# econoscope

November 2016

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IN BRIEF

# Highlights this month

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CURRENT TRENDS

# Canadian August GDP rises 0.2%

## HIGHLIGHTS

▲ The August increase in GDP was in line with expectations though the July increase was revised down slightly to 0.4% from the previously-estimated 0.5%.

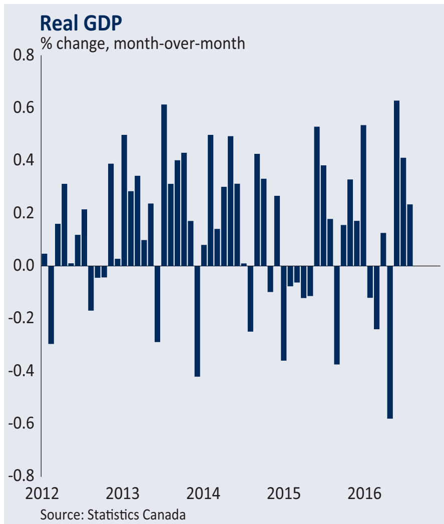
▲ Job gains of 44K in October were due to a surge in part-time employment.

▲ Canada retail sales rose 0.6% in September.

▲ Housing starts declined to an annualized 192.9K in October (close to expectations for a 195K reading) after surging to a 219.4K rate in September from 184.1K in August.

▲ The trade deficit unexpectedly widened to a record $4.1 billion in September from $2.0 billion in August but with the deterioration appearing to be due entirely to a one-time equipment import from South Korea.

▲ Headline inflation rate hit 1.5% in October; core price index eased to 1.7%.

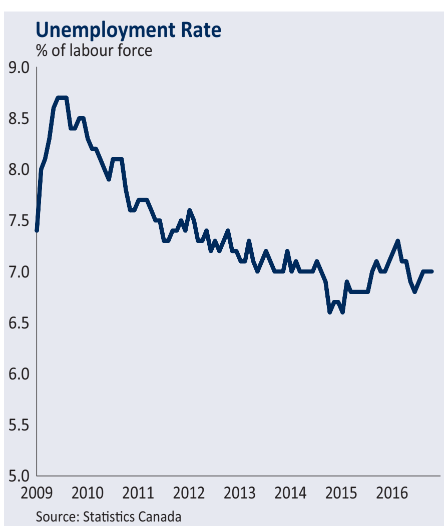



**LATEST AVAILABLE: AUGUST**
**RELEASE DATE: NOVEMBER 1, 2016**

The August increase was in line with expectations though the July increase was revised down slightly to 0.4% from the previously-estimated 0.5%. The August increase solely resulted from goods production rising a stronger-than-expected 0.7% that more than offset a disappointing flat reading for services. Within the goods component, mining continued to rise although the 1.4% August gain was down from the 4.0% increases recorded in each of July and June. The services component saw gains in wholesale trade (0.5%) and accommodation and food services (0.4%). Real estate agent activity dropped a sizeable 3.2% in the month with notably weaker activity in B.C.

## Canadian employment unexpectedly rose in October

**LATEST AVAILABLE: OCTOBER**
**RELEASE DATE: NOVEMBER 4, 2016**



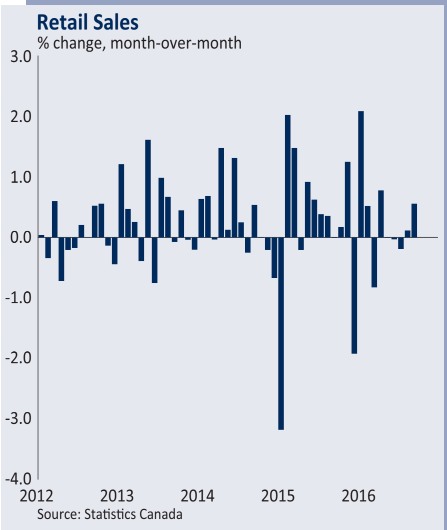

Job gains of 44K in October were due to a surge in part-time employment. Canada's unemployment rate held steady at 7.0% as labour force participation inched up. Canada's labour market report revealed another increase in employment contrary to market expectations for a 15k drop. The 44K increase was split between goods and services producing job creation although the jobs created were part-time with full-time employment falling by 23K. Regionally, employment growth was concentrated in Ontario (+25K) and BC (+15K). Employment in Alberta posted a third consecutive gain, trimming the year-to-date job losses to 13K. Conversely, Newfoundland/Labrador saw 5.6K jobs lost in October.

### Canada retail sales rose 0.6% in September

**LATEST AVAILABLE: SEPTEMBER**

**RELEASE DATE: NOVEMBER 22, 2016**

Excluding a large gain in the motor vehicle component, sales were unchanged from August. The volume of sales also rose 0.6% in September following a revised flat (was –0.3%) reading in August. Although the bulk of the nominal increase in total September retail sales was concentrated in a 2.4% gain in the motor vehicle component, Statistics Canada noted that sales increased in 7 of 11 subsectors including a 0.7% gain in building material store sales and a 0.4% increase in general merchandise stores. Statistics Canada noted that the CPI food price index declined on a year-over-year basis in September for the first time since 2008.




### Canadian October housing starts declined after September surge

**LATEST AVAILABLE: OCTOBER**

**RELEASE DATE: NOVEMBER 8, 2016**

Housing starts declined to an annualized 192.9K in October (close to expectations for a 195K reading) after surging to a 219.4K rate in September from 184.1K in August (see *Housing Starts* chart on page 4). Starts declined in both urban (-12.2%) and rural (-10.9%) areas with the pull-back in urban areas reflecting declines in both the multiple-unit (-15.3%) and single-unit (-5.4%) components. Regionally, weakness was concentrated in areas that saw strong gains the prior month. Starts declined 24.5% in Quebec to fully retrace a September surge and leave the level of starts equal to its August reading. Starts plunged 44.9% in British Columbia to more-than-reverse a 35.4% surge in September (and leave the level of starts down 26% from a year ago in the province). Starts declined 33.9% in Atlantic Canada after a 90.0% gain the prior month. By contrast, starts in Ontario rose 20.0% following a 3.7% dip in September with the October jump led by a 31.7% jump in the multiple-unit component.

