NATIONAL BANK
FINANCIAL MARKETS
A division of National Bank of Canada

MONTHLY ECONOMIC MONITOR

Economics and Strategy

May 2016

Highlights

- *Adjustments to China's economic rebalancing and the oil shock are proving more challenging than first thought, and as a result global growth remains soft. With downside risks lurking and GDP growth nearing stall speed despite the extension of expansionary fiscal and monetary policies, the probability of recession has arguably increased. We have lowered our forecast for global growth this year by one tick to 3.1%.*

- *The US economy just posted its worst two-quarter sequence since 2013. The meagre 1% annualized growth on average for 15Q4-16Q1 supports the Fed's cautious approach to monetary policy. While trade will continue to act as a drag on the economy courtesy of earlier USD appreciation, domestic demand should again contribute to growth thanks largely to consumers, although not to the same extent as last year. Indeed, employment creation is set to moderate in synch with plunging corporate profits, and the benefits of low pump prices will also fade for consumers. We have lowered by one tick our forecast for 2016 US GDP growth to 1.9% (also 1.9% Q4/Q4). That's the lower end of the range of the FOMC's forecast. We are accordingly pushing to Q4 the timing for a Fed rate hike.*

- *While the Canadian economy seems to have had a nice lift in Q1 due to exports, it is not out of the woods just yet. A temporary giveback from trade and continued weakness in domestic demand will limit Q2 growth. Further ahead, an expected moderation in employment creation should have indebted households exert restraint with regards to spending on consumption goods and housing, the latter's overall affordability currently at its worst in years. That, coupled with continuing declines in business investment should offset the benefits of upcoming fiscal stimulus. All in all, we remain comfortable with our forecasts of just 1.3% for Canada's GDP growth this year.*

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				Change from Previous Forecast	
	2015	2016	2017	2016	2017
United States					
GDP	2.4%	1.9%	2.0%	-0.1 pp	unch
CPI inflation	0.1%	1.4%	2.3%	unch	unch
Fed Fund Target Rate*	0.50%	0.75%	1.25%	-25 bp	-25 bp
Ten-year bond yield*	2.27%	2.09%	2.43%	-14 bp	-5 bp
Canada					
GDP	1.2%	1.3%	1.9%	unch	unch
CPI inflation	1.1%	1.7%	2.1%	unch	unch
Overnight rate*	0.50%	0.50%	0.75%	unch	+25 bp
Ten-year bond yield*	1.40%	1.67%	2.15%	unch	+5 bp

* end of period

MONTHLY ECONOMIC MONITOR

World: Knife's edge

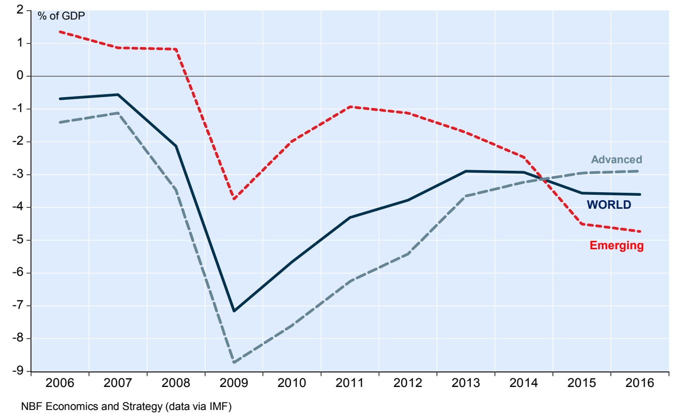
The world economy increasingly looks like it's balanced on a knife's edge. Adjustments to China's economic rebalancing and the oil shock are proving more challenging than first thought, and as a result global growth remains soft. With downside risks lurking and GDP growth nearing stall speed despite the extension of expansionary fiscal and monetary policies, the probability of recession has arguably increased. We have lowered our forecast for global growth this year by one tick to 3.1%.

The world economy continues to grow at a weak pace in both developed and emerging economies. So much so that the IMF, in its latest world economic outlook, downgraded its forecast for global growth to just 3.2% this year. And that despite highly stimulative monetary and fiscal policies — while the international agency expects advanced economies to see their budget balance improve as a share of GDP, emerging economies as a group should move in the other direction as they implement fiscal stimulus. With several developed economies operating close to stall speed, the probability of them falling into recession and deflation has increased according to the IMF.

In Japan for example, the probability of recession has risen to more than 40%, a 10% jump since the fall of last year, while the probability of deflation has tripled. To be sure, Japan's economic challenges are daunting. The devastation caused by recent earthquakes have interrupted factory output, something that will weigh on Q2 GDP at a time the economy is already under pressure. Recall that GDP contracted in the last quarter last year and based on the Tankan survey, Q1 isn't expected to be great either. In February, industrial production and retail spending were down sharply, the jobless rate was up, while exports continued to contract on a year-on-year basis.

