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January 2017

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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

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IN BRIEF

Highlights this month

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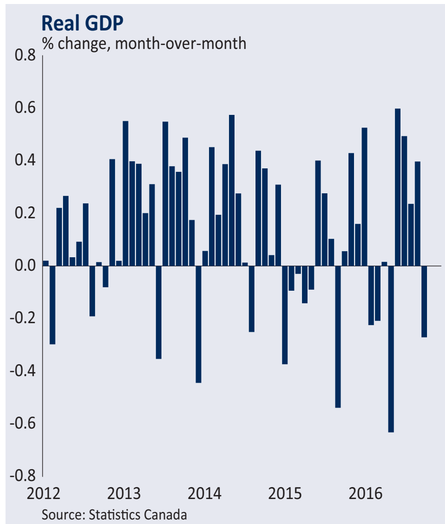
PAUL FERLEY, DAWN DESJARDINS
NATHAN JANZEN, JOSH NYE

CURRENT TRENDS

Canadian GDP fell a larger-than-expected 0.3% in October

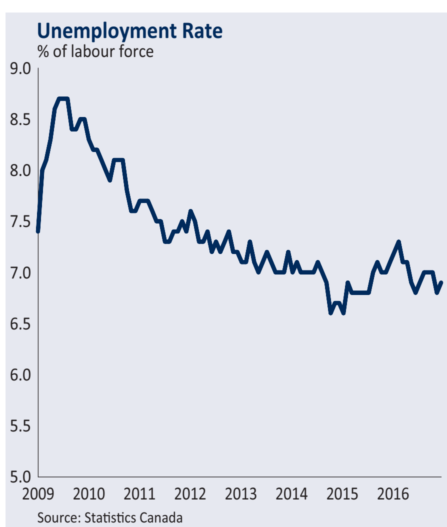
HIGHLIGHTS

- ▲ Canadian GDP fell a larger-than-expected 0.3% in October.
- ▲ Stronger-than-expected job gains accompanied by 69K jump in labour force resulted in the unemployment rate rising to 6.9%.
- ▲ The November increase in retail sales follows a much stronger 1.2% increase in October and compares to an expected increase of 0.5%.
- ▲ Housing starts jumped to 207k annualized units in December from 187k in November, well above market expectations for a more modest rebound to 191k.
- ▲ The unexpected improvement in the trade balance from October reflected a large 4.3% jump in exports that outpaced a 0.7% increase in imports.
- ▲ Headline CPI inflation picked up to 1.5% in December from 1.2% in November, short of market expectations for an increase to 1.7%.



LATEST AVAILABLE: OCTOBER
RELEASE DATE: DECEMBER 23, 2016

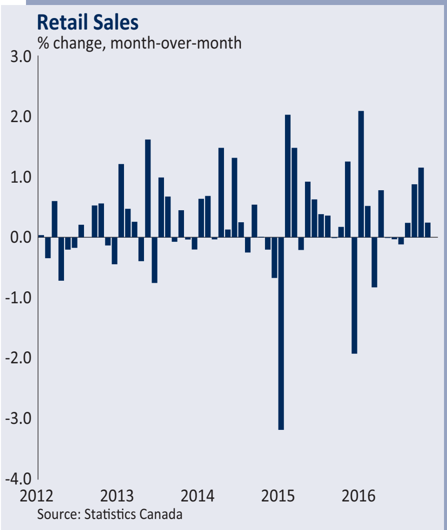
A pull-back in the mining sector and lower manufacturing output weighed heavily on goods output. Services output rose, but by just 0.1%. Mining output declined 1.2%, largely reflecting a 2.5% drop in oil & gas extraction after large gains over the prior four months appeared to overshoot somewhat their recovery from wildfire-related shutdowns in May. Support activities for mining, which is heavily influenced by oil & gas drilling activity inched up for a third consecutive month. Services output rose 0.1% to match the monthly gain in each of the two prior months. Wholesale and retail trade increased (in line with earlier-reported increases in sales volumes in those sectors) but those gains were largely offset by broadly-based weakness elsewhere. Real GDP was 1.5% above last year's level.



Canada's labour market ends 2016 with a bang as employment rises 54,000

LATEST AVAILABLE: DECEMBER
RELEASE DATE: JANUARY 6, 2017

Job gains accompanied by 69K jump in labour force resulted in the unemployment rate rising to 6.9%. Canada's labour market report provided a huge upside surprise with employment surging 54K in December defying market expectations for a small decline. In December full-time jobs increased by 81K more than compensating for the 28K decline in part-time employment. The services sectors of the economy were the growth engines in 2016 with 276K positions created. The gains were broadly based with the exceptions of transportation and business services which were weaker. While job creation firmed in 2016, wage growth slowed over the course of the year. Hourly wages for permanent employees rose 1.5% in December, weighing down the annual average to 2.2%, well below the rapid 3.1% pace at the start of the year.



Canadian nominal retail sales rise 0.2% in November

LATEST AVAILABLE: NOVEMBER
RELEASE DATE: JANUARY 20, 2017

The November increase follows a much stronger 1.2% increase in October and compares to an expected increase of 0.5%. The overall nominal increase was restrained by falling prices in the month with the volume of sales rising a much stronger 0.7% which was up slightly from the 0.6% increase recorded in October. The overall increase was in part attributable to a solid 0.8% gain in sales at motor vehicle dealerships. The month also saw solid gains in building material (2.9%) and furniture stores (2.0%) which Statistics Canada attributed to strength in home purchases and home renovation activity.

