Econoscope

October 2019

GOODS SECTOR CAPS CANADIAN GDP IN JULY

FINANCIAL MARKETS - SENTIMENT SLUMP

HOUSING MARKET GAINS MORE ALTITUDE IN SEPTEMBER

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Nathan Janzen, Josh Nye

GOODS SECTOR CAPS CANADIAN GDP IN JULY

LATEST AVAILABLE: JULY

RELEASE DATE: OCTOBER 1, 2019

The Canadian economy's best growth streak since 2017 came to an end in July thanks to a broadly-based decline in the goods sector. Oil and gas was the main source of weakness as drilling activity slowed and maintenance shutdowns in Newfoundland and Labrador trimmed production. Manufacturing output was down only slightly, though the sector's earlier outperformance relative to countries like the US and Germany does seem to be gradually fading. The good news is that there continues to be little evidence of spillover into the larger services economy, which has posted above-trend gains in four of the last five months. A rebound in the housing sector was in evidence again in July but that is far from the only services industry contributing to growth.

HIGHLIGHTS

▲ GDP was flat in July following four months of gains

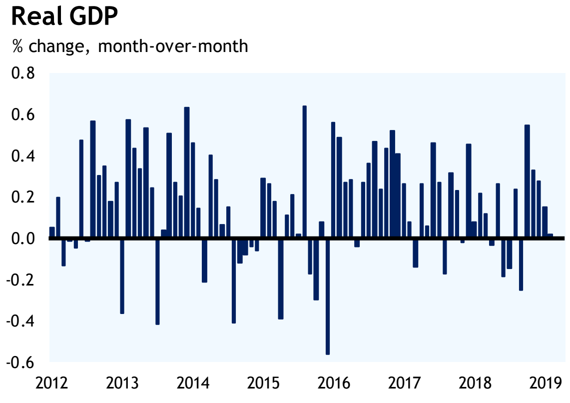
▲ The unemployment rate fell 0.2 ppts to 5.5%

▲ Retail sales declined 0.1% in August, but due to lower prices

▲ Housing starts above consensus at 221,000 annualized units in September

▲ Trade deficit narrowed to $1B, in line with consensus

▲ CPI inflation held steady at 1.9% from a year ago



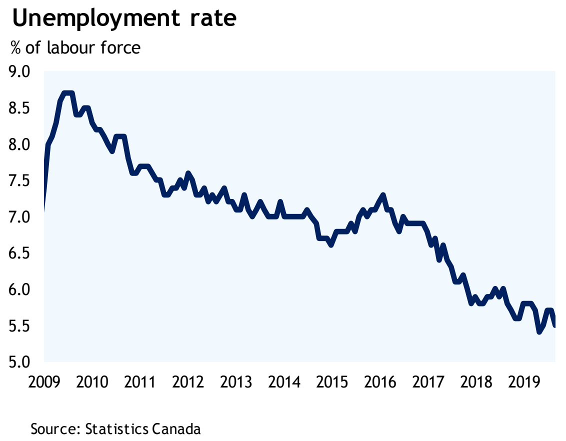
Source: Statistics Canada

CANADA'S LABOUR MARKET STILL ON A TEAR

LATEST AVAILABLE: SEPTEMBER

RELEASE DATE: OCTOBER 11, 2019

There was no give-back after August's strong jobs numbers as Canada recorded another above-50,000 employment gain in September (the fifth such increase in nine months this year). The unemployment rate fell 0.2 ppts to 5.5%. Wage growth, previously the missing link in a strong labour market backdrop, has picked up momentum this year and is running north of 4%. The combination of expanding employment and rising wages has provided some insulation for consumers, some of whom have faced higher debt servicing costs after rate hikes in 2017 and 2018.

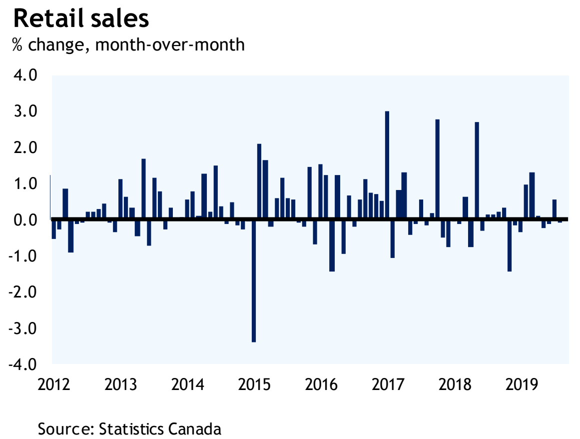


CONSUMER SPENDING STILL INCHING HIGHER

LATEST AVAILABLE: AUGUST

RELEASE DATE: OCTOBER 22, 2019

The headline dip in nominal sales in August was softer than expected, but part of that was due to a drop in (gasoline) prices. Volume sales ticked up 0.2% to leave sale volumes on pace to increase a little faster in Q3 than the tiny 0.4% (annualized) gain in Q2. The retail spending backdrop still looks lackluster relative to ostensibly sharply improving labour markets. Still, overall consumer spending trends have been stronger than the retail numbers alone would imply. And households certainly appear to be spending more on real-estate.

