



Inside...

Overview

..... page 1

Interest rate outlook

..... page 5

Economic outlook

..... page 6

Currency outlook

..... page 7

Central bank watch

..... page 8

Looking back on a solid year

..... page 9

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This year it seemed nothing could dent sentiment or derail a long-overdue pickup in global growth. In the US, ever-present political uncertainty and limited legislative progress didn't stop the economy from accelerating to its best pace in two years—in the process pushing unemployment close to 4% for the first since 2000. That allowed the Fed to continue gradually removing accommodation and start shrinking their balance sheet, a move that was handled well by investors. Up north, Canada's economy put in a surprisingly strong performance, including a roaring labour market, despite some whipsawing in the housing market and plenty of concerns about North American trade. The improving backdrop allowed the Bank of Canada to reverse 2015's 'insurance' rate cuts, with more tightening on the table next year.

In Europe, a number of election hurdles were cleared and we saw the strongest, most broadly-based expansion since the currency bloc's double-dip recession. Things aren't as rosy in the UK where little progress has been made to kickstart Brexit negotiations. The issue is taking a toll on the economy, though the slowdown this year hasn't been as bad as initially feared. Indeed, conditions were strong enough for the Bank of England to raise rates for the first time in a decade.

Tighter monetary policy in a number of advanced economies and plenty of geopolitical uncertainty didn't prevent global equity markets from consistently hitting new highs, and volatility plumbing fresh lows. The MSCI world stock market index posted a gain of more than 20% and the S&P500 wasn't far behind. There are still a number of issues to look out for in 2018—Nafta renegotiations in Canada, Italian elections in Europe, Brexit in the UK, and an unpredictable leader in the US. The global economy was able to shrug off such issues in 2017, and solid momentum heading into 2018 is fueling optimism that next year will be much the same.

Central bank near-term bias

Three-months out, policy rate



Despite growing evidence that the economy is running close to full capacity (sub-6% unemployment!) the Bank of Canada continues to sound cautious. Monetary policy appears to be on hold for the next few meetings but we see rate hikes resuming in the second quarter of next year.



We think the Fed will get back to raising rates at their December meeting amid tight labour market conditions and above-trend growth. Our forecast assumes four more hikes next year, though we'll need to see inflation starting to pick up for policymakers to move at that pace.



Given Brexit-related headwinds facing consumers and businesses, we don't think the economic backdrop will be strong enough for the Bank of England to raise rates again next year. November's rate hike looks like it will be one-and-done.



Having just extended their asset purchase program through September 2018, we don't think the European Central Bank will be tweaking monetary policy further anytime soon. Even with decent economic momentum, the ECB is likely to keep their foot on the gas amid slow inflation.



The combination of stronger business investment and softer consumer spending is expected to keep Australia's economy growing at its speed limit. Inflation and wage pressures will be slow to develop, keeping the Reserve Bank of Australia on the sidelines next year.



The Reserve Bank of New Zealand will have a new governor next year, and potentially a new mandate. Combined with uncertainty about public spending, we think the RBNZ is in a holding pattern for now.

Highlights

▲ 2017 was ‘in like a lamb, out like a lion’ in terms of US GDP growth.

▲ Consumers and businesses will keep the economy growing at an above-trend pace next year.

▲ Congress is getting closer to passing tax cuts, which could provide a modest boost to the US economy.

▲ We expect the Fed will raise rates at Chair Yellen’s penultimate meeting in December.

US economy entering 2018 with a head of steam...

US Q3 GDP growth was revised up to 3.3% as business investment in equipment and inventories was stronger than initially estimated while consumer spending continued to increase at a solid pace. Recent data point to households and businesses once again fueling above-trend growth in Q4. Spending on durables in particular—autos in the case of households, capital goods for businesses—has been strong in recent months. And the residential sector looks like it will contribute to growth once again after pulling back over the last two quarters. Housing starts jumped to their highest level in a year in October, some of which likely reflects rebuilding efforts in hurricane-impacted areas, and home sales ticked higher. While we expect a solid domestic demand profile in Q4, headline GDP growth is expected to come in at a slightly softer, albeit still above-trend 2.4% pace as Q3’s inventory build isn’t likely to be repeated.

...as domestic drivers should continue to fuel growth

Solid domestic spending is expected to keep the economy growing at an above-trend rate through 2018. Consumers will continue to be a major contributor—low unemployment, strong confidence readings, wealth effects and what we expect will be rising wages all argue for households keeping their pocketbooks open. We think the same will go for housing, which hasn’t seen the consistent gains we’ve come to expect but should get back on track in 2018. Mirroring consumer optimism, business sentiment is on an improving trend with the ISM composite index hovering around decade highs. Combined with solid demand and emerging capacity constraints, we are confident that the trend of improving business investment that emerged this year will extend in 2018. The upshot is GDP should continue growing at a 2 to 2-1/2% pace next year—still above the economy’s longer run speed limit of slightly less than 2%.