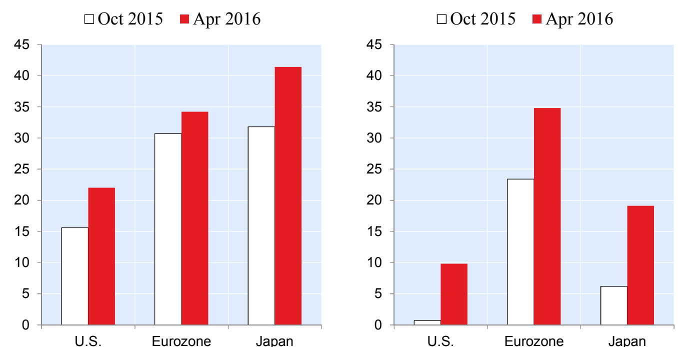
Japan's problem isn't just cyclical. Over the last 25 years a declining working age population has led to potential GDP growth falling from 4% to close to zero. No wonder actual growth has been soft. With such low potential, it doesn't take much growth to close the output gap, the latter reportedly close to zero these days. Even then, inflation remains low — the annual inflation rate was just 0.3% in February, or 0.8% excluding food and energy —, highlighting the problem of soft demand brought by an aging population. That's a far cry from the Bank of Japan's 2% inflation target. The yen's appreciation since the start of the year doesn't help. After three years of Abenomics which has resulted in a bloated BoJ balance sheet, markets are now questioning whether the central bank can continue with its loose policies. Money printing has had limited impact on inflation, with long-term inflation expectations in particular returning to pre-Abenomics levels, i.e. near zero.

World: Overall fiscal policy should be stimulative this year
Budget balance



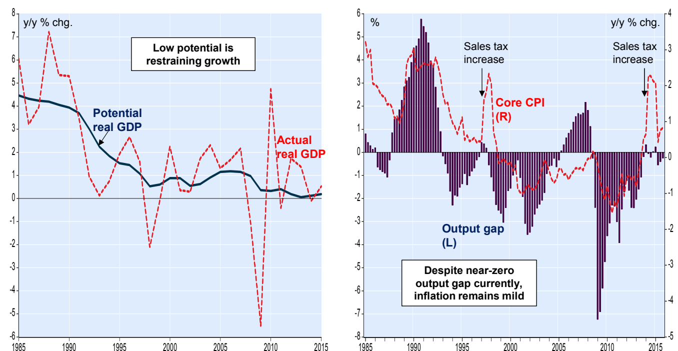
NBF Economics and Strategy (data via IMF)

World: Probability of recession and deflation has increased



NBF Economics and Strategy (data via IMF)

Japan: Low potential restraining growth



NBF Economics and Strategy (data via Bank of Japan, Datastream)

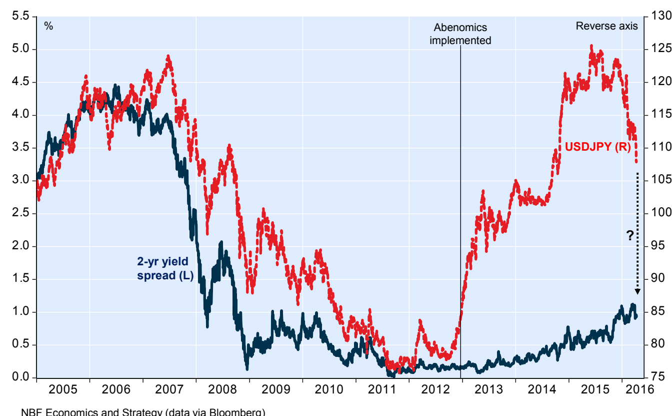
MONTHLY ECONOMIC MONITOR

World Economic Outlook

	Forecast		
	2015	**2016**	**2017**
Advanced countries	***1.9***	***1.7***	***1.8***
United States	2.4	1.9	2.0
Euroland	1.6	1.5	1.6
Japan	0.5	0.5	-0.1
UK	2.2	1.9	2.2
Canada	1.2	1.3	1.9
Australia	2.5	2.5	3.0
New Zealand	3.4	2.0	2.5
Hong Kong	2.4	2.2	2.4
Korea	2.6	2.7	2.9
Taiwan	0.7	1.5	2.2
Singapore	2.0	1.8	2.2
Emerging Asia	***6.5***	***6.3***	***6.3***
China	6.9	6.5	6.2
India	7.3	7.5	7.5
Indonesia	4.8	4.9	5.3
Malaysia	5.0	4.4	4.8
Philippines	5.8	6.0	6.2
Thailand	2.8	3.0	3.2
Latin America	***-0.1***	***-0.5***	***1.5***
Mexico	2.5	2.4	2.6
Brazil	-3.8	-3.8	0.0
Argentina	1.2	-1.0	2.8
Venezuela	-5.7	-8.0	-4.5
Colombia	3.1	2.5	3.0
Eastern Europe and CIS	***0.0***	***1.0***	***2.2***
Russia	-3.7	-1.8	0.8
Czech Rep.	4.2	2.5	2.4
Poland	3.6	3.6	3.6
Turkey	3.8	3.8	3.4
Middle East and N. Africa	***2.3***	***2.9***	***3.3***
Sub-Saharan Africa	***3.4***	***3.1***	***4.0***
Advanced economies	***1.9***	***1.7***	***1.8***
Emerging economies	***4.0***	***4.1***	***4.6***
World	***3.1***	***3.1***	***3.4***

Source: NBF Economics and Strategy

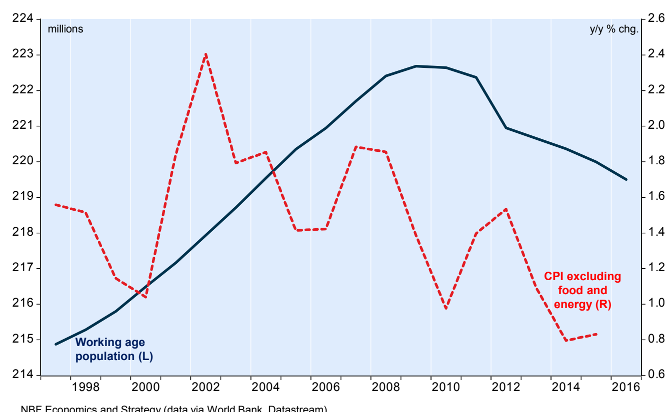
Japan: Is the yen heading back towards spreads?
USDJPY versus 2-year yield spread between the US and Japan



