ECONOSCOPE

January 2020

CANADIAN GDP SOFT IN OCTOBER

FINANCIAL MARKETS - NEW YEAR, NEW RISKS

HOUSING MARKETS CONTINUED TO TIGHTEN IN DECEMBER

RBC

ECONOSCOPE

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ GDP declined 0.1% in October

▲ Employment rebounded by 35,000 in December

▲ Retail sales up 0.9% in November; growth in e-commerce sales continue to outpace brick-and-mortar sales

▲ Housing starts slowed to 197,000 annualized units in December

▲ The international trade deficit narrowed to $1.1 billion

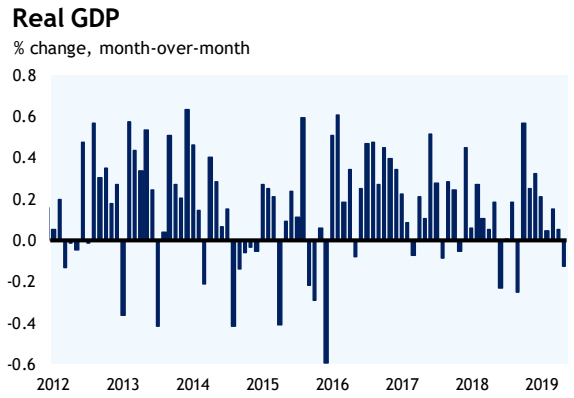
▲ Consumer prices up 2.2% year-over-year in December - unchanged from November

CANADIAN GDP SOFT IN OCTOBER

LATEST AVAILABLE: OCTOBER

RELEASE DATE: DECEMBER 23, 2019

The 0.1% decline in GDP in October was the first monthly drop in 8 months in what is an often volatile set of data. Output in the goods sector posted a 0.5% decline, marking the third drop in the last 4 months. 'Transitory' factors once again appeared to be at play. Goods-sector output, particularly manufacturing production, has been soft for some time, both in Canada and abroad as global supply chains were impacted by rising US-China tariffs. An easing in those tensions late this year means that headwind should ease somewhat going forward. And service-sector output still looks reasonably solid in Canada. Consumer spending growth trends have remained modest at best. But a 1.1% pullback in the retail sector still looks over-stated relative to household income growth trends - notwithstanding an ugly-looking employment report in Canada in November. To be sure, the October economic data in Canada have been softer-than-expected.



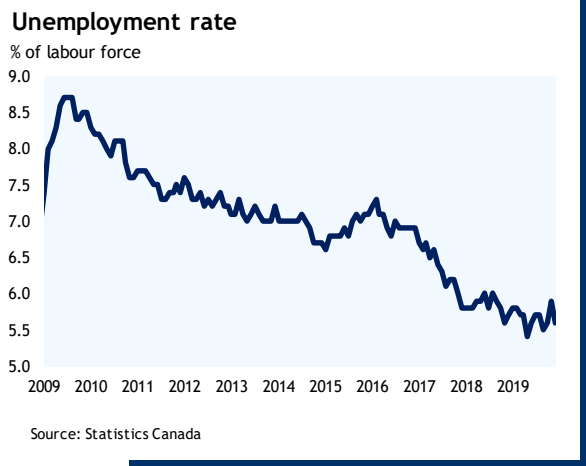
Source: Statistics Canada

CANADA'S JOBS NUMBERS CAUSE A SIGH OF RELIEF

LATEST AVAILABLE: DCEMBER

RELEASE DATE: JANUARY 10, 2020

Unemployment rate fell to 5.6% from 5.9%, and job growth averaged 27,000 in 2019. These were the jobs numbers we were all hoping for following November's ugly employment report. The overall headcount retraced half the previous month's decline (even more if you exclude transitory factors from November) and more importantly the unemployment rate erased much of November's 0.4 percentage point increase (which was easily the largest in a decade). But these numbers on their own won't necessarily keep the Bank of Canada on the sidelines. GDP data for H2/19 has been disappointing, and a slightly softer labour market over that period suggests transitory factors aren't solely to blame for sub-trend growth.

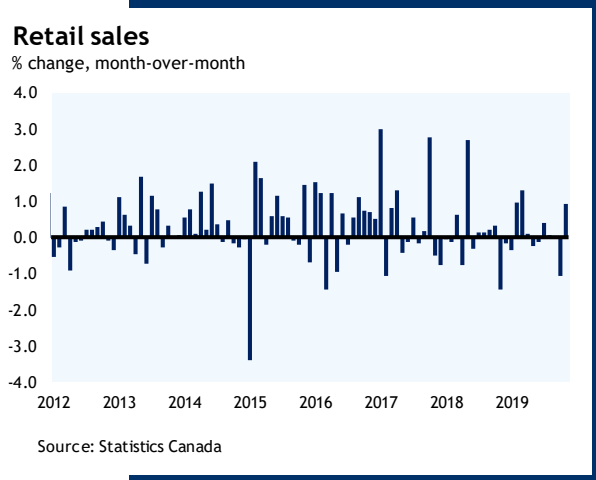


CANADIAN RETAIL SALES TICKED UP IN NOVEMBER

LATEST AVAILABLE: NOVEMBER

RELEASE DATE: JANUARY 24, 2020

Retail sales rose 0.9% in November. Excluding price impacts, volume sales were still unchanged from a year ago in November (despite a 0.7% month-over-month increase). Overall consumer spending trends have probably still been a bit stronger than that - the retail sales numbers do not include spending on services (which are more than half of consumer spending). And the headline retail sales numbers also exclude a portion of e-commerce sales, which slowed in November but are still running stronger than headline retail sales at +6.6% year-over-year in November. Households are clearly also willing to spend more on real-estate with housing markets in BC and Ontario in particular showing signs of heating up again. Overall economic activity (i.e. GDP) looks like it increased little if at all in Q4. Some of that softness, but not all, is due to transitory factors.

