ECONOMIC INSIGHTS
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Economics

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This Needn't End Badly

by Avery Shenfeld

There are growing concerns over the pace of house price inflation in the Greater Toronto and Vancouver regions, enough to sound alarm bells at the Bank of Canada, and to trigger action by the BC government. But while some might welcome a cooling-off period for these markets, the same can't be said for the Canadian economy. We can't see a return to the heydays of high energy prices (pages 8-11) and there are some headwinds to getting a liftoff in exports (pages 6-7).

Interest rate hikes or much tougher mortgage policies could put a damper on house prices, but at the expense of economic growth. But there are ways that governments could tame regional house price inflation that would be bullish for GDP ahead.

For one, the positive talk about how the wealth effect from rising home prices feeds into consumption misses some important negatives. A younger generation of yet-to-be homeowners faces the need for greater savings to build a down payment, cutting into their room for consumption. The lack of affordable housing for the next generation of workforce entrants could act as an impediment to business growth, or encourage businesses to locate elsewhere. And fears that a steep climb today risks a harder landing for house prices down the road could inject caution in lending that acts as an economic headwind.

If efforts to stem housing inflation are focused on limiting demand, there will be negative spillovers to GDP growth. To the extent that the resale market slows in the wake of the BC foreign-buyer tax, that would cut into the GDP generated in real estate agent fees, mortgage services, legal fees and home renovations, which often get ramped up by a new owner.

But while it won't be as quick a solution, enhancing the supply of new housing can also cushion further price appreciation, and generate additional GDP growth in the process. As my colleague Benjamin Tal outlines in CIBC's upcoming study of the GTA market, releasing more land for single family homebuilding, and speeding the approval process for new construction, would be part of that process. Improving urban transit, so that land outside the city core is a closer substitute for the inner-city locations where prices are reaching the greatest heights, would do the same.

Approving more high-rise construction would help contain condo prices and apartment rents, although that would eat into land for singles. Multiple-unit homebuilding could also be enhanced by a greater policy focus on social housing, where the needs might now be greater, given the reduced affordability of other housing. The supply of such housing would also help address one of the downsides of rising house prices—the diminished ability of businesses to find workers that can afford to live within commuting distance.

The memories of the US financial crisis have left the impression that all house price booms end badly for the broader economy. With the right policy mix, it needn't be so.

MARKET CALL

- Payrolls have seen two healthy gains, but the Fed will remain duly cautious about tightening until it has enough second-half data to show that GDP growth is also reviving. We're sticking with our call for a December hike, but the tepid trend in business capital spending, even at these extremely low yields, has us expecting only two further moves in 2017. Bond yields will creep higher, but given what's happening globally, will remain below where we were in 2013, when the Fed was only hinting at paring back the pace of QE.

- The US dollar should gain temporary traction as markets build expectations for a Fed hike. But we don't see much staying power in USD rallies. During the long pauses in Fed action, the drag on the dollar from a sizeable current account gap favours the euro and yen.

- A rate cut in Canada can't be ruled out, but with house prices still a concern, further fiscal stimulus would be the likely first option if growth disappoints. As long as the Fed hikes this year, and twice in 2017, interest rate differentials should be sufficient to keep the C$ at levels conducive to getting growth to return in non-energy exports. But with fewer Fed hikes in our forecast for 2016-17, we've dropped our earlier call for a Canadian hike in late 2017.

INTEREST & FOREIGN EXCHANGE RATES

		2016			2017			
END OF PERIOD:		**10-Aug**	**Sep**	**Dec**	**Mar**	**Jun**	**Sep**	**Dec**
CDA	Overnight target rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
	98-Day Treasury Bills	0.51	0.45	0.45	0.45	0.45	0.45	0.50
	2-Year Gov't Bond	0.51	0.45	0.50	0.65	0.80	0.85	0.90
	10-Year Gov't Bond	1.00	1.10	1.30	1.50	1.55	1.70	1.85
	30-Year Gov't Bond	1.62	1.70	1.80	2.00	2.10	2.25	2.35
U.S.	Federal Funds Rate	0.375	0.375	0.625	0.625	0.875	0.875	1.125
	91-Day Treasury Bills	0.30	0.25	0.50	0.50	0.75	0.80	1.00
	2-Year Gov't Note	0.70	0.70	0.85	0.95	1.10	1.20	1.30
	10-Year Gov't Note	1.54	1.70	1.90	2.10	2.20	2.25	2.35
	30-Year Gov't Bond	2.25	2.40	2.55	2.70	2.80	2.85	2.90
Canada - US T-Bill Spread		0.21	0.20	-0.05	-0.05	-0.30	-0.35	-0.50
Canada - US 10-Year Bond Spread		-0.53	-0.60	-0.60	-0.60	-0.65	-0.55	-0.50
Canada Yield Curve (30-Year — 2-Year)		1.11	1.25	1.30	1.35	1.30	1.40	1.45
US Yield Curve (30-Year — 2-Year)		1.55	1.70	1.70	1.75	1.70	1.65	1.60
EXCHANGE RATES	CADUSD	0.77	0.76	0.74	0.75	0.77	0.76	0.76
	USDCAD	1.30	1.32	1.35	1.33	1.30	1.31	1.31
	USDJPY	101	105	105	106	108	107	105
	EURUSD	1.12	1.09	1.06	1.10	1.13	1.16	1.18
	GBPUSD	1.30	1.29	1.27	1.32	1.36	1.41	1.48
	AUDUSD	0.77	0.74	0.70	0.72	0.74	0.75	0.77
	USDCHF	0.98	0.99	1.03	1.00	0.98	0.97	0.97
	USDBRL	3.13	3.47	3.51	3.48	3.48	3.55	3.45
	USDMXN	18.32	17.91	18.45	18.73	18.67	18.62	18.56

Canada: Stuck in the 1% Club?

Andrew Grantham

Continued employment growth but not much GDP to show for it. That's a puzzle we've been struggling with in the US for a number of years, and which now seems to have migrated north of the border as well. Even after July's jobs disappointment, Canada's labour market, and unemployment in particular, has been more resilient to the slowdown in GDP than we would have expected. That suggests the potential growth rate, or the real GDP pace needed to keep the jobless rate steady, may only be around 1% at present.

However, not all "potential" problems are created equal. While Canada shares some of the same issues that face the US, such as a slowing in working-aged population growth, the decline in productivity north of the border has more to do with the structural change occurring in the economy. Troubles in the oil and gas sector have resulted in a sharp drop in near-term potential, but the longer-term impact should be more muted.

The "Potential" Problem

The divergence between the jobless rate and GDP growth has really only reared its head here in Canada since oil prices started to slump in mid-2014. Indeed just before that, the economy was growing at a 2½-3% annualized pace. Then oil took a tumble, and the annual rate of GDP growth has more than halved, even after excluding the recent hit from Alberta's wildfires.