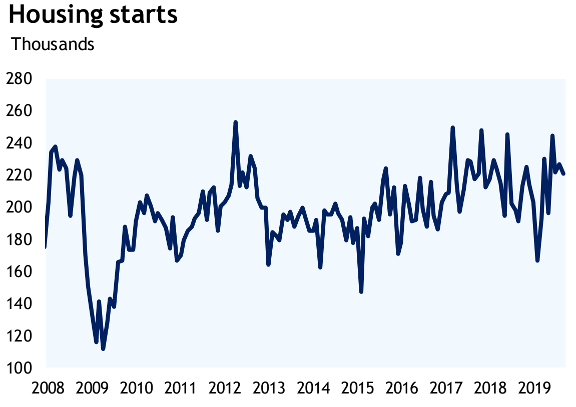


CANADIAN HOUSING STARTS REMAIN STRONG

LATEST AVAILABLE: SEPTEMBER

RELEASE DATE: OCTOBER 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 rebound 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.



Source: Canadian Mortgage and Housing Corporation

CANADIAN TRADE DEFICIT NARROWED WITH WEAK DETAILS IN AUGUST

LATEST AVAILABLE: AUGUST

RELEASE DATE: OCTOBER 4, 2019

Canadian trade deficit narrowed to $1B in August up from a revised $1.4B deficit in July. Non-energy export volumes increased about 1% month-over-month by our count, but driven largely from an increase in exports of aircraft and other transportation equipment which grew by 13.2%. After accounting for price effects, energy exports were also down 2.2% in August. Imports volumes were also up, but with weak details. Despite the fact that they were up—much of which was driven from gold, a pullback in equipment imports does not bode well for near-term business investment growth.

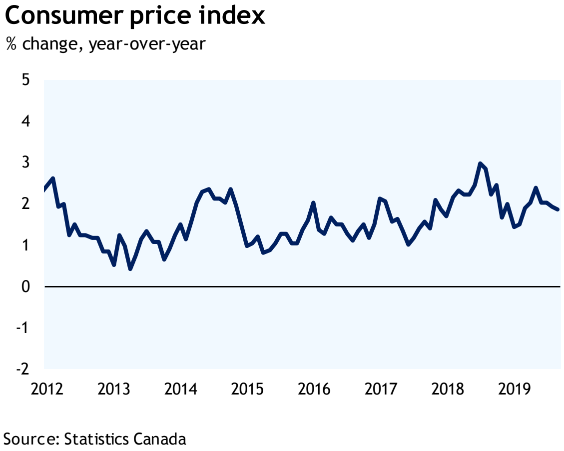
Source: Statistics Canada

INFLATION TRENDS STILL STABLE

LATEST AVAILABLE: SEPTEMBER

RELEASE DATE: OCTOBER 16, 2019

CPI inflation held steady at 1.9% from a year ago. Ex-food & energy price growth edged down to 2.1%; both largely due to big month-over-month price changes in some of the more volatile subcomponents. Airfares were expected to fall month-over-month, and tuition fees posted their first decline on record (since 1973) because of Ontario government-mandated tuition cuts. But other details were firmer and left underlying inflation trends looking still solidly planted around the Bank of Canada's 2% inflation target. The BoC's three preferred 'core' inflation measures edged up to 2.1%, on average, from 2.0% in August.



ECONOMY AT A GLANCE

% change from:	Latest month	Previous month	Year ago
Real GDP	Jul	0.0	1.3
Industrial production	Jul	-0.9	-1.7
Employment	Sep	0.3	2.4
Unemployment rate*	Sep	5.5	5.8
Manufacturing			
Production	Jul	-0.1	-1.2
Employment	Sep	0.1	1.7
Shipments	Aug	0.8	-0.5
New orders	Aug	6.1	-0.1
Inventories	Aug	0.5	6.2
Retail sales	Aug	-0.1	1.1
Car sales	Aug	2.5	0.5
Housing starts (000s)*	Sep	221.1	191.1
Exports	Aug	1.8	-0.2
Imports	Aug	1.0	0.9
Trade balance ($billlions)*	Aug	-1.0	-0.4
Consumer prices	Sep	-0.4	1.9

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

FINANCIAL MARKETS

SENTIMENT SLUMP

Josh Nye

“We can thank central banks, which have acted as a security blanket for equity markets this year”

It was a rough start to October with the S&P falling 3% in the first two days of the month. The trigger was a string of disappointing manufacturing sentiment reports (most notably from the US and Germany) that reignited fears about the health of the global economy. Markets were already on edge after a month of rising geopolitical tensions. An attack in Saudi Arabia temporarily disrupted a sizeable chunk of global oil production, the US House of Representatives opened an impeachment inquiry against President Trump, embattled UK PM Boris Johnson continued to vow to leave the EU on October 31 (come what may), and months-long protests in Hong Kong escalated further.

