ECONOSCOPE

May 2019

WINTRY WEATHER NOT THE ONLY FACTOR IN CANADA'S SOFT FEBRUARY GDP REPORT

SEARCHING FOR SIGNS OF SPRING

STRONG US GDP REPORT COMES WITH PLENTY OF CAVEATS

THE BOTTOM HAS BEEN REACHED FOR CANADA'S HOUSING MARKET

RBC

ECONOSCOPE

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IN BRIEF

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CURRENT TRENDS

Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ Canadian GDP edged down 0.1% in February following a solid 0.3% gain in January.

▲ Headline employment was up 107k in April – the largest increase in more than 40 years.

▲ Retail sales rose 0.8% in February, stemming from strength in general merchandise stores and motor vehicle and parts dealers.

▲ Housing starts jumped to 235,000 annualized units in April, continuing to pick up from a multi-year low of 167,000 in February

▲ Canada's trade deficit edged lower for a third straight month in March but was still elevated at $3.2 billion.

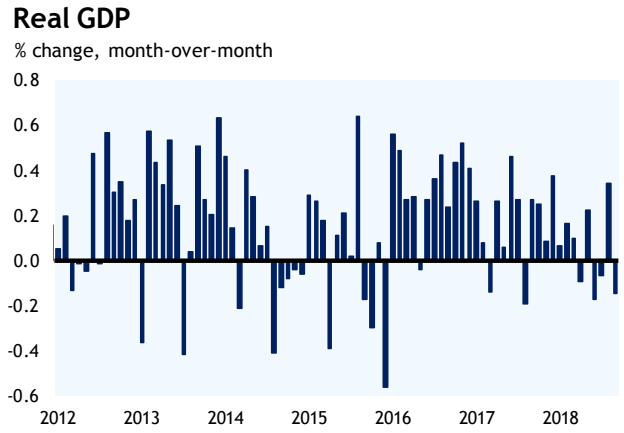
▲ Headline inflation ticked up to 2.0% year-over-year in April from 1.9% in March.

WINTRY WEATHER NOT THE ONLY FACTOR IN CANADA'S SOFT FEBRUARY GDP REPORT

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: APRIL 30, 2019

Canadian GDP edged down 0.1% in February, just short of expectations for no change following a solid 0.3% gain in January. Industries were evenly split between gains and losses, though both headline goods and services output declined. Oil and gas extraction failed to increase despite the Alberta government scaling back mandatory production curtailments in February. Mining excluding oil and gas fell by more than 4% for a second consecutive month. A sharp pullback in rail transportation and slower home sales, both likely held back by wintry weather, weighed on growth to the tune of 0.1 ppt. Utilities output got a boost from the cold weather, and the construction industry didn't appear to be impacted.



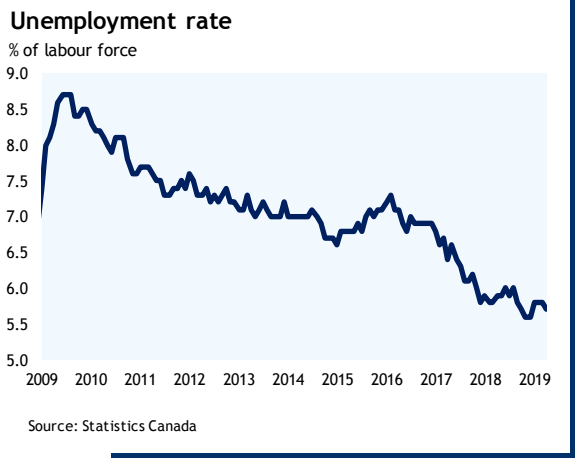
Source: Statistics Canada

CANADA EMPLOYMENT SURGES HIGHER AGAIN IN APRIL

LATEST AVAILABLE: APRIL

RELEASE DATE: MAY 10, 2019

The month-over-month headline employment swings are notoriously volatile – so there is reason to take even a 107k increase with a big grain of salt. But this is also not the first strong employment report we've seen for Canada. The employment count is up 426k from a year ago, for a whopping average monthly increase of 36k per month over that period. The typically more-stable unemployment rate dipped back close to cycle lows at 5.7% in April despite a tick up in the labour force participation rate. The soft spot in the labour market data remains wages, but year-over-year growth in average hourly earnings did tick up for a third straight month, rising to 2.5% in April from 2.4% in March. The recent drift higher is encouraging but the pace is still slower than would normally be expected with labour markets otherwise looking quite tight.

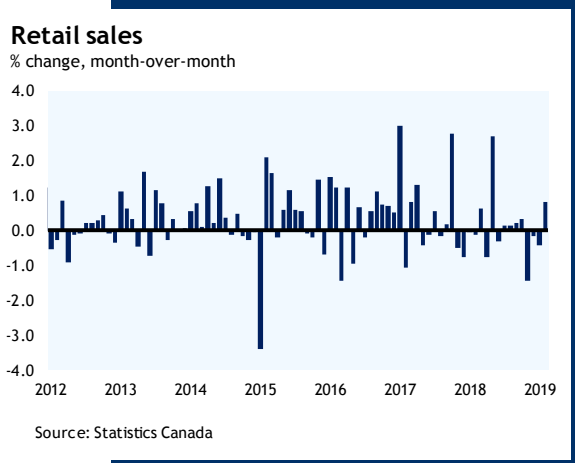


CANADIAN RETAIL SALES EDGED UP IN FEBRUARY

LATEST AVAILABLE: FEBRUARY

RELEASE DATE: APRIL 18, 2019

The February retail numbers came out slightly stronger than expected but part of the increase reflected higher gas prices that pushed up sales at the pump by 1.9%. Volume sales inched up but by a modest 0.2%. Weather might have been a factor slowing sales in some categories, but downward revisions to earlier months also imply overall consumer spending is still slow. We still see much of the softness in overall economic growth in Q1 as transitory in nature, with a bounce-back expected in Q2 as weather related effects wear off and oil production cuts ease. But household spending is unlikely to be the main driver of growth.

