NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Monthly Economic Monitor

Economics and Strategy

June 2018

Highlights

- European politics once again threaten to derail global economic momentum. Italy's new coalition government, with its Euroscepticism and anti-establishment rhetoric, will cause headaches in Brussels. The uncertainty that creates does not help a Eurozone already reeling from a difficult start to the year. For now, we continue to call for world GDP to grow 3.8% this year and next. That, however, assumes world governments and central banks successfully manage risks posed by trade protectionism, overleveraging and, of course, political disruptions.

- A fifth consecutive quarter of above-2% real GDP growth is in the cards for the U.S. economy. Consumption spending seems to be responding in early Q2 to the boost to disposable incomes provided by a healthy labour market and personal income tax cuts. Investment remains strong, coinciding with elevated business confidence. All in all, the data so far does nothing to change our view that U.S. real GDP growth will be near 3% this year, i.e. well above potential. Rising inflation pressures over the near term do not mean U.S. monetary policy will become overly aggressive. The impact of higher oil prices is transitory while the persistence of low wage growth continues to cast doubts about whether inflation can be sustained near the Fed's 2% target.

- With the output gap now closed, it's no wonder inflation pressures are rising in Canada. The average of the three core CPI measures now show an annual inflation rate above 2%, the highest in six years. Wages are also growing at the fastest pace since 2012, suggesting further price pressures down the line. As such, we expect the Bank of Canada to resume interest rate hikes in July. While the economy faces downside risks with regards to trade, housing and household debt, real interest rates should arguably not be negative at this stage of the economic cycle.

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				Change from Previous Forecast	
	2017	2018	2019	2018	2019
United States					
GDP	2.3%	2.8%	2.3%	unch	unch
CPI inflation	2.1%	2.5%	2.3%	unch	unch
Fed Fund Target Rate*	1.50%	2.25%	3.00%	unch	unch
Ten-year bond yield*	2.40%	3.18%	3.47%	unch	unch
Canada					
GDP	3.0%	2.2%	1.9%	unch	unch
CPI inflation	1.6%	2.3%	2.1%	unch	unch
Overnight rate*	1.00%	1.75%	2.25%	unch	unch
Ten-year bond yield*	2.04%	2.63%	3.09%	unch	unch

* end of period

Monthly Economic Monitor

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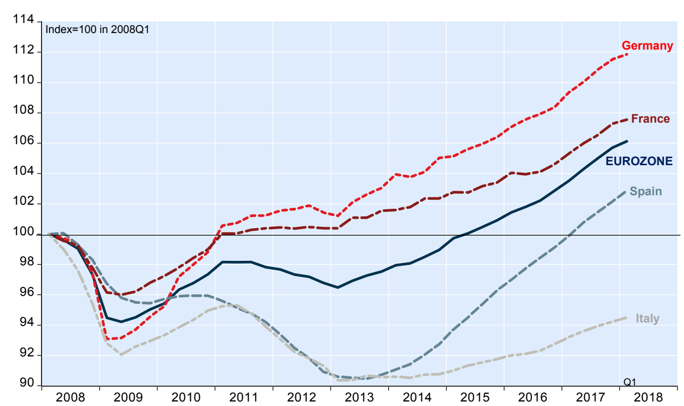
World: Rocked by Italy

European politics once again threaten to derail global economic momentum. Italy's new coalition government, with its Euroscepticism and anti-establishment rhetoric, will cause headaches in Brussels. The uncertainty that creates does not help a Eurozone already reeling from a difficult start to the year. For now, we continue to call for world GDP to grow 3.8% this year and next. That, however, assumes world governments and central banks successfully manage risks posed by trade protectionism, overleveraging and, of course, political disruptions.

The world economy continued to expand in Q1, albeit at a slower pace. Latest data from the CPB pointed to a deceleration in world industrial output growth during the first quarter (+3% annualized) due to softer growth in advanced economies. The moderation in the OECD was felt particularly in the eurozone and Japan. The zone's real GDP grew just 1.6% annualized, the softest since 2016Q3, as its two main powerhouses geared down. France saw a sharp deceleration to just 1.0% annualized, the weakest since 2016, while Germany's growth softened to just 1.2% annualized.

Eurozone: Diverging fortunes over the last decade
Real GDP



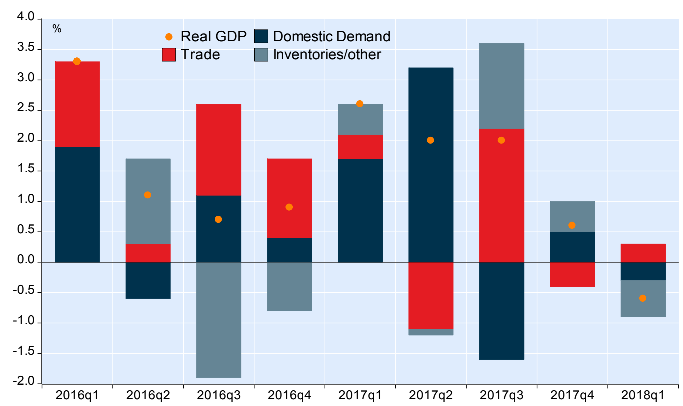
NBF Economics and Strategy (data via Eurostat)

Growth remained lacklustre in Italy, the latter's output still well below pre-recession levels of 2008. With such underwhelming performance relative to its peers, little wonder that populism is gaining traction. Italy's new coalition government, with its Euroscepticism and anti-establishment rhetoric, will cause headaches in Brussels. The uncertainty that creates does not help a Eurozone already reeling from a difficult start to the year. The sharp increase in Italian bond yields in recent weeks should not be surprising amidst investor concerns.

The zone's growth slowdown makes it harder for inflation to rise towards the European Central Bank's 2% target. The ECB made clear that "an ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term." In other words, monetary policy is likely to remain loose at least until growth picks up and downside risks such as political turmoil and trade protectionism dissipate.

Ditto in Japan where price pressures are so mild that the central bank decided to scrap the timing of when the annual inflation rate is expected to hit its 2% target. The unexpected 0.6% annualized contraction of real GDP in Q1, the first decline in nine quarters, did not help matters. Domestic demand subtracted from growth for the second time in three quarters, this time due to residential investment, complementing the drag from inventories.

