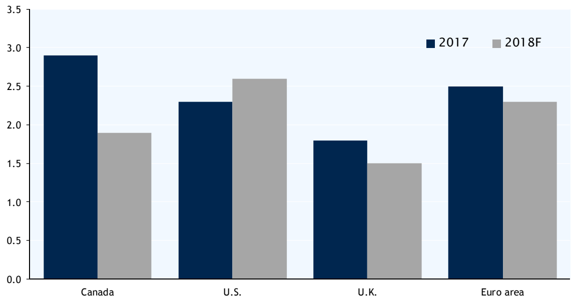
RBC ECONOMIC RESEARCH

ECONOMIC AND FINANCIAL MARKET OUTLOOK

March 2018

Real GDP growth

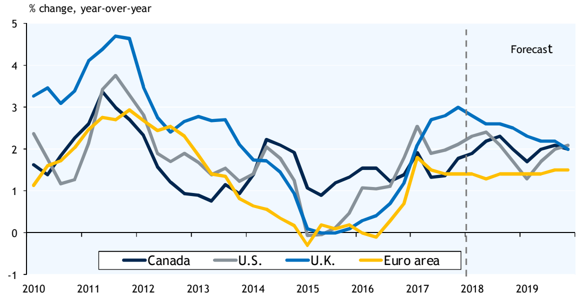
% change, year-over-year



*Canada 2017 is estimate
Source: IMF, Statistics Canada, RBC Economic Research

Headline Inflation: International

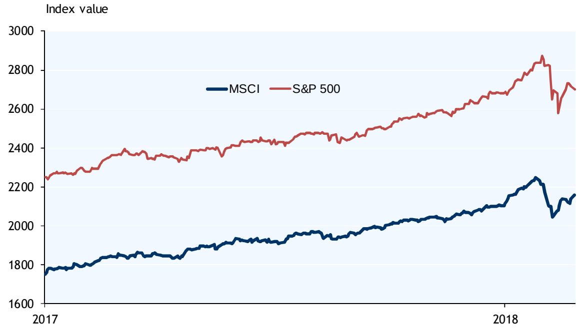
% change, year-over-year



Source: Statistics Canada, Bureau of Economic Analysis, Statistical office of European Communities, Office for National Statistics, RBC Economic Research

MSCI World Stock Index & S&P 500 Index

Index value



Source: Bloomberg, Wall Street Journal, RBC Economic Research

The Global Economy Hits a Sweet Spot

The drivers of growth have broadened

After hitting its stride in 2017, the world economy is on track for another year of robust growth. The expected upswing reflects a synchronized acceleration among advanced and emerging-market economies. Trade volumes are growing three times as quickly as in 2016. Tighter labour markets are putting upward pressures on wages and supporting consumer spending, and businesses are investing to meet this demand. Concerns about protectionism are elevated again though measures of business activity and consumer confidence are high, at least for now.

We expect Canada, the US and the Euro area economies to post another year of above-potential growth, while the UK is forecast to gear down slightly as Brexit-related concerns weigh. This year will mark the first time in a decade that all four economies will operate with limited, if any, excess capacity. Canada, the US and UK are close to full employment, and wages are accelerating. Only in the UK, where there has been a currency-driven uptick in inflation, has this failed to translate into real wage gains. The Euro area's unemployment rate has room to drop further as rising employment spreads beyond the stronger regional economies. Still, it is likely to take until 2019 for tightness in the labour market to create meaningful upward pressure on wages on a pan-Euro area basis.

Inflation concerns have surfaced

The global economy's momentum has quieted disinflation concerns. Global yields, led by US Treasuries, jumped in early 2018 as markets priced in upside inflation risks. In the US, a robust January labour report and new forecasts incorporating the lift from the *Tax Cuts and Jobs Act* raised inflation expectations and projections for Fed tightening over the quarters ahead. The upward pressure on yields also reflected concerns about heightened US Treasury issuance to fund spending and tax cuts. Ten-year Treasuries are up 24 bps compared to January 25 while increases elsewhere range from 12 to 19 basis points.

The stock market rally hit a bump

Rising interest rates and firming inflation expectations interrupted the stock market rally. In early February, the S&P was down 10% from its January 26 peak and the MSCI world index lost 8.8%. Long-dormant volatility surged, exacerbating the market's decline. While the sell-off clipped 2018 gains, index levels remain well above year-ago levels. As a result, our forecast does not incorporate any negative hit to the global economy from this short sharp interruption in stock market performance.