### ECONOMY AT A GLANCE

| % change from: | Latest month | Previous month | Year ago |
|---|---|---|---|
| Real GDP | Aug | 0.2 | 1.3 |
| Industrial production | Aug | 0.9 | -0.1 |
| Employment | Oct | 0.2 | 0.8 |
| Unemployment rate* | Oct | 7.0 | 7.0 |
| Manufacturing | | | |
| Production | Aug | 0.3 | 0.4 |
| Employment | Oct | -0.4 | -1.5 |
| Shipments | Sep | 0.3 | 1.4 |
| New orders | Sep | 2.3 | 3.3 |
| Inventories | Sep | 0.5 | -1.2 |
| Retail sales | Sep | 0.6 | 2.5 |
| Car sales | Sep | 2.3 | -1.4 |
| Housing starts (000s)* | Oct | 192.9 | 197.7 |
| Exports | Sep | 0.1 | -1.2 |
| Imports | Sep | 4.7 | 3.3 |
| Trade balance ($billlions)* | Sep | -4.1 | -2.0 |
| Consumer prices | Oct | 0.2 | 1.5 |

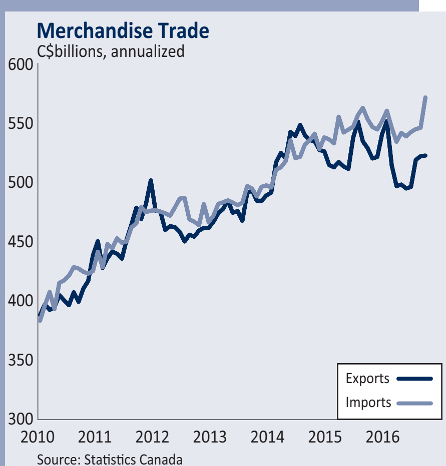
* Levels are shown for the latest period and the same period a year earlier.
Source: Statistics Canada, RBC Economics Research

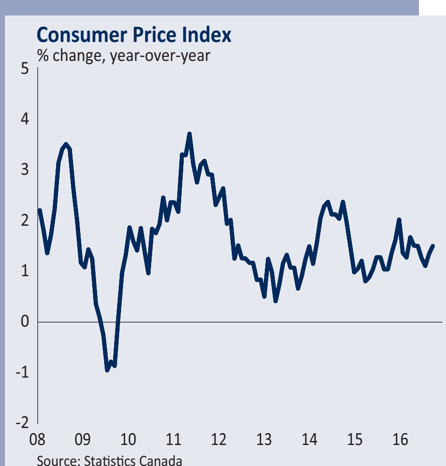
### Canadian trade deficit boosted by one-off factors in September

**LATEST AVAILABLE: SEPTEMBER**

**RELEASE DATE: NOVEMBER 4, 2016**

The trade deficit unexpectedly widened to a record $4.1 billion in September from $2.0 billion in August but with the deterioration due


entirely to a one-time equipment import from South Korea for the Hebron offshore oil project, that alone more-than-accounted for an outsized 4.7% surge in monthly imports. Total nominal exports edged up just 0.1% in September after a 0.6% gain in August and the 4.6% surge posted in July. Excluding the impact of prices, exports were down 0.7% in September, led by lower non-energy exports (energy exports volumes inched down 0.1% in September).

## Energy price jump helps fuel pick up in Canadian CPI in October

**LATEST AVAILABLE: OCTOBER**

**RELEASE DATE: NOVEMBER 22, 2016**

Headline inflation rate hit 1.5% in October; core price index eased to 1.7%. Declining food and travel prices moderated the monthly increase in the CPI to 0.2% in October offsetting some of the impact of rising transportation and shelter costs. Food prices were 0.7% below their year ago level marking the first year-over-year decline since January 2000. The Bank's core CPI measure posted a 0.2% gain with the annual increase slowing slightly to 1.7% from 1.8% in September. Markets are going to be weaned off this core CPI measure after the Bank said it is no longer using CPIX as the "operational guide" to assess the underlying trend in inflation. CPIX will be replaced with three alternative measures: CPI-trim, CPI-median and CPI-common and Statscan indicated these new variables will be available starting with the November CPI report on December 22, 2016.

JOSH NYE

FINANCIAL MARKETS

# Treading lightly

Whether central banks are leaning toward gradually tightening monetary policy (the Fed) or contemplating further stimulus (everyone else, it seems), we have seen a number of finely balanced monetary policy decisions in recent weeks. The Fed's choice not to raise rates in September was a "close call" and their latest statement did little to suggest the discussion was any different in November. Barring an extended period of market volatility following Trump's surprising election victory, we expect conditions will move in favour of the Fed raising rates in December. Conversely, the BoC contemplated cutting the overnight rate after revising their growth forecast lower but held off on easing amid several sources of heightened uncertainty in the economic outlook. The risk of a rate cut is likely to persist into 2017 but we expect stronger growth will keep the BoC on hold. The BoE previously indicated a second rate cut would be likely this year; however, with growth surprising to the upside since the Brexit vote, they opted to leave the Bank Rate unchanged in November and did little to suggest further easing on the way.

Indications that the Fed is likely to raise rates before year end, skepticism that the BoE would provide more accommodation, and general concern that central banks are becoming less willing to add further stimulus put upward pressure on government bond yields in October. Rising inflation expectations also contributed to the selloff as oil prices picked up to year-to-date highs of $50/barrel in October before losing some ground in the last two weeks on indications that OPEC might have trouble reaching a consensus to cap output. Along with rising bond yields, equity markets recorded modest declines with the S&P 500 falling 1.9% in October despite earnings being on track to beat expectations in the quarter. Equities declined further and volatility picked up in the wake of the unexpected US election result but it is unclear whether the market's knee-jerk reaction will prove persistent.

### US economy bounced back in Q3…

After disappointing over the first half of the year, the US economy picked up in the third quarter with GDP growth of 2.9% (annualized) slightly exceeding expectations. Underlying details were a bit softer than the headline suggested, however, with a good portion of the increase coming from gains in exports and inventory investment that are unlikely to be sustained. Net trade contributed 0.8 percentage points to GDP growth, the strongest add in nearly three years as exports surged an annualized 10%. Some of that increase should prove temporary, and we expect headwinds from a strong US dollar and subdued global growth set against relatively strong US demand will continue to tilt the balance toward a modest drag from net trade going forward. Inventory investment added 0.6 ppts as producers increased stockpiles at a faster pace

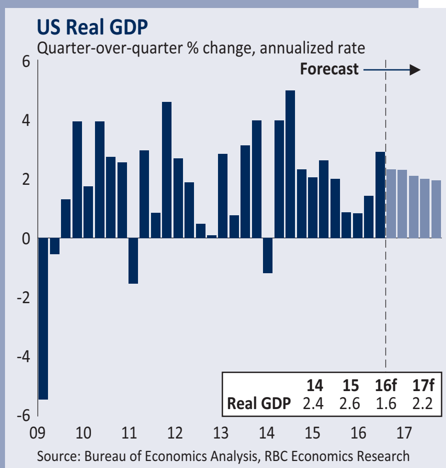
## HIGHLIGHTS

▲ US GDP growth rebounded in the third quarter although domestic demand growth slowed.

