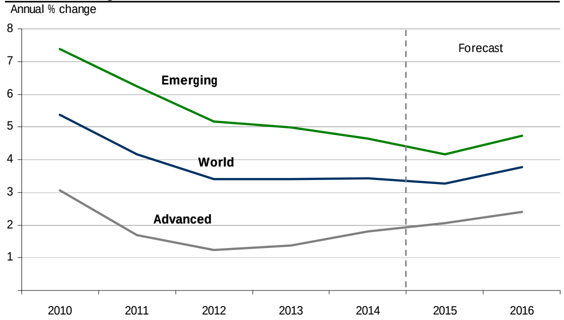
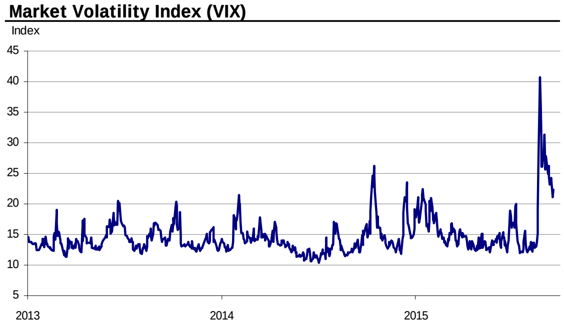
Global GDP growth



Source: International Monetary Fund, RBC Economics Research

Market Volatility Index (VIX)



Source: Wall Street Journal, RBC Economics Research

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ECONOMIC AND FINANCIAL MARKET OUTLOOK

September 2015

Balancing Act:

Pendulum swings toward US economy supporting global growth

The outlook for the global economy was muddied over the summer as the emerging market economies, led by China, weakened. Conversely, in many advanced economies, growth accelerated led by a robust increase in the US, a solid gain in the Euro area and rebound in the UK. Canada's economy put in another weak performance in the second quarter although the monthly data augur well for a return to positive growth. On balance, the softening in the emerging market economies created downside risk to the world economy being able to maintain the 3.4% growth rate recorded over the prior three years. That said, the forecast was premised on activity in the advanced economies picking up sufficiently to offset a slowing in the emerging market growth and this appears to be playing out.

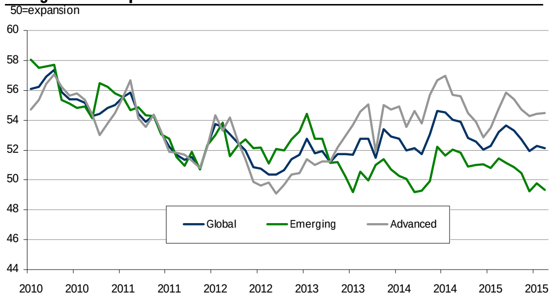
China's slowdown creates anxiety

Increased anxiety about China's economy and the stability of its financial markets fuelled concerns about global growth and international trade. Reports of weakening domestic demand and export activity elicited a strong reaction from the PBOC which devalued the currency and cut interest rates. These measures did not however prevent further selling of Chinese equities fuelling a rout in other global markets as concerns grew about the outlook for world growth. The fear of contagion drove up financial market volatility and widespread selling of equities culminated in the MSCI world stock market index dropping 6.8% in August. Commodity prices also faltered with oil prices falling to new cycle lows in late August. In a flight to safety, investors turned to fixed income assets and the US dollar resulting in yields on G-7 government bonds remaining near historic lows while the trade-weighted US dollar rose 1.8% in the month to stand almost 16% above the year ago level.

Financial market turbulence adds a layer of uncertainty

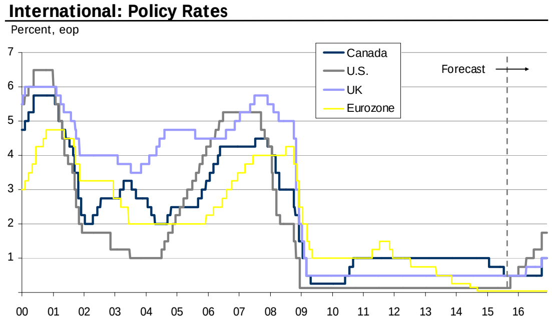
Markets are assessing the likely effects of the jump in financial market volatility on confidence and the economic outlook. Central banks are incorporating this attendant risk into their projections given the commensurate tightening in financial conditions and downside risks to inflation presented by the recent drop in commodity prices. We expect these developments will contribute to the ECB deciding to extend its quantitative easing programme; the Bank of England remaining sidelined until the middle of next year and the Bank of Canada on hold until late in 2016. They have already complicated the outlook for the Federal Reserve which decided to hold the policy rate steady on September 17 due to heightened concerns about global developments, both in the world economy and financial markets, which the Fed said "may restrain economic activity somewhat". The decision was also prompted by policy-makers expectation that the renewed decline in oil prices and further appreciation in the currency would exert downward pressure on inflation in the near term. That said, these effects on inflation are expected to be transitory and the majority of the FOMC still assume that the fed funds target will be higher at the end of 2015. Although there are only two meetings remaining this year, we

Weighted Composite PMI



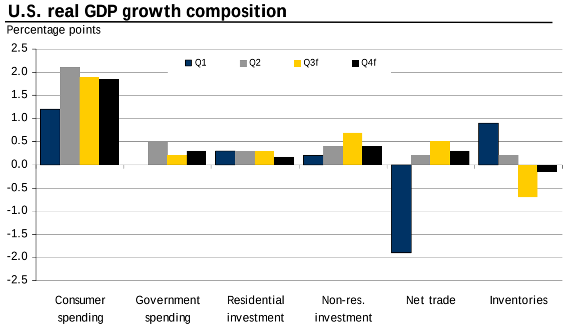
Source: RBC Economics Research

International: Policy Rates



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

U.S. real GDP growth composition



Source: Bureau of Economics Analysis, RBC Economics Research

expect upcoming reports to confirm the economy is growing at a solid clip and that labour market conditions continue to improve paving the way for the Fed to be comfortable raising the policy rate though this will also depend on financial market volatility receding.

