

***Canada's economy on track for a solid 2018  
although policy uncertainty lingers***

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# Canada is facing a challenging environment

## Canada: News-based Policy Uncertainty Index

12-month moving average, Mean=100 prior to 2011

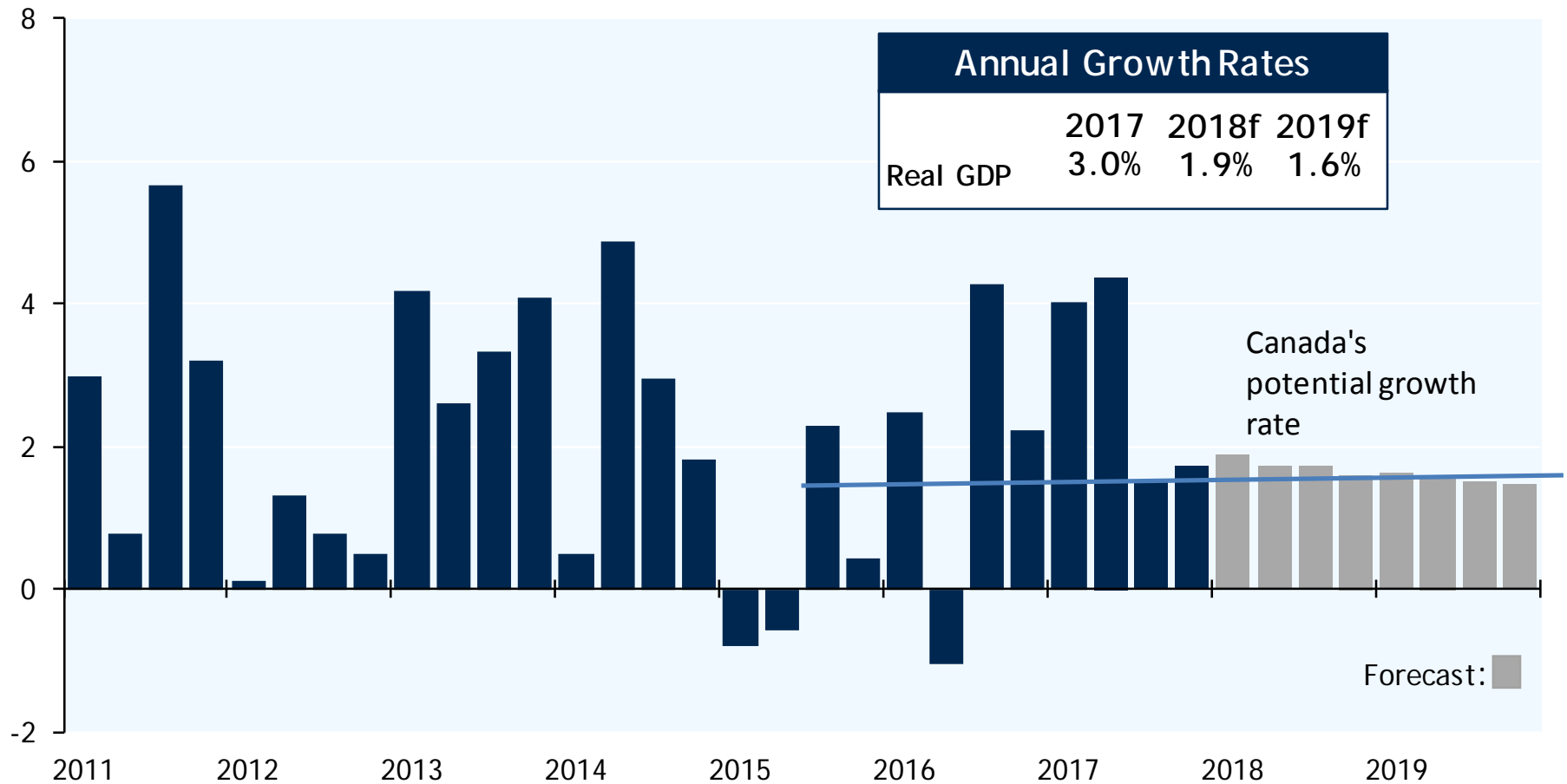


Source: PolicyUncertainty.com, RBC Economics Research

# But economy is healthy and solid growth is expected this year

## Canada's real GDP

Quarter-over-quarter % change, annualized rate

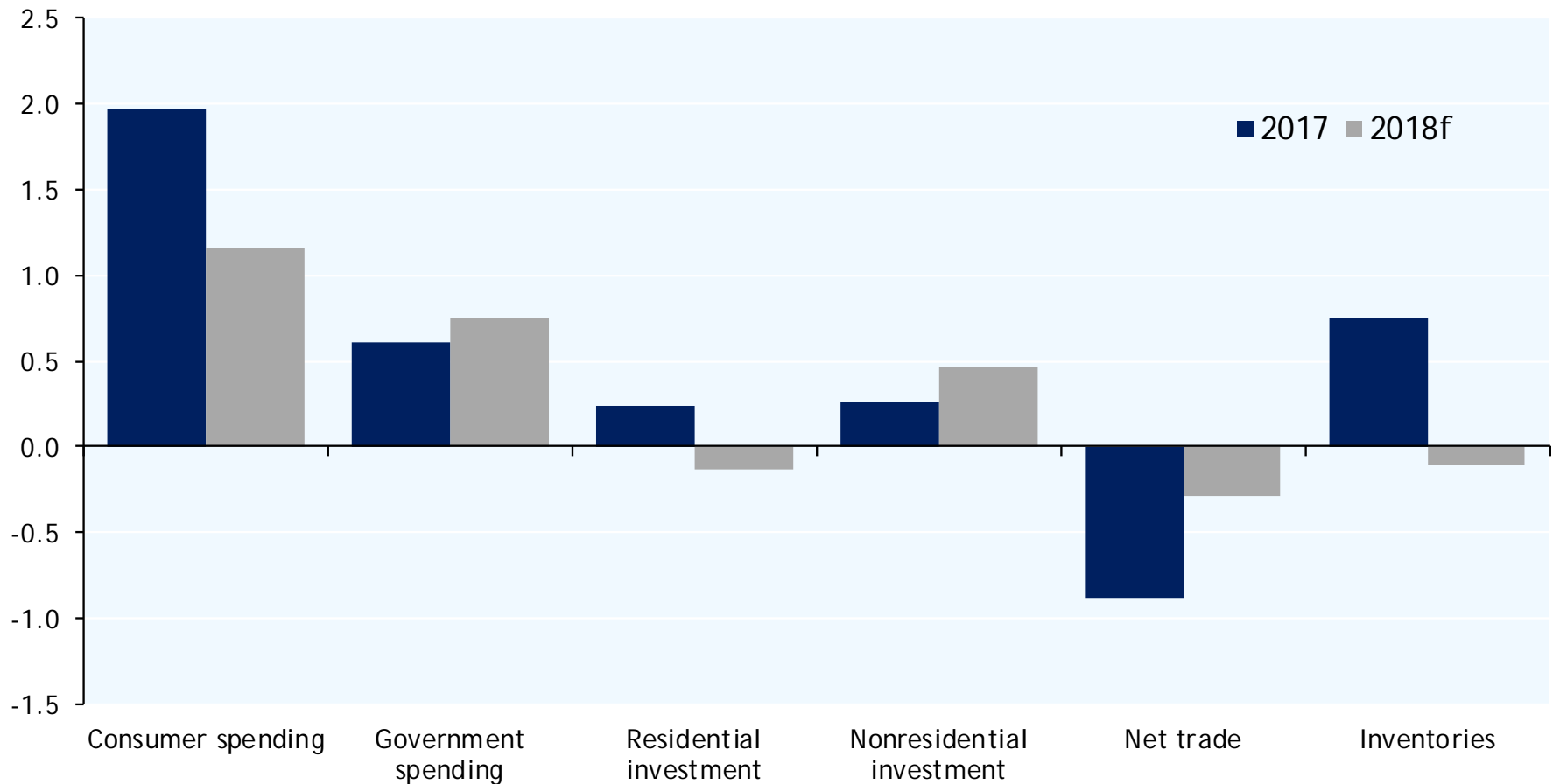


Source: Statistics Canada, RBC Economic Research Forecasts

