econoscope

April 2017

econoscope

Volume 41, Number 4
April 2017

RBC ECONOMICS RESEARCH

Craig Wright
SENIOR VICE PRESIDENT &
CHIEF ECONOMIST

Dawn Desjardins
VICE PRESIDENT &
DEPUTY CHIEF ECONOMIST
Financial Markets & Financial System

Paul Ferley
ASSISTANT CHIEF ECONOMIST
Macroeconomics

Robert Hogue
SENIOR ECONOMIST
Regional Economies

Nathan Janzen
SENIOR ECONOMIST
Macroeconomics

Laura Cooper
ECONOMIST
Public Policy

Josh Nye
ECONOMIST
Financial Markets and Macroeconomics

Gerard Walsh
ECONOMIST
Sector Analysis and Provincial Economies

EDITOR

Brian Waterman
rbceconomicsresearch@rbc.com

SUBSCRIPTION INFORMATION

rbceconomicsresearch@rbc.com

ECONOSCOPE® is published and produced monthly by RBC Economics Research. Address all correspondence to the Editor, RBC Economics Research, RBC, 9th Floor, South Tower, 200 Bay Street, Toronto, Ontario, M5J 2J5.

IN BRIEF

Highlights this month

Visit our web site...

...at www.rbc.com/economics/ and www.rbc.com/economie/

Get your issues delivered by email...

...by sending your request along with your email address to rbceconomicsresearch@rbc.com.

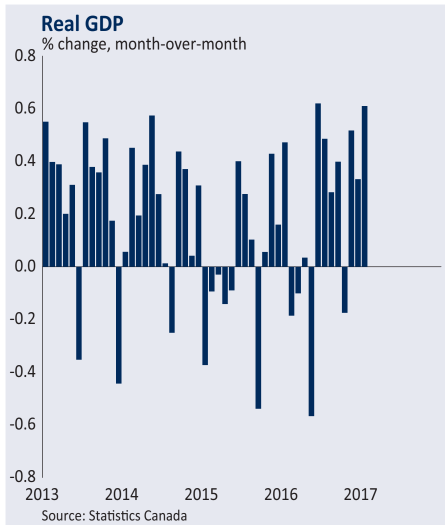
PAUL FERLEY, DAWN DESJARDINS
NATHAN JANZEN, JOSH NYE

CURRENT TRENDS

CANADA'S JOB GAINS BEAT EXPECTATIONS AGAIN!

HIGHLIGHTS

- ▲ Canadian January GDP jumped 0.6% in the month which was double the 0.3% expected going into the report. This represented the third consecutive month of stronger-than-expected monthly gains with GDP rising 0.3% in December and 0.5% in November.
- ▲ 19K jobs were created in March and the labour force rebounded sharply by 47K.
- ▲ Canadian retail sales eased lower in February after strong January gain.
- ▲ Housing starts jumped to 254k in March, marking the highest 'standalone' reading since September 2007.
- ▲ The merchandise trade balance returned to deficit in February, posting a $1.0 billion shortfall following three-consecutive surpluses November through January.
- ▲ The year-over-year rate of headline CPI inflation edged down to 1.6% (below expectations for a 1.8% reading) from 2.0% in February 2.1% in January.

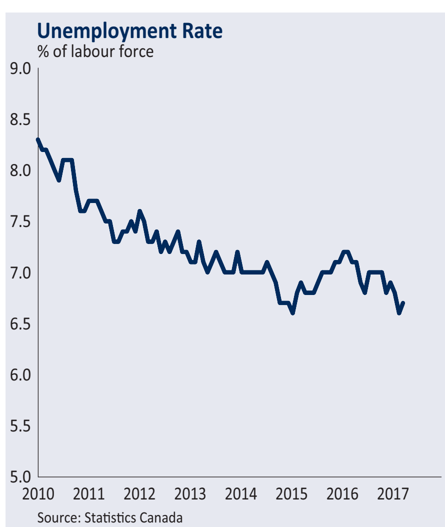


LATEST AVAILABLE: JANUARY
RELEASE DATE: MARCH 31, 2017

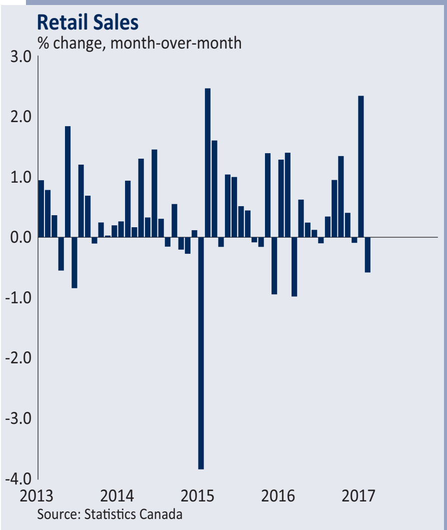
Canadian January GDP jumped 0.6% in the month which was double the 0.3% expected going into the report. This represented the third consecutive month of stronger-than-expected monthly gains with GDP rising 0.3% in December and 0.5% in November. Goods-producing industries jumped 1.1% with manufacturing output soaring 1.9% and mining up a similar 1.9%. Rising energy and non-energy commodity prices were a factor in the strength in both sectors. These increases were tempered by mild winter temperatures sending utilities down 1.3%. Growth in service-producing industries rose a stronger-than-expected 0.4%, led by wholesale trade jumping 2.4% with the retail trade sector up 1.5%.

CANADA'S JOB GAINS BEAT EXPECTATIONS AGAIN!

