ECONOSCOPE

August 2018

CANADIAN JULY EMPLOYMENT SOARS

PUSHING THE PACE

US POSTS STRONGEST QUARTERLY GROWTH IN FOUR YEARS

CANADA'S ECONOMY IMPRESSED IN MAY

TORONTO GAIN DROVE RESALES HIGHER IN CANADA IN JULY

ECONOSCOPE

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Paul Ferley, Nathan Janzen, Josh Nye

HIGHLIGHTS

▲ GDP growth came in above consensus with a 0.5% increase in May—markets were expecting +0.3% .

▲ Employment soared a much stronger-than-expected 54k building further onto the 32k gain in June.

▲ Retail sales rose 2.0% both in nominal and volume terms to reverse a big 0.9% drop (-1.1% volumes) in April.

▲ Canadian housing starts slowed to 206k annualized units in July, retracing a good portion of June's unexpectedly strong jump to 246k.

▲ Canada's trade deficit gapped lower in June. June's $0.6 billion deficit is the smallest since January 2017.

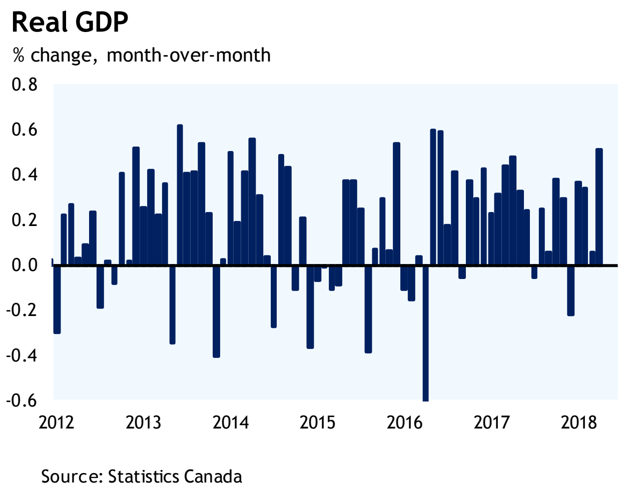
▲ Canadian inflation report for July came in much stronger than expected with the year-over-year rate unexpectedly jumping to 3.0% rather than expectations for an unchanged 2.5%.

CANADIAN GDP SURPRISED TO THE UPSIDE IN MAY; GROWTH WAS BROADLY-BASED

LATEST AVAILABLE: MAY

RELEASE DATE: JULY 31, 2018

Growth came in above consensus with a 0.5% increase in May—markets were expecting +0.3%. With activity rising month-over-month in 19 of 20 industries it was the most broadly-based gain in more than a decade. Utilities provided the only drag as April's weather-related increase in electricity demand was retraced. Conversely, sectors that were held down by bad weather in the prior month (retail and construction) saw a healthy rebound in May. The other factor that held growth to 0.1% in April was a pullback in non-energy mining, which increased only modestly in May. Across-the-board gains in services sent activity in the sector up 0.5%, matching the best monthly pace in a decade.

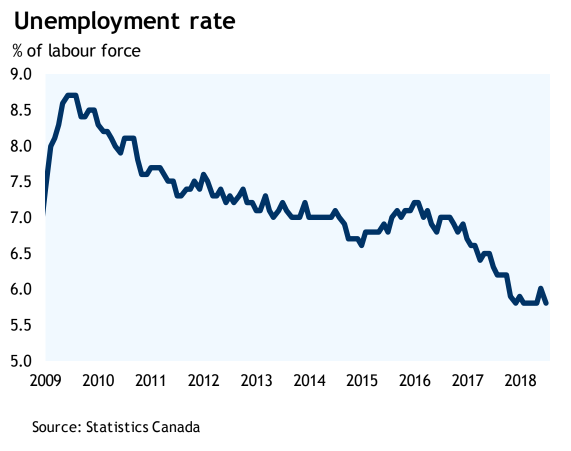


CANADIAN JULY EMPLOYMENT SOARS

LATEST AVAILABLE: JULY

RELEASE DATE: AUGUST 10, 2018

Employment soared a much stronger-than-expected 54k building further onto the 32k gain in June. All of the unexpected strength could be attributed to the education component rising 37k in the month. The solid increase in employment contributed to the unemployment rate dropping back down to 5.8%. Wage growth moderated to 3.0% after overstated gains the previous two months averaging 3.7%.

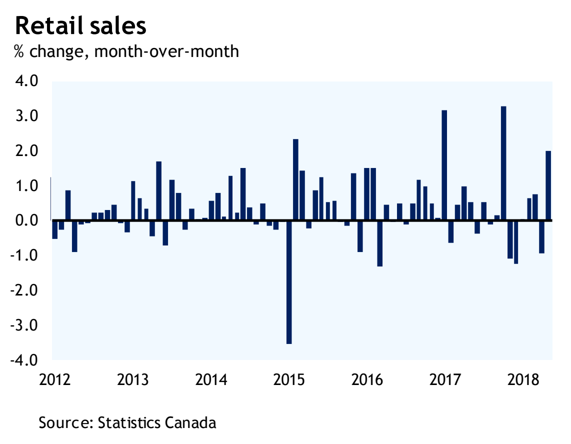


CANADIAN RETAIL SALES BOUNCED BACK SOLIDLY IN MAY

LATEST AVAILABLE: MAY

RELEASE DATE: JULY 20, 2018

Retail sales rose 2.0% both in nominal and volume terms to reverse a big 0.9% drop (-1.1% volumes) in April. Retail sale volumes are tracking a solid rebound in Q2 as a whole after a soft start to the year in Q1. We are tracking a 0.2%-0.3% increase in overall May GDP. That would mark the fourth straight month of increases and would seemingly confirm that the slowing to a 0.1% increase in April was more tied to transitory factors than a fundamental slowdown in growth.



