

***Global economy maintaining
solid growth momentum***

Canada leading the pack

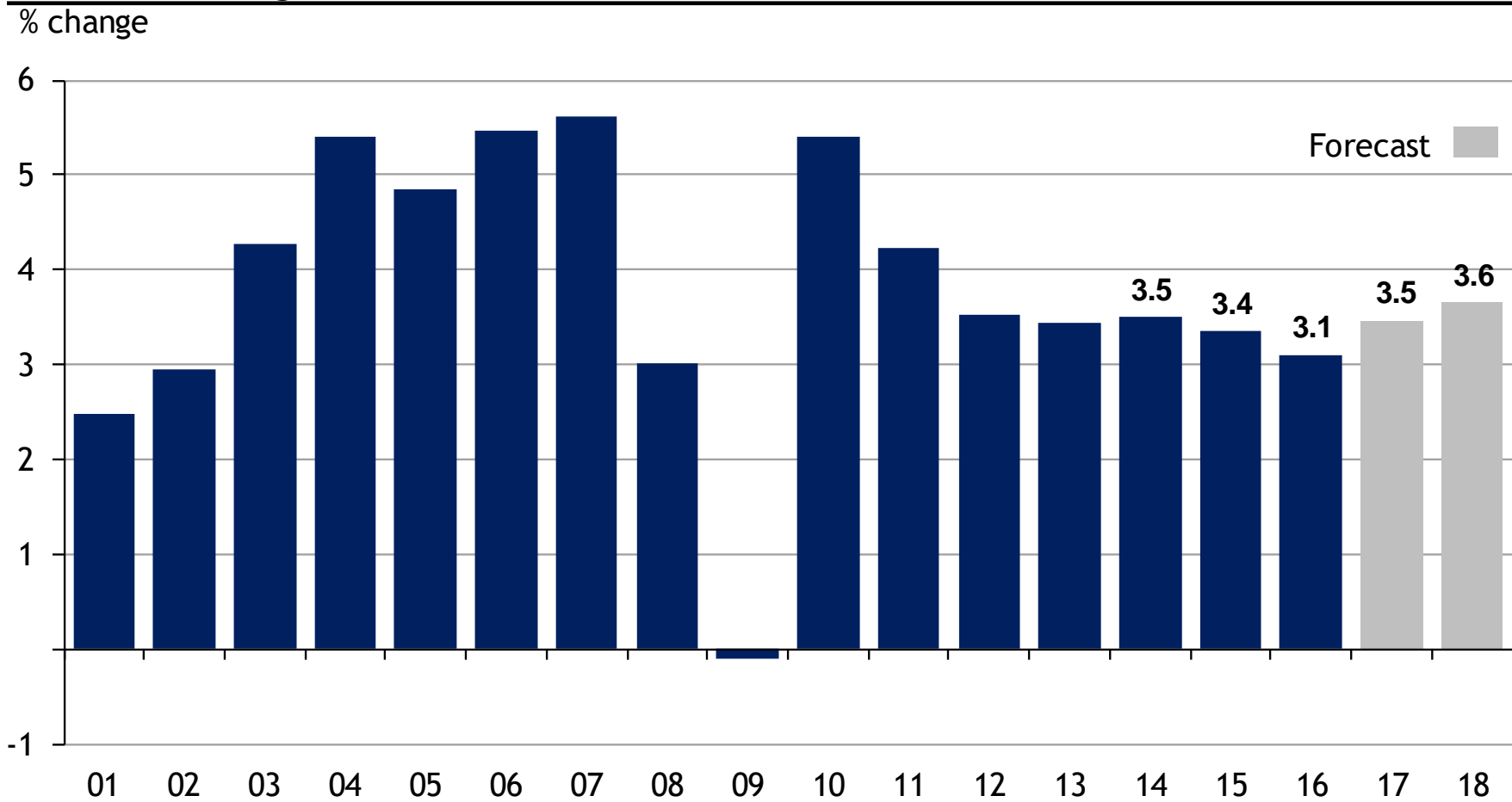
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September 2017



Brighter global outlook gains traction

World GDP growth

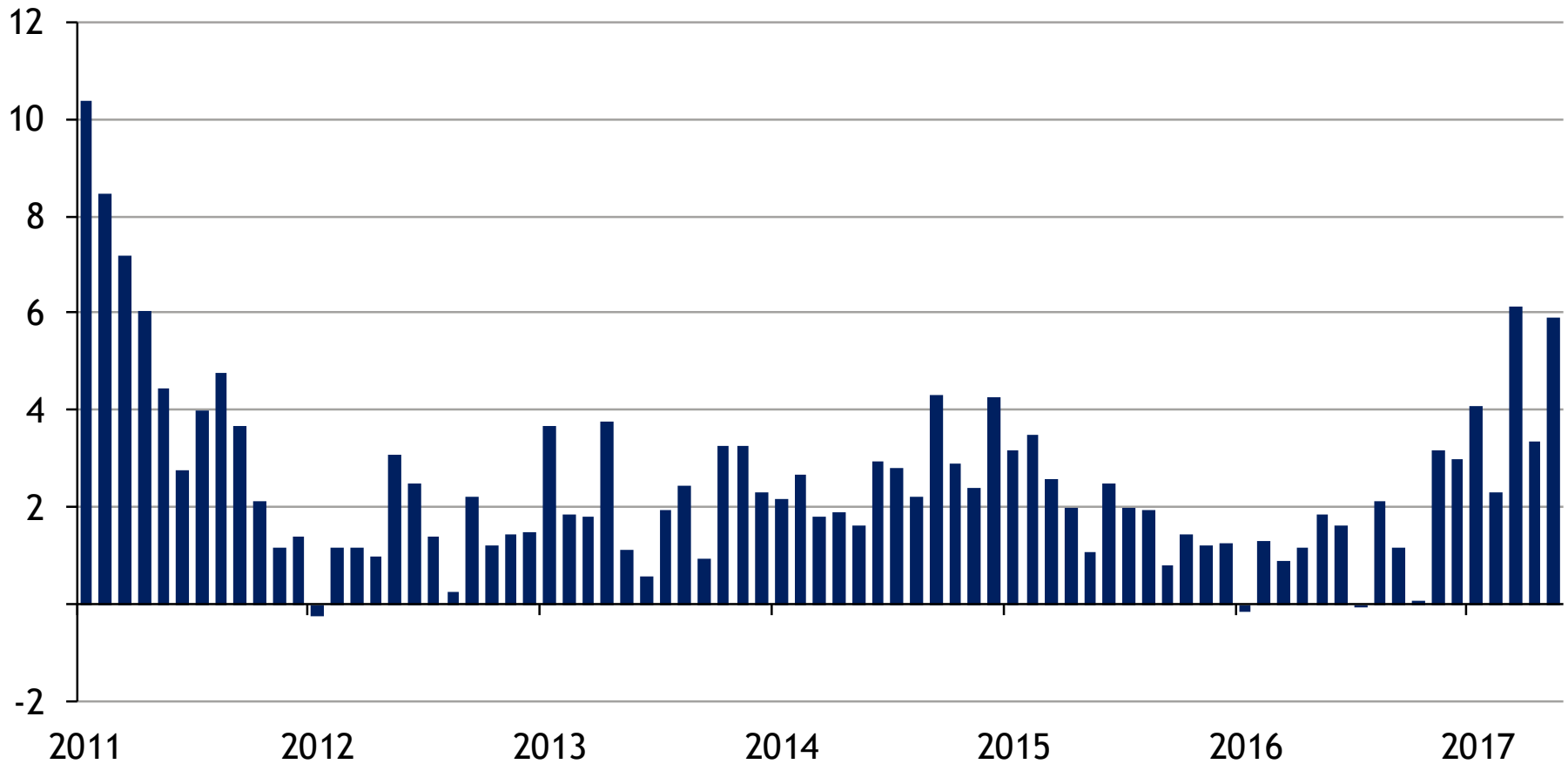


Source: International Monetary Fund, RBC Economics Research

An impressive recovery in trade despite policy uncertainty

Global Trade Volume

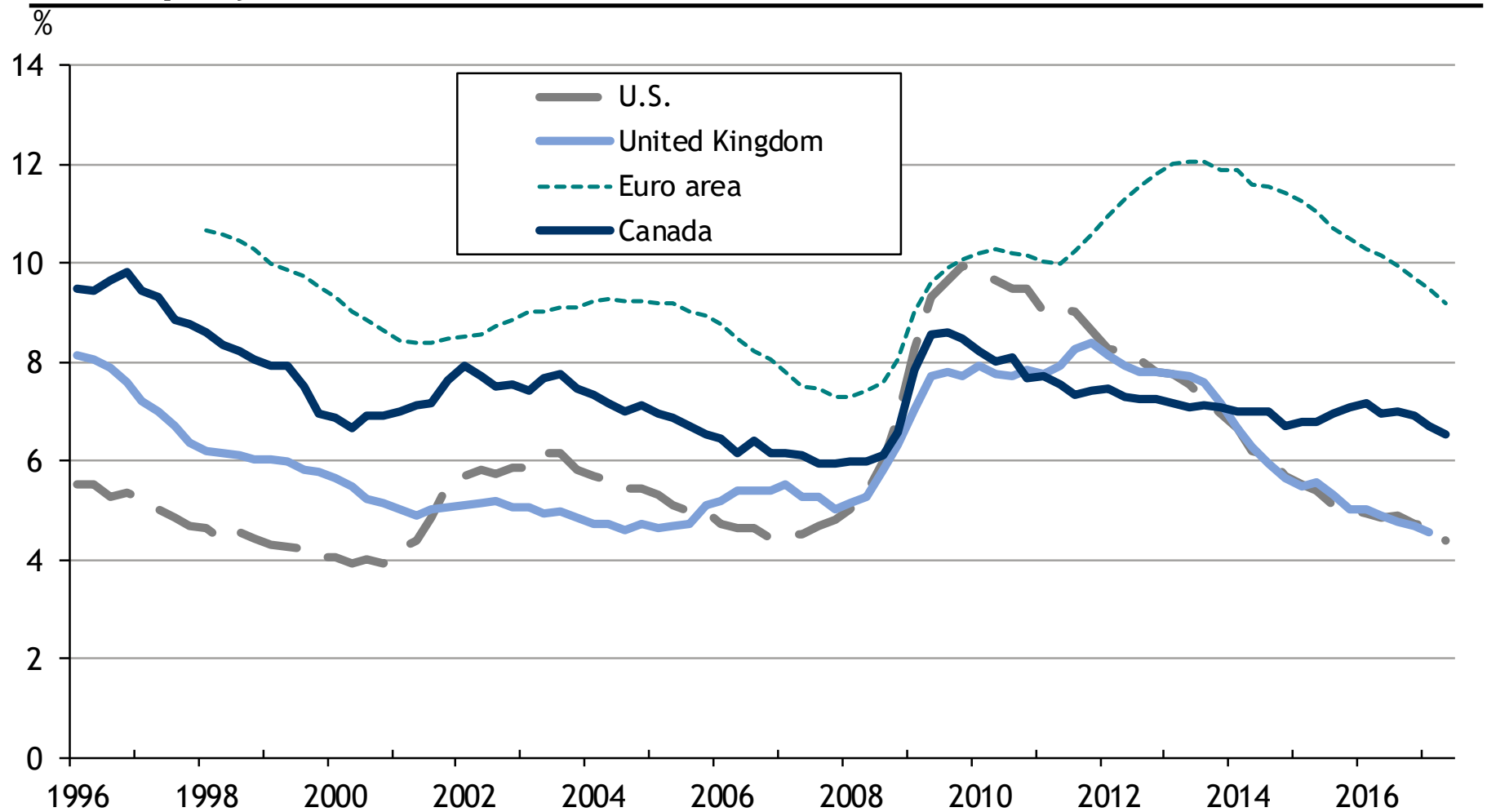
% Change Year over Year, SA, 2010=100



Source: Netherlands Bureau of Economic Policy Analysis, RBC Economics Research

Unemployment rates signal full employment is close

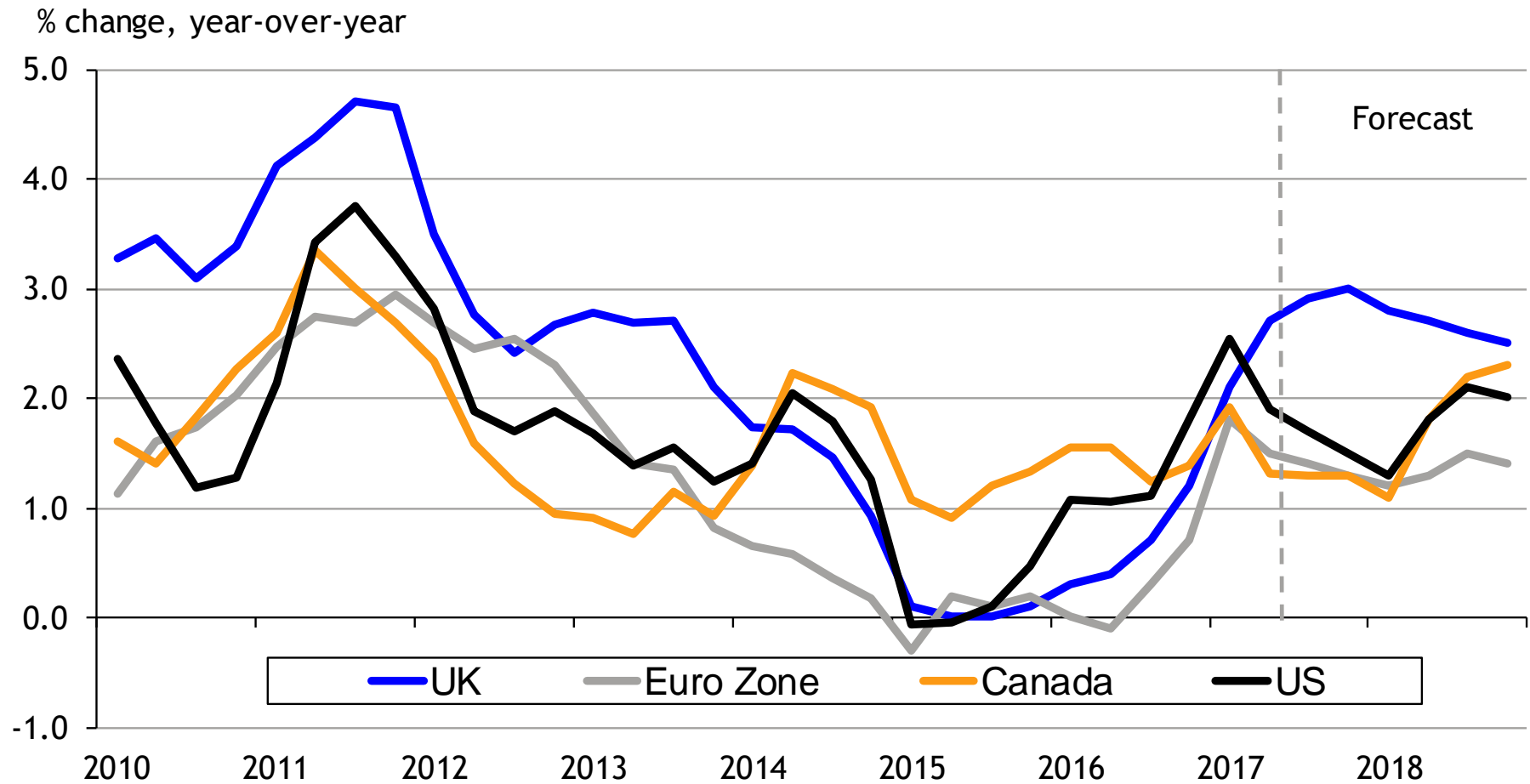
Unemployment rate:



