

***Global economy's strong momentum intact  
despite elevated level of uncertainty***

***Canada headed for another year of solid  
growth***

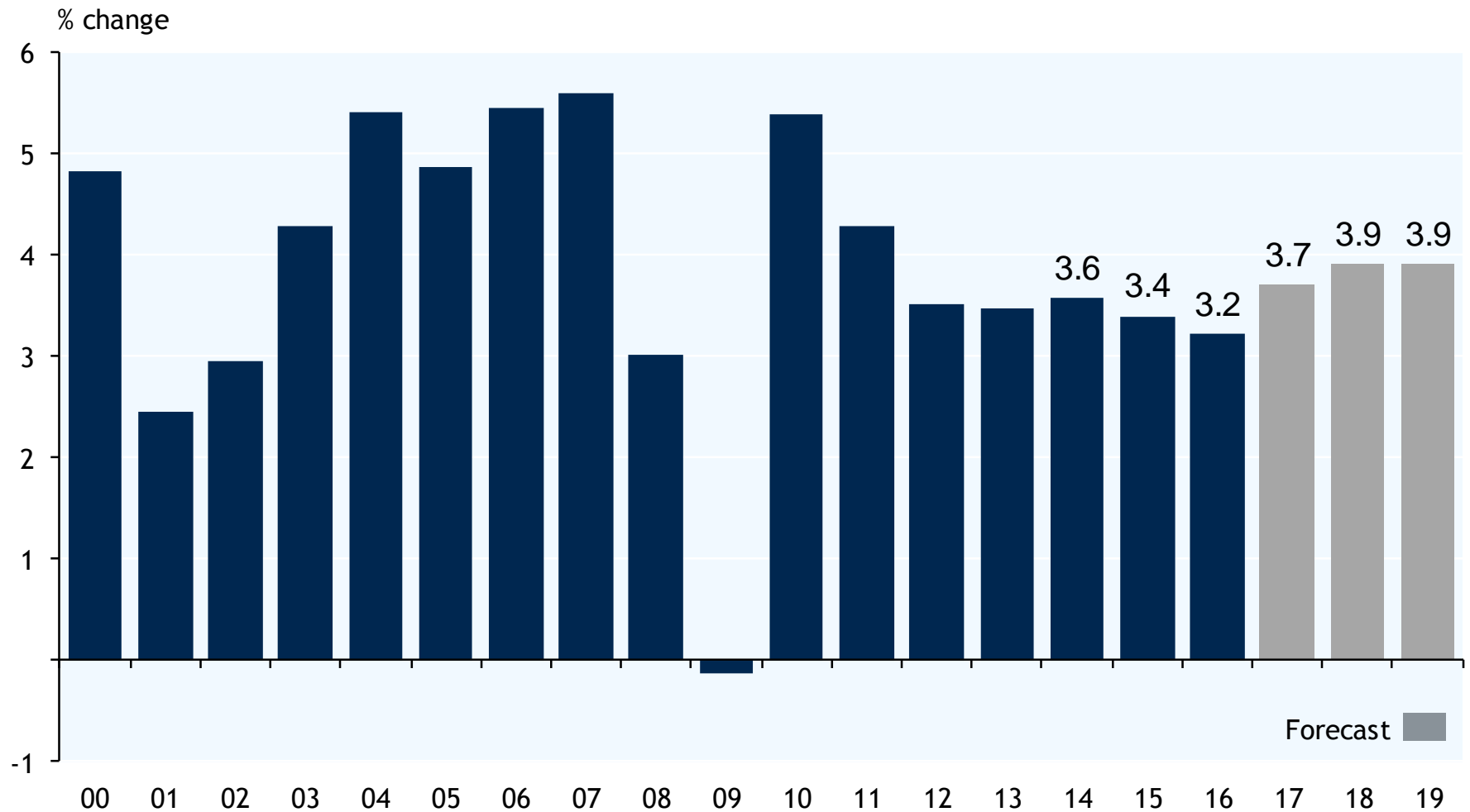
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***February 2018***