Fiscal boost looking more likely...

The US Senate and House of Representatives each passed their own tax bills that are fairly similar in broad strokes—namely, a substantial cut in the corporate tax rate to 20% as well as a reduction in personal income taxes that is partially offset by eliminating a number of deductions. Some of the personal tax cuts are set to expire in the next decade, limiting the cost of the overall package to a still-sizeable \$1.5 trillion over ten years. It is now up to the two chambers to reconcile their respective bills before the president signs off. So while we await final details, it appears increasingly likely that something along the lines described above will be passed into law. Our forecast has assumed a modest add from fiscal stimulus, and we will firm up that estimate when the legislation is finalized. But once again we caution that the boost from tax changes might not be as large as at first blush. With much of the tax savings going to corporations and those with higher incomes, the stimulative impact won’t be as significant as a similar cut for lower- and middle-income households. As well, with the economy near its longer run capacity limits, the stimulus is more likely to be offset, in part, by higher interest rates.

...which should keep the Fed in tightening mode

We are with markets in expecting that a solid run of data will see the Fed raise rates once again in December. It will be the penultimate meeting for Chair Yellen, and her last with a scheduled press conference, meaning policy implications are more likely to be drawn from the updated economic projections than her comments. The latest ‘dot plot’ showed a wide range of views on how much monetary policy will need to tighten in 2018. We don’t expect a consensus will emerge in December—minutes from the last meeting showed continued division on whether slower inflation this year will prove persistent, and thus little agreement on the appropriate pace of rate hikes going forward. But with the potential for an inflationary fiscal boost looking more likely, we could see a few more committee members favouring a less stimulative stance next year. The pending change in Fed leadership adds an extra dose of uncertainty to the future path of monetary policy, but early indications are that Governor Powell won’t significantly alter his predecessor’s course. Powell’s comments have generally echoed Chair Yellen’s tone—if anything, he has sounded slightly more dovish, mentioning lingering labour market slack in a recent speech. Yellen has made similar comments in the past, but left that out of her latest testimony to Congress.

Slower growth, but Canada's economy still on solid footing...

After growing at a 3-1/2% pace over the prior four quarters, Canada's economy geared down in Q3, meeting expectations with a more trend-like 1.7% annualized increase. Consumers once again made a strong contribution with spending jumping an annualized 4% in Q3—a bit surprising given slower retail sales in the quarter. Businesses were also in on the action, increasing investment in machinery and equipment, while net trade provided a sizeable drag in what was an ugly quarter for exporters. On a monthly basis, Q3 ended on a positive note with GDP rising a stronger-than-expected 0.2% in September. A decent handoff leaves us comfortable looking for a slightly better 2% gain in Q4, rounding out Canada's best year of growth since 2011.

...after a banner year for Canada's job market

Canada's impressive GDP growth in 2017 has been mirrored in the labour market. Employment has increased in each of the last twelve months—something of a rarity in normally volatile jobs data. The 344 thousand positions added through November, all full-time, represents the strongest pace of hiring in a decade. Even with a modest cyclical pickup in labour force participation, the unemployment rate is down a percentage point from the end of last year. November's 5.9% rate is one of only a handful of sub-6% readings over the last four decades. And we're finally seeing some evidence of wages picking up in response to tight labour market conditions. Minimum wage hikes in a number of provinces have helped, but we think more employers competing for a shrinking pool of applicants has also been a factor pushing wages higher in recent months. We look for that trend to persist next year.

A few more challenges in 2018...

While a rapid pace of job growth bolstered household incomes in 2017, we don't expect employment gains will be so easy to come by in the year ahead. Tight labour market conditions should help with wages, but on balance we think disposable income growth will moderate somewhat in 2018. Meanwhile, Canada's all-important consumer sector will face growing headwinds as debt service costs rise. Similarly, the housing sector is expected to continue its recent slowdown as the combination of higher mortgage rates and further regulatory tightening cools demand. With consumer spending and residential investment—major drivers of growth in recent years—not contributing as much, other sectors of the economy will have to step up to keep the economy from slowing below its longer run trend.