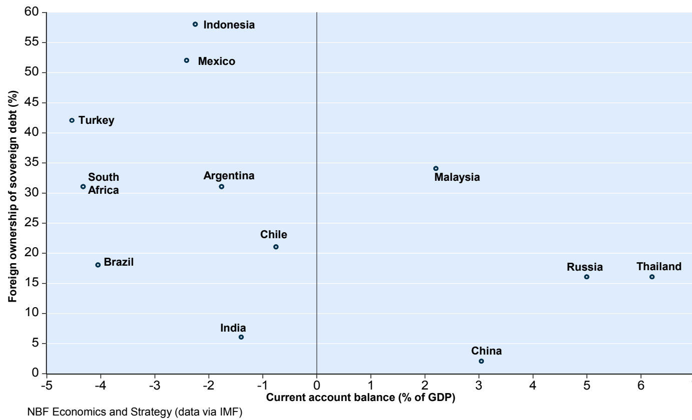
Interest rates are already negative, while QE seems to be capped by the dwindling amount of bonds available for purchase by the central bank. With Abenomics on the ropes, there is little reason for USDJPY to diverge from yield spreads. In other words, the yen has room to run. It's unclear, however, if authorities will allow the yen's surge to continue. First, there is a real concern that expectations of further yen appreciation could lead to disorderly unwinding of carry trades that could result in asset liquidation worldwide. Second, the government's credibility is on the line. It's unclear if there is a political will to do so, but Abenomics could still work if the government decides to deliver significant fiscal stimulus — borrowing at low rates to invest for the future not only raises current growth and the economy's potential but also increases the supply of bonds, something the BoJ needs so it can expand QE. In light of the added challenges brought by the yen's surge and natural disasters, we have lowered our growth forecast for Japan to just 0.5% this year.

In the Eurozone, the probabilities of a recession and deflation this year have both climbed to roughly 35% according to the IMF. Like Japan, the zone is struggling with weak growth and low inflation, both restrained by poor demographics.

Eurozone: Declining working age population keeps inflation under wraps
Population age 15-64 years versus Core inflation



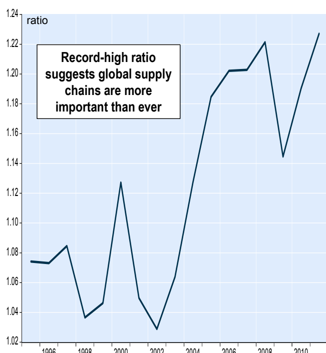
World: Some emerging economies more vulnerable than others



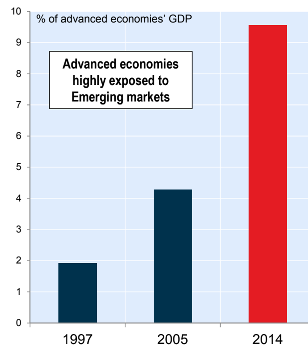
NBF Economics and Strategy (data via IMF)

World: Growing linkages in trade and financial markets

Ratio of Gross exports to Domestic Value-Added Exports
(i.e. measure of importance of global supply chains)



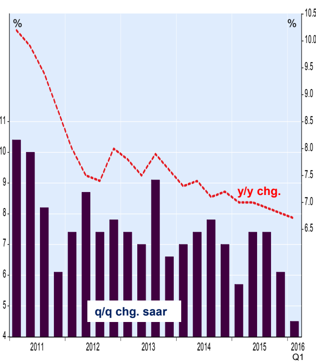
Portfolio exposures of Advanced Economies
to Emerging Markets



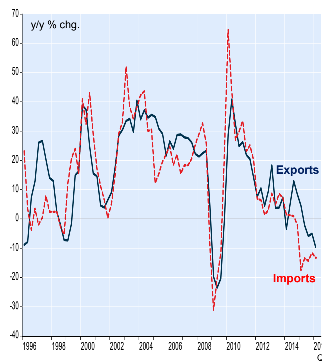
NBF Economics and Strategy (data via IMF)

China: Relatively weak growth in Q1

Real GDP



Exports and imports



NBF Economics and Strategy (data via Datastream)

The influx of migrants will help attenuate the demographic problem somewhat and help support the zone's GDP growth via related government expenditures. But that will do little to address the threat of deflation over the near term. So, expect the European Central Bank to remain in easing mode for a while. With the ECB and BoJ both in easing mode, there is a limit to how much the US Federal Reserve can raise interest rates without boosting the dollar and hence hurting a US economy which already seems to be struggling from earlier USD appreciation (see US section).

The Fed understands that its decision to hike interest rates will have global repercussions, some of which may come back to haunt the US via exports or financial markets or both. As we've pointed out before, dollar appreciation raises risks of corporate default considering the record amount of USD-denominated debt outside of the US ─ roughly US$10 trillion according to the Bank of International Settlements. Emerging markets, home to a large chunk of that private sector debt, are especially vulnerable. Should private debt turn sour, contamination to sovereigns cannot be ruled out, e.g. if foreign investors pull out indiscriminately. Countries such as Indonesia and Mexico are particularly vulnerable given their continuing dependence on foreign capital and the fact that a large chunk of their government debt is held by foreigners.