Canadian housing starts were stronger than expected in December

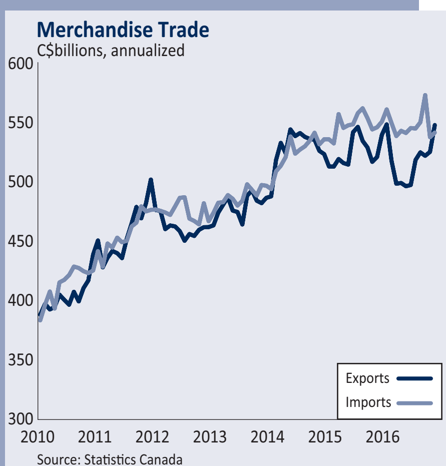
LATEST AVAILABLE: DECEMBER
RELEASE DATE: JANUARY 10, 2017

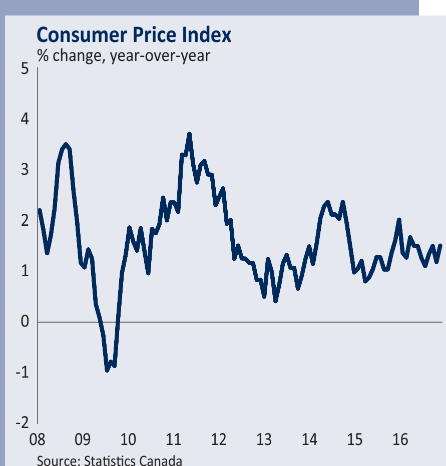
Housing starts jumped to 207k annualized units in December from 187k in November, well above market expectations for a more modest rebound to 191k (see *Housing Starts* chart on page 4). The rebound in December housing starts was broadly based, with urban single-unit starts rising 8% to a 3½-year high while multi-unit starts were up 14%. The increase in multis partially retraced sizeable declines over the prior two months and leaves the level close to the average over the last year. Housing starts totaled 198k units in 2016, up from 194k in 2015 with gains in urban single-unit and rural starts partially offset by lower multiples. As was the case in 2015, Ontario and BC accounted for a sizeable portion of 2016's increase in homebuilding activity. Building permits consolidated at 234k in November following October's three-year high of 233k.

ECONOMY AT A GLANCE

% change from:	Latest month	Previous month	Year ago
Real GDP	Oct	-0.3	1.5
Industrial production	Oct	-1.6	1.6
Employment	Dec	0.3	1.2
Unemployment rate*	Dec	6.9	7.1
Manufacturing			
Production	Oct	-2.0	-0.2
Employment	Dec	0.2	-3.1
Shipments	Nov	1.5	2.1
New orders	Nov	0.5	2.9
Inventories	Nov	-0.2	-2.2
Retail sales	Nov	0.2	3.0
Car sales	Nov	14.3	10.5
Housing starts (000s)*	Dec	207.0	170.9
Exports	Nov	4.3	5.2
Imports	Nov	0.7	-0.8
Trade balance ($billlions)*	Nov	0.5	-2.1
Consumer prices	Dec	-0.2	1.5

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





Canadian merchandise trade balance posted a $0.5B surplus in November

LATEST AVAILABLE: NOVEMBER
RELEASE DATE: JANUARY 6, 2017

The unexpected improvement in the balance from October reflected a large 4.3% jump in exports that outpaced a 0.7% increase in imports. The net surplus was the first posted since September 2014 and was in contrast to expectations for a $1.6 billion deficit. The gain in exports was broadly-based and largely reflected a 3.9% increase in the volume of shipments rather than increased prices. The increase in imports in November was entirely the result of higher prices with volumes unchanged. The main contributors, in volume terms, were a large jump in energy imports (18.8%) offset by declines in the motor vehicle (-2.8%) and aircraft (-19.1%) components.

Canada's inflation rate rose in December, but by less than expected

LATEST AVAILABLE: DECEMBER
RELEASE DATE: JANUARY 20, 2017

Headline CPI inflation picked up to 1.5% in December from 1.2% in November, short of market expectations for an increase to 1.7%. Much of the annual increase reflected a jump in energy price inflation, while lower food prices continued to provide some offset. Energy prices rose 1.6% in the month pushing the annual rate up to 4% in December from close to flat in November. The Bank of Canada's three new core measures, first published by Statistics Canada last month, were little changed on balance. CPI-trim and CPI-median were steady at 1.6% and 2.0%, respectively. CPI-common rose to 1.4% from 1.3% in November. The average of the three edged up to 1.7% from 1.6% in November, after rounding.

JOSH NYE

FINANCIAL MARKETS

Diverging trajectories (redux)

Financial markets continued to digest Trump's election victory, with hopes for fiscal policy stimulus boosting US equity indices to record highs in December and contributing to a further selloff in Treasuries. Even with some reversal in the final week of 2016, the S&P 500 closed the year nearly 5% above its pre-election level and 10-year UST yields were up by more than 50 basis points. Those moves were despite a lack of further clarity on potential changes in US fiscal policy – markets also seemed to dismiss downside risks from protectionist trade measures. A decent run of economic data contributed to improving risk sentiment, with US domestic spending appearing to have gained some momentum toward the end of the year while the unemployment rate hit a fresh cycle low in November. The Fed gave the economy a vote of confidence in December by raising rates for the first time in a year, and the Committee also expects to tighten policy a bit faster in 2017 than previously projected, even with potential fiscal changes doing little to shift their growth projections.

