ECONOSCOPE

November 2019

CANADIAN AUGUST GDP SOFT, BUT DETAILS BETTER

FINANCIAL MARKETS - A GENTLE TURNING POINT?

HOME PRICES PICK UP STEAM AMID TIGHTER INVENTORIES

RBC

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ GDP increased 0.1% in August, data is tracking a 1 1/2% gain in Q3

▲ Employment fell by 1,800 in October; unemployment rate steady at 5.5%

▲ Retail sales edged down 0.1% (both nominal and real)

▲ Housing starts slowed to an annualized 202k in October

▲ Trade balance narrowed slightly to $1.0 billion in September

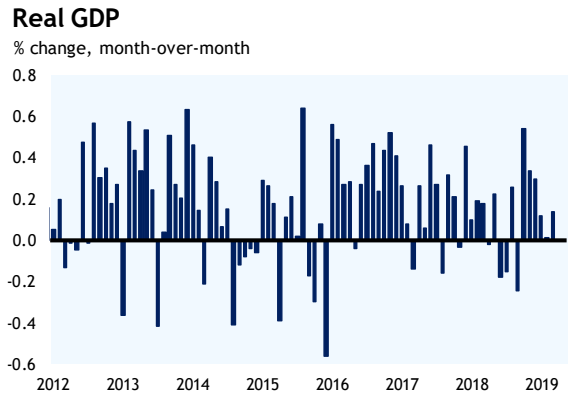
▲ Headline CPI steady at 1.9% in October

CANADIAN AUGUST GDP SOFT, BUT DETAILS BETTER

LATEST AVAILABLE: AUGUST

RELEASE DATE: OCTOBER 31, 2019

The 0.1% increase in Canadian GDP was a touch lower than markets expected, but underlying details were arguably a touch stronger. Commodities output was soft with oil & gas extraction temporarily restrained by maintenance shutdowns for a second consecutive month. A drop in utilities output tied to unusually cool August weather - will also eventually be unwound. Headline GDP growth will still be softer in Q3 than in Q2 with our tracking pointing to a 1 1/2% increase. But underlying details still leave the economy to-date looking relatively solid. The goods sector has looked soft, but a tick up in manufacturing output in August still leaves Canada looking relatively resilient relative to other advanced economies.



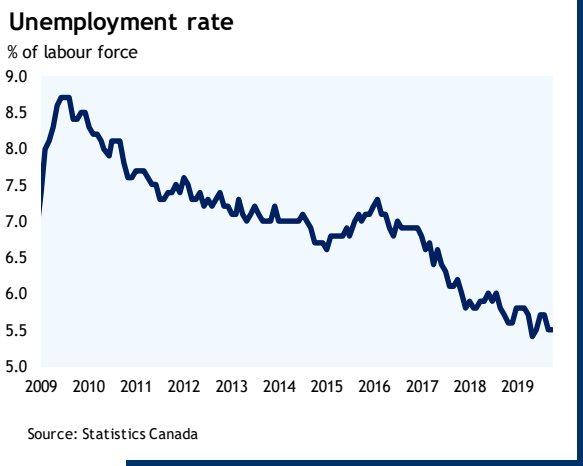
Source: Statistics Canada

CANADIAN LABOUR MARKET HOLDS ONTO EARLIER GAINS

LATEST AVAILABLE: OCTOBER

RELEASE DATE: NOVEMBER 8, 2019

After impressive job gains in August and September, there was limited give-back in October with the overall head-count down only slightly. Job gains were still averaging 35,600 year-to-date and the unemployment rate was a steady 5.5%. Employment was bolstered by election-related hiring (public administration up 20,000) but held back by losses in construction and manufacturing (the latter apparently not driven by temporary auto sector layoffs). The election hiring will be retraced in November, while the decline in goods-producing sectors bears watching. With or without those swings, it's the services sector that has driven Canada's robust job growth this year.

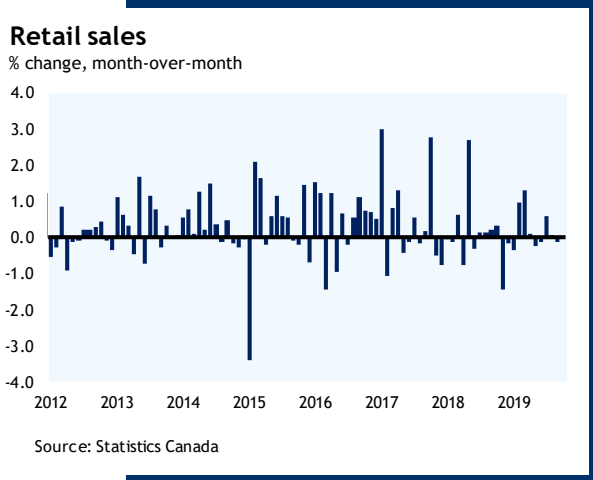


CANADIAN RETAIL SALES TOOK A BREATHER

LATEST AVAILABLE: SEPTEMBER

RELEASE DATE: NOVEMBER 22, 2019

Retail sales edged down 0.1% (both nominal and real), mainly due to lower gasoline prices and a pullback in auto sales. The latter have generally been soft this year, and while housing has clearly gotten a boost from lower interest rates, auto sales have not. That strength in housing was evident in rising sales at building material stores, which hit a record high on a volumes basis in October (the only category that can make such a claim). Despite a soft end to the quarter, retail sales volumes rose an annualized 1.9% in Q3, the best pace in a year. The BoC is keeping its eye on the household sector, with strength there essential to offset headwinds to investment and exports. It looks like both consumer spending and housing made solid contributions to growth last quarter.