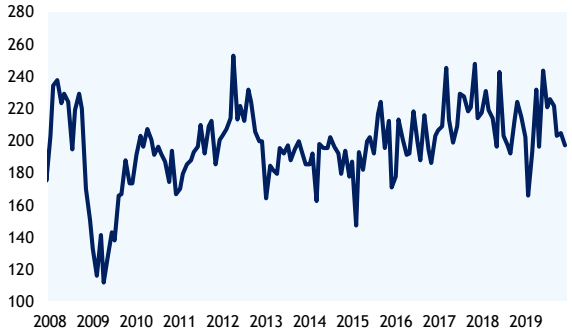


HOUSING STARTS END 2019 ON A SOFTER NOTE

LATEST AVAILABLE: DECEMBER

RELEASE DATE: JANUARY 9, 2020

Housing starts lost a bit of steam toward the end of last year, slipping to an annualized pace of 201,000 in Q4/19 from a rate closer to 220,000 in the prior two quarters. We think starts will settle in the middle of that range in 2020, not far from the 209,000 pace seen in 2019. That would be consistent with a resurgent housing market—which we see extending into this year—and strong demographics (Canada's population now growing at its fastest rate since the early-90s). Also, with building permits still running faster than the pace of starts (and having done so for more than a year) we think there is scope for the latter to improve early this year.



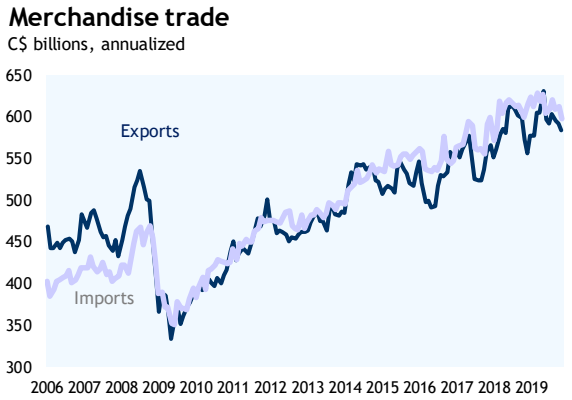
Source: Canadian Mortgage and Housing Corporation

CANADIAN TRADE DEFICIT SMALLER BUT FOR THE WRONG REASONS

LATEST AVAILABLE: NOVEMBER

RELEASE DATE: JANUARY 7, 2020

The November international trade deficit narrowed, but only because imports posted a larger decline (-2.4% m/m) than exports (-1.4% m/m). Excluding the impact of price changes, export volumes declined a larger 1.9% and imports of machinery and equipment - a key indicator of Canadian domestic investment spending - declined. Still, there were, once again, transitory factors at play. Energy export volumes plunged almost 11% as a major pipeline shutdown hampered oil exports. The data comes on the heels of a soft run of economic numbers for October - culminating in a 0.1% decline in GDP in that month - and follows a very soft November labour market report.



Source: Statistics Canada

CANADIAN INFLATION TRENDS STEADY IN DECEMBER

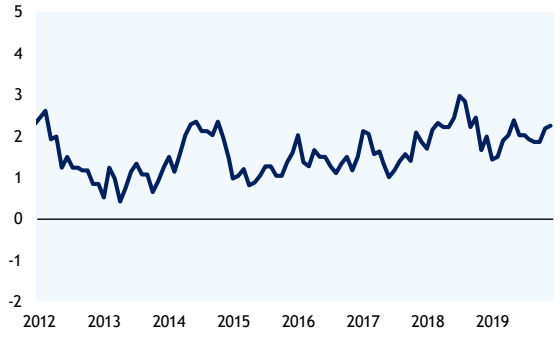
LATEST AVAILABLE: DECEMBER

RELEASE DATE: JANUARY 22, 2020

The December CPI data was broadly as-expected with most measures of price growth, on balance, holding right around the Bank of Canada's 2% target rate. Prices at the pump have increased more substantially with the price of gasoline up 7.4% from a year ago. And food prices are still running 3% above year-ago levels. But headline price growth held at 2.2%. Prices excluding food and energy were up 1.8% year-over-year. More importantly from the Bank of Canada's perspective, their three preferred core measures - the median, trim, and common CPI were all 2.0% or above for the first time since February 2012. The Bank of Canada will continue to take comfort that underlying inflation trends still look firmly locked around the their objective 2% rate - while not showing signs of coming unhinged on either the upside or downside any time soon.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Latest month	Previous month	Year ago
Real GDP	Oct	-0.1	1.2
Industrial production	Oct	-0.8	-2.8
Employment	Dec	0.1	1.6
Unemployment rate*	Dec	5.6	5.7
Manufacturing			
Production	Oct	-1.4	-2.6
Employment	Dec	0.1	-2.1
Shipments	Nov	-0.6	-0.1
New orders	Nov	1.9	-0.8
Inventories	Nov	0.5	4.2
Retail sales	Nov	0.9	1.9
Car sales	Nov	-3.2	-2.1
Housing starts (000s)*	Dec	197.3	214.8
Exports	Nov	-1.4	1.9
Imports	Nov	-2.4	-0.3
Trade balance ($billions)*	Nov	-1.1	-2.2
Consumer prices	Dec	0.0	2.2

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

NEW YEAR, NEW RISKS

Josh Nye

"Geopolitical risk can't be dismissed, but at this stage it seems cooler heads are prevailing and markets are taking these developments in stride"

It was an inauspicious start to 2020 with US-Iran tensions flaring up following the assassination of a top Iranian general. Oil prices rose to multi-month highs while risk aversion saw Treasuries and safe haven currencies rally. But with a measured response from Iran, and the US following up with sanctions rather than military action, financial markets calmed in the first full week of the year. North American oil prices are back below $60 per barrel, 10-year Treasury yields are within a few basis points of where they closed 2019, and the S&P 500 is once again at a record high. Geopolitical risk can't be dismissed, but at this stage it seems cooler heads are prevailing and markets are taking these developments in stride.

