NATIONAL BANK
FINANCIAL MARKETS
A division of National Bank of Canada

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Economics and Strategy

February 2016

Highlights

- *The global economy is set for another difficult year. Economies, particularly in emerging markets, will continue to adjust to the challenges brought by China's rebalancing, resulting in slower growth. In the advanced world too, growth won't be spectacular, with ongoing struggles in the Eurozone and Japan, and a likely deceleration in the US courtesy of a surging dollar. The greenback's surge has also raised the odds of world corporate debt turning sour. The sizable amount of USD-denominated debt issued outside of the US has indeed become harder to service after the greenback's historic surge. On a positive note, however, low oil prices will help keep inflation low, allowing central banks in most major economies to assist growth by keeping monetary policy highly stimulative. All in all, 2016 GDP growth is unlikely to be much better than last year.*

- *The US economy is starting to feel the brunt of the dollar's surge. Exports are declining and that's leading to bloated inventories and production cutbacks by factories. The persistence of USD strength had us trim our 2016 growth forecast to 2.0%. While trade will continue to act as a drag on the economy, domestic demand will again contribute thanks largely to consumers, although not to the same extent as before. Indeed, employment growth is set to moderate from the red hot pace of the last couple of years, while the benefits of low pump prices will also fade for consumers. With slower growth than it had expected and inflation capped by USD strength, the Fed won't be in a hurry to tighten monetary policy.*

- *The persistence of low oil prices means the worst may not be over for Canada. Lower projections for oil prices should lead to further cuts to investment spending and hurt growth. We have accordingly downgraded our 2016 growth forecast to just 0.9%. With monetary policy becoming less effective, the federal government can play a more significant role to support the economy. However, we'll need to see a more forceful and timely fiscal policy response in the upcoming federal budget than what was promised during the election campaign to paper over oil-induced weakness and put off the broader stall in Canadian growth we now fear. Failing an added fiscal boost, the onus for supporting growth would once again fall squarely back to the Bank of Canada.*

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				Change from Previous Forecast	
	2015	2016	2017	2016	2017
United States					
GDP	2.4%	2.0%	2.0%	-0.3 pp	unch
CPI inflation	0.1%	1.4%	2.2%	-0.2 pp	+0.1 pp
Fed Fund Target Rate*	0.50%	1.00%	1.75%	unch	-25 bp
Ten-year bond yield*	2.27%	2.36%	2.53%	-24 bp	-3 bp
Canada					
GDP	1.2%	0.9%	1.7%	-0.7 pp	unch
CPI inflation	1.1%	1.7%	1.9%	unch	+0.3 pp
Overnight rate*	0.50%	0.50%	0.75%	unch	-25 bp
Ten-year bond yield*	1.40%	1.73%	2.13%	-32 bp	-24 bp

* end of period

World: Unhappy New Year

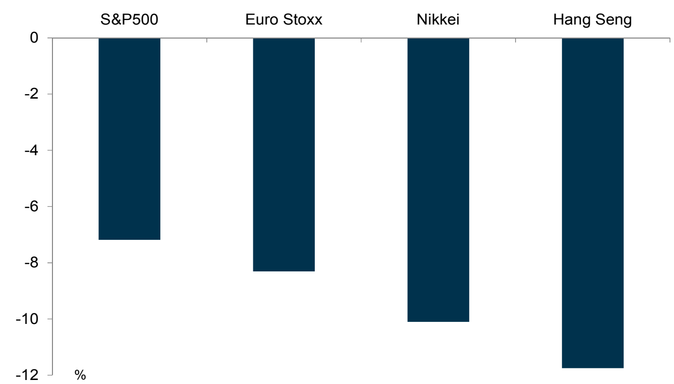
The global economy is set for another difficult year. Economies, particularly in emerging markets, will continue to adjust to the challenges brought by China's rebalancing, resulting in slower growth. In the advanced world too, growth won't be spectacular, with ongoing struggles in the Eurozone and Japan, and a likely deceleration in the US courtesy of a surging dollar. The greenback's surge has also raised the odds of world corporate debt turning sour. The sizable amount of USD-denominated debt issued outside of the US has indeed become harder to service after the greenback's historic surge. On a positive note, however, low oil prices will help keep inflation low, allowing central banks in most major economies to assist growth by keeping monetary policy highly stimulative. All in all, 2016 GDP growth is unlikely to be much better than last year.

For many investors, it's been an unhappy New Year so far. With stock markets flashing red worldwide and oil prices finding new lows, one could easily get the impression we're in the middle of a global financial crisis. If we're not in one already, odds of a crisis will continue to increase if world growth disappoints further and the US dollar remains on an uptrend. The greenback has gained over 20% in trade-weighted terms in the past two years. The last time the USD saw a similar surge that didn't end up well for the global economy.

Flashback to 1997. The USD's surge at the time contributed to currency crises and capital outflows in several developing economies which, coupled with high sovereign debt, morphed into a full blown financial crisis in Asia. It would be foolish to rule out a similar if not a more devastating outcome. According to the Bank for International Settlements there is now almost $10 trillion stock of dollar-denominated debt held by non-financial entities outside the US. The historic USD surge has now made it harder to service that debt. The size of USD-denominated debt is at a record in both absolute and relative terms. At almost 18% of World GDP excluding the US, the exposure of debtors to a strengthening USD is now twice as large as it was back in 1997.

