NATIONAL BANK
FINANCIAL MARKETS
A division of National Bank of Canada

MONTHLY ECONOMIC MONITOR

Economics and Strategy Group

November 2014

Highlights

- *The global economy is doing better than what's depicted by the recent stock market collapse and sinking oil prices. But if left unchecked the current fears or concerns have potential to become self-fulfilling and spill over to the real economy via lower investment and consumption spending. Governments have an important role to play in restoring calm by pledging to support growth by all means necessary and by showing competence in dealing with renewed threats of a pandemic.*

- *In light of renewed fears about the global economy, the U.S. is once again regarded by many as a beacon of hope. The world's largest economy is indeed on an uptrend buoyed by an invigorated private sector. Investment spending is soaring and consumers look poised to join the party, more so considering the deleveraging cycle is over. While exports could soften a bit due to the stronger dollar, that shouldn't prevent the U.S. economy from posting growth of around 2.9% next year. In light of the decline in commodity prices, we have lowered our inflation forecasts for the U.S.*

- *While slumping oil prices are not good news for Canada, the overall economic outlook remains positive considering the U.S. resurgence and the stabilizing impacts of the weakening Canadian dollar. Exports should remain the driver of growth for Canada next year, and added support from investment spending can be expected, with both more than offsetting the anticipated moderation of housing and consumption. We remain comfortable with our call for growth to accelerate to 2.5% in 2015. But given its concerns about the global economy, the Bank of Canada will continue to err on the side of caution and delay rate hikes to the last quarter of 2015. Our Canadian inflation forecasts have been revised down to take into account lower commodity prices.*

Krishen Rangasamy
krishen.rangasamy@bnc.ca

				Change from Previous Forecast	
	2013	2014	2015	2014	2015
United States					
GDP	2.2%	2.2%	2.9%	unch	unch
CPI inflation	1.5%	1.7%	1.5%	-0.1 pp	-0.6 pp
Fed Fund Target Rate*	0.25%	0.25%	1.50%	unch	+25 bp
Ten-year bond yield*	3.03%	2.39%	3.01%	-34 bp	-36 bp
Canada					
GDP	2.0%	2.3%	2.5%	unch	unch
CPI inflation	0.9%	2.0%	1.7%	unch	-0.3 pp
Overnight rate*	1.00%	1.00%	1.50%	unch	-50 bp
Ten-year bond yield*	2.76%	2.17%	2.88%	-20 bp	-42 bp

* end of period

MONTHLY ECONOMIC MONITOR

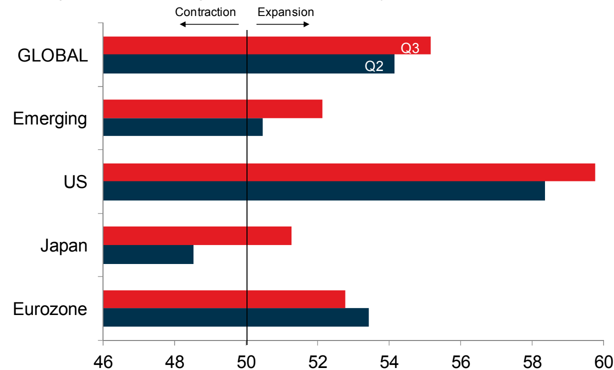
World: European woes

The global economy is doing better than what's depicted by the recent stock market collapse and sinking oil prices. But if left unchecked the current fears or concerns have potential to become self-fulfilling and spill over to the real economy via lower investment and consumption spending. Governments have an important role to play in restoring calm by pledging to support growth by all means necessary and by showing competence in dealing with renewed threats of a pandemic.

Halloween started early. At least that's the impression one gets by looking at the reaction, over the past several weeks, of spooked investors heading for the exits and causing the biggest stock market sell-off in years. There is indeed no shortage of risks to induce fear, ranging from geopolitics (courtesy of Russia/Ukraine and the Middle East), a sinking European economy, a sharper-than-expected slowdown in China, and the threat of a global pandemic. True, any of those could potentially derail global growth next year, but that's based on the premise that governments around the world fail to counter the risks. For now, the world economy remains in decent shape. Economic data, while not stellar, have generally been consistent with the extension of growth globally. The world's largest economy, the U.S., grew at a solid pace in the third quarter, and composite purchasing managers indices, which take into account both manufacturing and services sectors, suggest expansion in other major economies as well.

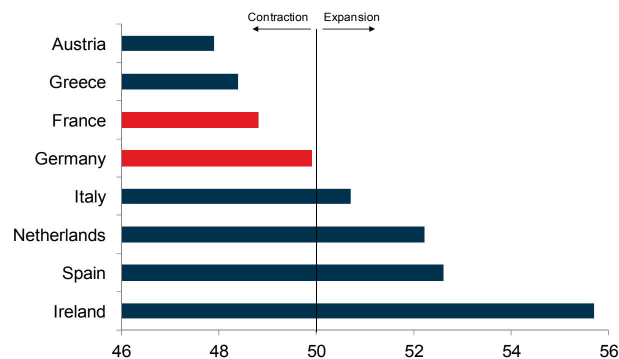
But it's also true that not all is well. Europe is showing signs of a relapse, with growth stalling in Q2 and possibly in Q3 as well. Even the eurozone's two powerhouses, Germany and France, seem to be struggling based on a moderation in factory activity e.g. sub-50 manufacturing PMI's. Part of the weakness stems from the sanctions on Russia (and vice-versa) that have put a dent in exports. As a result, industrial production in the eurozone could contract in Q3 for the first time since 2012. Consumption spending seems to be stabilizing based on rising retail volumes, although the latter are still below levels of 14-years ago. It's unclear, however, if consumption can pace up further in the face of deleveraging and a stagnant labour market — the zone's jobless rate remains elevated at 11.5%, and roughly double that among the youth. The European Central Bank has belatedly tried to repair the transmission channels of monetary policy by injecting more liquidity in the system in the hope that such measures kick start growth, but the results have so far been disappointing. Credit continues to contract for both households and non-financial corporations, a clear negative for consumption and investment. So much so that odds of recession and deflation in the eurozone have risen significantly in recent months.