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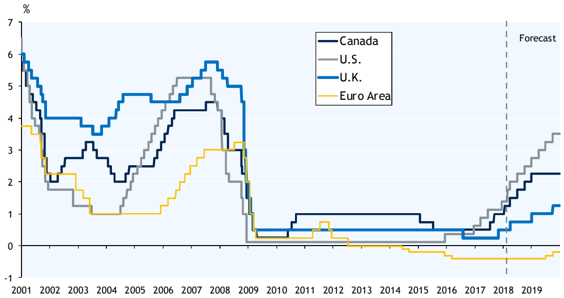
Policy rates: International



Source: ECB, BoE, BoC, Federal Reserve, RBC Economic Research

Central banks will dial back policy support

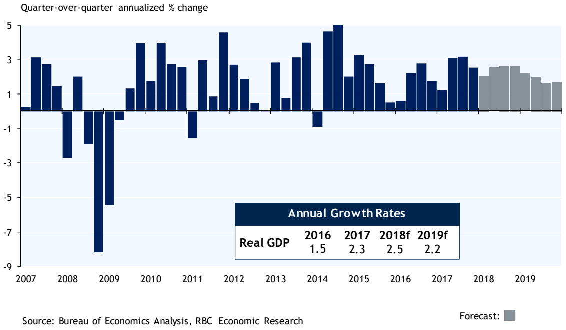
The need for aggressive monetary policy support in Canada and the US continues to lessen, with the economies now in the mature stage of the business cycle and governments providing a healthy dose of fiscal stimulus. Both central banks are forecast to continue to gradually raise their policy rate in 2018. The Bank of England has also voiced concerns about upward domestic pressures on inflation, and it may be more active than we previously thought, with a 25bp rate increase expected in May 2018. Brexit uncertainty will likely delay further action until 2019, when we have penciled in two additional hikes. The ECB is furthest away from rate increases with the next policy shift likely to be the end of its bond-buying program later this year. Rate hikes will follow, though the ECB has been clear that increases will occur "well past" the QE program's termination, which we read as meaning unlikely until the second half of 2019.

The US economy is on a firm footing

The US economy entered 2018 on firm footing which, combined with the boost from the government's stimulus policies, will produce a 2.5% rise in economic output, eclipsing the economy's potential growth rate by a significant margin. The US consumer is positioned to be the key driver in 2018, backed by a robust labour market and healthy balance sheets. Recent stock market volatility presents a risk to the consumer outlook. While the correction cut into gains made early in 2018, the major indexes stand 14½% above year ago levels, leaving us to conclude that the pullback has not gone far enough to make a major impact on the outlook. Housing activity is also expected to firm in 2018 with markets entering the year at historically affordable levels, although future interest rate increases and rising prices could curb activity in 2019.

Real GDP growth: U.S.

Quarter-over-quarter annualized % change

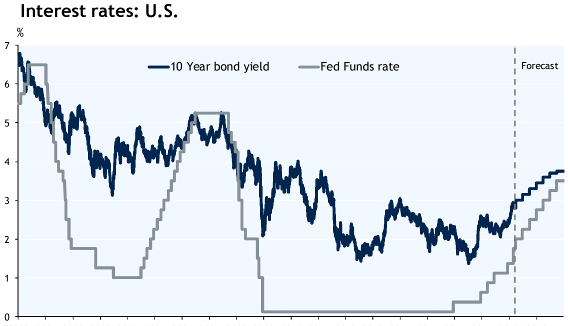


Source: Bureau of Economics Analysis, RBC Economic Research

The US tax overhaul will spur spending

Business investment is the big story, with the turnaround that began in 2017 forecast to continue in 2018, helped by the tax overhaul. Increased activity in the energy sector underpinned some of the pickup in investment last year, although it wasn't the only sector where companies put dollars to work. The firming in demand exerted pressure on capacity with the overall capacity utilization rate rising 2 ppt in 2017. The manufacturing index rose 1.2 ppt and ended the year at the highest level since before the recession. Our forecast is that investment activity will rise at an even stronger pace in 2018 as companies use some of their tax windfall to buy machinery and equipment.

Interest rates: U.S.



Source: Federal Reserve, RBC Economic Research

Government stimulus: short-term gain for long-term pain?

