

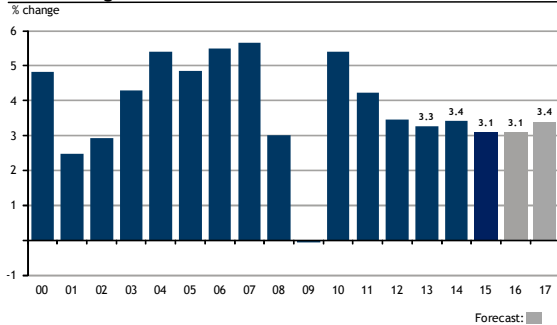
ECONOMIC AND FINANCIAL MARKET OUTLOOK

September 2016

A FINE LINE

GLOBAL ECONOMY MOVING CAUTIOUSLY FORWARD

World GDP growth



Since the Great Recession, the global economy has been in a state of flux with growth forecasts tending to be cut rather than raised. Central banks are experimenting with new policy tools to support growth however the majority of governments are holding back on fiscal stimulus. On net, these efforts failed to revive the pace of world growth with the average increase in output between 2012 and 2017 falling short of gains in the pre-recession period.

Factors that are beyond the control of today’s policymakers have played a role in the slowdown in economic activity with the aging population changing the composition and growth of the labour force. Additionally, global economies and financial markets are much more closely integrated raising the risk that policy actions in one country will have adverse effects on others. The UK’s recent decision to leave the European Union sparked concerns about knock-on effects via a weakening in trade or a disruption in financial markets. Certainly these concerns looked well placed in the immediate aftermath of the vote as the world stock market recorded a 5% loss over a two-day period and government bond yields in some advanced countries hit or tested all-time lows. Financial markets regained their stride quickly allaying concerns about the near-term global growth outlook however as the Brexit process unfolds the potential for further rounds of financial market volatility will keep downside risks to the outlook alive.

	Pre-brexite growth forecast		Post-brexite growth forecast	
	2016	2017	2016	2017
UK	1.8%	2.1%	1.6%	0.1%
Euro Area	1.7%	1.8%	1.5%	1.2%

Source: RBC Economics Research

Given the knee-jerk reaction in financial markets the ultimate impact of the UK’s decision is difficult to gauge. In the near term, we expect countries like Canada and the US to experience little pressure. In the UK, conversely, reports on activity in the post-referendum period indicate a significant slowing in economic activity. Given strong increases in output in the first half of the year, we have made a relatively small cut to our 2016 UK growth forecast. In 2017 we expect the UK economy will barely register any growth, a massive downgrade from our previous projection for a 2.1% rise. With the UK economy stalling, its largest trading partners in the Euro-area economies will also see growth slow and we have revised down forecasts for trade and business investment. The effect of Brexit does not feature as prominently in our forecasts for Canada and the US given a proportionately smaller amount of trade with the UK. We have however incorporated a slightly weaker profile for investment in 2017 reflecting concerns about a hit to confidence that results in businesses putting off expanding into either the UK or European markets.

This latest wave of uncertainty reinforced central banks’ propensity to keep policy very accommodative. Not surprisingly, the Bank of England acted ag-

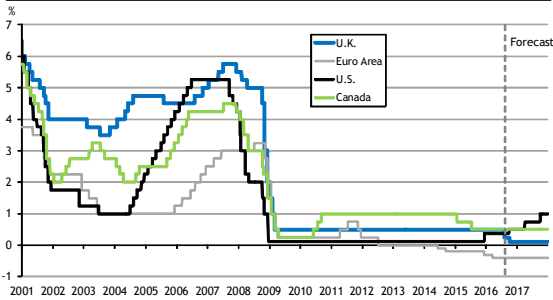
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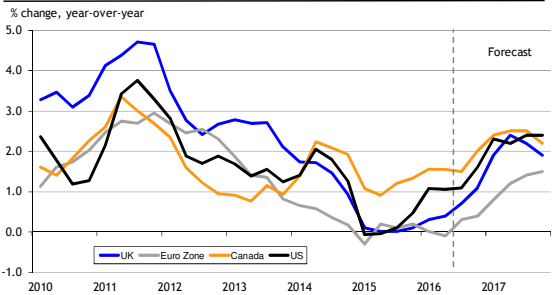
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Policy rates: International



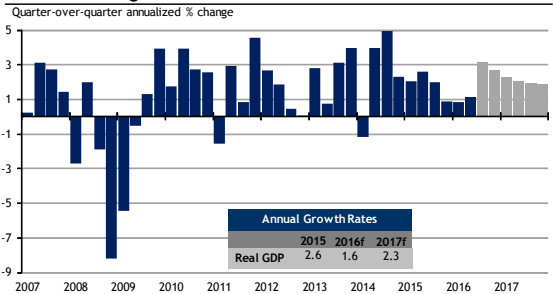
Source: ECB, BoE, BoC, Federal Reserve, RBC Economics Research

Headline Inflation: International



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

U.S.: real GDP growth



Source: Bureau of Economic Analysis, RBC Economics Research

gressively to increase policy stimulus by introducing a multifaceted plan aimed at reducing interest rates and in turn getting low-cost funds to borrowers. The Fed and Bank of Canada are unlikely to see the need to change course in response to developments in the UK. That said, policymakers will guard against any unwarranted tightening in financial conditions that results from renewed volatility in global financial markets.

