NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Monthly Economic Monitor

Economics and Strategy

April 2018

Highlights

- An otherwise buoyant global economy is under threat from growing trade protectionism. Recently proposed U.S. tariffs are reminiscent of Smoot-Hawley measures which contributed to the Great Depression. Should those tariffs be implemented, affected trade partners are likely to push for retaliatory measures. As was the case in the 1930's, this scenario is not conducive for trade volumes and hence overall global GDP growth. But it's also possible the U.S. move is just political posturing ahead of November's mid-term elections, and hence could be reversed later on as was done during George W.Bush's first term as President.

- While U.S. GDP growth is slated to soften somewhat in Q1, an acceleration can be expected in subsequent quarters amidst strong fundamentals. Consumption spending remains well supported by a buoyant labour market, federal tax cuts on personal income, low interest rates, and easy access to credit. Business investment is poised to benefit from corporate tax cuts and a positive economic outlook, while fiscal stimulus will provide an extra boost to an economy that arguably doesn't need it. One major question mark, however, is Washington's apparent tilt towards protectionist policies which not only threatens to hurt some workers in the export sector as trade partners impose retaliatory measures, but could also tax consumers via higher prices for imported goods.

- A slow start to the year puts at risk our 2.5% estimate for Canada's 2018 GDP growth. We are sticking to that call for now, expecting temporary restraining factors seen during Q1, including shutdowns of auto plants and pipelines, to fade and allow growth to bounce back sharply in subsequent quarters, with the added help of fiscal stimulus from provinces ahead of elections in Ontario and Quebec. The assumption, of course, is a favourable outcome to NAFTA negotiations, something that has become more probable in light of positive signals from the White House.

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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%	3.17%	3.38%	unch	unch
Canada					
GDP	3.0%	2.5%	1.8%	-0.1 pp	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%	2.68%	3.06%	unch	+1 bp

* end of period

World: Trade war

An otherwise buoyant global economy is under threat from growing trade protectionism. Recently proposed U.S. tariffs are reminiscent of Smoot-Hawley measures which contributed to the Great Depression. Should those tariffs be implemented, affected trade partners are likely to push for retaliatory measures. As was the case in the 1930's, this scenario is not conducive for trade volumes and hence overall global GDP growth. But it's also possible the U.S. move is just political posturing ahead of November's mid-term elections, and hence could be reversed later on as was done during George W.Bush's first term as President.

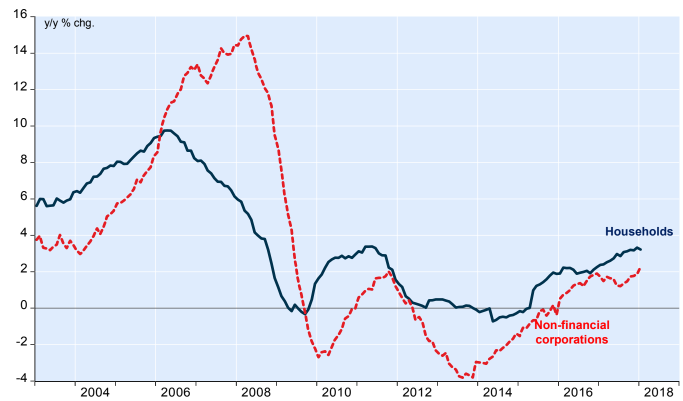
World economic activity is the most buoyant in years. At least that's the message from Markit's composite purchasing managers index which climbed in February to its highest point in 41 months. Even better news is that the upturn is also broad-based as evidenced by positive news coming from both advanced and developing economies alike.

World: Economic activity strongest in years
Global Composite Purchasing Managers Index

NBF Economics and Strategy (data via Markit)

A moderation in North America (see U.S. and Canada sections) is seemingly being offset by strength elsewhere in the OECD. The eurozone economy, after a banner 2017 when growth was the best in 10 years, remained on an uptrend in Q1. While Markit's flash estimates of the composite PMI for March were down slightly from the prior month in the common currency area, they were nonetheless well above 50 and hence consistent with continued expansion. Export powerhouses such as Germany and France continue to benefit from buoyant trade. Domestic demand is also improving on the old continent courtesy of a strengthening labour market and better credit growth. Loans to non-financial corporations and households are indeed growing at the fastest pace in years, which provides support to business investment and consumption spending respectively.

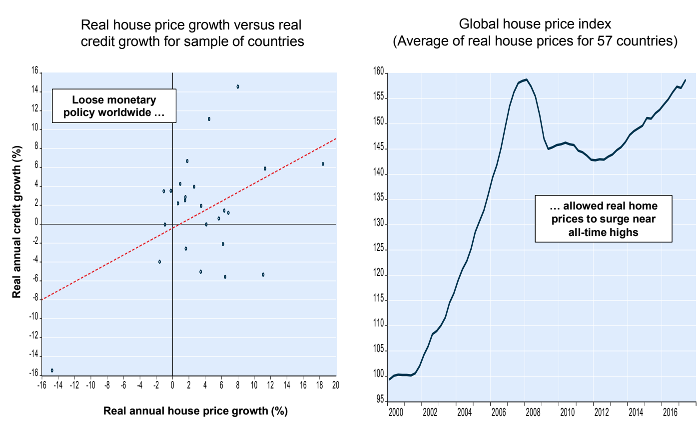
Eurozone: Credit growth best in years
MFI loans to households and non-financial corporations



NBF Economics and Strategy (data via Datastream)

Housing wealth effects have also been supportive of consumption. Real house prices are up more than 5% year-on-year in places like Luxembourg, Latvia, Portugal, Slovenia and Ireland, while Germany, France and Spain are also seeing healthy price gains. Clearly, the European Central Bank's extraordinary loosening of monetary policy during the crisis has paid off, albeit with a lag. And with inflation remaining elusive, the central bank is likely to keep policy loose for a while.