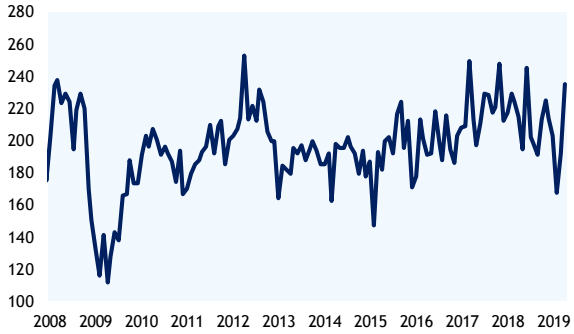


CANADIAN HOUSING STARTS JUMPED IN APRIL

LATEST AVAILABLE: APRIL

RELEASE DATE: MAY 8, 2019

Housing starts jumped to 235,000 annualized units in April, continuing to pick up from a multi-year low of 167,000 in February when we think wintry weather restrained activity. The increase was led by multi-unit starts which rose to a record high 176,000 annualized units. Economists (including ourselves) were perhaps a bit shy to pencil in such a strong increase in housing starts in April, though the rapid pace of permit issuance in recent months and potential for weather-delayed starts to show up in the spring means today's report isn't a total surprise. Signs of stabilization in at least some major resale markets and ongoing strength in homebuilding—particularly the multi-unit segment—suggest the housing sector is shifting to a more neutral force in Canada's economy after acting as a sizeable drag last year.



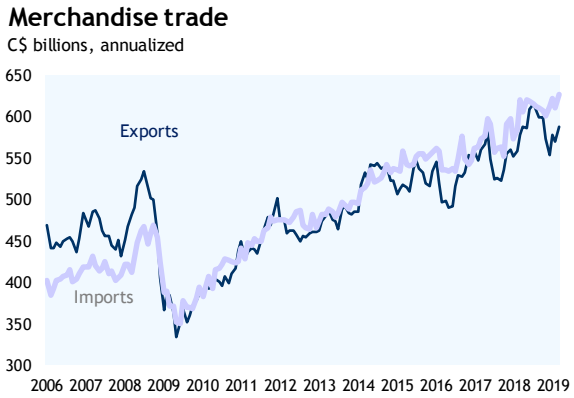
Source: Canadian Mortgage and Housing Corporation

BETTER WEATHER LEAVES (SOMEWHAT) BETTER MARCH CANADIAN TRADE NUMBERS

LATEST AVAILABLE: MARCH

RELEASE DATE: MAY 9, 2019

The headline trade deficit was still elevated at $3.2 billion but edged lower for a third straight month in March. Details were arguably a little better than that headline itself would imply. A 2.8% bounce-back in export volumes in part reflected a recovery in energy shipments but non-energy export volumes were also up almost 2% by our count. Import volumes also bounced back 1.2%. While not helping with the trade deficit, the composition of that increase – led by a partial recovery in equipment imports from a big drop in February – does seemingly confirm that domestic demand is holding up okay outside of the energy sector.



Source: Statistics Canada

STABLE INFLATION IS GOOD NEWS FOR CANADIAN CONSUMERS

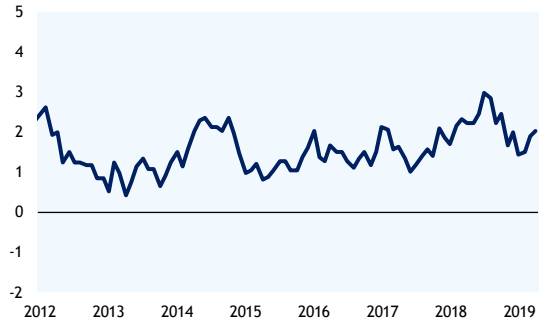
LATEST AVAILABLE: APRIL

RELEASE DATE: MAY 16, 2019

Headline inflation ticked up to 2.0% year-over-year in April from 1.9% in March. Core measures have remained steady at 1.9-2.0% for the last 15 months, giving the Bank of Canada plenty of leeway to hold interest rates steady (and watch other developments, like rising global trade tensions). For households, that means less of an increase in debt service costs than was seen last year. And while wage growth has been disappointingly slow, hourly pay is still outpacing overall inflation, giving consumers at least some increase in purchasing power. Finally, while the imposition of the federal carbon pricing backstop in some provinces added to rising energy costs in April, the average household gets that money back when they file their taxes.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Latest month	Previous month	Year ago
Real GDP	Feb	-0.1	1.1
Industrial production	Feb	-0.5	-0.2
Employment	Apr	0.6	2.3
Unemployment rate*	Apr	5.7	5.9
Manufacturing			
Production	Feb	-0.4	1.1
Employment	Apr	0.3	0.5
Shipments	Mar	2.1	2.0
New orders	Mar	1.5	0.8
Inventories	Mar	1.0	9.5
Retail sales	Feb	0.8	1.8
Car sales	Mar	0.6	-2.5
Housing starts (000s)*	Apr	235.5	214.7
Exports	Mar	3.2	1.8
Imports	Mar	2.5	1.1
Trade balance ($billions)*	Mar	-3.2	-3.5
Consumer prices	Apr	0.4	2.0

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

SEARCHING FOR SIGNS OF SPRING

Josh Nye

"While trade tensions clearly remain a risk, some green shoots in the latest economic data helped reduce fears of a further global slowdown."