Diverging growth momentum

Recent data confirm the divergence in growth momentum between the emerging and advanced economies continued into mid-year. Since mid-2013, the purchasing managers' index for the advanced economies exceeded the emerging markets index with the gap widening in recent months as the emerging index slipped. Despite this divergence, the global composite index continues to signal that the world economy is expanding supporting forecasts for global output to grow by 3.3% in 2015. Global GDP growth in 2016 is forecast to accelerate to 3.8% supported by a further strengthening in activity in some of the large advanced economies.

Central banks are pro-growth

Many countries are experiencing a strengthening in economic growth yet central banks are maintaining very stimulative monetary policy. Even the Federal Reserve which is close to attaining its dual mandate of full employment and inflation at 2% over the medium term held back in September preferring to keep the system flush to encourage businesses and consumers to spend and to counter any hit to confidence from the recent financial market volatility. The ECB, having weathered the Greek crisis, is proceeding with its quantitative easing program and we expect will act on its promise to implement additional policy support. We expect the Bank of England will raise the policy rate in May 2016 with the process toward normalizing its policy stance likely to be a slow and drawn-out affair. The central banks of Australia and New Zealand increased the amount of policy stimulus in 2015 in order to offset some of the weight on their economies from the sharp decline in commodity prices and slowing trade activity with additional easing expected in the quarters ahead. The Bank of Canada conversely is expected to hold the policy rate steady following two cuts earlier in the year. However the Bank could act again if financial market volatility threatens to derail the expected rebound in growth in the second half of the year.

US economy moves up the leader board

The US economy roared back to life in the second quarter following a subdued start to 2015. Real GDP increased at a 0.6% annualized pace in the first quarter with activity stifled by poor weather conditions, a west coast port strike and reduced investment by energy companies. The reversal of two of the three factors that dampened activity in Q1 fueled a significant swing in output with real GDP expanding at a 3.7% annualized pace in the second quarter. Consumer spending increased at a solid pace supplemented by another strong gain in residential construction activity while the unleashing of pent-up demand for exports created by the port strike boosted volumes in the second quarter.

Business investment increased in the second quarter although the pace was curtailed by another large pullback by energy companies. Encouragingly, after two consecutive quarters of large-scale declines in rig counts, the pace of decline slowed in the third quarter arguing for the weight on investment spending by this industry to let up. That said, the recent weakness in oil prices could send rig counts down again in the fourth quarter pushing the recovery into 2016 when prices stabilize.

US set to continue to grow at above-potential pace in H2

We expect US growth to average 3% in the second half of 2015 backed by strength in labour market conditions, accommodative financial conditions, lower energy costs and improving access to credit. Our forecast assumes the support from these factors will compensate for the uncertainty created by the rise in financial market volatility resulting in broad based increases in spending by consumers and businesses. The combination of the stronger-than-expected gain in GDP in the second quarter and solid increases projected for the second half of the year resulted in our 2015 forecast rising to 2.6% from 2.3% in our June update. We are maintaining our call for the US economy to grow by 3.0% in 2016.

Labour market shows no signs of fatigue

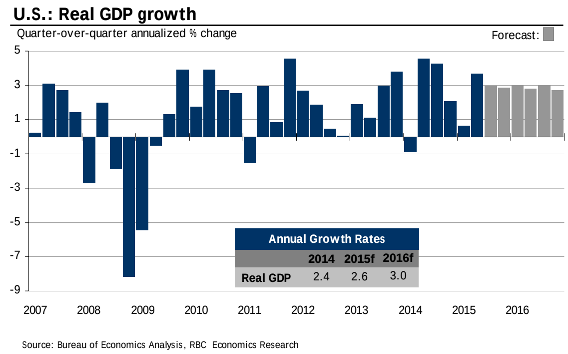
The US labour market continued to pump out jobs in the first eight months of 2015 with the average monthly increase of 212,000, mildly slower than the 260,000 pace of 2014. This persistent strength in hiring resulted in the unemployment rate slipping to 5.1% in August to within the Fed's estimated full-employment range of 4.9% to 5.2%. Further, this resulted in broader measures of underemployment declining to the lowest levels since the recession. This tightening in labour market conditions has yet to generate strong wage growth; however the Federal Reserve's Beige Book for the September meeting indicated that companies reported increasing wage pressures and skilled labour shortages. We expect these pressures will eventually emerge given the tightening in labour market conditions.

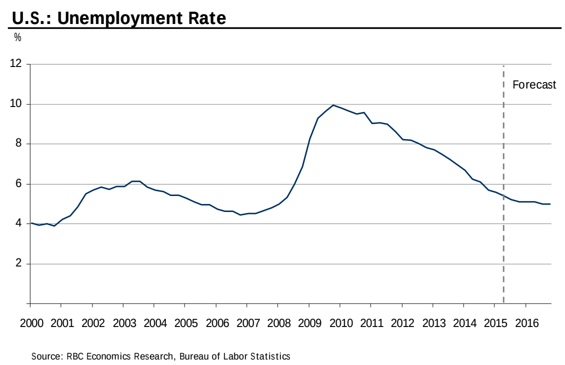
Cars and houses

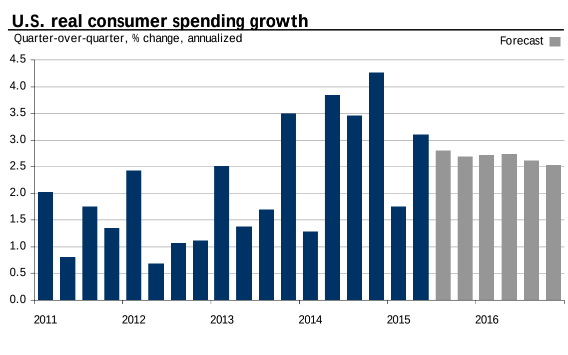
Against this backdrop, US consumers pulled out their wallets with total home sales reaching the highest level since before the recession this summer and auto sales running at the fastest pace in a decade. Easing in credit conditions by financial institutions boosted borrowing activity which was supplemented by consumers redeploying some of the cash saved from falling energy costs. The pickup in auto sales saw the per capita rate return to its long-term trend level for the first time since before the recession. With favourable conditions expected to continue, US consumers are forecast to provide support to the economy with spending growth averaging close to 3% in the second half of 2015 and only slowing modestly in 2016.

