NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Monthly Economic Monitor

Economics and Strategy

July/August 2017

Highlights

- The global economy is picking up steam buoyed by both advanced and emerging economies. We expect global GDP growth to be close to 3.5% both this year and next. That, however, assumes policymakers are able to minimize downside risks such as mounting trade protectionism, elevated debt levels and the impacts of Brexit.

- The improving U.S. economy explains the Fed's decision at its June meeting to upgrade slightly its growth forecasts and tighten monetary policy further. Industrial output and real consumption spending are on track to grow in the second quarter at a much faster pace than in Q1 and the labour market remains rock solid. But while we remain comfortable with our view that U.S. GDP growth will accelerate to more than 2% both this year and next, that's not to say we share the Fed's optimism on PCE inflation and hence interest rates for 2018 and 2019.

- Canadian economic data has largely surprised on the upside this year. Growth has been strong and so has the labour market, the latter creating jobs in numbers not seen since 2013. The housing market has surged as a result. So much so that the Bank of Canada signalled an upcoming policy change by replacing dovish rhetoric with an explicit statement that it is now assessing whether the current considerable stimulus is still required. We have accordingly brought forward by one quarter to October 2017 the timing for when we expect an increase in the overnight rate.

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				Change from Previous Forecast	
	2016	2017	2018	2017	2018
United States					
GDP	1.6%	2.2%	2.4%	unch	unch
CPI inflation	1.3%	2.3%	2.2%	unch	unch
Fed Fund Target Rate*	0.75%	1.50%	2.25%	unch	unch
Ten-year bond yield*	2.45%	2.71%	3.20%	-24 bp	-10 bp
Canada					
GDP	1.5%	2.4%	2.0%	unch	unch
CPI inflation	1.4%	1.7%	1.8%	-0.1 pp	-0.2 pp
Overnight rate*	0.50%	1.00%	1.50%	+50 bp	+25 bp
Ten-year bond yield*	1.72%	2.26%	2.69%	+8 bp	+1 bp

* end of period

World: Debt-fueled growth

The global economy is picking up steam buoyed by both advanced and emerging economies. We expect global GDP growth to be close to 3.5% both this year and next. That, however, assumes policymakers are able to minimize downside risks such as mounting trade protectionism, elevated debt levels and the impacts of Brexit.

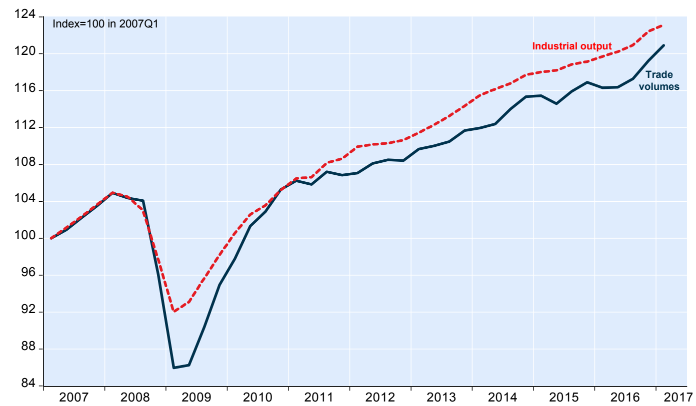
The global economy continues to grow according to latest CPB data which shows a pick-up in trade volumes and industrial output. In fact, world trade volumes grew faster than industrial production for a third consecutive quarter in Q1 taking the ratio of industrial production to trade volumes (a proxy of inventories) to the lowest in years. That's good news for production going forward.

And based on Markit purchasing managers indices the world economy remained in expansion mode in the second quarter. In May, the global PMI was again well above the 50 threshold denoting expansion in both manufacturing and services sectors. Advanced economies such as the U.S., Eurozone, Japan and the UK all saw further increases in manufacturing and services output. However, factory activity softened a bit in ASEAN economies such as Malaysia, Thailand and Singapore.

In China, a moderation in factory activity is being offset by a buoyant services sector, the latter's PMI rising to the highest in four months. According to Markit, new orders in the services sector expanded in May at the fastest pace this year amidst stronger underlying client demand. China's services sector is finding support from an improving domestic economy. Consumption spending is in good shape as evidenced by nominal retail spending which grew almost 11% on a year-on-year basis in May, while real estate activity is bouncing back after treading water in the last few years. While still weak, growth in private sector investment seems to be picking up. All in all, China remains on track to grow about 6.5% this year.

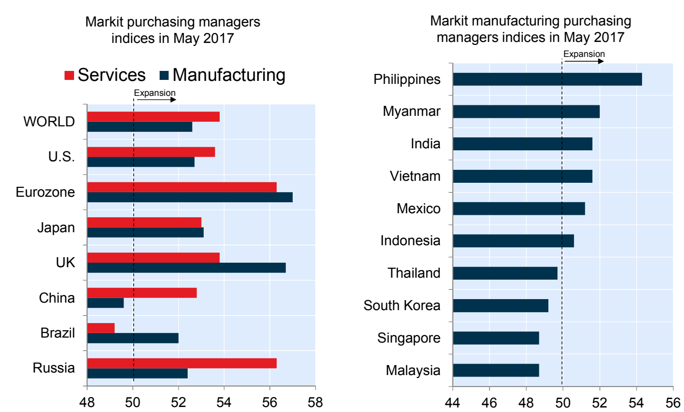
But there are still significant challenges facing China's policymakers. A highly levered economy remains at risk of disorderly deleveraging, which explains Moody's recent downgrade of China's credit rating. New bank loans averaged a record 1.1 trillion yuan/month in the 12 months to May. And it now takes twice as much credit (compared to pre-2009) to generate an additional unit of GDP in China — in economist parlance "credit intensity" has doubled since 2009. Credit to the private sector in China has grown to a record 92% of GDP, well above that of other emerging economies which are closer to 50% of GDP. So, the threat of defaults and hence a financial crisis in the world's second largest economy should not be underestimated.