International markets were less influenced by US gyrations than in November. Gilt and Bund yields both fell over the course of the month to retrace a good portion of their post-US election bounce as the ECB's extension of its asset purchase program underlined the fact that the accommodative monetary policy isn't leaving Europe anytime soon. The Bank of Canada toned down the dovish rhetoric at their final meeting of 2016 but were keen to emphasize they won't be raising rates alongside the Fed. Even so, GoC 10-year yields remained nearly 50 basis points above pre-election levels. Meanwhile, oil prices hit their highest levels since mid-2015 as markets see OPEC and some non-members following through on a commitment to cap output.

US domestic economy closed out 2016 with solid momentum

US Q3/16 GDP growth was revised up to 3.5% in the final estimate, representing an even sharper improvement relative to gains averaging 1.1% over the first half of the year. Domestic spending is now estimated to have grown by just over 2% in the quarter, little changed from Q2/16's pace, while overall activity was boosted by temporary increases in exports and inventories. A reversal in the contribution from net trade likely weighed on GDP growth in the final quarter of 2016, although we expect stronger domestic spending will keep the economy growing at an above-trend 2.1% annualized pace. Consumer spending was a bit sluggish to start Q4/16, but with a solid increase in September providing a good jumping off point, the hurdle is low for consumption to record another above-2% gain in the quarter. We also expect the slowdown in personal spending will prove transitory given a solid labour market and income growth as well as decade-high consumer confidence readings. December's cycle-high auto sales provide early evidence of such. Also bolstering prospects for domestic demand are reports on capital goods shipments and orders that point to

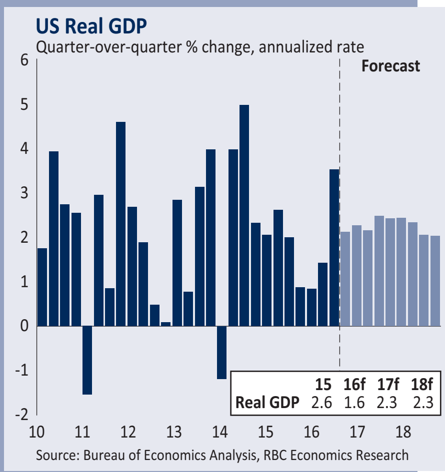
HIGHLIGHTS

▲ While headline growth in the US is forecast to slow in Q4/16 relative to Q3/16, we expect domestic spending picked up.

▲ Above-trend US growth this year will keep downward pressure on the unemployment rate and we look for headline inflation to exceed 2% as energy prices rise.

▲ The Fed raised rates for the first time in a year in December – we expect a slightly faster pace in 2017 with two hikes.

▲ The Fed's updated 'dot plot' showed a faster pace of tightening in 2017, a shift Chair Yellen downplayed at her press conference.



equipment investment ending a four quarter streak of declines, as well as recent gains in home sales and starts that should help retrace some of the previous two quarters' weakness in residential investment.

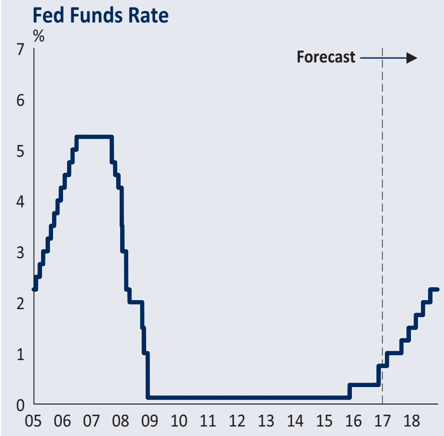
Expect further progress on the Fed's objectives this year

Our forecast assumes the US economy will chug along at an above-trend pace in 2017, fuelled by the same factors boosting growth in Q4: solid consumer spending, rising residential investment, and a shift to stronger business investment following a weak 2016. The forecast also assumes fiscal stimulus will provide a lift to growth later this year although we continue to await details on the extent of any corporate and personal income tax cuts, and equally importantly, how they will be funded, to better calibrate the boost. For now we have plugged in a placeholder ½ percentage point add from fiscal stimulus over the next two years, boosting growth by 0.1 ppt in 2017 and 0.4 ppts in 2018 on an annual average basis. Above-potential growth this year is expected to be accompanied by solid employment gains and further downward drift in the unemployment rate, which already closed 2016 below the Fed's longer-run estimate of full employment. A tight labour market should keep upward pressure on wage growth and support core CPI inflation at or above 2% throughout 2017. On top of that, rising energy prices are expected to push headline inflation closer to 2½% this year. As it becomes increasingly clear that the Fed is reaching its objectives, we expect they will pick up the pace of tightening a bit relative to the single rates hikes seen in each of the last two years.

Yellen downplays a more hawkish 'dot plot'

2016's lone rate hike came at the last meeting of the year – a move that was unanimously expected following a run of positive economic data, particularly on the labour market, and earlier indications from Committee members that a hike would soon be appropriate. The decision itself was unanimous, with the policy statement noting solid job gains, a lower unemployment rate, and the considerable increase in market-based inflation expectations (albeit to still-low levels) since the previous meeting. Otherwise, there were few changes to the statement and no additional forward guidance was provided beyond the standard note that rate hikes are expected to be gradual and the fed funds rate is likely to remain accommodative for an extended period.

