Monthly Economic Monitor

Economics and Strategy

NATIONAL BANK OF CANADA FINANCIAL MARKETS

February 2018

Highlights

- A flying start to 2018 puts the world economy on track to top last year's growth print of 3.7%. Buoyed by tax cuts, the U.S. will be among the growth leaders within the OECD, while emerging markets, buoyed by trade, should also do better than last year despite an expected moderation in China. That said, an escalation of protectionist policies has potential to wreck the current virtuous dynamic between trade and growth.

- January's government shutdown will have minimal impacts on the economy, but it is nonetheless a reminder that not all is rosy in the U.S. While we continue to call for 2.5% growth this year courtesy of solid economic fundamentals, this assumes Congressional dysfunction does not permanently hurt confidence of consumers and businesses. And here we're thinking not just about indecision among policymakers with regards to a long term budget plan and the debt ceiling, but also on trade. A disorganized Congress may not offer much of a pushback against a Trump Administration intent in dismantling existing international trade deals.

- Forecasters, including the IMF and the Bank of Canada, are upgrading their growth forecasts for Canada. The optimism is based on continued resilience of domestic demand which is expected to be complemented by improving exports to the U.S. Those upgrades bring both organizations a bit closer but still not quite in line with our own 2018 growth forecast of 2.5% which takes into account fiscal stimulus particularly from provincial governments. That outlook, however, assumes Canada escapes protectionist policies as to leave trade and investment flows unimpeded.

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	2017	2018	2019	Change from Previous Forecast 2018	Change from Previous Forecast 2019
United States					
GDP	2.3%	2.5%	2.0%	unch	unch
CPI inflation	2.1%	2.2%	2.2%	unch	unch
Fed Fund Target Rate*	1.50%	2.25%	2.50%	unch	unch
Ten-year bond yield*	2.40%	2.95%	3.17%	unch	-4 bp
Canada					
GDP	3.0%	2.5%	1.5%	unch	unch
CPI inflation	1.6%	2.3%	2.1%	unch	unch
Overnight rate*	1.00%	2.00%	2.25%	unch	unch
Ten-year bond yield*	2.04%	2.70%	3.05%	unch	unch

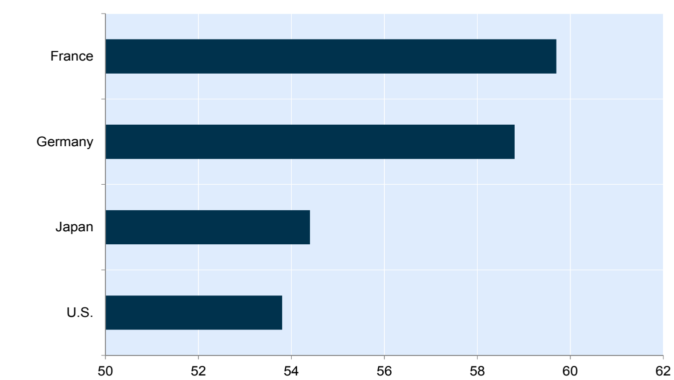
* end of period

World: Good start to 2018

A flying start to 2018 puts the world economy on track to top last year's growth print of 3.7%. Buoyed by tax cuts, the U.S. will be among the growth leaders within the OECD, while emerging markets, buoyed by trade, should also do better than last year despite an expected moderation in China. That said, an escalation of protectionist policies has potential to wreck the current virtuous dynamic between trade and growth.

The world economy started 2018 the same way it ended last year, i.e. in buoyant mood. According to Markit, January composite purchasing managers indices remained well above the 50 threshold (which separates contraction and expansion) in both the U.S. and the Eurozone courtesy of strength in manufacturing and services.

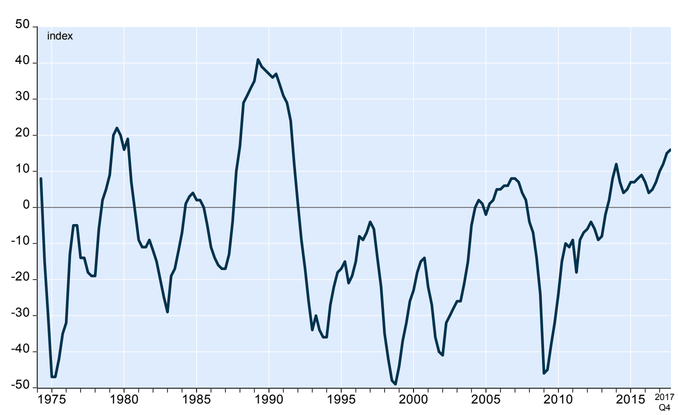
World: A good start to 2018
Composite purchasing managers index in January 2018 (except for Japan which shows manufacturing PMI)



NBF Economics and Strategy (data via Markit)

Japan's factories were also in expansion mode according to Markit which showed manufacturing output expanding in January at the fastest pace in 47 months. And based on the latest Tankan survey, the non-manufacturing sector is also doing well. The "all-enterprise" index at the end of last year was the highest in 26 years.

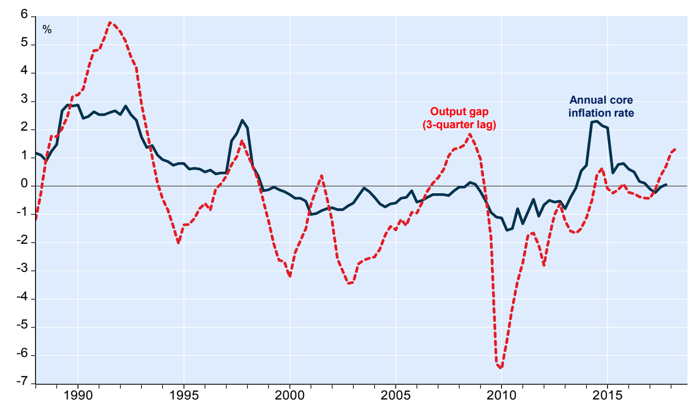
Japan: Business sentiment highest in 26 years
Tankan business conditions index for all enterprises



NBF Economics and Strategy (data via Bank of Japan)

The solid growth performance last year — expected to come in around 1.8%, i.e. double potential growth — has allowed Japan's output gap to move further into positive territory. While that should help push up prices somewhat, inflation is unlikely to move up much from here if history is any guide. As such, we don't expect the Bank of Japan to abandon its ultra-loose policies just yet.

