ECONOSCOPE

June 2018

CANADIAN MAY EMPLOYMENT DROPS

ONE OF THESE THINGS IS NOT LIKE THE OTHER

US Q2 REBOUND UNFOLDING

CANADA'S ECONOMY PICKING UP AFTER A SLOW START TO 2018

SOFT START TO THE 2018 SPRING HOUSING MARKET IN APRIL

ECONOSCOPE

Volume 42, Number 6
June 2018

RBC ECONOMICS RESEARCH

Craig Wright
SENIOR VICE PRESIDENT &
CHIEF ECONOMIST

Dawn Desjardins
VICE PRESIDENT &
DEPUTY CHIEF ECONOMIST

Paul Ferley
ASSISTANT CHIEF ECONOMIST
MACROECONOMICS

Robert Hogue
SENIOR ECONOMIST
REGIONAL ECONOMIES

Nathan Janzen
SENIOR ECONOMIST
MACROECONOMICS

Josh Nye
ECONOMIST
FINANCIAL MARKETS & MACROECONOMICS

Gerard Walsh
ECONOMIST
SECTOR ANALYSIS & PROVINCIAL ECONOMIES

Joseph Allegritti
RESEARCH ASSOCIATE

Rannella Billy-Ochieng'
ECONOMIST

Claire Robbins
ECONOMIST

Ramya Muthukumaran
ECONOMIST

EDITOR
Brian Waterman
rbceconomicsresearch@rbc.com

SUBSCRIPTION INFORMATION
rbceconomicsresearch@rbc.com

IN BRIEF

Highlights This Month

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

CURRENT TRENDS

Paul Ferley, Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ The 1.3% increase in GDP in Q1 was a bit softer-than-expected.

▲ May employment unexpectedly fell 7.5K following a 1.1k drop in April.

▲ Retail sales rose 0.6% in nominal terms in March — marking a third straight monthly gain.

▲ Housing starts dropped to 196k in May, down almost 10% from 217k in April and the first sub-200k reading in a year.

▲ The improvement in the nominal trade deficit to $1.9 billion more-than-retraced a surprisingly large deterioration to $3.9 billion in March from $2.7 billion in February.

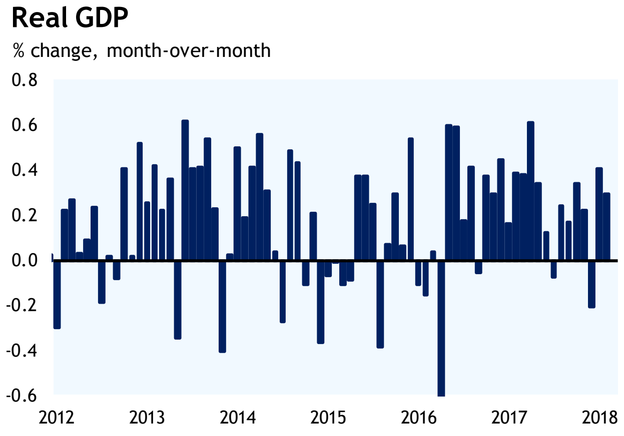
▲ All items inflation edged back down to 2.2% year-over-year in April after having increased to 2.3% in March.

CANADIAN GDP UP 1.3% IN Q1 BUT WITH STRONGER DETAILS

LATEST AVAILABLE: MARCH/Q1

RELEASE DATE: May 31, 2018

The 1.3% increase in GDP in Q1 was a bit softer-than-expected — both by markets and the Bank of Canada who it turns out could have stuck with their 1.3% call from January rather than hinting at some upside risk in yesterday's policy rate announcement. Notwithstanding the headline miss, though, details were relatively solid. On a monthly basis, weakness was concentrated in January with March output rising 0.3% after a 0.4% February gain to leave stronger momentum entering the second quarter. Final domestic demand rose a solid 2.1% in Q1, led by a big 10.9% jump in business investment. Residential investment fell 7.2%, but that was expected given the big drop in home resales earlier this year. Consumer spending rose just 1.1% on a quarter-over-quarter basis but was still up almost 3% from a year ago. Net trade was the main drag on growth but largely because all of that domestic demand growth boosted imports which more than offset an unexpected (albeit still modest) export rise.



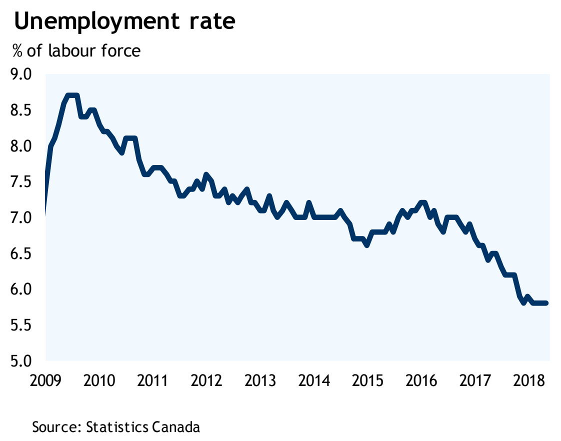
Source: Statistics Canada

CANADIAN MAY EMPLOYMENT DROPS THOUGH THE UNEMPLOYMENT RATE STAYS LOW

LATEST AVAILABLE: MAY

RELEASE DATE: JUNE 8, 2018

May employment unexpectedly fell 7.5K following a 1.1k drop in April. To date this year employment has declined an average of 10k per month but is still up 20k per month over the last 12 months. Despite declining employment, the unemployment rate has remained low averaging 5.8% to date this year and thus below assumed full employment within a range of 6% to 6 1/2%. The annual increase in wages rose to 3.9% from 3.3% in April reflecting in part a minimum wage increase in Quebec though tight labour markets was also likely a key factor.