The most notable change in the Fed's updated economic projections was in the 'dot plot', which showed members now see three rate hikes as appropriate next year, up from two previously. Markets saw that as a hawkish development, although Chair Yellen tried to downplay the shift at her press conference. The expectation for a slightly faster pace of tightening was despite little change in growth projections, even as about half of Committee members incorporated some form of expansionary fiscal policy. Minutes of the meeting indicated significant uncertainty regarding the size (and even direction) of the impact of any potential fiscal policy changes, although Committee members did see upside risks to the outlook as having increased. There is a risk that the Fed will have to raise rates more quickly if the unemployment rate falls sharply below its longer run level, but for now we expect the Fed will tighten only gradually with two rate hikes in 2017 before picking up the pace further in 2018.



Source: Federal Reserve Board, RBC Economics Research

JOSH NYE

FINANCIAL MARKETS

Canada's economy stumbled to start Q4/16

HIGHLIGHTS

▲ October's 0.3% GDP decline in Canada is expected to prove temporary, but nonetheless dents Q4/16 growth prospects.

▲ We expect Canadian growth will pick up to 1.8% in 2017 as the energy sector begins to contribute positively and fiscal stimulus is ramped up.

▲ The BoC highlighted policy divergence between Canada and the US just one week before the Fed raised rates.

▲ We expect the Canadian dollar will continue its depreciating trend early this year before balancing out somewhat in the second half of 2017.

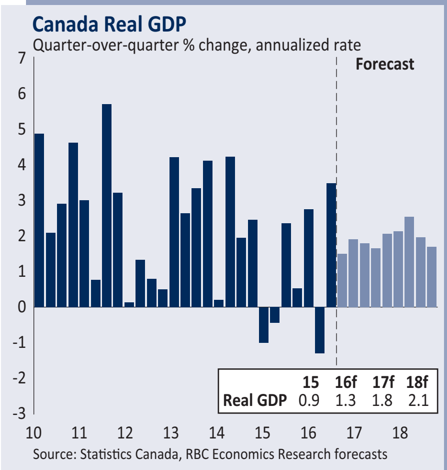
Canadian GDP surprised on the downside with a 0.3% decline in October, falling well short of market expectations for a flat reading and retracing a sizeable portion of September's 0.4% gain. The decline was concentrated in goods-producing industries, particularly manufacturing and mining, although services growth of just 0.1% was also disappointing in light of earlier-reported gains in retail and wholesale trade. We expect the poor start to the fourth quarter was more volatility than trend, and while we await data on the final months of the year, our forecast assumes a modest rebound in November and December that would leave Q4 growth close to the Bank of Canada's latest forecast of 1.5%. While not an inspiring pace, growth in that ballpark is consistent with the Bank's assessment of trend growth in the economy and would likely be enough to keep the Governing Council from seriously considering a rate cut early this year.

While Q4/16 is shaping up to be a lacklustre end to a lacklustre year, there is reason to be optimistic that growth will pick up in 2017. The drag from the energy sector is finally abating – oil and gas activity is now rising on a year-over-year basis, and with oil prices expected to remain above US$50/barrel this year, that trend is likely to continue. Meanwhile, the much larger non-commodities sector, which is already growing at a near-trend pace, is expected to get a boost as fiscal stimulus ramps up and exporters benefit from a strengthening US economy. With energy headwinds giving way to fiscal tailwinds, we look for Canadian GDP growth to pick up to 1.8% this year following an expected 1.3% increase in 2016. That said, we remain cognizant of downside risks – rising US protectionism might threaten export growth, the add from fiscal stimulus could again fall short of expectations, and the extent of the policy-driven slowdown in housing remains to be seen.

BoC highlights US-Canada divergence...

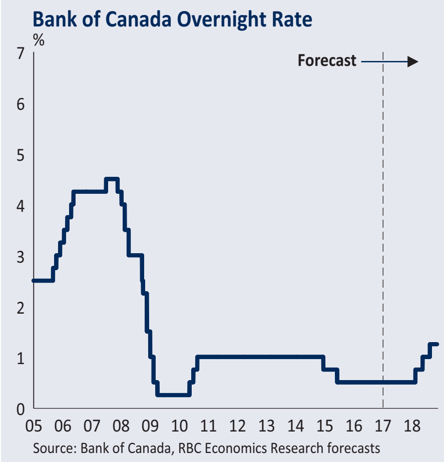
The Bank of Canada's December meeting turned out to be a non-event, with one of the more brief statements in recent memory giving little indication of policy bias just weeks after Governor Poloz indicated the Bank considered a rate cut. Perhaps in response to financial markets increasing odds that the Bank would raise rates in 2017, the statement went to some lengths to highlight monetary policy divergence between Canada and the US, contrasting the "significant amount of economic slack" in Canada with tighter conditions south of the border. We agree that the BoC will not have to follow the Fed with higher policy rates this year, and expect a relatively cautious tone will be maintained in early-2017 as uncertainty lingers regarding exports, housing, and the impact of fiscal stimulus.