Global equity markets performed well in April—and hit record highs in Canada and the US—before stocks were sent lower this week on fresh tariff threats (and ultimately actions) from the Trump administration that seemed to dash hopes of a US-China deal. While trade tensions clearly remain a risk, some green shoots in the latest economic data helped reduce fears of a further global slowdown. US GDP growth surprised to the upside in Q1, and while details of the report were less than stellar, we've seen indications of a pickup in domestic demand heading into Q2. Euro area GDP also came in a bit stronger than expected, and the UK economy grew at a solid pace even as Brexit uncertainty intensified in the first quarter. Canadian data have yet to fully thaw after a winter slowdown, but much of the loss of momentum still reflects transitory factors. We expect growth will start to pick up in Q2.

While economic activity seems to be warming up, central banks aren't ready to shed their extra layers. The Fed remained firmly in neutral in May, balancing an easing in some key risks with a surprising slowdown in inflation. The Bank of Canada dropped their tightening bias given the economy's longer-than-expected "detour" away from full capacity. And despite rumours of potential hawkish dissent, the Bank of England remained unanimous in voting to leave current stimulus in place. The ECB is keeping their foot on the accelerator, while the Reserve Bank of New Zealand opted for more stimulus, lowering their policy rate for the first time since 2016. Low inflation and accommodative central banks are keeping longer-term government bond yields close to recent lows—and back in negative territory in Germany. The Canadian and US yield curves remain very flat, though the recession talk that accompanied March's brief curve inversion has quieted down.

FINANCIAL MARKETS

STRONG US GDP REPORT COMES WITH PLENTY OF CAVEATS

Josh Nye

HIGHLIGHTS

- ▲ US GDP growth picked up in Q1 but domestic spending slowed.
- ▲ Recent data point to stronger consumer spending and business investment in the second quarter.
- ▲ Core PCE inflation unexpectedly softened early this year, though declines in a few components are responsible for the slowing.
- ▲ Chair Powell noted improvement in some of the cross-currents buffeting the US economic outlook.

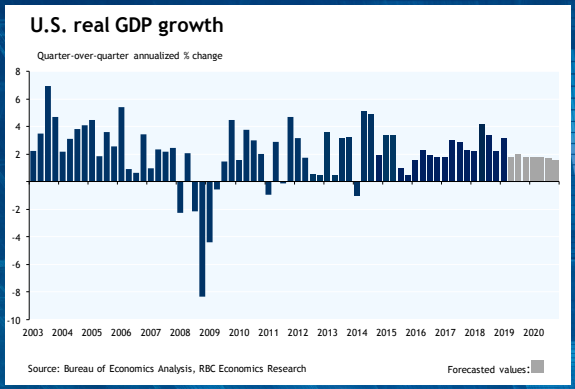
US GDP growth surprised to the upside with a 3.2% annualized increase in Q1, defying the pattern of a first quarter slowdown in recent years. But looking under the surface, it was still a soft GDP report. Half the increase came from inventory accumulation and an improving trade deficit, neither of which are likely to be sustained. Domestic spending—a better gauge of underlying demand—grew at its slowest quarterly pace in three years. Both household spending and business fixed investment increased at about half the previous quarter's rate. Meanwhile, federal nondefense spending fell sharply for a second consecutive quarter thanks to the partial government shutdown that began in late-2018 and continued early this year. So while headline growth was impressive, details of the report left much to be desired.

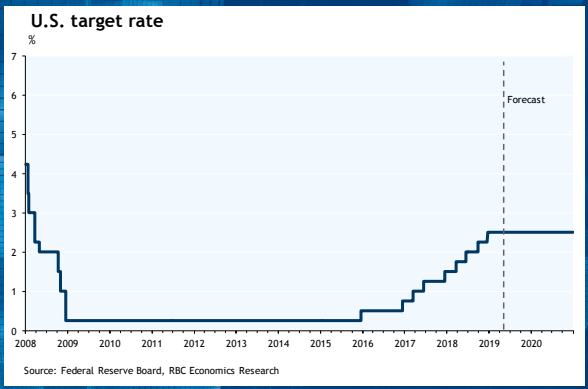
While data for the current quarter is limited, we expect growth will slow from Q1's surprisingly strong pace. Adds from inventory and trade are likely to be at least partially reversed. But there are some indications that underlying demand is picking up. Consumer spending grew at its best pace in two years in March, suggesting solid momentum heading into the second quarter (the opposite of what we saw in Q1). New orders for capital goods also picked up nicely in March, pointing to a rebound in business investment in Q2. And the decline in government spending over the last two quarters should be reversed with the shutdown having ended early this year. All told, we might be looking at slower headline GDP growth in the second quarter, but the composition should be much healthier.

CORE INFLATION UNEXPECTEDLY SLOWED IN Q1

While consumer spending picked up through the first quarter, prices went in the opposite direction. The core PCE deflator slowed to just 1.6% year-over-year in March, a more than one-year low. The decline was surprising after core inflation spent much of 2018 close to the Fed's 2% objective—the most sustained period of on-target inflation this cycle. Lower prices for clothing and jewelry, as well as health care and financial services, were responsible for some of the recent pullback. The Dallas Fed's trimmed PCE inflation measure, which filters out such idiosyncratic moves, remains close to 2%. That suggests policymakers have little reason to be concerned about a broadly-based slowing in inflation. Financial market-based measures of inflation expectations have actually picked up since early this year alongside an increase in in oil prices, while consumers' inflation expectations

hardly point to deflationary concerns. So perhaps the biggest takeaway from the recent slowing in inflation is the good news it brings for consumers. Alongside rising wages, slower inflation implies a bump in purchasing power.