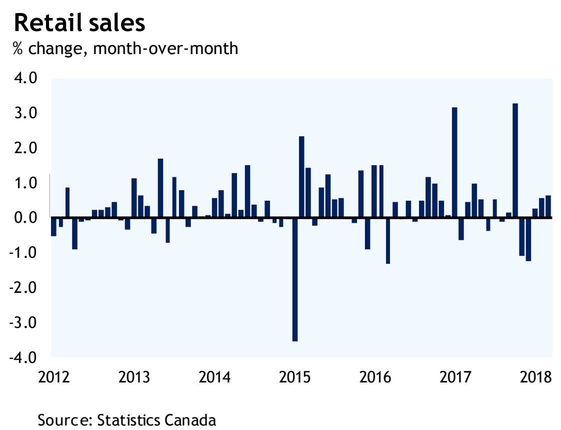


CANADIAN RETAIL SALES UP 0.6% IN MARCH

LATEST AVAILABLE: MARCH

RELEASE DATE: MAY 18, 2018

Retail sales rose 0.6% in nominal terms in March — marking a third straight monthly gain. Volume sales rose 0.8% to mark a second consecutive monthly increase. The measure was still down 4.0% at an annualized rate in Q1 but a return to positive growth in the last two months increases the odds that an upward trend resumes in Q2. E-commerce sales, which represents 2.6% of overall retail sales, were up 11.1% from a year ago.

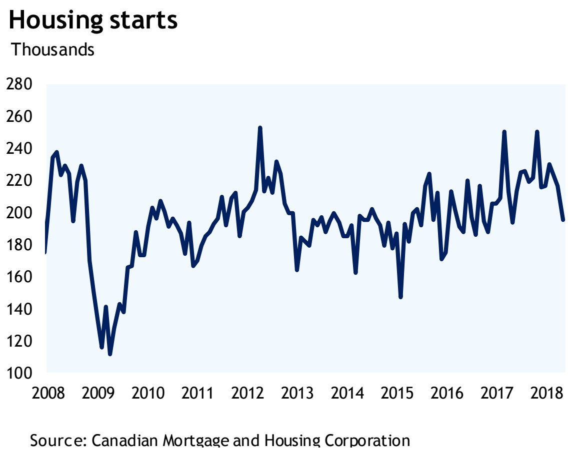


CANADIAN HOUSING STARTS DROPPED IN MAY

LATEST AVAILABLE: MAY

RELEASE DATE: JUNE 8, 2018

Housing starts dropped to 196k in May, down almost 10% from 217k in April and the first sub-200k reading in a year. The often-volatile multiple-unit component dropped 16% while single-unit starts rose 2%. Regionally, there were big declines in Ontario and Quebec — both driven by big declines in multiple-unit starts — but increases in the Prairies and British Columbia. Clearly there has been a slowing in home resale activity year-to-date in Canada following the implementation of new mortgage stress tests — and we expect that will eventually be followed by slower homebuilding as well. The drop in May starts, though, probably reflects 'normal' monthly volatility more than a deterioration in underlying trends.

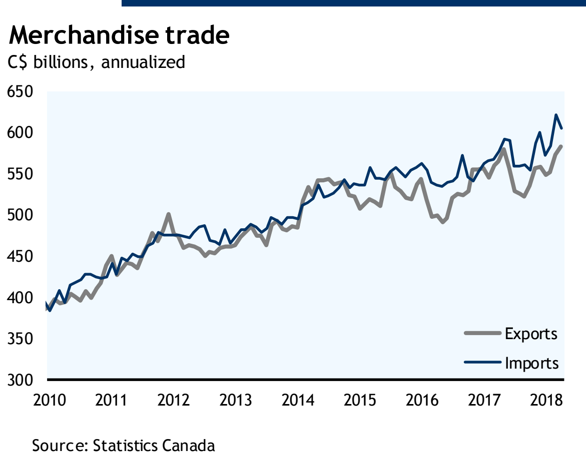


CANADA'S TRADE DEFICIT SHRUNK SHARPLY IN APRIL

LATEST AVAILABLE: APRIL

RELEASE DATE: JUNE 6, 2018

The improvement in the nominal trade deficit to $1.9 billion more-than-retraced a surprisingly large deterioration to $3.9 billion in March from $2.7 billion in February — and with relatively solid underlying details. The 1.6% increase in nominal exports built on a 4% increase in March and was largely the result of higher volume sales rather than prices. The 1.3% increase in export volumes was led by a 1 1/2% rise in non-energy sales abroad that built on a 2 1/2% March increase. The almost 2% drop in import volumes only partially retraced a 4.7% gain the prior month as motor vehicle and consumer goods purchases eased lower after big March gains. Equipment import volumes, a key indicator of domestic investment spending, also ticked lower but the April level was still above its Q1 average.