▲ With sizeable adds from exports and inventories not likely to be repeated, we see growth moderating slightly in the coming quarters.

▲ Minutes of the September FOMC meeting indicated the decision not to hike was a "close call" for some members.

▲ The Fed noted the case for a rate hike continued to strengthen and we now expect they will reach a consensus to tighten in December.




for the first time in more than a year. While it is encouraging to see the drag from inventories halted in the third quarter, our forecast assumes inventory investment will not continue to provide as much support.

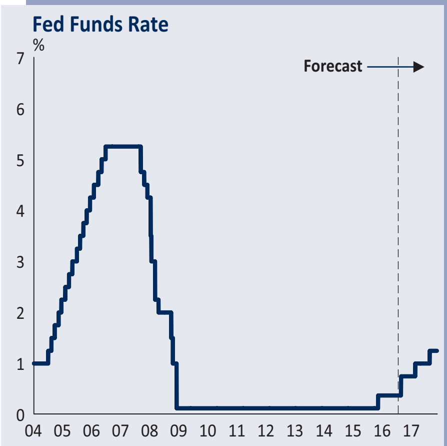
Excluding trade and inventories, growth in final domestic demand slowed relative to the previous quarter. Consumer spending continued to rise at a solid pace although the third quarter's 2.1% annualized increase was down from average growth of nearly 3% in the first half of the year (effectively the only source of growth over that period). Residential investment slowed for a second consecutive quarter as both home sales and housing starts fell. Business investment recorded another modest increase, although investment in equipment and software was once again a source of weakness. Nonresidential structures investment posted a decent gain despite another drag from the energy sector (even as rig counts increased for the first time since oil prices began to decline).

### ...But don't expect 3% growth to continue

Our forecast assumes some reversal of the recent surge in exports and a smaller contribution from inventory investment will once again leave the US economy relying on domestic spending. While there is little hard data available for the current quarter, we look for another solid gain in consumer spending and further improvement in business investment to keep the economy expanding at an above-trend pace. Less drag from the energy sector should help with the latter, and an increase in capital goods orders in the third quarter raises the prospect that machinery and equipment investment will begin to reverse the recent slide. For consumers, the increase in September PCE and strong October auto sales provide a good jumping off point, and the combination of solid job growth, rising wages and steady consumer sentiment suggest support for spending is not likely to fade in the near-term. All told, we expect GDP growth will moderate to a 2.0-2.5% pace in the coming quarters, which should be enough to continue to absorb remaining slack in the economy. The recent US election could result in policy changes that impact the economic outlook though any revisions await further details being announced.

### Fed setting up for December rate hike

The Fed held rates steady in November and made only minor tweaks to the policy statement, in line with expectations for an uneventful meeting less than a week ahead of the US presidential election. The statement acknowledged that inflation has picked up this year and market-based measures of inflation expectations are rising. While both remain lower than desired, the Fed is likely becoming more confident that inflation will return to its 2% inflation objective in the medium term. The Fed also noted that the case for a hike "continued to strengthen" but decided to wait for "some further evidence" of progress toward their objectives. That language was slightly stronger than in September, when the decision not to hike was already a "close call" for some, and likely indicates a growing consensus to raise rates in December as long as the data cooperate. October's jobs report did just that, showing another solid increase in payrolls and a decline in the unemployment rate. We think the case for a rate hike is compelling given the recent pickup in inflation, a strong labour market and improving growth during the second half of the year. The unexpected election result and ensuing market volatility threw a spanner in the works, although the prospect of more stimulative fiscal policy from the incoming government helped calm markets somewhat. As long as volatility proves short-lived, we expect the Fed will be comfortable raising the fed funds rate by 25 bps in December. Our forecast continues to assume further tightening will be gradual with another 50bps of hikes next year. That is expected to push the 10-year US Treasury yield up to 2.45% at the end of 2017.



Source: Federal Reserve Board, RBC Economics Research

JOSH NYE

FINANCIAL MARKETS

# More evidence of Canada's Q3 rebound

## HIGHLIGHTS

▲ August's 0.2% GDP growth added to earlier gains but activity in the services sector disappointed.

▲ We are with the BoC in expecting growth will moderate following an above-3% gain in the third quarter.

▲ The BoC considered lowering the overnight rate in October but held off amid uncertainties in their updated outlook.

▲ The federal government's fall update focused on longer term stimulus spending with few new near-term measures added to the stimulus already announced in Budget 2016.

Canada recorded a third consecutive increase in monthly GDP with growth of 0.2% in August building on more sizeable gains in June and July. The latest increase came entirely from goods producing industries, with yet another rise in oil and gas extraction returning the sector's output to levels seen prior to maintenance and wildfire-related shutdowns in April and May. A flat reading in the services sector, the weakest since March, is disappointing, particularly with the Bank of Canada having recently highlighted services as a source strength in the economy (although the sector still grew 2.2% year-over-year). The increase in August GDP is consistent with our forecast for activity to have rebounded strongly in the third quarter, although with a modest downward revision to July's growth rate we have marked our quarterly forecast down to 3.5% from 3.7% previously.

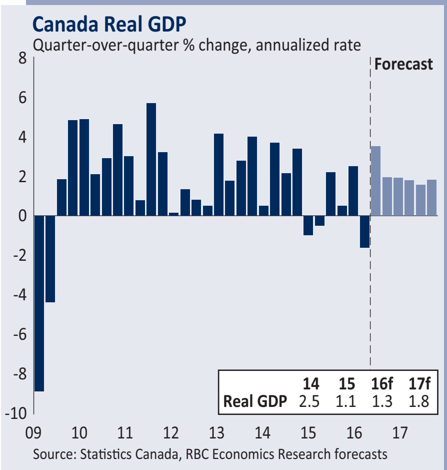
## Bank of Canada considered easing in October...