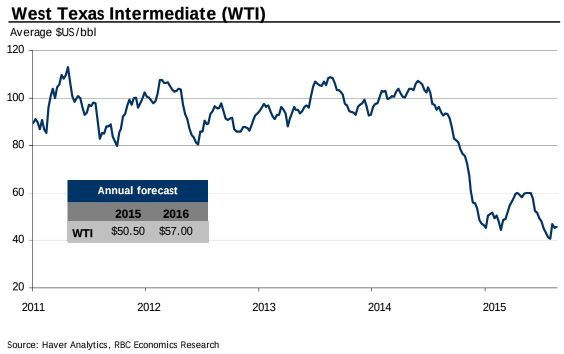
Energy companies pull back on investment

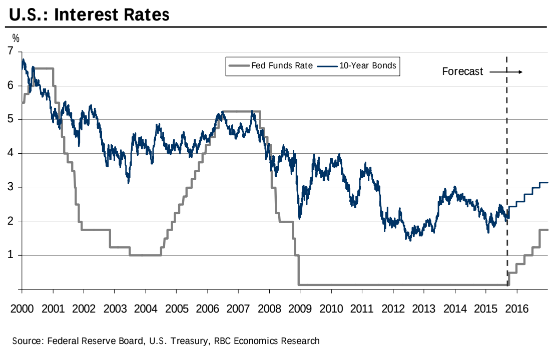
US energy companies reduced investment significantly in the first half of 2015 in reaction to the sharp drop in oil prices. Outside of this sector, however, US companies increased spending on non-residential structures and, to a less degree, equipment. Even after seeing profit growth slip in the recent quarter, corporate balance sheets remain in good condition and financial institutions reported having increased access to capital for both commercial and industrial loans and mortgages on non-residential properties in the latest survey. While corporate bond spreads widened during the recent bout of financial market turbulence, overall rates remain low and should not cause any interruption of companies tapping capital markets for funding. After the sharp pullback by energy companies in the first half of the year, data for July and August suggest some stabilization although the recent drop in oil prices could lead to a further reduction in rig counts in September. However we do not expect further cuts as our forecast assumes that oil prices will recover somewhat after falling to a cycle low in late August. This assumption underpins our call that the weight on investment from the retrenchment by energy companies will dissipate in 2016. Our baseline assumption is that the price of a barrel of West Texas Intermediate oil averages $50.50 in 2015 and $57.00 in 2016 with a greater recovery to $65.00 expected in 2017.

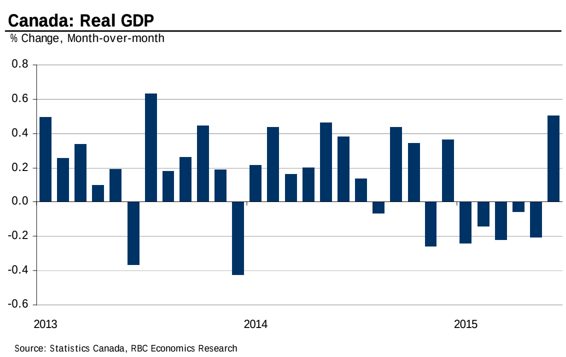












Solid growth momentum will spur Federal Reserve into action

The strengthening in growth in 2015 and persistent tightening in labour markets are likely to outweigh concerns about the impact of the recent financial market volatility leading the Fed to raise the funds target before the end of the year. Once the tightening has been initiated, the pace of future rate increases will be determined by whether wage increases accelerate sufficiently to fuel a pickup in inflation despite the strong US dollar weighing on import prices. Surveys show inflation expectations remained stable even as headline inflation rates tumbled due to the drop in the prices of energy and other commodities. This downward pressure is expected to diminish as oil prices recover providing additional support to the view that the rate will gradually rise to the Fed's mandated 2% level.

The prospect of the Federal Reserve raising interest rates while its trading partners maintain extraordinarily stimulative monetary conditions will likely see the US dollar continue to appreciate in the near term. As growth momentum in other countries accelerates, the US dollar rally is likely to stall. Against this backdrop, US companies are likely to see limited demand for their exports in 2015 and a gradual firming in 2016. Conversely, the strength of the currency will promote US demand for imported goods and services resulting in net trade acting as a drag on the economy's growth rate this year with limited material impact in 2016.

Canada's recession talk misplaced

Canada's economy contracted mildly in both the first and second quarters of 2015 causing a flurry of recession talk. We see this talk as being misplaced given that the depth of the decline was marginal and the weakness was concentrated in the energy sector. As well, the pullback does not appear to be have been sustained as the June GDP gain of 0.5% strongly suggests a return to positive growth in the third quarter. Perhaps a more compelling argument against a recession call is that despite the slowing in overall economic activity, Canada's labour market continued to generate jobs. Year to date, employment gains have been running at 14,000 per month and although the unemployment rate inched up to 7.0% in August following six consecutive months of holding at 6.8%, this reflected a surge in the labour force signaling improved confidence of Canadian workers. Additionally, wages began to accelerate at a much sharper clip starting in May suggesting that if anything businesses were competing for workers not laying them off.