World: Moderation in Japan
Contributions to real GDP growth

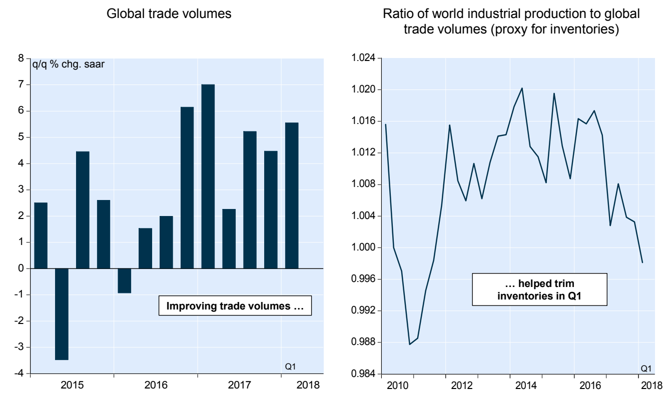


NBF Economics and Strategy (data via Datastream)

There were nonetheless some positive stories in Q1. Emerging markets remained strong, even seeing the fastest pace of growth for industrial production since 2012. That can be partly attributed to China's resilient economy which seems to be having positive spillovers through Asia via supply chains. China's real GDP reportedly grew 6.9% on a year-on-year basis during the first quarter and remains well on track to hit the government's annual growth target of 6.5%.

Also positive was the continued increase in global trade volumes which outpaced industrial production for the third consecutive quarter in Q1. So much so that the ratio of world industrial production to global trade volumes, a proxy for world inventories, sank to a 7-year low. That bodes well for restocking and hence production in subsequent quarters. Preliminary purchasing managers indices from Markit point to continued expansion in major economies in the second quarter.

World: Improving trade volumes helped trim inventories

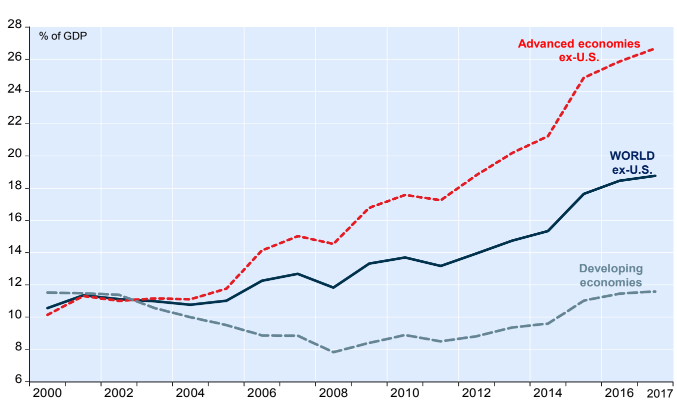


NBF Economics and Strategy (data via CPB)

But there are still significant uncertainties about the sustainability of growth in international trade flows amidst mounting protectionism. While the U.S. and China have seemingly taken a step back from a full-blown trade war, the ongoing rhetoric is still far from trade-friendly. There are still question marks surrounding tariffs and their impacts on trade. Recall that the U.S. broadened in late May its tariffs on steel and aluminium imports to include Canada, Mexico and the European Union. As we showed in the last *Monthly Economic Monitor*, a sharp moderation of global trade flows would negatively impact world economic growth.

Over-leveraging also threatens to destabilize the world economy. Debt has not only soared to unprecedented levels, but a large portion is denominated in foreign currencies thereby amplifying default risks. According to the Bank of International Settlements' latest *Quarterly Review*, US dollar denominated debt outstanding outside of America amounted to a record US$11.3 trillion at the end of 2017.

World: Record USD-denominated debt
USD-denominated debt held outside the U.S.

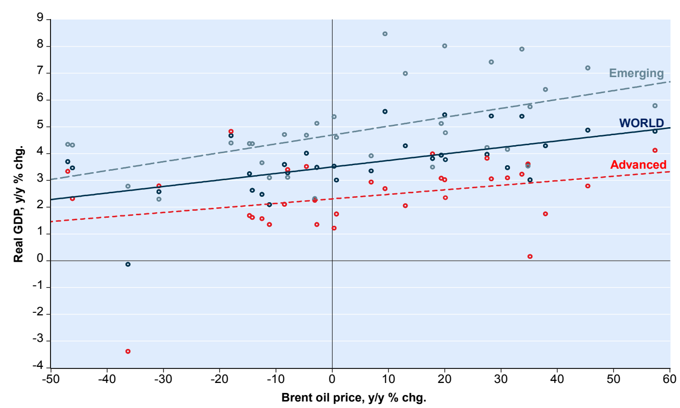


NBF Economics and Strategy (data via IMF, Bank of International Settlements)

While USD-denominated debt has increased in emerging markets to $3.7 trillion, that pales in comparison to advanced economies (ex-U.S.) where such debt jumped to a massive US$ 7.7 trillion. The latter amounts to more than 26% of GDP of advanced economies excluding the U.S., nearly double the exposure of 12 years ago. Investors keen to avoid another financial crisis, will be hoping those exposed borrowers do not get overwhelmed by further increases in interest rates and USD appreciation.

Volatile oil prices also add to uncertainties about global growth — Brent and WTI prices are both more than 30% higher than last year. True, part of the increase can be attributed to stronger global demand courtesy of improved economic activity which has allowed for an earlier supply glut to be absorbed.

World: Stronger economic activity lifts oil prices
Real GDP versus Brent oil price, annual % change 1980-2017

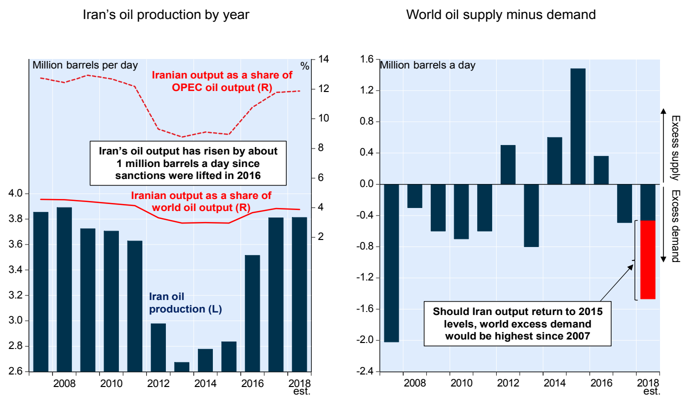


NBF Economics and Strategy (data via IMF)

But higher oil prices could also reflect the anticipation of upcoming supply problems. If the mid-1970's are any guide, a negative supply shock could have negative implications for world economic growth. The announcement by the U.S. government that it is withdrawing from the Iranian nuclear deal sets the stage for the re-introduction of sanctions and hence the possibility of restricted exports/supply from the world's fifth largest oil producer. While it's still unclear how Iran's oil output will be affected (if at all) — because one cannot rule out the possibility that a new deal is struck over the coming months —, odds are that the world's excess oil demand situation won't get any better over the near term.