Perhaps it’s more surprising that a selloff didn’t come sooner. We can thank central banks, which have acted as a security blanket for equity markets this year. Both the Fed and ECB lowered rates in September (with the latter announcing plans to restart QE) and a number of other advanced and emerging market central banks followed suit. In fact, it was the prospect of additional easing—spurred on by yet more negative economic data—that seemed to halt the latest decline in equities. Growing (but still not overwhelming) evidence that manufacturing malaise is spilling over into other sectors has markets betting on further rate cuts, and calls for fiscal stimulus aren’t likely to die down. The best antidote, though, would be reversal of the protectionist trade policies that have weighed on industrial output, business sentiment, and the global flow of goods.

FINANCIAL MARKETS

AND THE SURVEY SAYS...

Josh Nye

A further decline in the ISM manufacturing index reignited fears about the health of the US industrial sector. The headline reading fell to a new cycle low, eclipsing downturns during the 2012 European debt crisis and 2015-16 oil price shock. Production, employment, and new orders indices are all pointing to contraction—and new export orders especially so. The further decline in manufacturing sentiment is despite some renewed optimism on the trade front last month. Perhaps respondents are paying more attention to actual policy changes—15% tariffs on more than $100 billion in Chinese imports took effect in September—than the ebbs and flows of trade negotiations.

HIGHLIGHTS

- ▲ US The US raised tariffs on Chinese imports again in September, and manufacturing sentiment suffered.
- ▲ Tariff hikes have had a limited impact on consumer prices thus far, but companies' margins are being squeezed.
- ▲ The US housing sector is picking up again as earlier rate increases have been reversed.
- ▲ The Fed is divided on whether further easing is needed, but we think one more cut is likely this year.

The impact of tariff hikes isn't confined to sentiment data. US customs receipts hit a record $7.2 billion in August. That's good news for the Treasury, but bad news for domestic firms (no, it's not Chinese exporters that are paying those tariffs). The average tariff rate on US goods imports has essentially doubled over the last year and a half, and it looks like stiff competition is forcing importers to absorb that rise in input costs. Companies are increasingly complaining about margin compression, and manufacturers noted "limited ability to raise prices" in the Fed's latest Beige Book. Pressure on margins will only increase if the Trump administration makes good on current plans to raise tariffs further in mid-October and mid-December.

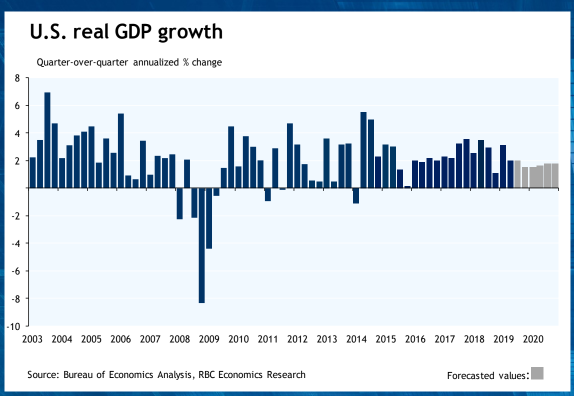
LOWER RATES SUPPORTING THE HOUSEHOLD SECTOR

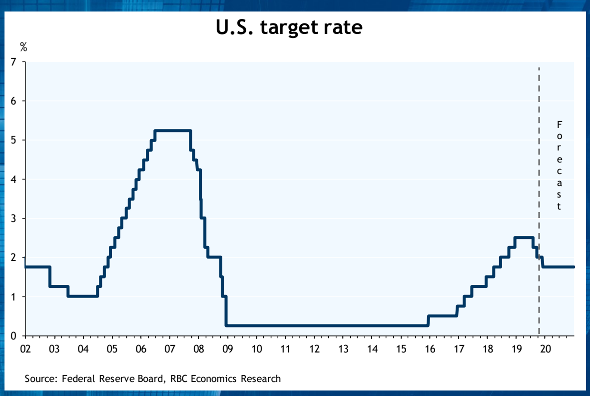
The ISM non-manufacturing index was equally disappointing in September, falling to its lowest level in three years (but still above the 50 mark, signaling expansion). We've been on the lookout for signs of manufacturing weakness spilling over into other sectors, so this is a concerning development. But there are still few signs of stress in the labour market, and there is growing evidence that lower rates are helping the household sector. Consumer spending increased at a nearly-4% annualized rate year-to-date with rate-sensitive durable goods purchases rising at a double-digit pace. Meanwhile, the latest housing data have been positive across the board: both housing starts and building permits hit a cycle high in August, and existing home sales were the highest since early-2018. It looks like the residential sector added to GDP growth in Q3 for the first time since 2017. That turnaround owes a lot to lower borrowing costs this year which have improved affordability. Ongoing strength on the consumer side and a return to health in housing are providing much-needed offset to headwinds in the industrial sector and capex space—and should continue to do so unless the jobs backdrop deteriorates.

WILL A DIVIDED FED CUT RATES FURTHER?

The Fed cut rates at its second consecutive policy meeting in September, continuing a mid-cycle adjustment that is being framed as insurance against risks from slowing global growth and trade. Three of ten voters dissented this time around—two argued against a rate cut (as they did at the prior meeting) while one would've liked to see a larger 50 basis point move. The division didn't end there, with the dot plot showing no consensus on the appropriate policy path over the rest of the year. Five members expect rates to be held steady, five think a rate increase would be appropriate (whether they would vote that way is another question), and seven think one more cut will be needed. The latter likely have past mid-cycle adjustments in mind (75 basis points each in 1995 and 1998).