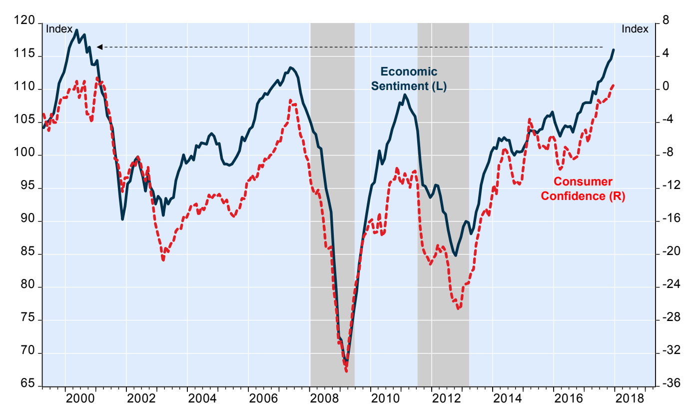
Japan: Will inflation finally pick up?
Annual core inflation rate versus lagged output gap



NBF Economics and Strategy (data via Bank of Japan)

In the eurozone too, economic sentiment is at multi-year highs thanks to above-potential economic growth and a declining jobless rate. The improvement has been made possible by improving global trade which is boosting export powerhouses such as Germany and France. According to Markit, in January the pace of job creation in Germany's private sector was the fastest since early 2011. The domestic eurozone economy continues to benefit from better credit growth for households and non-financial corporations.

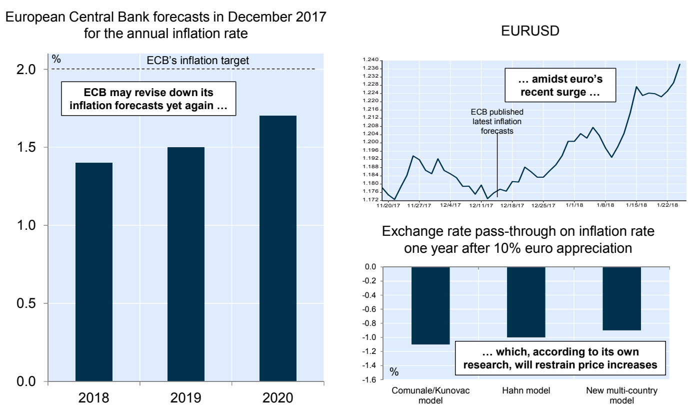
Eurozone: Economic confidence at 17-year high
Economic Sentiment Indicator vs. Consumer Confidence Index. Last observation: December 2017



NBF Economics and Strategy (data via Datastream)

And just like in Japan, inflation pressures are non-existent, with the annual core inflation rate remaining near 1%, i.e. well below the European Central Bank's 2% target. While the central bank expects the overall inflation rate to rise to 1.4% this year and to 1.5% in 2019, those forecasts could be revised down considering the euro's recent surge. The ECB's own research suggests the euro's 5% or so appreciation since its December meeting should lower the following year's annual inflation rate by about half a percentage point. In other words, the ECB's loose policies are unlikely to end anytime soon and hence one can expect another year of above-potential growth for the Eurozone.

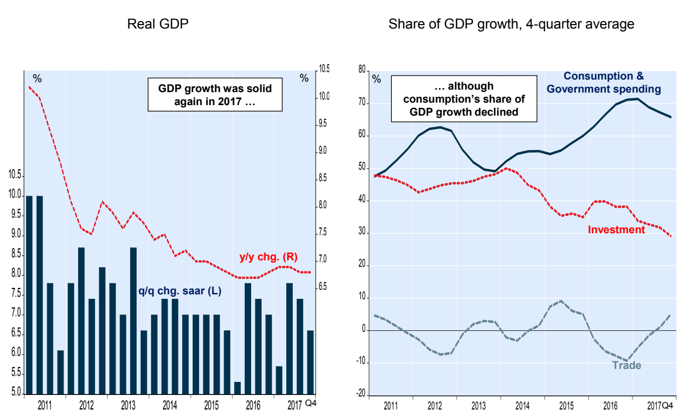
Eurozone: Another inflation downgrade from the ECB?



NBF Economics and Strategy (data via European Central Bank)

China's economy grew a healthy 6.9% last year thanks to the recovery of trade. The better-than-expected performance came courtesy of an upside surprise in the last quarter of 2017 when output increased 6.6% annualized, or 6.8% year-on-year. But one of the few disappointments was the pause in the rebalancing process, with the share of consumption and government spending in overall growth declining under 66% on a 4-quarter moving average basis for the first time since early 2016.

China: Economy grew 6.9% in 2017

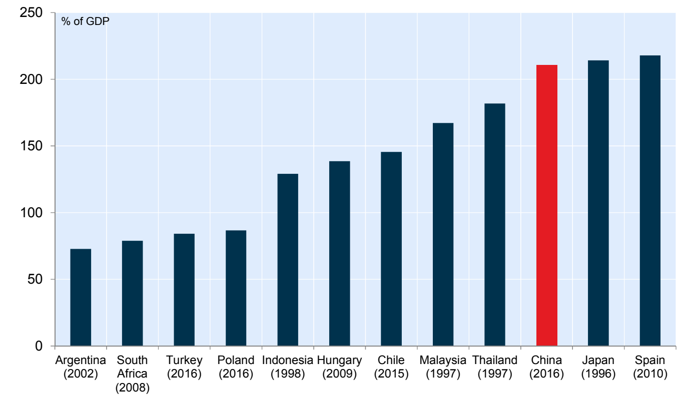


NBF Economics and Strategy (data via Datastream)

The reliance on credit to generate growth is concerning. 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 roughly doubled since the 2009 financial crisis. Corporate credit as a share of GDP is not only well above 200%, but is also reaching levels that have in the past led to financial crises in economies such as Japan (1995/96) and Spain (2009/10).

China: Corporate leverage is high

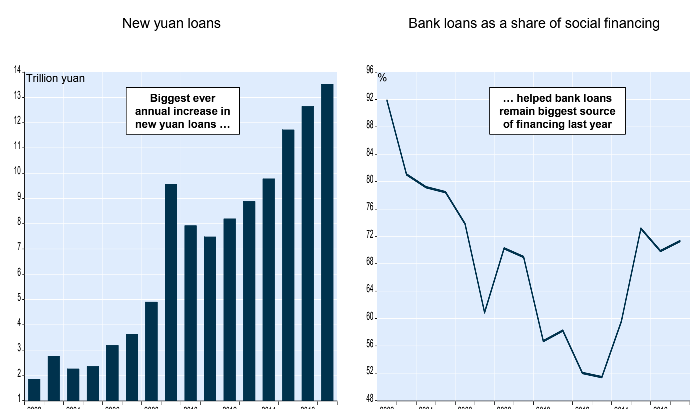
Corporate credit during past credit booms



NBF Economics and Strategy (data via World Bank)

Last year saw the biggest annual increase in new bank loans. That said, China is making some progress in addressing risks posed by shadow banking. The share of bank loans in total loans (social financing) rose slightly last year, suggesting a moderation in the growth of shadow loans which tend to be more risky than conventional loans. Regardless, given such high leverage a financial crisis in China cannot be ruled out, more so considering rising interest rates and an expected moderation in economic growth.