However, the unemployment rate, after drifting higher initially, is now roughly the same as it was in mid-2014 (Chart 1, left). Those trends suggest that the potential growth rate of the economy may have fallen by even more than the ½% estimated by the Bank of Canada (Chart 1, right).

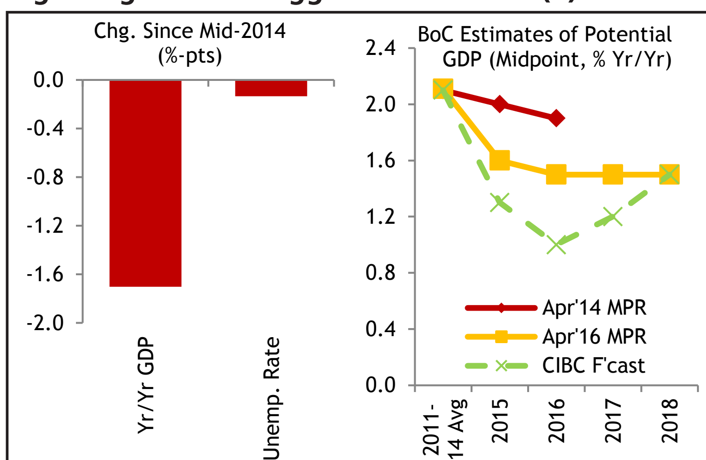
Labour Market—Similarities and Differences

Unlike in the US, the unemployment rate in Canada isn't being flattered by prime-aged workers staying on the sidelines of the labour market. For a while now, we have pointed out that the prime-aged employment ratio is a better indicator of labour market slack stateside than the unemployment rate. In Canada the unemployment rate is little changed from where it stood pre-recession or two years ago (Chart 2, left) and that's also the case for prime-aged employment (Chart 2, right). While GDP growth has slowed, it appears that no new slack has opened up for prime-aged workers.

The relatively steady trend in the prime-aged employment ratio, on a national basis at least, suggests that the recent downtrend in the headline labour force participation rate,

Chart 1

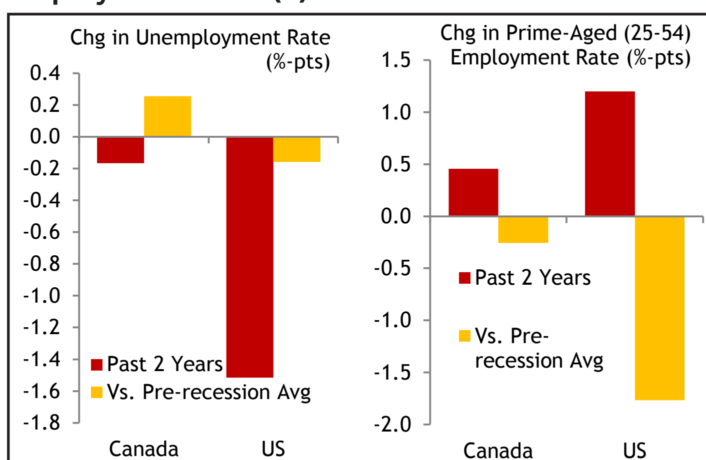
GDP Slows, Jobless Rate Little Changed (L), Signaling an Even Bigger Potential Hit (R)



Source: Statistics Canada, Bank of Canada, CIBC

Chart 2

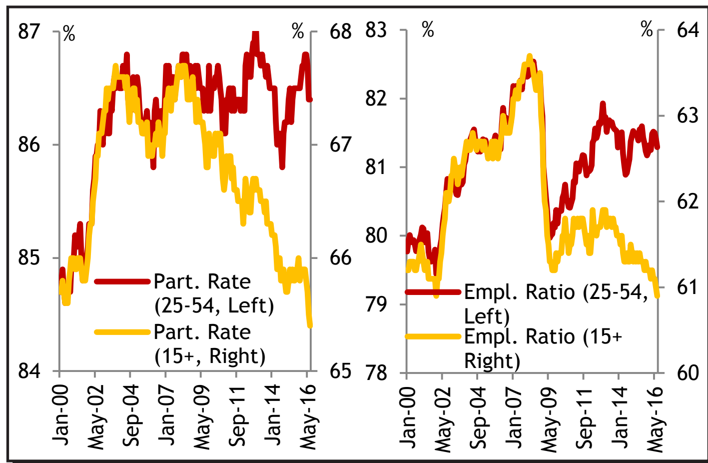
Cdn Unemployment Rate (L) and Prime-aged Employment Ratio (R) Don't Show Much New Slack



Source: Statistics Canada, BLS, CIBC

Chart 3

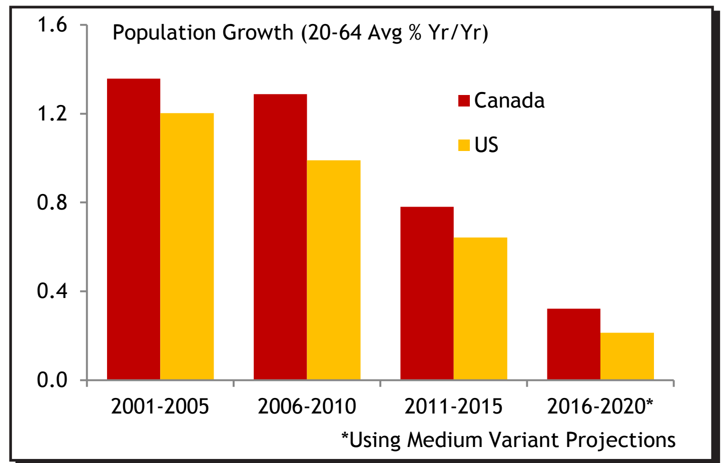
Decline in Participation (L) and Employment Ratios (R) Demographically Driven



Source: Statistics Canada, CIBC

Chart 5

Slowing in Labour Force Growth to Continue



Source: United Nations, CIBC

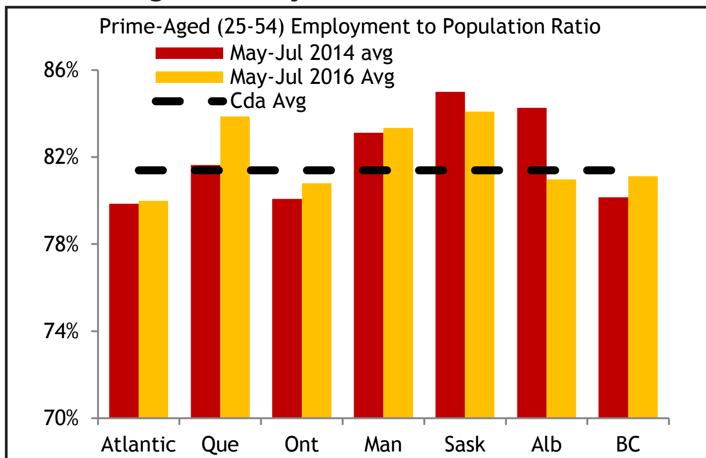
as well as slowing in employment growth, may have more to do with demographic trends than the hit from low oil prices (Chart 3).