# Global economy – stronger, broadly-based gains

## World GDP growth

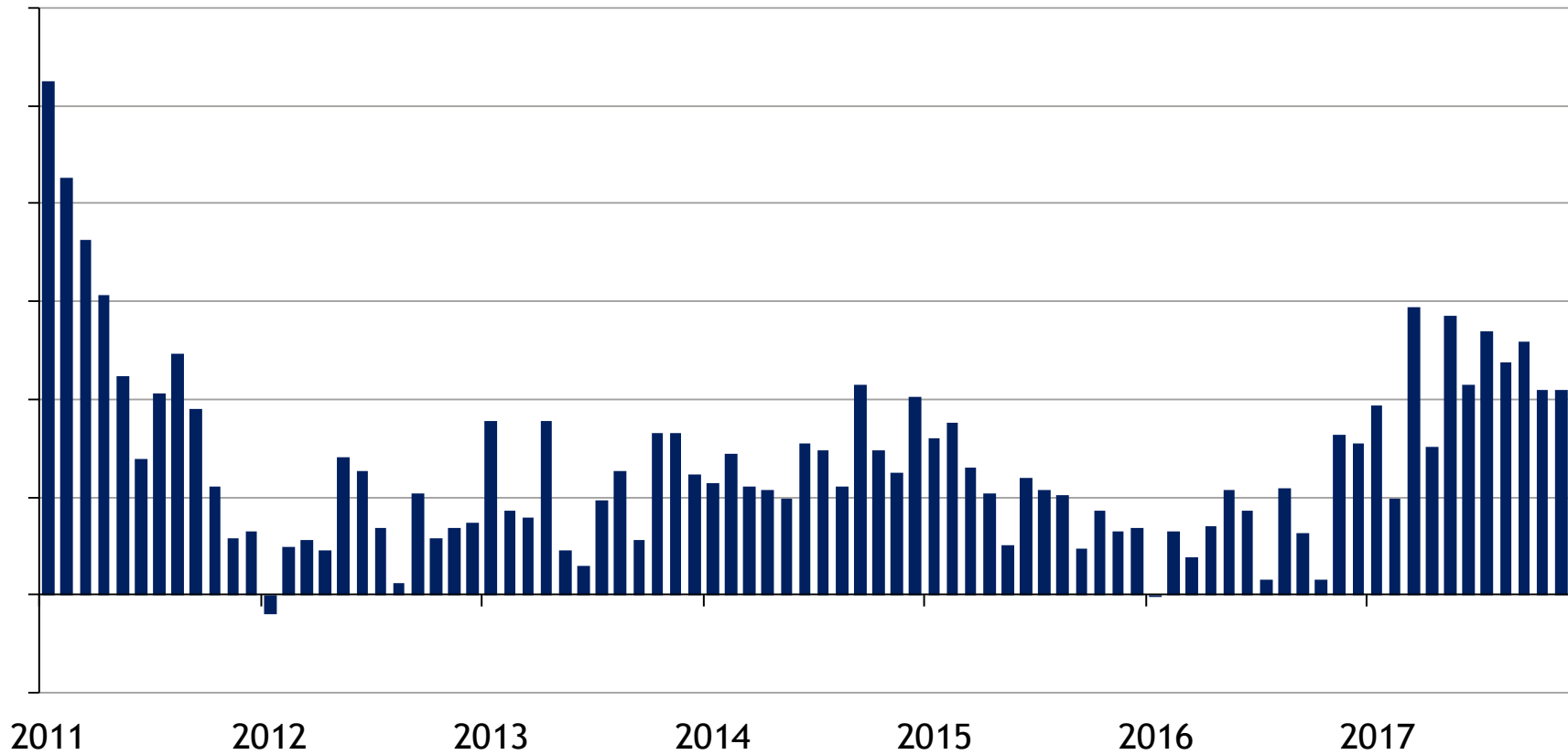


Source: International Monetary Fund, RBC Economics Research

# Trade activity strengthened despite more “protectionist” talk

## Global Trade Volume

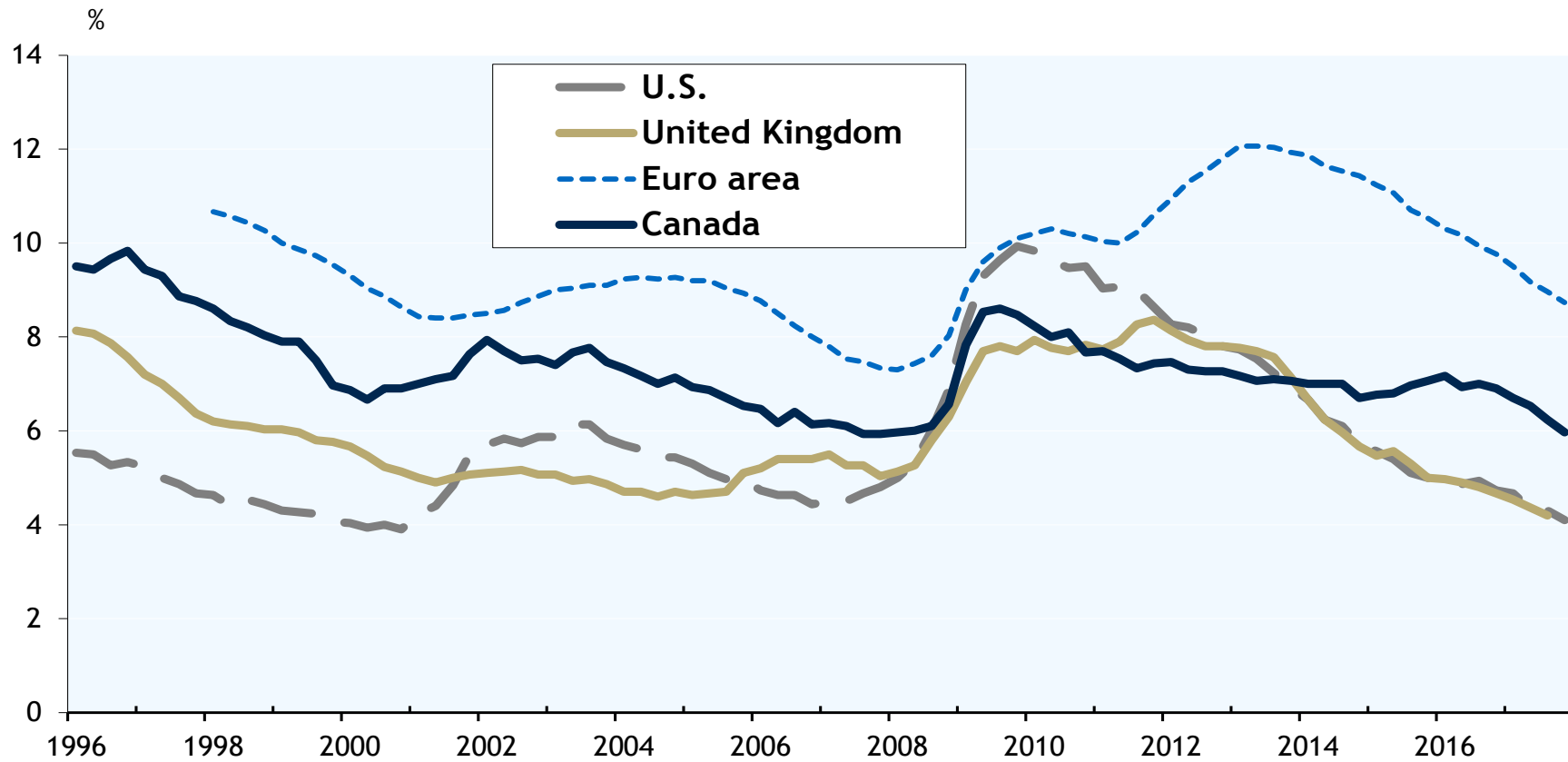
% Change Year over Year, SA, 2010=100



Source: Netherlands Bureau of Economic Policy Analysis, RBC Economics Research

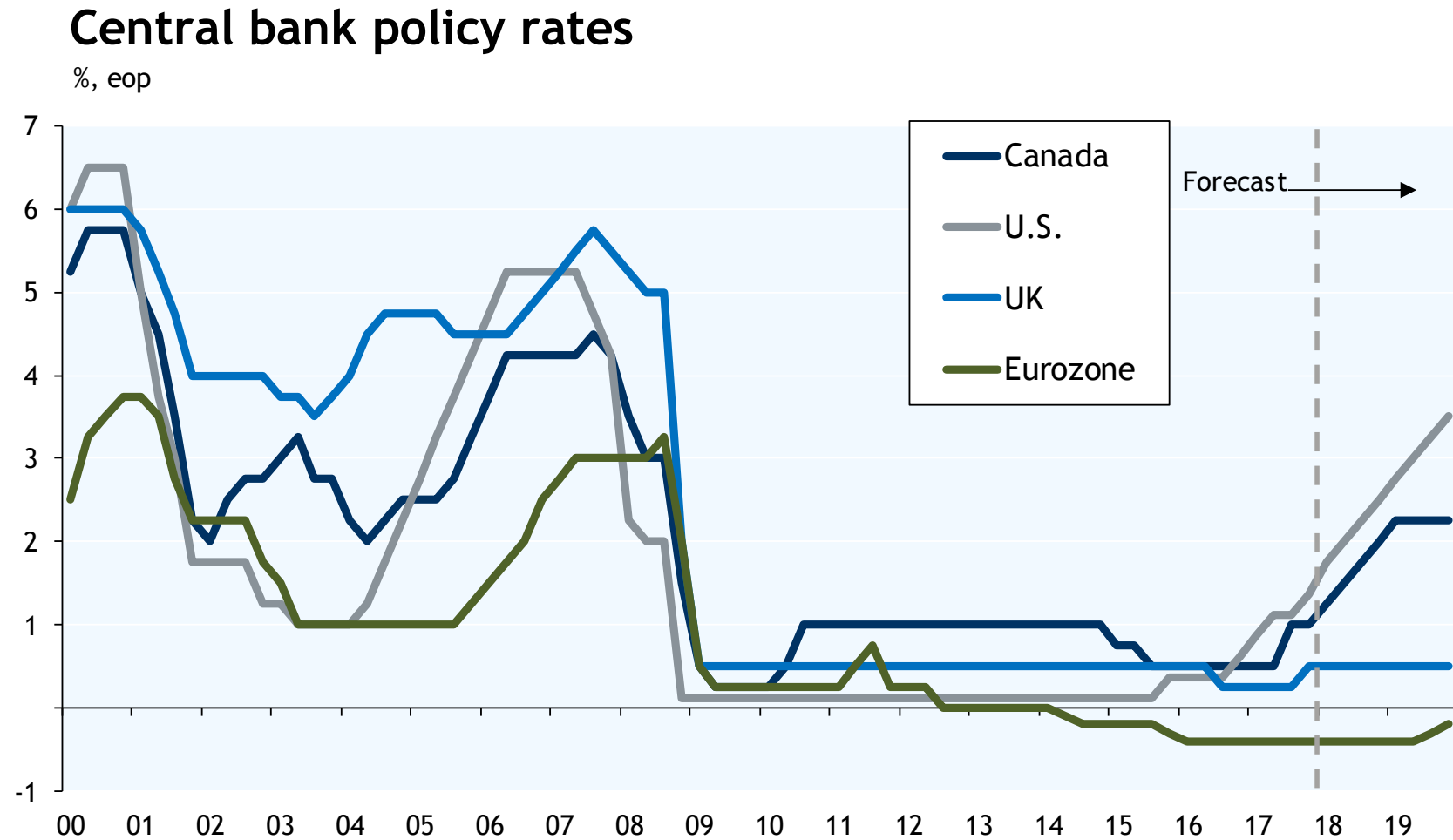
# Labour markets healthier, starting to see upward pressure on wages

## Unemployment rate: International



Source: Bureau of Labor Statistics, Statistics Canada, Statistical Office of the European Communities,

# Stronger growth means less stimulus warranted; end of era of easing

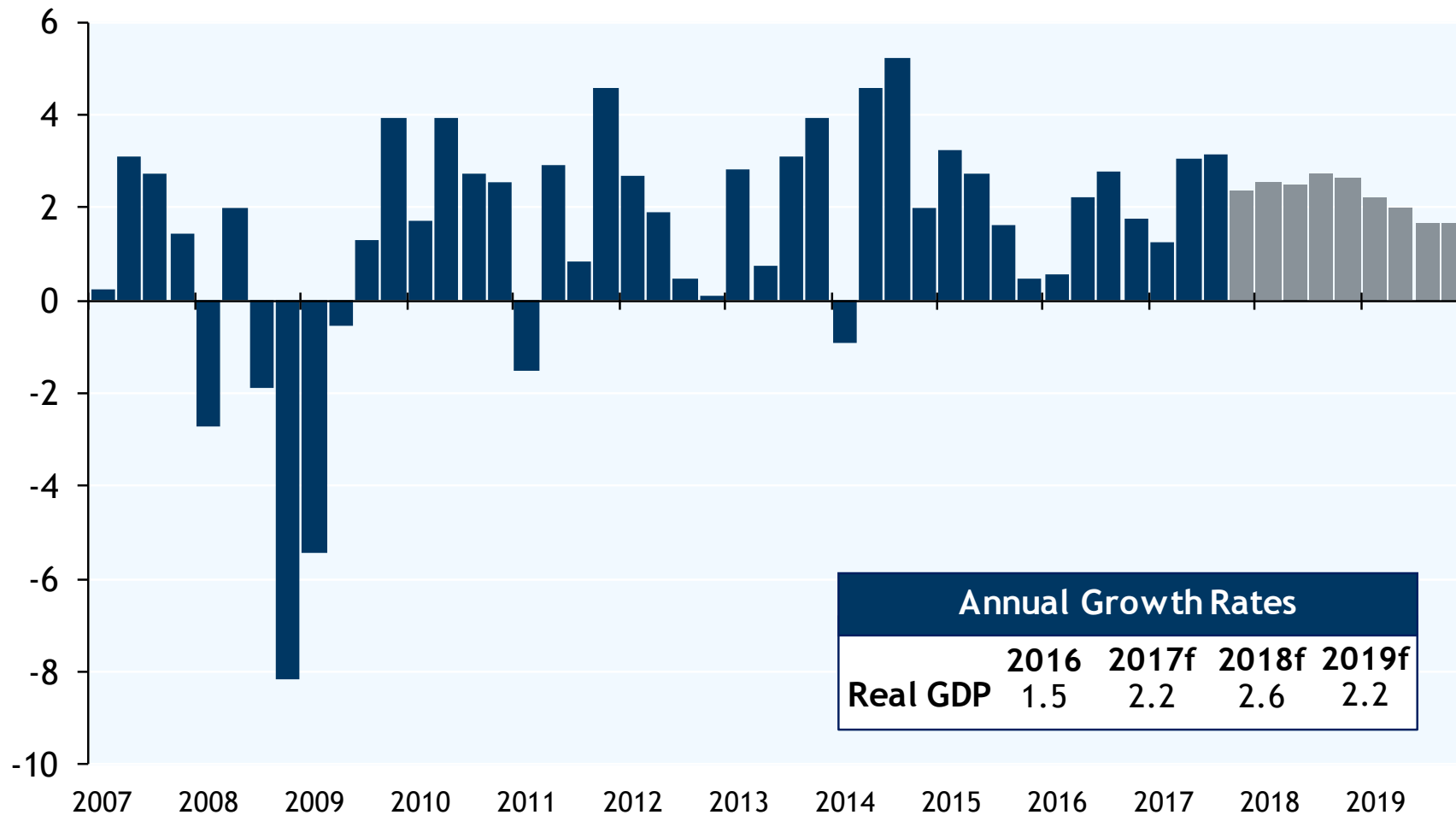


Source: Bank of Canada, Federal Reserve Board, Bank of England, European Central Bank, RBC Economics Research

# U.S. economy to get lift from tax changes; strong labour market

## U.S. real GDP

Quarter-over-quarter annualized % change



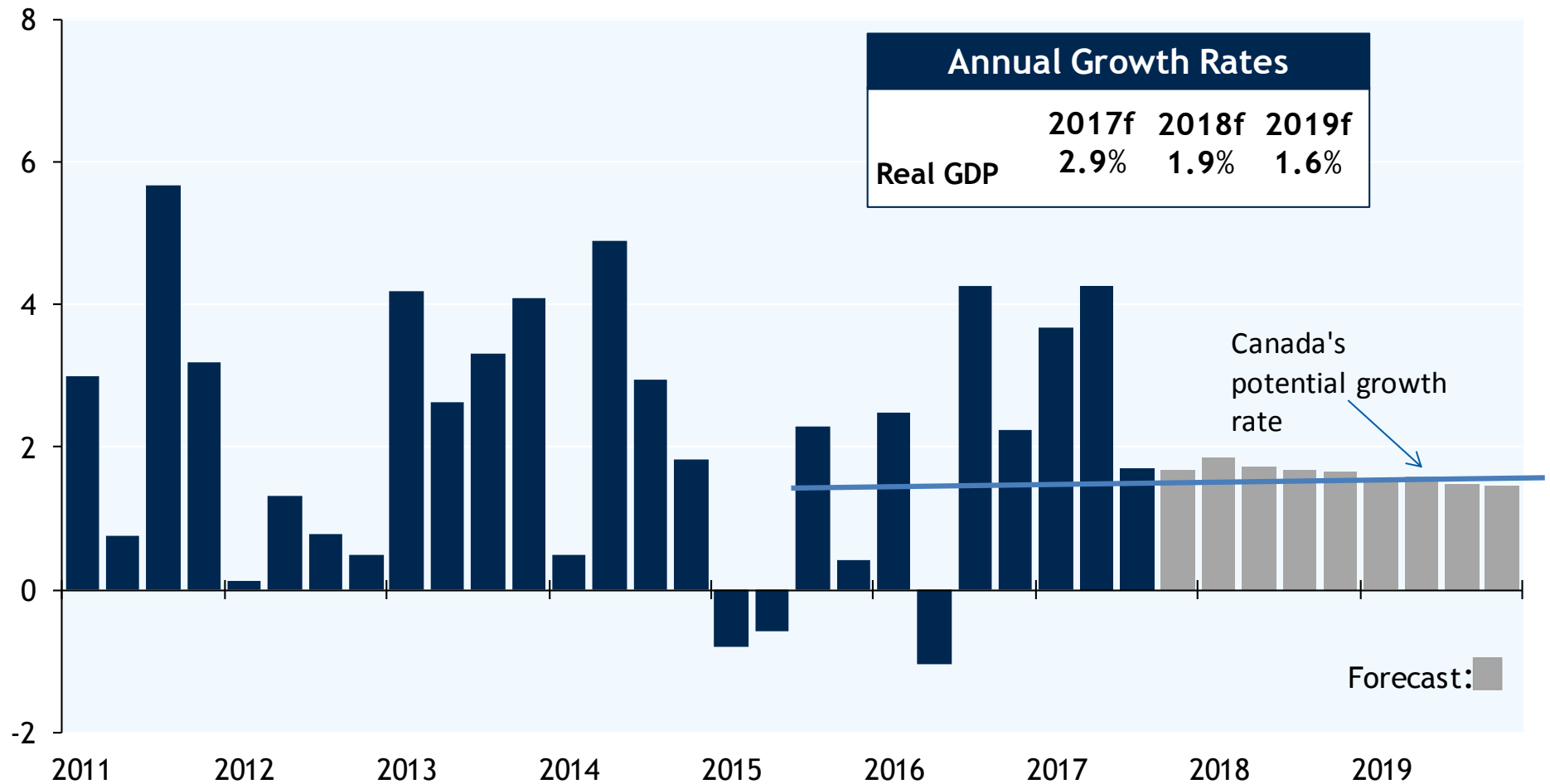
Source: Bureau of Economic Analysis, RBC Economics Research

Forecast: ■

# Canada's economy to grow at an above-potential rate again in 2018

## Canada's real GDP

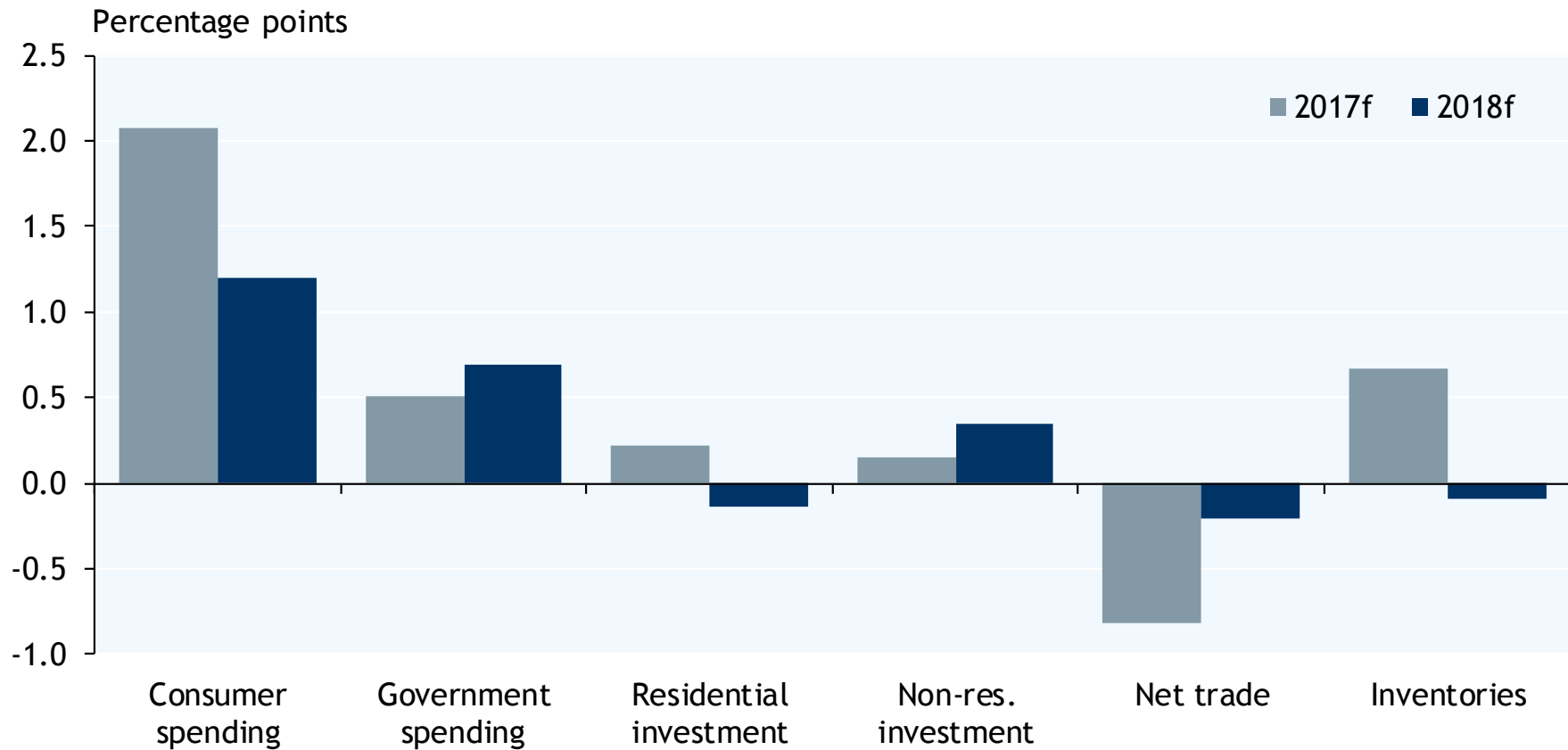
Quarter-over-quarter % change, annualized rate