The Bank of Canada's October policy statement provided a cautious assessment of the economic outlook, noting that slower growth in exports and housing were likely to result in the economy reaching full capacity "materially later" than previously anticipated. The Bank maintained a positive tone on non-resources activity, and their easing bias was less explicit than in September with risks to the inflation outlook now seen as "roughly balanced," albeit around the new, lower profile. Governor Poloz added a dovish twist at the post-meeting press conference, noting the Bank had considered easing policy in light of the downgraded growth outlook. They held off on lowering rates amid several sources of uncertainty in their latest forecast, particularly the impact of macroprudential measures to cool the housing sector, the size and timing of federal fiscal stimulus, and uncertainty about the potential path of exports.

## ...after cutting growth forecasts once again

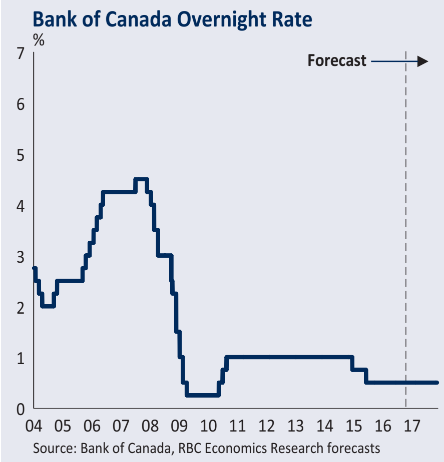
Those themes were prevalent in the Bank's updated projections, with growth lowered by 0.2 percentage points both this year and next (now 1.1% in 2016 and 2.0% in 2017). Taking into account the federal government's steps to curb risks in the housing sector, the Bank now expects housing will act as a drag on growth in 2017 rather than the modest add previously projected. The contribution from net trade was also lowered this year and next as the Bank now sees some of the recent weakness in exports as structural rather than cyclical. Even incorporating those developments, the Bank continues to project modestly above-trend growth going forward, thanks in part to a cumulative one percentage point add from fiscal stimulus by the end of fiscal year 2018, unchanged from when the federal government initially revealed its budget earlier this year.

The Bank's concerns about export growth will only have been exacerbated by the latest trade report that showed non-energy export volumes remaining below year-ago levels in September following a second consecutive monthly decline. Uncertainty regarding exports, housing and the add from fiscal stimulus is likely to linger into next year. We expect the Bank will maintain a cautious tone, keeping alive the risk of further easing (markets are currently pricing in around 25% odds of a cut next year). However, with our forecast for 1.8% growth next year, we don't expect activity will disappoint to an extent that warrants a cut and we look for the overnight rate to be held steady into 2018.




## Fall Economic Statement focuses on long term spending

Finance Minister Morneau delivered the government's Fall Economic Statement on November 1 amid expectations that additional fiscal stimulus might be deployed in response to weaker-than-expected economic growth. In the event there was little new spending announced for the near-term, with the government maintaining they are on track for earlier-announced measures to provide an estimated 0.5 percentage point boost to growth this fiscal year. They did, however, commit to ramping up infrastructure investment in the outer years, financed in part by the creation of an infrastructure bank (initially funded at $35 billion) that will plan and prioritize spending and attract private investment in infrastructure. While a significant increase in infrastructure investment could help shore up potential growth in the longer term, the update did little to change our view that stimulus measures will provide a modest lift to growth this year and next.



JOSH NYE

FINANCIAL MARKETS

# UK growth surprised to the upside following the Brexit vote

## HIGHLIGHTS

▲ UK growth was unexpectedly strong following the Brexit vote but we continue to expect a slowdown in 2017.

▲ Euro area PMI and sentiment readings improved in October.

▲ The RBA is expected to hold policy steady well into 2017 after lowering rates twice this year.

▲ Weak third-quarter inflation likely sealed the deal on a November rate hike after the RBNZ held off in September.

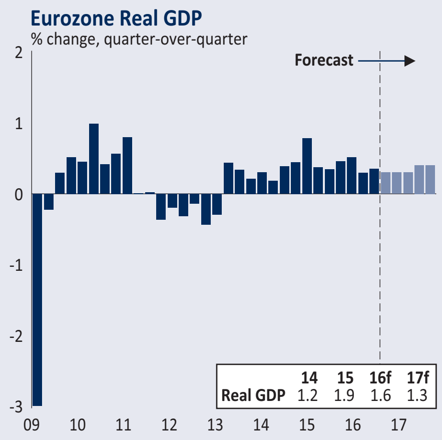
The initial estimate of third-quarter GDP showed a 0.5% gain, exceeding both market and BoE projections in the first quarter following the UK's Brexit vote. While the economy outperformed most expectations since the June 23 referendum, we remain cautious on the growth outlook going forward. Consumer spending is likely to lose momentum as households' purchasing power is squeezed by currency depreciation (we forecast inflation will rise to 2½% next year) and uncertainty about access to the Single Market is expected to weigh on business investment. Despite these headwinds, the Bank of England marked up their growth forecast for 2017, partially reflecting a stronger-than-expected near-term outlook following the referendum. Growth was trimmed in the latter part of their forecast as uncertainty about future trade relationships and access to the EU have the potential to weigh on the supply side of the economy. Slower potential growth is expected to keep inflation as high as 2.5% by the end of 2019, beyond the more immediate inflationary impact of Sterling depreciation. With growth expected to slow but inflation projected to remain above target, the BoE shifted to a fairly neutral stance noting "monetary policy can respond in either direction." Our forecast no longer assumes another Bank Rate cut, but risks are still tilted toward easier monetary policy, most likely via additional QE.

### Slow and steady continues in the euro area

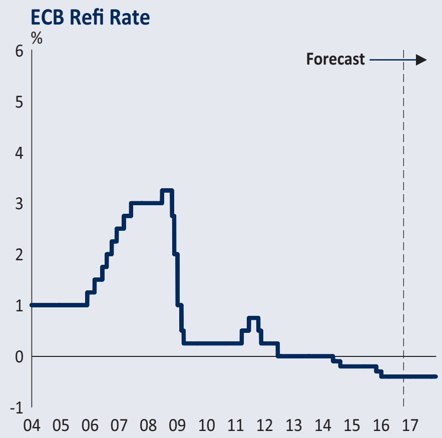
The euro area's advance GDP print showed third-quarter growth of 0.3%, matching the previous quarter's gain. While the economy continues to advance steadily, the recent pace has barely been strong enough to absorb labour market slack with the unemployment rate stuck at 10% over the last three months. That said, there are early indications that activity is picking up in the fourth quarter. The euro area composite PMI jumped to a nine-month high in October and another measure of economic sentiment improved for a second consecutive month. Survey readings also showed some improvement in price measures—welcome news with core inflation remaining a percentage point below the ECB's target in October. Despite some positive developments, the ECB is unlikely to take their foot off the gas in terms of policy stimulus. In October, ECB President Draghi indicated that results of a review of the asset purchase program (intended to ensure "smooth implementation") will be available at the December meeting alongside new staff forecasts. We expect the ECB will announce an extension of asset purchases beyond March 2017 with adjustments to the program that will allow the current pace of buying to be maintained and improve the efficacy of purchases.