Of course, the oil shock has had a massive impact on trends provincially, with the employment ratios heading south in oil-producing areas of the country. And the provincial breakdown also shows that, despite improvements over the past two years, there's scope for further gains in areas such as Ontario and even BC, where prime-aged employment ratios are still below the national average (Chart 4).

However, the provincial breakdown also highlights how some areas of the country may already be running pretty close to their speed limit. GDP growth in Québec has underwhelmed, but the employment ratio for prime-aged workers has improved and is already fairly high, suggesting little room to run much faster. Much like in the US, the slowing in working-aged population growth in Canada is expected to get worse rather than better over the coming years (Chart 5).

Chart 4

Contrasting Trends By Province



Source: Statistics Canada, CIBC

Productivity—The Long and the Short of It

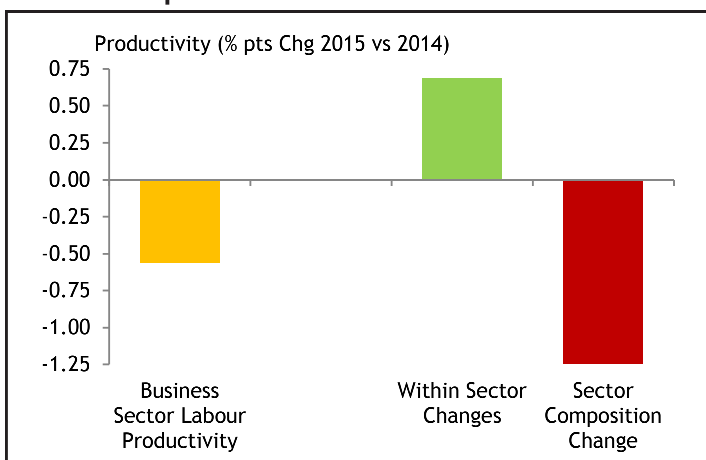
While the oil shock hasn't had as big an impact on the national unemployment rate as we might have expected, its impact on short-term productivity has almost certainly been under-appreciated. Losing high-productivity jobs in energy, with less-productive sectors picking up some of the hiring slack, has been the main contributor to the apparent decline in labour productivity recently.

In 2015, business sector output per hour was actually down compared with the prior year. However, we estimate that if the composition of hours worked by sector had remained the same as it was in 2014, productivity would have actually risen by roughly 0.7%—not a particularly impressive advance but an advance nevertheless (Chart 6). The decline in national labour productivity has solely been attributable to job losses in the highly productive oil sector.

Of course, in prior years the increasing share of the oil sector within the economy was having the opposite impact, in lifting the aggregate productivity numbers.

Chart 6

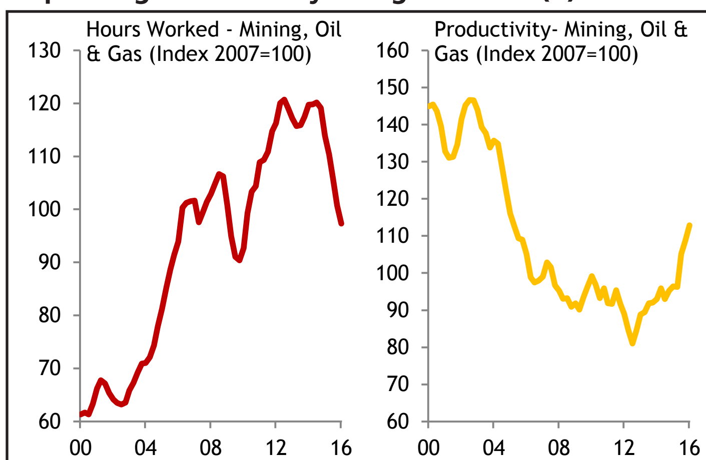
Decline in Labour Productivity Due to Change in Sector Composition



Source: Statistics Canada, CIBC

Chart 8

Hours Worked Drop Sharply in Oil Sector (L), But Improving Productivity a Slight Offset (R)



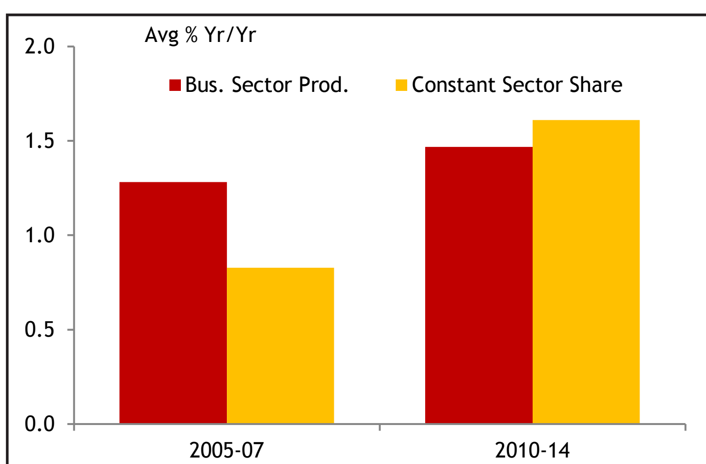
Source: Statistics Canada, CIBC

However, most of the upturn in national productivity linked to the expansion of the oil sector came prior to the recession in 2005-07 and not during the most recent period (Chart 7).

The continued drop in hours worked in the oil and gas sector this year (Chart 8, left) means that aggregate productivity readings will remain depressed. But unlike the impact of slower labour force growth on potential, the productivity side should have better news ahead. The energy sector's shrinkage should be less severe come 2017, and productivity within the oil sector is picking up as companies are forced to focus on their most productive facilities (Chart 8, right). So we may not be stuck in the 1% club for potential GDP growth for too long.

Chart 7

Gain in Oil Share Boosted Productivity Before Recession



Source: Statistics Canada, CIBC

Looking ahead, productivity should also be supported by firms making investments and adding to capacity in sectors outside of energy—a trend that a more competitive exchange rate and low interest rates should be helping to facilitate. Admittedly, the latest investment intentions survey suggests we have yet to see such spending emerge, but that may be due to a lag between exchange/interest rate changes and investment decisions, and will hopefully be a story for 2018 and beyond.