LATEST AVAILABLE: MARCH
RELEASE DATE: APRIL 7, 2017



19K jobs were created in March and the labour force rebounded sharply by 47K. The unemployment rate increased to 6.7%. Full-time jobs were up 18K with a 1K rise in part-time. In Q1 2017, 139K full-time positions were created. Service sector employment fell 2K while goods producers created 22K positions as manufacturers added 24K workers. The participation rate recovered to 65.9% backed by a 0.3ppt rise in participation by prime-aged workers. Hours worked jumped 1.1% in March skating the year ago rate back into positive territory. Wage growth remains disappointing, earnings for permanent workers up only 0.9% from year ago.



Canadian retail sales eased lower in February after strong January gain

LATEST AVAILABLE: FEBRUARY
RELEASE DATE: APRIL 26, 2017

Much of the dip in retail sales in February reflected a price-led drop in gasoline station receipts (gasoline prices fell sharply in February) and a 1.8% drop in motor vehicle and parts sales that is unlikely to be repeated in March given unit sales inching higher in that month from already elevated levels. Excluding those components, sales were up 0.5% to build on an outsized 2.4% jump in January. Overall sales in volume terms inched 0.1% lower but following a large jump in January are still up a solid 4.5% (annualized) on average in the first quarter to-date. Headline nominal retail sales have averaged a solid 4% above year-ago levels over January and February but E-commerce sales are up a whopping 34% on average over the same period.

Canadian housing starts surge to almost 10 year-high in March

LATEST AVAILABLE: MARCH
RELEASE DATE: APRIL 10, 2017

Housing starts jumped to 254k in March, marking the highest 'standalone' reading since September 2007. Most of the monthly increase in March was accounted for by more multifamily dwelling starts, which are notoriously volatile, although single-unit starts (75k in March) were also at their highest level since November 2010. The increase was broadly-based on a regional basis. Starts jumped 35% in Alberta and an outsized 60% in B.C. (led by a spike in multiple-unit starts) with a strong 31% gain also posted in Quebec. Ontario rose a more modest 6%. On a year-over-year basis, starts were up in all regions, though led by gains in Quebec and the Prairies.

Canadian net trade balance back in deficit in February

LATEST AVAILABLE: FEBRUARY
RELEASE DATE: APRIL 4, 2017

The merchandise trade balance returned to deficit in February, posting a $1.0 billion shortfall following three-consecutive surpluses November through January. Nominal exports declined 2.4%, led by a 2.5% decline in the volume of shipments. Imports rose 0.6% in nominal terms and 0.5% in volume terms. Regionally, the return to a nominal trade deficit was led by a deterioration in the balance of

ECONOMY AT A GLANCE

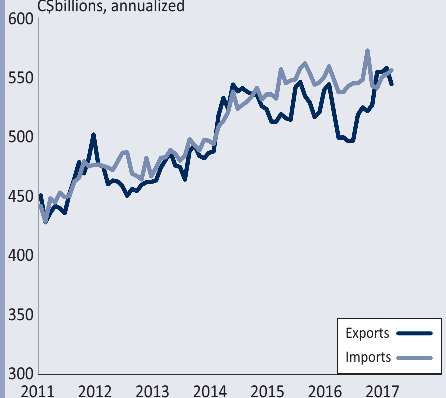
% change from:	Latest month	Previous month	Year ago
Real GDP	Jan	0.6	2.3
Industrial production	Jan	1.5	3.5
Employment	Mar	0.1	1.5
Unemployment rate*	Mar	6.7	7.1
Manufacturing			
Production	Jan	1.9	2.5
Employment	Mar	1.5	0.0
Shipments	Feb	-0.2	6.8
New orders	Feb	0.8	12.6
Inventories	Feb	1.6	2.3
Retail sales	Feb	-0.6	4.7
Car sales	Feb	1.0	2.9
Housing starts (000s)*	Mar	253.2	203.5
Exports	Feb	-2.4	4.4
Imports	Feb	0.6	1.4
Trade balance ($billlions)*	Feb	-1.0	-2.3
Consumer prices	Mar	0.2	1.6

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

Housing Starts
Thousands

Source: Canadian Mortgage and Housing Corporation

Merchandise Trade
C$billions, annualized



Source: Statistics Canada

Consumer Price Index
% change, year-over-year

Source: Statistics Canada

trade with countries other than the US. The Canadian goods trade surplus with the US was little-changed in February. Export volumes are tracking little growth in Q1 alongside a jump in imports that leaves the real net trade balance tracking a 3 percentage point drag from Q1 annualized GDP growth.

Canadian CPI growth moderated further in March

LATEST AVAILABLE: MARCH

RELEASE DATE: APRIL 21, 2017

The year-over-year rate of headline CPI inflation edged down to 1.6% (below expectations for a 1.8% reading) from 2.0% in February 2.1% in January. The rate of energy price inflation eased to 8.5% (on a year-over-year basis) from 12.3% in February but food price weakness eased to –1.9% from the 46-year low –2.3% in the earlier month. Excluding food and energy, price growth dropped to 1.7% from 2.0% in February and 2.2% in January. Of the Bank of Canada's three preferred 'core' measures, the 'CPI-Median' and 'CPI-Trim' measures both moderated, to 1.7% from 1.8% and 1.4% to 1.5%, respectively, while the 'CPI-Common' held at historically low levels (1.3%).