It's not surprising, then, that the Fed offered little forward guidance in its policy statement, simply reiterating that it will "act as appropriate to sustain the expansion." Whether the "appropriate" action is another rate cut will depend on how the balance of risks around the outlook evolves toward year-end. Recent sentiment data suggests downside risks continue to build. So while there is optimism about upcoming US-China trade talks, we think it will take real progress toward a trade deal (or at least de-escalation) to keep the Fed on the sidelines. Markets are fully pricing in a rate cut, and even some odds of two moves, by year end. Our forecast assumes a 25 basis point cut in Q4, and unless growth slows more sharply, steady monetary policy in 2020.





FINANCIAL MARKETS

CANADA'S GROWTH STREAK ENDS, BUT SERVICES OUTPUT POWERS ON

Josh Nye

HIGHLIGHTS

- ▲ Canada's goods-producing sector weighed on growth in July…
- ▲ …but services GDP is rising at a healthy 2.5% year-over-year clip.
- ▲ Fiscal policy could become slightly more stimulative after the federal election on October 21.
- ▲ The BoC's next Business Outlook Survey will be closely watched for how domestic firms are dealing with rising global uncertainty.

Canadian GDP was flat in July, ending a run of upside surprises that amounted to the best monthly growth streak in two years. Maintenance shutdowns in the oil and gas sector and a pullback in drilling activity weighed on growth in July. A further increase in Alberta's production caps gives the energy sector room to grow over the second half of the year, and July's transitory shutdowns should be reversed, but investment remains sluggish due to longer-term egress issues. The boost to global oil prices from supply disruptions in Saudi Arabia didn't last, leaving WTI in the lower half of the $50-60 per barrel range that prevailed over the summer. Meanwhile, Canada's manufacturing sector continued to lose steam. That's not surprising given the global slowdown in industrial production growth. Further deterioration in manufacturing sentiment in countries like the US and Germany raises concerns about Canada's industrial outlook going forward, even as the domestic PMI improved in September.

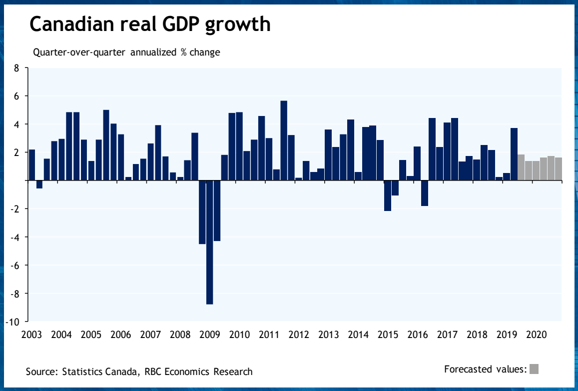
Fortunately, Canada's services sector has continued to power ahead, recording above-trend gains in four of the last five months. Growth was broadly-based over that period, with particular strength in the wholesale and transport sectors (a bit surprising given a slowdown on the goods side) as well as finance and real estate (in line with an ongoing recovery in housing). Globally, the key question is whether weakness in the industrial sector is spilling over into the rest of the economy. There is some early evidence of that dynamic in Germany, where manufacturing is a larger share of the economy, but the Canadian services sector's recent performance suggests we're not there yet. Weakness in goods production will make it difficult to maintain above-2% growth—in line with the BoC's view that growth will be a bit slower over the second half of the year—but there is little to suggest the economy is gearing down more significantly.

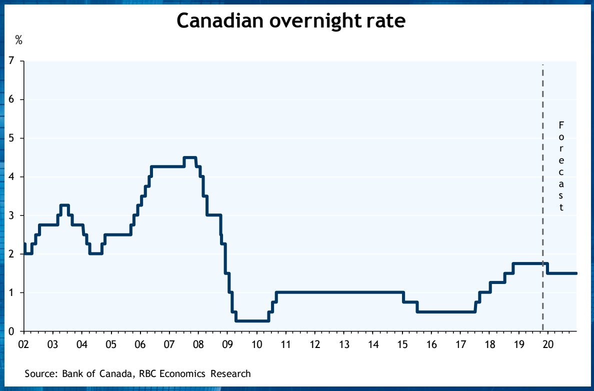
FEDERAL ELECTION TO DETERMINE FISCAL PATH AHEAD

The Department of Finance closed the books on fiscal year 2018/19 (which ended March 31) posting a $14.0 billion deficit. That was slightly lower than projected as income tax receipts got a boost from strong employment growth. Last year's deficit was the smallest in three years but remains a far cry from the average budget shortfall of less than $4 billion in the prior three years (including a nearly balanced budget in FY 2014/15). The government's projections show the deficit widening to nearly $20 billion in both the current and upcoming fiscal years. That increase reflects higher debt servicing costs and the addition of a $3 billion risk adjustment, so it isn't necessarily stimulative. The October 21 election saw the Liberals return to power, albeit with a minority government. Given their electoral platform, a return to a balanced budget is unlikely with some scope of additional fiscal stimulus in the year ahead.

