NATIONAL BANK
FINANCIAL MARKETS
A division of National Bank of Canada

# MONTHLY ECONOMIC MONITOR

Economics and Strategy

**October 2015**

## Highlights

- *After a tepid first half of 2015, the global economy seems to be picking up speed thanks to better growth in the OECD, the latter led by a resurgent US. In sharp contrast, emerging economies seem to be struggling to adapt to the new world of sub-7% growth in China. Making matters worse is the growing risk of disorderly deleveraging in emerging markets where the sizable amount of USD-denominated debt has become harder to service after the dollar's surge. That's the major downside risk to our forecast for the global economy to grow 3.5% in 2016.*

- *The US is a beacon of hope in an otherwise dull global economy. While the outlook for its exporters isn't great considering the appreciating dollar and weak world growth, domestic demand remains rock solid. A strong labour market is fueling consumption growth while investment spending is picking up as corporations attempt to boost productivity. We continue to expect the world's largest economy to post above-potential growth of around 2.5% this year and next. But given current uncertainties, including a fragile global economy and the possibility of a government shutdown in the US, the Fed may want to wait until at least December to start a new tightening cycle.*

- *If Canada was ever in recession in the first half of 2015 it seems to have come out of it in the third quarter. A resurgent US is providing a lift to exporters and hence Canada's economy. A much-depreciated C$ is making Canadian goods more competitive abroad and giving a helping hand to services industries such as tourism. Still, despite an expected second half rebound, real GDP growth should be no better than 1.3% in 2015 courtesy of a disastrous start of the year. Don't expect a significantly better performance in 2016 unless Ottawa delivers much-needed fiscal stimulus to address the decline in the economy's potential.*

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| | | | | Change from Previous Forecast | |
|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2015 | 2016 |
| **United States** | | | | | |
| GDP | 2.4% | 2.5% | 2.6% | unch | unch |
| CPI inflation | 1.6% | 0.3% | 2.1% | unch | unch |
| Fed Fund Target Rate* | 0.25% | 0.50% | 1.25% | unch | -25 bp |
| Ten-year bond yield* | 2.14% | 2.33% | 2.55% | -4 bp | -16 bp |
| **Canada** | | | | | |
| GDP | 2.4% | 1.3% | 1.6% | unch | unch |
| CPI inflation | 1.9% | 1.2% | 1.7% | unch | unch |
| Overnight rate* | 1.00% | 0.50% | 0.50% | +25 bp | +25 bp |
| Ten-year bond yield* | 1.81% | 1.61% | 2.25% | +15 bp | +22 bp |

* end of period

# MONTHLY ECONOMIC MONITOR

## World: Better second half?

***After a tepid first half of 2015, the global economy seems to be picking up speed thanks to better growth in the OECD, the latter led by a resurgent US. In sharp contrast, emerging economies seem to be struggling to adapt to the new world of sub-7% growth in China. Making matters worse is the growing risk of disorderly deleveraging in emerging markets where the sizable amount of USD-denominated debt has become harder to service after the dollar's surge. That's the major downside risk to our forecast for the global economy to grow 3.5% in 2016.***

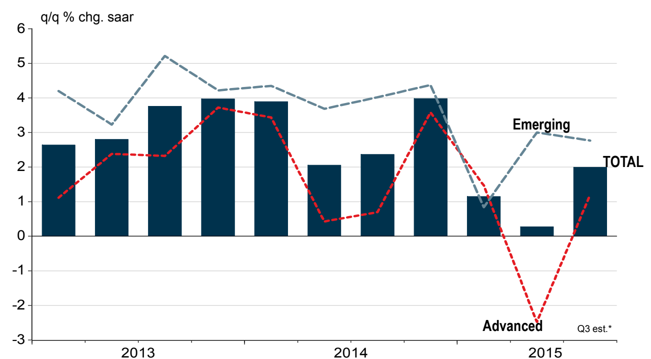
After a challenging first half of the year, the global economy seems to regaining some speed. That's according CPB data which showed healthy gains in July for world industrial production which is now on track to grow in the third quarter at the fastest pace since last year. The observed rebound in OECD industrial activity courtesy of the US and Eurozone is certainly helping. Based on above-50 manufacturing purchasing managers indices, it seems momentum in advanced economies extended through September.

However, the same cannot be said of emerging economies. India seems to be one of the few bright spots with the manufacturing sector still in expansion mode, but that won't offset declines elsewhere in the emerging world. Note the sub-50 readings for Brazil, Russia, Indonesia, Malaysia, South Korea, Taiwan, Hong Kong and of course China. In September, China's factory PMI fell to the lowest since 2009 as new orders, output, and employment all fell at a faster rate than in the prior month.

So what's going on in the emerging world's manufacturing sector? Last year's forced shutdown of hundreds of polluting factories is still weighing on China's output. But more generally, efforts by China's government to rebalance its economy away from exports and towards consumption have led to a slower growth path for the world's second largest economy. That is causing disruptions across Asia particularly in countries that have deep supply chain linkages with China. In August, China's exports fell 5.5% on a year-on-year basis, the fifth time in the last six months that this measure is in negative territory. That means China's exporting factories need fewer imported inputs (as confirmed by falling imports as well), which is having ripple effects down the supply chain.