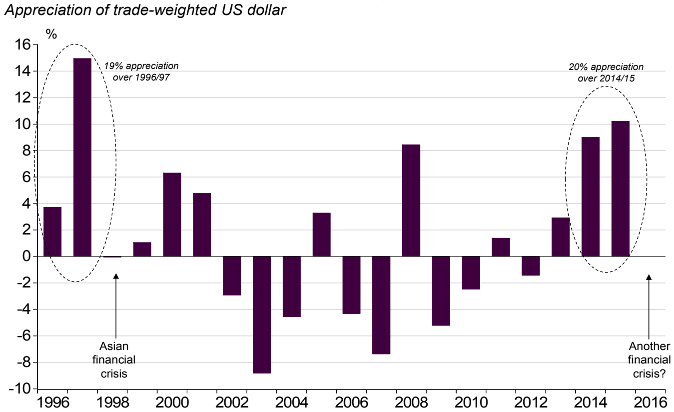
On a positive note, however, governments in places such as Asia are in a better position than say during the financial crisis of 1997 to assist their respective economies and support their currencies should the private sector fall under the weight of unsustainable debt. Asian economies generally have higher FX reserves and better current account balances now than 20 years ago. True, that may not be enough to fully offset a prolonged private sector slump, but the extra padding is welcome because it can help cushion the blow.

World: Unhappy returns
Stock market performance January 2016



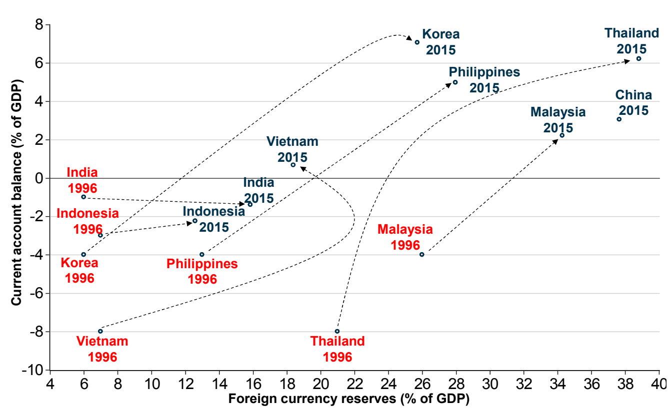
NBF Economics and Strategy (data via Bloomberg)

Surging USD poses serious risks to global economy
Appreciation of trade-weighted US dollar



NBF Economics and Strategy (data via Datastream)

Emerging Asia: Some improvement since the 1997 crisis
Foreign currency reserves and Current account balance – 1996 versus 2015



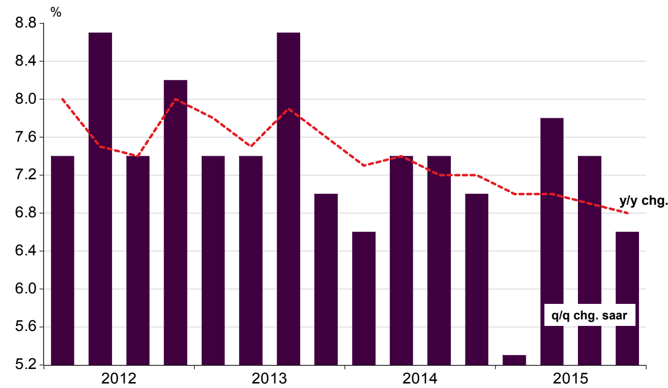
NBF Economics and Strategy (data via World Bank, IMF)

World Economic Outlook

	Forecast		
	2015	2016	2017
Advanced countries	***1.9***	***1.8***	***1.8***
United States	2.4	2.0	2.0
Euroland	1.5	1.5	1.5
Japan	0.6	1.0	0.3
UK	2.2	2.2	2.2
Canada	1.2	0.9	1.7
Australia	2.4	2.9	3.1
New Zealand	2.2	2.4	2.4
Hong Kong	2.5	2.7	2.8
Korea	2.7	3.2	3.6
Taiwan	2.2	2.6	2.9
Singapore	2.2	2.9	3.2
Emerging Asia	***6.5***	***6.3***	***6.2***
China	6.9	6.3	6.0
India	7.3	7.8	7.5
Indonesia	4.7	5.1	5.5
Malaysia	4.7	4.5	5.0
Philippines	6.0	6.3	6.5
Thailand	2.5	3.2	3.6
Latin America	***-0.5***	***-0.1***	***1.5***
Mexico	2.5	2.6	2.9
Brazil	-3.8	-3.5	0.0
Argentina	0.4	-0.7	0.0
Venezuela	-10.0	-6.0	-4.5
Colombia	2.5	2.8	3.2
Eastern Europe and CIS	***0.0***	***0.9***	***1.8***
Russia	-3.7	-1.0	1.0
Czech Rep.	3.9	2.6	2.6
Poland	3.5	3.5	3.6
Turkey	3.0	2.9	3.7
Middle East and N. Africa	***2.3***	***3.6***	***3.8***
Sub-Saharan Africa	***3.6***	***4.2***	***4.7***
Advanced economies	***1.9***	***1.8***	***1.8***
Emerging economies	***3.9***	***4.3***	***4.6***
World	***3.1***	***3.2***	***3.4***

Source: NBF Economics and Strategy

China: Pace of growth moderated in Q4

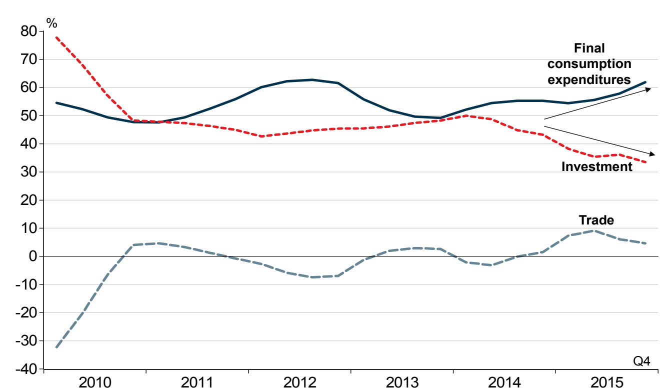


NBF Economics and Strategy (data via Datastream)