CANADIAN HOUSING STARTS FELL IN JULY BUT PACE OF CONSTRUCTION STILL STRONG

LATEST AVAILABLE: JULY

RELEASE DATE: AUGUST 9, 2018

Housing starts fell to 206k annualized units in July, retracing a good portion of June's unexpectedly strong jump to 246k. The 6-month trend in housing starts edged down to 220k annualized units from 222k in the previous month. That pace remains well above most estimates of underlying household formation.

July's pullback was concentrated in multi-unit starts, which jumped to a record high in the previous month. Single unit starts also fell, hitting their lowest level in more than three years. Ontario and Quebec saw the most substantial slowdown in July after sizeable gains in June.

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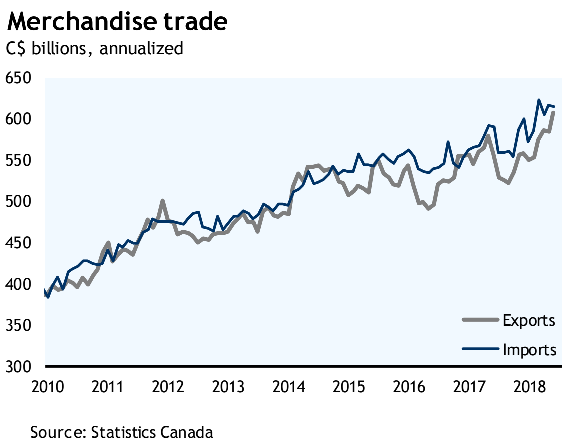
CANADA'S TRADE DEFICIT GAPPED LOWER IN JUNE

LATEST AVAILABLE: JUNE

RELEASE DATE: AUGUST 3, 2018

June's $0.6 billion deficit is the smallest since January 2017. Exports rose 4.1% in June though roughly half of that increase was price-related. Imports edged down only slightly. Non-energy export volumes rose for the third time in four months and were up strongly in Q2. But the level itself remains in the same range seen over the last few years.

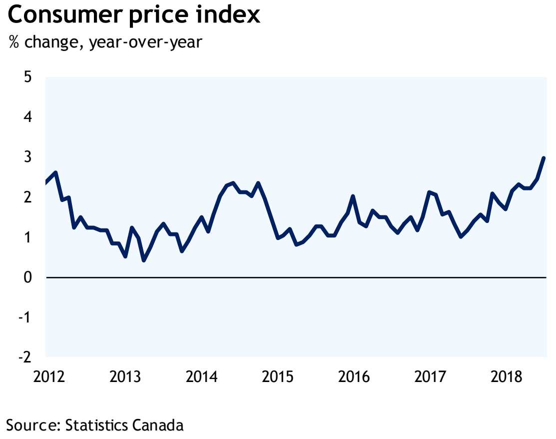


CANADA'S INFLATION RATE JUMPED IN JULY

LATEST AVAILABLE: JULY

RELEASE DATE: AUGUST 17, 2018

Canadian inflation report for July came in much stronger than expected with the year-over-year rate unexpectedly jumping to 3.0% rather than expectations for an unchanged 2.5%. A lion's share, though not all, of the upward surprise could be attributed to sizeable increases in airfares and travel services. Despite evidence of price pressure emerging in the overall CPI, the Bank of Canada will likely take some comfort from the annual increase in its core measures remaining at 2.0% in July and thus in line with its inflation target.



ECONOMY AT A GLANCE

% change from:	Lastest month	Previous month	Year ago
Real GDP	May	0.5	2.6
Industrial production	May	0.5	3.8
Employment	Jul	0.3	1.3
Unemployment rate*	Jul	5.8	6.3
Manufacturing			
Production	May	0.1	2.3
Employment	Jul	-1.1	-1.4
Shipments	Jun	1.1	6.9
New orders	Jun	-1.8	14.0
Inventories	Jun	0.5	9.2
Retail sales	May	2.0	3.6
Car sales	Jun	-0.1	-1.6
Housing starts (000s)*	Jul	206.3	225.1
Exports	Jun	4.1	9.2
Imports	Jun	-0.2	4.2
Trade balance ($billions)*	Jun	-0.6	-2.8
Consumer prices	Jul	0.5	3.0

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

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

PUSHING THE PACE

Josh Nye

“Exports contributed to the pickup in Canada and the US though that will be hard to repeat if trade barriers continue to rise. Tariffs are hardly welcomed, but with both economies already pushing up against capacity limits, more moderate GDP growth is arguably desirable.”

A slow start to the year across the G7 raised concerns that 2017’s pickup in global growth would prove short-lived. Some economies rebounded strongly in the second quarter—perhaps unsustainably so—while others have fallen short of expectations. US GDP growth surged to 4% in Q2, the fastest since 2014, and Canada’s economy appears to have doubled the first quarter’s pace. Exports contributed to the pickup in Canada and the US though that will be hard to repeat if trade barriers continue to rise. Tariffs are hardly welcomed, but with both economies already pushing up against capacity limits, more moderate GDP growth is arguably desirable. We think the Fed and Bank of Canada are likely to continue removing accommodation over the second half of the year in an effort to keep inflationary pressure at bay.

Growth in the UK also ticked higher after a weather-related slowdown in Q1. That was enough for the Bank of England to raise rates in August for the first time this year. We think they’ll hold off on further tightening until we get more clarity on the direction of Brexit talks, which as Governor Carney said, are now entering a critical phase. In the euro zone, Q2 growth fell short of expectations and the previous quarter’s pace. We still think activity will strengthen over the second half of the year, but 2017’s impressive increase won’t be repeated.