FOMC FIRMLY IN NEUTRAL

As expected, the FOMC held the target range for the fed funds rates steady at 2.25-2.50% in May. They lowered the interest on excess reserves (IOER) by 5 basis points but Chair Powell downplayed the move as a technical adjustment that didn't change the stance of monetary policy. Overall, the Fed showed little inclination to deviate from its neutral bias. Powell fielded a number of questions on the aforementioned slowdown in core inflation, but he expressed little concern, indicating inflation should return to the Fed's 2% objective amid sustained economic expansion. He also noted some improvement in a number of cross-currents mentioned earlier this year—an easing in global financial conditions, improving data in China and Europe, and reports of progress in US-China trade talks (that was prior to the latest escalation in tensions). While those earlier developments contributed to the Fed's shift to neutral, recent improvement was still seen as consistent with the Fed's patient approach to setting monetary policy. This sounds like an FOMC that is in no rush to get back to raising rates, and at the same time hardly inclined to move in the direction markets are pricing (almost a full cut still discounted by the end of this year). We think they'll remain on hold through 2020.

FINANCIAL MARKETS

STILL NO "ALL CLEAR" FROM CANADIAN GDP FIGURES

Josh Nye

HIGHLIGHTS

- ▲ Canadian GDP fell for the fourth time in six months in February, though wintry weather appeared to be a factor.
- ▲ Drag from the housing market appears to be easing, and the slowdown in consumer spending over H2/18 is expected to become less intense.
- ▲ Canadian employment has surged higher this year despite slower GDP growth.
- ▲ The BoC lowered their 2019 growth forecast to just 1.2% but sees activity rebounding to a 2% pace in the following two years.

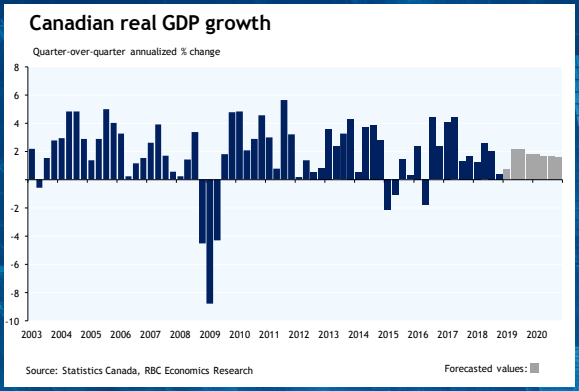
Canadian GDP fell 0.1% in February, the fourth decline in the last six months. That's the worst stretch we've seen since the first half of 2016. As was the case back then, much of the recent slowdown reflects issues in the energy sector, which we expect will exert less downward pressure as 2019 progresses. February was a slightly different story as the oil and gas sector provided less of a headwind but weather appeared to weigh on economic activity. Rail transportation issues and a slowdown in home sales combined to shave 0.1 ppt off monthly growth, and we think other industries might have been less obviously impacted by wintry weather, which led to a drop in hours worked in February. The combination of a slowdown in the energy sector and some transitory weather-related disruptions is expected to limit Q1 GDP growth to just 0.7% annualized—only a minor improvement on the previous quarter's 0.4% increase.

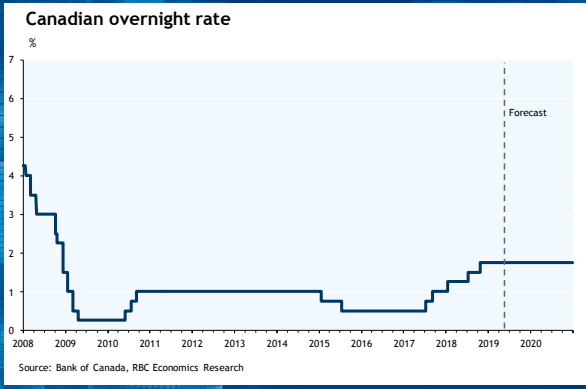
The question is how much of a pickup in growth we can expect as those factors fade. Developments in the household sector will be key. The recent easing in financial conditions might be behind some interest-rate sensitive purchases—auto sales, for example, have picked up early this year after slowing through much of 2018. But it remains the case that Canadians' debt servicing costs have climbed over the last year. On average, households have to dedicate nearly one percentage point more of their disposable incomes to debt payments than they did before the Bank of Canada began raising interest rates. That is likely to keep overall consumer spending growing at a relatively modest pace. On the housing side, we're seeing east-west divergence with the Vancouver and Prairie markets remaining under downward pressure, while activity has stabilized in Toronto and remains solid in markets like Ottawa and Montreal. And after some weather disruptions, homebuilding activity remains strong. On balance, we think the drag on GDP from consumers and housing seen over the second half of last year won't be repeated, but the household sector is unlikely to punch above its weight going forward.

JOB GROWTH POWERS AHEAD DESPITE GDP WEAKNESS

In sharp contrast to the slowdown in GDP figures, Canadian job growth continues at an impressive pace. The economy added 426,000 positions over the last 12 months, the best run rate in more than a decade. The surge in hiring is being helped by strong population growth and rising labour force participation, though the unemployment rate has still managed to push cycle (and multi-decade) lows. Wage growth remains the fly in the ointment, growing at a slower pace than low unemployment would suggest. The diverging trends in GDP and employment hint

at one factor that might be holding back wage growth—weak productivity. Business sector productivity, a key driver of long-run wage growth, was flat in 2018.





BOC LOWERS 2019 GROWTH FORECAST, DROPS TIGHTENING BIAS

The Bank of Canada officially shifted into neutral in April, noting the current degree of monetary policy accommodation is warranted. The change in guidance coincides with a softer global growth outlook and sharp downward revision to the bank's 2019 Canadian growth forecast (now 1.2% vs. 1.7% in January and 2.1% last October). The latest mark-down reflects a more significant slowing in housing and business investment than previously assumed, as well as less fiscal support in Ontario. The BoC does, however, expect growth will pick up later this year, returning to a pace around 2% in 2020-21. While dropping an explicit tightening bias, Governor Poloz did indicate that the bank might eventually get back to raising rates if its forecasts are validated. But even in that case, it looks like further rate hikes would be limited—the bank lowered its assumption for the neutral policy rate to 2.25-3.25% in April, only modestly above the current 1.75% overnight rate. With underlying inflation remaining steady around 2% and monetary policy fairly close to neutral, we think the bar is high for another rate increase. But at the same time we don't think the outlook calls for easing, despite market pricing continuing to lean in that direction.