Indeed, even before the announcement, 2018 global oil demand was projected to be higher than supply by about half a million barrels per day (bpd). Should new sanctions force Iran to return to 2015 levels of oil production, i.e. a supply cut of 1 million bpd from current levels, the world's excess demand would rise to about 1.5 million bpd, the largest since 2007.

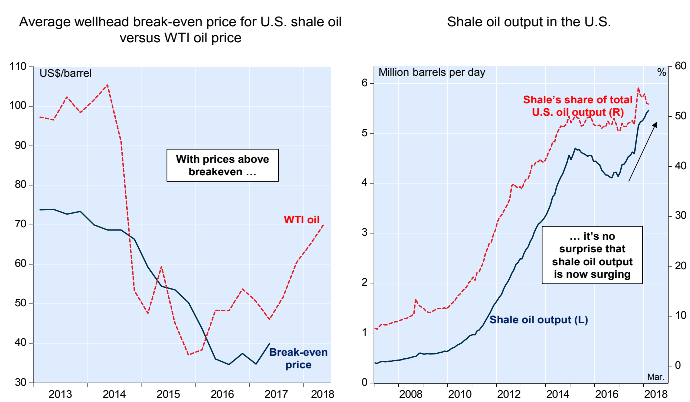
World: Sanctions on Iran worsen excess demand situation for oil



NBF Economics and Strategy (data via OPEC)

But such elevated price levels will, over time, entice new investments to address bottlenecks such as the lack of pipeline capacity in the Canadian oil sands and U.S. shale and boost output. Shale oil, whose production is profitable at prices above US$50/barrel, can therefore be expected to further increase its share beyond the current 50% of U.S. production. In other words, any Iran-related oil supply shock and spiking oil prices (if any) are likely to be short term, more considering that Russia and Saudi Arabia are now reportedly less willing to restrict supply.

World: Can U.S. shale put a lid on oil prices?



NBF Economics and Strategy (data via World Bank, EIA)

We're more concerned about other above-mentioned risks such as political upheaval and debt defaults which have potential to have a longer-lasting negative impact on the global economy. So, while we're calling for world GDP growth to remain healthy near 3.8% this year and in 2019, we're less optimistic about longer term prospects, more so with an expected normalization of monetary and fiscal policies down the line.

World Economic Outlook

	Forecast		
	2017	**2018**	**2019**
Advanced countries	***2.3***	***2.4***	***2.1***
United States	2.3	2.8	2.3
Euroland	2.5	2.3	1.9
Japan	1.7	1.1	1.1
UK	1.8	1.5	1.5
Canada	3.0	2.2	1.9
Australia	2.3	2.7	2.8
New Zealand	3.0	2.8	2.7
Hong Kong	3.8	3.2	2.7
Korea	3.1	2.9	2.8
Taiwan	2.8	2.7	2.5
Singapore	3.6	3.2	2.8
Emerging Asia	***6.5***	***6.5***	***6.4***
China	6.9	6.6	6.4
India	6.7	7.4	7.6
Indonesia	5.1	5.3	5.4
Malaysia	5.9	5.4	5.2
Philippines	6.7	6.6	6.5
Thailand	3.9	4.0	3.7
Latin America	***1.3***	***2.4***	***2.8***
Mexico	2.0	2.2	2.3
Brazil	1.0	2.7	3.0
Argentina	2.9	2.6	3.3
Venezuela	-14.0	-10.6	-3.1
Colombia	1.8	3.5	3.5
Eastern Europe and CIS	***3.8***	***3.3***	***3.0***
Russia	1.5	2.0	1.9
Czech Rep.	4.3	3.5	3.0
Poland	4.6	4.1	3.4
Turkey	7.0	4.4	3.9
Middle East and N. Africa	***2.2***	***3.2***	***3.6***
Sub-Saharan Africa	***2.9***	***3.4***	***3.7***
Advanced economies	***2.3***	***2.4***	***2.1***
Emerging economies	***4.7***	***5.0***	***5.0***
World	***3.8***	***3.9***	***3.8***

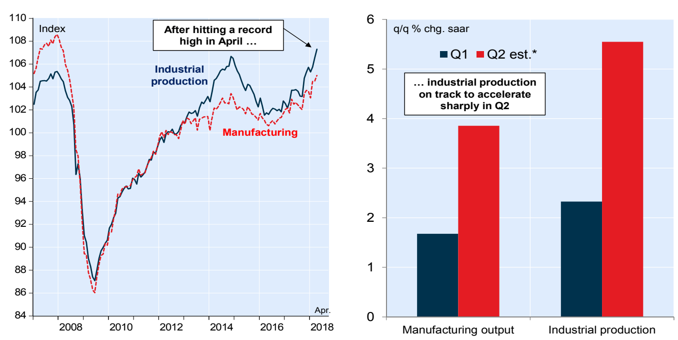
Source: NBF Economics and Strategy

U.S.: Is 2% inflation sustainable?

A fifth consecutive quarter of above-2% real GDP growth is in the cards for the U.S. economy. Consumption spending seems to be responding in early Q2 to the boost to disposable incomes provided by a healthy labour market and personal income tax cuts. Investment remains strong, coinciding with elevated business confidence. All in all, the data so far does nothing to change our view that U.S. real GDP growth will be near 3% this year, i.e. well above potential. Rising inflation pressures over the near term do not mean U.S. monetary policy will become overly aggressive. The impact of higher oil prices is transitory while the persistence of low wage growth continues to cast doubts about whether inflation can be sustained near the Fed's 2% target.

The U.S. economy seems destined for a fifth consecutive quarter of above 2% growth. Led by the manufacturing sector, industrial production hit an all-time high in April and is now on track to grow in Q2 at more than double the pace observed the prior quarter.