Source: Bureau of Labor Statistics, Statistics Canada, Statistical Office of the European Communities, RBC Economics Research

Inflation trending lower, UK outlier

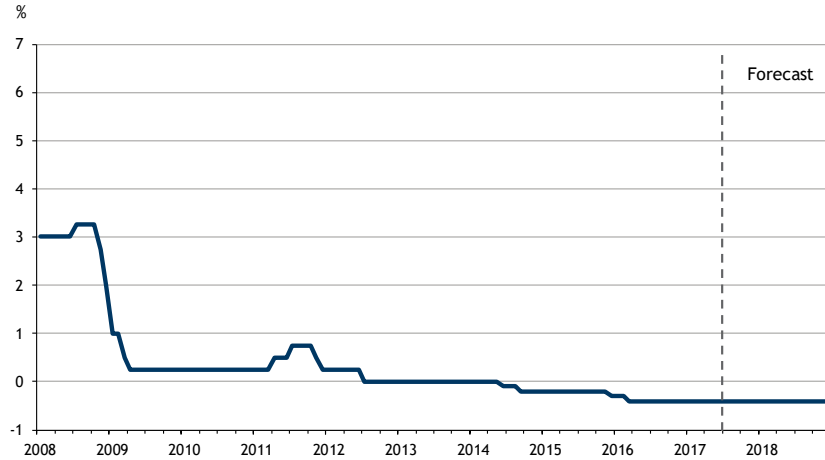
Headline Inflation: International



Source: Statistics Canada, Bureau of Labor Statistics, RBC Economics Research

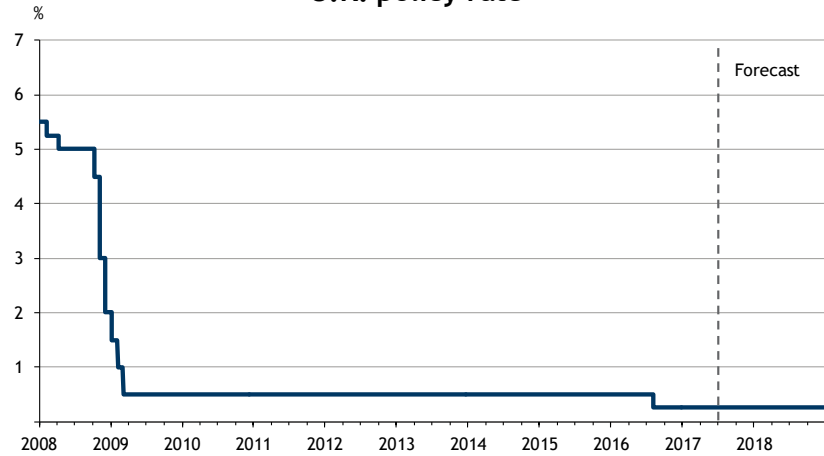
Canada and the US: more rate hikes coming

ECB Deposit rate



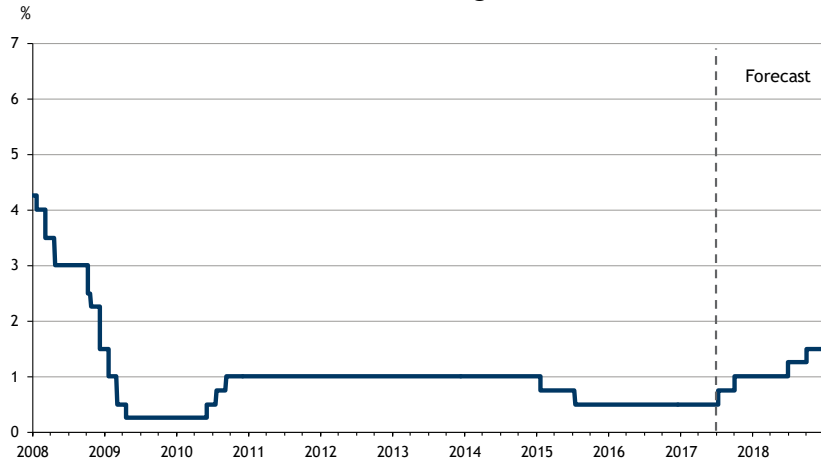
Source: ECB, RBC Economics Research

U.K. policy rate



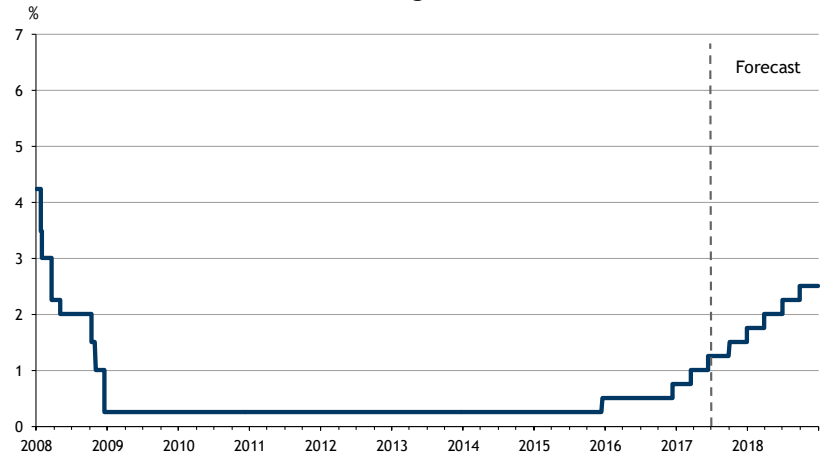
Source: Bank of England, RBC Economics Research

Canadian overnight rate



Source: Bank of Canada, Federal Reserve Board, RBC Economics Research

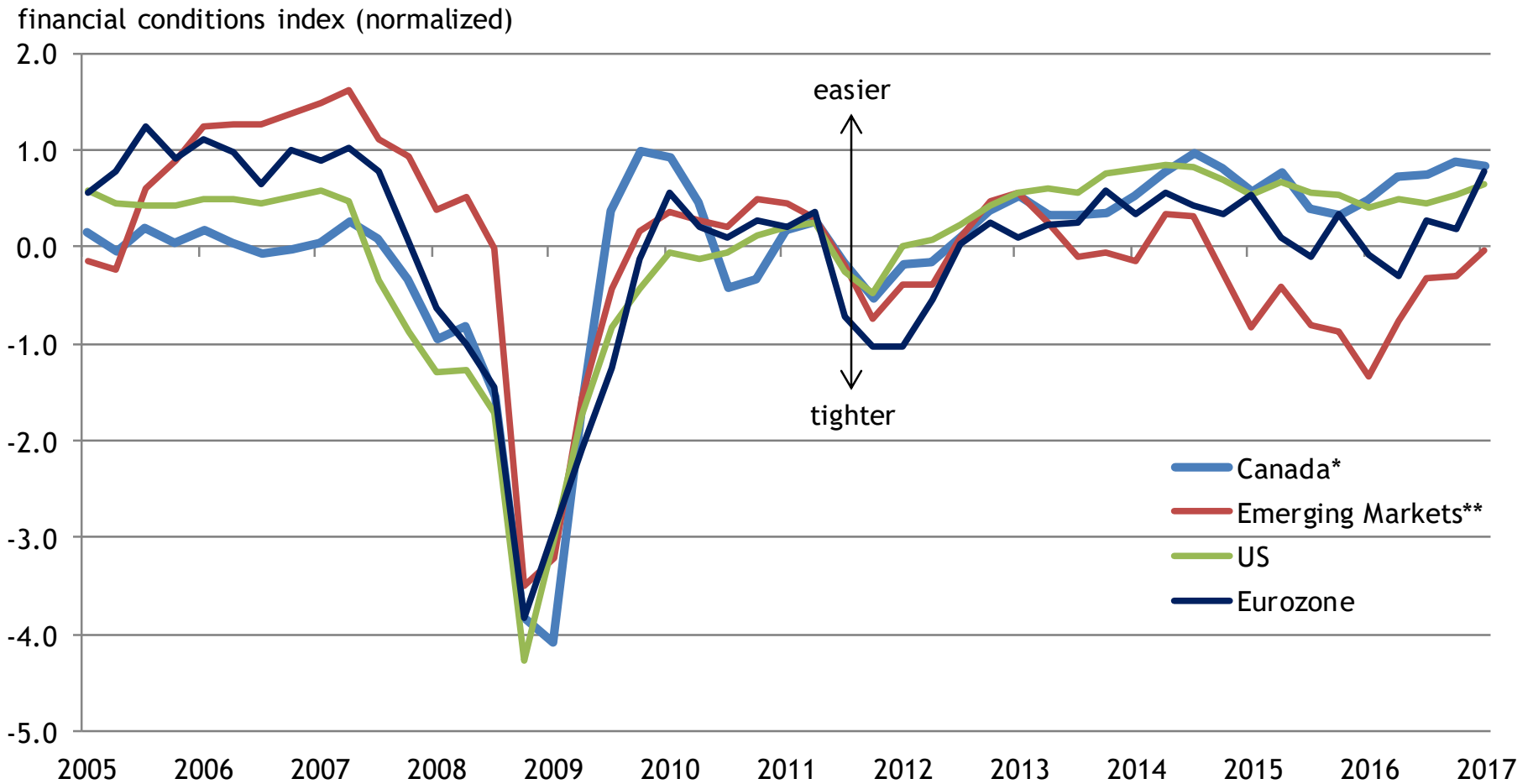
U.S. target rate



Source: Bank of Canada, Federal Reserve Board, RBC Economics Research

Financial conditions continue to support economies

Global Financial Conditions



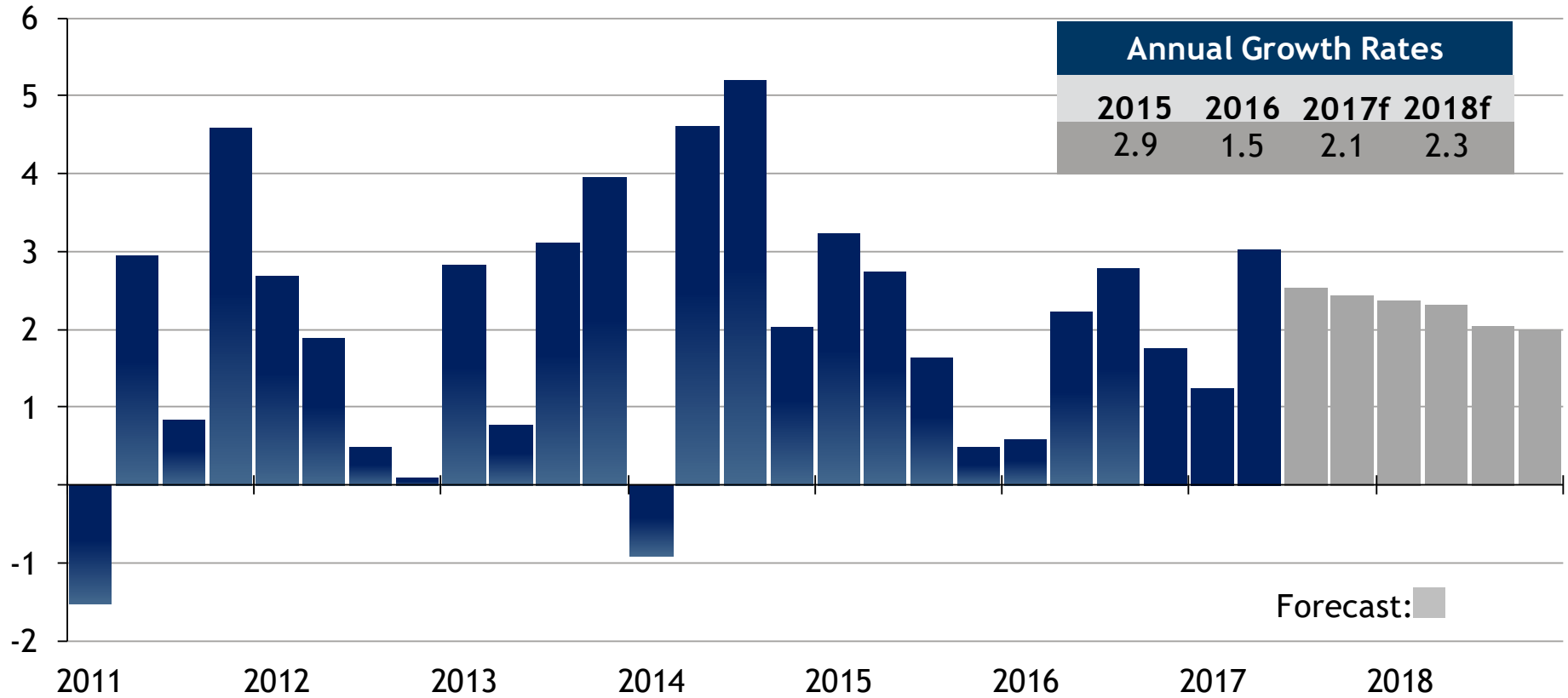
Source: RBC Economics, Bank of Canada, Bloomberg, J.P. Morgan, FRB St. Louis, RBC Capital Markets

*BoC FCI discontinued as of 4 Dec 2015; subsequent estimates are RBC Economics' approximation