## RBA COMFORTABLE WITH CURRENT POLICY STANCE

The Reserve Bank of Australia left the cash rate unchanged in November and looks set to hold policy steady well into next year after lowering rates twice in 2016. While the accompanying economic projections were untouched, the policy statement sounded more upbeat on several fronts, noting stable growth in China, rising home prices, and an expectation that the economy will grow near potential and inflation will pick up in the medium term. The RBA also mentioned rising bulk commodity prices, which are likely to result in another improvement in terms of trade and thus an easing in what has been a key headwind to growth in recent years. There are risks around all of those factors but as it stands the RBA appears comfortable with the current policy setting and the bar to ease further is high. Our forecast assumes the cash rate will be held steady into 2017 with the potential for one more rate cut in this cycle, particularly if subdued wage and inflation dynamics persist.



Source: Eurostat, RBC Economics Research



Source: ECB, RBC Economics Research

## RBNZ LIKELY TO EASE AFTER ANOTHER LOW INFLATION PRINT

While holding the cash rate steady in September, the Reserve Bank of New Zealand maintained a strong easing bias and noted that upcoming economic data would be watched closely—most significantly, in our opinion, third-quarter inflation. In the event, headline CPI slipped to a 2016 low of just 0.2% year-over-year, marking the eighth consecutive quarter that inflation has held below the RBNZ's 1-3% target range. The reading was in line with the central bank's forecast, itself based on further easing, and solidifies the case for a rate cut at November's meeting. However, the case for easing to continue next year is now less clear-cut. Non-tradeable inflation picked up in the third quarter, and while the rate itself (now just above 2%) largely reflects rising shelter costs, it appears domestic inflation is gradually ticking higher. Base effects are also expected to push the headline rate higher, which should remove some of the downward pressure on inflation expectations heading into 2017. That said, with inflation expected to remain below the RBNZ's 2% midpoint into 2018, we continue to see risks tilted in favour of another rate cut early next year.

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NATHAN JANZEN

CURRENT ANALYSIS

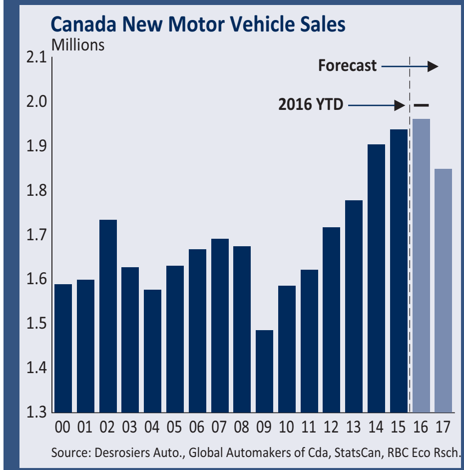
# CANADA AND US OCTOBER 2016 AUTO SALES

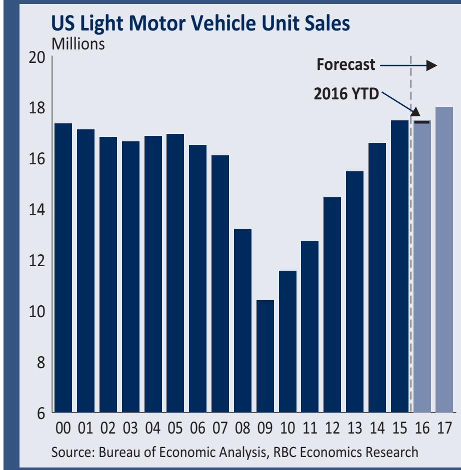
## CANADA NEW MOTOR VEHICLE SALES

Canadian auto sales were lower than a year ago for a fourth consecutive month in October (-5.2% on a year-over-year basis); however, the underlying pace of activity remained very strong. The year-over-year decline in the latest month was in part skewed lower by fewer 'selling days' this year than last (October this year had one more Sunday than October 2015). Our estimates suggest that the seasonally adjusted annualized sales rate was little changed on a month-over-month basis from September, holding at a 1.96 million unit pace. The October reading is just slightly below the 1.97 million unit year-to-date pace that in turn is up from a record-setting 1.94 million units sold in 2015. With minimal slowing evident to date and just 2 months remaining in the calendar year, it is increasingly likely that 2016 will mark a fifth consecutive record auto sales year in Canada with our forecast assuming a total 1.96 million sales. We expect sales are continuing to be supported by underlying improvement in labour markets, which we expect will be further supported by stronger economic growth over the second half of this year, and persistently low interest rates.

## US LIGHT VEHICLE SALES

US light vehicle sales rose to a 17.9 million unit seasonally adjusted rate in October (according to US Bureau of Economic Analysis) to build on the 4% rise to a 17.7 million unit sales rate in September. Although up from earlier in the year (sales averaged 17.2 million units per month over the first half of 2016), sales were still down slightly in October compared to the 18.1 million unit pace a year ago. The average 17.3 million unit monthly sales rate year-to-date is also down slightly from record 17.4 million units sold in 2015 which in turn is consistent with the view that much of the recovery from the plunge in sales during the 2008/09 recession has run its course. Nonetheless, the gain in October sales (relative to September) is also consistent with our view that there remains room for modest growth going forward reflecting continued improvement in labour markets and persistently low borrowing rates. Our forecast assumes sales will total 17.4 million units in 2016 as a whole. That would match last year's record but would mark the first year that sales have failed to increase since 2009.