Source: Statistics Canada, RBC Economics Research Forecasts

# Consumption to moderate; gov't and business spending stronger

## Canadian real GDP growth composition forecast



Source: Statistics Canada, RBC Economics Research



# Regulatory changes weighed on home sales activity in 2017...

## Existing home sales in Canada

Thousands, SAAR

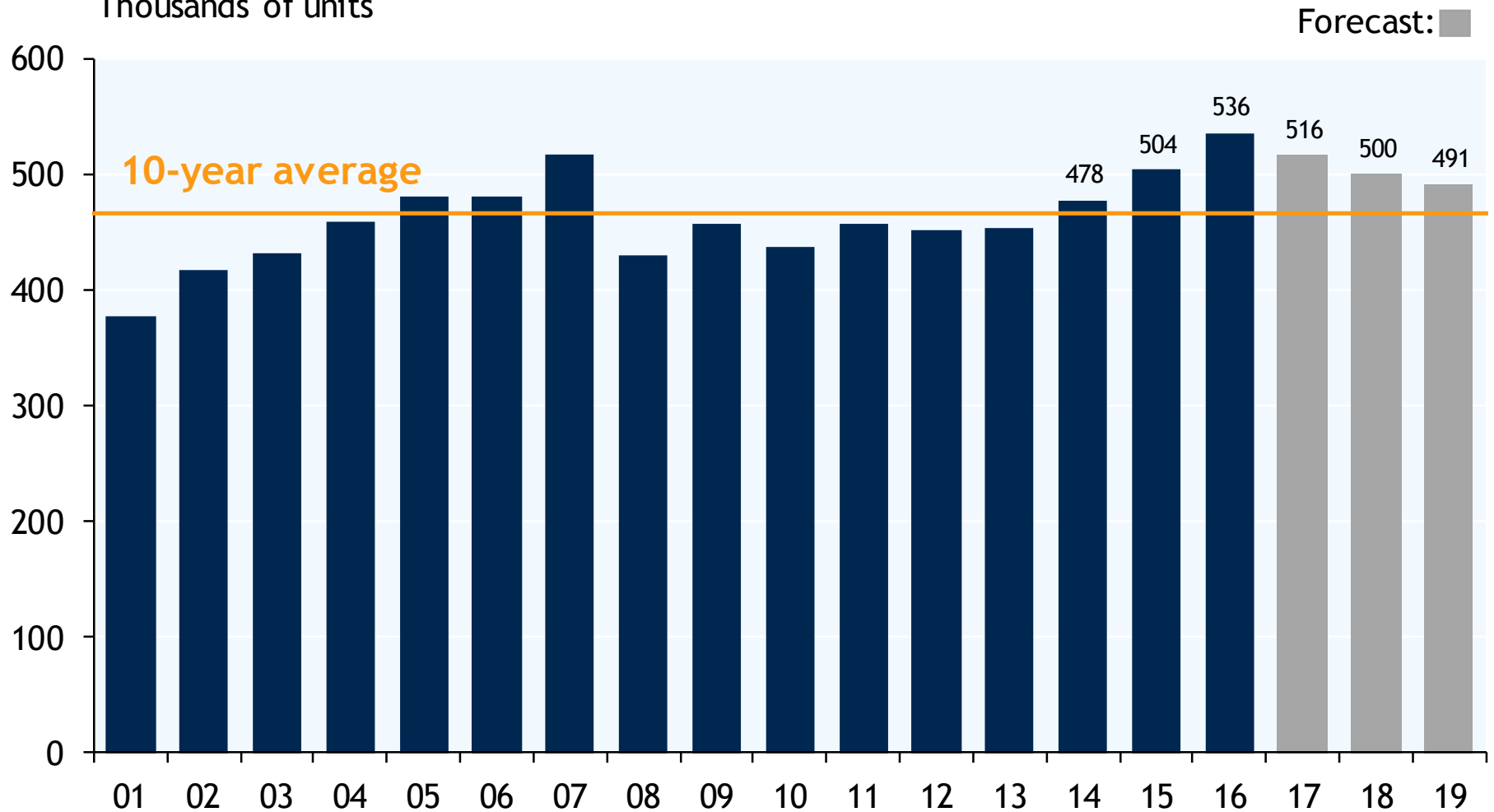


Source: CREA, RBC Economics Research

## ...and home sales will stay on slowing path in 2018 as rates rise

### Home resales: Canada

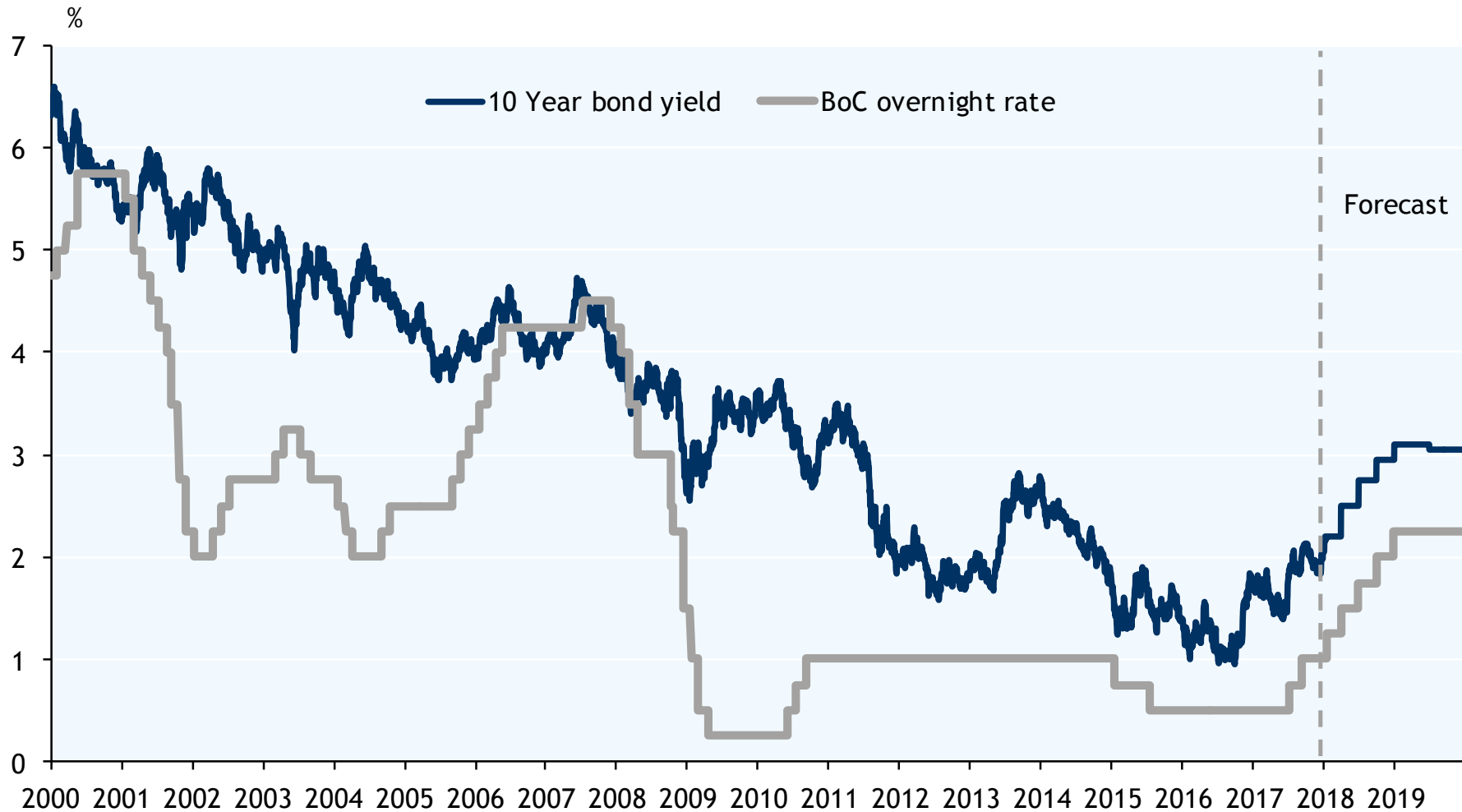
Thousands of units



Source: Canadian Real Estate Association, RBC Economics Research

# Bank of Canada in no hurry; will gradually unwind stimulus

## Interest rates: Canada

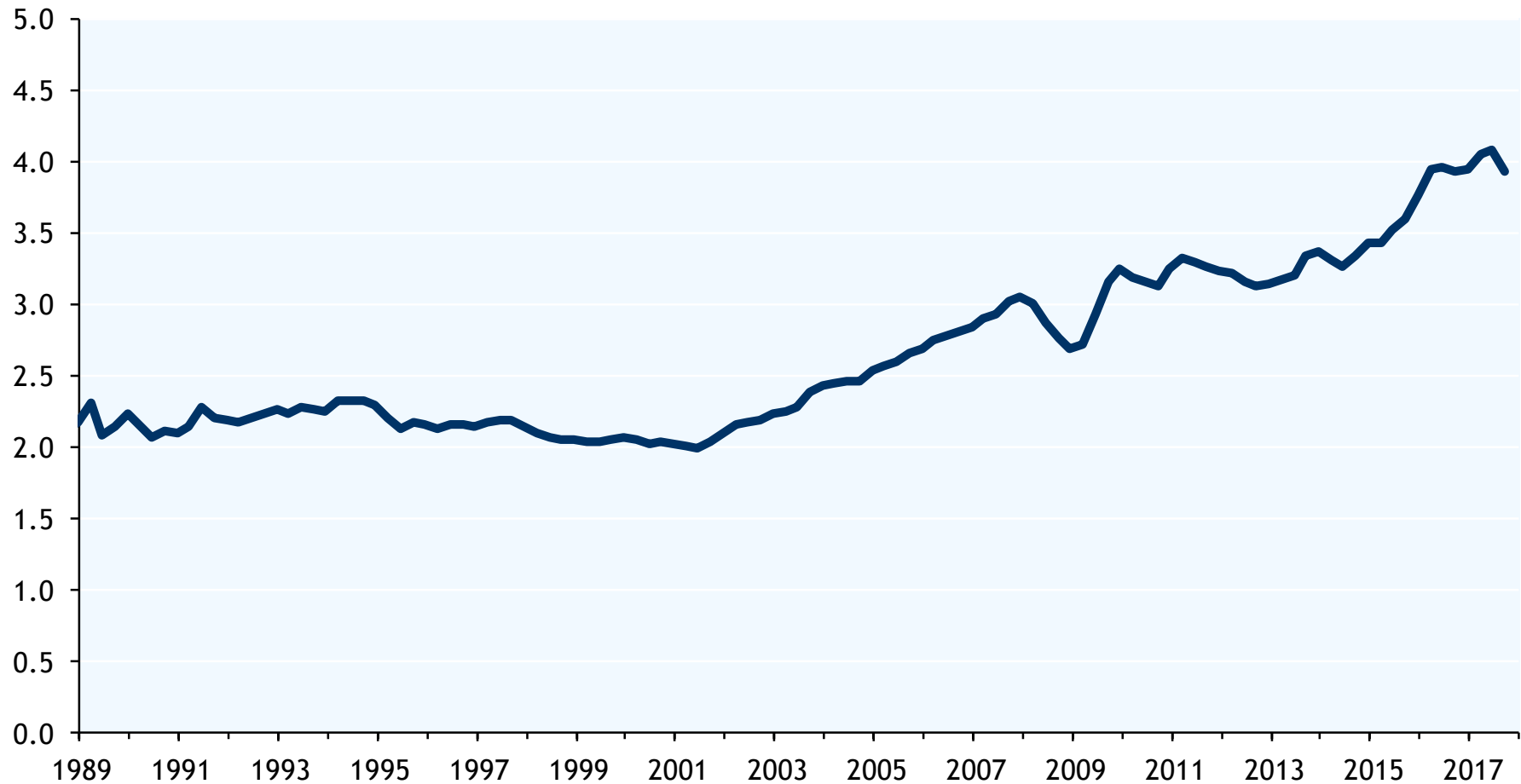


Source: Bank of Canada, RBC Economics Research

# In part due to rise in household balance sheet sensitivity to rate hikes...

## Effect of a 1 ppt rate increase on mortgage payments

Based on prevailing housing prices in Canada, expressed as a % of household income