World: What slowdown?
Markit composite PMI, averages for Q2 and Q3 this year



NBF Economics and Strategy (data via Markit)

Eurozone: German and French factories in contraction mode
Markit manufacturing PMI for September 2014



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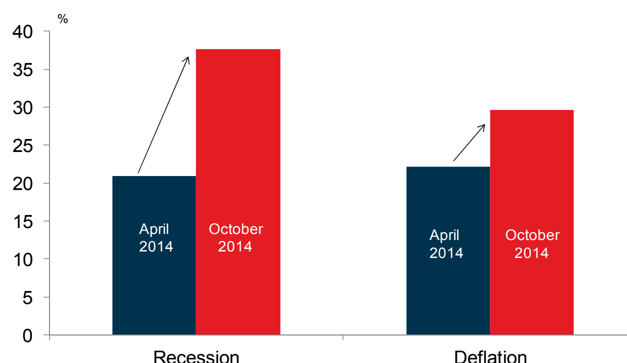
Eurozone: Outlook deteriorates
Probabilities of recession and deflation in the eurozone



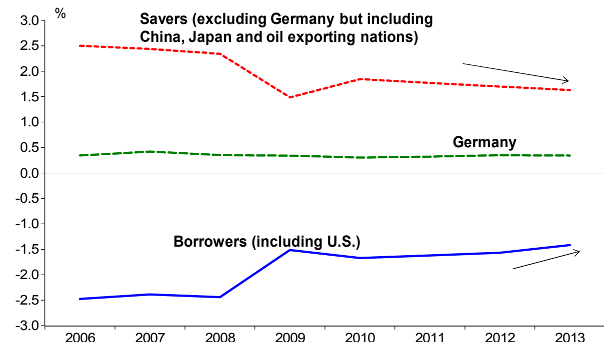
NBF Economics and Strategy (data via IMF)

World Economic Outlook

	Forecast		
	2013	2014	2015
Advanced countries	***1.3***	***1.8***	***2.1***
United States	2.2	2.2	2.9
Euroland	-0.4	0.8	1.0
Japan	1.5	0.9	0.8
UK	1.7	3.2	2.7
Canada	2.0	2.3	2.5
Australia	2.3	2.8	2.9
New Zealand	2.8	3.6	2.8
Hong Kong	2.9	3.0	3.3
Korea	3.0	3.7	4.0
Taiwan	2.1	3.5	3.8
Singapore	3.9	3.0	3.0
Emerging Asia	***6.5***	***6.4***	***6.2***
China	7.7	7.4	6.5
India	5.0	5.6	6.4
Indonesia	5.8	5.2	5.5
Malaysia	4.7	5.9	5.2
Philippines	7.2	6.2	6.3
Thailand	2.9	1.0	4.6
Latin America	***2.7***	***1.3***	***2.2***
Mexico	1.1	2.4	3.5
Brazil	2.5	0.3	1.4
Argentina	2.9	-1.7	-1.5
Venezuela	1.3	-3.0	-1.0
Colombia	4.7	4.8	4.5
Eastern Europe and CIS	***2.3***	***1.6***	***2.1***
Russia	1.3	0.2	0.5
Czech Rep.	-0.9	2.5	2.5
Poland	1.6	3.2	3.3
Turkey	4.1	3.0	3.0
Middle East and N. Africa	***2.3***	***2.5***	***3.8***
Sub-Saharan Africa	***4.9***	***5.2***	***5.8***
Advanced economies	***1.3***	***1.8***	***2.1***
Emerging economies	***4.7***	***4.4***	***4.7***
World	***3.2***	***3.3***	***3.6***

Source : NBF Economics and Strategy

World: Global imbalances have improved, no thanks to Germany
Current account balance as % of world GDP

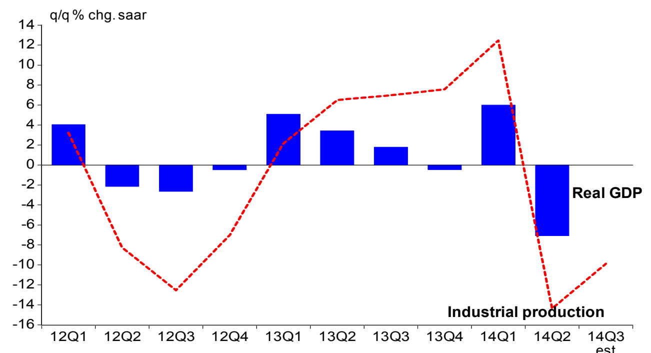


NBF Economics and Strategy (data via IMF)

But it doesn't have to be this way. Better fiscal policy can help. Germany, which has been enjoying massive current account surpluses over the last decade, can do more to address the eurozone's woes. For instance, a temporary deterioration in the budget deficit via tax cuts and increased government spending would give a boost to German domestic demand and inflation. That would not only help support growth in other eurozone economies (via exports to Germany), but would also allow Germany to finally contribute to the rebalancing of the global economy. But given the signals from Berlin, we're not particularly optimistic of such a development. The lack of traction of the ECB's policies, coupled with limited progress on structural reforms prompted a downgrade to our 2015 growth forecast for the eurozone to just 1%.