One of the things keeping investors on edge worldwide is the uncertainty with regards to China. Besides the challenges brought by opening up its economy and rebalancing growth away from exports and investment and towards a less-productive services sector, there are also concerns about Beijing's abilities to manage such sea change. Policy hasn't been reassuring so far, including the yuan's devaluations and then some back pedalling to support the currency, as well as intervention in the stock market. Poor communication with markets haven't helped either. What markets need to hear is that while growth will be slower than in past years, it will nonetheless be sustainable thanks to measures that the government have already taken or are about to implement.

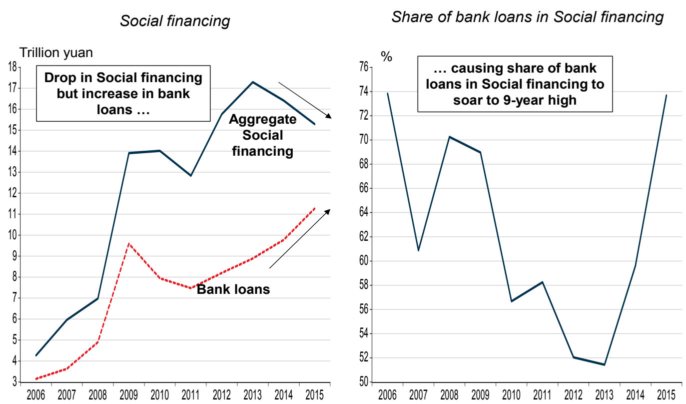
To be sure, growth is slowing. GDP growth printed just 6.6% annualized in the final quarter of 2015 or 6.8% on a year-on-year basis, the weakest since 2009. The handoff to 2016 wasn't spectacular either based on below consensus December data for industrial production and retail spending. On a positive note, however, consumption expenditure increased its share of the economy, accounting for more than 60% of the contribution to GDP growth last year. So, rebalancing is starting to bear fruit.

China: Towards a more sustainable model of growth
Share of Real GDP, 4-quarter moving average



NBF Economics and Strategy (data via Datastream)

China: Total loans down but bank loans rose in 2015



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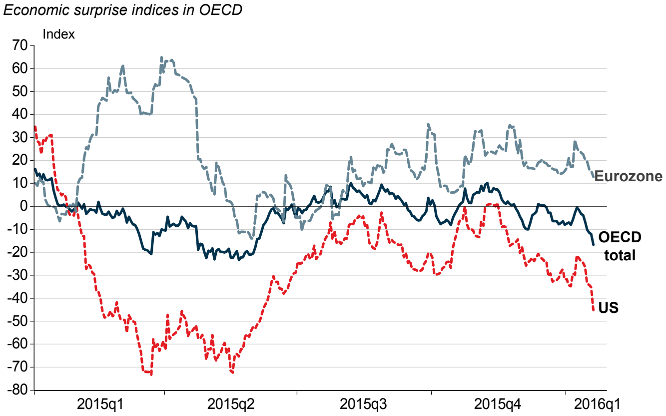
World: Positive economic surprises in the eurozone

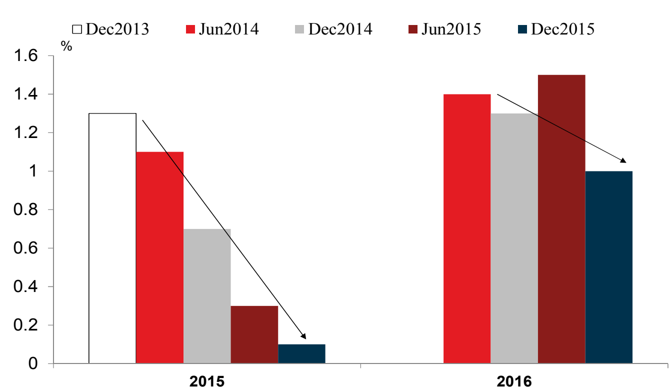
Economic surprise indices in OECD



NBF Economics and Strategy (data via Bloomberg)

ECB continues to downgrade its inflation forecasts

ECB staff forecasts for Eurozone's annual inflation rate in 2015 and 2016



NBF Economics and Strategy (data via European Central Bank)

There has also been progress on reducing systemic risks related to shadow banking. Social financing, the aggregate measure of credit, was up more than 15 trillion yuans in 2015, i.e. a bit lower than the prior year's increase. The deceleration was entirely due to loans made outside of banks, which grew at the slowest pace since 2008. That offset the increase in conventional bank loans, the latter growing at the fastest pace on records. So much so, that the share of new bank loans in social financing shot up to nearly 74%, the highest since 2009. This is a positive development in terms of financial stability and hence sustainability of growth. However, China is not out of the woods just yet. There are still risks surrounding non-bank loans that were made during the boom years of shadow banking (e.g. 2013), particularly related to real estate investment. The real estate correction is far from over and related defaults could have a significant impact on financial markets. Assuming those risks are well managed by Beijing, we expect growth of around 6.3% in China this year.