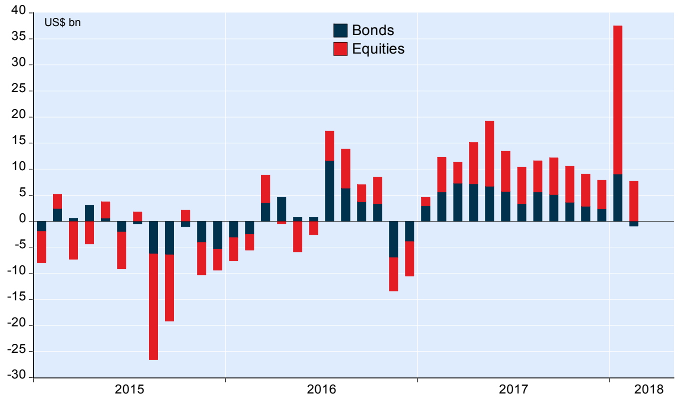
World: Real house prices near all-time highs



NBF Economics and Strategy (data via IMF)

Emerging economies too are in good shape, benefiting from still-accommodative monetary policy and solid demand for their exports. Continued inflows of foreign capital are also helping keep borrowing costs low. Indeed, more than US$44 bn net entered bond and equity emerging market portfolio funds in January and February 2018, the biggest two-month tally in years. That contrasts with the situtation back in 2015 when economic growth in emerging markets slowed to a crawl after an atypical drop in foreign capital inflows.

World: Emerging economies enjoying healthy capital inflows
Flows into Emerging markets portfolio funds

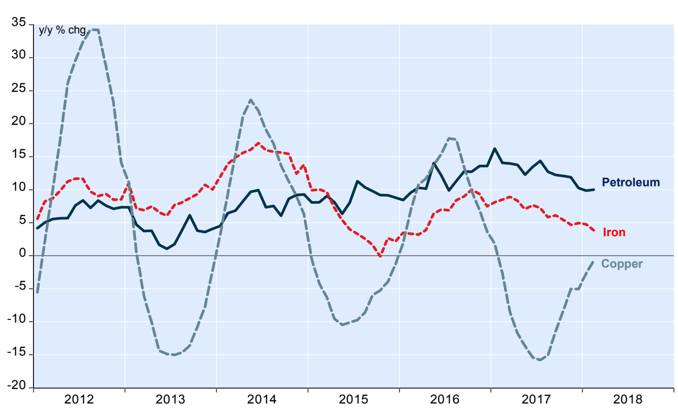


NBF Economics and Strategy (data via Bank of International Settlements)

Risk appetite was strong among foreign investors who, like us, may be expecting a repeat of last year's solid economic growth and hence healthy returns in emerging markets. Economic data has done nothing to discourage those investors. Purchasing managers indices suggested continued economic expansion in major emerging economies including Brazil, Russia, India and China in early 2018.

China even topped expectations with regards to exports and industrial ouput, while its domestic demand also firmed up based on solid retail spending in early 2018. Strong demand for imported commodities highlight China's solid economic underpinnings. And with Beijing's ambitious 5-year plan now in full swing, investors can count on continued government support of China's economy. While over-leverage remains a major risk, foreign investors seem unfazed for now, expecting perhaps that policymakers will successfully manage the situation. The recent organizational shake-up would have brought some encouragement on that front because Beijing gave the People's Bank of China increased powers to implement new laws and regulations in the financial sector.

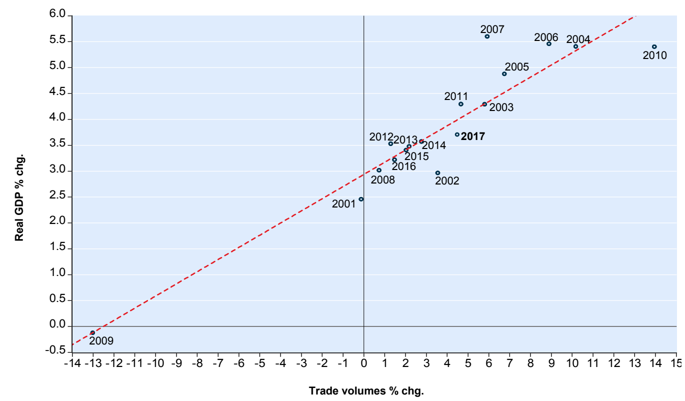
China: Demand for commodities still strong
Commodity import volumes, 12-month average



NBF Economics and Strategy (data via Datastream)

But the continuation of global economic prosperity hinges on open markets. The correlation between trade and economic prosperity is clearly positive, highlighted by last year's growth uptick which coincided with the biggest jump in merchandise trade volumes in six years.

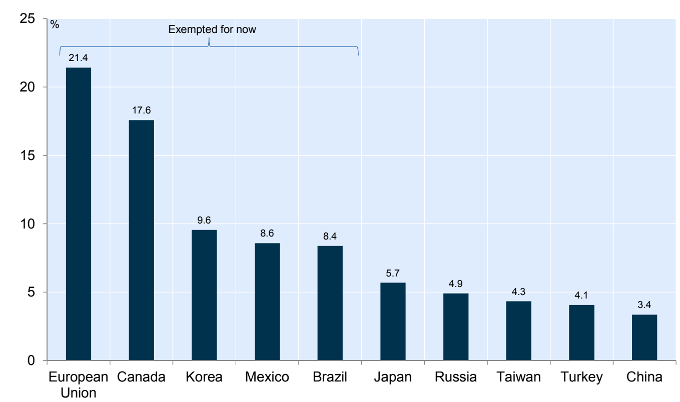
World: Economic prosperity hinges on trade
Global real GDP versus World trade volumes



NBF Economics and Strategy (data via IMF, CPB)

That is why the apparent protectionist tilt of some of the world's major policymakers is so concerning. Tariffs proposed in March by the U.S. government are reminiscent of Smoot-Hawley measures which eventually contributed to the Great Depression of the 1930's. Tariffs will initially apply to about a third of U.S. steel imports. The EU, which accounted for 21% of the US$29.1 bn of steel products America imported last year, as well as Canada, South Korea, Mexico, Brazil, Argentina and Australia will reportedly receive temporary exemptions.