FINANCIAL MARKETS

UK Q1 GDP DEFIES SURVEYS WARNING OF A SLOWDOWN

Josh Nye

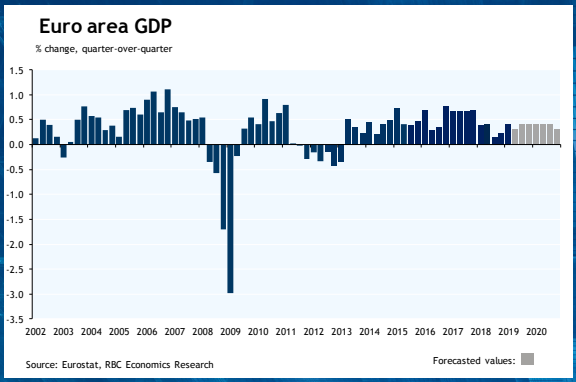
HIGHLIGHTS

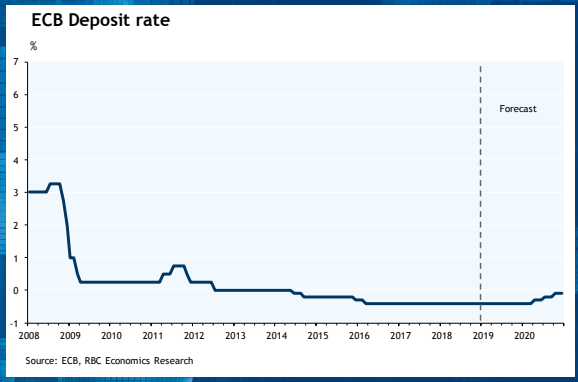
- ▲ UK GDP growth picked up in Q1 but the economy lost a bit of momentum late in the quarter.
- ▲ Euro area GDP was up 0.4% in Q1, doubling the pace seen over the second half of last year.
- ▲ Unemployment in the currency bloc fell to its lowest level since 2008.
- ▲ Despite core inflation getting further from its target, the RBA left rates unchanged in May.

UK GDP growth picked up to 0.5% in Q1 following a 0.2% gain in the prior quarter. Growing Brexit uncertainty was evident in a run-up in inventories, much of which seemed to come from imports as firms tried to get ahead of potential border delays in the event of a no-deal Brexit. However, concerns about the UK leaving the EU without a deal didn't stop businesses from investing in fixed assets. Consumer spending growth also ticked higher. The economy lost a bit of steam toward the end of the quarter with GDP falling 0.1% in March. That is consistent with business surveys showing uncertainty was most intense in the month before the original Brexit deadline. An extension of that deadline to October 31 has reduced the near-term odds of a no-deal exit but at best it provides a temporary reprieve from uncertainty. Another vote on Prime Minister May's deal is likely in the coming weeks but if an agreement can't be reached a general election or second referendum remain on the table—both of which would absorb most of the extension period. Thus there also remains potential for another extension in October. With Brexit uncertainty set to persist, the Bank of England remains stuck on the sidelines. The MPC unanimous voted to leave rates unchanged in May and provided no signal that they're ready to act on their forward guidance for limited and gradual rate hikes in the coming years.

MAJOR EURO AREA ECONOMIES BACK TO GROWTH IN Q1

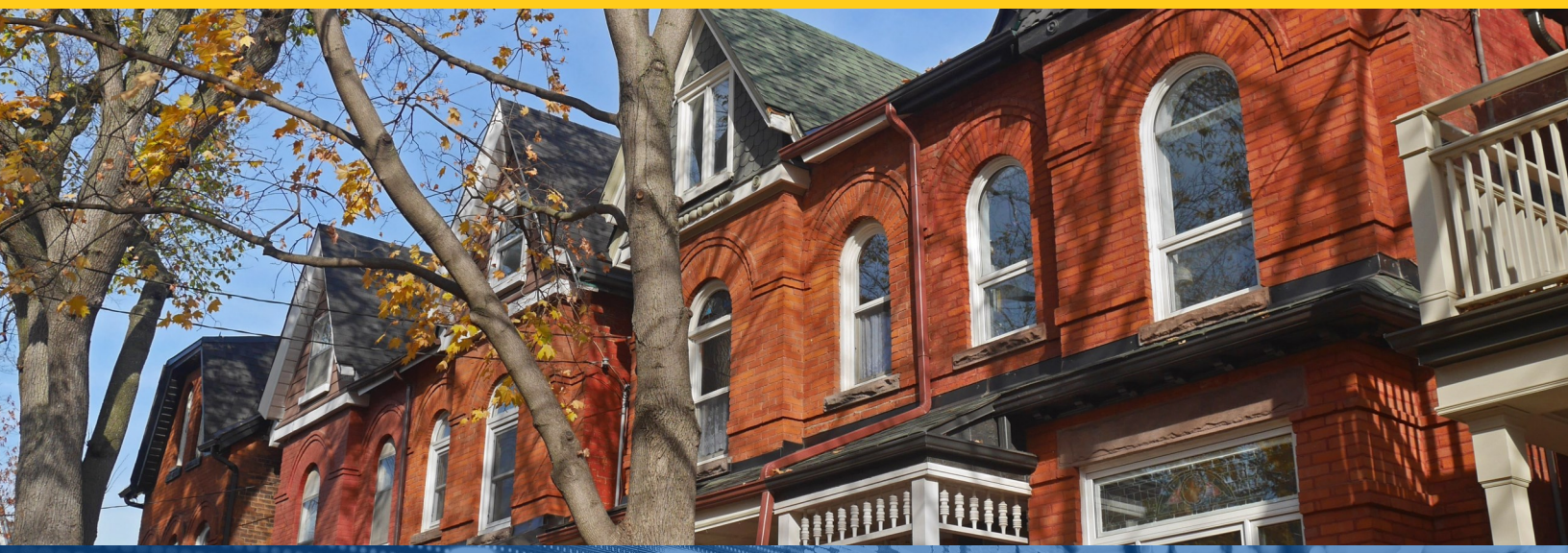
Euro area GDP growth was slightly stronger than expected in Q1, picking up to 0.4% from the previous quarter's 0.2% pace. Despite surveys pointing to stagnation, France saw another quarter of modest growth while Italy emerged from technical recession. We expect Germany recorded a moderate increase after losing momentum in the second half of 2018, and Spain's economy likely continued to expand at a solid clip. While PMIs seem to have underestimated growth early this year, we think their story of divergence between domestically- and export-oriented sectors is accurate. Services readings point to a decent domestic demand backdrop, consistent with ongoing improvement in the labour market (unemployment hit a fresh cycle low of 7.7% in March, just half a percent above its pre-recession lows). We think sentiment has also been helped by less political upheaval and loosening fiscal policy in some countries. Meanwhile, confidence in the manufacturing industry has waned amid slowing global industrial production and trade. While the euro area manufacturing PMI continued to slip in April, there are some tentative signs of improvement in actual production—German manufacturing output rose in March, and recent improvement in China's industrial sector should support external demand.