Inflation Conundrum

Overall price pressures remain limited with headline inflation rates holding below 2% weighed down by low energy costs. Excluding energy, prices are between 0.4 ppts and 1.1ppts above the all-items rate flagging the powerful impact of the drop in fuel prices. We expect the recovery in oil prices that began in mid-February to continue as supply and demand are moving closer to balance. However price gains will be gradual as the market works through the record level of stored product. Still, with the lows for oil prices likely in the past, the easing of this weight on consumer prices will result in headline rates in Canada and the US likely to top 2% early next year. In the UK and Euro area, the persistence of economic slack will keep inflation rates running below the 2% target throughout 2017.

US labour market strength gets consumers spending

US real GDP growth averaged just 1% in the first half of 2016, a disappointing result largely due to weakness in business fixed investment and inventories. On average, these two components took three quarters of a percentage point off growth in the first half of the year. Conversely, consumer spending ramped up in the first half of the year lifting economic output by an average 2 ppts with consumption posting the second fastest gain in the post-recession period in the second quarter. Underpinning the US consumers' spending spree was an additional firming in labour market conditions. Year-to-date, employment gains averaged 182,000 per month, a strong showing as this includes May's meagre 24,000 increase. The unemployment rate remains very close to what is deemed to be full-employment and wage growth finally started to accelerate as 2016 wore on. This supportive backdrop combined with low financing rates tees up for the US consumer to continue to be a large contributor to growth in the quarters ahead.

Recalibrating expectations

Looking forward, we expect the pace of hiring to slow though this does not represent an impediment to growth as it reflects what is happening to the supply of labour rather than a weakening in demand. On the supply side, participation rates are declining as an increasing number of baby boomers reach retirement age. What this means is that the economy needs to generate fewer jobs to put downward pressure on the unemployment rate. Further, there are signs of a persistent tightening in the labour market conditions with the number of discouraged workers and those working part-time because they cannot find full-time employment falling. This tightening in the labour market is creating pressure on wages resulting in gains running at the fastest clip since 2009.

Investment in housing rises while businesses sit back

US home sales increased at a double-digit pace in the second quarter providing a strong hand-off to activity in the final half of the year. Prices are increasing at a slightly slower pace than in 2015 thereby containing the deterioration in affordability and opening the door for sales and building to continue. Outside residential investment, 2016 will mark another weak year of business investment in part due to energy company cutbacks. Even excluding energy, spending by business remains lackluster with companies pulling back on investing in non-residential structures and machinery in 2016. A temporary, modest tightening in financial conditions combined with the bout of market volatility after the UK's Brexit vote likely weighed on spending plans in the first half of the year and we expect a modest pickup to follow. This recovery is forecast to continue in 2017 as oil and gas companies come back on line benefitting from higher prices while companies outside energy start to expand capacity on the back of firmer demand.

US dollar rally stalls

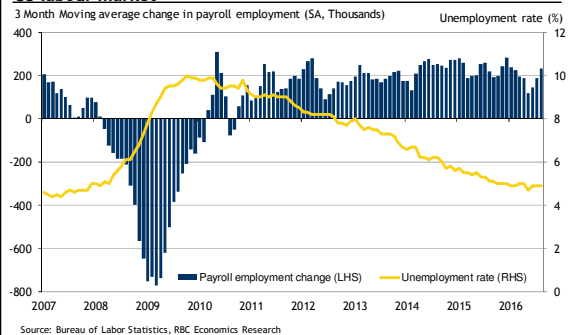
The US dollar faded this summer and stood just above levels recorded in August 2015. The combination of weaker than expected growth that sapped expectations that the Fed will tighten in 2016 took some of the lustre off the US currency. In the near term, uncertainty about who will be the next President of the United States may result in periodic increases in volatility. We are maintaining our positive outlook for the US dollar, anticipating modest gains versus the Euro, Canadian dollar and sterling, with the US Federal Reserve likely to be the first central bank to raise the policy rate.

Fed waiting for opportunity

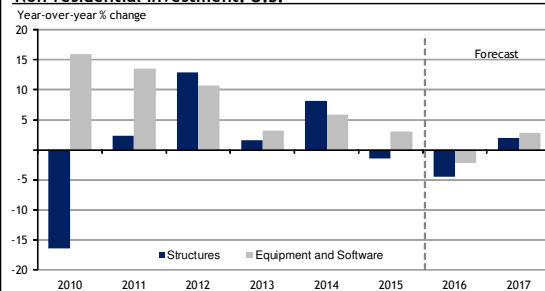
The Fed provided a more optimistic assessment of economic conditions at its July meeting and deemed that the risks to the near term outlook had diminished. This sentiment was echoed by Chair Yellen in her address at the Jackson Hole Economic Symposium. Despite striking a more upbeat note, the FOMC has yet to signal that a consensus for a near-term rate hike has been reached. The Committee appears to be holding out for a pickup in inflation to accompany the tightening in labour market conditions. Additionally, policy-makers seem reticent to hike given the uncertainty about global growth and the potential for further financial market volatility. A solid rebound in growth in the second half of this year will push the labour market even closer to full employment that combined with a pickup in inflation, due to wage pressures and a rebound in energy prices, will tee up for the Fed to get into action in the first half of 2017.

We expect the Fed to implement increases at a measured pace in 2017 with the fed funds target rising 50bps next year. Limited US Treasury supply and ongoing demand for US government bonds by investors looking for a yield pickup against European, UK and Canadian securities will keep 10-year yields historically low. Our forecast looks for the 10-year Treasury bond yield to end 2017 at 2.10%.

