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Highlights

- After a disappointing 2016, the global economy seems to have turned the corner. A resurgence in economic activity in the advanced world, led by the U.S., is being complemented by an apparent rebound in China which is lifting emerging markets. That said, major uncertainties threaten to derail global growth including increased trade protectionism, elevated debt levels and political instability in places such as Europe.

- A healthy handoff from last year coupled with upcoming fiscal stimulus puts the U.S. economy in a good position to achieve above-potential growth in 2017. While inflation is likely to hit the Fed's target for the first time in five years, price pressures should remain contained by unfavourable demographics, a strong dollar and tighter monetary policy by a Fed which is on track to raise interest rates at least twice this year. Any temptation by the Fed to be even more aggressive should be tempered by a likely moderation in the pace of job creation.

- Canada's energy sector is on the mend and its economy is bouncing back nicely as a result. Growth should pick up this year as exports respond to improving U.S. demand and the newly approved Comprehensive Economic and Trade Agreement with Europe. But there are significant downside risks, both domestic (e.g. housing) and foreign (e.g. protectionism) which should not be underestimated given their potential to derail growth. In that regard, the Bank of Canada's cautious tone, despite improving data, is understandable.

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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%	2.2%	2.2%	+0.1 pp	unch
Fed Fund Target Rate*	0.75%	1.25%	2.00%	unch	unch
Ten-year bond yield*	2.45%	3.01%	3.29%	-2 bp	-3 bp
Canada					
GDP	1.3%	1.9%	1.7%	unch	unch
CPI inflation	1.4%	1.8%	2.0%	unch	unch
Overnight rate*	0.50%	0.50%	1.25%	unch	unch
Ten-year bond yield*	1.72%	2.18%	2.65%	+4 bp	-15 bp

* end of period

World: Turning the corner

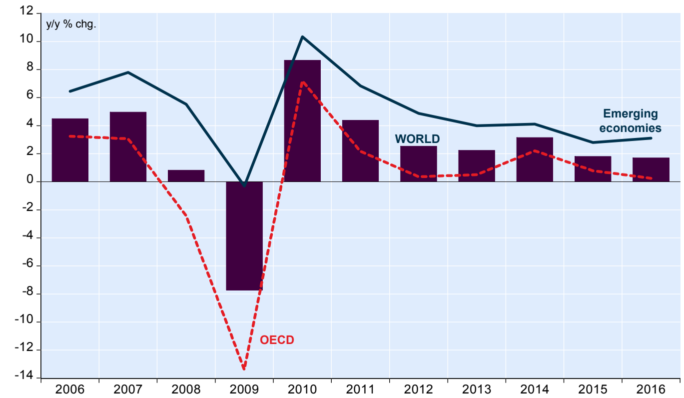
After a disappointing 2016, the global economy seems to have turned the corner. A resurgence in economic activity in the advanced world, led by the U.S., is being complemented by an apparent rebound in China which is lifting emerging markets. That said, major uncertainties threaten to derail global growth including increased trade protectionism, elevated debt levels and political instability in places such as Europe.

The world economy expanded just 3% last year, the worst performance since the 2009 global recession. That was due to a moderation in industrial output growth, particularly in the advanced world. The OECD disappointment came courtesy of the U.S. and Japan which both experienced declining industrial output, while the Eurozone's IP growth was also soft.

Despite poor industrial performance, Japan managed to grow 1% in 2016, i.e. above potential for an economy that continues to be restrained by a declining workforce. Fiscal stimulus helped somewhat, but so did the trade rebound which offset tepid domestic demand. The handoff to 2017 was not too bad either as output expanded 1% annualized in the final quarter last year. That was the fourth consecutive quarter of positive growth for Japan, the longest such streak in three years. Domestic demand was held back by tepid wage growth but trade showed resilience with exports growing faster than imports in Q4. Momentum seems to have extended to early 2017 based on Markit's purchasing managers indices which showed January factory activity improving at the fastest pace in three years. The services sector is also well in expansion mode with firms reportedly optimistic about hiring in January.

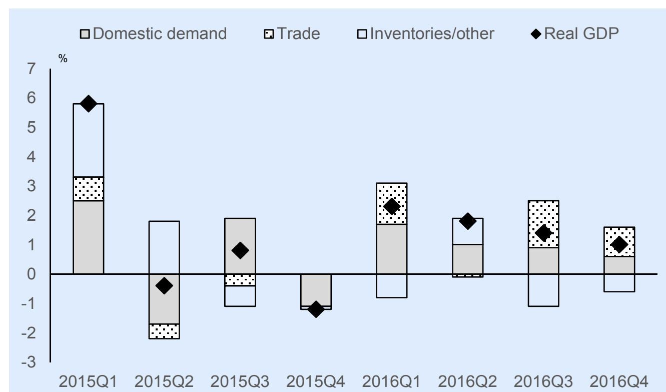
The Eurozone managed to grow 1.7% in 2016, a bit above potential thanks in part to the European Central Bank's aggressive stimulus which managed to rekindle credit growth. Government expenditures on housing and social services to address the migrant crisis also helped. Thanks to a 15th consecutive quarter of growth in Q4, the eurozone's output excluding Germany is finally back to pre-recession levels. And it seems the zone continued to grow in early 2017 based on Markit's PMI whose composite index in January was well in expansion mode. With strengthening business confidence, the rate of job creation was reportedly the best in nine years. That said, the Eurozone is not out of the woods just yet. The economic and political fallout from Brexit are far from complete. Eurosceptic political parties seem to be gaining momentum ahead of upcoming elections in several countries, benefiting from discontent about immigration and the persistence of weak economic activity. Should they prevail, protectionism would be reinforced, hurting trade and hence growth in the process. Old problems related to sovereign debt also seem to be resurfacing.