In the advanced world too, growth won't be spectacular, with ongoing struggles in the Eurozone and Japan, and a likely deceleration in the US courtesy of a surging dollar (see US section). True, there has been some improvements in the eurozone as evidenced by consensus-topping data in the last six months ─ although it must be said that it's not too difficult to surpass expectations when they are low. And it's also true that credit channels are slowly being unblocked as evidenced by improving household credit and business loans, the latter even managing to grow on a year-on-year basis for the first time in three years. Moreover, increases in expenditures to address the migrant crisis, e.g. on housing and social services, should provide a lift to growth. But even the European Central Bank acknowledged there are downside risks to the eurozone's outlook.

Emerging markets, the Eurozone's main customers, are not growing as much as they used to and that is already hurting the zone's exports. Moreover, the threat of deflation isn't going away due to slow economic growth. The ECB is struggling to assess inflation as evidenced by continuing downgrades to its forecasts. To be fair to the central bank, there are major uncertainties regarding some of the factors that are influencing prices including the outlook for oil prices and demographics. Based on President Draghi's comments in January, odds are there will be another downward revision to inflation forecasts at the March meeting at which time more stimulus could be provided to boost growth and hence prices. The extra stimulus is unlikely to do much on the inflation front, but should at least help the zone replicate last year's GDP growth performance.

U.S.: Dollar weighing on growth

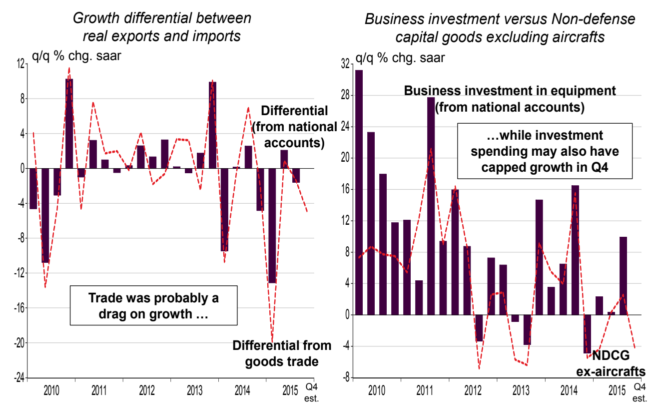
The US economy is starting to feel the brunt of the dollar's surge. Exports are declining and that's leading to bloated inventories and production cutbacks by factories. The persistence of USD strength had us trim our 2016 growth forecast to 2.0%. While trade will continue to act as a drag on the economy, domestic demand will again contribute thanks largely to consumers, although not to the same extent as before. Indeed, employment growth is set to moderate from the red hot pace of the last couple of years, while the benefits of low pump prices will also fade for consumers. With slower growth than it had expected and inflation capped by USD strength, the Fed won't be in a hurry to tighten monetary policy.

The US economy ended 2015 the way it started that year. GDP results for the final quarter of last year were not available at this writing, but it's clear from monthly reports that growth decelerated sharply. Trade seems to have been a major drag on growth due to declining exports. Investment spending may also have chopped from growth based on sinking shipments of non-defense capital goods excluding aircraft, a reasonably good proxy. And based on monthly data on inventories, odds are there was some destocking in the final quarter of 2015 which would have trimmed another few ticks from growth. On the plus side, consumption spending and residential investment seem to have remained strong, providing some offset. Overall, we expect Q4 GDP growth of around 0.6%, i.e. not a particularly strong handoff to 2016.

While the economy should pick up steam, we're not anticipating stellar growth in the first half this year. Softness from late 2015 is set to extend to the early parts of the New Year. Note that despite the expected drag from inventories in Q4, stocks remain bloated relative to sales — the inventory to sales ratio is at its highest point since the 2009 recession. So, production is likely to be adjusted down to allow inventories to be absorbed. Sales have been weak in large part due to sinking exports, the latter now contracting at the fastest pace since the 2009 recession. The US dollar's surge in the last two years — more than 20% appreciation in trade-weighted terms — is starting to bite.

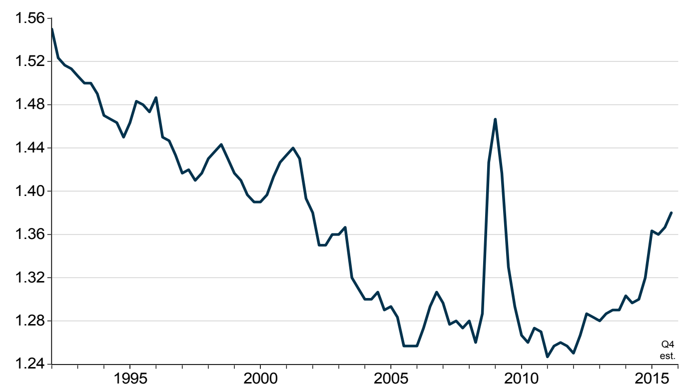
The manufacturing sector is facing headwinds as a result and that is confirmed by a range of indicators including the Philly, Empire, Markit PMI and the ISM. Note the latter is now stuck below the 50 threshold for two months in a row, and that for the first time since the 2009 recession. Mining is also under the gun with output falling in every single month last year in synch with sinking commodity prices. Those headwinds explain why industrial production is now down nearly 2% year-on-year, i.e. a level that has in the past been associated with recessions.