Sustained tightening by North American central banks has been reflected in fixed income and currency markets. US 10-year Treasury yields were once again testing the 3% mark and Canadian bonds have sold off after outperforming earlier in the summer. UK and German spreads, meanwhile, continued to tighten relative to US Treasuries. The Canadian dollar has held its own recently, while the euro and sterling are at their weakest levels of the year against the resurgent US dollar.

FINANCIAL MARKETS

US POSTS STRONGEST QUARTERLY GROWTH IN FOUR YEARS

Josh Nye

HIGHLIGHTS

- ▲ Following a somewhat disappointing start to the year, US Q2 GDP growth was the strongest since 2014.
- ▲ Solid domestic spending is expected to keep the US economy growing at an above-trend pace over the second half of the year.
- ▲ Trade tensions continue to escalate, particularly between the US and China.
- ▲ The Fed left rates unchanged in August but all signs point to a hike in September.

Q2's advance GDP report lived up to high expectations with a 4.1% annualized increase that ranks among the fastest in the last decade. The economy was firing on all cylinders with domestic demand up almost 4%, led by a rebound in consumer spending and another solid increase in business investment. A nearly-10% rise in exports also helped, though that's not likely to be sustained amid growing trade tensions. A number of countries implemented counter-tariffs on US goods in June and July, and there was already evidence of exports tapering off toward the end of the quarter. But while trade isn't expected to provide the support it did in Q2, we think domestic spending will remain strong in the coming quarters. Both business and consumer sentiment remain near cycle highs despite the threat of higher prices posed by tariffs (and for businesses a potential pullback in external demand). We think solid gains in consumer spending and nonresidential investment will keep the economy growing at an above-trend pace (just short of 3%) over the second half of the year. That would push the US economy further into excess demand, which raises the risk of inflationary pressure picking up.

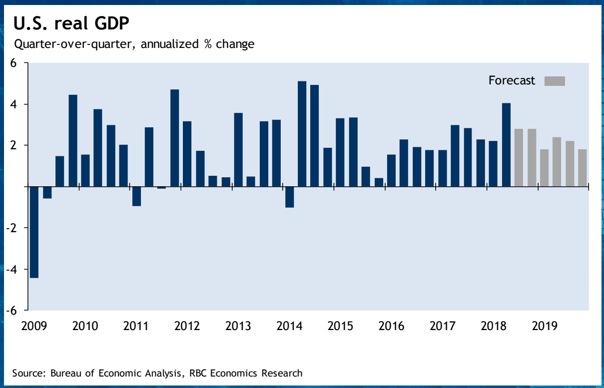
TRADE TENSIONS REMAIN A DOWNSIDE RISK…

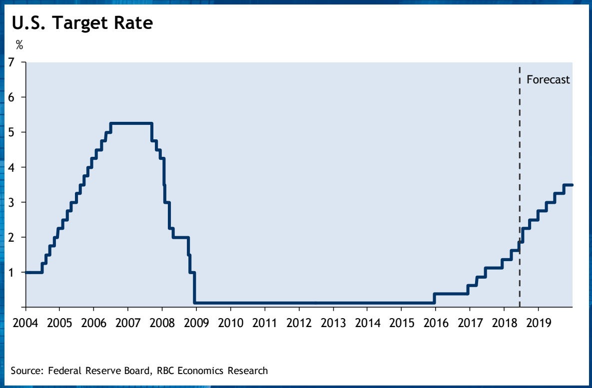
Trade tensions continue to dominate headlines with both positive and negative signals from US policymakers of late. Nafta negotiations have been on hold since Mexico's July 1 presidential election but bilateral talks between the US and Mexico, focusing on the auto sector, are reportedly making progress. US proposals that seek to reduce the trade deficit in autos with Mexico have been a sticking point in Nafta talks, so a resolution of the issue would be a positive step toward a new agreement. Trilateral talks are expected to resume in August and some have speculated that a deal could be reached by the end of the month. But we note that similar optimism in May turned into disappointment when the US refused to back down on several contentious demands—and there have been few signs thus far that negotiators are giving way on issues like dispute resolution, supply management and a sunset clause.

Relations with trading partners outside North America have been mixed. An agreement with the EU to not escalate tariffs, while light on details, was a welcomed improvement in the two economic powers' recently strained relationship. The same cannot be said for US-China relations. In July the US raised tariffs on $34 billion in Chinese imports (to which China responded in kind) and this month duties on an additional $16 billion in goods will take effect. There were reports that a dialogue was opening up between the two countries in an effort to reduce tensions. But those hopes were dashed when the US threatened even more punitive tariffs on an additional $200 billion in Chinese imports.

…BUT WON'T KEEP THE FED FROM RAISING RATES IN SEPTEMBER

The Fed's August meeting was largely a non-event with rates held steady and only minor tweaks to the policy statement reflecting the latest data. Those few changes leaned hawkish—a sign the next rate increase isn't far off. Looking ahead to September the case for a hike is, to borrow a word the Fed used five times in August, 'strong.' US GDP growth has trended steadily higher on a year-over-year basis since mid-2016 and was sitting at 2.8% in Q2. That is well above the pace of potential output growth—in an economy that is already pushing up against capacity limits. Core inflation has been close to or above the Fed's 2% objective for several months. The labour market remains strong, and while it would be a stretch to say wages are taking off, pay growth has picked up this year. As noted above, tariffs remain a downside risk to the US economy. But the Fed's scant mention of trade issues in August speaks to their limited impact thus far. Unless tensions ratchet up significantly or start to dent the outlook more noticeably we think the Fed will continue to steadily scale back accommodation. We expect two more rate increases over the second half of the year, and look for 100 basis points of hikes in 2019 as well.