The US government's *Tax Cuts and Jobs Act* is estimated to bump up GDP growth by 0.4 ppt in 2018 and an additional 0.3 ppt in 2019. Thereafter we expect the economic impact will be slightly negative. The cost to the bottom line, meanwhile, will be enduring and on net will add $1.0 trillion to the US debt.

A familiar stance from a new Fed chair

Federal Reserve Chair Jerome Powell will likely follow a path similar to the Yellen Fed with rate hikes expected to be announced each quarter in 2018. The strength of the underlying economy will outweigh concerns about the stock market correction, which some recent Fed speakers have referred to as a "healthy correction." Robust job creation continued into 2018 with 200K jobs created in January and the unemployment holding at 4.1%, below the Fed's long-term range of 4.4% to 4.7%. Wage growth accelerated to 2.9%, well above Q4's 2.5% pace. We anticipate that the tightness in labour market conditions will keep upward pressure on wages in 2018 as the unemployment rate falls to 3.8%. Rising wages and increasingly stressed capacity tees up for inflation to rise sustainably at the Fed's 2% target.

The rise in 10-year yields in early 2018 was expected, although the rapid pace of increase created some upside risk to our forecast for a 2.80% rate at the end of the first quarter. Looking ahead we expect rates to continue to move higher, albeit at a somewhat slower pace and forecast the 10-year yield to end the year at 3.3%.

O Canada!

After growing rapidly in 2017, we expect Canada's economy to slow to 1.9%—a pace that is closer to potential, which we estimate at 1.6%. 2018 will mark a shift in the drivers of economic activity, with the Canadian consumer sector likely to pull back after spending strongly last year. Business investment and government outlays conversely are forecast to make bigger contributions.

Consumer spending grew 3.5% in 2017, the fastest pace of increase since 2010. Rising interest rates will take a toll on the highly indebted household sector in 2018, but the softening should be limited by support from a healthy labour market and rising wages. Canada's housing market is also expected to come under pressure as interest rates move higher. National and provincial regulatory changes introduced over the last few years contributed to home resales falling by 4.5% in 2017. We expect sales to continue to soften in 2018 although gradual increases by the Bank of Canada and a healthy labour market are likely to prevent a rout in the housing market.

The softening in resale activity and pickup in new listings resulted in demand-supply conditions becoming more balanced in the majority of local markets. The improvement is likely to maintain some degree of support for home prices although considerably less than what the super-tight conditions provided in the early stages of 2017. Accordingly, we project a sharp deceleration in price increases, from 11.1% in 2017 to just 2.2% nationwide in 2018.

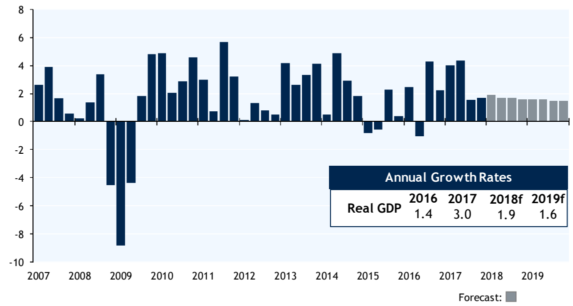
Conversely, the economy will get a lift as the federal and provincial governments ramp up spending on infrastructure projects. Investment outside of the public sector will shift away from residential construction toward spending on machinery and equipment as businesses expand.

Risks to business investment outlook

Despite the heightened talk of a rewrite of NAFTA, the Bank of Canada's survey of Canadian businesses showed a broad-based increase in spending intentions. Canadian businesses pointed to stronger demand causing heightened capacity pressures with some looking to begin multi-year projects. Others need to catch up after a period of low investment. We expect spending by Canadian companies on machinery and equipment to increase 3.5% this year, building on 2017's 6% increase. Uncertainty from the renegotiation of NAFTA; talk of US tariffs broadening out to steel and aluminium and the loss of competitiveness after the U.S. cut tax rates are factors that are likely keeping business investment lower than it otherwise would be. Further,

Real GDP growth: Canada

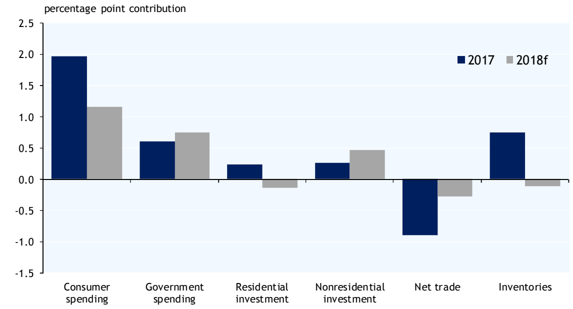
Quarter-over-quarter % change, annualized rate