GLOBAL DEVELOPMENTS KEY TO TONE OF UPCOMING BOC MEETING

We were caught a bit off-guard by the Bank of Canada's neutral tone in early-September (so were investors, with the Canadian dollar gaining a cent in the days following the decision). But we still expect a more dovish tone from the central bank at its upcoming meeting on October 30. The BoC is paying "particular attention" to global developments, and relative to July when its forecasts were last refreshed we've seen more protectionism from the US, more uncertainty regarding Brexit, and (relatedly) gloomier manufacturing sentiment globally. So regardless of optimism around US-China trade talks or avoiding a no-deal Brexit, the BoC will be taking a more challenging global backdrop into account when it updates its forecasts. As always, how domestic companies are faring against that backdrop will be a key consideration. We'll get a better view on that in the October 22 Business Outlook Survey. Greater pessimism from Canadian firms would translate into a more cautious or dovish tone from the BoC. It's worth noting that the bank won't immediately incorporate any new fiscal measures following the October election (it tends to wait until the budget is passed) but any prospect of fiscal easing in the year ahead could be cause for patience.





FINANCIAL MARKETS

BOE OPENING THE DOOR TO A RATE CUT

Josh Nye

HIGHLIGHTS

▲ The UK's three industry PMIs were all in contractionary territory in September.

▲ With Brexit uncertainty potentially extending into 2020, the BoE seems more open to lowering rates.

▲ The ECB introduced a slew of easing measures in September, the second-last meeting under Draghi's leadership.

▲ Despite solid job growth, the RBA is seeing little progress toward its full employment objective.

We continue to expect the UK economy will avoid a 'technical' recession in Q3 (two consecutive quarters of declining GDP) but that hardly means the economic outlook is improving. Activity likely got a boost from last quarter from no-deal Brexit preparations (inventory building provided a similar lift in Q1) and stronger auto production (annual shutdowns were brought forward into Q2). But the economy's underlying pulse remains weak with PMI data pointing to ongoing contraction in the manufacturing and construction industries, and further softening in the services sector. Negative sentiment is clearly weighing on business investment, which declined in five of the last six quarters. Household spending is keeping the economy above water, with a strong labour market and accelerating wage growth giving some balance to an otherwise deteriorating consumer confidence picture. Overall, though, it's hard to see growth picking up above a 0.2-0.3% pace in the coming quarters unless Brexit uncertainty is resolved.

PM Johnson is negotiating with the EU on a potential solution to the Irish border issue, but barring an agreeable compromise (which eluded former PM May) it looks like the UK will have to ask for another deadline extension to avoid a no-deal Brexit on October 31. That could mean further Brexit uncertainty heading into 2020, three-and-a-half years after the referendum. That prospect, combined with a slowing global growth backdrop, is starting to weigh more heavily on the BoE. As one formerly hawkish MPC member recently noted, even if a no-deal Brexit is avoided, it's plausible that the next move on rates could be down. We have been of that view for some time, and retain a Q4 rate cut in our profile.

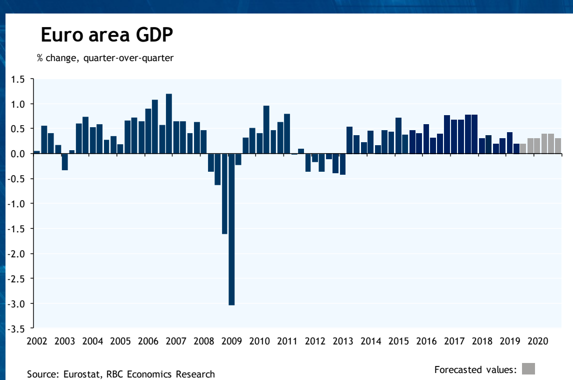
DRAGHI GOES ALL IN, ONE LAST TIME

Outgoing ECB President Draghi doesn't do things in half measures, and that remained the case at his penultimate policy meeting in September. The central bank unveiled its promised stimulus package, the centrepiece of which sees quantitative easing restart in what is effectively an open-ended program (continuing until shortly before rates rise, which is likely to be years from now). That went further than most thought and offset any disappointment with a relatively modest 10 basis point rate cut. Other measures included a tiered deposit rate to soften the impact of negative rates on the banking system, and details on a new refinancing operation to encourage lending. Draghi then passed the baton not to incoming ECB President Christine Lagarde, but to EU lawmakers, saying fiscal policy should be the main tool going forward. The idea that the ECB has played its hand fueled a negative market reaction, even if the actual policy measures went beyond expectations.

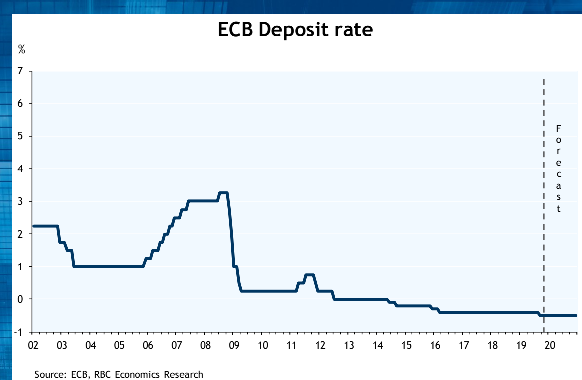
Based on the latest economic data, a fiscal jolt wouldn't hurt. Germany's industrial slowdown shows no sign of letting up, with the country's manufacturing PMI falling to lows not seen since the financial crisis. It looks like the euro area's largest economy contracted again in Q3, though growth in the currency bloc's less trade-dependent countries should keep overall GDP around 0.2% in the quarter.