# As consumers step back, government and investment to ramp up

## Contributions to Canadian GDP growth

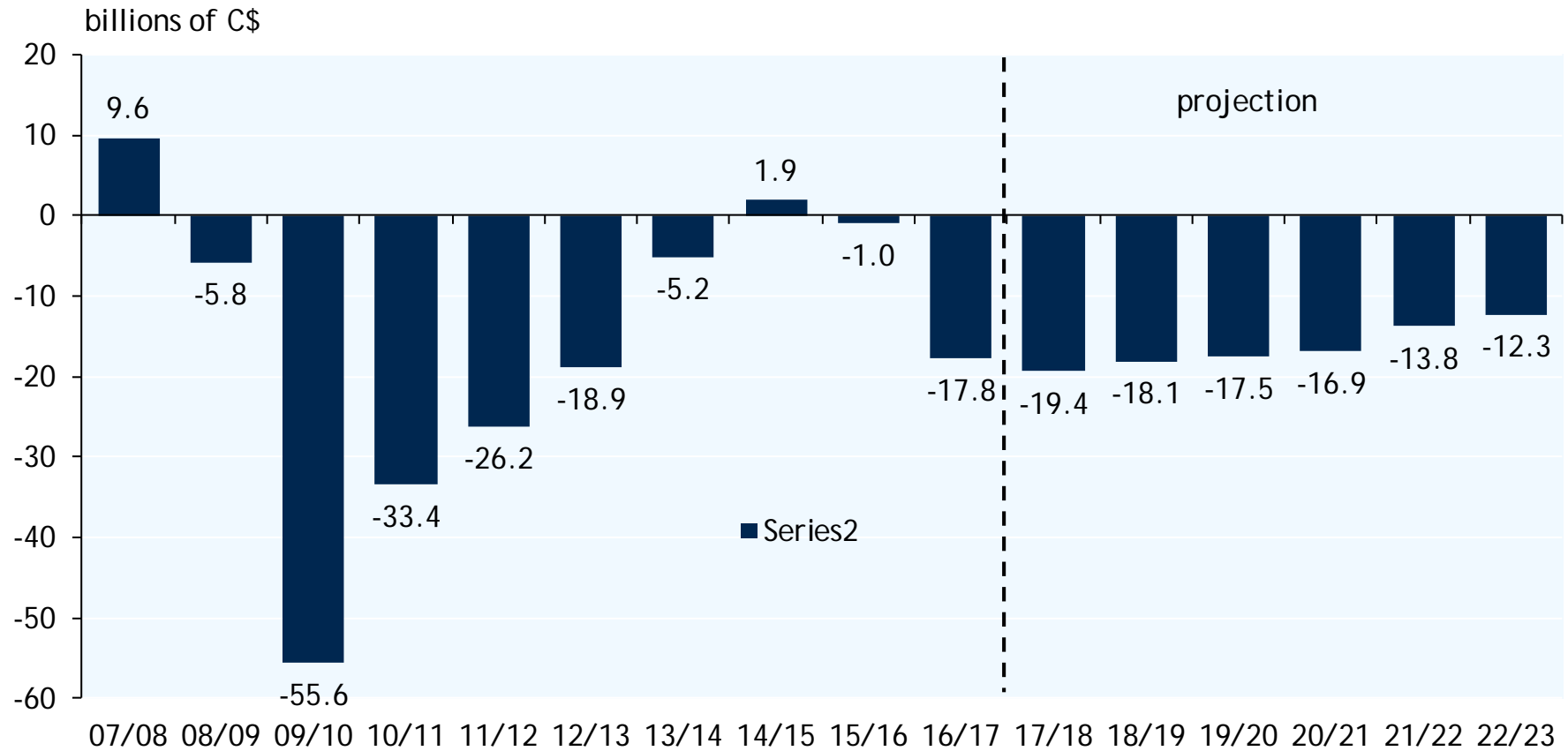
percentage point contribution



Source: Statistics Canada, RBC Economic Research

# Government committed to stimulus, not worried about deficits

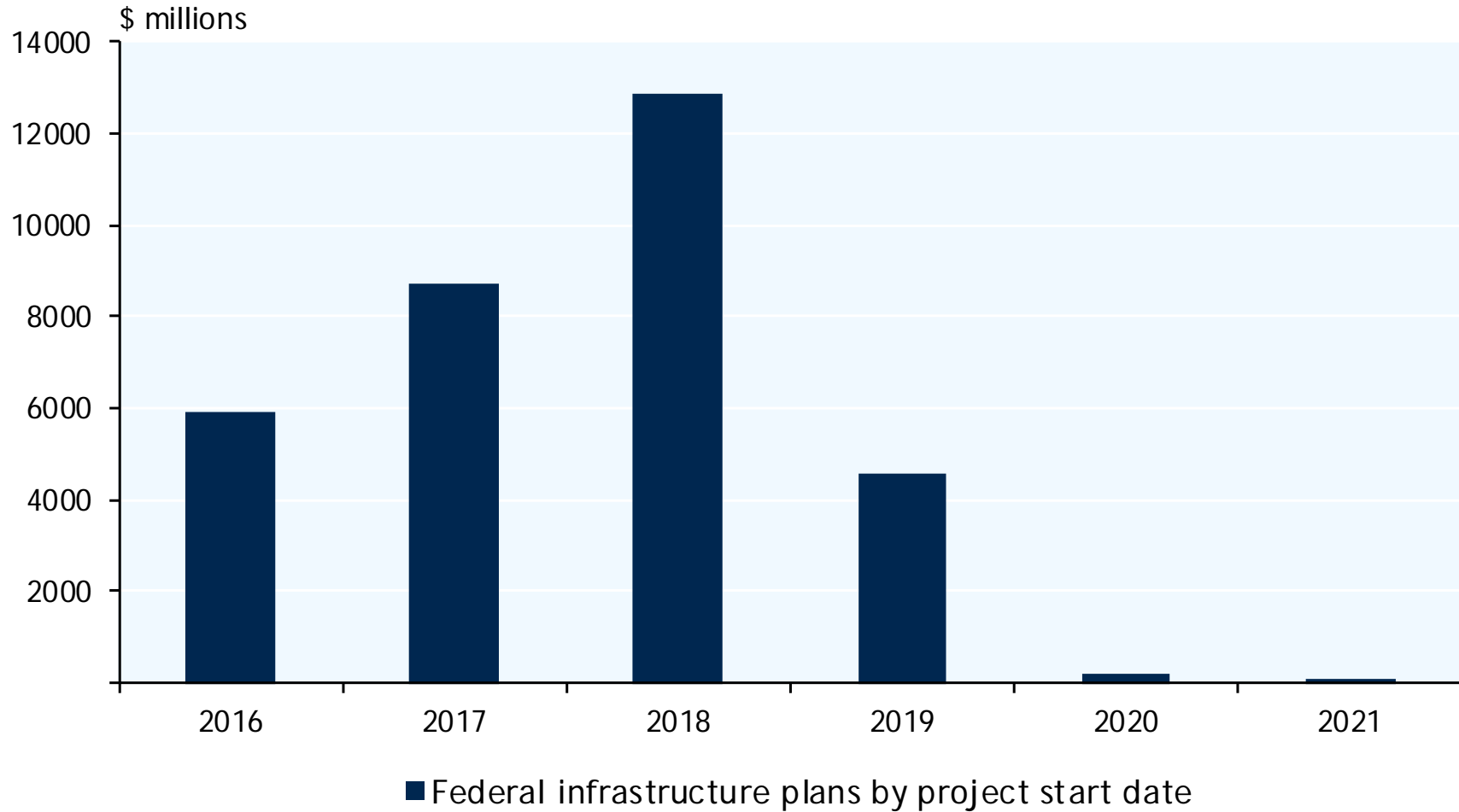
## Federal government budget balance



Source: Department of Finance, RBC Economics Research

## A larger bump in spending on tap for this year

### Canada Federal Infrastructure Spending

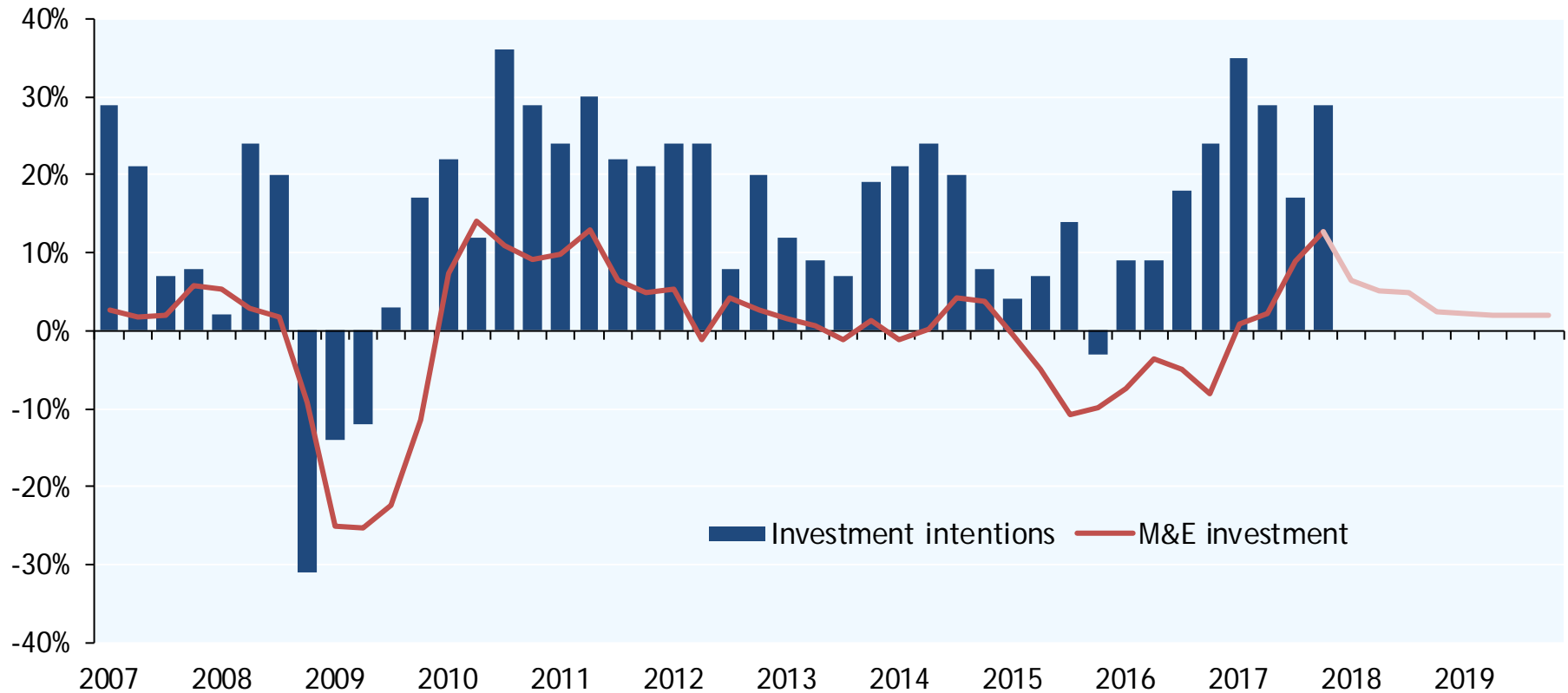


Source: Infrastructure Canada, RBC Economics Research