JOSH NYE

FINANCIAL MARKETS

Bond markets range bound

Bond markets struggled to find direction in March, following the ebb and flow of economic data and central bank speak and ultimately ended the month little changed. Fiscal and monetary policy continued to share the spotlight in the US where Treasuries sold off early in the month as a more hawkish tone from Fed officials cemented expectations for another rate hike. That trend reversed, however, when the Committee's statement and projections failed to double down on the hawkish shift. Indication that the Trump Administration might have difficulty passing fiscal stimulus measures was also a factor pushing UST yields back to the lower end of their recent range. Canadian yields followed a similar pattern, driven in large part by US moves but with the domestic narrative also playing along. With Canada's economy continuing to outperform expectations (and the labour market going along for the ride), markets were pricing in rising odds that the Bank of Canada would follow the Fed in scaling back accommodation later this year. However, a less-than-optimistic tone from members of the Governing Council served to undercut those expectations ahead of the Bank's Monetary Policy Report on April 12.

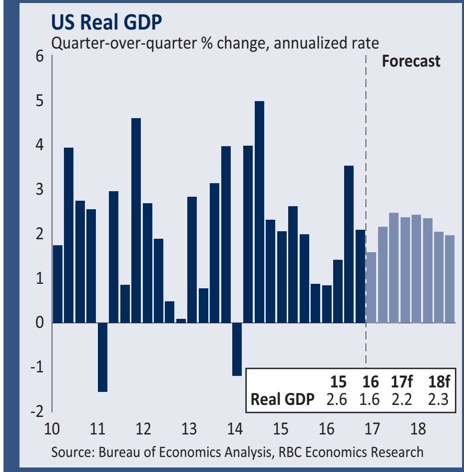
The European Central Bank has also had to talk down expectations for tighter monetary policy after subtle changes to their March statement led to markets pricing in higher rates next year. While the euro area's recovery is clearly gaining momentum, the ECB has been keen to emphasize that stimulus will remain in place at least until a sustained pickup in underlying inflation is evident. The argument is more finely balanced in the UK, where a clash between rising inflation and expectations of softer growth have left the Bank of England ready to respond in either direction. Markets continue to lean in the direction of a rate hike this year, but with some evidence that Brexit effects are starting to weigh on the economy, we think those expectations will ultimately be disappointed.

US growth slowed in Q1 on less robust household spending...

US consumer spending got off to a slow start this year with real PCE falling in both January and February—the first back-to-back declines in five years. Some of this slowdown reflects temporary factors, particularly a decline in utilities spending amid mild winter weather, while payback for strong gains in earlier months may also have been at play. We now expect consumer spending rose by just 1% in Q1, well short of the above-3% pace seen through much of 2016. Other components of domestic spending are expected to pick up some of the slack in the first quarter—an improving trend in durable goods shipments and capex imports supports our forecast for stronger business investment, while solid home sales and housing starts point to another strong quarter for residential investment. Nonetheless, we now expect US GDP growth slowed to 1.6% from 2.1% in the previous quarter.

HIGHLIGHTS

- ▲ Slower consumer spending growth in Q1/17 led us to mark down our GDP forecast for the quarter...
- ▲ ...but consumers are expected to bounce back with a number of supportive factors boosting confidence.
- ▲ Market reaction to the Fed's March meeting suggested disappointment with no change in the 'dot plot'...
- ▲ ...though there was a growing consensus that further tightening will be appropriate this year.



...BUT STILL PLENTY OF REASON FOR OPTIMISM ON CONSUMER OUTLOOK

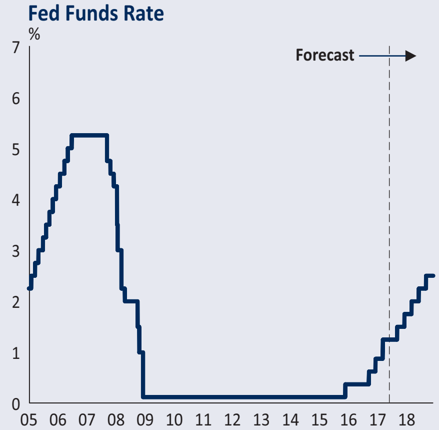
The slowdown in consumer spending early this year isn't expected to continue. US consumer confidence began to pick up noticeably in November and continued to improve in 2017 with the Conference Board's measure hitting its highest level since 2000 in March. Consumers provided a better assessment of both the present situation and, even more significantly, expectations for the near-term. While timing of the upturn in sentiment—coinciding with Trump's election victory—suggests expectations of lower personal income taxes might be at play, a number of other supportive factors likely fuelled consumers' sunnier outlook. The low unemployment rate, faster wage growth, and wealth effects from rising home prices and equity markets are all bolstering household finances.

Aggregate income growth and strong consumer sentiment underpin our forecast for household spending to return to a 2½% pace after the disappointing first quarter. While there is a risk that support from lower taxes falls short of consumers' expectations (the size of personal income tax cuts and the extent to which they will accrue to a majority of households remains uncertain) we think improving labour market conditions and household balance sheets will keep consumers upbeat on the economic outlook even if the fiscal boost isn't as advertised or comes a bit later than anticipated.

NOT EXACTLY A DOVISH HIKE

The Fed raised rates again in March, just three months after December's hike—the shortest interval between moves this cycle. The increase was fully expected after a positive run of economic data and strong indications from Fed officials that a near-term hike was likely. Changes to the policy statement were minor and the tone on the economy remained upbeat, noting moderate growth, solid job gains, rising consumer spending and somewhat firmer business investment. There was a subtle shift on inflation with the statement emphasizing a "symmetric" goal; however, Chair Yellen downplayed the change at her press conference. The Committee's guidance was untouched, with a gradual pace of tightening still expected and no new details on reinvestment of QE assets (Yellen said the latter was discussed but no decision was made). Similarly, the Committee's economic projections were little changed and the 'dot plot' showed another two rate hikes are expected this year and three next year, as was the case in December.