CANADIAN INFLATION TREADED WATER IN APRIL

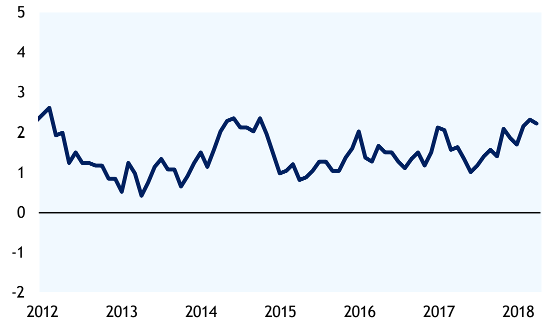
LATEST AVAILABLE: APRIL

RELEASE DATE: MAY 18, 2018

All items inflation edged back down to 2.2% year-over-year in April after having increased to 2.3% in March. Market expectations, and our own, were for headline inflation to hold steady at 2.3%. CPI ex food and energy also dipped slightly to 1.8% from 1.9%. The Bank of Canada's core measures, however, generally increased in April. The trim and median measures both rose to 2.1%. Including CPI-common, the average of the three was 2.0% after rounding for a third consecutive month. After accelerating over the last two months, energy inflation slowed on a year-over-year basis as a sharp increase in gasoline prices in April 2017 was not matched this year. We should see the opposite in May, with pump prices having increased recently compared with a decline a year ago.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Lastest month	Previous month	Year ago
Real GDP	Mar	0.3	2.9
Industrial production	Mar	0.9	4.9
Employment	May	0.0	1.3
Unemployment rate*	May	5.8	6.5
Manufacturing			
Production	Mar	0.1	2.5
Employment	May	-1.0	0.1
Shipments	Mar	1.4	6.4
New orders	Mar	-0.7	6.9
Inventories	Mar	0.7	7.2
Retail sales	Mar	0.6	4.1
Car sales	Mar	-0.2	-0.6
Housing starts (000s)*	May	195.6	193.8
Exports	Apr	1.6	3.1
Imports	Apr	-2.5	4.7
Trade balance ($billlions)*	Apr	-1.9	-1.1
Consumer prices	Apr	0.3	2.2

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

ONE OF THESE THINGS IS NOT LIKE THE OTHER

Josh Nye

“How the trade disputes play out could be key to whether Q2’s momentum is sustained over the second half of 2018.”

Last weekend’s G7 leaders’ summit lived up to its billing as a tense affair. An earlier meeting of the club’s finance ministers had foreshadowed the mood, with the U.S.’s G7 partners voicing their “unanimous concern and disappointment” over the Trump administration’s protectionist trade policies. Their rebuke came shortly after the U.S. went ahead and imposed tariffs on steel and aluminum from Canada and the EU. With Japan already facing the same levies, all three have threatened retaliatory measures against the U.S. Trump didn’t take that well—he pulled out of a joint communique at the last minute, apparently rankled by his Canadian host’s relatively mild but public refusal to take tariffs lying down. Trump’s subsequent threats to levy new tariffs on Canadian autos further raises the risk that tit-for-tat measures could devolve into a broader trade war that would weigh on all of the economies involved. This comes at a time when most of the G7 is seeing economic activity pick up following a slow start to the year. How the trade disputes play out could be key to whether Q2’s momentum is sustained over the second half of 2018.

Trump wasn’t the only populist at the G7 table. He was joined by Italy’s Giuseppe Conte, a nonpartisan political freshman who became prime minister days earlier. Conte took over following a fractious period in Italian politics. Concerns about a constitutional crisis, or fresh elections that would hand even more power to populist parties, had investors offloading Italian bonds in favour of safe havens like German debt. A political compromise helped spreads come down from recent highs. But investors continue to shy away from Italian debt thanks to some controversial economic proposals by the new governing parties, which could run afoul of European budget rules. We think the near-term threat to Italy’s economy is less significant than some might fear, and note the new finance minister’s recent comments in favour of Italy sticking with the euro.

FINANCIAL MARKETS

US Q2 REBOUND UNFOLDING…

Josh Nye

HIGHLIGHTS

- ▲ The US economy's Q2 rebound is looking even stronger than we previously thought.
- ▲ The US unemployment rate in May matched its lowest level since 1969.
- ▲ Businesses are noting upward pressure on input costs, particularly for products being hit with import tariffs.
- ▲ The Fed looks set to raise their policy rate again in June.

After a slower start to the year, particularly for the consumer, the anticipated rebound in US GDP growth is taking shape. And it looks like Q2 will be even stronger than we previously thought. Recent consumer spending data have confirmed our suspicion that the slowdown earlier this year was transitory. Business investment is on track to make another solid contribution to growth. Even exporters are getting in on the action—a narrowing in the US trade deficit over the last two months points to net trade providing the largest add to growth since 2013. Putting it all together, we have revised up our Q2 GDP growth forecast to 3.8%, which would mark the fastest quarterly pace in three years. Protectionist trade policies represent a downside risk to both business investment and exports, but unless tit-for-tat tariffs escalate more significantly we don't anticipate the headwind will be significant. For now we think growth will remain close to the 3% mark over the second half of this year.

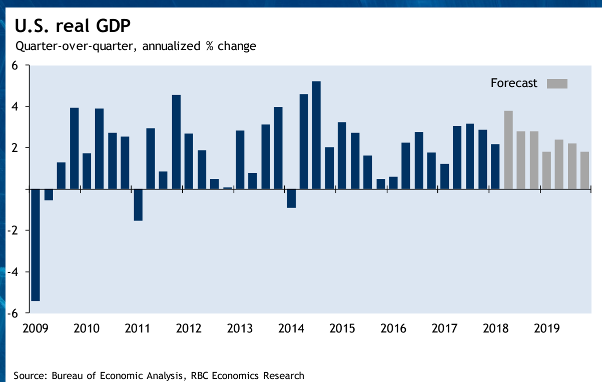
…WHILE THE LABOUR MARKET CONTINUES TO TIGHTEN

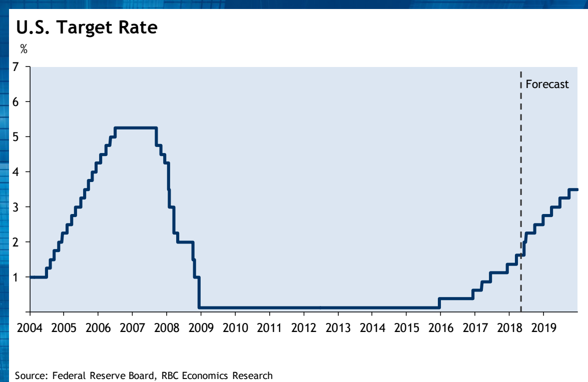
After nearly a year of 3% GDP growth, it's easy to forget that Q1's 'disappointing' 2.2% growth was still above the economy's longer-run trend rate. That is reflected in the jobs data, where an average monthly increase of more than 200k through May represents the best start in three years. With gains coming in well ahead of underlying labour force growth, the unemployment rate fell 0.3 percentage points year-to-date and at 3.8% in May, matched its lowest level since 1969. Tight labour market conditions have been reflected in anecdotal reports as well—the Fed's latest Beige Book noted "difficulty filling positions across skill levels." There were reports of higher wages being offered to attract talent, but overall wage increases remained modest. That was reinforced by May's wage numbers. Average hourly earnings growth ticked higher, but at 2.7% still haven't broken out of the range seen over the last two years.