FINANCIAL MARKETS

CANADA'S ECONOMY IMPRESSED IN MAY…

Josh Nye

HIGHLIGHTS

- ▲ May's impressive GDP report lifted our Q2 growth forecast to 3%.
- ▲ Steel and aluminum tariffs weighed on exports in June, but gains in other sectors helped the trade deficit shrink significantly.
- ▲ A string of solid economic data have raised the prospect of back-to-back hikes from the BoC in a repeat of last summer…
- ▲ …but we think the central bank's gradual approach to tightening will see them hold off until October.

Canadian GDP rose 0.5% in May, well ahead of expectations for a 0.3% increase. Some of the strength reflected reversal of temporary factors that held growth to 0.1% in the previous month. Retail and construction activity both rebounded following weather-related declines and oil and gas output picked up after shutdowns in April. But May's growth was also broadly-based with 19 of 20 industries recording month-over-month gains—the most widespread increase in more than a decade. The strong report raised our Q2 GDP growth forecast to 3%, which would more than double the disappointing increase recorded in Q1. We think the recent pickup reflected a rebound in consumer spending after a soft start to the year, as well as less drag from housing. Exports, which were held down by temporary issues in Q1, also provided significant support (more on that below). Over the second half of the year those sectors will face headwinds from rising interest rates, tariffs and trade uncertainty. We expect GDP growth will be slightly slower on balance with an average increase of just less than 2% in Q3 and Q4. That should keep the economy from pushing too far beyond its longer run capacity—which the Bank of Canada should see as a positive development.

…AND THE TRADE DEFICIT SHRANK IN JUNE DESPITE NEW TARIFFS

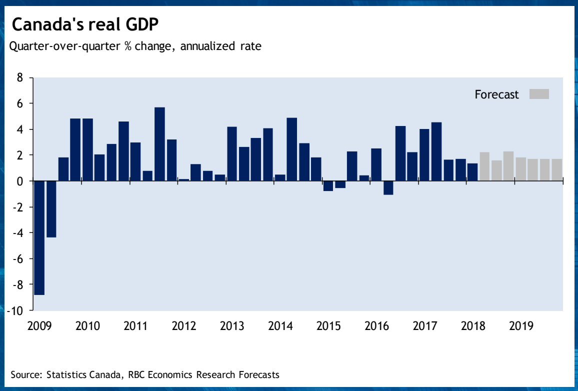
June's international trade report gave us our first look at how US tariffs are impacting Canada's steel and aluminum industries. Steel exports to the US fell by more than a third, while aluminum was less impacted with shipments south of the border falling 7%. But it's worth noting that June's decline follows strong growth between February and May when tariffs were threatened but not yet implemented. So some of the drop-off may simply reflect US purchasers having stocked up in preparation for tariffs. Relative to last year, June's steel exports were down a more moderate 14% and aluminum exports were actually 10% higher. The Bank of Canada has assumed tariffs will lower steel and aluminum exports by roughly 20% over the second half of the year. If that is the case we'll likely see further declines in the coming months.

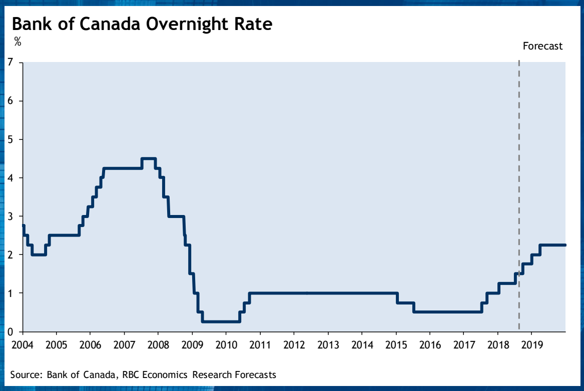
Notwithstanding lower steel and aluminum exports, June's trade report was quite impressive. Canada's trade deficit shrank dramatically on a broadly-based increase in exports. That capped off a strong quarter for exporters with volumes up a whopping 16% (annualized) in Q2, the strongest pace in four years. We now expect net trade added a full 2 percentage points to Canadian GDP growth in the second quarter.

ANOTHER SURPRISE BOC HIKE IN SEPTEMBER? POSSIBLE BUT WE DON'T THINK SO

An upbeat tone from the Bank of Canada at their July meeting—when they raised rates for the fourth time in a year—improved our confidence that we'd see another hike before 2019. Recent data have also supported that call. When the central bank updated their projections in July their forecast for Q2 GDP to rise 2.8% looked ambitious. But as noted above, May's GDP reported now has us monitoring an even stronger increase. June's CPI report was also firmer than expected with headline inflation running at the fastest pace in more than six years. Upside surprises on growth and inflation have raised the prospect of the BoC hiking rates again as soon as September. That would follow the pattern seen last year when a well-telegraphed rate increase in July was followed by a more surprising move in September.

Will history repeat itself? We don't think so. Back-to-back moves would go against the bank's guidance that tightening will be gradual. Last year was also a somewhat different case as the 50 basis points of rate hikes delivered over the summer could be seen as simply reversing cuts made during the oil price downturn. So even as recent data point to less need for stimulative monetary policy, we think the BoC will be patient this time around and wait until October to raise the overnight rate. Interestingly—and in contrast to the BoC's silence last summer—two panel appearances by Governor Poloz and Senior Deputy Governor Wilkins in late-August offer an opportunity to talk up a September move if Governing Council is so inclined.