We have also downgraded Japan's growth forecasts. August's industrial output was revised down sharply, meaning that the Q3 rebound, after an awful second quarter, may not be as good as we had expected. We now expect GDP growth of less than 1% both this year and next. That translates into continued deflationary pressures and hence more stimulus from the Bank of Japan.

Japan: Q3 rebound may not materialize
Real GDP and industrial production



NBF Economics and Strategy (data via Datastream)

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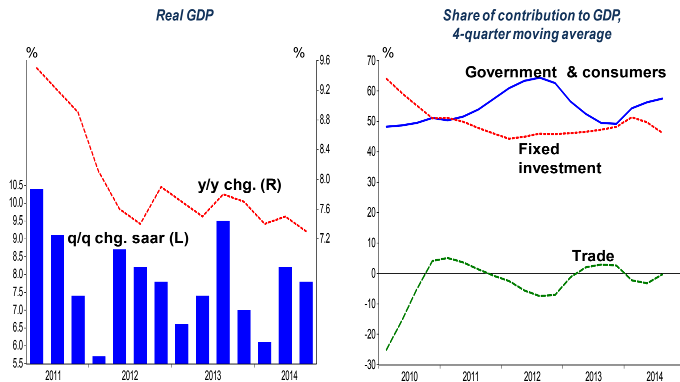
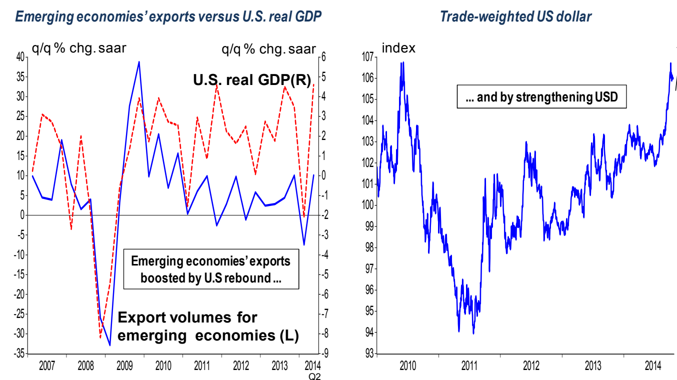
China: Q3 GDP growth better than expected



NBF Economics and Strategy (data via Datastream)

World: U.S. rebound bodes well for emerging economies ...



NBF Economics and Strategy (data via CPB, Datastream)

... as long as emerging market bond yields stay low

Trade-weighted US dollar versus emerging market bond yield

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

In China, GDP growth came in slightly better than expected in the third quarter, with an annualized print of 7.8% (or 7.3% year-on-year). The handoff to Q4 was also good with industrial production and retail sales registering year-on-year growth rates of 8% and 11.6% respectively in September. Those solid results prompted us to upgrade by two ticks our GDP growth forecast for this year to 7.4%. Also encouraging is the growing share of consumption and declining share of fixed investment in terms of GDP contribution. Beijing's attempts to rebalance the economy away from exports and fixed investment and towards consumption seem to be yielding the desired results. But such rebalancing entails sacrificing overall growth, i.e. the 10% average growth of the past three decades won't be repeated. Considering the risks to the real estate sector and spillover effects of defaults in the shadow banking sector, we continue to expect a moderation in growth next year. Still, the infrastructure spending associated with the government's urbanization plan should help keep growth at a healthy 6.5%.

The expected deceleration in China could, however, be offset by better growth for other emerging economies. The main reason we remain optimistic about emerging markets is the improving U.S. economy (see U.S. section). The stronger demand stateside is already translating into better exports and growth for emerging markets. It's no coincidence that factory activity remains in expansion mode, as evidenced by above-50 manufacturing purchasing managers indices, in countries like Mexico, India, Indonesia, Taiwan, Vietnam, and of course China. The recent run-up in the U.S. dollar will give an extra boost to emerging economies by making them more competitive not just on output prices, but also on inputs. Note that the drop of commodity prices (thanks to an appreciating greenback) has lowered production costs for heavy users like emerging economies.

But a rising dollar can also have drawbacks. The overall benefits to the global economy of a stronger greenback can be diminished if, for example, investors start to flee emerging market debt instruments. May 2013 is a case in point. At the time then-Chair Bernanke started talking about QE tapering by the Fed, causing the greenback to soar. Bond yields in emerging markets also rose as foreign investors, wary of holding assets in depreciated currencies, were engaged in a massive sell-off. That even prompted some emerging market central banks to raise interest rates to stem outflows of capital. Fortunately, there hasn't been a similar reaction this time. But the evolution of debt capital markets in emerging economies is worth watching closely. For now, we remain comfortable with our call for global growth to accelerate to 3.6% next year, expecting central banks to keep borrowing costs low. This growth forecast, of course, assumes that none of the earlier-mentioned risks materialize in a significant way as to derail the current uptrend in demand.