World: Economic activity is improving after dismal 2016
World trade volume and industrial output



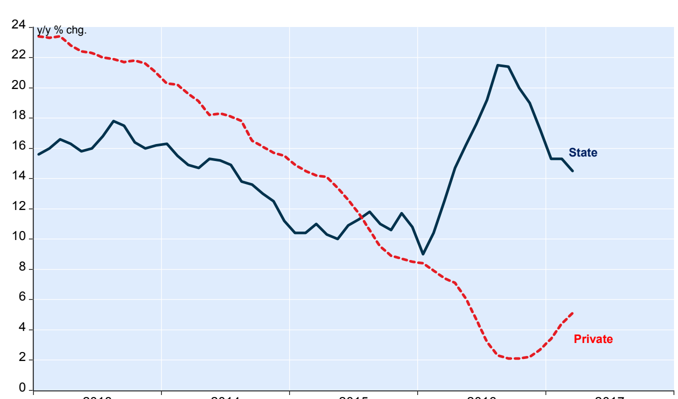
NBF Economics and Strategy (data via CPB)

World: Continued expansion in the second quarter



NBF Economics and Strategy (data via Markit)

China: Private investment growth is picking up
Fixed asset investment, 6-month moving average



NBF Economics and Strategy (data via World Bank)

World Economic Outlook

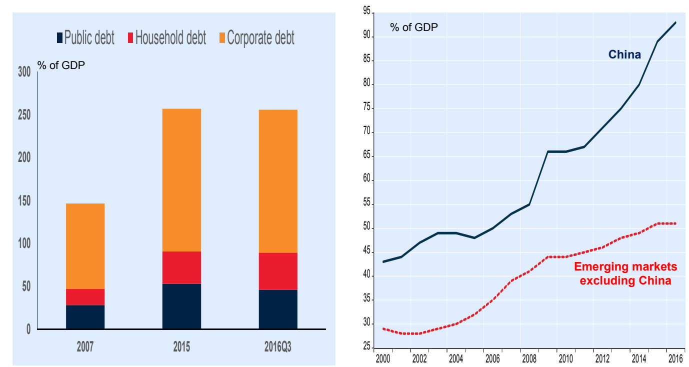
	Forecast		
	2016	**2017**	**2018**
Advanced countries	***1.7***	***1.9***	***1.9***
United States	1.6	2.2	2.4
Euroland	1.7	1.7	1.6
Japan	1.0	1.4	1.1
UK	1.8	1.7	1.4
Canada	1.5	2.4	2.0
Australia	2.5	2.5	2.8
New Zealand	4.0	2.9	3.0
Hong Kong	1.9	2.2	2.1
Korea	2.8	2.6	2.5
Taiwan	1.4	2.1	2.0
Singapore	2.0	2.4	2.2
Emerging Asia	***6.2***	***6.2***	***6.0***
China	6.7	6.5	6.2
India	6.8	7.3	7.6
Indonesia	5.0	5.2	5.3
Malaysia	4.2	4.4	4.4
Philippines	6.8	6.5	6.3
Thailand	3.2	3.3	3.3
Latin America	***-1.0***	***1.2***	***2.1***
Mexico	2.3	1.8	2.2
Brazil	-3.6	0.6	2.5
Argentina	-2.3	2.7	3.0
Venezuela	-18.0	-5.0	-0.4
Colombia	2.0	1.6	2.7
Eastern Europe and CIS	***1.6***	***2.1***	***2.1***
Russia	-0.2	1.3	1.7
Czech Rep.	2.4	2.5	2.6
Poland	2.8	3.4	3.2
Turkey	2.9	3.1	3.2
Middle East and N. Africa	***3.8***	***2.3***	***3.2***
Sub-Saharan Africa	***1.5***	***2.7***	***3.5***
Advanced economies	***1.7***	***1.9***	***1.9***
Emerging economies	***4.0***	***4.3***	***4.5***
World	***3.0***	***3.4***	***3.5***

Source: NBF Economics and Strategy

Emerging markets: High leverage

China's total debt

Credit to the private sector in emerging markets



NBF Economics and Strategy (data via World Bank)

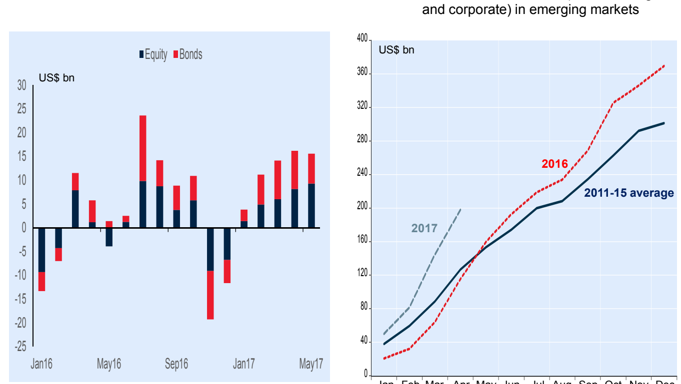
High leverage is not just a Chinese problem. Other emerging economies in Asia and Latin America also have highly indebted corporations. And a sizable chunk of the accumulated debt is denominated in U.S. dollars — according to the Bank of International Settlements' latest Quarterly Review, USD-denominated debt outstanding outside of America at the end of 2016 was a record US$10.6 trillion (a third of which was in emerging markets). For that reason, the Fed could threaten global financial stability if it tightens U.S. monetary policy too aggressively thereby prompting dollar appreciation and having capital leave emerging economies for America.

Anyone doubting the negative impacts of capital outflows need only look at what happened last year. Real GDP growth in emerging markets was the weakest since 2009, coinciding with the worst foreign inflows in years. Fortunately for emerging economies capital inflows have bounced back, stimulated by improving economic data and increased confidence about global growth prospects. Corporations and governments are taking advantage of this turnaround in inflows to add to an already significant debt load, with bond issuance on track to top last year's pace. Such debt-fueled growth, however, is not sustainable.

