

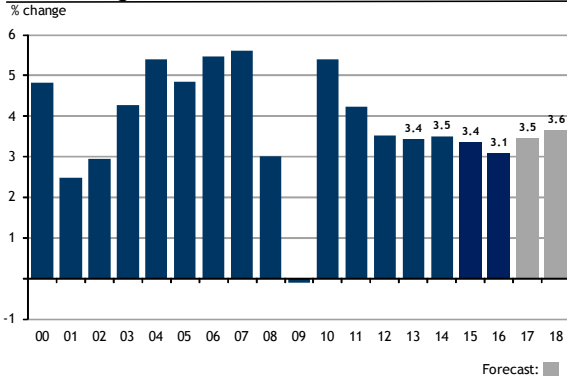
ECONOMIC AND FINANCIAL MARKET OUTLOOK

June 2017

Living with uncertainty

Upswing in global growth underway

World GDP growth

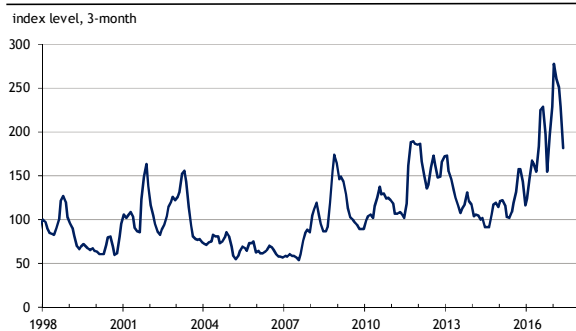


Source: International Monetary Fund, RBC Economics Research

The global economy continued to build momentum in early 2017 seemingly inured to the uncertain political backdrop. We forecast world GDP growth of 3.5% this year, slightly firmer than our projection of 3.4% in March and well above 2016's 3.1% pace.

The greatest source of uncertainty for the global outlook is what policies the Trump administration will implement in the months ahead. To date, the new government struggled to enact key planks of the President's policy agenda and there's a lack of clarity about the size and timing of promised tax cuts. Our view is that even with this high uncertainty quotient, solid consumer spending growth and a recovery in investment will underpin a year of stronger growth for the US economy.

Global economic policy uncertainty index



Source: Baker, Bloom & Davis, Bloomberg, RBC Economics Research

Uncertainty about European politics abated somewhat following the French and Dutch elections with the economy maintaining its firm growth momentum. In the UK, conversely, the combination of a snap election and imminent negotiations over the UK's withdrawal from the European Union started to take a toll on the economy. With indications that the strong start in the Euro area continued in the second quarter we revised our 2017 forecast higher. Our view on the UK remains unchanged with the consumer getting squeezed by slowing wage growth and rising inflation and we expect growth in the second half of the year to ratchet lower.

The uncertain policy backdrop in some of Canada's key trading partners did not interrupt the strong cyclical recovery that got underway in mid-2016. Recent activity reports show that growth accelerated in the first quarter of this year. The recovery in commodity prices, a dose of fiscal stimulus and accommodative monetary policy lay the groundwork for Canada's economy to post the strongest annual gain in three years. However we can't discount the risk of a slowdown going forward should the "modernization" of NAFTA chill relations with our largest trading partner or the expected cooling in the housing market turn into something more extreme.

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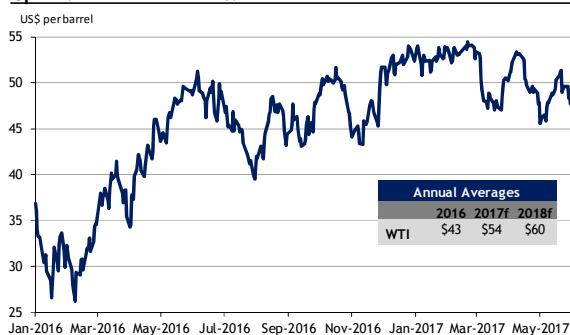
Conditions coming together for growth

Growth reports for the first quarter showed strong gains in China, Canada and the Euro area. Accelerating business investment, declining unemployment rates and positive business activity bode well for the stronger growth momentum to persist. Trade volumes, a key ingredient supporting quicker economic activity, rebounded sharply in the first quarter after stumbling through most of 2016.