While the Bank won't be moving alongside the Fed, higher policy rates in the US will have an impact on financial conditions in Canada. Rising US term yields will put upward pressure on Canadian interest rates (we see 10-year GoC yields rising to 2.45% by the end of 2017), tightening financial conditions even as the Bank holds monetary policy steady. Some offsetting easing will come from associated Canadian dollar depreciation, but on net the Bank is likely to see conditions tightening this year. It should be kept in mind that this tightening is associated with a strengthening US economy that will benefit Canadian exporters beyond the direct support coming from currency depreciation. On balance, it is hard to make the case that the Bank of Canada needs to offset this tightening in financial conditions by easing domestic monetary policy.



...WHICH SHOULD KEEP DOWNWARD PRESSURE ON CAD IN EARLY-2017

The start of 2016 was marred by volatility and the Canadian dollar was no exception, depreciating sharply as oil prices plummeted early in the year before recovering significantly as oil prices rebounded and markets pared back expectations for rate hikes from the Fed. We expect 2017 will be a less interesting year for the currency – our forecast assumes a gradual depreciating trend relative to the US dollar will persist over the first half of the year as monetary policy divergence between Canada and the US remains a dominant them. We look for the Canadian dollar to slip to 72.5 US cents around mid-year before the currency's other major driver, oil prices, provides greater offset (we expect WTI will rise toward US$60/barrel toward the end of 2017) and policy divergence becomes less pronounced with the BoC beginning to shift to an implicit tightening bias.



JOSH NYE

FINANCIAL MARKETS

UK ECONOMY ROLLING INTO 2017

HIGHLIGHTS

- ▲ The UK's composite PMI has increased in each of the last five months after dropping sharply below 50 in July.
- ▲ With euro area growth expected to slow to a more trend-like pace in 2017, we don't expect the ECB will talk tapering this year.
- ▲ Australia's 0.5% decline in Q3/16 GDP reflected broad-based weakness and should prompt the RBA to revise down its 2017 growth forecast.

The third estimate of UK Q3 GDP growth was revised up to 0.6% (non-annualized) from 0.5%, now matching the previous quarter's pace and indicating no slowdown in the UK economy following June's surprise Brexit vote. Data for Q4/16 point to the UK economy maintaining momentum toward the end of the year. Purchasing managers' index (PMI) readings have continued to strengthen since a Brexit-related swoon in July, with December's composite hitting a 1½ year high. Hard data have also been positive on balance, with industrial production recovering strongly from October's slowdown and services output continuing to increase. As such, we expect growth slowed only modestly to 0.5% in Q4/16, up from our previous forecast of 0.3%. We continue to expect growth will slow this year as a squeeze on real incomes (due to Brexit-induced currency depreciation) hits consumer spending and capital investment slows amid uncertainty about the UK's future trading relationship with the EU. However, given solid momentum heading into 2017 and indications that economic headwinds are picking up only slowly, we have revised up our growth forecast to 1.6% this year from 1.2% previously. A less significant slowdown is likely to put less downward pressure on underlying inflation, while headline inflation is expected to rise above the Bank of England's 2% target amid rising import and energy prices. That is likely to keep the Bank from easing policy in the near term, even as its latest round of asset purchases comes to an end. We now expect further monetary policy support will be delayed until 2018, when signs of an economic slowdown are more evident and risks to the inflation outlook are tilted to the downside.

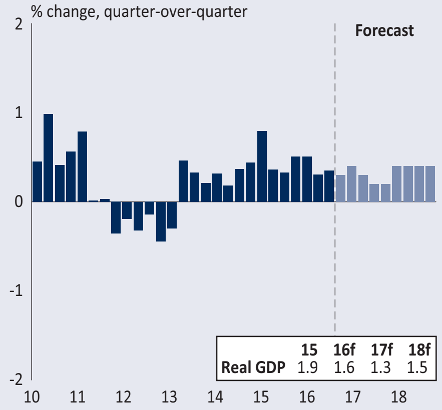
ECB NOT READY TO TALK TAPERING

The euro area economy appears to have maintained decent momentum toward the end of 2016 with improving PMI reports over the past three months culminating in a one-year-high composite reading in December. The recent increase has been relatively broad-based – continued strength in Germany and Spain has been accompanied by indications of a pickup in laggards France and Italy. That said, we don't see the improvement as substantial enough to break the euro area out of its recent growth trend path and thus we expect another 0.3% increase in Q4/16 GDP. That would leave annual growth at 1.6% in 2016, down slightly from 2015's 1.9% gain. Our forecast assumes a further slowdown to a trend-like 1.3% pace in 2017 as consumer spending and business investment face headwinds from rising energy prices, still-elevated unemployment, and political uncertainty. Economic slack should keep underlying inflationary pressure muted, even with rising energy prices pushing headline inflation above 1% for the first time since 2013. Acknowledging that it will still be some time before inflation returns to its target on a sustained basis, the ECB extended its asset purchase program by nine months (to at least December 2017) while relaxing some of the conditions on purchases and holding the deposit rate at -0.40%. The extension was longer than markets expected, but offset somewhat by a slower pace of buying (€60bn compared with the €80bn pace continuing until March) that ECB President Draghi was keen to emphasize did not amount to tapering. We expect modest growth in 2017 will keep the ECB firmly in easing mode and see any talk of tapering asset purchases as unlikely this year.