Emerging markets: Capital inflows and bond issuance are strong

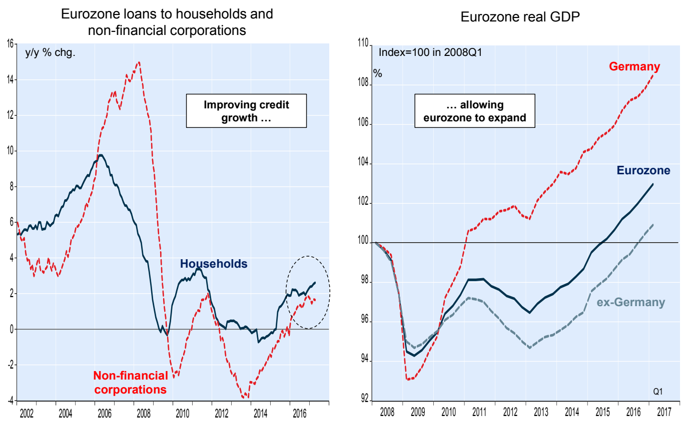
Portfolio flows to Emerging Markets

Cumulative bond issuance (both sovereign and corporate) in emerging markets



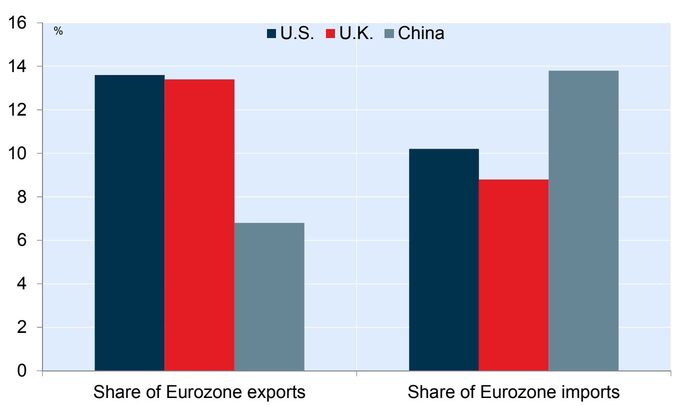
NBF Economics and Strategy (data via World Bank)

Eurozone: Credit growth fueling expansion



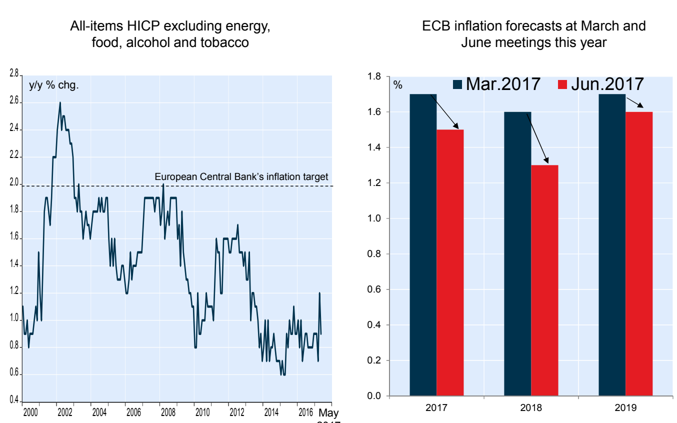
NBF Economics and Strategy (data via Eurostat)

Eurozone: Brexit will bite
Share of exports and imports by trading partner



NBF Economics and Strategy (data via World Bank)

Eurozone: ECB revises down its inflation forecasts



NBF Economics and Strategy (data via Eurostat, ECB)

The Eurozone's outlook has improved markedly since the start of the year. Momentum from the first quarter seems to have extended to Q2 based on strong manufacturing and services purchasing managers indices. The composite PMIs in both Germany and France jumped to six-year highs in May. Consumption spending is holding up well in both of those Eurozone powerhouses, with France's retail PMI even surging in May to the highest in 67 months. But in Italy, the retail PMI remains in contraction mode, i.e. below 50. According to Markit, the overall data paints a positive picture of the retail sector in the Eurozone. The uptick in credit growth for households is no doubt helping. But so is rising employment. Latest Eurostat data shows employment rising to an all-time high in Q1, surpassing the 2008 peak for the first time.

But the common currency area is still not out of the woods. The deal struck between international creditors and Greece will allow the latter to meet its near term debt obligations, although no significant debt relief was agreed. By again kicking the can down the road, the negotiating parties have kept alive risks to sovereign spreads. Also, despite surprisingly favourable outcomes at both the Dutch and French elections where anti-EU parties were easily defeated, there are still crucial elections to come in Germany and in Italy. The latter's economic weakness puts incumbent Prime Minister Paolo Gentiloni at risk of falling to anti-EU populists at next year's elections. The Eurozone cannot afford its membership to be fractured at a time when it will face headwinds related to Brexit. Note that more than 13% of the eurozone's exports go to the UK. And with almost the same share going to America, Eurozone leadership will have to tread carefully as to not be steamrolled by changing U.S. trade policy.

Price pressures have also faded, forcing the European Central Bank to downgrade its inflation forecasts for 2017 as well as for the next two years, all below its 2% target. The last time the annual core inflation rate was at 2% was in 2008. While it said that interest rates will not be cut again, the ECB made clear in June that it stands ready to increase its QE program if "the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation". The ECB is also keeping a close eye on credit access despite the overall improvement. Lingering weakness of bank balance sheets in vulnerable countries such as Italy, where the share of non-performing loans in total loans is at an all-time high, explains in part the reluctance of some commercial banks to lend. All told, the ECB's work is hardly complete.

U.S.: Q2 rebound

The improving U.S. economy explains the Fed's decision at its June meeting to upgrade slightly its growth forecasts and tighten monetary policy further. Industrial output and real consumption spending are on track to grow in the second quarter at a much faster pace than in Q1 and the labour market remains rock solid. But while we remain comfortable with our view that U.S. GDP growth will accelerate to more than 2% both this year and next, that's not to say we share the Fed's optimism on PCE inflation and hence interest rates for 2018 and 2019.

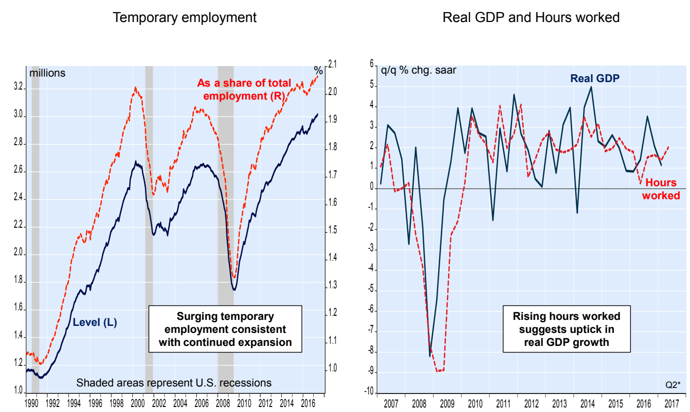
The U.S. labour market continues to impress. Non-farm payrolls increased for an 80th consecutive month in May, an unprecedented achievement in U.S. history. Employment creation over the December-May period has averaged a healthy 160K/month, a tally higher than what the Fed would deem as necessary to bring down a jobless rate which, at 4.3%, is already the lowest in 16 years. Temporary employment, which tends to soften in a downturn, is now at an all-time high both in level terms and as a percentage of total employment. Hours worked are also on the rise. So, signals from the labour market currently suggest continued expansion.