U.S.: GDP restrained in Q4



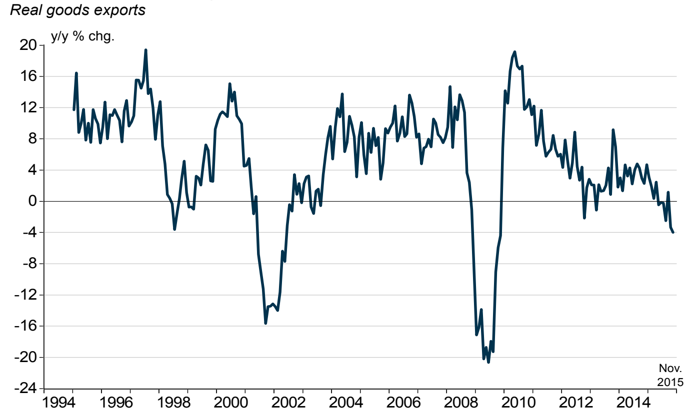
NBF Economics and Strategy (data via Datastream)

U.S.: Bloated inventories
Business inventory to sales ratio



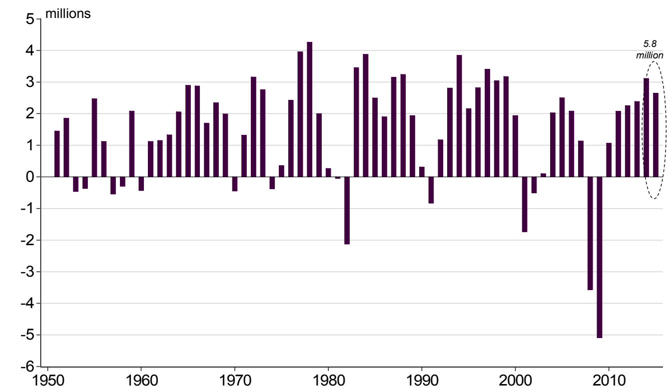
NBF Economics and Strategy (data via Datastream)

U.S.: Worst export growth since recession
Real goods exports



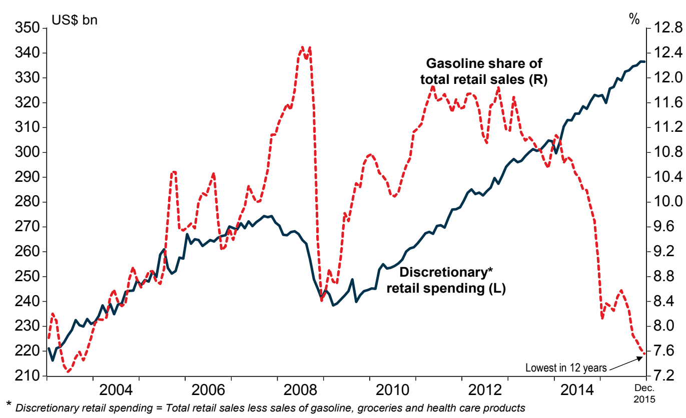
NBF Economics and Strategy (data via Datastream)

U.S.: Best two-year performance since Clinton years
Non-farm payrolls, annual change



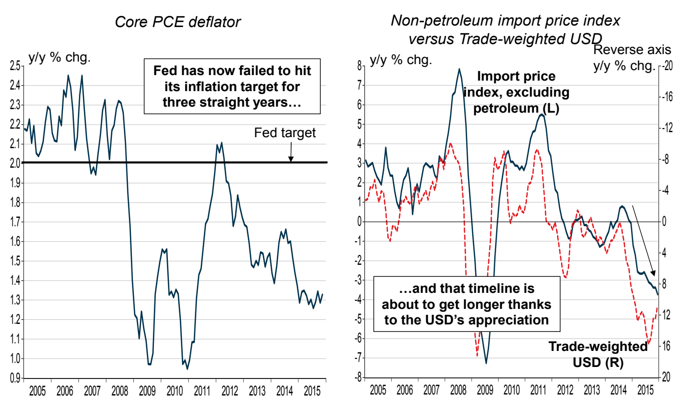
NBF Economics and Strategy (data via Datastream)

U.S.: Low pump prices boosting consumption
Retail sales



* *Discretionary retail spending = Total retail sales less sales of gasoline, groceries and health care products*
NBF Economics and Strategy (data via Datastream)

U.S.: Strong USD makes it harder for Fed to hit its inflation target



NBF Economics and Strategy (data via Datastream)

Thankfully for the US, there is a buoyant services sector which should continue to offset goods sector woes. The private services sector is growing faster than the rest of the economy resulting in its share of the economy hitting an all-time high of over 68% last year, or roughly five times as large as that of mining and manufacturing combined. The surge in private services explains the labour market's stellar performance over the last couple of years. Recall we just had the best back-to-back annual job gains since the late 1990's ─ a combined total of 5.8 million jobs were created in 2014 and 2015, i.e. a monthly average of 240K of which more than 200K were in the private services sector.

The income gains from a solid labour market have assisted the recovery in the housing market. Not only did prices of existing homes continue to increase ─ up another 5% last year according to the Case-Shiller index ─ but housing starts accelerated last year. True, the contribution of housing to the economy is now much less than was the case a decade ago due to the tilt of residential construction towards lower value multiple units. But the overall upward trend is encouraging.

The strong labour market coupled with low pump prices and house price gains (read wealth effect) have helped support consumption spending. Thanks to plunging prices, gasoline now accounts for less than 8% of total retail sales, the lowest in 12 years. That leaves more cash in consumers' wallets to spend on other things. So, it shouldn't be surprising that discretionary spending, i.e. retail sales excluding gasoline, groceries and health care products, is now at an all-time high. We expect consumption to again be the major driver of the US economy this year.

We're also expecting investment spending to bounce back after a difficult end of 2015. In light of the dollar's surge, it makes sense for factories aiming to compete with low-cost centres around the world to invest in capital goods to rekindle productivity. And in an election year, chances are that Congress will show voters it can work with the President and ratify growth-enhancing spending measures. All told, domestic demand should remain strong this year.