MONTHLY ECONOMIC MONITOR

U.S.: Another solid quarter

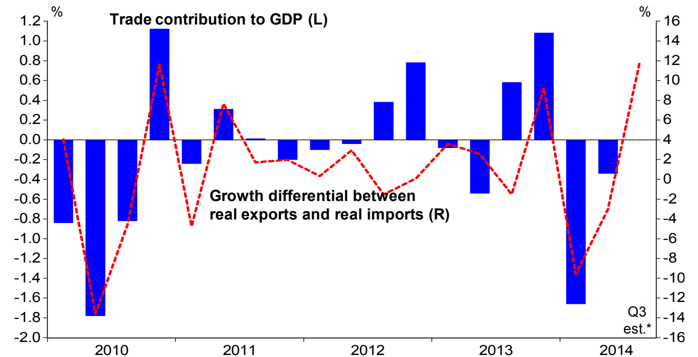
In light of renewed fears about the global economy, the U.S. is once again regarded by many as a beacon of hope. The world's largest economy is on an uptrend, buoyed by an invigorated private sector. Investment spending is soaring and consumers look poised to join the party, more so considering that the deleveraging cycle is over. While exports could soften a bit due to the stronger dollar, that shouldn't prevent the U.S. economy from posting growth of around 2.9% next year.

GDP results for Q3 were not available at this writing, but it's clear from monthly reports that the U.S. economy posted yet another solid quarter. After acting as a drag in the first half of the year, trade turned into a major contributor to GDP growth as imports moderated and exports remained strong on the back of an improving global economy in Q3. Domestic demand was also well supported thanks in part to residential investment, at least based on housing starts which again registered annualized gains in the double digits, and business investment spending. The latter seems to have replicated the solid pace of growth achieved in the second quarter — a reasonably good proxy, namely shipments of non-defense capital goods excluding aircrafts, actually grew at a faster pace than in Q2. Consumption spending continued to grow based on retail results, albeit at a more modest pace than the prior quarter. Overall, the U.S. economy may have grown around 3.2% annualized in the third quarter, a stellar performance considering that comes after a scorching hot Q2 when the economy grew at the fastest pace in eight years.

The final quarter of 2014 also looks promising based on the handful of data available so far in Q4. More generally though, we remain optimistic about U.S. prospects through next year. The Fed's extraordinary measures since the recession are now paying off via well-functioning financial markets which are allowing credit to flow freely, in sharp contrast to the European situation. U.S. commercial and industrial loans registered annualized gains in the double digits for the third straight quarter in Q3. That, together with the much improved outlook, is probably behind the surge in business investment. Even better news is the fact that re-leveraging isn't isolated to firms. It took a while, but consumers are finally in a position to take advantage of the cheap credit. Household debt is now rising on a year-on-year basis for the first time in six years, even excluding the fast-rising student loan component. Better employment prospects, a relatively low debt burden (after the deleveraging during the recession), higher credit scores (which allow more households to be eligible for loans), and the persistence of low interest rates, should help keep household borrowing, and hence spending, on an uptrend.

U.S.: Trade probably a major contributor to Q3 GDP

Real exports and imports versus Trade contribution to GDP

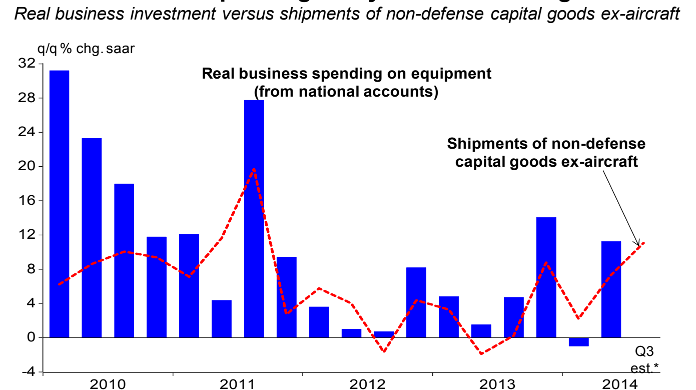


* *Assuming no change in September*

NBF Economics and Strategy (data via Datastream)

U.S.: Investment spending likely remained strong in Q3

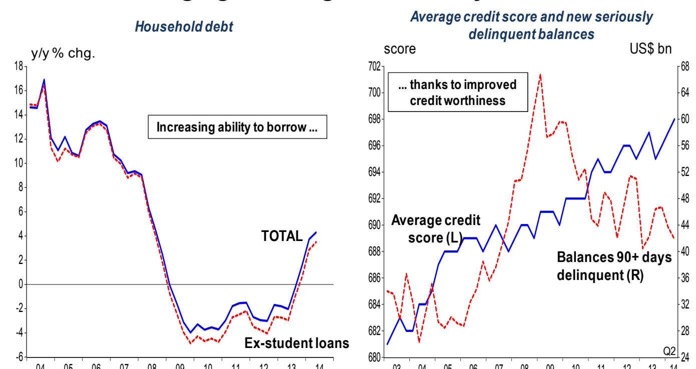
Real business investment versus shipments of non-defense capital goods ex-aircraft