Australia's economy unexpectedly contracted in Q3/16

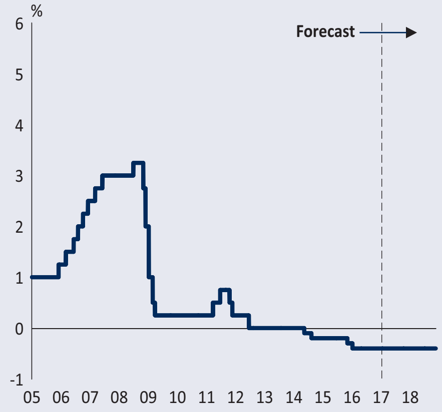
Australian GDP fell by a non-annualized 0.5% in Q3/16, well short of market expectations that had already been marked down amid weak data leading up to the release. The first quarterly contraction since 2011 reflected across-the-board weakness, with the only gains coming from consumer spending and inventories. The former grew at its slowest pace in two and a half years, even as the household savings rate slipped to its second-lowest in nearly a decade. With housing, business investment, and government spending all contracting, domestic demand also fell 0.5%. While the headline and most details were soft, there were a few bright spots in the report as key nominal and income measures continued their recent turnaround. In particular, Australia's terms of trade rose for a second consecutive quarter, providing further evidence that the drag from weaker commodity prices is abating. We expect these themes will persist in 2017, with weak domestic demand being offset somewhat by an improving export sector. Against this backdrop we expect the RBA to maintain a cautious tone, with growth forecasts likely to be revised lower following the weak Q3 outturn. We continue to see the odds tilted in favour or one final rate cut in this easing cycle.

Eurozone Real GDP



Source: Eurostat, RBC Economics Research

ECB Refi Rate



Source: ECB, RBC Economics Research

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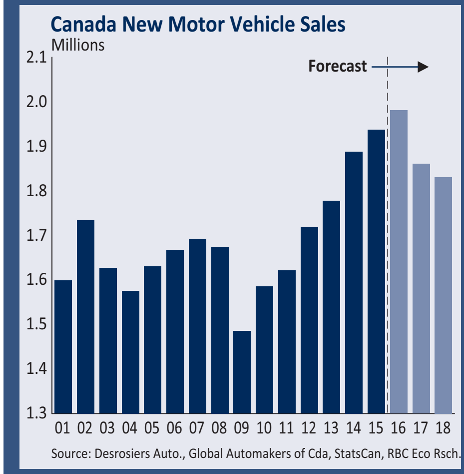
NATHAN JANZEN

CURRENT ANALYSIS

Canada and US December 2016 auto sales

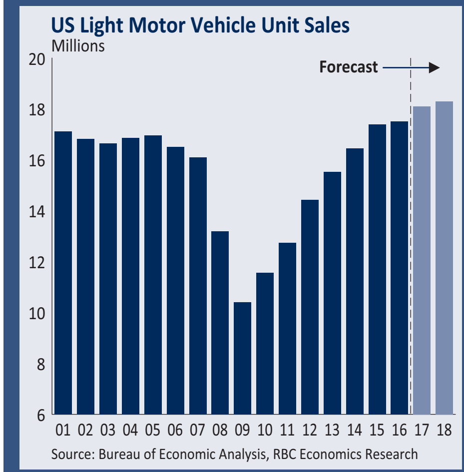
Canada new motor vehicle sales

Canadian auto sales slipped lower in December, falling 2.6% from a year ago according to industry reports; however, that followed an outsized jump in November that may in part have been a result of 'Black Friday' promotions pulling sales forward that otherwise would have occurred in future months. Our estimates suggest that that the seasonally adjusted annualized sales rate (including heavy vehicles) was 1.91 million in December, down from an outsized (our estimates suggest the largest on record) 2.11 million unit rate in November. Sales in 2016 as a whole easily set a fourth consecutive annual sales record at 1.98 million units and there was little evidence of underlying slowing through the end of the year, on balance, with sales on average in the fourth quarter (~2.00 million) modestly higher than the annual rate. We continue to assume that the recent pace of sales has been too strong to be sustained in the long-run which, alongside a gradual drift higher in interest rates, argues for a modest slowing this year; however, we expect offset from continued strength in labour markets will be sufficient to keep the pace of vehicle sales at a historically elevated level of 1.86 million units.