World: OECD's industrial output stagnated last year
Industrial production



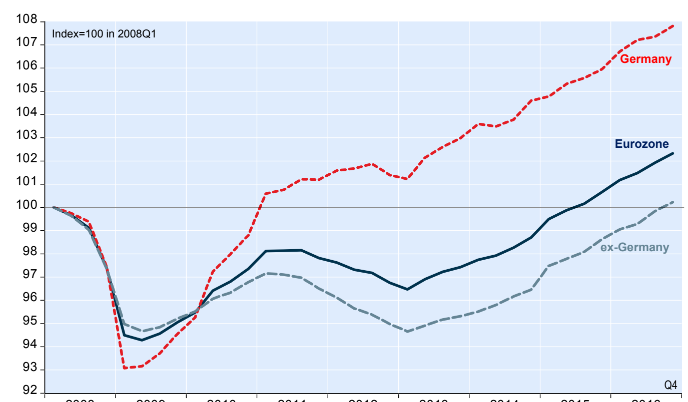
NBF Economics and Strategy (data via CPB)

Japan: Trade was a significant contributor to growth
Contributions to real GDP growth



NBF Economics and Strategy (data via Datastream)

Eurozone: Output excluding Germany finally above levels of 2008
Real GDP



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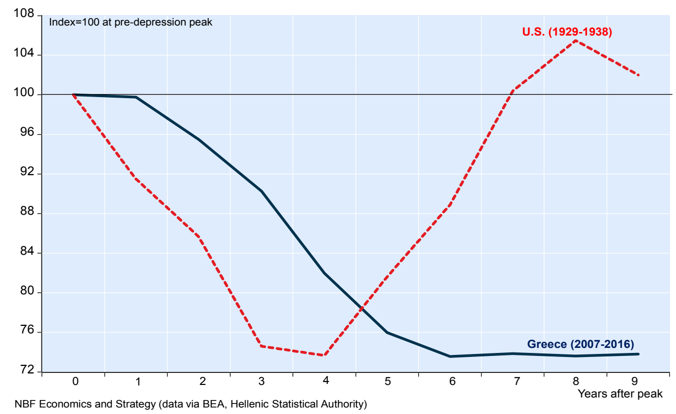
World Economic Outlook

	Forecast		
	2016	**2017**	**2018**
Advanced countries	***1.6***	***1.8***	***1.9***
United States	1.6	2.2	2.4
Euroland	1.7	1.6	1.6
Japan	1.0	0.8	0.5
UK	2.0	1.5	1.4
Canada	1.3	1.9	1.7
Australia	2.9	2.7	2.9
New Zealand	2.8	2.7	2.6
Hong Kong	1.4	1.9	2.8
Korea	2.7	3.0	3.1
Taiwan	1.0	1.7	1.9
Singapore	1.7	2.2	2.6
Emerging Asia	***6.3***	***6.1***	***6.0***
China	6.7	6.5	6.0
India	6.6	7.2	7.7
Indonesia	4.9	5.3	5.5
Malaysia	4.3	4.6	4.7
Philippines	6.4	6.7	6.8
Thailand	3.2	3.3	3.1
Latin America	***-0.6***	***1.3***	***2.1***
Mexico	2.2	1.7	2.0
Brazil	-3.5	0.2	1.5
Argentina	-1.8	2.7	2.8
Venezuela	-10.0	-4.5	-3.0
Colombia	2.2	2.7	3.8
Eastern Europe and CIS	***1.4***	***1.7***	***1.8***
Russia	-0.6	1.1	1.2
Czech Rep.	2.5	2.7	2.4
Poland	3.1	3.4	3.3
Turkey	3.3	3.0	3.2
Middle East and N. Africa	***3.3***	***2.8***	***3.3***
Sub-Saharan Africa	***1.6***	***3.0***	***3.8***
Advanced economies	***1.6***	***1.8***	***1.9***
Emerging economies	***4.1***	***4.3***	***4.5***
World	***3.0***	***3.3***	***3.4***

Source: NBF Economics and Strategy

World: The Great Depression
Real GDP in the U.S. and Greece

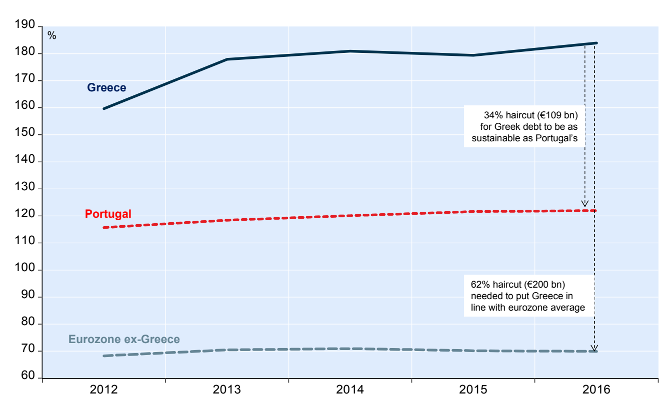


NBF Economics and Strategy (data via BEA, Hellenic Statistical Authority)

Indeed, Greece is currently in year 10 of an economic depression which has seen output slump more than 25%, making even the U.S. Great Depression look good in comparison. And with nominal GDP also plunging, Greek government debt now tops an unsustainable 180% of GDP. Besides an outright debt default ─ which would open the door for Greece to exit the Eurozone ─, creditors and the Greek government have two options to consider during negotiations. One is the usual charade that involves loan extensions this year in exchange for more austerity and policy reforms, i.e. a fourth bailout in eight years. The second option is a real solution but politically more difficult to achieve; debt relief of 34% or so to make debt in Greece as sustainable as say Portugal, the next worst offender within the eurozone in terms of government debt to GDP ratio. That would significantly reduce debt servicing costs and perhaps even allow Greece to regain access to financial markets, giving its economy better odds of coming out of the current depression.