China: Largest ever annual increase in new yuan loans



NBF Economics and Strategy (data via Datastream)

Another concern for Beijing is the rise of protectionist forces. With U.S. policymakers seemingly fixated on the U.S. trade deficit, China has a lot of work to do to reduce the risk of an all-out trade war. Since Trump won the 2016 U.S. elections, the yuan has appreciated more than 6% against the US dollar, the fastest appreciation of the yuan since 2011. But that will hardly satisfy U.S. policymakers. Note that while China's goods trade surplus fell to a three-year low of US$435 bn last year, its surplus with the U.S. continued to climb, reaching a record US$278 bn.

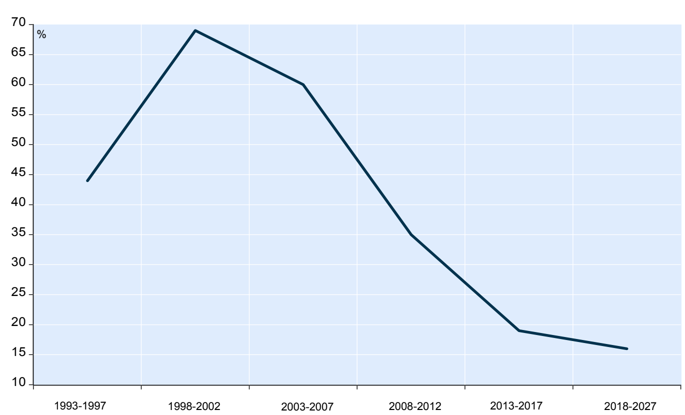
World: China's record trade surplus with the U.S.

NBF Economics and Strategy (data via Datastream)

Even with an expected moderation in China's GDP growth this year, emerging economies as a whole should be able to ride the current trade boom and do better than last year. That, of course assumes ongoing populist anti-trade rhetoric does not translate into an escalation of protectionist policies. Also of concern to emerging economies is how markets will react to the reduction in the size of the U.S. Federal Reserve's balance sheet. The shrinkage of the Fed's balance sheet could cause investors to rebalance their portfolios and cut investment flows into emerging economies. That may lead to an appreciating U.S. dollar and rising bond yields, raising the probability of defaults and financial instability.

Assuming the above-mentioned risks are managed properly, the world economy is likely to top last year's 3.7% growth print. That's something investors can cheer about, although they should also be wary about longer term prospects in light of unfavourable demographics and the likely normalization of monetary and fiscal policies.

World: Demographics not growth-friendly going forward
Share of global GDP of countries with rising working-age population share



NBF Economics and Strategy (data via World Bank)

World Economic Outlook

	Forecast		
	2017	**2018**	**2019**
Advanced countries	***2.3***	***2.2***	***1.9***
United States	2.3	2.5	2.0
Euroland	2.4	2.2	2.0
Japan	1.8	1.2	0.9
UK	1.7	1.5	1.5
Canada	3.0	2.5	1.5
Australia	2.2	2.9	3.0
New Zealand	3.5	3.0	2.5
Hong Kong	3.5	2.7	2.9
Korea	3.0	3.0	3.0
Taiwan	2.0	1.9	2.0
Singapore	2.5	2.6	2.6
Emerging Asia	***6.5***	***6.4***	***6.5***
China	6.8	6.5	6.3
India	6.7	7.4	7.8
Indonesia	5.2	5.3	5.5
Malaysia	5.4	4.8	4.8
Philippines	6.6	6.7	6.8
Thailand	3.7	3.5	3.4
Latin America	***1.3***	***2.1***	***2.6***
Mexico	2.0	2.3	3.0
Brazil	1.1	1.9	2.1
Argentina	2.5	2.5	2.7
Venezuela	-12.0	-6.0	-2.0
Colombia	1.7	2.8	3.6
Eastern Europe and CIS	***3.2***	***2.8***	***2.6***
Russia	1.8	1.7	1.5
Czech Rep.	3.5	2.6	2.3
Poland	3.8	3.3	3.0
Turkey	5.1	3.5	3.5
Middle East and N. Africa	***2.3***	***3.2***	***3.2***
Sub-Saharan Africa	***2.7***	***3.4***	***3.4***
Advanced economies	***2.3***	***2.2***	***1.9***
Emerging economies	***4.6***	***4.8***	***4.9***
World	***3.7***	***3.8***	***3.7***

Source: NBF Economics and Strategy

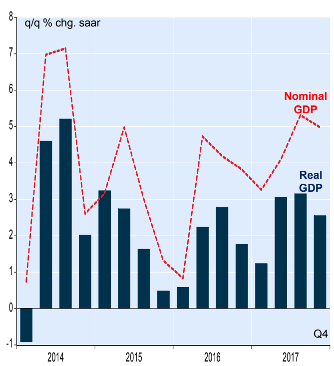
U.S.: Will protectionist policies reduce the trade deficit?

January's government shutdown will have minimal impacts on the economy, but it is nonetheless a reminder that not all is rosy in the U.S. While we continue to call for 2.5% growth this year courtesy of solid economic fundamentals, this assumes Congressional dysfunction does not permanently hurt confidence of consumers and businesses. And here we're thinking not just about indecision among policymakers with regards to a long term budget plan and the debt ceiling, but also on trade. A disorganized Congress may not offer much of a pushback against a Trump Administration intent in dismantling existing international trade deals.

The handoff from last year was good according to the Bureau of Economic Analysis whose advance estimate of U.S. GDP put growth at a healthy 2.6% annualized in Q4. While trade was an expected drag on the economy last quarter, that was more than offset by continued strength in consumption spending and an uptick in housing and business investment. For 2017 as a whole, the U.S. registered growth of 2.3%, i.e. above what the Congressional Budget Office views as being the potential growth rate of the economy.