A Moving Target

In the short term, productivity and potential GDP growth are likely to be lower than the Bank of Canada assumes. As such, even only modest growth just above 1% won't be so slow as to see the output gap open and put downward pressure on inflation.

But that doesn't necessarily mean that we're stuck in the 1% club farther out. Once employment in the oil sector stabilizes at its lower level, and hopefully as investment in other sectors returns, productivity growth should improve again. The slowing in growth of Canada's working-aged population will be a longer lasting issue, but even here demographics are no worse than in the US and are much more favourable than those of Europe or Japan.

Potential GDP growth of 1½% in the future will still be low relative to what we were accustomed to in the past. But it would be an improvement from the near-term trend and markedly better than most other developed countries.

Stock and Trade: Elevated US Inventories Hit Canadian Exports

Andrew Grantham and Nick Exarhos

And still we wait. More than three years removed from the last time the Canadian dollar traded above parity, we're still seeing little lift from the weaker loonie to exports. Indeed, after another disappointing set of trade figures for June, the non-energy trade balance remains deep in negative territory (Chart 1).

We warned last year that we should expect less of a lift to manufacturing and exports from a weaker currency in this cycle (see Economic Insights August 2015, "*The Cheaper Loonie's Lift to Exports: Waiting Longer for Less*"). With plants shuttered during the period of C$ strength, capacity utilization is already high in many sectors. The US recovery isn't as strong as seen previously. And Mexico is becoming a big player in the North American manufacturing sector, particularly in autos. Lately a new problem can be added to the list—elevated US inventory levels.

Stocked Up

The latest GDP figures stateside have already highlighted how a turn in the inventory cycle can impact domestic growth. Second-quarter GDP in the US was an extremely disappointing 1.2% on first release, despite a sharp rise in consumer spending, with a draw-down in inventories subtracting more than one percentage point from the headline growth rate.

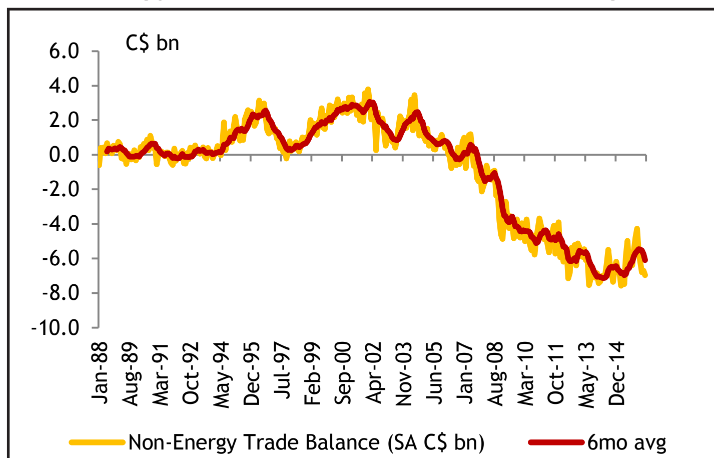
There are implications for Canada as well, as excess inventory will mean less US demand for imports. We all know about the high inventory levels stateside in Canada's top export, oil. But the US also appears to be sitting on large stockpiles of other key goods as well.

Of the manufactured products we send to the US, three of the most important are autos, machinery and chemicals. Inventory-to-shipment ratios in the US have risen significantly in these areas recently—a trend that is likely to weigh on demand for Canadian exports. In contrast, the aggregate of other sectors suggests little pick-up in inventory ratios elsewhere (Chart 2).

Waning demand, which negatively impacts the shipments side of the calculation, is clearly also a factor behind the rise in inventory ratios. And that shows up most significantly for machinery, where a lot of demand previously came from the now struggling shale oil sector. And it's in machinery where inventory-to-shipment ratios have risen the most, both at the manufacturing and the wholesale level (Chart 3).

Chart 1

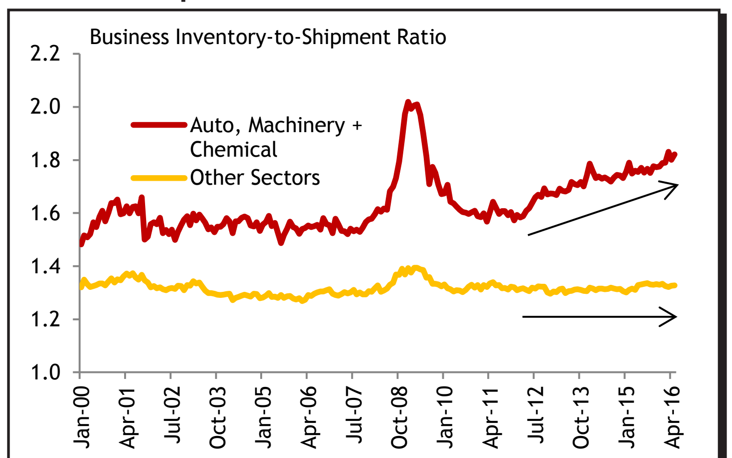
Non-Energy Trade Deficit Still Not Improving



Source: Statistics Canada, CIBC

Chart 2

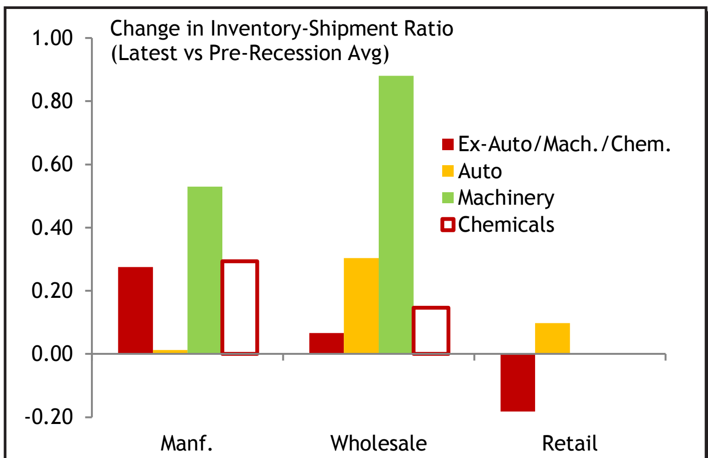
US Inventories Trend Higher in Key Areas For Canadian Exporters