Oil prices to stay above 2016 lows

OPEC's decision to extend production cuts to March 2018 interrupted the month-long price decline with a barrel of West Texas Intermediate rallying to trade around \$50.00. US production increases are likely to cap the upside for prices in the near term although we expect lower production from OPEC and Russia will be sufficient to reduce global oversupply later this year. This combination will support WTI prices rising to \$56.00 per barrel in the second half of the year. Further price gains in 2018 will be contingent on global demand holding up and producers preventing a rebuilding of oversupply.

Spot Market Price for WTI

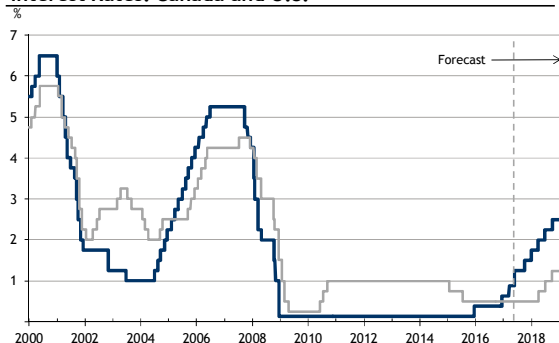


Source: EIA/CME, BOC/Haver, RBC Economics Research

Markets sanguine on outlook for rate hikes

Global financial markets continued to power along in early 2017 and are priced for a very gradual normalization of monetary policy. We think that markets are too sanguine on the outlook for rate increases in the US and Canada over the medium term. A year of stronger US economic growth means the Fed will achieve its dual mandate of full employment and price stability upping the need to reduce policy stimulus in order to cap the risk of the economy overheating. We expect the Fed to increase the fed funds target by an additional 50 bps this year and by a full percentage in 2018. Should the Trump administration implement its pro-growth agenda, the need to rein in monetary policy stimulus will be greater.

Interest Rates: Canada and U.S.



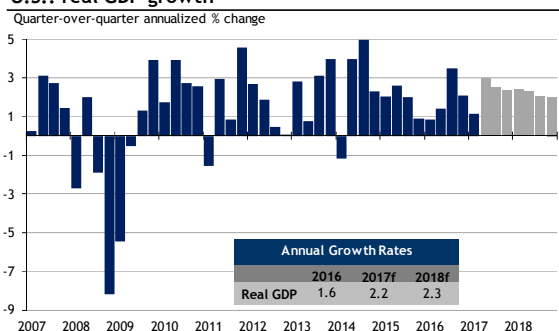
Source: Federal Reserve Board, Bank of Canada, RBC Economics Research

In Canada, the economy cleared the hurdle erected by the oil price shock with three consecutive quarters of very strong growth. The bank is maintaining a neutral policy stance given low underlying inflation and subpar wage growth by some measures while monitoring both domestic and foreign risks to the growth outlook. Our forecast is that the economy will continue to run at an above-average rate creating the potential for upside risks to the inflation outlook and resulting in policy stimulus being removed more quickly than markets assume. This will take some time to materialize and we expect the first move by the bank to come in early 2018 with a total of 75 basis points of increases likely next year.

US economy's slow start masks firm momentum

The US economy squeaked out a 1.2% annualized gain in the first quarter with growth tempered by a large adjustment in business inventories and slower consumer spending. We aren't worried that this softening will continue as the combination of rising asset values and persistent gains in hiring set up for consumption activity to recover. Since 2000, growth in the first quarter usually lags all other quarters by a large margin only to be followed by a strong rebound in the second quarter, a pattern we are confident will play out in 2017.

U.S.: real GDP growth



Source: Bureau of Economic Analysis, RBC Economics

Forecast ■

U.S. business investment – back in the saddle

U.S. businesses grew at the fastest pace since mid-2011 in the first quarter of 2017. The gains were broadly based with the largest increase in spending on non-residential structures as oil producers boosted the number of rigs in operation. Investment in machinery, equipment and intellectual property also grew strongly in the first quarter. While Q1's oversized gain is unlikely to be repeated, business activity has been heating up, financial conditions are accommodative and lending standards eased modestly supporting US companies who are primed to expand capacity this year.

US trade policy – lots of question marks

The US government provided mixed signals about trade since the November election. Even as the administration talked about "ripping up NAFTA", pulling out of the Trans Pacific Partnership and punishing

countries who run large trade surpluses, world trade activity picked up after stalling for much of 2016. The uptick in global economic activity supported a strong first quarter for US exports with imports rising as business investment recovered. Despite a slight weakening in the US dollar so far this year it remains strong and will likely act as an impediment to robust export growth. Imports are forecast to grow more quickly as US companies take advantage of the relatively strong currency to purchase imported machinery and equipment.