* *Assuming no change in September*

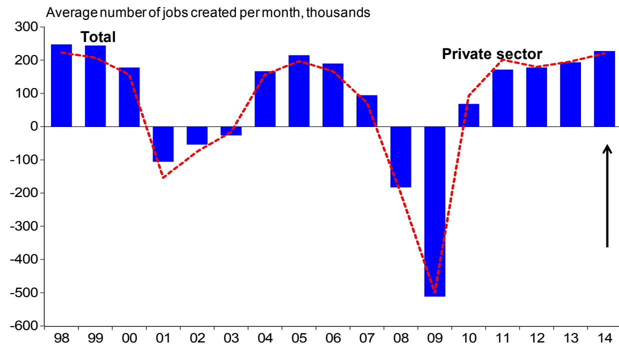
NBF Economics and Strategy (data via Datastream)

U.S.: Re-leveraging boosting the economy



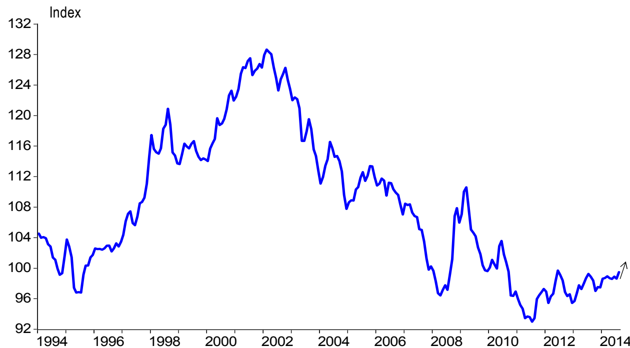
NBF Economics and Strategy (data via New York Fed)

U.S.: Best job creation in private sector since 1998
Non farm payrolls in first nine months of the year



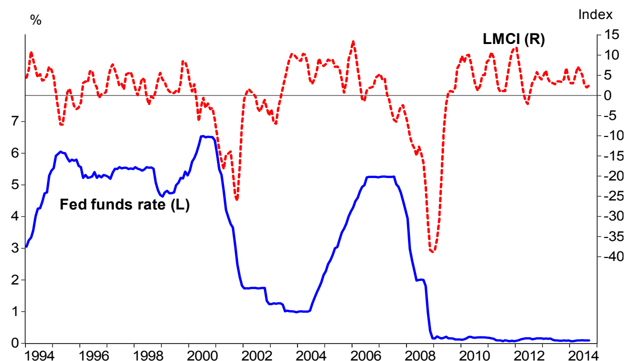
NBF Economics and Strategy (data via Datastream)

U.S.: USD ascent manageable for now
Real effective US dollar



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

U.S.: The Fed has a new gauge of labour market conditions
Labour Market Conditions index (LMCI)



NBF Economics and Strategy (data via Federal Reserve)

Based on that outlook, we expect the labour market to remain strong through 2015. It will, however, be difficult to surpass this year's performance. Employment creation has averaged 227K/month in the first nine months this year according to the non-farm payrolls. Private sector employment has grown at an average pace of 220K/month over the same period, the best start of the year since 1998. Behind the surge in employment is the improving hiring rate, but also a relatively low rate of layoffs. Indeed, initial jobless claims are at their lowest in fourteen years. The hiring spree has allowed the jobless rate to fall under 6% in September, and that for the first time in six years.

So much so, that the Federal Reserve is contemplating paring back some stimulus. At its meeting last September, the FOMC not only reaffirmed its commitment to end its asset purchase program in October, but it also presented for the first time a strategy to take the fed funds rate up towards more normal levels, i.e. "Policy Normalization Principles and Plans". Fed participants generally expect the fed funds rate to rise starting next year — according to the average of their own projections, the fed funds rate should be near 1.25% by the end of 2015. Such signals from the Fed have caused markets to price in some probability of rate hikes, pushing up the U.S. dollar in the process. For some investors, a stronger greenback combined with Fed rate hikes can be viewed as a double whammy for the U.S. economy. But we are not overly concerned at this point. For one, exports, the sector that is the most likely to be impacted, accounts for less than 14% of U.S. GDP, i.e. not the major driver of the U.S. economy. Moreover, the greenback remains highly competitive in real effective terms — even if it appreciates another 20% in real terms, it will still be more competitive than say a dozen years ago. One should also not discard the impact of a stronger USD in capping inflation, something that would allow the Fed to stabilize rates at a lower level than what would otherwise be the case, hence supporting growth for longer.

In any case, the FOMC will proceed cautiously. The labour market, while on a clear uptrend, still has room for improvement according the Fed's new measure, the Labour Market Conditions Index, which takes into account 19 labour market indicators including employment, workweeks, wages, vacancies, hiring, layoffs, quits, and surveys of consumers and businesses. Rate hikes may even be delayed if some of the downside risks materialize, e.g. Europe and/or pandemic, or if the domestic economy is restrained, e.g. if the sputtering housing market takes another dive or if government once again scuttles the expansion (recall the October 2013 shutdown). According to recent polls, Republicans could end up controlling both the House of Representatives and the Senate after the November mid-term elections. The President's ability to govern effectively could therefore be diminished even further.