Source: Statistics Canada, RBC Economic Research

Contributions to Canadian GDP growth

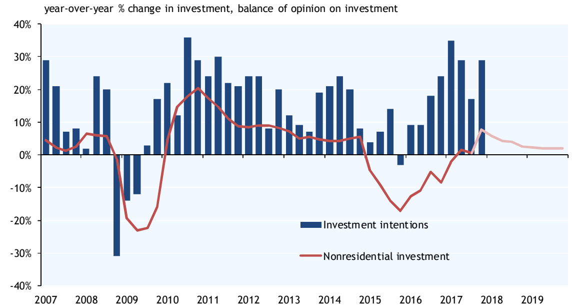
percentage point contribution



Source: Statistics Canada, RBC Economic Research

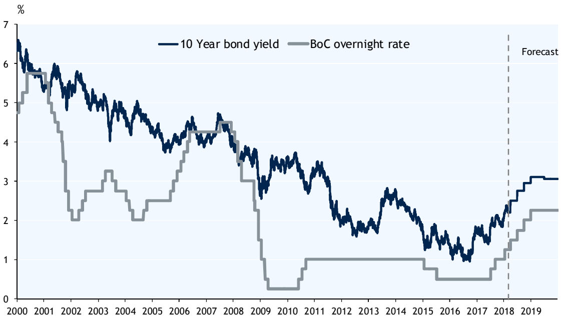
Business investment spending and intentions

year-over-year % change in investment, balance of opinion on investment



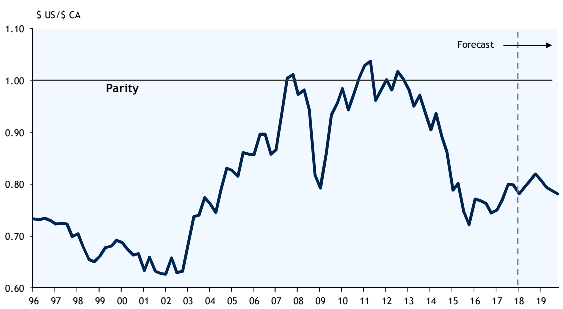
Source: Bank of Canada, Statistics Canada, RBC Economic Research

Interest rates: Canada



Source: Bank of Canada, RBC Economic Research

Canadian Dollar Forecast



Source: Bank of Canada, RBC Economic Research

even companies facing capacity pressures might pullback in the absence of progress on these competitiveness challenges.

For Canadian oil producers, the price recovery has fallen short

Due to transportation bottlenecks, Canadian oil producers are not benefitting to the same degree as other producers from the increase in prices that started in December 2017. With pipeline capacity tapped out, moving oil by rail—at a higher cost—hit Canadian producers' bottom line. Western Canada's oil exports are expected to materially exceed export pipeline capacity throughout the first quarter of 2018, meaning transportation costs will remain high until new oil export pipeline capacity is built. While Alberta's crude-by-rail loading capacity will ensure barrels get to market, it will be at higher cost, crimping oil sands producers' margin.

That said, higher energy exports were the key driver of the modest increase in overall export growth in 2017. The volume of non-commodity exports fell 1.9% in 2017 after hitting the highest level in close to a decade the previous year. We expect a modest turnaround this year as demand for Canadian goods by US companies rises in line with the pickup in investment activity.

The Canadian dollar appreciated over the course of 2017 on the back of strong economic news that was followed up by the Bank of Canada raising the overnight rate. The currency's appreciating trend continued into January 2018 after the central bank lifted the overnight rate to 1.25%, the highest level in the post-recession period. Looking forward, Canada's dollar will take its direction from monetary policy with movements in oil prices acting as an influence over the medium term. We look for NAFTA-related uncertainty to pressure the Canadian dollar mid-year. That said, with both short-term interest rate spreads and oil prices working in favour of Canada's currency the weakening trend is likely to prove short-lived barring a negative NAFTA outcome.