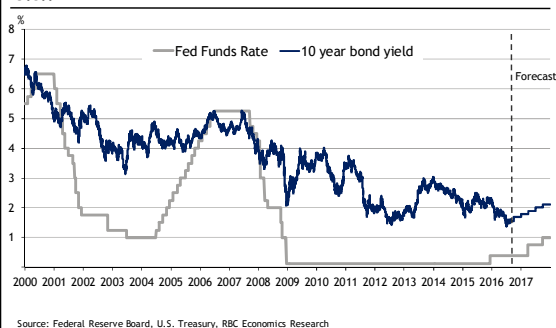
US labour market



Non-residential investment: U.S.

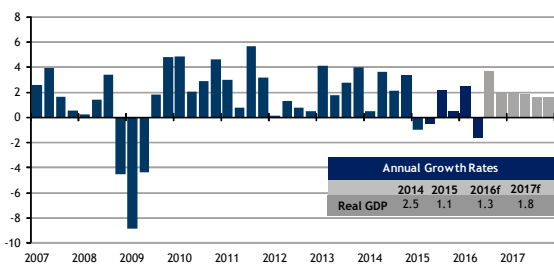


U.S.: interest rates



Canada: real GDP growth

Quarter-over-quarter % change, annualized rate

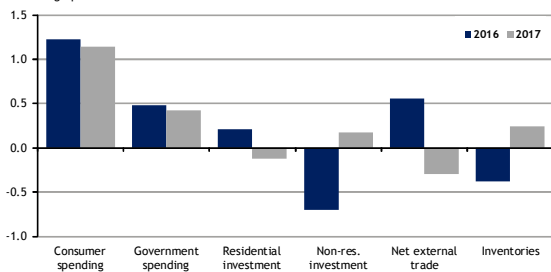


Source: Statistics Canada, RBC Economics Research

Forecast: ■

Canadian real GDP growth composition

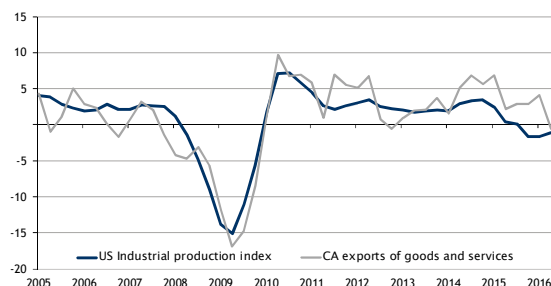
Percentage points



Source: Statistics Canada, RBC Economics Research

U.S. Industrial production and Canadian exports

% change, year-over-year, Index 2012 = 100, SA



Source: Federal Reserve Board, Statistics Canada, RBC Economics Research

Canada struggling to get back on track

The economy hit another pothole in the second quarter as the impact of the wildfires in Alberta reverberated through the economy. The sharp, but temporary, pullback in oil sands production in the wake of wildfires in Alberta in May was the key factor underpinning the 1.6% annualized decline in real GDP in the second quarter. Part of the weakness came from the sharp deterioration in net exports that subtracted 5.9 percentage points from the overall quarterly growth rate. Consumer spending and residential investment were little affected while business investment continued to be weighed down by another drop in spending by energy companies.

While the unfortunate event interrupted the economy's momentum after a solid first quarter, the recovery is forecast to spur a very sharp rebound in real GDP in Q3. The resumption of oil production, rebuilding of homes and businesses that were devastated by the wildfires will play a role in bumping up third quarter growth. Further gains are forecast to come from a snapback in exports and firm consumer spending. Just as the 1.6% drop in output was an outlier, our forecast for a 3.7% rebound in the third quarter will not be sustained. That said, we anticipate the economy will grow at an above-potential pace in the latter part of 2016 and through next year.

Growth supports in place

The combination of low interest rates and rising energy prices will provide support to Canada's economy next year. For consumers, the pain from rising energy costs will be more than offset by a firming in labour market conditions and the persistence of available, affordable credit. For businesses, the recovery in oil prices will prevent further declines in investment in the energy industry. Additionally, the prospect that the economy will no longer struggle under the weight of a collapse in energy investment combined with firming domestic demand will likely boost confidence in other sectors resulting in an increased willingness of Canadian firms to put current cash holdings to work. Fiscal stimulus by the federal government via both tax changes and increased spending will also underpin growth next year. Our forecast calls for real GDP growth of 1.3% in 2016 accelerating to 1.8% in 2017.

Exports disappoint...

The drop in exports in the second quarter can be traced at least in part to the large pullback in energy sales due to the wildfires and we expect a reversal to come in the third quarter. Still, export growth of 0.7% in 2016 represents a downward revision to our forecast. We anticipate a modest strengthening in 2017 with exports rising by 2.4% backed by an anticipated pickup in U.S. industrial production, a slightly lower Canadian dollar and assuming a continuation of modest global trade growth.

Our analysis of the export sector suggests that there are several reasons why exports will likely remain on a more modest growth path than we assumed previously. The Canadian dollar lost close to 20% against the US dollar since mid-2014 however posted much smaller losses or even gains against other countries that are vying to satisfy US import demand thereby reducing or even

eliminating this competitive advantage. Additionally US growth is being driven by household spending that tends to have a lower Canadian import content compared to areas like business investment while weak demand for U.S. exports reduced demand for Canadian-sourced intermediate production inputs. Also at work is the slowing in global trade activity as the process of integrating global supply chains ebbs.