Pause in US consumer spending to be short-lived

In the first quarter, US consumer spending grew at the slowest pace in more than 7 years. The slackening looks unlikely to continue given a myriad of factors supporting household spending including robust hiring, firmer wage growth and rising confidence. Labour market conditions continue to improve even with payrolls expanding at a slower 121K pace in the latest three months as the unemployment rate continued to edge down to a cycle-low of 4.3% and wage growth held at 2.5%. Similarly, confidence measures are bumping up against recent highs.

After months of strong gains, home sales activity slowed in April although this did not prevent the six-month run rate from hitting a post-recession high. While affordability has worsened in recent months, conditions are still attractive given low interest rates and rising incomes.

Rate hikes to drive US dollar up, Canada to weaken

The US dollar fell against the currencies of its major trading partners this year on the back of uncertainty about domestic policies and slower growth in the first quarter. While political uncertainty will likely remain high in the near term, the return of stronger growth and more aggressive tightening by the Fed than markets currently anticipate are expected to result in a strengthening in the US currency. This spells a period of weakening for the Canadian dollar. Even with oil prices forecast to grind higher, the divergence in monetary policy between Canada and the US and unease about the outcome of the NAFTA negotiations are expected to hold sway resulting in Canada's currency weakening to 1.40 vs its US counterpart. The outlook is brighter for 2018 when the Bank of Canada starts to raise the overnight rate and oil prices continue to gradually march higher.

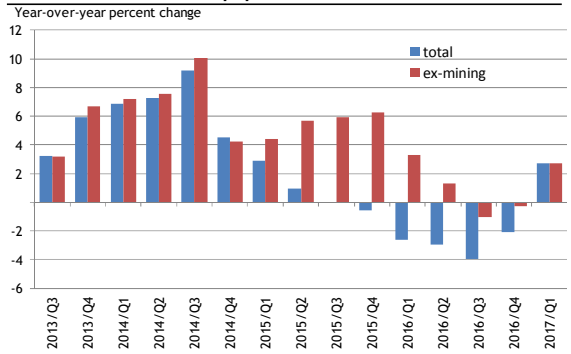
Canada – 150 years old

With the economy humming along Canada has lots to celebrate heading into its 150th birthday. Growth in the first quarter was 3.7% building on robust gains in the second half of last year. The consumer continued to be the key driver of growth with residential construction posting a double-digit gain early this year. Business investment provided the biggest lift to growth since 2012. The swing in investment is encouraging following two years of significant declines reflecting a marked drop in investment by energy companies. Mixed signals from business spending intentions surveys suggests that future increases will be more muted. Still with business investment turning around and government spending on infrastructure ramping up we project that the economy will grow by 2.6% in 2017, about double the average pace of prior two years.

How's the Canadian consumer looking?

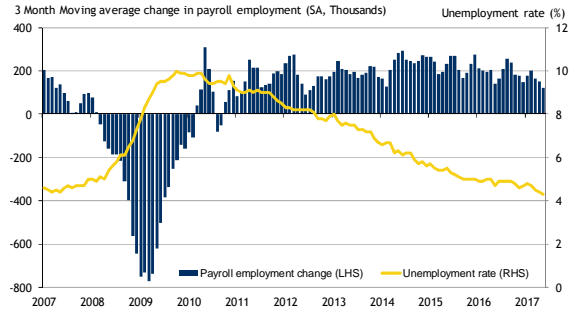
For eight years the consumer provided a large lift to the economy. The combination of rapid spending on autos, services and housing resulted in households accounting for almost two-thirds of economic activity.

U.S. Structures and Equipment Investment



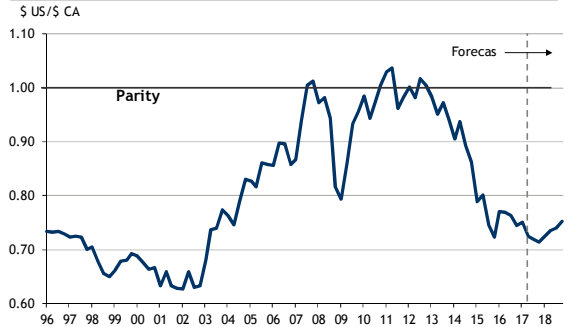
Source: Bureau of Labor Statistics, RBC Economics Research