Wage pressure has been slow to pick up, but the Beige Book noted that rising input costs, labour shortages and strong demand were putting upward pressure on prices in a number of industries. On material costs, steel, aluminum and lumber—all of which have been subject to tariffs by the Trump administration—were singled out. With steel and aluminum levies now also being applied to Canada, Mexico and the EU, rising material costs could become more pervasive. That would fit with our thesis that tariffs are more likely to harm US consumers and producers than they are to help the industries being protected.

FED SET TO HIKE IN JUNE WITH ALL EYES ON THE 'DOT PLOT'

The Fed is widely expected to raise the target range for the fed funds rate by 25 basis points at their next meeting on June 13. Minutes from their latest meeting indicated most participants thought it would "likely soon be appropriate" to continue removing accommodation. Recent data, including May's stellar jobs report, support a hike coming next week and attention is likely to focus on the Fed's updated projections. There is some scope for modest upward revisions to growth and inflation forecasts this year, and some room for a downward revision to the unemployment projection. But as usual, it will be the 'dot plot' that grabs most attention. Recall that the committee was closely divided on whether three or four total rate hikes would be appropriate this year. With policymakers sounding more confident their inflation target will be met on sustained basis, we think consensus will shift to four hikes. We'll also have an eye on the 2019 dots to see if the committee sees the policy rate rising above the 3.0% 'neutral' rate. Recent comments from some Fed officials have indicated monetary policy will likely need to become restrictive at some point—a view that fits with our forecast for once-a-quarter hikes to continue next year. We see the fed funds rate ending 2019 in a 3.25-3.50% range.





FINANCIAL MARKETS

CANADA'S ECONOMY ALSO PICKING UP AFTER A SLOW START TO 2018

Josh Nye

HIGHLIGHTS

- ▲ Canadian GDP growth disappointed in Q1 but we're already seeing signs of a pickup in Q2.
- ▲ The Bank of Canada ditched their "cautious" mentality in May.
- ▲ BoC Deputy Governor Leduc revived talk of policymakers taking uncertainty in stride as they make policy decisions.
- ▲ Steel and aluminum tariffs should have a limited impact on the broader economy. We will be more concerned if tit-for-tat measures escalate.

Canada's economy hit a soft patch in Q1 with GDP growth slipping to just 1.3%, Consumer spending and housing, stalwarts of the current cycle, accounted for much of the loss of momentum. The slowdown in housing has proven more persistent than anticipated, suggesting higher interest rates and more stringent qualifying requirements are restraining and not just shifting the timing of sales. Consumer spending, on the other hand, is expected to pick up going forward. Recent moderation in consumer credit points to rising interest rates having an impact on household spending, but we think a solid labour market and rising wages will partially offset that headwind. A recovery in retail sales in the last two months supports that thesis. With consumers getting back in the game, we think overall growth will rebound to an above-trend 2.4% pace in Q2. March's GDP release showed the economy had good momentum heading into the current quarter, with a 0.3% monthly increase building on February's 0.4% gain.

BANK OF CANADA CHANGING ITS TUNE…

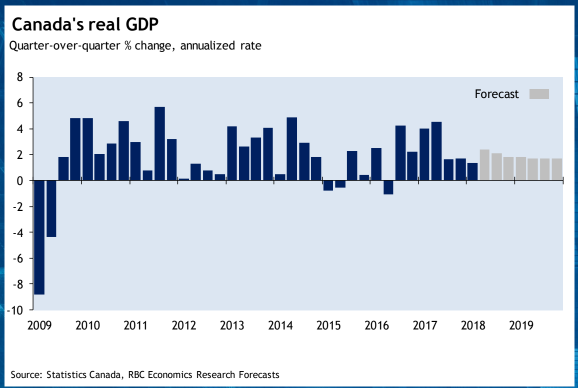
As expected, the Bank of Canada left monetary policy unchanged at the end of May. But the meeting was hardly a non-event, with some notable changes giving the policy statement an unexpectedly hawkish tone. The Governing Council's mantra has been that they would be "cautious" in future adjustments to monetary policy, but that key word was left out of May's statement in favour of a "gradual" approach to tightening. Their bias was also strengthened by noting "higher interest rates will be warranted" without adding "over time" as they have in the past. And surprisingly there was no mention of maintaining "some monetary policy accommodation" over the medium term. That last change seems to be a significant deviation from earlier indications that the policy rate is likely to remain below the BoC's 'neutral' range of 2.5-3.5% for some time as the economy faces headwinds from trade uncertainty, competitiveness issues and high household debt.

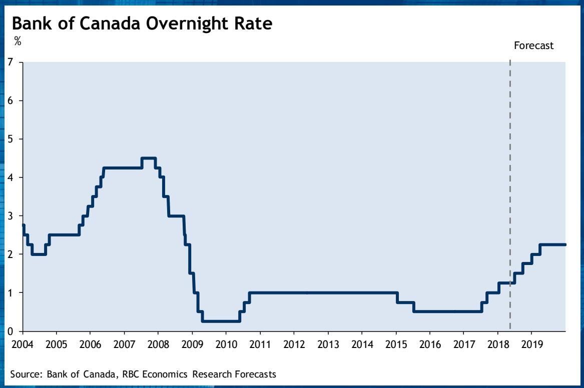
The bank also sounded a bit more sanguine about trade uncertainty in May. In his progress report, Deputy Governor Leduc rehashed some of the points from an earlier speech by Senior Deputy Governor Wilkins on embracing uncertainty. The message—that policymakers need to take uncertainty into account but can't be paralyzed by it—suggests the bank won't necessarily sit on the sidelines amid tariff threats and protracted trade talks.