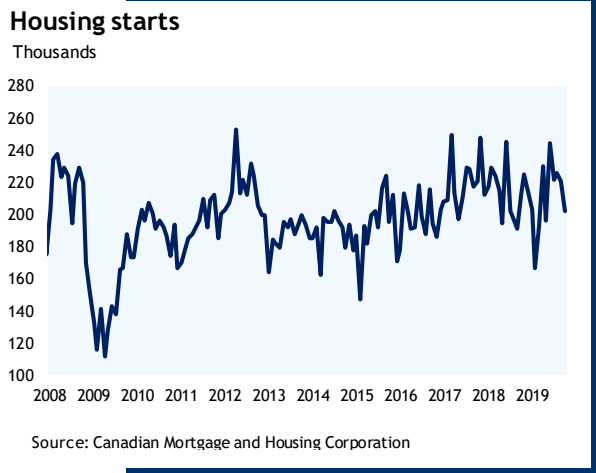


STRONGER PERMIT ISSUANCE SUGGESTS DROP COULD BE SHORT-LIVED

LATEST AVAILABLE: OCTOBER

RELEASE DATE: NOVEMBER 8, 2019

Canada's housing sector is back on the front foot with re-sales picking up as the year progresses and homebuilding activity clearly displaying some momentum. The latest permit data (247,000 in August) points to further strength ahead. After slowing throughout 2018 and early this year, the six-month trend in housing starts has reversed course, picking up to a near-cycle-high 223,500 annualized units. Ontario, the Prairies and Atlantic Canada are on the re-bound while the trend in BC and Quebec remains strong despite slower starts in the last month or two. Across Canada, multi-unit starts remain the key driver of activity.

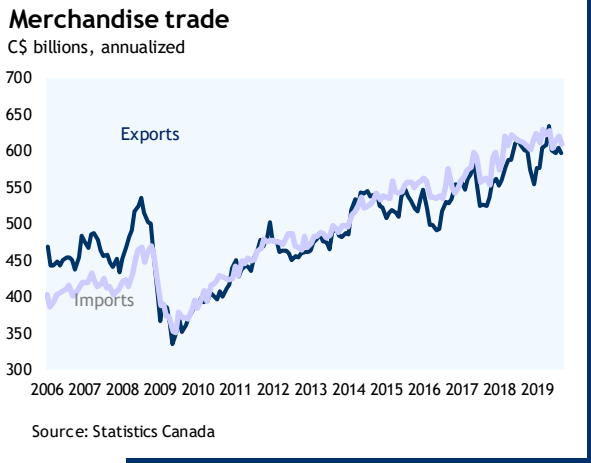


CANADIAN TRADE DEFICIT NARROWER, BUT NOT FOR GOOD REASONS

LATEST AVAILABLE: SEPTEMBER

RELEASE DATE: NOVEMBER 5, 2019

September international trade data leaves recent lackluster trends largely in place. The slightly narrower trade deficit was driven only by imports falling more than exports. Equipment imports in particular have been soft - not a good sign for near-term business investment - although they actually edged slightly higher in volume terms in September. The roughly 70% of the economy accounted for by the less-trade-sensitive services sector has continued to hum along. We think the most likely path for the economy going forward is further soft growth in net trade and the goods-sector, but continue to expect growth to stay positive on balance with support from the services sector.



CANADIAN CPI IN WELL-WORN TERRITORY

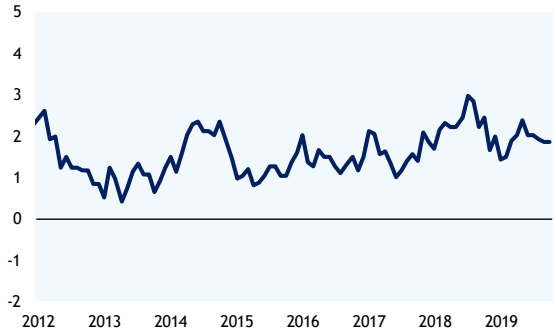
LATEST AVAILABLE: OCTOBER

RELEASE DATE: NOVEMBER 20, 2019

Headline inflation, which held steady for a third consecutive month in October, is likely to edge higher in the coming months before slipping back below 2% for much of 2020. A near-term rise in energy inflation (weekly gasoline prices now above year-ago levels for the first time in 2019) isn't expected to persist, while mortgage interest costs should continue to come off the boil next year. The fact that core measures have hovered around 2% for nearly two years allows the BoC to weigh inflation risks "more symmetrically." That will leave monetary policy dependent on the growth outlook and trade risks.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE

% change from:	Latest month	Previous month	Year ago
Real GDP	Aug	0.1	1.3
Industrial production	Aug	0.1	-1.4
Employment	Oct	0.0	2.4
Unemployment rate*	Oct	5.5	5.7
Manufacturing			
Production	Aug	0.5	0.0
Employment	Oct	-1.3	0.2
Shipments	Sep	-0.2	-1.2
New orders	Sep	-2.7	-2.1
Inventories	Sep	-0.8	4.8
Retail sales	Sep	-0.1	1.0
Car sales	Sep	-7.5	-5.0
Housing starts (000s)*	Oct	202.0	213.4
Exports	Sep	-1.3	-0.5
Imports	Sep	-1.7	-0.2
Trade balance ($billions)*	Sep	-1.0	-0.8
Consumer prices	Oct	0.3	1.9

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

A GENTLE TURNING POINT?

Josh Nye

"It's still too early to close the books on 2019, or the trends that defined the year"

As we head into the late stages of 2019, two of the key (and interconnected) themes that have defined the year—trade tensions and monetary policy easing—appear to be heading for some sort of resolution. On trade, a US-China deal is far from a sure thing but there is growing optimism that a 'phase one' agreement will be reached before year end, canceling further tariff hikes and possibly even rolling back earlier increases. The prospect of a thaw in the trade war was enough to push the S&P 500 to fresh record-highs in early November (a better-than-feared earnings season also helped). Brexit, another key trade concern, remains unresolved—October's deadline was extended by three months and the UK is heading for a general election in December—but with markets seeing lower odds of a damaging no-deal exit, Sterling is up 7% from its summer lows.