US light vehicle sales

US light vehicle rose to an 18.3 million unit pace in December, marking the fastest pace of 2016, from 17.7 million units in November. That was enough to push the annual sales total to a record 17.5 million units, up from the prior record-high 17.4 million units sold in 2015. The annual sales gain was still the smallest of the recovery to-date (auto sales surged 67% from 2009 to 2015 after falling sharply during the 2008/09 recession) which remains consistent with the view that much of the cyclical recovery in sales in the sector from the recession has run its course. Nonetheless, spending on motor vehicles in the US remains well-below pre-recession levels as a share of household disposable incomes and we expect those incomes will continue to rise at a solid pace going forward, supported by tightening labour markets that are resulting in slower job growth but faster wage gains. Interest rates are expected to drift higher but remain at historically low levels to leave financing conditions still favorable on balance. We expect sales will once again inch modestly higher in 2017 with our forecast assuming 18.1 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	2.5	1.8	2.6	2.2	2.2	2.1	2.0	1.7	1.7	1.7	1.6	1.7	1.9	2.2	2.1	1.7
Durables	4.0	-2.5	-2.4	3.5	2.3	1.5	1.5	1.0	1.5	1.3	1.3	1.3	2.8	3.0	1.3	1.3
Semi-Durables	8.4	-0.2	1.9	3.9	2.2	2.4	2.0	1.8	1.8	1.8	1.8	2.0	2.3	3.6	0.8	1.9
Non-durables	3.8	3.1	3.0	3.8	2.2	2.5	2.3	2.0	1.8	1.8	1.8	2.0	0.8	2.1	2.7	2.0
Services	0.9	2.6	3.7	1.0	2.1	2.1	1.9	1.8	1.7	1.7	1.6	1.6	2.1	1.8	1.9	1.7
Government expenditures	3.3	5.3	-1.2	2.0	1.8	1.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.6	2.1
Residential investment	10.2	0.3	-5.5	-2.2	-6.5	-7.1	-4.9	-2.4	-0.5	1.1	1.1	2.3	3.8	2.4	-4.8	-1.2
Business investment	-8.5	-0.9	3.5	-10.6	4.5	3.3	3.0	3.6	3.9	3.8	2.6	2.4	-11.5	-7.4	0.6	3.4
Non-residential structures	-12.7	-4.3	15.7	-14.2	3.8	3.5	3.2	4.0	4.4	4.2	3.0	2.7	-16.0	-9.6	0.9	3.8
Machinery & equipment	-2.2	4.1	-12.2	-5.0	5.5	3.0	2.8	3.0	3.2	3.1	2.0	2.0	-3.3	-4.1	0.1	2.9
Final domestic demand	1.8	2.0	0.9	0.8	1.9	1.7	1.7	1.7	2.0	2.1	1.9	2.0	0.3	1.0	1.5	1.9
Exports	9.0	-14.8	8.9	1.5	1.4	1.6	2.4	3.4	3.7	4.4	2.3	1.6	3.4	0.9	1.5	3.2
Imports	2.3	1.4	3.3	-10.5	6.3	5.5	3.4	2.9	3.3	2.9	2.2	2.3	0.3	-1.2	1.6	3.1
Inventories (change in $b)	-8.2	1.0	4.6	-10.5	-3.4	3.0	4.5	5.4	5.7	5.6	5.5	4.9	3.9	-3.3	2.4	5.4
Real gross domestic product	2.7	-1.3	3.5	1.5	1.9	1.8	1.6	2.0	2.1	2.5	1.9	1.7	0.9	1.3	1.8	2.1
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	-0.1	0.5	1.1	0.8	0.8	1.2	0.5	1.1	1.1	1.3	1.4	1.4	-0.2	0.6	0.9	1.3
Pre-tax corporate profits	-10.4	-15.1	-1.5	5.8	6.8	19.8	1.7	3.4	3.1	4.4	5.2	5.0	-19.5	-5.6	7.5	4.5
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.9	6.9	6.8	6.8	6.7	6.6	6.5	6.5	6.9	7.0	6.9	6.6
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	2.2	2.4	2.7	2.7	2.3	2.2	2.2	2.2	1.1	1.4	2.5	2.2
Core CPI	2.0	2.1	1.9	1.6	1.8	1.9	2.1	2.3	2.4	2.1	2.2	2.1	2.2	1.9	2.0	2.2
External trade																
Current account balance ($b)	-68.2	-76.1	-73.2	-49.8	-54.4	-57.6	-57.2	-54.9	-51.7	-45.9	-42.1	-39.7	-67.6	-66.8	-56.0	-44.9
% of GDP	-3.4	-3.8	-3.6	-2.4	-2.6	-2.7	-2.7	-2.6	-2.4	-2.1	-1.9	-1.8	-3.4	-3.3	-2.7	-2.0
Housing starts (000s)*	198	198	200	190	183	180	177	176	175	175	173	174	196	196	179	175
Motor vehicle sales (mill., saar)*	2.01	1.99	1.94	2.00	1.92	1.87	1.84	1.82	1.83	1.83	1.84	1.84	1.94	1.98	1.86	1.83
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	0.50	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	1.05	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	1.70	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	1.33	1.35	1.38	1.38	1.38	1.37	1.36	1.35	1.33	1.38	1.33	1.38	1.33

* Quarterly averages, level

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

January 2017

Forecast detail – United States

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast (shaded columns: 2016 Q4 onward in the quarterly columns; 2016–2018 in the annual columns)