Income growth and rising wealth support consumer

Inclement weather saw Canadian consumers hunker down in the first quarter although the hibernation was short-lived with spending accelerating in the second quarter. The rebound reflected a rise in purchases of durable goods including autos which continued to accelerate into the third quarter. The combination of low energy costs and the one-time boost to incomes from the retroactive Universal Child Care payment likely underpinned an even stronger increase in spending in the third quarter. Low borrowing rates and ample available credit saw Canadian households ramp up their reliance on borrowing in the first half of 2015 with outstanding debt balances rising at the quickest pace in more than two years. That said, the persistence of historically low interest rates, and to a lesser extent, sustained income gains have kept the relative costs of servicing these debt balances at a record low. If principal payments are included in the debt service calculation, the picture is not as favourable with the debt-to-income ratio standing at a historically elevated level. The rise in the value of both financial and real estate assets however is providing a degree of protection for consumer balance sheets which continue to exhibit solid creditworthiness with low levels of bankruptcy or foreclosures. We project consumption growth will be firmer in 2016 backed by a lower profile for gasoline prices than previously expected and our expectation that the labour market will continue to generate job growth and wage gains next year.

Housing market rally to continue

Canada's housing market is poised to post one of its best years on record in 2015 despite the Canadian economy being hit by a significant negative shock (plunge in oil prices) and a spike in condo completions in some markets. Low interest rates and the resilient labour market continue to provide substantial stimulus for housing demand. That said, strong momentum is not equally shared across the country with home resale activity plummeting in oil industry sensitive markets (Alberta and Saskatchewan) and soaring in the non-energy intensive exporting provinces, Ontario and British Columbia. Our forecast calls for home resales at the national level to rise by 5.0% to 505,400 units in 2015, marking the second-highest level on record. Home prices are correspondingly forecast to rise by 4.6%, little changed from 4.8% registered in 2014. Our forecast assumes a slight easing in resale activity in 2016 as interest rates begin to increase with price gains slowing to 3.2% in that year. In keeping with these forecasts we look for housing starts to slow marginally in 2015 and 2016 although remaining within our estimated range for current demographic requirements of 180,000 to 190,000 units.

Canada's weak spot

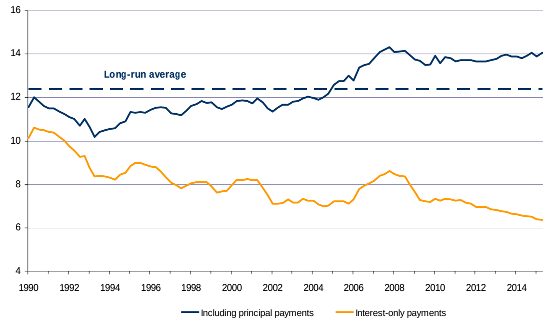
Business fixed investment fell at double-digit rates in both the first and second quarters of 2015 weighed down by massive cuts by energy companies. The persistence of low oil prices (WTI hit a cycle low in late August) will likely yield another hit to investment in the third and potentially fourth quarters. Despite large cuts introduced earlier in the year, the recent downdraft in energy prices and our revised assumption that the rebound in 2016 will be more muted than we previously thought, suggests that investment by the energy sector will continue to decline in 2016. Outside energy, Canadian businesses are expected to ramp up investment spending in keeping with the improvement as domestic and foreign demand picks up pace. The disappointing pace of export growth in the first half of the year appears to have ended mid-year which combined with firming consumer spending is likely to begin to exert pressure on capacity resulting in a pickup in investment in both structures and machinery. A modest recovery in oil prices in 2016 will likely limit the degree by which energy producers reduce investment activity and we are assuming a 13% decline next year, less than the 30% drop we have penciled in for 2015. Companies outside of energy conversely are expected to gradually increase investment and we anticipate spending by these companies will be sufficient to offset the pullback by energy producers in 2016 resulting in flat business investment growth next year.

Canadian exports ramp up

Slowing trade activity globally and more specifically between Canada and the US contributed to the economy's soft performance in the first half of the year. The export sector weakness ended abruptly in June when volumes surged and recovered the declines recorded since the beginning of the year. Exports also increased in July with sales of merchandise outside of commodities rising to the highest level since before the recession. The combination of the snapback in US growth and a substantially weaker Canadian dollar looks to have finally fuelled a pickup in demand for Canadian exports which we expect to continue. We expect the Canadian dollar to remain under downward pressure in the near

Debt service ratio (principal and interest)

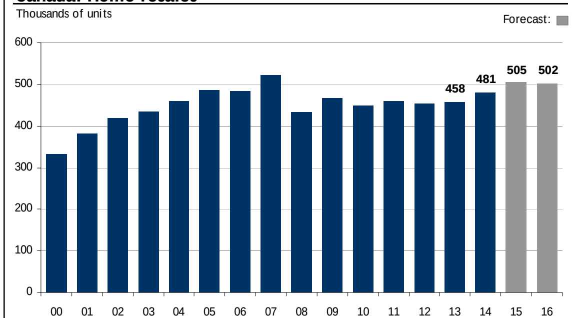
Principal and interest payments on mortgage and non-mortgage debt as % of PDI, seasonally adjusted