As for central banks, the Fed cut rates for a third consecutive meeting in October but signaled its mid-cycle adjustment is complete, barring an unexpected deterioration in the outlook. The ECB announced a number of stimulus measures in September but isn't likely to add to that anytime soon, hoping fiscal policy will do more of the heavy lifting. And with less risk of a no-deal Brexit, we now think the BoE will keep rates on hold. There's still the potential for easing in some smaller, open economies—we continue to pencil in rate cuts from the BoC and RBA early next year—but the momentum behind additional global easing is fading.

It's still too early to close the books on 2019, or the trends that defined the year. Recent data hasn't fully dispelled fears of a downturn, and breakdown in US-China trade talks resulting in further tariff hikes remains a risk—one that might have central banks contemplating further easing. But at this point we don't expect this year's lows in government bond yields to be re-tested, and look for yields to move higher in 2020.

FINANCIAL MARKETS

US CONSUMER KEEPS THE ECONOMY ON AN EVEN KEEL

Josh Nye

HIGHLIGHTS

- ▲ The US labour market is showing few signs of strain and the consumer sector remains strong.
- ▲ Business investment declined for a second consecutive quarter in Q3…
- ▲ …but the latest survey data showed a slight improvement in sentiment.
- ▲ After 75 basis points of rate cuts since July, the Fed signaled it has taken out enough insurance.

US GDP rose an annualized 1.9% in Q3, little changed from the previous quarter's pace and close to the country's longer-term run rate (which reflects demographic and productivity trends). As expected, it was the household sector that provided most of the thrust in Q3. Consumer spending was up nearly 3%, led for a second consecutive quarter by durable goods purchases, pointing to traction from lower interest rates. The Fed's rate cuts have also bolstered housing, which made a positive contribution to growth for the first time since 2017. The household sector continues to be supported by a strong labour market and rising wages. Excluding workers on strike in October (which weighed on that month's payroll figure to the tune of 46,000), employment growth has averaged a healthy 172,000 per month this year—strong enough to push the unemployment rate to new lows. We expect job growth will slow in the coming quarters, but more because of capacity constraints (there are already about 20% more job openings than there are unemployed persons) than layoffs or hiring freezes.

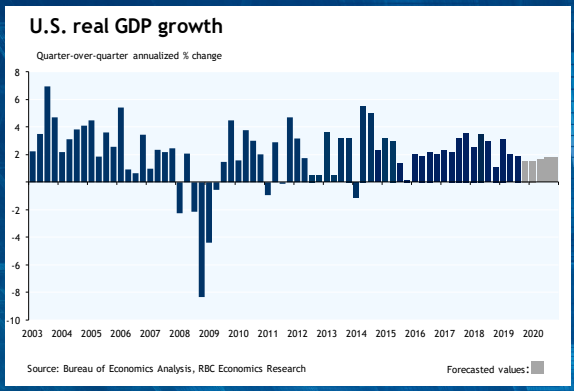
…AS BUSINESS INVESTMENT DECLINES FURTHER

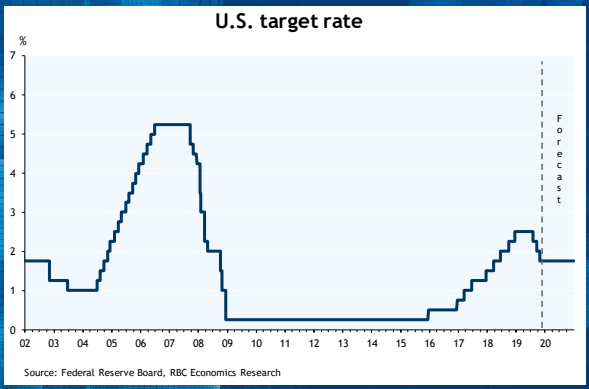
Offsetting some of the strength in consumer spending and housing, business fixed investment declined for a second consecutive quarter in Q3 (just the second back-to-back declines this cycle). A further pullback in oil and gas investment (now 15% lower than a year ago) was a factor, though non-energy investment was also lower. We think the latter has been weighed down by trade policy uncertainty and global (or even domestic) growth concerns. Business sentiment in both manufacturing and non-manufacturing industries deteriorated throughout Q3 as trade tensions ratcheted higher and economic indicators in Europe and China pointed to greater risk of a slowdown.

October's PMI data showed some improvement, with the ISM non-manufacturing index bouncing 2 points from the previous month's three-year low. The manufacturing index crept slightly higher but remained in contractionary territory. One bright spot, though, was a sharp rebound in new export orders, which had hit a post-recession low in September. The modest upturn in business sentiment might reflect some of the optimism (also identifiable in financial markets) that the US-China trade war is entering a de-escalation phase. A canceling of further tariff hikes (or even better, a roll-back of some of the earlier increases) could go a long way to reducing trade uncertainty, but wouldn't fully eliminate it. Keeping in mind Trump's threats against Mexico earlier this year—coming just months after the new USMCA trade deal was struck—this administration's unpredictability on trade might keep businesses on edge even if a 'phase one' deal is reached.

