

Canada: Full Steam Ahead

- The Canadian economy is doing exceptionally well. After setting a blistering pace of 3.7% annualized in the first quarter of 2017, available economic indicators suggest that the second quarter will be nearly as strong. The long-awaited recovery in investment and exports appears to be solidifying while consumption and residential investment remain robust. We now forecast growth of 2.9% in 2017, the strongest expansion in six years. British Columbia will lead the pack, posting growth of 3.2%, but Ontario and Alberta will both grow by at least 3% this year.
- The stronger growth profile should lead to an improvement in federal finances and we now expect a CAD 23.5 bn deficit this fiscal year, an improvement of CAD 1 bn over our previous forecast. Stronger growth should lead to an acceleration in inflation though there are as yet no signs of this, and inflation has tended to surprise on the downside. Nevertheless, the Bank of Canada must be forward looking: with the output gap nearly closed, and growth expected to more than double its estimate of potential output, the Bank will tighten policy further. We forecast 50 bps of tightening by the first quarter of next year. Additional interest rate increases may be required beyond that, but we are looking for signs that inflation will actually accelerate before calling for more rate increases.

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International	2000–15	2016	2017f	2018f	2000–15	2016	2017f	2018f
	Real GDP (annual % change)				Consumer Prices (y/y % change, year-end)			
World (based on purchasing power parity)	3.9	3.2	3.5	3.6				
Canada	2.2	1.5	2.9	1.9	1.9	1.4	1.5	2.0
United States	2.0	1.5	2.1	2.2	2.2	1.8	1.8	2.3
Mexico	2.4	2.3	2.1	2.5	4.5	3.4	6.1	4.3
United Kingdom	1.8	1.8	1.6	1.2	2.2	0.7	3.0	2.3
Euro zone	1.2	1.6	2.2	2.0	1.9	1.1	1.4	1.7
Germany	1.2	1.7	1.8	1.7	1.6	1.7	1.5	1.8
France	1.3	1.2	1.4	1.6	1.7	0.6	1.3	1.4
Russia	4.6	-0.2	1.2	1.4	11.4	5.4	5.5	5.0
China	9.8	6.7	6.7	6.3	2.4	2.1	2.0	2.5
India	7.0	7.6	7.1	7.6	7.2	3.4	4.1	5.1
Japan	0.9	1.0	1.2	0.8	0.0	0.3	0.6	1.1
South Korea	4.4	2.8	2.8	2.7	2.8	1.3	2.0	2.3
Indonesia	5.6	5.0	5.3	5.5	6.2	3.0	4.5	4.7
Australia	3.0	2.5	2.4	2.7	2.9	1.5	1.9	2.1
Thailand	4.2	3.2	3.2	3.2	2.7	1.1	0.3	1.5
Brazil	3.4	-3.6	0.3	2.5	6.5	6.3	4.0	4.5
Colombia	4.3	2.0	1.9	2.2	5.0	5.7	4.2	3.5
Peru	5.3	3.9	2.5	3.7	2.7	3.2	2.8	2.8
Chile	4.3	1.6	1.6	2.6	3.3	2.7	2.6	3.0
Commodities								
	(annual average)							
WTI Oil (USD/bbl)	64	43	51	53				
Brent Oil (USD/bbl)	67	45	53	56				
Nymex Natural Gas (USD/mmbtu)	5.09	2.55	3.10	2.95				
Copper (USD/lb)	2.36	2.21	2.55	2.75				
Zinc (USD/lb)	0.81	0.95	1.25	1.40				
Nickel (USD/lb)	7.45	4.36	4.40	5.00				
Aluminium (USD/lb)	0.87	0.73	0.85	0.85				
Iron Ore (USD/tonne)	68	58	65	60				
Metallurgical Coal (USD/tonne)	127	115	185	125				
Gold, London PM Fix (USD/oz)	845	1,251	1,225	1,250				