Source: Statistics Canada, RBC Economics Research

Canada: Home resales

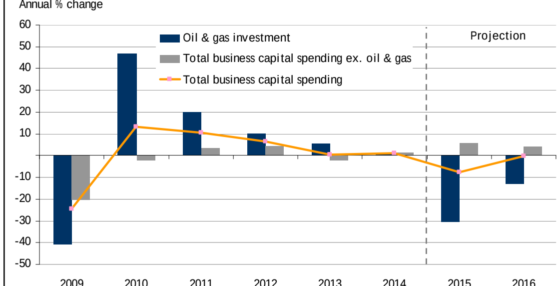
Thousands of units



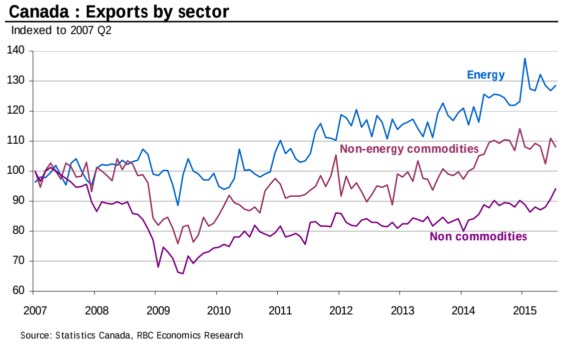
Source: Canadian Real Estate Association, RBC Economics Research

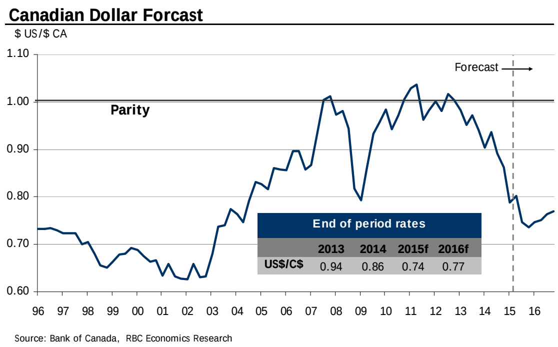
Canada: Business Investment by Industry

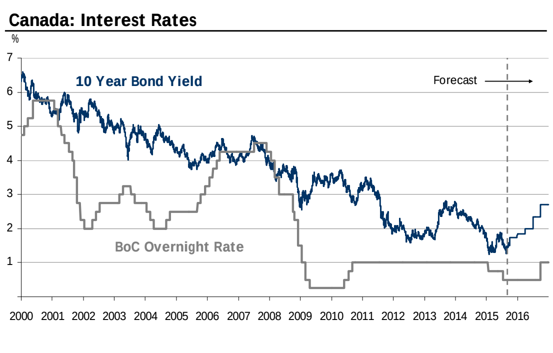
Annual % change



Source: Statistics Canada, RBC Economics Research







term which will further improve Canadian companies' competitiveness. Low commodity prices, especially oil, combined with a widening in interest rate spreads as the Federal Reserve raises its policy rate while the Bank of Canada remains on the sidelines will likely result in the Canadian dollar weakening to 73.5 US cents by the end of this year. The currency is likely to stabilize and recover modestly in 2016 as oil prices trend higher and markets price for the next move by the Bank of Canada to be a rate hike rather than a cut. That said, the currency's rally is likely to be limited as the Fed continues to be more aggressive in tightening policy and given our forecast for oil prices on a WTI basis to average $57.00 in 2016, from $50.50 this year. We forecast the Canadian dollar will gain 5% against its US counterpart in 2016.

Bank of Canada to stay on sidelines

The Bank of Canada aggressively eased monetary policy this year with the January rate cut followed up with another 25 bps reduction in July. These moves occurred as the Bank incorporated lower investment by energy producers; expectations of slower emerging market growth and the faltering in non-energy exports into their growth projections. The Bank's updated forecast anticipated a decline in real GDP in the second quarter to be followed by a gradual recovery in growth in the second half of the year. Recent data reports, as discussed above, suggest that the economy is performing in line with the Bank's expectation with the risk, in our view, being that real GDP growth exceeds the Bank's forecast in the third quarter. Our read of the data is that the economy is already en route to a period of above-potential growth reducing the need for the Bank to ease policy further. Canada's inflation performance has similarly evolved in line with the Bank's thinking with the headline rate weighed down by falling energy prices and the core rate remaining slightly above the 2% target due to the weaker currency driving up import prices and easing in competitive pressures in some sectors. The headline rate is forecast to rise to the 2% target in early 2016 as the weight from the sharp drop in energy prices in 2014-2015 diminishes, core inflation gravitates to the Bank's target rate (2%) as the currency stabilizes and then gradually appreciates. That said, the upside to the inflation outlook will be capped by the recent widening in the output gap which our forecast anticipates will persist until early 2017.

Against this backdrop, we expect the Bank of Canada to hold the overnight rate at 0.5% until late 2016. The combination of the economy approaching full capacity and the risk to the inflation outlook shifting to the upside will likely result in the Bank looking to reverse the rate cuts put in place in 2015 with the overnight rate forecast to rise to 1.0% by the end of 2016. Ten-year yields are forecast to gradually rise as the inflation rate steadies around the Bank's 2% target and US Treasury yields move higher.