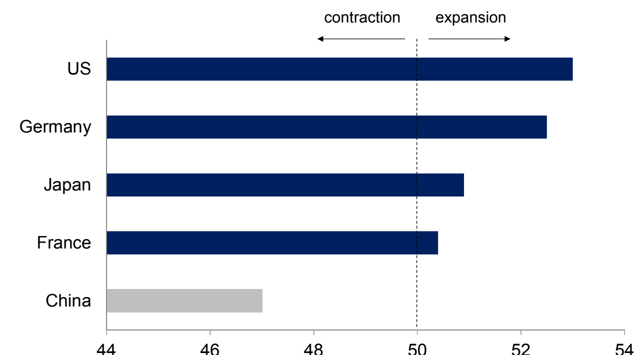
Besides a slower-moving manufacturing sector, China is also having to deal with a moderation in credit which is restraining overall demand. Social financing, the aggregate measure of credit, remains on a downtrend after government introduced measures over the last couple of years to curb activity in the shadow banking sector.

**World: Industrial output on the rise**
*World industrial production*



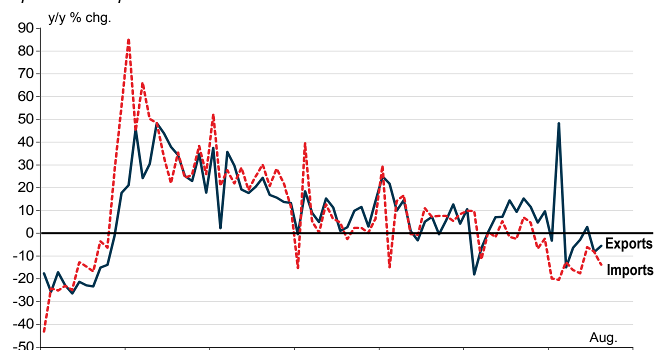

** Assuming no change in August and September and no revisions in prior months*
*NBF Economics and Strategy (CPB data via Datastream)*

**World: Factories still expanding in major OECD economies**
*Markit's flash manufacturing PMI for September*




*NBF Economics and Strategy (data via Markit)*

**China: Exports and imports are both declining**
*Exports and imports*



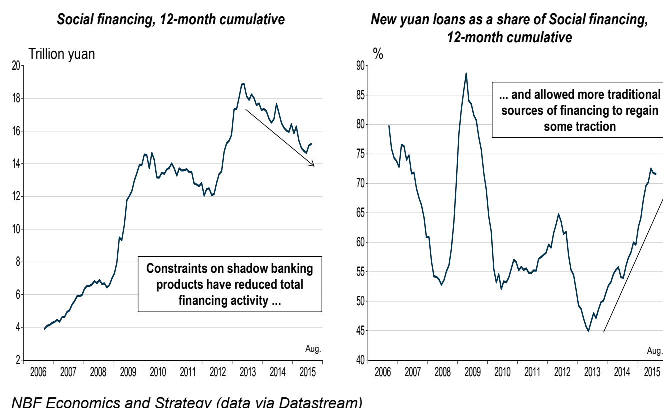

*NBF Economics and Strategy (data via Datastream)*

## World Economic Outlook

| | Forecast | | |
|---|---|---|---|
| | 2014 | 2015 | 2016 |
| **Advanced countries** | ***1.8*** | ***1.9*** | ***2.0*** |
| *United States* | 2.4 | 2.5 | 2.6 |
| *Euroland* | 0.8 | 1.2 | 1.3 |
| *Japan* | -0.1 | 0.8 | 1.0 |
| *UK* | 2.9 | 2.6 | 2.5 |
| *Canada* | 2.4 | 1.3 | 1.6 |
| *Australia* | 2.7 | 2.3 | 2.7 |
| *New Zealand* | 3.2 | 2.4 | 2.4 |
| *Hong Kong* | 2.3 | 2.3 | 2.5 |
| *Korea* | 3.3 | 2.5 | 3.2 |
| *Taiwan* | 3.7 | 2.1 | 3.0 |
| *Singapore* | 2.9 | 2.2 | 2.7 |
| **Emerging Asia** | ***6.8*** | ***6.6*** | ***6.5*** |
| *China* | 7.4 | 6.8 | 6.5 |
| *India* | 7.3 | 7.6 | 7.9 |
| *Indonesia* | 5.0 | 4.8 | 5.2 |
| *Malaysia* | 6.0 | 4.8 | 4.7 |
| *Philippines* | 6.1 | 5.8 | 6.0 |
| *Thailand* | 0.7 | 2.7 | 3.4 |
| **Latin America** | ***1.3*** | ***0.4*** | ***1.6*** |
| *Mexico* | 2.1 | 2.4 | 3.0 |
| *Brazil* | 0.1 | -1.9 | 0.0 |
| *Argentina* | 0.5 | 0.6 | 1.0 |
| *Venezuela* | -4.0 | -6.7 | -2.7 |
| *Colombia* | 4.6 | 2.2 | 2.8 |
| **Eastern Europe and CIS** | ***1.7*** | ***0.0*** | ***1.8*** |
| *Russia* | 0.6 | -3.6 | 0.3 |
| *Czech Rep.* | 2.0 | 3.6 | 2.7 |
| *Poland* | 3.3 | 3.6 | 3.6 |
| *Turkey* | 2.9 | 2.9 | 3.3 |
| **Middle East and N. Africa** | ***2.4*** | ***2.7*** | ***2.1*** |
| **Sub-Saharan Africa** | ***5.0*** | ***4.5*** | ***4.6*** |
| **Advanced economies** | ***1.8*** | ***1.9*** | ***2.0*** |
| **Emerging economies** | ***4.6*** | ***4.2*** | ***4.5*** |
| **World** | ***3.4*** | ***3.2*** | ***3.5*** |