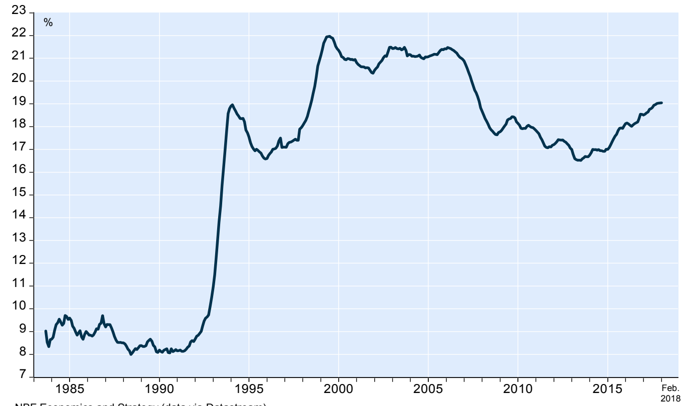
World: Who suffers the most from U.S. tariffs on steel?
Share of U.S. steel imports in 2017



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

In a separate announcement in March, the White House not only imposed new tariffs on imports from China (worth about $60 bn), but also threatened that additional trade barriers could be imposed at a later date. With roughly a fifth of its exports going to the U.S., China's economy will take a hit, although one can expect Beijing to provide some offset via additional support to affected industries.

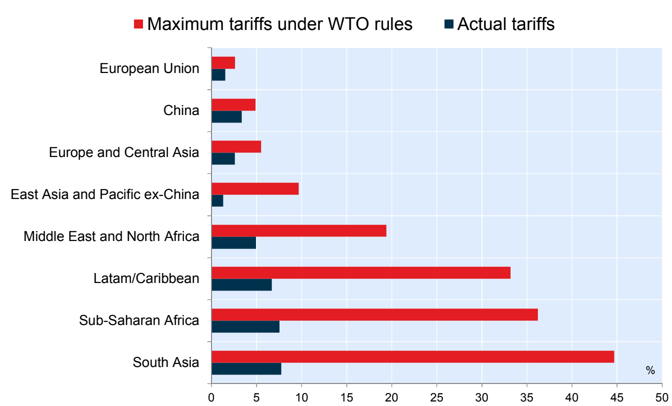
China: U.S. tariffs will hurt
Share of China's exports going to the U.S.



NBF Economics and Strategy (data via Datastream)

Could protectionist trade policies backfire and hurt America? In addition to lodging formal complaints to the World Trade Organization (which may take several years to get a settlement), some of America's affected trade partners may also want to push for retaliatory measures. To be sure, several U.S. trade partners have ample room to raise tariffs without even having to infringe rules of the WTO. Take South Asia for example. According to the World Bank, that region currently imposes tariffs of only 8% on imports on average even though WTO rules allow it to impose tariffs as high as 45% on imports.

World: Can U.S. trade partners retaliate?



NBF Economics and Strategy (data via World Bank)

But we might not even get to that point. It's possible the U.S. move is just political posturing to garner voter support for Congressional Republicans ahead of November's mid-term elections, and hence could be reversed later on as was done during George W.Bush's first term as President. Investors will be hoping for that scenario as opposed to an all-out trade war which would guarantee a sharp deceleration in trade flows and hence a marked slowdown of world GDP growth.

World Economic Outlook

	Forecast		
	2017	**2018**	**2019**
Advanced countries	***2.3***	***2.4***	***2.0***
United States	2.3	2.8	2.3
Euroland	2.3	2.3	1.9
Japan	1.7	1.4	1.1
UK	1.7	1.5	1.5
Canada	3.0	2.5	1.8
Australia	2.4	2.7	2.7
New Zealand	2.9	2.9	2.7
Hong Kong	3.7	2.9	2.6
Korea	3.1	3.0	2.8
Taiwan	2.9	2.6	2.2
Singapore	3.5	3.1	2.7
Emerging Asia	***6.5***	***6.3***	***6.4***
China	6.9	6.5	6.3
India	6.7	6.6	7.3
Indonesia	5.1	5.3	5.4
Malaysia	5.8	5.3	5.1
Philippines	6.7	6.5	6.5
Thailand	3.9	3.9	3.7
Latin America	***1.4***	***2.3***	***2.7***
Mexico	2.1	2.2	2.3
Brazil	1.1	2.7	2.9
Argentina	2.8	2.9	3.2
Venezuela	-10.9	-8.9	-2.2
Colombia	1.5	3.1	3.3
Eastern Europe and CIS	***3.5***	***3.0***	***2.9***
Russia	1.5	1.9	1.9
Czech Rep.	4.5	3.4	3.0
Poland	4.6	3.9	3.3
Turkey	6.8	4.0	3.8
Middle East and N. Africa	***2.1***	***3.3***	***3.3***
Sub-Saharan Africa	***2.7***	***3.4***	***3.4***
Advanced economies	***2.3***	***2.4***	***2.0***
Emerging economies	***4.7***	***4.8***	***4.9***
World	***3.7***	***3.8***	***3.8***

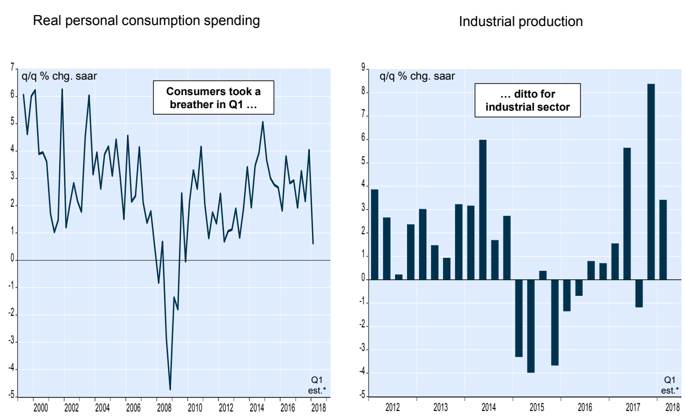
Source: NBF Economics and Strategy

U.S.: Q1 slowdown

While U.S. GDP growth is slated to soften somewhat in Q1, an acceleration can be expected in subsequent quarters amidst strong fundamentals. Consumption spending remains well supported by a buoyant labour market, federal tax cuts on personal income, low interest rates, and easy access to credit. Business investment is poised to benefit from corporate tax cuts and a positive economic outlook, while fiscal stimulus will provide an extra boost to an economy that arguably doesn't need it. One major question mark, however, is Washington's apparent tilt towards protectionist policies which not only threatens to hurt some workers in the export sector as trade partners impose retaliatory measures, but could also tax consumers via higher prices for imported goods.