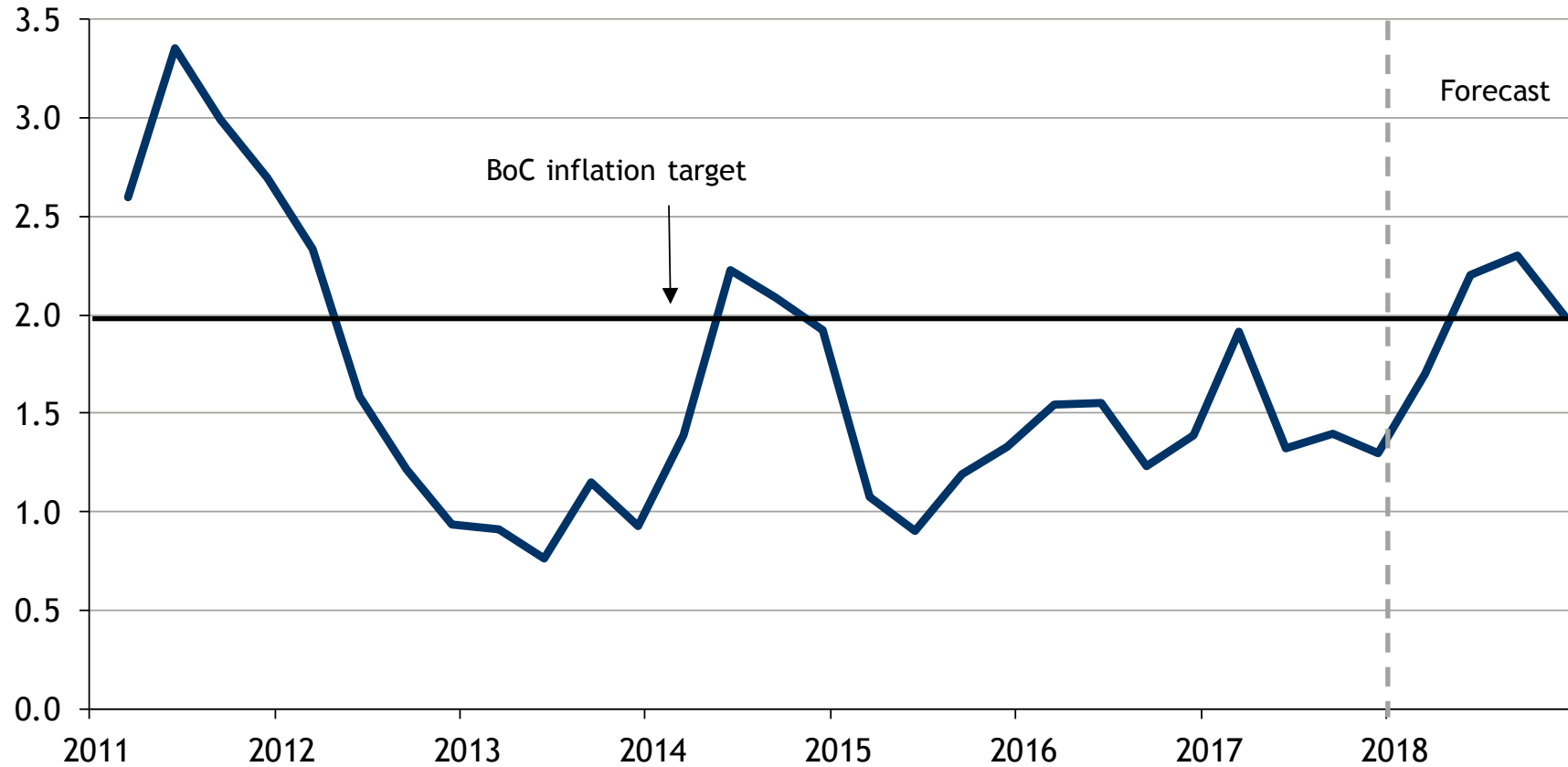


Source: CREA, RBC Economics Research

## ...and because inflation has yet to move to the 2% target

### Canada: Headline inflation

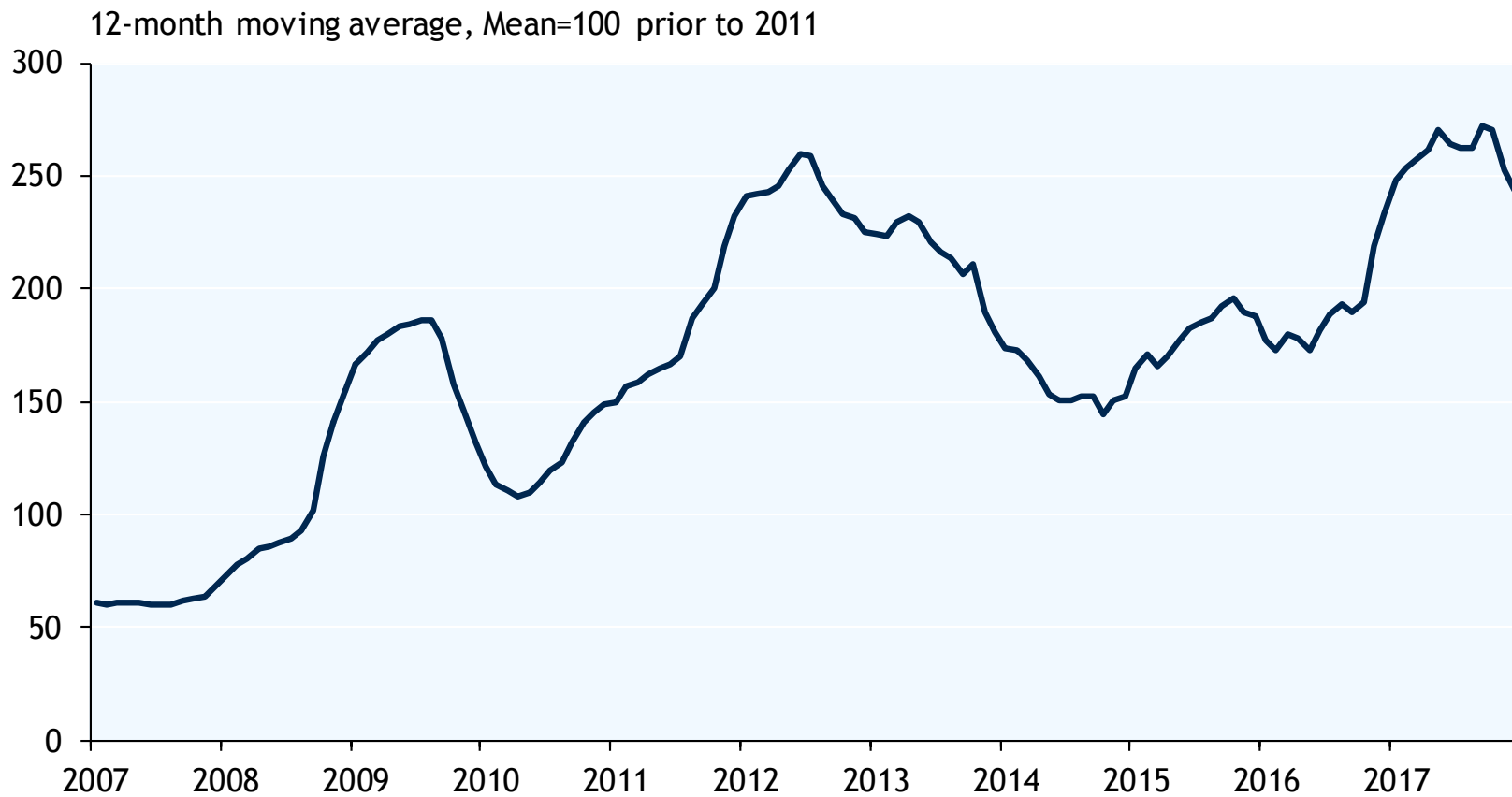
% change, year-over-year



Source: Statistics Canada, RBC Economics Research

## ...and given the elevated state of policy uncertainty = NAFTA

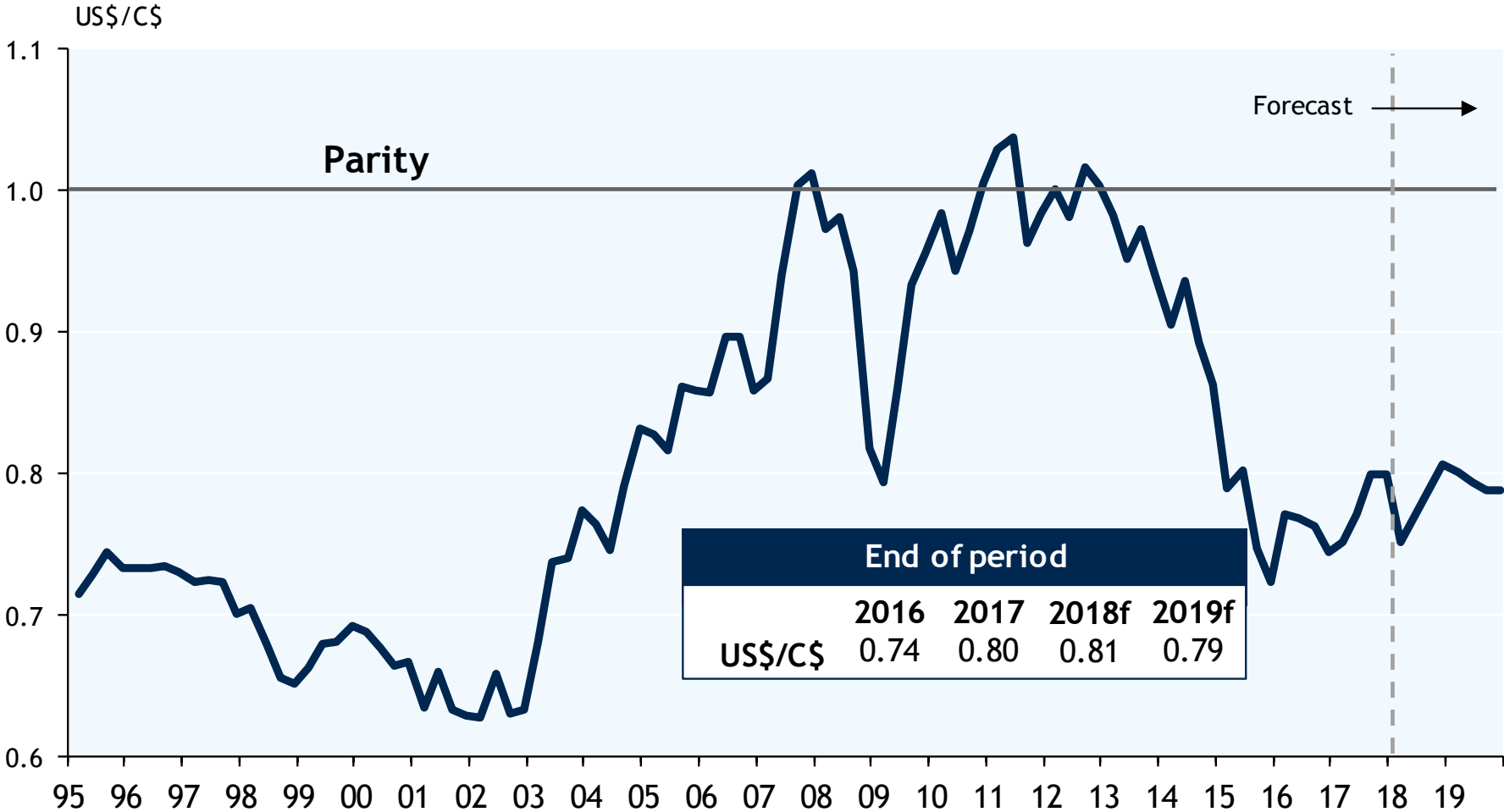
### Canada: News-based Policy Uncertainty Index