*Source: NBF Economics and Strategy*

**China: Declining shadow loans but rising conventional loans**

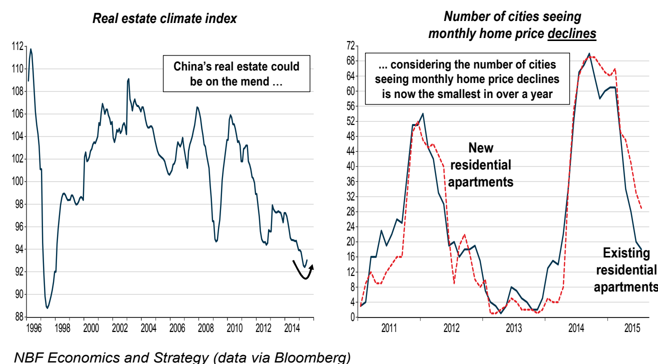



*NBF Economics and Strategy (data via Datastream)*

The People's Bank of China has cut interest rates several times since November in an attempt at boosting non-shadow bank loans. And we're now starting to see benefits of that with increases in conventional bank loans, the latter's share of social financing rising to over 70%, the highest since 2009. So, while the decline in overall credit will continue to restrain the economy, the rising share of bank loans in total credit is a positive development in terms of financial stability and hence sustainability of growth. The stimulus provided by the PBoC may also be behind the apparent stabilization in the real estate market after the sharp correction of the past couple of years. There's indeed been a significant decline in the number of cities experiencing monthly price declines, from a record 70 in September last year to just 18 cities in July this year.

All told, it's not all gloom and doom in China. Short term pains of rebalancing will be worth it if the economy eventually reaps the benefits of more sustainable growth over the longer term. The world's second largest economy should grow roughly 6.8% this year despite the ongoing headwinds, before decelerating further towards more sustainable levels in 2016. With inflation remaining well under target, the central bank has room to provide more stimulus if needed.

**China: Has real estate hit bottom?**



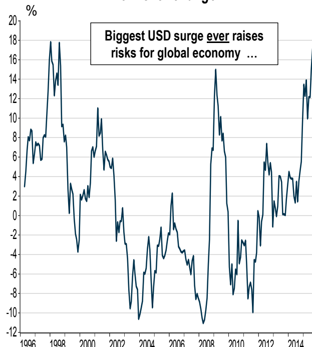

*NBF Economics and Strategy (data via Bloomberg)*

**World: Emerging market bonds stable for now**
*Emerging market effective bond yields*

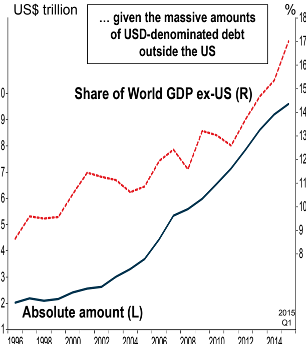
*NBF Economics and Strategy (data via Bloomberg)*

**Global economy more exposed than ever to USD-related risks**

*Trade-weighted US dollar, 15-month change*

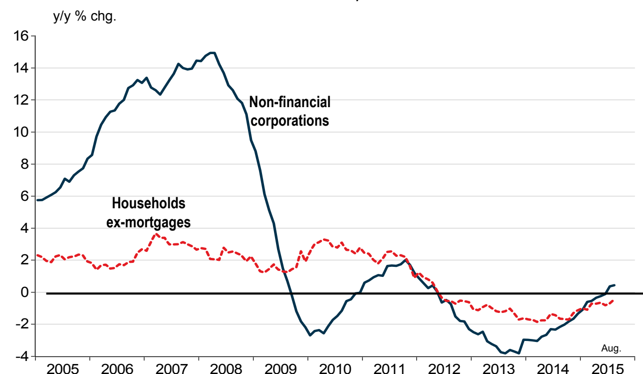



*Credit in US dollars to non-bank borrowers outside the United States*




*NBF Economics and Strategy (data via IMF, Bank of International Settlements)*

**Eurozone: Credit starting to pick up**
*MFI loans to households and non-financial corporations*




*NBF Economics and Strategy (data via Datastream)*

Regardless of whether or not China manages to achieve a soft landing, the outlook for emerging economies will remain highly uncertain for the next little while. That's because of growing risks related to debt accumulation. Emerging market economies have indeed experienced higher credit intensity since the Great recession of 2009, i.e. a faster increase in credit but smaller gains in output than in the past. This growing dependence on debt is concerning, particularly with interest rates likely to rise in synch with tighter monetary policy in the US. The "taper tantrum" of 2013 is a reminder of the threat facing emerging markets, i.e. large capital outflows causing bond yields to spike. For now, the situation seems to be under control with continuing net inflows in emerging markets and hence the latter's bond yields remaining quite stable. But as we've seen in the past, flows can reverse very quickly. All that is needed is a trigger.

One such potential trigger is the US dollar. The 18% appreciation of the trade-weighted USD since June last year, the biggest 15-month surge ever for the greenback, cannot be good for issuers of USD-denominated debt outside America. According to the latest Quarterly Review from the Bank for International Settlements, the stock of dollar-denominated debt held by non-financial entities outside the US grew to a record $9.6 trillion in the first quarter of 2015 (about 40% of which are in emerging markets). That's also a record as a percentage of GDP, i.e. 17% of World GDP (excluding the US), suggesting global exposure to a strengthening USD is now twice as large as it was 20 years ago. The potential for disorderly deleveraging via large scale corporate defaults is a major downside risk to our forecast for the global economy to grow 3.5% in 2016.

Unlike emerging markets, the OECD should be able to perform better next year compared to this year. The US economy continues to strengthen on the back of a resurgent private sector (see US section) while both Japan and the Eurozone are starting to see the benefits of QE by their respective central banks. At its September meeting the European Central Bank tweaked its QE program a bit by allowing for more purchases of debt from each member countries by raising the potential purchase limit to 33% of any bond. The ECB's stimulus seems to be working 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 since 2012. The credit channels are slowly being unblocked and that bodes well for growth going forward. The cheaper euro resulting from the ECB's ultra-loose policies is also giving a lift to exports, and helping support imported inflation and hence inflation expectations. We continue to expect the Eurozone and Japan to grow 1.3% and 1% respectively in 2016, although that's always been contingent on continued loose policy by the ECB and Bank of Japan.