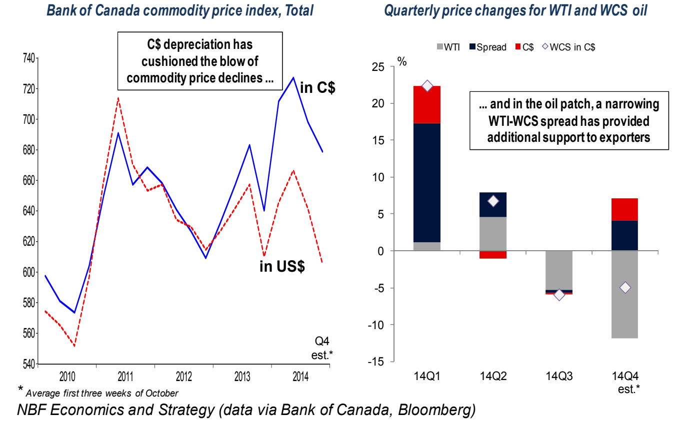
Canada: Loonie as a stabilizer

While slumping oil prices are not good news for Canada, the overall economic outlook remains positive considering the U.S. resurgence and the stabilizing impacts of the weakening Canadian dollar. Exports should remain the driver of growth for Canada next year, and added support from investment spending can be expected, with both of those more than offsetting the anticipated moderation of housing and consumption. We remain comfortable with our call for growth to accelerate to 2.5% in 2015. But given its concerns about the global economy, the Bank of Canada will likely delay rate hikes to late next year.

The recent oil slump did little to comfort investors about Canada's economic prospects. While declining oil prices are clearly not good news, they however do not automatically spell doom and gloom for Canada. That's because of a depreciating Canadian dollar which has been a stabilizing force for our commodity exporters. A narrowing spread, i.e. the difference between West Texas Intermediate and Western Canada Select (the price received by our oil exporters), has also helped. So much so that the WCS price drop this quarter is set to be much smaller than that of the more widely watched WTI. Non-energy commodities are also not doing too badly, with forestry and agricultural producers receiving C$ prices that are still elevated by historic standards. Those developments do not suggest a major economic slowdown or fiscal problems for Ottawa and the provinces. In Alberta, for example, revenue projections based on the budget assumption of C$77/barrel average for fiscal year 2014-15 seem rather conservative even considering the recent oil plunge. Indeed, thanks to resilience in the first half of the fiscal year, WCS is on track to top the assumed average, unless it collapses in the last five months of the fiscal year (i.e. November to March) and averages less than C$65/barrel, a highly unlikely scenario in our view.

Another sign the economy isn't folding just yet is the labour market which, while not spectacular, is still producing jobs. True, the volatility of the Labour Force Survey this year warrants caution in interpreting the massive 74K increase in September employment. But even on the more reliable 12-month moving average basis, employment has grown at a decent pace of 13K/month, about half of which were full time and in the private sector. In September, private sector and full time employment reached all-time highs, while the jobless rate fell to 6.8%, the lowest since 2008. Even youth employment has picked up this year, with the 15-24 age cohort seeing the biggest increase in jobs since 2002. All told, labour market slack has been significantly reduced. More generally, economic slack is being absorbed and the economy may be closer to potential than what the Bank of Canada believes, i.e. things may in fact be better than estimated by the central bank.

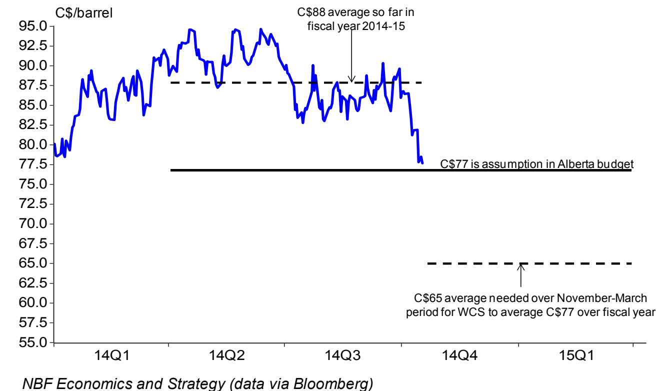
Canada: Commodity exporters partly protected from price slump



NBF Economics and Strategy (data via Bank of Canada, Bloomberg)

Alberta: Public finances on track despite recent oil slump

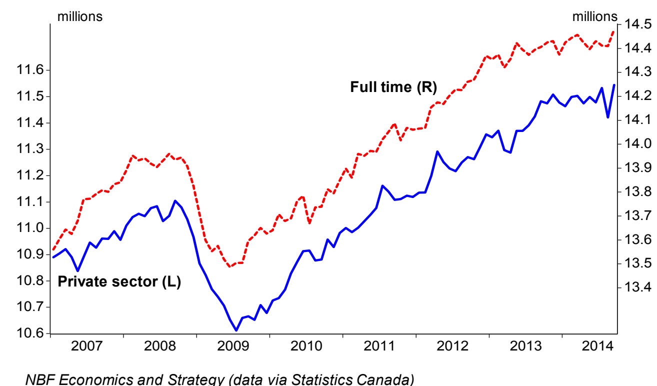
Western Canada Select



NBF Economics and Strategy (data via Bloomberg)

Canada: Record high private sector and full-time employment

Employment according to Labour Force Survey



NBF Economics and Strategy (data via Statistics Canada)