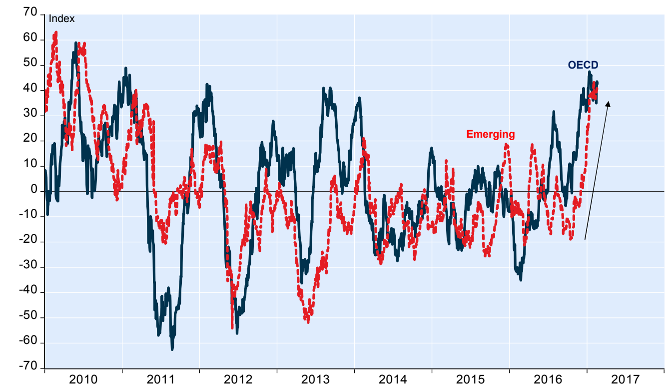
We'll know more in the coming months about which option negotiators intend to pick. For now the uncertainty brought by a potential default is putting stress on an already-battered Greek economy. There are indeed concerns a sovereign default will lead to the ECB withdrawing its lifeline

World: Greek "haircut" will have to be sizable for debt to be sustainable
Net debt as a % of GDP



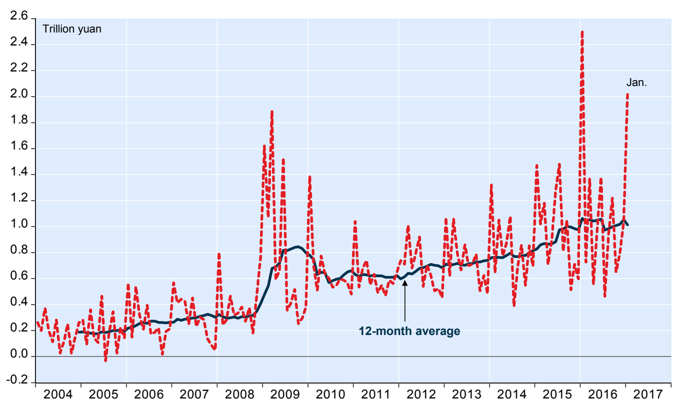
NBF Economics and Strategy (data via IMF, NBF calculations)

World: Both OECD and emerging economies are surprising on the upside
Economic surprise index



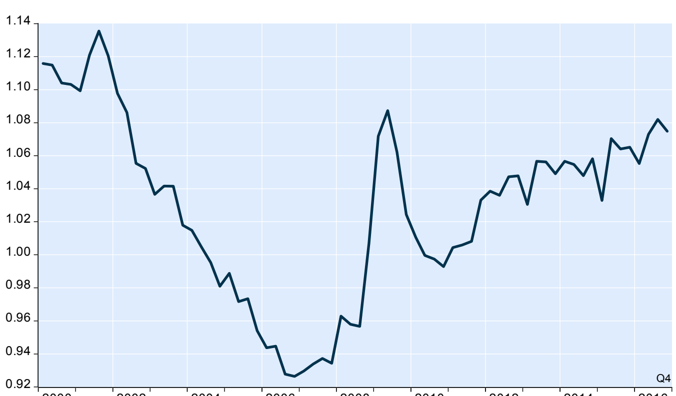
NBF Economics and Strategy (data via Datastream)

China: Credit growth remains solid
New yuan loans



NBF Economics and Strategy (data via Datastream)

World: Inventories high in emerging economies
Emerging market ratio of industrial prodution to exports



NBF Economics and Strategy (data via CPB)

to Greek banks which would in turn cause the latter to go bust. Local banks saw balances fall again in 2016, for the sixth time in the last seven years. All told, dire conditions in Greece shouldn't be taken lightly. As we've seen in recent years, while it's a relatively small economy (less than 2% of the eurozone's GDP), Greece can punch above its weight when it comes to contributing to global economic uncertainty.

Like the OECD, emerging markets also started off 2017 on the right foot with consensus-topping economic data. China is partly responsible for this. Exports surged nearly 8% year on year in January, while imports grew even faster, the latter highlighting resilience in domestic demand. China's conventional bank loans also continue to rise — January's increase was in fact the second largest ever — and that bodes well for economic activity in the first quarter.

Still, after growing a healthy 6.7% last year, China is set to decelerate this year as policy is geared towards promoting consumption (instead of investment) and tilting growth towards the less productive services sector. The moderation in economic growth could be even more drastic than planned if some of the downside risks to growth materialize, e.g. protectionist U.S. trade policies are implemented, a financial crisis in China triggered by defaults from highly-levered entities, or a further decline in foreign exchange reserves due to capital outflows force the People's Bank of China to tighten monetary policy prematurely.

Another risk for emerging economies is the relatively high levels of inventory. Emerging markets saw industrial output outpacing exports in 2016 by the largest margin in four years. Unless all of that extra output was absorbed by domestic demand (which is unlikely), the stagnation of exports means already-bloated inventories grew further. The ratio of industrial production to exports in Q4 was close to levels reached during the Great Recession of 2008-09. That could cap production and hence economic growth in emerging markets in the early parts of 2017.

All told, we continue to expect the global economy to expand 3.3% in 2017. That's an improvement from last year's dismal showing, but an unimpressive performance nonetheless considering continued assistance from monetary and fiscal stimulus. Despite China's deceleration, emerging markets as a whole could see better growth than last year helped in part by Latin America coming out of recession. Advanced economies could see a pick-up in growth as a stronger U.S. offsets Brexit-related moderation in Europe.

U.S.: Labour market surge

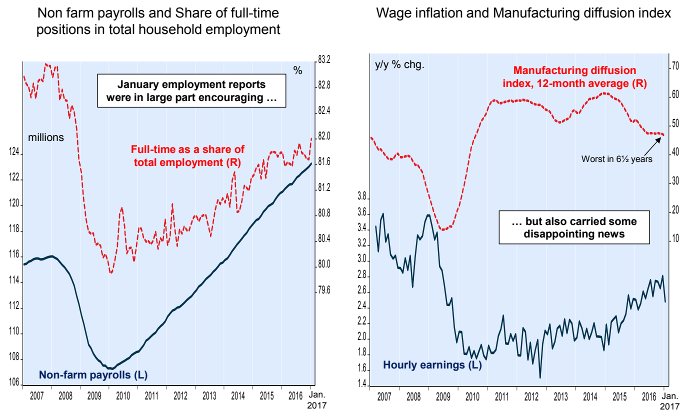
A healthy handoff from last year coupled with upcoming fiscal stimulus puts the U.S. economy in a good position to achieve above-potential growth in 2017. While inflation is likely to hit the Fed's target for the first time in five years, price pressures should remain contained by unfavourable demographics, a strong dollar and tighter monetary policy by the Fed which is on track to raise interest rates at least twice this year. Any temptation by the Fed to be even more aggressive should be tempered by a likely moderation in the pace of job creation.