# Businesses remained focused on strong demand; not trade threats...

## Business investment spending and intentions

year-over-year % change in investment, balance of opinion on investment



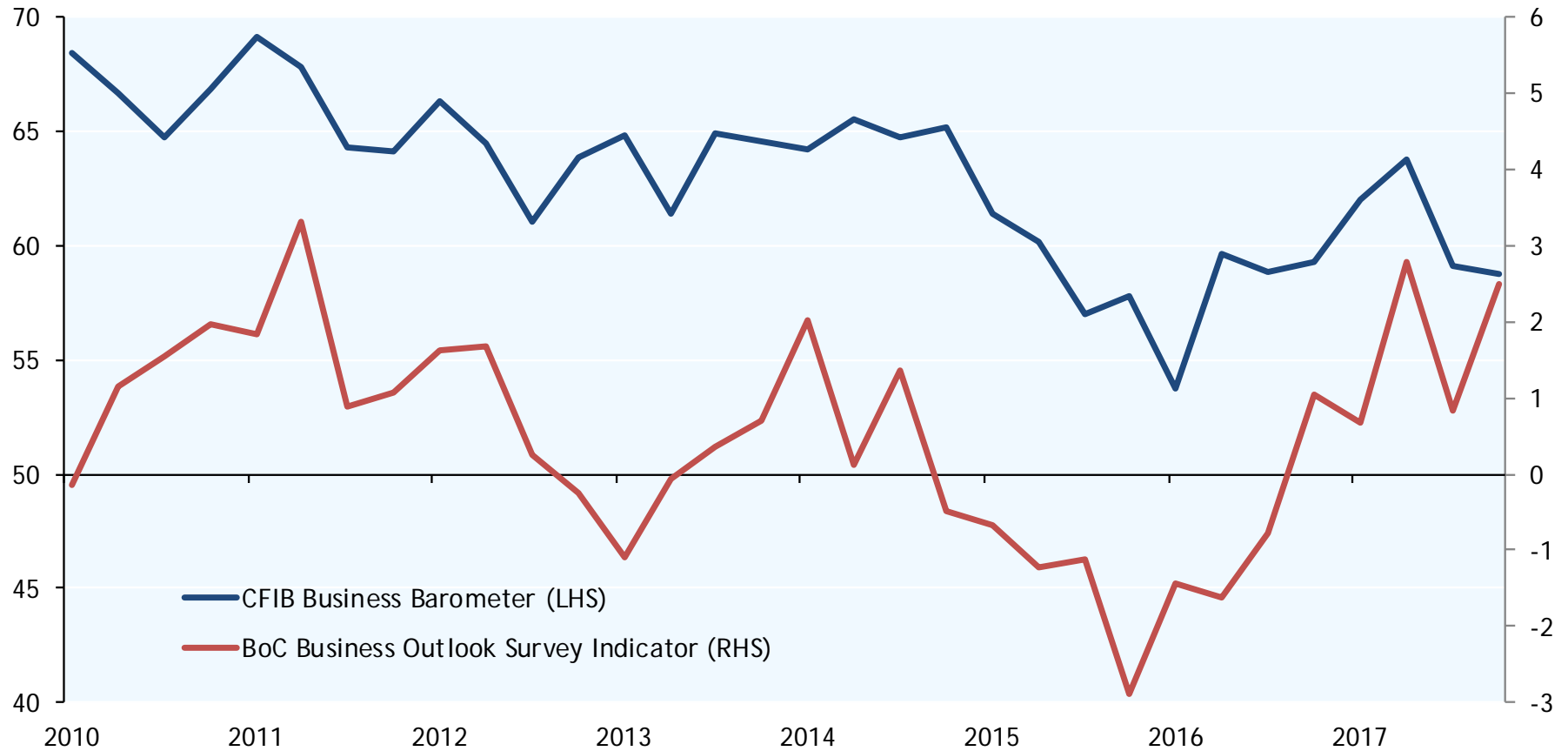
Source: Bank of Canada, Statistics Canada, RBC Economic Research

## ...so Canadian companies are upbeat

### Business confidence indicators

business barometer >50=stronger next year, BOS indicator index level

BOS indicator index level



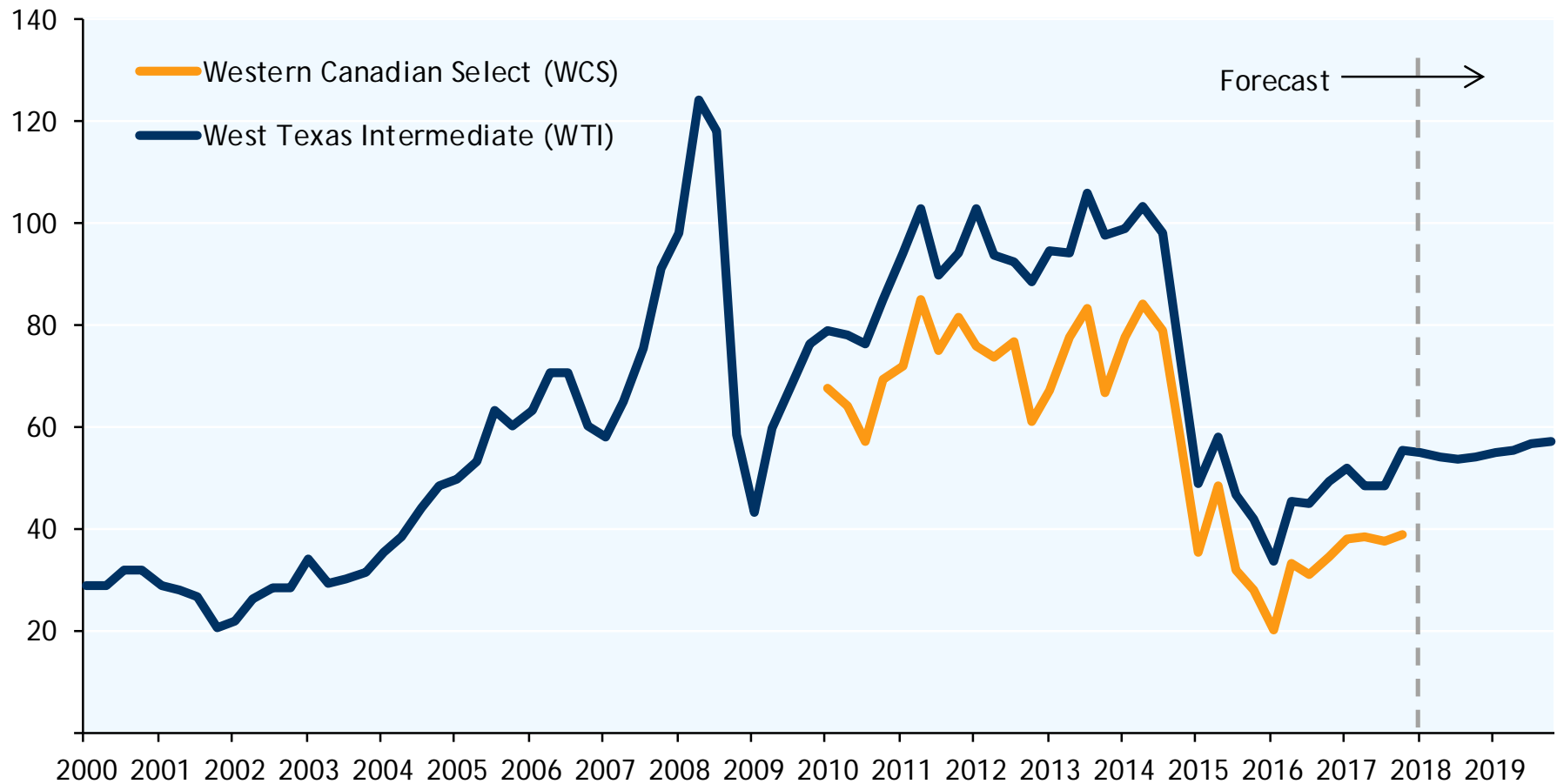
Source: Bank of Canada, Canadian Federation of Independent Businesses, RBC Economics Research



