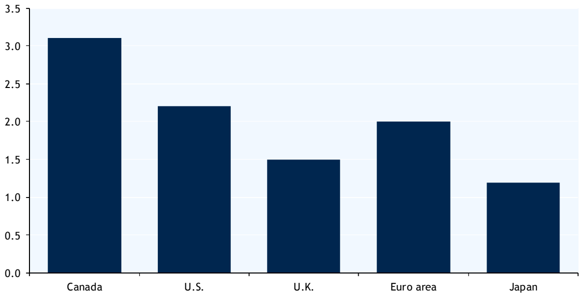
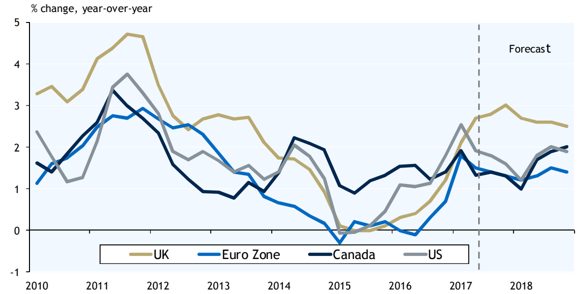
ECONOMIC AND FINANCIAL MARKET OUTLOOK

September 2017

World economy on firm glide path

Canada doing its part





Craig Wright
Chief Economist
416-974-7457
craig.wright@rbc.com

Dawn Desjardins
Deputy Chief Economist
416-974-6919
dawn.desjardins@rbc.com

Paul Ferley
Assistant Chief Economist
416-974-7231
paul.ferley@rbc.com

Nathan Janzen
Senior Economist
416-974-0579
nathan.janzen@rbc.com

Economic growth outweighs geopolitical fretting

The global economy's strong momentum over the summer shifted some of the focus away from geopolitics. Canada, the US and the euro area recorded above-potential gains in the second quarter, although a shy UK consumer kept that economy on a slower growth trajectory. Within the emerging-market economies, China posted another solid increase in the second quarter. On balance, we are maintaining our forecast for world GDP growth of 3.5% in 2017 and 3.6% in 2018.

The firm growth backdrop provided support to equity markets and commodity prices, which remain well above year-ago levels. The reacceleration in global trade volumes helped keep the economy on the stronger growth path even as BREXIT and NAFTA negotiations got underway.

The accelerating pace of growth has measurably reduced spare capacity, with Canada and the US likely to see slack eliminated by the end of this year. Labour-market conditions have correspondingly tightened with unemployment rates at or below full-employment levels. The euro area's output gap remains outsized and the unemployment rate elevated, although both measures indicate that excess supply is dissipating. Despite the tightening in economic conditions, wages are growing at a subpar pace and inflation measures remain below central bank targets.

Inflation – energy and other temporary factors

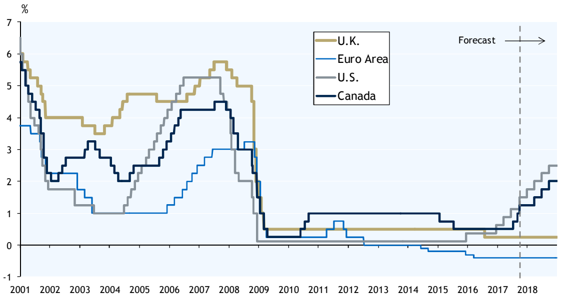
Part of the subdued inflation story reflects unexpected inertia in energy prices. In Canada and the US the low level of inflation is also a result of transitory factors that we expect to have less impact in 2018. Both the Bank of Canada and US Fed forecast inflation will rise to the 2% target over the medium term, underpinning their willingness to gradually reduce monetary-policy stimulus.

Our forecast is for the euro-area economy to only gradually absorb excess capacity and the inflation rate to run at about 1½% over the intervening period. Against this backdrop, the ECB is likely to hold the policy rate at -0.4%. In the UK, the inflation rate is running above the BOE's target, although much of the rise reflects the lagged impact of the weakening in sterling on UK import prices, an effect that will recede over time and will likely see the BOE keep policy unchanged. In Canada, the BOC's more upbeat assessment of the economy's performance, combined with two swift rate hikes in July and September, resulted in the addition of three more 25 bps rate hike to our forecast by the end of 2018. Our view on the outlook for the US Federal Reserve is unchanged with five more 25bps hikes expected by the end of 2018 and the reduction in the size of the Fed's balance sheet likely to begin in October 2017 .