U.S.: Economy grew 2.6% in last quarter of 2017

Real and Nominal GDP



Contributions to real GDP

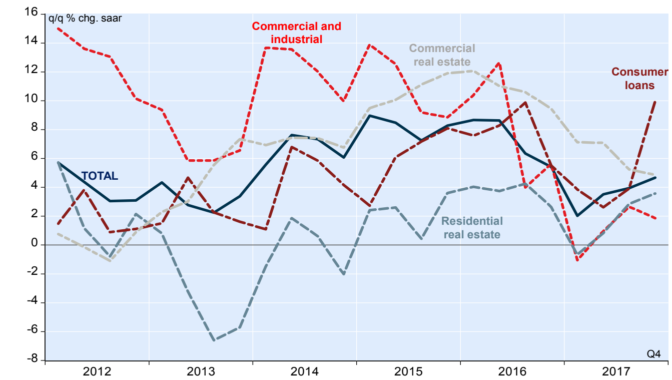
	2017Q4	2017Q3
GDP	**2.6**	**3.2**
Consumption	2.6	1.5
Business investm. Equip./Intell.	0.8	0.8
Business investm. Struct.	0.0	-0.2
Residential investm.	0.4	-0.2
Government	0.5	0.1
Domestic Demand	**4.3**	**2.0**
Exports	0.8	0.3
Imports	-2.0	0.1
Trade	**-1.1**	**0.4**
Final sales	3.2	2.4
Inventories	**-0.7**	**0.8**

NBF Economics and Strategy (data via Datastream)

Consumption was strong again as increased borrowing fueled spending. Indeed, consumer loans grew in Q4 at the fastest pace since 2008. That's consistent with the drop of the savings rate to just 2.6%, the lowest in 12 years. But the low savings rate is unlikely to be enough to cause consumption growth to soften significantly this year considering the offsetting resilience of the labour market, higher disposable incomes courtesy of tax cuts, and relatively low levels of debt facing households — recall that the ratio of debt to net worth is at a 17-year low.

U.S.: Surging consumer loans in 2017Q4

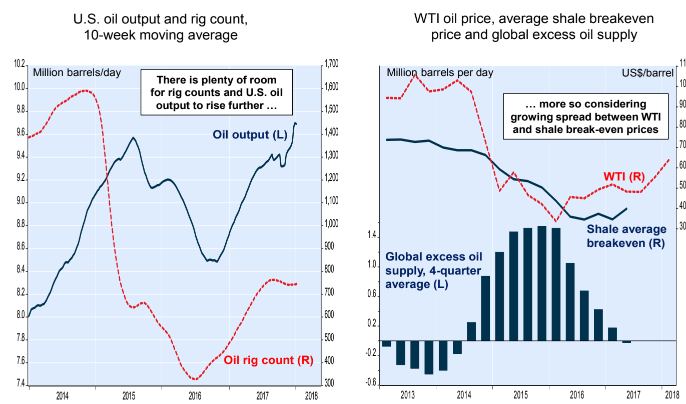
Loans and leases



NBF Economics and Strategy (data via Datastream)

The acceleration of business investment towards the end of last year is also encouraging. And there is room for further gains in 2018 as improving profits (thanks in part to tax cuts) and a better economic outlook encourage firms to increase investment outlays. The energy sector, for instance, stands to benefit from an influx of capital amidst more favourable conditions. Oil prices have indeed been on a tear since last summer as an improving global economy helped absorb excess supply of the commodity. The last time there was such a spread between WTI oil and shale breakeven prices, investment poured into shale, allowing U.S. and world oil output to jump.

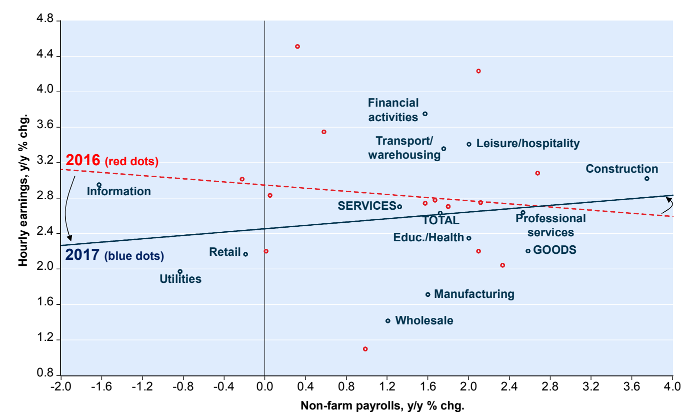
U.S.: Investment in shale oil will bounce back



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

So, the U.S. economy is well on track to top last year's performance and as such we're calling for a 2.5% GDP growth print in 2018. With that outlook, it's hard to argue against the Federal Reserve's tightening of monetary policy. While inflation remains elusive, there are signs of improvement in that regard. After years of solid job creation, the labour market has become tight as evidenced by a jobless rate of just 4.1% (a multi-year low) and still-elevated job openings, both of which point to upcoming increases for wage inflation and hence overall inflation. Note that job creation now seems to be tilting towards sectors with higher wage inflation.

U.S.: Job creation now tilting towards sectors with higher wage inflation
Private sector non-farm payrolls and Hourly earnings, December 2017 versus December 2016

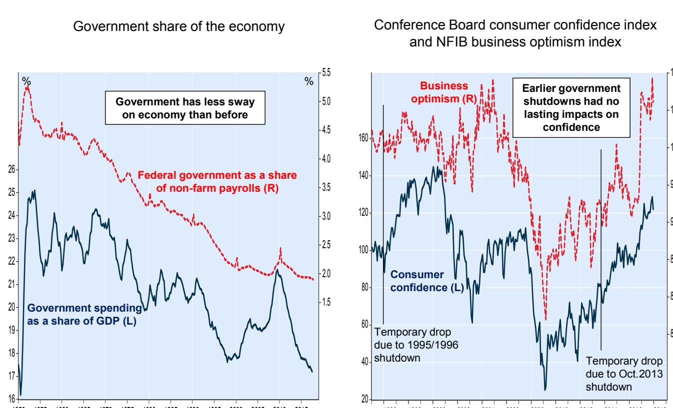


NBF Economics and Strategy (data via U.S. Bureau of Labor Statistics)

As such, we expect three interest rate hikes from the Fed this year, enough to bring real interest rates back to positive territory, but not enough to derail an economy with sound fundamentals.

What could hurt growth instead are uncertainties with regards to government policy. The 3-day government shutdown in January is a reminder of the unpredictability of U.S. politics. True, this shutdown, like earlier ones in late 1995/early 1996 (26 days) and 2013 (first 16 days of October) will not significantly hurt the economy — the sway of Washington on the economy has significantly diminished over the years, with government's share of GDP and employment now standing at multi-decade lows. But Congressional dysfunction has potential to have more serious consequences on the economy if it permanently hurts confidence of consumers and businesses.