# MONTHLY ECONOMIC MONITOR

## U.S.: Fed shows restraint

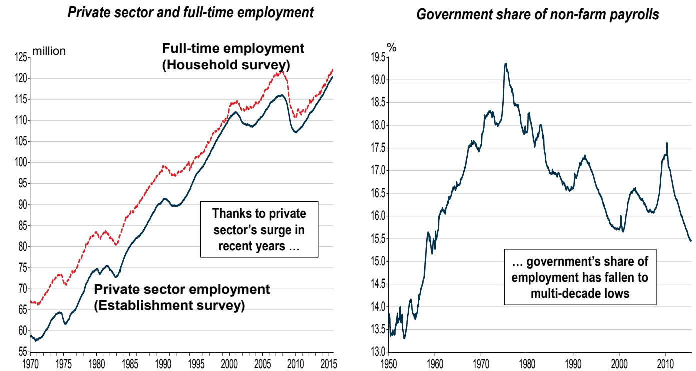
***The US is a beacon of hope in an otherwise dull global economy. While the outlook for its exporters isn't great considering the appreciating dollar and weak world growth, domestic demand remains rock solid. A strong labour market is fueling consumption growth while investment spending is picking up as corporations attempt to boost productivity. We continue to expect the world's largest economy to post above-potential growth of around 2.5% this year and next. But given current uncertainties, including a fragile global economy and the possibility of a government shutdown in the US, the Fed may want to wait until at least December to start a new tightening cycle.***

The US labour market shows no signs of slowing down. The establishment survey (i.e. non-farm payrolls) puts net employment creation at an average of well over 200K jobs/month this year driven by private sector payrolls, the latter even hitting an all-time high in August. Thanks to the private sector's surge, government's share of employment has fallen to multi-decade lows. The household survey tells a similar story of a hot labour market as evidenced by a record 122 million full-time jobs and an unemployment rate that is at its lowest since 2008. The employment data is encouraging not only because it confirms the economy continues to expand, but more importantly because it highlights a vibrant private sector, a necessary condition for the expansion to be sustainable.

Employment could have been even stronger were it not for bottlenecks in some areas where specialized skills are needed. Part of the reason why the latest Job Openings and Labor Turnover Survey shows a record 5.75 million job openings is the difficulty facing firms in attracting qualified applicants. About half of small businesses responding to the latest NFIB survey reported that there were few or no qualified applicants to fill vacant positions. It's unclear why that hasn't yet translated into sustained wage inflation. Perhaps workers do not feel confident in their bargaining powers in the current environment of weak unionization and low inflation (courtesy of a still-elevated output gap). Or perhaps management feels there's a breakeven wage beyond which automation makes more sense than hiring.

Still, income gains from a solid labour market, falling pump prices and low borrowing costs are all fuelling consumption growth. Real retail sales are tracking growth of around 3% annualized in Q3, slightly less than in the prior quarter, but still healthy nonetheless. Gains in full-time employment are also supporting the housing recovery. In the resale market, the share of distressed sales and cash buyers are now at multi-year lows. And after a couple of soft quarters, business investment is once again on the rise based on a reasonable proxy, namely shipments of non-defense capital goods excluding aircrafts. So, domestic demand likely remained strong after a hot second quarter.

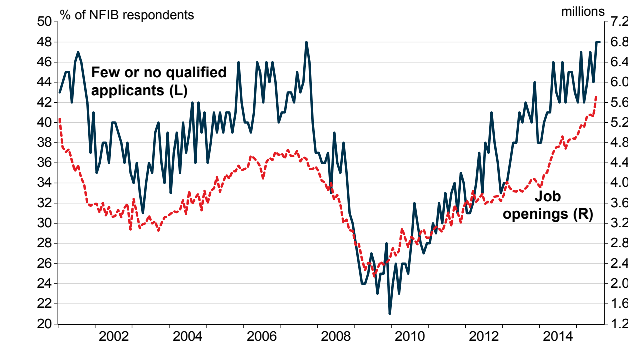
**U.S.: Record full-time and private sector employment**




NBF Economics and Strategy (data via Datastream)

**U.S.: Plenty of job openings but not enough qualified applicants**

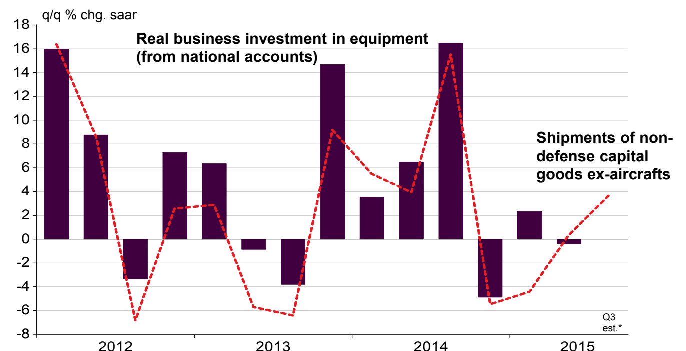
*JOLTS job openings versus NFIB small businesses seeing lack of qualified applicants*




NBF Economics and Strategy (data via Datastream)