Fed Funds Rate



Source: Federal Reserve Board, RBC Economics Research

Given modest changes in the statement and projections, and a balanced tone from Chair Yellen in her press conference, it is somewhat surprising that the market reaction was decidedly dovish—10-year UST yields fell by close to 10 basis points on the day and the dollar slipped nearly 1%. The response likely reflected expectations that the Fed might indicate an even faster pace of tightening going forward. Looking at the ‘dot plot’ itself, however, you would be hard-pressed to see a dovish undertone; all but three members now see two additional hikes as appropriate this year, indicating a growing consensus that policy normalization should be underway given progress toward the Committee’s inflation and employment objectives. We are with the Fed in looking for two more rate hikes this year (June and December) with a pause in September when tapering of QE reinvestment is expected to be announced. The latter is seen as a passive policy tool although we think the Fed will hold off on a rate hike at the same time to gauge the market impact.

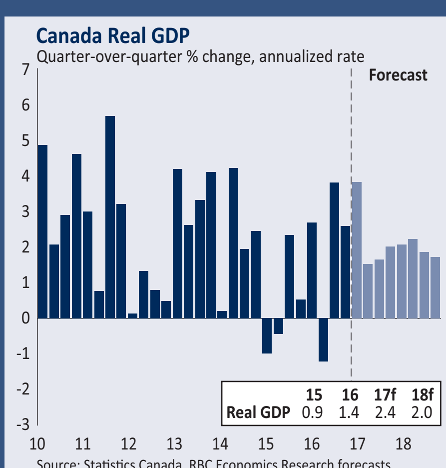
JOSH NYE

FINANCIAL MARKETS

CANADA'S ECONOMY JUMPED OUT OF THE STARTING GATE IN 2017

HIGHLIGHTS

- ▲ Canada's January GDP gain sets up for growth of nearly 4% in Q1/17.
- ▲ Recent data suggest slack is being absorbed more quickly than the BoC previously projected.
- ▲ The Bank's Business Outlook Survey showed further improvement in business sentiment early this year.
- ▲ The BoC's reaction to improving data has been fairly muted—the upcoming MPR should give a better idea of how they see the outlook evolving.



Canada's run of solid economic growth showed no sign of letting up with January GDP rising 0.6%—twice the pace expected heading into the report—to build on solid gains in late-2016. January's increase was widespread across industries; goods production recorded another solid gain on strength in manufacturing and mining while growth in the more stable services sector was the strongest in a year. On a year-over-year basis, non-commodities output continues to increase at a 2% pace while a shift to positive growth in the energy sector—in contrast with the sharp declines seen for much of the last two years—has helped overall GDP growth accelerate to an above-trend rate. This pickup in economic activity gives less reason to discount strong labour market data, although the pace of job gains since mid-2016 still looks unsustainable.

Given the solid start to the year, we have revised up our Q1/17 GDP growth forecast to 3.8% from 1.9% previously. That would mark a third consecutive quarter of Canada's economy outperforming the US. It would also represent another sizeable upside surprise relative to the Bank's January growth projections—implying slack in the economy is being absorbed more quickly than policymakers anticipated. That said, it isn't a foregone conclusion that the Bank will bring forward their estimate of when the economy is likely to reach full capacity. The Governing Council seems keen to avoid any hawkish shift that might lead markets to price in higher Canadian policy rates as the Fed continues to tighten in the US. If the Bank continues to project slack persisting until mid-2018, attention will be paid to the factors offsetting stronger growth.

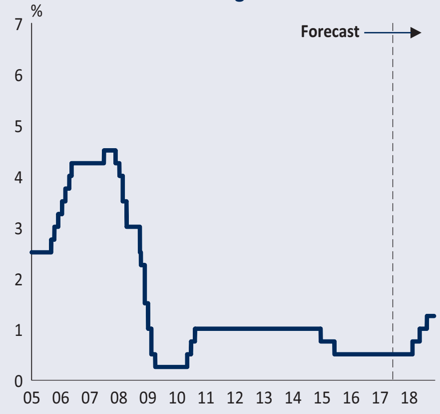
...AND BUSINESS SENTIMENT IS IMPROVING...

The Bank of Canada's quarterly Business Outlook Survey (BOS) joined the growing list of indicators showing improvement in the economic backdrop. The most positive development was a further increase in firms' investment intentions, with the balance of opinion on machinery and equipment spending now the second-best since the recession. That improvement is at odds with Statistics Canada's CAPEX survey from a month ago—one of the few disappointing data releases so far this year—that pointed to declining private sector investment intentions in 2017. The Bank's survey does imply that non-residential investment won't act as a drag on growth again this year. Also in the BOS, hiring intentions and expectations for future sales growth remained positive with both domestically-oriented firms (including those in energy-producing regions) and exporters seeing improving prospects. The latter group, however, is facing heightened uncertainty amid potential US policy changes including corporate tax cuts and protectionist trade measures—two issues that the Bank highlighted recently.

...SO TIME FOR A CHANGE OF TUNE?

The Bank of Canada's March policy statement fell on the cautious side of neutral and recent comments from the Governing Council have maintained that tone despite accumulating upside surprises in the data. Governor Poloz, while careful not to pre-judge the upcoming forecast, sounded somewhat skeptical of recent indicators, noting we've seen improving trends in years past that haven't been sustained. So while the Bank will have to acknowledge evidence of a strengthening economic backdrop in the April MPR, we expect some of that optimism will be tempered by continued emphasis on risks to the outlook and persistent slack in the economy.