This is corroborated by several other economic reports. Even assuming no change in June, industrial output is on track to grow more than 5% annualized in Q2, the biggest quarterly jump in three years. Consumption spending also seems to be on the mend according to retail volumes which are growing in Q2 at a faster pace than the prior quarter. We continue to expect Q2 GDP growth to be around 3% annualized.

But not all is rosy. After contributing to growth the prior quarter, trade now seems to be subtracting from it in Q2 based on April data. Residential construction also seems to be taking a breather as evidenced by falling housing starts. The decline in starts could be just a blip, meaning we'll likely get back up to levels that are more consistent with demographic needs. But one cannot rule out a cyclical slowdown in the U.S. housing sector in the aftermath of tighter Fed policy and tighter lending standards. Recall that a record high of 61% of all new mortgage originations in the first quarter of the year went to borrowers with the highest credit scores i.e. 760 and above.

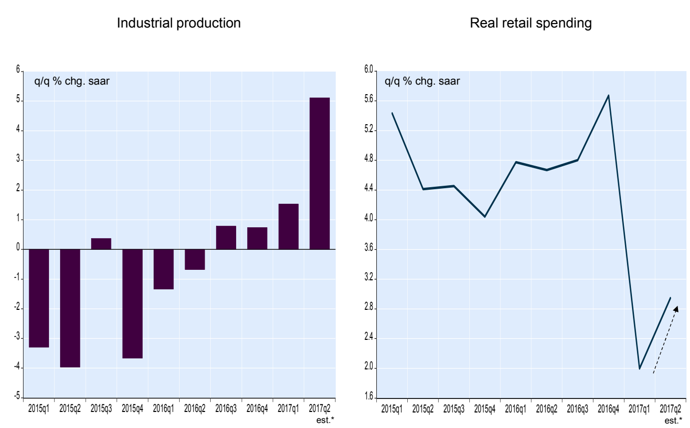
The Fed presented a slightly improved economic outlook to support its decision to raise interest rates again in June. The majority of FOMC members expect to deliver one more rate hike this year and to start reducing the size of its balance sheet from the current US$4.5 trillion. Fed research suggests the appropriate level for the balance sheet over the longer term is about US$2.5 trillion. But don't expect the roughly $2 trillion cut to happen quickly.

U.S.: Labour market data consistent with continued expansion



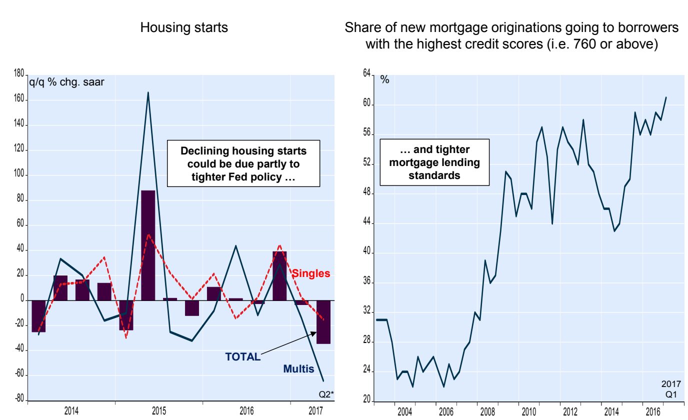
** Assuming no change in June and no revisions to prior months*
NBF Economics and Strategy (data via Datastream)

U.S.: Sharp rebound in output in the second quarter



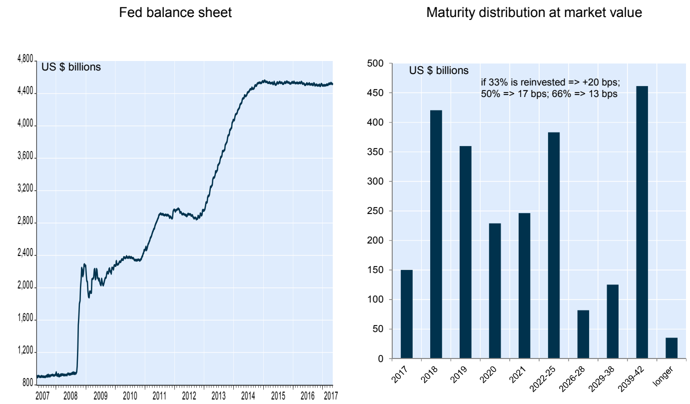
** Assuming no change in June and no revisions to prior months*
NBF Economics and Strategy (data via Datastream)

U.S.: Residential construction taking a breather



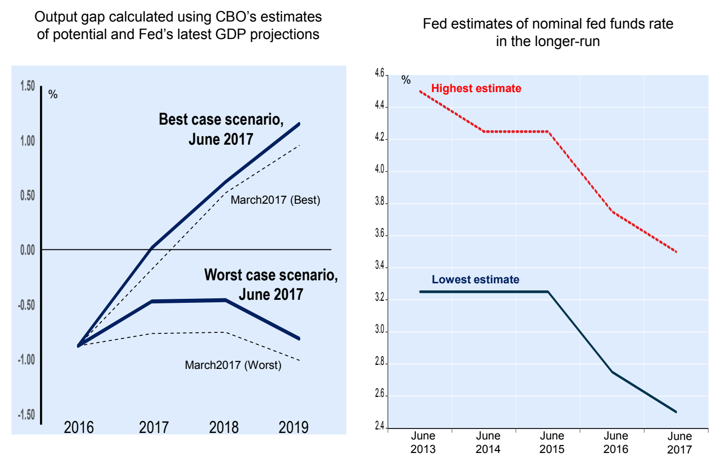
** Assuming no change in June and no revisions to prior months*
NBF Economics and Strategy (data via Datastream, New York Fed)