Source: PolicyUncertainty.com, RBC Economics Research

# C\$ rallied on strong data and rate hike; near term uncertainty to weigh

## Canadian dollar forecast

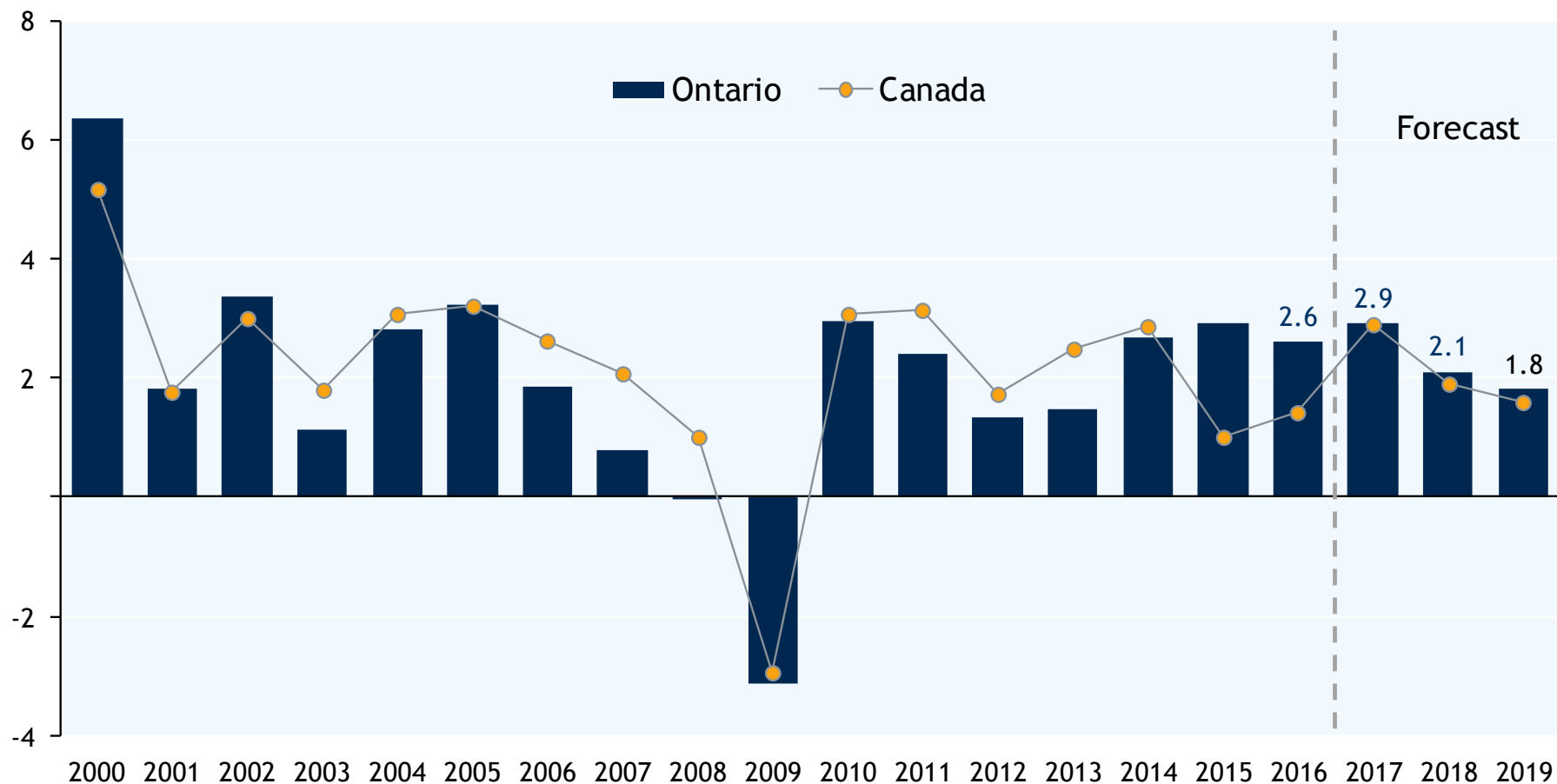


Source: Bank of Canada, RBC Economics Research Forecasts

# Ontario's economy to remain near top of provincial leaderboard

## Real GDP: Ontario and Canada

Annual % change

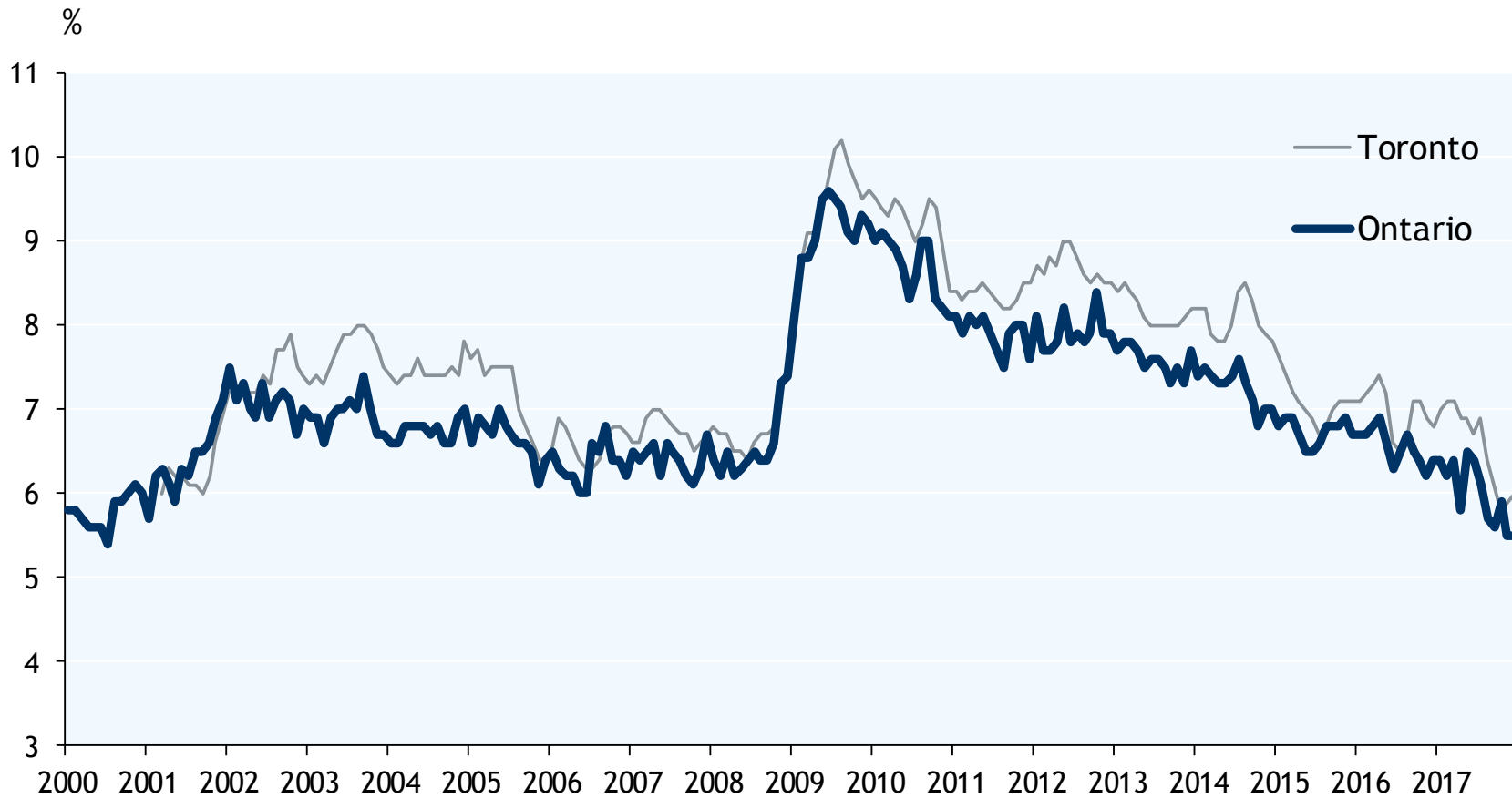


Source: Statistics Canada, RBC Economics Research



# The job market has been on fire...

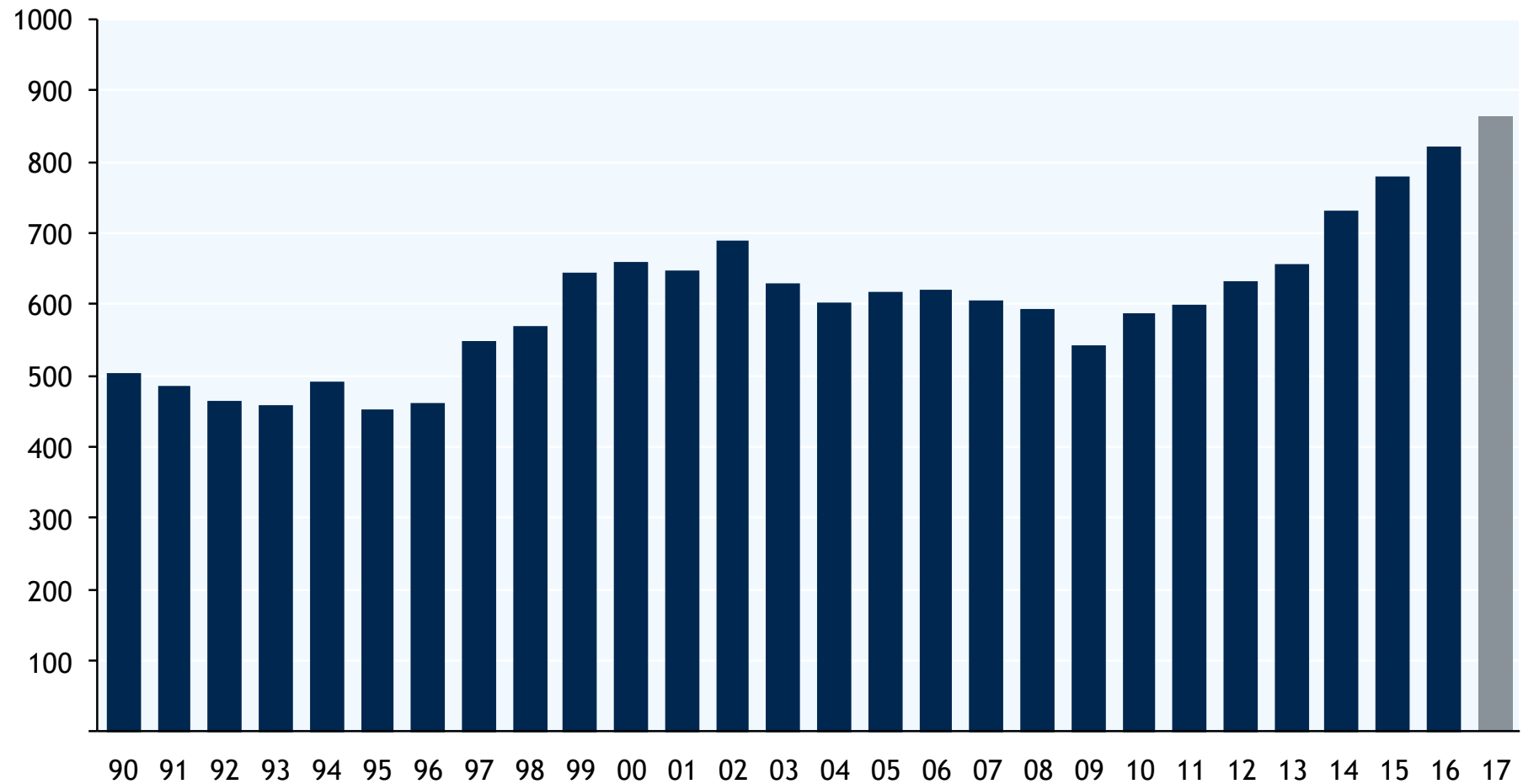
## Unemployment rate : Ontario



Source: Statistics Canada, RBC Economics Research

## New motor vehicle sales: Ontario

Thousand units