As noted above, the Bank might tweak growth forecasts (or key assumptions) rather than bring forward their estimate of when the economy will reach full capacity. Indeed, despite recent strength in GDP, employment, and headline inflation, the Bank can point to little change in their preferred measures of underlying inflation (all below 2%) and weak wage growth as evidence of slack. Results of the latest BOS were also consistent with limited capacity pressures or labour shortages and little change in inflation expectations. As for risks to the outlook, the threat of protectionism will likely remain a significant concern as the new US administration seeks to renegotiate NAFTA and global support for trade liberalization appears to be faltering (the latest G20 meeting saw finance ministers drop a pledge to oppose protectionism). Overall, while it is becoming increasingly difficult to justify a dovish stance—and a rate cut now seems like a remote possibility compared with six months ago—there are enough risks and caveats in recent data for the Bank to continue to push back against market odds (~36%) of a rate hike this year.



Source: Bank of Canada, RBC Economics Research forecasts

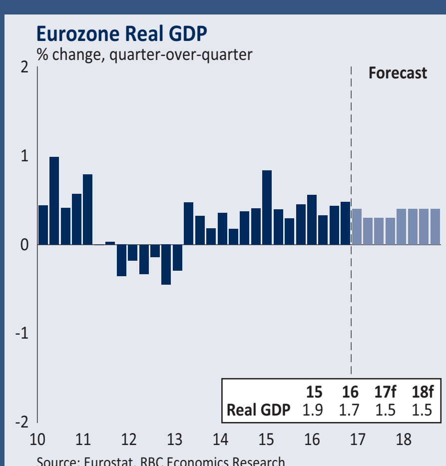
JOSH NYE

FINANCIAL MARKETS

CRACKS BEGINNING TO SHOW AFTER SOLID STRETCH FOR UK ECONOMY

HIGHLIGHTS

- ▲ Survey data suggest UK GDP growth slowed from the unexpectedly strong pace seen over the second half of 2016.
- ▲ The euro area recovery continues to gain momentum but underlying inflation isn't going anywhere.
- ▲ Australia's rising unemployment rate suggests slack in the economy has increased in recent months.
- ▲ New Zealand's strong growth relative to advanced economy peers partly reflects stronger labour market growth.



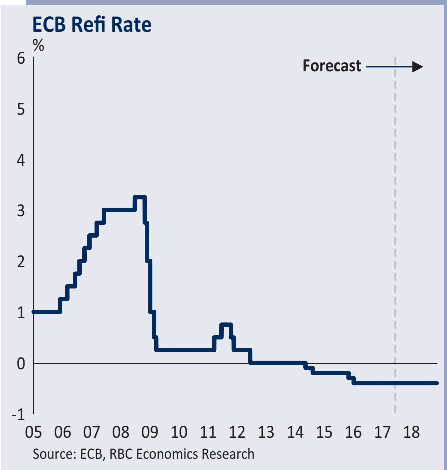
The UK economy's surprising run of above trend growth since last year's Brexit referendum appears to be coming to an end just as negotiations on the UK's exit are set to begin. While far from suggesting a sharp slowdown, moderation in PMI readings to start 2017 are consistent with our forecast for GDP growth to slip to 0.4% in the first quarter from an average of 0.6% in H2/16. A slowdown in retail sales and services spending early in the year supports our expectation that consumer spending will be less robust than in 2016 as higher import prices put a squeeze on real incomes. Indeed, despite tight labour market conditions, wages are rising at just 2¼% year-over-year (a pace that is expected to continue based on a BoE survey of businesses) while inflation continued to trend higher in February and is expected to average more than 2½% this year. The Bank of England has thus far tolerated rising inflation (although one of nine MPC members did vote for a rate hike in March) and we expect they will remain patient amid mixed activity indicators, even as headline inflation picks up further. We think this balance between above-target inflation and slower growth will tilt in favour of the latter over the second half of this year, prompting the BoE to return to an easing bias and eventually opting for another round of QE in early-2018.

EURO AREA RECOVERY IN FULL SWING

Survey data point to the euro area economy gaining further momentum early this year. The currency bloc's composite PMI rose to a post-recession high in March on improving conditions in Germany and France—the latter is particularly encouraging after the French economy appeared to stall in the middle of last year. The PMI data point to upside risk to our GDP growth projection although with the surveys having somewhat overestimated the pace of activity recently we continue to forecast another 0.4% gain in Q1/17. Improving economic activity, higher inflation (the euro area headline inflation rate hit 2% in February for the first time in four years before slipping back in March), and a slight change in ECB language fuelled expectations that policymakers might begin withdrawing stimulus as early as next year. The ECB pushed back against those expectations, however, clearly expressing discomfort with market expectations for higher rates. We do think there might be scope for a shift away from negative policy rates even as asset purchases continue, though with little progress on core inflation (which has been at or below 1% for nearly three years) we think discussion of policy normalization is premature.

RBA SET TO SIT ON THE SIDELINES A BIT LONGER

In their decision to hold the cash rate steady in April, the RBA noted a number of developments that we see shaping the monetary policy outlook this year. On the positive side, global growth is picking up and higher commodity prices have boosted Australia's terms of trade and national income. However, domestic growth remains moderate and sub-trend activity over the second half of last year has led to an increase in labour market slack. The latter is contributing to slow wage growth, underpinning both our cautious view on consumer spending and our forecast for core inflation to remain below the RBA's target range this year. The upswing in housing has been more durable than expected, though new macroprudential regulations should contribute to a slowdown later this year. Those measures will also help address financial stability concerns that have been an important factor in recent monetary policy deliberations. With the domestic economy set to remain patchy and housing expected to peak later this year, we continue to expect a lower cash rate though that move is unlikely to come before Q4.