The U.S. labour market started 2017 with a bang as non-farm payrolls surged 227K in January, the biggest increase in four months. Full-time employment was also up sharply, growing its share of total employment to 82%, the highest in over eight years. The increase in the unemployment rate to 4.8% is not necessarily bad news because it reflects the increase in labour force participation, possibly a result of increased confidence by previously discouraged unemployed Americans. But not all is rosy in the labour market. State and local governments cut payrolls for the fourth month in a row, while job creation in manufacturing was not broad-based, putting into question the sustainability of gains in that sector. Also, the annual wage inflation rate fell to 2.5% despite several states increasing the minimum wage during January.

Continued labour market resilience coupled with cheap credit should sustain consumption growth. Households are making the most of low interest rates and borrowing more as evidenced by latest data from the New York Fed which shows debt reaching $12.6 trillion at the end of last year, almost equalling the pre-recession peak. However, the composition of debt is quite different from 2008 and one could argue household debt is less risky now. After the sub-prime fiasco, lenders significantly tightened mortgage standards ─ last year 58% of mortgage originations went to borrowers with a credit score 760 or better, versus just 36% eight years ago ─ which explains the drop in the share of mortgages in total debt. Moreover, student loans, the major source of growth in household debt in the last eight years, are guaranteed by the federal government and hence represent minimal direct risks to banks. As for auto loans, it's true that a quarter of those are sub-prime and hence very risky. But sub-prime auto loans are unlikely to single-handedly trigger the next financial crisis because of their relatively small size (less than $300 billion at the end of last year) and the fact they are held mostly by non-bank entities.

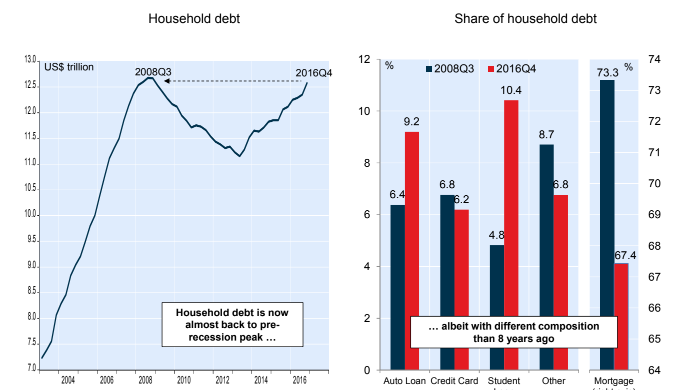
Part of the hiring spree in January was due to increased business confidence. That month saw the NFIB's index rise to its highest point since late 2004 as small businesses expressed optimism about the outlook for the economy and hence sales, and thought it was a good time to expand.

U.S.: Labour market starts 2017 with a bang



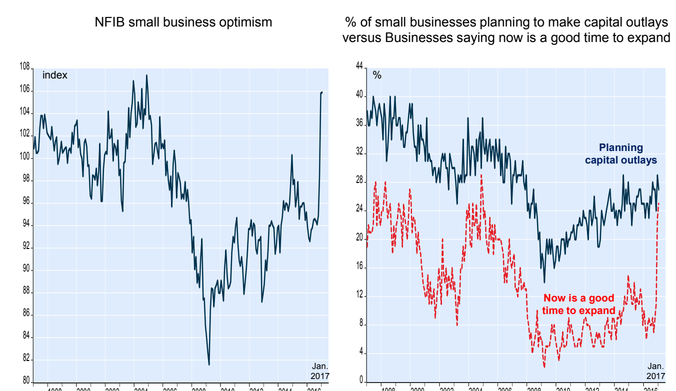
NBF Economics and Strategy (data via Datastream)

U.S.: Household debt back to pre-recession peak but with different composition



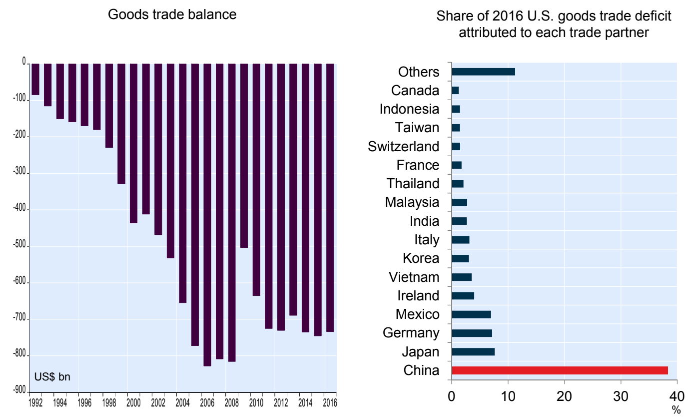
NBF Economics and Strategy (data via New York Fed)

Businesses more confident about outlook but remain apathetic on investing



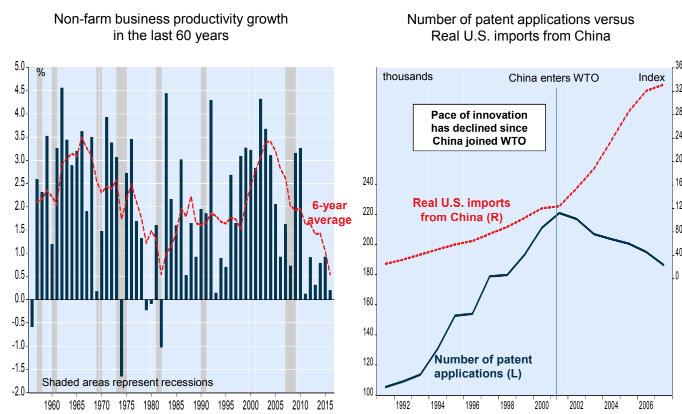
NBF Economics and Strategy (data via Datastream)