**U.S.: Business investment on the rise**

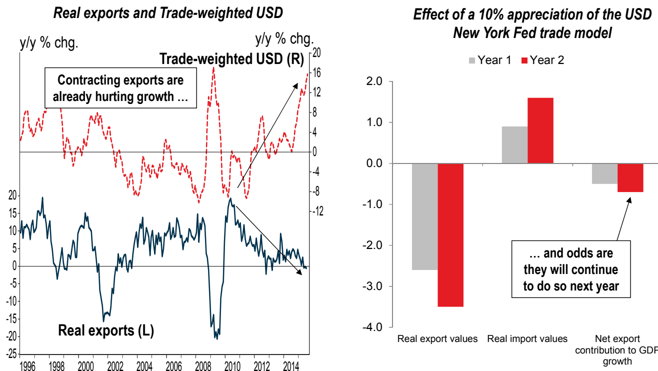
*Real investment versus Shipments of non-defense capital goods excluding aircrafts*




* Assumes no change in September and no revisions to prior months

NBF Economics and Strategy (data via Datastream)

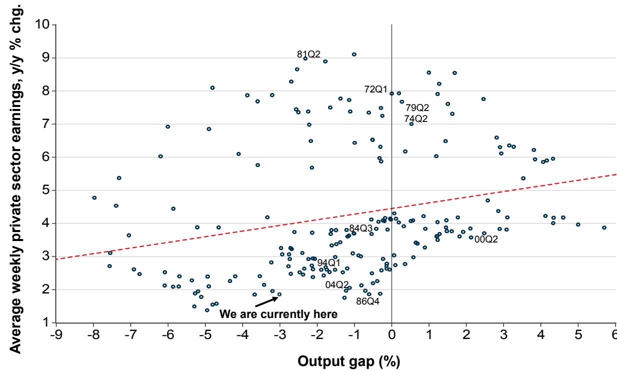
## U.S.: Export volumes are contracting




NBF Economics and Strategy (data via US Census Bureau, New York Fed)

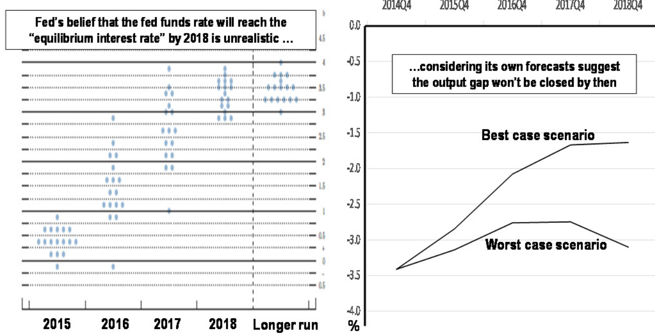
## U.S.: Output gap and wage inflation argue against Fed rate hike

*Output gap and Wage inflation (Dates shown when Fed started tightening cycle)*




NBF Economics and Strategy (data via Datastream, Congressional Budget Office)

## U.S.: Can the Fed really reach the "equilibrium rate" by 2018?




NBF Economics and Strategy (data via Federal Reserve, Congressional Budget Office)

In sharp contrast, exporters are hurting. Real exports remained below year-ago levels for the third month in a row in July. Such a stretch in the red hasn't been seen since 2009. But that shouldn't be surprising considering weak global demand and the USD's appreciation. The bad news doesn't end there for exporters because the dollar's surge will have lasting effects. According to the New York Fed's trade model, a 10% appreciation not only shaves about 0.5% from growth in the year of appreciation but chops another 0.7% the following year. Considering the potential for the USD to appreciate further thanks to currency devaluations in emerging markets and ongoing currency debasement policies in Europe and Japan via QE, one has to be cautious about growth prospects in 2016. And it's not just growth that is being sacrificed because the strong USD is also pulling the inflation rate further away from the Fed's 2% target via declining import prices ─ recall the annual core PCE deflator was at a four-year low of just 1.2% in July.

Those must have been at the back of the minds of FOMC participants when they collectively refrained from hiking the fed funds rate in September. The official reason given by the Fed for keeping rates at zero was the threat posed by international developments to the US growth and inflation outlook. But in truth, even domestic data do not warrant tightening monetary policy just yet. Despite solid job gains this year, labour market slack still exists. Not only are there millions of people who still remain unemployed and millions more who are underemployed, but the lack of wage inflation also suggests the jobless rate, despite recent progress, remains above the natural rate of unemployment. Similarly, real GDP remains well below potential as evidenced by a negative output gap of around 3%. The start of a new tightening cycle has never occurred with such a combination of large output gap and low wage inflation.

While a move in October cannot be ruled out, we now expect the Fed to wait until at least its December meeting by which time participants could have a bit more confidence that global developments are not derailing the outlook for US growth and inflation. Also, by December, uncertainties with regards to a potential government shutdown will likely be in the rear view mirror. While market obsession about the timing of the first rate hike is understandable given this will be the first hike in almost a decade, more important in our view is the end point of the fed funds rate which determines the shape of yield curve. According to the Fed's dot plots the "equilibrium interest rate", which is in the 3-4% range, will be reached by 2018. That seems highly unlikely considering the Fed's own growth forecasts which, even under its best case scenario, don't come close to eliminating the output gap over the forecast horizon. Expect the fed funds rate to remain well below the equilibrium rate for the next several years.