# Oil prices: WCS lags WTI uptick leaving producers with smaller margins

## Oil prices: WTI and WCS

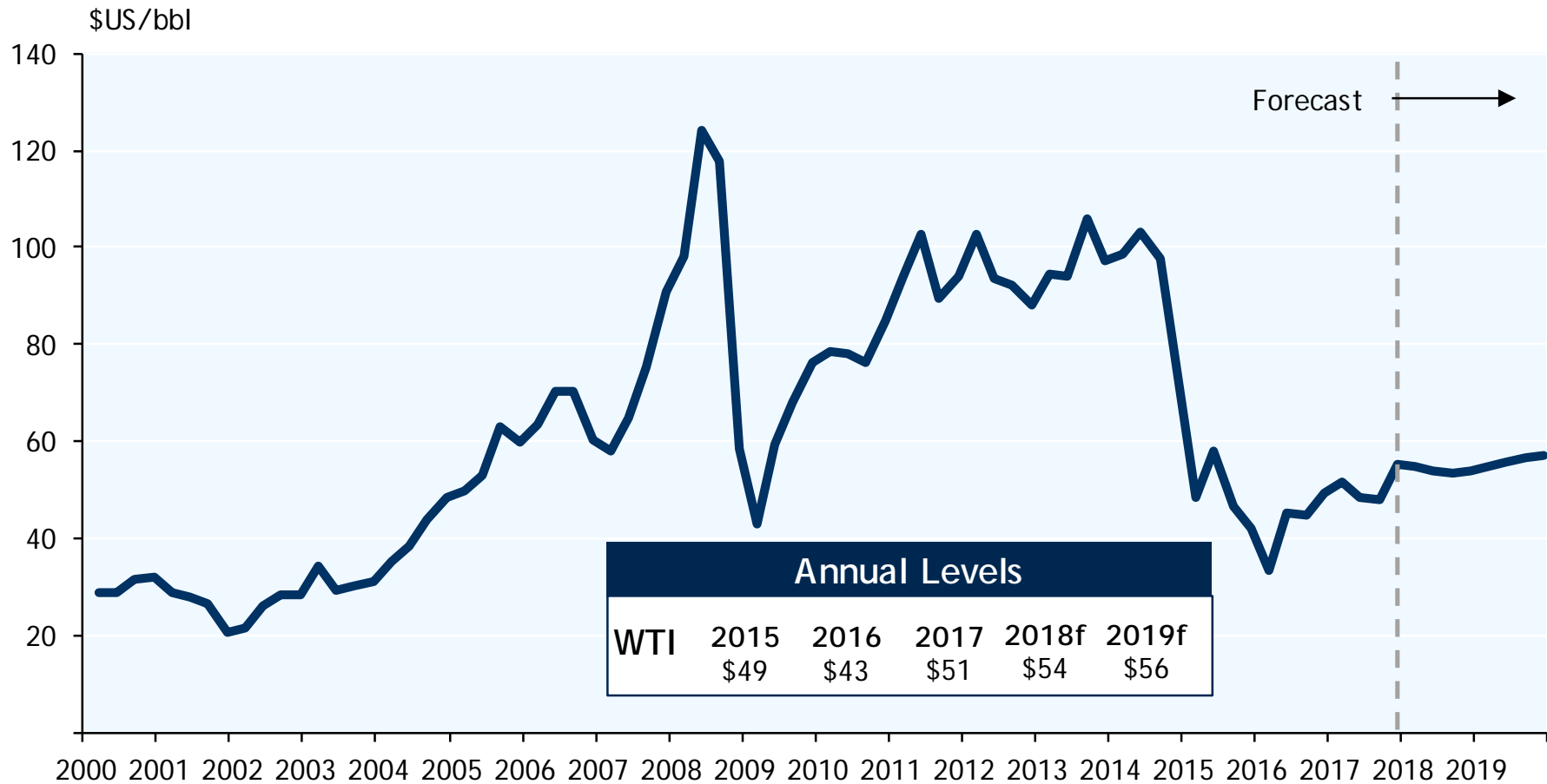
\$US/bbl



Source: Bloomberg, Wall Street Journal, RBC Economics Research

# Oil prices to trade between \$50 and \$60 in 2018

## West Texas Intermediate (WTI)

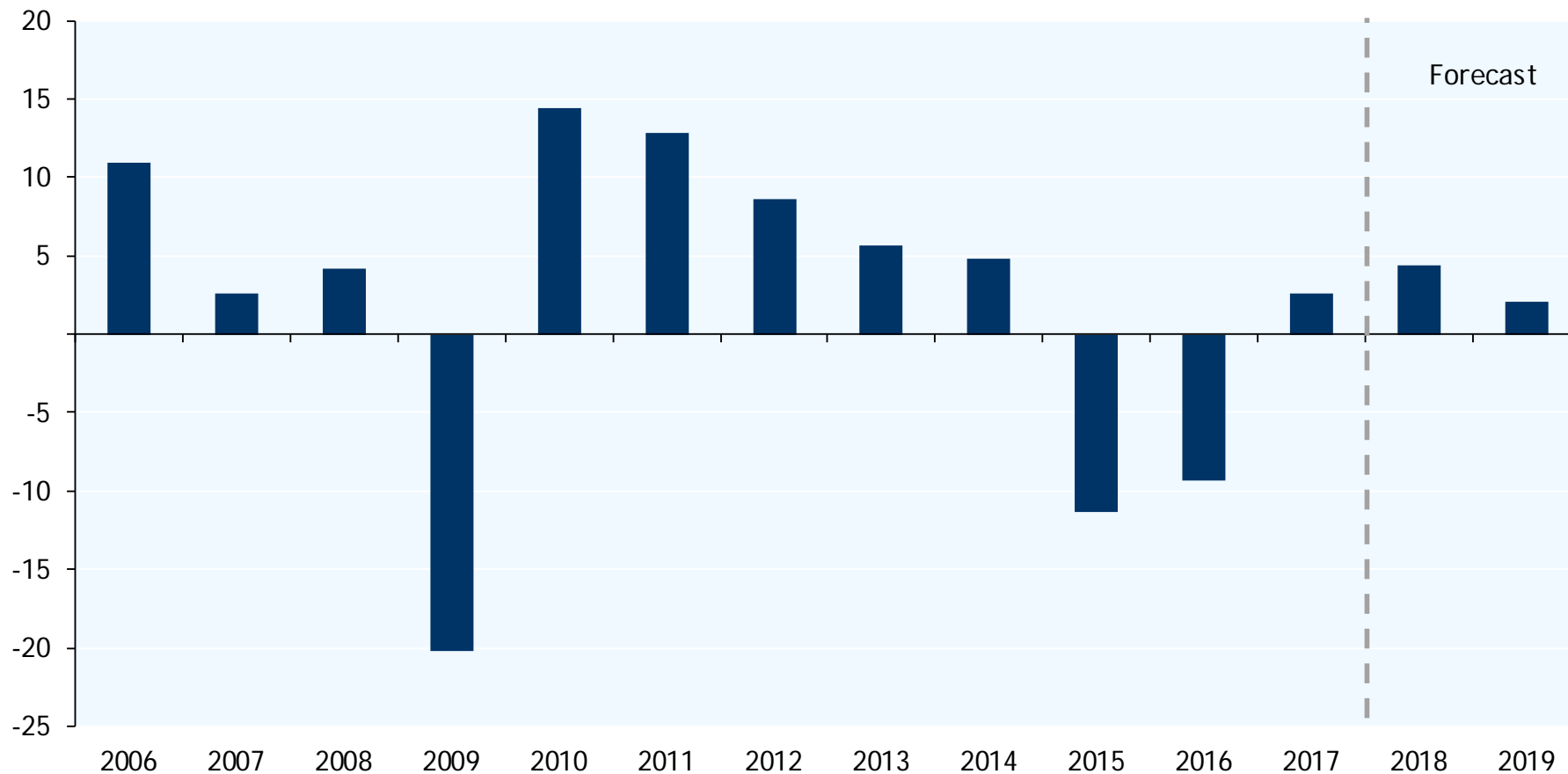


Source: Energy Information Administration/Wall Street Journal, RBC Economics Research