U.S.: Trade imbalance mostly with China



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

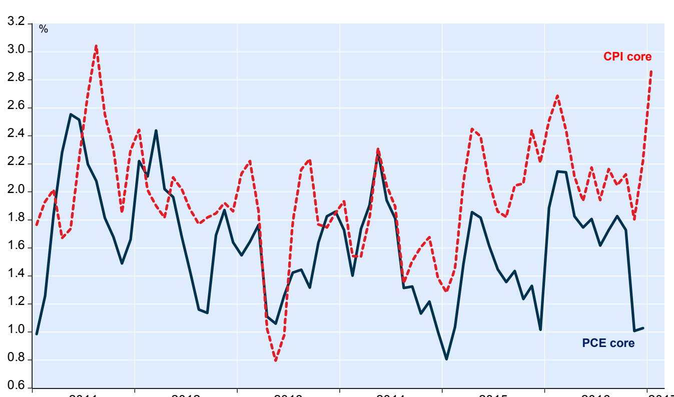
U.S.: Worst stretch since early 1980's for productivity



NBF Economics and Strategy (data via Datastream, NBER December 2016)

U.S.: Alternative facts about inflation

Core consumer price index versus Core PCE deflator, 3-month annualized change



NBF Economics and Strategy (data via Datastream)

Small businesses, not surprisingly, like the idea that the new President will deliver on his election promises to boost the economy via business tax cuts and deregulation. But interestingly, the index gauging planned capital investment has remained roughly unchanged since the elections, suggesting perhaps that small businesses are not entirely convinced the outlook will improve markedly from here.

Indeed, while fiscal expansion and deregulation are expected to boost growth, the new government's protectionist agenda brings new uncertainties. The Trump administration has voiced its displeasure about the large U.S. trade deficit, blaming the North American Free Trade Agreement. But trade data suggests China, and not NAFTA partners, account for the bulk of the U.S. trade deficit. So, hitting Canada and Mexico with tariffs and other trade barriers would arguably do little to shrink the U.S. trade deficit. More importantly, considering how integrated production has become in several sectors, trade barriers could potentially create large losses of efficiencies and jobs in all three economies.

Could protectionist U.S. policies defy economists' predictions and end up being a net positive for the U.S.? That could happen assuming they don't hurt global growth and trade partners do not retaliate, both of which are unlikely. Trade barriers could help U.S. corporations by limiting competition and hence boosting corporate profits. That could raise business investment in capital goods and R&D, helping reverse the declining trend in non-farm business productivity ─ annual average of just 0.5% since 2011, the worst ever six-year performance outside of a recession. A recent study by the National Bureau of Economic Research (Autor et al. 2016) found that innovation in the U.S. was negatively impacted by foreign competition. Apparently U.S. firms responded to shrinking profits by cutting into R&D expenditures. Perhaps, less competition could allow a reversal of that, again assuming no retaliatory measures from trade partners.

In light of uncertainties about policy from the new Washington, the Fed's wait and see approach should not be surprising. If the Trump administration delivers on its promise to provide fiscal stimulus, the Fed will have to upgrade its growth forecasts because last December's Summary of Economic Projections did not include all fiscal measures. But that may not necessarily translate into more aggressive monetary tightening than what is currently planned ─ three hikes this year according to the FOMC's last projections. While the core CPI has risen lately, the core PCE deflator (the Fed's preferred measure of inflation) was showing a 3-month annualized print of just 1% last December. The core PCE inflation will eventually rise and hit the Fed's target for the first time in five years, but it is likely to remain under control due to headwinds brought by unfavourable demographics and a strong dollar, negating the need for a more aggressive stance from the Fed.

Canada: Energy sector rebound

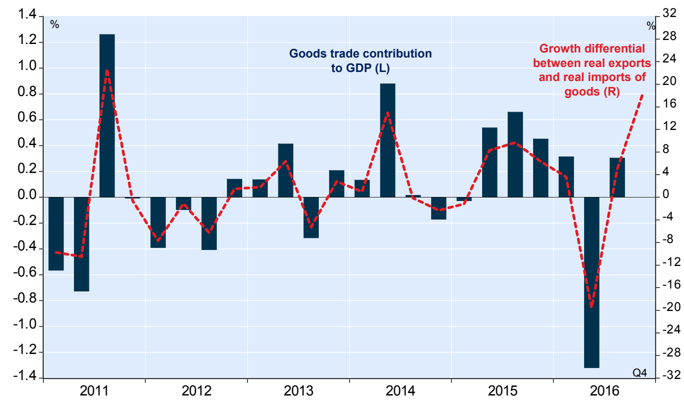
Canada's energy sector is on the mend and its economy is bouncing back nicely as a result. Growth should pick up this year as exports respond to improving U.S. demand and the newly approved Comprehensive Economic and Trade Agreement with Europe. But there are significant downside risks, both domestic (e.g. housing) and foreign (e.g. protectionism) which should not be underestimated given their potential to derail growth. In that regard, the Bank of Canada's cautious tone, despite improving data, is understandable.

Canada seems to have adjusted to the oil shock. After a strong Q3, the economy continued to expand at a decent clip in the final quarter of 2016. True, GDP for Q4 wasn't yet available at this writing, but our optimism is based on monthly data which point to a decent performance. Trade was a major contributor to growth in light of reported increases for real exports and declines for imports during the quarter. Consumer spending also seems to have remained strong based on retail results for Q4. Residential construction may also have contributed to growth given solid housing starts for single family homes reported by CMHC during the quarter. However, business investment spending likely remained soft if the decline in imports of industrial machinery is any guide. At the industry level, the resources sector seems to have continued its recovery based on solid exports of metal ores and energy in the fourth quarter. All in all, we expect a decent growth handoff to 2017.

Momentum from the energy sector seems to have extended to early 2017 according to Canadian rig counts which were up almost 70% in January compared to the same month last year. The stabilization of oil prices and the apparent desire of the new U.S. administration to facilitate oil imports from Canada (Trump's executive order in support of the Keystone XL pipeline) are giving a breath of fresh air to energy producers. The recovery in the energy sector is crucial for provinces such as Newfoundland & Labrador and Alberta.