Canadian dollar riding the ranges

After recovering from its mid-January tumble, the Canadian dollar settled into a tight range against its US counterpart this summer weathering gyrations in oil prices and ebb and flow of expectations about a near-term Fed rate hike. Looking forward, the currency is likely to weaken modestly as softer Canadian growth keeps the Bank of Canada sidelined while a gradual strengthening in the US puts a rate hike by the Fed in closer focus. Our forecast that oil prices will gradually rise to just over \$50.00 by the end of this year is unlikely to provide a significant lift to Canada's dollar though a stronger gain in 2017 toward \$60.00 will limit the weakening in the currency that is likely to result as the Fed raises the funds target by a projected 50 bps.

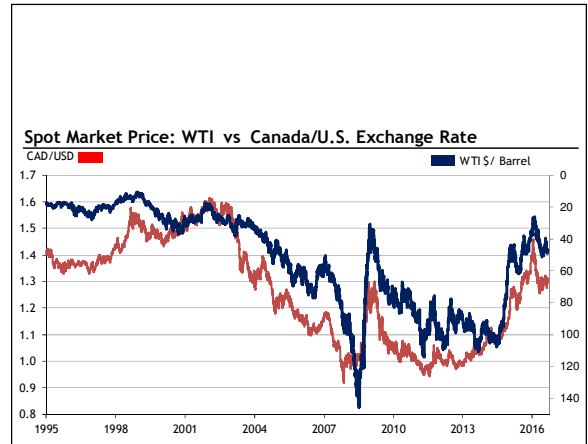
Headwinds and tailwinds

The sharp pullback in investment in 2015 and 2016 acted a severe headwind to growth that we expect will ease in 2017. Recovering oil prices and growing capacity constraints are forecast to support a small increase in investment by Canadian firms next year. Conversely, residential investment that includes new construction, sales commissions and renovations, has been a constant source of strength and is likely to weaken.

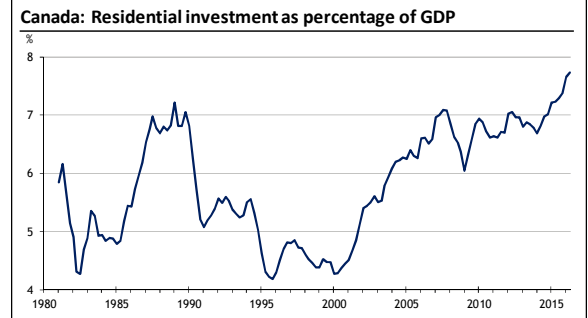
Housing complex

Canada's housing market maintained solid momentum heading into 2016 and sales in the first seven months ran at an elevated 538,000 unit pace. Underneath this strong headline however there are signs of an easing in activity. In BC there was a significant slowing in sales activity driven by a sharp turnaround in Vancouver where serious affordability challenges had developed. Policy announcements aimed at cooling the BC housing sector including the collection of data on home purchases by foreign nationals and the end of self-regulation in the real estate industry also played a role. Most recently, the government announced a 15% tax on home purchases by foreign nationals in Vancouver. This tax came into effect on August 2, 2016 and early reports showed housing market activity slower further. To that end, we revised down our forecast for home sales in BC although earlier strength means 2016 will still be a record year.

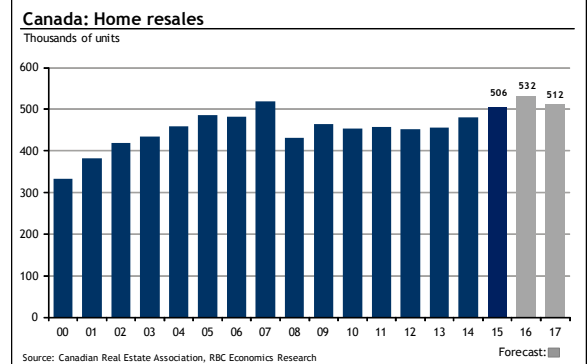
Even though sales at the national level cooled from May through July, limited supply is keeping upward pressure on prices with another 6.1% gain forecast for 2016. Sales are forecast to decline by 3.5% in 2017 resulting in an easing in market imbalances and the slowest pace of price since 2009.



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



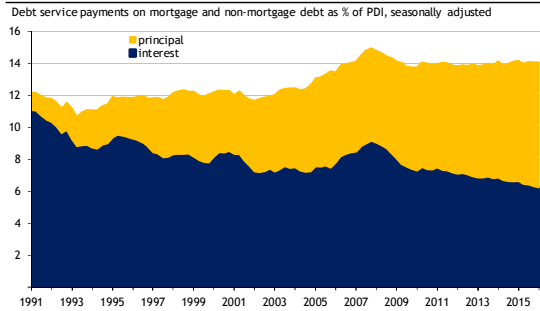
Source: Statistics Canada, RBC Economics Research



Source: Canadian Real Estate Association, RBC Economics Research

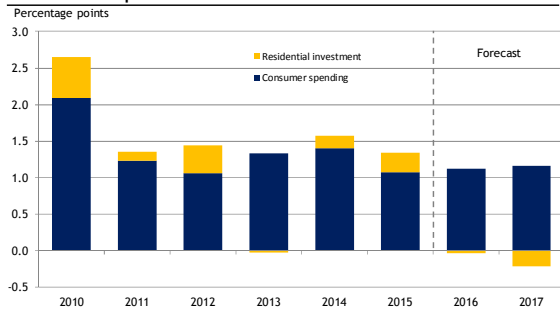


Debt service ratio - Canada



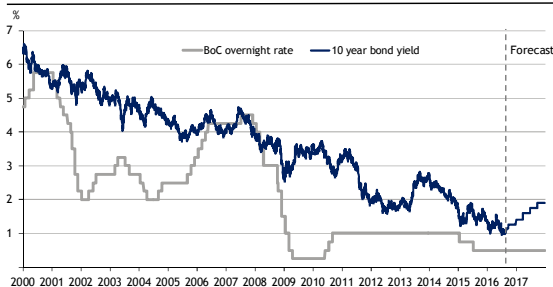
Source: Statistics Canada, RBC Economics Research