Our forecast assumes a further modest increase in business investment will fill some of the void. Companies have spent more on equipment and structures this year and should continue to invest in 2018 as greater capacity pressures emerge. Dampening the outlook, however, is continued uncertainty about the future of Nafta. Businesses seem to have largely shrugged off trade concerns this year, but with a negative negotiating outcome looking increasingly likely, we are erring on the side of caution in our capex projections. The issue is, of course, also important for Canada's export sector, though our forecast doesn't assume any actual disruptions in North American trade. As long as goods and services continue to flow, we think a pickup in the traditional drivers of export growth and a relatively supportive currency will help trade reverse some of its disappointing performance over the last year.

...left the BoC with a cautious tone

After a couple of surprises earlier this year, the Bank of Canada's final meeting of 2017 was a relatively tame affair. The overnight rate was held steady at 1% and the statement's tone was little changed, once again providing vague forward guidance and emphasizing caution. The domestic outlook, including recent trends in investment, trade, infrastructure spending and housing, was seen as little changed from their forecasts laid out in October. Policymakers didn't get overly excited about November's employment report, noting some improvement in wages but still pointing to lingering, albeit diminishing, labour market slack. Our forecast assumes the bank's cautious mindset will keep them on the sidelines until April. That will give them some time to evaluate the impact of this summer's two rate hikes. They'll also (hopefully) have a better idea of how one of the most significant risks facing the economy, the Nafta renegotiation, is evolving. Markets are pricing some risk of an earlier move, but with the central bank not sounding overly excited, we remain comfortable with our call.

▲ Canadian GDP growth slowed to a more trend-like pace in Q3 after an impressive run over the prior four quarters.

▲ Canada's unemployment rate fell to 5.9% in November, one of the lowest readings over the last 40 years.

▲ With consumer spending and housing providing less support, business investment and exports will be relied upon to prevent greater slowing in 2018.

▲ 'Caution' remained the watchword in the Bank of Canada's December policy statement.

Highlights

▲ The UK's uptick in consumer spending isn't likely to be repeated amid soft real income growth.

▲ The euro area economy's solid trend is expected to extend into 2018, but inflation will be slow to respond.

▲ The RBA made few changes to their policy statement in December and won't officially meet again until February.

▲ The RBNZ is projecting firmer inflation next year but we don't see them responding amid ongoing uncertainty.

UK's stronger consumer spending isn't expected to last

The UK economy's 0.4% gain in Q3 beat market expectations, but it was the subsequently released expenditure details that really surprised. GDP growth was driven entirely by a pickup in consumer spending, ending a recent slowing trend, while business investment and exports provided little help. With households' spending power still being held in check by rising inflation, we don't think the feat can be repeated and look for growth to slip back to 0.3% in Q4. Consumers will remain in focus next year, as even with inflation having peaked and wage growth expected to edge higher, real incomes likely won't be better than flat. And with the household savings rate already plumbing multi-decade lows, it's hard to see consumer spending providing the add to growth that it has through much of the expansion. We also remain cautious on the investment outlook given uncertainty generated by stall-speed Brexit negotiations. All told, we think the UK economy will grow 0.3-0.4% per quarter in 2018, slightly below its longer run speed limit. That sub-trend pace underpins our forecast for the Bank of England to remain on the sidelines for the foreseeable future after raising rates in November. The central bank has noted that further, limited rate increases will be needed to return inflation to 2% over the medium term. However, that forecast is based on a smooth Brexit process—an assumption that continues to look a bit optimistic. With growth likely to disappoint, we don't see the BoE adjusting monetary policy next year.

Euro area finishing 2017 with solid momentum

Euro area GDP was up 2.5% year-over-year in Q3, the best pace since 2011, and that momentum appears to have been maintained at the end of the year. November's composite purchasing managers' index rose to its highest level in years as both manufacturing and services indicators strengthened. France has seen a particularly solid improvement, while sentiment in Spain has been dented slightly by ongoing political upheaval in Catalonia. On balance, the surveys lend a bit of upside risk to our forecast for another 0.6% gain in Q4 GDP. We think above-trend growth will continue next year on the back of rising business investment and consumer spending. The latter is being helped by improving labour market conditions, with euro area unemployment down a percentage point over the last year. But while the economic and labour market backdrop continues to brighten, price pressures remain non-existent—a by-product of lingering excess capacity and slow wage growth. That has kept the European Central Bank committed to stimulus, recently extending asset purchases through September 2018. We think policymakers are in a holding pattern for now and won't revisit their QE program until mid-2018. At that time, with inflation likely remaining well short of 2%, we wouldn't be surprised to see one more extension to prevent a cliff edge in purchases. Rate hikes remain off the table well into 2019.