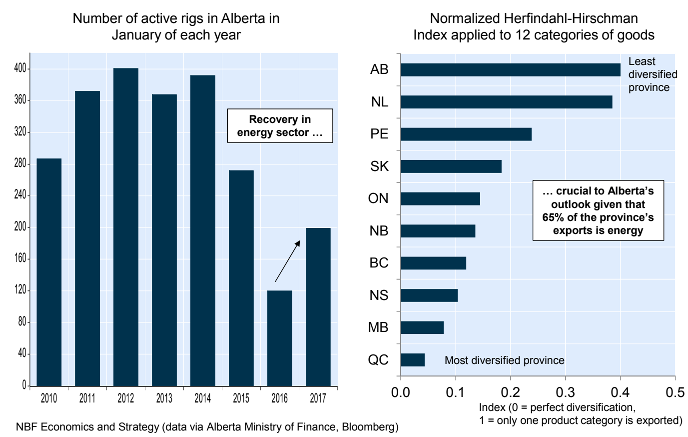
The energy rebound should be complemented by strength in manufacturing this year as exports respond to improving U.S. demand and the newly approved Comprehensive Economic and Trade Agreement with Europe. That, however, assumes changing U.S. trade policy does not materially hurt Canadian exporters. A worsening of Canada-U.S. trade relations would be devastating. While there has been some success in recent years to diversify our exports — the share of goods exports to the U.S. has fallen since 2002 — the large majority of Canada's goods still goes to the U.S. That share will drop further thanks to CETA and the Trans-Pacific Partnership, but over the near term Canada remains highly exposed to changes in U.S. trade policy.

Canada: Trade was a major contributor to GDP in Q4
Real exports and imports of goods versus Goods trade contribution to GDP



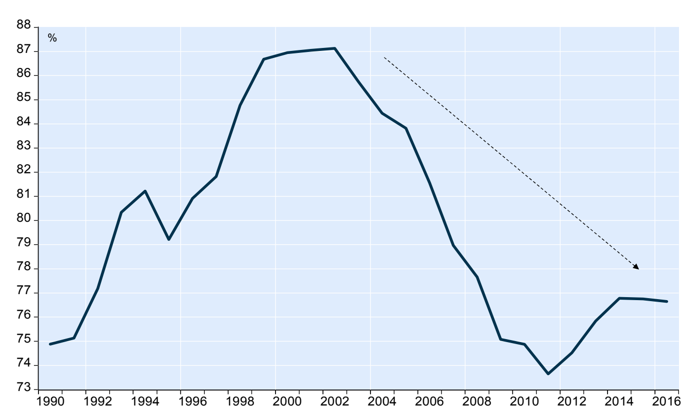
NBF Economics and Strategy (data via Statistics Canada)

Canada: Energy sector is recovering



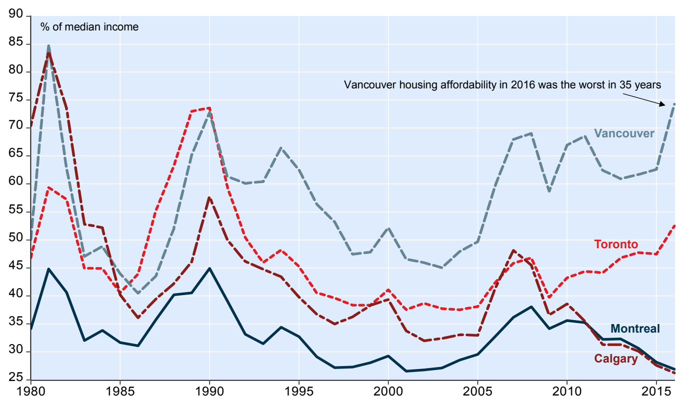
NBF Economics and Strategy (data via Alberta Ministry of Finance, Bloomberg)

Canada: Diversifying away from the U.S.
Share of goods exports to the U.S. in total goods exports



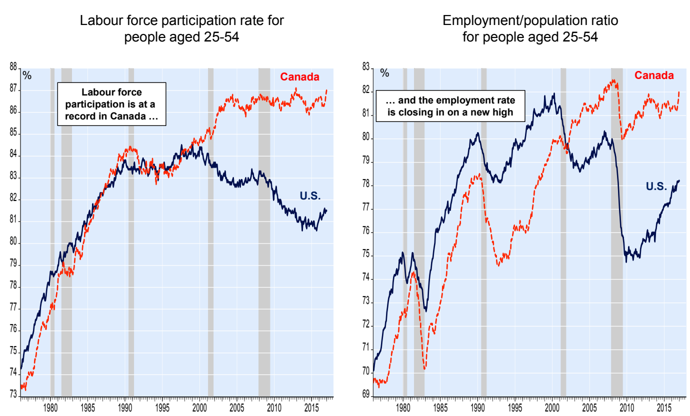
NBF Economics and Strategy (data via Industry Canada)

Canada: Housing affordability in four largest markets
Monthly mortgage payment on median home price (25-year amortization, 5-year term), annual average



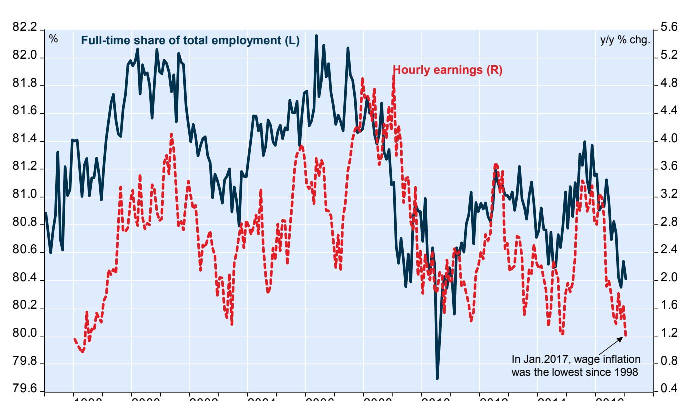
NBF Economics and Strategy (data via Statistics Canada, Teranet-National Bank, CREA)

Canada: Prime-aged workforce nearing full employment?



NBF Economics and Strategy (data via Statistics Canada and Datastream)

Canada: Wage inflation lowest since 1998
Full-time employment as a share of total employment versus Hourly earnings



NBF Economics and Strategy (Labour Force Survey data via Statistics Canada)

It's crucial that Canadian policymakers make sure trade flows continue unhampered. Reliance on exports has grown in light of slowing domestic demand and the latter's weak prospects over the coming years. There's indeed not much upside for consumption and housing after years of debt-fueled outperformance. Low interest rates have allowed Canadian households to load up on credit to finance spending and to bid up the real estate market. The Teranet-National Bank Composite House Price Index shows that resale home prices have doubled since mid-2005. Not surprisingly housing affordability, based on mortgage payments as a percentage of disposable income, has deteriorated sharply. 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 imposed last year. When that happens, the housing wealth effect which for years supported consumption spending, is set to fade.