RBA MOVES SOONER THAN EXPECTED, MORE TO COME THIS YEAR

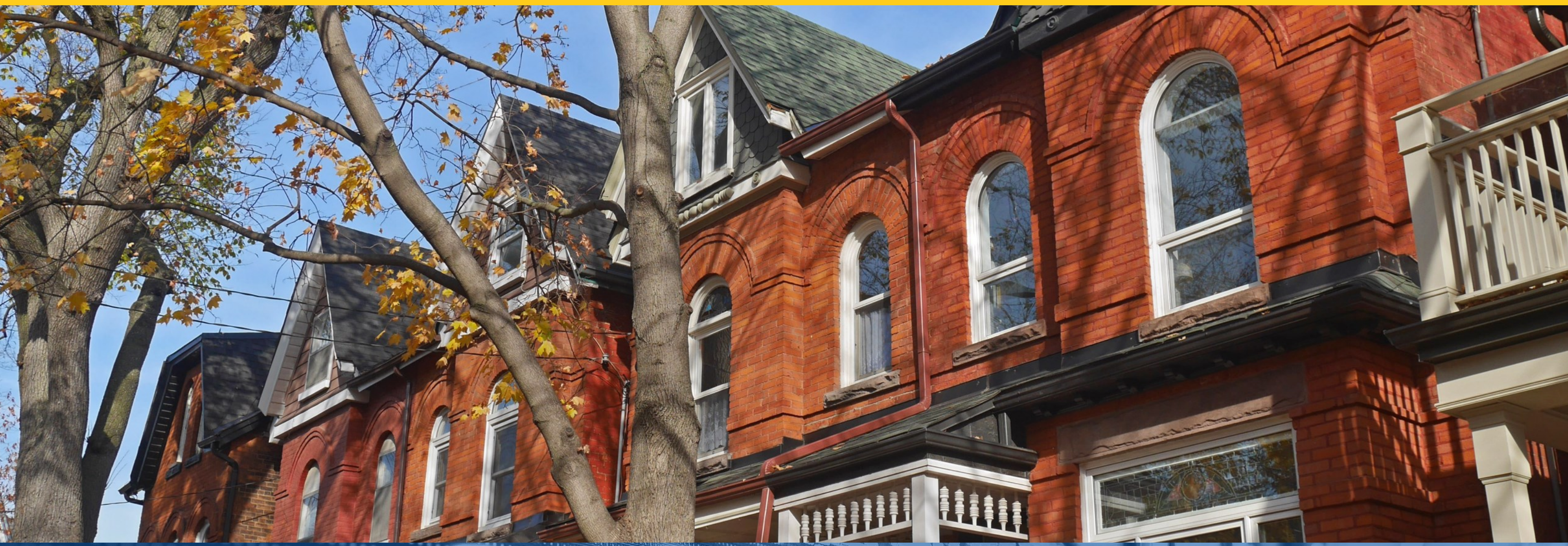
The Reserve Bank of Australia lowered its cash rate by another 25 basis points at the beginning of October, ending what turned out to be a very brief pause after back-to-back cuts in June and July. That the central bank moved even sooner than we expected (November was circled in our calendar) suggests limited confidence in hitting its inflation objective, and little patience to wait for signs of policy traction. The RBA's statement highlighted two themes that we've said are key in the current easing cycle: labour markets and the global rates backdrop. It noted that employment growth is likely to slow from its recent, strong pace, which itself hasn't been enough to absorb slack and lift wages. The statement also put more emphasis on achieving full employment, a goal that appears distant with the unemployment rate rising (now ~3/4 ppt above longer run levels) and underemployment even higher. The RBA also pointed out the "trend to lower interest rates globally," something Governor Lowe recently said could impact the country's exchange rate and its ability to achieve inflation and employment targets. With the central bank maintaining an easing bias and seemingly ready to act on it, we have brought forward our call for the next cut from February to December.



Source: Eurostat, RBC Economics Research



Source: ECB, RBC Economics Research



CURRENT ANALYSIS

ROBERT HOGUE

MARKET GAINS MORE ALTITUDE IN SEPTEMBER

- **Home resales climbed further above average in Canada:** Activity rose another 0.6% in September to 512,000 units (seasonally-adjusted and annualized). This was the highest level in 21 months and 6.6% above the 10-year average.
- **Sellers are increasingly in the driver's seat:** The sales-to-listings ratio (a gauge of demand-supply conditions) inched higher to 0.61 nationwide—a level usually associated with more pricing power for sellers—with Toronto and Vancouver firming up noticeably in recent months.
- **Home prices are heating up... modestly:** The national Home Price Index (HPI) further picked up its pace in September, rising 1.3% from a year ago (versus 0.9% in August). Price momentum has been increasing since June.
- **Vancouver's turnaround continues; upswing in Toronto, Ottawa and Montreal pause:** Vancouver recorded a strong resales gain for a third-straight month and showed further signs that prices have passed their cyclical bottom. Demand-supply conditions remained very tight in Ottawa and Montreal despite slight activity declines in September. Resales were little changed in the Toronto area but prices further accelerated their ascent. Things were a little soft in Calgary and Edmonton though not enough to alter the uptrend in place since March.
- **The market has turned the corner:** With Vancouver more clearly in recovery mode, the overall state of, and prospects for Canada's housing market appears to be quite solid. Low mortgage rates, solid labour markets and strong population growth will keep activity and prices on a upward trajectory.