U.S.: Can a government shutdown derail the economy?

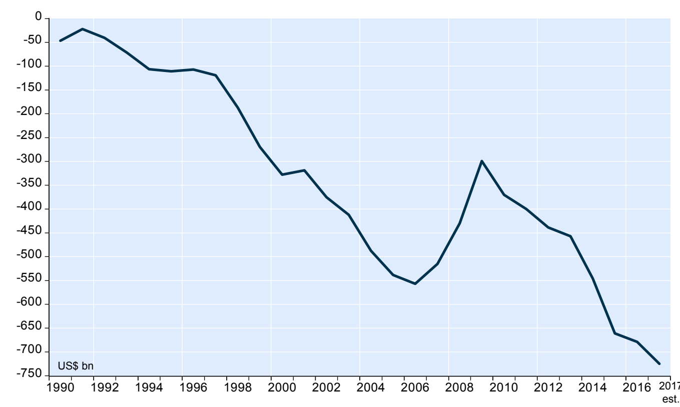


NBF Economics and Strategy (data via Datastream)

And here we're thinking not just about indecision among policymakers with regards to a long term budget and the debt ceiling, but also on trade. A disorganized Congress may not offer much of a pushback against a Trump Administration intent in dismantling existing international trade deals.

The worsening U.S. trade deficit, which last year hit a record for non-petroleum goods, will reinforce the belief within the Trump Administration that the U.S. is being short-changed by trade partners.

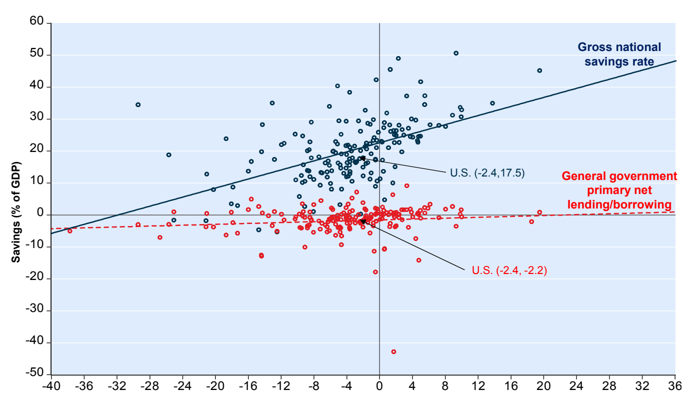
U.S.: Record trade deficit last year
Non-petroleum goods trade balance, by year



NBF Economics and Strategy (data via Datastream)

But the persistence of red ink on the U.S. current account (the broadest measure of trade) for 27 consecutive years, likely reflects structural factors such as the lack of domestic savings. There is indeed a positive relationship between the current account and savings in a sample of over 170 countries including the U.S., likely because countries that spend too much (i.e. not saving enough) are importing more than what would otherwise be the case.

U.S.: Current account deficit associated with low savings
Current account balance versus Savings in 2017



NBF Economics and Strategy (data via IMF)

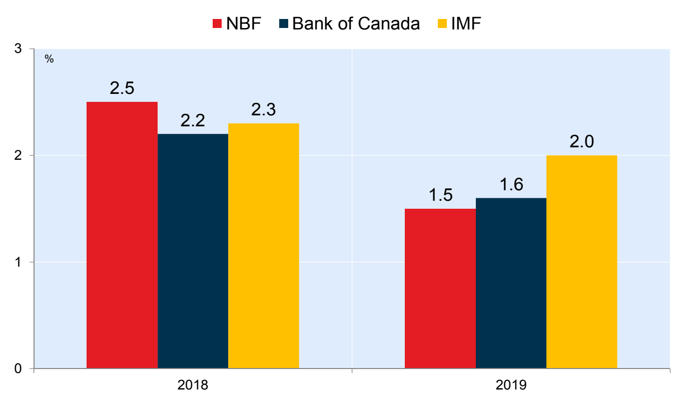
For the U.S. to improve its external balance, it will have to save more, something that's unlikely to happen considering this year's fiscal stimulus will lift domestic demand and hence imports. So, regardless of facts, the populist anti-trade rhetoric will continue, more so considering approaching mid-term elections. Our major concern is that such talk translates into trade barriers which eventually lead to a full-blown trade war that puts into jeopardy the millions of U.S. jobs that directly or indirectly depend on trade.

Canada: Optimism on the rise

Forecasters, including the IMF and the Bank of Canada, are upgrading their growth forecasts for Canada. The optimism is based on continued resilience of domestic demand which is expected to be complemented by improving exports to the U.S. Those upgrades bring both organizations a bit closer but still not quite in line with our own 2018 growth forecast of 2.5% which takes into account fiscal stimulus particularly from provincial governments. That outlook, however, assumes Canada escapes protectionist policies as to leave trade and investment flows unimpeded.

Forecasters seem to be bullish about Canada these days. The IMF raised its Canadian growth forecasts for both this year and next, citing favourable demand spillovers stemming from U.S. tax cuts. Even the Bank of Canada raised its forecasts, albeit less enthusiastically than the international agency. Those upgrades bring both organizations a bit closer but still not quite in line with our own 2018 growth forecast of 2.5% which takes into account upcoming provincial fiscal stimulus.

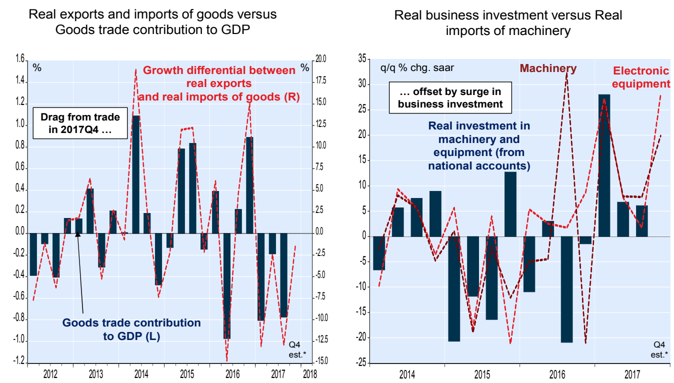
Canada: A solid 2018 in the cards
Real GDP growth forecasts for 2018 and 2019



NBF Economics and Strategy (data via Bank of Canada's January Monetary Policy Report, IMF's January WEO Update)

Indeed, solid economic fundamentals put Canada in a good position to grow above potential for a second year in a row. A healthy handoff from 2017 will also help. While Q4 GDP results were not available at this writing, monthly reports to date point to a quarterly growth rate of over 2% annualized, i.e. an acceleration from the prior quarter. True, trade was likely a drag on the economy as imports rose much faster than exports during the quarter. But the reason imports surged during Q4 was strong demand for consumer goods, industrial machinery and electronic equipment. That suggests an acceleration in the pace of growth of domestic demand in the final quarter of 2017, particularly for business investment spending. And based on the Bank of Canada's latest Business Outlook Survey, it seems momentum for business investment spending extended to early 2018.