FINANCIAL MARKETS

BANK OF ENGLAND RAISES RATES IN UNANIMOUS VOTE

Josh Nye

HIGHLIGHTS

- ▲ Recent data provide further evidence the UK economy rebounded in Q2.
- ▲ There has been plenty of drama surrounding the UK government's plan for a 'soft' Brexit.
- ▲ The ECB's forward guidance on rates gave their announcement a dovish spin, despite the announcement that QE would likely end this year.
- ▲ Australian employment isn't growing fast enough to put sustained downward pressure on the unemployment rate.

The Bank of England raised rates in August for the second time in the past year, lifting Bank Rate to its highest level since 2009. The move was fully anticipated though the MPC's unanimous vote was stronger than markets expected (last November's hike saw two dissents). In their decision, policymakers noted recent economic data were in line with their forecasts from May. In particular, monthly GDP growth showed economic activity picked up in Q2, seeming to confirm the view that weakness earlier this year was largely weather-related. Labour market data have also been supportive—job growth was robust in the three months to May and the unemployment rate remains at a 40-year low, pointing to limited economic slack. Wage growth is running slightly slower than expected at this point in the cycle but the BoE seemed to put more weight on their survey of businesses that has indicated rising wage pressures. The central bank continued to signal that limited and gradual tightening will be needed over the coming years to keep inflation on target.

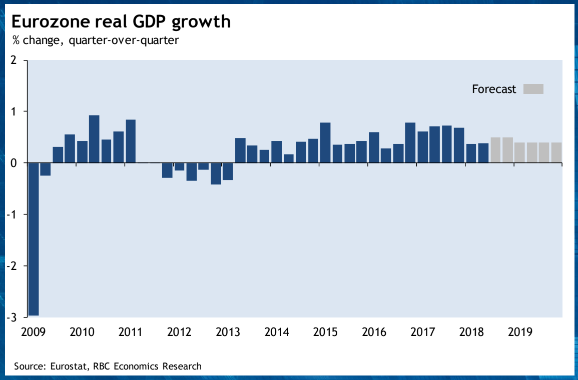
The outlook for further rate increases rests on the central bank's assumption for a 'smooth' outcome in Brexit negotiations. That is looking increasingly optimistic heading into what could be the final round of talks between the UK and EU. Even if an agreement between the two sides can be reached, it's not clear UK parliament would ratify the deal given dissent within PM May's own party to her soft Brexit approach. BoE Governor Carney noted in August that the likelihood of a 'no deal' Brexit scenario is "uncomfortably high." We think how negotiations evolve in the coming months will be key to when (or if) the BoE next raises rates. For now our forecast assumes another hike early next year.

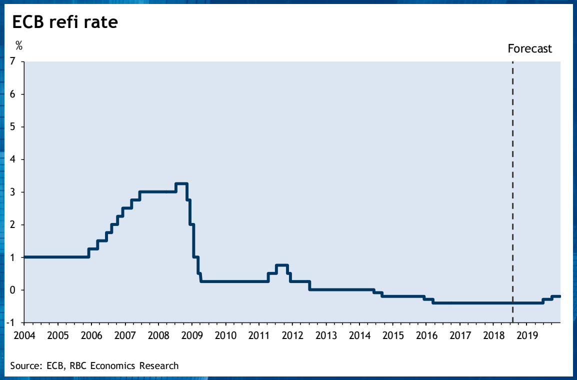
EURO AREA'S LACKLUSTRE GROWTH CONTINUED IN Q2

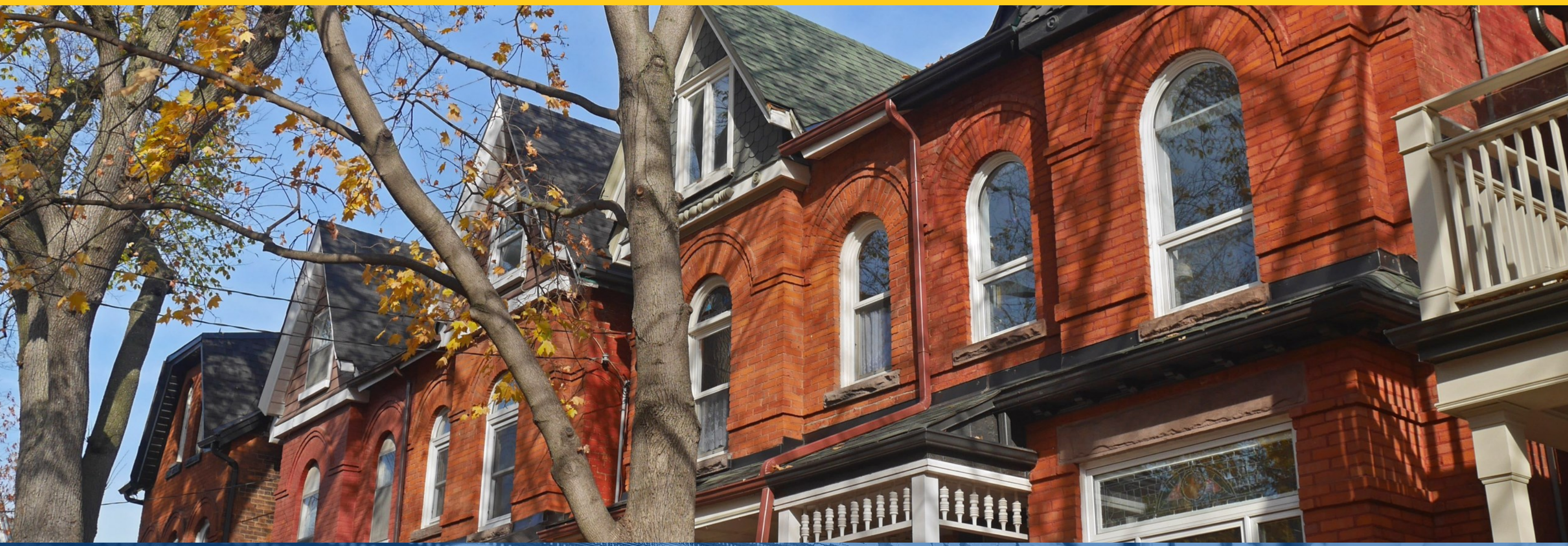
Euro area GDP fell short of expectations with a 0.3% increase in Q2, which is down slightly from the previous quarter's 0.4% gain. That leaves growth over the first half of the year at roughly half of 2017's pace. A slowdown in France, the currency bloc's second largest economy, was partly to blame. That reflected some temporary factors that we think will be reversed in the coming quarters. Survey data continue to point to a slightly stronger backdrop, and we expect growth will rebound to a 0.5% pace in the second half of the year. While that would still be down from last year, it represents an above-trend rate (in contrast to the first half of 2018) that should further absorb slack in the economy. Euro area inflation rose above 2% for the first time since 2012 though core inflation remains well below the European Central Bank's target. The recent, albeit modest, pickup in wage growth supports the ECB's expectation that underlying inflation will firm over the medium term. The central bank's policy path has been more or less set out for the coming months—net asset purchases will be trimmed to zero by the end of this year and rate hikes are off the table at least through next summer. If growth improves over the second half of the year as expected we think the ECB will begin raising interest rates in the third quarter of 2019.