FED SIGNALS MID-CYCLE ADJUSTMENT IS COMPLETE

As was widely expected, the Fed cut rates for a third consecutive meeting in October. Recall that, following September's cut, the Fed was split on whether further easing would be appropriate. But ongoing concerns about global growth, and weakness in exports and business investment at home, likely helped form a consensus. There were just two dissents in October, coming from the same committee members who voted against moves in July and September. Again going back to the last dot plot, none of the committee expected to have to lower rates below the 1.50-1.75% target range set in October. That was reflected in the policy statement's pared-back forward guidance, with the committee no longer saying it will "act as appropriate to sustain the expansion." Chair Powell confirmed the shift to a neutral bias at his press conference, noting the current policy stance is "likely to remain appropriate" if the outlook evolves as expected (i.e. moderate growth, a strong labour market, and near-2% inflation). Powell emphasized that monetary policy is not on a pre-set course and will adjust as needed, but recent economic data (Q3 GDP, October payrolls) and trade policy developments (rising odds of a US-China deal) have likely left the Fed more confident in its base case. Our forecast assumed October's would be the last insurance cut, and given the Fed's new guidance, we continue to think it will move to the sidelines and hold policy steady throughout 2020.





FINANCIAL MARKETS

CANADA'S ECONOMY LOOKING A BIT SOFTER IN H2/19

Josh Nye

Canadian GDP edged up by just 0.1% in August, marking a third consecutive month of sub-trend growth (albeit following three months of above-potential increases). Services output saw a more modest gain but was still up more than 2% from a year earlier. Goods production increased but the oil and gas sector remained soft with temporary production outages adding to weak drilling activity. Output should rebound as shutdowns are reversed, but the sector is facing new challenges with a recent pipeline spill disrupting transportation and pushing Western Canadian oil prices lower. And the familiar egress issues that have weighed on investment remain unresolved—additional pipeline capacity from Enbridge's Line 3 replacement is still several quarters away, while the Trans Mountain Expansion won't be in service for years.

HIGHLIGHTS

- ▲ The energy sector continues to weigh on growth…
- ▲ …and external headwinds will put a cap on business investment and trade…
- ▲ …meaning the economy will once again rely on households and government for growth.
- ▲ The BoC said trade conflicts and uncertainty will test the Canadian economy's resilience.

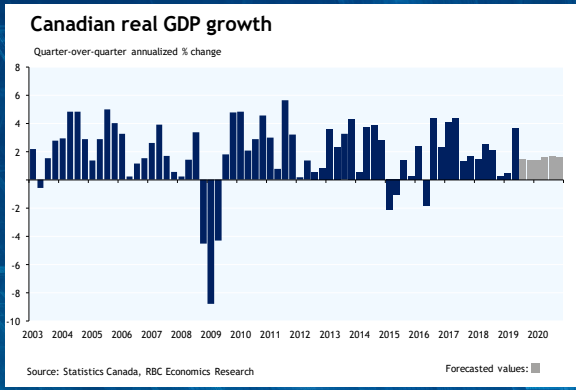
…AS GLOBAL HEADWINDS TEST THE HOUSEHOLD SECTOR'S RESILIENCE…

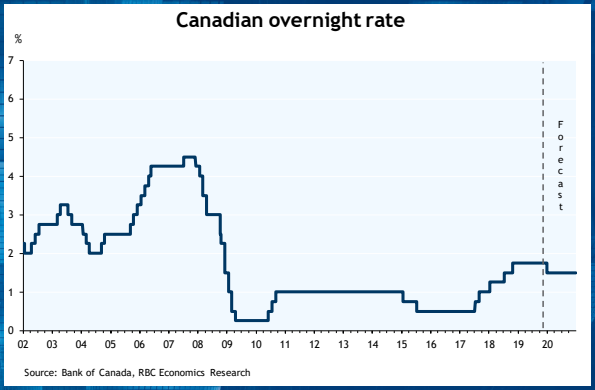
Given a slow start to the quarter, we have trimmed our Q3 GDP call to 1.5%. Growth is forecast to remain below potential (which is closer to 1.8%) heading into 2020 with business investment expected to remain sluggish and exports unlikely to provide much support. Beyond weakness in the energy sector, our view on trade and investment is largely motivated by the global backdrop, which carries both upside and downside risks. Early signs of a bottoming out in manufacturing sentiment and potential for a US-China trade deal suggests key external headwinds could begin to subside. But the global industrial sector remains weak, and even if further tariff hikes are avoided, we could see more spillover into Canada. The BoC's latest Business Outlook Survey showed investment intentions remain healthy amid rising capacity constraints outside of the energy-producing provinces. But those intentions haven't translated into actual capital spending so far this year. Low borrowing costs don't seem to be enough to offset persistent trade uncertainty, or more structural issues like competitiveness and burdensome regulation.

The upshot is that Canada's household sector is once again being called on to support growth. Consumer spending has stabilized at a more moderate pace amid strong employment gains and rising incomes. The latter has helped some households manage an earlier increase in debt service payments (the overall household debt service ratio remains at a record high despite lower market interest rates this year). But with household savings remaining low and Canadians shying away from non-mortgage debt, consumers don't exactly have the firepower they once did. Home resales and building activity have picked up amid solid demographic demand and lower mortgage rates (unlike consumer credit, mortgage growth is accelerating). But while we think housing will add to growth in 2020, it can only do so much to offset manufacturing and investment headwinds.

…AND THE BOC FINALLY GIVES UP ON NEUTRALITY

The Bank of Canada held rates steady in October but struck a much more dovish tone than in the summer, highlighting a "worsening global situation" as the primary issue. It noted escalating trade tensions and uncertainty are weighing more heavily on global growth, which will have knock-on effects on Canadian business investment and exports. The policy statement emphasized that the domestic economy's resilience (a key factor keeping the BoC on the sidelines this year) will be "increasingly tested as trade conflicts and uncertainty persist." Governor Poloz more or less confirmed an easing bias, noting Governing Council considered a rate cut at October's meeting. But ongoing strength in the services sector, robust job gains, a resurgent housing market (which threatens to add to already-elevated financial vulnerabilities), and indications that the economy is close to capacity in most regions gave the central bank cause for patience. The potential for more stimulative fiscal policy next year also seemed to influence its decision. Our assumption has been that the BoC's patience will eventually run out, with persistent trade uncertainty and below-trend growth around the turn of the year prompting a rate cut in early-2020. Rising odds of a US-China trade deal has pared back market expectations for a rate cut. But based on its October meeting, the BoC stands ready to act if global headwinds persist or the household sector begins to falter.