Another consideration for the Fed is that globalization has effectively taken down protective firewalls. Global supply chains and hence trade linkages have become more important than ever as evidenced by world exports which are rising at a faster pace in gross terms than in domestic value-added terms. The removal of barriers to investment has also allowed for freer cross-border capital movements. So much so that in advanced economies, holdings of emerging market portfolio instruments have risen to an all-time high as a share of the economy. This increased integration, both in trade and financial markets, means that an economic shock in one corner of the world could spread rapidly across the globe. So, the Federal Reserve's sensitivity to foreign economic developments is warranted.

A cautious Fed is a necessary condition to prevent the world economy from falling off the knife's edge. But it's not a sufficient condition. What will also need to happen to ensure global growth remains above 3% this year and next is for downside risks to not materialize, e.g. "Brexit", the rise of trade protectionism and/or a financial crisis stemming from cascading corporate defaults. China's economic management is also crucial for the global outlook. Recent data has been disappointing, including trade and Q1 GDP growth which was the worst in years. However, we expect Beijing to enact the reforms and fiscal stimulus laid out in the latest five-year plan effectively enough to hit its 6.5% target for GDP growth this year.

U.S.: Fed can wait

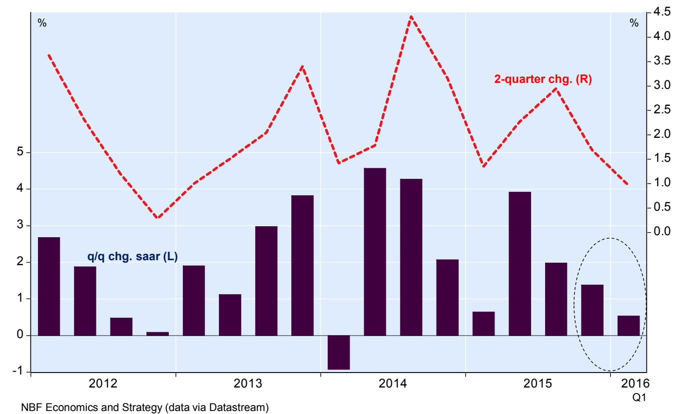
The US economy just posted its worst two-quarter sequence since 2013. The meagre 1% annualized growth on average for 15Q4-16Q1 supports the Fed's cautious approach to monetary policy. While trade will continue to act as a drag on the economy courtesy of earlier USD appreciation, domestic demand should again contribute to growth thanks largely to consumers, although not to the same extent as last year. Indeed, employment creation is set to moderate in synch with plunging corporate profits, and the benefits of low pump prices will also fade for consumers. We have lowered by one tick our forecast for 2016 US GDP growth to 1.9% (also 1.9% Q4/Q4). That's the lower end of the range of the FOMC's forecast. We are accordingly pushing to Q4 the timing for a Fed rate hike.

The US economy is going through a soft patch. The Bureau of Economic Analysis showed an advance estimate of just 0.5% annualized for GDP growth in Q1 after another weak performance in the prior quarter. The meagre 1% annualized growth on average over 15Q4-16Q1 is in fact the worst two-quarter sequence since 2013. So what's restraining the world's largest economy? Trade was a major drag on economic growth yet again in Q1 due to declining exports and rising imports. Investment spending also chopped from growth, perhaps reflecting declining confidence particularly among small businesses. Those were, however, offset by decent contributions from consumption, government spending and residential investment.

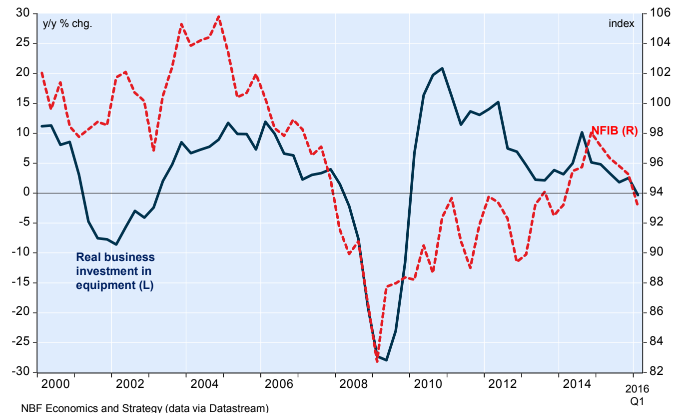
While Q2 should see better growth after the prior quarter's inventory cull, we're not expecting particularly stellar results. For one, the handoff from the prior quarter was rather poor with surprisingly sharp declines in industrial production and retail spending in March. Trade woes are also set to continue for much of the year in line with earlier USD appreciation and weak global demand. It's also unclear if consumption spending can replicate last year's feat as benefits of low pump prices fade and the labour market decelerates.

True, the labour market has been strong with non-farm private sector job creation averaging over 230K/month over the last six months. But a deceleration is the cards. While net hiring has yet to respond to slower economic growth and lower labour productivity, corporate profits already have. Profits are falling at the fastest pace in years and it's a matter of time before corporations adjust headcount accordingly. Note that human resources departments tend to react to corporate profits with a one to two quarter lag, something that suggests an upcoming labour market slowdown. That, coupled with enhanced risks to the global economy suggest the Fed may be forced to delay interest rate hikes to late this year.