Household Expenditures Contribution to GDP Growth



Source: Statistics Canada, RBC Economics Research

Canada: interest rates



Source: Bank of Canada, RBC Economics

Keeping an eye on household balance sheets

Robust housing activity underpinned demand for mortgages in the first half of 2016 with the anticipated slowing in sales setting up for an easing in the pace of credit accumulation. The growth in debt balances over the past several years offset the impact of low interest rates on debt service payments which remained relatively steady at 14 cents per dollar of disposable income. That said, the larger pool of debt means that household balance sheets are more sensitive to increases in interest rates and we estimate that mortgage payments would eat up an additional 6% of disposable income for each 1 percentage point rise in mortgage rates, compared to increasing costs by 3% increase in 2000.

Labour market is doing OK

Worries about the state of household balance sheets are being tempered by the ongoing reduction in labour market slack. While the pace of employment gains slowed in the year to August, job cuts in the oil-producing provinces were partly responsible. Also at play are demographic factors that are reducing the pace of growth of the working-age population and commensurately lowering the number of positions that need to be created to absorb unemployed workers. Despite the slowing in the average pace of job creation, Canada's unemployment rate is hold around 7%, just slightly above its estimated full-employment level.

Consumer -- stalwart for economy

Against this backdrop, the Canadian consumer will likely continue to do more than their fair share in supporting economic growth. Even with investment in residential construction likely to slow in 2017, our forecast assumes households will be responsible for more than 60% of economic activity. A healthy labour market, low interest rates and the implementation of the federal government's child care benefit will provide consumers with the wherewithal to spend. The other tranche of the government's stimulus plan will also support growth with recent announcements of infrastructure initiatives auguring well for payments to start to hit the economy this fall and continue throughout 2017. Given that the funds are only reaching users in the latter part of the year, our forecast assumes a 0.2 ppt add to growth in 2016 and a stronger 0.3ppt lift in 2017. These assumptions fall slightly short of the Government's and Bank of Canada's estimates of 0.5 ppt lift in each year.

Bank of Canada - no need for action

So far this year, Canada's core inflation rate has only fallen below 2% for one month. The Bank of Canada attributes some of the rise in prices to the pass-through from the currency's weakness and reasons that a stable currency sets up for this impact to lessen going forward. Of the myriad of factors at work on the headline rate, the Bank assigns a significant portion of the below-target performance to declining energy prices. Heading into the latter part of this year, as energy prices rise, the impact will reverse lifting the headline rate although doing little to shift the core measure from 2%. Given the close proximity of the merging of headline and core measures at the 2% target, we see little reason for the Bank to react to the volatility in the growth numbers related to the impact of the wildfires. Further, reducing interest rates would undo some of the necessary cooling in housing market activity that is occurring because of the pressure on affordability. Given these factors, we expect the Bank to hold the overnight rate at 0.50% not only through the remainder of this year but through 2017 as well.

Economic forecast detail – Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actual				Forecast								Actual		Forecast	
	2015				2016				2017				year-over-year % change		year-over-year % change	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2014	2015	2016	2017
Household Consumption	-0.1	2.3	2.3	1.8	2.4	2.2	1.7	2.2	2.1	2.0	1.8	1.7	2.6	1.9	2.1	2.0
Durables	-8.0	5.6	10.2	4.2	4.2	-1.8	0.3	2.8	1.5	1.5	1.5	1.0	4.3	2.9	3.3	1.3
Semi-Durables	-1.9	5.2	0.9	6.9	6.7	-1.9	2.0	2.2	2.5	2.1	1.8	1.8	3.1	2.5	3.1	1.7
Non-durables	2.4	-2.8	2.6	-1.0	3.2	3.0	2.5	2.2	2.2	2.2	2.0	2.0	2.4	0.8	1.8	2.2
Services	0.8	3.4	0.7	1.9	1.2	3.3	1.7	2.1	2.1	2.0	1.8	1.8	2.3	2.1	2.0	2.1
NPISH consumption	-2.6	6.2	0.8	0.4	3.2	7.4	1.7	2.2	2.1	2.0	1.8	1.7	0.2	2.3	3.1	2.3
Government expenditures	4.7	2.8	0.6	0.4	2.7	4.2	2.5	2.0	1.8	1.5	1.5	1.5	0.3	1.7	2.2	2.0
Government fixed investment	1.9	-0.6	-1.6	-4.0	-1.3	2.7	5.5	7.5	7.0	3.0	2.5	2.5	2.1	2.3	0.3	5.0
Residential investment	6.6	0.1	2.6	1.8	11.3	1.2	-5.7	-3.6	-0.3	-0.5	-0.9	-0.1	2.5	3.8	2.7	-1.6
Non-residential investment	-23.2	-15.5	-11.4	-12.5	-8.1	-1.9	-1.5	2.3	2.7	2.8	3.0	3.3	0.0	-10.6	-7.4	1.9
Non-residential structures	-31.7	-15.4	-14.2	-15.3	-12.8	-4.4	0.5	2.8	2.8	3.0	3.2	3.5	-0.4	-14.7	-9.7	2.2
Machinery & equipment	-5.1	-15.7	-6.7	-8.1	-0.7	1.9	-4.5	1.5	2.5	2.5	2.8	3.1	1.0	-2.4	-3.8	1.4
Intellectual property	-32.8	-10.5	-3.9	-3.5	-4.3	-0.1	0.5	3.0	2.5	2.5	2.8	3.1	-4.2	-12.0	-2.7	2.3
Final domestic demand	-2.2	-0.1	0.3	-0.3	1.8	2.2	1.2	2.0	2.1	1.8	1.7	1.8	1.6	0.3	1.1	1.8
Exports	0.9	1.2	9.0	-1.5	8.0	-16.7	9.0	3.8	3.5	2.7	2.0	1.9	5.3	3.4	0.7	2.4
Imports	0.9	-1.8	-2.8	-7.0	1.6	1.1	-1.0	4.7	4.0	3.5	2.9	3.1	1.8	0.3	-1.1	3.0
Inventories (change in \$b)	14.6	6.8	-0.2	-5.6	-9.0	0.5	-2.0	-0.5	-0.2	1.2	2.2	3.2	9.9	3.9	-2.7	1.6
Real gross domestic product	-1.0	-0.5	2.2	0.5	2.5	-1.6	3.7	1.9	1.9	1.8	1.6	1.6	2.5	1.1	1.3	1.8