RBA's pause likely to extend through 2018

The Reserve Bank of Australia's final meeting of the year was a non-event, with a little-changed statement highlighting familiar themes: a positive outlook for business and government investment but uncertainty about the trend in consumer spending amid slow income growth and high household debt. Those themes were evident in the subsequently-released Q3 national accounts. GDP rose 0.6% in the quarter thanks to a sizeable gain in business capex while consumer spending provided little help, recording the softest increase in five years. The latter partly reflects quarterly volatility, but consumption growth has clearly eased this year and we are with the RBA in expressing caution about the outlook for households. However, a further pickup in business investment and stronger net exports are expected to keep the economy growing at a trend-like 2-3/4% pace next year. We'll be closely watching wage and inflation developments in 2018 for further signs of firming, but the process is likely to be a slow one. In that context, we don't see the RBA coming off the sidelines anytime soon. We think they'll eventually join some of their global counterparts in raising interest rates, but 2019 looks to be the more likely timing for a policy shift.

RBNZ's projections a bit more hawkish, but uncertainty remains

The Reserve Bank of New Zealand left policy unchanged in November but upped their inflation forecast due to a higher starting point and weaker currency assumption. The new profile was enough for the central bank to pull forward their interest rate projection, which now points to a rate hike in the first half of 2019. The RBNZ hedged that change, however, by continuing to highlight considerable uncertainty. A pending change in leadership and a potentially new mandate for the central bank, along with uncertainty about the new government's policies, all argue for the RBNZ remaining on the sidelines for some time.

Interest rate outlook

%, end of period

	Actuals			Forecast						
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2
Canada										
Overnight	0.50	0.50	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.25
Three-month	0.52	0.71	1.00	0.90	1.00	1.20	1.45	1.70	2.05	2.25
Two-year	0.75	1.10	1.52	1.50	1.60	1.75	1.95	2.25	2.40	2.60
Five-year	1.12	1.40	1.75	1.70	1.85	2.05	2.30	2.55	2.75	2.90
10-year	1.62	1.76	2.10	1.90	2.15	2.35	2.60	2.80	2.95	3.10
30-year	2.30	2.14	2.47	2.20	2.50	2.75	2.95	3.10	3.15	3.25
United States										
Fed funds**	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00
Three-month	0.76	1.03	1.06	1.30	1.55	1.80	2.05	2.30	2.55	2.80
Two-year	1.27	1.38	1.47	1.85	2.10	2.35	2.55	2.75	3.00	3.25
Five-year	1.93	1.89	1.92	2.15	2.50	2.70	2.90	3.05	3.25	3.45
10-year	2.40	2.31	2.33	2.30	2.80	3.00	3.15	3.30	3.45	3.60
30-year	3.02	2.84	2.86	2.65	3.20	3.35	3.50	3.60	3.70	3.75
United Kingdom										
Bank rate	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Two-year	0.12	0.36	0.46	0.60	0.65	0.70	0.70	0.70	0.70	0.75
10-year	1.14	1.26	1.38	1.50	1.60	1.65	1.75	1.80	1.90	2.05
Euro area										
Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Two-year	-0.74	-0.57	-0.69	-0.70	-0.65	-0.65	-0.60	-0.50	-0.50	-0.50
10-year	0.33	0.47	0.47	0.50	0.65	0.65	0.70	0.80	1.00	1.05
Australia										
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00
Two-year	1.76	1.78	1.94	2.00	2.00	2.10	2.25	2.40	2.50	2.60
10-year	2.70	2.60	2.84	2.55	2.90	3.10	3.40	3.55	3.85	4.10
New Zealand										
Cash target rate	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Two-year swap	2.31	2.32	2.19	2.20	2.20	2.30	2.40	2.50	2.60	2.75
10-year swap	3.41	3.35	3.24	3.05	3.40	3.60	3.80	3.95	4.10	4.30
Yield curve*										
Canada	87	66	58	40	55	60	65	55	55	50
United States	113	93	86	45	70	65	60	55	45	35
United Kingdom	102	90	92	90	95	95	105	110	120	130
Eurozone	107	104	116	120	130	130	130	130	150	155
Australia	94	82	90	55	90	100	115	115	135	150
New Zealand	110	103	105	85	120	130	140	145	150	155

* Two-year/10-year spread in basis points, **Top of 25 basis point range

Source: Reuters, RBC Economics Research

Central bank policy rate

%, end of period

		Current	Last				Current	Last	
United States	Fed funds	1.00-1.25	0.75-1.00	June 15, 2017	Eurozone	Deposit rate	-0.40	-0.30	March 10, 2016
Canada	Overnight rate	1.00	0.75	September 6, 2017	Australia	Cash rate	1.50	1.75	August 3, 2016
United Kingdom	Bank rate	0.50	0.25	November 2, 2017	New Zealand	Cash rate	1.75	2.00	November 10, 2016