US labour market



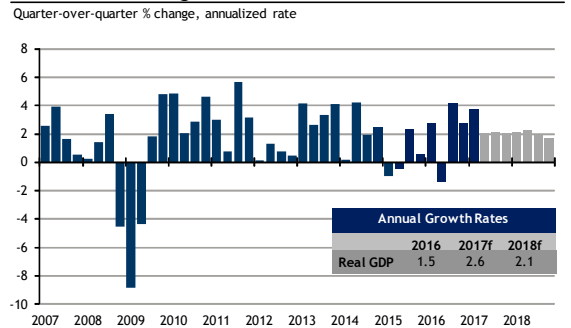
Source: Bureau of Labor Statistics, RBC Economics Research

Canadian Dollar Forecast



Source: Bank of Canada, RBC Economics Research

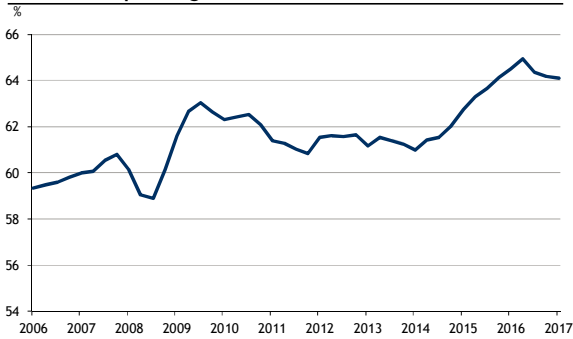
Canada: real GDP growth



Source: Statistics Canada, RBC Economics Research

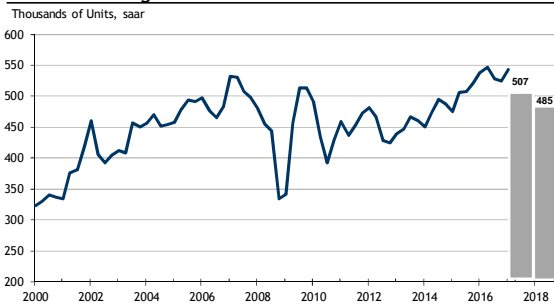


Household spending share as % of GDP



Source: Statistics Canada, RBC Economics Research

Canada: Housing Resales



Source: CREA, RBC Economics Research

Steady employment gains, low interest rates and rising asset values created the perfect mix for consumers. Consumption is forecast to continue to be the mainstay for growth in 2017 although its contribution is likely to wane. In part this reflects our view that government policy changes will dampen the pace of home sales with knock-on effects on those spending areas that are highly correlated with resale and building activity. Our forecast is that Canadian home sales will fall 5.3% this year with a corresponding dip in housing-related spending.

Housing market coming off the boil

Home sales activity continued at an elevated pace in early 2017 although showed signs of easing in April following the Ontario government's unveiling of a suite of policy measures to cool demand and boost supply. Early signs suggest the measures were effective in weighing on sales in April and May amid a surge in new listings and provides some hope that the Ontario market will be able to regain its balance.

We expect a slowing in price gains at the national level from almost 10% in 2016 to about 5% this year. The deceleration is forecast to continue in 2018 with price gains of 1% as rising interest rates dampen demand and sales fall by another 4%.

Canada faces both foreign and domestic risks

We are confident that the Canadian economy will grow at an above-potential pace for the remainder of this year, however acknowledge that there are risks to our forecast. US government actions on trade present a near term risk with tariffs on Canadian softwood lumber put in place in April 2017 and the plan for the "modernization" of NAFTA set to kick-off in August. Our analysis shows that tariffs on softwood lumber will have a very limited impact on Canada's overall economy given the industry represents 1% of GDP. The renegotiation of NAFTA presents a larger risk to the outlook given the potential disruption to activity in industries ranging from natural resources and autos to services. Our assumption is that the new agreement will not result in wholesale changes.

The largest domestic risk relates to the housing market after more than a year of regulatory changes aimed at tamping down price increases and preventing a deterioration in credit quality. Early indications suggest these rule changes are having the desired effect however risks remain that the most unaffordable markets could adjust too quickly derailing consumer confidence resulting in knock-on effects on areas of consumption. Likely this would only occur if the labour markets floundered or interest rates ratcheted higher.