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour

Productivity	1.6	-0.5	-0.6	-0.9	-0.2	0.4	1.1	1.2	1.3	1.6	0.9	0.9	2.1	-0.1	0.6	1.2
Pre-tax corporate profits	-12.1	-14.2	-17.4	-19.6	-7.6	-15.9	-2.2	3.4	5.7	19.2	4.2	4.7	7.0	-15.8	-5.7	8.1
Unemployment rate (%)*	6.8	6.8	7.0	7.0	7.2	6.9	6.9	6.8	6.8	6.8	6.7	6.7	6.9	6.9	7.0	6.8
Inflation																
Headline CPI	1.1	0.9	1.2	1.3	1.5	1.6	1.5	2.0	2.4	2.5	2.5	2.2	2.0	1.1	1.7	2.4
Core CPI	2.2	2.2	2.2	2.0	2.0	2.1	2.0	2.1	2.1	2.0	2.0	2.0	1.8	2.2	2.1	2.0
External trade																
Current account balance (\$b)	-67.9	-58.0	-61.8	-62.8	-66.4	-79.4	-58.7	-58.2	-55.3	-50.9	-49.4	-47.1	-44.9	-62.6	-65.7	-50.7
% of GDP	-3.4	-2.9	-3.1	-3.2	-3.3	-4.0	-2.9	-2.8	-2.7	-2.4	-2.3	-2.2	-2.3	-3.2	-3.2	-2.4
Housing starts (000s)*	175	193	213	194	198	198	186	188	186	181	179	178	189	196	192	181
Motor vehicle sales (mill., saar)*	1.84	1.92	1.99	1.99	2.01	1.99	1.93	1.90	1.86	1.86	1.83	1.82	1.89	1.94	1.96	1.84

*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	
	2015				2016				2017				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2014	2015	2016	2017
Consumer spending	2.4	2.9	2.7	2.3	1.6	4.4	3.0	2.4	2.3	2.1	2.0	2.0	2.9	3.2	2.7	2.4
Durables	4.2	7.6	6.2	4.0	-0.6	9.9	8.2	4.5	4.0	3.5	3.1	3.1	6.7	6.9	4.9	4.7
Non-durables	1.9	2.7	3.2	1.2	2.1	5.7	1.2	2.1	2.0	1.9	1.7	1.6	2.6	2.6	2.7	2.1
Services	2.3	2.2	2.0	2.3	1.9	3.1	2.7	2.2	2.1	2.0	1.9	1.9	2.3	2.8	2.3	2.2
Government spending	2.6	3.2	1.9	1.0	1.6	-1.5	1.0	1.8	1.5	1.2	1.2	1.0	-0.9	1.8	1.0	1.2
Residential investment	13.4	14.8	12.6	11.5	7.8	-7.7	0.0	3.1	2.4	2.5	2.1	2.0	3.5	11.7	5.0	1.5
Non-residential investment	1.3	1.6	3.9	-3.3	-3.4	-0.9	3.4	3.2	3.3	3.3	3.5	3.5	6.0	2.1	-0.5	3.1
Non-residential structures	-12.4	-2.7	-4.3	-15.2	0.1	-8.4	6.0	2.0	2.1	2.2	2.2	2.8	10.3	-4.4	-4.5	1.9
Equipment & software	9.3	-0.3	9.1	-2.6	-9.5	-3.7	2.0	3.3	3.4	3.4	3.8	3.6	5.4	3.5	-2.2	2.8
Intellectual property	0.8	8.0	2.1	4.5	3.8	8.6	3.8	3.9	3.9	3.9	3.8	3.7	3.9	4.8	4.9	4.1
Final domestic demand	2.6	3.2	3.0	1.7	1.2	2.2	2.6	2.4	2.3	2.1	2.0	2.0	2.6	3.1	2.1	2.3
Exports	-5.8	2.8	-2.8	-2.7	-0.7	1.2	4.8	0.8	2.0	1.5	1.8	1.1	4.3	0.1	0.0	1.9
Imports	5.6	2.9	1.1	0.7	-0.6	0.3	4.0	2.3	4.0	2.5	2.0	2.0	4.4	4.6	1.0	2.8
Inventories (change in \$b)	114.4	93.8	70.9	56.9	40.7	-12.4	10.0	27.0	39.0	41.0	39.0	39.0	57.7	84.0	16.3	39.5
Real gross domestic product	2.0	2.6	2.0	0.9	0.8	1.1	3.2	2.7	2.3	2.1	2.0	1.9	2.4	2.6	1.6	2.3