It helps that trade tensions have been dialed back—the US and China inked a phase-one trade deal (providing only modest tariff relief, but at least not escalating their trade war), USMCA ratification looks likely, and the UK is heading toward an orderly Brexit at the end of January. Reduced trade uncertainty combined with last year's easing in financial conditions have helped business sentiment stabilize in many major economies. Global manufacturing activity generally remains soft but contagion to other sectors—a necessary condition for a broader slowdown—appears to be contained.

Assuming global growth stabilizes this year and trade concerns aren't as prominent, we think major central banks will be less active in 2020 and government bond yields will drift modestly higher. However, rates will likely be capped by lingering late-cycle growth worries and indications that monetary policy will remain stimulative—modestly so in North America, more significantly in Europe—for some time yet.

FINANCIAL MARKETS

LOWER RATES SUPPORTING US HOUSING

Josh Nye

HIGHLIGHTS

- ▲ Last year's Fed rate cuts lifted equity markets and supported the housing sector.
- ▲ 2019 was a year to forget for the US industrial sector as tariffs weighed on manufacturing activity.
- ▲ Sentiment could improve with trade tensions being dialed back, but policy uncertainty isn't about to disappear.
- ▲ The Fed seems to have little appetite to move rates higher or lower this year.

One of the most notable effects of last year's Fed rate cuts was support for asset prices. The S&P 500 rose 29% in 2019—its second-best annual gain in two decades—despite lacklustre profits, slowing global growth and recession fears. (It's also worth noting that a late-2018 selloff provided a flattering comparison for 2019.) As for the real economy, it was the US housing sector that benefited most from lower borrowing costs. Housing starts rebounded to a cycle high in the second half of 2019 after having stalled out in mid-2018 when interest rates were nearing their peak. A surge in building permit issuance in Q4/19 and a 20-year high in homebuilders' confidence suggest starts will continue to grind higher in 2020. The resale market also picked up over the course of 2019 but remains short of recent highs. Limited supply is likely a restraining factor—in November, the number of homes on the market was the lowest on record (based on our own seasonal adjustment). Indeed, sales in the less supply-constrained new home market are running at a cycle high. The US housing sector isn't the behemoth it once was—it now represents less than 4% of the economy, down from more than 6% pre-recession. Nonetheless, its shift from a drag on growth in 2018 and H1/19 to positive contributor will provide a nice cushion, helping the economy achieve trend-like growth in 2020.

RELIEF COMING FOR THE FACTORY SECTOR?

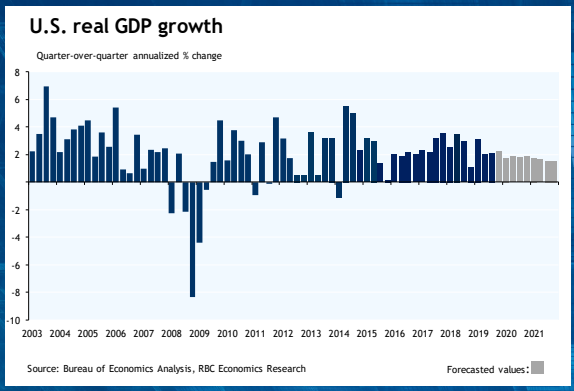
Easier financial conditions did little to help US manufacturers in 2019. The factory sector entered its worst slump since 2015-16 and the ISM manufacturing index declined steadily throughout the year, hitting a cycle low in December. Temporary shutdowns in the auto sector and now aerospace have added to the sector's woes, but the bigger issue last year was escalating trade tensions. A recent Fed paper analyzing US import tariffs found that, in more tariff-exposed manufacturing industries, the negative effects of higher input costs and other countries' retaliatory measures more than offset any positives from import protection. And that didn't even take into account the negative impact of trade policy uncertainty on business investment, which had knock-on effects for manufacturers via slower orders for capital goods.

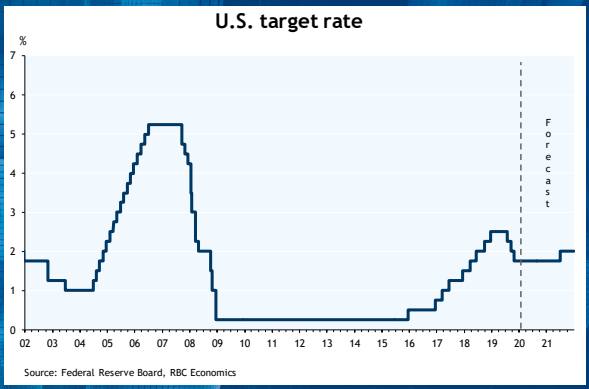
Will we see a turnaround in 2020? USMCA ratification and a preliminary US-China trade deal should resolve some of the most prominent trade concerns. Indeed, despite a disappointing headline reading, the latest ISM report noted, "signs that several industry sectors will improve as a result of the phase-one trade agreement between the U.S. and China." But substantial tariffs remain in place, and we continue to think the Trump administration's unpredictable approach to trade policy will give some firms pause as they lay out their investment plans.

Uncertainty leading up to the November 2020 election could also delay some capital spending. We'll be keeping an eye on sentiment early this year but at this stage we don't see manufacturing and business investment making significant contributions to growth in 2020.