…BUT JULY ISN'T A DONE DEAL

While the Bank of Canada is no fan of forward guidance, their change in tone seemed to signal a near-term rate hike. But monetary policy remains data dependent, so a number of upcoming releases will have to cooperate for rates to move higher on July 11 as we expect. We've already seen some evidence that the economy picked up momentum heading into Q2, and we think April's GDP data will reinforce that. The bank's next Business Outlook Survey will also be key. Policymakers were encouraged by the recent improvement in investment and services exports. A positive signal from business on investment intentions and foreign demand—even in the face of trade uncertainty—would reinforce the BoC's tightening bias.

The bank's more hawkish policy statement was issued just days before the US waived Canada's exemption from steel and aluminum tariffs. The Canadian government is responding with tariffs on a variety of US imports that will take effect in July. Will these tit-for-tat measures derail a planned rate hike? We don't think so at this stage. The bank won't have been blindsided by the tariffs as an extension of Canada's exemption, which was tied to progress in Nafta negotiations, looked unlikely at the time of their policy meeting. And while the steel and aluminum industries are likely to feel some pain, the overall impact on Canadian GDP and exports should be contained.





FINANCIAL MARKETS

BANK OF ENGLAND WATCHING FOR Q2 REBOUND

Josh Nye

HIGHLIGHTS

- ▲ The UK economy looks like it will rebound in Q2, but activity lost to bad weather in Q1 might not be made up in full.
- ▲ Recent PMI data point to a pickup in euro area growth in Q2, but not necessarily to last year's pace.
- ▲ With Italy's political situation calming down somewhat, we think the ECB will soon announce plans to taper QE.
- ▲ Australian GDP growth surprised to the upside in Q1 but we don't think that strength will persist.

The UK economy had a disappointing start to the year, and how it recovers in Q2 will be key in upcoming monetary policy deliberations. We are with the Bank of England in thinking Q1's slowdown was partly weather related. And while that lost activity won't necessarily be made up in Q2, a return to more trend-like growth of 0.4% in the current quarter is expected. Recent data provide some support for that view—retail sales rebounded nicely in April after wintry weather kept shoppers at home in March. PMI readings also improved in April and May, though the quarter-to-date average is only slightly better than Q1's. That suggests a bit more 'wood to chop' if growth is to rebound to 0.4%.

In contrast with activity data, jobs numbers indicate the economy had a decent start to 2018. Employment growth picked up in the first three months of the year and the unemployment rate fell to 4.2% in March from 4.4% last December. Wage growth is also trending higher, and inflation slowed from the 3% rate seen earlier this year, meaning real pay growth is back in positive territory. That's a good sign for consumers that have been held back by currency-driven inflation since the Brexit referendum. After the Bank of England took a pass on raising rates in May, we shifted our focus to the August meeting. Recent evidence of a pickup in Q2 growth and further tightening in the labour market have improved our confidence that rates will move higher this summer. We'll be closely watching the BoE's June 21 meeting for hints they're getting ready to act on their tightening bias.

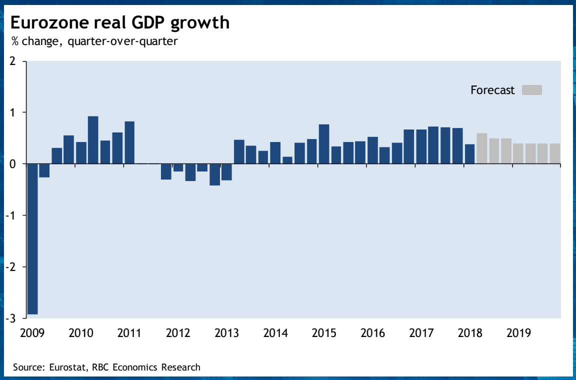
ITALY'S DRAMA WON'T DERAIL ECB TAPER PLANS

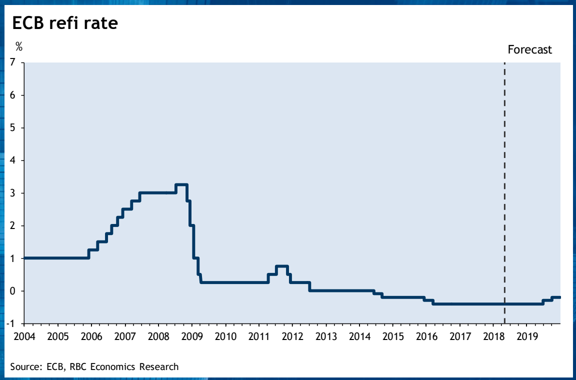
A number of transitory factors, from adverse weather to labour market disruptions, weighed on the euro area economy in Q1. We expect growth will rebound to 0.6% in Q2 as some of those temporary headwinds abate. Recent survey data are consistent with activity recovering relative to Q1 but suggest a modest slowing relative to last year. Some of that slowing likely reflects less scope to absorb excess capacity in the economy following three years of above-trend growth. Look no further than the labour market, where the unemployment rate fell to 8.5% in April, the lowest rate since 2008. The jobless rate is now close to some estimates of full employment, though we caution that labour market reforms may have shifted that bogey. Modest wage growth—with early signs of higher pay settlements only beginning to emerge—indicates there is room for hiring to continue.