Source: BEA, CIBC

Chart 3

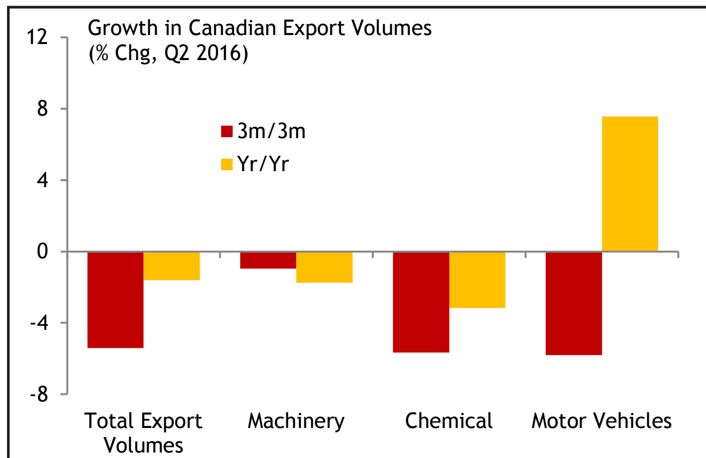
Machinery Sees the Highest US Excess Inventory



Source: BEA, CIBC

Chart 5

Widespread Struggle Recently for Exports



Source: Statistics Canada, CIBC

Export Underperformance

While US auto inventories at the manufacturing level aren't signaling any problem at present, the same can't be said when we move along the supply chain to the wholesale and retail level. That poses potential problems for Canadian exports, particularly at a time when the previous upward momentum in US auto sales appears to have stalled (Chart 4, left). So unless Canada starts to claw back some market share, it seems unlikely that auto exports will move into a higher gear. While the previous downtrend in Canada's market share has stopped, there's little evidence of any being reclaimed yet (Chart 4, right).

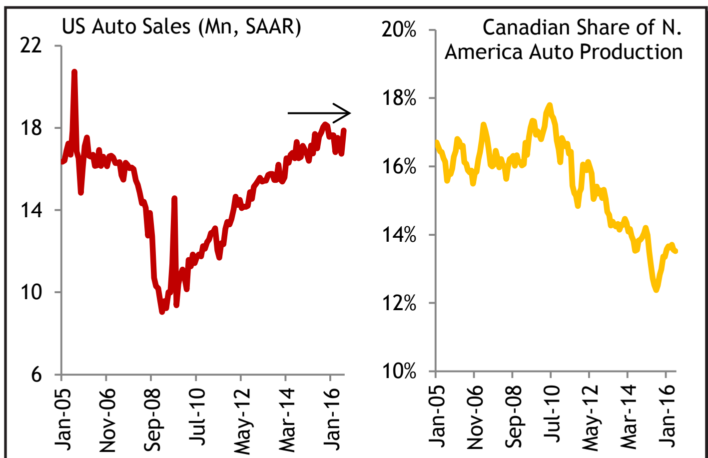
Although auto exports are still up on a year-over-year basis, the recent trend has been one of weakness (Chart 5). Similarly, heavy US stockpiles have led to declines in Canadian machinery and chemical exports on both a quarterly and annual basis.

Note that total export volumes have also performed poorly, so there is more than just the US inventory story in these three major sectors that is acting as a headwind for Canada's shipments. The result is that Canadian exports have dramatically underperformed what our model suggests would have typically been expected in the wake of a 20% currency depreciation (Chart 6).

Looking ahead, we may start to see some of that gap begin to close if the US economy runs in a faster gear over the second half of the year. But elevated inventory levels in the US machinery, chemical and motor vehicle markets will continue to act as a headwind in terms of how quickly Canadian exports respond.

Chart 4

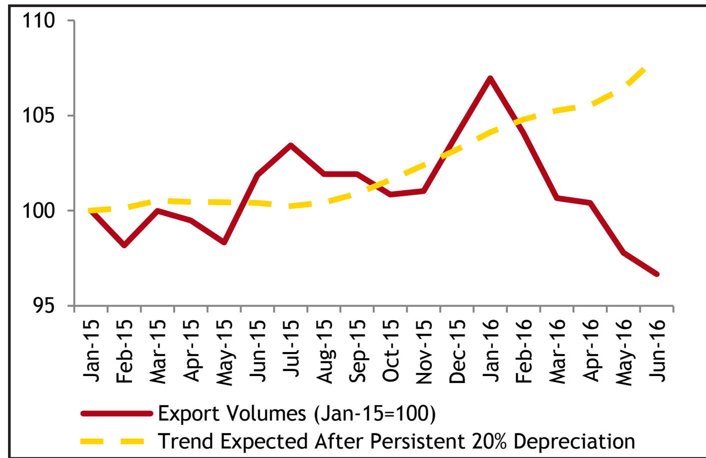
US Auto Sales Have Levelled Off (L), Canada Share Still Low (R)



Source: Ward's Auto, CIBC

Chart 6

Exports Underperforming Relative to Past Relationship With Currency



Source: Statistics Canada, CIBC

The Plateau: Where Fossil Fuels are Headed

Avery Shenfeld and Nick Exarhos

Face facts: neither analysts nor the futures market do a particularly good job in anticipating large moves in energy prices. But for upstream producers or downstream buyers, even not hedging entails making a call on where prices are headed. The same is true for equity investors looking at appropriate sector weights. So energy price forecasts are like going to the dentist—an unavoidable pain.

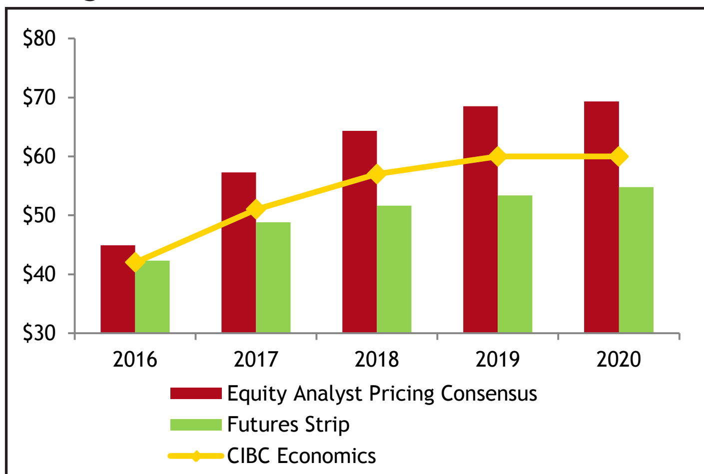
While this spring's oil rally proved unsustainable, both oil and gas will benefit from improving fundamentals ahead. But looking through the haze, there are already signs that point to a plateau in benchmark prices, one that could be reached over the coming two years. For oil, the plateau could be higher than the conservative climb built into the forward strip, but still less than what Canadian equity analysts are looking for (Chart 1).

The Best Cure for Low Oil Prices

Clichés often have a grain of truth, and so it is for the saying that low oil prices are the best cure for low oil prices. In the face of unprofitable price levels for drilling activity, non-OPEC output has tumbled, although some of that was offset by increases from OPEC players like Iraq. Add to that the demand growth associated with even tepid global economic gains, and a daily surplus of over 1½ mn bbl/day should turn into a modest draw on reserves in the final quarter (Chart 2).