SOFT LANDING IS OVER AND DONE—IT'S FLIGHT TIME AGAIN

For those keeping track, September marked the seventh-straight month of increase in home resales in Canada and the third during which the national HPI rose above its year-ago level. And with demand-supply conditions now letting sellers set transaction terms more assertively, latest report from the Canadian Real Estate Association (CREA) leaves little doubt that the overall market has taken flight again. If anything, resale activity could have been even stronger last month had it not been for a 0.6 drop in new listings which quite possibly held back some buyers.

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	1.4	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	0.8	2.0	1.0	1.0	1.0	1.0	7.1	1.0	0.7	1.0
Semi-Durables	0.6	1.8	3.1	-0.1	3.4	1.4	1.0	2.0	2.0	2.0	2.0	2.0	3.1	1.4	1.8	1.8
Non-durables	-0.1	1.6	2.0	0.5	3.2	-0.5	1.0	2.0	1.6	1.6	1.6	1.6	2.7	1.6	1.4	1.5
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	0.7	-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	3.0	-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	1.9	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	1.0	1.2	1.6	1.7	1.5	1.5	1.1	3.2	2.6	2.1
Imports	4.2	6.2	-8.9	-0.7	8.7	-4.0	0.5	0.8	0.5	0.3	1.2	1.8	4.2	2.9	0.5	0.4
Inventories (change in $b)	16.6	13.3	7.2	13.9	19.5	14.0	12.5	9.5	9.5	8.0	8.0	8.0	17.6	12.7	13.9	8.4
Real gross domestic product	1.5	2.5	2.1	0.3	0.5	3.7	1.8	1.4	1.4	1.6	1.7	1.6	3.0	1.9	1.6	1.7
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.5	-0.3	0.3	-0.3	0.4	0.2	0.4	0.8	0.7	0.8	0.8	0.9	1.7	-0.2	0.4	0.8
Pre-tax corporate profits	-1.4	2.2	6.9	-5.7	-2.9	1.0	-3.6	9.7	7.2	1.2	3.2	2.2	20.1	0.5	0.9	3.4
Unemployment rate (%)*	5.8	5.9	5.9	5.6	5.8	5.5	5.6	5.6	5.7	5.7	5.8	5.8	6.3	5.8	5.6	5.8
Inflation																
Headline CPI	2.1	2.3	2.7	2.0	1.6	2.1	2.0	2.2	2.0	1.6	1.5	1.7	1.6	2.3	2.0	1.7
Core CPI	1.8	1.8	2.1	2.0	1.9	2.3	2.3	2.3	2.1	2.0	1.9	1.9	1.6	1.9	2.2	2.0
External trade																
Current account balance ($b)	-65.5	-61.5	-40.6	-66.5	-66.5	-25.5	-25.4	-21.6	-18.1	-12.5	-8.6	-6.7	-60.1	-58.5	-34.7	-11.5
% of GDP	-3.0	-2.8	-1.8	-3.0	-3.0	-1.1	-1.1	-0.9	-0.8	-0.5	-0.4	-0.3	-2.8	-2.6	-1.6	-0.5
Housing starts (000s)*	224	218	197	217	187	224	221	207	201	201	200	200	220	213	209.8	200.4
Motor vehicle sales (mill., saar)*	2.10	2.06	2.02	1.96	2.02	1.94	1.94	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	1.45	1.35	1.30	1.45	1.45	1.50	1.69	1.86	1.35	1.50
Five-year	1.97	2.07	2.34	1.89	1.52	1.39	1.40	1.35	1.40	1.50	1.55	1.60	1.87	1.89	1.35	1.60
10-year	2.09	2.17	2.43	1.97	1.62	1.47	1.45	1.35	1.45	1.55	1.60	1.70	2.04	1.97	1.35	1.70
30-year	2.23	2.20	2.42	2.18	1.89	1.69	1.70	1.60	1.70	1.80	1.90	1.95	2.27	2.18	1.60	1.95
Canadian dollar	1.29	1.31	1.29	1.36	1.33	1.31	1.30	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	2.6	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	2.5	1.5	1.6	1.8	1.9	1.9	6.9	6.3	4.0	2.5
Non-durables	0.7	4.1	3.6	1.7	2.2	6.5	2.0	1.6	1.6	1.8	1.8	1.8	2.5	3.0	3.1	2.0
Services	1.9	3.4	3.4	1.4	1.0	2.8	2.5	1.8	1.9	2.0	2.0	2.0	2.0	2.5	2.1	2.0
Government spending	1.9	2.6	2.1	-0.4	2.9	4.8	2.4	2.0	1.5	1.5	1.5	1.5	0.7	1.7	2.4	1.9
Residential investment	-5.2	-3.7	-4.0	-4.6	-1.1	-2.9	8.7	-1.0	0.9	1.0	2.0	1.4	3.5	-1.5	-1.5	1.4
Business investment	8.8	7.9	2.1	4.8	4.4	-1.0	-0.3	0.9	0.0	-0.2	0.5	1.0	4.4	6.4	2.5	0.2
Non-residential structures	12.0	11.0	-2.1	-9.0	4.0	-11.1	-5.0	0.0	-2.0	-2.0	0.0	2.0	4.7	4.1	-3.2	-2.1
Non-residential equipment	6.6	3.4	2.9	7.4	-0.1	0.8	1.0	0.5	-0.5	-1.0	-0.5	2.0	4.7	6.8	2.2	2.4
Intellectual property	9.7	11.9	4.1	11.7	10.9	3.6	1.0	2.0	2.0	2.0	2.0	2.0	3.6	7.4	7.0	2.0
Final domestic demand	2.4	4.0	2.8	1.3	1.8	3.6	2.4	1.6	1.5	1.5	1.7	1.9	2.5	3.0	2.4	1.8
Exports	0.8	5.8	-6.2	1.5	4.2	-5.7	2.2	2.2	2.8	2.5	2.5	2.5	3.5	3.0	0.2	2.0
Imports	0.6	0.3	8.6	3.5	-1.5	0.0	2.2	1.8	1.5	1.5	1.0	2.0	4.7	4.4	1.7	1.5
Inventories (change in $b)	40.5	-28.0	87.2	93.0	116.0	69.4	50.0	47.0	40.0	38.0	32.0	28.0	31.7	48.2	70.6	34.5
Real gross domestic product	2.6	3.5	2.9	1.1	3.1	2.0	2.0	1.5	1.5	1.6	1.8	1.8	2.4	2.9	2.3	1.7
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.3	1.8	1.2	1.1	1.7	1.7	1.7	1.9	1.1	0.5	0.6	0.8	1.3	1.3	1.8	0.8
Pre-tax corporate profits	2.9	2.4	4.2	4.2	-2.2	1.3	-0.6	0.2	4.0	0.2	0.0	0.7	-0.3	3.4	-0.3	1.2
Unemployment rate (%)*	4.1	3.9	3.8	3.8	3.9	3.6	3.6	3.7	3.8	3.8	3.8	3.8	4.4	3.9	3.7	3.8
Inflation																
Headline CPI	2.2	2.7	2.6	2.2	1.6	1.8	1.7	1.8	2.0	1.8	2.0	2.2	2.1	2.4	1.7	2.0
Core CPI	1.9	2.2	2.2	2.2	2.1	2.1	2.3	2.3	2.3	2.4	2.2	2.2	1.8	2.1	2.2	2.3
External trade																
Current account balance ($b)	-456	-429	-503	-576	-545	-513	-511	-516	-512	-512	-509	-511	-440	-491	-521	-511
% 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	1230	1295	1300	1300	1310	1310	1209	1250	1248	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	1.90	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	1.50	1.50	1.60	1.65	1.70	1.70	1.89	2.48	1.50	1.70
Five-year	2.56	2.73	2.94	2.51	2.23	1.76	1.50	1.50	1.60	1.65	1.85	1.95	2.20	2.51	1.50	1.95
10-year	2.74	2.85	3.05	2.69	2.41	2.00	1.50	1.50	1.70	1.85	2.00	2.10	2.40	2.69	1.50	2.10
30-year	2.97	2.98	3.19	3.02	2.81	2.52	2.05	1.95	2.10	2.25	2.40	2.45	2.74	3.02	1.95	2.45
Yield curve (10s-2s)	47	33	24	21	14	25	0	0	10	20	30	40	51	21	0	40