## Canada: Lifted by the US

***If Canada was ever in recession in the first half of 2015 it seems to have come out of it in the third quarter. A resurgent US is providing a lift to exporters and hence Canada's economy. A much-depreciated C$ is making Canadian goods more competitive abroad and giving a helping hand to services industries such as tourism. Still, despite an expected second half rebound, real GDP growth should be no better than 1.3% in 2015 courtesy of a disastrous start of the year. Don't expect a significantly better performance in 2016 unless Ottawa delivers much-needed fiscal stimulus to address the decline in the economy's potential.***

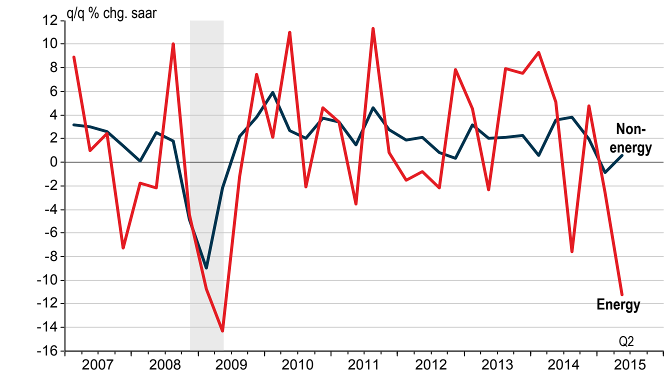
Canada was in a so-called technical recession in the first half of 2015. The second consecutive quarter of declining GDP in Q2 (-0.5% annualized after a 0.8% drop in Q1) was largely due to the energy sector's collapse, although construction and manufacturing also contracted in the quarter. Clearly, the impacts of the oil shock were more brutal than first thought. Looking at the GDP components, investment spending was particularly weak in Q2 and that more than offset contributions from consumption, government, residential construction and trade.

Declining output meant economic slack opened up further. Indeed, capacity utilization fell in Q2 to the lowest level in roughly two years. The utilization rate is now at a one-year low in the manufacturing sector, three-year low in the construction industry, two-year low in oil & gas, and a six-year low in mining. So, while there may be some exceptions in sectors where utilization rates remain elevated, such as transportation equipment, the investment outlook is generally not good. The decline in capacity usage, weak corporate profits and a much depreciated C$ (which makes imports of capital goods more expensive) all suggest we're not about to get a quick rebound in investment spending after the latter's collapse in recent quarters. Public sector investment also looks constrained by revenue problems at both the federal and provincial levels courtesy of sinking commodity prices which have capped nominal GDP.

But not all is bleak. A closer look at the GDP report gives reason to be optimistic about a rebound. The drag from inventories in Q2 is positive for growth in the second half of the year. Moreover, the strong handoff from June (when GDP reportedly grew 0.5%) puts the economy on track to return to growth in Q3. Also positive is the fact that the labour market remains in expansion mode thanks to gains in the services sector which have more than offset declines in the goods sector. So far this year, services-producing industries have created over 20,000 jobs/month on average, taking their share of overall employment to roughly 79%, the highest ever. The solid gains, particularly with regards to full-time employment, suggests further support for consumption spending and the housing market.

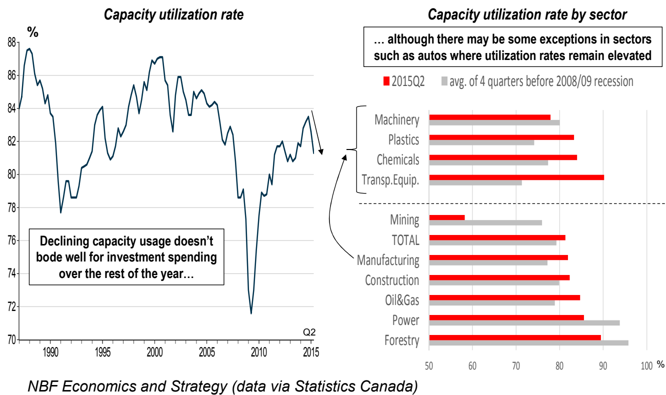
**Canada: Energy collapse**

*Real GDP by industry*



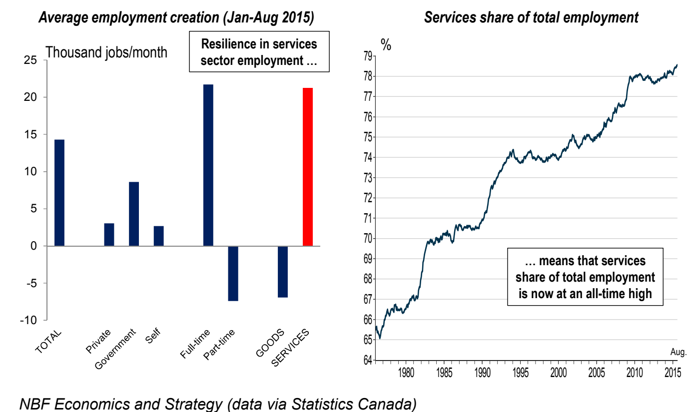

*NBF Economics and Strategy (data via Statistics Canada)*

**Canada: Capacity utilization down in Q2**




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

**Canada: Resilience in services sector**




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

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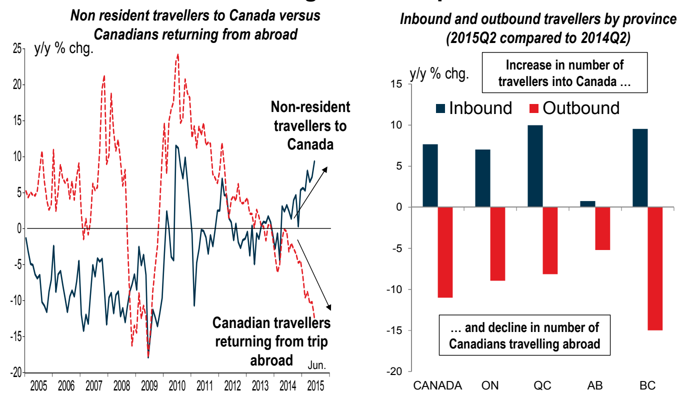
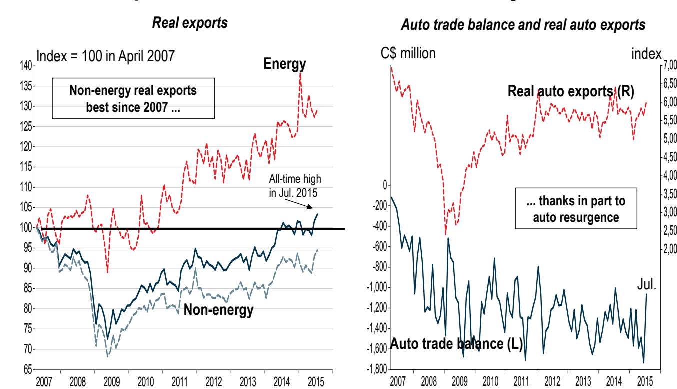
**Canada: Tourism benefiting from cheaper loonie**