The Bank of Canada is keeping a watchful eye

We expect the Bank of Canada to raise the overnight rate each quarter in 2018 against the backdrop of solid domestic activity and more robust global trade flows. But it's likely to move at a measured pace. That's due to the impact that NAFTA uncertainty could have on exports and investment, as well as concerns about the ability of Canadian households to finance their elevated debt at higher rates. Inflation in Canada is forecast to reach the bank's 2% target this year which combined with rising short term rates will pressure 10-year yields higher.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals				Forecast								Actual		Forecast	
	2017				2018				2019				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
Household Consumption	3.5	4.6	3.7	2.1	1.6	1.4	1.4	1.5	1.4	1.3	1.3	1.4	2.4	3.5	2.1	1.4
Durables	10.9	7.6	1.1	1.6	1.5	1.3	1.3	1.3	1.3	1.2	1.2	1.1	4.5	6.4	1.8	1.3
Semi-Durables	1.4	7.3	3.2	1.2	1.4	1.3	1.4	1.5	1.4	1.2	1.4	1.4	2.2	3.4	1.9	1.4
Non-durables	1.7	6.1	0.6	1.8	1.4	1.3	1.3	1.5	1.4	1.3	1.3	1.4	1.7	2.6	1.6	1.4
Services	2.8	3.0	5.7	2.5	1.7	1.5	1.5	1.6	1.4	1.4	1.3	1.4	2.2	3.2	2.3	1.4
NPISH consumption	-3.4	4.4	4.5	3.5	1.6	1.4	1.4	1.5	1.4	1.3	1.3	1.4	-0.5	0.5	2.4	1.4
Government expenditures	3.9	1.4	3.6	2.8	2.5	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.2	2.2	2.6	2.2
Government fixed investment	-4.9	-0.9	11.6	10.3	2.5	3.5	3.5	3.5	2.8	2.0	2.0	2.0	5.1	3.8	5.2	2.8
Residential investment	9.4	-2.9	-0.2	13.4	-6.3	-2.7	-4.8	-3.7	-2.1	-0.5	0.3	1.2	3.3	3.1	-0.8	-2.0
Non-residential investment	12.1	9.5	5.4	8.2	0.9	2.8	2.3	2.1	2.0	2.0	2.0	2.0	-9.4	2.6	3.9	2.1
Non-residential structures	2.0	10.8	7.2	5.4	2.8	2.8	2.5	2.2	2.0	2.0	2.0	2.0	-11.5	0.3	4.2	2.1
Machinery & equipment	29.3	7.7	2.8	12.6	-2.0	2.8	2.0	2.0	2.0	2.0	2.0	2.0	-6.0	6.0	3.5	2.0
Intellectual property	16.8	3.2	5.8	0.2	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	-6.4	1.0	2.3	2.0
Final domestic demand	4.5	3.6	3.9	3.9	1.1	1.5	1.3	1.5	1.4	1.4	1.5	1.6	1.1	3.0	2.3	1.4
Exports	2.7	6.3	-10.4	3.0	-4.5	6.5	4.5	2.5	3.3	1.7	1.8	2.0	1.0	1.0	0.3	2.9
Imports	13.9	6.2	0.3	6.3	-4.4	3.5	2.1	2.0	2.5	1.0	1.7	2.1	-1.0	3.6	1.5	2.0
Inventories (change in $b)	10.2	14.0	16.9	13.8	16.7	13.5	11.9	11.9	11.9	11.8	11.8	11.8	1.0	13.7	13.5	11.8
Real gross domestic product	**4.0**	**4.4**	**1.5**	**1.7**	**1.9**	**1.7**	**1.7**	**1.6**	**1.6**	**1.6**	**1.5**	**1.5**	**1.4**	**3.0**	**1.9**	**1.6**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	2.2	2.5	1.1	1.0	0.3	0.5	1.1	1.2	0.9	0.9	0.9	0.9	0.6	1.7	0.8	0.9
Pre-tax corporate profits	26.0	35.5	14.2	8.9	3.7	3.0	3.1	-0.8	-3.8	-1.2	-0.4	-0.4	-1.9	20.2	2.2	-1.5
Unemployment rate (%)*	6.6	6.5	6.2	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	7.0	6.3	5.9	5.9
Inflation																
Headline CPI	1.9	1.3	1.4	1.8	1.9	2.2	2.3	2.0	1.7	2.0	2.1	2.0	1.4	1.6	2.1	1.9
CPI ex. food and energy	2.0	1.4	1.4	1.6	1.6	1.9	2.2	2.2	2.1	2.1	2.0	2.0	1.9	1.6	2.0	2.0
External trade																
Current account balance ($b)*	-54.6	-61.3	-74.4	-65.4	-50.4	-55.4	-54.1	-51.3	-48.3	-45.8	-44.1	-43.0	-65.4	-63.9	-52.8	-45.3
% of GDP*	-2.6	-2.9	-3.5	-3.0	-2.3	-2.5	-2.4	-2.3	-2.1	-2.0	-1.9	-1.8	-3.2	-3.0	-2.4	-2.0
Housing starts (000s)*	222	207	223	229	211	204	200	193	191	191	189	189	198	220	202	190
Motor vehicle sales (mill., saar)*	2.08	2.10	2.08	2.04	2.05	2.00	1.98	1.97	1.94	1.93	1.92	1.92	1.98	2.08	2.00	1.93