However, given the persistence of USD strength, we now expect trade to be hit harder than what we thought earlier. We are, accordingly, lowering our 2016 GDP growth forecast to 2% (or 2.2% Q4/Q4). If we're correct about the soft first half of the year, the Fed will opt to delay rate hikes. Besides the soft growth, the FOMC will also be concerned about low inflation. The annual core PCE deflator has remained well below the Fed's 2% target for three years in a row and that timeline is likely to be extended in light persistently low wages and a strong dollar. The latter is responsible for the fact that import prices are now contracting at the fastest pace since 2009.

Canada: Pent-up disinvestment

The persistence of low oil prices means the worst may not be over for Canada. Lower projections for oil prices should lead to further cuts to investment spending and hurt growth. We have accordingly downgraded our 2016 growth forecast to just 0.9%. With monetary policy becoming less effective, the federal government can play a more significant role to support the economy. However, we'll need to see a more forceful and timely fiscal policy response in the upcoming federal budget than what was promised during the election campaign to paper over oil-induced weakness and put off the broader stall in Canadian growth we now fear. Failing an added fiscal boost, the onus for supporting growth would once again fall squarely back to the Bank of Canada.

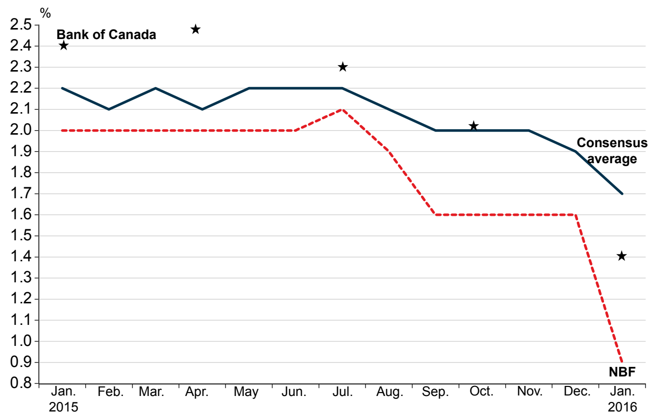
Those who thought the worst is over for Canada ought to re-evaluate. The Bank of Canada certainly did when it downgraded its 2016 forecast to just 1.4% in January's Monetary Policy Report. We've tended to adopt a relatively more defensive posture in terms of Canadian growth and that is set to continue with a fresh downgrade to our 2016 forecast to just 0.9% in light of the expected poor handoff from the prior year and lower projections for oil prices. We acknowledge there are further downside risks even to that call, particularly if WTI oil does not rise to our $40 end-of-year target. The inability of oil prices to bounce higher has raised concerns about prospects for 2016, and even beyond if you believe the slump is structural. While the impacts of the oil shock on the Canadian economy are complex, it's clear much of the initial drag on growth came from investment spending as evidenced by the precipitous drop last year. Sadly, the investment collapse is far from over.

According to the Bank of Canada's Business Outlook survey, firms are the least keen to invest in over six years. The balance of opinion for firms with regards to investment in machinery and equipment is now negative for the first time since 2009, i.e. a majority of firms expects lower investment over 2016 compared to last year. According to the BoC, the decline in investment intentions is attributed to domestically oriented firms that are exposed to the resource sector. And that is more than offsetting better intentions to invest for non-resource exporters, the latter buoyed by stronger foreign demand and a more competitive Canadian dollar.

Energy producers remain in cost-cutting mode due to the persistence of low prices. But even outside the energy sector, the outlook for business investment is anything but rosy. Corporations are struggling to generate profits in an environment of slow global growth and limited pricing power. So, no matter how many times the Bank of Canada cuts interest rates, firms are unlikely to increase investment outlays unless the profit outlook improves.

Canada: Forecasts for 2016 growth have been consistently lowered

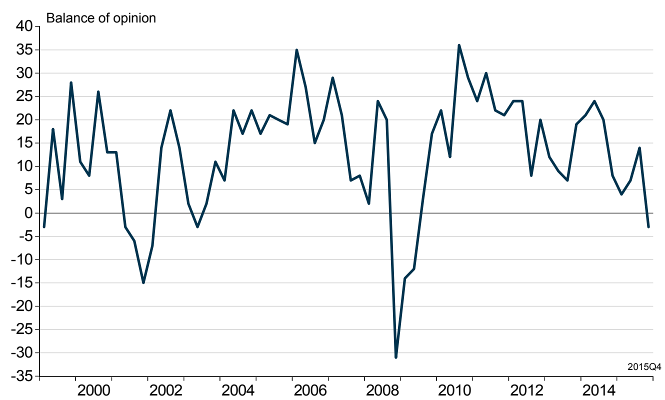
Forecasts for 2016 Canadian real GDP growth



NBF Economics and Strategy (data via Consensus Economics)

Canada: Deterioration in investment intentions

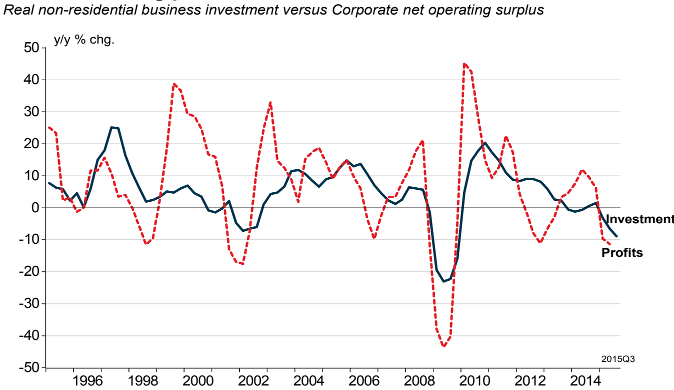
Bank of Canada survey: Business intentions to invest in machinery and equipment