RBNZ ALSO LIKELY TO DELAY EASING

New Zealand's 0.4% increase in Q4/16 GDP fell short of both market and RBNZ expectations, with the latter attributing some of the slowdown to temporary factors. Year-over-year growth is now running at 2.7%—in line with the RBNZ's estimate of potential growth which reflects stronger labour force trends relative to other advanced economies. A slowdown to more trend-like growth is consistent with recent levelling off in the unemployment rate and steady underlying inflation. The RBNZ took note of some constructive developments, including recent NZD depreciation and signs of pickup in global activity. Even with those positives, however, we continue to expect growth will struggle to exceed potential this year, leaving the central bank disappointed with progress in underlying inflation (even as headline readings pick up). We think there remains scope to ease monetary policy but only after more evidence of weak price pressure becomes available. As such, we have shifted our forecast for a final rate cut to Q4/17.

This page is left intentionally blank.

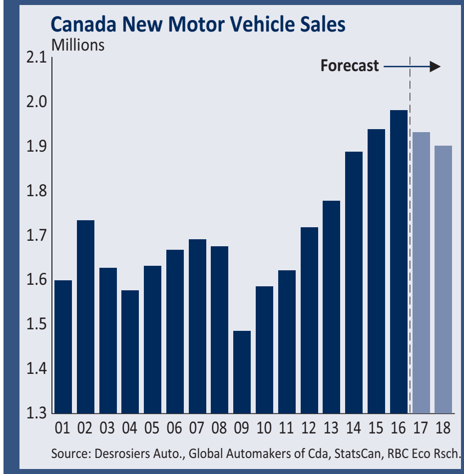
NATHAN JANZEN

CURRENT ANALYSIS

Canada and US March 2017 auto sales

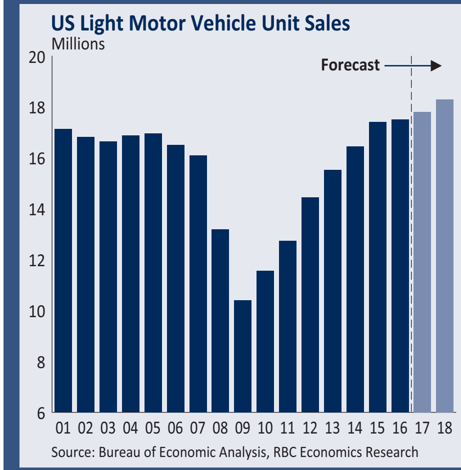
Canada auto sales at record levels (again) in March

Light vehicle sales were up 7.1% from a year ago in March according to industry reports. Our estimates suggest that the seasonally adjusted annualized sales rate hit 2.13 million units, up from 2.11 million in February and 2.10 million in January. Both the March reading and the average for the first quarter of 2017 were at all-time record highs. We earlier speculated that warmer-than-usual winter temperatures may have boosted sales in January and February; however, strength persisting into March (when temperatures were closer to normal) argues that strong fundamental demand has been the more important factor. Labour markets have continued to improve, consumer confidence is at its highest level in more than 7 years and substantial increases in housing markets in some regions of the country (e.g., Ontario) have boosted household net wealth significantly. Despite indications that the Canadian economy as a whole is on a much firmer footing, the Bank of Canada has shown no inclination to consider interest rate increases this year and borrowing costs remain historically low. We continue to view the recent sales pace in early 2017 (which is building on a fourth consecutive record sales total in 2016) as too strong to be sustained; however, the size of the moderation we expect is tempered by our view that labour markets will continue to improve and that interest rates will remain low. Our forecast assumes that annual sales will total 1.96 million units this year, down only marginally from the record 1.98 million units sold in 2016.



US light vehicle sales dip lower

In contrast to the Canadian sales numbers, US light vehicle sales declined to 16.5 million units (seasonally adjusted, annualized rate) in March from 17.5 million units in February. Sales in Q1 as a whole averaged 17.2 million units, below the record 17.5 million unit pace in 2016 as a whole and the 18.0 million unit pace in Q4 of last year. We expect interest rates in the US to drift higher but at a gradual pace—we expect two more US Federal Reserve rate hikes this year following a 25 basis point hike to the fed funds target range in March—that will leave financing conditions still favorable on balance. We expect labour markets will continue to improve and the share of household disposable incomes spent on vehicles remains historically low, suggesting there remains room for growth in auto purchases. We expect sales will once again inch modestly higher on an annual basis in 2017 with our forecast assuming 17.8 million unit sales this year.