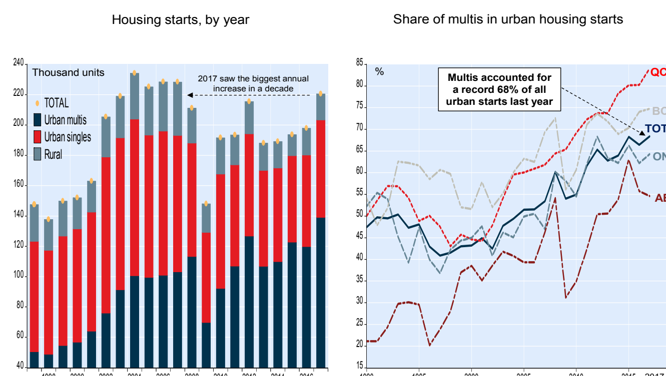
Canada: A good handoff from 2017?



* Assuming no change in December and no revisions to prior months
NBF Economics and Strategy (data via Statistics Canada)

A resilient housing market may have contributed to the positive view on Canada by convincing forecasters that recurrent warnings about an imminent collapse are overblown. Housing starts hit 220K units last year, the biggest increase in a decade, buoyed by strong demand amidst a hot labour market and low borrowing costs. That said, residential construction can be expected to contribute less and less to economic growth going forward as builders, due to affordability and land constraints, focus on multiple units (such as condos) which contribute less per unit to GDP than say single family homes. Last year, multis accounted for a record 68% of all urban starts. Expect that share to rise further over the coming years.

Canada: Building vertically

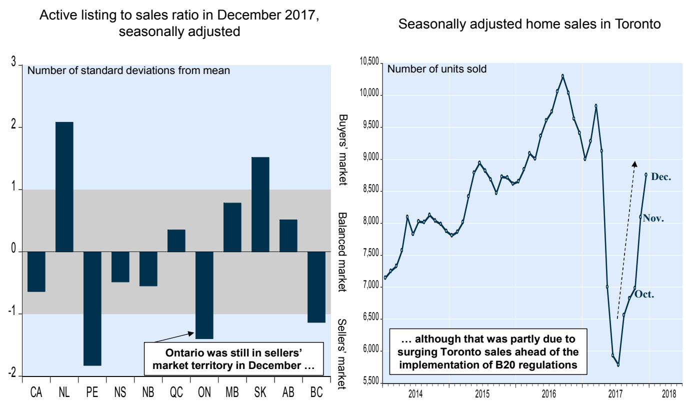


NBF Economics and Strategy (data via CMHC)

Enhanced macro-prudential regulations will also ensure housing is less of a contributor to growth going forward. Indeed, more stringent underwriting guidelines for residential mortgages (B20) imposed by the Office of the Superintendent of Financial Institutions at the start of the year will take steam out of a hot housing market. While provinces of BC and Ontario were still in sellers' market territory in December, that was partly due to the rush to purchase homes before the implementation of OSFI's new regulations. Expect a more balanced market in those provinces in 2018, if not an outright switch to buyers' market territory.

NATIONAL BANK OF CANADA FINANCIAL MARKETS

Canada: Rush to buy houses ahead of B20 regulations



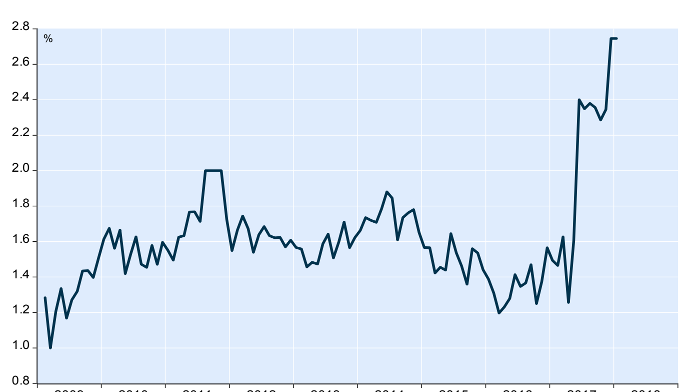
NBF Economics and Strategy (data via CREA)

But solid fundamentals should prevent a house price correction from turning into a rout. The labour market, which last year created the most jobs in 15 years, remains in good shape. According to the Bank of Canada's Business Outlook Survey, firms face labour shortages and are keen to increase employment further. The federal government's enhanced Canada Child Benefit program will pad household incomes further and support consumption and housing. While fixed mortgage rates are rising in synch with bond yields, floating rates are likely to remain low for a while as the Bank of Canada opts for a slow/cautious approach to monetary policy tightening. Recall the central bank's recent statement that "continued monetary policy accommodation will likely be needed to keep the economy operating close to potential". In other words, a BoC pause can be expected after January's rate hike to 1.25%.

Inflation is not a problem at the moment, with the annual core rate (common) languishing near 1.5%, i.e. below the BoC's 2% target. But that could change later in the year if, as we expect, firms are forced to raise prices in response to rising wages including minimum wage hikes in several provinces. According to the Canadian Federation of Independent Business (CFIB), small businesses expect wages to rise at the fastest pace in years.

Canada: Wages expected to pick up

CFIB survey response to question: In the next year, how much do you expect average wages to change?

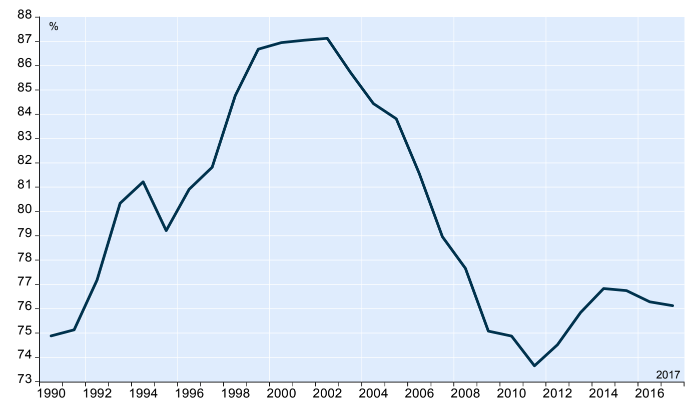


NBF Economics and Strategy (data via CFIB)

The central bank's cautious stance on monetary policy is supported not just by the current low inflation rate but also by uncertainties with regards to trade. The BoC said in January that it incorporated into its latest Canadian growth projections "additional negative judgement on business investment and trade … as uncertainty about the future of NAFTA is weighing increasingly on the outlook". To be sure, Canada holds the short end of the stick when it comes to NAFTA negotiations. While the large majority of its goods exports goes to the U.S. (76% last year), less than 20% of U.S. exports come to Canada. That means Canada will have to offer concessions, perhaps including changes to its supply management.