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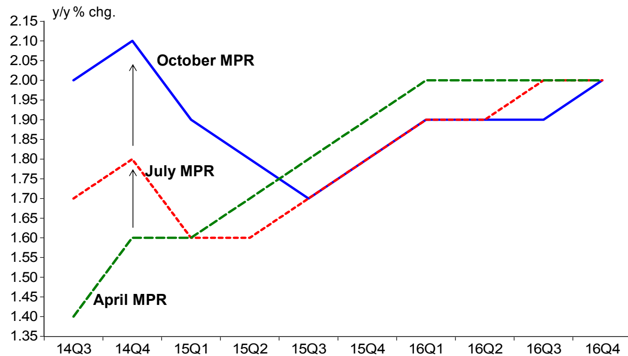
Canada: BoC raises forecasts for core inflation

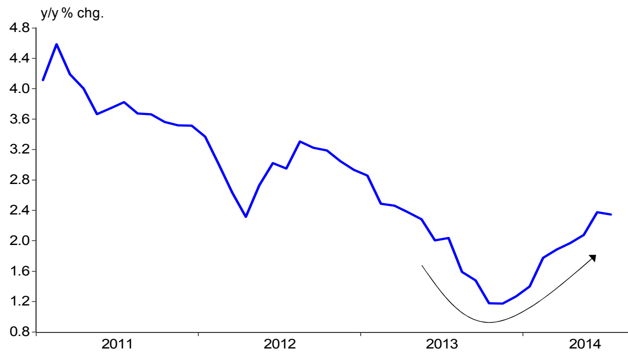
Core CPI forecasts by Bank of Canada



NBF Economics and Strategy (data via Bank of Canada)

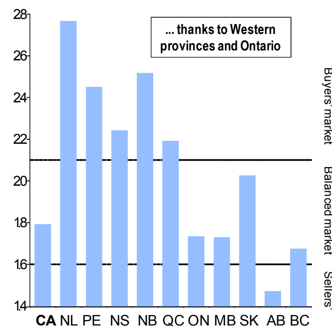
Canada: Consumer debt accelerates again

Consumer credit



NBF Economics and Strategy (data via Statistics Canada)

Canada: Housing market holding firm



NBF Economics and Strategy (data via CREA)

In October's *Monetary Policy Report*, the central bank again admitted it couldn't be sure about the size of the output gap: "there is considerable uncertainty around estimates of economic slack", and hence it gave a wide estimated range of 0.5-1.5%. With the annual core inflation rate remaining above 2% in September, perhaps the actual gap is in the lower end of that range. That explains the string of upward revisions to the BoC's core inflation forecasts. But despite the hotter core inflation, the central bank again made clear that it is in no hurry to raise interest rates. It reiterated in the MPR that it is concerned about downside risks, particularly regarding Europe. Given the uncertainties with regards to the global economy and Canadian growth prospects, we believe the central bank will continue to err on the side of caution and delay rate hikes, probably to the last quarter of 2015.

The central bank's current stance contrasts sharply with the Carney-led BoC which emphasized the merits of "leaning" in monetary policy (e.g. via a tightening bias) to address the problem of debt accumulation, rather than "cleaning", i.e. having to adjust monetary policy after problems materialize. Under Governor Poloz, while there is still mention of "household imbalances", the main focus seems to be on growth. That change in stance has been an unambiguous negative for the Canadian dollar and will likely remain so for a while. The resurgence in exports should therefore be well supported and remain the main driver of growth next year. Low rates will also help rekindle investment spending which, so far, has been disappointing.

In the meantime, Canadian households continue to take advantage of rock bottom interest rates by piling on more debt not only for consumption but also to buy houses. That explains why resale home prices continue to hit new records — according to the Teranet-National Bank house price index, home prices are on track to grow 5% this year. The housing market remains hot particularly in Western Canada and in Ontario. With the Bank of Canada's hands seemingly tied, the federal government could help on that front perhaps with additional macro prudential measures next year. That would allow the housing market to soften towards a more sustainable path, thereby reducing longer-term risks of a US-style crash.

Fiscal policy is always difficult to gauge, but one can expect pre-election goodies such as tax cuts to be handed out to the electorate next year. However, there could be an offset through tighter budgets in Central Canadian provinces. Overall, we remain comfortable with our call for Canadian GDP growth to accelerate to 2.5% in 2015 (from 2.3% this year), expecting growth to be supported again by exports, but with the additional help of investment spending which is due for a rebound in light of capacity pressures in several sectors of the economy.