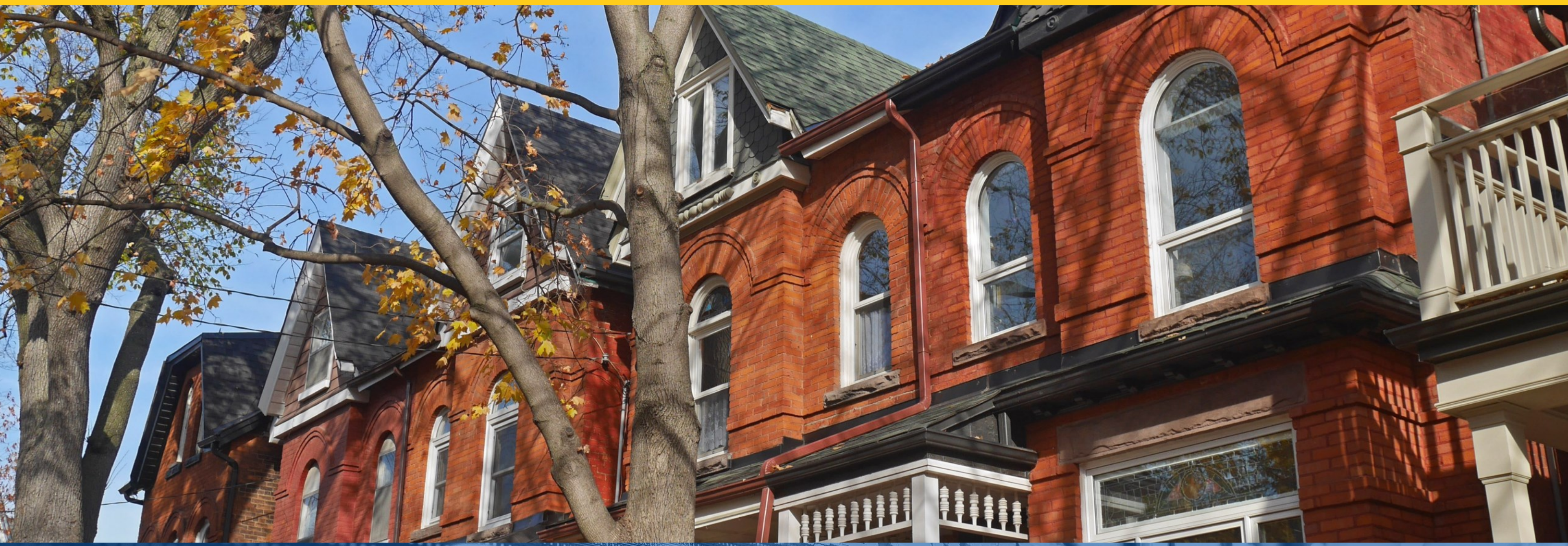
Nonetheless, we continue to think the European Central Bank is on track to announce changes to their asset purchase program in either June or July. Despite markets expressing some concern about Italy's economic outlook, we think a decision to phase out QE by the end of this year will be taken in stride. We'll be closely watching June's PMI data to see if Italy's political uncertainty is affecting the country's economy, or the broader euro area. But at this stage we don't see it derailing the currency bloc's ongoing expansion, or the ECB's plans to gradually normalize monetary policy.

RBA SOUNDING A BIT MORE DOVISH

While all of the G7 economies had a slower start to the year, that trend didn't extend to Australia where GDP growth jumped to 1% in Q1 from a 1/2% average pace over the second half of 2017. The year-over-year rate accelerated to 3.1%, the best in nearly two years, though that is more or less in line with the economy's longer-run trend. And we caution that Q1's impressive pace isn't likely to persist this year. Strength in net exports and public spending should continue, but we think softer Q1 consumer spending is a taste of things to come. Alongside a weakening housing market, households won't be a significant driver of growth—making it difficult for the Australian economy to return to full employment. That sentiment was echoed in the Reserve Bank of Australia's latest policy statement, where they no longer indicated their growth forecast should reduce spare capacity in the economy. They also dropped an earlier reference to improving labour market conditions. These changes are consistent with inflation and wage trends remaining subdued for longer than expected—reinforcing our view that the RBA is likely to remain on the sidelines this year with the cash rate steady at 1.50%.







CURRENT ANALYSIS

NATHAN JANZEN

SOFT START TO THE 2018 SPRING HOUSING MARKET IN APRIL

- Existing home sales slipped 2.9% lower in April, building on a 0.2% dip in March. Declines over the last two months were still much more modest than the 19% plunge over January and February as new required mortgage stress tests took a toll on sales.
- We continue to expect most of the adjustment to the new stress tests is behind us. The persistence of soft resale data also, though, adds to the evidence that the cooling impact on housing activity could be longer-lived than prior regulatory moves.
- The largest drop in sales in April was in Ontario (-5.3%) although declines were posted in most regions. Only Saskatchewan (+8.7%), New Brunswick (+4.9%) and Prince Edward Island (+14.7%) posted sales increases in April.
- New listings fell by 4.8% in April. That outpaced the drop in sales so the national market still tightened slightly on average. At 0.54, the national sales-to-listings ratio is still firmly in 'balanced market' territory.
- Most local markets are still in the 'balanced' to 'tight' range from a sales-to-listing ratio perspective despite widespread sales declines.
- Year-over-year growth in the national benchmark price decelerated to just 1.5% in April — the lowest since October 2009 and a dramatic shift from a year ago when annual price growth was 18.9%. If recent month-over-month growth trends are maintained, though, it is probably close to its low and could start to drift slightly higher over the summer. April last year marked the peak in year-over-year price growth ahead of new foreign buyer tax implemented in Ontario.

Toronto and Vancouver housing market activity still soft in May

The Toronto Real Estate Board reported that resales were down 22.2% from the same period a year ago while the Real Estate Board of Greater Vancouver reported an even steeper drop of 35.1%. Despite sharply lower levels of activity, demand-supply conditions (as depicted by the sales-to-new listings ratio) remain balanced. The road ahead is likely to be bumpy for both the Toronto and Vancouver market. Still, we expect that as long as the economy continues to grow they will manage to stay on track.