U.S. economy: solid performance despite policy uncertainty

U.S. real GDP growth

Quarter-over-quarter annualized % change

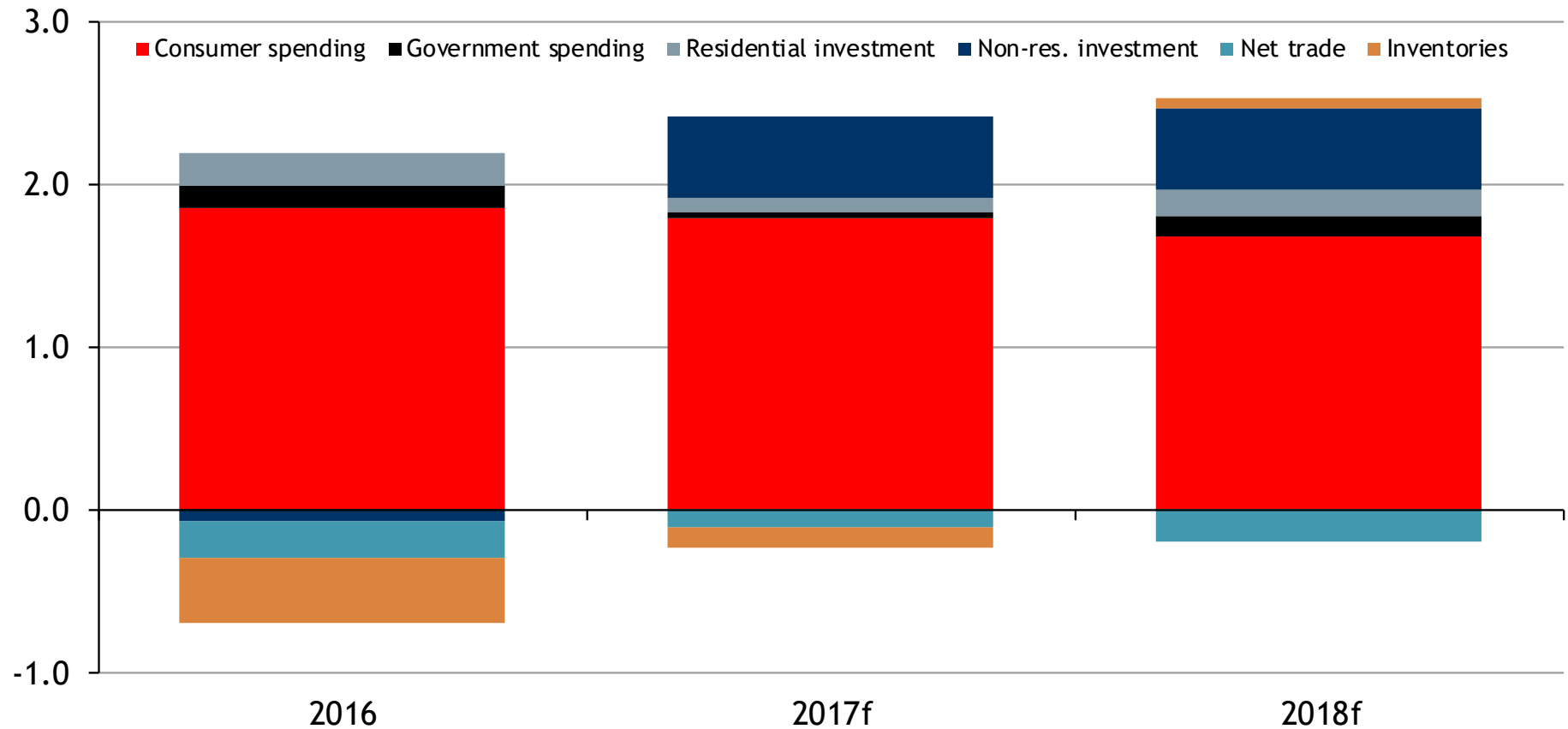


Source: Bureau of Economic Analysis, RBC Economics Research

US business investment to ramp up; solid consumer spending

U.S. real GDP growth composition

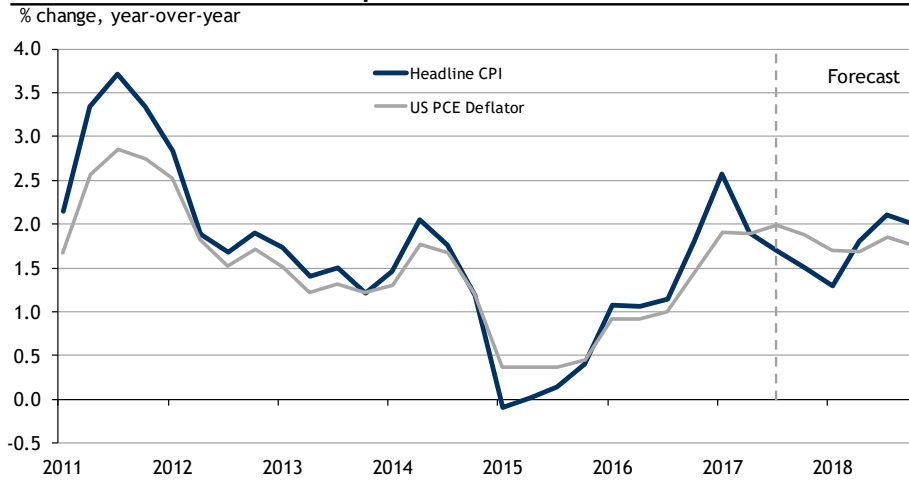
Percentage points



Source: Bureau of Economic Analysis, RBC Economics Research

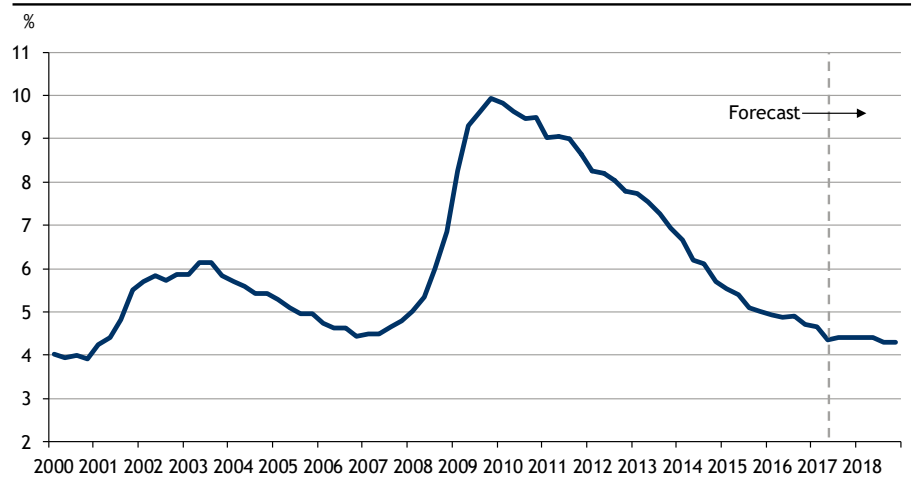
Fed has achieved full employment goal; price stability on horizon...

U.S. Inflation and consumption deflator



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, RBC Economics Research

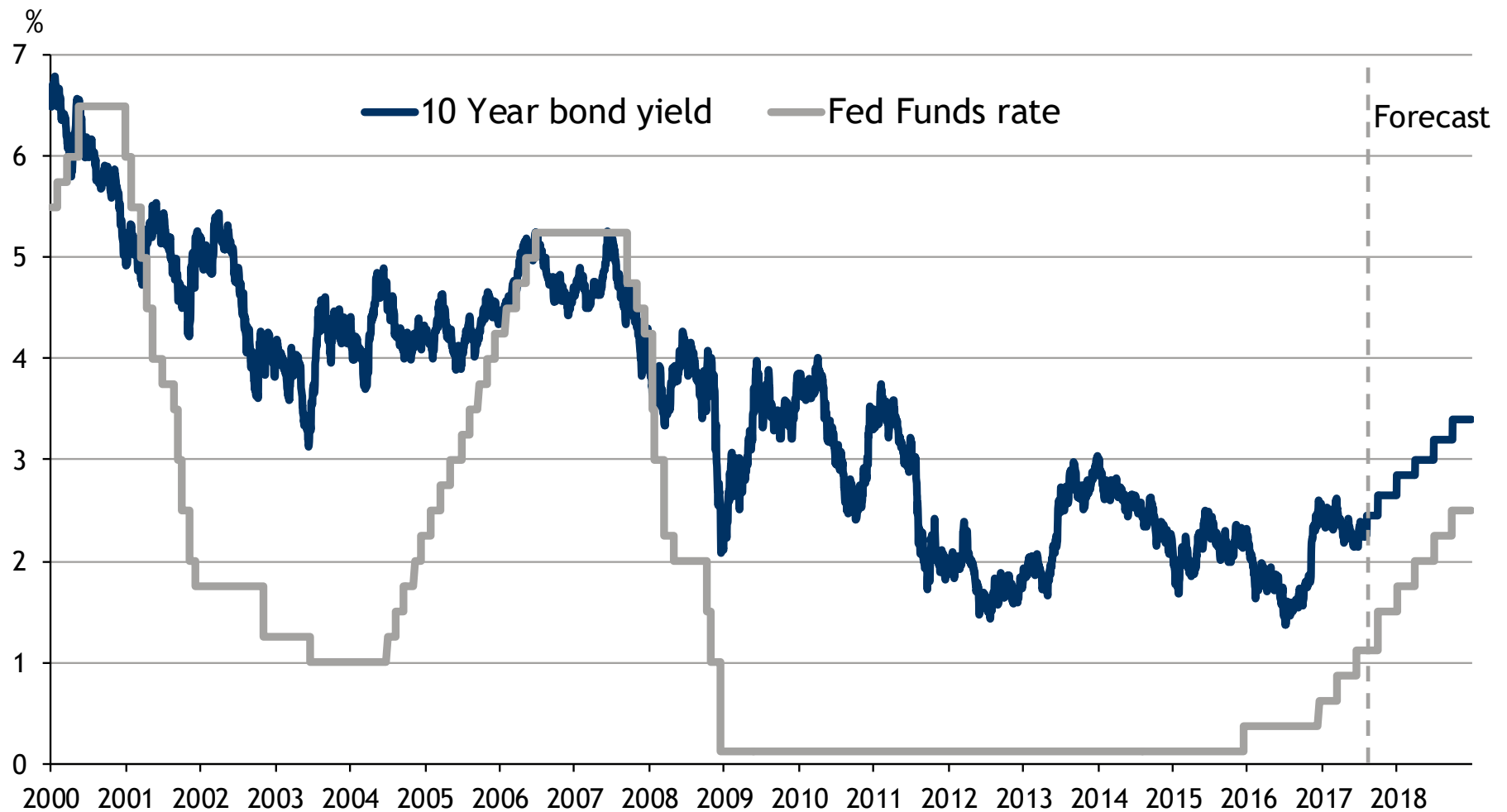
Unemployment rate: U.S.



Source: Bureau of Labor Statistics, RBC Economics Research

...supporting case for reducing policy stimulus

Interest rates: U.S.

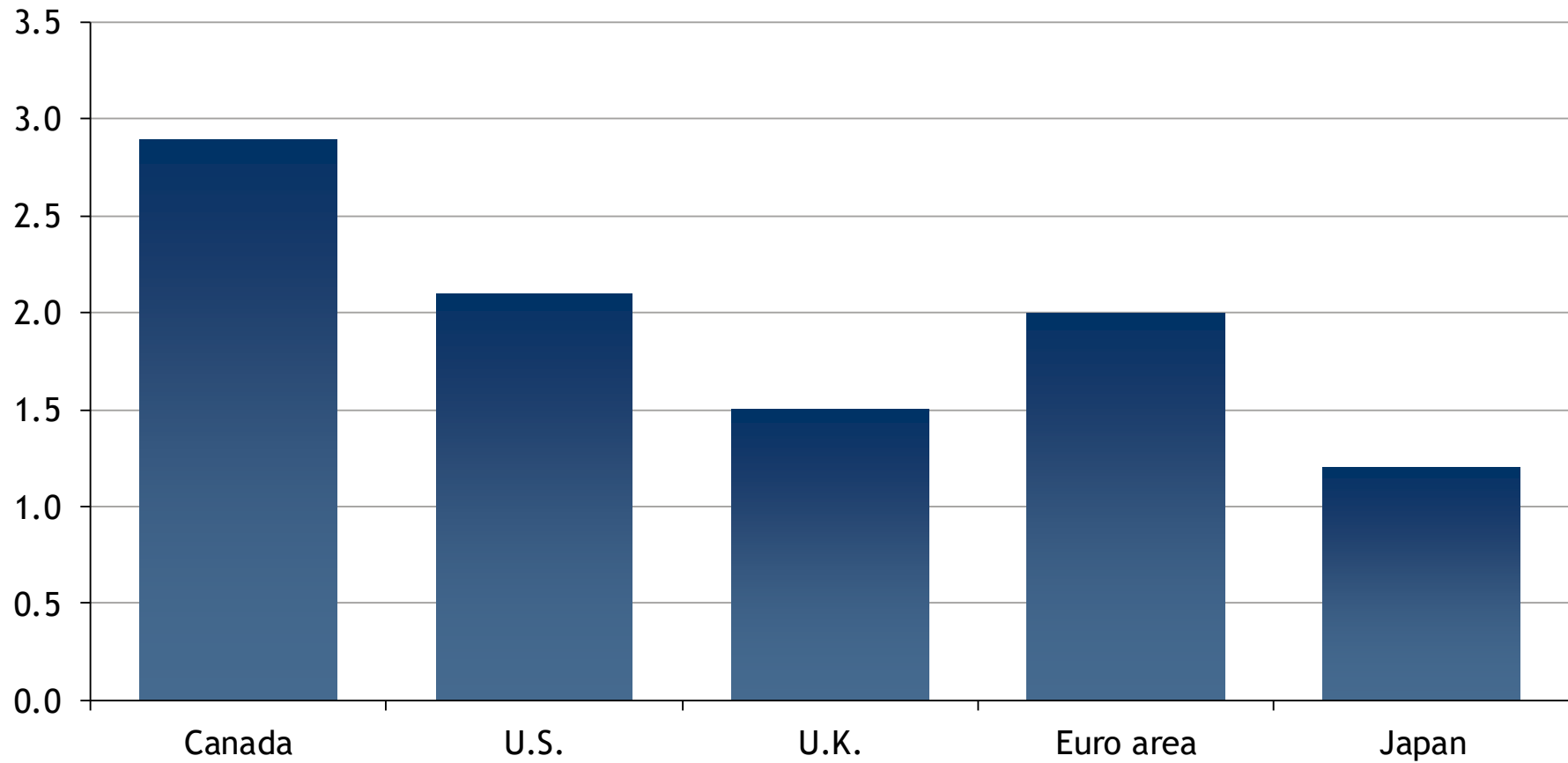


Source: Federal Reserve, RBC Economics Research

Canada set to be growth leader in 2017

Real GDP growth

2017 forecast % change



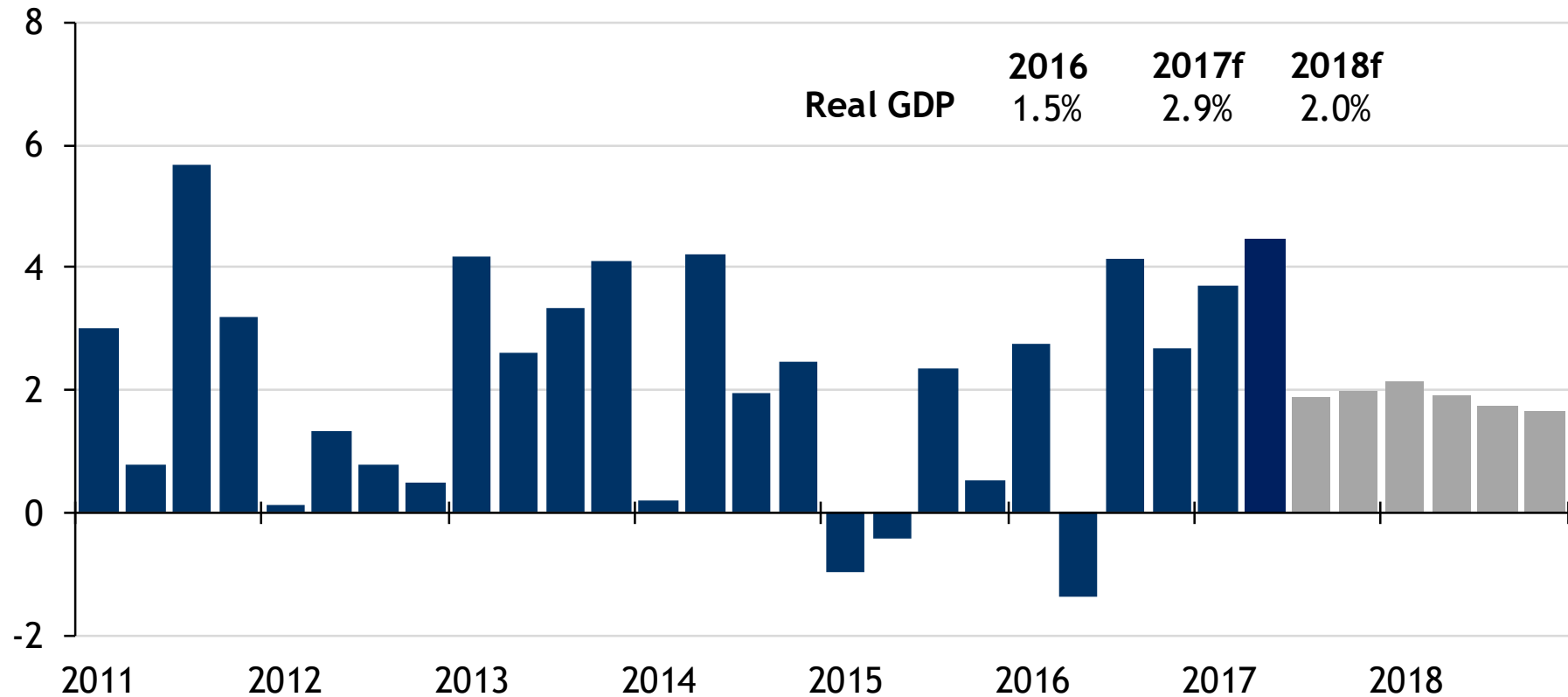
Source: IMF, Statistics Canada, RBC Economics Research