FOMC MINUTES INDICATE HIGH BAR FOR RATE CHANGE

The Fed moved to the sidelines in December and looks set to remain there for some time. Minutes of that meeting seemed to show no appetite for further rate cuts amid easing in some downside risks (US-China, Brexit), indications that global growth is stabilizing, signs of resilience in the domestic economy, and reduced likelihood of recession. At the same time, only 4 of 17 policymakers think a rate hike is likely to be appropriate this year. Maintaining the current stance of monetary policy will give the Fed time to assess the full impact of last year's rate cuts, while also helping to soften the impact of global headwinds and return inflation to target. Some expressed financial stability concerns associated with keeping rates low for too long, but overall there was little to indicate the Fed will follow its 1999 playbook when it fully reversed the previous year's mid-cycle adjustment. Barring a significant deviation from our current forecasts, we think 2020 will be a much less interesting year for Fed-watchers than 2019.





FINANCIAL MARKETS

CANADIAN ECONOMY'S RESILIENCE FADED IN H2/19

Josh Nye

HIGHLIGHTS

- ▲ Canadian GDP growth likely slowed to around 1% in H2/19, though some transitory factors were at play.
- ▲ Canada's labour market rebounded in December but was still less robust in H2/19.
- ▲ Higher pension costs could limit the government's ability to deliver on its campaign promises while still lowering debt-to-GDP.
- ▲ We think markets are a bit complacent—odds of a BoC rate cut are too low.

Recent data suggest the Canadian economy's surprising resilience through much of 2019 began to fade late in the year. GDP fell 0.1% in October (the first decline since February), extending a streak of sub-trend gains with the economy having expanded a paltry 0.1% (non-annualized) since June. Goods production remained soft in October—posting its third decline in four months—while growth in the services sector stalled. Weakness in the latter was narrowly based and doesn't look like the start of a trend. The goods sector is another story. Labour disruptions south of the border impacted Canada's auto sector in October, and while we could see some rebound in the subsequent two months, the closure of GM's Oshawa plant at the end of 2019 represents a permanent hit to motor vehicle production. A strike by rail workers in November disrupted trade and will have weighed on economic output in the month. All told, it looks like Canadian GDP growth slipped below 1% in Q4/19. To the extent that some of that slowdown reflects transitory factors, we expect activity will pick up modestly early this year. But we still anticipate sub-trend growth in the first half of 2020.

LABOUR MARKET LOSING ITS LUSTRE

After an ugly November employment report, Canada's December jobs numbers caused a sigh of relief. The overall headcount retraced a good portion of the previous month's decline, and more importantly, the unemployment rate fell back to 5.6%—just 0.2 percentage points above May's 45-year low. If we're being picky, wage growth slowed somewhat in December but a 3.6% year-over-year increase is still strong given inflation and productivity trends. While closing 2019 on a positive note, it's still the case that Canada's previously impressive labour market lost some momentum late in the year. That suggests that the economy's shift to sub-trend growth in H2/19 can't be solely blamed on transitory factors.

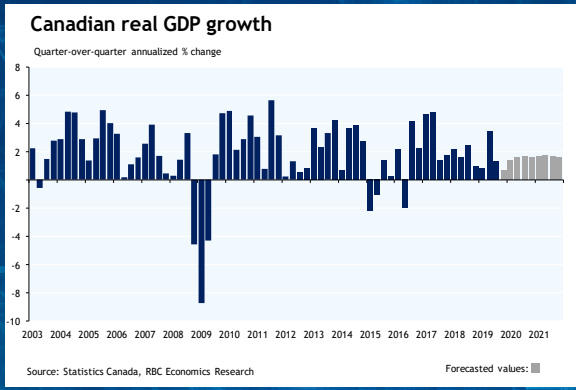
OTTAWA HAS A BIT LESS FISCAL ROOM THAN WE THOUGHT

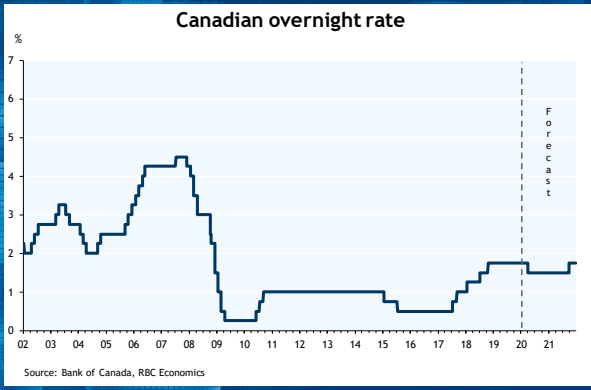
With a federal election in October, we had to wait until December for the now-minority Liberal government's fall fiscal update. Its main policy change delivered on a key campaign pledge to reduce income taxes for nearly 20 million Canadians. Phased in over four years, the measure will lower a single individual's tax bill by nearly $300 per year and a dual-income couple's by close to $600 once fully implemented. That was just one of a number of campaign promises, but it appears the government has less fiscal room to deliver on its platform than previously thought. Lower interest rates, while easing debt service costs, inflated the government's future pension liabilities. As a result, planned program expenses had to be marked up by nearly $6 billion per year. Rather than a $20 bil-

lion deficit in the current fiscal year, the government is now looking at a shortfall of more than $26 billion. The upshot is that, if it remains committed to reducing debt as a share of GDP (now projected to edge up to 31% this year) the Liberals will have to prioritize some of their election promises. So while we continue to expect federal fiscal policy will be stimulative in 2020-21 (beyond the very modest boost from tax cuts that took effect in January), it might be less supportive than previously thought.