After surprising on the upside last year, the U.S. economy seems to have taken a breather in the first quarter of 2018. Monthly reports to date, including personal consumption spending and industrial production, suggest the pace of growth likely slowed to less than 2% annualized in Q1.

U.S.: Deceleration in Q1

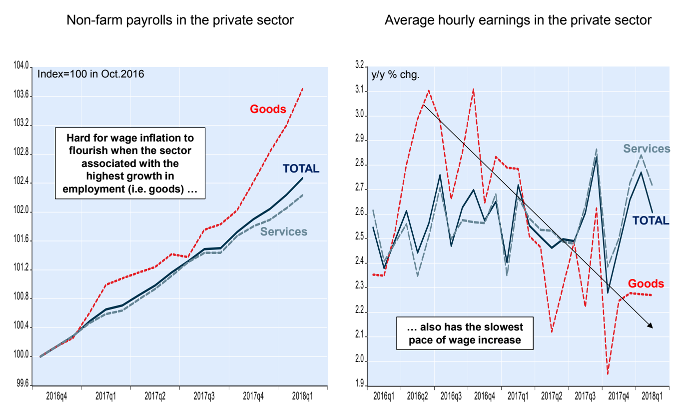


* Assuming no change in March
NBF Economics and Strategy (data via Datastream)

But that's hardly a reason to fear the worse for the U.S. economy. For one, a slowdown was always in the cards after a strong second half of 2017 when annualized growth averaged 3.0%, i.e. well above potential. And after drawing on savings the prior quarter — recall that the savings rate fell to 2.6% in Q4, the lowest since 2005 —, one should not be surprised that consumers took a breather in Q1. The problem of residual seasonality — over the last thirty years Q1 has generally been the weakest of the four quarters — should not be ignored either. In other words, the U.S. economy is probably in better shape than what's being suggested by monthly reports so far in the first quarter.

The strong labour market also warrants confidence about the world's largest economy. Recall that the establishment survey showed non-farm payrolls rising a stunning 313K in February, the biggest monthly increase since the summer of 2016, boosted by broad-based gains in the private sector. Solid gains in cyclical sectors like construction and manufacturing, as well as record temporary employment are all very much consistent with continued economic expansion. The household survey was also very strong (+785K) with massive gains in full-time employment which hit a new record in February, and the highest labour force participation rate in five months keeping the jobless rate unchanged at 4.1%. The only blemish in an otherwise strong employment picture is wage growth which remains soft, with a year-on-year print of just 2.6% in February. The goods sector (manufacturing in particular), which is the most exposed to international competition and hence under the most pressure to manage costs, continues to pull back wage growth.

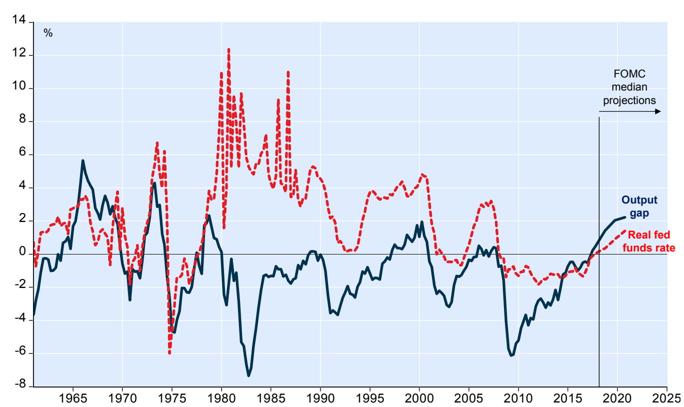
U.S.: What's pulling back wage inflation?



NBF Economics and Strategy (data via BLS)

But overall, the economic data was strong enough to convince the Fed to tighten monetary policy further. Indeed, Jerome Powell started his tenure as Fed Chairman with an expected interest rate hike in March. The recently passed Bipartisan Budget Act, which included significant fiscal stimulus, prompted the Fed to raise its U.S. growth estimates over the forecast horizon, which explains the increased confidence within the FOMC about hitting its 2% inflation target. So much so, that the Fed's latest dot plot and Summary of Economic Projections point to a higher path for the fed funds rate compared to last December. That said, monetary policy is not about to become overly restrictive. According to the median forecast of Fed members, the real fed funds rate is projected over the forecast horizon to remain well below levels that historically had been associated with positive output gaps.

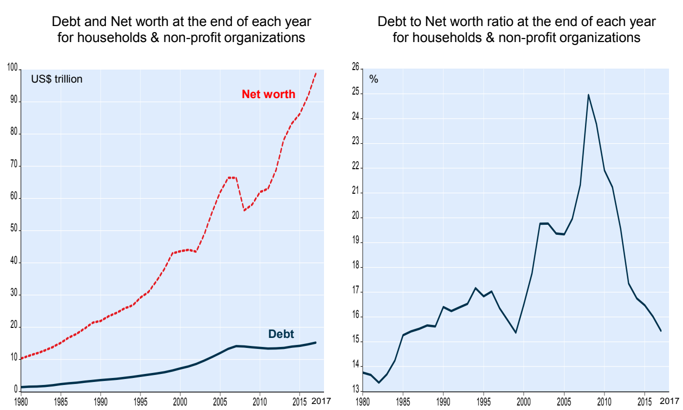
U.S.: Just how hawkish is the Powell-led Fed?
Output gap versus Real fed funds rate (fed funds rate minus annual core PCE inflation rate)



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

That bodes well for economic growth going forward. Business investment is poised to benefit from corporate tax cuts and a positive economic outlook, while fiscal stimulus will provide an extra boost to an economy that arguably doesn't need it. Consumption spending remains well supported by a buoyant labour market, federal tax cuts on personal income, low interest rates, and easy access to credit. And having gone through a period of deleveraging, American households are now in a good position to spend. The net worth of households and non-profit organizations is at an all-time high because assets have been growing much faster than liabilities thanks to the stock market rally and a buoyant housing market which are lifting values of corporate equities and real estate held by households. So much so that the ratio of debt to net worth at the end of 2017 was at its lowest point in nearly two decades.