Economy is running well above its potential growth rate

Canada's real GDP

Quarter-over-quarter % change, annualized rate

Forecast ■

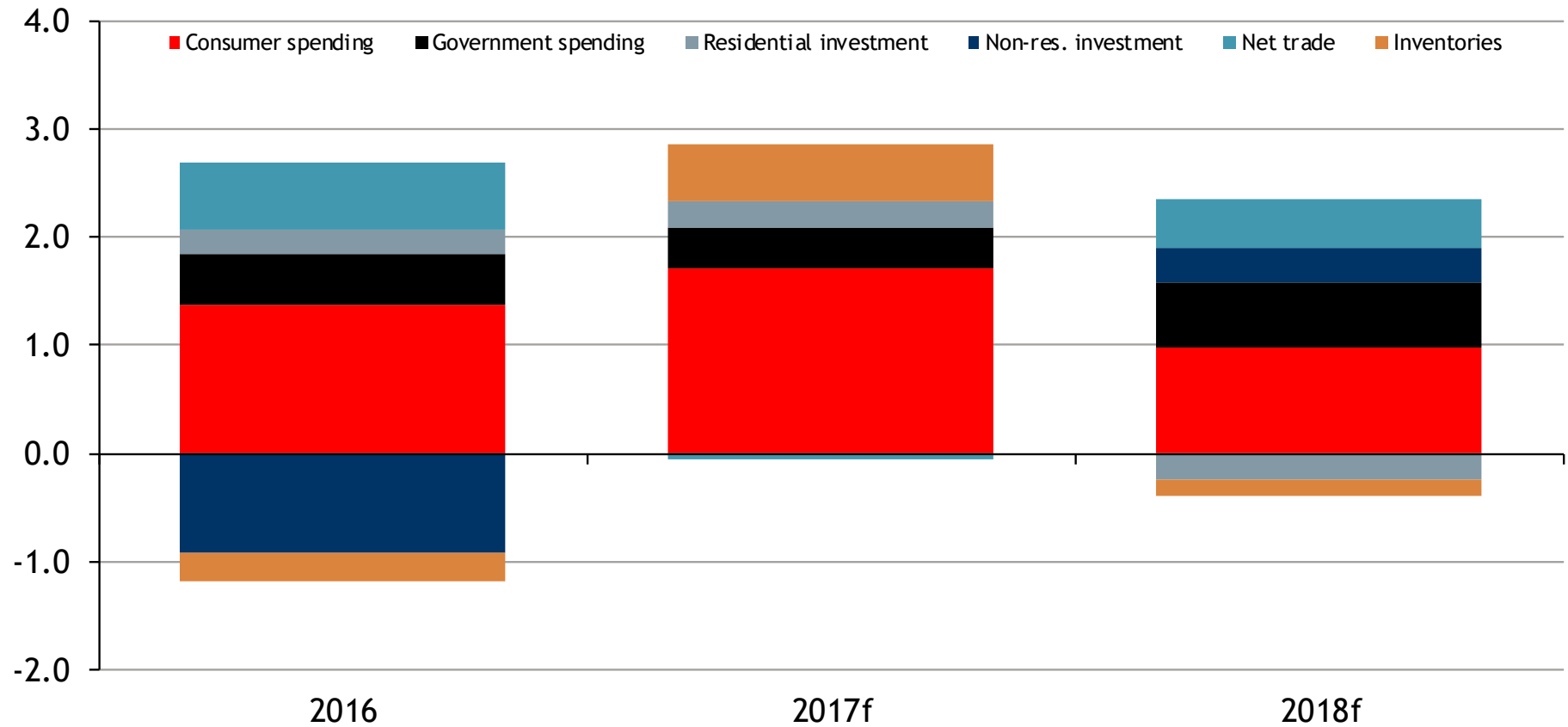


Source: Statistics Canada, RBC Economics Research Forecasts

Consumers, government spend and drag from investment disappearing

Canada real GDP growth composition

Percentage points

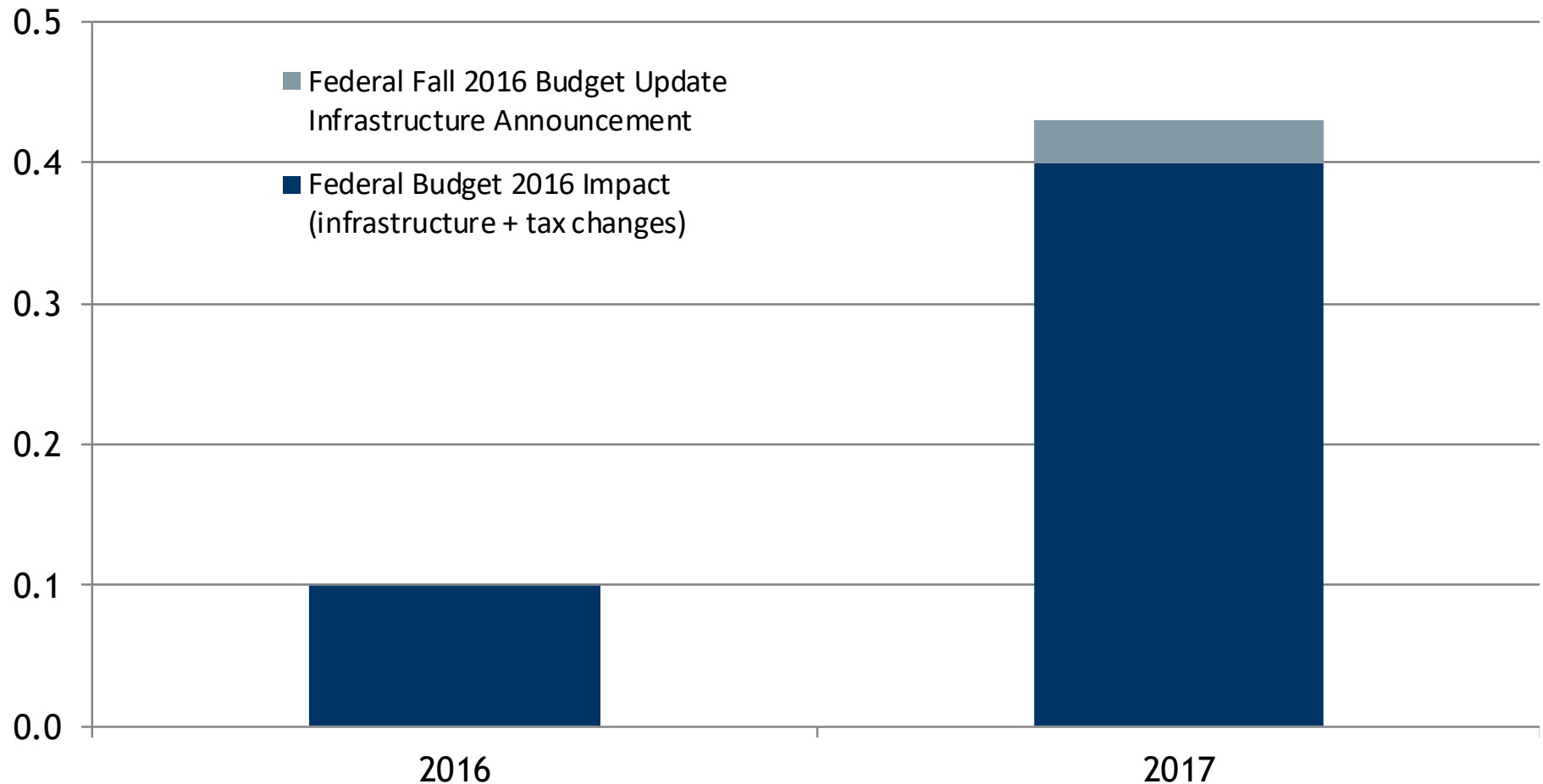


Source: Statistics Canada, RBC Economics Research

Government spending ramping up

Canada Federal fiscal support

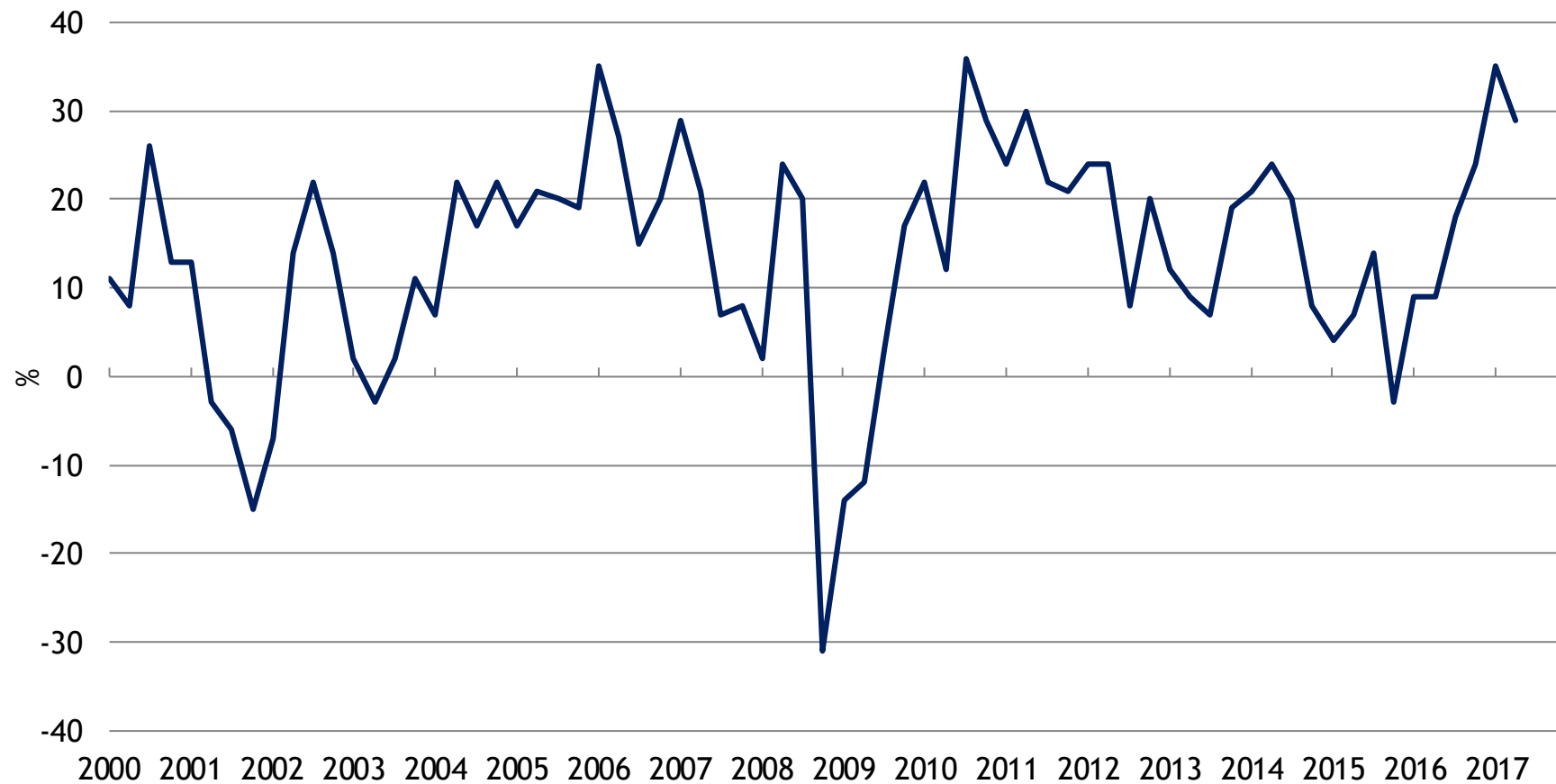
Percentage point support to annual GDP growth