# FORECAST DETAIL – CANADA

**RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS**

= Forecast

| | 2015 | | | | 2016 | | | | 2017 | | | | Annual | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2014 | 2015 | 2016 | 2017 |
| **GROWTH IN THE ECONOMY** PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED | | | | | | | | | | | | | | | | |
| Household consumption | -0.1 | 2.3 | 2.3 | 1.8 | 2.4 | 2.2 | 1.7 | 2.2 | 2.2 | 2.1 | 2.0 | 1.7 | 2.6 | 1.9 | 2.1 | 2.1 |
| Durables | -8.0 | 5.6 | 10.2 | 4.2 | 4.2 | -1.8 | 0.3 | 2.8 | 2.3 | 1.5 | 1.5 | 1.0 | 4.3 | 2.9 | 3.3 | 1.5 |
| Semi-Durables | -1.9 | 5.2 | 0.9 | 6.9 | 6.7 | -1.9 | 2.0 | 2.2 | 2.2 | 2.4 | 2.0 | 1.8 | 3.1 | 2.5 | 3.1 | 1.7 |
| Non-durables | 2.4 | -2.8 | 2.6 | -1.0 | 3.2 | 3.0 | 2.5 | 2.2 | 2.2 | 2.5 | 2.3 | 2.0 | 2.4 | 0.8 | 1.8 | 2.3 |
| Services | 0.8 | 3.4 | 0.7 | 1.9 | 1.2 | 3.3 | 1.7 | 2.1 | 2.1 | 2.1 | 2.0 | 1.8 | 2.3 | 2.1 | 2.0 | 2.1 |
| Government expenditures | 4.7 | 2.8 | 0.6 | 0.4 | 2.7 | 4.2 | 2.5 | 2.0 | 1.8 | 1.5 | 1.5 | 1.5 | 0.3 | 1.7 | 2.2 | 2.0 |
| Residential investment | 6.6 | 0.1 | 2.6 | 1.8 | 11.3 | 1.2 | -5.7 | -3.5 | -7.2 | -8.5 | -6.1 | -1.8 | 2.5 | 3.8 | 2.7 | -5.6 |
| Business investment | -23.2 | -15.5 | -11.4 | -12.5 | -8.1 | -1.9 | 10.1 | -10.1 | 3.7 | 3.3 | 3.0 | 3.1 | 0.0 | -10.6 | -6.9 | 1.2 |
| Non-residential structures | -31.7 | -15.4 | -14.2 | -15.3 | -12.8 | -4.4 | 21.0 | -18.0 | 3.8 | 3.5 | 3.2 | 3.5 | -0.4 | -14.7 | -8.8 | 0.5 |
| Machinery & equipment | -5.1 | -15.7 | -6.7 | -8.1 | -0.7 | 1.9 | -6.0 | 1.5 | 3.5 | 3.0 | 2.8 | 2.5 | 1.0 | -2.4 | -4.0 | 1.5 |
| Final domestic demand | -2.2 | -0.1 | 0.3 | -0.3 | 1.8 | 2.2 | 2.2 | 0.8 | 1.8 | 1.6 | 1.6 | 1.7 | 1.6 | 0.3 | 1.2 | 1.6 |
| Exports | 0.9 | 1.2 | 9.0 | -1.5 | 8.0 | -16.7 | 9.0 | 3.7 | 3.4 | 2.6 | 2.4 | 2.8 | 5.3 | 3.4 | 0.7 | 2.4 |
| Imports | 0.9 | -1.8 | -2.8 | -7.0 | 1.6 | 1.1 | 3.2 | 1.1 | 4.0 | 3.5 | 3.4 | 2.9 | 1.8 | 0.3 | -0.8 | 2.9 |
| Inventories (change in $b) | 14.6 | 6.8 | -0.2 | -5.6 | -9.0 | 0.5 | -1.5 | 0.0 | 1.7 | 4.1 | 5.5 | 6.3 | 9.9 | 3.9 | -2.5 | 4.4 |
| Real gross domestic product | -1.0 | -0.5 | 2.2 | 0.5 | 2.5 | -1.6 | 3.5 | 1.9 | 1.9 | 1.8 | 1.6 | 1.8 | 2.5 | 1.1 | 1.3 | 1.8 |
| **OTHER INDICATORS** YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED | | | | | | | | | | | | | | | | |
| Business and labour | | | | | | | | | | | | | | | | |
| Productivity | 1.6 | -0.5 | -0.6 | -0.9 | -0.2 | 0.4 | 0.9 | 1.1 | 1.2 | 1.5 | 0.9 | 1.0 | 2.1 | -0.1 | 0.5 | 1.2 |
| Pre-tax corporate profits | -12.1 | -14.2 | -17.4 | -19.6 | -7.6 | -15.9 | -5.7 | 1.0 | 2.5 | 14.4 | 3.2 | 1.9 | 7.0 | -15.8 | -7.2 | 5.2 |
| Unemployment rate (%)* | 6.8 | 6.8 | 7.0 | 7.0 | 7.2 | 6.9 | 7.0 | 6.9 | 6.9 | 6.9 | 6.8 | 6.8 | 6.9 | 6.9 | 7.0 | 6.9 |
| Inflation | | | | | | | | | | | | | | | | |
| Headline CPI | 1.1 | 0.9 | 1.2 | 1.3 | 1.5 | 1.6 | 1.2 | 1.7 | 2.3 | 2.5 | 2.7 | 2.4 | 2.0 | 1.1 | 1.5 | 2.5 |
| Core CPI | 2.2 | 2.2 | 2.2 | 2.0 | 2.0 | 2.1 | 1.9 | 1.9 | 2.0 | 1.9 | 2.1 | 2.0 | 1.8 | 2.2 | 2.0 | 2.0 |
| External trade | | | | | | | | | | | | | | | | |
| Current account balance ($b) | -67.9 | -58.0 | -61.8 | -62.8 | -66.4 | -79.4 | -74.2 | -64.9 | -64.3 | -62.7 | -62.4 | -61.0 | -44.9 | -62.6 | -71.2 | -62.6 |
| % of GDP | -3.4 | -2.9 | -3.1 | -3.2 | -3.3 | -4.0 | -3.7 | -3.2 | -3.1 | -3.0 | -2.9 | -2.9 | -2.3 | -3.2 | -3.5 | -3.0 |
| Housing starts (000s)* | 175 | 193 | 213 | 194 | 198 | 198 | 200 | 189 | 179 | 175 | 171 | 173 | 189 | 196 | 196 | 175 |
| Motor vehicle sales (mill., saar)* | 1.84 | 1.92 | 1.99 | 1.99 | 2.01 | 1.99 | 1.92 | 1.91 | 1.86 | 1.86 | 1.83 | 1.82 | 1.89 | 1.94 | 1.96 | 1.84 |
| **INTEREST AND EXCHANGE RATES** %, END OF PERIOD | | | | | | | | | | | | | | | | |
| Overnight | 0.75 | 0.75 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 1.00 | 0.50 | 0.50 | 0.50 |
| Three-month | 0.55 | 0.58 | 0.43 | 0.51 | 0.45 | 0.48 | 0.53 | 0.50 | 0.50 | 0.50 | 0.55 | 0.60 | 0.91 | 0.51 | 0.50 | 0.60 |
| Two-year | 0.50 | 0.48 | 0.52 | 0.48 | 0.54 | 0.52 | 0.52 | 0.60 | 0.60 | 0.65 | 0.70 | 0.75 | 1.01 | 0.48 | 0.60 | 0.75 |
| Five-year | 0.77 | 0.82 | 0.80 | 0.73 | 0.67 | 0.57 | 0.62 | 0.75 | 0.80 | 0.90 | 1.05 | 1.15 | 1.34 | 0.73 | 0.75 | 1.15 |
| 10-year | 1.36 | 1.69 | 1.43 | 1.40 | 1.23 | 1.06 | 1.00 | 1.25 | 1.40 | 1.60 | 1.75 | 2.00 | 1.79 | 1.40 | 1.25 | 2.00 |
| 30-year | 1.98 | 2.31 | 2.20 | 2.15 | 2.00 | 1.72 | 1.66 | 1.90 | 2.05 | 2.25 | 2.45 | 2.65 | 2.34 | 2.15 | 1.90 | 2.65 |
| Canadian dollar | 1.27 | 1.25 | 1.33 | 1.38 | 1.30 | 1.29 | 1.31 | 1.33 | 1.34 | 1.35 | 1.34 | 1.33 | 1.16 | 1.38 | 1.33 | 1.33 |