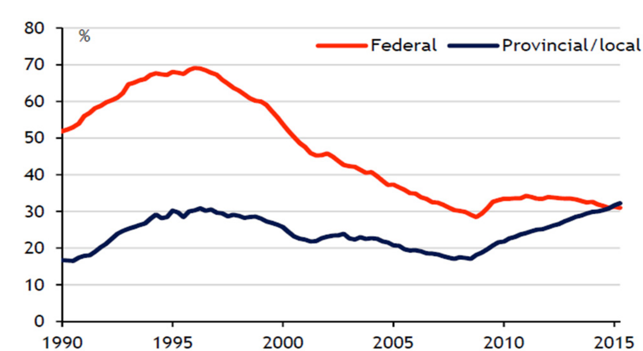

*NBF Economics and Strategy (data via Statistics Canada)*

**Canada: Export volumes hit new record in July**




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

**Canada: Debt load for provi/muni moves above that of Ottawa**
*Net debt-GDP ratio*




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

The benefits of a much-depreciated Canadian dollar are also becoming more apparent. For instance, the tourism sector is already cashing-in from the loonie's slump. The number of non-resident travellers into Canada soared in June to roughly 2.4 million, or 9% above year-ago levels. Moreover, the depreciating C$ seems to be encouraging many Canadians to spend their vacation budget at home as evidenced by the 12% drop compared to June last year of the number of Canadians returning from trips abroad. Three of Canada's largest provinces, Ontario, Quebec and BC are seeing the highest growth in the number of international visitors and also the biggest declines in outbound travel by locals. Positive repercussions should extend beyond the tourism sector, in sectors like retailing for example, with a decline in cross-border shopping by Canadians.

Another positive is trade. After disappointing for so long, export volumes finally bounced back and reached a new record in July. Energy exports remain strong while non-energy exports are now at their highest point since 2007 thanks in part to autos. Resurgent US demand and the cheap C$ are no doubt helping. The export surge should help the economy return to growth in Q3. Indeed, assuming no change in August and September, real exports are tracking growth of over 14% annualized in the quarter while real imports are contracting.

But Canada isn't out of the woods just yet. The Canadian dollar will have to remain weak to give manufacturers a fighting chance in a highly competitive global marketplace. Low productivity relative to competitors, including those stateside, remain the Achilles heel of Canadian manufacturing. With exports remaining the main growth driver of the economy and investment continuing to disappoint, expect the Bank of Canada to keep monetary policy highly stimulative. The inflation rate, at 1.3% in August, remains well below target for now and gives the central bank room for further stimulus if necessary.

Despite an expected second half rebound, real GDP growth should be no better than 1.3% in 2015 courtesy of a disastrous start of the year. The bad news doesn't end there. The investment collapse has not only hurt growth this year but also impaired the ability of Canada to produce i.e. potential GDP growth has dropped. As a result we're not expecting much of a growth rebound in 2016. However, that could change if October's federal elections deliver a new government intent in addressing head-on the decline in the economy's potential growth. As we pointed out in a recent note on Government Credit entitled "*There's more to Canada's national balance sheets than the household leverage ratio*", the net debt to GDP ratio is declining at the federal level and hence provides Ottawa with more flexibility than provinces and municipalities to deliver much-needed fiscal stimulus.

## United States
## Economic Forecast

| (Annual % change)* | 2012 | 2013 | 2014 | 2015 | 2016 | Q4/Q4 2014 | Q4/Q4 2015 | Q4/Q4 2016 |
|---|---|---|---|---|---|---|---|---|
| Gross domestic product (2009 $) | 2.2 | 1.5 | 2.4 | 2.5 | 2.6 | 2.5 | 2.4 | 2.4 |
| Consumption | 1.5 | 1.7 | 2.7 | 3.1 | 2.7 | 3.2 | 2.6 | 2.5 |
| Residential construction | 13.5 | 9.5 | 1.8 | 8.3 | 6.3 | 5.1 | 7.6 | 6.2 |
| Business investment | 9.0 | 3.0 | 6.2 | 3.2 | 3.0 | 5.5 | 2.8 | 2.8 |
| Government expenditures | (1.9) | (2.9) | (0.6) | 0.5 | 1.2 | 0.4 | 0.6 | 1.6 |
| Exports | 3.4 | 2.8 | 3.4 | 1.6 | 1.5 | 2.4 | 0.9 | 0.7 |
| Imports | 2.2 | 1.1 | 3.8 | 5.0 | 2.7 | 5.4 | 3.3 | 3.0 |
| Change in inventories (bil. $) | 54.7 | 61.4 | 68.0 | 108.6 | 92.5 | 78.2 | 103.0 | 90.0 |
| Domestic demand | 1.9 | 1.2 | 2.5 | 2.8 | 2.6 | 3.0 | 2.4 | 2.5 |
| Real disposable income | 3.1 | (1.4) | 2.7 | 3.0 | 2.5 | 3.6 | 2.5 | 2.6 |
| Household employment | 1.8 | 1.0 | 1.6 | 1.9 | 1.5 | 2.2 | 1.7 | 1.6 |
| Unemployment rate | 8.1 | 7.4 | 6.2 | 5.4 | 5.1 | 5.7 | 5.2 | 5.0 |
| Inflation | 2.1 | 1.5 | 1.6 | 0.3 | 2.1 | 1.2 | 1.1 | 2.0 |
| Before-tax profits | 10.0 | 2.0 | 1.7 | 0.7 | 5.6 | 3.4 | 0.4 | 4.5 |
| Federal balance (unified budget, bil. $) | (1,089.2) | (680.2) | (483.3) | (426.0) | (414.0) | ... | ... | ... |
| Current account (bil. $) | (449.7) | (376.8) | (389.5) | (446.8) | (445.2) | ... | ... | ... |