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	1.0	0.9	0.7	0.5	0.1	-0.4	-0.6	0.4	0.9	1.4	1.4	1.3	0.6	0.8	-0.1	1.2
Pre-tax corporate profits	7.5	-2.8	-4.5	-11.2	-6.6	-4.9	-3.4	4.1	1.4	3.1	2.9	2.1	5.9	-3.0	-2.9	2.4
Unemployment rate (%)*	5.6	5.4	5.2	5.0	4.9	4.9	4.9	4.8	4.8	4.7	4.7	4.7	6.2	5.3	4.9	4.7
Inflation																
Headline CPI	-0.1	0.0	0.1	0.5	1.1	1.1	1.1	1.6	2.3	2.2	2.4	2.4	1.6	0.1	1.2	2.3
Core CPI	1.7	1.8	1.8	2.0	2.2	2.2	2.2	2.2	2.1	2.0	2.0	2.0	1.7	1.8	2.2	2.0
External trade																
Current account balance (\$b)	-458	-448	-492	-454	-499	-500	-524	-539	-558	-575	-582	-595	-392	-463	-515	-577
% of GDP	-2.6	-2.5	-2.7	-2.5	-2.7	-2.7	-2.8	-2.9	-2.9	-3.0	-3.0	-3.0	-2.3	-2.6	-2.8	-3.0
Housing starts (000s)*	986	1156	1156	1135	1151	1156	1190	1203	1212	1221	1229	1237	1001	1108	1175	1225
Motor vehicle sales (millions, saar)*	16.9	17.2	17.7	17.9	17.3	17.1	17.3	17.8	17.9	18.0	18.1	18.2	16.5	17.4	17.4	18.1

*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	
	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015	2016	2017
Canada																
Overnight	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00	0.50	0.50	0.50
Three-month	0.55	0.58	0.43	0.51	0.45	0.49	0.50	0.50	0.50	0.50	0.55	0.60	0.91	0.51	0.50	0.60
Two-year	0.50	0.48	0.52	0.48	0.54	0.52	0.55	0.60	0.60	0.65	0.70	0.80	1.01	0.48	0.60	0.80
Five-year	0.77	0.82	0.80	0.73	0.67	0.57	0.65	0.75	0.80	0.95	1.15	1.35	1.34	0.73	0.75	1.35
10-year	1.36	1.69	1.43	1.40	1.23	1.06	1.15	1.25	1.40	1.60	1.75	1.90	1.79	1.40	1.25	1.90
30-year	1.98	2.31	2.20	2.15	2.00	1.72	1.80	1.90	2.05	2.25	2.45	2.65	2.34	2.15	1.90	2.65
Yield curve (10s-2s)	86	121	91	92	69	54	60	65	80	95	105	110	78	92	65	110
United States																
Fed funds*	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	0.25	0.50	0.50	1.00
Three-month	0.03	0.01	0.00	0.16	0.21	0.26	0.20	0.20	0.15	0.50	0.50	0.75	0.04	0.16	0.20	0.75
Two-year	0.56	0.64	0.64	1.06	0.73	0.58	0.70	0.80	0.90	1.00	1.15	1.25	0.67	1.06	0.80	1.25
Five-year	1.37	1.63	1.37	1.76	1.21	1.01	1.10	1.20	1.30	1.40	1.55	1.65	1.65	1.76	1.20	1.65
10-year	1.94	2.35	2.06	2.27	1.78	1.49	1.55	1.70	1.80	1.90	2.00	2.10	2.17	2.27	1.70	2.10
30-year	2.54	3.11	2.87	3.01	2.61	2.30	2.30	2.40	2.60	2.75	2.85	2.90	2.75	3.01	2.40	2.90
Yield curve (10s-2s)	138	171	142	121	105	91	85	90	90	90	85	85	150	121	90	85
Yield spreads																
Three-month T-bills	0.52	0.57	0.43	0.35	0.24	0.23	0.30	0.30	0.35	0.00	0.05	-0.15	0.87	0.35	0.30	-0.15
Two-year	-0.06	-0.16	-0.12	-0.58	-0.19	-0.06	-0.15	-0.20	-0.30	-0.35	-0.45	-0.45	0.34	-0.58	-0.20	-0.45
Five-year	-0.60	-0.81	-0.57	-1.03	-0.54	-0.44	-0.45	-0.45	-0.50	-0.45	-0.40	-0.30	-0.31	-1.03	-0.45	-0.30
10-year	-0.58	-0.66	-0.63	-0.87	-0.55	-0.43	-0.40	-0.45	-0.40	-0.30	-0.25	-0.20	-0.38	-0.87	-0.45	-0.20
30-year	-0.56	-0.80	-0.67	-0.86	-0.61	-0.58	-0.50	-0.50	-0.55	-0.50	-0.40	-0.25	-0.41	-0.86	-0.50	-0.25