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual						Forecast						Actual		Forecast	
	2014				2015				2016				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2013	2014	2015	2016
Household Consumption	1.3	4.3	2.7	2.1	0.5	2.3	2.8	2.3	2.8	2.7	2.1	2.1	2.5	2.7	2.1	2.5
Durables	1.9	14.3	8.5	1.6	-5.0	6.5	2.7	1.8	3.0	2.2	1.5	1.5	3.8	5.1	2.5	2.5
Semi-Durables	-5.4	8.0	3.4	2.9	-1.7	4.3	3.5	2.1	3.3	3.9	3.1	3.1	2.8	3.1	2.4	3.2
Non-durables	2.7	-0.5	-0.1	2.2	2.1	-2.5	3.5	2.1	3.2	3.9	2.2	2.2	2.3	2.4	1.0	2.6
Services	1.5	3.9	2.7	2.1	1.4	3.3	2.4	2.5	2.6	2.2	2.1	2.1	2.3	2.3	2.4	2.4
NPISH consumption	3.1	-0.1	1.9	0.6	-1.7	0.6	2.6	2.5	2.8	2.7	2.1	2.1	1.6	0.8	0.5	2.5
Government expenditures	-0.7	2.2	-0.9	1.0	-0.2	1.2	1.0	1.0	1.5	2.0	2.5	2.5	0.4	0.2	0.6	1.6
Government fixed investment	-2.9	-3.5	-0.7	5.9	5.6	3.4	1.5	1.5	2.5	3.0	3.5	3.5	-1.6	-2.7	3.1	2.5
Residential investment	-2.4	10.2	11.8	0.3	3.5	1.3	9.5	4.2	-0.8	-3.4	-5.5	-2.1	-0.4	2.7	4.7	0.3
Non-residential investment	-0.7	1.4	4.1	-2.0	-17.7	-12.0	-4.9	-1.6	0.7	2.8	3.5	6.4	2.6	0.2	-7.5	-0.2
Non-residential structures	-1.5	0.6	0.9	-1.7	-23.5	-8.8	-2.0	-1.0	0.5	2.0	3.0	5.8	5.0	-0.1	-8.5	0.2
Machinery & equipment	0.8	3.1	10.2	-2.5	-6.2	-17.1	-10.0	-2.5	1.0	4.3	4.3	7.5	-1.7	1.0	-5.5	-1.0
Intellectual property	1.0	-25.6	7.1	13.1	-18.6	-17.2	-4.0	-2.0	0.0	1.5	3.0	3.0	-4.6	-2.7	-7.7	-1.3
Final domestic demand	0.3	2.8	2.6	1.6	-1.8	0.0	1.9	1.7	2.0	2.2	1.9	2.4	1.5	1.6	0.7	1.8
Exports	0.5	19.6	8.4	-1.7	-1.4	0.4	8.8	3.3	6.8	6.7	5.5	5.8	2.0	5.4	2.8	5.7
Imports	-4.5	9.8	4.2	1.6	-1.4	-1.5	1.6	4.8	5.7	6.2	3.1	4.6	1.3	1.8	1.3	4.3
Inventories (change in $b)	14.8	5.7	1.2	8.5	12.0	7.1	0.0	4.5	4.0	4.9	4.9	4.9	12.4	7.5	5.9	4.7
Real gross domestic product	**1.0**	**3.4**	**3.2**	**2.2**	**-0.8**	**-0.5**	**2.5**	**2.1**	**2.2**	**2.4**	**2.6**	**2.7**	**2.0**	**2.4**	**1.2**	**2.2**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	1.7	2.9	2.5	1.9	1.6	-0.5	-0.2	-0.2	0.5	1.4	1.4	1.6	1.1	2.3	0.2	1.2
Pre-tax corporate profits	7.5	12.0	9.7	6.2	-9.6	-11.4	-15.9	-12.1	0.5	2.4	8.2	9.6	-0.6	8.8	-12.3	5.1
Unemployment rate (%)*	7.0	7.0	7.0	6.7	6.7	6.8	6.9	6.8	6.7	6.6	6.5	6.5	7.1	6.9	6.8	6.6
Inflation																
Headline CPI	1.4	2.2	2.1	1.9	1.1	0.9	1.2	1.5	2.2	2.0	1.9	2.1	0.9	2.0	1.2	2.0
Core CPI	1.3	1.7	2.0	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.0	2.0	1.3	1.8	2.2	2.0
External trade																
Current account balance ($b)	-41.2	-36.5	-36.1	-52.2	-72.6	-69.6	-65.0	-64.2	-58.2	-53.8	-46.0	-40.3	-56.3	-41.5	-67.8	-49.6
% of GDP	-2.1	-1.9	-1.8	-2.6	-3.7	-3.5	-3.3	-3.2	-2.8	-2.6	-2.2	-1.9	-3.0	-2.1	-3.4	-2.4
Housing starts (000s)*	176	196	199	184	175	193	201	192	188	184	179	176	188	189	190	182
Motor vehicle sales (mill., saar)*	1.76	1.86	1.97	1.95	1.83	1.90	1.94	1.85	1.85	1.85	1.84	1.84	1.78	1.89	1.88	1.85