Chart 1

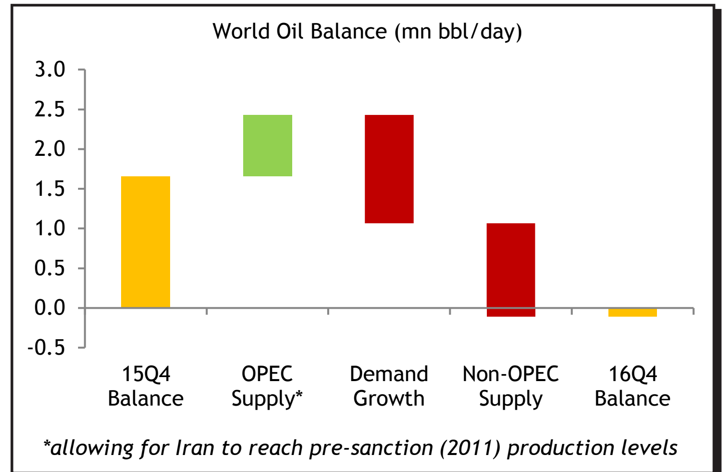
Oil Forecast: Hedgers Should Wait, Portfolio Managers Should Use Caution



Source: Bloomberg, CIBC

Chart 2

Non-OPEC Supply and Demand Growth Brings Market to end of '16 Balance



Source: IEA, CIBC

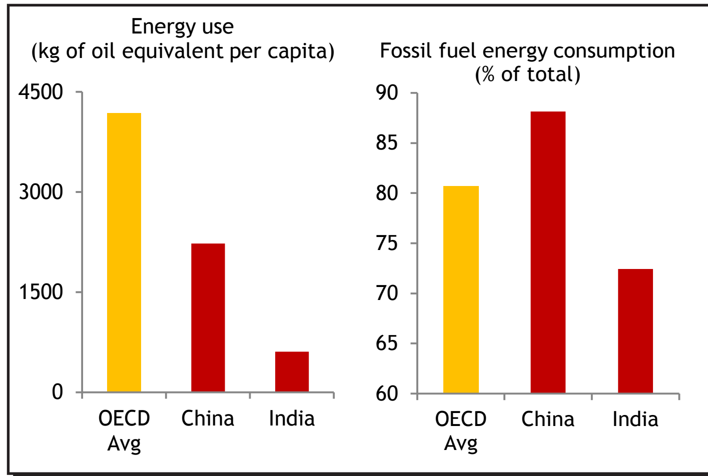
Emerging markets are the swing factor for demand. Mature, developed economies, if anything, are at risk of seeing stagnating or modestly shrinking demand over time, given environmental policies aimed at improving vehicle mileage or promoting electric vehicles. Sure, Americans are shopping again for larger, fuel-gulping, truck-based vehicles, but that's been in a $30-50 oil price lull. The medium-term trend could tilt back to more fuel efficiency as prices climb.

EM countries are a different story. China, for example, is heavily reliant on fossil fuels in its energy mix. But per capita energy use is still miles below that of higher-income countries (Chart 3). How fast that ground is closed will depend on macro forces, given the tie between EM economic growth and oil demand (Chart 4). The downside shock that commenced in 2014 was amplified by the slowing in the pace of China and other EM economies.

While EM demand gains were an impressive 1.4 mn bbl/day in 2015, we likely won't see as much of a gain in either 2016 or 2017, despite a likely pick-up for real GDP growth next year (Chart 5, right). The advance in

Chart 3

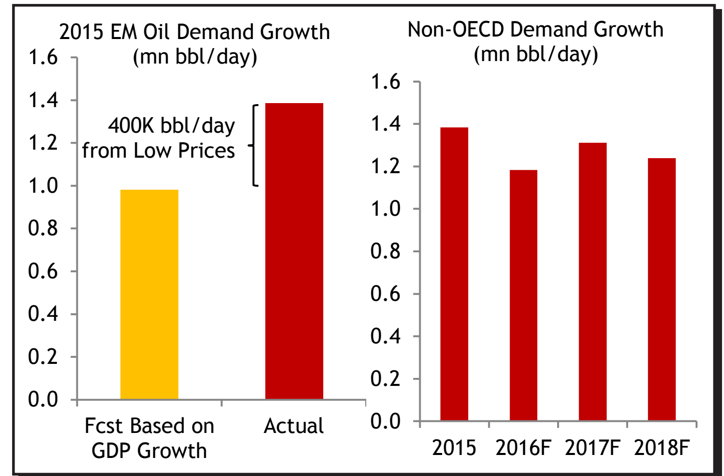
Still A Long Way for Large EMs to Increase Energy Use (L); China Reliant on Fossil Fuels (R)



Source: World Bank, CIBC

Chart 5

Low Prices Played Role in Strong '15 Demand Growth (L), But Next Two Years Should See Only Slightly Slower Pace (R)



Source: World Bank, IEA, CIBC

2015 was roughly 400K bbl/day greater than what GDP growth alone would have predicted (Chart 5 left), with the remainder a movement along the demand curve as prices fell. With developed economies crawling along at a 2% real growth rate or less, EM demand growth of roughly 1.2 mn bbl/day per year will essentially match total demand gains.

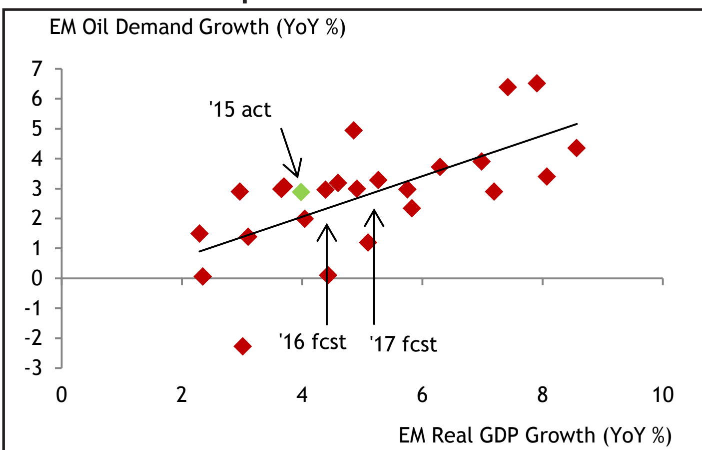
Not So Fast

A swing to a deficit between production and demand doesn't, however, imply an immediate price spike. Just as prices were cushioned on the downside by a building in inventories, their progress will be slowed as stockpiles are released to the market.

There are limitations to the data on non-OECD reserves, and governments might be unwilling to deplete reserves that are held as a permanent hedge against future price spikes or supply disruptions. But commercial OECD inventories have ballooned to more than 65 days of demand, and we're not going to shutter new production down to zero and drain them in the space of two months. The right way to think about the existing stockpile is that it could roughly cover all of the 1 mn bbl/day or so growth in oil demand in 2017 and still end that year at the upper end of the previous normal range for crude inventories (Chart 6).