# Business investing to boost capacity

## Real business fixed investment

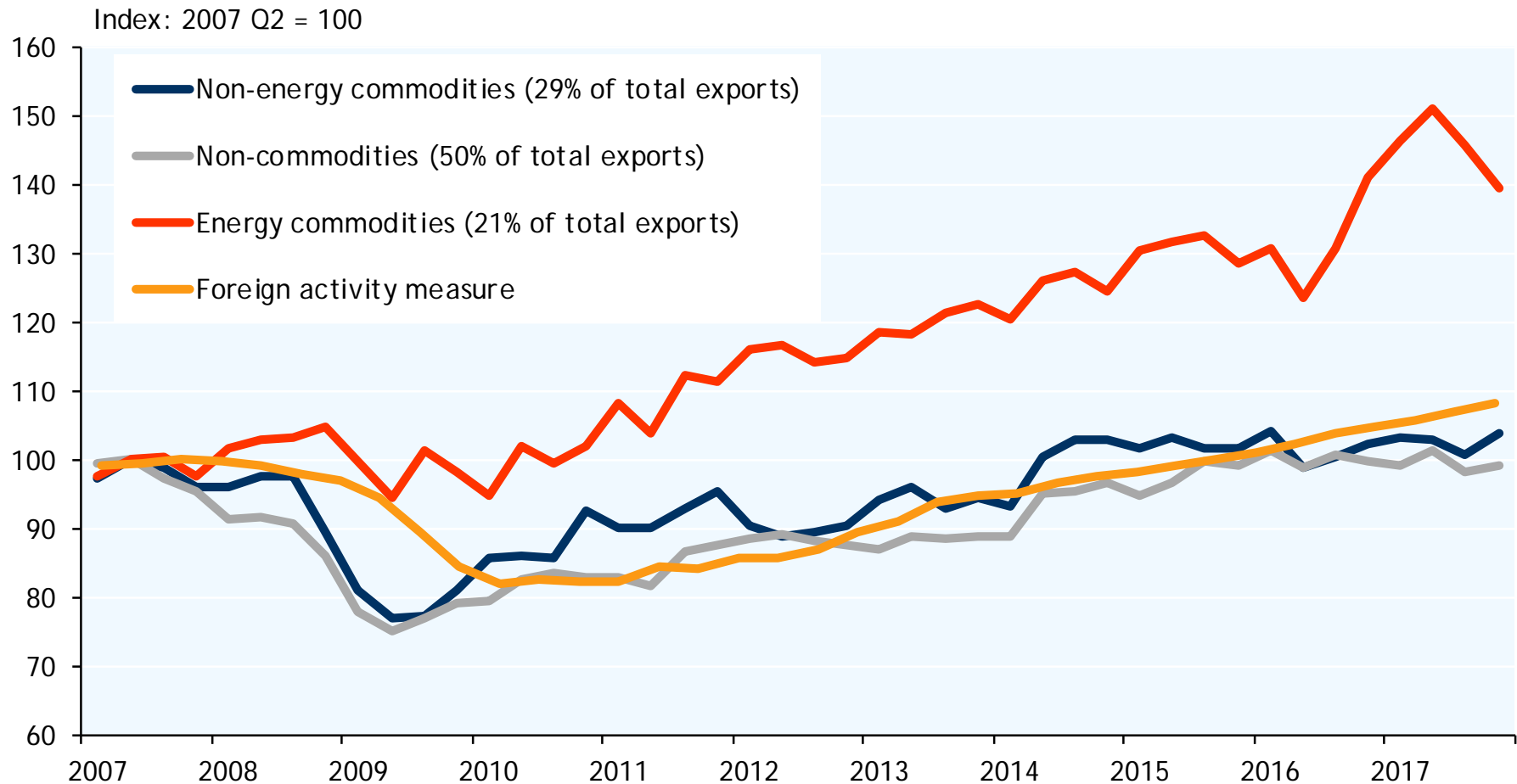
Year-over-year % change



Source: Statistics Canada, RBC Economic Research

# Export gain led by energy; non-energy performance disappointing

## Canadian exports by sector

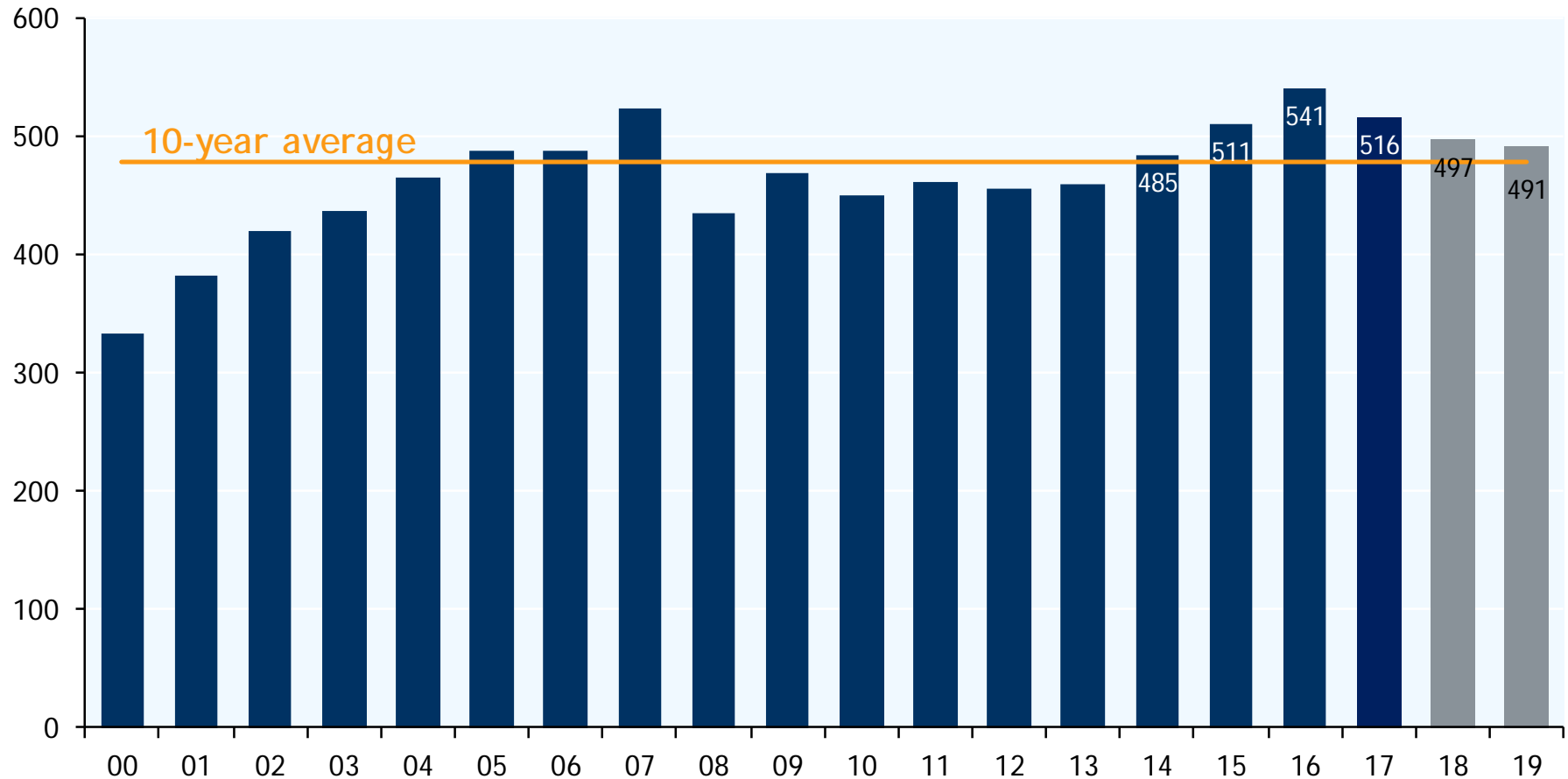


Source: Statistics Canada, Bank of Canada, RBC Economics Research

# Home sales activity on slower trajectory

## Home resales: Canada

Thousands of units



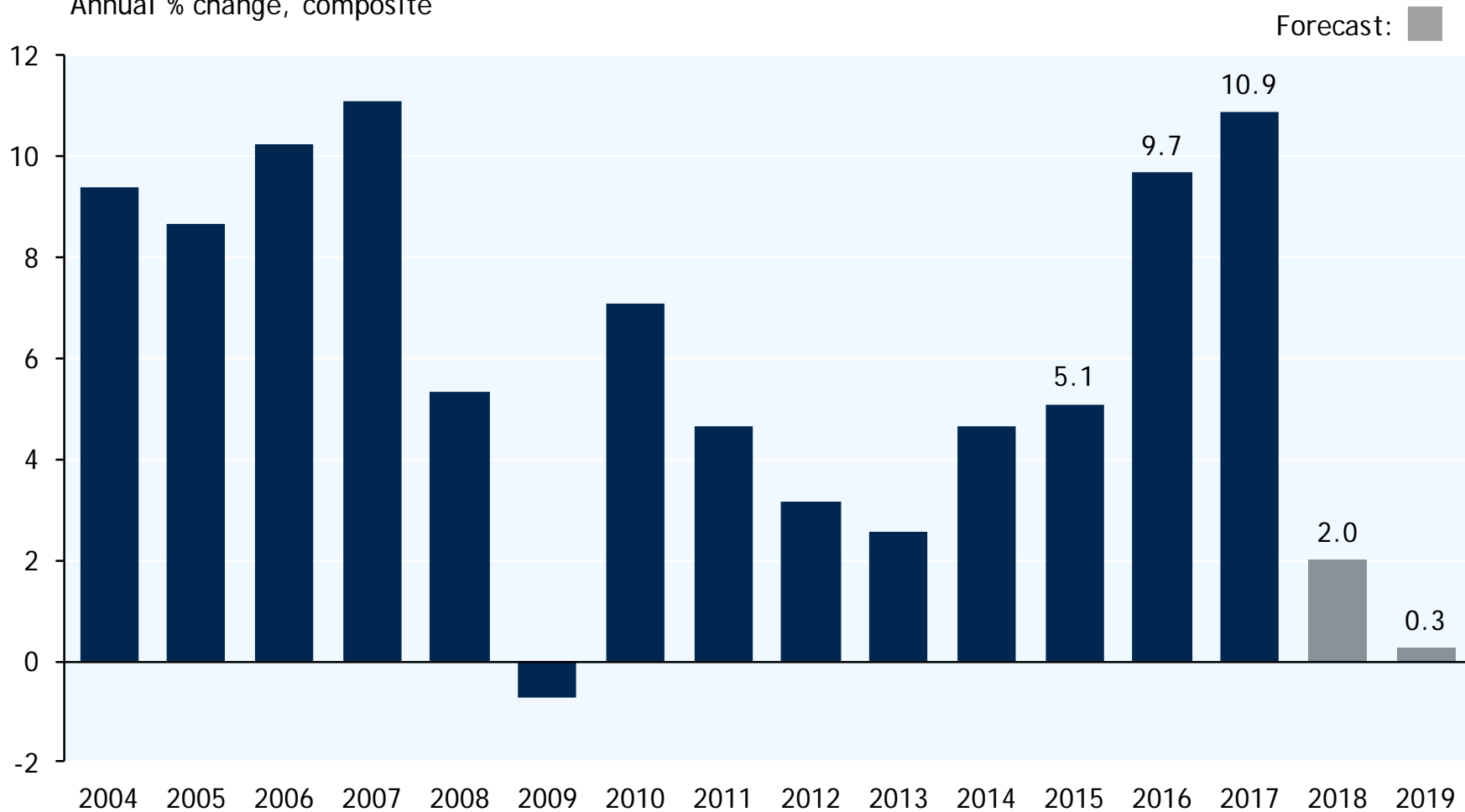
Source: Canadian Real Estate Association, RBC Economics Research