Source: Statistics Canada, RBC Economics Research

Growing number of businesses intend to invest

Bank's Business Outlook Survey: M&E Investment

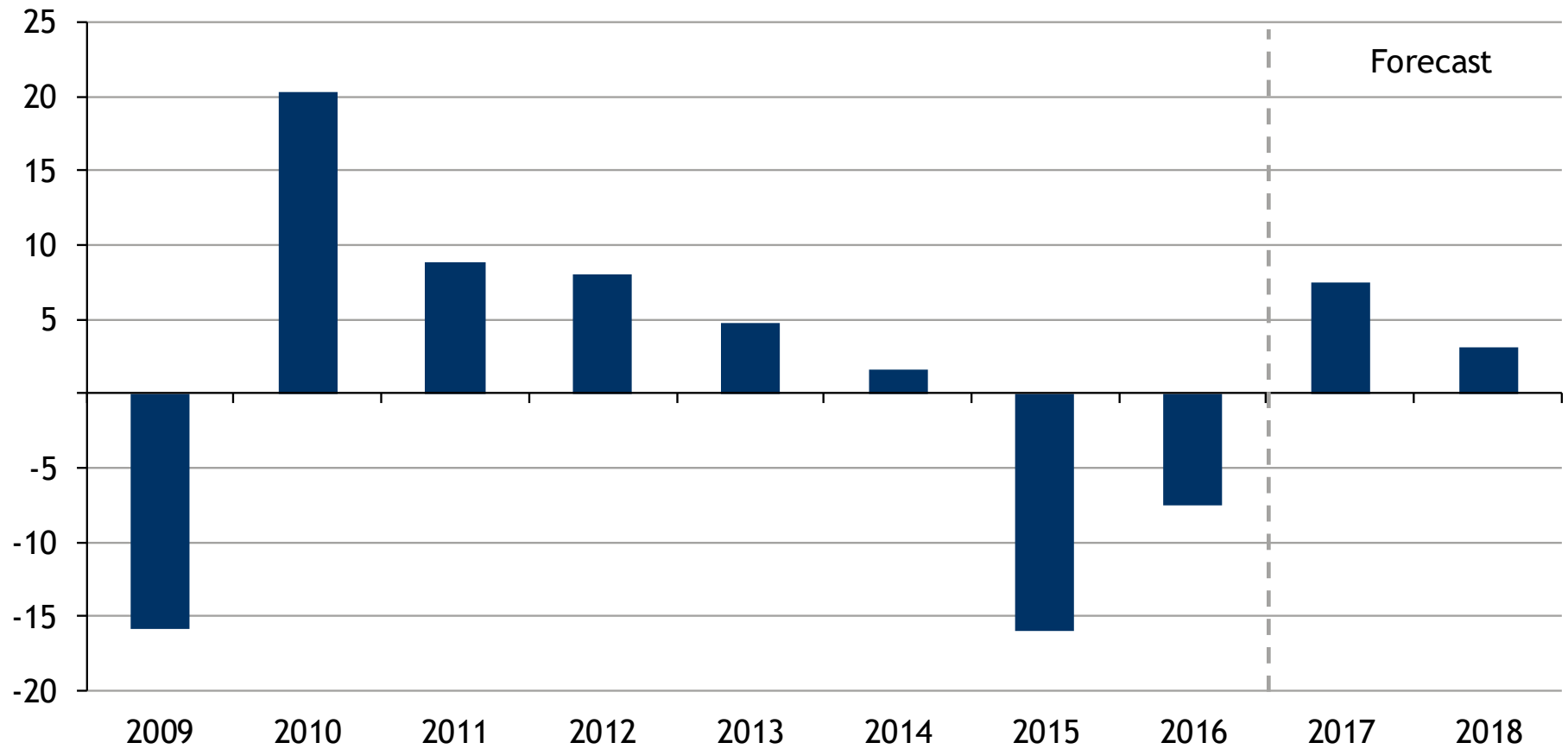


Source: Statistics Canada, RBC Economics Research

Investment turnaround started in early 2017

Real business fixed investment

Q4/Q4 % change

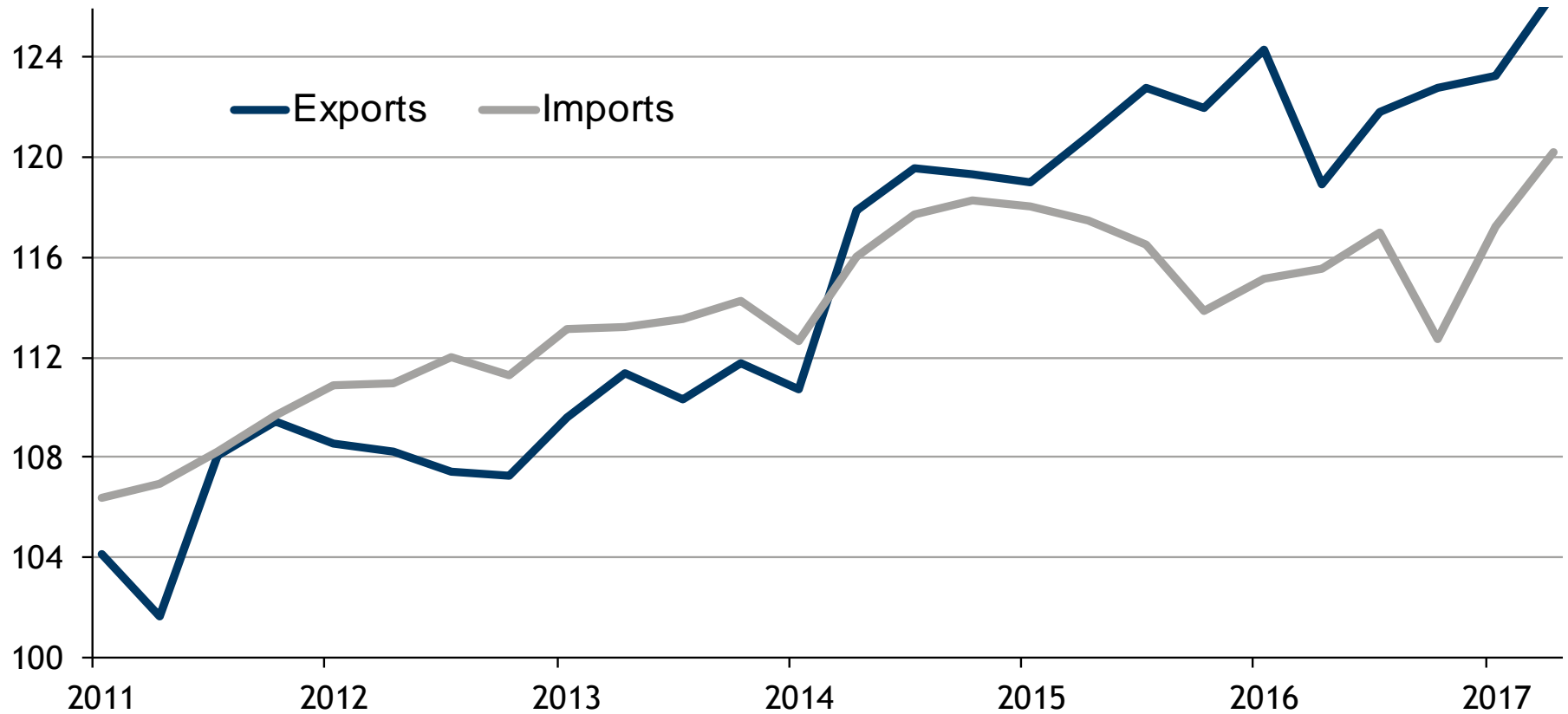


Source: Statistics Canada, RBC Economics Research

Trade activity heating up

Real merchandise trade: Canada

Billion constant 2007 \$

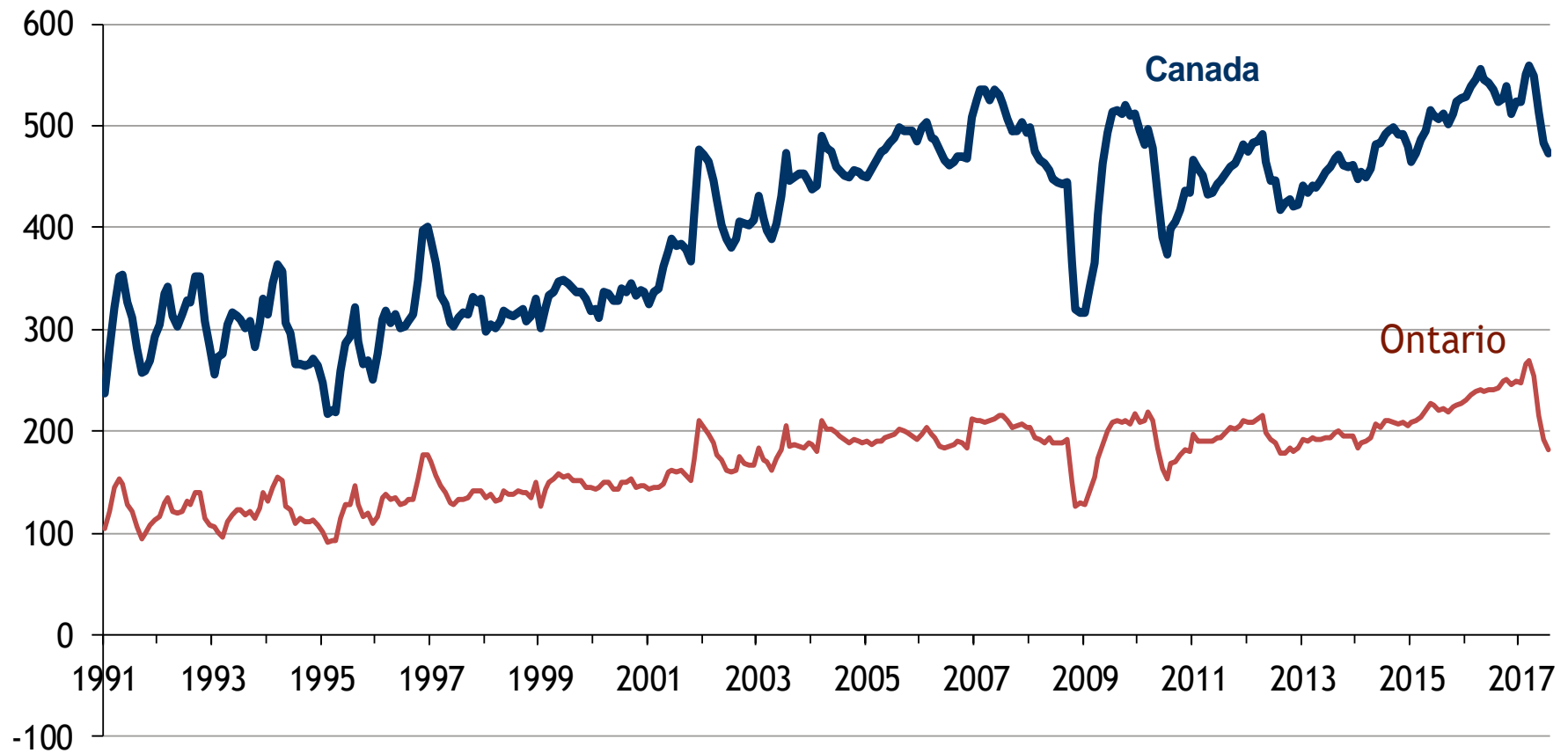


Source: Statistics Canada, RBC Economics Research

Correction in Ontario contributed to national sales decline

Existing home sales

Thousands, SAAR

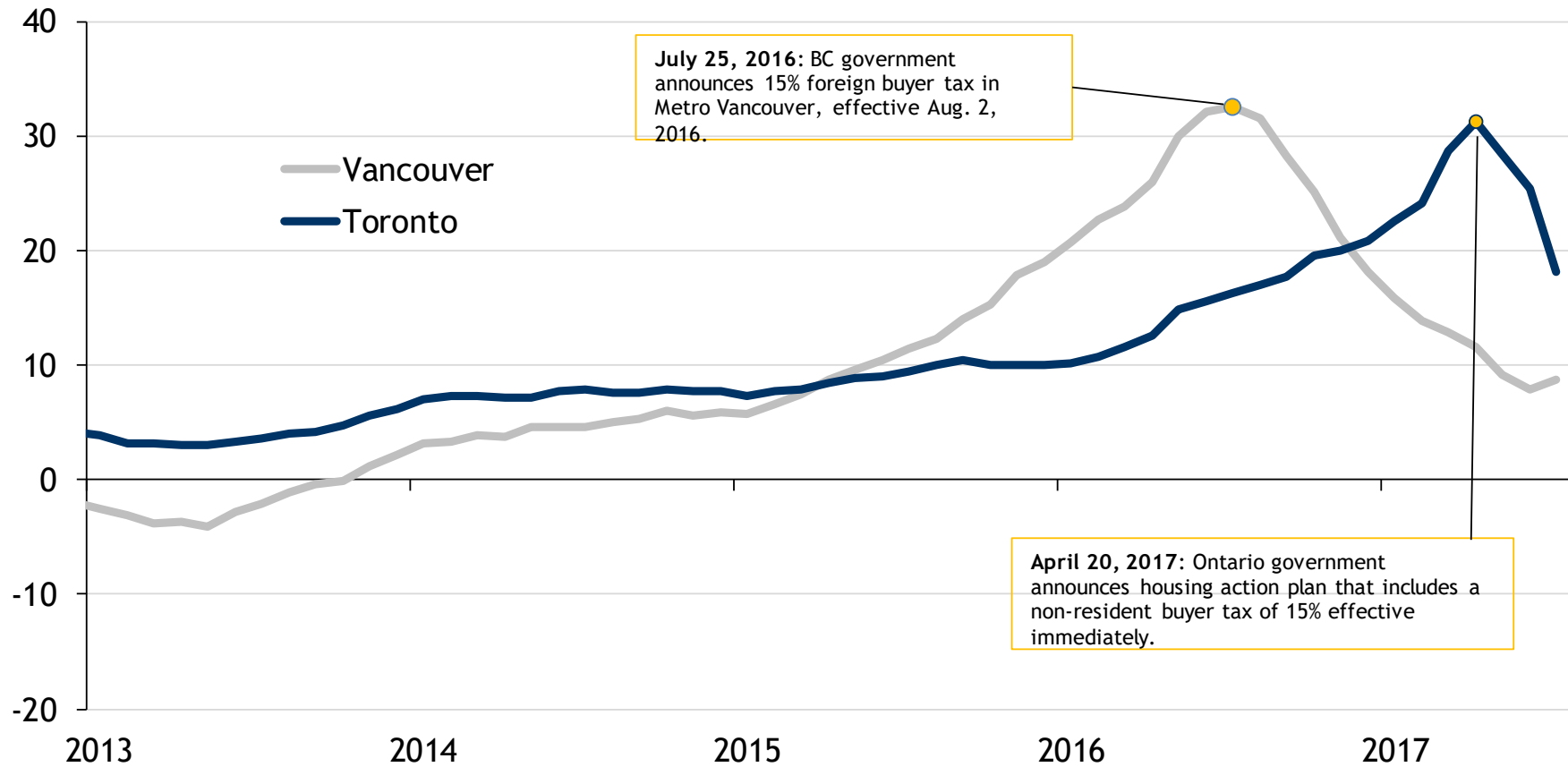


Source: CREA, RBC Economics Research

Policies effective in slowing price gains

MLS Home Price Index

Year-over-year % change



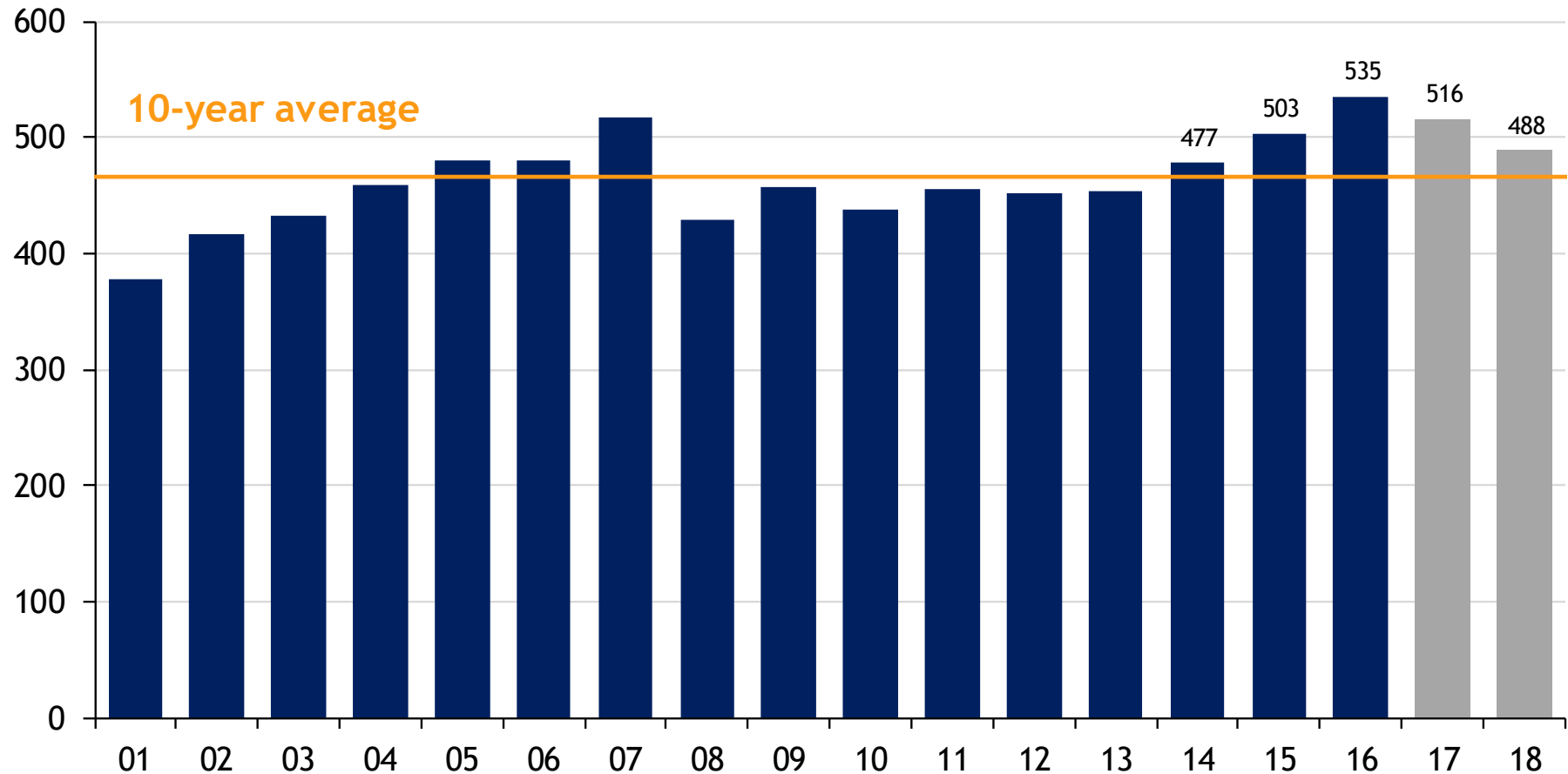
Source: CREA, RBC Economics Research

Home sales activity on slower trajectory

Home resales: Canada

Thousands of units

Forecast: 