Canada rate hikes on the radar

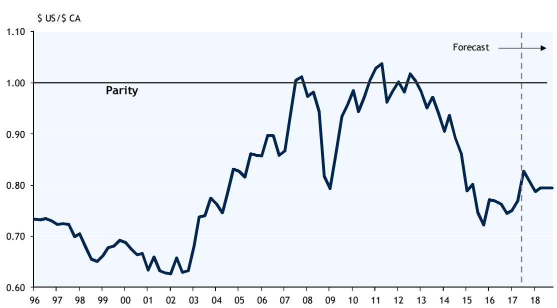
The most notable change in market expectations for central bank policy that occurred over the past quarter was a rise in expectations for hikes

Policy rates: International



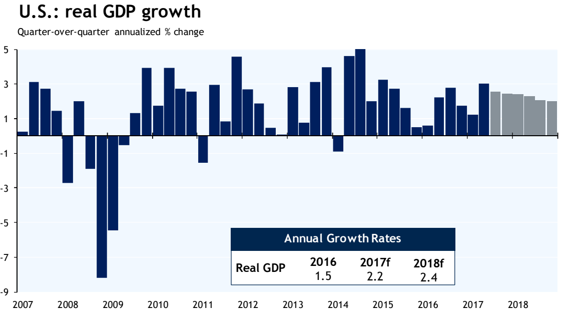
Source: ECB, BoE, BoC, Federal Reserve, RBC Economics Research

Canadian Dollar Forecast



Source: Bank of Canada, RBC Economics Research

U.S.: real GDP growth



Source: Bureau of Economics Analysis, RBC Economics Research

Forecast:

in Canada. Currently markets are priced for the overnight rate to rise to 1.50% by the end of 2018, significantly more than the 75bps implied in June 2017. In the US, expectations for Fed rate hikes were trimmed modestly over the past three months with just one more 25 bps increase priced in by the end of 2018, well below our forecast. Market expectations are little changed for both the BOE and ECB with less than a full hike priced in for the UK by the end of next year and the ECB largely projected to remain on hold.

US dollar likely to reverse course

The US dollar significantly underperformed other major currencies so far this year. Part of the dollar's decline reflected disappointment about the Trump Administration's inability to implement tax cuts or an infrastructure spending budget, with additional pressure coming on worries about the passage of the debt ceiling legislation. Also weighing on the US dollar was the shift in market expectations about future central bank action. We expect the US dollar to recover, with the Fed likely to hike more than markets anticipate as the economy continues to grow at a solid clip and inflation picks up.

One of the beneficiaries of the weaker US dollar was the Canadian currency which rose almost 11% from its early May low. The bulk of the move came after members of the central bank's governing council gave an upbeat read on the economy's performance and outlook and signaled that rate increases were on the way. The Bank's decision to hike the policy rate in mid-July, for the first time in almost 7 years, and follow-up with an increase in September cemented the Canadian dollar's gains swamping the weight from the moribund performance of oil prices. The repricing in the C$ and heightened expectations of additional Bank of Canada hikes led us to revise our forecast for the currency such that we now expect CAD to average just shy of 80 US cents over the forecast horizon.

Economic optimism holds sway

The US economy is forecast to grow by 2.2% in 2017 and 2.4% in 2018. Our 2017 forecast assumes the Trump Administration will implement some small net tax reduction though this won't provide a material lift to the economy this year. We remain optimistic about the US economy even though the level of political uncertainty remains elevated. Financial markets have been able to ignore much of the political rhetoric and focus on earnings and the persistence of support from easy financial conditions and low volatility. Strong financial market performance and hiring activity are providing a solid backdrop for another year of solid US consumer spending.

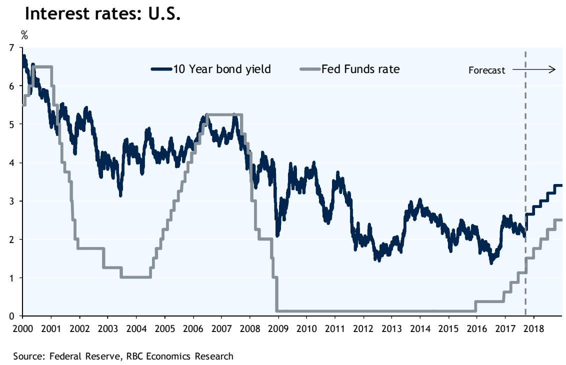
While the consumer will largely continue to underwrite growth, a recovery in business investment (in part due to oil producers coming back online) will also make a material contribution. Further, we see the sharp pullback in inventories early in the year as opening the door to a mild inventory rebuild in the second half of the year.

Barring a major interruption as the NAFTA negotiations unfold, US exports and imports are forecast to grow at a firmer pace in 2017. The 7½% decline in the trade-weighted US dollar so far this year will likely provide some lift to exports when combined with the rise in global trade volumes. Imports are also likely to rise given the anticipated increase in U.S. business investment.