Source: Bloomberg, Reuters, RBC Economics Research

Economic outlook

Growth outlook

% change, quarter-over-quarter in real GDP

	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017F	2018F	2019F
Canada*	3.7	4.3	1.7	2.0	1.9	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4	2.9	1.9	1.6
United States*	1.2	3.1	3.3	2.4	2.5	2.3	2.0	2.0	1.9	1.8	1.7	1.7	1.5	2.3	2.5	1.9
United Kingdom	0.3	0.3	0.4	0.3	0.3	0.4	0.3	0.4	0.3	0.4	0.3	0.4	1.8	1.5	1.4	1.4
Euro area	0.6	0.7	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4	1.8	2.3	2.2	1.9
Australia	0.4	0.9	0.6	0.9	0.8	0.6	0.5	0.5	0.7	0.7	0.9	0.9	2.6	2.2	2.8	3.0
New Zealand	0.6	0.8	0.8	0.8	1.0	0.8	0.8	0.7	0.7	0.7	0.7	0.7	3.0	2.7	3.4	2.9

*annualized

Inflation outlook

% change, year-over-year

	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017F	2018F	2019F
Canada	1.9	1.3	1.4	1.7	1.4	1.9	2.0	1.7	1.8	2.0	2.0	2.1	1.4	1.6	1.8	2.0
United States	2.5	1.9	2.0	2.1	1.7	2.0	1.9	1.4	1.7	1.9	2.0	2.1	1.3	2.1	1.7	1.9
United Kingdom	2.2	2.8	2.8	2.9	2.8	2.6	2.6	2.5	2.3	2.2	2.2	2.0	0.6	2.7	2.6	2.2
Euro area	1.8	1.5	1.4	1.4	1.2	1.3	1.4	1.4	1.4	1.4	1.5	1.5	0.2	1.5	1.3	1.5
Australia	2.1	1.9	1.8	2.0	2.1	2.5	2.4	2.3	2.3	2.5	2.6	2.7	1.3	2.0	2.3	2.5
New Zealand	2.2	1.7	1.9	1.8	1.4	2.0	2.1	2.0	2.0	2.0	2.0	2.0	0.6	1.8	2.0	2.0

Source: Statistics Canada, Bureau of Labor Statistics, Bank of England, European Central Bank, Reserve Bank of Australia, Reserve Bank of New Zealand, RBC Economics Research

Inflation tracking

Inflation Watch

	Measure	Current period	Period ago	Year ago	Three-month trend	Six-month trend
Canada	CPI ex food & energy ¹	Oct	0.2	1.4	1.3	1.2
United States	Core PCE ^{1,2}	Oct	0.2	1.4	1.6	1.3
United Kingdom	All-items CPI	Oct	0.1	3.0	3.0	3.2
Euro area	All-items CPI ¹	Nov	0.2	1.5	1.5	0.9
Australia	Trimmed mean CPI ¹	Q3	0.4	1.8	N/A	N/A
New Zealand	All-items CPI	Q3	0.5	1.9	N/A	N/A

¹ Seasonally adjusted measurement.

² Personal consumption expenditures less food and energy price indices.

Source: Statistics Canada, US Bureau of Labor Statistics, Bank of England, European Central Bank, Reserve Bank of Australia, Reserve Bank of New Zealand, RBC Economics Research

Currency outlook

Level, end of period

	Actuals								Forecast				
	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	
Canadian dollar	1.30	1.29	1.31	1.34	1.33	1.30	1.25	1.27	1.33	1.30	1.27	1.24	
Euro	1.14	1.11	1.12	1.05	1.07	1.14	1.18	1.14	1.12	1.10	1.08	1.12	
U.K. pound sterling	1.44	1.33	1.30	1.24	1.26	1.30	1.34	1.28	1.24	1.21	1.17	1.20	
New Zealand dollar	0.69	0.71	0.73	0.69	0.70	0.73	0.72	0.75	0.72	0.70	0.69	0.69	
Japanese yen	112.6	103.2	101.3	117.0	111.4	112.4	112.5	110.0	107.0	105.0	107.0	109.0	
Australian dollar	0.77	0.75	0.77	0.72	0.76	0.77	0.78	0.80	0.77	0.74	0.73	0.73	