Chart 4

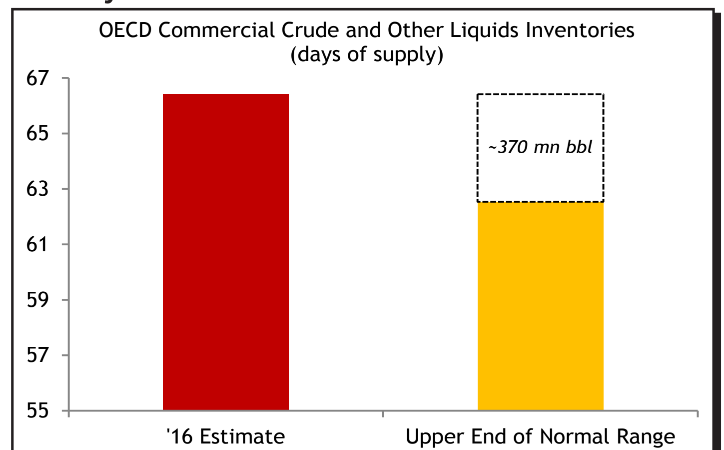
EM Growth to Power Continued Increases in Crude Consumption



Source: World Bank, IEA, CIBC

Chart 6

OECD Crude Stocks Equivalent to Roughly 1 mn bbl/day for Next Year



Source: IEA, CIBC

Of course, the price of oil needs to climb to reach the level where inventory owners prefer to let them go rather than hold them and pay per-barrel storage costs of roughly $10-15 per year, in expectation of further gains. If by the end of 2017, a lower and sustainable level of inventories has been reached, the price at that point will be determined by the marginal cost of ramping up production of crude to meet 2018 needs. The upward glide path to that price through 2017 won't be smooth, as expectations of future prices, current production and demand see their usual bumps and bruises, but should generally push prices higher through the year.

How Much is Enough?

But to what ultimate destination in 2018 and beyond? Last year we made the case that crude at $30/bbl was simply unsustainable barring another round of technological improvements in the sector. The evidence from bleeding bottom lines and slashed capital spending since then has made that apparent. Too little of the world's remaining production opportunities would be profitable at a price that low to cover the depletion from existing assets and generate the additional barrels required.

A look at existing production options (Chart 7) suggests that with demand likely to be somewhat above 98 mn bbl/day in 2018, and inventories no longer able to make up the shortfall, prices will have to be sufficient to prompt a return to shale oil drilling and the associated output growth. Best estimates are that a WTI price of just under $60/bbl should be sufficient, over time, to restore activity in the shale sector to its potential. We saw some evidence of a pick-up in rig counts this year when WTI touched $50, but average breakeven costs for shale are more in the $55-$60 range.

Still, with inventory drawdowns covering demand growth in 2017, and a shale rebound meeting most of the world's needs in 2018-19, it's going to be hard to sustain a rally through $60 WTI over the balance of this decade. Although Canadian oil production will benefit from the completion of oil sands projects already underway, and a ramping up of Canadian shale oil output, capital spending for the next leg of oil sands projects will be pushed further back, ditto for ultra-deepwater projects which are the next highest cost source of crude. The price signals needed to advance projects with all-in costs above $80/bbl simply won't be there.

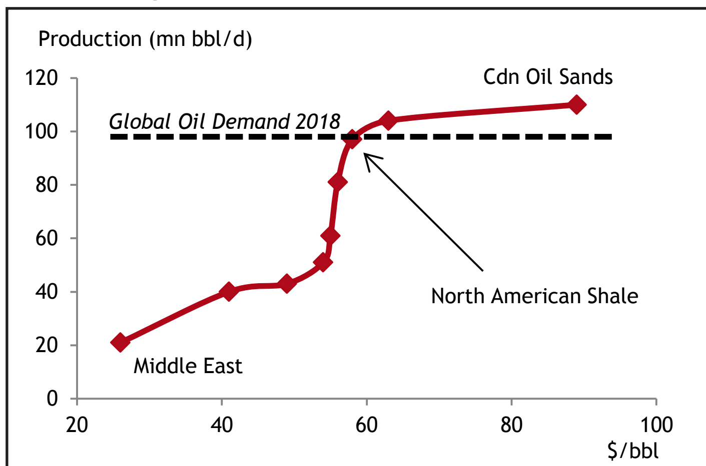
Nat-Gas: The New Normal

Even more so than oil, natural gas has little sustainable upside, at least judged against the much higher prices that prevailed ahead of the shale gas revolution. There was evidence that sub-$2 pricing led to losses for the industry and a stalling in production growth (Chart 8). That would therefore be too low to be consistent with meeting growing demand over time.

But North America is now awash in natural gas projects that can be profitably exploited at Henry Hub prices in the $2-$3 range (Chart 9). Current reserves of such gas would be sufficient to meet about two decades of today's demand levels. That said, while average prices in the next two years could still be below $3, normal volatility will generate occasional opportunities for producers to hedge future output at prices in the $3.50 to $4 range (Table 1).

Chart 7

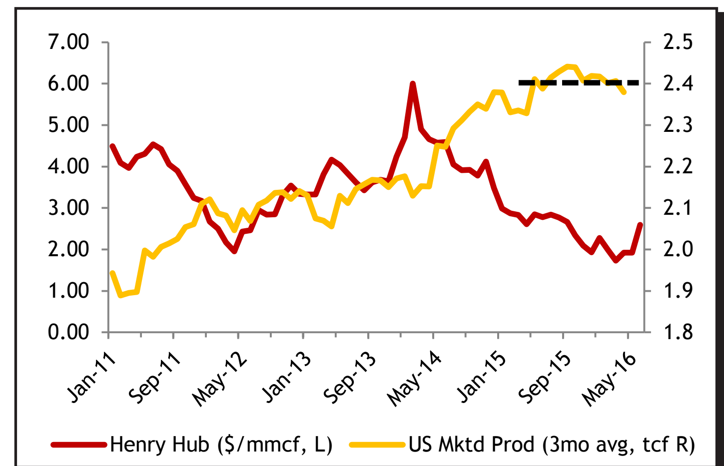
Shale Marginal Supplier in the Medium Term