FINANCIAL MARKETS

BREXIT DEADLINE EXTENDED WITH UK HEADING TO THE POLLS

Josh Nye

HIGHLIGHTS

- ▲ The UK's December 12 election could determine the shape and timing of Brexit…
- ▲ …but either way, near term odds of a no-deal Brexit have declined.
- ▲ German industrial production is down 5% since the middle of last year, and the country's economy likely contracted again in Q3.
- ▲ Australian retail sales were flat in Q3, suggesting the consumer made little contribution to GDP growth.

It's official—the UK is heading to the polls on December 12, hoping that a general election will resolve the current Brexit deadlock. While PM Boris Johnson was able to strike a new withdrawal agreement with the EU, he was unsuccessful in rushing it over the finish line ahead of the October 31 deadline and ultimately had to go along with an extension of up to three months. Johnson will now campaign on that deal, hoping a new Parliament gives him enough support to take the UK out of the EU by the end of January (with a transition period that would last until the end of 2020, and likely even longer as a trade agreement is negotiated). But while Johnson's Conservatives are ahead in the polls, there is a range of other outcomes that could send the UK back to the negotiating table, or even back to the polls for a second referendum. Whatever the outcome, the odds of a no-deal Brexit have declined substantially. That might relieve some of the most acute uncertainty that has weighed on UK businesses for more than three years now. But with the country's future trading relationship with the EU still up in the air, it's hardly an all-clear for businesses to go ahead and ramp up investment, which is down 3% since the end of 2017.

Where does that leave the Bank of England? We had assumed that ongoing Brexit uncertainty, combined with a softening global growth backdrop, would push the BoE toward a rate cut by year end. But with a no-deal exit seemingly off the table for now, there is less urgency to lower rates. The likelihood that fiscal policy will become more stimulative next year, as well as signs that US-China trade tensions might be easing, also points to less need for accommodation. Our forecast now assumes the Bank Rate will be held at its current level throughout 2020, though with some lingering risk of a cut if global growth disappoints or, in the BoE's words, "if Brexit uncertainties remain entrenched."

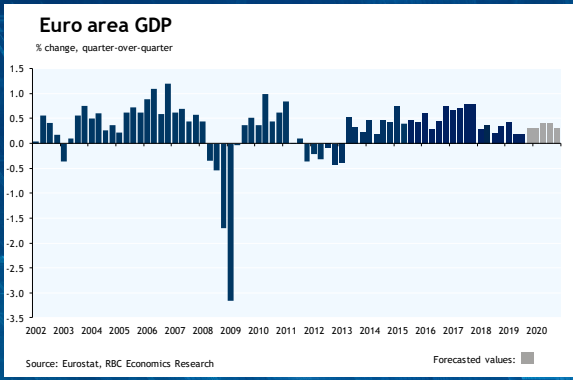
GERMANY'S INDUSTRIAL SLOWDOWN DEEPENS

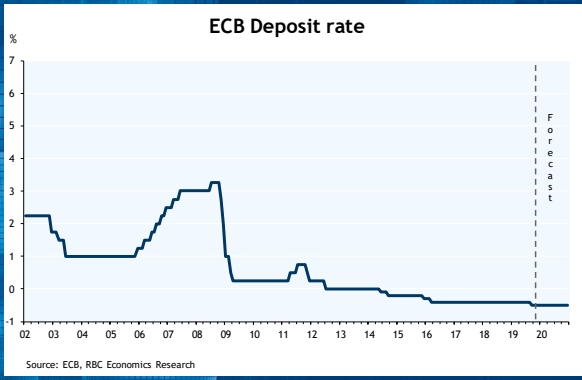
Euro area GDP growth came in at 0.2% in Q3, matching the previous quarter's pace which itself equaled a multi-year low. On a country basis, the composition of growth looks to have been little changed with France and Spain continuing to expand but Germany's economy likely contracting for a second consecutive quarter. The latter's industrial slowdown continued in Q3 with manufacturing output falling for a fifth straight quarter. Caught between a number of global issues (US-China trade war, Brexit, EM slowdown), Germany's manufacturing PMI continues to point to contraction toward the end of the year. The country's services index stabilized after a sharp decline in September, but we remain on the lookout for signs that a slowdown in the country's sizeable manufacturing industry (which has seen hours worked cut back) is spreading to other sectors. The situation appears to be less dire in other major euro area economies, and the services sector improved in France and Italy in September. Both of those countries are expected to get

