4	Apr.
New orders in manufacturing	0.4	8.4	-0.8	Apr.	-0.2	3.7	-3.5	Apr.
Business loans - Banks	0.1	4.4	7.2	May.	0.1	2.0	9.0	May.
Index of stock prices**	-1.5	9.1	0.7	May.	1.5	16.0	6.2	May.
Households								
Retail sales	0.8	7.0	4.4	Apr.	-0.3	3.8	2.7	May.
Auto sales	-7.0	-1.8	2.6	Apr.	-4.0	-12.3	-6.7	May.
Total consumer credit***	0.4	3.7	3.4	Apr.	0.2	5.8	6.5	Apr.
Housing starts	-8.8	4.1	4.0	May.	-5.5	-2.4	7.1	May.
Employment	0.3	1.8	0.9	May.	-0.2	1.2	1.6	May.
Prices								
Consumer price index	0.1	1.3	1.4	May.	-0.1	1.9	1.03	May.
Producer price index****	0.6	6.3	0.2	Apr.	-0.7	2.6	-1.1	May.
Interest rates								
Policy rate	0.5	0.5	0.5	May.	0.88	0.38	0.75	May.
90-day commercial paper rates	0.8	0.8	0.8	May.	1.0	0.5	0.9	May.
Government bonds - (10 years)	1.5	1.3	1.7	May.	2.3	1.8	2.4	May.

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