*Period average

Source: Statistics Canada, RBC Economic Research forecasts

Economic forecast detail — United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals				Forecast								Actual		Forecast	
	2017				2018				2019				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
Consumer spending	1.9	3.3	2.2	3.8	2.1	3.2	3.2	2.7	2.3	1.9	1.8	1.8	2.7	2.7	2.9	2.4
Durables	-0.1	7.6	8.6	13.8	-1.5	3.5	4.5	2.8	2.3	1.8	1.6	1.6	5.5	6.7	5.0	2.5
Non-durables	1.1	4.2	2.3	4.3	2.5	4.8	4.5	3.5	2.5	2.0	1.8	1.8	2.8	2.4	3.7	2.8
Services	2.5	2.3	1.1	2.1	2.5	2.6	2.6	2.5	2.3	1.9	1.8	1.8	2.3	2.2	2.3	2.2
Government spending	-0.6	-0.2	0.7	2.9	0.6	0.4	0.4	0.6	0.8	0.8	0.8	0.8	0.8	0.1	0.9	0.7
Residential investment	11.1	-7.3	-4.7	13.1	5.5	3.7	3.8	3.4	1.8	0.9	1.9	1.2	5.5	1.8	4.0	2.3
Non-residential investment	7.1	6.7	4.7	6.6	3.9	5.5	6.5	5.7	2.8	2.8	2.6	2.6	-0.6	4.7	5.4	3.9
Non-residential structures	14.8	7.0	-7.0	2.5	2.0	4.0	6.5	5.2	4.0	4.0	2.0	2.0	-4.1	5.4	2.3	4.1
Equipment & software	4.4	8.8	10.8	11.8	4.8	6.3	7.2	6.5	3.5	3.5	0.7	0.1	-3.4	4.8	7.7	4.1
Intellectual property	5.8	3.7	5.2	2.5	4.0	5.3	5.2	5.0	4.8	3.6	2.6	2.6	6.3	4.0	4.3	4.3
Final domestic demand	2.4	2.7	1.9	4.3	2.2	3.0	3.1	2.8	2.3	1.9	1.6	1.5	2.1	2.5	2.9	2.3
Exports	7.3	3.5	2.1	7.1	1.0	2.8	3.2	3.2	3.0	2.8	2.8	2.8	-0.3	3.4	3.2	3.0
Imports	4.3	1.5	-0.7	14.0	3.5	6.0	6.6	4.5	4.3	2.1	2.1	2.3	1.3	3.9	5.6	3.9
Inventories (change in $b)	1.2	5.5	38.5	8.0	15.0	15.0	16.0	20.0	28.0	28.0	28.0	33.0	33.4	13.3	16.5	29.3
Real gross domestic product	**1.2**	**3.1**	**3.2**	**2.5**	**2.0**	**2.5**	**2.7**	**2.7**	**2.2**	**2.0**	**1.7**	**1.7**	**1.5**	**2.3**	**2.5**	**2.2**