Forecast: ■

# Period of rapid price appreciation coming to an end

## Home prices in Canada

Annual % change, composite

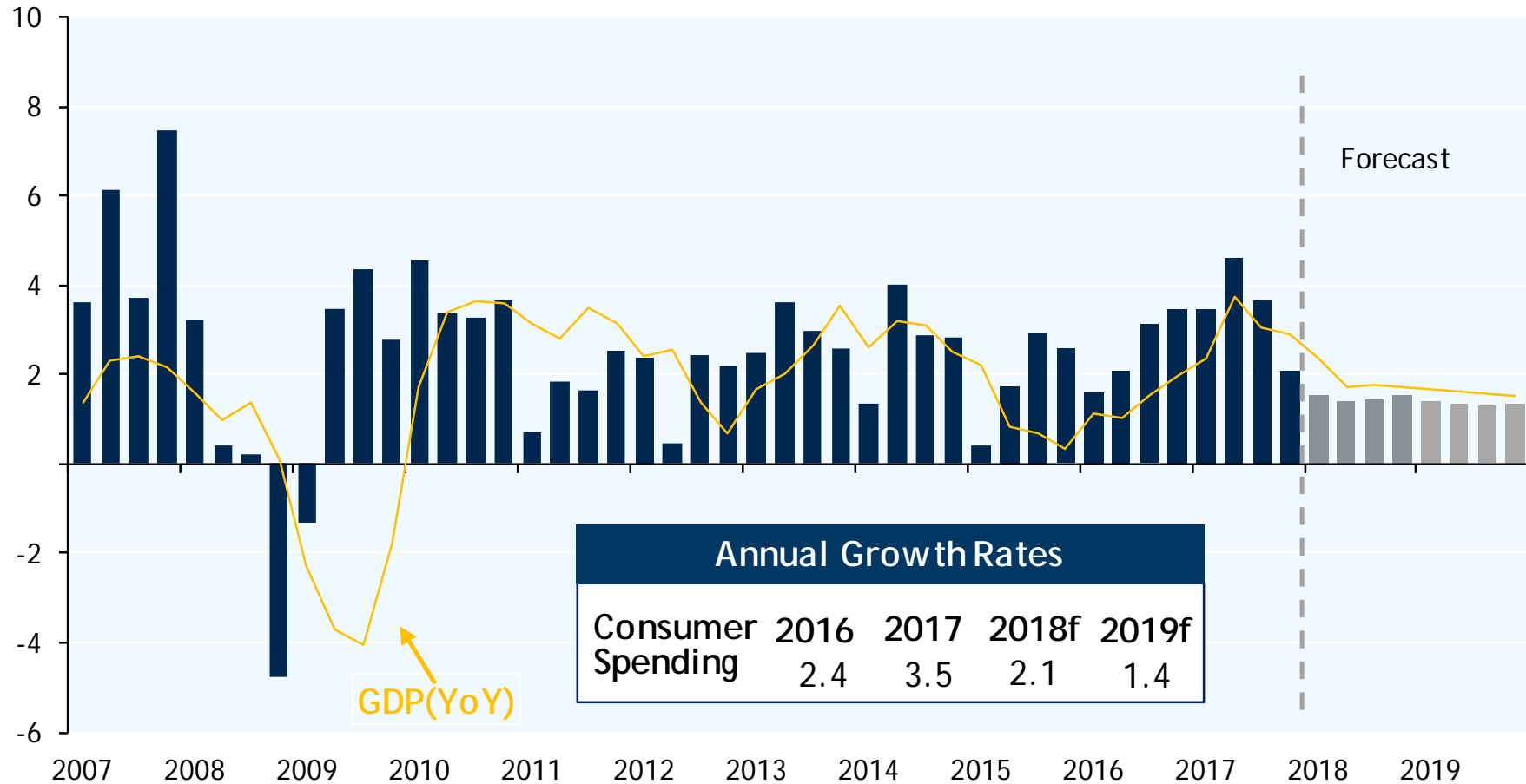


Source: RPS, Royal LePage, CREA, RBC Economics Research

# Canadian consumption to moderate, not stop

## Consumer expenditures in Canada

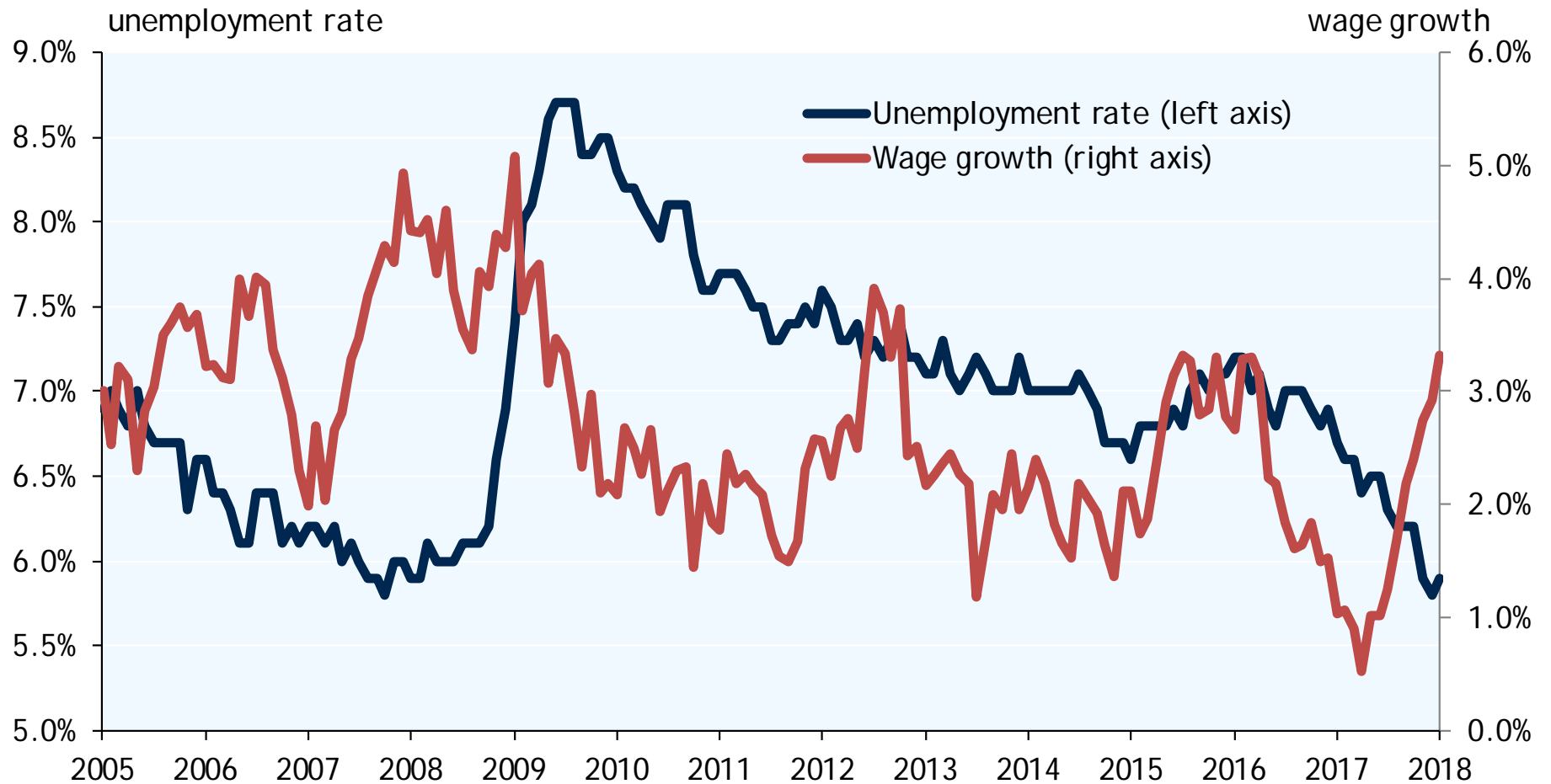
Quarter-over-quarter % change, annualized



Source: Statistics Canada, RBC Economic Research

## Volatility aside, the labour market is healthy

### Unemployment rate and wage growth



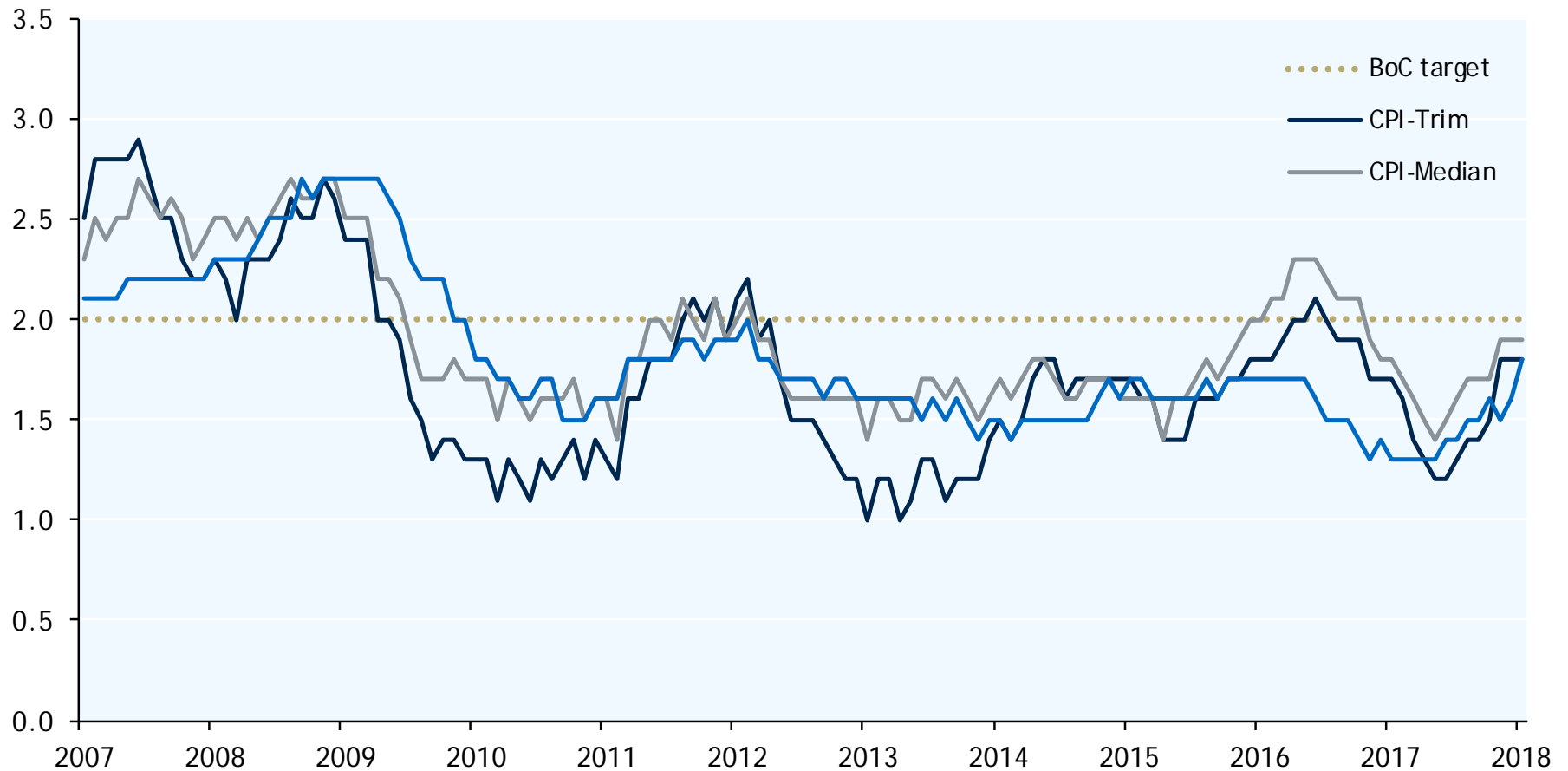
Source: Statistics Canada, RBC Economic Research