U.S.: Industrial output hit all-time high in April
Industrial production and manufacturing output



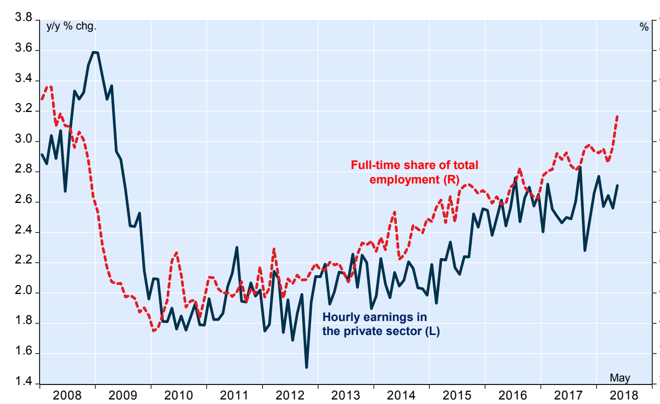
** Assuming no change in May and June and no revisions to prior months*
NBF Economics and Strategy (data via Federal Reserve)

Consumption spending, which took a breather in the first quarter (as the savings rate climbed half a percentage point to 3.1%), now seems to be accelerating according to April's retail data. Core sales, which exclude food services, auto dealers, building materials and gasoline stations, and which are used to calculate GDP, jumped 0.4% in April following an upwardly-revised 0.5% increase the prior month. Consumers seem to be responding to still-low interest rates, easy access to credit, but also to the boost to disposable incomes provided by personal income tax cuts and a healthy labour market.

May's increase for non-farm payrolls (+223K) as well as its diffusion were the best in three months. Strong hiring in cyclical sectors is consistent with continued economic expansion in Q2.

The household survey's full-time employment also rose sharply, with the share of full-time jobs in total employment climbing to a decade-high of 82.7%. The only irritant from an otherwise strong labour market is the tepid increase in wages. Average hourly earnings in the private sector are up just 2.7% year-on-year, little changed from a year ago. "Right to work" legislation and automation could explain weak wage growth in manufacturing, while low wage inflation in leisure/hospitality should not be surprising because this industry tends to use workers with relatively low skills and hence little bargaining power.

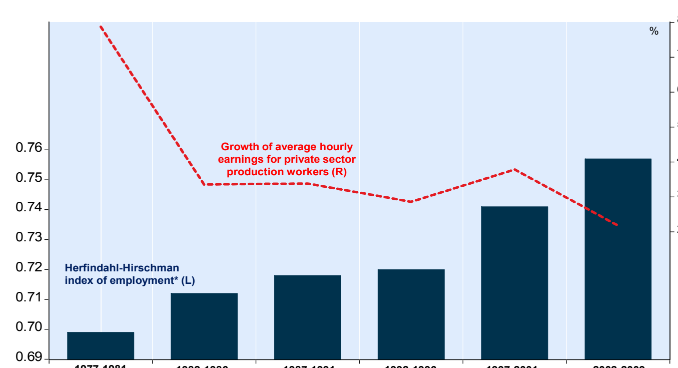
U.S.: Full-time share of total employment hits decade-high
Wage inflation versus Full-time share of total employment



NBF Economics and Strategy (data via BLS)

Other explanations have also been given over the years by economists with regards to the flattening of the wage Phillips curve in the U.S. including the rise of globalization, technological changes, demographics, and slow productivity growth. Latest research from the National Bureau of Economic Research blames the trend towards labour market monopsony, i.e. just one buyer of labour, for low wage growth.

U.S.: Could monopsony be responsible for low wage inflation?
Country level average of Herfindahl-Hirschman index of employment* versus Wage inflation

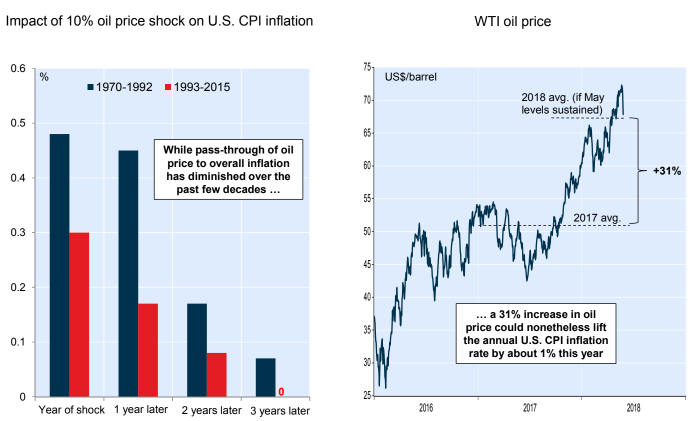


**0 represents perfect competition and 1 represents single employer*
NBF Economics and Strategy (data via NBER: Strong Employers and Weak Employees: How Does Employer Concentration Affect Wages?)

Increased employer concentration, as evidenced by a rising Herfindahl-Hirschman index of employment, has indeed coincided with the decline in the annual wage inflation rate over the last four decades. So why does this matter? If such structural changes are potent enough, the Federal Reserve may have limited abilities to sustain inflation near its 2% target.

If not the labour market, could rising oil prices do the trick for the Fed and push inflation near 2% in a sustainable way? Should May levels be sustained until year-end, the price of WTI oil will average $67/barrel in 2018, up more than 30% from last year. That's the biggest oil shock since 2008 and, of course, has implications for inflation. While the pass-through of oil prices to inflation has fallen over the years, this oil shock is big enough to lift the annual CPI inflation rate by about 1%. But unless inflation expectations also move up significantly, this oil-induced price boost will be temporary. A recent IMF study showed the impact of rising oil prices on U.S. inflation fading completely within three years of the initial shock.

U.S.: Oil price shocks and inflation

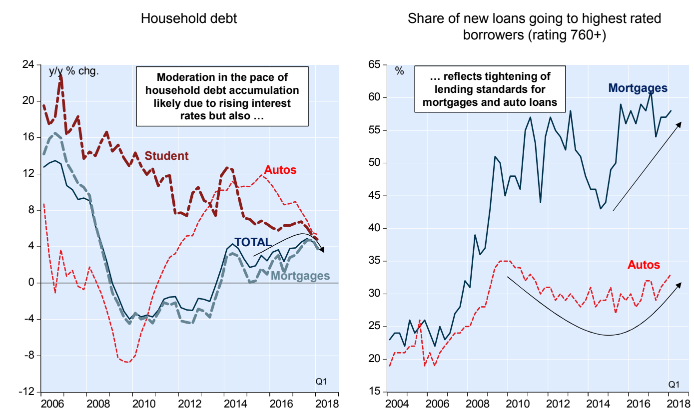


NBF Economics and Strategy (data via IMF: Choi, Furceri, Loungani, Mishra, Poplawski-Ribeiro: September 2017)

In other words, such price swings are unlikely to influence Fed policy. Recall that the latest Fed minutes mentioned that "a temporary period of inflation modestly above 2% would be consistent with the Committee's symmetric inflation objective and could be helpful in anchoring longer-run inflation expectations at a level consistent with that objective." The Fed also seems to think that interest rates are not far from the neutral rate, which argues for caution while tightening policy.