* Quarterly averages, level

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

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# Forecast detail – United States

## RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

| | 2015 | | | | 2016 | | | | 2017 | | | | Annual | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2014 | 2015 | 2016 | 2017 |
| **GROWTH IN THE ECONOMY** PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED | | | | | | | | | | | | | | | | |
| Consumer spending | 2.4 | 2.9 | 2.7 | 2.3 | 1.6 | 4.3 | 2.1 | 2.4 | 2.3 | 2.1 | 2.0 | 2.0 | 2.9 | 3.2 | 2.6 | 2.3 |
| Durables | 4.2 | 7.6 | 6.2 | 4.0 | -0.6 | 9.8 | 9.5 | 4.5 | 4.0 | 3.5 | 3.1 | 3.1 | 6.7 | 6.9 | 5.1 | 4.8 |
| Non-durables | 1.9 | 2.7 | 3.2 | 1.2 | 2.1 | 5.7 | -1.4 | 2.1 | 2.0 | 1.9 | 1.7 | 1.6 | 2.6 | 2.6 | 2.3 | 1.7 |
| Services | 2.3 | 2.2 | 2.0 | 2.3 | 1.9 | 3.0 | 2.1 | 2.2 | 2.1 | 2.0 | 1.9 | 1.9 | 2.3 | 2.8 | 2.2 | 2.1 |
| Government spending | 2.6 | 3.2 | 1.9 | 1.0 | 1.6 | -1.7 | 0.5 | 1.8 | 1.5 | 1.2 | 1.2 | 1.0 | -0.9 | 1.8 | 0.9 | 1.1 |
| Residential investment | 13.4 | 14.8 | 12.6 | 11.5 | 7.8 | -7.8 | -6.2 | 4.9 | 3.7 | 2.7 | 2.5 | 2.2 | 3.5 | 11.7 | 4.3 | 1.5 |
| Business investment | 1.3 | 1.6 | 3.9 | -3.3 | -3.4 | 1.0 | 1.1 | 3.2 | 3.3 | 3.3 | 3.5 | 3.5 | 6.0 | 2.1 | -0.4 | 2.9 |
| Non-residential structures | -12.4 | -2.7 | -4.3 | -15.2 | 0.1 | -2.1 | 5.4 | 2.0 | 2.1 | 2.2 | 2.2 | 2.8 | 10.3 | -4.4 | -3.4 | 2.3 |
| Non-residential equipment | 9.3 | -0.3 | 9.1 | -2.6 | -9.5 | -3.0 | -2.7 | 3.3 | 3.4 | 3.4 | 3.8 | 3.6 | 5.4 | 3.5 | -2.6 | 2.3 |
| Intellectual property | 0.8 | 8.0 | 2.1 | 4.5 | 3.8 | 9.0 | 4.0 | 3.9 | 3.9 | 3.9 | 3.8 | 3.7 | 3.9 | 4.8 | 5.0 | 4.2 |
| Final domestic demand | 2.6 | 3.2 | 3.0 | 1.7 | 1.2 | 2.4 | 1.4 | 2.5 | 2.3 | 2.1 | 2.1 | 2.0 | 2.6 | 3.1 | 2.0 | 2.2 |
| Exports | -5.8 | 2.8 | -2.8 | -2.7 | -0.7 | 1.8 | 10.0 | -1.0 | 1.8 | 1.8 | 1.9 | 2.0 | 4.3 | 0.1 | 0.6 | 2.3 |
| Imports | 5.6 | 2.9 | 1.1 | 0.7 | -0.6 | 0.2 | 2.4 | 2.3 | 4.0 | 2.5 | 2.0 | 2.3 | 4.4 | 4.6 | 0.8 | 2.6 |
| Inventories (change in $b) | 114.4 | 93.8 | 70.9 | 56.9 | 40.7 | -9.5 | 12.6 | 21.0 | 33.0 | 35.0 | 33.0 | 33.0 | 57.7 | 84.0 | 16.2 | 33.5 |
| Real gross domestic product | 2.0 | 2.6 | 2.0 | 0.9 | 0.8 | 1.4 | 2.9 | 2.3 | 2.3 | 2.1 | 2.0 | 1.9 | 2.4 | 2.6 | 1.6 | 2.2 |
| **OTHER INDICATORS** YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED | | | | | | | | | | | | | | | | |
| Business and labour | | | | | | | | | | | | | | | | |
| Productivity | 1.0 | 0.9 | 0.7 | 0.5 | 0.1 | -0.4 | -0.7 | 0.2 | 0.7 | 1.2 | 1.2 | 1.3 | 0.6 | 0.8 | -0.2 | 1.1 |
| Pre-tax corporate profits | 7.5 | -2.8 | -4.5 | -11.2 | -6.6 | -4.3 | -2.7 | 4.4 | 1.9 | 3.1 | 2.7 | 2.4 | 5.9 | -3.0 | -2.5 | 2.5 |
| Unemployment rate (%)* | 5.6 | 5.4 | 5.2 | 5.0 | 4.9 | 4.9 | 4.9 | 4.9 | 4.8 | 4.7 | 4.7 | 4.7 | 6.2 | 5.3 | 4.9 | 4.7 |
| Inflation | | | | | | | | | | | | | | | | |
| Headline CPI | -0.1 | 0.0 | 0.1 | 0.5 | 1.1 | 1.0 | 1.1 | 1.8 | 2.5 | 2.4 | 2.6 | 2.2 | 1.6 | 0.1 | 1.3 | 2.4 |
| Core CPI | 1.7 | 1.8 | 1.8 | 2.0 | 2.2 | 2.2 | 2.2 | 2.2 | 2.1 | 2.0 | 2.0 | 2.0 | 1.7 | 1.8 | 2.2 | 2.0 |
| External trade | | | | | | | | | | | | | | | | |
| Current account balance ($b) | -458 | -448 | -492 | -454 | -527 | -480 | -444 | -475 | -497 | -509 | -515 | -520 | -392 | -463 | -481 | -510 |
| % of GDP | -2.6 | -2.5 | -2.7 | -2.5 | -2.9 | -2.6 | -2.4 | -2.5 | -2.6 | -2.6 | -2.7 | -2.7 | -2.3 | -2.6 | -2.6 | -2.6 |
| Housing starts (000s)* | 986 | 1156 | 1156 | 1135 | 1151 | 1159 | 1138 | 1180 | 1190 | 1200 | 1209 | 1218 | 1001 | 1108 | 1157 | 1204 |
| Motor vehicle sales (millions, saar)* | 16.9 | 17.2 | 17.7 | 17.9 | 17.3 | 17.1 | 17.5 | 17.8 | 17.9 | 18.0 | 18.1 | 18.2 | 16.5 | 17.4 | 17.4 | 18.1 |
| **INTEREST RATES** %, END OF PERIOD | | | | | | | | | | | | | | | | |
| Fed funds | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 | 1.25 | 0.25 | 0.50 | 0.75 | 1.25 |
| Three-month | 0.03 | 0.01 | 0.00 | 0.16 | 0.21 | 0.26 | 0.29 | 0.50 | 0.50 | 0.75 | 0.85 | 1.00 | 0.04 | 0.16 | 0.50 | 1.00 |
| Two-year | 0.56 | 0.64 | 0.64 | 1.06 | 0.73 | 0.58 | 0.77 | 0.85 | 1.00 | 1.15 | 1.30 | 1.40 | 0.67 | 1.06 | 0.85 | 1.40 |
| Five-year | 1.37 | 1.63 | 1.37 | 1.76 | 1.21 | 1.01 | 1.14 | 1.25 | 1.40 | 1.55 | 1.70 | 1.85 | 1.65 | 1.76 | 1.25 | 1.85 |
| 10-year | 1.94 | 2.35 | 2.06 | 2.27 | 1.78 | 1.49 | 1.60 | 1.75 | 1.90 | 2.10 | 2.30 | 2.45 | 2.17 | 2.27 | 1.75 | 2.45 |
| 30-year | 2.54 | 3.11 | 2.87 | 3.01 | 2.61 | 2.30 | 2.32 | 2.55 | 2.60 | 2.85 | 3.00 | 3.10 | 2.75 | 3.01 | 2.55 | 3.10 |
| Yield curve (10s-2s) | 138 | 171 | 142 | 121 | 105 | 91 | 83 | 90 | 90 | 95 | 100 | 105 | 150 | 121 | 90 | 105 |