Fed's game plan underway

The constructive growth backdrop and tight labour market underpin the Fed's game-plan to gradually reduce monetary policy support. After ramping up the pace of rate hikes in 2017, we expect the next step will be to begin reducing the size of the central bank's balance sheet in October. Given the protracted time needed to reduce its holdings of securities, the Fed is unlikely to view this action as an alternative to interest rate increases. That said, we expect the Fed will pause and wait until December to raise the funds target to 1.5% in order to assess the impact on financial markets and then resume tightening on a quarterly basis in 2018. Our forecast is that the fed funds target will reach 2.5% at the end of 2018 with the 10-year forecast to increase about 125bps to 3.4%.

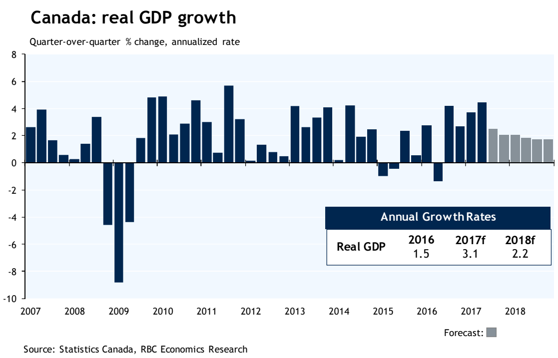
The Fed's decision to very gradually reduce policy stimulus ensured that overall financial conditions remain supportive. FOMC vice-chair Dudley recently pointed to the extent of accommodative financial conditions as providing policymakers with room to continue to remove policy accommodation even with inflation holding below the 2% objective.



Canada's economy batting 1000

Canada's economy continued to grow substantially faster than its potential in the second quarter of 2017, keeping up the run of outperformance for the fourth consecutive quarter. The strong momentum led us to upgrade our 2017 growth forecast to 3.1% from our 2.6% estimate in June 2017. The economy is likely to grow at a slightly above-potential 2.2% pace in 2018.

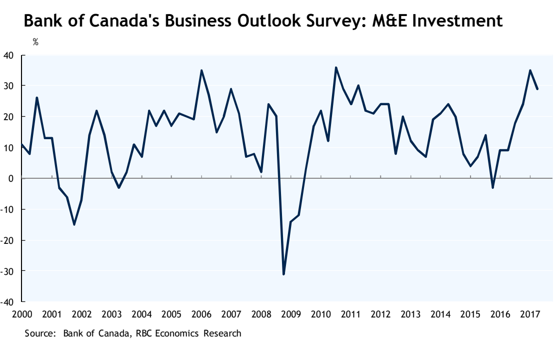
The Canadian consumer isn't showing signs of flagging with financial conditions remaining accommodative and hiring activity strong. Housing activity, however, has started to fall off as the market adjusts to several rounds of regulatory changes and modestly higher interest rates. Overall consumer spending is likely to remain the key driver of growth again in 2017 with support lessening somewhat in 2018.



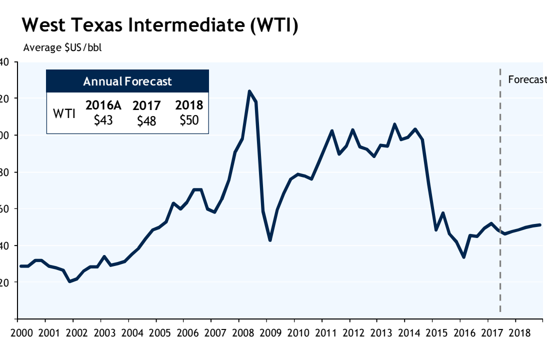
Business investment is expected to add to growth every quarter this year, an improvement following two years of exerting downward pressure on the economy. Recent surveys point to business investment picking up in the year ahead as firm demand sees companies brush up against capacity limits. The economy will also get a lift from government spending with approximately $9 billion of the $186 billion infrastructure funding on tap this year.

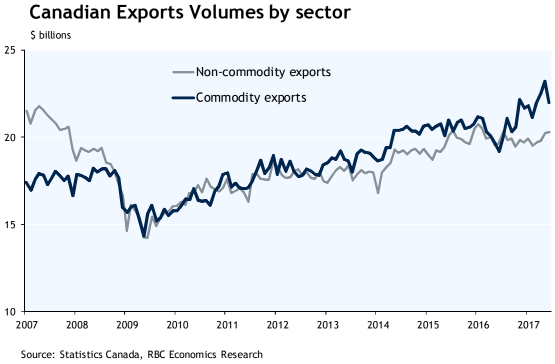
Canadian businesses soldier on despite NAFTA uncertainty