NBF Economics and Strategy (data via Statistics Canada)

Canada: Sinking profits bad for investment

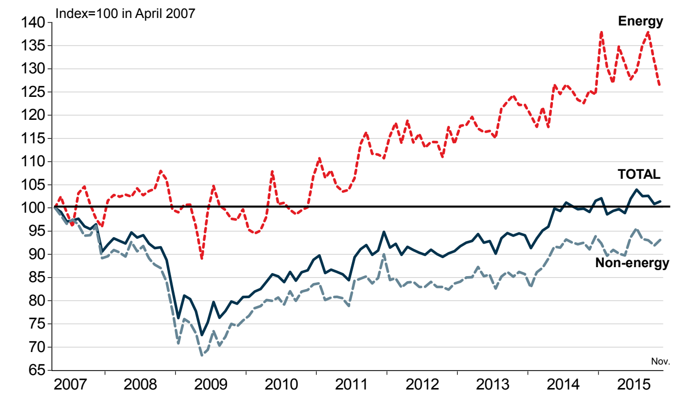
Real non-residential business investment versus Corporate net operating surplus



NBF Economics and Strategy (data via Statistics Canada)

Canada: Non-energy exports still below 2007 peak

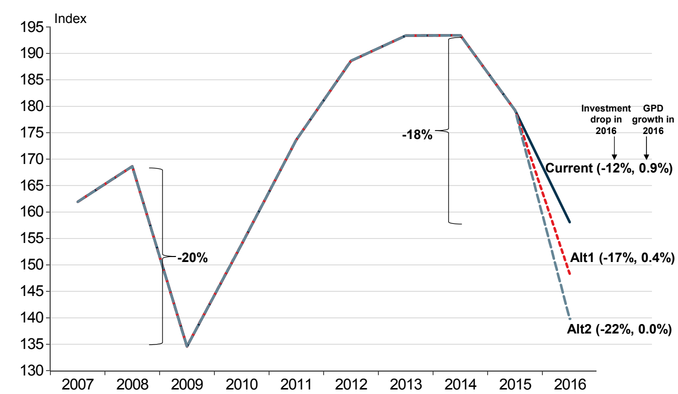
Merchandise export volumes



NBF Economics and Strategy (data via Statistics Canada)

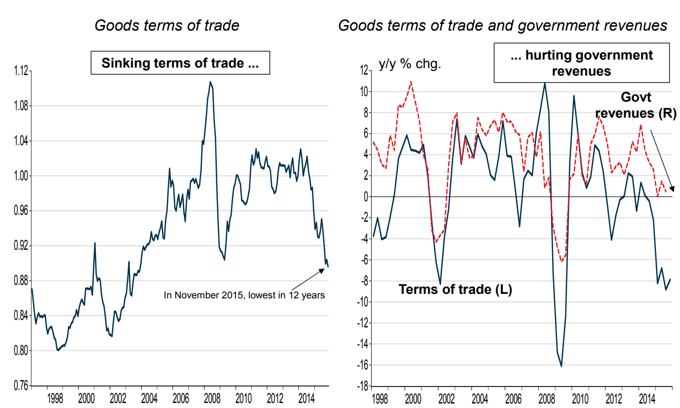
Canada: Scenarios of plunging investment

Real non-residential investment



NBF Economics and Strategy (data via Statistics Canada, NBF calculations)

Canada: Commodity slump poses challenges to government



NBF Economics and Strategy (data via Statistics Canada)

Another obstacle for investment is the slumping Canadian dollar. True, the loonie's newfound competitiveness should help lift non-energy exporters. There are tentative signs of recovery in the data. That said, the benefits are likely to be constrained by the loss of market share and reduced industrial capacity. Recall that despite a weaker currency and a stronger US economy, non-energy exports remain well below levels reached eight years ago. So, the expected investment boost from exporters in response to better sales abroad, may take a while and may not be as significant as first thought.

Note that the US dollar's surge in the last couple of years — more than 20% in trade-weighted terms since 2014 — is hurting the manufacturing sector stateside. To the extent that our exporters supply those American factories, the broad-based USD strength could in fact be detrimental to Canada. In other words, regardless of the loonie's depreciation, there is a knock-on effect of the USD's surge on Canadian producers who supply US factories. Last but not least, to the extent the loonie's slump makes it more expensive for firms to import capital goods, many of them are unlikely to do so, particularly in light of a dull sales outlook. All in all, we expect further declines in investment this year. Our current forecast of 0.9% growth for 2016 assumes a 12% drop in non-residential investment.

But admittedly, things could be a lot worse. The relationship between oil prices and investment in the energy sector is likely non-linear, i.e. there is a threshold for oil prices beyond which investment will fall at a faster rate. After all, firms may not have cut as much as they could have last year due to the belief that the oil slump was temporary. With growing belief now that oil price weakness is longer-lasting if not permanent, firms' expectations could adjust and cause the pace of investment cutbacks to snowball, a "pent-up disinvestment" if you will. Note that during the global financial crisis of 2008/09, non-residential investment spending collapsed 20%. With the outlook for oil prices much duller now than it was then, a similar or worse slump cannot be ruled out.