RESERVE BANK OF AUSTRALIA OUTLOOK LITTLE CHANGED

The Reserve Bank of Australia held monetary policy steady in August, making it two years the cash rate has been at a record low of 1.50%. The policy statement noted economic forecasts remain unchanged with a return to above-trend growth, full employment and within-target inflation expected over the medium term. The RBA is likely more confident in their forecast for labour market slack to be gradually absorbed following the latest jobs data—hiring picked up strongly in June, suggesting a weak start to the year for employment growth was temporary. The RBA's statement was also tweaked to note slowing growth in China, an important trading partner. We expect the domestic labour market and global developments will be key to the monetary policy outlook, and with the two pulling in opposite directions we think the central bank will remain on hold for now. Our forecast assumes 50 basis points of rate hikes in the first half of 2019, but escalating trade tensions abroad raise the risk that any tightening is put off until later next year.







CURRENT ANALYSIS

ROBERT HOGUE

TORONTO GAIN DROVE RESALES HIGHER IN CANADA IN JULY

- The Greater Toronto Area was the main housing story in Canada in July. It posted a solid 7.7% monthly resales gain and accounted for more than two-thirds of the 1.9% increase recorded at the national level. Activity was flat in Vancouver and Montreal.
- The GTA stood out in July thanks in part to more homes put up for sale. This wasn't the case in the majority of markets across the country, though. New listings fell markedly in Vancouver, Calgary and Edmonton, and to a lesser extent in Ottawa and Montreal. New listings dropped by 1.2% nationally.
- The national benchmark price appreciated at a faster rate (2.1% y/y) for the first time in 15 months. This primarily reflected a substantial easing in the pace of decline in the GTA—where prices are now close to flat year-over-year.
- We see little risk that prices will accelerate much further in the near term. Except in a few areas (including Ottawa and Montreal where sellers have a slight upper hand), demand-supply conditions are balanced in the majority of markets in Canada, which does not support rapid price growth. Vancouver prices are in fact decelerating at present.
- While potential sellers might still be dragging their feet at this point, we believe that Canada's housing market is making progress at adjusting to the new stress test. We expect resales to recover further and more broadly on a regional basis over the second half of this year. This recovery will be only partial, however. The stress test has pushed some buyers out the market and rising interest rates will exert a substantial restraining effect.

More sales where more homes were put up for sale

July market results published this morning by the Canadian Real Estate Association were a bit of a mixed bag. Those hoping to see a broad-based pick-up in activity were likely disappointed. Resales did rise nationally on a month-over-month basis for a third-straight time in July to 463,300 units though more than two-thirds of the increase occurred in single market—the GTA. Activity was at a standstill in Vancouver, Edmonton and Montreal, and fell in Calgary. That said, buyers may not have been the cause for the lack of traction in most markets last month. In many cases, it looks like it was a drop in sellers. Widespread declines in new listings across Canada made it harder for buyers to find a suitable home. Where new listings rose—like in the GTA, Hamilton, Windsor and Regina—resales picked up. We believe that would-be sellers will warm up to the market as more compelling evidence of a recovery emerges.