Canadian dollar cross-rates

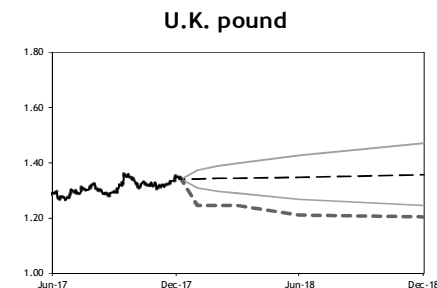
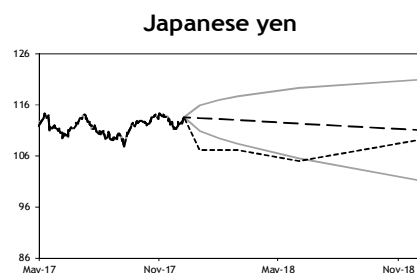
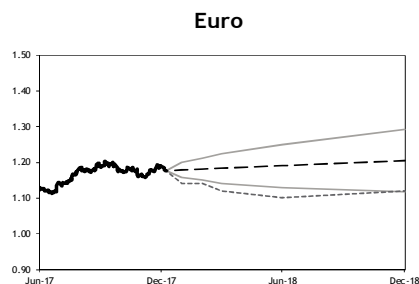
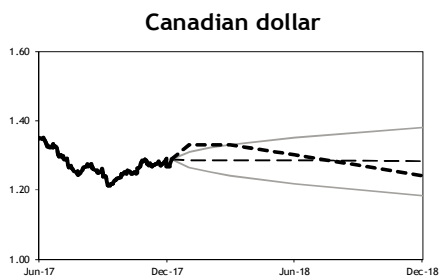
	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4
EUR/CAD	1.48	1.43	1.48	1.41	1.42	1.48	1.47	1.45	1.42	1.43	1.37	1.39
GBP/CAD	1.87	1.72	1.70	1.66	1.67	1.69	1.67	1.63	1.66	1.57	1.49	1.49
NZD/CAD	0.90	0.92	0.96	0.93	0.93	0.95	0.90	0.95	0.96	0.91	0.88	0.86
CAD/JPY	86.6	79.9	77.2	87.0	83.7	86.7	90.2	86.6	80.5	80.8	84.3	87.9
AUD/CAD	1.00	0.96	1.01	0.97	1.02	1.00	0.98	1.02	1.02	0.96	0.93	0.91

Rates are expressed in currency units per US dollar and currency units per Canadian dollar, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US dollars per currency unit and Canadian dollars per currency unit.

Source: Bloomberg, RBC Economics Research

RBC Economics outlook compared to the market

The following charts track historical exchange rates plus the forward rate (dashed line) compared to the RBC Economics forecast (dotted line) out one year. The cone for the forecast period frames the forward rate with confidence bounds using implied option volatilities as of the date of publication.

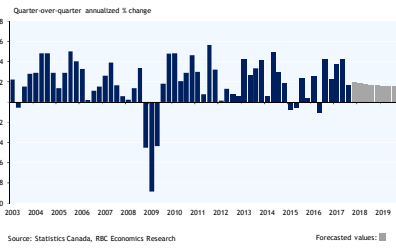


Bank of Canada

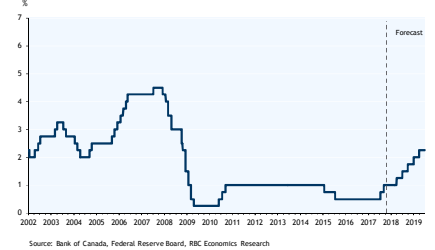
A 1.7% annualized increase in Q3 GDP was close to the Bank of Canada's expectations. September's 0.2% increase provides a decent handoff to Q4 but there's still some wood to chop if growth is to accelerate to the bank's projected 2.5% pace.

Recent economic data were generally in line with the BoC's thinking. November's strong jobs report likely caught them by surprise but policymakers continued to point to signs of labour market slack.

Canadian real GDP growth



Canadian overnight rate

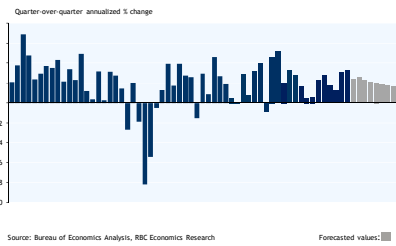


Federal Reserve

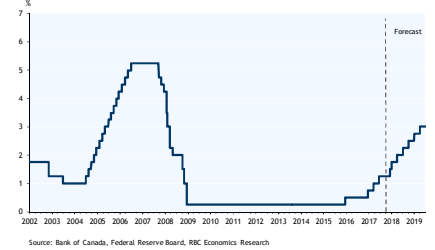
The US economy posted back-to-back gains of more than 3% and growth likely remained above-trend in Q4—indicating marginal upside risk to the Fed's 2.4% year-over-year forecast.