U.S.: Debt to net worth ratio lowest in nearly two decades

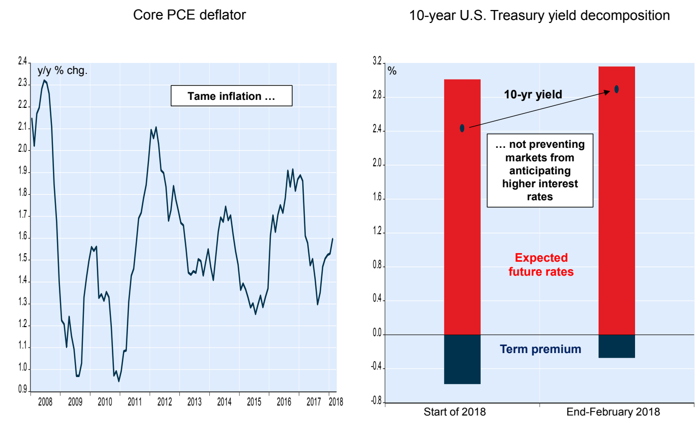


NBF Economics and Strategy (data via Federal Reserve)

But the U.S. outlook is not all rosy. The above-mentioned strengths could potentially be stunted by a deteriorating fiscal situation. The budget deficit, which is now projected to soar next year past US$1 trillion (more than 5% of GDP), will have to be addressed down the road via growth-busting spending cuts and tax hikes.

And if Congress fails to restore fiscal discipline, Treasury yields will rise more than would otherwise be the case and hence tighten financial conditions. As we've seen earlier this year, long bond yields could rise even in the absence of inflation.

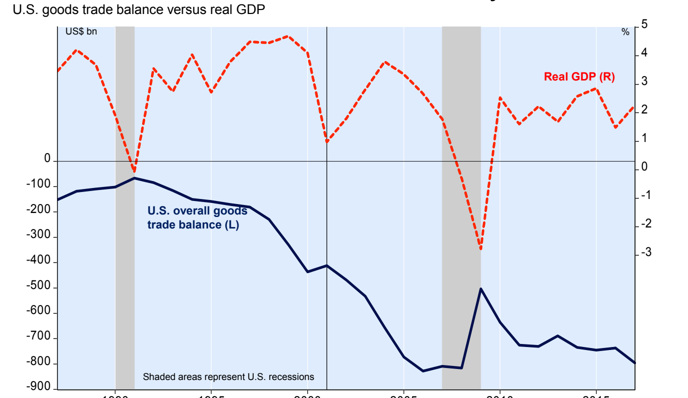
U.S.: Rising bond yields



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

Also of concern is the growing threat of protectionism. Bent on boosting Republican poll numbers in rust belt states ahead of November's mid-term elections, the White House announced a string of tariffs in March on imported goods. That not only threatens to hurt some workers in the export sector as trade partners impose retaliatory measures, but could also tax consumers via higher prices for imported goods. In the meantime, the trade deficit, with which the White House is seemingly obsessed, is unlikely to improve all that much because of low U.S. savings. If history is any guide, the only sure way to narrow America's trade deficit is a sharp economic slowdown, which tends to boost savings and lower consumption and investment, a scenario that can't be ruled out entirely especially if the current trade spat deteriorates into a full blown global trade war. In other words, the White House's stated objectives of a sustained 3-4% real GDP growth and a smaller trade deficit do not seem to be compatible.

U.S.: Trade deficit tends to narrow when the economy weakens
U.S. goods trade balance versus real GDP



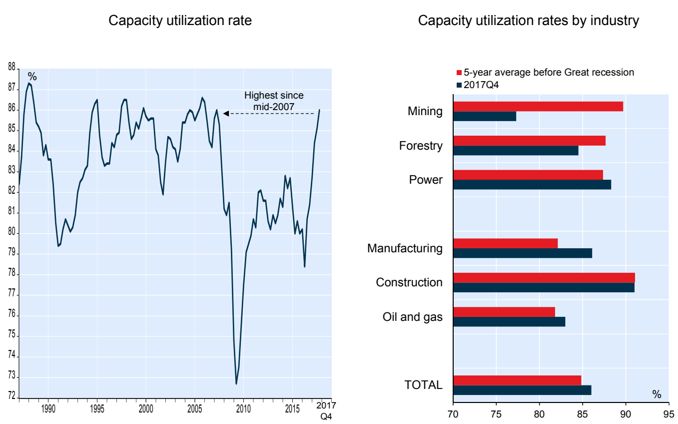
NBF Economics and Strategy (data via U.S. Census Bureau, BEA)

Canada: Slow start to 2018

A slow start to the year puts at risk our 2.5% estimate for Canada's 2018 GDP growth. We are sticking to that call for now, expecting temporary restraining factors seen during Q1, including shutdowns of auto plants and pipelines, to fade and allow growth to bounce back sharply in subsequent quarters, with the added help of fiscal stimulus from provinces ahead of elections in Ontario and Quebec. The assumption, of course, is a favourable outcome to NAFTA negotiations, something that has become more probable in light of positive signals from the White House.

There's no slack left in the Canadian economy according to the Bank of Canada's measures of the output gap and Statistic Canada's measure of capacity utilization rates. Indeed, after a blistering 2017 which saw real GDP grow 3%, the industrial capacity utilization rate — ratio of actual output to estimated potential output — jumped to 86% at the end of last year, the highest in 10 years. The capacity utilization rates in sectors such as manufacturing, power and oil & gas are now even higher than the averages prevailing before the Great recession of 2008-2009.

Canada: Economic slack largely absorbed



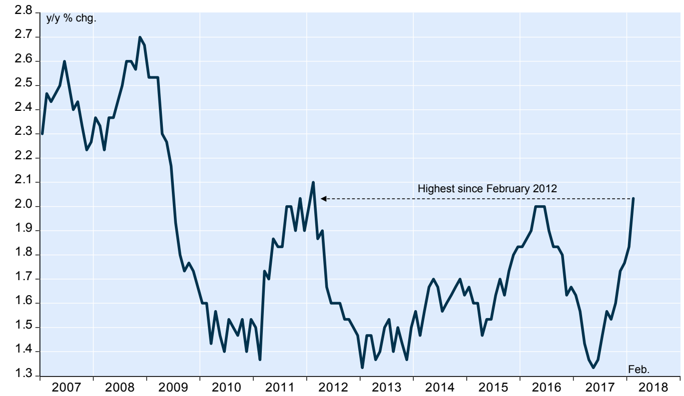
NBF Economics and Strategy (data via Statistics Canada)

Does that mean firms will use their healthy profits to increase investment outlays and address capacity constraints? Given enhanced uncertainties with regards to the economic outlook and competitiveness relative to U.S. operations, the private sector may wait until there is more clarity about trade and the state of the domestic economy before increasing outlays.