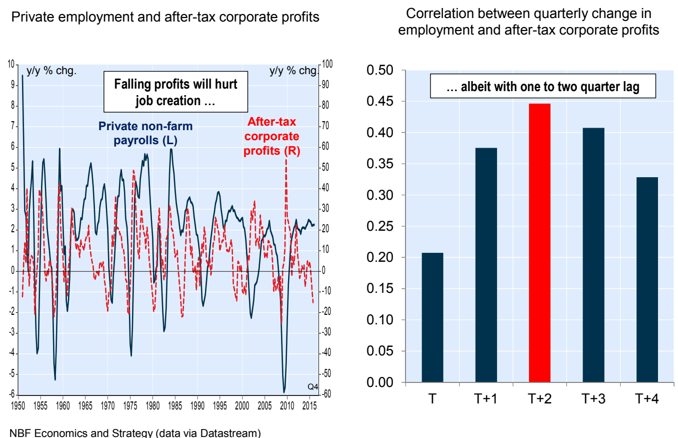
U.S.: Worst two-quarter performance since 2013
Real GDP



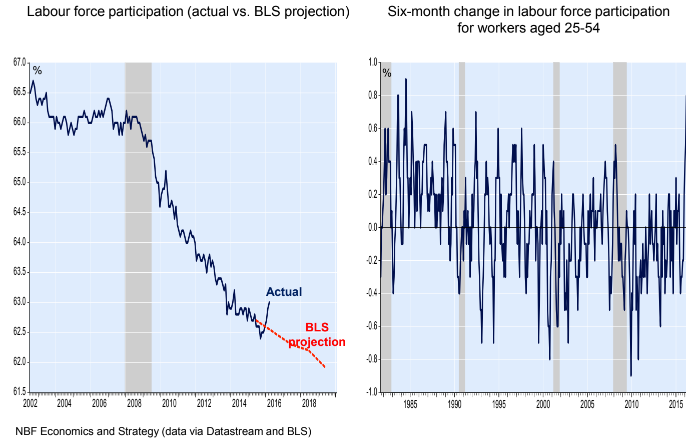
U.S.: Declining business confidence and investment
Small business confidence (NFIB) versus Business investment in equipment



U.S.: Upcoming labour market slowdown?

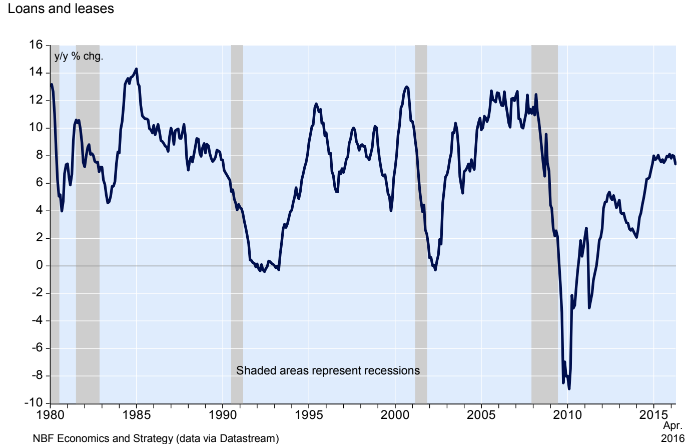


U.S.: Labour force participation bounces back



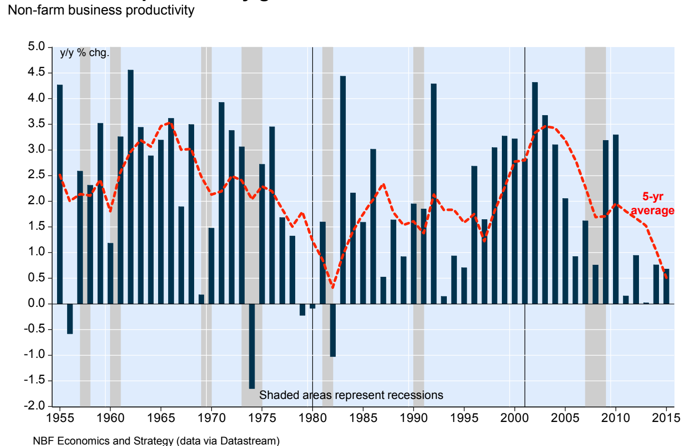
The Fed can wait. The annual PCE deflator fell in February to just 1%, moving further away from the FOMC's 2% target. And odds of inflation picking up remain low given continuing weakness in wage growth. True, some sectors of the economy continue to experience labour shortages which is translating into higher wages. But on net, wage inflation seems to be contained. One explanation for this, besides limited union bargaining power, is the uptick in the labour force participation rate. In March the participation rate rose for the fifth time in six months with gains tilted towards the prime-aged workforce (aged 25-54) where participation surged by the most since 1985. Despite those gains, the participation rate remains low and hence has room to rise further and restrain wages over the near to medium term. If the participation rate continues to rise and our forecast of a moderation in job creation materializes, the jobless rate should increase over the coming months, giving the Fed yet another reason to stand pat on rates for longer.

U.S.: Credit growth remains strong
Loans and leases



In the meantime, both businesses and households can continue to enjoy low borrowing costs. Loans and leases have been growing at an annual pace of over 7% for more than a year now and there are no signs of letting up. That's why the current soft patch is unlikely to morph into a full-blown US recession. Household debt has risen by nearly a trillion dollars in the last couple of years and there is room for further borrowing. Indeed, Americans now have an enhanced capacity to borrow — the financial obligations ratio, i.e. debt burden as a share of personal disposable income remains close to multi-decade lows after the great deleveraging of 2008-2012. Improvements in credit scores have also made loans accessible to more households who had previously been shut out of the formal banking system. So, consumer demand for big-ticket items such as autos and homes should find some support despite an expected moderation in employment creation.