FORECAST DETAIL - CANADA

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2017				2018				2019				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Household consumption	4.0	4.3	3.1	2.2	1.1	2.0	1.9	1.9	1.7	1.7	1.6	1.7	2.4	3.5	2.1	1.8
Durables	12.2	7.2	-0.6	2.1	0.2	3.0	1.7	1.7	1.6	1.6	1.5	1.5	4.5	6.5	1.7	1.7
Semi-Durables	2.8	6.0	2.3	-0.7	0.0	3.0	1.9	1.9	1.8	1.6	1.8	1.8	2.2	3.3	1.4	1.8
Non-durables	2.1	5.6	0.4	3.5	-0.3	1.0	1.7	1.9	1.8	1.7	1.7	1.8	1.7	2.6	1.5	1.7
Services	3.0	2.8	5.2	2.0	2.1	2.1	2.0	2.0	1.8	1.8	1.7	1.8	2.2	3.2	2.5	1.8
Government expenditures	4.8	0.8	3.5	3.8	2.7	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.2	2.3	2.8	2.2
Residential investment	7.1	-1.3	-0.1	13.5	-7.2	-2.7	-4.8	-3.7	-2.1	-0.5	0.3	1.2	3.3	2.9	-1.0	-2.0
Business investment	14.3	7.5	5.9	8.0	10.9	2.8	2.3	2.1	2.0	2.0	2.0	2.0	-9.4	2.8	6.3	2.1
Non-residential structures	5.9	6.7	8.9	4.0	6.3	2.8	2.5	2.2	2.0	2.0	2.0	2.0	-11.5	0.7	4.8	2.1
Machinery & equipment	28.5	8.7	1.6	14.5	18.1	2.8	2.0	2.0	2.0	2.0	2.0	2.0	-6.0	6.0	8.6	2.0
Final domestic demand	4.9	3.2	3.6	4.1	2.1	1.9	1.6	1.7	1.6	1.6	1.7	1.8	1.1	3.0	2.6	1.7
Exports	2.6	6.4	-9.9	3.9	1.7	14.0	1.5	3.5	3.3	1.7	1.8	2.0	1.0	1.1	3.1	3.2
Imports	14.9	4.1	1.3	7.7	4.9	7.0	3.5	2.8	2.5	1.0	1.7	2.1	-1.0	3.6	5.0	2.5
Inventories (change in $b)	8.9	12.8	18.3	15.8	15.3	11.0	14.0	16.0	16.0	15.1	15.1	15.1	1.0	13.9	14.1	15.3
Real gross domestic product	4.0	4.6	1.7	1.7	1.3	3.0	1.6	2.3	1.8	1.7	1.7	1.7	1.4	3.0	2.0	1.9
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	2.2	2.6	1.1	1.1	-0.2	0.2	0.7	1.0	1.4	1.1	1.2	1.0	0.6	1.8	0.4	1.2
Pre-tax corporate profits	25.7	35.4	14.5	7.9	1.0	8.2	8.5	7.1	7.0	2.1	2.6	1.5	-1.9	19.9	6.2	3.2
Unemployment rate (%)*	6.6	6.5	6.2	6.0	5.8	5.9	5.8	5.8	5.8	5.8	5.8	5.8	7.0	6.3	5.8	5.8
Inflation																
Headline CPI	1.9	1.3	1.4	1.8	2.1	2.3	2.7	2.7	2.3	2.7	2.4	2.2	1.4	1.6	2.4	2.4
Core CPI	2.0	1.4	1.4	1.6	1.8	1.8	2.1	2.3	2.1	2.5	2.3	2.2	1.9	1.6	2.0	2.3
External trade																
Current account balance ($b)	-55.9	-59.6	-71.7	-65.9	-78.0	-59.6	-62.1	-56.0	-53.5	-49.0	-47.0	-46.6	-65.4	-63.3	-63.9	-49.0
% of GDP	-2.6	-2.8	-3.3	-3.0	-3.6	-2.7	-2.8	-2.4	-2.3	-2.1	-2.0	-2.0	-3.2	-2.9	-2.8	-2.2
Housing starts (000s)*	222	207	223	229	225	219	207	197	195	192	190	190	198	220	212	192
Motor vehicle sales (mill., saar)*	2.07	2.10	2.08	2.05	2.12	2.00	1.98	1.97	1.94	1.93	1.92	1.92	1.98	2.08	2.02	1.93
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	1.00	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.25	2.25	0.50	1.00	1.75	2.25
Three-month	0.52	0.71	1.00	1.06	1.10	1.26	1.40	1.65	1.90	2.15	2.15	2.15	0.46	1.06	1.65	2.15
Two-year	0.75	1.10	1.52	1.69	1.78	1.91	2.10	2.30	2.45	2.45	2.40	2.35	0.75	1.69	2.30	2.35
Five-year	1.12	1.40	1.75	1.87	1.97	2.07	2.25	2.45	2.55	2.65	2.70	2.70	1.12	1.87	2.45	2.70
10-year	1.62	1.76	2.10	2.04	2.09	2.17	2.35	2.60	2.70	2.80	2.90	2.95	1.71	2.04	2.60	2.95
30-year	2.30	2.14	2.47	2.27	2.23	2.20	2.45	2.70	2.80	2.90	3.00	3.00	2.31	2.27	2.70	3.00
Canadian dollar	1.33	1.30	1.25	1.26	1.29	1.31	1.30	1.28	1.26	1.26	1.27	1.28	1.34	1.26	1.28	1.28

*Quarterly averages, level
Source: Bank of Canada, Statistics Canada, RBC Economics Research forecasts