Central Bank Rates	2016		2017				2018			
	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas	(% , end of period)									
Bank of Canada	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.25	1.25
US Federal Reserve (upper bound)	0.50	0.75	1.00	1.25	1.25	1.50	1.50	1.75	1.75	2.00
Bank of Mexico	4.75	5.75	6.50	7.00	7.00	7.25	7.50	7.50	7.50	7.50
Central Bank of Brazil	14.25	13.75	12.25	10.25	9.75	9.25	9.00	9.00	9.00	9.00
Bank of the Republic of Colombia	7.75	7.50	7.00	5.75	5.50	5.25	5.25	5.25	5.25	5.25
Central Reserve Bank of Peru	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50	3.50
Central Bank of Chile	3.50	3.50	3.00	2.50	2.50	2.50	2.50	2.75	3.00	3.25
Europe										
European Central Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of England	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50
Swiss National Bank	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
Asia/Oceania										
Reserve Bank of Australia	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75
Bank of Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
People's Bank of China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Reserve Bank of India	6.50	6.25	6.25	6.25	6.00	6.00	6.00	6.00	6.00	6.00
Bank of Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.75
Bank Indonesia	5.00	4.75	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.25
Bank of Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75	2.00
Currencies and Interest Rates										
Americas	(end of period)									
Canadian Dollar (USDCAD)	1.31	1.34	1.33	1.30	1.30	1.28	1.28	1.27	1.25	1.25
Canadian Dollar (CADUSD)	0.76	0.74	0.75	0.77	0.77	0.78	0.78	0.79	0.80	0.80
Mexican Peso (USDMXN)	19.39	20.73	18.72	18.12	18.46	19.32	19.52	19.37	19.44	19.70
Brazilian Real (USDBRL)	3.26	3.26	3.12	3.31	3.35	3.45	3.55	3.60	3.60	3.40
Colombian Peso (USDCOP)	2,882	3,002	2,874	3,046	3,015	3,005	3,100	3,100	3,050	3,000
Peruvian Nuevo Sol (USDPEN)	3.38	3.36	3.25	3.25	3.27	3.25	3.23	3.22	3.20	3.20
Chilean Peso (USDCLP)	657	670	660	664	649	655	654	652	650	648
Europe										
Euro (EURUSD)	1.12	1.05	1.07	1.14	1.12	1.13	1.15	1.18	1.20	1.20
U.K. Pound (GBPUSD)	1.30	1.23	1.26	1.30	1.28	1.28	1.28	1.28	1.31	1.31
Swiss Franc (USDCHF)	0.97	1.02	1.00	0.96	0.98	0.97	0.97	0.95	0.93	0.93
Swedish Krona (USDSEK)	8.58	9.10	8.97	8.43	8.80	8.70	8.60	8.50	8.40	8.30
Norwegian Krone (USDNOK)	7.98	8.64	8.60	8.35	8.00	8.00	7.80	7.60	7.40	7.20
Russian Ruble (USDRUB)	62.9	61.5	56.2	58.9	58.0	58.3	58.7	59.0	59.2	59.3
Asia/Oceania										
Japanese Yen (USDJPY)	101	117	111	112	110	110	112	112	115	115
Australian Dollar (AUDUSD)	0.77	0.72	0.76	0.77	0.75	0.75	0.77	0.77	0.78	0.78
Chinese Yuan (USDCNY)	6.67	6.95	6.89	6.78	6.75	6.80	6.75	6.75	6.70	6.70
Indian Rupee (USDINR)	66.6	67.9	64.9	64.6	64.5	65.0	64.5	64.5	64.0	64.0
South Korean Won (USDKRW)	1,101	1,208	1,118	1,144	1,140	1,160	1,140	1,140	1,120	1,120
Indonesian Rupiah (USDIDR)	13,042	13,473	13,326	13,328	13,350	13,400	13,350	13,350	13,300	13,300
Thai Baht (USDTHB)	34.6	35.8	34.4	34.0	33.4	33.6	33.4	33.4	33.2	33.2
Canada (Yields, %)										
3-month T-bill	0.53	0.46	0.55	0.71	0.90	1.10	1.30	1.30	1.25	1.25
2-year Canada	0.52	0.75	0.75	1.10	1.20	1.30	1.35	1.40	1.45	1.50
5-year Canada	0.62	1.11	1.12	1.39	1.50	1.65	1.75	1.85	1.90	2.00
10-year Canada	1.00	1.72	1.63	1.76	1.85	2.00	2.10	2.25	2.40	2.50
30-year Canada	1.66	2.31	2.30	2.15	2.20	2.40	2.50	2.60	2.70	2.80
United States (Yields, %)										
3-month T-bill	0.27	0.50	0.75	1.01	1.05	1.30	1.30	1.55	1.70	1.90
2-year Treasury	0.76	1.19	1.25	1.38	1.50	1.65	1.75	1.85	1.95	2.10
5-year Treasury	1.15	1.93	1.92	1.89	1.95	2.10	2.25	2.40	2.55	2.60
10-year Treasury	1.59	2.44	2.39	2.30	2.35	2.50	2.70	2.90	2.95	3.00
30-year Treasury	2.31	3.07	3.01	2.83	2.90	3.15	3.35	3.40	3.45	3.50