U.S.: Weakest productivity growth ever outside of a recession
Non-farm business productivity



Businesses could make better use of the cheap credit available. Borrowing for the purposes of stock buybacks arguably do little to enhance a firm's capacity for growth. Years of underinvestment have caused the average age of fixed assets to rise to the highest in decades. That explains why annual productivity growth has averaged a meagre 0.5% since 2011, the worst 5-year performance ever besides the early 1980's when the US was in recession. And with the persistence of the strong dollar hindering its ability to compete in global markets, corporate America may have little choice other than invest to boost productivity. So, while business investment spending could be restrained over the near term by soft profits, we expect it to bounce back later in the year. That, coupled with continuing contributions from consumers (albeit diminished compared to last year) and housing should offset the drag from trade and allow the US economy to grow roughly 1.9% this year.

MONTHLY ECONOMIC MONITOR

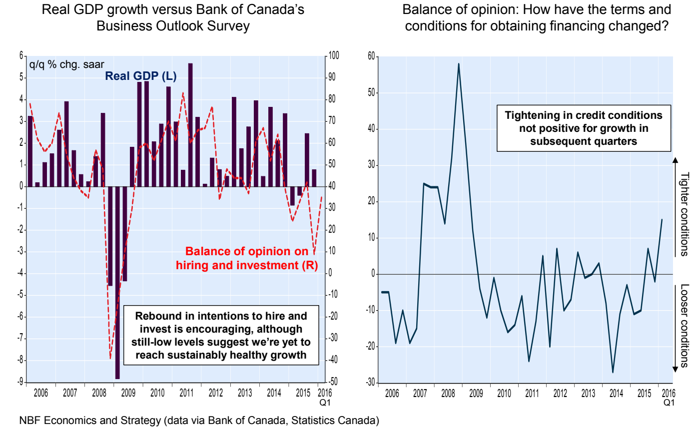
Canada: Not out of the woods yet

While the Canadian economy seems to have had a nice lift in Q1 due to exports, it is not out of the woods just yet. A temporary giveback from trade and continued weakness in domestic demand will limit Q2 growth. Further ahead, an expected moderation in employment creation should have indebted households exert restraint with regards to spending on consumption goods and housing, the latter's overall affordability currently at its worst in years. That, coupled with continuing declines in business investment should offset the expected upcoming fiscal stimulus. All in all, we remain comfortable with our forecast of just 1.3% for Canada's GDP growth this year.

Despite a weak February, Canada's economy should still manage to grow at a near-3% pace annualized courtesy of a good handoff from last year and January's output surge. The Bank of Canada's Business Outlook Survey results were much in line with the observed uptick in economic growth ─ intentions of companies to hire and invest rose in Q1. However, the still-low levels of positive intentions suggest we're yet to reach a point where we have healthy and sustainable growth. Particularly concerning is the significant worsening of credit access, with the corresponding balance of opinion rising to the highest point since the 2009 recession (a positive number suggests tightening conditions). True, the survey was conducted during a period of stress in financial markets and much of the deterioration in credit was reportedly centered in the energy sector. But that's hardly a consolation considering tighter credit raises the probability of defaults and potential spillovers to the non-energy sector. So, while the Canadian economy seems to have had a nice lift in Q1, it is not out of the woods just yet.

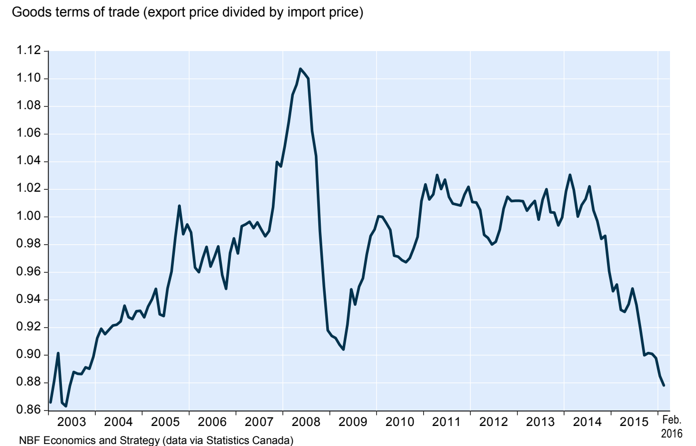
Moreover, the investment cull is far from over, particularly in the energy sector. The commodity price collapse took Canada's terms of trade to a 13-year low last February, which must have hit corporate revenues and hence profits in the first quarter. But things look better outside the energy sector. Excluding energy, corporate profits were up last year in part due to a reinvigorated manufacturing sector. And with a more competitive Canadian dollar, odds are this winning trend for profits will continue in 2016. Any new investment would provide extra capacity and help non resource exporters better cope with US demand. Recall that over the last several years, Canada's non-energy exporters haven't kept up with US demand either due to lost market share (courtesy of a decade-long appreciation of the Canadian dollar) or capacity constraints. We're looking forward to some improvement on that front. That said, non-energy exporters are likely to delay investment plans to much later this year if not next year when global economic headwinds have abated and management has more confidence about the sustainability of foreign demand.