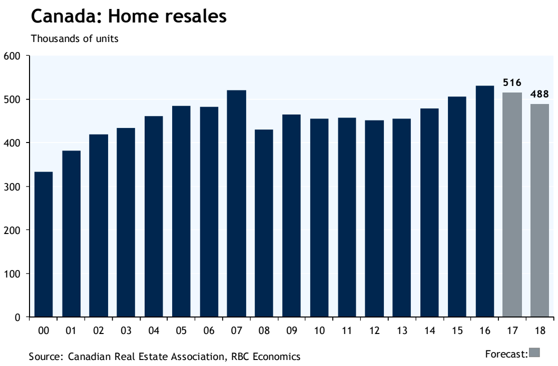
The outlook for investment spending is brighter when compared to the past two years. In the first quarter business investment posted the fastest increase in almost five years with another solid outlay in the second quarter. In July the Bank of Canada's outlook survey showed a near-record level of companies intend to invest in the year ahead. Other encouraging signs include higher imports of machinery and equipment, rising machinery sales by Canadian companies and a pickup in hiring of engineering construction workers.

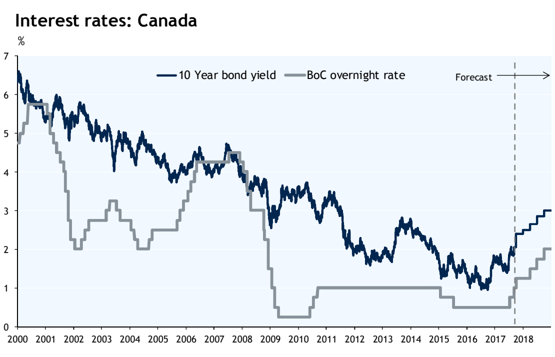


We have adjusted our oil price forecast lower to reflect recent price action and the persistence of elevated OPEC inventories despite production cuts. We now expect prices to average less than $50 a barrel in the second half of 2017. Despite increased US production, the OPEC cuts are expected to push global inventory levels lower in the second half of 2017 which combined with an anticipated extension of the OPEC production cuts beyond March 2018, will likely see prices move above US$50 in 2018. The impact of Hurricane Harvey presents a wildcard for near term prices although we assume any impact will prove transitory. With energy prices expected to hold relatively steady, our forecast assumes limited increases in investment by oil and gas companies though this follows two years of marked declines. Outside of the energy sector, the sharp rise in domestic demand in the first half of 2017 is likely to result in businesses spending to expand capacity.









Moments of drama

Canada's trade performance has been volatile with the sector exerting significant downward pressure on the economy's growth rate in the first quarter as weak exports faced off with a sharp rise in import activity. The balance swung back in Canada's favour in the second quarter with exports recovering and imports rising at a slower pace. The recovery in business spending on capital goods boosted imports and we expect further increases will likely keep import growth positive. Exports rebounded in the second quarter. A stronger CAD doesn't help Canadian competitiveness but with the recovery in global trade activity and stronger US demand we expect exports will continue to trend higher on average. All said, net exports will be a small drag for the economy in 2017 although is expected to provide a modest boost in 2018. Our forecast assumes that the NAFTA negotiations won't yield a significantly negative outcome however as Canadian Foreign Minister Freeland cautioned "be prepared for some moments of drama".

Housing shift gears

It may have taken several rounds of regulatory changes by several different agencies but the long-awaited cooling in Canada's housing market is underway. Home sales fell in five of the past seven months and in July stood 15% below the March peak. The decline in housing-market activity accelerated following Ontario's release of its 16-point Fair Housing Plan.

The weakening of home resale activity and deceleration of price gains in Canada are consistent with our view that the market is in the process of cooling overall. We project home resales in Canada to ease by 3.7% this year from 2016's record pace. Housing policy changes, poor affordability in some markets and rising interest rates will likely continue to dampen activity in 2018 and we expect sales to drop by a further 5.3%. Correspondingly we look for the pace of price appreciation to slow. Rapid increases early in 2017 set up for prices to rise 7.8%. Price gains are forecast to moderate further in 2018 to 1.2%.

Bank of Canada turns upbeat

The Bank of Canada significantly changed its assessment of the state of the economy in mid-June pointing to the stronger, more broadly based gains as the basis for hiking rates at the July and September meetings, sooner than we previously expected. Further, the Bank forecasted the output gap will close by the end of this year. We have updated our forecast and now look for the Bank to raise the overnight rate again in the fourth quarter of 2017. In 2018, we expect the Bank to reduce policy stimulus further with three 25 bps rate increases. The Bank will proceed cautiously with an eye to inflation moving closer to the 2% target. Ten-year yields are forecast to rise about 100bps ending 2018 near 3%.

NAFTA: renewal or rejection? What Canada is up against

NAFTA renegotiations kicked off last month, and while U.S. Trade Representative (USTR) Robert Lighthizer didn't mince words, it's unlikely to be a one-sided boxing match. There will be jabs on offensive priorities, parrying on mutual sensitivities—and handshakes on areas of shared interest.