For now, the lack of economic slack is pushing up prices. Recall that February's inflation data was hotter than expected, with surprises coming mostly from core categories and in both goods and services. The average of the three core measures preferred by the Bank of Canada, i.e. CPI trim, median and common, now stands at 2.03%, the highest since February 2012.

Canada: Core inflation hits six-year high

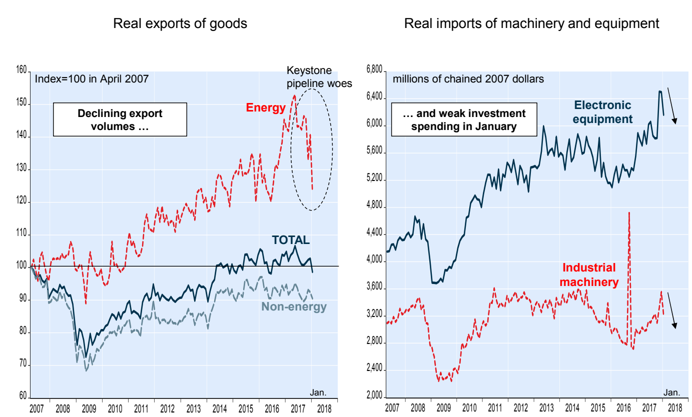
Average of three core measures of CPI inflation preferred by the Bank of Canada



NBF Economics and Strategy (data via Statistics Canada)

That's not to say the Bank of Canada is about to turn hawkish and aggressively raise interest rates. In addition to highlighting uncertainties with regards to trade (i.e. ongoing NAFTA negotiations), the central bank may also point to a rather slow start to the year to warrant patience on rates. Recall that real GDP fell for the first time in five months in January (-0.1% unannualized). Exports were hit hard by atypical plant shutdowns in the auto sector and ongoing woes for the Keystone pipeline which restrained goods sector output. Moreover, there were hints of a deceleration in business investment spending given the observed decline in imports of machinery and equipment in January.

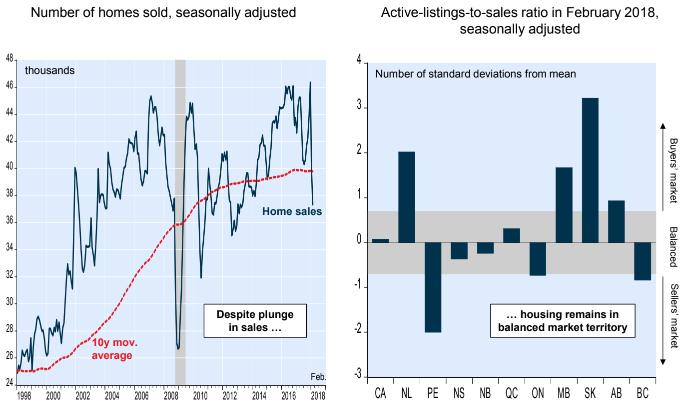
Canada: Sinking export volumes and weak business investment



NBF Economics and Strategy (data via Statistics Canada)

There are also uncertainties about the economy's abilities to handle earlier interest rate hikes and tighter regulations on housing. Indeed, latest data on home sales and consumption spending are not particularly encouraging. Note the plunge in home resales since the B-20 regulations were implemented early this year.

Canada: Rough start to the year for the housing market



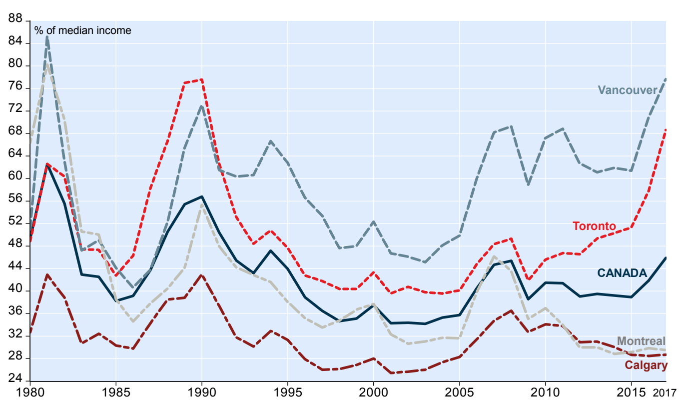
NBF Economics and Strategy (data via CREA)

That said, such decline should have been expected after outsized gains late last year as buyers tried to front-load sales ahead of the implementation of B-20. In other words, we'll have to wait for more data, e.g. spring sales, to gauge the impact of B-20. For now, despite the sales decline, housing remains in balanced market territory nationally.

A further moderation in sales and price gains later in 2018 would not come as a surprise to us given the declining affordability. For example affordability in Vancouver last year was the worst since 1981, while in Toronto it was the worst since 1991. So, it's just a matter of time before demand from home buyers is negatively impacted, more so considering tighter mortgage rules. When that happens, the housing wealth effect which for years supported consumption spending, is set to fade.