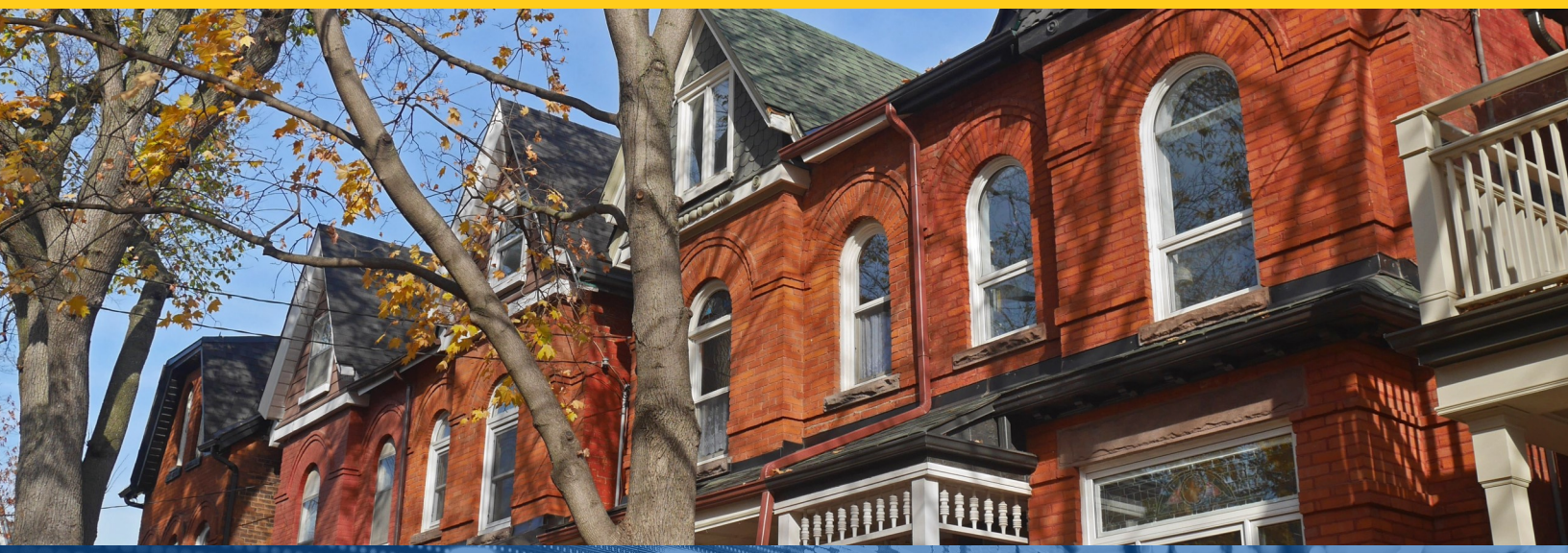
a bit of fiscal lift, while the currency bloc as a whole is benefitting from stimulative monetary policy (we think the ECB is unlikely to contemplate any policy changes near-term after adding more stimulus in September). We expect euro area GDP growth will stabilize at 0.3% in the coming quarters—anything stronger than that will take a turnaround in the industrial sector, which we're only seeing tentative signs of at this stage, or a more notable effort at fiscal stimulus.

RBA LOOKING (HOPING?) FOR SIGNS OF POLICY TRACTION

The RBA held its cash rate steady at 0.75% in November, delivering a slightly hawkish statement that suggests the 75 basis points of easing so far this year will be the extent of it in 2019. Ever-conscious of the global backdrop, the central bank noted that expectations for further monetary policy easing have been scaled back and financial market sentiment has improved somewhat. Domestically, the statement suggested rate cuts since June are supporting employment and income growth and the return of inflation to target over the medium term. But while lower interest rates have bolstered housing, we see few other signs of policy traction. Retail sales volumes were down slightly in Q3, suggesting consumer spending made little contribution to growth in the latest quarter. The latest jobs numbers showed a slight decline in the unemployment rate, but trend measures still point to plenty of slack in the labour market. And while core inflation readings have stabilized at around 1.4% year-over-year, there is little to indicate a pickup toward the RBA's 2-3% target range. So we continue to expect the cash rate will be lowered to 0.50% this cycle, but have pushed back the next move to February.







CURRENT ANALYSIS

ROBERT HOGUE

HOME PRICES PICK UP STEAM AMID TIGHTER INVENTORIES IN OCTOBER

- **Value of homes sold rising a little faster in Canada:** The national Home Price Index (HPI) increased at the rate of 1.8% year-over-year in October, up from 1.3% in September. While still manageable, the pace has quickened noticeably over the past four months.
- **Buyers were held back:** After growing for seven consecutive months, home resales in Canada were effectively unchanged at 515,600 units (seasonally adjusted and annualized) in October compared to September. This level is 7.3% above the 10-year average.
- **Second-straight drop in new listings shrinks buying options:** Sellers put 1.8% fewer properties up for sale in October, further tightening inventories. The sales-to-new listings ratio rose to 0.64 nationwide—a level usually associated with strong pricing power for sellers. Active listings represented just 4.4 months of inventory, the lowest since March 2017.
- **Inventories are thin in Ottawa, Montreal and Halifax, and getting thinner in Vancouver and Toronto:** Tight supply restrained resale activity in Toronto, Montreal and Halifax last month, though Ottawa and Vancouver recorded further gains. Demand-supply conditions are comparatively softer in the Prairies where the market recovery is progressing more slowly—with Edmonton showing renewed signs of softening.
- **The market is in a better place than it was at the start of 2019:** We expect most major markets to sustain positive momentum in the year ahead, supported by low mortgage rates, solid labour markets and strong population growth.

SUPPLY ISSUES WERE IN EVIDENCE IN OCTOBER

The main story now emerging in Canada's housing market is supply not keeping pace with re-invigorated demand. In fact, low inventories in many local markets appear to be holding buyers back who are faced with fewer and fewer options. We suspect this was the case in Toronto, Montreal and Halifax in October where home resales fell amid a drop in listings (both new and active). Overall in Canada, the Canadian Real Estate Association reported flat home resales along with a 1.8% decline in new listings last month. Activity picked up in Vancouver, Calgary and Ottawa which provided an offset.