A ***best-case*** outcome for Canada would play up those shared interests: for the U.S. and Canada, preserving reciprocal market access for goods across heavily integrated industries; reducing "red tape" at the border' expanding services and government procurement access; and bringing digital trade, labour and the environment into the core of the agreement.

A ***worst-case***, however unlikely, would see a U.S. withdrawal from NAFTA, which would have a long-run negative impact on the Canadian economy and chip a percentage point off GDP as tariffs rise. And a bad new deal would raise rules of origin thresholds for "local" content to a level that diminishes Canadian producers' global competitiveness; impose IP rules that stymie rather than support innovation; and possibly remove the impartial trade arbitration afforded by NAFTA's Chapter 19. http://www.rbc.com/economics/economic-reports/pdf/other-reports/NAFTA_Aug2017.pdf

Economic forecast detail — Canada

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals						Forecast						Actual		Forecast	
	2016				2017				2018				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
Household Consumption	2.4	2.3	3.0	3.0	4.8	4.6	2.3	1.7	1.5	1.4	1.4	1.5	1.9	2.4	3.5	1.8
Durables	5.9	-3.1	0.2	10.2	13.6	9.4	2.5	1.0	1.5	1.3	1.3	1.3	2.8	4.1	7.1	1.9
Semi-Durables	6.0	-2.3	2.9	5.0	7.1	16.5	3.0	1.8	1.4	1.3	1.4	1.5	2.3	3.4	6.4	2.5
Non-durables	3.6	5.2	2.1	0.9	2.9	4.5	3.0	2.0	1.4	1.3	1.3	1.5	0.8	2.1	2.8	1.9
Services	0.7	2.9	4.1	2.0	3.4	2.1	1.9	1.8	1.7	1.5	1.5	1.6	2.1	2.0	2.6	1.7
NPISH consumption	1.2	-0.8	1.3	0.8	-1.7	0.4	2.5	1.7	1.5	1.4	1.4	1.5	2.0	0.8	0.3	1.6
Government expenditures	3.9	4.7	-1.7	1.3	1.1	2.5	1.5	1.5	2.5	2.5	2.5	2.5	1.5	2.0	1.3	2.2
Government fixed investment	4.2	-2.9	4.7	6.5	-1.3	0.5	7.0	5.0	2.5	3.5	3.5	3.5	4.5	1.1	2.5	3.8
Residential investment	9.8	1.1	-5.1	6.3	12.3	-4.7	-0.4	-4.2	-3.0	-5.0	-3.0	-1.1	3.8	3.0	2.3	-3.3
Non-residential investment	-10.3	-4.4	9.5	-22.0	13.7	7.1	7.3	3.6	3.9	3.7	2.6	2.4	-11.5	-8.6	1.8	4.1
Non-residential structures	-14.7	-8.4	30.5	-32.5	3.9	9.8	6.0	4.0	4.4	4.2	3.0	2.7	-16.0	-10.8	-0.9	4.5
Machinery & equipment	-3.6	1.4	-15.8	-3.2	28.9	3.6	9.0	3.0	3.2	3.1	2.0	2.0	-3.3	-5.3	5.7	3.6
Intellectual property	-2.3	2.1	-17.0	-9.8	14.7	8.7	4.5	3.5	3.5	3.0	2.0	2.0	-9.0	-4.1	1.6	3.6
Final domestic demand	1.8	1.8	1.7	0.1	5.1	3.5	2.6	1.6	1.7	1.5	1.5	1.7	0.3	1.0	2.7	1.8
Exports	8.4	-13.6	9.2	0.8	1.5	9.6	-2.5	8.0	4.3	3.5	2.3	2.0	3.4	1.0	2.6	3.9
Imports	3.5	1.4	4.3	-11.3	15.6	7.4	1.5	0.4	1.8	2.5	2.1	1.9	0.3	-0.9	3.6	2.0
Inventories (change in $b)	-5.9	1.3	5.4	-2.5	10.6	11.1	16.5	7.1	5.0	5.2	6.0	6.0	3.9	-0.4	11.3	5.6
Real gross domestic product	**2.8**	**-1.4**	**4.2**	**2.7**	**3.7**	**4.5**	**2.5**	**2.0**	**2.0**	**1.8**	**1.7**	**1.7**	**0.9**	**1.5**	**3.1**	**2.2**