That's not to say consumption spending will collapse. As long at the labour market continues to create jobs, consumers have something to lean on. And according to the Labour Force Survey, Canada's labour market is booming. Apparently, employment grew by 239,000 over the period August 2016-January 2017, the biggest six-month increase since 2002. Roughly 82% of those jobs were created in Central Canada (Ontario 45%, Quebec 37%), while BC (10.5%) and Alberta (7.5%) picked up the rest. Job creation for prime-aged workers, the most cyclical cohort of the labour market, has been particularly good. The participation rate for people aged 25-54 stood at a record high in Canada while the employment/population ratio was within striking distance of a new top, both measures contrasting sharply with the U.S. where there is still room for improvement.

So, is the Bank of Canada wrong about its diagnosis of "significant slack in the labour market"? The central bank can point to hours worked which is still showing a negative year-on-year print and weak wage growth. Hourly earnings sank in January to just 1.2% on a year-on-year basis, the lowest since July 1998, probably tied to the declining share of full-time positions in overall employment. But in light of the solid job gains recently, we are not so sure that the labour market slack is as significant as it once was.

Such performance from the labour market would normally rule out additional monetary stimulus. But those are not normal times. There are significant threats lurking, such as household imbalances, trade protectionism and the loss of export competitiveness. The federal government is addressing the first two issues through tighter mortgage standards and trade negotiations respectively. The Bank of Canada is taking care of the third one by keeping the Canadian dollar grounded through dovish messaging, something it can afford to do for now given the mild inflation picture.

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	1.9	2.1	2.5
Consumption	2.9	3.2	2.7	2.7	2.6	2.8	2.5	2.5
Residential construction	3.5	11.7	4.9	3.8	1.8	1.2	4.0	1.5
Business investment	6.0	2.1	(0.4)	1.6	1.8	0.3	1.5	2.1
Government expenditures	(0.9)	1.8	0.9	1.6	2.7	0.5	2.5	2.2
Exports	4.3	0.1	0.4	(0.6)	(0.3)	1.5	(1.5)	0.5
Imports	4.4	4.6	1.1	3.3	1.6	2.5	2.5	1.0
Change in inventories (bil. $)	57.7	84.0	21.8	47.5	45.5	48.7	46.7	44.7
Domestic demand	2.6	3.1	2.1	2.4	2.5	2.1	2.5	2.4
Real disposable income	3.5	3.5	2.7	1.9	1.7	2.3	1.8	1.7
Household employment	1.6	1.7	1.7	1.1	1.2	1.6	1.1	1.2
Unemployment rate	6.2	5.3	4.9	4.8	4.6	4.7	4.7	4.5
Inflation	1.6	0.1	1.3	2.2	2.2	1.8	1.8	2.5
Before-tax profits	5.9	(3.0)	0.1	6.8	4.6	10.0	4.9	4.5
Federal balance (unified budget, bil. $)	(483.3)	(439.0)	(588.0)	(594.0)	(620.0)	...	...	...
Current account (bil. $)	(392.1)	(463.0)	(477.3)	(481.8)	(521.8)	...	...	...

** or as noted*

Financial Forecast**

	Current 2-23-17	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2016	2017	2018
Fed Fund Target Rate	0.75	0.75	1.00	1.00	1.25	0.75	1.25	2.00
3 month Treasury bills	0.51	0.58	0.80	0.84	1.05	0.50	1.05	1.93
Treasury yield curve								
2-Year	1.18	1.29	1.43	1.64	1.87	1.20	1.87	2.51
5-Year	1.87	1.99	2.16	2.30	2.50	1.93	2.50	2.96
10-Year	2.38	2.61	2.72	2.81	3.01	2.45	3.01	3.29
30-Year	3.02	3.18	3.25	3.30	3.46	3.06	3.46	3.65
Exchange rates								
U.S.$/Euro	1.06	1.04	1.00	1.01	1.03	1.05	1.03	1.07
YEN/U.S.$	113	117	120	118	117	117	117	111

*** end of period*

Quarterly pattern

	Q1 2016 actual	Q2 2016 actual	Q3 2016 actual	Q4 2016 actual	Q1 2017 forecast	Q2 2017 forecast	Q3 2017 forecast	Q4 2017 forecast
Real GDP growth (q/q % chg. saar)	0.8	1.4	3.5	1.9	1.8	2.2	2.3	2.0
CPI (y/y % chg.)	1.1	1.1	1.1	1.8	2.5	2.2	2.2	1.8
Core CPI (y/y % chg.)	2.3	2.2	2.2	2.2	2.0	2.0	2.0	1.9
Unemployment rate (%)	4.9	4.9	4.9	4.7	4.8	4.8	4.7	4.7

National Bank Financial

Canada
Economic Forecast

(Annual % change)*	2014	2015	2016	2017	2018	Q4/Q4 2016	Q4/Q4 2017	Q4/Q4 2018
Gross domestic product (2007 $)	2.6	0.9	1.3	1.9	1.7	1.7	1.9	1.6
Consumption	2.8	1.9	2.2	1.6	1.3	2.3	1.1	1.3
Residential construction	2.7	3.8	2.6	(1.7)	(1.5)	1.6	(2.0)	(1.5)
Business investment	3.2	(11.5)	(7.2)	0.1	2.6	(3.5)	2.7	1.9
Government expenditures	0.0	1.9	1.8	2.8	0.8	2.2	2.7	0.5
Exports	5.8	3.4	1.0	3.0	4.3	1.0	4.1	3.7
Imports	2.2	0.3	(1.5)	(1.1)	2.2	(2.3)	2.5	1.7
Change in inventories (millions $)	9,392	3,861	-4,804	-12,799	-7,711	-16,516	-10,289	-5,959
Domestic demand	1.9	0.3	1.0	1.5	1.1	1.5	1.5	1.0
Real disposable income	1.3	3.3	2.8	2.6	1.7	2.8	1.9	1.7
Employment	0.6	0.9	0.7	0.9	0.7	1.0	0.6	0.7
Unemployment rate	6.9	6.9	7.0	6.9	6.8	6.9	6.8	6.7
Inflation	1.9	1.1	1.4	1.8	2.0	1.4	2.0	2.0
Before-tax profits	8.2	(19.5)	(4.8)	15.1	7.5	8.8	11.5	6.0
Current account (bil. $)	(48.2)	(67.6)	(72.0)	(63.4)	(52.2)	....	....	....