BOC KEEPS RATE CUT PROSPECTS ALIVE

After a neutral speech from Governor Poloz just a few weeks ago, the Bank of Canada sounded decidedly more dovish in January policy statement. Economic data over the last three months were described as "mixed" but the bank's characterization was rather downbeat, noting signs of weaker exports, business investment, job creation, and consumer confidence and spending. It did note solid growth in the housing sector, but didn't seem to fret about associated financial stability risks—another dovish development. While some of the slowdown in GDP growth in late-2019 was attributed to temporary factors, the BoC is also concerned that Canada's economy is being more negatively impacted by global headwinds than previously thought. Even with positive trade developments and signs that the global economy is stabilizing, "a high degree of uncertainty" remains. We continue to expect a rate cut in April; market odds of a move by mid-year have increased to 60%.





FINANCIAL MARKETS

HOW WILL THE UK RESPOND TO LESS NEAR-TERM BREXIT UNCERTAINTY?

Josh Nye

HIGHLIGHTS

- The UK is set to leave the EU in an orderly fashion at the end of January.
- But the two parties don't have much time to negotiate a longer-term trade deal.
- ECB President Lagarde noted signs that global growth is stabilizing and downside risks are easing.
- A jump in Australian retail sales in November doesn't necessarily signal the end of sluggish consumer spending.

All signs point to the UK economy having lost momentum toward the end of last year. Retail sales were sluggish in the lead-up to the holiday shopping season, the manufacturing sector softened, and PMI data suggest the all-important services sector isn't picking up the slack. We expect GDP increased by just 0.1% (non-annualized) in Q4/19, capping off a second consecutive year of sub-trend growth. There is scope for improvement in 2020, though, with fiscal policy becoming more stimulative and political uncertainty fading into the background. The Conservatives' decisive election victory ensures the UK will leave the EU at the end of January but maintain Single Market access during a transition period that is set to last at least until the end of the year. With a damaging no-deal Brexit being taken off the table for the time being we might see business and consumer confidence pick up in the first half of 2020.

But we caution that an abbreviated timeframe to negotiate a longer-term trade agreement could see concerns about the UK's trading relationship with the EU return to the fore later this year. As such, we expect any improvement in business investment will be modest, while consumer spending growth is likely to be held in check. The question of how much and how persistently the UK economy picks up in 2020 will remain central to the BoE's policy deliberations as Andrew Bailey takes over as governor in March. In December, the central bank left rates unchanged but once again two MPC members voted for a rate cut. And the committee hedged its forward guidance that rates might need to rise modestly over time, noting that downside risks to the outlook could call for more stimulus. Our expectation is that modest growth, coupled with some upside risk to inflation from rising wages, will keep the central bank on the sidelines again in 2020.

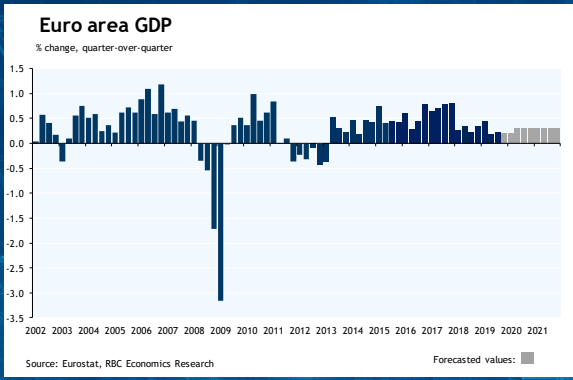
EURO AREA GROWTH STABILIZING, BUT NOTHING MORE

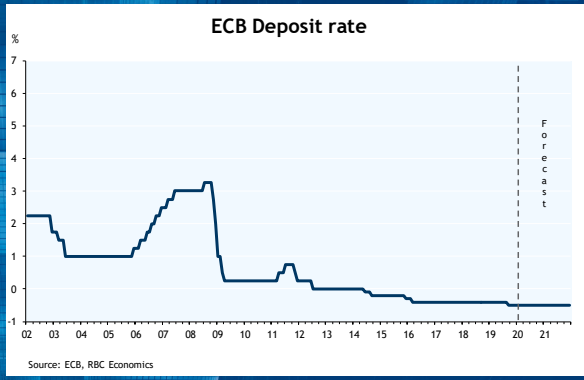
The euro area looks to have closed out 2019 with another quarter of sub-trend growth. The currency bloc's composite PMI averaged a cycle low in Q4/19 and overall economic sentiment was the softest in nearly five years. The good news is that those indictors stabilized toward the end of the quarter, suggesting the worst may be over. To be sure, the industrial sector remains under pressure—manufacturing PMIs point to ongoing contraction in most major euro area economies. But services data continues to suggest spillover to other industries has been contained. Even in Germany where manufacturing activity has been particularly weak, the services PMI hit a four-month high in December. We think resilience in the consumer and services sectors, along with slightly more stimulative fiscal policy in some euro area economies, will help GDP growth return to a more trend-like (but still modest) pace as 2020 progresses. New ECB President Christine Lagarde espoused a similar view at her first post-meeting press conference, noting