Other indicators

Year-over-year % change unless otherwise indicated

Business and labour																
Productivity	-0.3	0.4	1.2	1.3	2.1	2.3	1.5	1.5	0.8	1.1	1.1	1.2	-0.2	0.7	1.9	1.0
Pre-tax corporate profits	-11.1	-16.6	-3.3	14.6	25.8	38.5	18.8	9.2	-0.4	2.2	0.8	0.0	-19.5	-4.5	22.1	0.7
Unemployment rate (%)*	7.2	6.9	7.0	6.9	6.7	6.5	6.3	6.2	6.2	6.2	6.1	6.1	6.9	7.0	6.4	6.2
Inflation																
Headline CPI	1.5	1.6	1.2	1.4	1.9	1.3	1.4	1.3	1.0	1.7	1.9	2.0	1.1	1.4	1.5	1.7
CPI ex. food and energy	1.7	2.0	2.0	1.8	2.0	1.4	1.6	1.7	1.6	1.9	1.9	2.0	1.8	1.9	1.7	1.9
External trade																
Current account balance ($b)*	-70.8	-75.4	-74.6	-47.1	-51.7	-65.3	-60.5	-51.9	-51.2	-47.6	-47.6	-47.0	-67.6	-67.0	-57.3	-48.3
% of GDP*	-3.5	-3.8	-3.7	-2.3	-2.4	-3.1	-2.8	-2.4	-2.3	-2.1	-2.1	-2.1	-3.4	-3.3	-2.7	-2.2
Housing starts (000s)*	199	198	199	197	223	207	213	202	194	185	181	178	196	198	211	185
Motor vehicle sales (mill., saar)*	2.00	1.99	1.95	2.00	2.09	2.10	2.05	2.00	1.97	1.95	1.90	1.90	1.94	1.98	2.06	1.93

*Period average

Source: Statistics Canada, RBC Economics Research forecasts

Economic forecast detail — United States

Real growth in the economy

Quarter-over-quarter annualized % change unless otherwise indicated

	Actuals						Forecast						Actual		Forecast	
	2016				2017				2018				year-over-year % change			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2015	2016	2017	2018
Consumer spending	1.8	3.8	2.8	2.9	1.9	3.3	2.7	2.4	2.6	2.4	2.1	2.0	3.6	2.7	2.7	2.5
Durables	1.0	8.5	9.4	9.2	-0.1	9.0	7.1	3.1	3.0	2.7	2.1	2.1	7.8	5.5	6.1	3.6
Non-durables	2.6	4.7	0.1	2.5	1.1	4.3	2.2	2.8	3.1	2.8	2.2	2.0	3.1	2.8	2.3	2.8
Services	1.7	2.8	2.7	2.1	2.5	2.1	2.1	2.2	2.4	2.2	2.1	2.0	3.2	2.3	2.3	2.2
Government spending	1.8	-0.9	0.5	0.2	-0.6	-0.3	1.2	1.0	0.6	0.4	0.4	0.4	1.4	0.8	0.0	0.6
Residential investment	13.4	-4.8	-4.5	7.1	11.1	-6.5	0.5	5.1	6.0	6.7	6.4	6.7	10.2	5.5	2.2	4.6
Non-residential investment	-4.0	3.3	3.4	0.2	7.1	6.9	3.9	4.4	4.3	3.9	3.1	2.8	2.3	-0.6	4.5	4.1
Non-residential structures	2.2	0.5	14.3	-2.2	14.8	6.2	-1.0	4.5	4.5	3.8	2.9	2.3	-1.8	-4.1	6.2	3.4
Equipment & software	-13.1	-0.6	-2.1	1.8	4.4	8.8	6.5	4.8	4.8	4.3	3.2	2.9	3.5	-3.4	3.8	4.8
Intellectual property	6.3	11.1	4.2	-0.4	5.8	4.9	3.8	3.7	3.4	3.3	3.2	3.0	3.8	6.3	4.2	3.5
Final domestic demand	1.5	2.6	2.2	2.3	2.4	2.7	2.5	2.5	2.6	2.4	2.1	2.0	3.3	2.1	2.5	2.4
Exports	-2.6	2.8	6.4	-3.8	7.3	3.7	1.0	1.5	2.5	2.8	3.2	3.2	0.4	-0.3	2.9	2.4
Imports	-0.2	0.4	2.7	8.1	4.3	1.6	3.0	3.4	3.3	3.3	3.5	3.0	5.0	1.3	3.8	3.2
Inventories (change in $b)	40.6	12.2	17.6	63.1	1.2	1.8	16.0	23.0	18.0	18.0	18.0	17.0	100.6	33.4	10.5	17.8
Real gross domestic product	**0.6**	**2.2**	**2.8**	**1.8**	**1.2**	**3.0**	**2.6**	**2.4**	**2.4**	**2.3**	**2.0**	**2.0**	**2.9**	**1.5**	**2.2**	**2.4**