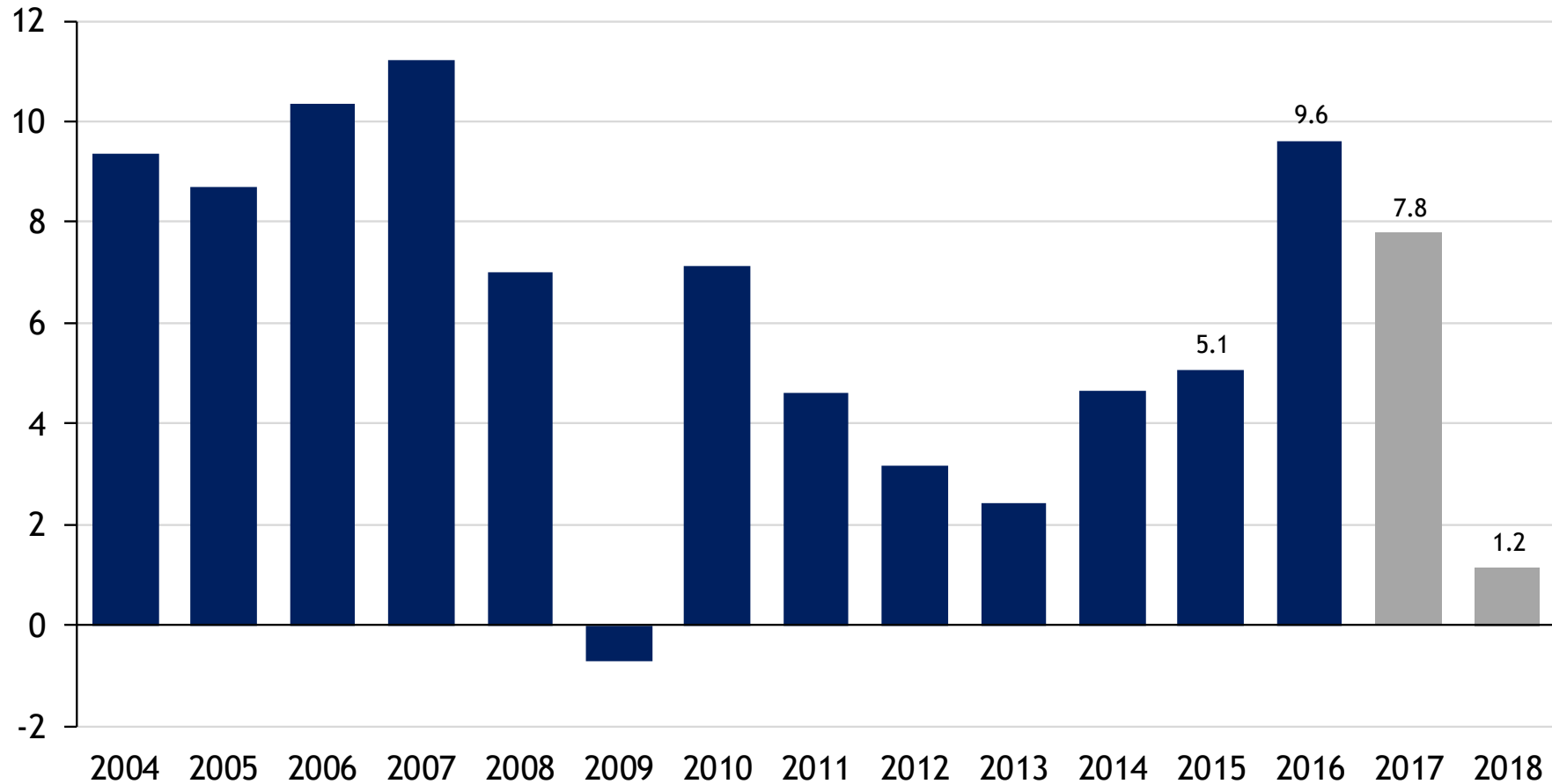
Source: Canadian Real Estate Association, RBC Economics Research

Period of rapid price appreciation coming to an end

Home prices in Canada

Annual % change, composite

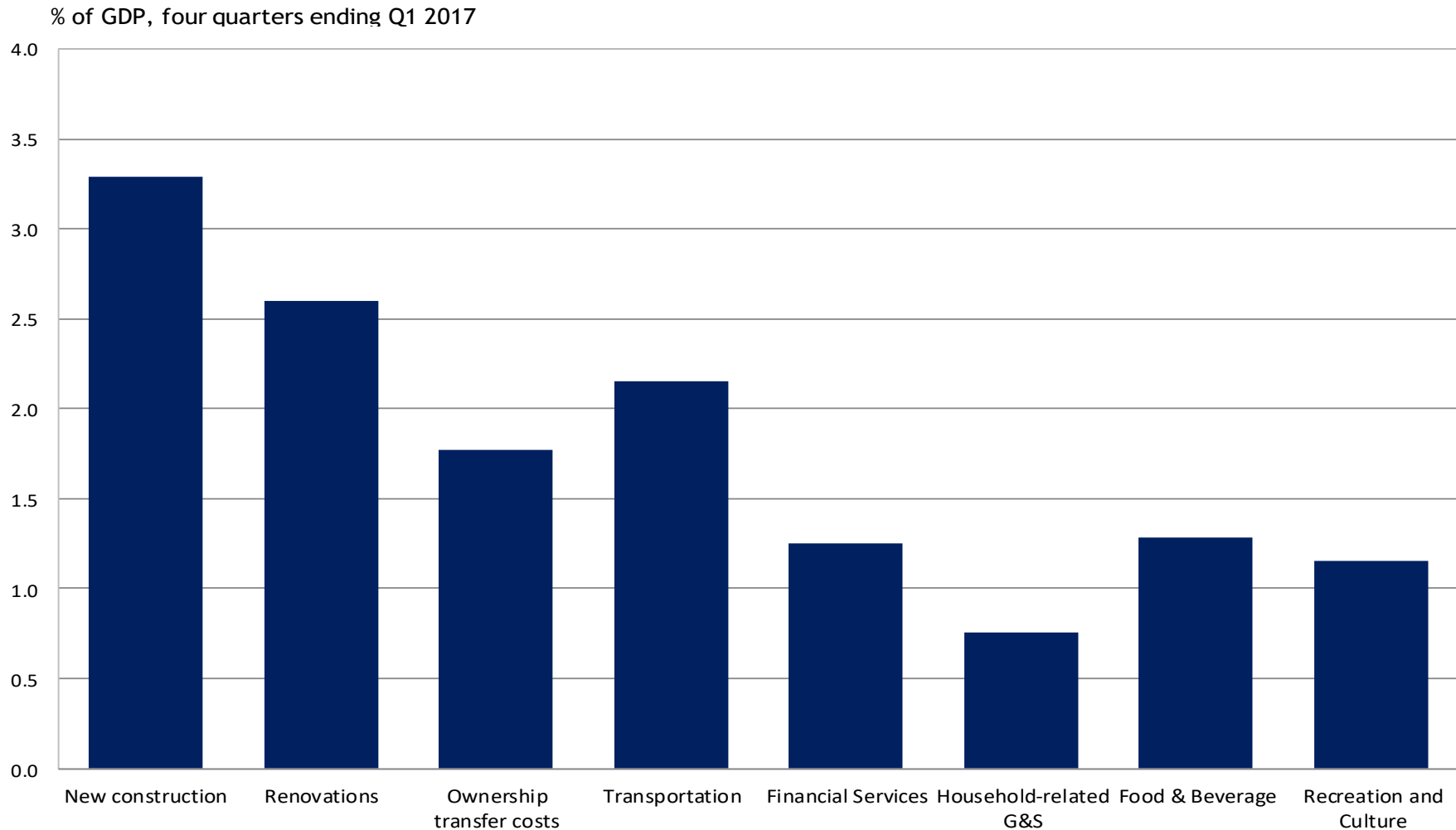
Forecast: 