The Fed will also notice the moderation in the pace of household debt accumulation. While the latter hit a new record of US$13.2 trillion at the end of the first quarter, its pace of growth softened to just 3.8% year-on-year, the weakest since 2016. And here the deceleration isn't just about mortgages (which accounts for two-thirds of total household debt) but is instead generalized, with auto loans (+5.3% y/y) and student debt (+4.7% y/y) both growing at the slowest pace in years. The slowdown of household leveraging reflects rising interest rates but also tighter lending standards, particularly for mortgages and auto loans. In the first quarter, a third of auto loan origination (the highest share in 7 years) and nearly 60% of mortgage origination went to borrowers with the highest credit scores.

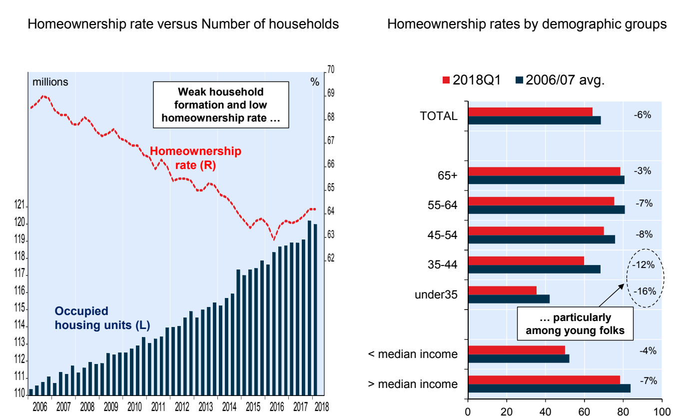
U.S.: What's causing deceleration in household leveraging?



NBF Economics and Strategy (data via New York Fed)

The slow recovery of the housing market also warrants for some caution from the Fed. The number of households, proxied by occupied housing units, fell in the first quarter to just under 120 million. Homeownership rates remain below pre-recession levels across all demographic groups, which curtails spending on durable goods. That explains in part why real consumption growth over 2011-2017 has been weaker than the pre-recession average by about half a percentage point annualized every quarter.

U.S.: Homeownership rates still depressed



NBF Economics and Strategy (data via U.S. Census Bureau)

All told, while U.S. real GDP growth will likely be near 3% this year, i.e. well above potential, we expect the Fed to exercise restraint with no more than two additional interest rate hikes this year, including one in June.

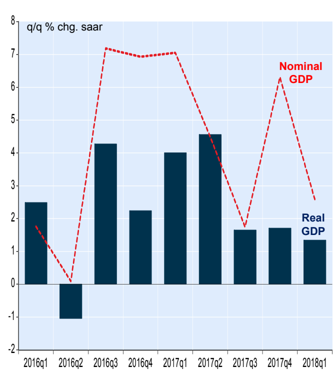
Canada: Wages accelerate

With the output gap now closed, it's no wonder inflation pressures are rising in Canada. The average of the three core CPI measures now show an annual inflation rate above 2%, the highest in six years. Wages are also growing at the fastest pace since 2012, suggesting further price pressures down the line. As such, we expect the Bank of Canada to resume interest rate hikes in July. While the economy faces downside risks with regards to trade, housing and household debt, real interest rates should arguably not be negative at this stage of the economic cycle.

Canada's GDP expanded at an annualized pace of 1.3% in the first quarter of 2018 as domestic demand provided more than an offset to an expected drag from trade, the latter due to surging imports. While consumption growth was the weakest in years, courtesy of weak real disposable income, the domestic economy nonetheless found support from government spending and business investment. Nominal GDP grew for a ninth consecutive quarter, which will pad government coffers further. A decent handoff from March — real GDP grew 0.3% unannualized in that month — warrants optimism for Q2 as well.

Canada: Economy grew 1.3% in the first quarter of 2018

Real and Nominal GDP



Contributions to real GDP

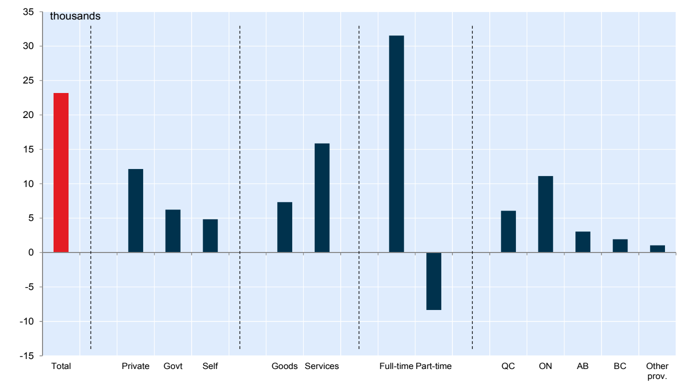
	Q1 2018	Q4 2017
GDP	**1.3**	1.7
Consumption	0.6	1.2
Business Investment	1.2	0.8
Nonprofit Sector	0.1	0.0
Residential Investment	-0.6	1.0
Government	0.8	1.1
Final Domestic Demand	**2.2**	4.1
Exports	0.5	1.2
Imports	-1.6	-2.5
Trade	**-1.1**	-1.3
Inventories	-0.1	-0.6
Statistical discrepancy	0.4	-0.5

NBF Economics and Strategy (data via Statistics Canada)

And if upward price pressures are any guide, it seems that continued economic expansion has closed the output gap. The average of the three core CPI measures now show an annual inflation rate above 2% in April, the highest in six years. The evaporation of slack is also apparent in the labour market. On the more reliable 12-month average basis — as opposed to month on month changes from the Labour Force Survey —, Canada created a healthy 23K net new jobs/month, of which more than half were in the private sector. Further highlighting labour market tightness is the apparent acceleration of wages. April's Labour Force Survey showed an annual increase of 3.6% for the average hourly wage of employees, the highest since 2012.