U.S.: Fed expected to reduce size of balance sheet



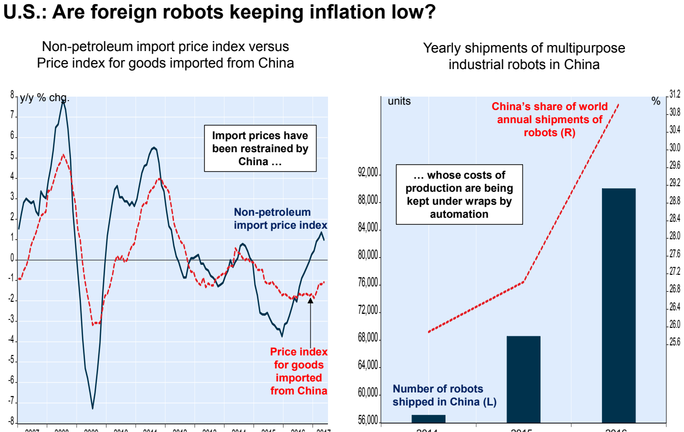
NBF Economics and Strategy (data via Federal Reserve Bank of New York and Bloomberg)

U.S.: Slightly better outlook according to the Fed



NBF Economics and Strategy (data via Federal Reserve, Congressional Budget Office)

U.S.: Are foreign robots keeping inflation low?



NBF Economics and Strategy (data via Datastream, International Federation of Robotics)

The Fed made clear the balance sheet shrinkage would be very gradual — it will reinvest only to the extent that principal payments received from maturing securities exceeds gradually rising caps. For example, take Treasuries whose initial cap was set by the Fed at $6 bn/month. If principal payments from maturing Treasuries amount to $20 bn in the month when balance sheet normalization starts, the Fed will then reinvest only $14 bn in that month. While reducing the size of the balance sheet should push up bond yields, research shows the Fed could restrict the ramp up in yields to just 17 basis points if it reinvests about half of the amount of maturing securities.

The Fed's plans to tighten monetary policy further rest on the economy performing well and on the FOMC's confidence that inflation will rise towards its 2% target "over the medium term". But based on expectations about the future fed funds rate (which are miles lower than the Fed's own expectations), markets are yet to be convinced. It can indeed be hard for investors to believe a Fed that has failed to hit its inflation target for five years in a row. There are also doubts about the FOMC's abilities to even forecast inflation (let alone hit the inflation target) in light of a changing economy and global forces. Recall that the Fed chopped another 0.3% from its forecast for the unemployment rate, highlighting its struggles in estimating the non-accelerating inflation rate of unemployment. That explains why wage inflation and hence the overall inflation rate have been much weaker than expected. The Fed has also been struggling with the equilibrium interest rate (the end-point for interest rates) whose "high" estimate has been cut a massive 100 basis points over the last four years.

Despite those challenges, the Fed remains confident in its models' predictions that it will eventually hit its inflation target. Sure, demand could improve over time and, as the Fed models would suggest, that would exert upward pressures on prices. But will that be enough to offset deflationary impacts of increased supply due to technological advancements, e.g. Uber, Airbnb, etc…? Automation is another inflation-buster that is often ignored by central bankers. China's deflationary impact on the U.S. and world economies, expected to fade as wages rise, has instead been persistent. China is aggressively investing in automation, taking in more than 30% of the world's shipments of industrial robots last year, which could explain why its production costs are being kept under wraps. Recall that prices for goods imported from China by the U.S. continue to fall on a year-on-year basis.

So, while we remain comfortable with our view that U.S. GDP growth will accelerate to more than 2% both this year and next, that's not to say we share the Fed's optimism on PCE inflation and hence interest rates for 2018 and 2019.

Canada: Setting the stage for tighter monetary policy

Canadian economic data has largely surprised on the upside this year. Growth has been strong and so has the labour market, the latter creating jobs in numbers not seen since 2013. The housing market has surged as a result. So much so that the Bank of Canada signalled an upcoming policy change by replacing dovish rhetoric with an explicit statement that it is now assessing whether the current considerable stimulus is still required. We have accordingly brought forward by one quarter to October 2017 the timing for when we expect an increase in the overnight rate.

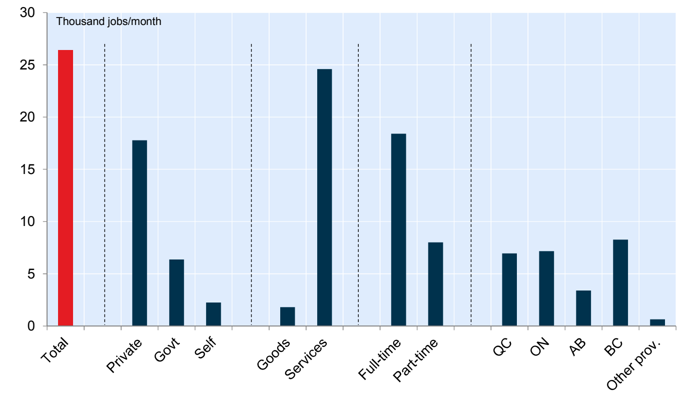
Canadian employment is booming according to the Labour Force Survey (LFS). In the 12 months to May, Canada created roughly 26K jobs/month on average, the best since 2013. Adding to the good news is the fact that the bulk of jobs created over the period were in the private sector (which accounted for two-thirds of the tally) and were full-time positions (70% of the job gains). The bulk of job gains have not surprisingly been in BC, Ontario and Quebec, but there has also been encouraging gains in Alberta and Saskatchewan, suggesting those latter two are recovering from the oil shock.

One of the few blemishes from the LFS is the wage data which shows anaemic growth. The product of Average hourly wage rate and Total hours worked grew a meagre 1% in the first quarter of 2017 compared to the same quarter last year. That probably explains why some observers, including the Bank of Canada, continue to refer to wage growth as “subdued”. But national accounts data, which arguably is more reliable than the LFS with regards to wage information, tells a much different story, putting annual wage growth at more than 3% in Q1. BC and Ontario are seeing wage growth well above the national average, which explains in part the housing market strength observed in those provinces.

Housing demand in those two provinces is also being fueled by international immigrants and net interprovincial migration. Resale home prices, as measured by the Teranet-National Bank house price index, have tripled since 2000 but have soared even more in BC’s Vancouver (3.7 times) and Ontario’s Toronto (3.4 times). Clearly fundamentals do not explain all of those gains. If that was the case, affordability in those two cities, which can be measured as the inverse of the mortgage payment on a representative home as a percentage of income, would not have been the worst since the early 1990’s. Something had to be done to take steam out of those overheating markets and that is why we welcome the Bank of Canada’s decision to ditch the dovish rhetoric and signal an upcoming tightening of monetary policy.