United States
Economic Forecast

(Annual % change)*	2011	2012	2013	2014	2015	Q4/Q4 2013	Q4/Q4 2014	Q4/Q4 2015
Gross domestic product (2009 $)	1.6	2.3	2.2	2.2	2.9	3.1	2.0	2.9
Consumption	2.3	1.8	2.4	2.2	2.5	2.8	2.1	2.7
Residential construction	0.5	13.5	11.9	1.9	4.3	6.9	3.2	4.0
Business investment	7.7	7.2	3.0	5.9	4.1	4.7	5.2	3.6
Government expenditures	(3.0)	(1.4)	(2.0)	(0.6)	0.5	(1.9)	0.3	0.5
Exports	6.9	3.3	3.0	3.6	6.8	5.1	3.4	6.5
Imports	5.5	2.3	1.1	3.5	3.5	2.5	3.7	4.2
Change in inventories (bil. $)	37.6	57.1	63.6	61.4	50.1	81.8	55.4	52.3
Domestic demand	1.7	2.1	1.9	2.2	2.4	2.2	2.2	2.5
Real disposable income	2.5	3.0	(0.2)	2.6	2.5	(1.9)	3.0	2.4
Household employment	0.6	1.8	1.0	1.6	1.7	0.6	2.1	1.7
Unemployment rate	8.9	8.1	7.4	6.2	5.8	7.0	5.9	5.6
Inflation	3.1	2.1	1.5	1.7	1.5	1.2	1.6	1.7
Before-tax profits	4.0	11.4	4.2	(0.9)	7.4	4.7	0.9	6.0
Federal balance (unified budget, bil. $)	(1,249.6)	(1,060.8)	(675.0)	(560.0)	(390.0)	...	...	...
Current account (bil. $)	(459.3)	(460.8)	(400.3)	(396.1)	(385.0)	...	...	...

** or as noted*

Financial Forecast**

	Current 10/22/14	Q4 2014	Q1 2015	Q2 2015	Q3 2015	2014	2015
Fed Fund Target Rate	0.25	0.25	0.25	0.50	1.00	0.25	1.50
3 month Treasury bills	0.02	0.03	0.01	0.52	1.15	0.03	1.44
Treasury yield curve							
2-Year	0.41	0.57	0.96	1.52	1.93	0.57	2.12
5-Year	1.46	1.61	1.86	2.24	2.47	1.61	2.61
10-Year	2.25	2.39	2.57	2.81	2.94	2.39	3.01
30-Year	3.01	3.13	3.29	3.52	3.59	3.13	3.63
Exchange rates							
U.S.$/Euro	1.27	1.25	1.23	1.22	1.21	1.25	1.20
YEN/U.S.$	107	110	111	112	113	110	115

National Bank Financial

*** end of period*

MONTHLY ECONOMIC MONITOR

Canada
Economic Forecast

*(Annual % change)**	*2011*	*2012*	*2013*	*2014*	*2015*	*2013*	*Q4/Q4 2014*	*2015*
Gross domestic product (2007 $)	2.5	1.7	2.0	2.3	2.5	2.7	2.2	2.4
Consumption	2.3	1.9	2.4	2.5	2.3	2.6	2.3	2.2
Residential construction	1.6	6.1	(0.3)	0.9	1.2	(0.0)	1.6	0.4
Business investment	11.1	6.2	1.3	(0.3)	3.5	(0.2)	0.6	4.3
Government expenditures	(0.6)	1.0	0.3	(0.2)	0.2	(0.5)	0.3	0.0
Exports	4.7	1.5	2.2	5.5	6.9	3.7	7.7	5.9
Imports	5.7	3.1	1.1	1.8	3.8	1.5	3.5	3.1
Change in inventories (millions $)	7,440	6,831	11,927	9,115	3,870	16,770	7,278	3,787
Domestic demand	2.4	2.3	1.4	1.2	1.6	1.2	1.4	1.6
Real disposable income	2.4	2.5	2.4	1.8	2.3	2.0	1.7	2.4
Employment	1.5	1.2	1.3	0.7	1.2	0.9	0.7	1.3
Unemployment rate	7.4	7.3	7.1	7.0	6.7	7.0	6.9	6.5
Inflation	2.9	1.5	0.9	2.0	1.7	0.9	2.4	2.4
Before-tax profits	11.3	(4.9)	(1.7)	10.9	7.7	4.3	13.3	6.5
Federal balance (Public Acc., bil. $)	(26.3)	(18.9)	(17.0)	(4.5)	5.0	....	....	....
Current account (bil. $)	(48.5)	(62.2)	(60.3)	(44.6)	(29.5)	....	....	....

** or as noted*

Financial Forecast**

	Current 10/22/14	*Q4 2014*	*Q1 2015*	*Q2 2015*	*Q3 2015*	*2014*	*2015*
Overnight rate	1.00	1.00	1.00	1.00	1.00	1.00	1.50
Prime rate	3.00	3.00	3.00	3.00	3.00	3.00	3.50
3 month T-Bills	0.88	0.96	0.96	0.96	1.23	0.96	1.47
Treasury yield curve							
2-Year	0.98	1.14	1.16	1.55	1.82	1.14	2.10
5-Year	1.43	1.62	1.77	2.10	2.33	1.62	2.54
10-Year	1.96	2.17	2.34	2.57	2.73	2.17	2.88
30-Year	2.53	2.71	2.84	3.06	3.19	2.71	3.31
CAD per USD	1.12	1.12	1.13	1.15	1.17	1.12	1.15
Oil price (WTI), U.S.$	81	83	85	87	85	83	85

National Bank Financial

*** end of period*

MONTHLY ECONOMIC MONITOR

ECONOMICS AND STRATEGY GROUP
514-879-2529

Stéfane Marion
Chief Economist & Strategist
stefane.marion@bnc.ca

Paul-André Pinsonnault
Senior Fixed Income Economist
paulandre.pinsonnault@bnc.ca

Krishen Rangasamy
Senior Economist
krishen.rangasamy@bnc.ca

Marc Pinsonneault
Senior Economist
marc.pinsonneault@bnc.ca

Matthieu Arseneau
Senior Economist
matthieu.arseneau@bnc.ca

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