Economic forecast detail – Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals					Forecast								Actual			
	2016					2017				2018				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018	
Household Consumption	2.4	2.3	3.0	3.0	4.3	2.1	2.1	1.7	1.7	1.7	1.6	1.7	1.9	2.4	2.9	1.8	
Durables	5.9	-3.1	0.2	10.2	9.9	1.5	1.5	1.0	1.5	1.3	1.3	1.3	2.8	4.1	4.6	1.3	
Semi-Durables	6.0	-2.3	2.9	5.0	8.6	2.4	2.8	1.8	1.8	1.8	1.8	2.0	2.3	3.4	4.2	2.0	
Non-durables	3.6	5.2	2.1	0.9	3.2	2.5	2.8	2.0	1.8	1.8	1.8	2.0	0.8	2.1	2.5	2.0	
Services	0.7	2.9	4.1	2.0	3.0	2.1	1.9	1.8	1.7	1.7	1.6	1.6	2.1	2.0	2.5	1.7	
NPISH consumption	1.2	-0.8	1.3	0.8	2.8	2.1	2.1	1.7	1.7	1.7	1.6	1.7	2.0	0.8	1.7	1.8	
Government expenditures	3.9	4.7	-1.7	1.3	0.5	1.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.0	2.1	
Government fixed investment	4.2	-2.9	4.7	6.5	0.4	8.5	7.0	5.0	2.5	3.5	3.5	3.5	4.5	1.1	4.5	4.3	
Residential investment	9.8	1.1	-5.1	6.3	15.7	-3.0	-3.1	-5.5	-2.6	-2.9	-1.9	-0.6	3.8	3.0	2.9	-3.1	
Non-residential investment	-10.3	-4.4	9.5	-22.0	10.3	3.7	3.0	3.6	3.9	3.7	2.6	2.4	-11.5	-8.6	-0.1	3.4	
Non-residential structures	-14.7	-8.4	30.5	-32.5	0.7	3.5	3.2	4.0	4.4	4.2	3.0	2.7	-16.0	-10.8	-3.1	3.8	
Machinery & equipment	-3.6	1.4	-15.8	-3.2	25.3	4.0	2.8	3.0	3.2	3.1	2.0	2.0	-3.3	-5.3	4.3	2.9	
Intellectual property	-2.3	2.1	-17.0	-9.8	6.3	2.5	2.8	3.5	3.5	3.0	2.0	2.0	-9.0	-4.1	-1.6	3.0	
Final domestic demand	1.8	1.8	1.7	0.1	4.7	2.0	1.9	1.4	1.8	1.8	1.7	1.8	0.3	1.0	2.2	1.7	
Exports	8.4	-13.6	9.2	0.8	-0.3	5.5	3.5	3.8	3.7	4.4	2.3	1.6	3.4	1.0	1.9	3.6	
Imports	3.5	1.4	4.3	-11.3	13.7	0.5	2.8	3.0	2.7	2.7	2.3	1.9	0.3	-0.9	2.2	2.5	
Inventories (change in \$b)	-5.9	1.3	5.4	-2.5	12.3	4.9	5.0	6.6	6.9	6.5	7.3	7.1	3.9	-0.4	7.2	7.0	
Real gross domestic product	2.8	-1.4	4.2	2.7	3.7	2.0	2.1	2.0	2.1	2.2	1.9	1.7	0.9	1.5	2.6	2.1	

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	-0.3	0.4	1.2	1.3	2.1	2.6	1.9	1.9	1.2	1.3	1.3	1.3	-0.2	0.7	2.1	1.3
Pre-tax corporate profits	-11.1	-16.6	-3.3	14.6	27.1	42.3	22.2	12.4	2.4	4.1	3.4	3.0	-19.5	-4.5	25.0	3.2
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.7	6.6	6.5	6.4	6.3	6.3	6.2	6.2	6.9	7.0	6.6	6.3
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	1.9	1.6	2.2	2.3	2.1	2.5	2.2	2.1	1.1	1.4	2.0	2.2
CPIX	2.0	2.1	1.9	1.6	1.5	1.3	1.6	2.0	2.1	2.2	2.1	2.0	2.2	1.9	1.6	2.1
External trade																
Current account balance (\$b)*	-70.8	-75.4	-74.6	-47.1	-56.2	-46.8	-43.6	-41.1	-37.4	-31.5	-29.1	-27.1	-67.6	-67.0	-46.9	-31.2
% of GDP*	-3.5	-3.8	-3.7	-2.3	-2.7	-2.2	-2.0	-1.9	-1.7	-1.4	-1.3	-1.2	-3.4	-3.3	-2.2	-1.4
Housing starts (000s)*	199	198	199	197	225	208	203	197	191	185	181	178	196	198	208	184
Motor vehicle sales (mill., saar)*	2.01	1.99	1.95	2.00	2.10	2.07	2.00	1.91	1.90	1.90	1.90	1.90	1.94	1.98	2.02	1.90