Canada: Highly dependent on U.S. market

Share of Canadian goods exports going to the U.S.

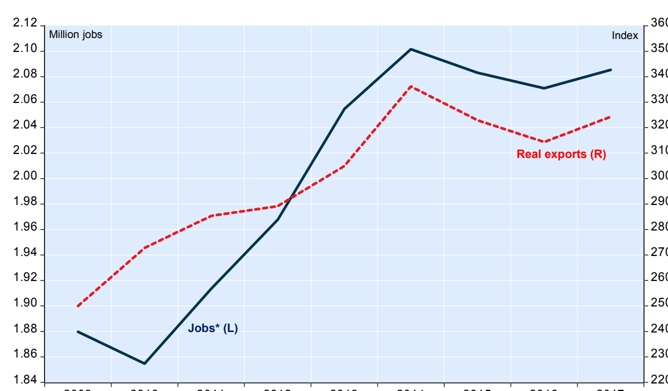


NBF Economics and Strategy (data via Industry Canada)

Should there be an unfavourable outcome to negotiations, one can expect a moderation in the pace of export and investment growth and hence a sharp slowdown in the labour market, consumption spending and economic growth. According to Statistics Canada, more than 2 million jobs (or more than 11% of total employment in Canada) are embodied in exports to the U.S. Our forecast of 2.5% for 2018 GDP growth assumes Canada escapes protectionist policies as to leave trade and investment flows unimpeded.

Canada: Millions of jobs tied to exports to U.S.

Total jobs embodied in exports to the U.S. versus Real goods exports to the U.S.



* After 2013, estimates are computed based on real exports of goods to the U.S.
NBF Economics and Strategy (data via Industry Canada, Statistics Canada)

Monthly Economic Monitor

NATIONAL BANK OF CANADA
FINANCIAL MARKETS

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	2.5	2.0	2.5	2.3	1.9
Consumption	3.6	2.7	2.7	2.7	2.0	2.8	2.4	1.9
Residential construction	10.2	5.5	1.7	1.9	1.9	2.3	1.5	2.2
Business investment	2.3	(0.6)	4.7	3.0	1.8	6.3	1.5	1.5
Government expenditures	1.4	0.8	0.1	1.7	1.4	0.7	1.7	1.4
Exports	0.4	(0.3)	3.4	2.8	1.2	4.9	1.5	1.2
Imports	5.0	1.3	3.9	3.2	1.2	4.6	1.2	1.2
Change in inventories (bil. $)	100.5	33.4	13.6	7.9	5.9	9.2	7.2	5.2
Domestic demand	3.3	2.1	2.5	2.5	1.9	2.8	2.2	1.8
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	1.1	1.0	1.2	1.2	0.9
Unemployment rate	5.3	4.9	4.4	4.0	3.9	4.1	4.0	3.9
Inflation	0.1	1.3	2.1	2.2	2.2	2.1	2.0	2.3
Before-tax profits	(1.1)	(2.1)	4.9	6.4	4.5	4.5	4.5	4.5
Federal balance (unified budget, bil. $)	(438.0)	(586.0)	(666.0)	(677.0)	(913.0)	...	...	...
Current account (bil. $)	(434.6)	(451.7)	(437.3)	(377.8)	(354.8)	...	...	...

** or as noted*

Financial Forecast**

	Current 1-29-18	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2017	2018	2019
Fed Fund Target Rate	1.50	1.75	1.75	2.00	2.25	1.50	2.25	2.50
3 month Treasury bills	1.43	1.58	1.59	1.86	2.08	1.37	2.08	2.38
Treasury yield curve								
2-Year	2.11	2.22	2.31	2.37	2.47	1.89	2.47	2.76
5-Year	2.49	2.54	2.60	2.64	2.74	2.20	2.74	2.93
10-Year	2.70	2.73	2.80	2.84	2.95	2.40	2.95	3.17
30-Year	2.94	2.97	3.03	3.04	3.14	2.74	3.14	3.31
Exchange rates								
U.S.$/Euro	1.24	1.23	1.25	1.22	1.21	1.20	1.21	1.18
YEN/U.S.$	109	108	107	110	111	113	111	111

*** end of period*

Quarterly pattern

	Q1 2017 actual	Q2 2017 actual	Q3 2017 actual	Q4 2017 actual	Q1 2018 forecast	Q2 2018 forecast	Q3 2018 forecast	Q4 2018 forecast
Real GDP growth (q/q % chg. saar)	1.2	3.1	3.2	2.6	1.6	3.2	2.3	2.2
CPI (y/y % chg.)	2.6	1.9	2.0	2.1	2.0	2.4	2.4	2.0
CPI ex. food and energy (y/y % chg.)	2.2	1.8	1.7	1.7	1.7	2.1	2.2	2.2
Unemployment rate (%)	4.7	4.3	4.3	4.1	4.1	4.0	4.0	4.0

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	2.5	1.5	3.0	2.5	1.1
Consumption	2.1	2.4	3.7	2.8	1.5	4.0	2.0	1.5
Residential construction	3.8	3.3	2.4	(0.6)	(1.9)	1.3	0.0	(3.0)
Business investment	(11.3)	(9.4)	1.8	3.8	2.5	7.7	2.0	2.9
Government expenditures	1.4	2.7	2.1	3.1	1.4	2.4	2.7	1.0
Exports	3.5	1.0	0.9	1.4	2.4	0.2	3.1	1.7
Imports	0.7	(1.0)	3.4	2.1	1.7	5.9	1.5	2.0
Change in inventories (millions $)	4,711	978	13,455	6,377	4,920	14,015	2,517	5,462
Domestic demand	0.3	1.1	2.9	2.7	1.4	3.7	2.0	1.2
Real disposable income	3.5	1.3	3.2	2.1	1.6	2.3	1.7	1.5
Employment	0.9	0.7	1.8	1.4	0.8	2.0	1.1	0.6
Unemployment rate	6.9	7.0	6.4	5.8	5.8	6.0	5.6	5.8
Inflation	1.1	1.4	1.6	2.3	2.1	1.8	2.3	2.1
Before-tax profits	(19.8)	(1.9)	20.0	6.1	5.6	7.9	7.7	5.0
Current account (bil. $)	(71.5)	(65.4)	(67.2)	(67.6)	(56.4)	....	....	....