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	1.3	1.9	1.3	1.0	2.9	0.5	1.9	2.0	1.6	1.6	1.6	1.6	3.6	2.1	1.6	1.6
Durables	-0.1	-1.8	-0.6	-1.9	5.3	-1.3	2.0	2.0	1.0	1.0	1.0	1.0	7.1	1.0	0.9	1.2
Semi-Durables	0.6	1.8	3.1	-0.1	3.4	1.4	2.0	2.0	2.0	2.0	2.0	2.0	3.1	1.4	2.0	2.0
Non-durables	-0.1	1.6	2.0	0.5	3.2	-0.5	2.0	2.0	1.6	1.6	1.6	1.6	2.7	1.6	1.5	1.6
Services	2.3	2.9	1.3	2.0	2.2	1.3	1.8	2.0	1.6	1.6	1.6	1.6	3.3	2.6	1.9	1.7
Government expenditures	2.0	4.3	2.7	2.1	1.3	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.9	2.2	2.0
Residential investment	-8.4	-0.3	-3.2	-10.4	-3.9	5.5	7.0	2.1	-4.1	-1.3	1.1	1.9	2.4	-1.5	-1.5	0.5
Business investment	7.3	-0.9	-11.8	-9.5	14.4	-16.2	-0.6	-0.2	-0.4	1.0	2.2	2.2	2.5	1.9	-3.4	-0.6
Non-residential structures	-1.3	-4.1	-8.6	-14.2	-3.0	-1.8	-1.0	0.0	0.0	1.0	2.0	2.0	1.1	-0.9	-5.4	0.3
Machinery & equipment	22.0	4.0	-16.3	-2.3	42.9	-32.4	0.0	-0.5	-1.0	1.0	2.5	2.5	4.7	6.1	-0.4	-1.8
Final domestic demand	1.4	1.6	-0.1	-1.0	3.2	-0.7	2.1	1.8	1.1	1.4	1.6	1.7	3.1	2.0	0.9	1.4
Exports	3.6	12.0	0.8	0.3	-3.3	13.4	0.5	1.0	1.6	1.7	1.5	1.5	1.1	3.2	2.6	2.0
Imports	4.2	6.2	-8.9	-0.7	8.7	-4.0	2.5	0.0	0.2	0.3	1.2	1.8	4.2	2.9	0.7	0.4
Inventories (change in $b)	16.6	13.3	7.2	13.9	19.5	14.0	14.5	10.0	9.5	8.0	8.0	8.0	17.6	12.7	14.4	8.4
Real gross domestic product	1.5	2.5	2.1	0.3	0.5	3.7	1.5	1.4	1.4	1.6	1.7	1.6	3.0	1.9	1.6	1.7
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.5	-0.3	0.3	-0.3	0.4	0.2	0.2	0.8	0.6	0.7	0.8	0.9	1.7	-0.2	0.4	0.8
Pre-tax corporate profits	-1.4	2.2	6.9	-5.7	-2.9	1.0	-4.3	8.9	6.4	0.4	2.6	1.4	20.1	0.5	0.5	2.7
Unemployment rate (%)*	5.8	5.9	5.9	5.6	5.8	5.5	5.6	5.6	5.7	5.7	5.8	5.8	6.3	5.8	5.6	5.8
Inflation																
Headline CPI	2.1	2.3	2.7	2.0	1.6	2.1	1.9	2.1	1.9	1.5	1.4	1.6	1.6	2.3	1.9	1.6
Core CPI	1.8	1.8	2.1	2.0	1.9	2.3	2.2	2.1	1.9	1.8	1.8	1.9	1.6	1.9	2.1	1.8
External trade																
Current account balance ($b)	-65.5	-61.5	-40.6	-66.5	-66.5	-25.5	-25.7	-26.2	-22.2	-17.2	-15.3	-14.4	-60.1	-58.5	-36.0	-17.3
% of GDP	-3.0	-2.8	-1.8	-3.0	-3.0	-1.1	-1.1	-1.1	-0.9	-0.7	-0.6	-0.6	-2.8	-2.6	-1.6	-0.8
Housing starts (000s)*	224	218	197	217	187	224	221	207	201	201	200	200	220	213	209.7	200.4
Motor vehicle sales (mill., saar)*	2.10	2.06	2.02	1.96	2.02	1.94	1.99	1.93	1.93	1.92	1.92	1.92	2.08	2.04	2.0	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	1.50	1.50	1.50	1.50	1.00	1.75	1.75	1.50
Three-month	1.10	1.26	1.59	1.64	1.67	1.66	1.65	1.60	1.40	1.40	1.40	1.40	1.06	1.64	1.60	1.40
Two-year	1.78	1.91	2.21	1.86	1.55	1.47	1.58	1.45	1.40	1.45	1.55	1.60	1.69	1.86	1.45	1.60
Five-year	1.97	2.07	2.34	1.89	1.52	1.39	1.40	1.50	1.50	1.60	1.65	1.70	1.87	1.89	1.50	1.70
10-year	2.09	2.17	2.43	1.97	1.62	1.47	1.36	1.60	1.70	1.80	1.80	1.80	2.04	1.97	1.60	1.80
30-year	2.23	2.20	2.42	2.18	1.89	1.69	1.53	1.75	1.85	1.90	1.95	1.95	2.27	2.18	1.75	1.95
Canadian dollar	1.29	1.31	1.29	1.36	1.33	1.31	1.32	1.30	1.30	1.31	1.32	1.33	1.26	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