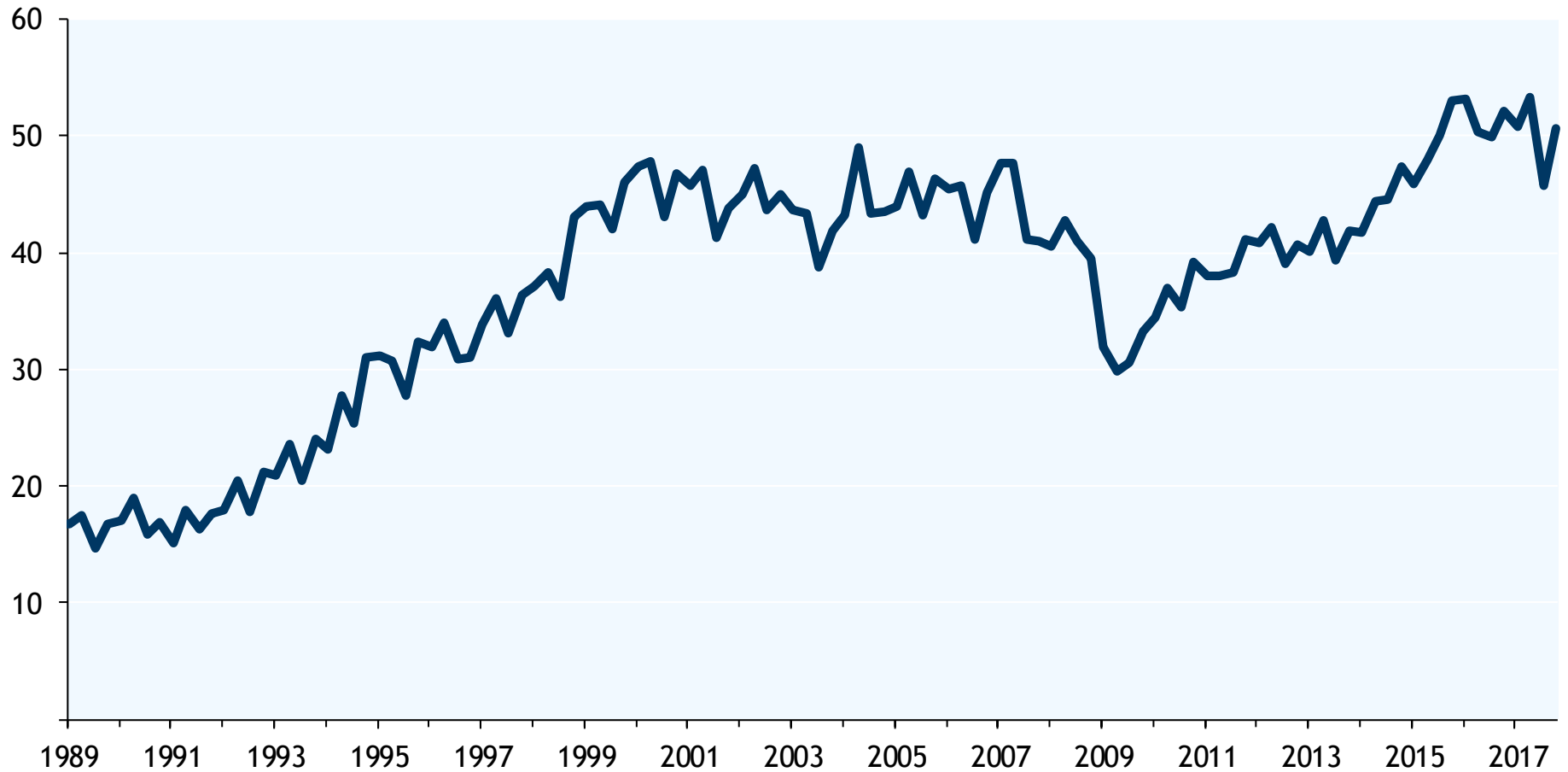


Source: Statistics Canada, RBC Economics Research

# Exporters are gaining ground

## Ontario exports: All merchandise

Billion \$, quarterly

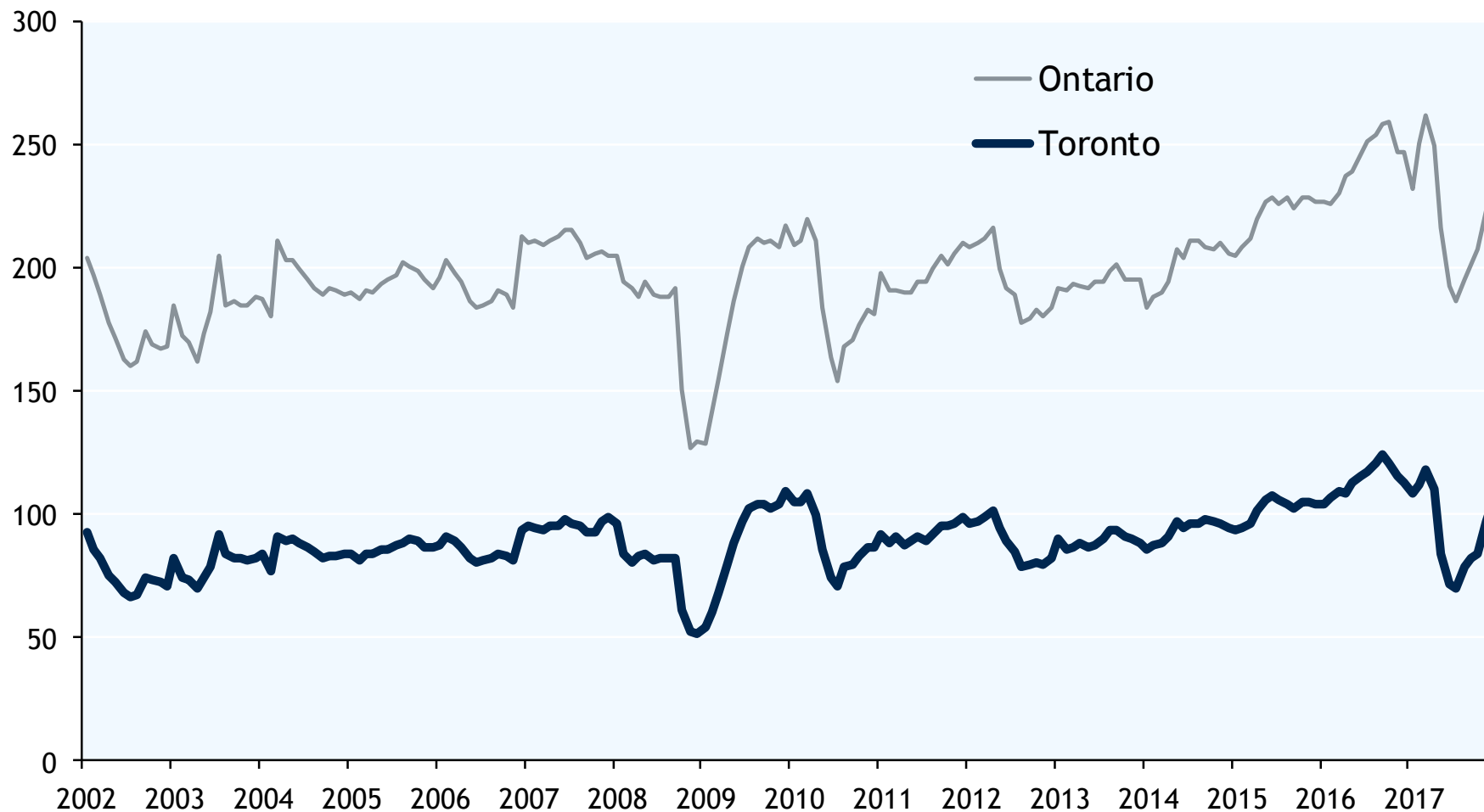


Source: Statistics Canada, RBC Economics Research

# In April Ontario housing market lost its edge...

## Existing home sales

Thousands, SAAR

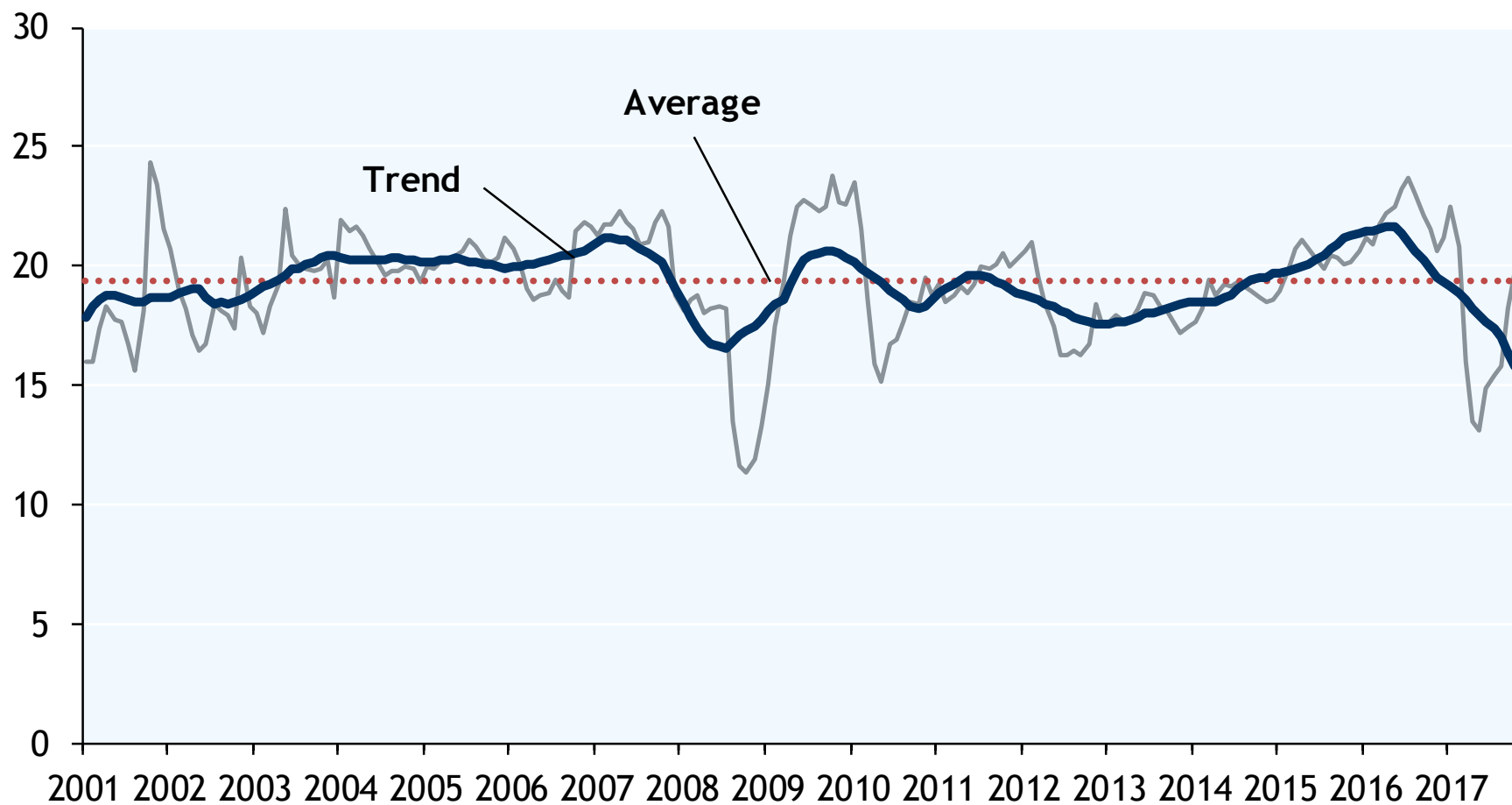


Source: CREA, RBC Economics Research

...although we think the market over-corrected

## Resales per adult-age population - Toronto area

SAAR home resales per 1000 population aged 15+



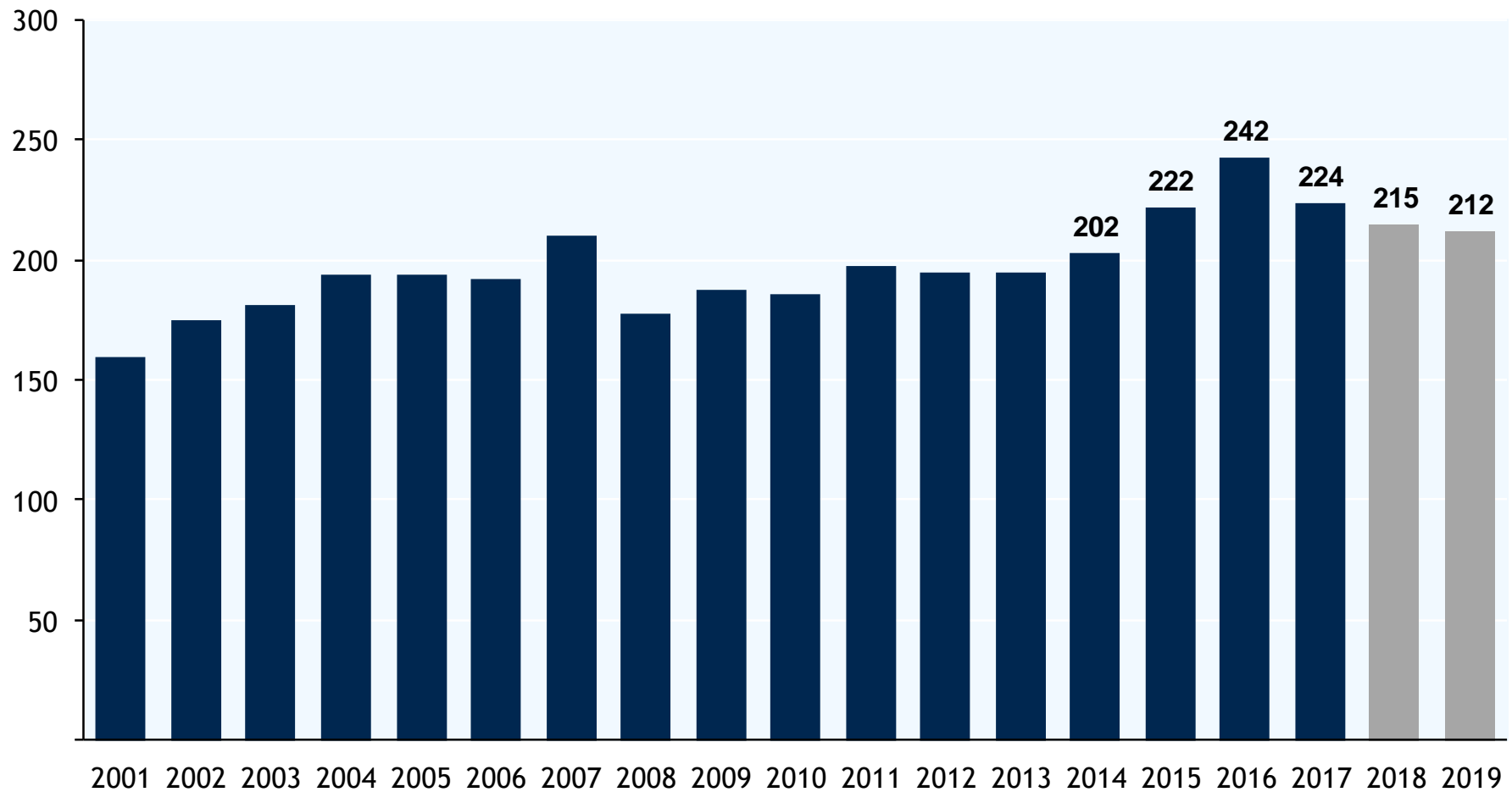
Source: CREA, Statistics Canada, RBC Economics Research