Canada: A more than decent performance in the past 12 months

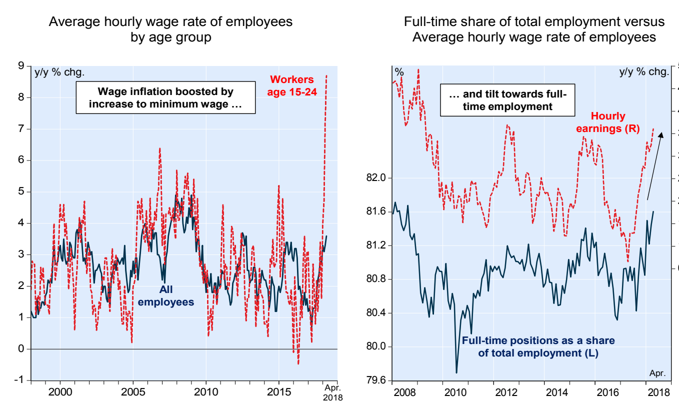
Net employment creation according to Labour Force Survey, 12-month average



NBF Economics and Strategy (data via Statistics Canada)

Increases to the minimum wage in Quebec (May 2017), British Columbia (September 2017), Alberta, Saskatchewan and Manitoba (October 2017), all Atlantic provinces (April 2018), and of course Ontario (January 2018) have clearly boosted year-on-year comparisons for the average wage rate. Workers age 15-24, i.e. those more likely to earn the minimum wage, are seeing an annual wage inflation rate of nearly 9%, more than double the average for all employees. But the uptrending wage inflation is also due to the tilt towards full-time jobs, the latter's share of total employment rising to a decade-high of 81.6%.

Canada: What's behind the surge in wage inflation?

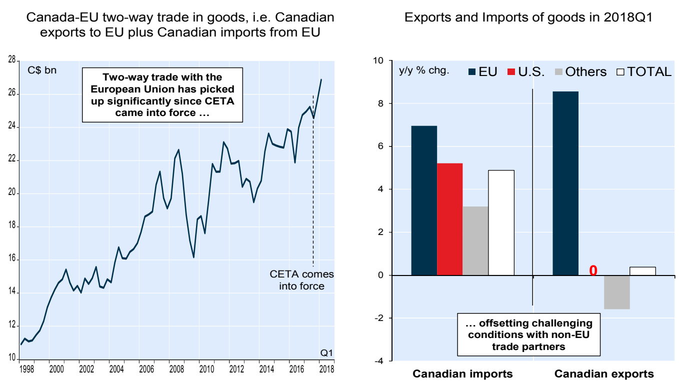


NBF Economics and Strategy (data via Statistics Canada)

With the disappearance of economic slack and mounting inflation pressures, one could have expected the Bank of Canada to tighten monetary policy faster than it actually did. The BoC has highlighted uncertainties with regards to trade, housing and household sensitivity to higher interest rates to explain its ultra-cautious approach.

It's true that exports have generally been disappointing — export volumes of non-energy goods are still below 2007 levels —, and that ongoing NAFTA negotiations do not inspire confidence, more so considering the recently imposed import tariffs by the U.S. on Canadian steel and aluminium (those account for about 4% of Canada's goods exports to the U.S.). But not everything related to trade is bleak. Recall that energy producers have done well and increased export volumes by 50% over the last decade. There are also encouraging signs with regards to the Comprehensive and Economic Trade Agreement (CETA) with the European Union, which came into force late September 2017. Two-way trade with the European Union jumped to almost C$27 bn in the first quarter of 2018 (or C$107 bn in annualized terms), the highest ever recorded. Both exports and imports (to and from the EU respectively) are rising at a faster pace than trade with other trade partners, including the U.S.

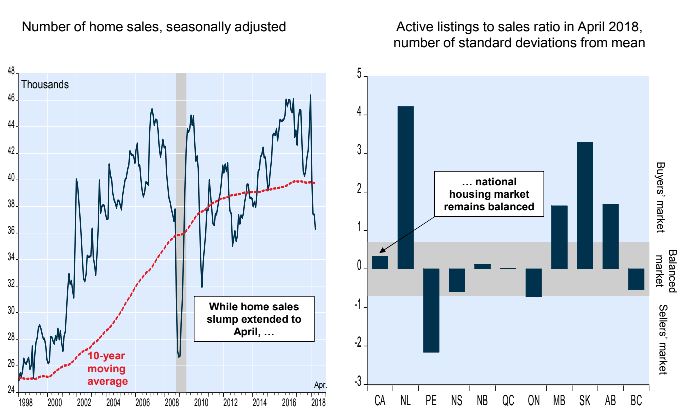
Canada: Is CETA as good as advertised?



NBF Economics and Strategy (data via Statistics Canada)

Concerns about housing are also warranted after earlier price surges and rising interest rates caused affordability to worsen. Tougher macro-prudential measures imposed by OSFI earlier this year are not helping either. So, the ongoing housing market correction should not be surprising.

Canada: Housing correction extends to April

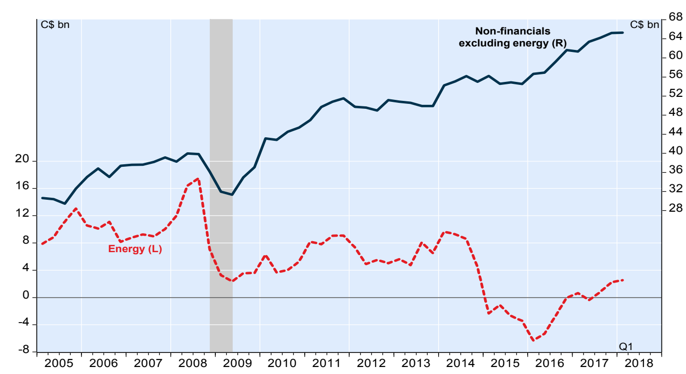


NBF Economics and Strategy (data via CREA)

That said, the apparent stabilization of home sales in places such as Toronto and Vancouver suggest the correction could be over soon. As such, we don't anticipate Canadian housing to enter sellers' market territory over the coming months. That, of course assumes no unforeseen shock to the labour market. While it will be tough to match last year's pace of job creation, the employment outlook still looks good in light of reported labour shortages and improving corporate profits. The surge in oil prices boosted the bottom line in the energy sector, but record profits in the non-energy sector also bode well for hiring and investment prospects.