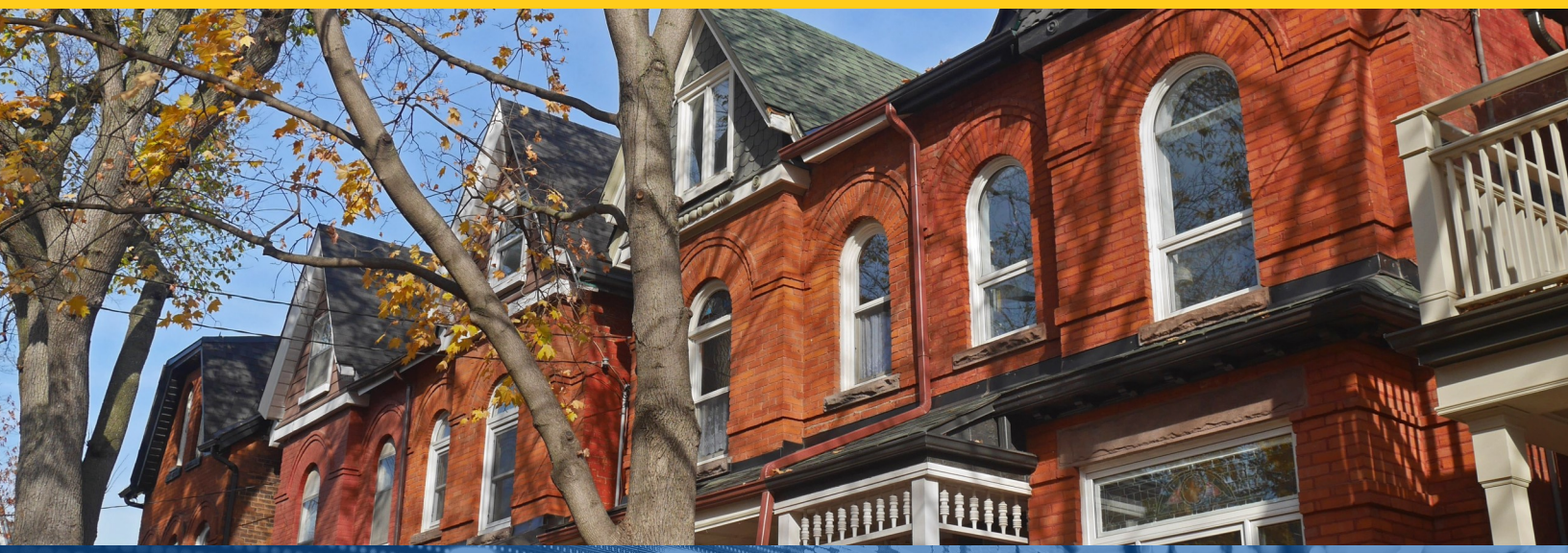
signs that growth is stabilizing and downside risks are becoming less pronounced. Markets saw that as slightly hawkish, pushing short-term yields higher. Still, we think the scope for a near-term policy change is remote, which should keep the front end of the curve anchored. Meanwhile, a modest pickup in growth but persistently low inflation means 10-year Bund yields will rise only gradually.

POSITIVE DATA MIGHT BE CAUSE FOR RBA PATIENCE IN FEBRUARY

Since a soft Q3/19 GDP report, Australian economic data have generally surprised to the upside. The labour market rebounded in November with employment more than retracing the previous month's decline and both the unemployment and underemployment rates ticking lower. Retail sales, having disappointed through much of 2019, jumped higher in November, though the ABS noted its seasonal adjustment didn't fully adjust for the positive impact of Black Friday, meaning we could see some retracement in December. Dwelling approvals also picked up in November, suggesting lower rates are supporting the housing sector. So while minutes of the RBA's December meeting indicated policymakers are likely to consider a rate cut when they meet next in February (and our forecast assumes such a move), decent data flow since then could give the central bank pause. Even if that's the case, we continue to think the RBA will lower rates further this year to assist an economy that is running short of full employment and seeing little progress toward its inflation target.







CURRENT ANALYSIS

JOSH NYE

HOUSING MARKETS CONTINUED TO TIGHTEN IN DECEMBER

- **Home sales dipped in the final month of 2019:** Unit sales declined on a monthly basis (-0.9%) for just the second time in 2019. Nonetheless, the fourth quarter of last year represented the strongest three-month period for resales since May 2017.
- **Lack of supply seems to be weighing on activity:** New listings fell for a fourth straight month in December. Aside from January 2018 when new stress tests kept would-be sellers on the sidelines, new listings haven't been this low in a decade.
- **Sellers are in the driver's seat:** With fewer homes being put on the market, the sales-to-new listings ratio climbed further in December, hitting its highest level since 2004. Sellers have the upper hand in most markets outside oil-producing provinces.
- **Home prices continued to accelerate:** Prices were up 3.4% from a year earlier, the fastest pace of growth since March 2018. Prices rose on a monthly basis in most markets tracked by the MLS HPI.
- **Demand-supply likely to remain tight in 2020:** With solid demand fundamentals (low interest rates, a solid labour market, and strong population growth) expected to remain in place, it will be tough for supply to keep up. Prices should rise further in 2020, exacerbating affordability challenges.
- **Sales and prices rose in 2019:** The 489,000 homes sold in 2019 was up 6.5% from a year earlier but remained 9.5% below 2016's record pace. The MLS Home Price Index crept 0.6% higher in 2019, marking a tenth consecutive annual gain but the slowest over that stretch.

LOCATION, LOCATION, LOCATION? HOW ABOUT SUPPLY, SUPPLY, SUPPLY…

A pickup in home sales was the main story of 2019, but toward the end of the year it was supply that dominated the housing narrative. A pullback in new listings in the final four months of 2019 limited buyers' options and likely dampened the upward trend in resales that prevailed throughout last year. December saw the second-fewest new listings in the past decade, leaving the months of inventory on the market at its lowest level since 2007. Those who did list their homes clearly had the upper hand—the ratio of sales-to-new listings rose for a sixth straight month in December. By that measure, nation-wide market conditions haven't been this tight since 2004. More than 80% of markets in Ontario and BC, and many in Quebec, favour sellers (i.e. have a sales-to-new listings ratio of more than 0.6). Only in Canada's oil-producing provinces, where economic conditions have been softer, does market power tend to lean toward buyers.