Canada: Rebound in Q1, but economy not out of the woods just yet



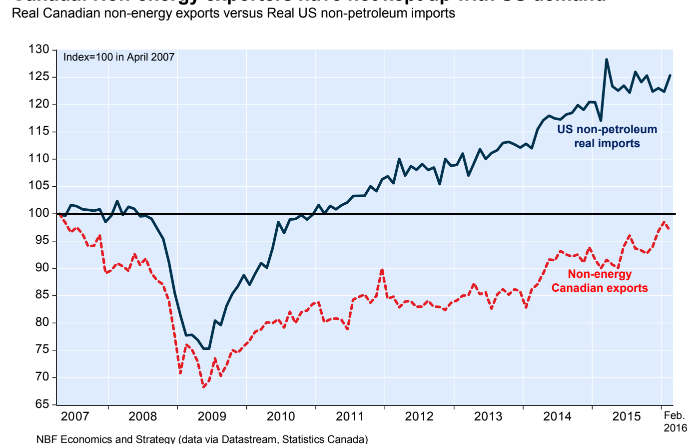
Canada: Worst terms of trade since 2003

Goods terms of trade (export price divided by import price)

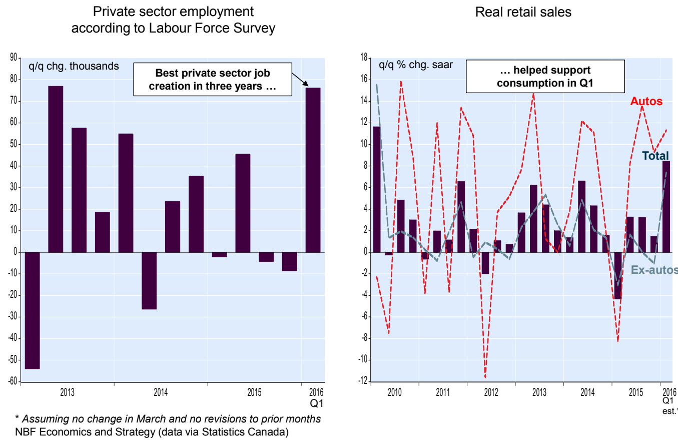


Canada: Non-energy exporters have not kept up with US demand

Real Canadian non-energy exports versus Real US non-petroleum imports

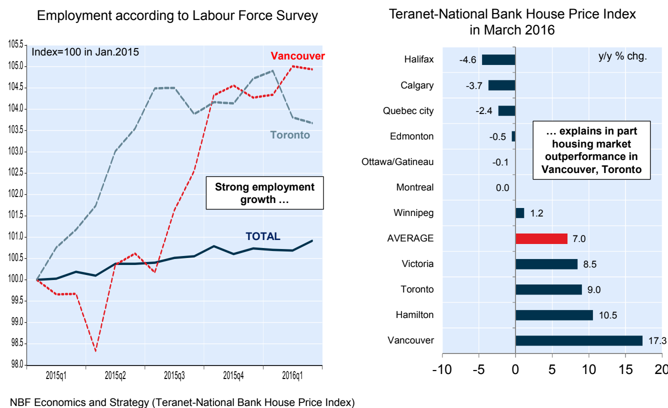


Canada: Consumption growth accelerated sharply in Q1



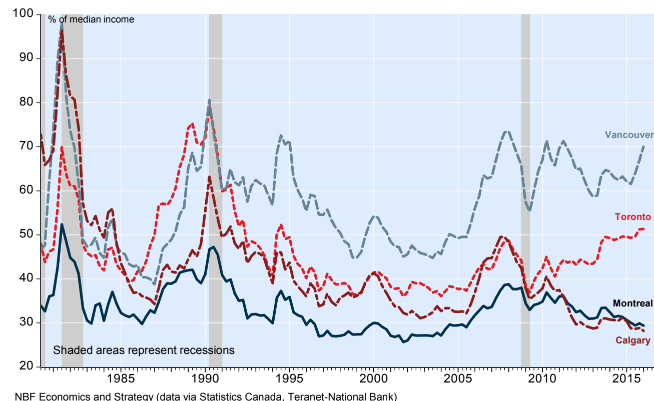
* Assuming no change in March and no revisions to prior months
NBF Economics and Strategy (data via Statistics Canada)

Strong employment explains in part Vancouver's hot housing market



NBF Economics and Strategy (Teranet-National Bank House Price Index)

Canada: Housing affordability in Toronto worst in 20 years
Mortgage payment on median home price (25-year amortization, 5-year term)



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

In the meantime, domestic demand will rely largely on consumers. The labour market uptick since the start of the year is encouraging in that regard given the related higher household incomes. According to the Labour Force Survey 76K private sector jobs were created in Q1, the best quarterly performance since 2013. Also encouraging is consumer credit growth which remains healthy above 2% (year-on-year). That said, an expected moderation in employment creation should have indebted households curb spending later in the year.

For now, cheap credit and solid employment are boosting the housing market as evidenced by the 7% year-on-year increase for the Teranet-National Bank Composite House Price Index in March. Not surprisingly, regions with strong employment also have the hottest housing markets. Vancouver and Toronto, as well as surrounding areas Victoria and Hamilton respectively, are seeing home prices rise at an average pace of 12% year-on-year, i.e. well above the national average. That contrasts sharply with the correction underway in Calgary, Edmonton, Winnipeg, Ottawa-Gatineau, Montreal, Quebec City and Halifax — in March the average price for those seven regions fell on a year-on-year basis for the ninth consecutive month. Tight supply also explain upward pressures on home prices in Vancouver and Toronto. Indeed, sales growth has outpaced new listings growth in both cities lately, resulting in the number of houses listed for sale to fall to their lowest level for a Q1 in at least a dozen years.

But fundamentals don't explain all of the price gains in Vancouver and Toronto. If that was the case, affordability wouldn't have fallen so fast in those cities — affordability can be measured as the inverse of the mortgage payment on a representative Canadian home as a percentage of income (see April's edition of our *Housing Affordability Monitor*). By that measure, Toronto's affordability is now the worst in 20 years while Vancouver remains the least affordable city in the country. Clearly, the overall pace of house price inflation is not sustainable. Accordingly, we expect the housing sector's contribution to Canada's economy to ramp down later this year and in 2017.