Canada: Solid corporate profits bode well for hiring and investment

Seasonally adjusted operating profits of non-financial industries (energy and ex-energy)

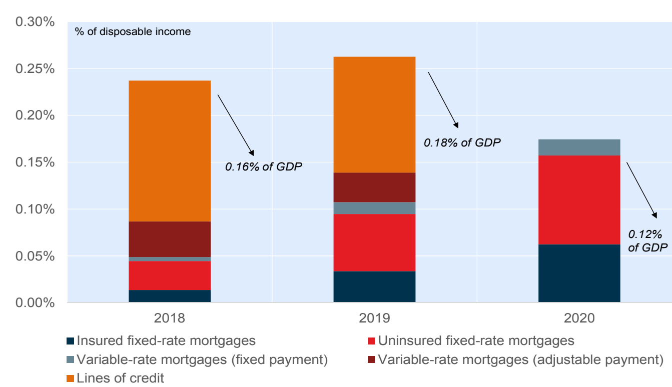


NBF Economics and Strategy (data via Statistics Canada)

The fate of housing will also depend on how Canadians handle debt in an environment of rising interest rates. We're not overly concerned in that regard. As we showed in a recent *Special report* entitled "*Reality check: Are Canadian households perched over a sinkhole?*", the upcoming payment shock brought by higher rates is likely to be subdued, amounting to less than three tenths of disposable income in 2018 and 2019 and trimming at most only two tenths of a percentage point from GDP.

Canada: Prospective payment shock

Increase in payment as % of disposable income



NBF Economics and Strategy (Statistics Canada)

All told, downside risks to the economy seem to be manageable at this point. Even amidst ongoing uncertainties, an argument could be made that real interest rates should not be negative at this stage of the economic cycle. As such, we expect the central bank to resume interest rate hikes in July.

United States
Economic Forecast

*(Annual % change)**	*2015*	*2016*	*2017*	*2018*	*2019*	*Q4/Q4 2017*	*Q4/Q4 2018*	*Q4/Q4 2019*
Gross domestic product (2009 $)	2.9	1.5	2.3	2.8	2.3	2.6	2.7	2.1
Consumption	3.6	2.7	2.8	2.5	2.1	2.8	2.2	2.0
Residential construction	10.2	5.5	1.8	1.4	1.8	2.6	1.0	2.0
Business investment	2.3	(0.6)	4.7	6.1	3.0	6.3	5.4	2.0
Government expenditures	1.4	0.8	0.1	1.8	2.1	0.7	2.0	2.0
Exports	0.4	(0.3)	3.4	3.7	1.2	5.0	2.5	1.0
Imports	5.0	1.3	4.0	3.8	1.4	4.7	2.0	1.2
Change in inventories (bil. $)	100.5	33.4	15.2	19.4	17.4	15.6	18.7	16.7
Domestic demand	3.3	2.1	2.5	2.8	2.2	2.9	2.5	2.0
Real disposable income	4.2	1.4	1.2	1.9	1.7	1.9	2.1	1.7
Household employment	1.7	1.7	1.3	1.5	1.1	1.2	1.6	1.0
Unemployment rate	5.3	4.9	4.4	3.9	3.6	4.1	3.7	3.6
Inflation	0.1	1.3	2.1	2.5	2.3	2.1	2.4	2.4
Before-tax profits	(1.1)	(2.1)	4.4	4.6	5.6	2.7	5.1	4.5
Federal balance (unified budget, bil. $)	(438.0)	(586.0)	(666.0)	(800.0)	(1,200.0)	...	...	...
Current account (bil. $)	(434.6)	(451.7)	(466.2)	(497.5)	(510.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 6-01-18	*Q3 2018*	*Q4 2018*	*Q1 2019*	*Q2 2019*	*2017*	*2018*	*2019*
Fed Fund Target Rate	1.75	2.25	2.25	2.50	2.50	1.50	2.25	3.00
3 month Treasury bills	1.88	2.13	2.08	2.25	2.37	1.37	2.08	2.83
Treasury yield curve								
2-Year	2.47	2.68	2.77	2.89	2.98	1.89	2.77	3.20
5-Year	2.74	2.95	3.03	3.09	3.13	2.20	3.03	3.32
10-Year	2.89	3.07	3.18	3.29	3.33	2.40	3.18	3.47
30-Year	3.04	3.20	3.30	3.40	3.43	2.74	3.30	3.55
Exchange rates								
U.S.$/Euro	1.17	1.18	1.21	1.25	1.23	1.20	1.21	1.26
YEN/U.S.$	110	112	114	114	112	113	114	112

*** end of period*

Quarterly pattern

	Q3 2017 actual	*Q4 2017 actual*	*Q1 2018 actual*	*Q2 2018 forecast*	*Q3 2018 forecast*	*Q4 2018 forecast*	*Q1 2019 forecast*	*Q2 2019 forecast*
Real GDP growth (q/q % chg. saar)	3.2	2.9	2.2	3.2	3.1	2.4	1.8	2.5
CPI (y/y % chg.)	2.0	2.1	2.3	2.7	2.7	2.4	2.2	2.3
CPI ex. food and energy (y/y % chg.)	1.7	1.7	1.9	2.2	2.4	2.4	2.3	2.5
Unemployment rate (%)	4.3	4.1	4.1	3.8	3.8	3.7	3.7	3.7

National Bank Financial

Canada
Economic Forecast

*(Annual % change)**	*2015*	*2016*	*2017*	*2018*	*2019*	*2017*	*Q4/Q4 2018*	*2019*
Gross domestic product (2007 $)	1.0	1.4	3.0	2.2	1.9	3.0	2.3	1.6
Consumption	2.1	2.4	3.5	2.3	1.9	3.4	2.1	1.6
Residential construction	3.8	3.3	2.9	0.0	(2.8)	4.6	(3.1)	(3.0)
Business investment	(11.3)	(9.4)	2.8	5.8	2.7	8.9	3.0	4.2
Government expenditures	1.4	2.7	2.6	3.3	2.2	3.3	2.8	2.0
Exports	3.5	1.0	1.1	2.6	3.5	0.5	4.6	2.7
Imports	0.7	(1.0)	3.6	3.4	2.2	6.9	2.0	2.7
Change in inventories (millions $)	4,711	978	13,921	6,705	2,853	15,759	1,204	2,833
Domestic demand	0.3	1.1	3.0	2.7	1.7	4.0	2.0	1.6
Real disposable income	3.5	1.3	3.7	2.4	1.6	3.3	1.5	1.5
Employment	0.9	0.7	1.9	1.3	0.9	2.1	0.8	0.8
Unemployment rate	6.9	7.0	6.3	5.7	5.5	6.0	5.6	5.5
Inflation	1.1	1.4	1.6	2.3	2.1	1.8	2.2	2.5
Before-tax profits	(19.8)	(1.9)	19.9	6.0	6.3	7.9	8.3	5.0
Current account (bil. $)	(71.5)	(65.4)	(63.3)	(72.0)	(59.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 6-01-18	*Q3 2018*	*Q4 2018*	*Q1 2019*	*Q2 2019*	*2017*	*2018*	*2019*
Overnight rate	1.25	1.50	1.75	2.00	2.00	1.00	1.75	2.25
3 month T-Bills	1.28	1.65	1.88	1.96	2.18	1.06	1.88	2.21
Treasury yield curve								
2-Year	1.92	2.11	2.17	2.32	2.38	1.69	2.17	2.55
5-Year	2.12	2.30	2.35	2.50	2.63	1.87	2.35	2.78
10-Year	2.25	2.54	2.63	2.82	2.93	2.04	2.63	3.09
30-Year	2.28	2.56	2.65	2.84	2.95	2.26	2.65	3.11
CAD per USD	1.30	1.23	1.21	1.20	1.22	1.25	1.21	1.22
Oil price (WTI), U.S.$	66	69	72	70	68	60	72	66