All told, there's a very real risk of Canadian GDP growth falling under 1% this year. And the bad news is that such snail's pace of growth may become the new norm because of a lower potential in the aftermath of a declining capital stock. One way out of this is for oil prices to bounce back enough to prompt energy companies to invest again. Another is for the federal government to aim fiscal stimulus in the right places, i.e. projects that would help raise the economy's ability to produce. The bad news, however, is that government action will be restrained by slower nominal GDP growth, and hence lower government revenues, courtesy of weak commodity prices. Failing an added fiscal boost, the onus for supporting growth would once again fall squarely back to the Bank of Canada.

United States
Economic Forecast

(Annual % change)*	2013	2014	2015	2016	2017	Q4/Q4 2015	Q4/Q4 2016	Q4/Q4 2017
Gross domestic product (2009 $)	1.5	2.4	2.4	2.0	2.0	1.8	2.2	1.8
Consumption	1.7	2.7	3.1	2.8	2.6	2.7	2.8	2.5
Residential construction	9.5	1.8	8.5	7.3	3.1	8.1	6.7	2.0
Business investment	3.0	6.2	3.0	2.7	2.0	2.2	3.2	1.4
Government expenditures	(2.9)	(0.6)	0.8	1.0	1.3	1.2	0.9	1.2
Exports	2.8	3.4	0.8	(3.1)	(1.3)	(2.1)	(3.0)	(0.6)
Imports	1.1	3.8	4.8	2.1	2.4	2.5	2.9	2.5
Change in inventories (bil. $)	61.4	68.0	91.7	53.8	51.8	55.0	53.0	51.0
Domestic demand	1.2	2.5	2.8	2.6	2.3	2.5	2.7	2.1
Real disposable income	(1.4)	2.7	3.5	2.4	1.9	3.2	2.1	1.8
Household employment	1.0	1.6	1.7	1.3	1.2	1.4	1.4	1.0
Unemployment rate	7.4	6.2	5.3	4.9	4.8	5.0	4.8	4.8
Inflation	1.5	1.6	0.1	1.4	2.2	0.4	1.7	2.4
Before-tax profits	2.0	1.7	(0.8)	4.0	4.5	-2.6	4.5	4.5
Federal balance (unified budget, bil. $)	(680.2)	(483.3)	(439.0)	(544.0)	(561.0)	...	...	...
Current account (bil. $)	(376.8)	(389.5)	(478.4)	(507.0)	(514.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 1-22-16	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2015	2016	2017
Fed Fund Target Rate	0.50	0.50	0.75	1.00	1.00	0.50	1.00	1.75
3 month Treasury bills	0.30	0.32	0.55	0.78	0.83	0.16	0.83	1.71
Treasury yield curve								
2-Year	0.88	0.94	1.26	1.35	1.42	1.06	1.42	2.05
5-Year	1.49	1.56	1.79	1.88	1.96	1.76	1.96	2.38
10-Year	2.07	2.15	2.28	2.32	2.36	2.27	2.36	2.53
30-Year	2.83	2.91	3.01	3.02	3.04	3.01	3.04	3.16
Exchange rates								
U.S.$/Euro	1.08	1.05	1.07	1.08	1.10	1.09	1.10	1.11
YEN/U.S.$	119	120	121	122	125	120	125	130

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*** end of period*

Canada
Economic Forecast

(Annual % change)*	2013	2014	2015	2016	2017	Q4/Q4 2015	Q4/Q4 2016	Q4/Q4 2017
Gross domestic product (2007 $)	2.2	2.5	1.2	0.9	1.7	0.4	1.3	1.6
Consumption	2.4	2.6	1.9	1.5	1.3	1.5	1.4	1.2
Residential construction	(0.4)	2.5	3.6	0.4	(0.8)	2.2	(0.1)	(1.0)
Business investment	2.5	0.0	(7.3)	(12.4)	(3.7)	(10.6)	(12.3)	(1.3)
Government expenditures	(0.8)	0.6	1.4	1.9	2.6	1.1	3.0	1.9
Exports	2.8	5.3	2.7	2.9	4.6	0.7	4.9	4.5
Imports	1.5	1.8	(0.0)	(0.3)	2.1	(3.6)	2.5	3.0
Change in inventories (millions $)	15,476	9,869	3,403	3,917	3,231	-5,301	1,307	4,750
Domestic demand	1.3	1.6	0.6	(0.0)	1.0	(0.2)	0.2	1.0
Real disposable income	3.4	1.1	2.4	1.4	1.5	1.8	1.2	1.5
Employment	1.4	0.6	0.9	0.4	0.6	0.8	0.2	0.7
Unemployment rate	7.1	6.9	6.9	7.3	7.2	7.1	7.4	7.1
Inflation	0.9	1.9	1.1	1.7	1.9	1.4	1.9	1.6
Before-tax profits	0.8	7.0	(16.9)	(2.7)	8.8	(19.2)	3.2	9.5
Current account (bil. $)	(59.7)	(44.9)	(70.4)	(69.0)	(61.0)	....	....	....

** or as noted*

Financial Forecast**

	Current 1-22-16	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2015	2016	2017
Overnight rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75
3 month T-Bills	0.46	0.46	0.46	0.46	0.46	0.50	0.46	0.89
Treasury yield curve								
2-Year	0.46	0.47	0.52	0.61	0.66	0.48	0.66	1.33
5-Year	0.76	0.79	0.90	1.07	1.15	0.73	1.15	1.91
10-Year	1.32	1.36	1.46	1.66	1.73	1.40	1.73	2.13
30-Year	2.10	2.14	2.24	2.41	2.45	2.15	2.45	2.73
CAD per USD	1.41	1.40	1.38	1.38	1.36	1.39	1.36	1.30
Oil price (WTI), U.S.$	32	35	37	38	40	37	40	50

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*** end of period*

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