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	4.0	4.3	3.1	2.2	1.1	2.0	1.9	1.9	1.7	1.7	1.6	1.7	2.4	3.5	2.1	1.8
Durables	12.2	7.2	-0.6	2.1	0.2	1.9	1.7	1.7	1.6	1.6	1.5	1.5	4.5	6.5	1.5	1.6
Semi-Durables	2.8	6.0	2.3	-0.7	0.0	1.9	1.9	1.9	1.8	1.6	1.8	1.8	2.2	3.3	1.2	1.8
Non-durables	2.1	5.6	0.4	3.5	-0.3	1.9	1.7	1.9	1.8	1.7	1.7	1.8	1.7	2.6	1.6	1.7
Services	3.0	2.8	5.2	2.0	2.1	2.1	2.0	2.0	1.8	1.8	1.7	1.8	2.2	3.2	2.5	1.8
Government expenditures	4.8	0.8	3.5	3.8	2.7	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.2	2.3	2.8	2.2
Residential investment	7.1	-1.3	-0.1	13.5	-7.2	-2.7	-4.8	-3.7	-2.1	-0.5	0.3	1.2	3.3	2.9	-1.0	-2.0
Business investment	14.3	7.5	5.9	8.0	10.9	2.8	2.3	2.1	2.0	2.0	2.0	2.0	-9.4	2.8	6.3	2.1
Non-residential structures	5.9	6.7	8.9	4.0	6.3	2.8	2.5	2.2	2.0	2.0	2.0	2.0	-11.5	0.7	4.8	2.1
Machinery & equipment	28.5	8.7	1.6	14.5	18.1	2.8	2.0	2.0	2.0	2.0	2.0	2.0	-6.0	6.0	8.6	2.0
Final domestic demand	4.9	3.2	3.6	4.1	2.1	1.9	1.6	1.7	1.6	1.6	1.7	1.8	1.1	3.0	2.6	1.7
Exports	2.6	6.4	-9.9	3.9	1.7	10.0	2.0	2.0	3.3	1.7	1.8	2.0	1.0	1.1	2.4	2.7
Imports	14.9	4.1	1.3	7.7	4.9	5.0	3.5	2.8	2.5	1.0	1.7	2.1	-1.0	3.6	4.6	2.4
Inventories (change in $b)	8.9	12.8	18.3	15.8	15.3	10.8	15.5	17.5	17.5	16.6	16.6	16.6	1.0	13.9	14.8	16.8
Real gross domestic product	4.0	4.6	1.7	1.7	1.3	2.4	2.1	1.8	1.8	1.7	1.7	1.7	1.4	3.0	2.0	1.8
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	2.2	2.6	1.1	1.1	-0.2	0.1	0.8	0.9	1.4	1.2	1.0	1.0	0.6	1.8	0.4	1.2
Pre-tax corporate profits	25.7	35.4	14.5	7.9	1.0	4.8	5.3	4.0	3.9	2.3	2.5	1.4	-1.9	19.9	3.7	2.5
Unemployment rate (%)*	6.6	6.5	6.2	6.0	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	7.0	6.3	5.8	5.8
Inflation																
Headline CPI	1.9	1.3	1.4	1.8	2.1	2.6	2.8	2.5	2.2	2.2	2.1	2.1	1.4	1.6	2.5	2.1
Core CPI	2.0	1.4	1.4	1.6	1.8	1.9	2.1	2.3	2.1	2.4	2.3	2.2	1.9	1.6	2.0	2.3
External trade																
Current account balance ($b)	-55.9	-59.6	-71.7	-65.9	-78.0	-70.1	-74.2	-74.8	-72.4	-69.9	-68.4	-67.5	-65.4	-63.3	-74.3	-69.5
% of GDP	-2.6	-2.8	-3.3	-3.0	-3.6	-3.1	-3.3	-3.3	-3.1	-3.0	-2.9	-2.9	-3.2	-2.9	-3.3	-3.1
Housing starts (000s)*	222	207	223	229	223	213	213	207	197	195	192	190	198	220	214	194
Motor vehicle sales (mill., saar)*	2.07	2.10	2.08	2.05	2.12	2.00	1.98	1.97	1.94	1.93	1.92	1.92	1.72	2.08	2.02	1.93
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	1.00	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.25	2.25	0.50	1.00	1.75	2.25
Three-month	0.52	0.71	1.00	1.06	1.10	1.20	1.45	1.65	1.90	2.15	2.15	2.15	0.46	1.06	1.65	2.15
Two-year	0.75	1.10	1.52	1.69	1.78	1.95	2.15	2.30	2.50	2.50	2.40	2.30	0.75	1.69	2.30	2.30
Five-year	1.12	1.40	1.75	1.87	1.97	2.15	2.35	2.55	2.75	2.80	2.75	2.65	1.12	1.87	2.55	2.65
10-year	1.62	1.76	2.10	2.04	2.09	2.35	2.55	2.75	2.90	3.00	3.00	2.90	1.71	2.04	2.75	2.90
30-year	2.30	2.14	2.47	2.27	2.23	2.50	2.75	2.90	3.05	3.15	3.15	3.10	2.31	2.27	2.90	3.10
Canadian dollar	1.33	1.30	1.25	1.26	1.29	1.30	1.28	1.28	1.26	1.26	1.27	1.28	1.34	1.26	1.28	1.28