** or as noted*

Financial Forecast**

	Current 2-23-17	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2016	2017	2018
Overnight rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.25
3 month T-Bills	0.47	0.48	0.48	0.48	0.63	0.46	0.63	1.37
Treasury yield curve								
2-Year	0.77	0.83	0.84	0.90	1.03	0.75	1.03	1.98
5-Year	1.14	1.23	1.41	1.50	1.58	1.12	1.58	2.32
10-Year	1.67	1.88	2.04	2.11	2.18	1.72	2.18	2.65
30-Year	2.39	2.48	2.59	2.62	2.65	2.31	2.65	3.01
CAD per USD	1.31	1.35	1.40	1.39	1.37	1.34	1.37	1.33
Oil price (WTI), U.S.$	54	50	47	52	55	54	55	60

*** end of period*

Quarterly pattern

	Q1 2016 actual	Q2 2016 actual	Q3 2016 actual	Q4 2016 forecast	Q1 2017 forecast	Q2 2017 forecast	Q3 2017 forecast	Q4 2017 forecast
Real GDP growth (q/q % chg. saar)	2.7	(1.3)	3.5	1.8	2.0	2.4	1.4	1.9
CPI (y/y % chg.)	1.5	1.6	1.2	1.4	1.8	1.7	1.9	2.0
Unemployment rate (%)	7.2	6.9	7.0	6.9	7.0	7.0	6.9	6.8

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	1.0	-2.7	2.0	-1.3	-11.5	2.3	3.0	2.0
Prince Edward Island	1.5	1.3	1.3	1.2	1.4	3.5	3.9	3.4	3.3	3.9
Nova Scotia	0.8	1.0	1.1	1.2	1.4	1.7	2.4	2.2	2.7	3.3
New Brunswick	-0.1	2.3	0.5	0.8	0.9	1.0	2.9	2.7	2.6	2.8
Quebec	1.3	1.2	1.7	1.5	1.3	1.9	2.6	2.9	2.8	3.0
Ontario	2.7	2.5	2.6	2.3	2.1	4.7	4.9	4.4	3.9	4.1
Manitoba	1.5	2.2	1.5	2.1	1.5	2.5	3.1	1.5	2.8	3.6
Saskatchewan	2.4	-1.3	-0.5	1.8	1.2	1.3	-5.7	-5.3	2.8	2.4
Alberta	5.0	-3.6	-2.3	2.0	1.4	8.9	-12.5	-3.4	5.9	2.8
British Columbia	3.3	3.3	2.8	2.3	2.1	5.2	3.8	4.5	4.6	4.1
Canada	2.6	0.9	1.3	1.9	1.7	4.5	0.2	1.9	3.6	3.8
	Employment (% growth)					**Unemployment rate** (%)				
Newfoundland & Labrador	-1.9	-1.0	-1.4	-3.0	-3.9	12.0	12.8	13.5	15.4	17.6
Prince Edward Island	-0.4	-1.0	-2.3	0.3	0.3	10.5	10.4	10.8	11.0	10.8
Nova Scotia	-1.1	0.1	-0.4	0.1	0.0	8.9	8.6	8.4	7.7	7.6
New Brunswick	-0.2	-0.4	-0.1	0.4	0.4	9.9	9.8	9.6	9.6	9.3
Quebec	-0.1	1.0	0.9	1.4	0.5	7.8	7.6	7.1	6.4	6.4
Ontario	0.8	0.7	1.1	1.0	1.0	7.3	6.7	6.5	6.4	6.3
Manitoba	0.1	1.5	-0.5	1.1	0.8	5.4	5.6	6.1	6.0	6.1
Saskatchewan	1.0	0.6	-0.9	0.4	0.8	3.8	5.0	6.3	6.5	6.4
Alberta	2.2	1.2	-1.6	0.2	0.6	4.7	6.0	8.1	8.6	8.5
British Columbia	0.6	1.3	3.1	1.0	0.9	6.1	6.2	6.0	6.1	6.0
Canada	0.6	0.9	0.7	0.9	0.7	6.9	6.9	7.0	6.9	6.8
	Housing starts (000)					**Consumer Price Index (% growth)**				
Newfoundland & Labrador	2.1	1.7	1.4	1.4	1.3	1.9	0.4	2.7	2.5	2.0
Prince Edward Island	0.5	0.6	0.6	0.5	0.4	1.6	-0.6	1.2	1.6	2.0
Nova Scotia	3.1	3.8	3.8	3.3	3.1	1.7	0.4	1.2	1.3	1.9
New Brunswick	2.3	2.0	1.8	1.7	1.6	1.5	0.5	2.2	2.3	2.0
Quebec	38.8	37.9	38.9	35.0	35.0	1.4	1.1	0.7	1.4	1.9
Ontario	59.1	70.2	75.0	67.5	60.0	2.2	1.1	1.8	1.8	1.9
Manitoba	6.2	5.5	5.3	5.8	5.3	1.8	1.2	1.3	1.7	2.2
Saskatchewan	8.3	5.1	4.8	5.1	5.0	2.4	1.6	1.1	1.4	2.1
Alberta	40.6	37.3	24.5	24.2	23.7	2.6	1.2	1.1	1.9	2.2
British Columbia	28.4	31.4	41.8	35.0	30.0	1.0	1.1	1.9	1.9	2.0
Canada	189.3	195.5	197.9	179.5	165.4	1.9	1.1	1.5	1.8	2.0

e: estimate f: forecast

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

MONTHLY ECONOMIC MONITOR

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