It's hard to find fault in recent GDP and labour market data. So even with underlying inflation remaining below target, the Fed will likely continue raising rates in anticipation that inflation will eventually respond to tighter economic conditions.

U.S. real GDP growth



U.S. target rate

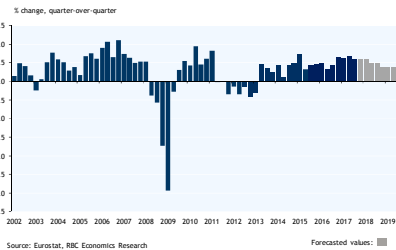


European Central Bank

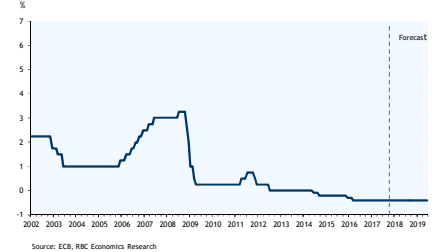
The euro area economy remains on a roll, a trend we expect will extend into next year. The labour market has improved significantly over the last year but wage growth remains subdued and inflation is showing no sign of moving toward 2%.

Without evidence of a sustained pickup in inflation, the European Central Bank will remain committed to stimulating the economy through asset purchases and negative interest rates.

Euro area GDP



ECB Deposit rate

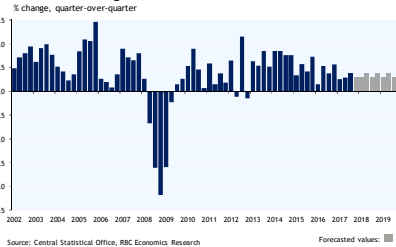


Bank of England

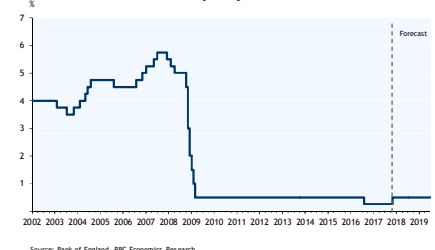
The UK's consumer-led uptick in Q3 GDP growth likely won't be sustained given headwinds facing households. We expect growth will struggle to maintain a trend-like pace next year, keeping the economy from pushing beyond capacity limits.

With the economy likely to struggle and inflation expected to gradually come off recent highs, we don't see the Bank of England following up on November's rate hike anytime soon.

U.K. real GDP growth



U.K. policy rate

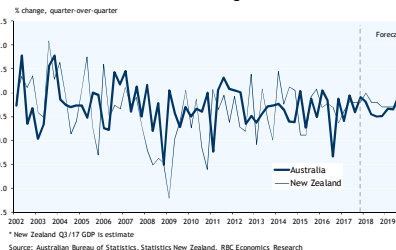


Australia and New Zealand

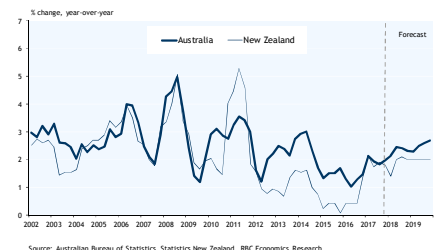
Australia's below-consensus Q3 GDP report highlighted some trends we see extending into 2018: solid business investment but difficulties for the consumer. The combination will limit growth to a trend-like pace, putting little pressure on the RBA to join its global peers in raising rates next year.

The RBNZ revised their inflation forecasts higher but still doesn't expect to raise rates next year. Given a number of uncertainties facing the central bank, we agree that hikes are off the table for now.