*** end of period*

Quarterly pattern

	Q3 2017 actual	*Q4 2017 actual*	*Q1 2018 actual*	*Q2 2018 forecast*	*Q3 2018 forecast*	*Q4 2018 forecast*	*Q1 2019 forecast*	*Q2 2019 forecast*
Real GDP growth (q/q % chg. saar)	1.7	1.7	1.3	2.5	3.2	2.2	1.6	1.5
CPI (y/y % chg.)	1.4	1.8	2.1	2.5	2.6	2.2	1.7	1.9
CPI ex. food and energy (y/y % chg.)	1.4	1.6	1.8	1.8	1.9	2.0	1.6	2.0
Unemployment rate (%)	6.2	6.0	5.8	5.8	5.6	5.6	5.5	5.5

National Bank Financial

Provincial economic forecast

	Real GDP (% growth)					Nominal GDP (% growth)				
	2015	2016	2017e	2018f	2019f	2015	2016	2017e	2018f	2019f
Newfoundland & Labrador	-1.7	1.9	2.1	1.9	3.0	-11.5	2.6	8.6	7.8	3.1
Prince Edward Island	1.3	2.3	3.2	2.5	2.0	3.9	4.0	5.4	4.4	4.5
Nova Scotia	1.4	0.8	1.2	0.7	1.0	2.1	2.8	2.8	3.6	3.0
New Brunswick	2.4	1.2	1.9	1.2	1.3	2.0	3.6	5.4	5.3	3.7
Quebec	1.0	1.4	3.1	2.1	1.8	2.4	2.7	5.3	3.6	3.4
Ontario	2.9	2.6	2.7	2.3	1.8	5.0	4.3	4.5	4.0	3.8
Manitoba	1.3	2.2	2.8	2.2	1.5	3.3	2.3	4.9	4.7	3.6
Saskatchewan	-1.0	-0.5	2.9	1.5	2.5	-5.4	-4.0	6.5	6.7	3.9
Alberta	-3.7	-3.7	4.9	2.6	1.9	-12.0	-4.9	7.2	6.8	3.2
British Columbia	3.5	3.5	3.9	2.4	2.0	4.0	4.8	7.1	5.7	3.8
Canada	1.0	1.4	3.0	2.2	1.9	0.2	2.0	5.4	4.0	3.9

	Employment (% growth)					Unemployment rate (%)				
	2015	2016	2017e	2018f	2019f	2015	2016	2017e	2018f	2019f
Newfoundland & Labrador	-1.0	-1.5	-3.7	-0.2	-0.5	12.8	13.4	14.8	13.9	13.7
Prince Edward Island	-1.1	-2.3	3.1	2.4	0.7	10.4	10.7	9.8	10.5	9.9
Nova Scotia	0.1	-0.4	0.6	1.8	0.2	8.6	8.3	8.4	7.4	6.9
New Brunswick	-0.6	-0.1	0.4	0.4	0.2	9.8	9.5	8.1	8.0	8.1
Quebec	0.9	0.9	2.3	1.2	0.7	7.6	7.1	6.1	5.3	5.1
Ontario	0.7	1.1	1.8	1.6	1.0	6.8	6.5	6.0	5.4	5.3
Manitoba	1.5	-0.4	1.6	0.8	0.4	5.6	6.1	5.4	5.2	5.0
Saskatchewan	0.5	-0.9	0.0	0.3	0.7	5.0	6.3	6.3	5.7	5.5
Alberta	1.2	-1.6	1.1	1.6	1.2	6.0	8.1	7.8	6.7	5.8
British Columbia	1.2	3.2	3.7	1.1	1.5	6.2	6.0	5.1	4.7	4.7
Canada	0.8	0.7	1.9	1.3	0.9	6.9	7.0	6.3	5.7	5.5

	Housing starts (000)					Consumer Price Index (% growth)				
	2015	2016	2017e	2018f	2019f	2015	2016	2017e	2018f	2019f
Newfoundland & Labrador	1.7	1.4	1.4	1.6	1.3	0.4	2.7	2.3	2.0	2.0
Prince Edward Island	0.6	0.6	0.9	1.0	0.6	-0.6	1.2	1.8	2.3	2.0
Nova Scotia	3.8	3.8	4.0	3.7	3.4	0.4	1.2	1.1	2.3	2.0
New Brunswick	2.0	1.8	2.3	1.7	1.6	0.5	2.2	2.3	2.4	2.0
Quebec	37.9	38.9	46.5	52.0	40.0	1.1	0.7	1.1	1.9	1.9
Ontario	70.2	75.0	79.0	74.6	69.0	1.2	1.8	1.7	2.4	2.2
Manitoba	5.5	5.3	7.5	6.2	5.0	1.2	1.3	1.6	2.5	2.1
Saskatchewan	5.1	4.8	4.9	3.2	4.0	1.6	1.1	1.7	2.6	2.0
Alberta	37.3	24.5	29.5	26.2	24.0	1.1	1.1	1.5	2.6	2.1
British Columbia	31.4	41.8	43.7	42.8	35.0	1.1	1.8	2.1	2.4	2.2
Canada	195.5	197.9	219.7	213.0	183.9	1.1	1.4	1.6	2.3	2.1

e: estimate f: forecast

Historical data from Statistics Canada and CMHC, National Bank of Canada's forecast.

Monthly Economic Monitor

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