Canada: Overall home affordability worst since 1994

Mortgage payment on a median-priced home as % of median income (amortization 25 years, term 5 years)

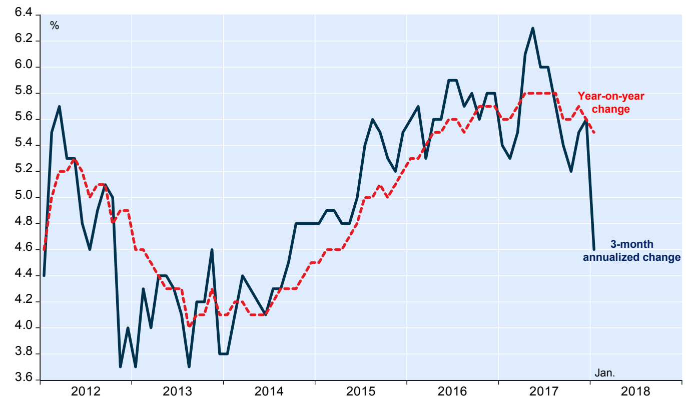


NBF Economics and Strategy (data via Statistics Canada, Teranet-National Bank)

Could that be happening already? Disappointing retail data for January points to a sharp deceleration of real consumption growth in Q1. Besides weaker wealth effects, the deceleration in the pace of employment creation may also have played a role — the Labour Force Survey points to a net loss of 73,000 jobs in the first two months of 2018. Also weighing on consumption is the moderation in credit growth to just 4.6% on a three-month annualized basis in January, the lowest since 2014.

Canada: Moderation in credit growth

Household credit



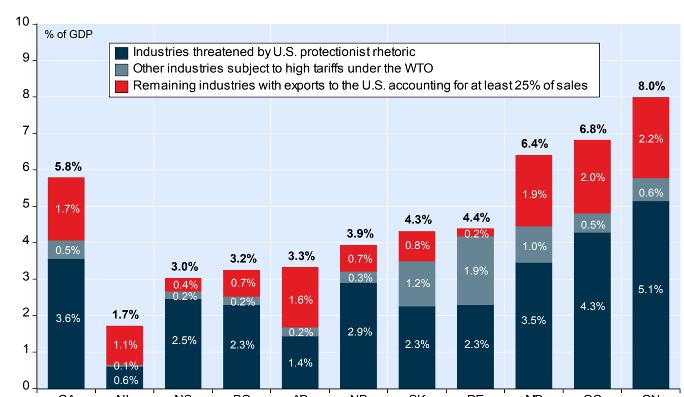
NBF Economics and Strategy (data via Statistics Canada)

The slow start to the year puts at risk our 2.5% estimate for Canada's 2018 GDP growth. For now, we are sticking to that call, expecting the temporary restraining factors seen during Q1, including shutdowns of auto plants and pipelines, to fade and allow growth to bounce back sharply in subsequent quarters, with the added help of fiscal stimulus from provinces ahead of elections in Ontario and Quebec. The assumption, of course, is a favourable outcome to NAFTA negotiations which is needed to unleash business investment and hiring, the latter helping to rekindle consumer spending. This assumption is looking more and more reasonable in light of positive signals from U.S. Trade representatives.

But you never know with this White House. If our assumption about NAFTA is wrong and Canadian exports to the U.S. are hit with broad-based tariffs, we will have to downgrade our growth call over the forecast horizon. Under that scenario, Ontario, Quebec and Manitoba would be the most exposed as we explained in a recent Special report entitled *"Reality check: Canadian exposure to U.S. protectionism"*.

Potential impact of American protectionism on output

Share of Canadian GDP vulnerable to U.S. protectionism – direct and indirect effects (2013)



NBF Economy and Strategy (data via Statistics Canada, NBF calculations)

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	2.8	2.1	2.8	2.5	2.0
Residential construction	10.2	5.5	1.8	2.4	1.8	2.6	2.0	2.0
Business investment	2.3	(0.6)	4.7	4.3	3.0	6.3	3.6	2.0
Government expenditures	1.4	0.8	0.1	2.0	2.1	0.7	2.2	2.0
Exports	0.4	(0.3)	3.4	2.3	1.3	5.0	1.2	1.0
Imports	5.0	1.3	4.0	3.3	1.4	4.7	1.5	1.2
Change in inventories (bil. $)	100.5	33.4	15.2	17.3	15.3	15.6	16.5	14.5
Domestic demand	3.3	2.1	2.5	2.8	2.2	2.9	2.6	2.0
Real disposable income	4.2	1.4	1.2	1.5	1.7	1.8	1.7	1.7
Household employment	1.7	1.7	1.3	1.4	1.1	1.2	1.5	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	7.5	5.6	2.7	8.0	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 3-28-18	Q2 2018	Q3 2018	Q4 2018	Q1 2019	2017	2018	2019
Fed Fund Target Rate	1.75	1.75	2.00	2.25	2.25	1.50	2.25	3.00
3 month Treasury bills	1.70	1.69	1.91	2.10	2.10	1.37	2.10	2.85
Treasury yield curve								
2-Year	2.28	2.35	2.46	2.56	2.63	1.89	2.56	3.00
5-Year	2.59	2.75	2.83	2.89	2.94	2.20	2.89	3.18
10-Year	2.77	2.97	3.00	3.17	3.22	2.40	3.17	3.38
30-Year	3.01	3.17	3.19	3.34	3.38	2.74	3.34	3.51
Exchange rates								
U.S.$/Euro	1.24	1.23	1.25	1.26	1.28	1.20	1.26	1.27
YEN/U.S.$	106	108	110	111	112	113	111	108

*** end of period*

Quarterly pattern

	Q2 2017 actual	Q3 2017 actual	Q4 2017 actual	Q1 2018 forecast	Q2 2018 forecast	Q3 2018 forecast	Q4 2018 forecast	Q1 2019 forecast
Real GDP growth (q/q % chg. saar)	3.1	3.2	2.9	1.5	3.9	3.3	2.2	1.8
CPI (y/y % chg.)	1.9	2.0	2.1	2.3	2.7	2.7	2.4	2.1
CPI ex. food and energy (y/y % chg.)	1.8	1.7	1.7	1.9	2.3	2.5	2.5	2.5
Unemployment rate (%)	4.3	4.3	4.1	4.1	4.0	3.8	3.7	3.7