*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

	Actual						Forecast						Actual		Forecast	
	2014				2015				2016				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2013	2014	2015	2016
Consumer spending	1.3	3.8	3.5	4.3	1.7	3.1	2.8	2.7	2.7	2.7	2.6	2.5	1.7	2.7	3.0	2.7
Durables	2.6	13.9	7.6	6.1	2.0	8.2	4.5	6.1	5.8	5.5	5.2	4.8	5.8	5.9	5.9	5.6
Non-durables	0.4	3.4	2.4	3.2	0.7	4.1	4.2	2.5	2.5	2.4	2.3	2.1	1.9	2.1	2.7	2.7
Services	1.4	2.4	3.1	4.3	2.1	2.0	2.1	2.2	2.3	2.4	2.3	2.3	1.0	2.4	2.6	2.3
Government spending	0.0	1.2	1.8	-1.4	-0.1	2.6	1.3	1.5	1.7	1.8	2.0	2.2	-2.9	-0.6	0.8	1.8
Residential investment	-2.7	10.4	3.4	9.9	10.1	7.8	10.0	5.0	4.3	4.8	5.5	5.5	9.5	1.8	8.5	5.7
Non-residential investment	8.3	4.4	9.0	0.7	1.6	3.2	5.5	3.4	5.9	5.7	5.5	5.4	3.0	6.2	3.4	5.1
Non-residential structures	19.1	-0.2	-1.8	4.2	-7.4	3.2	1.0	1.5	4.8	4.1	3.6	3.1	1.6	8.1	-0.6	3.2
Equipment & software	3.5	6.5	16.5	-4.9	2.3	-0.4	8.0	3.7	7.4	7.3	7.1	7.1	3.2	5.8	3.1	6.2
Intellectual property	7.8	4.9	6.5	6.9	7.4	8.6	5.1	4.3	4.4	4.5	4.5	4.4	3.8	5.2	6.8	4.8
Final domestic demand	1.8	3.6	3.8	3.0	1.7	3.2	3.1	2.6	3.0	3.0	3.0	2.9	1.2	2.5	2.8	3.0
Exports	-6.7	9.8	1.8	5.4	-6.0	5.2	6.0	4.5	6.1	5.8	5.9	6.2	2.8	3.4	2.2	5.7
Imports	2.8	9.6	-0.8	10.3	7.1	2.8	2.0	2.0	4.6	4.6	4.4	4.7	1.1	3.8	5.0	3.7
Inventories (change in $b)	36.9	77.1	79.9	78.2	112.8	121.1	93.6	89.6	86.6	75.6	70.5	57.5	71.4	78.0	104.3	72.5
Real gross domestic product	**-0.9**	**4.6**	**4.3**	**2.1**	**0.6**	**3.7**	**3.0**	**2.9**	**3.0**	**2.8**	**3.0**	**2.7**	**1.5**	**2.4**	**2.6**	**3.0**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	0.4	1.0	1.3	-0.2	0.4	0.6	0.2	1.1	1.9	1.3	1.5	1.6	0.4	0.6	0.6	1.6
Pre-tax corporate profits	-3.6	1.2	5.8	3.4	4.6	-0.5	-3.2	-1.4	5.8	4.5	4.0	4.5	2.0	1.7	-0.3	4.7
Unemployment rate (%)*	6.6	6.2	6.1	5.7	5.6	5.4	5.2	5.1	5.1	5.1	5.0	5.0	7.4	6.2	5.3	5.1
Inflation																
Headline CPI	1.4	2.1	1.8	1.2	-0.1	0.0	0.1	0.6	2.0	1.8	2.0	2.4	1.5	1.6	0.2	2.0
Core CPI	1.6	1.9	1.8	1.7	1.7	1.8	1.8	2.0	2.1	2.0	2.0	2.1	1.8	1.7	1.8	2.0
External trade																
Current account balance ($b)	-386	-368	-392	-413	-473	-439	-402	-397	-401	-407	-410	-413	-377	-390	-428	-408
% of GDP	-2.3	-2.1	-2.2	-2.3	-2.7	-2.5	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.3	-2.2	-2.4	-2.2
Housing starts (000s)*	934	984	1029	1055	978	1158	1160	1230	1300	1350	1376	1400	928	1001	1131	1356
Motor vehicle sales (millions, saar)*	15.8	16.5	16.7	16.8	16.7	17.1	17.5	17.4	17.4	17.5	17.6	17.8	15.5	16.4	17.2	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	
	14Q1	**14Q2**	**14Q3**	**14Q4**	**15Q1**	**15Q2**	**15Q3**	**15Q4**	**16Q1**	**16Q2**	**16Q3**	**16Q4**	**2014**	**2015**	**2016**
Canada															
Overnight	1.00	1.00	1.00	1.00	0.75	0.75	0.50	0.50	0.50	0.50	0.50	1.00	1.00	0.50	1.00
Three-month	0.90	0.94	0.92	0.91	0.55	0.58	0.40	0.40	0.50	0.55	0.60	1.10	0.91	0.40	1.10
Two-year	1.07	1.10	1.13	1.01	0.51	0.49	0.50	0.65	0.70	0.85	1.00	1.60	1.01	0.65	1.60
Five-year	1.71	1.53	1.63	1.34	0.77	0.81	0.75	1.00	1.10	1.25	1.50	2.00	1.34	1.00	2.00
10-year	2.46	2.24	2.15	1.79	1.35	1.68	1.50	1.75	1.85	2.00	2.35	2.70	1.79	1.75	2.70
30-year	2.96	2.78	2.67	2.34	1.98	2.38	2.25	2.45	2.55	2.65	2.90	3.25	2.34	2.45	3.25
Yield curve (10s-2s)	139	114	102	78	84	119	100	110	115	115	135	110	78	110	110
United States															
Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.75	0.25	0.50	1.75
Three-month	0.05	0.04	0.02	0.04	0.03	0.01	0.10	0.20	0.45	0.65	0.95	1.45	0.04	0.20	1.45
Two-year	0.45	0.47	0.58	0.67	0.56	0.64	0.75	1.05	1.30	1.60	1.80	2.15	0.67	1.05	2.15
Five-year	1.74	1.62	1.78	1.65	1.37	1.63	1.50	1.80	1.95	2.15	2.35	2.50	1.65	1.80	2.50
10-year	2.73	2.53	2.52	2.17	1.94	2.35	2.10	2.45	2.60	2.80	3.00	3.15	2.17	2.45	3.15
30-year	3.55	3.34	3.21	2.75	2.54	3.11	2.90	3.20	3.30	3.40	3.60	3.75	2.75	3.20	3.75
Yield curve (10s-2s)	228	206	194	150	138	171	135	140	130	120	120	100	150	140	100
Yield spreads															
Three-month T-bills	0.85	0.90	0.90	0.87	0.52	0.57	0.30	0.20	0.05	-0.10	-0.35	-0.35	0.87	0.20	-0.35
Two-year	0.62	0.63	0.55	0.34	-0.05	-0.15	-0.25	-0.40	-0.60	-0.75	-0.80	-0.55	0.34	-0.40	-0.55
Five-year	-0.03	-0.09	-0.15	-0.31	-0.60	-0.82	-0.75	-0.80	-0.85	-0.90	-0.85	-0.50	-0.31	-0.80	-0.50
10-year	-0.27	-0.29	-0.37	-0.38	-0.59	-0.67	-0.60	-0.70	-0.75	-0.80	-0.65	-0.45	-0.38	-0.70	-0.45
30-year	-0.59	-0.56	-0.54	-0.41	-0.56	-0.73	-0.65	-0.75	-0.75	-0.75	-0.70	-0.50	-0.41	-0.75	-0.50