** or as noted*

## Financial Forecast**

| | Current 9-24-15 | Q4 2015 | Q1 2016 | Q2 2016 | Q3 2016 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Fed Fund Target Rate | 0.25 | 0.50 | 0.75 | 1.00 | 1.25 | 0.50 | 1.25 |
| 3 month Treasury bills | 0.01 | 0.35 | 0.60 | 0.85 | 1.07 | 0.35 | 1.10 |
| Treasury yield curve | | | | | | | |
| 2-Year | 0.67 | 0.93 | 1.08 | 1.36 | 1.49 | 0.93 | 1.78 |
| 5-Year | 1.44 | 1.66 | 1.78 | 2.01 | 2.12 | 1.66 | 2.38 |
| 10-Year | 2.13 | 2.33 | 2.39 | 2.49 | 2.54 | 2.33 | 2.55 |
| 30-Year | 2.91 | 3.09 | 3.12 | 3.19 | 3.22 | 3.09 | 3.20 |
| Exchange rates | | | | | | | |
| U.S.$/Euro | 1.13 | 1.10 | 1.08 | 1.07 | 1.03 | 1.10 | 1.00 |
| YEN/U.S.$ | 119 | 121 | 122 | 126 | 128 | 121 | 130 |

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*** end of period*

## Canada
## Economic Forecast

| (Annual % change)* | 2012 | 2013 | 2014 | 2015 | 2016 | Q4/Q4 2014 | Q4/Q4 2015 | Q4/Q4 2016 |
|---|---|---|---|---|---|---|---|---|
| Gross domestic product (2007 $) | 1.9 | 2.0 | 2.4 | 1.3 | 1.6 | 2.5 | 1.0 | 1.5 |
| Consumption | 1.9 | 2.5 | 2.7 | 2.1 | 1.9 | 2.6 | 2.1 | 1.5 |
| Residential construction | 5.7 | (0.4) | 2.7 | 3.4 | 0.5 | 4.8 | 1.7 | 0.2 |
| Business investment | 9.0 | 2.6 | 0.2 | (7.5) | (2.5) | 0.7 | (9.5) | (0.2) |
| Government expenditures | 0.2 | 0.1 | (0.3) | 1.0 | 0.7 | 0.3 | 1.0 | 0.5 |
| Exports | 2.6 | 2.0 | 5.4 | 3.4 | 4.7 | 6.4 | 4.1 | 4.2 |
| Imports | 3.7 | 1.3 | 1.8 | 1.2 | 2.8 | 2.7 | 0.5 | 3.7 |
| Change in inventories (millions $) | 7,437 | 12,368 | 7,530 | 5,102 | 5,841 | 8,513 | 545 | 8,118 |
| Domestic demand | 2.5 | 1.5 | 1.6 | 0.7 | 1.1 | 1.8 | 0.4 | 1.0 |
| Real disposable income | 2.8 | 2.5 | 1.5 | 2.2 | 1.6 | 1.2 | 2.0 | 1.9 |
| Employment | 1.3 | 1.4 | 0.6 | 0.8 | 0.6 | 0.7 | 0.6 | 0.6 |
| Unemployment rate | 7.3 | 7.1 | 6.9 | 6.8 | 6.9 | 6.7 | 6.9 | 6.8 |
| Inflation | 1.5 | 0.9 | 1.9 | 1.2 | 1.7 | 1.9 | 1.4 | 1.7 |
| Before-tax profits | (4.2) | (0.6) | 8.8 | (10.8) | 4.1 | 6.2 | (9.4) | 5.0 |
| Current account (bil. $) | (59.9) | (56.3) | (41.5) | (60.9) | (48.4) | .... | .... | .... |

** or as noted*

## Financial Forecast**

| | Current 9-24-15 | Q4 2015 | Q1 2016 | Q2 2016 | Q3 2016 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Overnight rate | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| 3 month T-Bills | 0.43 | 0.45 | 0.46 | 0.46 | 0.46 | 0.45 | 0.65 |
| Treasury yield curve | | | | | | | |
| 2-Year | 0.51 | 0.51 | 0.53 | 0.69 | 0.87 | 0.51 | 1.17 |
| 5-Year | 0.81 | 0.87 | 0.95 | 1.23 | 1.42 | 0.87 | 1.68 |
| 10-Year | 1.47 | 1.61 | 1.66 | 1.93 | 2.03 | 1.61 | 2.25 |
| 30-Year | 2.22 | 2.34 | 2.36 | 2.60 | 2.68 | 2.34 | 2.87 |
| CAD per USD | 1.34 | 1.34 | 1.35 | 1.36 | 1.37 | 1.34 | 1.38 |
| Oil price (WTI), U.S.$ | 45 | 46 | 50 | 50 | 52 | 46 | 54 |

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*** end of period*

# MONTHLY ECONOMIC MONITOR


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