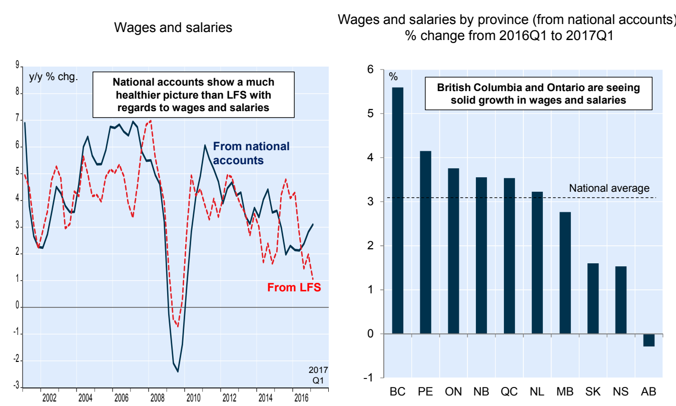
Canada: Solid labour market

Employment creation according to Labour Force Survey, 12-month average to May 2017



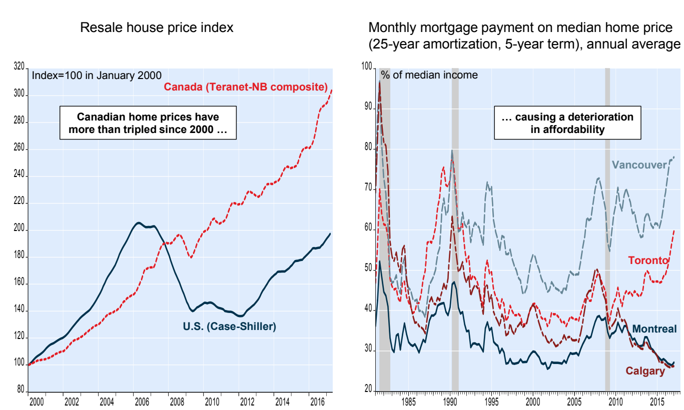
NBF Economics and Strategy (data via Statistics Canada)

Canada: Wages and salaries growing at healthy clip



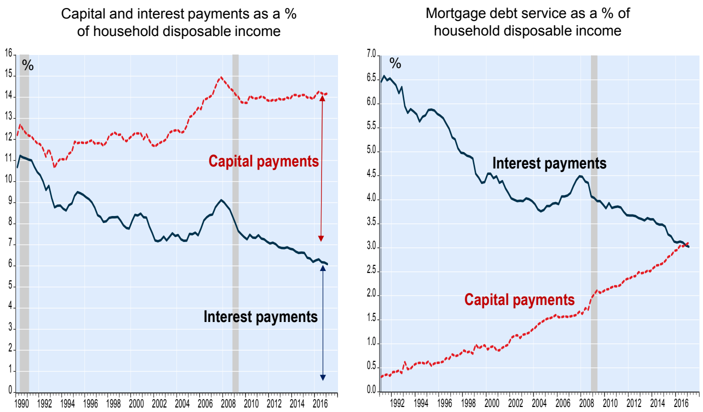
NBF Economics and Strategy (data via Statistics Canada)

Canada: House prices have more than tripled since 2000



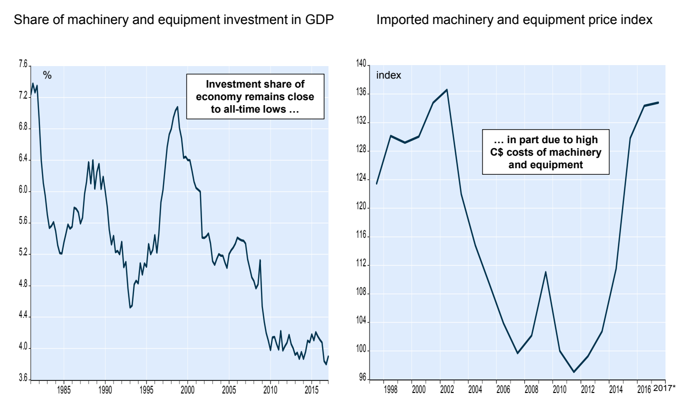
NBF Economics and Strategy (data via Datastream, Teranet-National Bank, CREA)

Canada: Household debt service is manageable



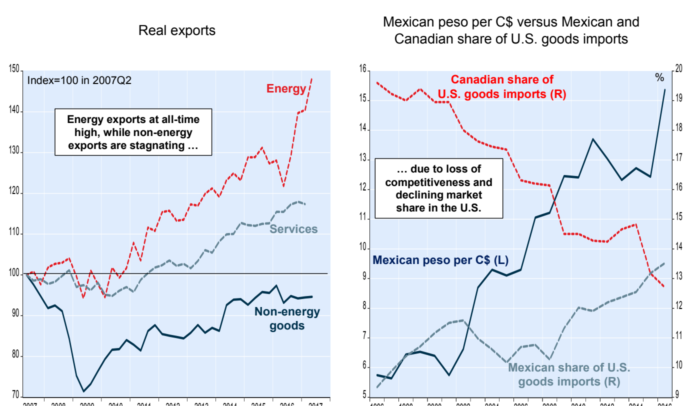
NBF Economics and Strategy (data from Statistics Canada)

Canada: Low share of the economy for investment in equipment



* Assuming no change in Q2, Q3 and Q4
NBF Economics and Strategy (data via Statistics Canada)

Canada: Gains in export volumes driven by energy



NBF Economics and Strategy (data via Statistics Canada)

We have accordingly brought forward by one quarter (to October 2017) the timing for when we expect an increase in the overnight rate. That, of course, assumes oil prices bounce back after the recent rout — the latter explains why we trimmed our inflation forecasts for this year and next.

Should anybody be concerned about the impacts of changing BoC policy on Canadian households? Yes, if one expects the central bank will be on an aggressive tightening schedule. But odds are that the BoC, wary of triggering disorderly deleveraging, will adopt a gradual approach to tightening. Gradualism should minimize risks to financial stability by allowing Canadians to reduce debt in an orderly way. Households have already made progress in cutting down debt. Capital payments have increased as a share of disposable income and, in the case of mortgages, have even surpassed the interest share of disposable income for the first time ever. Overall debt service, i.e. payment of interest and capital, remains manageable as it accounts for 14% of disposable income. That's not to say the Canadian consumer is in the clear. The still-heavy debt burden, coupled with rising interest rates and a fading housing wealth effect, should restrain real consumption growth next year.