Source: Brookfield RPS, Royal LePage, CREA, RBC Economics Research

Cooling in housing market will have some knock-on effects

Economic activity exposed to a housing market

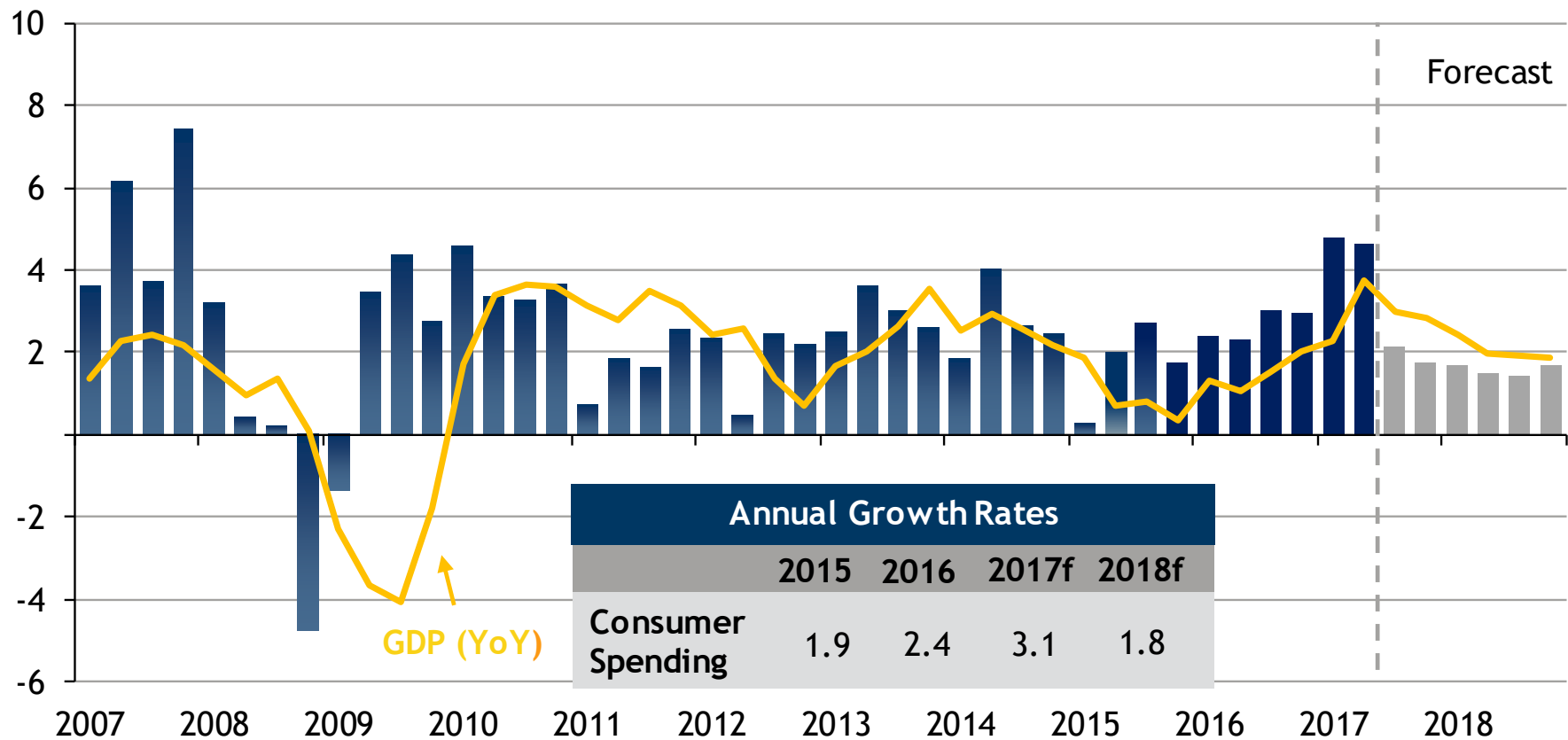


Source: Statistics Canada, RBC Economics Research

A slowing in consumer spending likely ahead

Consumer expenditures in Canada

Quarter-over-quarter % change, annualized

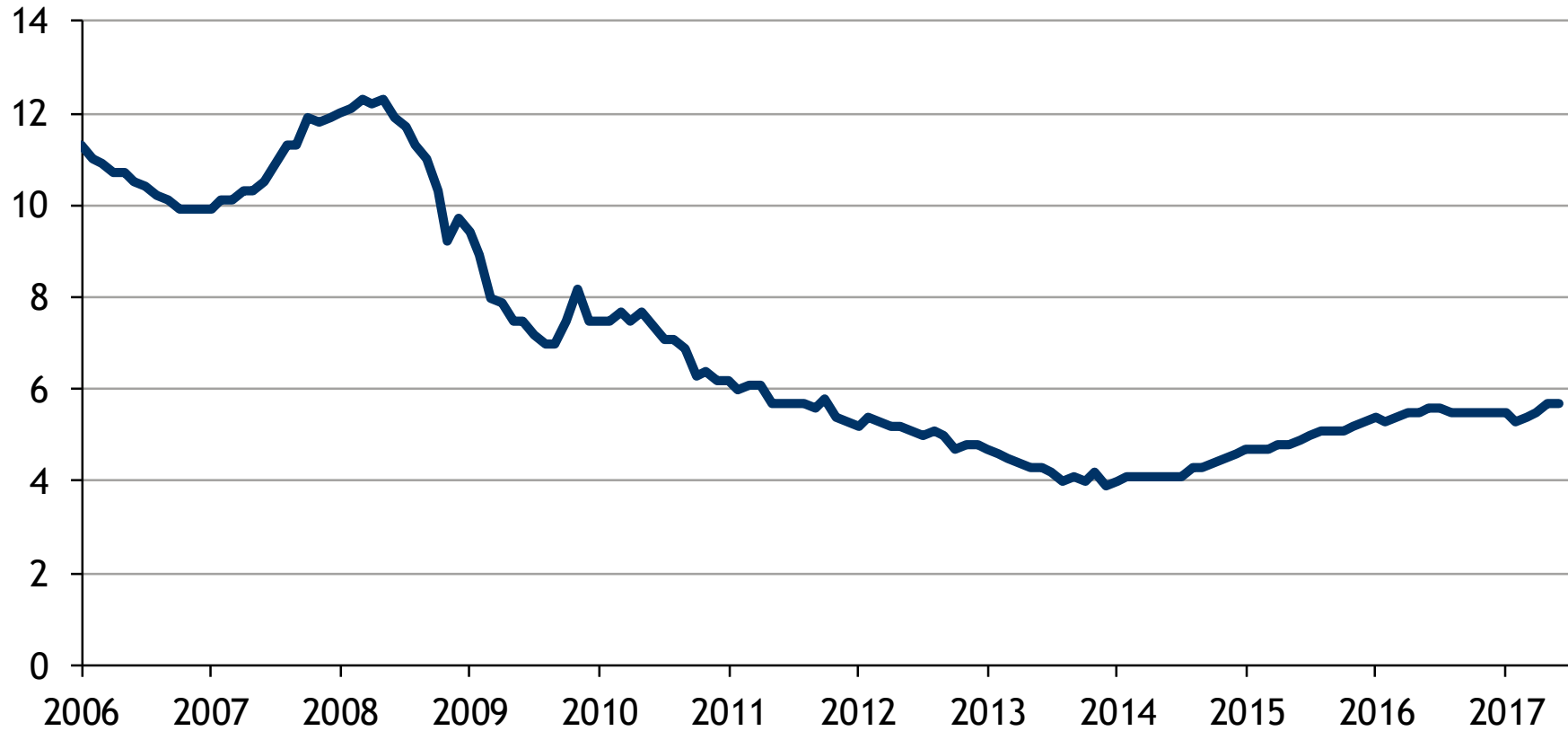


Source: Statistics Canada, RBC Economics Research

Credit balances trended higher in 2017

Canada : Total household credit

% Change, Year-over-year

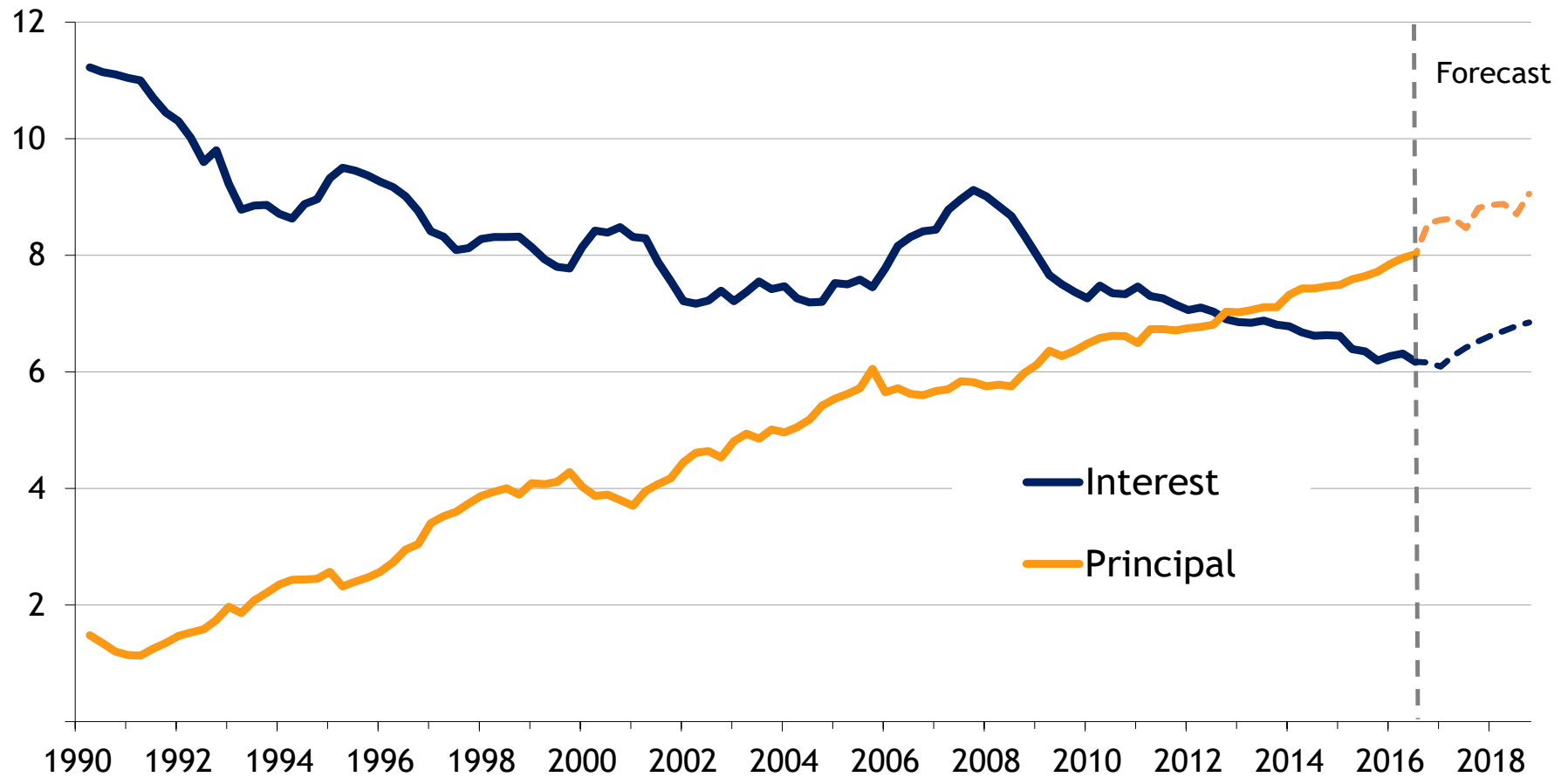


Source: Bank of Canada, RBC Economics Research

Rate increases will boost debt service burdens modestly

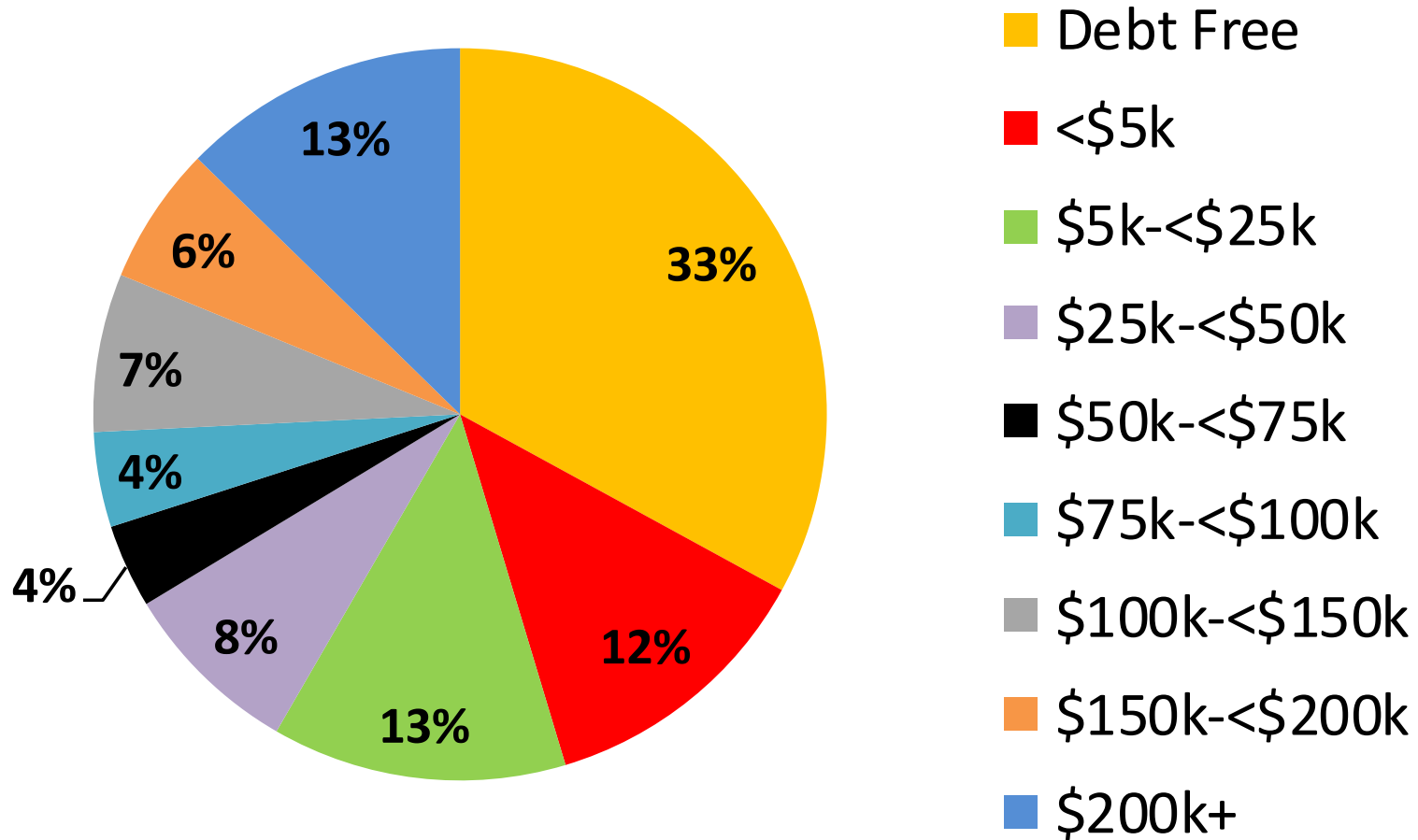
Debt service ratio - Canada

Debt service payments on mortgage and non-mortgage debt as % of PDI, seasonally adjusted



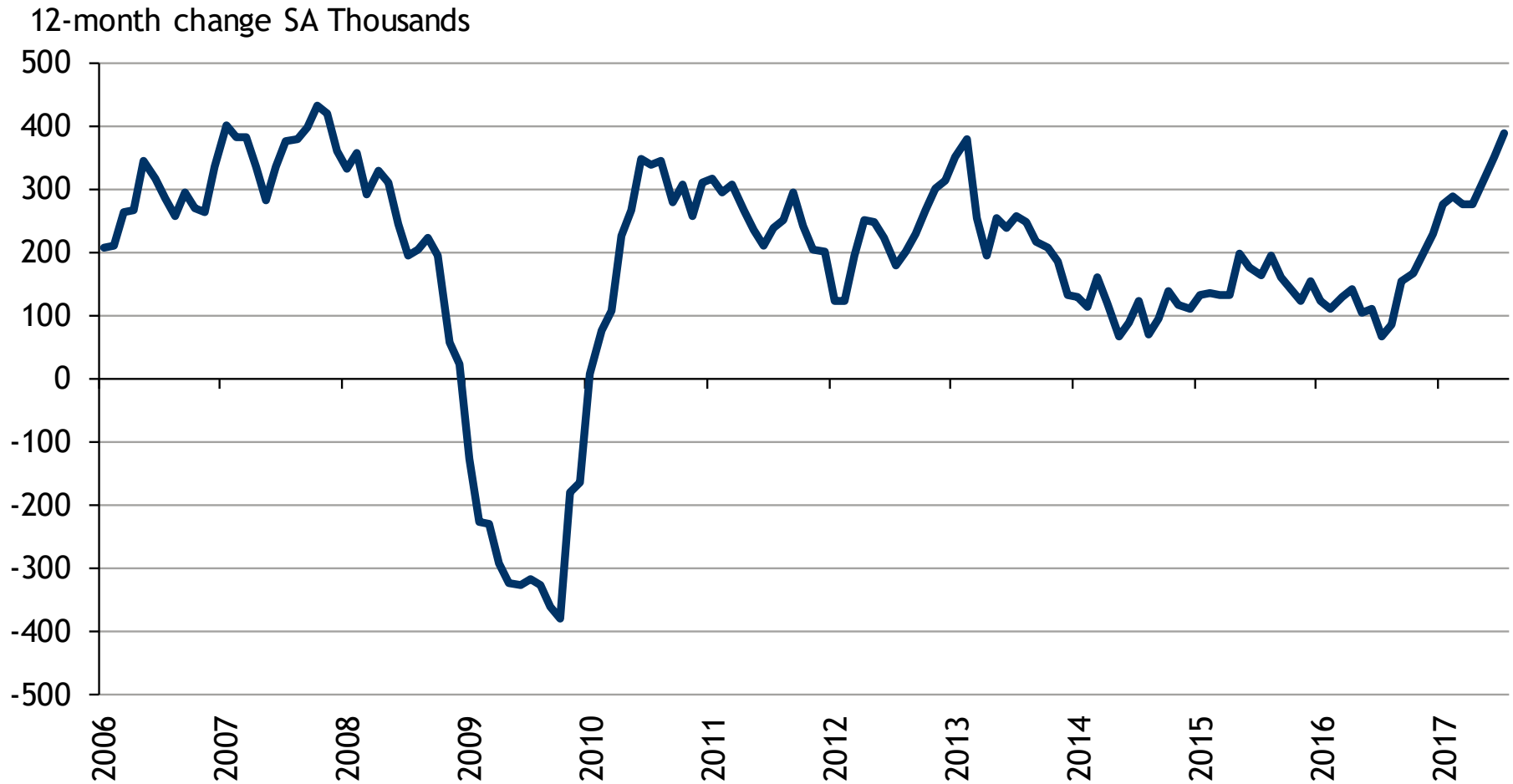
Source: Statistics Canada, RBC Economics Research