*Period average

Source: Statistics Canada, RBC Economics Research forecasts

Economic forecast detail – United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals					Forecast								Actual		Forecast	
	2016					2017			2018					year-over-year % change		year-over-year % change	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018	
Consumer spending	1.6	4.3	3.0	3.5	0.6	3.0	2.5	2.4	2.6	2.4	2.1	2.0	3.2	2.7	2.5	2.4	
Durables	-0.6	9.8	11.6	11.4	-1.4	6.4	3.1	3.1	3.0	2.7	2.1	2.1	6.9	5.8	5.5	3.0	
Non-durables	2.1	5.7	-0.5	3.3	1.2	3.6	2.8	2.8	3.1	2.8	2.2	2.0	2.6	2.5	2.4	2.8	
Services	1.9	3.0	2.7	2.4	0.8	2.3	2.3	2.2	2.4	2.2	2.1	2.0	2.8	2.3	2.0	2.2	
Government spending	1.6	-1.7	0.8	0.2	-1.1	1.2	1.2	1.0	0.6	0.4	0.4	0.4	1.8	0.8	0.2	0.7	
Residential investment	7.8	-7.8	-4.1	9.6	13.7	3.5	3.9	5.5	6.1	6.6	6.3	6.6	11.7	4.9	5.5	5.7	
Non-residential investment	-3.4	1.0	1.4	0.9	11.4	3.9	4.3	4.4	4.3	3.9	3.1	2.8	2.1	-0.5	4.7	4.0	
Non-residential structures	0.1	-2.1	12.0	-1.9	28.3	1.0	4.0	4.5	4.5	3.8	2.9	2.3	-4.4	-2.9	8.4	3.7	
Equipment & software	-9.5	-3.0	-4.5	2.0	7.2	5.4	4.8	4.8	4.8	4.3	3.2	2.9	3.5	-2.9	3.3	4.4	
Intellectual property	3.8	9.0	3.2	1.3	6.7	3.9	3.8	3.7	3.4	3.3	3.2	3.0	4.8	4.7	4.3	3.5	
Final domestic demand	1.2	2.4	2.1	2.8	2.0	2.8	2.5	2.5	2.6	2.4	2.1	2.0	3.1	2.1	2.5	2.5	
Exports	-0.7	1.8	10.0	-4.5	5.9	0.2	1.0	1.5	2.5	2.8	3.2	3.2	0.1	0.4	2.1	2.2	
Imports	-0.6	0.2	2.2	8.9	3.8	4.0	1.2	2.5	3.3	3.3	3.5	3.0	4.6	1.1	3.9	2.9	
Inventories (change in \$b)	40.7	-9.5	7.1	49.6	4.3	31.0	29.0	27.0	22.0	22.0	22.0	21.0	84.0	22.0	22.8	21.8	
Real gross domestic product	0.8	1.4	3.5	2.1	1.2	3.0	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.2	2.3	

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.1	-0.3	0.1	1.2	1.0	1.6	1.0	0.7	1.4	1.3	1.2	1.2	0.8	0.3	1.1	1.3
Pre-tax corporate profits	-6.6	-4.3	2.1	9.3	3.7	5.6	0.3	0.8	3.2	3.0	2.9	2.3	-3.0	-0.1	2.5	2.8
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.4	4.4	4.4	4.4	4.4	4.3	4.3	5.3	4.9	4.5	4.4
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	2.3	2.5	2.3	2.0	2.3	2.2	2.2	0.1	1.3	2.4	2.2
Core CPI	2.2	2.2	2.2	2.2	2.2	1.9	2.0	2.0	1.9	2.2	2.1	2.1	1.8	2.2	2.0	2.1
External trade																
Current account balance (\$b)*	-532	-479	-464	-450	-453	-480	-488	-498	-509	-519	-527	-532	-463	-481	-480	-521
% of GDP*	-2.9	-2.6	-2.5	-2.4	-2.4	-2.5	-2.5	-2.5	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.5	-2.6
Housing starts (000s)*	1153	1158	1150	1248	1242	1220	1241	1271	1300	1333	1362	1396	1107	1177	1243	1348
Motor vehicle sales (millions, saar)*	17.3	17.1	17.5	18.0	17.2	17.0	17.3	17.5	17.7	17.9	17.9	18.1	17.4	17.5	17.2	17.9