* Quarterly averages, level

Source: US Bureau of Economic Analysis, RBC Economics Research forecasts

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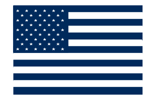
CURRENT ECONOMIC INDICATORS

# CANADA - US COMPARISONS



| | Canada: From Preceding Month | Canada: From Year Ago | Canada: Year-To-Date | Canada: Latest Month | US: From Preceding Month | US: From Year Ago | US: Year-To-Date | US: Latest Month |
|---|---|---|---|---|---|---|---|---|
| **BUSINESS** | | | | | | | | |
| Industrial production[1] | 0.9 | -0.1 | -0.5 | Aug. | 0.1 | -0.9 | -0.5 | Oct. |
| Mfg. inventory - shipments ratio (level) | 1.4 | 1.4 | 1.4 | Sep. | 1.3 | 1.3 | 1.4 | Sep. |
| New orders in manufacturing | 2.3 | 3.3 | -3.7 | Sep. | 0.3 | 0.6 | -4.8 | Sep. |
| Business loans - Banks | -0.7 | 3.1 | 8.4 | Sep. | 1.0 | 9.0 | 10.4 | Oct. |
| Index of stock prices[2] | 0.4 | 9.3 | -3.6 | Oct. | -0.7 | 5.8 | 3.5 | Oct. |
| **HOUSEHOLDS** | | | | | | | | |
| Retail sales | 0.6 | 2.5 | 2.7 | Sep. | 0.8 | 4.3 | 1.9 | Oct. |
| Auto sales | 2.3 | -1.4 | 2.9 | Sep. | -2.8 | -11.5 | -5.8 | Oct. |
| Total consumer credit[3] | -0.1 | 3.1 | 2.9 | Aug. | 0.5 | 6.0 | 6.6 | Sep. |
| Housing starts | -12.1 | -2.4 | 2.3 | Oct. | 25.5 | 23.3 | 8.2 | Oct. |
| Employment | 0.2 | 0.8 | 0.8 | Oct. | 0.0 | 1.8 | 1.7 | Oct. |
| **PRICES** | | | | | | | | |
| Consumer price index | 0.2 | 1.5 | 1.3 | Oct. | 0.4 | 1.6 | 0.63 | Oct. |
| Producer price index[4] | 0.4 | -0.5 | -0.8 | Sep. | 0.4 | 0.6 | -2.4 | Oct. |
| **INTEREST RATES** | | | | | | | | |
| Policy rate | 0.5 | 0.5 | 0.5 | Oct. | 0.38 | 0.13 | 0.38 | Oct. |
| 90-day commercial paper rates | 0.8 | 0.8 | 0.8 | Oct. | 0.6 | 0.2 | 0.6 | Oct. |
| Government bonds (10 years) | 1.3 | 1.6 | 1.3 | Oct. | 1.8 | 2.1 | - | Oct. |

Seasonally adjusted % changes unless otherwise indicated. Interest rates are levels.

[1] The U.S. series is an index.

[2] Canada = S&P/TSX; United States = S&P 500

[3] Excludes credit unions and caisses populaires.

[4] Canada's producer price index is not seasonally adjusted.

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