# The outlook is for a cooling in home resale activity, not a collapse

## Home resales: Ontario

Thousands of units

Forecast: ■

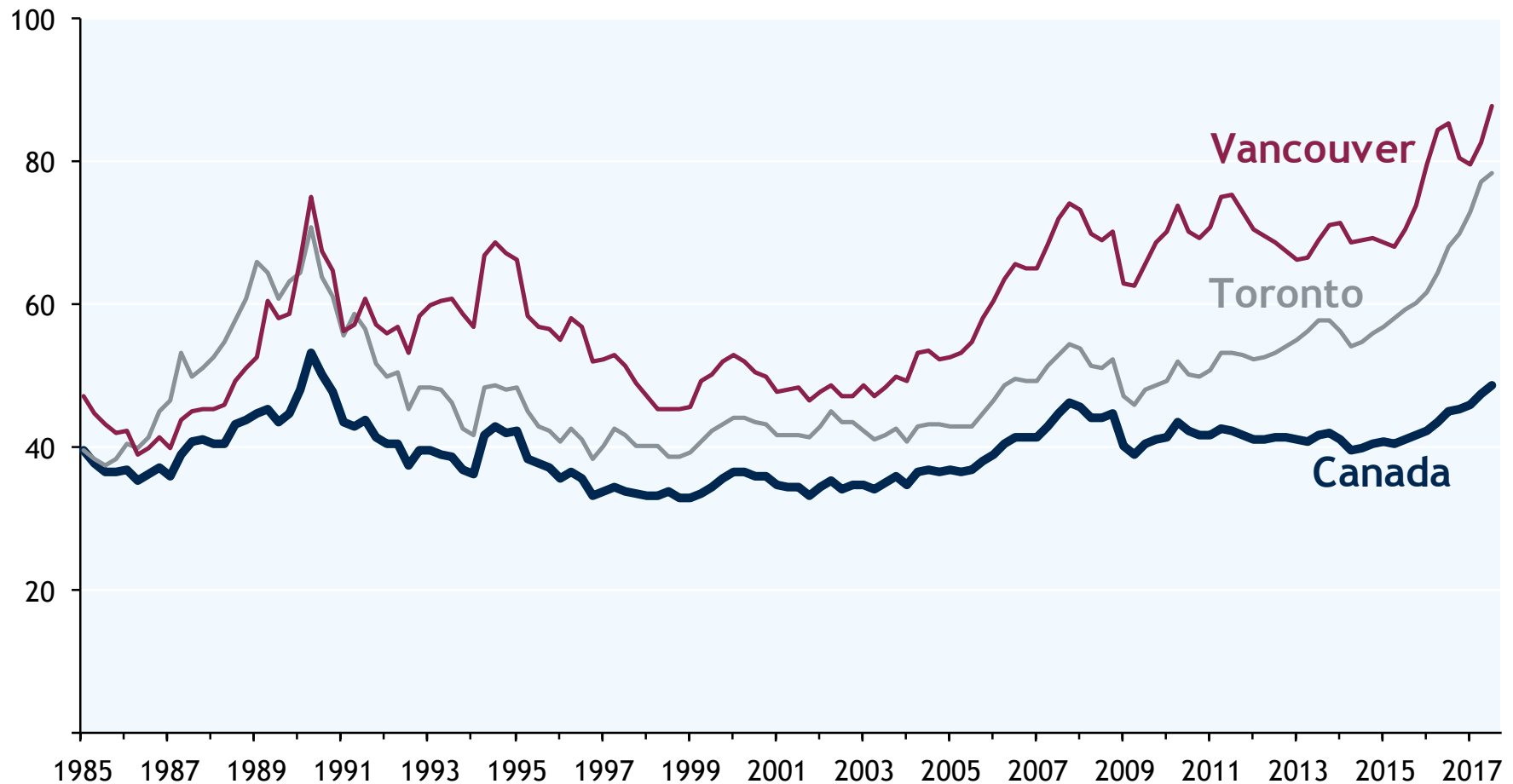


Source: CREA, RBC Economics Research

# Overstretched affordability in key markets will weigh on demand...

## RBC Housing Affordability Measures - aggregate

Ownership costs as % of household income



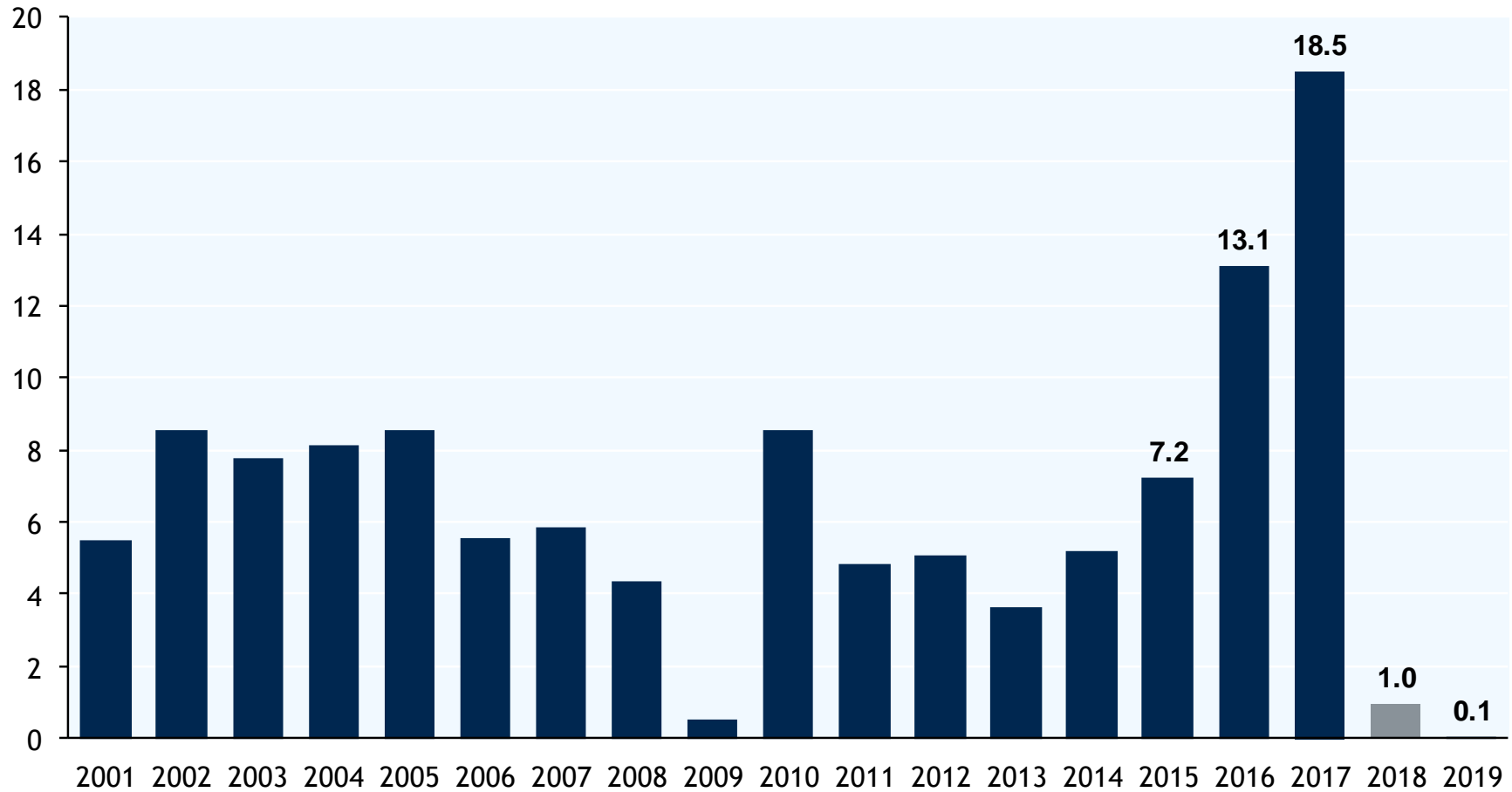
Source: RPS, Royal LePage, Statistics Canada, Bank of Canada, RBC Economics Research

# ...ending the run of rapid price appreciation

## Home prices: Ontario

Annual % change

Forecast: 



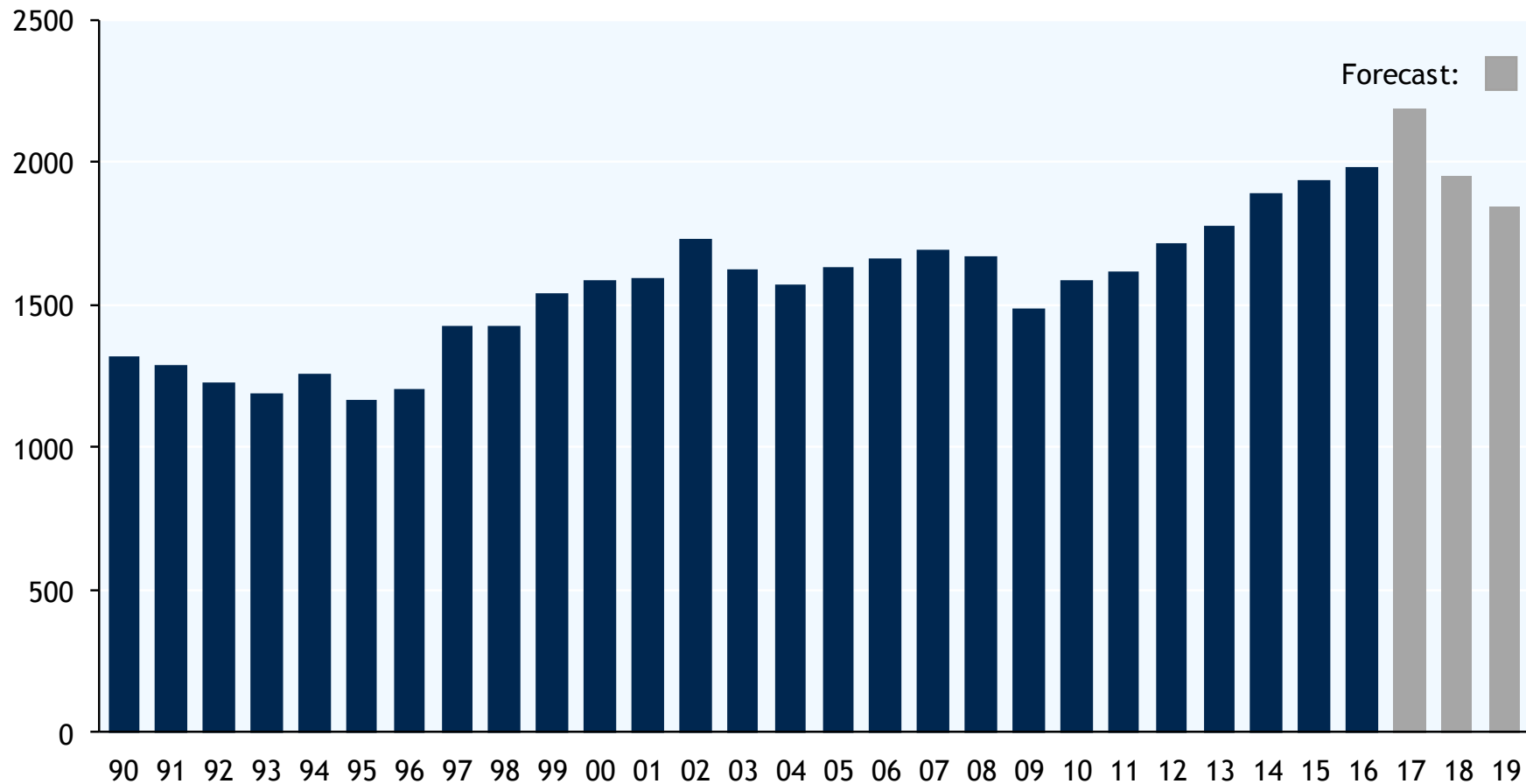
Source: RPS, Royal LePage, RBC Economics Research