# Underlying inflation pressures are increasing....

## Core measures of inflation: Canada

% change, year-over-year

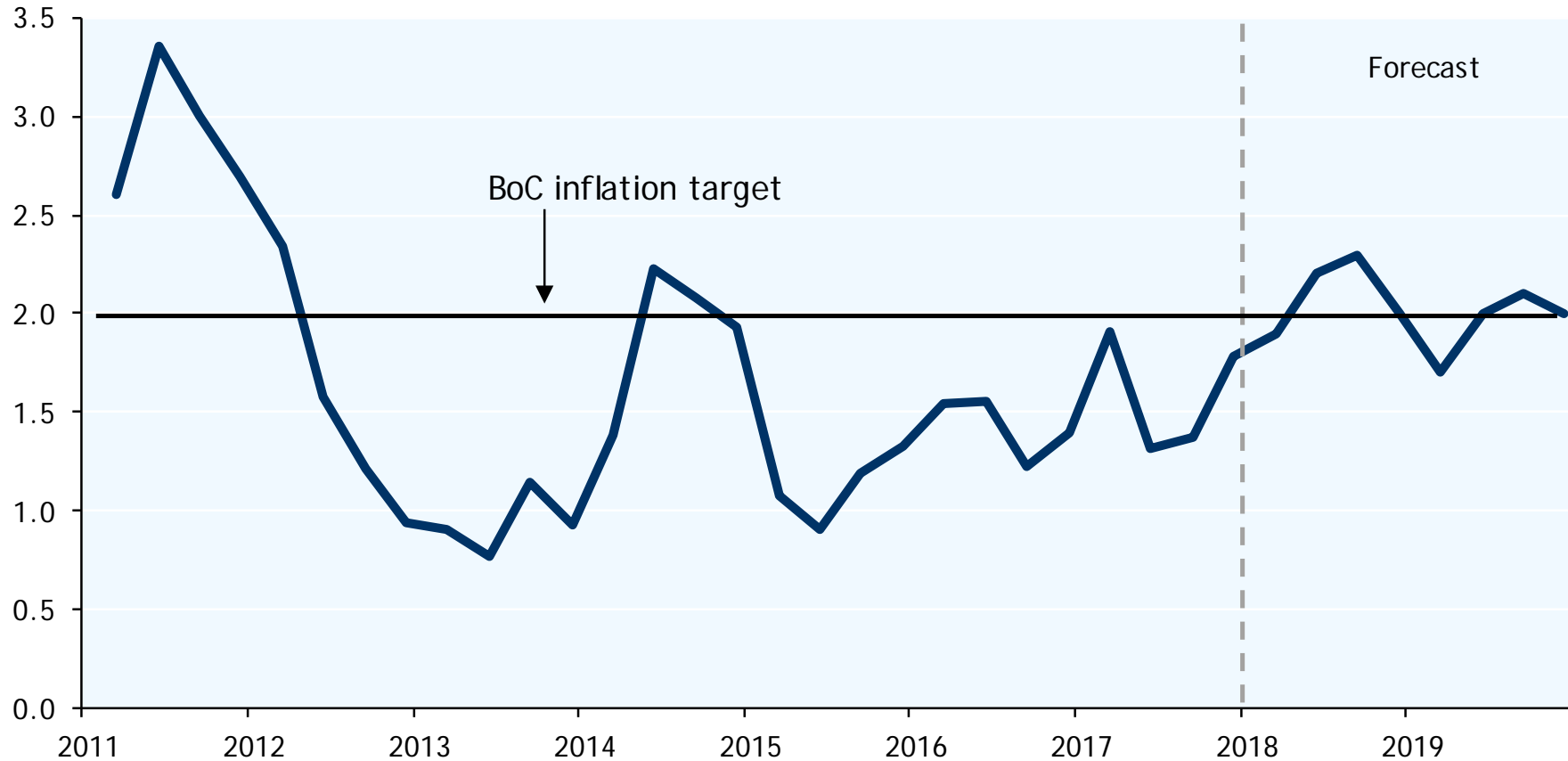


Source: Statistics Canada, RBC Economics Research

## ...teeing up for headline rate to hit BOC's 2% target

### Canada: Headline inflation

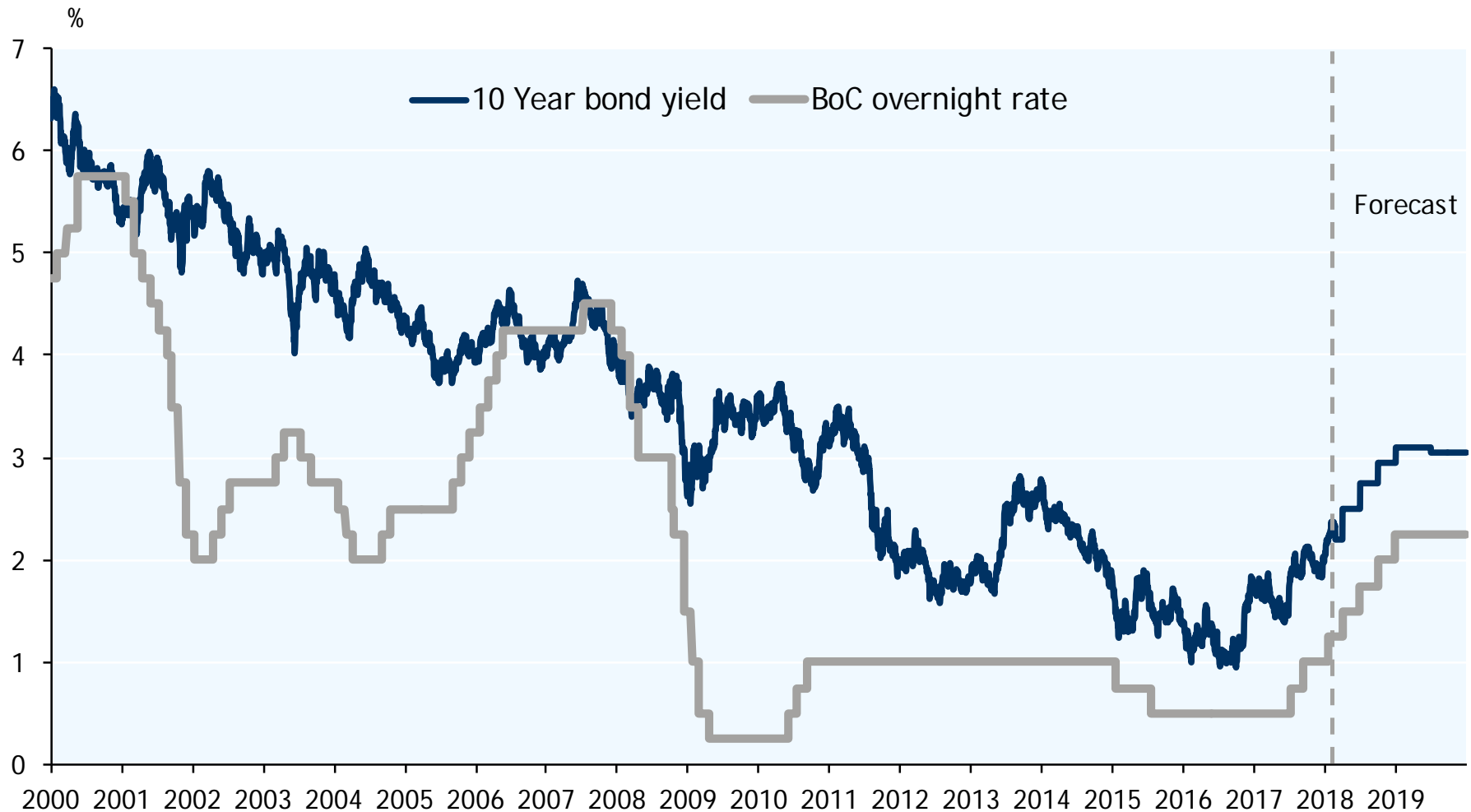
% change, year-over-year



Source: Statistics Canada, RBC Economics Research

# Bank of Canada to gradually hike policy rate

## Interest rates: Canada

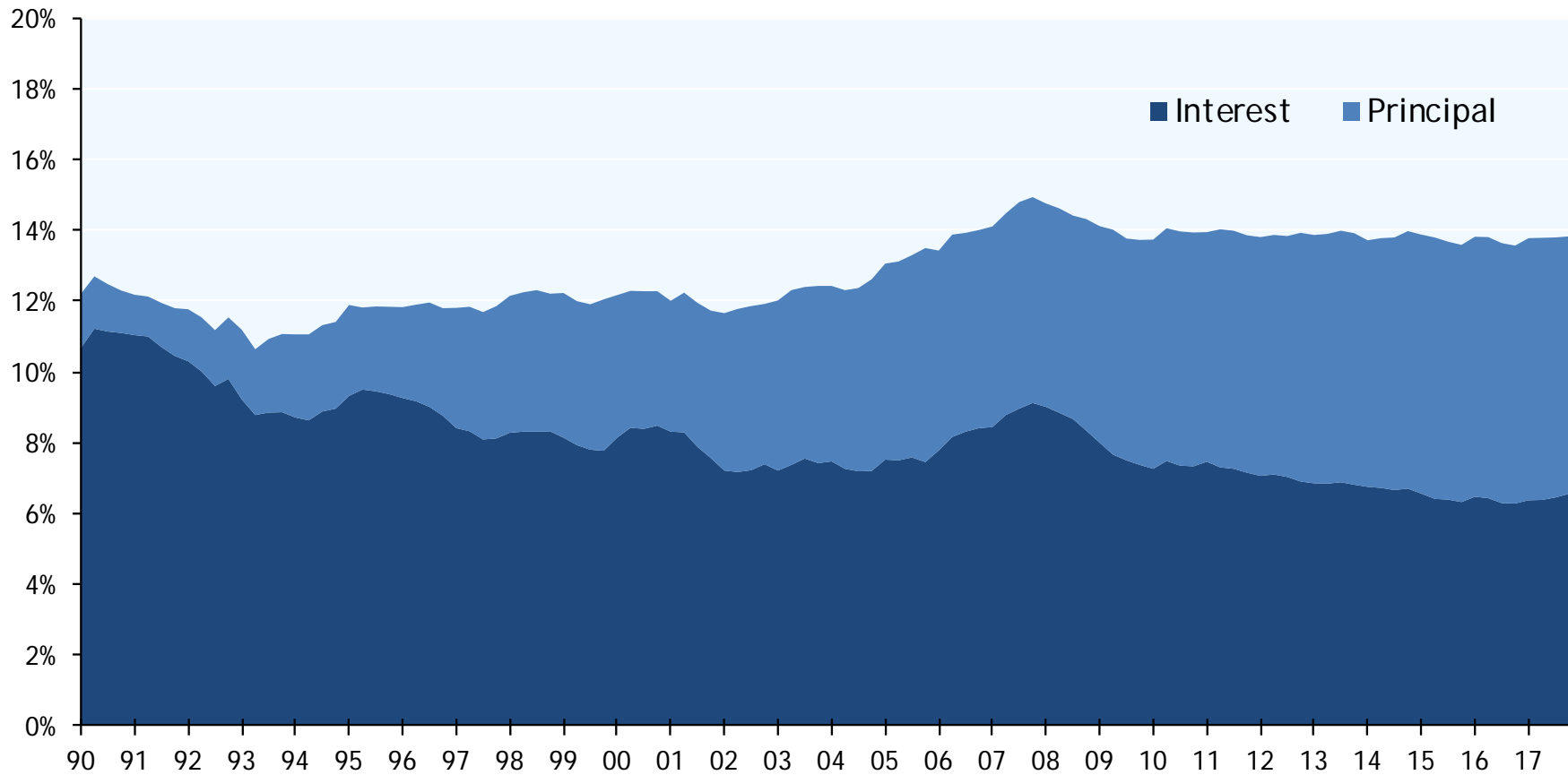


Source: Bank of Canada, RBC Economics Research