	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	2.4	2.2	2.1	2.5	2.4	2.6	2.4	2.1	2.0	3.2	2.7	2.5	2.4
Durables	-0.6	9.8	11.6	8.7	4.0	3.5	3.1	3.1	3.0	2.7	2.1	2.1	6.9	5.6	5.9	2.8
Non-durables	2.1	5.7	-0.5	3.3	1.8	1.9	2.8	2.8	3.1	2.8	2.2	2.0	2.6	2.5	2.2	2.7
Services	1.9	3.0	2.7	1.1	2.0	2.0	2.3	2.2	2.4	2.2	2.1	2.0	2.8	2.3	2.0	2.2
Government spending	1.6	-1.7	0.8	2.0	1.5	1.2	1.2	1.0	0.6	0.4	0.4	0.4	1.8	0.9	1.2	0.7
Residential investment	7.8	-7.8	-4.1	9.2	6.6	3.8	3.9	4.0	4.5	4.8	5.0	5.2	11.7	4.8	3.7	4.5
Business investment	-3.4	1.0	1.4	3.3	3.3	3.3	4.3	4.4	4.3	3.9	3.1	2.8	2.1	-0.4	3.1	3.9
Non-residential structures	0.1	-2.1	12.0	2.5	2.1	2.2	4.0	4.5	4.5	3.8	2.9	2.3	-4.4	-2.6	3.5	3.8
Non-residential equipment	-9.5	-3.0	-4.5	3.3	3.4	3.4	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-2.8	2.2	4.3
Intellectual property	3.8	9.0	3.2	3.9	3.9	3.9	3.8	3.7	3.4	3.3	3.2	3.0	4.8	4.9	4.1	3.5
Final domestic demand	1.2	2.4	2.1	2.7	2.4	2.2	2.5	2.5	2.5	2.3	2.1	1.9	3.1	2.1	2.4	2.4
Exports	-0.7	1.8	10.0	-4.0	3.3	3.3	1.9	2.0	2.9	3.2	3.2	3.2	0.1	0.4	2.3	2.8
Imports	-0.6	0.2	2.2	4.0	4.0	4.0	2.1	2.5	3.1	2.9	3.1	2.5	4.6	0.9	3.2	2.8
Inventories (change in $b)	40.7	-9.5	7.1	25.0	26.0	30.0	28.0	28.0	25.0	24.8	24.6	24.4	84.0	15.8	28.0	24.7
Real gross domestic product	0.8	1.4	3.5	2.1	2.3	2.1	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.3	2.3
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	0.1	-0.3	0.0	0.8	1.2	1.6	1.1	1.3	1.4	1.5	1.5	1.4	0.8	0.1	1.3	1.5
Pre-tax corporate profits	-6.6	-4.3	2.1	9.6	7.0	8.0	2.9	2.8	2.7	3.3	2.9	2.9	-3.0	0.0	5.1	2.9
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.7	4.6	4.6	4.5	4.5	4.4	4.4	5.3	4.9	4.7	4.5
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	2.4	2.6	2.2	2.1	2.1	2.2	2.2	0.1	1.3	2.4	2.2
Core CPI	2.2	2.2	2.2	2.1	2.1	2.0	2.0	2.1	2.1	2.1	2.1	2.1	1.8	2.2	2.0	2.1
External trade																
Current account balance ($b)	-527	-473	-452	-475	-491	-506	-512	-519	-527	-533	-540	-543	-463	-482	-507	-536
% of GDP	-2.9	-2.6	-2.4	-2.5	-2.6	-2.6	-2.6	-2.6	-2.7	-2.7	-2.7	-2.7	-2.6	-2.6	-2.6	-2.7
Housing starts (000s)*	1151	1159	1145	1180	1190	1202	1218	1236	1257	1279	1302	1327	1108	1159	1212	1291
Motor vehicle sales (millions, saar)*	17.3	17.1	17.5	18.0	17.9	18.0	18.1	18.2	18.2	18.3	18.3	18.4	17.4	17.5	18.1	18.3
INTEREST RATES %, END OF PERIOD																
Fed funds	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.50	1.75	2.00	2.25	0.50	0.75	1.25	2.25
Three-month	0.21	0.26	0.29	0.51	0.55	0.90	0.90	1.10	1.40	1.65	1.90	2.10	0.16	0.51	1.10	2.10
Two-year	0.73	0.58	0.77	1.25	1.20	1.40	1.55	1.80	2.05	2.30	2.50	2.70	1.06	1.25	1.80	2.70
Five-year	1.21	1.01	1.14	2.00	1.90	2.10	2.25	2.45	2.65	2.90	3.00	3.15	1.76	2.00	2.45	3.15
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	3.00	3.20	3.35	3.50	3.60	3.75	3.80	3.85	3.01	3.15	3.50	3.85
Yield curve (10s-2s)	105	91	83	130	120	125	125	120	110	110	100	90	121	130	120	90

* Quarterly averages, level

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

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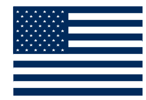
CURRENT ECONOMIC INDICATORS

CANADA - US COMPARISONS



	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[1]	-1.6	1.6	-0.5	Oct.	0.9	0.6	-0.5	Dec.
Mfg. inventory - shipments ratio (level)	1.4	1.4	1.4	Nov.	1.3	1.3	1.4	Nov.
New orders in manufacturing	0.5	2.9	-3.0	Nov.	-2.4	-0.3	-4.4	Nov.
Business loans - Banks	0.3	6.4	8.3	Nov.	-0.2	7.3	10.3	Dec.
Index of stock prices[2]	1.4	17.5	-2.2	Dec.	3.8	9.4	3.8	Dec.
HOUSEHOLDS								
Retail sales	0.2	3.0	2.8	Nov.	0.6	4.1	2.1	Dec.
Auto sales	14.3	10.5	2.9	Nov.	1.3	-3.8	-5.8	Dec.
Total consumer credit[3]	0.3	3.4	3.0	Oct.	0.7	6.3	6.6	Nov.
Housing starts	10.6	21.1	2.5	Dec.	11.3	5.7	7.4	Dec.
Employment	0.3	1.2	0.8	Dec.	0.0	1.4	1.7	Dec.
PRICES								
Consumer price index	-0.2	1.5	1.3	Dec.	0.3	2.1	0.74	Dec.
Producer price index[4]	0.3	1.4	-0.6	Nov.	0.8	2.0	-2.1	Dec.
INTEREST RATES								
Policy rate	0.5	0.5	0.5	Dec.	0.52	0.26	0.52	Dec.
90-day commercial paper rates	0.8	0.8	0.8	Dec.	0.7	0.4	0.7	Dec.
Government bonds (10 years)	1.9	1.6	1.3	Dec.	2.5	2.2	-	Dec.

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.

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