	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	1.7	4.0	3.5	1.4	1.1	4.6	2.9	1.7	1.8	1.9	1.9	1.9	2.6	3.0	2.5	2.1
Durables	2.3	8.0	3.5	1.3	0.3	13.0	7.6	1.5	1.6	1.8	1.9	1.9	6.9	6.3	4.6	3.1
Non-durables	0.7	4.1	3.6	1.7	2.2	6.5	4.4	1.6	1.6	1.8	1.8	1.8	2.5	3.0	3.4	2.3
Services	1.9	3.4	3.4	1.4	1.0	2.8	1.7	1.8	1.9	2.0	2.0	2.0	2.0	2.5	2.0	1.9
Government spending	1.9	2.6	2.1	-0.4	2.9	4.8	2.0	2.0	1.5	1.5	1.5	1.5	0.7	1.7	2.3	1.9
Residential investment	-5.2	-3.7	-4.0	-4.6	-1.1	-2.9	5.1	4.0	0.9	1.0	2.0	1.4	3.5	-1.5	-1.6	1.9
Business investment	8.8	7.9	2.1	4.8	4.4	-1.0	-3.0	0.1	0.1	-0.1	0.5	1.0	4.4	6.4	2.1	-0.3
Non-residential structures	12.0	11.0	-2.1	-9.0	4.0	-11.1	-15.3	-4.0	-2.0	-2.0	0.0	2.0	4.7	4.1	-4.8	-4.3
Non-residential equipment	6.6	3.4	2.9	7.4	-0.1	0.8	-3.8	0.5	-0.5	-1.0	-0.5	2.0	4.7	6.8	1.6	2.7
Intellectual property	9.7	11.9	4.1	11.7	10.9	3.6	6.6	2.0	2.0	2.0	2.0	2.0	3.6	7.4	7.7	2.7
Final domestic demand	2.4	4.0	2.8	1.3	1.8	3.6	2.0	1.6	1.5	1.5	1.7	1.9	2.5	3.0	2.3	1.8
Exports	0.8	5.8	-6.2	1.5	4.2	-5.7	0.7	2.2	2.8	2.5	2.5	2.5	3.5	3.0	0.0	1.8
Imports	0.6	0.3	8.6	3.5	-1.5	0.0	1.2	1.8	1.5	1.5	1.0	2.0	4.7	4.4	1.6	1.4
Inventories (change in $b)	40.5	-28.0	87.2	93.0	116.0	69.4	69.0	62.0	55.0	53.0	47.0	43.0	31.7	48.2	79.1	49.5
Real gross domestic product	2.6	3.5	2.9	1.1	3.1	2.0	1.9	1.5	1.5	1.6	1.8	1.8	2.4	2.9	2.3	1.7
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.3	1.8	1.2	1.1	1.7	1.7	1.7	1.9	1.1	0.5	0.6	0.8	1.3	1.3	1.8	0.8
Pre-tax corporate profits	2.9	2.4	4.2	4.2	-2.2	1.3	-0.8	0.0	4.1	0.3	0.3	0.9	-0.3	3.4	-0.4	1.4
Unemployment rate (%)*	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.7	3.8	3.8	3.8	3.8	4.4	3.9	3.7	3.8
Inflation																
Headline CPI	2.2	2.7	2.6	2.2	1.6	1.8	1.8	1.9	2.2	1.9	2.0	2.0	2.1	2.4	1.8	2.0
Core CPI	1.9	2.2	2.2	2.2	2.1	2.1	2.3	2.3	2.3	2.4	2.2	2.2	1.8	2.1	2.2	2.3
External trade																
Current account balance ($b)	-456	-429	-503	-576	-545	-513	-514	-516	-513	-512	-506	-508	-440	-491	-522	-510
% of GDP	-2.3	-2.1	-2.4	-2.8	-2.6	-2.4	-2.4	-2.4	-2.3	-2.3	-2.3	-2.3	-2.3	-2.4	-2.4	-2.3
Housing starts (000s)*	1321	1260	1233	1185	1213	1256	1282	1295	1300	1300	1310	1310	1209	1250	1261	1305
Motor vehicle sales (millions, saar)*	17.1	17.3	17.0	17.4	16.8	17.0	17.0	17.2	17.2	17.2	17.1	17.1	17.1	17.2	17.0	17.2
INTEREST RATES %, END OF PERIOD																
Fed funds	1.75	2.00	2.25	2.50	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75	1.50	2.50	1.75	1.75
Three-month	1.73	1.93	2.19	2.45	2.40	2.12	1.88	1.65	1.65	1.65	1.65	1.65	1.39	2.45	1.65	1.65
Two-year	2.27	2.52	2.81	2.48	2.27	1.75	1.63	1.65	1.70	1.75	1.75	1.75	1.89	2.48	1.65	1.75
Five-year	2.56	2.73	2.94	2.51	2.23	1.76	1.55	1.70	1.80	1.90	1.90	1.90	2.20	2.51	1.70	1.90
10-year	2.74	2.85	3.05	2.69	2.41	2.00	1.68	1.90	2.00	2.10	2.10	2.10	2.40	2.69	1.90	2.10
30-year	2.97	2.98	3.19	3.02	2.81	2.52	2.12	2.40	2.45	2.50	2.50	2.50	2.74	3.02	2.40	2.50
Yield curve (10s-2s)	47	33	24	21	14	25	5	25	30	35	35	35	51	21	25	35

*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*	0.1	-1.4	Aug.	-0.8	-1.1	Oct.
Manufacturing inventory - shipments ratio (level)	1.5	1.5	Sep.	1.4	1.4	Sep.
New orders in manufacturing	-2.7	-2.1	Sep.	-0.6	-3.5	Sep.
Business loans - Banks	1.5	11.6	Sep.	-0.4	4.8	Oct.
Index of stock prices**	-1.1	9.7	Oct.	-0.2	6.9	Oct.
Households						
Retail sales	-0.1	1.0	Sep.	0.3	3.1	Oct.
Auto sales	-7.5	-5.0	Sep.	-5.4	-20.5	Oct.
Total consumer credit***	0.2	2.9	Sep.	0.2	4.9	Sep.
Housing starts	-8.7	-5.3	Oct.	3.8	8.5	Oct.
Employment	0.0	2.4	Oct.	0.2	1.2	Oct.
Prices						
Consumer price index	0.3	1.9	Oct.	0.4	1.8	Oct.
Producer price index****	-0.1	-1.3	Sep.	0.8	-0.1	Oct.
Interest rates						
Policy rate [1]	1.75	1.75	Oct.	1.75	2.25	Oct.
Government bonds - (10 years)	1.5	2.5	Oct.	1.7	3.2	Oct.

[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