** or as noted*

Financial Forecast**

	Current 1-29-18	*Q1 2018*	*Q2 2018*	*Q3 2018*	*Q4 2018*	*2017*	*2018*	*2019*
Overnight rate	1.25	1.25	1.50	1.75	2.00	1.00	2.00	2.25
3 month T-Bills	1.21	1.30	1.68	1.89	1.96	1.06	1.96	2.21
Treasury yield curve								
2-Year	1.82	1.89	1.96	2.13	2.26	1.69	2.26	2.55
5-Year	2.08	2.14	2.18	2.31	2.38	1.87	2.38	2.77
10-Year	2.28	2.31	2.51	2.65	2.70	2.04	2.70	3.05
30-Year	2.35	2.37	2.58	2.72	2.73	2.26	2.73	3.08
CAD per USD	1.23	1.22	1.21	1.24	1.28	1.25	1.28	1.31
Oil price (WTI), U.S.$	66	65	65	60	60	60	60	62

*** end of period*

Quarterly pattern

	Q1 2017 actual	*Q2 2017 actual*	*Q3 2017 actual*	*Q4 2017 forecast*	*Q1 2018 forecast*	*Q2 2018 forecast*	*Q3 2018 forecast*	*Q4 2018 forecast*
Real GDP growth (q/q % chg. saar)	3.7	4.3	1.7	2.2	2.3	2.5	2.7	2.1
CPI (y/y % chg.)	1.9	1.3	1.4	1.8	1.8	2.4	2.6	2.3
CPI ex. food and energy (y/y % chg.)	2.0	1.4	1.4	1.6	1.4	1.9	2.1	2.2
Unemployment rate (%)	6.7	6.5	6.2	6.0	5.9	5.9	5.7	5.6

National Bank Financial

Provincial economic forecast

	Real GDP (% growth) 2015	2016	2017f	2018f	2019f	Nominal GDP (% growth) 2015	2016	2017f	2018f	2019f
Newfoundland & Labrador	-1.7	1.9	-2.0	3.0	4.7	-11.5	2.6	4.9	6.1	6.7
Prince Edward Island	1.3	2.3	2.0	1.5	1.5	3.9	4.0	4.2	3.6	4.1
Nova Scotia	1.4	0.8	1.2	1.1	1.0	2.1	2.8	2.7	3.2	3.1
New Brunswick	2.4	1.2	1.2	1.0	1.2	2.0	3.6	4.6	3.5	3.4
Quebec	1.0	1.4	3.0	2.3	1.3	2.4	2.7	4.3	3.9	2.8
Ontario	2.9	2.6	2.8	2.6	1.4	5.0	4.3	4.8	4.5	3.1
Manitoba	1.3	2.2	2.6	2.1	1.2	3.3	2.3	4.5	4.2	3.1
Saskatchewan	-1.0	-0.5	2.2	2.0	1.9	-5.4	-4.0	5.9	4.3	3.8
Alberta	-3.7	-3.7	4.2	2.4	1.6	-12.0	-4.9	6.9	4.5	3.6
British Columbia	3.5	3.5	3.0	3.0	1.7	4.0	4.8	6.3	5.3	3.8
Canada	1.0	1.4	3.0	2.5	1.5	0.2	2.0	5.2	4.4	3.0

	Employment (% growth) 2015	2016	2017f	2018f	2019f	Unemployment rate (%) 2015	2016	2017f	2018f	2019f
Newfoundland & Labrador	-1.0	-1.4	-3.6	-1.0	-0.7	12.8	13.5	14.6	14.1	14.7
Prince Edward Island	-1.0	-2.3	2.9	0.8	0.7	10.4	10.8	9.8	8.9	8.3
Nova Scotia	0.1	-0.4	0.7	0.2	0.2	8.6	8.3	8.4	7.9	7.8
New Brunswick	-0.4	-0.1	0.3	0.3	0.3	9.8	9.6	8.1	8.2	8.0
Quebec	1.0	0.9	2.2	1.2	0.6	7.6	7.0	6.0	5.3	5.3
Ontario	0.7	1.1	1.8	1.4	1.0	6.7	6.6	6.0	5.7	5.7
Manitoba	1.5	-0.5	1.6	1.2	-0.7	5.6	6.1	5.5	5.1	4.8
Saskatchewan	0.6	-0.9	-0.1	1.2	1.0	5.0	6.4	6.2	6.3	6.2
Alberta	1.2	-1.6	1.0	2.2	1.1	6.0	8.1	7.9	6.8	6.2
British Columbia	1.3	3.1	3.6	1.8	0.7	6.2	6.0	5.1	4.8	5.0
Canada	0.9	0.7	1.8	1.4	0.8	6.9	7.0	6.4	5.8	5.8

	Housing starts (000) 2015	2016	2017f	2018f	2019f	Consumer Price Index (% growth) 2015	2016	2017f	2018f	2019f
Newfoundland & Labrador	1.7	1.4	1.4	1.1	0.9	0.4	2.7	2.3	2.1	2.3
Prince Edward Island	0.6	0.6	0.9	0.6	0.6	-0.6	1.2	1.8	2.3	2.1
Nova Scotia	3.8	3.8	4.0	3.5	3.3	0.4	1.2	1.0	2.1	2.1
New Brunswick	2.0	1.8	2.3	1.7	1.6	0.5	2.2	2.2	2.2	2.0
Quebec	37.9	38.9	46.5	37.5	35.0	1.1	0.7	0.9	1.8	1.9
Ontario	70.2	75.0	79.0	69.0	65.0	1.1	1.8	1.7	2.4	2.3
Manitoba	5.5	5.3	7.5	6.3	6.0	1.2	1.3	1.4	2.4	2.1
Saskatchewan	5.1	4.8	4.9	4.6	4.0	1.6	1.1	1.4	2.4	2.0
Alberta	37.3	24.5	29.5	27.0	24.0	1.2	1.1	1.4	2.2	2.2
British Columbia	31.4	41.8	43.7	36.0	33.0	1.1	1.9	2.2	2.6	2.3
Canada	195.5	197.9	219.7	187.3	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.

Monthly Economic Monitor

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