Not all households have debt; one-third have \$50K or more



Strong job gains underpin household spending

Canada : Employment

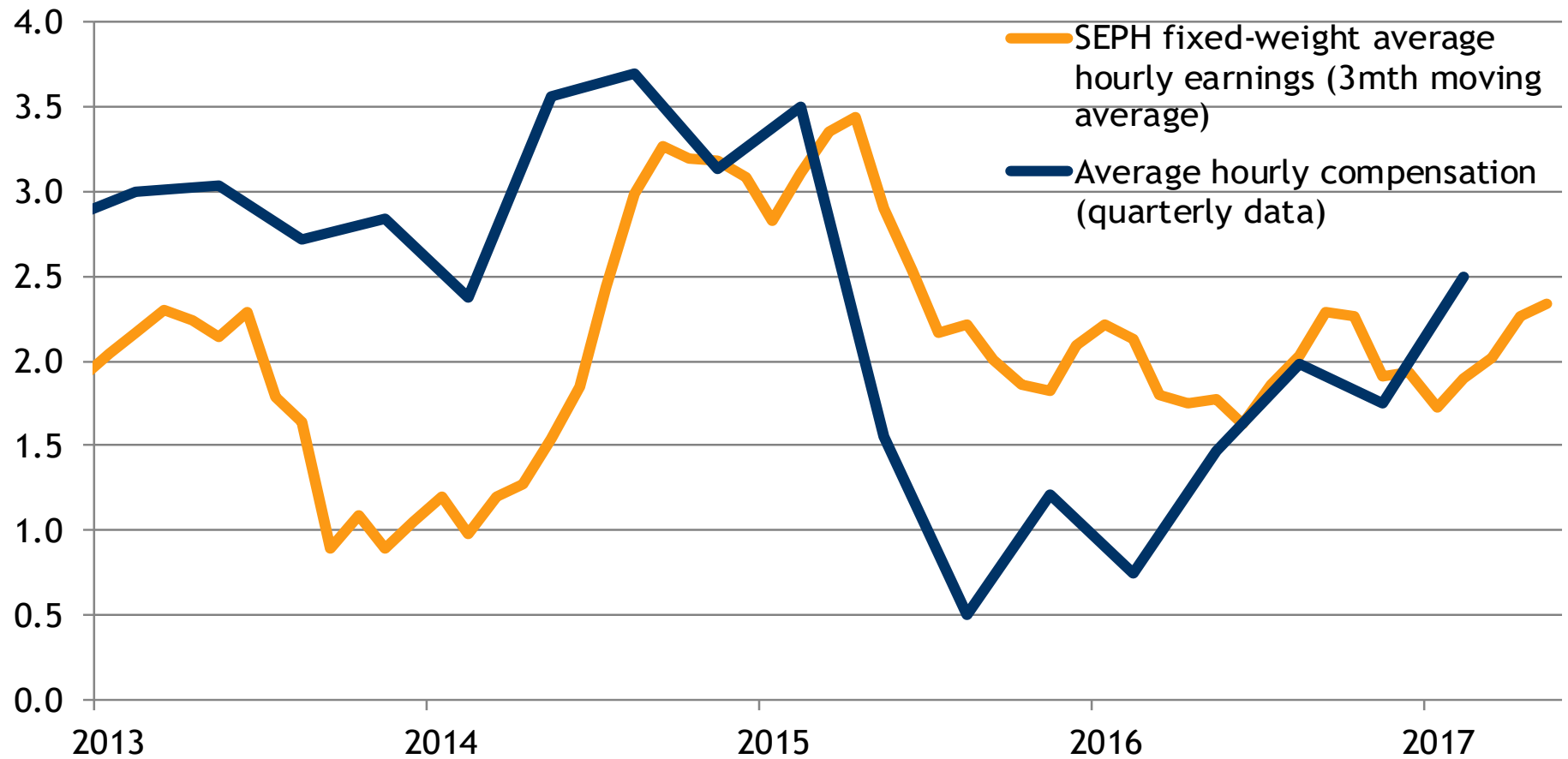


Source: Statistics Canada. RBC Economics Research

Signs that wages are picking up pace

Canadian wage growth

Year-over-year percent change



Source: Statistics Canada, RBC Economics Research

Oil prices – range-bound around \$50.00

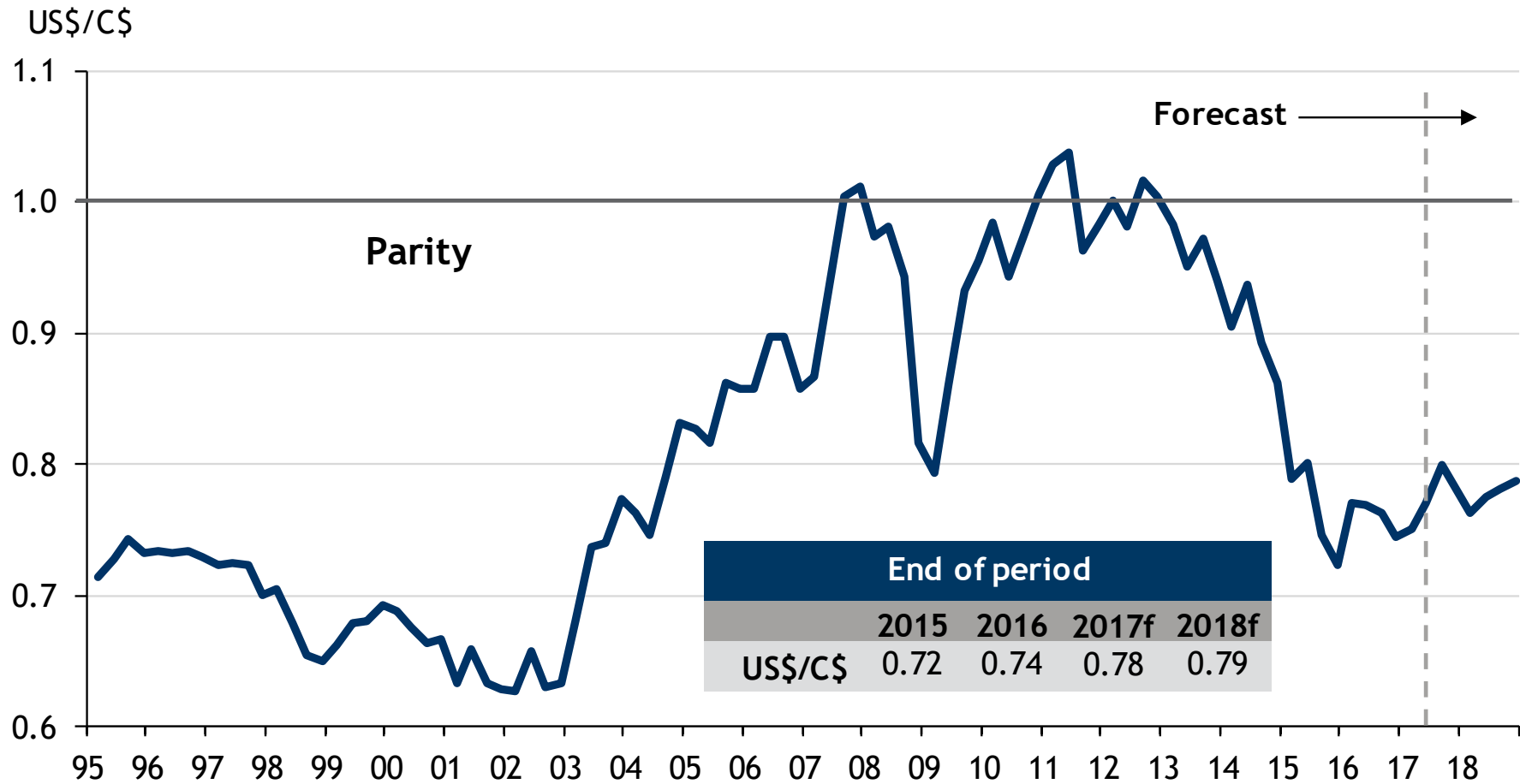
West Texas Intermediate (WTI)



Source: Energy Information Administration/Wall Street Journal, RBC Economics Research

C\$ rallied as BOC switched gears

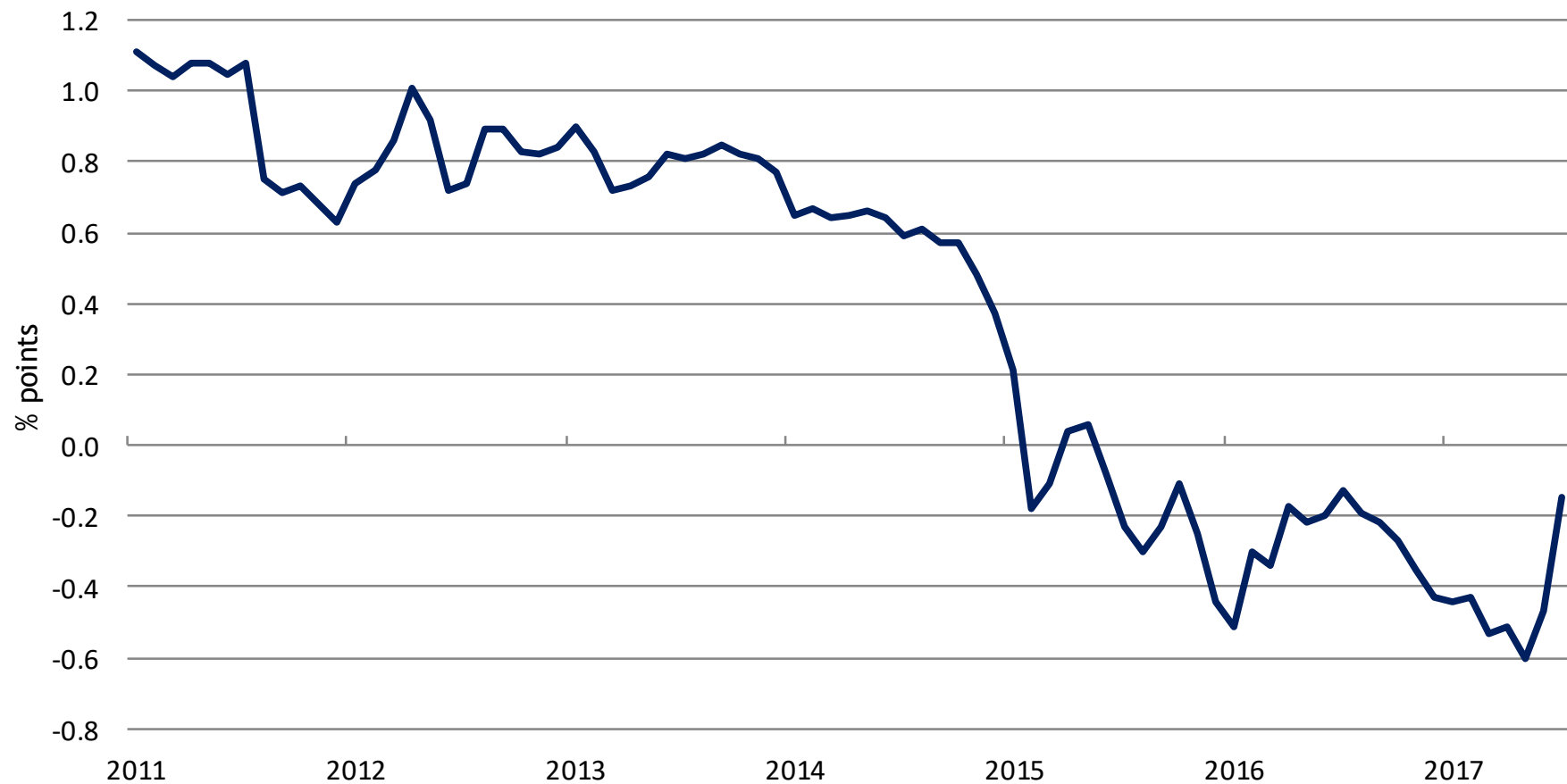
Canadian dollar forecast



Source: Bank of Canada, RBC Economics Research Forecasts

Change in Bank of Canada's policy stance saw spreads collapse

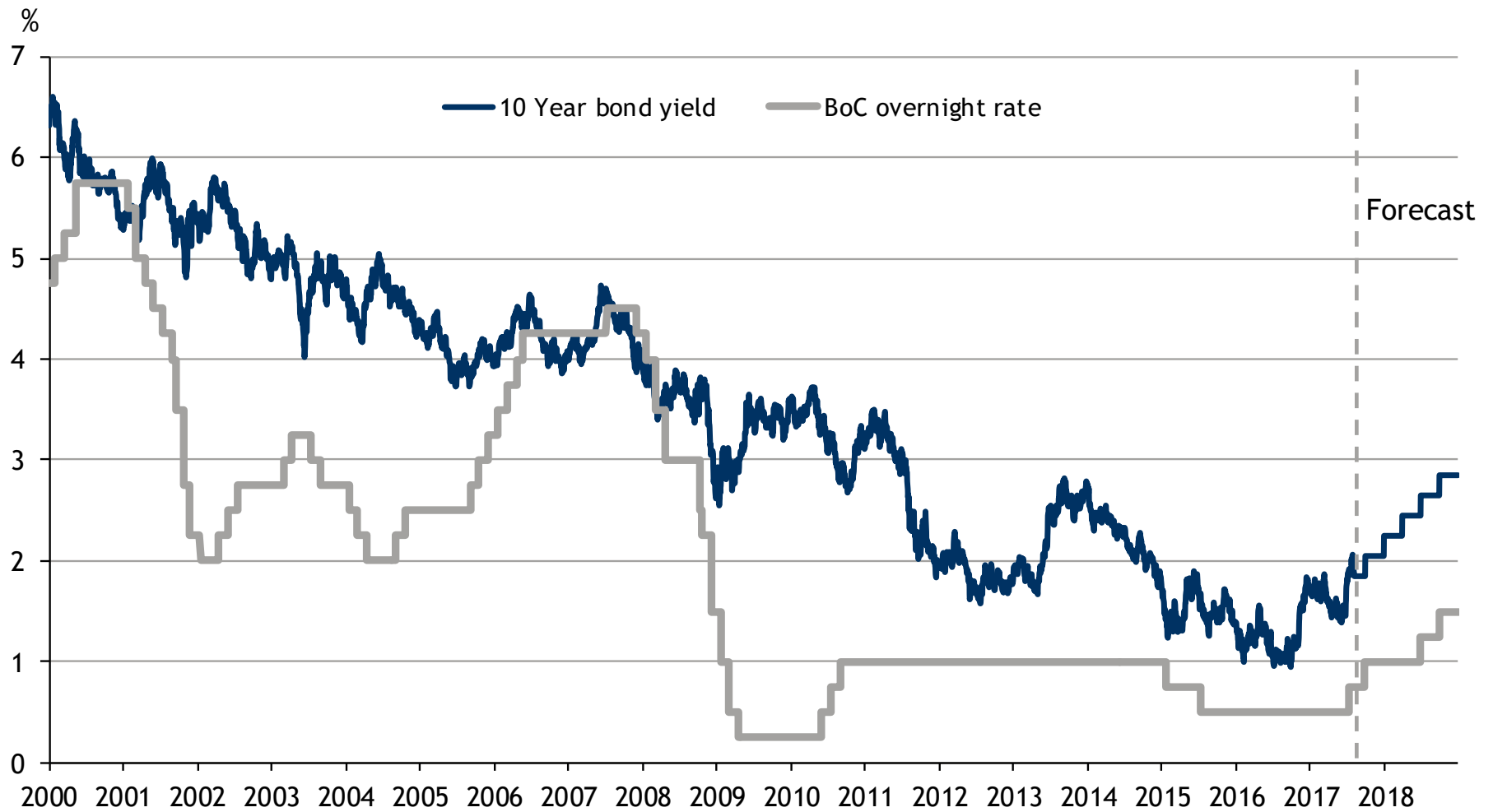
Canada and U.S. 2-year bond yield spread



Source: Bank of Canada, Federal Reserve Board, RBC Economics Research

Bank of Canada: output gap closure in sight

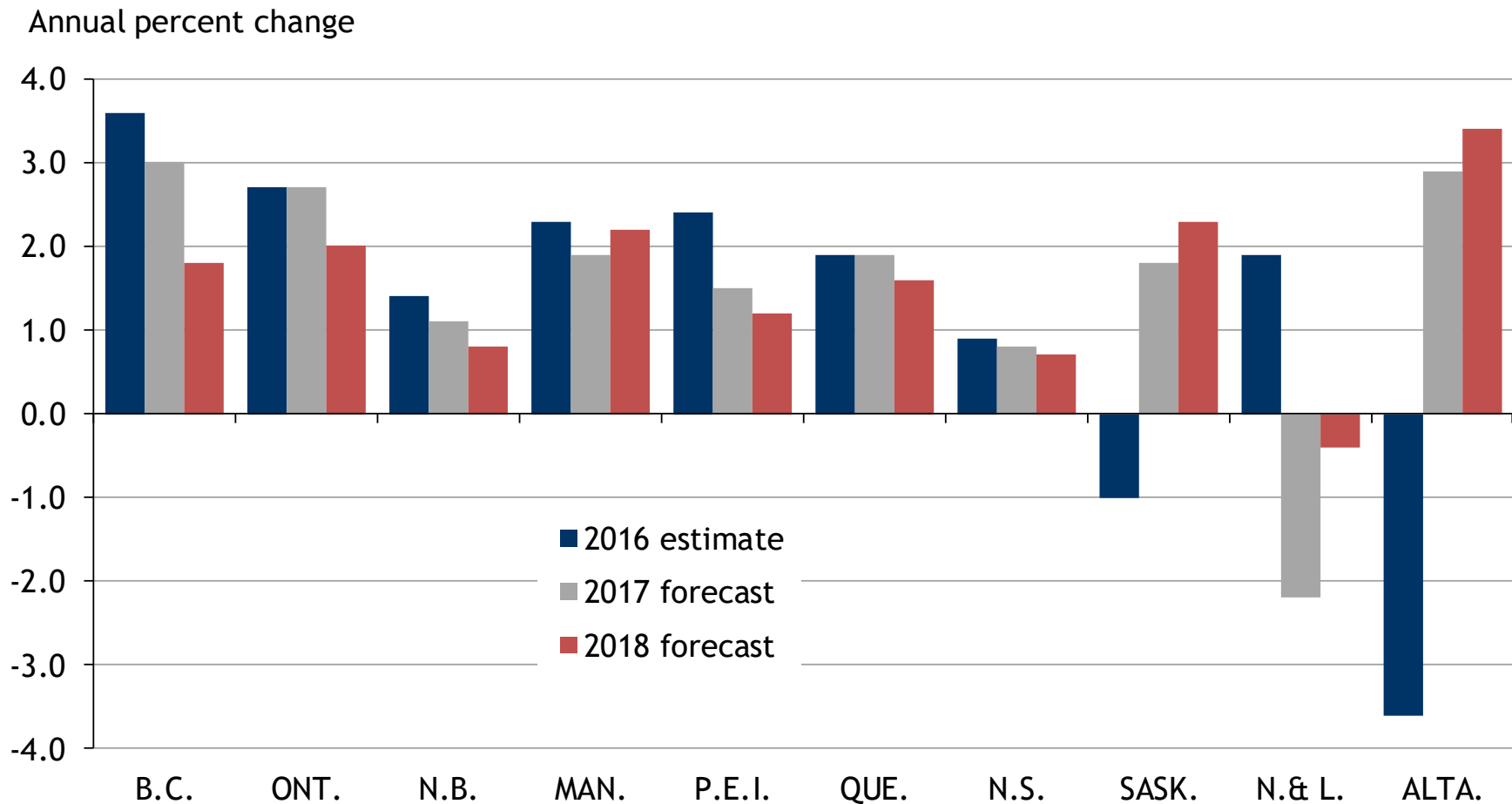
Interest rates: Canada



Source: Bank of Canada, RBC Economics Research

BC and Ontario lead; Alberta playing catch-up after recession

Canada Provincial Real GDP Forecast



Source: Statistics Canada, RBC Economics Research

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