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

Interest rates—International

%, end of period

	Actual						Forecast						Actual		Forecast	
	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015	2016	2017
United Kingdom																
Repo	0.50	0.50	0.50	0.50	0.50	0.50	0.25	0.10	0.10	0.10	0.10	0.10	0.50	0.50	0.10	0.10
Two-year	0.43	0.55	0.56	0.66	0.45	0.13	0.10	0.10	0.10	0.10	0.10	0.10	0.45	0.66	0.10	0.10
10-year	1.58	2.01	1.76	1.96	1.43	0.89	0.85	0.90	1.00	1.10	1.20	1.25	1.76	1.96	0.90	1.25
Euro Area																
Deposit rate	-0.20	-0.20	-0.20	-0.30	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.20	-0.30	-0.40	-0.40
Two-year	-0.25	-0.23	-0.26	-0.34	-0.48	-0.61	-0.70	-0.60	-0.60	-0.60	-0.60	-0.60	-0.11	-0.34	-0.60	-0.60
10-year	0.18	0.77	0.59	0.63	0.15	-0.11	-0.25	0.00	0.00	0.10	0.20	0.25	0.54	0.63	0.00	0.25
Australia																
Cash target rate	2.25	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.25	1.25	1.25	2.50	2.00	1.50	1.25
Two-year swap	1.72	2.01	1.81	2.02	1.89	1.59	1.40	1.40	1.30	1.20	1.20	1.30	2.19	2.02	1.40	1.30
10-year swap	2.32	3.01	2.61	2.88	2.49	1.98	1.95	2.10	2.10	2.20	2.40	2.50	2.81	2.88	2.10	2.50
New Zealand																
Cash target rate	3.50	3.25	2.75	2.50	2.25	2.25	1.75	1.75	1.50	1.50	1.50	1.50	3.50	2.50	1.75	1.50
Two-year	3.48	3.09	2.69	2.83	2.19	2.22	1.90	1.90	1.80	1.75	1.75	1.90	3.76	2.83	1.90	1.90
10-year	3.71	3.89	3.48	3.73	2.97	2.65	2.50	2.60	2.60	2.60	2.70	2.80	4.07	3.73	2.60	2.80

Growth outlook

% change, quarter-over-quarter in real GDP

	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015F	2016F	2017F
Canada*	-1.0	-0.5	2.2	0.5	2.5	-1.6	3.7	1.9	1.9	1.8	1.6	1.6	2.5	1.1	1.3	1.8
United States*	2.0	2.6	2.0	0.9	0.8	1.1	3.2	2.7	2.3	2.1	2.0	1.9	2.4	2.6	1.6	2.3
United Kingdom	0.3	0.4	0.4	0.7	0.4	0.6	-0.1	0.1	-0.1	0.0	0.0	0.1	3.1	2.2	1.6	0.1
Euro area	0.8	0.4	0.4	0.4	0.5	0.3	0.2	0.2	0.3	0.3	0.4	0.4	1.1	1.9	1.5	1.2
Australia	0.9	0.2	1.0	0.7	1.0	0.5	0.6	0.7	0.7	0.7	0.7	0.8	2.7	2.4	3.0	2.7
New Zealand	0.2	0.3	0.8	0.9	0.7	0.5	0.5	0.5	0.5	0.5	0.6	0.6	3.7	2.5	1.8	2.1

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015F	2016F	2017F
Canada	1.1	0.9	1.2	1.3	1.5	1.6	1.5	2.0	2.4	2.5	2.5	2.2	2.0	1.1	1.7	2.4
United States	-0.1	0.0	0.1	0.5	1.1	1.1	1.1	1.6	2.3	2.2	2.4	2.4	1.6	0.1	1.2	2.3
United Kingdom	0.1	0.0	0.0	0.1	0.3	0.4	0.7	1.1	1.9	2.4	2.2	1.9	1.5	0.0	0.6	2.1
Euro area	-0.3	0.2	0.1	0.2	0.0	-0.1	0.3	0.4	0.8	1.2	1.4	1.5	0.4	0.0	0.2	1.2
Australia	1.3	1.5	1.5	1.7	1.3	1.0	1.2	1.4	2.2	2.5	2.6	2.7	2.5	1.5	1.2	2.5
New Zealand	0.3	0.4	0.4	0.1	0.4	0.4	0.6	1.4	1.5	1.5	1.5	1.6	1.2	0.3	0.7	1.6

** Actual

Exchange rates

%, end of period

	Actual						Forecast						Actual		Forecast	
	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	2014	2015	2016	2017
AUD/USD	0.76	0.77	0.70	0.73	0.77	0.75	0.77	0.79	0.79	0.76	0.74	0.72	0.82	0.73	0.79	0.72
USD/CAD	1.27	1.25	1.33	1.38	1.30	1.29	1.31	1.33	1.31	1.31	1.30	1.30	1.16	1.38	1.33	1.30
EUR/USD	1.07	1.11	1.12	1.09	1.14	1.11	1.11	1.10	1.08	1.07	1.06	1.05	1.21	1.09	1.10	1.05
USD/JPY	120.1	122.5	119.9	120.1	112.6	102.7	99.0	97.0	95.0	92.0	95.0	97.0	119.7	120.1	97.0	97.0
NZD/USD	0.75	0.68	0.64	0.68	0.69	0.71	0.74	0.78	0.80	0.78	0.77	0.76	0.78	0.68	0.78	0.76
USD/CHF	0.97	0.94	0.97	1.00	0.96	0.98	0.97	0.98	0.99	1.01	1.03	1.06	0.99	1.00	0.98	1.06
GBP/USD	1.48	1.57	1.51	1.47	1.44	1.33	1.32	1.25	1.15	1.15	1.16	1.18	1.56	1.47	1.25	1.18

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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