Other indicators

Year-over-year % change unless otherwise indicated

	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2015	2016	2017	2018
Business and labour																
Productivity	-0.2	-0.4	-0.1	1.0	1.1	1.3	0.9	0.7	1.2	1.2	1.2	1.2	1.1	0.1	1.0	1.2
Pre-tax corporate profits	-6.2	-8.2	-1.6	8.7	3.3	7.0	2.3	0.3	3.4	2.6	2.4	2.1	-1.1	-2.1	3.1	2.6
Unemployment rate (%)*	4.9	4.9	4.9	4.7	4.7	4.4	4.4	4.4	4.4	4.4	4.3	4.3	5.3	4.9	4.5	4.4
Inflation																
Headline CPI	1.1	1.0	1.1	1.8	2.5	1.9	1.8	1.6	1.2	1.8	2.0	1.9	0.1	1.3	2.0	1.7
CPI ex. food and energy	2.2	2.2	2.2	2.2	2.2	1.8	1.6	1.7	1.6	1.9	2.1	2.0	1.8	2.2	1.8	1.9
External trade																
Current account balance ($b)*	-477	-433	-441	-456	-467	-455	-466	-485	-494	-506	-514	-518	-435	-452	-468	-508
% of GDP*	-2.6	-2.4	-2.4	-2.4	-2.5	-2.4	-2.4	-2.5	-2.5	-2.5	-2.5	-2.5	-2.4	-2.4	-2.4	-2.5
Housing starts (000s)*	1153	1158	1150	1248	1238	1165	1241	1271	1300	1333	1362	1396	1107	1177	1229	1348
Motor vehicle sales (millions, saar)*	17.3	17.2	17.5	17.8	17.1	16.8	16.7	17.3	17.5	17.9	17.9	18.1	17.4	17.5	17.0	17.8

*Period average

Source: Bureau of Economic Analysis, RBC Economics Research forecasts

Financial market forecast detail

Interest rates—North America

%, end of period

	Actual						Forecast						Actual		Forecast	
	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017	2018
Canada																
Overnight	0.50	0.50	0.50	0.50	0.50	0.50	1.00	1.25	1.25	1.50	1.75	2.00	0.50	0.50	1.25	2.00
Three-month	0.45	0.49	0.53	0.46	0.52	0.71	1.00	1.30	1.25	1.55	1.80	2.05	0.51	0.46	1.30	2.05
Two-year	0.54	0.52	0.52	0.75	0.75	1.10	1.50	1.70	1.80	1.90	2.15	2.35	0.48	0.75	1.70	2.35
Five-year	0.67	0.57	0.62	1.12	1.12	1.40	1.75	2.00	2.15	2.40	2.55	2.70	0.73	1.12	2.00	2.70
10-year	1.23	1.06	1.00	1.71	1.62	1.76	2.05	2.40	2.50	2.65	2.85	3.00	1.40	1.71	2.40	3.00
30-year	2.00	1.72	1.66	2.31	2.30	2.14	2.40	2.75	2.85	3.00	3.15	3.30	2.15	2.31	2.75	3.30
Yield curve (10s-2s)	69	54	48	96	87	66	55	70	70	75	70	65	92	96	70	65
United States																
Fed funds*	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.50	0.75	1.50	2.50
Three-month	0.21	0.26	0.29	0.51	0.76	1.03	1.05	1.30	1.55	1.80	2.05	2.30	0.16	0.51	1.30	2.30
Two-year	0.73	0.58	0.77	1.20	1.27	1.38	1.45	1.85	2.05	2.35	2.55	2.70	1.06	1.20	1.85	2.70
Five-year	1.21	1.01	1.14	1.93	1.93	1.89	1.85	2.25	2.45	2.65	2.85	3.00	1.76	1.93	2.25	3.00
10-year	1.78	1.49	1.60	2.45	2.40	2.31	2.25	2.65	2.85	3.00	3.20	3.40	2.27	2.45	2.65	3.40
30-year	2.61	2.30	2.32	3.06	3.02	2.84	2.80	3.15	3.30	3.45	3.60	3.75	3.01	3.06	3.15	3.75
Yield curve (10s-2s)	105	91	83	125	113	93	80	80	80	65	65	70	121	125	80	70
Yield spreads																
Three-month T-bills	0.24	0.23	0.24	-0.05	-0.24	-0.32	-0.05	0.00	-0.30	-0.25	-0.25	-0.25	0.35	-0.05	0.00	-0.25
Two-year	-0.19	-0.06	-0.25	-0.45	-0.52	-0.28	0.05	-0.15	-0.25	-0.45	-0.40	-0.35	-0.58	-0.45	-0.15	-0.35
Five-year	-0.54	-0.44	-0.52	-0.81	-0.81	-0.49	-0.10	-0.25	-0.30	-0.25	-0.30	-0.30	-1.03	-0.81	-0.25	-0.30
10-year	-0.55	-0.43	-0.60	-0.74	-0.78	-0.55	-0.20	-0.25	-0.35	-0.35	-0.35	-0.40	-0.87	-0.74	-0.25	-0.40
30-year	-0.61	-0.58	-0.66	-0.75	-0.72	-0.70	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.86	-0.75	-0.40	-0.45