RBA TAKES A PASS ON EASING DESPITE INFLATION DIP

Recent data continue to build the case for the Reserve Bank of Australia to provide a bit more accommodation. Retail sales volumes have effectively flat-lined since mid-2018 (and were actually down slightly in Q1 for the first time since 2012) and residential building approvals continue to head south. With the key consumer and housing sectors providing limited support, we expect the Australian economy will grow at a sub-trend pace this year. More significantly from RBA's point of view, inflation is getting further from its 2-3% target range, with core measure slipping to just 1.4% year-over-year in Q1. These data had analysts split on whether the RBA would cut rates in May. In the event they held the cash rate steady at 1.50%, where it has been since August 2016. The RBA took comfort in ongoing strength in the labour market, with the unemployment rate at a seven-year low of 5%. But with the economy likely to grow at a sub-trend pace, we think the future direction will be to a higher jobless rate. We expect soft domestic conditions and low inflation will see the RBA begin to ease policy.



CURRENT ANALYSIS

ROBERT HOGUE

APRIL'S GOOD NEWS: THE BOTTOM HAS BEEN REACHED FOR CANADA'S HOUSING MARKET

- **Home resales increased in Canada for the second-straight month in April:** The 3.6% month-over-month advance isn't an 'all-clear' signal for the market but strongly suggests that the cyclical bottom has been reached. Activity climbed above year-ago levels for the first time since December 2017.
- **Prices stabilizing**: The Canada-wide benchmark price was essentially flat year-over-year, down marginally by 0.3%. This was a smaller decline than in March (-0.5%).
- **Local market picture remains highly fragmented but April brought more encouraging news**: Activity picked up in Alberta and Saskatchewan and there were strong indications that the Toronto-area market finally turned a corner.
- **However, the Vancouver-area market isn't out of the woods yet**: Resales fell for a sixth consecutive month and prices are still sliding (the benchmark is down 8.7% since the June 2018 peak). A recovery seems far off at this stage.
- **April won't set off a broad-based rally:** The back-to-back resale increases in March and April were mostly about the unwinding of the poor weather effect this winter. Not much more should be expected in the coming months as buyers continue to deal with affordability issues in key markets and policy actions.

IT'S CLEARER NOW: THE BOTTOM WAS REACHED

If there's one thing the April report from the Canadian Real Estate Association (CREA) made clearer, it's that Canada's housing market isn't caught in a downward spiral. Showing a second-straight monthly increase in resales and a lessening in the (slight) pace of price decline (on a year-over-year basis), it provided evidence that this cycle's bottom has been reached overall in Canada. The level of activity—at 459,700 units annualized—was still weak last month as local markets across the country continue to adjust to the mortgage stress test and other policy measures adopted in the past couple of years, as well as higher interest rates. Some markets like Ottawa, Montreal and Halifax are coping quite well but others like Vancouver and Victoria continue to struggle. The April report brought good news for the Toronto area and markets in Alberta and Saskatchewan where activity picked up noticeably. On the whole, demand-supply conditions remain balanced in Canada. While dipping slightly below year ago levels since February, the composite MLS Home Price Index narrowed its rate of decline to -0.3% in April from –0.5% in March—another sign that the market isn't spiraling down.