Other indicators

Year-over-year % change unless otherwise indicated

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
Business and labour																
Productivity	1.1	1.3	1.5	0.8	1.1	1.0	0.5	1.0	1.2	1.1	1.0	0.8	0.1	1.2	0.9	1.0
Pre-tax corporate profits	3.3	6.4	5.4	3.9	6.7	6.9	3.2	2.6	2.5	2.1	1.9	1.2	-2.1	4.7	4.8	1.9
Unemployment rate (%)*	4.7	4.3	4.3	4.1	4.1	4.1	3.9	3.8	3.8	3.8	3.8	3.8	4.9	4.4	4.0	3.8
Inflation																
Headline CPI	2.5	1.9	2.0	2.1	2.3	2.4	2.1	1.7	1.3	1.7	2.0	2.1	1.3	2.1	2.1	1.8
CPI ex. food and energy	2.2	1.8	1.7	1.8	1.9	2.2	2.2	2.2	2.0	2.1	2.1	2.1	2.2	1.8	2.1	2.1
External trade																
Current account balance ($b)*	-454	-498	-402	-458	-486	-504	-530	-546	-562	-563	-564	-567	-452	-453	-516	-564
% of GDP*	-2.4	-2.6	-2.1	-2.3	-2.4	-2.5	-2.6	-2.7	-2.7	-2.7	-2.7	-2.7	-2.4	-2.3	-2.6	-2.7
Housing starts (000s)*	1238	1167	1172	1256	1275	1285	1300	1315	1315	1315	1325	1325	1177	1208	1294	1320
Motor vehicle sales (millions, saar)*	17.1	16.8	17.1	17.7	17.3	17.4	17.5	17.5	17.5	17.6	17.6	17.6	17.5	17.1	17.4	17.6

*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	
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018	2019
Canada																
Overnight	0.50	0.50	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.25	2.25	2.25	0.50	1.00	2.00	2.25
Three-month	0.52	0.71	1.00	1.06	1.20	1.45	1.70	2.05	2.25	2.15	2.15	2.15	0.46	1.06	2.05	2.15
Two-year	0.75	1.10	1.52	1.69	1.75	2.05	2.25	2.45	2.60	2.50	2.40	2.30	0.75	1.69	2.45	2.30
Five-year	1.12	1.40	1.75	1.87	2.00	2.30	2.55	2.75	2.90	2.85	2.85	2.80	1.12	1.87	2.75	2.80
10-year	1.62	1.76	2.10	2.04	2.20	2.50	2.75	2.95	3.10	3.10	3.05	3.05	1.71	2.04	2.95	3.05
30-year	2.30	2.14	2.47	2.27	2.45	2.75	3.05	3.15	3.25	3.25	3.30	3.30	2.31	2.27	3.15	3.30
Yield curve (10s-2s)	87	66	58	35	45	45	50	50	50	60	65	75	96	35	50	75
United States																
Fed funds*	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	0.75	1.50	2.50	3.50
Three-month	0.76	1.03	1.06	1.39	1.55	1.80	2.05	2.30	2.55	2.80	3.05	3.30	0.51	1.39	2.30	3.30
Two-year	1.27	1.38	1.47	1.89	2.10	2.35	2.55	2.75	3.00	3.25	3.40	3.55	1.20	1.89	2.75	3.55
Five-year	1.93	1.89	1.92	2.20	2.50	2.70	2.90	3.05	3.25	3.45	3.55	3.65	1.93	2.20	3.05	3.65
10-year	2.40	2.31	2.33	2.40	2.80	3.00	3.15	3.30	3.45	3.60	3.70	3.75	2.45	2.40	3.30	3.75
30-year	3.02	2.84	2.86	2.74	3.20	3.35	3.50	3.60	3.70	3.75	3.80	3.85	3.06	2.74	3.60	3.85
Yield curve (10s-2s)	113	93	86	51	70	65	60	55	45	35	30	20	125	51	55	20
Yield spreads																
Three-month T-bills	-0.24	-0.32	-0.06	-0.33	-0.35	-0.35	-0.35	-0.25	-0.30	-0.65	-0.90	-1.15	-0.05	-0.33	-0.25	-1.15
Two-year	-0.52	-0.28	0.05	-0.20	-0.35	-0.30	-0.30	-0.30	-0.40	-0.75	-1.00	-1.25	-0.45	-0.20	-0.30	-1.25
Five-year	-0.81	-0.49	-0.17	-0.33	-0.50	-0.40	-0.35	-0.30	-0.35	-0.60	-0.70	-0.85	-0.81	-0.33	-0.30	-0.85
10-year	-0.78	-0.55	-0.23	-0.36	-0.60	-0.50	-0.40	-0.35	-0.35	-0.50	-0.65	-0.70	-0.74	-0.36	-0.35	-0.70
30-year	-0.72	-0.70	-0.39	-0.47	-0.75	-0.60	-0.45	-0.45	-0.45	-0.50	-0.50	-0.55	-0.75	-0.47	-0.45	-0.55