Source: BP, CIBC

Chart 8

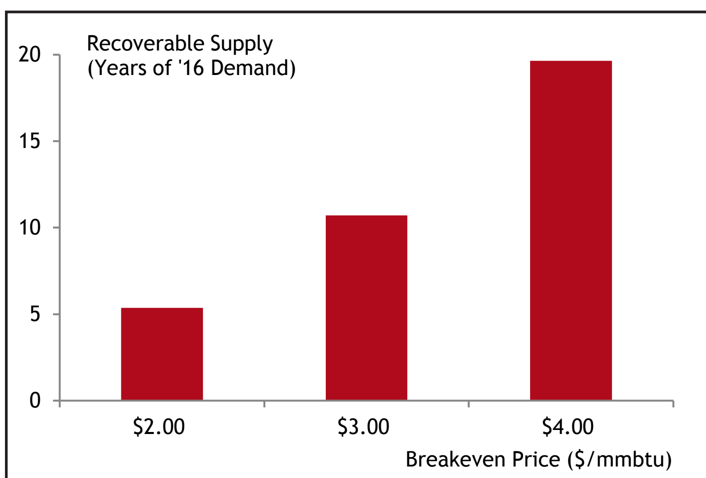
$2 Nat-Gas Stalls US Production



Source: IEA, CIBC

Chart 9

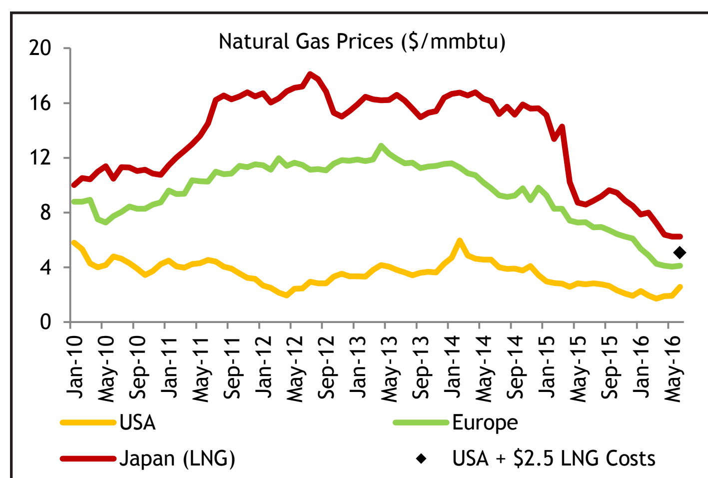
Decades Worth of Gas Available at $4



Source: UC Davis, CIBC

Chart 10

Gas Differentials Narrow, Auguring For Less LNG Investment



Source: World Bank, CIBC

Getting gas out of North America was seen at one point as a relief valve for the industry, as growth in LNG shipments to higher-priced markets overseas would help dry up the supply glut at home. While LNG will still be part of the plan for British Columbia, as it faces competition in North America from US shale producers closer to key markets, the pot of gold at the other end of the LNG rainbow no longer glimmers as brightly. In part, because of the tie to crude prices in LNG pricing, and also due to increasing outbound supplies from competing jurisdictions, the differential between overseas prices and those in North America has narrowed considerably (Chart 10).

Table 1

Crude Oil and Natural Gas Forecast

		2015	2016 (f)	2017 (f)	2018 (f)
Oil (WTI)	$/bbl	49	42	51	57
Natural Gas (Henry)	$/Mn Btu	2.61	2.40	2.95	2.80

Source: Bloomberg, CIBC

Too Little for Canada's Economy

For Canada's economy, crude prices are likely to remain beneath the level needed to spur a significant acceleration in oil sands investment through the end of this decade. The worst of the downturn might be behind the oil patch provinces, and fiscal stimulus could give Alberta a temporary respite, but the trend in potential growth for oil-producing provinces looks to be more modest for the remainder of this decade.

Even in this more subdued period, there will be some brighter spots. Shale investment should return to exploit the Canadian segment of the Bakken formation, and existing oil sands facilities will not only have improved margins, but will continue driving roughly $4 bn per year in maintenance cap-ex. With crude prices heading for roughly twice their lows, the economic and financial risks associated with insolvencies should also be lightening over time.

Furthermore, crude prices are unlikely to exert the same type of upward pressure on the Canadian dollar that we saw earlier in the decade. That should leave the loonie trading at a significant discount to the US$, particularly as the slack that opened up in the past two years leaves Governor Poloz trailing the Fed's interest rate hikes by a wide margin. The rotation will be a slow one, but non-energy exporting industries will be positioned to carry the next leg of the Canadian recovery.

ECONOMIC UPDATE

CANADA	16Q1A	16Q2F	16Q3F	16Q4F	17Q1F	2015A	2016F	2017F
Real GDP Growth (AR)	2.4	-1.4	3.3	1.9	2.2	1.1	1.2	2.1
Real Final Domestic Demand (AR)	1.3	0.7	1.4	1.8	1.6	0.3	0.7	1.5
Household Consumption (AR)	2.3	1.8	2.1	2.1	1.4	1.9	2.1	1.7
All Items CPI Inflation (Y/Y)	1.5	1.6	1.2	2.3	2.7	1.1	1.7	2.4
Core CPI Ex Indirect Taxes (Y/Y)	2.0	2.1	2.1	2.3	2.1	2.2	2.1	2.0
Unemployment Rate (%)	7.2	7.0	7.0	7.0	7.0	6.9	7.0	6.9

U.S.	16Q1A	16Q2A	16Q3F	16Q4F	17Q1F	2015A	2016F	2017F
Real GDP Growth (AR)	0.8	1.2	3.3	2.2	1.1	2.6	1.6	2.0
Real Final Sales (AR)	1.3	2.4	2.1	2.0	1.4	2.4	1.9	1.9
All Items CPI Inflation (Y/Y)	1.1	1.1	1.4	2.2	2.9	0.1	1.4	2.6
Core CPI Inflation (Y/Y)	2.2	2.2	2.3	2.3	2.3	1.8	2.3	2.3
Unemployment Rate (%)	4.9	4.9	4.7	4.7	4.7	5.3	4.8	4.7

CANADA

The Alberta wildfires will have taken their piece out of Q2 "growth", but a sharp deceleration in non-energy exports is also behind our forecast for a more significant quarterly retrenchment. Furthermore, a loss of underlying economic momentum, and signs that business capital spending will take even longer to return, has also had us drop our full-year outlooks for both 2016 and 2017. Core inflation looks to be holding up firmer than we had anticipated, while a lower profile for crude has dropped our near-term headline CPI outlook. The unemployment rate will track a tick lower than previously anticipated, reflecting weaker potential growth.

UNITED STATES

The first half of the year wasn't pretty. Nevertheless, momentum in the US labour market has picked up again after a soft spot earlier in the year. Moreover, with an inventory drawdown contributing to much of the weakness in the second quarter, underlying final demand did show signs of acceleration during the period. If, as we expect, inventories cease being a huge drag and consumers continue spending the gains from increased employment, the economy should see growth average roughly 2.5% for the remainder of the year.

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