Australia and New Zealand GDP growth



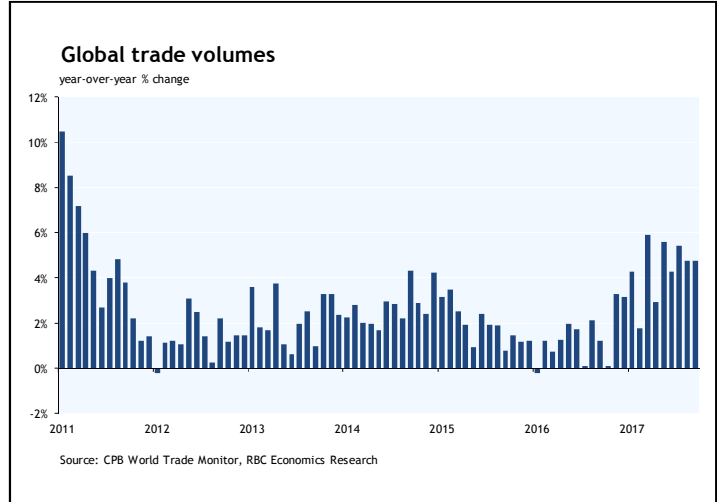
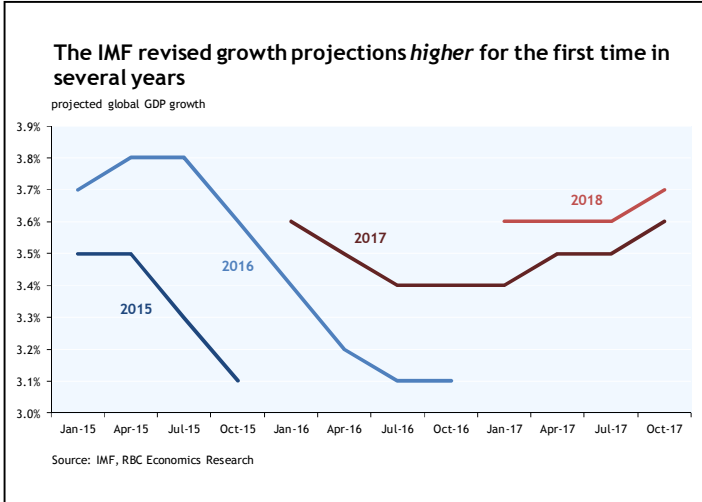
Australia and New Zealand inflation



Looking back on a solid year

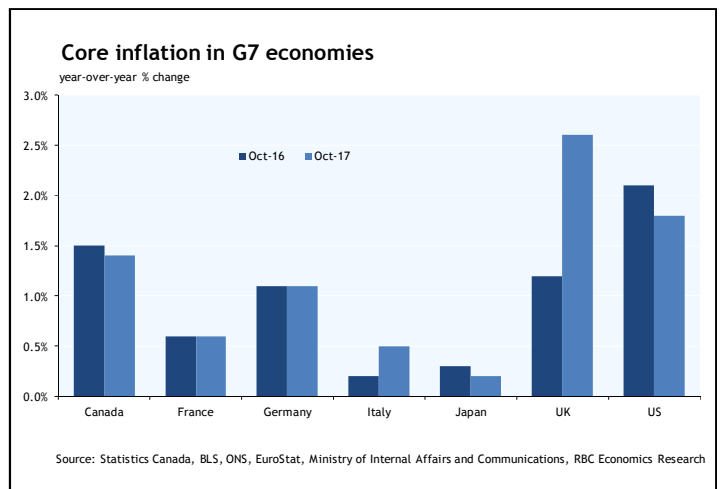
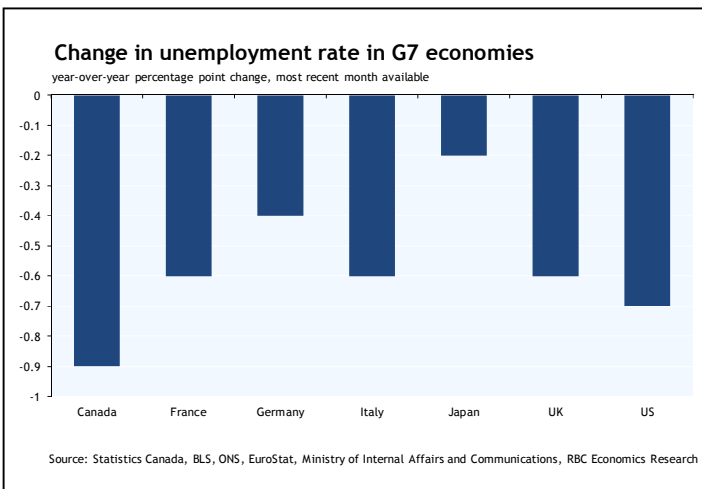
After a run of disappointing growth, the IMF actually revised their global GDP projections *higher* this year. 2017 is on track for a 3.6% increase, one of the strongest gains in recent years, and global growth is expected to tick up to 3.7% next year.

Along with stronger GDP growth, global trade growth accelerated in 2017. Trade volumes are rising faster than world output for the first time in years.



Labour market conditions have improved across G7 economies over the last year. Unemployment rates in Canada, Germany, Japan, the UK and US are at or below multi-decade lows.

Despite strong growth and tightening labour markets, core inflation in advanced economies remains subdued. Only the UK has seen above-target inflation, and that is more a reflection of currency depreciation than underlying price pressures.



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