National Bank Financial

Monthly Economic Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

Canada
Economic Forecast

(Annual % change)*	2015	2016	2017	2018	2019	Q4/Q4 2017	Q4/Q4 2018	Q4/Q4 2019
Gross domestic product (2007 $)	1.0	1.4	3.0	2.5	1.8	2.9	2.7	1.2
Consumption	2.1	2.4	3.5	2.5	1.8	3.5	2.2	1.6
Residential construction	3.8	3.3	3.1	2.7	(1.9)	4.7	0.5	(3.0)
Business investment	(11.3)	(9.4)	2.6	4.0	3.2	8.8	2.0	3.5
Government expenditures	1.4	2.7	2.5	3.1	1.5	3.1	2.5	1.2
Exports	3.5	1.0	1.0	2.1	3.0	0.2	4.5	1.7
Imports	0.7	(1.0)	3.6	1.5	2.2	6.6	0.7	2.2
Change in inventories (millions $)	4,711	978	13,725	71	424	13,807	-3,271	1,814
Domestic demand	0.3	1.1	3.0	2.8	1.6	4.0	2.1	1.4
Real disposable income	3.5	1.3	3.7	2.7	1.6	3.4	1.7	1.5
Employment	0.9	0.7	1.9	1.3	0.9	2.1	0.9	0.8
Unemployment rate	6.9	7.0	6.3	5.6	5.5	6.0	5.5	5.5
Inflation	1.1	1.4	1.6	2.3	2.1	1.8	2.2	2.4
Before-tax profits	(19.8)	(1.9)	20.2	7.0	5.6	8.9	7.7	5.0
Current account (bil. $)	(71.5)	(65.4)	(63.9)	(55.4)	(42.4)	....	....	....

** or as noted*

Financial Forecast**

	Current 3-28-18	Q2 2018	Q3 2018	Q4 2018	Q1 2019	2017	2018	2019
Overnight rate	1.25	1.50	1.50	1.75	2.00	1.00	1.75	2.25
3 month T-Bills	1.10	1.46	1.65	1.88	1.96	1.06	1.88	2.21
Treasury yield curve								
2-Year	1.81	1.96	2.05	2.13	2.31	1.69	2.13	2.55
5-Year	2.00	2.18	2.28	2.33	2.50	1.87	2.33	2.78
10-Year	2.12	2.45	2.59	2.68	2.78	2.04	2.68	3.06
30-Year	2.26	2.54	2.66	2.74	2.83	2.26	2.74	3.09
CAD per USD	1.29	1.25	1.23	1.21	1.20	1.25	1.21	1.22
Oil price (WTI), U.S.$	64	65	60	60	60	60	60	62

*** end of period*

Quarterly pattern

	Q2 2017 actual	Q3 2017 actual	Q4 2017 actual	Q1 2018 forecast	Q2 2018 forecast	Q3 2018 forecast	Q4 2018 forecast	Q1 2019 forecast
Real GDP growth (q/q % chg. saar)	4.4	1.5	1.7	1.5	3.9	3.5	2.1	1.2
CPI (y/y % chg.)	1.3	1.4	1.8	2.1	2.5	2.6	2.2	1.7
CPI ex. food and energy (y/y % chg.)	1.4	1.4	1.6	1.8	2.0	2.1	2.2	1.9
Unemployment rate (%)	6.5	6.2	6.0	5.8	5.6	5.5	5.5	5.5

National Bank Financial

Provincial economic forecast

	Real GDP (% growth)					Nominal GDP (% growth)				
	2015	2016	2017f	2018f	2019f	2015	2016	2017f	2018f	2019f
Newfoundland & Labrador	-1.7	1.9	-2.0	1.5	3.5	-11.5	2.6	4.5	7.6	4.1
Prince Edward Island	1.3	2.3	2.0	1.9	1.5	3.9	4.0	4.2	4.0	4.1
Nova Scotia	1.4	0.8	1.2	1.1	1.0	2.1	2.8	2.9	3.7	3.1
New Brunswick	2.4	1.2	1.2	1.2	1.3	2.0	3.6	4.8	4.7	3.7
Quebec	1.0	1.4	3.1	2.3	1.5	2.4	2.7	5.3	4.2	3.2
Ontario	2.9	2.6	2.8	2.4	1.7	5.0	4.3	4.6	4.7	3.8
Manitoba	1.3	2.2	2.6	2.2	1.5	3.3	2.3	4.7	4.9	3.6
Saskatchewan	-1.0	-0.5	2.2	2.0	2.1	-5.4	-4.0	5.9	6.5	3.9
Alberta	-3.7	-3.7	4.2	2.7	1.9	-12.0	-4.9	6.9	5.5	3.4
British Columbia	3.5	3.5	3.2	3.0	2.1	4.0	4.8	6.5	5.7	3.9
Canada	1.0	1.4	3.0	2.5	1.8	0.2	2.0	5.3	4.9	3.6

	Employment (% growth)					Unemployment rate (%)				
	2015	2016	2017f	2018f	2019f	2015	2016	2017f	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	8.4	8.2
Nova Scotia	0.1	-0.4	0.6	1.4	0.2	8.6	8.3	8.4	7.7	7.3
New Brunswick	-0.6	-0.1	0.4	0.9	-0.3	9.8	9.5	8.1	7.6	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	5.4
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	6.2	5.8
British Columbia	1.2	3.2	3.7	1.3	1.3	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	5.6	5.5

	Housing starts (000)					Consumer Price Index (% growth)				
	2015	2016	2017f	2018f	2019f	2015	2016	2017f	2018f	2019f
Newfoundland & Labrador	1.7	1.4	1.4	1.1	0.9	0.4	2.7	2.3	2.3	2.2
Prince Edward Island	0.6	0.6	0.9	0.7	0.6	-0.6	1.2	1.8	2.3	2.0
Nova Scotia	3.8	3.8	4.0	3.7	3.3	0.4	1.2	1.1	2.2	2.1
New Brunswick	2.0	1.8	2.3	1.8	1.6	0.5	2.2	2.3	2.3	2.0
Quebec	37.9	38.9	46.5	40.6	35.0	1.1	0.7	1.1	2.1	1.8
Ontario	70.2	75.0	79.0	72.0	65.0	1.2	1.8	1.7	2.8	2.4
Manitoba	5.5	5.3	7.5	6.6	6.0	1.2	1.3	1.6	2.7	2.0
Saskatchewan	5.1	4.8	4.9	4.7	4.0	1.6	1.1	1.7	2.6	2.0
Alberta	37.3	24.5	29.5	27.4	24.0	1.1	1.1	1.5	2.3	2.2
British Columbia	31.4	41.8	43.7	40.6	33.0	1.1	1.8	2.1	2.2	2.2
Canada	195.5	197.9	219.7	199.2	173.4	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.

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Monthly Economic Monitor

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