With consumers sidelined, what exactly is going to power domestic demand forward next year? Probably not residential investment which is likely to soften as home price inflation falls back to more sustainable levels. As for business investment, it's unclear if the recent uptick can be sustained in light of the relapse in oil prices. Recall that Statistics Canada's report on business investment intentions suggested private sector investment would fall in 2017 for a third year in a row, with the mining sector (where there is reportedly significant excess capacity) hit particularly hard. The weak Canadian dollar is also a deterrent because it raises the cost of imported machinery. So, it's unclear if we'll see the share of machinery and equipment investment in GDP bounce back from the current trough. But domestic demand will still find support from government spending as federal infrastructure money is finally spent and provincial governments deploy fiscal stimulus ahead of elections in Quebec and Ontario.

We are also counting on trade to significantly contribute to Canada's GDP growth next year. True, the observed stagnation for non-energy goods exports could continue in light of lost market share in the U.S. But exports of energy and services are likely to reach new records thanks to strengthening U.S. demand and the lagged impacts of a cheaper Canadian dollar. That of course assumes trade flows are not materially impacted after the renegotiation of the North American Free Trade Agreement. As such, we remain comfortable with our forecast for Canada's real GDP to expand 2.0% in 2018 after this year's growth print of roughly 2.4%.

United States
Economic Forecast

*(Annual % change)**	*2014*	*2015*	*2016*	*2017*	*2018*	*Q4/Q4 2016*	*Q4/Q4 2017*	*Q4/Q4 2018*
Gross domestic product (2009 $)	2.4	2.6	1.6	2.2	2.4	2.0	2.1	2.5
Consumption	2.9	3.2	2.7	2.5	2.6	3.1	2.2	2.7
Residential construction	3.5	11.7	4.9	5.9	1.7	1.1	6.3	1.2
Business investment	6.0	2.1	(0.5)	4.4	2.0	(0.1)	4.8	2.1
Government expenditures	(0.9)	1.8	0.8	0.2	2.2	0.2	1.1	2.0
Exports	4.3	0.1	0.4	1.9	(0.3)	1.5	1.2	0.2
Imports	4.4	4.6	1.1	3.5	1.5	2.6	2.4	1.0
Change in inventories (bil. $)	57.7	84.0	22.0	3.6	1.6	49.6	2.8	0.8
Domestic demand	2.6	3.1	2.1	2.5	2.4	2.1	2.5	2.4
Real disposable income	3.5	3.5	2.6	1.6	1.7	1.9	1.7	1.7
Household employment	1.6	1.7	1.7	1.2	1.3	1.6	1.2	1.3
Unemployment rate	6.2	5.3	4.9	4.5	4.4	4.7	4.4	4.3
Inflation	1.6	0.1	1.3	2.3	2.2	1.8	2.2	2.2
Before-tax profits	5.9	(3.0)	(0.1)	4.3	5.6	9.3	3.9	4.5
Federal balance (unified budget, bil. $)	(483.3)	(439.0)	(588.0)	(594.0)	(620.0)	...	...	...
Current account (bil. $)	(392.1)	(463.0)	(481.2)	(462.0)	(502.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 6-21-17	*Q3 2017*	*Q4 2017*	*Q1 2018*	*Q2 2018*	*2016*	*2017*	*2018*
Fed Fund Target Rate	1.25	1.50	1.50	1.75	1.75	0.75	1.50	2.25
3 month Treasury bills	0.97	1.33	1.36	1.58	1.74	0.50	1.36	2.08
Treasury yield curve								
2-Year	1.36	1.67	1.88	2.06	2.16	1.20	1.88	2.45
5-Year	1.78	2.09	2.27	2.43	2.52	1.93	2.27	2.77
10-Year	2.16	2.41	2.71	2.91	2.98	2.45	2.71	3.20
30-Year	2.73	2.99	3.26	3.44	3.48	3.06	3.26	3.65
Exchange rates								
U.S.$/Euro	1.11	1.10	1.12	1.14	1.11	1.05	1.12	1.11
YEN/U.S.$	112	112	114	115	112	117	114	110

*** end of period*

Quarterly pattern

	Q3 2016 actual	*Q4 2016 actual*	*Q1 2017 actual*	*Q2 2017 forecast*	*Q3 2017 forecast*	*Q4 2017 forecast*	*Q1 2018 forecast*	*Q2 2018 forecast*
Real GDP growth (q/q % chg. saar)	3.5	2.1	1.2	3.1	2.1	2.2	1.5	3.3
CPI (y/y % chg.)	1.1	1.8	2.6	2.2	2.4	2.2	2.0	2.3
CPI ex. food and energy (y/y % chg.)	2.2	2.2	2.2	1.9	2.0	2.1	2.0	2.3
Unemployment rate (%)	4.9	4.7	4.7	4.4	4.4	4.4	4.4	4.4

National Bank Financial

Monthly Economic Monitor

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Canada
Economic Forecast

*(Annual % change)**	*2014*	*2015*	*2016*	*2017*	*2018*	*Q4/Q4 2016*	*2017*	*2018*
Gross domestic product (2007 $)	2.6	0.9	1.5	2.4	2.0	2.0	2.1	2.1
Consumption	2.8	1.9	2.4	2.8	1.4	2.7	2.3	1.3
Residential construction	2.7	3.8	3.0	3.5	(2.9)	2.9	2.0	(3.5)
Business investment	3.2	(11.5)	(8.6)	(0.8)	3.8	(7.5)	3.8	4.4
Government expenditures	0.0	1.9	1.8	0.9	2.4	2.2	0.9	2.5
Exports	5.8	3.4	1.0	1.8	3.7	0.8	2.9	3.7
Imports	2.2	0.3	(0.9)	2.3	1.9	(0.8)	4.8	1.7
Change in inventories (millions $)	9,392	3,861	-415	10,065	4,244	-2,522	8,590	2,691
Domestic demand	1.9	0.3	1.0	1.9	1.5	1.3	2.1	1.5
Real disposable income	1.3	3.3	2.7	2.1	1.7	2.6	1.5	1.7
Employment	0.6	0.9	0.7	1.5	0.7	1.1	1.1	0.7
Unemployment rate	6.9	6.9	7.0	6.6	6.4	6.9	6.5	6.4
Inflation	1.9	1.1	1.4	1.7	1.8	1.4	1.9	1.8
Before-tax profits	8.2	(19.5)	(4.5)	27.8	6.4	14.6	16.8	6.0
Current account (bil. $)	(48.2)	(67.6)	(67.0)	(52.0)	(40.8)	....	....	....