FORECAST DETAIL - CANADA

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2018				2019				2020				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Household consumption	1.5	1.7	1.3	0.7	1.3	1.8	1.5	1.5	1.4	1.4	1.4	1.4	3.6	2.1	1.4	1.4
Durables	0.7	-1.4	-1.8	-2.0	1.6	1.8	1.0	1.0	0.5	0.5	0.5	0.5	7.1	1.1	0.2	0.7
Semi-Durables	0.1	2.3	3.7	-1.3	0.5	1.8	1.5	1.5	1.4	1.4	1.4	1.4	3.1	1.4	1.1	1.5
Non-durables	0.5	0.8	1.9	0.0	0.5	1.8	1.5	1.5	1.4	1.3	1.3	1.3	2.7	1.6	1.0	1.4
Services	2.4	2.7	1.5	2.0	1.8	1.8	1.7	1.6	1.6	1.6	1.6	1.6	3.3	2.6	1.8	1.6
Government expenditures	2.4	2.4	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.5	2.0	2.0
Residential investment	-9.7	0.6	-5.5	-14.7	-1.5	1.0	-0.8	1.1	1.0	1.6	2.4	2.7	2.4	-2.3	-3.8	1.2
Business investment	7.0	-1.4	-10.8	-10.9	2.0	4.0	8.3	6.0	4.0	3.0	3.0	3.0	2.5	1.7	-1.1	4.5
Non-residential structures	-2.2	-3.2	-8.0	-15.0	-3.0	4.0	10.0	6.0	4.0	3.0	3.0	3.0	1.1	-0.9	-2.7	4.7
Machinery & equipment	22.7	1.3	-14.7	-4.8	9.0	4.0	6.0	6.0	4.0	3.0	3.0	3.0	4.7	5.8	1.1	4.2
Final domestic demand	1.5	1.2	-0.5	-1.5	1.4	2.0	2.1	2.0	1.7	1.7	1.7	1.7	3.1	1.9	0.8	1.8
Exports	1.0	14.6	3.3	-0.2	-5.0	3.5	3.2	3.0	2.5	2.2	2.0	2.0	1.1	3.3	1.1	2.6
Imports	4.7	5.2	-8.6	-1.1	4.5	-1.0	-0.4	1.0	1.5	1.5	2.0	2.3	4.2	2.9	-0.1	1.1
Inventories (change in $b)	21.3	15.4	5.4	13.4	25.5	19.0	13.5	9.0	7.5	6.5	6.5	6.5	17.6	13.9	16.8	6.8
Real gross domestic product	1.3	2.6	2.0	0.4	0.7	2.2	2.2	1.8	1.8	1.7	1.7	1.6	3.0	1.8	1.5	1.8
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.1	0.7	0.1	-0.2	-0.7	-0.4	0.3	1.1	1.4	1.1	1.0	1.7	0.1	-0.3	1.2
Pre-tax corporate profits	-1.3	2.1	6.9	-5.8	-4.6	-4.3	-6.7	6.3	5.5	3.4	3.0	1.3	20.1	0.5	-2.5	3.3
Unemployment rate (%)*	5.8	5.9	5.9	5.6	5.8	5.8	5.9	5.9	5.9	5.9	6.0	6.0	6.3	5.8	5.9	6.0
Inflation																
Headline CPI	2.1	2.3	2.7	2.0	1.6	2.1	1.9	2.2	2.3	2.0	2.1	2.1	1.6	2.3	2.0	2.1
Core CPI	1.8	1.8	2.1	2.0	1.9	2.1	1.9	2.0	2.0	2.1	2.1	2.1	1.6	1.9	2.0	2.1
External trade																
Current account balance ($b)	-69.0	-63.4	-40.4	-61.9	-53.1	-42.8	-40.9	-41.2	-39.8	-36.8	-34.2	-35.4	-60.1	-58.7	-44.5	-36.6
% of GDP	-3.1	-2.9	-1.8	-2.8	-2.4	-1.9	-1.8	-1.8	-1.7	-1.6	-1.4	-1.5	-2.8	-2.6	-2.0	-1.6
Housing starts (000s)*	224	218	197	217	188	199	194	193	191	191	192	192	220	213	193.4	191.5
Motor vehicle sales (mill., saar)*	2.11	2.06	2.02	1.95	1.94	1.94	1.94	1.93	1.93	1.92	1.92	1.92	2.08	2.04	1.9	1.9
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.00	1.75	1.75	2.75
Three-month	1.10	1.26	1.59	1.64	1.67	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.06	1.64	1.65	2.75
Two-year	1.78	1.91	2.21	1.86	1.55	1.70	1.70	1.75	1.80	1.80	1.80	1.80	1.69	1.86	1.75	3.00
Five-year	1.97	2.07	2.34	1.89	1.52	1.75	1.80	1.90	1.95	2.00	2.00	2.05	1.87	1.89	1.90	3.15
10-year	2.09	2.17	2.43	1.97	1.62	1.85	1.95	2.05	2.15	2.25	2.25	2.30	2.04	1.97	2.05	3.30
30-year	2.23	2.20	2.42	2.18	1.89	2.10	2.20	2.25	2.35	2.45	2.45	2.45	2.27	2.18	2.25	3.30
Canadian dollar	1.29	1.31	1.29	1.36	1.33	1.34	1.34	1.35	1.35	1.36	1.36	1.37	1.26	1.36	1.35	1.37