FORECAST DETAIL – CANADA

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2016				2017				2018				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Household consumption	2.3	2.1	2.7	2.6	2.4	2.1	2.0	1.7	1.7	1.7	1.6	1.7	1.9	2.2	2.3	1.7
Durables	3.9	-1.2	-1.2	8.1	2.5	1.5	1.5	1.0	1.5	1.3	1.3	1.3	2.8	3.6	2.4	1.3
Semi-Durables	9.7	-1.8	2.9	5.9	2.8	2.4	2.0	1.8	1.8	1.8	1.8	2.0	2.3	4.4	2.9	1.9
Non-durables	3.4	3.5	2.0	0.7	2.8	2.5	2.3	2.0	1.8	1.8	1.8	2.0	0.8	1.7	2.2	2.0
Services	0.6	2.7	3.9	1.8	2.1	2.1	1.9	1.8	1.7	1.7	1.6	1.6	2.1	1.9	2.3	1.7
Government expenditures	3.3	5.9	-1.9	2.1	1.8	1.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.5	2.1
Residential investment	10.3	-0.1	-4.7	4.8	7.1	-2.9	-4.5	-6.2	-3.3	-3.0	-1.6	-0.8	3.8	2.9	0.5	-3.6
Business investment	-8.6	-3.6	3.0	-17.4	7.1	1.9	3.0	3.6	3.9	3.8	2.6	2.4	-11.5	-8.4	-0.8	3.3
Non-residential structures	-12.6	-7.1	14.9	-21.7	6.5	3.5	3.2	4.0	4.4	4.2	3.0	2.7	-16.0	-10.7	-0.5	3.8
Machinery & equipment	-2.5	1.5	-12.5	-10.3	8.0	-0.5	2.8	3.0	3.2	3.1	2.0	2.0	-3.3	-5.0	-1.3	2.6
Final domestic demand	1.8	1.8	0.9	0.4	3.3	1.9	1.7	1.4	1.7	1.8	1.7	1.8	0.3	0.9	1.8	1.7
Exports	9.3	-14.8	9.4	1.3	1.4	1.6	2.8	3.8	3.7	4.4	2.3	1.6	3.4	1.1	1.6	3.3
Imports	3.5	1.1	4.8	-13.5	10.5	-2.0	2.8	3.0	2.7	2.7	2.3	1.9	0.3	-1.0	0.6	2.4
Inventories (change in $b)	-7.5	0.4	7.4	-4.4	11.3	4.4	4.3	5.9	6.0	5.6	6.2	6.2	3.9	-1.0	6.5	6.0
Real gross domestic product	2.7	-1.2	3.8	2.6	3.8	1.5	1.6	2.0	2.1	2.2	1.9	1.7	0.9	1.4	2.4	2.0
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.3	0.4	1.1	1.3	1.4	2.0	1.3	1.3	1.2	1.2	1.3	1.3	-0.2	0.6	1.5	1.2
Pre-tax corporate profits	-10.2	-15.3	-3.0	12.0	16.0	29.4	11.5	5.3	2.0	3.7	4.4	4.4	-19.5	-4.5	14.9	3.6
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.7	6.7	6.6	6.6	6.5	6.5	6.4	6.4	6.9	7.0	6.7	6.5
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	2.1	2.4	2.6	2.6	2.2	2.0	2.2	2.3	1.1	1.4	2.4	2.2
Core CPI	2.0	2.1	1.9	1.6	1.7	1.9	1.9	2.2	2.2	2.0	2.2	2.1	2.2	1.9	1.9	2.1
External trade																
Current account balance ($b)	-71.3	-77.6	-79.0	-42.9	-54.5	-44.3	-42.2	-39.3	-34.7	-28.3	-24.5	-21.2	-67.6	-67.7	-45.1	-27.2
% of GDP	-3.6	-3.9	-3.9	-2.1	-2.6	-2.1	-2.0	-1.8	-1.6	-1.3	-1.1	-0.9	-3.4	-3.3	-2.1	-1.2
Housing starts (000s)*	199	198	199	197	226	203	200	194	188	182	179	175	196	198	206	181
Motor vehicle sales (mill., saar)*	2.02	1.99	1.95	1.99	2.11	1.92	1.91	1.90	1.90	1.90	1.89	1.89	1.94	1.98	1.96	1.90
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	0.50	0.50	0.50	1.25
Three-month	0.45	0.48	0.53	0.46	0.52	0.50	0.55	0.60	0.65	0.85	1.15	1.40	0.51	0.46	0.60	1.40
Two-year	0.54	0.52	0.52	0.80	0.75	0.85	0.95	1.05	1.20	1.40	1.60	1.80	0.48	0.80	1.05	1.80
Five-year	0.67	0.57	0.62	1.15	1.12	1.30	1.55	1.85	2.05	2.30	2.45	2.60	0.73	1.15	1.85	2.60
10-year	1.23	1.06	1.00	1.80	1.62	1.90	2.15	2.45	2.60	2.80	2.95	3.10	1.40	1.80	2.45	3.10
30-year	2.00	1.72	1.66	2.35	2.30	2.45	2.70	2.95	3.05	3.20	3.30	3.45	2.15	2.35	2.95	3.45
Canadian dollar	1.30	1.29	1.31	1.34	1.33	1.38	1.38	1.38	1.37	1.36	1.35	1.33	1.38	1.34	1.38	1.33