The Provinces

(annual % change, except where noted)

	CA	NL	PE	NS	NB	QC	ON	MB	SK	AB	BC
Real GDP											
2000–15	2.2	2.5	1.8	1.4	1.2	1.7	2.0	2.4	2.1	3.1	2.7
2016p*	1.5	1.9	2.4	0.9	1.4	1.7	2.6	2.4	-1.0	-3.8	3.7
2017f	2.9	-1.8	1.4	1.4	1.1	2.6	3.1	2.4	1.9	3.1	3.2
2018f	1.9	-0.3	1.3	1.2	0.9	1.8	2.2	1.9	1.7	2.1	2.2
Nominal GDP											
2000–15	4.4	5.7	4.3	3.3	3.3	3.6	3.8	4.5	6.0	6.5	4.5
2016e	2.1	-0.1	3.7	2.4	2.5	3.0	4.2	3.7	-3.5	-6.0	5.4
2017f	5.4	2.5	3.2	3.3	3.0	4.7	5.4	4.4	5.1	7.1	5.5
2018f	3.9	2.8	2.9	2.8	2.4	3.4	4.0	3.6	4.1	4.9	4.0
Employment											
2000–15	1.4	1.0	1.2	0.7	0.5	1.3	1.3	1.0	1.3	2.5	1.2
2016	0.7	-1.5	-2.3	-0.4	-0.1	0.9	1.1	-0.4	-0.9	-1.6	3.2
2017f	1.6	-2.9	2.3	0.6	0.8	1.8	1.4	1.1	0.4	1.1	2.9
2018f	0.9	-1.1	0.3	0.3	0.2	0.9	1.1	0.7	0.6	0.9	1.2
Unemployment Rate (%)											
2000–15	7.1	14.3	11.2	8.9	9.6	8.1	7.2	5.1	4.9	4.9	6.6
2016	7.0	13.4	10.7	8.3	9.5	7.1	6.5	6.1	6.3	8.1	6.0
2017f	6.5	14.6	10.1	8.1	8.5	6.3	6.2	5.5	6.2	8.1	5.4
2018f	6.4	15.0	10.0	7.9	8.4	6.2	6.1	5.5	5.9	7.9	5.4
Housing Starts (units, 000s)											
2000–15	199	2.7	0.8	4.3	3.6	44	71	5.1	5.2	35	28
2016	198	1.4	0.6	3.8	1.8	39	75	5.3	4.8	25	42
2017f	206	1.1	0.8	4.0	1.7	42	80	7.2	4.6	27	38
2018f	190	1.1	0.6	3.8	1.7	38	75	5.7	4.5	26	34
Motor Vehicle Sales (units, 000s)											
2000–15	1,639	28	6	48	37	410	624	47	45	216	178
2016	1,949	33	9	54	44	458	807	55	51	220	218
2017f	2,000	31	8	54	42	456	822	59	59	245	224
2018f	1,980	29	7	54	41	450	812	58	60	248	221
Budget Balances, Fiscal Year Ending March 31 (CAD mn)											
2000–15**	-2,917	59	-39	-31	-146	-1,009	-5,215	-84	425	1,746	291
2016	-987	-2,207	-13	-13	-261	2,191	-3,514	-846	-675	-6,442	730
2017f	-22,000	-1,080	-18	150 †	-231	250	-1,524	-872	-1,354 †	-10,784 †	2,775 †
2018f	-23,500	-778	1	136	-192	0	0	-840	-685	-10,344	295

* Real GDP by industry at basic prices. ** MB:FY04-FY15; AB:FY05-FY15; SK:FY15-FY18f: ex. pension accrual adjustment. † Final FY17; other FY17 & FY18: Provinces' estimates.

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