** or as noted*

Financial Forecast**

	Current 6-21-17	*Q3 2017*	*Q4 2017*	*Q1 2018*	*Q2 2018*	*2016*	*2017*	*2018*
Overnight rate	0.50	0.50	1.00	1.25	1.50	0.50	1.00	1.50
3 month T-Bills	0.58	0.72	1.13	1.38	1.46	0.46	1.13	1.63
Treasury yield curve								
2-Year	0.91	1.13	1.32	1.61	1.73	0.75	1.32	1.98
5-Year	1.14	1.38	1.71	1.94	2.09	1.12	1.71	2.32
10-Year	1.49	1.80	2.26	2.46	2.55	1.72	2.26	2.69
30-Year	2.00	2.30	2.72	2.89	2.96	2.31	2.72	3.09
CAD per USD	1.33	1.34	1.30	1.27	1.28	1.34	1.30	1.31
Oil price (WTI), U.S.$	42	47	49	50	52	54	49	50

*** end of period*

Quarterly pattern

	Q3 2016 actual	*Q4 2016 actual*	*Q1 2017 actual*	*Q2 2017 forecast*	*Q3 2017 forecast*	*Q4 2017 forecast*	*Q1 2018 forecast*	*Q2 2018 forecast*
Real GDP growth (q/q % chg. saar)	4.2	2.7	3.7	1.4	1.8	1.6	2.4	2.1
CPI (y/y % chg.)	1.2	1.4	1.9	1.4	1.6	1.9	1.6	1.9
Unemployment rate (%)	7.0	6.9	6.7	6.5	6.6	6.5	6.5	6.5

National Bank Financial

Provincial economic forecast

	2014	2015	2016e	2017f	2018f	2014	2015	2016e	2017f	2018f
	Real GDP (% growth)					**Nominal GDP** (% growth)				
Newfoundland & Labrador	-1.0	-2.0	2.0	-2.0	4.0	-1.3	-11.5	3.3	3.5	4.8
Prince Edward Island	1.5	1.3	2.4	2.0	1.5	3.5	3.9	4.5	4.1	4.1
Nova Scotia	0.8	1.0	1.1	1.2	1.1	1.7	2.4	2.2	2.7	2.9
New Brunswick	-0.1	2.3	1.4	1.0	1.0	1.0	2.9	3.6	3.7	3.6
Quebec	1.3	1.2	2.0	1.9	1.5	1.9	2.6	3.2	3.6	3.5
Ontario	2.7	2.5	2.7	2.5	2.2	4.7	4.9	4.6	4.6	4.4
Manitoba	1.5	2.2	2.4	2.0	1.9	2.5	3.1	2.5	3.5	4.3
Saskatchewan	2.4	-1.3	-1.0	1.1	1.6	1.3	-5.7	-5.8	4.8	3.6
Alberta	5.0	-3.6	-3.8	2.9	2.1	8.9	-12.5	-6.1	7.5	3.6
British Columbia	3.3	3.3	3.7	2.9	2.2	5.2	3.8	5.4	5.4	4.5
Canada	2.6	0.9	1.5	2.4	2.0	4.5	0.2	2.1	5.2	3.7
	Employment (% growth)					**Unemployment rate** (%)				
Newfoundland & Labrador	-1.9	-1.0	-1.4	-2.3	-2.9	12.0	12.8	13.5	14.3	14.7
Prince Edward Island	-0.4	-1.0	-2.3	2.4	0.3	10.5	10.4	10.8	10.6	9.8
Nova Scotia	-1.1	0.1	-0.4	0.9	0.0	8.9	8.6	8.3	8.2	7.9
New Brunswick	-0.2	-0.4	-0.1	0.3	0.4	9.9	9.8	9.6	8.6	8.2
Quebec	-0.1	1.0	0.9	1.7	0.5	7.8	7.6	7.0	6.2	6.0
Ontario	0.8	0.7	1.1	1.2	1.0	7.3	6.7	6.6	6.3	6.2
Manitoba	0.1	1.5	-0.5	1.0	0.8	5.4	5.6	6.1	5.8	5.8
Saskatchewan	1.0	0.6	-0.9	0.6	0.8	3.8	5.0	6.4	5.9	6.3
Alberta	2.2	1.2	-1.6	1.0	0.8	4.7	6.0	8.1	8.2	7.4
British Columbia	0.6	1.3	3.1	3.1	1.0	6.1	6.2	6.0	5.2	5.0
Canada	0.6	0.9	0.7	1.5	0.7	6.9	6.9	7.0	6.6	6.4
	Housing starts (000)					**Consumer Price Index (% growth)**				
Newfoundland & Labrador	2.1	1.7	1.4	1.2	1.2	1.9	0.4	2.7	2.4	1.8
Prince Edward Island	0.5	0.6	0.6	0.7	0.5	1.6	-0.6	1.2	1.5	1.8
Nova Scotia	3.1	3.8	3.8	4.2	3.7	1.7	0.4	1.2	1.2	1.7
New Brunswick	2.3	2.0	1.8	1.6	1.6	1.5	0.5	2.2	2.2	1.8
Quebec	38.8	37.9	38.9	38.7	35.0	1.4	1.1	0.7	1.3	1.7
Ontario	59.1	70.2	75.0	77.6	71.0	2.2	1.1	1.8	1.7	1.7
Manitoba	6.2	5.5	5.3	6.9	5.3	1.8	1.2	1.3	1.6	2.0
Saskatchewan	8.3	5.1	4.8	4.7	4.6	2.4	1.6	1.1	1.5	1.9
Alberta	40.6	37.3	24.5	27.8	24.0	2.6	1.2	1.1	1.8	2.0
British Columbia	28.4	31.4	41.8	40.0	34.0	1.0	1.1	1.9	1.8	1.8
Canada	189.3	195.5	197.9	203.4	180.9	1.9	1.1	1.4	1.7	1.8

e: estimate f: forecast

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

Monthly Economic Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

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