* Quarterly averages, level

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

April 2017

Forecast detail – United States

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2016				2017				2018				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	1.6	4.3	3.0	3.5	0.9	2.5	2.5	2.4	2.6	2.4	2.1	2.0	3.2	2.7	2.4	2.4
Durables	-0.6	9.8	11.6	11.4	-1.5	4.5	3.1	3.1	3.0	2.7	2.1	2.1	6.9	5.8	5.1	2.9
Non-durables	2.1	5.7	-0.5	3.3	2.1	1.9	2.8	2.8	3.1	2.8	2.2	2.0	2.6	2.5	2.3	2.7
Services	1.9	3.0	2.7	2.4	0.9	2.3	2.3	2.2	2.4	2.2	2.1	2.0	2.8	2.3	2.1	2.2
Government spending	1.6	-1.7	0.8	0.2	1.5	1.2	1.2	1.0	0.6	0.4	0.4	0.4	1.8	0.8	0.8	0.7
Residential investment	7.8	-7.8	-4.1	9.6	10.0	3.6	3.0	5.5	5.7	6.4	6.6	6.3	11.7	4.9	4.5	5.5
Business investment	-3.4	1.0	1.4	0.9	5.1	3.3	4.3	4.4	4.3	3.9	3.1	2.8	2.1	-0.5	3.1	3.9
Non-residential structures	0.1	-2.1	12.0	-1.9	4.1	2.2	4.0	4.5	4.5	3.8	2.9	2.3	-4.4	-2.9	3.1	3.8
Non-residential equipment	-9.5	-3.0	-4.5	2.0	6.4	3.4	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-2.9	2.7	4.3
Intellectual property	3.8	9.0	3.2	1.3	3.9	3.9	3.8	3.7	3.4	3.3	3.2	3.0	4.8	4.7	3.6	3.5
Final domestic demand	1.2	2.4	2.1	2.8	1.8	2.4	2.5	2.5	2.6	2.4	2.1	2.0	3.1	2.1	2.3	2.4
Exports	-0.7	1.8	10.0	-4.5	9.8	-0.5	1.0	1.5	2.5	2.8	3.2	3.2	0.1	0.4	2.9	2.1
Imports	-0.6	0.2	2.2	8.9	6.0	3.5	1.2	2.5	3.1	2.9	3.5	3.0	4.6	1.1	4.4	2.8
Inventories (change in $b)	40.7	-9.5	7.1	49.6	25.0	37.0	35.0	33.0	30.0	30.0	30.0	29.0	84.0	22.0	32.5	29.8
Real gross domestic product	0.8	1.4	3.5	2.1	1.6	2.2	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.2	2.3
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	0.1	-0.3	0.1	1.2	1.4	1.7	1.0	0.9	1.2	1.3	1.2	1.2	0.8	0.3	1.2	1.2
Pre-tax corporate profits	-6.6	-4.3	2.1	9.3	6.5	7.5	2.4	2.3	2.6	2.7	2.7	2.4	-3.0	-0.1	4.6	2.6
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.6	4.6	4.5	4.5	4.5	4.4	4.4	5.3	4.9	4.6	4.5
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.6	2.4	2.5	2.3	2.0	2.2	2.2	2.2	0.1	1.3	2.4	2.2
Core CPI	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.0	2.1	2.1	2.1	1.8	2.2	2.2	2.1
External trade																
Current account balance ($b)	-532	-479	-464	-450	-444	-476	-481	-490	-500	-508	-518	-524	-463	-481	-472	-512
% of GDP	-2.9	-2.6	-2.5	-2.4	-2.3	-2.5	-2.5	-2.5	-2.5	-2.5	-2.6	-2.6	-2.6	-2.6	-2.4	-2.5
Housing starts (000s)*	1151	1159	1145	1248	1240	1217	1241	1271	1300	1333	1362	1396	1108	1176	1242	1348
Motor vehicle sales (millions, saar)*	17.3	17.1	17.5	18.0	17.2	17.9	18.0	18.1	18.2	18.2	18.3	18.4	17.4	17.5	17.8	18.3
INTEREST RATES %, END OF PERIOD																
Fed funds	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.50	0.75	1.50	2.50
Three-month	0.21	0.26	0.29	0.51	0.76	1.00	1.05	1.30	1.55	1.80	2.05	2.30	0.16	0.51	1.30	2.30
Two-year	0.73	0.58	0.77	1.25	1.27	1.45	1.60	1.90	2.15	2.40	2.60	2.80	1.06	1.25	1.90	2.80
Five-year	1.21	1.01	1.14	2.00	1.93	2.10	2.25	2.50	2.65	2.90	3.05	3.20	1.76	2.00	2.50	3.20
10-year	1.78	1.49	1.60	2.55	2.40	2.65	2.80	3.00	3.15	3.40	3.50	3.60	2.27	2.55	3.00	3.60
30-year	2.61	2.30	2.32	3.15	3.02	3.20	3.35	3.50	3.60	3.75	3.80	3.90	3.01	3.15	3.50	3.90
Yield curve (10s-2s)	105	91	83	130	113	120	120	110	100	100	90	80	121	130	110	80

* Quarterly averages, level

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

April 2017

CURRENT ECONOMIC INDICATORS

Canada - US Comparisons

	Canada: From Preceding Month	Canada: From Year Ago	Canada: Year-To-Date	Canada: Latest Month	US: From Preceding Month	US: From Year Ago	US: Year-To-Date	US: Latest Month
Business								
Industrial production[1]	1.5	3.5	-0.2	Jan.	0.6	1.6	-0.9	Mar.
Mfg. inventory - shipments ratio (level)	1.3	1.3	1.4	Feb.	1.3	1.3	1.4	Feb.
New orders in manufacturing	0.8	12.6	-1.8	Feb.	1.0	7.3	-3.3	Feb.
Business loans - Banks	-1.8	1.0	7.7	Feb.	-0.7	3.0	9.6	Mar.
Index of stock prices[2]	1.0	15.2	-0.7	Mar.	1.6	17.1	5.5	Mar.
Households								
Retail sales	-0.6	4.7	4.2	Feb.	-0.2	4.6	2.6	Mar.
Auto sales	1.0	2.9	2.6	Feb.	-3.0	-10.3	-6.5	Mar.
Total consumer credit[3]	0.2	3.5	3.0	Jan.	0.4	6.3	6.6	Feb.
Housing starts	18.2	24.4	2.8	Mar.	-6.8	9.2	7.9	Mar.
Employment	0.1	1.5	0.8	Mar.	0.3	1.1	1.6	Mar.
Prices								
Consumer price index	0.2	1.6	1.3	Mar.	-0.3	2.4	0.95	Mar.
Producer price index[4]	0.1	3.5	-0.2	Feb.	-0.2	3.7	-1.5	Mar.
Interest rates								
Policy rate	0.5	0.5	0.5	Mar.	0.76	0.76	0.67	Mar.
90-day commercial paper rates	0.8	0.8	0.9	Mar.	0.9	0.9	0.8	Mar.
Government bonds (10 years)	1.8	1.8	1.8	Mar.	2.5	2.5	2.4	Mar.

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

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

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

[3] Excludes credit unions and caisses populaires.

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

April 2017

RBC

econoscope