*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*	-0.9	-1.7	Jul.	-0.4	-0.2	Sep.
Manufacturing inventory - shipments ratio (level)	1.5	1.5	Aug.	1.4	1.4	Aug.
New orders in manufacturing	6.1	-0.1	Aug.	0.0	-1.8	Aug.
Business loans - Banks	-3.2	12.0	Aug.	-0.4	5.9	Sep.
Index of stock prices**	1.3	3.6	Sep.	2.9	2.8	Sep.
Households						
Retail sales	-0.1	1.1	Aug.	-0.3	4.1	Sep.
Auto sales	2.5	0.5	Aug.	1.3	-11.4	Sep.
Total consumer credit***	0.4	3.1	Aug.	0.4	5.0	Aug.
Housing starts	-2.5	15.7	Sep.	-9.4	1.6	Sep.
Employment	0.3	2.4	Sep.	0.2	1.4	Sep.
Prices						
Consumer price index	-0.4	1.9	Sep.	0.0	1.7	Sep.
Producer price index****	0.2	-1.0	Aug.	-0.5	-0.2	Sep.
Interest rates						
Policy rate [1]	1.75	1.50	Sep.	2.00	2.25	Sep.
Government bonds - (10 years)	1.4	2.4	Sep.	1.7	3.0	Sep.

[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