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates—North America

%, end of period

	Actual					Forecast								Actual		Forecast	
	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017	2018	
Canada																	
Overnight	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	0.50	0.50	0.50	1.25	
Three-month	0.45	0.49	0.53	0.46	0.52	0.50	0.55	0.60	0.65	0.85	1.15	1.40	0.51	0.46	0.60	1.40	
Two-year	0.54	0.52	0.52	0.75	0.75	0.75	0.90	1.05	1.20	1.40	1.60	1.80	0.48	0.75	1.05	1.80	
Five-year	0.67	0.57	0.62	1.12	1.12	1.05	1.35	1.65	1.95	2.25	2.45	2.60	0.73	1.12	1.65	2.60	
10-year	1.23	1.06	1.00	1.71	1.62	1.55	1.90	2.25	2.55	2.80	2.95	3.10	1.40	1.71	2.25	3.10	
30-year	2.00	1.72	1.66	2.31	2.30	2.15	2.45	2.80	3.00	3.20	3.30	3.45	2.15	2.31	2.80	3.45	
Yield curve (10s-2s)	69	54	48	96	87	80	100	120	135	140	135	130	92	96	120	130	
United States																	
Fed funds*	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.50	0.75	1.50	2.50	
Three-month	0.21	0.26	0.29	0.51	0.76	1.00	1.05	1.30	1.55	1.80	2.05	2.30	0.16	0.51	1.30	2.30	
Two-year	0.73	0.58	0.77	1.20	1.27	1.40	1.60	1.90	2.15	2.40	2.60	2.80	1.06	1.20	1.90	2.80	
Five-year	1.21	1.01	1.14	1.93	1.93	1.85	2.15	2.50	2.65	2.90	3.05	3.20	1.76	1.93	2.50	3.20	
10-year	1.78	1.49	1.60	2.45	2.40	2.30	2.65	3.00	3.15	3.40	3.50	3.60	2.27	2.45	3.00	3.60	
30-year	2.61	2.30	2.32	3.06	3.02	2.95	3.20	3.50	3.60	3.75	3.80	3.90	3.01	3.06	3.50	3.90	
Yield curve (10s-2s)	105	91	83	125	113	90	105	110	100	100	90	80	121	125	110	80	
Yield spreads																	
Three-month T-bills	0.24	0.23	0.24	-0.05	-0.24	-0.50	-0.50	-0.70	-0.90	-0.95	-0.90	-0.90	0.35	-0.05	-0.70	-0.90	
Two-year	-0.19	-0.06	-0.25	-0.45	-0.52	-0.65	-0.70	-0.85	-0.95	-1.00	-1.00	-1.00	-0.58	-0.45	-0.85	-1.00	
Five-year	-0.54	-0.44	-0.52	-0.81	-0.81	-0.80	-0.80	-0.85	-0.70	-0.65	-0.60	-0.60	-1.03	-0.81	-0.85	-0.60	
10-year	-0.55	-0.43	-0.60	-0.74	-0.78	-0.75	-0.75	-0.75	-0.60	-0.60	-0.55	-0.50	-0.87	-0.74	-0.75	-0.50	
30-year	-0.61	-0.58	-0.66	-0.75	-0.72	-0.80	-0.75	-0.70	-0.60	-0.55	-0.50	-0.45	-0.86	-0.75	-0.70	-0.45	

Note: Interest Rates are end of period rates. * Top of 25 basis point range

Interest rates—International

%, end of period

	Actual					Forecast								Actual		Forecast	
	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017	2018	
United Kingdom																	
Repo	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.50	0.25	0.25	0.10	
Two-year	0.45	0.13	0.13	0.08	0.12	0.15	0.20	0.15	0.05	0.10	0.15	0.15	0.66	0.08	0.15	0.15	
10-year	1.43	0.89	0.76	1.24	1.14	1.35	1.50	1.60	1.70	1.85	1.95	2.00	1.96	1.24	1.60	2.00	
Euro Area																	
Deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.40	-0.40	-0.40	
Two-year	-0.48	-0.61	-0.69	-0.78	-0.74	-0.65	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.34	-0.78	-0.50	-0.50	
10-year	0.15	-0.11	-0.12	0.21	0.33	0.35	0.50	0.60	0.65	0.65	0.70	0.75	0.63	0.21	0.60	0.75	
Australia																	
Cash target rate	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.25	1.50	1.50	2.00	1.50	1.25	1.50	
Two-year swap	1.89	1.59	1.55	1.86	1.76	1.70	1.60	1.50	1.50	1.75	1.75	2.00	2.02	1.86	1.50	2.00	
10-year swap	2.49	1.98	1.91	2.76	2.70	2.50	2.85	3.10	3.25	3.60	3.70	3.90	2.88	2.76	3.10	3.90	
New Zealand																	
Cash target rate	2.25	2.25	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.50	1.75	1.75	1.75	
Two-year	2.19	2.22	1.96	2.50	2.31	2.20	2.20	2.20	2.30	2.30	2.30	2.40	2.83	2.50	2.20	2.40	
10-year	2.97	2.65	2.41	3.58	3.41	3.30	3.75	4.10	4.25	4.60	4.60	4.70	3.73	3.58	4.10	4.70	