Interest rates—International

%, end of period

	Actual						Forecast						Actual	Forecast	
	14Q1	**14Q2**	**14Q3**	**14Q4**	**15Q1**	**15Q2**	**15Q3**	**15Q4**	**16Q1**	**16Q2**	**16Q3**	**16Q4**	**2014**	**2015**	**2016**
United Kingdom															
Repo	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	0.50	0.50	1.00
Two-year	0.71	0.87	0.84	0.45	0.43	0.55	0.65	0.80	0.95	1.25	1.50	1.80	0.45	0.80	1.80
10-year	2.73	2.68	2.43	1.76	1.58	2.01	1.80	2.00	2.10	2.30	2.45	2.60	1.76	2.00	2.60
Euro Area															
Refinancing rate	0.25	0.15	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Two-year	0.17	0.03	-0.07	-0.11	-0.25	-0.23	-0.20	-0.20	-0.20	-0.20	-0.15	-0.15	-0.11	-0.20	-0.15
10-year	1.57	1.25	0.95	0.54	0.18	0.77	0.60	0.70	0.75	0.85	1.00	1.10	0.54	0.70	1.10
Australia															
Cash target rate	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00	1.75	1.50	1.50	1.50	2.50	2.00	1.50
Two-year swap	2.78	2.80	2.61	2.19	1.72	2.01	1.90	1.80	1.70	1.60	1.75	2.00	2.19	1.80	2.00
10-year swap	4.08	4.00	3.48	2.81	2.32	3.01	2.70	3.00	3.10	3.20	3.40	3.60	2.81	3.00	3.60
New Zealand															
Cash target rate	2.75	3.25	3.50	3.50	3.50	3.25	2.75	2.50	2.50	2.50	2.50	2.50	3.50	2.50	2.50
Two-year	4.01	3.90	4.04	3.54	3.11	3.09	2.80	2.80	2.80	3.00	3.10	3.20	3.54	2.80	3.20
10-year	4.62	5.00	4.53	3.67	3.12	3.89	3.60	4.00	4.20	4.30	4.50	4.70	3.67	4.00	4.70

Growth outlook

% change, quarter-over-quarter in real GDP

	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	2014	2015F	2016F
Canada*	1.0	3.4	3.2	2.2	-0.8	-0.5	2.5	2.1	2.2	2.4	2.6	2.7	2.4	1.2	2.2
United States*	-0.9	4.6	4.3	2.1	0.6	3.7	3.0	2.9	3.0	2.8	3.0	2.7	2.4	2.6	3.0
United Kingdom	0.9	0.9	0.7	0.8	0.4	0.7	0.7	0.6	0.6	0.5	0.5	0.4	3.0	2.6	2.4
Euro Area	0.2	0.1	0.3	0.4	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.9	1.5	1.8
Australia	0.9	0.6	0.4	0.5	0.9	0.2	0.8	0.2	0.6	0.7	0.8	0.9	2.7	2.2	2.4
New Zealand	1.1	0.8	0.9	0.8	0.2	0.4	0.4	0.4	0.5	0.6	0.5	0.5	3.3	2.1	1.9

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	2014	2015F	2016F
Canada	1.4	2.2	2.1	1.9	1.1	0.9	1.2	1.5	2.2	2.0	1.9	2.1	2.0	1.2	2.0
United States	1.4	2.1	1.8	1.2	-0.1	0.0	0.1	0.6	2.0	1.8	2.0	2.4	1.6	0.2	2.0
United Kingdom	1.7	1.7	1.5	0.9	0.1	0.0	0.1	0.5	1.3	1.4	1.7	1.9	1.5	0.2	1.6
Eurozone	0.7	0.6	0.4	0.2	-0.3	0.2	0.1	0.4	1.0	0.8	0.9	1.0	0.4	0.1	1.0
Australia	2.9	3.0	2.3	1.7	1.3	1.5	1.7	2.4	2.9	2.9	2.8	2.6	2.5	1.7	2.8
New Zealand	1.5	1.6	1.0	0.8	0.3	0.4	0.1	0.3	0.9	0.9	1.2	1.5	1.2	0.2	1.1

Exchange rates

%, end of period

	Actual						Forecast						Actual	Forecast	
	14Q1	**14Q2**	**14Q3**	**14Q4**	**15Q1**	**15Q2**	**15Q3**	**15Q4**	**16Q1**	**16Q2**	**16Q3**	**16Q4**	**2014**	**2015**	**2016**
AUD/USD	0.93	0.94	0.87	0.82	0.76	0.77	0.70	0.68	0.68	0.67	0.67	0.67	0.82	0.68	0.67
USD/CAD	1.11	1.07	1.12	1.16	1.27	1.25	1.34	1.36	1.34	1.33	1.31	1.30	1.16	1.36	1.30
EUR/USD	1.38	1.37	1.26	1.21	1.07	1.11	1.07	1.11	1.15	1.16	1.16	1.17	1.21	1.11	1.17
USD/JPY	103.2	101.3	109.7	119.8	120.1	122.5	123.0	128.0	132.0	129.0	126.0	123.0	119.8	128.0	123.0
NZD/USD	0.87	0.88	0.78	0.78	0.75	0.68	0.63	0.61	0.60	0.59	0.58	0.57	0.78	0.61	0.57
USD/CHF	0.89	0.89	0.96	0.99	0.97	0.94	1.01	1.01	0.98	0.97	0.98	0.98	0.99	1.01	0.98
GBP/USD	1.67	1.71	1.62	1.56	1.48	1.57	1.53	1.61	1.69	1.71	1.68	1.70	1.56	1.61	1.70

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