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

Interest rates—International

%, end of period

	Actual				Forecast								Actual		Forecast	
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018	2019
United Kingdom																
Repo	0.25	0.25	0.25	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.00	1.25	0.25	0.50	0.75	1.25
Two-year	0.12	0.36	0.46	0.45	0.75	0.80	0.85	0.95	1.00	1.05	1.10	1.15	0.08	0.45	0.95	1.15
10-year	1.14	1.26	1.38	1.19	1.65	1.75	1.85	1.90	2.00	2.10	2.20	2.30	1.24	1.19	1.90	2.30
Euro Area																
Deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.20	-0.40	-0.40	-0.40	-0.20
Two-year	-0.74	-0.57	-0.69	-0.63	-0.65	-0.65	-0.60	-0.50	-0.50	-0.50	-0.40	-0.30	-0.78	-0.63	-0.50	-0.30
10-year	0.33	0.47	0.47	0.43	0.65	0.65	0.70	0.80	1.00	1.05	1.25	1.25	0.21	0.43	0.80	1.25
Australia																
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.75	2.00	2.00	2.00	1.50	1.50	1.50	2.00
Two-year swap	1.76	1.78	1.94	2.00	2.00	2.10	2.25	2.40	2.50	2.60	2.60	2.60	1.86	2.00	2.40	2.60
10-year swap	2.70	2.60	2.84	2.63	2.70	2.90	3.25	3.55	3.85	4.10	4.10	4.05	2.76	2.63	3.55	4.05

Growth outlook

% change, quarter-over-quarter in real GDP

	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018F	2019F
Canada*	4.0	4.4	1.5	1.7	1.9	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4	3.0	1.9	1.6
United States*	1.2	3.1	3.2	2.5	2.0	2.5	2.7	2.7	2.2	2.0	1.7	1.7	1.5	2.3	2.5	2.2
United Kingdom	0.2	0.3	0.5	0.4	0.3	0.4	0.3	0.4	0.3	0.4	0.3	0.4	1.9	1.7	1.5	1.4
Euro area	0.6	0.7	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4	1.8	2.5	2.3	1.9
Australia	0.5	0.8	0.7	0.4	0.7	0.6	0.7	0.6	0.7	0.7	0.9	0.9	2.6	2.3	2.7	3.0

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018F	2019F
Canada	1.9	1.3	1.4	1.8	1.9	2.2	2.3	2.0	1.7	2.0	2.1	2.0	1.4	1.6	2.1	1.9
United States	2.5	1.9	2.0	2.1	2.3	2.4	2.1	1.7	1.3	1.7	2.0	2.1	1.3	2.1	2.1	1.8
United Kingdom	2.2	2.8	2.8	3.0	2.8	2.6	2.6	2.5	2.3	2.2	2.2	2.0	0.6	2.7	2.7	2.2
Euro area	1.8	1.5	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4	1.5	1.5	0.2	1.5	1.4	1.5
Australia	2.1	1.9	1.8	1.9	2.1	2.5	2.4	2.3	2.1	2.5	2.4	2.3	1.3	1.9	2.3	2.3

Exchange rates

%, end of period

	Actual				Forecast								Actual		Forecast	
	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	2016	2017	2018	2019
AUD/USD	0.76	0.77	0.78	0.78	0.80	0.78	0.75	0.73	0.73	0.73	0.73	0.73	0.72	0.78	0.73	0.73
USD/CAD	1.33	1.30	1.25	1.26	1.28	1.26	1.24	1.22	1.24	1.26	1.27	1.28	1.34	1.26	1.22	1.28
EUR/USD	1.07	1.14	1.18	1.20	1.23	1.20	1.16	1.18	1.20	1.22	1.24	1.26	1.05	1.20	1.18	1.26
USD/JPY	111.4	112.4	112.5	112.7	107.0	105.0	107.0	109.0	112.0	115.0	118.0	120.0	117.0	112.7	109.0	120.0
NZD/USD	0.70	0.73	0.72	0.71	0.75	0.74	0.73	0.71	0.69	0.69	0.69	0.69	0.69	0.71	0.71	0.69
USD/CHF	1.00	0.96	0.97	0.97	0.95	0.98	1.03	1.03	1.03	1.02	1.01	1.00	1.02	0.97	1.03	1.00
GBP/USD	1.26	1.30	1.34	1.35	1.37	1.32	1.26	1.27	1.29	1.31	1.33	1.35	1.23	1.35	1.27	1.35

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