We remain comfortable with our forecast of 1.3% for GDP growth this year, expecting softness in domestic demand to offset benefits stemming from trade. The Bank of Canada is slightly more optimistic than us, with its recently upgraded forecast of 1.7%, which should put to rest speculation of more rate cuts. How about rate hikes? We seriously doubt the central bank has the stomach to tighten policy over the near to medium term amidst growing uncertainties with regards to a fragile global economy and after the Canadian dollar's recent surge. The BoC's significant downward revision to potential output growth argues for an equilibrium interest rate that is lower than historic norms. In other words, when comes the time to hike (i.e. after 2016), don't expect an aggressive tightening cycle.

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	1.9	2.0	2.0	1.9	2.0
Consumption	1.7	2.7	3.1	2.5	2.5	2.7	2.4	2.5
Residential construction	9.5	1.8	8.9	10.0	4.1	9.4	9.4	2.0
Business investment	3.0	6.2	2.8	0.3	2.6	1.5	1.6	2.1
Government expenditures	(2.9)	(0.6)	0.7	1.2	1.4	1.1	1.3	1.2
Exports	2.8	3.4	1.1	(1.7)	(1.4)	(0.6)	(2.8)	(0.6)
Imports	1.1	3.8	4.9	1.1	2.4	2.9	1.5	2.5
Change in inventories (bil. $)	61.4	68.0	97.5	60.2	58.2	78.3	59.4	57.4
Domestic demand	1.2	2.5	2.8	2.3	2.3	2.5	2.3	2.2
Real disposable income	(1.4)	2.7	3.4	2.5	1.9	3.0	2.3	1.8
Household employment	1.0	1.6	1.7	2.0	1.2	1.4	2.1	1.0
Unemployment rate	7.4	6.2	5.3	4.9	5.3	5.0	5.0	5.5
Inflation	1.5	1.6	0.1	1.4	2.3	0.4	1.8	2.3
Before-tax profits	2.0	1.7	(3.1)	(3.3)	4.5	-11.5	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)	(484.1)	(508.8)	(515.8)	...	...	...

** or as noted*

Financial Forecast**

	Current 4-27-16	Q2 2016	Q3 2016	Q4 2016	Q1 2017	2015	2016	2017
Fed Fund Target Rate	0.50	0.50	0.50	0.75	1.00	0.50	0.75	1.25
3 month Treasury bills	0.24	0.28	0.34	0.59	0.82	0.16	0.59	1.10
Treasury yield curve								
2-Year	0.83	0.93	1.02	1.10	1.21	1.06	1.10	1.67
5-Year	1.33	1.45	1.54	1.62	1.71	1.76	1.62	2.03
10-Year	1.87	1.99	2.04	2.09	2.15	2.27	2.09	2.43
30-Year	2.71	2.77	2.80	2.83	2.87	3.01	2.83	3.11
Exchange rates								
U.S.$/Euro	1.13	1.14	1.15	1.12	1.10	1.09	1.12	1.14
YEN/U.S.$	111	107	110	115	115	120	115	120

National Bank Financial

*** 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	1.3	1.9	0.5	1.4	2.1
Consumption	2.4	2.6	1.9	1.6	1.4	1.4	1.6	1.4
Residential construction	(0.4)	2.5	3.9	0.4	(1.3)	2.9	(1.0)	(1.0)
Business investment	2.5	0.0	(8.8)	(12.1)	(3.9)	(13.8)	(10.2)	(1.4)
Government expenditures	(0.8)	0.6	1.6	2.4	3.7	1.5	4.0	2.2
Exports	2.8	5.3	3.0	3.8	4.7	1.9	3.6	6.5
Imports	1.5	1.8	0.1	(0.2)	2.2	(3.2)	2.4	3.0
Change in inventories (millions $)	15,476	9,869	4,550	2,090	210	-4,017	1,972	615
Domestic demand	1.3	1.6	0.5	0.2	1.2	(0.5)	0.7	1.1
Real disposable income	3.4	1.1	2.7	1.5	1.8	2.0	1.5	1.9
Employment	1.4	0.6	0.9	0.6	0.7	0.8	0.5	0.7
Unemployment rate	7.1	6.9	6.9	7.4	7.3	7.0	7.4	7.2
Inflation	0.9	1.9	1.1	1.7	2.1	1.3	1.9	2.0
Before-tax profits	0.8	7.0	(15.2)	(4.1)	8.8	(18.6)	3.2	9.5
Current account (bil. $)	(59.7)	(44.9)	(65.7)	(56.5)	(48.5)	....	....	....

** or as noted*

Financial Forecast**

	Current 4-27-16	Q2 2016	Q3 2016	Q4 2016	Q1 2017	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	0.56	0.46	0.46	0.46	0.46	0.50	0.46	0.74
Treasury yield curve								
2-Year	0.68	0.67	0.69	0.70	0.71	0.48	0.70	1.14
5-Year	0.88	0.93	0.99	1.05	1.11	0.73	1.05	1.56
10-Year	1.50	1.56	1.62	1.67	1.73	1.40	1.67	2.15
30-Year	2.06	2.10	2.14	2.17	2.20	2.15	2.17	2.55
CAD per USD	1.26	1.24	1.23	1.26	1.29	1.39	1.26	1.27
Oil price (WTI), U.S.$	45	47	50	49	48	37	49	55

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*** end of period*

MONTHLY ECONOMIC MONITOR

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