# Debt service costs will rise in 2018

## Canada debt service ratio

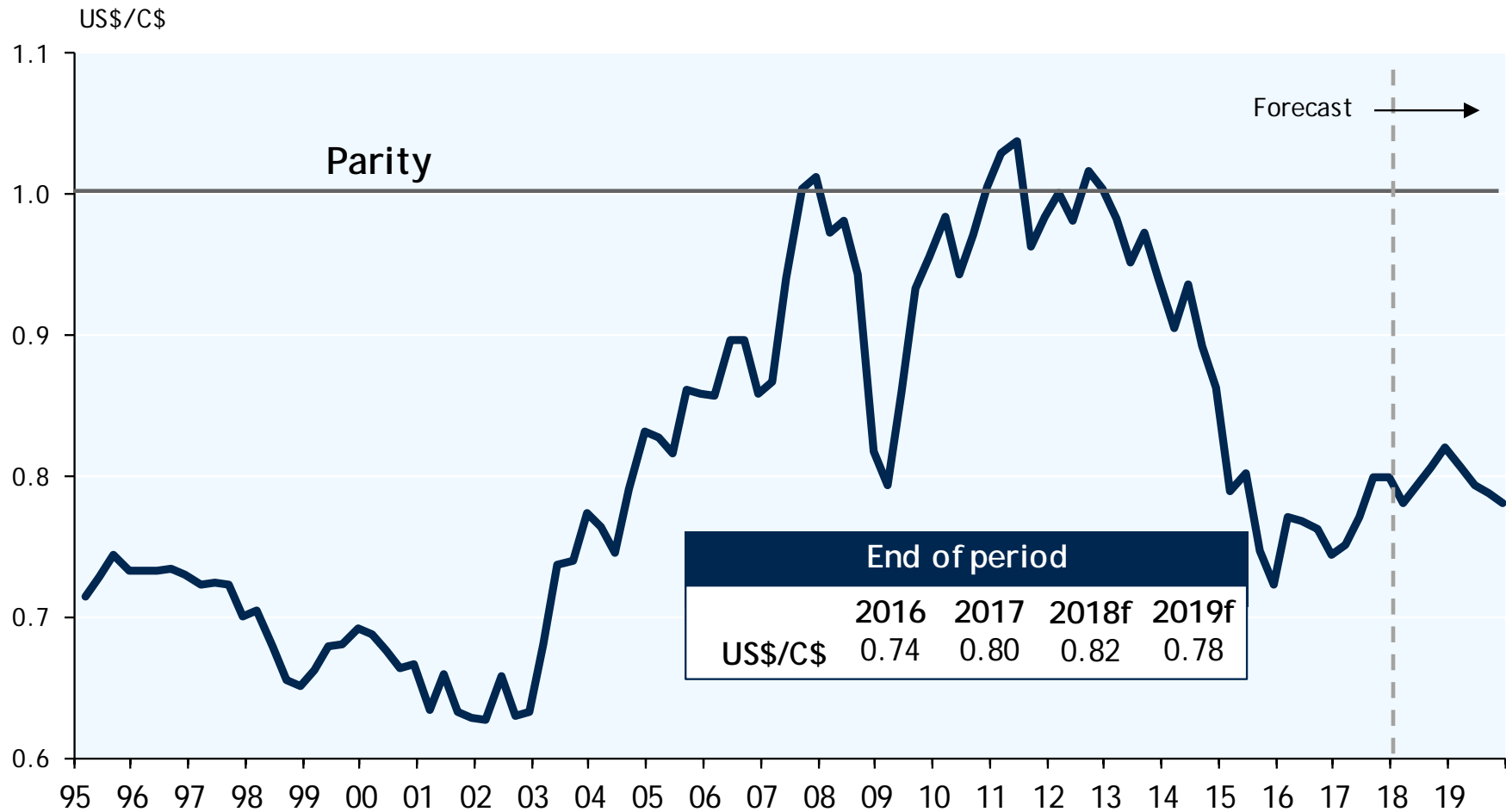
debt service payments as a % of disposable income



Source: Statistics Canada, RBC Economics Research

# C\$ to take direction from relative interest rate policy and oil prices

## Canadian dollar forecast

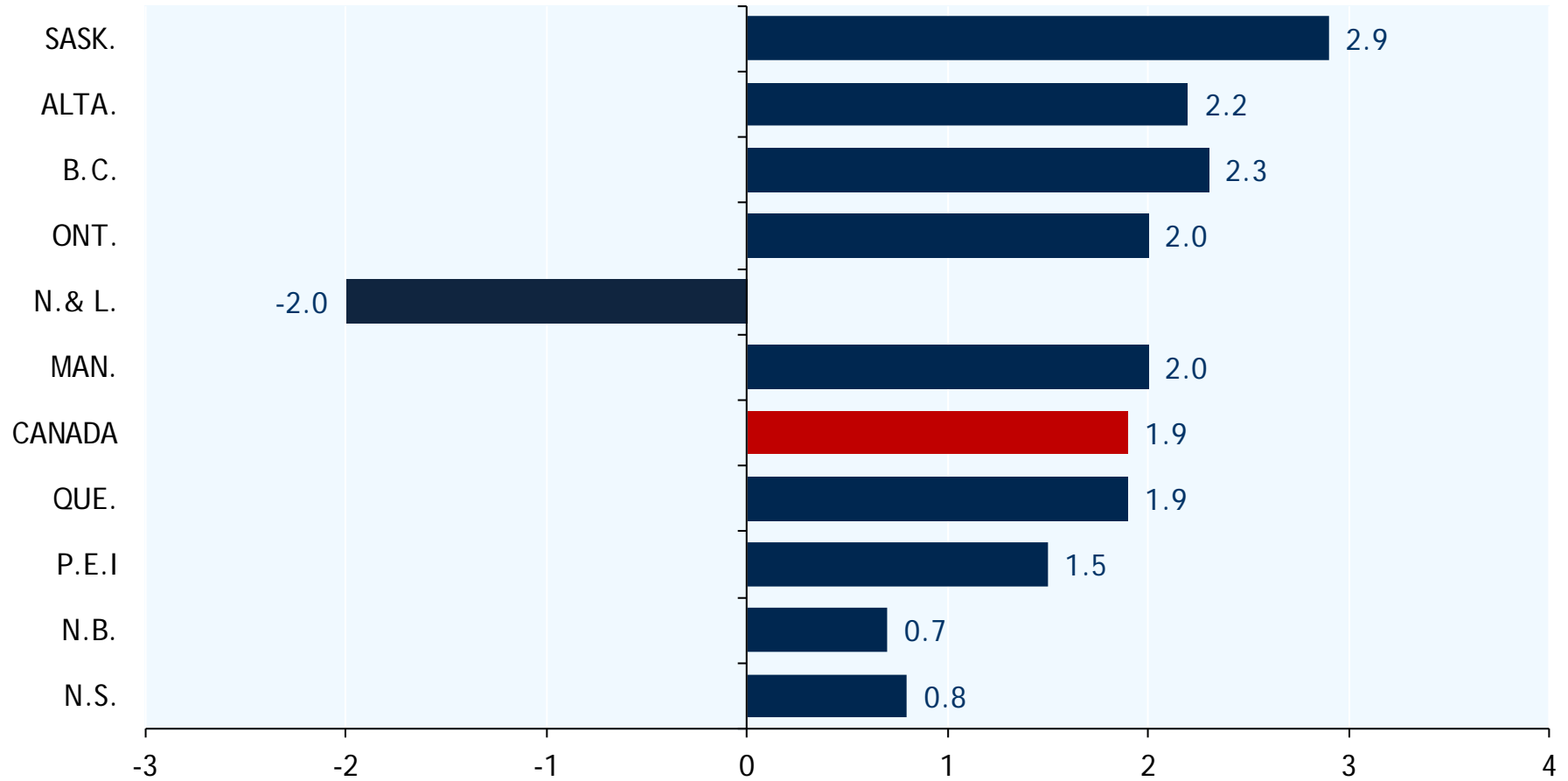


Source: Bank of Canada, RBC Economic Research

# All provinces, outside Newfoundland, to grow in 2018

## Provincial real GDP growth in 2018

Annual % change



Sources: Statistics Canada, RBC Economics Research

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