FORECAST DETAIL - CANADA

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2019				2020				2021				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019	2020	2021
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Household consumption	2.5	0.5	1.6	0.9	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.4	2.2	1.5	1.4	1.5
Durables	5.0	-1.7	1.8	-0.4	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.7	0.8	0.7	1.0
Semi-Durables	3.1	3.0	1.9	-0.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.5	1.7	2.1	1.6	2.0
Non-durables	1.2	0.1	1.2	-0.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.8	0.9	1.1	1.6
Services	2.3	0.8	1.6	2.0	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	2.5	1.9	1.6	1.5
Government expenditures	2.1	2.4	0.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	3.0	2.3	1.9	2.0
Residential investment	-2.7	5.5	13.3	3.7	-2.3	0.2	3.5	3.4	3.0	2.0	0.3	0.5	-1.6	-0.5	2.7	2.3
Business investment	18.0	-7.0	9.5	0.2	-0.4	1.0	2.2	2.2	3.5	4.4	5.3	6.2	1.4	0.9	1.2	3.5
Non-residential structures	4.2	4.4	11.1	3.3	0.0	1.0	2.0	2.0	3.0	3.7	4.4	5.1	-0.6	1.2	2.8	3.0
Machinery & equipment	42.1	-21.8	7.0	-4.6	-1.0	1.0	2.5	2.5	4.3	5.5	6.7	7.9	4.7	0.6	-1.2	4.2
Final domestic demand	3.3	0.3	3.2	1.4	1.2	1.5	1.8	1.8	1.9	1.9	1.8	1.9	2.1	1.3	1.6	1.8
Exports	-3.3	12.9	-1.5	-6.0	2.0	1.7	1.5	1.5	1.6	1.6	1.6	1.6	3.1	1.6	0.5	1.6
Imports	8.1	-3.5	0.1	-2.0	1.0	1.2	1.9	2.0	2.0	2.0	2.0	2.5	2.6	0.4	0.2	2.0
Inventories (change in $b)	20.6	12.8	4.2	7.0	6.5	6.5	6.5	6.6	6.5	6.5	6.5	6.5	13.0	11.1	6.5	6.5
Real gross domestic product	0.8	3.5	1.3	0.7	1.4	1.6	1.7	1.7	1.7	1.7	1.7	1.6	2.0	1.7	1.5	1.7
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	0.5	0.5	0.6	0.8	0.8	0.9	0.9	1.1	1.0	1.0	1.0	1.0	-0.1	0.6	0.9	1.0
Pre-tax corporate profits	-3.0	2.9	-5.6	5.8	4.5	-2.7	2.5	1.3	0.8	0.3	0.3	0.0	2.5	-0.1	1.3	0.3
Unemployment rate (%)*	5.8	5.5	5.6	5.7	5.7	5.8	5.8	5.8	5.9	6.0	6.0	6.0	5.8	5.7	5.8	6.0
Inflation																
Headline CPI	1.6	2.1	1.9	2.3	2.1	1.6	1.5	1.6	1.6	1.7	1.9	2.0	2.3	2.0	1.7	1.8
Core CPI	1.9	2.3	2.2	2.0	1.9	1.7	1.7	1.8	1.8	1.9	2.0	2.1	1.9	2.1	1.8	2.0
External trade																
Current account balance ($b)	-67.3	-27.0	-39.4	-44.4	-43.6	-40.6	-40.3	-40.1	-37.5	-37.1	-36.8	-37.5	-222.0	-44.5	-41.1	-37.2
% of GDP	-3.0	-1.2	-1.7	-1.9	-1.9	-1.7	-1.7	-1.7	-1.5	-1.5	-1.5	-1.5	-10.0	-2.0	-1.8	-1.6
Housing starts (000s)*	187	224	223	207	208	209	213	213	215	214	209	209	213	208.7	210.8	211.8
Motor vehicle sales (mill., saar)*	2.02	1.94	1.98	1.93	1.93	1.92	1.92	1.92	1.92	1.92	1.92	1.92	2.04	2.0	1.9	1.9
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75	1.75	1.50	1.75
Three-month	1.67	1.66	1.65	1.66	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.65	1.64	1.66	1.40	1.65
Two-year	1.55	1.47	1.58	1.70	1.50	1.40	1.50	1.55	1.60	1.65	1.70	1.80	1.86	1.70	1.55	1.80
Five-year	1.52	1.39	1.40	1.69	1.55	1.50	1.60	1.70	1.70	1.75	1.80	1.90	1.89	1.69	1.70	1.90
10-year	1.62	1.47	1.36	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	2.00	1.97	1.70	1.80	2.00
30-year	1.89	1.69	1.53	1.76	1.85	1.90	1.90	1.95	2.00	2.05	2.05	2.10	2.18	1.76	1.95	2.10
Canadian dollar	1.33	1.31	1.32	1.30	1.30	1.31	1.32	1.33	-	-	-	-	1.36	1.30	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