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

Interest rates—International

%, end of period

	Actual						Forecast						Actual		Forecast	
	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017	2018
United Kingdom																
Repo	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.25	0.25	0.25
Two-year	0.45	0.13	0.13	0.08	0.12	0.36	0.20	0.15	0.15	0.15	0.15	0.15	0.66	0.08	0.15	0.15
10-year	1.43	0.89	0.76	1.24	1.14	1.26	1.15	1.30	1.70	1.85	1.95	2.00	1.96	1.24	1.30	2.00
Euro Area																
Deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.30	-0.40	-0.40	-0.40
Two-year	-0.48	-0.61	-0.69	-0.78	-0.74	-0.57	-0.70	-0.70	-0.70	-0.70	-0.70	-0.70	-0.34	-0.78	-0.70	-0.70
10-year	0.15	-0.11	-0.12	0.21	0.33	0.47	0.50	0.60	0.65	0.65	0.70	0.75	0.63	0.21	0.60	0.75
Australia																
Cash target rate	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	2.00	1.50	1.50	1.50
Two-year swap	1.89	1.59	1.55	1.86	1.76	1.78	1.85	1.75	1.70	1.70	1.80	2.00	2.02	1.86	1.75	2.00
10-year swap	2.49	1.98	1.91	2.76	2.70	2.60	2.75	3.05	3.15	3.30	3.60	3.90	2.88	2.76	3.05	3.90
New Zealand																
Cash target rate	2.25	2.25	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.50	1.75	1.75	1.75
Two-year	2.19	2.22	1.96	2.50	2.31	2.32	2.20	2.20	2.30	2.30	2.30	2.40	2.83	2.50	2.20	2.40
10-year	2.97	2.65	2.41	3.58	3.41	3.35	3.00	3.40	3.60	3.75	4.00	4.25	3.73	3.58	3.40	4.25

Growth outlook

% change, quarter-over-quarter in real GDP

	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	2015	2016	2017F	2018F
Canada*	2.8	-1.4	4.2	2.7	3.7	4.5	2.5	2.0	2.0	1.8	1.7	1.7	0.9	1.5	3.1	2.2
United States*	0.6	2.2	2.8	1.8	1.2	3.0	2.6	2.4	2.4	2.3	2.0	2.0	2.9	1.5	2.2	2.4
United Kingdom	0.2	0.6	0.5	0.7	0.2	0.3	0.2	0.2	0.4	0.5	0.5	0.5	2.2	1.8	1.5	1.6
Euro area	0.5	0.3	0.4	0.6	0.5	0.6	0.5	0.4	0.4	0.4	0.4	0.4	1.9	1.7	2.0	1.7
Australia	1.0	0.8	-0.4	1.1	0.3	0.8	0.5	0.8	0.7	0.6	0.7	0.6	2.4	2.5	2.2	2.7
New Zealand	0.7	0.8	0.8	0.4	0.5	0.8	0.8	0.6	0.6	0.6	0.6	0.6	2.5	3.1	2.6	2.6

*Seasonally adjusted annualized rates

Inflation outlook

% change, year-over-year

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

Exchange rates

%, end of period

	Actual						Forecast						Actual		Forecast	
	16Q1	**16Q2**	**16Q3**	**16Q4**	**17Q1**	**17Q2**	**17Q3**	**17Q4**	**18Q1**	**18Q2**	**18Q3**	**18Q4**	**2015**	**2016**	**2017**	**2018**
AUD/USD	0.77	0.75	0.77	0.72	0.76	0.77	0.80	0.80	0.77	0.74	0.73	0.73	0.73	0.72	0.80	0.73
USD/CAD	1.30	1.29	1.31	1.34	1.33	1.30	1.21	1.24	1.27	1.26	1.26	1.26	1.38	1.34	1.24	1.26
EUR/USD	1.14	1.11	1.12	1.05	1.07	1.14	1.16	1.12	1.09	1.06	1.08	1.12	1.09	1.05	1.12	1.12
USD/JPY	112.6	102.7	101.3	117.0	111.4	112.4	107.0	103.0	100.0	102.0	104.0	106.0	120.1	117.0	103.0	106.0
NZD/USD	0.69	0.71	0.73	0.69	0.70	0.73	0.75	0.75	0.72	0.70	0.69	0.69	0.68	0.69	0.75	0.69
USD/CHF	0.96	0.98	0.97	1.02	1.00	0.96	0.99	1.04	1.07	1.11	1.08	1.04	1.00	1.02	1.04	1.04
GBP/USD	1.44	1.33	1.30	1.24	1.26	1.30	1.30	1.20	1.16	1.18	1.24	1.32	1.47	1.24	1.20	1.32

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