*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	4.0	1.0	3.5	3.2	2.7	1.7	2.3	2.3	1.8	2.7	2.8	2.7	2.4
Durables	-0.1	7.6	8.6	13.7	-2.6	7.2	4.5	2.8	2.2	2.3	2.2	1.6	5.5	6.7	5.4	2.9
Non-durables	1.1	4.2	2.3	4.8	0.4	3.3	4.5	3.5	1.9	2.5	2.4	1.8	2.8	2.4	3.0	2.8
Services	2.5	2.3	1.1	2.3	1.8	2.9	2.6	2.5	1.6	2.3	2.3	1.8	2.3	2.2	2.2	2.2
Government spending	-0.6	-0.2	0.7	3.0	1.1	0.6	2.4	2.7	2.4	2.4	2.4	2.4	0.8	0.1	1.5	2.3
Residential investment	11.1	-7.3	-4.7	12.8	-2.0	1.0	3.8	3.4	1.8	0.9	1.9	1.2	5.5	1.8	1.5	2.1
Business investment	7.1	6.7	4.7	6.8	9.2	5.0	6.5	5.7	2.8	2.8	2.6	2.6	-0.6	4.7	6.7	3.9
Non-residential structures	14.8	7.0	-7.0	6.3	14.3	4.0	6.5	5.2	4.0	4.0	2.0	2.0	-4.1	5.6	6.0	4.1
Non-residential equipment	4.4	8.8	10.8	11.5	5.5	5.3	7.2	6.5	3.5	3.5	0.7	0.1	-3.4	4.8	7.7	4.0
Intellectual property	5.8	3.7	5.2	0.9	10.9	5.3	5.2	5.0	4.8	3.6	2.6	2.6	6.3	3.9	5.7	4.3
Final domestic demand	2.4	2.7	1.9	4.5	1.9	3.1	3.5	3.1	2.1	2.5	2.2	1.8	2.1	2.5	2.9	2.6
Exports	7.3	3.5	2.1	7.0	4.2	7.5	2.0	2.5	3.0	2.8	2.8	2.8	-0.3	3.4	4.6	3.0
Imports	4.3	1.5	-0.7	14.1	2.8	1.5	7.4	6.0	5.4	3.0	2.8	3.2	1.3	4.0	4.8	4.6
Inventories (change in $b)	1.2	5.5	38.5	15.6	20.2	17.0	20.0	29.0	33.0	33.0	33.0	38.0	33.4	15.2	21.6	34.3
Real gross domestic product	1.2	3.1	3.2	2.9	2.2	3.8	2.8	2.8	1.8	2.4	2.2	1.8	1.5	2.3	2.9	2.4
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.1	1.4	1.5	0.9	1.3	1.4	1.0	1.5	1.4	1.2	1.2	1.0	0.1	1.2	1.3	1.2
Pre-tax corporate profits	3.3	6.4	5.4	2.7	4.3	5.5	2.2	3.0	3.9	3.0	2.6	2.4	-2.1	4.4	3.7	3.0
Unemployment rate (%)*	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.8	3.8	3.7	3.7	3.7	4.9	4.4	3.9	3.7
Inflation																
Headline CPI	2.5	1.9	2.0	2.1	2.2	2.7	2.6	2.2	1.8	1.9	2.0	2.2	1.3	2.1	2.4	2.0
Core CPI	2.2	1.8	1.7	1.8	1.9	2.2	2.3	2.3	2.1	2.1	2.2	2.2	2.2	1.8	2.2	2.2
External trade																
Current account balance ($b)	-451	-495	-406	-513	-528	-500	-539	-569	-593	-600	-605	-613	-452	-466	-534	-603
% of GDP	-2.4	-2.6	-2.1	-2.6	-2.6	-2.5	-2.6	-2.8	-2.8	-2.8	-2.8	-2.9	-2.4	-2.4	-2.6	-2.8
Housing starts (000s)*	1231	1171	1172	1259	1320	1285	1300	1315	1315	1315	1325	1325	1177	1208	1305	1320
Motor vehicle sales (millions, saar)*	17.1	16.8	17.1	17.7	17.1	17.3	17.3	17.3	17.3	17.3	17.4	17.4	17.5	17.1	17.3	17.4
INTEREST 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	1.73	1.90	2.15	2.35	2.65	2.90	3.15	3.35	0.51	1.39	2.35	3.35
Two-year	1.27	1.38	1.47	1.89	2.27	2.50	2.65	2.80	3.00	3.25	3.40	3.55	1.20	1.89	2.80	3.55
Five-year	1.93	1.89	1.92	2.20	2.56	2.80	2.95	3.10	3.25	3.45	3.55	3.65	1.93	2.20	3.10	3.65
10-year	2.40	2.31	2.33	2.40	2.74	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	2.97	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	47	50	50	50	45	35	30	20	125	51	50	20

*Quarterly averages, level

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

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATOR

	CANADA				US			
	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH
Business								
Industrial production*	0.9	4.9	1.5	Mar.	0.8	3.5	-0.2	Apr.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Mar.	1.4	1.4	1.4	Apr.
New orders in manufacturing	-0.7	6.9	1.2	Mar.	-0.8	7.4	-1.0	Apr.
Business loans - Banks	1.5	7.8	6.9	Apr.	1.2	3.4	6.7	Apr.
Index of stock prices**	2.9	4.6	1.8	May.	1.8	12.8	9.4	May.
Households								
Retail sales	0.6	4.1	5.0	Mar.	0.2	4.6	3.3	Apr.
Auto sales	-0.2	-0.6	3.1	Mar.	-0.6	-13.2	-8.2	May.
Total consumer credit***	0.0	4.7	4.0	Apr.	0.2	4.8	5.1	Apr.
Housing starts	-9.8	1.0	4.9	May.	-3.7	10.5	6.2	Apr.
Employment	0.0	1.3	1.2	May.	0.2	1.7	1.6	May.
Prices								
Consumer price index	0.3	2.2	1.5	Apr.	0.2	2.7	1.37	May.
Producer price index****	0.5	2.4	0.9	Apr.	-0.1	2.3	-0.1	Apr.
Interest rates								
Policy rate	1.3	0.5	-	May.	1.6	0.9	-	May.
90-day commercial paper rates	1.7	0.8	-	May.	2.0	1.0	-	May.
Government bonds - (10 years)	2.4	1.5	-	May.	3.0	2.3	-	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