	2019				2020				2021				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019	2020	2021
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	1.1	4.6	3.1	1.9	1.8	1.9	1.9	1.9	1.9	1.7	1.7	1.7	3.0	2.6	2.2	1.8
Durables	0.3	13.0	8.1	1.5	1.6	1.8	1.9	1.9	1.9	1.9	1.8	1.8	6.3	4.7	3.1	1.9
Non-durables	2.2	6.5	3.9	1.6	1.6	1.8	1.8	1.8	1.7	1.7	1.5	1.5	3.0	3.3	2.3	1.7
Services	1.0	2.8	2.2	2.0	1.9	2.0	2.0	2.0	1.9	1.7	1.7	1.7	2.5	2.1	2.0	1.9
Government spending	2.9	4.8	1.7	2.0	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.7	2.3	1.8	1.5
Residential investment	-1.1	-2.9	4.6	4.0	0.9	1.0	2.0	1.4	1.5	1.2	1.4	1.1	-1.5	-1.7	1.9	1.4
Business investment	4.4	-1.0	-2.3	0.1	1.4	1.4	1.4	1.0	2.0	2.2	2.5	2.9	6.4	2.2	0.5	1.8
Non-residential structures	4.0	-11.1	-9.9	-6.0	1.0	1.0	1.0	2.0	2.0	3.0	3.0	4.0	4.1	-4.2	-2.5	2.3
Non-residential equipment	-0.1	0.8	-3.8	1.5	1.0	1.0	1.0	2.0	2.0	2.0	3.0	3.0	6.8	1.6	2.8	2.3
Intellectual property	10.9	3.6	4.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	7.4	7.5	2.4	2.0
Final domestic demand	1.8	3.6	2.2	1.7	1.7	1.8	1.8	1.9	1.8	1.7	1.8	1.8	3.0	2.3	1.9	1.8
Exports	4.2	-5.7	0.9	-0.5	3.0	2.5	2.5	2.5	2.0	2.0	2.0	1.5	3.0	-0.2	1.3	2.2
Imports	-1.5	0.0	1.8	-4.5	1.5	1.5	1.5	2.0	2.0	2.0	3.0	2.5	4.4	1.2	0.3	2.1
Inventories (change in $b)	116.0	69.4	69.4	62.0	55.0	53.0	47.0	43.0	40.0	35.0	30.0	25.0	48.2	79.2	49.5	32.5
Real gross domestic product	3.1	2.0	2.1	2.2	1.7	1.8	1.8	1.8	1.7	1.6	1.5	1.5	2.9	2.3	1.9	1.7
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.7	1.8	1.5	1.7	0.9	0.3	0.8	0.9	1.0	1.2	1.0	0.9	1.3	1.7	0.7	1.0
Pre-tax corporate profits	-2.2	1.3	-1.2	0.2	4.3	0.5	1.0	0.7	1.1	1.0	0.8	0.6	3.4	-0.5	1.6	0.9
Unemployment rate (%)*	3.9	3.6	3.6	3.5	3.6	3.7	3.8	3.8	3.8	3.9	3.9	3.9	3.9	3.7	3.7	3.9
Inflation																
Headline CPI	1.6	1.8	1.8	2.1	2.4	2.2	2.1	1.9	1.9	2.0	2.1	2.2	2.4	1.8	2.1	2.1
Core CPI	2.1	2.1	2.3	2.3	2.3	2.4	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.2	2.3	2.2
External trade																
Current account balance ($b)	-545	-501	-496	-465	-452	-450	-444	-446	-453	-457	-468	-479	-491	-502	-448	-464
% of GDP	-2.6	-2.4	-2.3	-2.1	-2.1	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.1	-2.4	-2.3	-2.0	-2.0
Housing starts (000s)*	1213	1256	1282	1441	1300	1300	1310	1310	1315	1315	1320	1320	1250	1298	1305	1318
Motor vehicle sales (millions, saar)*	16.8	17.0	17.0	16.7	17.2	17.2	17.1	17.1	17.1	17.2	17.2	17.2	17.2	17.0	17.2	17.2
INTEREST RATES %, END OF PERIOD																
Fed funds	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00	2.50	1.75	1.75	2.00
Three-month	2.40	2.12	1.88	1.55	1.65	1.65	1.65	1.65	1.65	1.65	1.90	1.90	2.45	1.55	1.65	1.90
Two-year	2.27	1.75	1.63	1.58	1.70	1.75	1.75	1.75	1.80	1.85	1.90	1.95	2.48	1.58	1.75	1.95
Five-year	2.23	1.76	1.55	1.69	1.80	1.90	1.90	1.90	1.90	1.95	1.95	2.00	2.51	1.69	1.90	2.00
10-year	2.41	2.00	1.68	1.92	2.00	2.10	2.10	2.10	2.15	2.15	2.20	2.25	2.69	1.92	2.10	2.25
30-year	2.81	2.52	2.12	2.39	2.45	2.50	2.50	2.50	2.55	2.55	2.60	2.65	3.02	2.39	2.50	2.65
Yield curve (10s-2s)	14	25	5	34	30	35	35	35	35	30	30	30	21	34	35	30

*Quarterly averages, level

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

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATOR

	CANADA			US		
	FROM PRECEDING MONTH	FROM YEAR AGO	LATEST MONTH	FROM PRECEDING MONTH	FROM YEAR AGO	LATEST MONTH
Business						
Industrial production*	-0.8	-2.8	Oct.	-0.4	-1.1	Dec.
Manufacturing inventory - shipments ratio (level)	1.5	1.5	Nov.	1.4	1.4	Nov.
New orders in manufacturing	1.9	-0.8	Nov.	-1.2	-2.0	Nov.
Business loans - Banks	1.8	10.2	Nov.	-0.4	2.2	Dec.
Index of stock prices**	0.1	19.1	Dec.	2.3	23.7	Dec.
Households						
Retail sales	0.9	1.9	Nov.	0.3	5.8	Dec.
Auto sales	-3.2	-2.1	Nov.	1.4	-12.3	Dec.
Total consumer credit***	0.1	2.2	Nov.	0.3	4.5	Nov.
Housing starts	-3.4	-8.1	Dec.	16.9	40.8	Dec.
Employment	0.1	1.6	Dec.	0.2	1.3	Dec.
Prices						
Consumer price index	0.0	2.2	Dec.	0.2	2.3	Dec.
Producer price index****	0.1	-0.4	Nov.	0.4	2.0	Dec.
Interest rates						
Policy rate [1]	1.75	1.75	Dec.	1.75	2.50	Dec.
Government bonds - (10 years)	1.6	2.1	Dec.	1.9	2.8	Dec.

[1] latest available

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