# Big ticket items like motor vehicle sales are also expected to gear down

## New motor vehicle sales: Canada

Thousands of units

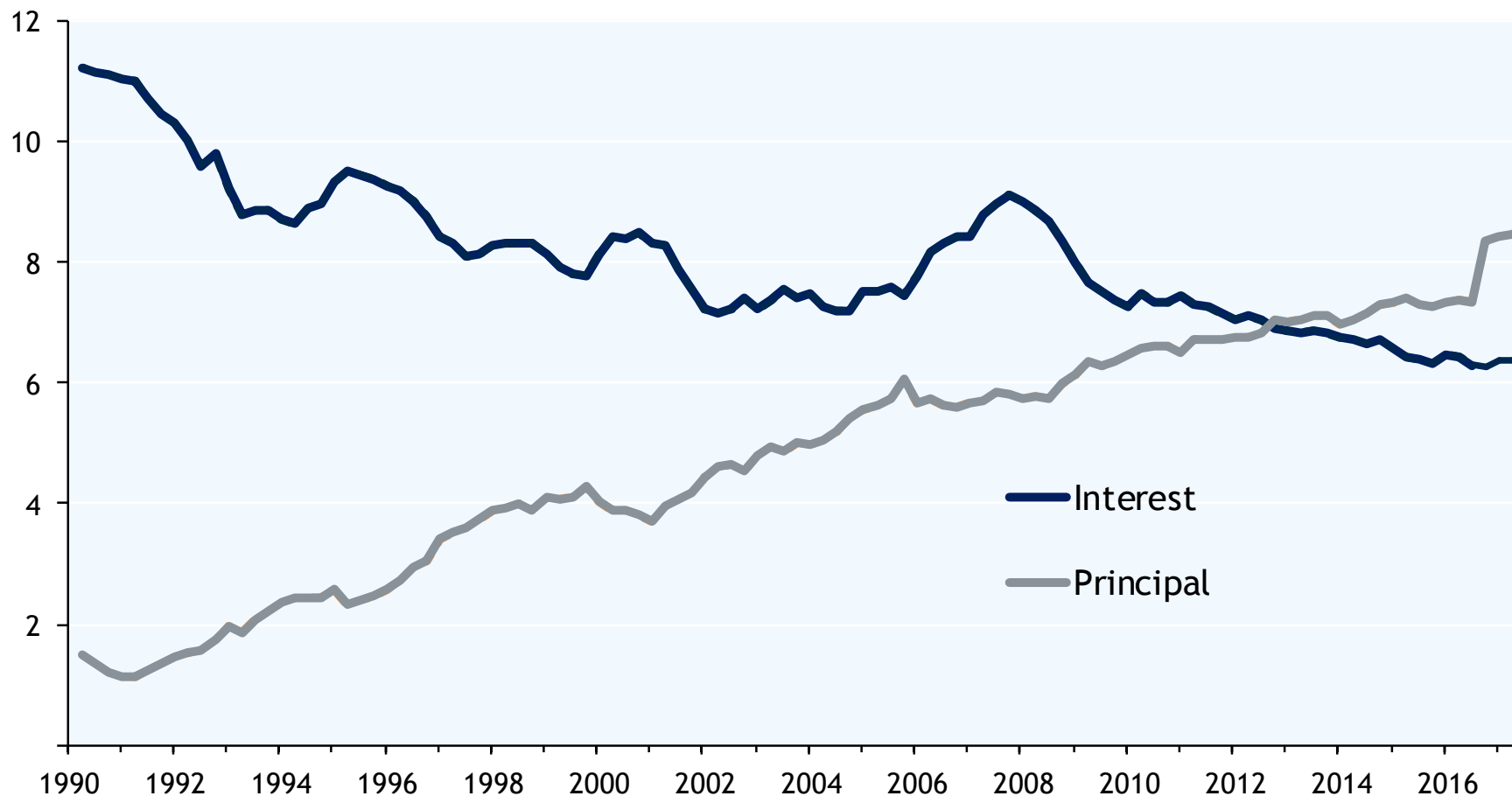


Sources: Statistics Canada, RBC Economics Research

# As higher rates bump up debt service costs

## Debt service ratio - Canada

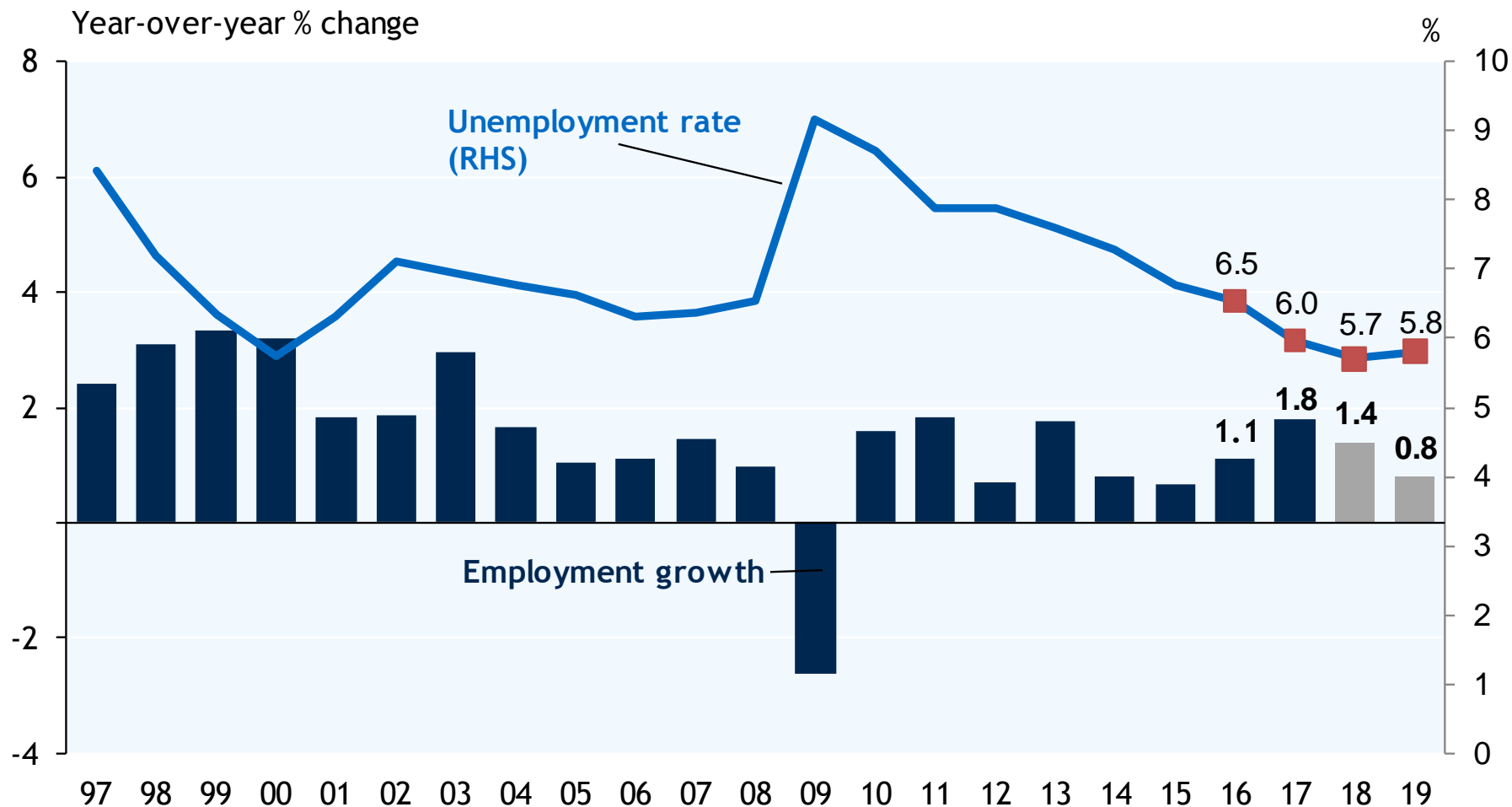
Debt service payments on mortgage and non-mortgage debt as % of PDI, seasonally adjusted



Source: Statistics Canada, RBC Economics Research

# Fortunately, sustained job creation...

## Labour market: Ontario



Source: Statistics Canada, RBC Economics Research

## ...and a pick-up in wages will mitigate impact

### Ontario wage growth

Year-over-year percent change

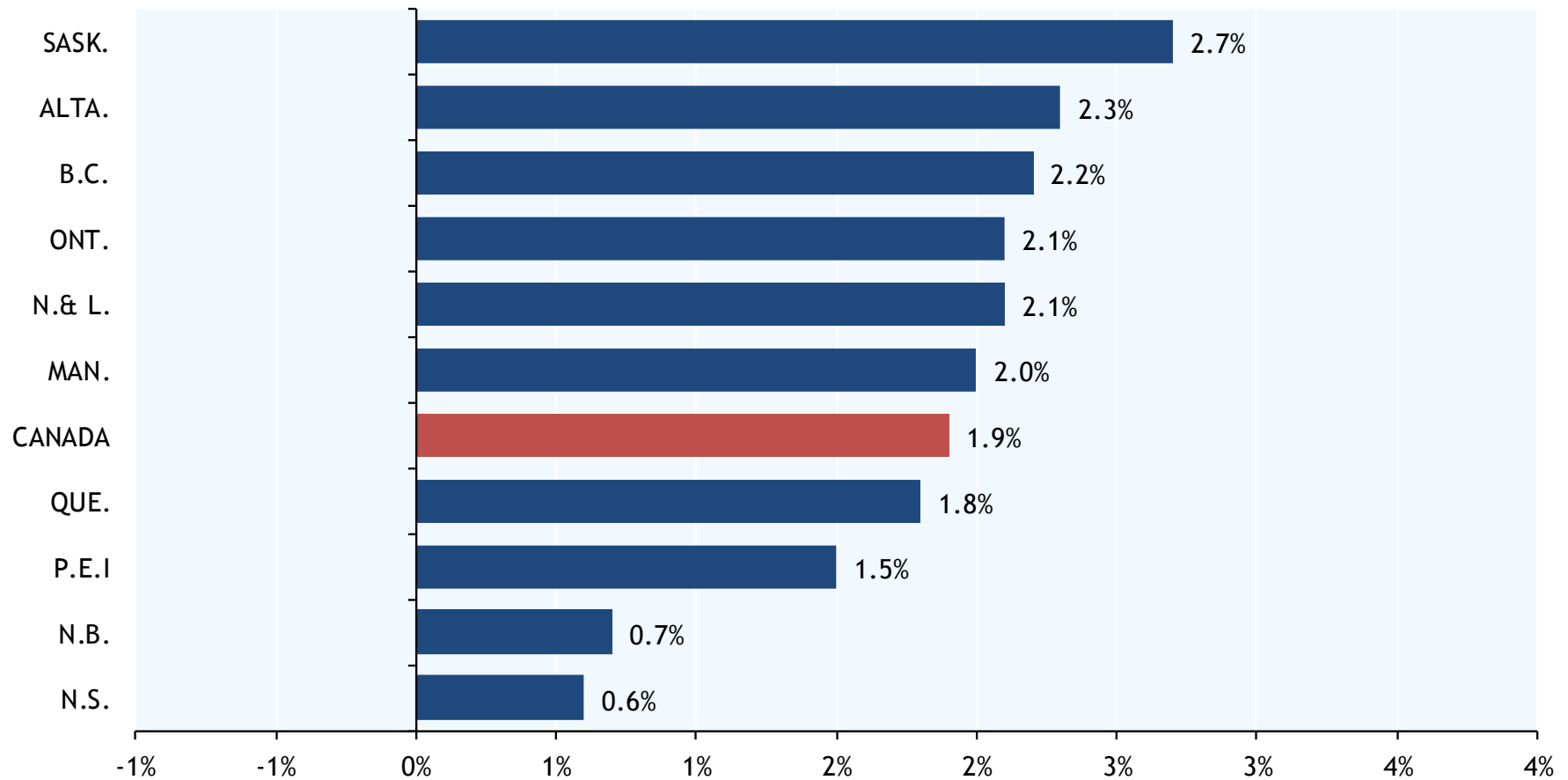


Source: Statistics Canada, RBC Economics Research

# Ontario still among the faster growing provincial economies in 2018

## Provincial real GDP growth forecasts, 2018

annual % change



Source: Statistics Canada, RBC Economics Research

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