FORECAST DETAIL - UNITED STATES

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2017				2018				2019				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	1.8	2.9	2.2	3.9	0.5	4.0	3.2	2.7	1.7	2.3	2.3	1.8	2.7	2.5	2.6	2.4
Durables	1.9	8.6	7.8	12.6	-2.0	9.3	4.5	2.8	2.2	2.3	2.2	1.6	5.5	6.8	5.7	3.0
Non-durables	1.9	4.0	2.3	4.0	0.1	4.2	4.5	3.5	1.9	2.5	2.4	1.8	2.7	2.1	2.9	2.8
Services	1.7	1.7	1.4	2.6	1.0	3.1	2.6	2.5	1.6	2.3	2.3	1.8	2.3	2.0	2.1	2.2
Government spending	-0.8	0.1	-1.0	2.4	1.5	2.1	2.4	2.7	2.4	2.4	2.4	2.4	1.4	-0.1	1.6	2.4
Residential investment	11.1	-5.5	-0.5	11.2	-3.4	-1.0	0.0	3.4	1.8	0.9	1.9	1.2	6.5	3.3	0.7	1.5
Business investment	9.6	7.3	3.4	4.9	11.5	7.4	3.9	5.7	2.8	2.8	2.6	2.6	0.5	5.3	6.9	3.7
Non-residential structures	12.8	3.8	-5.8	1.3	13.9	13.2	3.0	5.2	4.0	4.0	2.0	2.0	-5.0	4.6	6.2	4.3
Non-residential equipment	9.1	9.7	9.8	9.9	8.5	3.8	5.0	6.5	3.5	3.5	0.7	0.1	-1.5	6.1	7.5	3.7
Intellectual property	7.9	6.6	1.7	0.7	14.1	8.2	3.0	5.0	4.8	3.6	2.6	2.6	7.5	4.6	6.4	4.2
Final domestic demand	2.6	2.6	1.7	4.0	1.9	3.9	3.0	3.1	2.1	2.5	2.2	1.8	2.3	2.5	2.9	2.6
Exports	5.0	3.6	3.5	6.6	3.6	9.3	1.0	2.5	1.8	2.8	2.8	2.8	-0.1	3.0	4.8	2.7
Imports	4.8	2.5	2.8	11.8	3.0	0.5	7.5	6.0	5.4	3.3	2.8	3.2	1.9	4.6	4.8	4.6
Inventories (change in $b)	-2.4	11.9	64.4	16.1	30.3	-27.9	5.0	15.0	25.0	27.0	27.0	32.0	23.4	22.5	5.6	27.8
Real gross domestic product	1.8	3.0	2.8	2.3	2.2	4.1	2.8	2.8	1.8	2.4	2.2	1.8	1.6	2.2	2.8	2.4
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.1	1.4	1.5	0.9	1.3	1.4	0.9	1.4	1.4	1.2	1.2	1.0	0.1	1.2	1.3	1.2
Pre-tax corporate profits	3.0	3.6	2.8	3.3	5.9	7.1	7.5	5.8	4.8	2.7	2.5	2.1	-1.1	3.2	6.6	3.0
Unemployment rate (%)*	4.7	4.3	4.3	4.1	4.1	3.9	3.8	3.8	3.8	3.7	3.7	3.7	4.9	4.4	3.9	3.7
Inflation																
Headline CPI	2.5	1.9	2.0	2.1	2.2	2.7	2.7	2.6	2.4	2.6	2.6	2.5	1.3	2.1	2.6	2.5
Core CPI	2.2	1.8	1.7	1.8	1.9	2.2	2.3	2.3	2.2	2.2	2.3	2.4	2.2	1.8	2.2	2.3
External trade																
Current account balance ($b)	-431	-487	-414	-465	-496	-430	-474	-510	-534	-544	-550	-558	-433	-449	-477	-547
% of GDP	-2.3	-2.5	-2.1	-2.4	-2.5	-2.1	-2.3	-2.4	-2.5	-2.5	-2.6	-2.6	-2.3	-2.3	-2.3	-2.6
Housing starts (000s)*	1231	1171	1172	1259	1317	1262	1300	1315	1315	1315	1325	1325	1177	1208	1299	1320
Motor vehicle sales (millions, saar)*	17.1	16.8	17.1	17.6	17.1	17.2	17.3	17.3	17.3	17.3	17.4	17.4	17.5	17.1	17.2	17.4
INTEREST RATES %, END OF PERIOD																
Fed funds	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	0.75	1.50	2.50	3.50
Three-month	0.76	1.03	1.06	1.39	1.73	1.93	2.15	2.35	2.65	2.90	3.15	3.35	0.51	1.39	2.35	3.35
Two-year	1.27	1.38	1.47	1.89	2.27	2.52	2.65	2.80	3.00	3.25	3.40	3.55	1.20	1.89	2.80	3.55
Five-year	1.93	1.89	1.92	2.20	2.56	2.73	2.95	3.10	3.25	3.45	3.55	3.65	1.93	2.20	3.10	3.65
10-year	2.40	2.31	2.33	2.40	2.74	2.85	3.15	3.30	3.45	3.60	3.70	3.75	2.45	2.40	3.30	3.75
30-year	3.02	2.84	2.86	2.74	2.97	2.98	3.35	3.50	3.65	3.75	3.80	3.85	3.06	2.74	3.50	3.85
Yield curve (10s-2s)	113	93	86	51	47	33	50	50	45	35	30	20	125	51	50	20

*Quarterly averages, level

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

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATOR

	CANADA				US			
	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH
Business								
Industrial production*	0.5	3.8	1.7	May.	0.1	4.2	0.1	Jul.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Jun.	1.3	1.3	1.4	Jun.
New orders in manufacturing	-1.8	14.0	1.6	Jun.	0.7	6.1	-0.8	Jun.
Business loans - Banks	0.6	8.7	7.2	Jun.	0.8	6.0	6.8	Jul.
Index of stock prices**	1.0	8.5	2.2	Jul.	1.4	13.8	9.6	Jul.
Households								
Retail sales	2.0	3.6	4.8	May.	0.5	6.4	3.5	Jul.
Auto sales	-0.1	-1.6	2.9	Jun.	-2.6	-13.9	-8.0	Jul.
Total consumer credit***	0.2	4.1	4.0	Jun.	0.3	4.7	5.1	Jun.
Housing starts	-16.2	-8.3	4.9	Jul.	0.9	-1.4	6.5	Jul.
Employment	0.3	1.3	1.2	Jul.	0.3	1.6	1.6	Jul.
Prices								
Consumer price index	0.5	3.0	1.5	Jul.	0.2	2.9	1.37	Jul.
Producer price index****	0.5	5.1	0.9	Jun.	0.2	4.1	0.1	Jul.
Interest rates								
Policy rate	1.5	0.75	-	Jul.	2.0	1.25	-	Jul.
90-day commercial paper rates	1.8	1.2	-	Jul.	2.1	1.2	-	Jul.
Government bonds - (10 years)	2.3	1.9	-	Jun.	2.9	2.3	-	Jul.

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