Growth outlook

% change, quarter-over-quarter in real GDP

	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017F	2018F
Canada*	2.8	-1.4	4.2	2.7	3.7	2.0	2.1	2.0	2.1	2.2	1.9	1.7	0.9	1.5	2.6	2.1
United States*	0.8	1.4	3.5	2.1	1.2	3.0	2.5	2.4	2.4	2.3	2.0	2.0	2.6	1.6	2.2	2.3
United Kingdom	0.2	0.6	0.5	0.7	0.2	0.4	0.2	0.2	0.4	0.5	0.5	0.5	2.2	1.8	1.6	1.6
Euro area	0.5	0.3	0.4	0.5	0.6	0.6	0.4	0.4	0.4	0.4	0.4	0.4	1.9	1.7	2.0	1.7
Australia	0.9	0.7	-0.4	1.1	0.3	0.1	1.1	0.8	0.8	0.6	0.6	0.6	2.4	2.5	1.9	2.9
New Zealand	0.7	0.8	0.8	0.4	0.7	0.8	0.8	0.6	0.6	0.6	0.6	0.6	2.5	3.1	2.8	2.6

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017F	2018F
Canada	1.5	1.6	1.2	1.4	1.9	1.6	2.2	2.3	2.1	2.5	2.2	2.1	1.1	1.4	2.0	2.2
United States	1.1	1.0	1.1	1.8	2.5	2.3	2.5	2.3	2.0	2.3	2.2	2.2	0.1	1.3	2.4	2.2
United Kingdom	0.3	0.4	0.7	1.2	2.1	2.7	2.9	3.0	2.8	2.7	2.6	2.5	0.0	0.7	2.7	2.6
Euro area	0.0	-0.1	0.3	0.7	1.8	1.6	1.6	1.5	1.4	1.3	1.3	1.3	0.0	0.2	1.6	1.3
Australia	1.3	1.0	1.3	1.5	2.1	2.3	2.2	2.4	2.5	2.5	2.4	2.3	1.5	1.3	2.2	2.4
New Zealand	0.4	0.4	0.4	1.3	2.2	2.3	2.3	2.3	1.7	1.7	1.8	1.8	0.3	0.6	2.3	1.8

Exchange rates

%, end of period

	Actual					Forecast							Actual		Forecast		
	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017	2018	
AUD/USD	0.77	0.75	0.77	0.72	0.76	0.75	0.73	0.72	0.72	0.72	0.73	0.73	0.73	0.72	0.72	0.72	0.73
USD/CAD	1.30	1.29	1.31	1.34	1.33	1.38	1.39	1.40	1.38	1.36	1.35	1.33	1.38	1.34	1.40	1.33	
EUR/USD	1.14	1.11	1.12	1.05	1.07	1.08	1.06	1.04	1.02	1.06	1.08	1.12	1.09	1.05	1.04	1.12	
USD/JPY	112.6	102.7	101.3	117.0	111.4	110.0	107.0	103.0	100.0	102.0	104.0	106.0	120.1	117.0	103.0	106.0	
NZD/USD	0.69	0.71	0.73	0.69	0.70	0.72	0.73	0.74	0.74	0.74	0.75	0.75	0.68	0.69	0.74	0.75	
USD/CHF	0.96	0.98	0.97	1.02	1.00	1.01	1.02	1.05	1.08	1.05	1.03	1.00	1.00	1.02	1.05	1.00	
GBP/USD	1.44	1.33	1.30	1.24	1.26	1.24	1.19	1.15	1.16	1.22	1.26	1.32	1.47	1.24	1.15	1.32	

Note: Exchange rates are expressed in units per USD, with the exception of the euro, GBP, AUD, and NZD, which are expressed in USD per local currency unit.

Source: Reuters, RBC Economics Research forecasts

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