*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

	2018				2019				2020				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2017	2018	2019	2020
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	0.5	3.8	3.5	2.5	1.2	2.5	2.3	1.8	1.9	1.9	1.7	1.7	2.5	2.6	2.3	1.9
Durables	-2.0	8.6	3.7	3.6	-5.3	2.3	2.2	1.6	1.6	1.5	1.2	1.4	6.8	5.5	1.1	1.6
Non-durables	0.1	4.0	4.6	2.1	1.7	3.5	2.4	1.8	1.8	1.8	1.5	1.5	2.1	2.8	2.7	1.9
Services	1.0	3.0	3.2	2.4	2.0	2.3	2.3	1.8	2.0	2.0	1.9	1.8	2.0	2.1	2.4	2.0
Government spending	1.5	2.5	2.6	-0.4	2.4	3.7	2.4	2.0	1.0	0.5	0.5	0.5	-0.1	1.5	2.1	1.3
Residential investment	-3.4	-1.4	-3.5	-4.7	-2.8	-1.6	-1.0	0.9	0.9	1.2	2.0	1.4	3.3	-0.3	-2.5	0.7
Business investment	11.5	8.7	2.5	5.4	2.7	3.6	1.7	1.6	2.1	2.5	2.3	2.0	5.3	6.9	3.5	2.1
Non-residential structures	13.9	14.5	-3.4	-3.9	-0.8	4.0	2.0	2.0	2.5	2.5	2.3	2.0	4.6	5.0	0.6	2.4
Non-residential equipment	8.5	4.6	3.4	6.6	0.2	3.5	0.7	0.7	1.5	2.5	2.3	2.0	6.1	7.4	2.8	1.7
Intellectual property	14.1	10.5	5.6	10.7	8.6	3.6	2.6	2.6	2.5	2.5	2.3	2.0	4.6	7.5	6.6	2.5
Final domestic demand	1.9	4.0	2.9	2.1	1.4	2.7	2.1	1.8	1.7	1.7	1.6	1.5	2.5	2.9	2.3	1.8
Exports	3.6	9.3	-4.9	1.8	3.7	2.8	2.8	2.8	2.8	2.5	2.5	2.5	3.0	4.0	2.2	2.7
Imports	3.0	-0.6	9.3	2.0	-3.7	1.5	2.5	1.8	1.5	1.5	1.0	2.0	4.6	4.5	1.2	1.6
Inventories (change in $b)	30.3	-36.8	89.8	96.8	128.4	75.0	70.0	67.0	60.0	58.0	52.0	48.0	22.5	45.0	85.1	54.5
Real gross domestic product	2.2	4.2	3.4	2.2	3.2	1.8	2.0	1.8	1.8	1.8	1.7	1.5	2.2	2.9	2.6	1.8
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.1	1.5	1.2	1.8	2.4	1.7	1.6	1.5	0.8	0.7	0.8	0.8	1.1	1.4	1.8	0.8
Pre-tax corporate profits	5.9	7.3	10.4	7.4	6.6	4.5	1.8	2.6	2.5	2.1	1.5	1.2	3.2	7.8	3.8	1.8
Unemployment rate (%)*	4.1	3.9	3.8	3.8	3.9	3.7	3.7	3.6	3.6	3.6	3.6	3.7	4.4	3.9	3.7	3.6
Inflation																
Headline CPI	2.2	2.7	2.6	2.2	1.6	2.1	2.1	2.1	2.4	1.9	2.0	2.1	2.1	2.4	2.0	2.1
Core CPI	1.9	2.2	2.2	2.2	2.1	2.1	2.2	2.2	2.1	2.2	2.2	2.2	1.8	2.1	2.1	2.2
External trade																
Current account balance ($b)	-496	-414	-506	-538	-489	-494	-500	-507	-509	-515	-518	-517	-449	-488	-498	-514
% of GDP	-2.5	-2.0	-2.5	-2.6	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.4	-2.3	-2.3
Housing starts (000s)*	1317	1261	1234	1185	1193	1285	1295	1295	1300	1300	1310	1310	1208	1249	1267	1305
Motor vehicle sales (millions, saar)*	17.1	17.2	16.9	17.5	16.8	17.1	17.2	17.2	17.2	17.2	17.1	17.1	17.1	17.2	17.1	17.2
INTEREST RATES %, END OF PERIOD																
Fed funds	1.75	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	1.50	2.50	2.50	4.00
Three-month	1.73	1.93	2.19	2.45	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	1.39	2.45	2.40	3.85
Two-year	2.27	2.52	2.81	2.48	2.27	2.40	2.45	2.50	2.55	2.55	2.55	2.60	1.89	2.48	2.50	3.90
Five-year	2.56	2.73	2.94	2.51	2.23	2.40	2.50	2.60	2.70	2.75	2.75	2.85	2.20	2.51	2.60	3.95
10-year	2.74	2.85	3.05	2.69	2.41	2.55	2.65	2.75	2.90	3.00	3.05	3.15	2.40	2.69	2.75	4.00
30-year	2.97	2.98	3.19	3.02	2.81	2.95	3.00	3.10	3.20	3.40	3.50	3.65	2.74	3.02	3.10	4.00
Yield curve (10s-2s)	47	33	24	21	14	15	20	25	35	45	50	55	51	21	25	55

*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	YEAR-TO-DATE	LATEST MONTH	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH
Business								
Industrial production*	-0.5	-0.2	2.1	Feb.	-0.5	0.9	0.3	Apr.
Manufacturing inventory - shipments ratio (level)	1.5	1.5	1.4	Mar.	1.4	1.4	1.4	Mar.
New orders in manufacturing	1.5	0.8	1.5	Mar.	1.9	1.8	-0.9	Mar.
Business loans - Banks	3.7	17.3	7.2	Mar.	-0.1	7.6	6.7	Apr.
Index of stock prices**	3.0	6.2	2.2	Apr.	3.6	9.4	9.7	Apr.
Households								
Retail sales	0.8	1.8	4.8	Feb.	-0.2	3.1	3.5	Apr.
Auto sales	0.6	-2.5	2.9	Mar.	-4.8	-9.9	-7.6	Apr.
Total consumer credit***	0.3	3.4	3.9	Mar.	0.3	4.9	5.2	Mar.
Housing starts	22.6	9.7	4.8	Apr.	5.7	-2.5	6.5	Apr.
Employment	0.6	2.3	1.2	Apr.	-0.1	0.9	1.6	Apr.
Prices								
Consumer price index	0.4	2.0	1.5	Apr.	0.3	2.0	1.35	Apr.
Producer price index****	1.3	1.5	0.9	Mar.	0.4	1.9	0.1	Apr.
Interest rates								
Policy rate [1]	1.75	1.25	-	Apr.	2.50	1.75	-	Apr.
Government bonds - (10 years)	1.7	2.3	-	Apr.	2.5	2.9	-	Apr.

[1] latest available

Seasonally adjusted % changes unless otherw ise 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